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A New Era of Distilling: How Dynamic Capabilities Drive Transformation in the Distilling Industry

Abstract

The distilling industry has a rich history, starting from when people realized that by adding water, sugar, and starch together, they could develop a drink with alcohol that was safer to drink than the water all around them. Over several centuries, this discovery has grown into a significant industry worldwide. In the United States, the distilling industry went from a farm-based barter system to a multi-billion-dollar industry in 2020 (Schwarz, 2021). The sector has faced changes in regulations and other external factors that challenge how distilleries maintain market share, status, and internal challenges due to operational capabilities and market demands. I am interested in the factors that influence distilleries' decision-making that leads to the firm transforming to the market they are in. Transformation allows firms to produce goods or services more effectively than its rivals. For this study, I use an inductive, qualitative method to look at how the distilling industry uses resources to determine how to sense and then transform their organizations to changes in the market. The study aims to provide insight into the capabilities that help organizations transform in times of challenges in the market.

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A NEW ERA OF DISTILLING: HOW DYNAMIC CAPABILITIES DRIVE
TRANSFORMATION IN THE DISTILLING INDUSTRY

A Dissertation

Presented to

the Faculty of the Daniels College of Business

University of Denver

In Partial Fulfillment

of the Requirements for the Degree

Doctor of Philosophy

by

Sean M. Scally Sr.

March 2023

Advisor: Daniel Baack

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Title: A NEW ERA OF DISTILLING: HOW DYNAMIC CAPABILITIES DRIVE TRANSFORMATION IN THE DISTILLING INDUSTRY

Advisor: Daniel Baack

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The distilling industry has a rich history, starting from when people realized that by adding water, sugar, and starch together, they could develop a drink with alcohol that was safer to drink than the water all around them. Over several centuries, this discovery has grown into a significant industry worldwide. In the United States, the distilling industry went from a farm-based barter system to a multi-billion-dollar industry in 2020 (Schwarz, 2021). The sector has faced changes in regulations and other external factors that challenge how distilleries maintain market share, status, and internal challenges due to operational capabilities and market demands. I am interested in the factors that influence distilleries' decision-making that leads to the firm transforming to the market they are in. Transformation allows firms to produce goods or services more effectively than its rivals. For this study, I use an inductive, qualitative method to look at how the distilling industry uses resources to determine how to sense and then transform their organizations to changes in the market. The study aims to provide insight into the capabilities that help organizations transform in times of challenges in the market.

Keywords: Dynamic Capabilities, Transformation, Resource Based View

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CHAPTER I: INTRODUCTION AND STATEMENT OF THE PROBLEM

As early as the 12th century, individuals have been cooking, fermenting, and distilling whatever concoction of starch and sugar that is locally available to them to make them drinkable alcohol (Pickerel, 2018). Often, alcohol, in its different forms, resulted from only poor-quality water being available to people, and where quality potable drinking water was in short supply. The search for drinkable water resulted in the birth of the distilling industry.

Colonists coming to America brought distilling with them from Europe. Those distilleries became a fundamental part of an agricultural ecosystem. If farmers had an excess of grain, they distilled it. Small distilleries became an integral part of the economy for those colonizing America. These farm distillery operations were widespread. Concrete production numbers are hard to come by, given the nature of these types of distilleries; still, it is estimated that between the years 1810 and 1840, 14,000–20,000 distilleries were operating in the United States (Pickerel, 2018). As the country moved through challenges, distilling industry legislation such as the Prohibition Act and the 18th amendment, making the production and consumption of alcoholic beverages illegal in the United States, challenged and effectively closed the distilling industry. Yet, with the ratification of the 21st amendment, the distilling industry was again brought to life. After changing antiquated production and distribution laws, distilleries grew across the United

States. By 2020, there were nearly 3,000 registered distilleries in the United States alone (Strickland et al., 2021).

Many distilleries producing American Whiskey—which consists of rye, bourbon, moonshine, and other grain-based distillations—are an integral part of the economies of the states that they occupy. As a result, the distilling industry remains an essential part of the economy of many states. In Kentucky, a state known for its expertise in distilling whiskey, the distilling industry's effect on the economy cannot be underestimated. According to the Distilled Spirits Council of the United States, Kentucky relied on over thirty-five thousand jobs from the distilling industry in 2019. Those jobs provided industry of 8.6 billion dollars and over 235 million dollars in tax revenue for state and local governments (American Distilling Institute, 2022). From 2002 through 2020, there has been over 39.6% growth in American Whiskey alone (American Distilling Institute, 2022). A total number of over 28 million nine-liter cases are produced and sold domestically (Schwarz, 2021).

The distilling industry continues to grow. Well-established companies in the market are now dealing with new competition in craft distillers, who produce high-quality products in demand from a growing consumer base. In addition, the industry has faced changes in regulations, both at the national and state levels. At the national level, the implementation of international tariffs has changed market dynamics, reducing distillers' abilities to move into international markets. At the state level, changes in laws allowing distillers to sell in different locations, the normalization of distilleries selling directly to consumers, and distillers using digital marketplaces to move their product into new markets are all factors changing how distillers function.

Unlike many producers in the United States, distilleries are required to use a three-tiered system for distribution of their product. This three-tiered system, created in 1933 after the repeal of prohibition, forces distilleries to provide their product to a distributor and then to a retail store (NABCA, 2015). This system has consequences: the distiller only realizes approximately 50% of the retail value of the product on the shelf at a retail store. Because of consolidation within the distribution channel, more products have less ability to find distribution, making it more difficult for distillers to get their products in front of customers (Montana, 2021).

Competition in trade is another challenge that distillers are currently facing. Because of ongoing tariffs, stemming from the World Trade Organization Boeing/Airbus disputes, distillers are facing significant tariffs that reduce the ability for distillers to expand into new or existing markets at a competitive rate. These tariffs will remain in place and are having a direct effect on where distillers can sell their product (Wood et al., 2021).

Distilleries are also attempting to expand their abilities to provide direct to consumer capabilities. These capabilities allow distillers to provide consumers the ability to order their products directly from distilleries. There are currently six states and the District of Columbia that allow the direct shipment of spirits to consumers (Morton, 2015). Eight states allow the direct shipment of beer and wine under specific conditions (NABCA, 2015). The remaining states only allow the sale of wine directly to consumers. Each state has different conditions that distillers must abide by to maintain legal status as a distiller in good standing. For example, Mississippi provides a consumer the ability to purchase wines and have the shipment sent to an in-state package retailer.

Comparatively, Rhode Island requires that the consumer must be present at purchase to ship the alcohol to the consumer. And, Utah authorizes consumers to purchase wine through a wine subscription program, but the shipments must be delivered to a state store or package agency (Morton, 2015). These regulations restrict the ability for distillers to maintain autonomy and thus forces the distillers who do not have the direct-to-consumer capability to use a distributor.

With these numerous challenges, I am interested in the capabilities that assist organizations in transforming to overcome the different challenges presented above. The inability to expand the customer base without using the three-tiered system of distribution has a tremendous effect on how distillers do business. While, the inability to conduct direct to consumer sales limits a distiller's abilities to grow their business. Because of these challenges and others, I want to know: how do distillery leaders use dynamic capabilities to transform their organizations?

This research is important because it addresses limitations in theory about firms with limited resources. While there is research into limited resources and how decisions are made with those resources, that research is not plentiful. There is an increasing awareness that resource-based strategies and dynamic capabilities are needed to deal with companies in both early phases of development as well as established companies with limited resources (Boccardelli & Magnusson, 2006). Much of this research is focused using an entrepreneurial lens and not focused on dynamic capabilities within the firm (Andren et al., 2003). This study also looks at market shocks experienced by firms of various capabilities and the ways they adapted to that shock. To gain this insight for the study, the phenomenological research method is pursued to examine the current issues in

the distilling industry. The grounded theory approach allows for inquiries to analyze the data, involving examining field notes carefully, creating Zoom encounters transcriptions, coding those transcriptions, making comparisons, and developing possible theories (Strauss, 1987). I focus on the factors influencing distillers' decisions that lead to a competitive advantage.

The motivation for this study is two-fold: the first is that after years of working in the defense industry and seeing large firms dominating the market, I question how firms make decisions to remain competitive. I saw a number of firms continue to grow, while several firms faltered and then closed down or were purchased by a larger firm. What factors in a highly competitive market— involving budget and the continuous requirements for improvements—drive how firms react and change their operations to remain relevant and competitive? The second motivation involves questions on how firms with different resources bases break into the market and obtain market share. In my lengthy career in the military, I worked in product development and contracting with different size defense contractors. I see a connection between those various size defense contractors and their operations in producing products for consumers, in this case different parts of the Department of Defense, and the various size distillery operations, that produce for different clientele in the competitive market that is the distilling industry. For example, in defense contracting there are five to seven very large firms that control much of the market, but there are also small businesses who compete with those large firms for a smaller piece of the market share and succeed (Baldwin, 1980). Studies have presented the challenges and limitation of smaller businesses in acquiring or having access to resources, including finances (Schwarz, 2021) which has had impacts on a

firm's competitive advantage (Edelman et al., 2005). Small to medium enterprises (SMEs) lack financial as well as human resources in comparison to their larger counterparts, presenting a challenge to the smaller firms (Grando & Belvedere, 2006). In the distilling industry, there is the same dynamic where there are seven to ten major producers who provide the majority of spirits across the market, while there are hundreds of small producers providing new, and some would say new and improved, products into the market (Conway, 2022). Much of the research dealing with theory, such as the resource based view of the firm, focuses on how firms use resources that are rare, valuable, imperfectable, imitable, and substitutable that provide a competitive advantage to the firm (Barney, 1991). While that research provides insight into when a firm has resources, there is little research focusing on firms that do not have enough resources to change their organizations.

A firm is said to have a competitive advantage when it is implementing a value creating strategy not being implemented by any current or potential competitors. Furthermore, a firm is said to have a sustained competitive advantage when it is implementing a value creating strategy not being implemented by any current or potential competitors and when these other firms are unable to duplicate the benefits of this strategy (Barney, 1991). Obtaining a competitive advantage is a key focus area for RBV theory. Driving my motivation in this area are the following questions: What factors drive them to decisions regarding development and production? How do new distilleries compete with established distilleries in an attempt to make a name in the market? And, how do firms make decisions to gain advantages across markets?

Dynamic capabilities also provide insight into the ways to sense, seize, and transform to adapt to changes in conditions. Dynamic capabilities focus on a rapidly changing market, in most cases focusing on technological changes that either allow or force firms to transform organizations. In the case of distilleries, there has been little technological change that has been introduced into the industry. Distillers are still making products using the same distilling techniques with minor change. Dynamic capabilities research focuses on how firms react to technological change and transform their organizations because of those changes. There is a gap in research when talking about change to organizations where there has not been significant technological change. Because of this, I question: how do leaders use limited resources of the firm to transform their organizations?

I have always had close ties to the distilling industry. As a graduate of the University of Kentucky, I was introduced to and remained friends with several people who are very involved in the distilling of whiskey in the state. I have been able to remain in contact with these people, and they have kept me up to date with the changes and challenges they have experienced. I hope to use this dissertation to move into a consulting role in the distilling industry.

I am looking at firms in the distilling spaces because of my accessibility to those firms. As noted above, Kentucky is a cornerstone state when looking at distilleries and the distilling industry. There are a tremendous number of firms of various sizes to include in research. This availability is one of the key reasons to look at the industry.

(Barney, 1991). Decisions may be made by distillers in the same way that decisions are made by many other managers in other production firms (Alonso & Bressan, 2016).

Internal factors can directly affect how top management teams make decisions.

Organizational structure (Delmas & Toffel, 2005), managerial perceptions of current and future operations (Anderson & Bateman, 2000), plant level variables such as size or age of the facility, and corporate culture dealing with issues like risk can all be internal factors in how distilleries interact and make decisions (Howard-Grenville et al., 2008). All these factors can impact how distilleries succeed or fail.

For instance, firms that are located in different states or different communities with distinct preferences face different institutional pressures, which may result in dissimilar organizational practices. Different levels of institutional pressure could also lead to heterogenous activities during a specific period, ultimately leading to common organizational structures and practices to ensure legitimacy (Delmas & Toffel, 2005).

Managerial perceptions of current and future operations require that managers identify issues that pertain to the operation with frequent scanning of the firms' markets and other factors. Once identified, the issue must be packaged or framed into an opportunity, framed showing impact, and then sold to top management for attention and action. Perceptions can be focused on multiple different factors, such as the environment, but when put into a business context, the perceptions help to guide the future of the firm (Anderson & Bateman, 2000).

External factors also play a part in the decision-making process for distilleries. For example, factors such as industry standard and laws and regulations for production, distribution, and sale of products directly affect the decision-making process of top management teams in distilleries. Regulations around the production of distilled spirits are evolving; export tariffs directly affect distilleries produced in the United States

(Schwarz, 2021). Old rules may be lifted, or new regulations may be imposed on distillers during a production cycle. These regulations may directly affect market competitive pricing or accessibility to the United States or global market.

The critical internal and external factors affecting decisions may provide additional insight into different theoretical norms. I look at these factors as to how decisions are made and the actions taken by distilleries during interviews with our participants. Internal factors include the structure of the firm, the culture, and the people of the organization to see how they affect competitive advantage (Wang et al., 2011). The study will also consider external factors, such as the political environment, demographic environment, and the dynamics of the market (Kraja & Osmani, 2005). The interviews examine the ways market demand, organization of the distillery itself, and decisions to adjust operations are focused in different areas. I will also examine external factors of regulations that govern the industry and how other external factors influence the transition process. The quantitative discussions explore how distilleries use resources in the firm to help them gain a competitive advantage.

This research provides insight into the current gaps in literature involving dynamic capabilities and how firms transform when they have limited resources. This is important to assist in understanding the challenges of firms with limited resources in changing markets. While dynamic capabilities have long been associated with technological advancements affecting firms (Teece & Pisano, 1994), it is important to understand how firms with limited resources change and become more efficient.

Following, I present a literature review of relevant theory related to the data acquired from the interviews, followed by a section describing methodology. I then provide the results of discussions and conclusions drawn from the collected data.

I have conducted initial queries with distillers in multiple states to ascertain a range of challenges in the current operational environment. From these exchanges, I have noted that the challenges in the industry are constantly in a state of flux. These challenges, changes in market demand, changes in governing the industry at the state and federal levels, and changes in response to the worldwide pandemic may be driving factors. With these shifts, distillers attempt to maintain the current market share or expand their market. The study will examine those shifts and how distillers transform their organizations to meet those challenges that the changes cause.

CHAPTER II: REVIEW OF THE LITERATURE

This chapter provides a review of the relevant literature about distilleries as one type of firm and the ways firm leaders use resources of the firm to transfigure the organization, focusing on a resource-based view of the firm and dynamic capabilities. After providing background information on distilleries, the first two theories provide background for the study. I then show how this literary theory is related to the distilling industry.

Distilleries as Firms

Firms have historically used strategic behavior to deter entry and competition with differing degrees of success (Clay & Troesken, 2002). While many companies succeeded in using trusts to control competition, distilling firms in the 1870s and 1880s failed to be able to control their markets. The Whiskey Trust in central Illinois was unable to control market entry by competition and went bankrupt by 1895. While the strategic thinking of these distilleries failed at the time, distilleries as firms were recognized as a force in the economy (Clay & Troesken, 2002).

All distillers fall under federal regulations that govern the types of production, taxes on that production, and the ways commerce is controlled across state lines. Other limitations imposed by states govern the production and transportation of spirits for interstate commerce. These regulations are highly contained and inspected across the industry. As a result of the federal controls on the spirits industry, all distilleries are

regulated so that no distiller holds an advantage; therefore, when regulations such as export tariffs are imposed, as they were in 2018, challenges are felt across the industry. Taxes on spirits exports to the European Union helped to induce one of the few years where exports were down across the spirits industry (spiritsEUROPE, 2021).

Age is an integral part of the production of distilled spirits because of the aging requirements for different distillates. Often, distilleries have to produce multiple types of distillates with short or no age requirements to provide income to the operation. Spirits such as vodka, gin, moonshine, and other spirits provide distilleries with revenue during the aging process.

In the spirits industry, consumer sales are limited by regulations passed by state legislators. Selling directly to consumers by mail is currently allowed in 12 states and the District of Columbia. Spirits produced in states that do not have direct-to-consumer sales must be sold to a wholesale distribution point and moved as a product from the wholesaler to a retailer for sale.

Distilleries are structured with general functional areas: receiving for the input of raw material; production where distilling, bottling, and packaging occur; shipping; marketing; and human resources. Many distilleries also have hospitality areas such as tasting rooms for direct-to-consumer sales.

Distilling Industry Definitions

Distilling Process. Distilling is essentially the process whereby a liquid made of two or more parts is separated into smaller portions of desired purity by adding and subtracting heat from the mixture. The vapors/liquids distilled will separate other ingredients with lower boiling points. Distilled spirits are produced from agricultural raw

materials such as grapes, other fruit, sugar cane, molasses, potatoes, cereals, etc. (spiritsEUROPE, 2021).

Distillation for Whiskey. A 5-step process of malting, mashing, fermentation, distillation—pot or column still distillation—maturation, and bottling.

Distribution for Spirits.

Two-Tier System. Distillers can sell directly to consumers and retail stores such as supermarkets, liquor stores, and others.

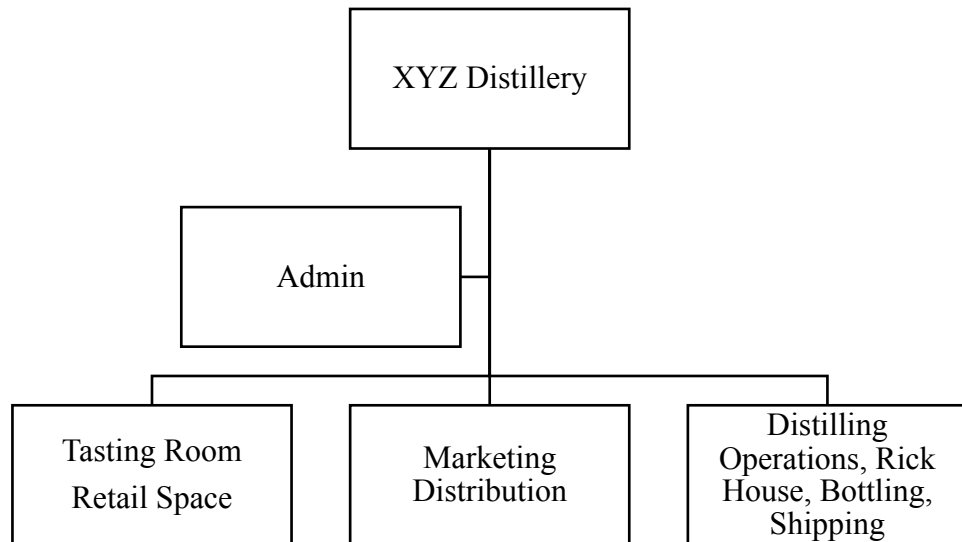
Three-Tier System. Manufacturers provide alcoholic products to wholesalers, who distribute the products to retailers, who sell to the consumers. No one entity can be involved in more than one tier under most state models, and each level is regulated and is licensed separately (NABCA, 2015).

Direct to Consumer (DTC) Sales. A method of selling spirits directly to consumers from distillers through immediate mail delivery. Currently, only 12 states and the District of Columbia allow DTC sales (American Craft Spirits Association, 2022).

Distilled Spirits Plant (DSP). A distilled spirits plant (DSP) may be established to produce, bottle, rectify, process, or store beverage spirits (TTB, 2020).

Distillery Structure

Figure 2.1: Distillery Structure



Many distilleries are structured in the following manner. The distillery has three or more parts of the organization. The first part is the administrative area of the business. The administrative portion of the business is key because the distilling industry is highly regulated. Administrative requirements in reporting a mainstay of distillery reporting. The tasting room and retail space functions in two ways. The primary function is to provide the distillery with feedback on their products. The secondary function is to provide the distillery with income from retail sales of the product. The third portion of the organization is the operational functions of distilling operations (where the distillate is made), rickhouse operations where the distillate is stored and aged, bottling where the distillate is prepared for the retail market, and shipping where the product is sent to either a distribution channel or directly to a retail site, depending on the state the distillery is located in.

Resource Based View of the Firm

Resource-based view of the firm theory provides insight into why and how firms look and strive for competitive advantages (Eisenhardt & Martin, 2000). It also provides the theory necessary to understand how firms work and why competitive dynamics are important to firms. Resource based view (RBV) provides insight into how competitive advantage within firms is created and how that advantage is supported and maintained over time. In short, RBV states that firms obtain a competitive advantage by accumulating internal resources and capabilities that are rare, valuable, and difficult to imitate (Barney, 1991). To understand dynamic capabilities, it is first necessary to understand that the root of where dynamic capabilities come from is in the resource-based view of the firm. Resource-based view of the firm is an influential theoretical framework for understanding how competitive advantage within firms is achieved and how the advantage is sustained (Barney, 1991; Nelson, 1991; Teece et al., 1997; Eisenhardt & Martin, 2000). In marketing materials, distillers argue that their products' unique flavors make them the best choice for consumers. They also say that while many try to reproduce their product's tastes, the competition cannot (Maker's Mark, n.d.). In each of the 20 products produced by the Buffalo Trace distillery in Frankfort Kentucky, the distiller lists the quality of their product, its mash build, water, aging, and other factors that make the product valuable, rare, and costly to imitate (Maker's Mark, n.d.). Therefore, the resources used to produce that product can give distillers a distinct competitive advantage because of the difficulty of replicating.

Teece (2007) expanded the RBV approach by the formulation of dynamic capabilities. Capabilities or distinctive competencies consist of those attributes, abilities,

organizational processes, knowledge, and skills that allow a firm to achieve superior performance and sustained competitive advantage over competitors (Ponomarov & Holcomb, 2009). In addition, those dynamic capabilities may be able to provide distillers with a competitive advantage to maintain their market advantage or gain more into an additional market. A number of logistics and supply chain-related capabilities that help improve firm performance and sustain competitive advantage are discussed in the existing literature. A correlation between strategic logistics capabilities and firm performance was found (Morash et al., 1996; Mentzer et al., 2004; Esper et al., 2007). The four key logistics capabilities identified – delivery speed, reliability, responsiveness, and low-cost distribution—were significantly related to performance. They were critical components for sustained competitive advantage (Mentzer et al., 2004). During times of uncertainty, such as the COVID pandemic we are currently experiencing, supply chain resilience becomes an issue for all distillers and their abilities to maintain a competitive advantage in the marketplace. How those distillers address the decisions necessary to overcome supply chain reliability and responsiveness is a critical challenge that all distillers face. There are areas of decision-making that need to be discussed in these areas. Initial interviews have shown that supply chain challenges have forced some distilleries to commit resources to areas where they would have not normally committed resources. This depletes available resources for the distillery.

At the core of RBV is an explanation of how managers use organizational resources to achieve and sustain a competitive advantage. RBV suggests that some tangible and intangible resources have certain qualities that make them the mainspring of this advantage. The primary appeal of this argument is that it allows scholars to apply

RBV to a wide range of organizations and settings (Barney, 1991; Newbert, 2007; Crook et al., 2008; Nason & Wiklund, 2018). RBV has been applied extensively to established companies that have grown resources and where their managers want to know from which resources to choose to gain such an advantage. Often, these companies have slack resources and are able to access some amount of strategic resources (e.g., knowledge) through market transactions or collaborative relationships (e.g., technology-based joint ventures). Established companies that have market power and size have considerable leverage in negotiating terms of acquiring resources from other sources (Zahra, 2021).

Competitive advantage and sustained competitive advantage require explanation in the context of RBV, dynamic capabilities and the industry. A firm has a competitive advantage when implementing a value-eating strategy not simultaneously implemented by any current or potential competitor (Barney, 1991). A sustained competitive advantage is obtained when a firm is implementing a value-creating strategy that any existing or potential competitors are not simultaneously implementing and when the other firms cannot duplicate the benefits of the strategy (Barney, 1991). With each of these concepts in the distilling industry, every distillery uses different methods to differentiate its advantage in the market.

When researchers look at resources and gaining a competitive advantage, they also consider how firms develop products and functions that provide that advantage. To create and maintain a competitive advantage, Barney (1991) used a criterion that defines how to obtain that competitive advantage. To keep a competitive advantage, firm resources must have four attributes: (a) the resource must be valuable, in the sense that it exploits opportunities and neutralizes threats in the firm environment, (b) it must be rare

among a firm's current and potential competition, (c) it must be imperfectly imitable, and (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare nor imperfectly imitable (Barney, 1991).

In the distilling industry, there is always a drive to maintain a competitive advantage. Research into processes that build long-term competitive advantage and the management practice show the growing importance of the RBV of the firm. With this perspective, the free movement of capital, goods, labor, information, and knowledge within the global economic system reduces competitive barriers and limitations, which translates into greater availability of resources and complexity of processes in modern-day organizations' immediate environments (Krzakiewicz & Cyfert, 2017). The RBV makes a clear distinction between resources of the firm and competencies that it is assumed will be built later by acquiring and using resources. Those organizational competencies then affect the resources and make it possible to have them transform the firm into new configurations that support specific operational activities (Krzakiewicz & Cyfert, 2017).

RBV as an original concept did not focus on particular companies; rather, its arguments focused on firms that face serious competition not only for their products but additionally for resources. Because of this focus and the challenges of resource limitations that hamper new or start-up firms, scholars have found that RBV is a useful framework to analyze the use of resources and how that use might lead to a competitive advantage (Zahra, 2021). Most of those discussions have focused on the importance and relevance regarding strategic positioning, growth, and internationalization, and like discussions have focused on how the ways that managers decide to use resources in

distillery operations can provide keen insights as to how those resources are valued and used (Mahoney & Pandian, 1992; Barney, 2001; Kor & Mahoney, 2005).

Adaptive, Innovative, Transforming

To provide more focus for this study, I define differences in adaptive strategy, innovative strategy, and transforming strategy for an organization. First adaptive strategy, is defined in a model that expounds, and adaptive behavior is created through autonomy and participation in strategic decisions by middle and lower management. Thus, middle and lower management are actually the drivers of emergent strategy, and top level management's role is primarily to (partially) filter the decisions and actions of these managers through the broader corporate strategic plans, or the intended strategy (Fowler et al., 2018). The lower and middle managers must be empowered to make these changes.

In researching innovation, I found that there are multiple definitions in literature. The simple definition for innovation is “the effective application of processes and products new to the organization and designed to benefit it and its stakeholders” (West & Anderson, 1996, as cited in Wong et al., 2008, p. 2). Other definitions focus on change to the organization; innovation is conceived as a means of changing an organization, either as a response to changes in the external environment or as a pre-emptive action to influence the environment. Hence, here is innovation broadly defined to encompass a range of types, including new product or service, new process technology, new organization structure or administrative systems, or new plans or program pertaining to organization members (Damanpour, 1996). These definitions provide a basis for what to look for in innovation.

Transforming an organization focuses on managers in leadership roles with skills that are altered from the traditional role of the manager. This change can be from a leader who controls to a leader who inspires (Luftman et al., 1993). Much of the current literature focuses on digital transformation of the organization. This allows the organization to compete in a global market, with a shifting workforce that is more white-collar and able to service a large range of customer needs (Luftman et al., 1993).

Dynamic Capabilities

Because there have been dramatic changes in the growth of the industry and requirements to the industry—such as changes in regulations, increased competition from newcomers into the market, and unforeseen factors, such as a global pandemic—I examine how distilleries have used dynamic capabilities to gain and maintain a competitive advantage in a growing competitive market.

As previously stated, the distilling industry has maintained constant growth in the last 20 years. That growth has fueled many newcomers to the industry and forced older established firms to adapt and look for new market opportunities. Flavored products such as Fireball, a cinnamon-flavored whiskey, are the most popular product produced by the Sazerac Company of New Orleans, LA, one of the most prominent family-owned distilleries in the United States (Scroggins, 2019).

The Sazerac distillery and others like it challenge maintaining their competitive advantage in the market. Many distilleries have maintained their standard product and waited for the market to grow. Others have looked at differentiators that may provide them with a competitive advantage in the market. One of the primary ways that

distilleries look to maintain or increase their competitive advantage is by using their dynamic capabilities to help them to compete.

To examine dynamic capabilities, we first look at the firm's RBV and how that view helps to drive the continued examination of resources within the firm for a competitive advantage. Ensuring a clear picture of RBV is critical to understanding how the firm or distilleries work in the marketplace. To obtain and maintain a clear understanding of the RBV, I provide three concepts that help with a greater understanding of RBV: firm resources, competitive advantage, and sustained competitive advantage (Barney, 1991). Firm resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc., controlled by a firm that enables the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Daft, 1983). In my examination of the distilling industry, I look at physical capital resources, human capital resources, and organizational capital resources used by the distilleries. Physical capital resources can be defined as physical technologies in use, distillery plant and equipment, geographic location, and access to raw materials for distillation (Williamson, 1975). Human capital can be seen as an intangible resource with attributes such as education, experience, and skills and leveraging that capital with the firm's strategy (Hitt et al., 2001).

Other literature distinguishes between property-based and knowledge-based resources; the latter are of greater utility in uncertain or changing and unpredictable environments. Knowledge-based resources often take the form of particular skills, which can be technical or collaborative. In the distillers case, it can be a master distiller whose reputation and know-how drive how resources are used. Collaborative skills are required

for multi-disciplinary teamwork. Those collaborative skills are more subject to uncertain imitability. They can be extended when there is a requirement to extend outside the firm and seek complementary sources of know-how from other firms or institutions (Hadjimanolis, 2000).

The concept of value in the distilling industry is derived from many different aspects of production. Value is derived from multiple and distinct aspects of production in the distilling production process. The method of distilling—for example, the type of water, the mash bill to include types of grain used, type of distillation and age of the product—are all credited to providing value to the product (Maker's Mark, n.d.). These factors also add to the product being rare and difficult to imitate or reproduce by competition.

One of the lenses I use to examine the interview subjects is the lens of dynamic capabilities. Using a competitive advantage framework, advantage flows from a point in time of scarcity but relevancy and challenge to imitate assets. Because business environments are fast-paced and open to global competition, sustained advantage is more involved than simply challenging standard practices to replicate assets. Those wishing to maintain a sustained advantage also need find unique and challenging ways to employ dynamic capabilities (Teece, 2007).

Helfat et al. (2007) define dynamic capabilities as the capacity of an organization to purposefully create, extend, or modify its resource base and consist of patterned and somewhat practiced activity. They then define dynamic managerial capability to refer to the capacity of managers to create, extend, or modify the resource base of an organization

(Helfat et al., 2007). To examine the ideas presented in this paper, I have further defined what I mean when I use the term dynamic capabilities.

Helfat et al. (2007) remains consistent with the 1997 definition of dynamic capabilities, or the ability to sense and then seize new opportunities and to reconfigure and protect knowledge assets, competencies, and complementary assets to achieve a sustained competitive advantage (Teece et al., 1997). I also see the definition expanded by saying that capabilities—which develop over time through learning—provide organizations with the capacity to undertake activities in a reliable and minimally satisfactory manner (Winter, 2003). Winter says organizational routines and processes—which enable the reliable performance of an action—are viewed as the building blocks of organization (or sub-organization) level capabilities; indeed, an organizational capability can be considered in a meta-routine. For example, routines are supported by standard codes of communication and shared knowledge within organizations (Nelson & Winter, 1983).

Dynamic capabilities provide a subset of capabilities focused on strategic change with a focus at both organizational and individual levels (Helfat & Raubitschek, 2018). More specifically, dynamic capabilities are defined as those capabilities that enable firms to create, extend, and modify how they make a living, including through alterations in their resources (tangible and intangible assets), operating capabilities, scale and scope of businesses, products, customers, ecosystems, and other features of their external environments (Teece et al., 1997; Winter, 2003; Helfat, et al., 2007; Teece, 2007; Helfat & Winter, 2011).

Dynamic Capabilities Sensing, Seizing, and Transforming

For this examination, dynamic capabilities are broken down into three sections as part of the examination. The first is capacity, which can sense and shape opportunities and threats. The second is the ability to seize opportunities. Seizing opportunities addresses the ability of managers or others in the distillery enterprise to make changes and act upon the opportunities promptly. A finally, the third is the ability for the enterprise/distillery to enhance, combine, protect and, when required, reconfigure the intangible and tangible assets (Teece, 2007). I look at these three to help determine how executives use their resources to gain or maintain a competitive advantage in the market. I seek to answer: do the factors that drive decision-making differ because of the distilling industry's long production timelines, and why were those decisions made in the first place?

The capacity to sense new opportunities is essential at founding an organization to detect promising opportunities and subsequently detect strategic threats and opportunities (Teece, 2007). That ability must be maintained to ensure that an organization can sense the market and remain competitive. Sensing requires organizations to continually scan their external environments to find new or untapped capabilities. Changes in product offerings and pricing of existing competitors can provide warning signals. The development of scenario analysis can further assist organizations in detecting and making sense of changes in the market (Helfat & Raubitschek, 2018).

Dynamic capabilities include difficult-to-replicate enterprise capabilities required to adapt to changing customer opportunities present within the enterprise (Teece et al., 1997). The enterprise must recognize changes in customer needs or technical capabilities

that help maintain and shape the market. An enterprise's ability to see what the market is doing allows it to shape the place in the market that it occupies. The ability to shape that opportunity happens by using internal resources and allowing distilleries to design and implement new business models.

Dynamic capabilities are difficult to develop and deploy, and therefore they are a challenge for rivals to imitate successfully. They are in part in “signature” processes that emerge from a firm’s unique history, investment, culture, experience, and problem-solving techniques. To be effective, dynamic capabilities need to be deeply baked into an organization’s culture, because shared risk values guide risk taking, experimentation, learning, and failure tolerance (Schoemaker et al., 2018). Firms may find that this embeddedness may also challenge sensible strategic boxes that organizations need but are not equipped to handle, such as making decisions that break with past practices. Because dynamic capabilities may also reflect unique experiences, intuition, and cognition of key managers, new executives may need to join the firm to turn the organization around which has had difficulties (Teece, 2012).

By recognizing changes in customer needs or technical capabilities, an enterprise must develop innovation capabilities to help maintain and grow. Managing small ventures require understanding challenges of having to cope with dynamic markets, financial constraints, and changing customer expectations while working with limited resources (Brush, 2008). Distillers must then use resources for innovative products and services. Organization-level innovation capabilities, in general, within teams or groups (large or small, up to and including the entire organization), underpinned by routines that are used in concert with tangible and intangible assets (resources). Many firms have

transparent processes and practices for new product development (Eisenhardt & Martin, 2000).

A dynamic capabilities view of competitive advantage argues that success in volatile industries requires higher-order capabilities that enable companies to anticipate, shape, and adapt to shifting competitive landscapes (Felin & Powell, 2016). This view accepts the importance of capabilities like product design and manufacturing, but argues success in volatile industries requires something more than baseline capabilities, namely adaptive process and structures that enable companies to change their baseline capabilities, anticipate shifts in market demand, understand and integrate new technologies, understand market events, and learn from them to see new market opportunities. Organizational design can provide the abilities for firms to capture information, knowledge, experience, and capabilities and to bring these things to bear on collective transaction processes. Organizational design should have structures that put individuals in contact with relevant environments, and processes should be designed that facilitate learning, sharing, and aggregation of individual knowledge so that collective organizations can make well informed decisions (Felin & Powell, 2016).

Dynamic capabilities give support to the idea that companies must align market strategies with internal structures because the competitive environment is always changing (Felin & Powell, 2016). Sensing, shaping, and seizing new opportunities is a challenge that distillers face when looking at the changes in their current landscape because of the changes that have been caused by COVID

I look at the distilling industry with a significant change in technical capabilities. Using those new technologies to a competitive advantage is part of how firms use

dynamic capabilities to gain a competitive advantage; however, many in the distilling industry still use adequate technologies to produce their products (spiritsEUROPE, 2021). The ability to change and adapt to new markets may be resource-based or institutionally based decisions. One element of dynamic capabilities is that they may govern the rate of change of ordinary capabilities (Collis, 1994; Teece & Pisano, 1994; Helfat et al., 2007). The ability to govern over standard capabilities may provide a competitive advantage to a distiller who has that ability. The ability for distilleries to adapt new technologies as an example of expanding the marketplace—such as how distillers expand their social media presence to increase sales—may be an example of adapting to new technologies in their sales and marketing processes.

A dynamic capabilities framework is not based on optimization assumptions. It is assumed that the manager uses their best-bounded rationality to seek profits but not always maximize the profit. Organizations adapt to and help shape their markets. Disequilibrium is the norm within the market, and there is uncertainty about where the market will go (Augier & Teece, 2009). How distilleries adapt to and help shape those markets with their decisions provides exciting insight into the market and the decisions being made.

Different Views of Dynamic Capabilities

To address an extended idea of dynamic capabilities, Eisenhardt and Martin (2000) discuss that in moderately dynamic markets, dynamic capabilities resemble the traditional concept of routines. They are detailed, analytic, and stable processes with predictable outcomes (Eisenhardt & Martin, 2000). The term dynamic capabilities is defined as “a firm’s process that integrate, reconfigure, gain and release resources to

match and even create market change” (Eisenhardt & Martin, 2000, p. 1107). Capabilities refer to organizational and managerial processes, that is the firm’s “routines or patterns of current practice and learning” that allow it to alter its resource base (Teece & Pisano, 1994, p. 541). There are different levels of capabilities (Collis, 1994; Winter, 2003). Zero level capabilities, or Collis’s first level (Winter, 2003), are known as ordinary capabilities or operational capabilities. They are defined as those that permit the firm to earn a living in the present, which is essentially the resource base. Then next level is termed first-level capabilities, which operate on zero-level capabilities (Winter, 2003). These are dynamic capabilities, and both Winter (2003) and Collis (1994) agree that there are higher capabilities that could modify and change the dynamic capabilities (Weaven et al., 2021). Additionally, it is important to look at both ostensive and performative aspects of routines that may comprise dynamic capabilities. Feldman and Pentland (2003) define an ostensive aspect as a “abstract, generalized idea of the routine” (p. 101), while performative aspects include “specific actions, by specific people, in specific places and times” (p. 101). These two closely related aspects coexist and determine how dynamic capabilities are operationalized by a firm (Biesenthal et al., 2018). This view of dynamic capabilities is important in distillery operations to assist in addressing ordinary capabilities from dynamic capabilities during challenges in the market. Changes can have a negative impact on the business environment, such as causing damage to infrastructure, increased unemployment rates, and reducing customer demand and supply availability, all while increasing costs (Weaven et al., 2021).

Ideas regarding dynamic capabilities continue to evolve. Dynamic capabilities consist of well-known processes such as alliancing, product developing, and strategic

decision-making studied as RBV. The value of those dynamic capabilities is altering the resource base. Dynamic Capabilities have the ability to create, integrate, combine, and release resources to bring competitive advantage (Eisenhardt & Martin, 2000).

Additionally, while specific paths may be distinctive to a firm, best practices emerge as dynamic capabilities. The commonality of best practices for a specific dynamic capability implies that dynamic capabilities are equifinal. Firms can develop these capabilities from many starting points and along different paths. They are also more homogeneous, fungible, and substitutable than is usually assumed (Eisenhardt & Martin, 2000).

The distilling industry and individual distillers look to maximize their best practices when searching for advantages in the production and sale of their products. While production of their products is homogeneous across the industry in their basic practices—i.e. the distillation of spirits as a common core; ingredients consisting of water and mash for distillation; questions of whether to age or not age distillate; and processes for bottling— along with the following activities of marketing and distribution to the consumer can have distinctly different paths. Channels such as the three-tier distribution system, tasting rooms, and direct-to-consumer sales all have commonality in distilleries. The focus of how common and if distillers have moved to resources to possibly take advantage of those capabilities gives insight into which capabilities the distiller has and how they have used them.

There is also a delineation between moderately dynamic markets and high-velocity markets. In moderately dynamic markets, dynamic capabilities exhibit the properties suggested in the traditional research, where effective routines are efficient and robust processes (Cyert & March, 1963). In contrast, dynamic capabilities rely

extensively on new knowledge created for specific situations in high-velocity markets. Routines are purposefully simple to allow for emergent adaptation, although not wholly unstructured. Since conditions are rapidly changing and new knowledge must keep pace, experiential activities—such as prototyping, relaying real-time information, offering multiple options, and experimenting—that generate immediate knowledge quickly replace analysis. Routines are iterative and cognitively mindful of adapting to changing data, not linear and mindless (Eisenhardt & Martin, 2000).

While high-velocity markets do not readily describe the distilling industry or the spirits market, external effects to that market, such as the global pandemic, disrupted the industry in a major way. For example, craft distilleries relied on tasting rooms to provide additional opportunities to get their products to consumers in the most profitable channel. Using a tasting room allows a distiller to receive full value for their product and expand their local market (NABCA, 2015; Montana, 2021). In smaller distilleries, tasting rooms represent approximately 60% of their revenue and can be critical to their operations (Montana, 2021). The ability to reconfigure these resources during times of change can help establish a long-term competitive advantage.

Eisenhardt and Martin (2000) conclude that long-term competitive advantage lies in resource configurations, not dynamic capabilities. In moderately dynamic markets, RBV is enhanced by blending its usual path-dependent strategic logic of leverage with a path-breaking strategic sense of change. Finally, RBV encounters a boundary condition in high-velocity markets, where the duration of competitive advantage is inherently unpredictable, time is central to strategy, and dynamic capabilities are unstable. The strategic imperative is not leverage, but rather change (Eisenhardt & Martin, 2000). This

view of dynamic capabilities focuses more on an RBV for long-term competitive advantage than on dynamic capabilities providing that advantage to the firm.

Ordinary capabilities underpin production and sale of a defined set of products and services in a firm's current environment, such as efficiencies in manufacturing, effective marketing, strong partnerships, and capability operational leadership (Schoemaker et al., 2018). For a reasonable chance at earning more than competitive returns, businesses must combine strong ordinary capabilities with proprietary (what can be seen as intangible assets). In a distillery firm, that may be the process of a mash build, which provides flavor to the whiskey or the types of barrel chars (how an oak barrel is burned on the inside) to provide flavor for the whiskey. Dynamic capabilities assist firms to identify new products and services, and possibly opening new markets where the competition has not yet appeared (Schoemaker et al., 2018).

Ordinary capabilities on their own may not suffice to support long term competitive advantage in a rapidly changing environment, and they may even distract from future operations (Schoemaker et al., 2018). As an example, Henry Ford perfected the manufacturing efficiency of the model-T but lost competitive advantage as it became the wrong car for a changing consumer market, allowing General Motors to move in front of Ford in the United States and global markets. This was also the case with Nokia making feature phones that had rudimentary operations systems that would address the internet on very small screens. After the 2007 introduction of the iPhone and its demonstration of integration of the phone computer experience, Nokia was knocked off the number one manufacture of mobile phones (Schoemaker et al., 2018). Ford and

Nokia's reliance on ordinary capabilities allowed competitors to expand the market with neither Ford or Nokia being able to respond in a timely manner.

Firms that develop dynamic capabilities can provide safeguards against common challenges of organizations that are focused on ordinary capabilities and best practices. Dynamic capabilities help firms monitor the external environment (sensing) to understand and assess the current business model and how long it will be valuable. When the model is weak or losing stability, a firm using dynamic capabilities can create, integrate, and rearrange internal and external competencies to address conditions that may otherwise undermine their market position (Teece et al., 1997).

Challenges in the Economy and Dynamic Capabilities

Environmental challenges result in significant sets of contextual factors with various effects on firms' strategic directions and on the processes by which firms strategize (DeDee & Vorhies, 1998; Weaven et al., 2021). An economic crisis is defined as an extreme and unanticipated change in the external macroeconomic environment that results in a slowdown in economic activity over a long period of time and leads to negative consequences, such as higher unemployment rates, downsizing of firms, slower growth, and tighter credit (Doern et al., 2019). The distilling industry faced this uncertain economic crisis during the period of the COVID pandemic crisis when there was extreme uncertainty facing distillers. Not knowing if their businesses would be open, how many employees would be available to work or even if they would be allowed to work, and what changes would have to be made to meet the governments new requirements, were all challenges that the distilling industry had to address during this time. In these highly volatile and uncertain business environments, the extent to which firms are able to

overcome these challenges and grasp new opportunities largely depends on their ability to adapt to new situations (Teece, 2012). Addressing these challenges may require shifting resources from existing (sometimes outdated) capabilities to developing innovated, valuable capabilities that address the changing external conditions (Osiyevskyy et al., 2020).

Additional research provides some evidence on the effects of the Global Financial Crisis on small firms (Bamiatzi & Kirchmaier, 2014; Williams & Vorley, 2014; Cowling et al., 2015). Overall, it was found that despite being vulnerable to changes during an economic crisis, firms demonstrated resilience and high levels of adaptability and flexibility (Smallbone et al., 2012). Adaptability and flexibility in changing conditions for distilleries provide great examples of how those distilleries might use their dynamic capabilities to adapt to external forces on their businesses.

I use the results of interviews to help determine what type of transformation organizations, specifically within the distilling industry, implement. How distilleries adapt to different factors can vary by organization. Adaptive fits by distillers focus on the levels of complexity presented by the environment. Defensive strategic posture, or reducing a firm's interaction with its environment, is another way change occurs. Reactive strategy, or trying to meet environmental change with corresponding organization action, and proactive strategy, or forecasting and preemptive adjustments to future market change, are both ways organizations may transform to meet market challenges (Lengnick-Hall & Beck, 2005). I also consider the possibility of robust transformation of a distiller's organization due to the organization's environmental challenges. Robust transformation is a deliberately transient and episodic response to a

new, yet fluid, environmental condition. Robust transformation enables a firm to capitalize on environmental change in ways that create new options and capabilities (Lengnick-Hall & Beck, 2005). The study looks to identify if there is, in fact, robust change among distillers reacting to challenges in the market.

In conclusion, this chapter discusses distilleries as firms, provided distilling industry definitions and an operational structure for a distillery. I have also provided a review of literature regarding the resource-based view of the firm and dynamic capabilities. In the following chapters, I will provide description of my methods, findings, and results of the study.

CHAPTER III: METHOD

As a review, Chapter 1 introduces the problems that the distilling industry faces with new challenges in operating and the subsequent ways distilleries are dealing with those issues. Chapter 2 provides a review of pertinent literature that deals with the establishment of firms and the ways those firms deal with changes, be they regulative, normative, or cognitive areas to either establish or maintain control of market share (Palthe, 2014). In this chapter, I look at how firms are selected and structured using institutional theory, which becomes the norm for firms in that market (Meyer & Rowan, 1977).¹ I also look at how those firms make decisions given their resources with the goal to maintain or increase market share (Helfat et al., 2007). Finally, I examine how dynamic capabilities allow firms to look at their resources and the ways those resources are repurposed or transformed within the organization to address those market opportunities (Teece, 2007).

For this study, I use an inductive, qualitative method to look at the ways the distilling industry uses resources to determine how to react to changes in the market. The research aims to provide insight into emerging changes in the distilling industry. The design inquiries about the experiences of distillers, their reactions or sensing of changes in the market (what tools they use to determine possible change), and how they can

¹ Institutional theory provides a baseline understanding for how distilleries are structured. Understanding the theoretical origins of how distilleries are structured provides a greater understanding the organization.

transform the use of resources to address changes. These insights may provide a grounded theory model of structure and decision-making when dealing with market change. There is a distinct gap in the literature when dealing with how those firms are structured and react to change. I am looking to understand what affects a firm's ability to transform to gain or maintain market share in a highly regulated industry with increasing demand.

A phenomenological methodology was chosen for this study. I wanted to know the experiences of distillers working in the industry. Specifically, I wanted to know: What their experiences had been when developing their products?; How they determined what products to produce?; and, If they had to realign resources, how did they make those realignments to transform their organizations? Each of the distillers' interviews involved recounting their experiences living in and conducting business during a difficult time for businesses in the United States, with the challenges of COVID restrictions placed on businesses. How the distillers adjusted to those challenges provides interesting insights into the business community.

Data Collection

The research is designed to develop a theoretical framework to help understand how and why distilleries act in similar or different manners in the current marketplace. I use grounded theory in a semi-structured interview protocol, with both person-to-person interviews and video interviews, using the Zoom internet video conferencing service (Glaser & Strauss, 1967; Locke, 2001).

In the first phase of the interview process, inquiries were made with distillers across the industry to determine if the information was available to expand the theories.

Nine different informants were used in the initial phase of the investigation at eight different distilleries to decide which theories to expand on. Additional interviews were then conducted with other distilleries in the United States in a second phase. Each interview was scheduled for one hour, with 10 minutes for introductions and 50 minutes for interaction with the informant on the interview questions. Each interview was recorded using a handheld digital or the Zoom video-conferencing program. In addition, each interview has audio and text transcripts, with Zoom interviews providing additional video records. Discussions will continue until information saturation is reached.

The concept of theoretical saturation, or the point where the main idea and variations relevant to the formulation of a theory have been identified, was first articulated by Glaser and Strauss in the concept of grounded theory (Glaser, 1965; Glaser & Strauss, 1967). Much of the literature on analyzing qualitative data, however, deals with observable thematic saturation, or the point during a series of interviews where few or no new ideas, themes or codes appear (Morse, 1989; Sandelowski, 1995). In this research, the salient themes became apparent after interviewing several different subjects. The themes were prevalent with each of the respondents during the interview process. With the continued recurrence of themes during the interview, I determined that I had reached saturation of information regarding those questions and themes.

Study Population

The population for this study is a cross-section of distillers primarily in the mid-west region, but not limited to that region. The distilleries are categorized in three groups: large distilleries that employ over 300 people, medium distilleries that employ between 75 to 300 people, and small distilleries that use less than 75 people (TTB, 2020). Two of

the distilleries in the study were classified as large distilleries ,with over 300 employees throughout the companies. The remaining distilleries would be classified as small distilleries, with 75 employees or less at the distilleries. These classifications are developed by the Alcohol and Tobacco Tax Trade Bureau, as part of the Department of the Treasury. Before each of the interviews, each informant received a copy of the Exempt Research Information Sheet (approved by the IRB) that provided the informants with their rights for a voluntary interview and gave them a brief description of the study to prepare the informants for the interviews.

I was provided with names and contact information for several distilleries that agreed to participate in the study. The Kentucky Distillers Association provided these names. In addition, I used data provided by others in the distilling industry to develop a snowball survey system across the distilling industry in Kentucky and different states such as Colorado, New York, Texas, and others where the distilling industry is growing.

Interview Protocol

The interview consists of between 10-15 questions. The questions are based (with few exceptions) on the literature reviewed in Chapter 2. The questions are broken down into three different categories. The first category is preliminary questions about the distillery, size, types of products, business focus, and goals. The second category of questions addresses how decisions on structure and production are made. What are the structure functions, and how/why are changes made to those structures? In those questions, I focus on how managers saw changes (sensing), what changes had to be made (seizing), and what changes were implemented by the distillery (transforming) to address the challenges occurring in the market. As a result of the initial inquiries with test

distillers in phase one, I modified these questions to address aspects of dynamic capabilities and how the distillers are using those functions of dynamic capabilities in their operations. I continued to use demographic data to provide markers for different distillers. Finally, I focused the inquiries on how each distillery has reacted to changes, either regulatory changes, changes in demand of the market, or changes brought on by either internal or external pressures. I compared those changes to assist understanding of dynamic capabilities and their effects on distillery operations.

Sample and Interview Data

There is a completed record of all demographics for each distillery and each of the informants from those distilleries. I include gender, age, size of the distillery, age, and amount of time employed by the distillery. I determined the use of distilleries from multiple sources: The Distillery Trail, which provides a database of distilleries across the United States; The Bourbon Trail, which includes a list of bourbon distilleries in southern states; and additional databases provided by state liquor commissions across the United States. Because there are emerging distilleries across the United States, I only use distilleries where the owners are full-time owners/employees. Distilleries that are "hobby" distilleries are not included as part of the data collection and interview process.

Data Analysis

The data was analyzed using grounded theory (Scott, 2004), and I used NVivo software to assist in data analysis. Transcripts from interviews were loaded into NVivo software for coding as the initial step in developing first-order concepts. After initial coding, the first-order concepts were built into second-order themes that reflect the

interpretation of the data. Upon completion of theme development, I attempted to put those themes into aggregate dimensions used to build additional theory development.

Credibility Confirmability, Dependability, and Transferability of Results

I take steps to maintain the credibility of findings; there is an initial review with a sample of informants to ensure the validity of the results. Additionally, I have used validated questions from previous research to focus on the different aspects of the history of the business. I use questions from a Jenson study to help determine how distilleries sense their customer needs and wants when developing products or during challenging times to the business. I also use validated questions that inform readers as to how the business uses the information gained to make decisions to address the knowledge acquired when sensing different trends in the market. I then focus questions on how the businesses changed or transformed.

To assist in the confirmability of data, interviews are recorded either on digital handheld recordings and then transferred into an interview database or on Zoom video conferencing with transcripts. These transcripts reside only on the interviewer's laptop. All informants were protected with anonymity throughout the process.

To address dependability, the study is designed to be evaluated after the initial pilot interviews to assess the relevancy of the interview questions. As I looked at the reliability of the data produced, I used three qualifying attributes to assist me to determine if the results from questions were reliable. The first attribute is homogeneity, or internal consistency to the extent that all items on the scale measure one construct, in this case distilleries. The second attribute of reliability I used was stability, which is the consistency of results using an instrument with repeated testing. The third and final

attributed I used to determine reliability was equivalency, or the consistency of responses of multiple users of the instrument and their answers (Heale & Twycross, 2015).

Regarding the transferability of results, the research is structured to generalize the findings to the distilling industry and other manufacturing processes with similar time and resources constraints.

Questions for Interviews Subjects

Demographic questions were asked at the end of each interview, including:

- What is the size of the firm, i.e., the number of workers?
- Location of the firm?
- Age of the firm, how long have you been producing the product?
- Do you have a tasting room/hospitality portion of your operations?

The initial questions are about the firm:

1. Please tell me about the firm's background and what you consider essential to your operations.

The next group of questions are about how the firm senses its user needs. These questions are based on validated sensing questions (Janssen et al., 2016):

2. How does your firm determine what your customer base is looking for when looking at the market, i.e. what type of products to produce, and to what degree?
3. How do you stay up to date with possible changes in the market?

The next group of questions looks at the firm's ability to absorb the new knowledge gained from sensing. Questions are from success traps, dynamic capabilities, and firm performance (Wang et al., 2014). The questions follow the previous questions:

4. As you have acquired information about your market and customers, how is information synthesized throughout the firm?
5. How do you plan to transform that new knowledge with that further information? What competencies are required to make that information actionable to you as a firm?
6. Do you look at new information as a group or individually? When you look at the new information, what is the process for developing a plan of action?

The last group of questions from Wang et al. (2014) deals with how the firm changes and/or transforms:

7. As we have had challenges across the globe, how has your organization responded to those challenges?
8. Have you had shifts in your business priorities, and how has your organization/have you responded to those shifts?
9. When you look at your overall firm performance, what helps you determine that performance (sales growth, profitability), and what do you want to improve?

The Study

To determine which theory would be the primary focus of the study, I engaged several distilleries across the United States, making inquiries about how distilleries make decisions to allocate resources and expand their markets. I also asked about the effects of market challenges, such as the pandemic, on their current and future business.

The original idea for this dissertation was to look at two theories and a framework to identify how those theories might be expanded using the distilling industry as the model; however, after the initial inquiry, I determined that although institutional theory

has a prominent place in discussing the distilling industry, there was not ground to expand institutional theory.

The distilleries represented in this study comprise of a wide demographic. The distilleries have been producing distilled spirits anywhere from two to 20 years, though the average age of the distilleries was seven years. Of the seven different distilleries in phase one of the study, two are co-located with wineries. The co-location with wineries provides each distiller with additional challenges in determining priorities for production and allocation of resources. One of the wineries/distilleries is a part-time operation for the distiller. Because they maintain the distillery as a hobby, I ultimately decided to exclude that distillery from the study. The remaining distilleries had an average of eight full-time employees. In addition, many distilleries had many more part-time, seasonal employees engaged in the distilleries' hospitality portions of their operations.

Five of the seven distillers are located in states that allow direct-to-consumer sales apart from their hospitality operations on distillery property. Distilleries are structured with similar functional areas. They each have a production portion of the firm where the distillate is manufactured, aged, bottled, and made ready for shipment. Some distilleries ship their product, while others use a wholesale distributor to get their product to market. Each distiller also has standard human resources, accounting, and regulatory compliance functions set up in their administration operations, along with a separate marketing departments. In addition, all distilleries except one had hospitality areas at their distilleries. These hospitality areas, or tasting rooms, function as marketing and retail space for each distiller. Retail space is a critical piece of distillery operations; retail

space allows for marketing and retail opportunities for the distillery, helping it gain market share.

In Kentucky, the distilling industry accounted for more than 1.7 million tourists visiting the state for tours in 2019; this number took a significant downturn for the first five months of 2020 with the restrictions placed by the COVID-19 pandemic (Coomes et al., 2022). As a result, the Kentucky distillers involved in this inquiry saw significant reductions in the number of visitors to their tasting rooms.

A primary theme from the inquiries is that distilleries must be aware of and prepared to implement two forms of capabilities to maintain a place in the market. First-order capabilities, or what Teece (2007) describes as base-level capabilities, are routine activities, administration, and essential governance that allow organizations to pursue a given production program or define a set of activities more or less efficiently. Standard operational capabilities were also part of each distillery that were spoken with during the initial inquiries with distillers during the first inquiry phase. Ordinary capabilities remained consistent functions in the distillery subjects.

During the initial interviews, concepts of sensing, seizing, and reconfiguring were used as frameworks for employing dynamic capabilities. In this group of distillers, I found that the sensing and seizing of requirements for products produced by the distillers are homogeneous across the subject group. For example, all distillers know there is a demand for a new product and look to take advantage of that demand. In the same way, distillers look at seizing opportunities in the market that come with the high demand and opportunities to increase their ability to provide the products to market. These two aspects of dynamic capabilities became increasingly apparent as the inquiries progressed.

What was determined from the initial interviews over Zoom was that all distilleries take measures to understand how the spirits market is changing. Understanding what the demand is, how it affects what is being produced, and how it is being sold are prominent concerns for several of the distillers.

Initial questioning focused on how each distillery started its business and determined its focus; these factors contributed to how successful those businesses have been since inception. Looking at those factors, I attempted to understand how decisions were made to the business structure and allocation of resources. These second-order dynamic capabilities include new product development, expansion into new sales regions, assignment of product mandates across divisions in large companies, and other factors that constitute astute managerial decision-making under uncertainty (Teece, 2007). Second-order dynamic capabilities were shared throughout the interview process among the informants talked to, which determined their ability to reallocate resources to take advantage of opportunities in the marketplace and develop new opportunities around them. One informant said:

1 - Informant #7 - "I just flipped that (our operational setup) on its head and said all right, we're going to take everything off-premises and sell to all the retail stores. And if we do it in volume, we'll make up the difference in that margin, which we have surpassed that, and so now it's actually freed up our ability to, you know, worry about the tasting room sales."

Other distilleries transform operations in different areas that have yet to be developed. For example, one distiller looked at current distribution plans and shifted resources to another direction to take advantage of location and opportunity. Sensing an

opportunity in the "Barrel program" market, this distributor allocated resources to take advantage of their location, close to Louisville, KY, and sell large numbers of barrel program products to both retailers and those in the hospitality industry. One informant said:

2 - Informant #6 - "So, while a lot of other distilleries kind of shut down tours and shut down barrel picking experiences just because they didn't have the room for it, which seems odd because they're massive companies, we took full advantage of that. And we told people, you know we prefer you to have a mask, of course, whenever you're in our general public areas, but you know when we're out in the rick house going through barrels, you know we're going to be separated out enough and just having a good time. So we had a lot of folks come to us, come to the actual property during COVID to do barrel picks. That really is what kind of elevated us."

All informants commented on the high demand of the current market and the challenges of addressing the increased demand.

In all cases, the informants explained that as "exempted businesses" during the pandemic, they were allowed to continue production; however, because of the shutdown, distilleries saw opportunities to change how they were doing operations while continuing with the day-to-day production of the products. Initially, the shutdown caused limited tourists to visit each distillery. The reduction in visitors had second-order effects of not focusing on tourists in the distilleries but allowing resources to focus on other business areas.

As I continued to conduct the inquiries, I determined that the reconfiguring part of dynamic capabilities that may be the most interesting to the study would be the reconfiguring of resources and how the reconfiguring of those resources provide the distilleries with a competitive advantage in the market. I questioned: Do distilleries reconfigure resources, or because of high demand, will they continue to conduct their business as they usually would?

3 - Informant #6 - “You know, we not only grew. We grew in a major way during that time period because we were not retail-only focused. Having our fingers in different states in different parts of the world, gave us the you know, competitive advantage that even though we lost our retail space for just a few months.”

CHAPTER IV: RESULTS

In Chapter 1, I describe the challenges of firms in distilling, as they relate to enterprises that are challenged with limited resources and experience, asking how leaders use resources of the firm to transfigure the organization. In Chapter 2, I introduce the different theories that are explored in this paper as a result of this examination during Chapter 2; dynamic capabilities provided the most promising aspects for evaluation and perhaps expansion. In Chapter 3, I expound on the research method that I take and how that research method assists in answering the research question. In the upcoming chapter, I provide more detail about the participants of the interview process and present the results of the interviews conducted over several interviews.

Demographics of the Subjects

Interviews for this research were conducted over a series of months using distillers in the United States. Each interview was performed using Zoom. Participants for the interviews are current employees or owners of the distilleries, and they are knowledgeable about the distillery and how resources are allocated. The interview process lasted just over 60 minutes. Distilleries used in the sample group have been in operation for an average of seven years, with the newest distillery opening in 2021 and the oldest opening in 2006. The average number of employees in the sample group is 25 employees, with three being the smallest and 104 is the most significant number of employees. Except for one, each distillery has a tasting room.

Members of the research group ranged in age from 27 to 67 years of age. Participants in the research all have important roles in their individual distilleries. In total 12 of the participants owned the distilleries, 10 of the 12 owners were functioning as master distillers. Five participants classified themselves as Chief Operating Officers (COO), running the daily operations of the distilleries. One participant worked at the Head of Marketing and Hospitality for the organization.

Three distilleries in the sample group produce spirits under their individual brand; additionally, these distillers provide contracted spirits for other distilleries in a generic form to be sold under the contracted distillers' brand names. One distillery in the sample group is a non-distiller producer (NDP); this distiller purchases "sourced" spirits from a commercial distiller and sells the spirit under their brand name. The remaining distillers in the sample group make and sell distilled spirits under their brand names.

Many of the participants can be classified as craft distilleries. Craft distilleries are defined by the American Craft Spirits Association as distilleries that value the importance of transparency in distilling and remain forthcoming regarding their use of ingredients, their distilling location and process, bottling location and process, and aging process (American Distilling Institute, 2022). Additionally, the Institute defines craft spirits as the products of an independently owned distillery with maximum annual sales of 750,000 proof gallons where the product is physically distilled and bottled on-site. The primary distillery owns more than a 51% interest in the distilled spirits plant (DSP) (American Distilling Institute, 2022). The remaining members of the sample group can be classified as medium-size producers who exceed the 100,000-proof gallon mark or are non-distilling producers.

Looking at firm resources, the study includes all assets, capabilities, organizational processes, firm attributes, information knowledge, and location (Barney, 1991), both internal to the firm and external resource available to the firm through partnerships and other arrangements. With this in mind, distilleries' resources can be classified in a similar manner. Firms use internal resources, such as their physical plant assets, storage (rickhouses) and location, to assist in gaining a competitive advantage. Distillers will site location of their distilleries and the availability of natural resources, such as corn, rye, and even limestone filtered water, to help them improve their processes.

4 - Informant #11 - "We only use local corn from farmers who are within our area to use. Our water is filtered with the limestone around the areas here in Kentucky. It really makes a difference in our product that competition outside the state has trouble matching."

They also use internal human resources, to included knowledge of distilleries, master distillers, and other human resources to gain or improve their market status, reputation, and knowledge

5 - Informant #19 - "I hired a young man, who like me had a chemical engineering degree, to come in and work the distillery. I have ended up taking the role of master distiller, but because he had the chemical engineering background we hired him to work for us."

Distilleries will also refer to their culture as one of their internal resources. They will sight the fact that they have made the conscious decision to not use sourced distillate in their processes to show the originality of their product. While this may seem like a

marketing decision to some observers the ability to produce and physically store distillate for the required time to age the product speaks to the distillery's internal resources like storage areas and rickhouses.

6 - *Informant #13* - "I have always only sold product that we have produced, aged, and bottled right here at the distillery. We do not source any product."

7 - *Informant #12* - "We have several large warehouses that we can storage and age product, some of it is stored off site but we have the ability to grow."

Teece et al., (1997) defines resources as firm-specific assets that are difficult, if not impossible to imitate. Trade secrets and certain specialized production facilities and engineering experience are examples (Teece et al., 1997). In using this definition Teece et al. not only include the physical assets or resources of the firm but also human resources, with the experience of members of the firm. Teece et al. (1997) also caveats the definition of resources saying: "We do not like the term 'resource' and believe it is misleading. We prefer to use the term firm-specific asset. We use it here to try and maintain links to the literature on the resource-based approach which we believe is important" (p. 517). Resources are physical, in physical assets. Human refers to the expirees of members of the firm, and financial is how the firm is structured and has the ability to use that financial structure to gain or maintain an advantage.

Looking at the external resources, participants in the research use different methods to capitalize on their abilities to either obtain external resources, such as hard goods like glass or other material required, for manufacturing their product. The participants also looked at external resources in distribution of the product, and with some of the participants, the external resources provided services and financial capital to

help the distilleries expand their place in the market. Additionally, distillers use external resources like social media to help them expand their markets, and during time of market shock, they used those social media resources to maintain presence in the market. After using the first phase to determine which theories would be used in the second phase of interviews, a second phase of interview were conducted. The following charts include demographics for each interview phase:

Table 4.1 - First Phase Research Participant Demographics

Distiller	Role of the Participant at the Distillery	Number of Rickhouses	Employees	Tasting Room/ Open to the Public	Annual Production Rate Proof Gallons	Years in Business
Informant #1	Distillery Project Manager	One building on site	16	Yes	2000 proof gallons per year	10
Informant #2	Distillery Owner	One building on site	16	Yes	2000 proof gallons per year	10
Informant #3	Owner	One storage area on site	3 full time, 10 hospitality	Yes	1500 proof gallons per year	3
Informant #4	Owner	One storage area on site	3	Yes	8200 proof gallons per year	8
Informant #5	Master Distiller Operations Manager	One storage area on site	6	No	360,000 proof gallons per year	7
Informant #6	Master Distiller	Three storage areas on site	8	Yes	66,000 proof gallons per year	18
Informant #7	Owner	Three storage areas on site	8	Yes	66,000 proof gallons per year	18
Informant #8	Owner	One storage area on site	11	Yes	24,000 proof gallons per year	11
Informant #9	Owner	One storage area on site	16	Yes	11,000 proof gallons per year	12

Table 4.2: Second Phase Research Participant Demographics

Distiller	Role of the participant at the Distillery	Number of Rickhouses	Employees	Tasting Room/ Open to the public	Annual Production Rate Proof Gallons	Years in Business
Informant #10	Distillery Project Manager	Six buildings on site - more being purchased	104	Yes	1.2 million proof gallons per year	7
Informant #11	Master distiller	Six buildings on site - more being purchased	104	Yes	1.2 million proof gallons per year	7
Informant #12	Distillery Project Manager	Five buildings off-site	30	Yes	144,000 proof gallons per year	2
Informant #13	Owner/Master Distiller	One storage area on site	40	Yes	1,000 proof gallons per year	12
Informant #14	Owner	One storage area on site	6	Yes	5,000 proof gallons per year	6
Informant #15	Owner	Two storage areas on site	13/25	Yes	N/A	1
Informant #16	COO	One storage area on site	6	Yes	5,300 proof gallons per year	3
Informant #17	Owner	0	3	Not currently	Not producing any distillate	4
Informant #18	COO	One storage area on site	30	Yes	190,000 proof gallons per year	11
Informant #19	Owner	One storage area on site	6	Yes	2,500 proof gallons per year	11
Informant #20	Owner	One storage area on site - Multiple storage areas off	20	Yes	53,000 proof gallons on site per year	10

Interview Results: Themes from the Participants

Two significant themes emerged in the data participant sample group from the interview data collected during interactions with the participants. The first theme that became known was that some distilleries, that may not have the same amount of resources,² are more nimble in their ability to sense and transform operations to maintain market share or gain a competitive advantage over their rivals. Each of the participants represent firms that are able to adjust resources to the challenges presented in the market. Many of these resources relied on internal human resources that provided the distilleries with additional intellectual resource advantage. The know-how of master distillers and others in the distilling process allowed these distilleries to react to changes in the market, identified by either tasting room feedback or by changes brought on by restrictions as a result of the COVID pandemic shock.

The second theme was that firms that are more resource capable could take advantage of having that resource capital and use those resources to benefit their operations. Four of the distilleries display this theme, which are owned by firms or distilleries who have partnered with large firms, gaining resources or the ability to access available resources from their partners. As part of that theme, firms who were more resource capable were able to continue with ordinary capabilities for a longer time during the shock to the market.

² When asked to describe their distilleries, participants gave descriptions of the distilleries, the operational capabilities, and the areas where they had resource shortages. Those distilleries that had partnerships with larger distribution partners or extensive venture capital sponsorships were deemed to be well resourced.

Background of the Participants

During the initial portion of the interviews, participants were asked to describe their distillery operations and how the distillery functioned. Participants were asked to provide what they thought were the essential points of the distillery, its operations, and the ways it met those goals. The participants provided insight into each distillery and how they thought of themselves adding to the distilleries story in order to sell their whiskey. Except for one distillery, each referred to the distillery's history or the distilling history in that specific geographic location. Additionally, except for one distillery, participants referred to how they distill spirits and how they source the spirits or the type of still that the distillery uses, which contribute to how each distillery sees itself. The NDP did not reference history or location but pointed out different aging techniques used to change taste profiles. Participants from the second phase interviews responded as follows:

8 - Informant #12 - "Yeah, I mean it wasn't, you know, sort of when I was growing up, the Bourbon industry was much smaller and was in a way, not necessarily something the state was trying to promote, you know, it's like horse racing, gambling, and drinking weren't, you know vices."

9 - Informant #20 - "So we come from a family that's distillers in so far as it was 150 years ago. But since then has been no distilling until the modern day. So yeah, along the way, we learn that the distillery in the family back in the day ended in 1909 (when) statewide prohibition hit Tennessee. We have gone full circle. We are a family of distillers but hadn't been for about 150 years."

10 - Informant #18 - "We were (a) tasting room, then we're a Colorado whiskey, one that takes to know, Colorado half and half tasting room in Colorado and

where Colorado is such a big piece of it. We're still about the 291 brands, the 291 experiences, and all of that.”

11 - Informant #19 - "The short video of our business does a great job of communicating the DNA of our brand. I think, you know, it talks about what's important to us, and, you know, you get a chance, and you get a chance to see that."

12 - Informant #11 - "Founded in 1887 by COL EH Taylor, modern-day Castle, and Key started in 2014 when our two founding partners purchased the site.

Leverage our facilities and show our history."

Distilleries and Dynamic Capabilities

Sensing - Sensing the Market and Changes

Dynamic capabilities look at how firms, in this case, distilleries, sense, seize and then transform their operations, adapting to market change Teece et al. (1997). The interviews look at distilleries across all three phases of the dynamic capabilities. Distillers use various ways to sense where the markets are trending. In many cases, the distillers see opportunities to realign resources and then transform their organizations to shift in strategy and focus on new methods for the distilleries.

Participants in the research can be identified as Small Businesses in the Small Business Administration Table of Size Standards. These standards are usually stated in number of employees or average annual receipts and represents the largest size that a business (including its subsidiaries and affiliates) may be to remain classified as a small business for SBA and federal contracting programs. The definition of “small” varies by industry (SBA, 2022). Distilleries are found in the manufacturing portion of the table and

are considered a small business with less than one thousand employees (SBA, 2022). In contrast, as previously stated, the Department of Treasury labels Small distilleries as less than 75 employees (TTB, 2020). I want readers to understand the size of the participants and how that size may affect available resources. In the case of the research participants, all are considered in the Small Business category.

In asking the questions for the research, I relied on validated questions from Janssen et al. (2016). These questions focused on what customer preferences are and how decisions can be made to help firms transform from those insights into preference. Using the initial questions, I am attempting to see how these firms stay up to date with market trends. Sensing trends in customers preferences shaped the coding of answers from participants in the research. I address the lack of research as it pertains to how businesses “sense” changes in the market for their products and how sensing those changes causes managers to change their organizations to react to the change.

In terms of sensing trends and changes in the market, small producers rely on their tasting rooms to provide them with ideas about what the customers are looking for in the distilled spirits. This is a minor trend for how distillers determine market requirements. Several distillers in the sample group sell multiple types of whiskey or clear spirits, such as vodka or gin. Distillers do this for two reasons: the first being the ability to produce clear spirits at a more rapid rate and have a product to give the consumer in a shorter period of time; the second being that many in the sample group have tasting rooms that by state regulation are required to sell only products produced in that state. This restriction forces distillers in the sample group to produce multiple spirits to use in their tasting rooms. Distillers use the tasting rooms to help determine what the

public wants in the spirits being produced at that location. Tasting rooms and visitor input came up in interview responses about sensing the market:

13 - Informant #13 - "Then there's the visitor side of the business where people give feedback in real-time on stuff that he released, so we did, for instance, this Irish style whiskey, this triple distilled, second fill barrel project, you know to see how interested people would be in that. It turns out that not many people are interested."

14 - Informant #13 - "Then we'll respond a little bit to how were the responses in the tasting room; what if we do a small run of what the response was in the market."

15 - Informant #14 - "After a couple of years of watching the trend going in that direction, we became a little more serious about it and started doing our research. We used feedback from a lot of different places but mostly our customers, what they liked to help us shift mash builds."

16 - Informant #16 - "In my conversations with liquor store owners, that I have visited in NJ, their feed back to what is good, selling and where to go with your product. who will pick you up as a distributor is important. What we needed to change and where needed to adjust the product."

17 - Informant #13 - "We saw a demand for higher proof whiskeys, wanting to do barrel proof, the market response to that was very high, so we looked at how we could change to address that."

18 - Informant #16 - "I followed a lot of trends over the years, having been on the distributor side of the business I saw trends coming. I listen to my suppliers over

the years, just watching the direction they are going or how they pivoted to a trend in the market.”

19 - *Informant #16* - “I read an awful lot, on line journals to get a lot of sense data, I will read anything on the industry for hours on end, then I talk to my customers to confirm what I have reading.”

20 - *Informant #16* - “I look at and follow the wine industry closely. The cannabis industry and how things are changing with those consumers, and you know the economy in general.”

21 - *Informant #19* - “We did our market research; we spent time there is there used to be a program up in Michigan state called the artist and distillery program.”

22 - *Informant #15* - “Our sales have remained steady. They can bounce a little over twenty-twenty which they were flat.”

Tasting Rooms as Research & Development

The sample group almost unanimously spoke about taking what is learned from the tasting room and acting on that. Because they can make small batches of distillate and flavor it in specific ways, many in the craft distilling sample group can shift their resources to change the production and aging of small batches of distillate by conducting their internal research and development projects for new products or deciding to move resources to respond to customers. In previous research, scholars have used customer information collection and potential market exploration as part of evaluation criteria for the mediating effects of dynamic capabilities (Lin & Wu, 2014). Information gained from tasting rooms and other research from distillers can be thought of in the same context. In

some of the sample groups, these R & D projects have become the standard practice of taking resources and dedicating them to developing the new product.

23 - *Informant #13* - "You know, 300 bottles, maybe we have one that was actually 160 bottles was a very small experiment, we decided to only release out of our tasting room."

24 - *Informant #18* - "We are constantly getting direct feedback from our customers in the tasting room. What they like, what they don't like, its direct and real feedback."

25 - *Informant #19* - "We went back a few times and tested recipes with the team at Michigan State, so we worked out the technical aspects of it pretty well. Then we went to our tasting room as a final proof."

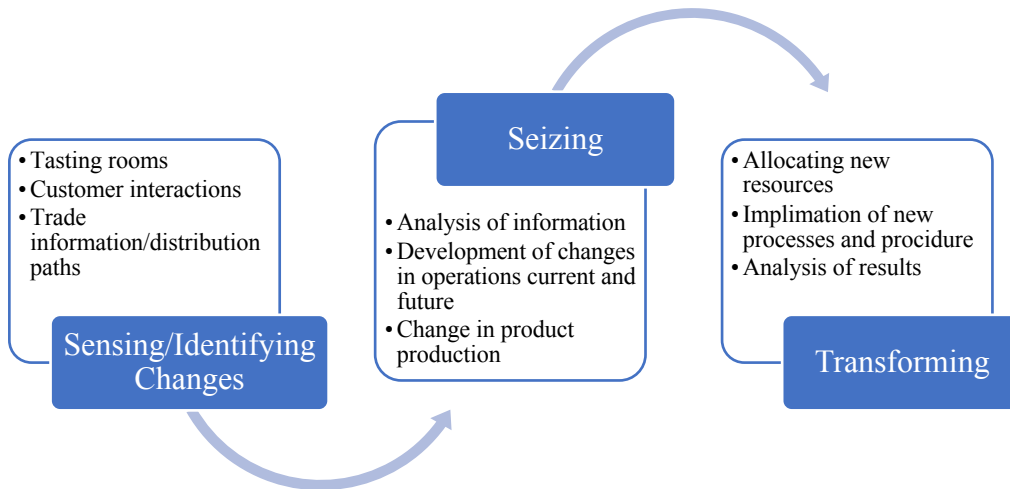
26 - *Informant #14* - "For a time we closed our tasting room. That hurt our sales, but it also hurt how we were getting feedback on products. We really focused on the response to changes in mash builds and how our customers responded to those changes."

This direct feedback provides the distillery with clear indications on the products that will be successful and products that will not. Understanding what the distilleries ordinary capabilities are and being able to respond to consumer feedback to help with product development and expansion of where resources are implemented are important in the use of dynamic capabilities in distilleries (Teece, 2018). Direct feedback is a powerful force in shaping a direction for the distillery. The participants all used their tasting rooms as experimental labs where future products were tested for customer response.

27 - Informant #13 - “We started to make a peated bourbon. We quickly found out from our customers in the tasting room that no one was a fan, I mean no one. We thought we had a good idea, but we had to change that shift our focus from that feedback. It was tough.”

As described above, there is a process that many of the distillers use when developing products. There is the initial sensing and identifying of possible change in consumer taste. After that feedback comes into the distillery leadership, there is an analysis of that information and a development of changes in operations to effect product production. The last step is transformation of the organization to utilize the information that has been received and acted upon to meet the customers’ needs.

Figure 4.1: Sensing, Seizing, Transforming



Seizing - Reallocation of Resources Because of R&D

The development of R&D groups from feedback in tasting rooms required the distilleries to reallocate resources from their production staff to groups attempting to develop new products. Depending on the size of the distillery, R&D groups may not be

permanent organizations. So, distillers use these experimental groups, who use new techniques to create flavors that expand the product lines.

28 - Informant #17 - "So, we spent about six years doing R&D, perfecting our recipe, so part of that six years was learning how to dry and season Aspen would just like barrels do for their oakwood before they make saves and barrels. So, we have to dry and cure that, Aspen."

29 - Informant #15 - "I didn't have a test lab in my original budget. I wish I did but could not afford to set one up and still don't have a test lab. We use our tasting room to feel what our consumers want and there they are trending."

Transforming - Distillers Deciding to Allocate Resources to New Technologies

Distillers also follow first to market trends, such as different aging processes that contribute to different taste profiles. While considering different techniques in the ageing process and maturation of different spirits, some distillers use new technologies to assist in those processes. The use of new industry related technologies is again used as measures of dynamic capabilities in firms (Lin & Wu, 2014). These different technologies and processes are used by different distilleries to aid in production, in some cases shorting the time required to mature products.

30 - Informant #17 - "We are using twenty-five-gallon barrels. We find that it shortens the time required in the barrel and increases the flavor."

31 - Informant #19 - "We have always used twenty-five-gallon barrels. We have found that we are able to get those barrels and we are intensifying flavors."

32 - Informant #12 - "We have gone back and forth on changing the way we age, small barrels, large barrels, we have even tried to change the warehouses and

control those temperatures thinking it might give us a more controlled product.

You can do that now because of changes in technologies. But we have found that that technology isn't effective enough to warrant the expense yet."

Distillers are also using new technologies in the processes of aging their product in the form of temperature-controlled aging warehouses. These warehouses store the distillate at a constant temperature and humidity. The belief is that the consistent temperature and humidity will provide a stable environment to the aging process. The stable aging process will produce a more consistent product for the consumer. The integration of new technologies with historic methods of firms handling issues is another measure of dynamic capabilities (Lin & Wu, 2014).

33 - Informant #10 - "We decided to build and are now testing a new rickhouse that is completely climate controlled. We control temperature, humidity and other factors that can affect the aging process. We are very excited to see how the process, with this new technology will affect the whiskey."

34 - Informant #16 - "We are trying a different aging process, we evolved from our competition aging doing the ocean aging, we were talking about what we could do with barrels. We thought about putting them on rail cars and shipping them back and forth cross country. When I was interviewing out here, they were celebrating the 150th anniversary of the transcendental railroad, so we decided to put barrels of whiskey on a solo rail car and take it across the country to celebrate the transcendental railroad."

Dynamic Capabilities During Times of Market Shock

When interviewing subjects in the sample group, all respondents acknowledged the challenges of the COVID pandemic. Additionally, many of the respondents expanded upon how the pandemic affected their operations. Each distiller responded differently to the other effects the pandemic caused on their businesses.

The challenges of market shock exemplify how distilleries had to adjust and pivot from normal operations to working and maintaining their markets during a challenge. Distillers moved resources to account for changes in the market because of the COVID pandemic. Some distillers adjusted human resources to accommodate the challenges of restrictions placed on their firms for short term response. Other distilleries made permanent changes in processes to maintain their place in the market. Dynamic capabilities often talk about changes in market due to technological changes. The market shock that occurred in 2020 was due to the COVID pandemic. It can be argued that COVID provided a shock much the same as a technological innovation can provide a shock to the market. Each shock has direct effects on the market and firms participating in those markets. Different distillers focused their efforts on marketing and how changing the organizations to improve marketing would help reduce the effects of COVID. While dynamic capabilities focus on changes that can be “sensed,” the COVID market shock was a challenge that was unforeseen. This made changes reactive for each of the distilleries.

During the pandemic, all the research participants were classified as essential businesses. Being classified as essential allowed the individual distilleries to remain open for the production of distillate and, for some, to stay open to customers who chose to visit

the distilleries under new regulations provided by the state and the Center for Disease Control (CDC). Others closed the distilleries for short periods and then went back into total production of distillate. Some in the sample group produced hand sanitizer for a limited time and then went back to making distillate for drinking.

35 - *Informant #13* - "I mean, it was a whole, you know, a thing we did hand sanitizer. Sure, we resisted sanitizer, but then you know, you're in New York City, and this is all going on; put yourself in like late March 2020. But then, by May, we were switched back to bourbon, and that was that."

36 - *Informant #18* - "We never stopped production; we were considered essential. Yes. We kept producing, and then someone came down with it a handful of times and couldn't come into work. And even then, it didn't affect production; we got to cover for someone like any other time when somebody is sick, so production seems to keep going."

Transforming - Shifting of Resources Due to Market Shock, Marketing Becomes the Focus

Not all distilleries were allowed to keep their tasting rooms and visitor centers open to the public. Because of this, distilleries reallocated their assets to two different business areas. The first area is marketing. Several distilleries decided to shifted their assets and focused on direct sales to different distribution channels, taking advantage of regulation changes and selling directly to retailers. By pivoting resources, distillers were able to focus on expanding their markets in and around their specific geographic areas.

37 - *Informant #14* - "Pennsylvania forced us to close down in the height of the pandemic, which we did. We can get a permit to market and sell at Pennsylvania

farmer's markets. So that's just an example, and it's, and that's a channel that worked well for us. The reason it's worked well is if you think about who our target market is: it's people who care about local, small. I can talk to the manufacturer."

Two results of this shift in capabilities are the ability to expand in their specific markets. During these crises, the study could not determine if this is a long-term advantage to the distillers. The second result is that the distillers have grown their teams to include direct-to-retail salespeople. The direct-to-retail salespeople are an essential part of the distillery team.

Transforming - Exploiting Direct to Consumer Sales

A second distiller used the closure of their tasting room and visitor center as an opportunity to increase its online presence and take advantage of its direct-to-consumer sales to not only retail distillate, but also retail cocktails. Two changes occurred for this distiller. The first was the relaxation of sales of "cocktails to go" to customers. This change allowed the distiller to shift the hospitality staff to direct sales to customers. Initially, this was for "drive-up" sales, where the consumer ordered online and came into the store location to pick up the product. This practice eventually turned into a delivery service, directly bringing orders to customers using a delivery service, like Grub Hub or Uber Eats, or employees of a distillery to deliver the cocktails to the customers directly. While this proved to be a successful change and allowed the distillers to continue a relationship with their customers, it was for a limited time after regulations were reinstated to ban direct sales of cocktails to consumers.

38 - *Informant #18* - "We never stopped production; we were considered essential. We moved to direct to consumer sales from our tasting room."

39 - *Informant #18* - "The other thing that happened from a sales standpoint is 'to-go cocktails,' so we were able to use the tasting room to start to sell cocktails to go. We jumped on it and had killer results right out of the gate, and we still do the small bottles to sell out the door. So, that was positive for us, and we ended up a positive because our tasting room was closed". And, we ended up growing our tasting room business with the tasting room closed. So, that was pretty cool."

Increased Online Presence

In the first example, the distiller shifted resources to develop and increase its online presence. To do this, the distiller reallocated resources of people and finances towards online distilling and a bartending "educational page" and classes for customers. The distiller has kept the program intact, and they have reopened the tasting room and retail operation at the distillery

40 - *Informant #18* - "We started doing regular Facebook events daily; we were, you know, doing Facebook live events, things like that."

41 - *Informant #18* - "Also, from a business-to-business standpoint, we hosted an online conference series that we put together, focused on navigating through COVID, and I got several special guests to participate with us."

Online Distillery Tours

Another member of the sample group pivoted resources to update the distillery's online presence. They then shifted assets to move to conduct online distillery tours. To go along with these tours, the distiller built "tasting kits" that shipped to tour participants, or

those participants could obtain them at curbside pick-up. They also dedicated resources to improve their online presence and advertising to continue to develop their local market.

42 - Informant #13 - "There was some change, there was a lot of pivoting, and we had to redo our website and scrap our old website. The people who are running tours were now running these virtual tastings and packaging, not just the sub 50 is for retail, but now we have other sides. There was a lot of pivoting that went on for sure."

43 - Informant #13 - "Started having tour guides lead virtual zoom tours. So, we had these things where we would send a little kit with three of our products in 200-milliliter bottles, which had on hand, which is a question of assembling little kits and sending them to the groups of people that wanted to get together over a drink and do a sort of guided taste, so that ended up making up for our closed tasting room."

Dynamic Capabilities with Well Resourced Distilleries

Part of the research participants that were interviewed provided information regarding dynamic capabilities and a resource-based view of the firm. These distilleries had different stories when looking at how they sensed and seized opportunities and then transformed their operations to take advantage of changes in the market.

Owned or Partnered with Brand Houses

During the inquires, one of the subjects confirmed that they are owned by a large multi-national distilling brand house that owns and operates distilleries worldwide. Two examples of these brand houses are Corona and Lux Row Distillers. Being owned by this

international company gives this distillery distinct competitive advantages in their ability to expand their markets.

44 - Informant #20 - “We worked in conjunction with a third-party distillery.

When we were first starting out we realized that we didn’t have enough money to build our story and we didn’t want to release Green Brier on our own. We also realized that sourcing is a thing that happens in the industry.”

One distillery was able to establish itself in one of the world's most expensive real estate markets. They then purchased a sourced product from a distillery in the same state. To ensure consistency of the product—as they were developing their operations in the initial location—the multinational brand house purchased the distillery that was providing sourced whiskey to the new distillery.

45 - Informant #12 - "So we found a partner in XXXX, and we're very open about it, we tell everyone. It's called XXXX Distilling, which makes the most incredible bourbon. In 2016 we contacted them and said, hey guys, for every ten barrels you make, we want to buy eight of them now, and then three-four years later, we're going to come back and buy a bunch of your already made stock. In 2018, we realized we needed to get as much risk out as possible for this new venue. We need a partner with them and purchased the distillery."

46 - Informant #12 - “NYC is a big market, they wanted to put it here to build a visitor experience that was the forefront in Manhattan, which is where our shareholders from Mexico have second a second home. We also studied this market and started to build out in late 2015.”

Using Distillate as a Commodity

This abundance of financial resources provided the distillery with the ability to purchase distillate that they might not be able to sell and a distillery that they could use to source their distillery in the new location. Distillate that is not sold as scheduled in the current market, but, for whatever reason, is stored in their facilities. This resource-rich distillery will produce as much distillate as possible and keep it if not sold. This distillery has the ability to store as much distillate as possible because of its available resources. Storage for distillate is a resource-heavy endeavor. It requires rickhouses that will hold thousands of 55-gallon charred oak barrels. A storage area like this is a space and heavy material challenge.

47 - Informant #12 - "We want to get that maximum output because, as I said, if you cannot sell the whiskey yourself, you can co-packer to another brand four years from now. No one's not looking to buy whiskey on the open market, so it is almost like a commodities market; people hedge against the futures of whiskey. Many brands want to lay down as many barrels as they can."

48 - Informant #12 - "No matter what at the end of the day you want to be at max compacity when doing bourbon, if you have the resources to do it. Because four year from now, brands out there might be looking for six-year-old whiskey, or eight-year-old whiskey. The reason we have twenty-one-year-old whiskey is because they (we) decided we were going to eat this for twenty-one years and (sell it for more) as it was older."

49 - Informant #11 - "You know whiskey is one thing you can pivot pretty easily, and God forbid, we find ourselves with too much eight-year-old whiskey. You

can sell to any ready to drink player, you can sell it to premade cocktail mix, you can always package it and sell it to someone else.”

Using Resources to Expand Operations and Brands

Another distillery in the sample has partnered with a large multinational brand company to increase production, distribution, and the distillery experience. This distillery produces its distillate but can develop and source several different brands because of the partnership. The resources provided to the distillery allowed it to increase its brand, moving from one initial product to four different products. The brand company also provided the resources to enhance its customer experience by expanding its tasting room for the public. Two other benefits that the branding company offers to the distillery is that they handle the human resources functions for the distillery; because of this, during the pandemic, the distillery did not have to put any of their employees on furlough, and the branding company assisted with all the costs involved with keeping employees working.

50 - Informant #20 - "So, that's when we gradually had to pivot, I guess, and evolve the business plan. And, that's when we looked at the sourcing thing to realize and learn that that was a thing that was even a possibility to do. It was something that was like it was a little tough to swallow for me. It was like, God, I just want to do this all around, but that's so it, like we'll get there. I'd rather start slowly than just never do it."

51 - Informant #20 - “So we have our partnership with the XXX brands. So that gives us current resources to do things like marketing—sales staff.”

52 - *Informant #20* - “Another advantage of a big company, HR, legal departments, figuring out what is, what is a safe way to do this on a coordinate CDC, OSHA, different audits and assumption.”

53 - *Informant #20* - “We would not have been able to afford this renovation without them.”

Using Capital Resources to Take Advantage of the Market

The sample also included a distillery that used sourced distillate as their product after taking over an abandoned distillery, renovating, and reinventing the distillery. This distillery was resource rich in physical requirements for a distillery, having large warehouse spaces and areas for a continuous running still for production. Because of the distillery's available room and financial backing, they changed their business model from that of a craft distillery with limited production to a distillery that is not only producing themselves but now contracting to produce for other brands. The distillery could pivot to large-scale production because the principles realized that they needed to produce more distillate, while they were waiting on the aging process for their primary brand. In addition, output for other distilleries gave the distillery a stream of income by producing and selling non-aged distillate.

54 - *Informant #10* - “Our partners saw an opportunity with contract production. So, we are one of the primary craft producers for XXX and contract warehousing and bottling.”

55 - *Informant #11* - “A lot of the equipment here is the original equipment that was left behind between 1930 and 1936. We could scale using the existing infrastructure.”

Focus on Quality Product, Not Always Growth

In a final question to each of the participants I asked: When you look at your overall firm performance, what helps you determine that performance (sales growth, profitability), and what do you want to improve? Many of the participants looked to grow the businesses but not in the sense of having a competitive advantage over their competitors in the marketplace. Many saw the growth as improvement in how their product was received in the market channel they focused on.

56 - Informant #13 - “I want the oldest whiskey of any distillery because I believe that the older it gets the better it gets. I’m not the only one who believes that. So, I want to make a product that is you know, understandably excellent, that is the one thing that is hardest to achieve. So now we have seven-year-old whiskey people are starting to pay attention to.”

57 - Informant #14 - “My vision has been and continues to be that good craft distilleries will do in the liquor market, in the spirits market, the same thing that the craft breweries did in the beer market. By all accounts it is happening, it is happening slowly, and I hope it continues to happen. Consumers win with choice. I believe my whiskey is different, a better quality, even if somebody from Nashville Tennessee or if they were in Georgia. I do believe it’s different, and I think the consumer wins at the end of the day.”

CHAPTER V: PRACTITIONER AND THEORETICAL IMPLICATIONS

In the previous chapters, I have asked how leaders in firms use resources to help them transform to gain or maintain a competitive advantage. In Chapter 1, I frame that question around the lack of research when dealing with different size firms. In Chapter 2, I conduct a review of theories that might address and inform dynamic capabilities in distillery production to gain competitive advantage. In Chapter 3, I provide the outline for interview subjects and questions posed to them. Chapter 4 provides the data in accordance with the questions asked to the subjects in the study. In each of these chapters, I explain how the distilleries sense and then change to different demands in the market. I also expose how firms that are lacking in resources may have to use marketing as the focus of change in their organizations. I now look at the findings of the study to see how they inform both dynamic capabilities and the resource-based view of the firm.

The question I asked at the beginning of the study: how do leaders use the limited resources of the distillery or firm to transform their organizations? I have chosen to use the distilling industry as a sample group to gain insight into this question. Distilleries provide insight into the challenges of firms competing in the marketplace. The research uses the dynamic capabilities theory and the resource-based view of the firm as guiding theories to analyze how leaders in the distilling industry answered the questions asked, which provides insight into these two theories. This is important because it informs on how firms sense consumer variations and then change by using limited

resources to remain competitive in the market. It is also important because the study looks market shock and how firms of various capabilities adapt to that shock.

The research provides insights into the challenges of firms working in the distilling industry. While research into the wine making industry is growing around the world, with research being published that describes the challenges of small firms in European wine making (Lin & Wu, 2014), the amount of research into the dynamic capabilities of firms in the distilling industry is limited. This research provides practitioners with insights into opportunities that distilling firms have when faced with challenges in resources.

When looking at dynamic capabilities, Teece (2007) talks about a rapidly changing market in a state of flux, where the firm must sense, seize, and then transform how resources are configured internally to the firm and use external resources to gain a competitive advantage. Lin and Wu (2014) use constructs, such as collecting customer information and market exploration, integrating industry related technologies to develop new products, frequently anticipating industrial knowledge learning programs, using knowledge management database for access, using human resource re-allocation procedures, sensing rapid organizational response to market change and competitor's actions, and communicating efficiently and effectively with corporative organizations at measures to evaluate dynamic capabilities of the firm.

The challenge to dynamic capabilities theory is provided in different latitudes, which Eisenhardt and Martin (2000) discuss in moderately dynamic markets. Eisenhardt and Martin (2000) refer to dynamic capabilities that resemble the traditional concept of routines. They are detailed, analytic, and stable processes with predictable outcomes.

This idea hinges on the definition of moderately dynamic markets, or markets in which change frequently occurs, but along roughly predictable and linear paths. The idea is that dynamic capabilities resemble traditional routines that are practiced during normal business and not due to a highly dynamic market, such as the IT communications world where there is rapid technological change

Insights into Dynamic Capabilities and Distilling

Initial themes provide insight into the function of the distilleries in transforming how they conduct operations to develop the products. Many distilleries use their tasting rooms as the sensing function when developing products to understand what consumers are looking for in a product. Several distilleries use the tasting room to introduce experiments to their customers, determining possible demand for how the consumers receive their products. The distillers are able to incorporate the tasting rooms as additional areas to develop and refine products, incorporating the sensing factor of dynamic capabilities across the organizations (Teece, 2012). From this determination, distillers see where they will focus resource allocation, shifting it from the current path of distillery operations and focusing on a different outcome. Distillers often transform operations because of state law.

One distiller took advantage of state law and was allowed to sell a product at a local farmer's markets and in the tasting room of their distillery. This distiller decided to shift resources to accommodate the local market, taking advantage of the state's laws. The distiller also used the farmer's market to get direct feedback from the consumers to help develop more product lines. That decision to shift to using resources in that area has become a permanent shift in their operations.

58 - *Informant #15* - “Our governor Tom Wolfe, he made changes to our liquor code that were favorable to a guy like me. For instance, we can get a permit to market and sell in Pennsylvania farmers markets. The reason it’s worked so well is if you think about who our target market is, it’s people local small manufacturing.”

This shifting of resources to address a new market caused the distiller to shift their resources of personnel to address the market. There was also an important shift in marketing focus, where the distillery used its limited resources to market to this new environment.

Distillers with limited resources were much more reactive to shocks in the market. COVID presented a unique challenge. In some states, distillers were initially required to shut down operations for an unknown period, but in many states, distillers were designated as essential industries. With that designation, many small distillers could reallocate assets and produce hand sanitizer. That production had second and third-order effects of improving relations within the community.

Smaller distillers could also reconfigure staff, human talent, and know-how to develop new and improved online capabilities (Teece et al., 1997). Distillers focused on the improvement of their online presence by increasing both Facebook and Twitter presence for their distilleries. In using and improving their online presence, distillers found new and better ways to use their human resources (Teece, 2012).

59 - *Informant #13* - “We made the decision to update our websites, our people went in and changed the way the website worked. We used our people and the website provider to make the adjustments.”

More than one of the distillers used Facebook as a space to hold educational forums for customers and other distillers. This created a community of distillers getting together and sharing techniques in the industry. Other distillers held virtual concerts with musical artists who had played at the distilleries' tasting rooms. Another distiller staff developed a virtual tour and tasting program, where people could come in and pick up distillate samples and then return home, login to a website, and attend a virtual tour that staff had developed in response to the tasting rooms being closed. Each of these programs' efforts required that the distilleries took the existing know-how of their employees to focus on different ways to maintain communications with their market. The importance of distillers focusing on new technologies, such as social media, to reshape their focus to a new and different target market is important. When deciding how to change their organizations, these distillers focused on the personnel they would use for resources to incorporate this technology into their operations to maintain customer engagement. That change was key to survival during the market shock.

60 - Informant #18 - "We focused on more community stuff, regular Facebook events, working with local musicians who had been at the tasting room from time to time. We also hosted business to business online conferences series that focused on navigating through code. We did a whole series that helped us because it helped strengthen some of our key relationships."

What is not known from this change is if distillers will maintain their operations and continue to exploit the advantages they have gained in the market or if they will move back to the structure that was in place before the changes. While these dynamic changes provided excellent examples of small firms pivoting to adapt to changes in the

market, they were not routine. The challenge to dynamic capabilities by Eisenhardt and Martin (2000) expresses that dynamic capabilities are in actuality normal capabilities that are redefined. If leaders at the distillery decide to maintain their current practices of allocating resources to maintain their practice as a reaction to COVID or if they go back to operations prior to the pandemic is in question. One distiller said;

61 - Informant #18 - “We sure are not doing the same Facebook presence that we use to do, so we’re not doing things the same way, but I don’t think that it’s a back to normal thing. I think it’s an evolutionary issue as it relates to all those platforms.”

There appears to be a direct correlation between dynamic capabilities and limited resource distilleries; the average distillery in the sample group had 24 employees. When looking at resources of the firm to included human resources, leaders are required to develop, coordinate, or orchestrate the firm and its partners to the changes in the marketplace (Teece, 2018). Limited resource distilleries must take advantage of the talents of their employees to the fullest when adapting their distilleries to respond to the shock of COVID. The change to doing virtual tours and online product tasting is a singular way that distilleries adapted their talents and resources to adjust to the challenges of the market shock. While the distilleries can take advantage of their technical expertise when pivoting to adjust to a shock or to take advantage of where they sensed the market changing—they appear to not have enough resources to expand their capabilities further. In one case, a distiller chose not to expand because they did not want to approach financial backers because it would be perceived as a weakness in the distillery. The idea was that the distiller would have to

62 - *Informant #19* - "Slow their growth path in terms of what acceleration they have to have is going to dictate how much cash we have to have."

The sample group has shown the ability of distilleries to adjust resources quickly and move to address both challenges in the marketplace and opportunities in a place where they excel, showing the ability to understand when change occurred and then adjusting resources to that change (Teece et al., 1997). The skill to transform their organizations to address challenges is one area where the smaller distilleries show that their "minor" status equates to agility and adaptability to change.

A few distilleries in the sample group did not have to adjust to the challenges of COVID or changes in the marketplace that came from other factors such as consumer preferences within the market; however, these distilleries continued to produce distillate and grow even in a time of challenge because they had access to available and adequate resources to address requirements in the market.

Resource Based View and Distilleries

One new distillery had all the advantages of Barney's (1991) resource-based view of the firm. They distill a high-quality product that is valuable, rare, hard to imitate, and captures value even as it ages. The distillery was rehabbed from a previously operated distillery at the beginning of the twenty-first century. When the distillery decided to change course and become a commercial producer, it showed that having the financial resources and the infrastructure to expand production gave it a distinct advantage over other craft distilleries in the marketplace. The ability to expand production to over 1.2 million proof gallons a year, while only selling less than a quarter of that under their brand, shows the distinct advantage that a distillery with sizable assets has.

63 - *Informant #16* - “Our principles saw that we had to produce more, so we made arrangements to purchase a new column still for continuous production that allowed us to produce for others. We got the still from Vendome in Louisville rather quickly.”

It can be argued that because the owners of this distillery sensed a growing demand in the marketplace for additional distillate, they could pivot the resource, even as they were in the early years of operations, showing that the firm had the dynamic capabilities to transform their function to move from a craft distillery to a commercial distiller and provide products to other distilleries. The ability of the distillery to pivot in a year is an example of how having the resources that Barney (1991) touts in the resource-based view of the firm is critical. In this case, the tangible resources – like the land, building, equipment, and capital – all came together to allow the distillery to redirect those resources. The intangible assets, in this case primarily brand reputation, when the master distillery has an outstanding reputation as a quality whiskey producer, allowed the distillery to take advantage of that resource. This finding is important because it is an example of how the knowledge base of the firm and the reputation of the firm can help drive the ability to grow the firm. Decisions were made to change and grow the organization because of the reputation of members of the firm.

Another member of the sample who had partnered with a large consumer product company was able to continue their distilling operations without having to deal with the challenges of resource constraints. Because of a partnership with an outside consumer product goods company, featuring beer, wine, and spirits, the distillery has used its

partner's considerable resources to conduct human resources, accounting, and distribution functions. The partnership enhanced the business functions of the distillery.

64 - Informant #20 - “One of the advantages of being involved with a company like Constellation is your able to afford to pay your employees not to work for six months, which is a huge benefit.”

65 - Informant #20 - “Another advantage of a big company, HR, legal departments, figure out what is really safe. They work coordinate with CDC, OSHA. They help us deal with that.”

The distillery was no longer performing different managerial and administrative procedures. The distillery maintained all its personnel during the COVID shock because of financing from its partner. These resources also allowed significant expansions in the distillery. The distillery expanded the different brands under their distillery by purchasing additional sourced whiskey to bring under their brand. The distillery also expanded its tasting room to increase direct sales to its customers. The partnership allowed this distillery to not see the COVID pandemic as a constraint on its business. There was no need for this firm to employ dynamic capabilities in their operations because of the resources available to them. The outside agency added two factors to the distillery in both tangible and intangible assets, which provide insight into the resource view of the firm. In this case, the tangible assets of capital and a distribution channel for the spirits allowed the distillery to not have to shift resources. The intangible assets provided were a long-dead brand brought back to life with a favorable reputation in the bourbon industry. The conversation with this sample member provided an excellent example of the resource view of the firm, even in times of market challenges like COVID.

Unexpected Finding: Ignoring the Market Shock

One finding that was unexpected was with a well-resourced new distillery, where because of their number of resources, they could choose to ignore all market shock and expand as quickly as possible because of their tangible assets of large amounts of capital. Being able to develop a distillery in one of the most expensive real estate markets in the United States and then guarantee consistency in their product by purchasing the distillery that is sourcing the distillate is a classic example of how the availability of resources, in this case capital, allows a distillery to gain a competitive advantage in the market.

An additional unexpected finding was that the distillery could produce as much distillate as possible in a resource-rich environment and then consider it a commodity. The distillery was not concerned with when they would be able to sell the distillate because in the current market situation, the aging distillate would only gain value. This comment provided insight into how resources allow a distillery to expand their current operations and stockpile additional resources that will secure future assets. The ability to stockpile these assets and then sell them off in the future is a luxury that small distilleries cannot usually afford. For example, having whiskey "in the barrel" costs the distillery money in taxes yearly, and small distilleries cannot usually afford to do this for any extended period.

These unexpected findings suggest that a well-resourced distillery can choose not to react to market shock because of the amount of capital behind the distillery. During interviews for this research, there were comments that suggested the resource-based view of the firm and its resources being valuable, rare, costly to imitate, and organized to capture value, still, perhaps one of the greatest resources is capital. Interviewers said

66 - *Informant #16* - “Our principles put about 50 million build out in the middle of nowhere, now we are working for more efficiencies.”

67 - *Informant #12* - “As long as we have barrels to fill, then you didn’t care because the problem didn’t exist for you. We are putting as much whiskey in barrels as we can.”

The final unexpected finding during the study was that as firms executed a version of dynamic capabilities, it became apparent that they did expect to gain a competitive advantage in the marketplace. Their motivation for change was to improve their product in its widest distribution. Competition between distillers did not seem to be a factor in the organizations’ decisions to change. Each distiller said that they wanted growth, but each also stressed that a quality product is just as important as growth.

Conclusion

This paper began by asking how leaders use resources to transform their organizations. The study found that limited resources distilleries used their resources to adjust, transforming their organizations to adapt to changes in the market. These distilleries, independent of other partners, had the freedom and necessity to adapt and remain relevant in their needs during the market disruption of COVID. The study also noted that during the market shock, these distilleries focused their resources on marketing to maintain contact with their customer bases. The use of video conferencing, such as ZOOM, and social media ,such as Facebook and Instagram, became important resources available to the distilleries. This is an important distinction in the way firms are able to compete with limited resources.

These findings provide important information for distillers who are attempting to use their resources in the most effective ways. Because current market trends inform how new and existing theory is viewed, there is a considerable amount to be learned from what distillers have put into practice. Dynamic capabilities research focuses on the ways firms react to technological change and transform their organizations because of those changes; however, there is a gap in the research when talking about change to organizations where there has not been a significant technological change. The study addresses that gap by showing how firms must develop new capabilities, not only in response to new technologies, but also in response to shocks in the market. This gives those who are interested in dynamic capabilities theory more to study.

The study also displayed the strength of the resource-based view of the firm; the ability of distilleries with significant resources to grow and continue to produce with little to no change in operations during market disruption showed the validity of the resource-based view of the firm. What challenges the resource-based view of the firm is the idea of gaining or maintaining a competitive advantage. The respondents to this study did not focus on the idea of competitive advantage when making determinations as to how they would change their organizations.

Recommendations

This study has provided an initial look at distilleries and how they operate to gain market share and react to shocks in the market. The distilling industry is available to researchers who want to expand this work by looking at different factors that influence the industry. The distilling industry, and the firms that compose it, can provide insight into multiple issues facing small businesses today. Understanding entrepreneurs' thinking

in market development and product development are two areas where researchers can look to extend theory.

This study focused on the distilling industry. There are growing areas of similar industries that are also readily available for study. The craft brewing industry is one of those industries facing similar challenges in production, distribution, and growth for producers. Theorist can study those businesses that are attempting to grow as a resource to refine theory.

Researchers can continue to expand the theory by looking at "micro-foundations" of dynamic capabilities in small businesses with craft distilleries as the sample group. The micro-foundations can be defined as the distinct skills, processes, procedures, organizational structures, decision rules, and disciplines of the firm (Teece, 2007). Determining the micro-foundations in these areas and determining the capabilities, lead to dynamic capabilities. Micro-foundations can be tied into several different areas for research. Questions include: How do leaders use micro-foundations in the distilling industry to sense their dynamic capabilities? Are those results homogeneous or heterogeneous in their results, and why? The industry is rich with examples to support future research.

Finally, researchers can use the distilling industry, and specifically the craft distilling industry, for leadership research of small groups. Craft distilleries are small organizations that face the same challenges of their larger counterparts. Craft distillers show a willingness to participate in studies that could provide insight into how leaders lead small firms. This research can use an entrepreneurial lens to focus on leadership or use a dynamic capabilities lens to focus on sensing the market and products.

The craft distilling industry allows the researchers to focus on the small to medium enterprise aspect of leadership in both the dynamic capabilities with micro-foundations and leadership focus in small firms. Expanding categories used in the demographics of this study could provide researchers additional information to help dissect information and gain understanding of the issues facing the industry. Gaining insight into these areas of small to medium enterprises are positive areas of future research.

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APPENDIX

Institutional Theory

Institutional theory was originally one of the theories considered for this dissertation. Institutional norms play critical roles in how distilleries operate. Well-established laws govern how distilleries sell products both nationally and internationally. Institutional standards dictate how distilleries are organized and managed. While institutional theory plays a role in the distilling industry, I did not determine it to be a vital element of this dissertation. Instead, I have attached institutional theory as an appendix for the reader.

By looking at the distilling industry, I determine how organizations use institutional factors, such as organizational structure, as a reaction to institutional norms that help firms. How are firms structured and valued in the marketplace that provide value to the firm? What makes these organizations function? Institutional theory explains various aspects of organizations, including: how they are created, how they adapt to varying forces outside of the organization, and how they become legitimate organizational rules that help the organization maintain structure.

Looking at structured rules for professions (distillers) and organizations (distilleries), there are formal and informal directions that legitimize individuals or organizations. Institutional theory attends to the deeper and more resilient aspects of social structure. First, it considers how schemas, rules, norms, and routines become established as authoritative guidelines for social behavior. Then, it inquires as to how these elements are created, diffused, adopted, and adapted over space and time and how they fall into decline and disuse (Scott, 2004).

Institutional theory traces the emergence of distinctive forms, processes, strategies, outlooks, and competencies as they emerge from organizational interaction and adaptation (Selznick, 1996). These factors in the organization are developed from forces both inside the organization and external pressures from factors outside the organization. How organizations develop and implement the different functions adds to the organization's institutional knowledge. The forms, processes, strategies, outlooks, and competencies directly affect how distilleries are established and compete in the marketplace. The ideas help the organization verify legitimacy in the market.

Organizations look to be structured activities, developed across networks, where work has to cross boundaries and functions. In modern organizations—which have developed across networks and have few limitations for commerce or communications—established organizations and larger organizations are more formalized and structured. This allows new organizations to open and forces existing organizations to incorporate new practices in competitive markets. These organizations are forced to adopt new methods and procedures defined by prevailing rationalized concepts of organizational work and institutionalized in the market. Organizations that do so increase their legitimacy and their survival prospects, independent of the immediate efficacy of the acquired practices and procedures (Meyer & Rowan, 1977).

Institutionalized rules are classifications built into society as reciprocated typification or interpretations (Berger & Luckmann, 1967). Such rules may be taken for granted or supported by public opinion or the force of law (Starbuck, 1976). Institutions inevitably involve normative obligations but often enter into social life primarily as facts that actors must consider (Meyer & Rowan, 1977). A primary example of a highly

standardized rule is the social status of a doctor. The model shows that doctors have an institutionalized rule that understands they might manage illness and social status across society. While they have obtained a medical degree (another institutional mandate), the title of doctor is interpreted as legitimacy.

Selznick (1957) viewed institutionalization as a "process" and as something "that happens to the organization over time" (p. 16). He observed the extent of institutionalization to vary across organizations; for example, those with more specific goals and those more specialized and technical in operation were seen to be more subject to becoming institutionalized than those lacking these features. In his early, more descriptive work, Selznick emphasized institutional processes', un-planned, and unintended nature (e.g., Selznick, 1949). By contrast, in his later, more prescriptive writings, and following the lead of Barnard (1938), Selznick embraced an "enacted" conception, emphasizing that influential leaders can define and defend the organization's institutional values, or its distinctive mission (e.g., Selznick, 1957).

Institution and institutionalization concepts are diverse, having several variants that look at what institutional theory applies to and provides to scholars looking at organizations. Meyer and Rowan (1977,) emphasized that institutionalized belief systems constitute a distinctive *class of elements* that can account for the existence and the elaboration of organizational structure. This argument states that organizational forms result from relational networks and rational myths, or a shared belief system. This shift results in five essential changes.

Five Essential Changes

Reconceptualized. The first is the salient features of organizational environments reconceptualized. The new formation stressed cultural elements, symbols, cognitive systems, normative beliefs, and the sources of such elements. Institutional aspects of environments begin to be defined as opposed to technical features. These institutional elements "are characterized by the elaboration of rules and requirements to which individual organizations must conform if they are to receive support and legitimacy" (Meyer & Rowan, 1977, p. 340). The distilling industry has developed an extensive set of rules and requirements that affect competition in the market. For example, these items specify how long a distillate must age to be called a specific type of spirit. In addition, there are laws applied to when and where different types of spirits can and cannot be sold, to whom, and how much can be sold to a single buyer (American Craft Spirits Association, 2022). Some of these rules are state-driven, while many are driven internally by producers of a specific type of spirit.

Reduction of a Distinctive Process. Second, it follows that there is less emphasis on institutionalization as a distinctive process. Organizations do not necessarily conform to a set of institutionalized beliefs because they "constitute reality" or are taken for granted, but often because they are rewarded for doing so through increased legitimacy, resources, and survival capabilities (Meyer & Rowan, 1977). This idea allows theorists to look at different processes that might cause an organization to change its structure to conform to an institutional pattern.

Emphasis of the Nature of Belief Systems. Third, because less attention is focused on processes, more attention is given to the nature of belief systems themselves

(Scott, 1987). Meyer and Rowan (1977) theorize about the general effects of rationalized institutional structures as only one structure. Using rational myths and many diverse examples of public opinion, educational systems, laws, courts, and others, they underscored multiplicity and diversity of belief systems found in societies, developing the concept of multiple institutional environments (DiMaggio & Powell, 1983).

Increased Rationalization. Fourth, there is the recognition that in modern, rationalized societies, the forms and sources of social beliefs and other types of symbolic systems have themselves become more rationalized. Folkways, traditions, and customs give way to laws, rules, and regulations. While, the nation-state and professional organizations replace elders' councils and other forms of traditional authority and rationalized systems of law running over societies (Scott, 1987). The symbolic rationalization takes away from the idea of elements like the market, local resources, and customers as factors, and shifts lean towards professional and state organizations to establish institutional constraints.

The Symbolic Aspect of Environments. The fifth and final element is the shift to a focus on symbolic aspects of environments and their sources. This version of institutional theory has contributed to and benefited from the resurgence of interest in culture. Moreover, the shift to culture provides a connection between Meyers and Rowan's (1977) vision of institutional theory and organizations and others who contribute to the cultural approach of institutional theory.

Institutional as a Process of Instilling Value

Influential in the development of institutional theory in organizations, Selznick (1957) created a model of an institutional theory that viewed organizational structure as

an adaptive vehicle. The organization reacts to the characteristics and commitments of participants and the influences and constraints of the external environment (Scott, 1987). Selznick (1957) referred to institutionalization as an adaptive process: "In what is perhaps its most significant meaning, 'to institutionalize' is to infuse with value beyond the technical requirements of the task at hand" (17). Thus, Selznick distinguishes between organizations as technically devised instruments, or tools, and organizations that have become institutionalized, gaining value and self-maintenance as ends in themselves. His treatment of institutionalization addresses the concept that values are instilled, but it does not address how the installation occurs.

Other scholars look at how institutionalization occurred and how change occurs from those established institutions. As Meyer and Rowan (1977) stated, institutionalism involves the processes by which social processes and obligations come to take on rule-like status in social thought and action. Scott (1987) asserted that institutionalism is viewed as the social process by which individuals accept shared definitions of reality. Steps are repeated and given similar meaning by oneself and others. To the distilling industry, this may involve societal norms changing to accommodate changes in either perception of spirits or the preconceived notions about the people who consume those spirits.

Institutional Theory and Organizational Change

Institutional theory is not typically perceived as a theory of organizational change (Palthe, 2014). Instead, theory is looked at as a theory that speaks to the stability of an organization. The institution of the organization provides it with the required consistency that makes organizations resistant to change. This stability gives the perception of the

inability for an organization to change—norms of organizations help to provide that stability. The mantra, “we will do it that way because we have always done it that way,” challenges organizations to look at themselves to determine their ability to change.

Traditionally, organizational change has been conceptualized as essentially a problem of changing technologies, structures, and abilities of employees (Ogbor, 1990). These factors lead to change but are not the only parts of the change equation. For example, there may be regulatory requirements (have to change) that drive change in different cases. In other circumstances, there is change because it is an expected (ought to change) norm for the organization/industry. Other organizations may value difference as part of their climate and embrace change (want to change). Finally, pressures of regulative, normative, and cognitive values will drive organizational change (Palthe, 2014). I intend to look at these institutional changes in the distilling industry to help determine what these changes have been in the industry and what centers around the decisions to make changes. Distilleries and the distilling industry deal with multiple regulations affecting their operations, how they deal with those regulations is important. How distilleries are organized in operational configurations, shows how institutional similarities are prevalent in the industry. That also shows the relevance of institutional theory in the industry. Regulations that were established after prohibition are still enforced today (NABCA, 2015). Changes in those regulations can directly affect how distillers do business and expand in a crowded market.

Supply Chain Framework

When looking at different challenges to the distilling industry, a consistent theme that members of the industry brought up during the initial interview process was the

difficulty in supply chain operations. A primary challenge for distillers seems to deal with supply chain operations. Therefore, when considering the topic of the supply chain, I consider three different aspects of the supply chain paradigm. The first is the supply chain framework, the second is supply chain resilience, and the third is supply chain operations.

To understand the framework, it is necessary understand supply chain management terminology. While supply chain management is significant to most business operations, few definitions exist (Tan, 2001). One example describes supply chain management as managing business activities and relationships (1) internally within an organization, (2) with immediate suppliers, (3) with supported customers (Harland, 1996). Others have described the supply chain and its management as a chain linking each manufacturing and supply process element from raw materials to the end-user, encompassing several organizational boundaries (New & Payne, 1995). This is a more comprehensive description of the supply chain that moves from the raw material to the end-user (New & Payne, 1995). Another definition of supply chain management comes from transportation and logistics literature from the wholesaling and retailing industry (Lamming, 1996). This lens emphasizes the importance of physical distribution and integrated logistics (Lamming, 1996). A challenge is to ensure dynamic integration of the supply chain resilience into their production to obtain and then sustain a competitive advantage (Lamming, 1996).