



Agribusiness and Economics Research Unit

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Agri-food Leadership Case Study: Pegasus Bay Wines

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Abstract

This is the fourth case study in a series analysing leadership in New Zealand agrifood companies. It is part of the Unlocking Export Prosperity Research Programme led by the Agribusiness and Economics Research Unit (AERU) at Lincoln University. This case study examines Pegasus Bay, a winery in Waipara Valley founded by Ivan and Chris Donaldson, and now run by the next generation of Donaldsons. Their passion for wine and the craft shines through in the high-quality products they create. They focus on creating wines they enjoy, rather than being led by the market. They have built a strong brand and garnered an international audience through capitalising on sustainable practices and lifting the image of New Zealand. Achieving this has been no coincidence as founders Ivan and Chris Donaldson, and the next generation of Donaldsons – Matthew, Edward, Belinda, and Di – embody the qualities of leadership that support innovation and coordination, and align people to their vision and core purpose. This aligns with previous case studies and the findings of the earlier literature review.

Keywords

Value Chains; Leadership; Innovation; Coordination; Fibre; Composites.

ANZSRC Fields of Research

Entrepreneurship (150304); International Business (150308); Organization and Management Theory (150310).

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Executive Summary

Background

This is the fourth in a series of case studies examining leadership in New Zealand's primary sector. It is part of a wider Unlocking Export Prosperity Research Programme and examines how leadership plays a critical role in the creation of value in agri-food products. The values of interest are **physical attributes** such as strength, texture, appearance and flavour, **credence attributes** such as environmental stewardship, social consciousness and ethical practices, and **cultural attributes** such as a connection with the land and family history in the industry.

This fourth case study is of Pegasus Bay, a renowned winery in the Waipara Valley founded by Ivan and Chris Donaldson, and now run by the family of winemakers. Ivan and Chris first experimented with winemaking in the garage at home during the 1970s. Both were pursuing careers in medicine with Ivan being a student neurologist and Chris a student nurse. They developed a passion for wine and sought to perfect their skills in the craft. The original vineyard was purchased in 1985 and was one of the first in the Waipara Valley. In 1991 they produced their first vintage which sold successfully, and in 1992 Pegasus Bay was formed.

The winery was passed down to the next generation of the Donaldson family, including Matthew Donaldson, the Chief Winemaker, Edward, the Marketing Manager, Michael, the Local Sales Manager, Belinda, the Restaurant (and now Events Manager), and Di, the Winery Logistics Manager. Over time, more grape varieties have been planted and the success and reputation of the winery has significantly grown. They have received several accolades and established themselves as significant players in their industry, now exporting to overseas markets.

This case study examines the leadership under which the Donaldson Family have created their success and how leadership relates to the quality wines they create and export. A model of value-added leadership guides this case study and has been instrumental in previous case studies in this project. It describes the different processes through which value is added to products and how leadership is instrumental in creating this value and communicating it to customers.

Purpose, Values, and Differentiated Strategy

Pegasus Bay has a strong core purpose built on passion and high quality. The winery was Ivan's 'calling', and this led to him honing the winemaking craft and sharing the final product with his family and friends, and later, the world. Rather than being led by the market, the family are led by the wine. They create products that align with their own tastes and reflect their passion and dedication as a family. They seek to inspire the same passion in their customers who will enjoy, share, and celebrate the wine, its quality, and the region which enabled its quality. This relies on their focus on five deeply held values: Family, individuality, showcasing Waipara Valley, Sustainability, and Quality.

Family is central to Pegasus Bay. They are one of few entirely family-owned and operated wineries in New Zealand. Seven members of the first and second generation of the family continue to have key roles in the winery, and family is proudly used in their branding. Their individuality is also important as they are careful and deliberate in producing the best possible grapes and formulating exceptional

wines that they can be proud of. They take a minimal intervention approach to focus on the quality of the land and natural processes. They strive to experiment and set themselves apart in the industry rather than follow the status-quo and industry standards.

Showcasing the Waipara Valley, sustainability, and quality are linked values that rely on how Pegasus Bay uses and respects its land. The climate plays an instrumental role in producing wine and Pegasus Bay strives to create wines whose quality showcase the region. This requires the family to focus on sustainability and kaitiakitanga. They are involved in several sustainable projects and are constantly finding ways to maintain the quality of the land and climate that produce their wines. They recognise that to pass the winery down the generations means giving the next generations land they can use.

The strategy of Pegasus Bay has focused on entrepreneurship and differentiating themselves from competitors. Fostering innovation, focusing on family, and taking risks have been instrumental in the Donaldson family establishing themselves as innovators. They break the mould of typical New Zealand wineries by how they constantly create new wines and are continually seeking new opportunities.

Innovation

Product and process innovation are key strategies in adding value to agri-food outputs. When pursued simultaneously, they may attain a competitive market advantage. Product innovation describes how products are changed and innovated, while process innovation describes how the processes of creating products are changed to produce new outcomes.

In terms of product innovation, Pegasus Bay experiments with varieties and blends in a way that creates new, exciting wines that reflect the premium quality the region is capable of producing. Matthew, the Chief Winemaker, works closely with his team to produce wines that satisfy their tastes. Process innovation is evident in the methods Pegasus Bay wines employ, including how they grow wine, store and age it, and sell it.

Leadership is paramount in these activities. The Donaldson family have exhibited transformative leadership among their team, aligning them to the core purpose of creating quality wines and sharing their passion for the craft of wine. They also display authenticity in their approach and ensure that everything they do aligns with their deeply held values. They foster positive relationships and have retained staff for a number of years who have a sense of ownership over their products

Coordination

Coordination works in tandem with innovation to add value to agri-food products. Pegasus Bay do this by coordinating with other wineries, as well as with distributors, sommeliers, restaurants, bottle shop owners, and final consumers.

A key example of coordination for Pegasus Bay is their work with the Family of Twelve, a collective of twelve family-owned wineries who share wine, stories, market insights, and viticultural knowledge with each of the twelve representing every major wine region and major grape variety in New Zealand. They focus on promoting the New Zealand wine industry and speaking as a collective. They work primarily in the export market to make their brands known to the world.

Coordination requires leadership that fosters collaboration. Collaborative leadership requires responsibilities for building and ensuring the success of teams to achieve shared goals. Collaborative leadership has several positive outcomes for building teams and having them be successful. The Donaldson family have worked hard to collaborate with the Family of Twelve, as well as build trust within their team and with others.

Marketing Strategies

Pegasus Bay focuses strongly on brand orientation, rather than orienting their strategy with the market and what is currently popular. Their strategies focus on building their quality brand and attracting consumers who are brand loyal because they appreciate how they make their wine and how satisfying their wine is. Part of their brand is family. They describe themselves as “a winemaking family”, and use emotive language to inspire trust and connection between customers and the brand. Customers may align with this messaging as they trust that the company is not about the money and more about the inspirational story of a couple who followed their passion and passed it down to their children.

‘Made in New Zealand’ is important to companies such as Pegasus Bay to garner price premiums in foreign markets. Edward spends a lot of time overseas promoting Pegasus Bay to distributors, and branding the product as ‘Made in New Zealand’ is one approach used to support the Pegasus Bay brand and generate support. This requires proactive engagement in sustainable practices to uphold the ‘clean green’ image of New Zealand which can be used in company imagery and advertising.

Chapter 1 Introduction

This case study is the fourth instalment in a series of case studies accompanying a literature review of leadership in the primary sector in New Zealand. It seeks to analyse how leadership contributes to adding value to agricultural products, therefore allowing them to achieve a price premium in offshore markets. This research focuses on the value-added elements of physical, credence, and cultural values that underpin New Zealand agricultural outputs.

The literature review accompanying this research project asserts that leadership is an antecedent of successful value-adding efforts within agri-food value chains (Mayes *et al*, 2019). Value-adding is especially important considering the highly complex, dynamic, and competitive nature of off-shore markets. Differentiation plays a major role in the success of agribusinesses; therefore, value-adding processes and strategies are paramount to garnering a premium price. The literature review highlighted key points within the value chain, including innovation and horizontal and vertical coordination, to generate value. It also emphasised the importance of marketing strategies used to communicate value to consumers.

This case study discusses the family-owned New Zealand winery Pegasus Bay. It was founded in 1985 by Chris and Ivan Donaldson to pursue their love of wine. Over 35 years later, it is one of New Zealand's most successful wineries receiving critical acclaim in both the domestic wine industry and the offshore market. Ivan Donaldson is a former Associate Professor and Consultant Neurologist. His move towards winemaking started as a passion project in the 1970s, before eventuating into what is now Pegasus Bay. This passion for wine and dedication to quality remains the core tenet of Pegasus Bay. Now run by Paul Donaldson and his three brothers, Matthew, Michael, and Edward, Pegasus Bay is one of the few New Zealand wineries that is entirely family-owned and operated. Their authenticity, dedication, and passion for producing high-quality products have ensured that they remain one of New Zealand's most innovative wineries.

This case study addresses how value is added to Pegasus Bay wines and the leadership attributes that have contributed to these processes. Similar to the previous case studies, the leadership of Pegasus Bay underpins value-adding efforts; however, this case study also has a strong focus on the values of family and quality, two elements that make up the core purpose of Pegasus Bay and have been instrumental in their continued success. Where necessary, quotes from the Donaldson family, especially co-founder Ivan Donaldson and his sons Paul, the general manager, and Edward, the marketing manager, are included to illustrate the points made.



Chapter 2

Pegasus Bay

2.1 The Origins of Pegasus Bay

Pegasus Bay was founded in the 1980s by Ivan and Christine (Chris) Donaldson. From their first experiments with winemaking in the garage of their home during the 1970s, the couple have been immersed in the wine industry for over 50 years. These 50 years have been spent learning the ropes, perfecting the craft, founding their winery, and ultimately developing what is now an internationally acclaimed winery that produces exceptional wines.

In 1966, Chris gifted Ivan a book titled *Wine*. Ivan has described this book as “a time bomb ... one that would explode to hit me with such force that it would blow my life off-course” (Donaldson, 2014, p. 42). At the time both Chris and Ivan were pursuing careers in medicine – Chris was a student nurse and Ivan was a student neurologist. Ivan’s career took them to Europe in the early 1970s which allowed them to continue developing their passion for wine before returning to New Zealand with a growing family and a greater knowledge of the winemaking craft.

Ivan describes the relationship between medicine and wine as being one of curiosity and craft, “winemaking, like medicine itself, is a curious mixture of science and art ... There is a special type of satisfaction to be gained from the skilful application of knowledge to a craft, and perhaps this is the common link.” (Donaldson, 2014, p. 652). This philosophy is evident in his continued passion for both careers. Alongside Pegasus Bay, Ivan is a retired Associate Professor and Consultant Neurologist and was awarded an Order of Merit for his contribution to Neurology (Pegasus Bay, 2021a).

Their original vineyard, purchased in 1985, was one of the first in the Waipara Valley. Ivan, Chris, and their four sons, Matthew, Michael, Edward, and Paul, all played their part, dedicating weekends, school holidays, and summer breaks to preparing, planting and maintaining the vines. Over this period, “Our only rewards were the satisfaction of seeing the vines grow and the vineyard becoming established” (Donaldson, 2014, p. 298). After numerous trials and errors, the 1991 vintage, produced in their garage, proved successful. Ivan described it as “A simple little affair but an exciting event for us, nonetheless” (idem, p. 488). This was their first vintage to enter the market, selling around one thousand bottles during 1992 (idem, p. 520). It was during the same year, six years after the founding of the vineyard that the name was decided upon and Pegasus Bay winery opened to the public.

During the 1990s, Ivan and Chris Donaldson passed the vineyard down to the next generation of the Donaldson family. This began with Matthew Donaldson, the Chief Winemaker, who joined Pegasus Bay in 1992, and finished his 29th vintage at Pegasus Bay in 2021 (Kenny, 2021). Paul, now the general manager, gradually overtook the business and management duties of the winery (Donaldson, 2014, p. 566). Other notable Donaldson family members include; Edward, the Marketing Manager, Michael, the Local Sales Manager, Belinda, the Restaurant and now Private Events Manager, and Di, the Winery Logistics Manager (Pegasus Bay Winery, Vineyard and Events, 2017).

Ivan describes the family's ongoing participation and involvement as "vital, and gives me a great deal of pride and satisfaction" (Kenny, 2021). The family-run approach is distinctive in the New Zealand wine industry and is incorporated into the Pegasus Bay marketing strategies. It has allowed them to be involved with the Family of Twelve, a collaborative initiative of twelve family-owned New Zealand wineries. The day-to-day operations of the winery rely heavily on collaboration between the Donaldson family members who make up the winery's management team. They have a "magic dynamic that seems to just naturally work." (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 0:49).

As the years passed, more and more grape varieties were planted and the success of the winery skyrocketed. The wines produced by Pegasus Bay have been heralded as "outstanding" by notable critics, have received accolades such as five-star Great New Zealand Pinot Noir classification, and are exported to over 25 countries (Kenny, 2021; Pegasus Bay, 2021d). Pegasus Bay vineyard produces over a dozen high-quality grape varieties and the well-established winery allows for all of their wines to be processed from grape to bottle on site. Further, their cellar door and award-winning restaurant increase the accessibility of the winery and is set amongst their expansive gardens, Chris' passion project. Although 2020 saw the closure of the winery restaurant following the global COVID-19 pandemic (Pegasus Bay, 2020), the winery hopes to revisit the à la carte style in the future.

2.2 Winemaking under Environmental Pressure

Considering the growing pressures on the natural environment caused by climate change, there is a sense of urgency among wineries to ensure their longevity and the quality of their outputs. A study on climate change responses within the New Zealand wine industry by Alyssa Ryan found that of 500 New Zealand wineries interviewed, "Most wineries reported issues associated with climate change, including extreme weather" (Te Herenga Waka - Victoria University of Wellington, 2018). The main issues likely to impact the wine industry are; increases in temperature, more seasonal variation, local drought, and increased frequency and intensity of local storms (Ryan, 2019, p. 110). Ryan's research found that these impacts directly affect New Zealand winegrowers, and are the cause of observable negative impacts on harvest quality, harvest quantity, grape pests, grape disease, and frost damage (idem, p. 80). Although most of the wineries recognised the threat of climate change and the negative impacts it is having on their crops, 63 percent had no plans to adapt to mitigate the impacts of climate change (Ryan, 2019, p. 84; Te Herenga Waka - Victoria University of Wellington, 2018).

A focus on environmental sustainability is common among high-end wineries as the effects of weather phenomena and climate change on wine quality can be significant. It is, therefore, in their best interests to actively mitigate these impacts to uphold the quality of their brands and maintain their competitive edge. At Pegasus Bay, adaptation towards more sustainable practices is central to achieving the forward-looking, kaitiakitanga-based ethos held by the Donaldson family. As Paul stated during an interview with the researchers, "It's almost anticipated that if you're making high-end wine, you're probably doing it sustainably. There isn't really a thought that wine is a short-term gain".

Further, Edward discussed the measures being taken at Pegasus Bay to conduct business more sustainably. This includes trials of fully organic plots within the vineyard and commissioning external expertise to undertake a carbon emissions audit of the vineyard and winery. The experts produce a number of actionable recommendations that will help the business further reduce its carbon emissions.

This supports Ryan's conclusion that adaptation planning is essential if the New Zealand wine industry is to continue to grow in the future. It requires a transition from reactive to proactive changes within New Zealand wineries with larger-scale wineries having greater capacity to do so (Ryan, 2019, pp. 124 and 125).

Pegasus Bay are also involved with various sustainability organisations and wider projects. They are an accredited member of the NZWG sustainable viticulture programme, indicating that they are conscious of the need for adaptation to ensure the longevity of their vineyard (Pegasus Bay, 2021a). They are also involved in the Greening Waipara project, an initiative started by the Lincoln University's Bio-Protection Research Centre to promote sustainable agriculture within the Waipara region through horticultural methods like planting new species designed to reduce the need for chemical pesticides (Barnes, Sandhu and Wratten, 2010, p. 28). The Donaldson family recognise the importance of having environmental stewardship and sustainability as central facets of Pegasus Bay.

Furthermore, Pegasus Bay is hoping to pass the winery down to the next generation. Consideration of the climate and adaptation towards more sustainable winegrowing and winemaking processes is necessary for the legacy of the winery to continue. Paul speaks to this point, "We're aware that we're looking to pass on our business to another generation. You've got to give them something to work with, you can't give them land with nothing left and expect them to find somewhere else." On this basis, sustainability and environmental stewardship are deeply held values at Pegasus Bay.



Chapter 3

The Importance of Leadership

The purpose of the case studies in this research programme is to analyse leadership qualities within organisations such as Pegasus Bay that have contributed to adding value to New Zealand agricultural products, therefore, increasing their price premiums in offshore markets. Pegasus Bay provides an example of how effective leadership combined with strongly held cultural, physical, and credence values, a clear purpose, and dedication to quality are important attributes for the production of premium agricultural products/exports. Leadership has been central to the Donaldson family's success, turning what was once a passion-filled hobby into a highly successful winery that showcases some of the best wine that New Zealand has to offer.

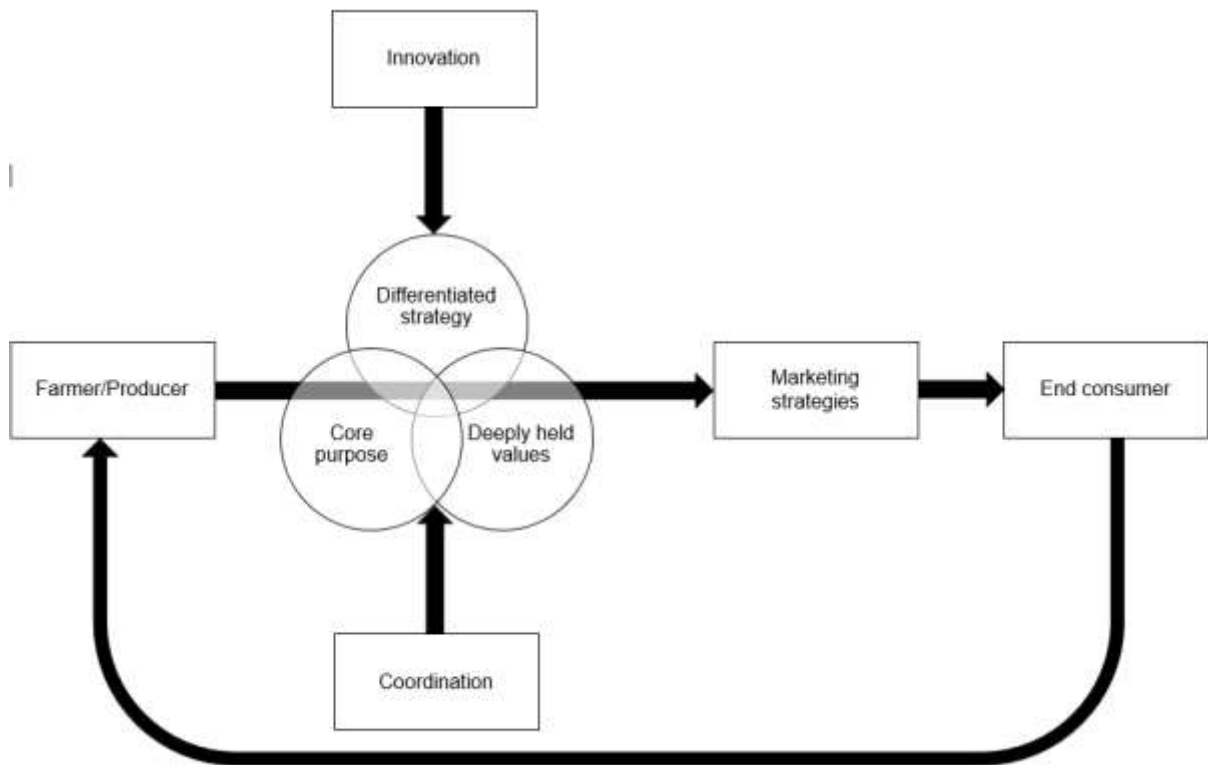
The remainder of this case study analyses how leadership has influenced the success of Pegasus Bay, focusing more specifically on Paul and Edward Donaldson who participated in interviews as part of this project. Input from other key Donaldson family members will also be considered, including the writings of Ivan Donaldson. The model of value-adding leadership is utilised to assess where and how leadership qualities employed at Pegasus Bay have been useful to producing their acclaimed outputs. This allows analysis of how strong value-adding leadership has positively contributed to their success.

A Model of Value-Adding Leadership

As with the previous case studies, a model of value-adding leadership was applied to this case study. This model was informed by the literature review in Mayes *et al.* (2019), and is reproduced as Figure 1 below. It shows how innovation, coordination, and marketing strategies are essential to adding value to agricultural products in New Zealand. The model shows the process through which a product is created with each element representing a stage at which value can be added before it reaches the end consumer. Within each of these individual elements and the overall process, effective leadership is essential to enabling value-adding and for communicating that value to the end consumer and garnering a price premium.

The value-added leadership model provides the structure for the remainder of this case study. This includes discussing the core purpose, deeply held values, and differentiation strategy, and how these have impacted innovation, coordination and the marketing strategies of Pegasus Bay.

Figure 1: Model of Value-Added Leadership



Chapter 4

Leadership and Pegasus Bay

4.1 Core Purpose

Pegasus Bay's core purpose is built on Ivan's passion for wine and his desire to create high-quality wines that reflect the best the Waipara Valley has to offer. Pegasus Bay is the product of Ivan's 'calling', passion, and purpose in the wine industry. It has allowed him to continue to pursue his passion while perfecting the winemaking craft and sharing the final product with his family and friends. These features continue to be reflected in the company with Paul recognising that, "I think our ethos is making wines we like, rather than being market-led, we make the wine that we like".

The second generation of the Donaldson wine-making family share the same passion and seek to showcase the high quality of the wines they produce with their customers the world over. Edward spoke to this point when talking about the decisions made about which wines Pegasus Bay will produce, "Instead of trying to copy something that's happening on the other side of the world, actually being true to what we're doing here." This allows the winery to "make a wine that's true to ourselves, our region and our vineyard as well as to our own personal philosophy in terms of making wine that doesn't follow trends but rather making wines that we really believe in." (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 11:45).

Paul discussed how at Pegasus Bay they seek to inspire the same passion in their customers, "The people we are selling to ... They don't just want to drink it, they want to share it with other people." This family-owned and run approach is now a core component of their purpose. Edward Donaldson recognises that this works in practice because, "We all have that similar vision of making a wine we're proud of" (Kenny, 2021). That collective vision feeds into the Donaldson family core purpose in delivering high-quality wines that reflect what the valley has to offer.

4.2 Deeply Held Values

Pegasus Bay's success in value-adding can be traced back to deeply held values that have underpinned the winery since its foundation. These organisational values are principles followed by those working at Pegasus Bay to ensure that the wines produced are premium, value-added products that support the core purpose (Sullivan, Sullivan and Buffton, 2001). Five key physical, cultural, and credence values form the basis of the Pegasus Bay brand and add value to the wines they produce. These are:

1. Family
2. Individuality
3. Showcasing Waipara Valley
4. Sustainability
5. Quality

Family

The value of family is central to Pegasus Bay. They are one of few entirely family-owned and operated wineries in New Zealand. As stated on the homepage of their website, they describe themselves as a “winemaking family” (Pegasus Bay, 2021a). The seven members of the first and second generations of the family continue to have key roles within the winery and the family image is proudly promoted as the foundation of their brand. Edward spoke to the importance of family in the success of the brand, “You’re expecting quality from a family business and a sort of integrity from a family business that you might not perhaps get [from a commercial winery]”. Further, their business model is forward-looking with Paul stating that the winery is committed to ensuring that their practices are sustainable and long term to pass the business to the next generation.

From making wine at home to establishing their wine-making company, co-founders Ivan and Chris Donaldson ensured that the entire family was immersed in the wine industry throughout Pegasus Bay’s lifespan. Ivan and Chris, alongside their four sons and one daughter-in-law, run the winery, vineyards, and associated events. The family have a good, strong relationship described by Belinda Donaldson as “a magic dynamic that seems to naturally work” (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 0:49). This dynamic is central to every aspect of Pegasus Bay, making family the key cultural value underpinning the company’s business model and brand.

Individuality

The Pegasus Bay vineyard location was carefully selected by Ivan and Chris to produce the best grapes possible. It was initially planted with semillon, sauvignon blanc, and pinot noir with additional varieties planted soon after. This has meant that many of the grapes grown have an older vine age, adding value to the wine produced (Donaldson, 2014, p. 346 & 370). The vineyard itself is largely ungrafted, producing ultra-low yields of grapes per vine (Pegasus Bay, 2021a). When combined with the free-draining, low fertility soil and natural climate, the grapes produced are optimally ripened, high-quality, and flavourful, fully expressing the qualities of this unique setting (Pegasus Bay, 2021a). All of these factors combined produce a quality product whose texture, length, and drinkability capture the unique flavours of the vineyard and are trademarks of their house style (Pegasus Bay, 2021a).

A feature of their winemaking practice is that the high quality of the grapes grown has allowed them to adopt a minimal intervention approach that fully expresses the unique features of the vineyard, producing a product that fully expresses that quality. They allow the wines to go through natural malolactic fermentation and clarification by settling processes and do not use fining agents (Pegasus Bay, 2021a). The styles produced are unique to Pegasus Bay. Since the foundation of the label, they have been experimenting with varieties and blends not typical to New Zealand. This innovative, adventurous approach is seen in many of the varieties grown and wines produced like their Sauvignon Semillon, Malbec blends, and Vergence label, a constantly evolving non-traditional, experimental wine produced to show the best the Pegasus Bay has to offer (Pegasus Bay, 2021c). These approaches reflect the commitment of Ivan, Chris, and the second generation to utilising the vineyard and the grapes it produces to create the best possible products.

Bottle aging is another important aspect of their winemaking practice that increases the quality and therefore value of Pegasus Bay wines. As discussed by Edward when talking about the specific wines produced, “We’ve invested in holding them back in bottle for a minimum of a year before release...

which is quite unusual". This further shows how Pegasus Bay is committed to experimentation to showcase the individuality and quality of their products rather than explicitly following traditional winemaking practices.

Showcasing the Waipara Valley

Waipara Valley is in the North Canterbury viticulture region. It is a unique area with an ideal climate for grape growing due to the high sunshine hours, warm winds, a dry autumn and physical location (Pegasus Bay, 2021a). Since the founding of Pegasus Bay, the Donaldson family have been dedicated to showcasing this unique environment. This is present in both the characteristics of the wine produced and their dedication to "making them [distributors, customers and sommeliers] fall in love with the region as well" (Edward Donaldson). Highlighting the physical qualities of the Waipara Valley has remained central to Pegasus Bay. The region promotes intense flavour development and optimal ripeness whilst retaining good natural accidents, features central to their wines (Pegasus Bay, 2021a). The physical value of the Waipara Valley region is encapsulated in the wine produced, as stated by Edward Donaldson when describing the goal of Pegasus Bay wines, "[To] make a wine that's true to ourselves, our region, and our vineyard" (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 11:45). The quality product they produce showcases the valley and its possibilities.

To further enhance the value of the location the winery invites visitors to come and experience the Waipara Valley and its products directly. Prior to the 2020 COVID-19 pandemic, the winery restaurant showcased the best produce the region had to offer using organic where possible and supporting local providers (Vine, 2010). The gardens, planted by Chris, thrive in the region's climate and have an especial focus on native flora as shown by the "biodiversity trail" which values returning native plants to a working vineyard (ibid). The biodiversity of the region is something that Pegasus Bay showcases at their venue and something that their customers can directly experience through them.

Sustainability

This credence value reflects the importance of environmental stewardship and kaitiakitanga. Pegasus Bay is an accredited member of the New Zealand Winegrowers sustainable viticulture programme (2021a). The winery is also involved in the Greening Waipara Valley project, an initiative promoting sustainable approaches to managing productive land (Barnes, Sandhu and Wratten, 2010, p. 28). It introduces functional agricultural biodiversity, such as placing native New Zealand plants alongside plants known to assist in biological control like buckwheat and phacelia (ibid). This reflects a focus on using natural methods to counteract pests and diseases, as opposed to using chemical pesticides and similar methods. Pegasus Bay relies heavily on what they refer to as "nature's services", which involves providing suitable habitats for beneficial insects and planting non-native annuals to biologically control weeds, pests, and diseases (Vine, 2010). This supports their core purpose and ensures that the winery can be passed down to future generations.

It is important to recognise that a focus on sustainability is common within the New Zealand wine industry. At Pegasus Bay, this focus is paying off with Paul suggesting in an interview that it is actually more cost-effective to produce wine sustainably. "We are moving towards a situation where being environmentally friendly isn't just sound practice, it's also better financially" (Joy, 2019). This value also upholds kaitiakitanga, a central facet within Pegasus Bay's approach to environmental stewardship. Matthew Donaldson recognises the importance of kaitiakitanga as contributing to both

the sustainability and quality values held by Pegasus Bay, “This is an individual piece of dirt, the vines and the grapes respond to weather, and the weather - it just does what it likes. It’s a natural process - I like being able to express that through the wines we make.” (Te Rūnanga o Ngāi Tahu, 2014).

Quality

A key driver of Ivan’s pursuit of winemaking was his love for wine and a desire to perfect the craft. As he notes in his book, “there is a special type of satisfaction to be gained from the skilful application of knowledge to a craft”. (Donaldson, 2014, pp. 48 and 652). Consequently creating high-quality wines has always been a central focus of Pegasus Bay. Edward discusses this point when talking about his parents and the origins of Pegasus Bay, “When they [Ivan and Chris] looked to do something on a bigger scale they wanted to create a quality product that they could be proud of ... Long-term it was making good quality wine and having a reputation for doing that, that drove them.” From the grapes grown to the wine produced, this value is embodied in the processes of decision making at Pegasus Bay.

This value is prioritised over market demands or potential profits. Matthew speaks to this point, “We’re not trying to do big volume, small margin ... we would much rather have something that we are proud to show people, even if we are not paid a lot to do it.” (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 10:20). Pegasus Bay is constantly working to improve the quality of the wines produced whilst pushing the boundaries of the New Zealand wine industry. This increases the value of their wines, allowing them to garner a premium price in domestic and offshore markets. Paul recognises this cyclical approach to improving quality, “You want to be ahead of the curve ... if you’re doing it already you may as well be telling people about it. It seems to be what people are looking for now.”

4.3 Differentiation Strategy

Differentiation is important for fostering innovation and distinguishing a company from its competitors. This has been a prominent theme in the previous case studies. Zook and Allen (2001) hold that differentiation is the core of growth and profit for organisations. Two key aspects of the Pegasus Bay business model differentiate it from its competitors. Firstly, they are quality-led rather than market-led, working to improve the quality of the wines produced rather than meet the needs of the market. This focus is communicated clearly to the end consumer as shown by Matthew in a promotional video, “We’re quality-focused, I don’t want to see us making more wine, I want to see us making better and better wine.” (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 10:30).

Secondly, their status as being entirely family-owned and operated is an additional and fundamental point of difference. This is a key part of their origin story and is made clear to any viewer of their website with frequent references to them being “a wine making family” (Pegasus Bay, 2021a). The family aspect of the business is proudly marketed and increases the authenticity of the Pegasus Bay label. Paul speaks to this point, “We try very hard to not pretend we’re something we’re not and obviously we are a family business, not a big corporation.” Their focus on family sets them apart from many competitors and is a core element of their business strategy.

Entrepreneurship

Pegasus Bay continues to experiment with new processes and varieties to increase their range of wines. They take risks despite already having an established brand loyalty, therefore making innovation and entrepreneurship central points of differentiation. Chief winemaker Matthew Donaldson is dedicated to seeing the winery “making better and better wine” (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 10:30). He stated that he likes “being able to express [the natural process] through the wines we make” (Te Rūnanga o Ngāi Tahu, 2014), signalling his commitment to quality and innovation when expanding the range of wines produced by Pegasus Bay.

Matthew exhibits a number of entrepreneurial leadership qualities. This leadership style is defined by the characteristics of entrepreneurship and leadership combined. He has had the same innovative winemaking team for the last 7-9 years and they “like the same stuff, we’re singing from the same song sheet.” Experimentation is intrinsically linked to Pegasus Bay wines and to ensuring that their products best reflect where they are from rather than exclusively copying traditional winemaking practices. Edward discusses this when talking about Matthew’s approach to winemaking, “We’re in North Canterbury and making wines that really express where they’re from ... that’s been getting confidence and experimenting, working out what works and what doesn’t work.”

4.4 Innovation

Innovation is a key driver of value-adding in the agricultural sector as it promotes individuality, a deeply held value of Pegasus Bay (Coltrain, Barton and Boland, 2000). Two distinct types of innovation need to be considered in this context. Product innovation is about changing the final product produced, whereas process innovation changes the operations that create those products (Martinez-Ros, 1999). Both types of innovation add value to wines produced at Pegasus Bay and should be pursued simultaneously to attain a competitive market advantage (Damanpour, 2010).

Product innovation

Product innovation is central to the brand. one of Pegasus Bay’s most successful wines, their Sauvignon Semillon, provides a good example. Unlike most New Zealand Sauvignon Blanc, this wine is blended with approximately 30 percent Semillon in a traditional Bordeaux style resulting in a unique, more complex wine that has been described by notable wine critic Rob Geddes as, “offering flavours to drive exceptional length and complexity”, reflecting its premium quality (Pegasus Bay, 2021b). This example shows the alternative styles adopted by Pegasus Bay rather than following the mainstream styles of Sauvignon Blanc that make up 80% of New Zealand's wine exports (Edward Donaldson). Matthew works closely with his winemaking team to continue to produce new wines that showcase the capabilities of the Waipara Valley and live up to the high standards set by previous vintages.

Product innovation can also be seen in the winery’s growing range of varieties. As described by Paul, rather than continuing to produce the wines known to be successful on the market, the winemaking team continue to innovate to produce wines that reflect the quality focus of the Pegasus Bay label. This relates to the quality and passion focus that Ivan established from the outset. “He was really happy to establish the winery in a way that was all about quality and finances were irrelevant” (Paul Donaldson).

Process innovation

Along the Pegasus Bay value chain, innovation in the winegrowing and creating processes has been a key focus. This has allowed the family to develop a wine-making philosophy that requires minimal intervention at all stages from vine to bottle, while reflecting the high quality of the grapes grown (Pegasus Bay, 2021a). This is achieved through sustainable viticulture management, low crop levels, minimal handling of fruit during processing, and gentle pressing (Pegasus Bay, 2021a). Building process innovation around improving quality over efficiency has allowed their wines to achieve a premium price on the market due to their high quality and reliability.

New processes continue to be introduced, demonstrating how innovation is central to the winemaking team. In 2006, for example, Pegasus Bay adopted a new approach to re-releasing wines. They began holding back a small number of selected vintages to re-release them 8-10 years later at a premium price (Campbell, 2020). For example, their 2010 “Aged Release” Prima Donna Pinot Noir had a recommended retail price of \$36 greater than when it was initially released in 2013 (Campbell, 2020). This relatively small profit margin was intentional, as Pegasus Bay were conscious to balance achieving a premium price whilst maintaining brand loyalty. This is explained by Edward, “We wanted to add a premium, but we didn’t want to overprice the cellared wines. Importantly we didn’t want our customers to think that we were clearing slow-moving wines” (idem).

Ageing wines is a type of process innovation designed to increase value by increasing the exclusivity and quality of the product. It can be seen in practice at Pegasus Bay in their decision to release wines two years after they have been bottled. For example, the most recent vintage currently on the market is wine made in 2018 (2021a). Edward discusses this process, “We’ve invested in holding them [the wines] back in bottle for a minimum of a year before release ... that’s another kind of thing that people, particularly restaurants, really love”. Ageing also allows them to have a larger margin of error, therefore, promoting innovation. Even if a particular blend is not deemed marketable, the winery has, “[The] flexibility to make the best wine you want without really any financial consequences.” This method is referred to by Paul as a “bottle ageing buffer” and ensures that the winery will never run out of wine.

Leading innovation

Ivan and the now-in-charge Donaldson family members embody characteristics typical of transformational leadership. Authentic and LMX leadership qualities are present and further support product and process innovation.

Transformational leaders inspire their followers by emphasising higher order values and elevating the motivational values of those they lead (Bass, 1985; 1999). Ivan and Chris demonstrate these attributes in the purpose behind their founding of Pegasus Bay. The winery and wines produced have always been about quality, passion, and the uniqueness of the Waipara Valley as a New Zealand wine region. Further, they have successfully created a brand that embodies innovation and quality, and actively seeks to produce the best product possible.

The inspirational power of the founding vision and leadership of Ivan and Chris can be seen in how the next generation has aligned with this vision. Paul, Edward, Matthew, and Michael Donaldson now run Pegasus Bay showing how their parents successfully inspired them to pursue careers in the wine industry. Further, their low staff turnover and family-like team structure supports innovation and is

evidence of successful transformational leadership traits. This is because it shows trust, respect, and loyalty to the brand, and the staff work to achieve the best results possible rather than an acceptable minimum. Paul speaks to this point, stating that the success of this approach is seen in staff members both current and past who refer to the wines and brand as “theirs”. To successfully create this environment amongst staff attributes of transformational leadership like passion, inspiration, and exhibiting best practices are necessary.

Authentic leadership is another leadership style shown in the Pegasus Bay business model. An authentic leader is one who remains true to themselves to build credibility, trust, and respect, thus promoting authenticity amongst their followers (Avolio *et al*, 2004). Authenticity is present in every aspect of Pegasus Bay and the leadership team. The family works closely together to make business decisions focused on quality and individuality, two of Pegasus Bay’s deeply held values as outlined earlier. Authenticity is also seen in the origins of the winery as Ivan and Chris established the winery with the sole intention of pursuing their love for wine and perfecting the craft of making it (Donaldson, 2014, pp. 48 and 652). This reflects the traits required for successful authentic leadership.

Further evidence of authentic leadership traits is seen in the winery’s approach to making new wines. The wines produced by Pegasus focus on quality rather than meeting or being based on market interests. This is further supported by the reasoning behind the process innovation discussed above. Matthew and his winemaking team work to make wine that reflects the quality and capabilities of the grapes grown rather than following market demands and sticking to the status quo in the industry. Wines are produced to match the personal tastes of the winemakers who are passionate about the products they create. The centrality of authenticity in the Pegasus Bay brand is attributable to the authentic leadership attributes adopted by the family who lead their staff.

LMX refers to leader-member exchange and is closely related to authentic leadership. Positive LMX fosters innovation as followers are more likely to trust their superiors and therefore risk trying something new (Rosing *et al*, 2011). This is evident in the successes of the winemaking team through their long history, close relationships, and family feel of the winery. They have been working closely together for 7-9 years and rely on one another to create a final product that upholds the high standards of Pegasus Bay wines.

These leadership attributes help the Donaldson family inspire and retain a dedicated team of staff toward a shared vision. This vision is centred on the values of Pegasus Bay Wine and the products they create. The passion of the Donaldson family permeates everything they do, including how they interact with and manage their team of staff.

4.5 Coordination

Alongside innovation, coordination is key to adding value to premium agricultural products. It refers to the arrangements of organisations along the value chain that produce and market products (Coltrain, Barton and Boland, 2000). Coordination can be either horizontal or vertical. Horizontal coordination occurs at the same point in the value chain whereas vertical coordination occurs at different levels. Both types of coordination are important to adding value along the global value chain. Effective leadership styles and attributes, especially those that foster collaboration, are central to successful

horizontal and vertical coordination and have been shown to positively impact supply chain performance (Mehta, Dubinsky and Anderson, 2003).

Horizontal coordination

Horizontal coordination refers to when a company seeks to foster beneficial collaborations with other companies or individuals at the same point in the value chain to address shared issues and exploit opportunities (Kilelu, Klerkx and Leeuwis, 2017). Collaboration can be defined as a purposeful relationship where involved parties cooperate to achieve shared goals (Rubin, 2009).

A key example of horizontal coordination is the membership of Pegasus Bay in a group of New Zealand wineries called the Family of Twelve. They are a collective of twelve family-owned wineries who share exciting wine, stories, market insights, and viticultural knowledge, representing every major wine region and every major grape variety (2021). The group shares a vision, “To nurture long-term relationships with an emphasis on education both at home and in our key export markets. The promotion of New Zealand wine at its best is paramount.” (Family of Twelve, 2021). This is in line with Pegasus Bay’s core purpose and deeply held values. This vision is achieved through collaboration on both an intellectual and physical level about new ideas, successful practices, and how to participate within the global market.

The Family of Twelve markets itself as, “A family of twelve siblings with one voice and one purpose” hoping to achieve “clarity in a crowded wine world.” (2021). They were founded in 2004 to join forces from a marketing and education perspective, therefore creating a group able to counter the marketing strategies of powerful multinationals, “Several voices singing the praises of New Zealand’s wine in harmony will be more effective than one voice singing alone.” (Lawson’s Dry Hills, 2020). Their main focus is the export market, and the wineries work together to make their brands known to the world beyond New Zealand. This provides economies of scale as the wineries can combine resources for events like workshops, tastings, or the wine trade, to achieve global recognition.

Vertical coordination

Vertical coordination seeks to better align value-adding activities amongst organisations at different levels within the value chain (Bijman, Muradian and Cechin, 2011). It relies on effective communication and knowledge sharing (idem). As is common practice in New Zealand’s wine industry, Pegasus Bay is responsible for growing, processing and bottling their own wine. For the Pegasus Bay brand, they grow their own grapes, only working with other grape growers for the label Main Divide which combines grapes from the Pegasus Bay estate with other Waipara growers (Glengarry Wines, 2021). This grape to bottle approach means that vertical coordination is not necessary until the marketing and sales stages of wine production, where Pegasus Bay’s products achieve further customer outreach by being sold by numerous restaurants and wine suppliers like Eurovintage or Glengarry Wines.

Edward, the marketing manager, recognises the importance in establishing good, trusted relationships with distributors, sommeliers, restaurants, bottle shop owners, and final consumers to increase their sales and because, “[Pegasus Bay] want to know where the wines going to end up, how it is being sold and that we’re in good company”. To establish these relationships Pegasus Bay invites people to visit the winery where they can experience the wines alongside all that North Canterbury has to offer in the hope that these people will fall in love with the Pegasus Bay brand. This is to ensure that “they have a

connection with the brand, it's not just a label and a bottle of wine" so that these people are successful when they are marketing the wine on behalf of Pegasus Bay (Edward Donaldson).

Leading coordination

As shown by Pegasus Bay's contributions to the Family of Twelve, collaboration is central to effective horizontal coordination. Collaborative leadership requires responsibility for building and ensuring the success of heterogeneous teams to achieve these shared goals (Rubin, 2009). It reduces inter-organisational conflict, facilitates employees' involvement, fosters new ideas, and promotes a strongly held shared purpose, whilst working to focus on the network that includes leaders and followers by de-emphasising the roles of leaders and followers (Archer and Cameron, 2009; Van Wart, 2013). This can be seen in the relationships between the Donaldson family members working at Pegasus Bay and in the success of the Family of Twelve. The family aim to build functional relationships that establish a "family value" amongst the staff. This is achieved through building trust, respect, and pride in the family brand which has reduced their need to have overbearing conversations with staff members.

These approaches are also reflective of participative leadership which promotes joint decision-making and shared influence in decision-making between a superior and their employees, promotes collaboration and by extension coordination (Koopman and Wierdsma, 1998).

4.6 Marketing Strategies

Brand orientation and loyalty to Pegasus Bay

Brand orientation is an inside-out approach with brand identity as the key concept (Urde *et al*, 2013). This is central to the success of Pegasus Bay. A brand is defined as "the set of mental associations, held by the consumer, that add to the perceived value of the branded product or service." (Kosteljik, 2017, p. 27). As stated earlier, Matthew is open about the fact that Pegasus Bay is not market-oriented, "We're quality-focused, I don't want to see us making more wine, I want to see us making better and better wine" (Pegasus Bay Winery, Vineyard and Events, 2017, Timestamp 10:30). This quote is from a promotional video on their website showing that brand orientation over market orientation is an integral part of the Pegasus Bay brand. Paul supports this notion, "I think our ethos is making wines we like, rather than being market-led, we make the wines that we like, we get a range." This shows how, much like the reasons behind why Ivan initially founded the brand, Pegasus Bay has always been about creating a quality product that people want to share.

Their focus on quality has not just allowed Pegasus Bay to achieve a price premium in domestic and international markets, it has also led to high rates of brand loyalty. This concept is based on the assumption that brands that consumers know and perceive as being different from their competitors are strong brands (Wai Jin, Oecass and Sok, 2017). Paul recognises the value in this approach, "We don't get one label loyalty, we get brand loyalty." Branding is a value-adding process and has worked in favour of Pegasus Bay. The image they present focuses on their family origins, the high quality of the product and the stewardship of their land.

Family is another aspect that is central to their brand. They describe themselves as "a winemaking family" rather than a family-owned winery. This wording is emotive and inspires trust and connection

between the customers and brand. It also shows how transformational leadership has contributed to their brand. As Paul stated, “With a quality focus it wasn’t for money, it went back to his passion. It was very inspirational to grow up around. It was clear why he was doing it, it was a family thing and not just for them.” Edward echoed this sentiment in his interview. “With a family business actually creating a brand that is respected and stands for good quality and something that could be passed down to future generations is equally important, if not more important”. This passion is evident in their brand and reflected in the brand loyalty they have achieved.

‘Made in New Zealand’ marketing

The needs of global marketing complicate companies’ abilities to achieve a price premium without adaptable export marketing strategies that consider foreign markets and export competitiveness (Sudarevic, Radojevic and Lekovic, 2015). Edward spends a lot of time overseas promoting Pegasus Bay to offshore distributors (Pegasus Bay Winery, Vineyard and Events, 2017). The ‘Made in New Zealand’ brand is one approach adopted by Pegasus Bay to add value to the products on the global market. Edward speaks about why this approach is successful, “People just love New Zealand overseas ... I think people see New Zealanders as being quite honest, people of the land, that side of it certainly helps”. Alongside the other wineries within the Family of Twelve, they combine resources to host events in notable cities such as New York, London, and Amsterdam, in the hope of confirming distributors and joining networks by promoting not just their products but the ‘Made and New Zealand’ brand (Lawson’s Dry Hills, 2020). The success of this approach relies on the existence of a strong brand orientation as has been identified above.

To support the “clean green” image of New Zealand abroad, Pegasus Bay markets itself around the sustainable part of its accreditation. Sustainability is key to the ‘Made in New Zealand’ brand and a common quality across premium companies in the wine industry. To support this image, the winery has adopted an emotive branding and marketing approach. Paul spoke to this point stating that “Wine is quite emotive, we did a lot of imagery around our sites, you can tell what's going on.” Emotive branding and marketing refer to the practice of marketing a company in a way that appeals directly to the consumer's emotional state (Meenaghan, 1995). This approach is seen in the imagery and language used throughout their website which promotes the values of family, environmental stewardship, and sustainability.

Chapter 5 Conclusion

Pegasus Bay continues to embody co-founder Ivan Donaldson's founding vision of producing high-quality wines showcasing the best that the Waipara Valley has to offer. Since first making wine in a garage in the 1970s, the Pegasus Bay label has come a long way. It is regarded as one of New Zealand's best wineries with the high quality of its wines being recognised on the international stage. This has allowed Pegasus Bay to earn a price premium for their products in both domestic and offshore markets. Further, as indicated by high rates of brand loyalty, Pegasus Bay has successfully found a market for its wines despite being proudly brand oriented, focusing on quality, passion, and innovation over market demands.

These achievements are due to their success in adding value to the wines produced. As shown, innovation and coordination are important value-adding elements that are utilised by Pegasus Bay to garner a premium price on the market. This value and quality are communicated to the consumer through effective use of branding. Creating a brand and developing brand loyalty has been instrumental in gaining and retaining loyal customers while also showcasing the Waipara Valley to an international audience. Effective leadership is antecedent to value-adding processes, and, as found in the literature review of Mayes *et al.* (2019, there is a close relationship between effective leadership and successful innovation, coordination, and marketing.

The Donaldson family embody effective leadership that shapes deliberate value-adding processes. This is in line with the leadership elements discussed in the earlier literature review. When considered alongside its core purpose, values, and differentiated strategy, it is clear how and why Pegasus Bay is consistently recognised as one of New Zealand's best wineries. The Donaldson family's authenticity has proven successful and allows them to continue to work towards perfecting the craft of winemaking, producing high-quality products that reflect their love for wine, and ensures that the Pegasus Bay winery and vineyard can be passed down to a third generation of the Donaldson winemaking family.



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