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Finding Good Relationships – Intended and Realized Relational Governance of International Fine Wine Exchanges

Abstract

Changes in relational governance have mainly been documented in the form of evolutionary relationship building, developments and repairs related to tensions, or break-ups of otherwise strong relationships. In this paper, we take a closer look at the relational governance of large-distance international exchanges between producers and importers of fine wine. We contribute by providing evidence for several novel relational governance changes, and we document portfolio effects on governance choices. Fine wine producers and importers intend on relational governance for most of their international exchanges, but they may end up being terminated, relegated to market governance, or settle as incomplete relationships.

Key words: Fine wine, relational governance dynamics, international producer-importer relationship, qualitative study.

Introduction

Unlike cheap wine, which is traded primarily on market terms with price as the key exchange parameter, fine wine trading most often requires asset specific investments. Without specific investments, importers and producers cannot develop a luxury wine brand in the minds of consumers worldwide (Beverland, 2005), which is required to build sales. At the same time, fine wine is often traded internationally across large distances, frequently by smaller producers and importers, who populate a highly uncertain global sector. These characteristics mean that one of the most central concerns, for managers representing international fine wine importers and producers, is

to safeguard against potential opportunism by exchange partners. Given the typically smaller size of the producers and importers, combined with the need for managing many international exchanges simultaneously, relational governance is frequently preferred over contractual governance.

However, unlike transaction cost economics conceptions of governance mechanisms as stable entities (Williamson, 1991), relational governance frequently changes over time (Ness 2009; Ring and Van de Ven 1994). Research on relational governance dynamics, frequently in the international exchange context, has provided evidence for several prevalent change types, the most important being the gradual development of close relationships (Ariño, Ragozino and Reuer 2008; Cullen, Johnson and Sakano 2000; Roath and Sincovics 2015), the dynamics caused by tensions and their resolution (Ariño and de la Torre 1994; Das and Teng 2002; Kumar and Nti, 1998), and the more recently described dissolution, despite a strong relationship between the parties (Lazzarini, Miller and Zenger 2008; Vanneste, Puranam and Kretschmer 2014). In this paper, we seek to extend on this line of research and contribute by shedding light on additional relational governance change types. We investigate these changes in large-distance international producer-importer exchanges. These are typically smaller companies with few resource, but are faced with the need for managing a large range of international exchanges, limiting their interactive possibilities in each exchange (Roath and Sinkovics 2015; Zhang, Cavusgil and Roath 2003). Most of the extant research on relational governance dynamics are on closer high frequency exchanges such as alliances, technology partnerships or joint ventures, and frequently not in the international context. Little knowledge exist on relational governance dynamics in international producer-importer exchanges, despite the pronounced governance challenges associated with this particular exchange type, combined with the high population of such exchanges in world business. We therefore seek to contribute in this area. Our investigation deals with the following research question: *How does*

relational governance of large-distance international exchanges between producers and importers change over time?

To investigate this problem, we made an exploratory qualitative study of international fine wine trading. International fine wine trading, particularly in the long-distance exchanges between Australian producers and their international importers, including those in Denmark, is characterized by significant levels of uncertainty and asset specificity (Zhou and Poppo 2010). These mainly direct, international exchanges are associated with considerable trading hazards, and therefore safeguarding is essential for firm security. Over a three-year period, we interviewed a range of Australian producers and Danish importers of fine wine, inquiring into their approach to governing their international exchanges. From these data, we analyzed 79 individual exchanges and mapped their detailed governance approaches, including changes in relational governance. Based on our findings, we develop a set of propositions that contribute to the literature on governance dynamics in the international business context. Specifically, we contribute by documenting several novel relational governance changes as well as portfolio effects. Our findings also have practical value, because they add to extant knowledge on the relational governance process and its dynamics, and therefore enable managers to strengthen their governance of international business exchanges. The paper is structured as follows. First, we describe the most important concepts connected to international business exchange governance and proceed to laying out the status of extant research on relational governance dynamics. Next, we describe our methodology and the data set. We then show our findings and discuss them, leading to a set of propositions. Finally, we conclude on the paper and provide the reader with managerial implications.

The Governance of International Business Exchanges

Efficiently designed governance structures maximize benefits for the buyer and supplier, while simultaneously safeguarding from opportunism in the exchange (Cannon, Achrol and Gundlach

2000). Two exchange hazards amplify the threats from opportunism: asset specificity and uncertainty (Poppo and Zenger 2002; Williamson 1991) (see table 1 for key governance related definitions).

- Insert table 1 here -

Asset specific investments represent sunk costs if the exchange terminates prematurely, for instance due to the other party behaving opportunistically. At the same time, uncertainty, which comes in two forms, market dynamism and task ambiguity, increases the vulnerability to opportunism (Cannon, Achrol and Gundlach 2000). With the simultaneous presence of uncertainty and at least moderate levels of asset specificity, the exchange must be safeguarded by applying an appropriate governance mechanism (Ness, 2009; Williamson 1985), such as relational governance.

Relational governance relies on close social ties between boundary spanners to safeguard the exchange (Poppo and Zenger 2002). Here, the parties engage in social interaction and gradually generate a set of shared norms that have safeguarding properties because they provide guidelines for proper and acceptable behavior (Macneil 1980; Ness 2009). Expectations of continuity motivate the parties to invest in the exchange, which then adds further to the relational resistance to opportunism (Poppo and Zenger 2002). Relational governance also promotes willingness to adapt and behave flexibly under conditions of uncertainty (Bradach and Eccles 1989; Zhou and Xu 2012). Looking at a cross-section of key writings in the literature, the most essential relational norms are *trust*, *flexibility*, *information exchange*, and *commitment* (Cao and Lumineau 2015; Cullen, Johnson and Sakano 2000; Genctürk and Aulakh 2007; Griffith and Myers 2005; Heide 1994; Poppo and Zenger 2002). Together, these relational elements provide the exchange with sufficient strength to curb opportunism.

Distant cross-national producer-importer exchanges, such as those under study in this investigation, are characterized by particularly difficult governance challenges. Some of the most researched

governance challenges relate to the cross-cultural differences, differences in law systems, institutional differences, and political differences, which characterize many international exchanges (Cullen, Johnson and Sakano 2000; Luo 2006; Zaheer and Zaheer 2006; Zhang, Cavusgil and Roath 2003). However, the companies in our study are from populations with relatively similar characteristics on these three characteristics and these cross-national differences are not our focus. The governance challenges in our study are instead caused by the sheer geographical distance between the producer and importer locations, which makes it difficult to keep a high interaction frequency, compared to domestic or regional locations (Zhang, Cavusgil and Roath 2003). In addition, producers and importers, which are often small companies, have to govern many international exchanges because they sell and buy in many locations, and this characteristic means that they have limited resources for each exchange (Aulakh and Genctürk 2008; Bello and Gilliland 1997; Roath and Sinkovics 2015). The creation and maintenance of strong social relations becomes a challenge, since producers and importers rarely meet. Distance also hinders monitoring and information asymmetries are therefore exceedingly high in these exchanges (Aulakh and Genctürk 2008), making opportunistic behavior from exchange partners more likely (Roath and Sinkovics 2005). At the same time, such international exchanges are typically faced with high uncertainty, both in the forms of market dynamism and task ambiguity, while asset specific investments are required (Aulakh and Genctürk 2008; Zhou and Poppo 2010). Finally, the described lower levels of resource of these companies, combined with large ranges of international exchanges that needs to be governed, make both comprehensive contracting and hierarchical governance unlikely (Aulakh and Genctürk 2008; Bello and Gilliland 1997). Earlier research on this type of exchange has suggested that relational governance is the more likely choice in this context (Homburg et al. 2009; Zhang, Cavusgil and Roath 2003).

Relational Governance Dynamics

Most business exchange research has been preoccupied with governance as a choice between static mechanisms, each with their strengths given various transaction properties, and with a primary focus on contractual versus relational governance as the hybrid mechanisms (Aulakh and Genctürk 2008; Cao and Lumineau 2015; Poppo and Zenger 2002). However, as Ring and Van de Ven (1994, p. 96) argue, governance is dynamic because “*subsequent interactions reconstruct and embody new governance structures*” for the exchange. Some researchers have treated governance dynamics as shifts between the overall mechanisms contractual, relational and market. Noorderhaven (1995) sketched out six possible overall governance changes between market, relational and contractual. In a multiple case study of retailer-producer dyads, Ness (2009) documented changes between market, contractual and relational governance over three stages of alliance development. One of the most frequently observed changes is from early stage contractual governance to late stage relational governance. Relationships take time to develop and require some level of maturity before they are robust enough to safeguard the exchange (Cao and Lumineau 2015; Poppo and Zenger 2002). Therefore, companies may sign contracts early on, but then substitute them with relationships over time (Ness 2009; Fryxell, Dooley and Vryza 2002). Research on alliance dynamics generally build on the argument that while initial mechanisms (pre-formation) may endure at least to some extent over time, other governance mechanism are also likely to be introduced as the exchange develops (post-formation) and adaptations are needed (Ariño, Ragozino and Reuer 2008; Reuer, Zollo and Singh 2002).

Sometimes, the conditions surrounding an alliance change, which induces a change in governance structure (Das and Teng 2002; Reuer, Zollo and Singh 2002). Das and Teng (2002) mention changes in interdependencies, the invested resource endowments of both parties, and arising conflicts as key conditions that may prompt a governance change. Learning may also play a role in

this process (Doz 1996; Ness 2009), which has been documented in connection to contractual governance changes (Mayer and Argyres 2004; Reuer, Zollo and Singh 2002). For example, Reuer, Zollo and Singh (2002) provided evidence from a study of hi-tech alliances, showing that higher experience with their alliance partner or the technologies involved in the exchange, leads to a higher likelihood of changes in contractual governance structures. Mayer and Argyres (2004) found that a sample of companies from the personal computer industry engaged in alliance contracting failed to recognize initial pre-formation contingencies in the exchange until they experienced adverse events, leading them to alter their contractual provisions.

However, learning also seems to play a key role in relational governance dynamics. The parties to an exchange regularly evaluate the outcomes of their exchanges and based on that knowledge sometimes enter into renegotiations to change the applied governance structures (Ariño and de la Torre 1998; Ness 2009; Ring and Van de Ven 1994). In international exchanges, learning also plays a key role as the parties to an exchange will gradually build knowledge of different markets, leading to increased involvement with partners in that market (Johanson and Vahlne 1990, Roath and Sincovics 2015). Roath and Sincovics' (2015) study of international producer-distributor exchanges showed that learning orientation by the parties positively influences trust development, strengthening relational governance. International governance dynamics research has been mainly concerned with evolving relational governance, which forms when the parties interactively build more and more layers onto their relationship. In the international alliance context, Vivek, Richey and Dalela (2009) found that strong, trusting relational governance was achieved 12-14 months into the life of the exchange, with the strength required for supporting collaborative joint value creation. Similarly, Cullen, Johnson and Sakano (2000) found that international alliances first develop simpler forms of trust and commitment and only later more complex forms. Developing shared norm sets and trust requires a past process of interactions, where each party observes and

positively evaluates the other party's actions, gradually strengthening the relationship and cementing the reliance on relational governance (Larson 1992; Ring and Van de Ven 1994).

Relational governance as a gradually building mechanism also corresponds well to classical models of inter-organizational relationship development (Dwyer, Schurr and Oh 1997; Larson 1992).

Alternatively, some studies document relational governance changes caused by adverse events that cause tensions or conflicts between the parties (Das and Teng 2002). Ariño and de la Torre (1994) found that parties to an alliance may experience external shocks, which gravely change efficiency and equity. They may then interact to restore balance, or alternatively see the relationship deteriorate, eventually leading to complete dissolution. Parties may also experience unsatisfactory outcomes from the exchange or from the interaction process, which requires additional problem solving interaction in order to keep the exchange in equilibrium (Kumar and Nti 1998). Hence, the governance challenge here becomes one of interactively keeping the relationship on track to avoid termination. Tensions may also arise within the dyad by one party acting opportunistically.

Relational governance is vulnerable when asset specificity is high, because one exchange party may be lured into pursuing own interests even if a solid relationship has been established (Cao and Lumineau 2015; Ju, Zhao and Wang 2014; Poppo, Zhou and Zenger 2008). Each of the key elements of a strong relationship, such as trust and commitment, display certain vulnerabilities to opportunism. Looking specifically at trust, Uzzi (1997) found that repeat opportunistic abuses by the other party could turn trust into mistrust. Generally, relational governance is bilateral and requires both parties' consent in order to function effectively (Ness 2009; Ring and Van de Ven 1994). Several other contributions examined how the emergent, timely, and constantly tested nature of trust makes governance dynamic (Das and Teng 1998; Parkhe 1998; Puranam and Vanneste 2009; Vanneste, Puranam and Kretschmer 2014). Commitment seems to display similar dynamic characteristics. Lazzarini, Miller and Zenger (2008) demonstrated how companies that experience

constant new alternative value opportunities from new possible exchange partners may move out of committed relationships and switch to alternatives. Commitment contributes to a strong business exchange, but it also involves some level of volatility, making relational governance dynamic (Andersen and Medlin 2016; Azoulay, Reppenning and Zuckerman 2011; Lazzarini, Miller and Zenger 2008; Uzzi 1997). The continuous accretion process of action and reaction adds, but may also remove layers of the relationship (Larson 1992). Hence, overall relational governance is not just a linear solidification trajectory towards a closer tie, but may change in uneven steps or revert to a looser tie (Zheng, Roerich, and Lewis 2008). As such, companies may be perceived to be in the process of moving in and out of relationships over time (Larson 1992), affecting the possibility for relying on the relationship as a governance device. This paper seeks to add to extant knowledge on governance dynamics, by exploring the changes taking place in large-distance producer-importer exchanges. The literature on relational governance dynamics, which is still only moderately developed, has documented some dynamic patterns in relational governance, but mainly in close alliance type exchanges and with little focus on international business. Through our study of international producer-importer exchanges, we attempt to uncover additional dynamics of relational governance.

Methodology

The aim of this study was to generate insights into the rich details of relational governance and its dynamics. We therefore chose a qualitative method for the investigation (Denzin 2002). In accordance with Eisenhardt (1989), our aim was to use the qualitative data to build theory on relational governance. We targeted fine wine trading as a suitable setting because of its exchange properties, characterized by considerable asset specificity and uncertainty. Moreover, we limited our study to the exchanges of Australian producers and their international, mainly Danish importers, whose exchange is characterized by high geographical distance. This sub-sector has a high

population of primarily small producers and importers, dealing mostly directly with each other. We did not design the study with any aims of comparison between the Australian producer and Danish importer sample. From a governance perspective, the key mechanism-determining variables (asset specificity and uncertainty) are almost equal between the Australian and Danish sides, and we therefore saw no purpose distinguishing them in our analysis. We first interviewed the Australian producers, which we found through business directories and web pages. We then hoped to be able to use the producers as references to gain access to importers, but that quickly turned out to be difficult. Sometimes these exchanges had been suspended, or developed unexpectedly, or the importer refused to be interviewed. We also wanted a more neutral starting point for the importer interviews. We therefore decided to use the same approach, business directories and web pages, to find the Danish importer respondents.

We carried out 35 interviews on company premises in Australia and Denmark, with most interviews accompanied by facility tours, which revealed additional details. We first made two pilot interviews (one in Australia and one Denmark) to sharpen our questionnaire and interview process, and to gain an industry overview. These interviews were not included in the analyzed data. We discarded two more interviews for this study because one respondent was just initiating export and another had no current direct links with Australian producers. The 31 remaining interviews had an average length of approximately 78 minutes and were transcribed verbatim, except one where we took notes.

Similar to Uzzi's (1997) study, we accessed senior managers, who had both broad and in-depth insights into the international exchanges in focus (see table two).

- Insert table 2 here -

Our question guide varied between the general (preferred governance mechanism) and specific (each important exchange). Initially, we asked the respondents to lay out their sales channels (for Australian producers) and producer network (for Danish importers). We then asked questions

regarding their choice of governance mechanism and asked them to account for their specific exchanges with Australian producers or Danish importers. In addition, we asked them to account for other important and/or typical exchange partners. We also asked them to account for the development of the exchanges. Due to the risk of information overload, we were not aiming at mapping their entire range of partners, but wanted insights into the most important exchange types they engaged in. We found that respondents could easily account for contractual governance (or the lack of), but uncovering relational governance required combinations of specifying and direct, with interpreting, and probing questions (Brinkmann and Kvale 2015). This interview technique allowed us to determine not just the presence of the four relational constructs (trust, commitment, information exchange, and flexibility), but also the more in-depth nature of each exchange. From the in-depth accounts, we were able to uncover details on 79 specific exchanges and how they had changed; 39 identified from the importer interviews and 40 identified in the producer interviews.

Our first cycle coding (Miles, Huberman and Saldana 2014) consisted of making a relatively simple retrieval of statements regarding the existence of written contracts in the exchanges. Next, we made a more difficult and extensive first cycle coding to derive larger data chunks on each specific exchange and its relational governance, as well as its possible changes. In our second cycle coding (Miles, Huberman and Saldana 2014), we sought to condense the relational data into smaller and more manageable, but accurate text pieces for further analysis. For that analysis, we adopted Denzin's (2002) concept of interpretive bracketing. For each of the 79 exchanges we wrote a small bracket with the most important details of that relationship and its development, along with small labels denoting its governance mechanism. With these brackets as a basis, we next made a comparative analysis, looking for similarities of the exchanges according to the relational governance details. This analytical step followed the logic of the constant comparative method of Glaser and Strauss (1967). Comparing one exchange with the next, bracket for bracket, the

theoretical properties of the relational governance categories and their changes started to emerge. In this iterative process, we sometimes reverted to earlier analytical documents and even the transcripts to reevaluate and sharpen our findings. As the categories emerged, we compared new analyzed exchange instances with the categories and arrived at the seven different relational governance varieties and their changes. During the entire process, we maintained our chain of evidence between transcriptions and write-up in three interlinked major analytical documents as well as several smaller notes.

The Data – International Fine Wine Exchanges

We chose the international producer-importer setting for several reasons. First, the theoretically obvious choice of governing by hierarchy, given the significant levels of asset specificity and uncertainty, is not viable because the companies typically possess inadequate means to integrate, especially into a broad set of differentiated global markets (Aulakh and Genctürk 2008; Johanson and Vahlne 1990; Larson 1992). Market governance is typically not an option either, because tighter coordination and considerable asset specificity are often needed, necessitating hybrid governance. With significant levels of both asset specificity and uncertainty, managers face significant trading hazards they need to safeguard against, and the fine wine exchanges therefore represent valuable study subjects.

Regarding asset specificity, these exchanges are essentially very simple. Factors that normally increase asset specificity in exchanges, such as product complexity, process complexity or a need for joint innovation are absent, making asset specificity types such as site, physical, and dedicated unnecessary in the exchange. However, fine wine is a branded luxury good, and specific assets are required to create and maintain the identity and image of the parties (Beverland 2005; Williamson 1991). In addition, the producer-exporter nature of the exchange requires that the parties must

jointly build brands and market interfaces, requiring significant specific investments (Bello and Gilliland 1997).

Asset specificity is also higher in international exchanges than domestic ones (Homburg et al. 2009), and resources for travelling, marketing, promotions, product/market knowledge exchange activities, and training, among others, represent significant investments (Aulakh and Genctürk 2008). Fine wine also demands specific investments due to required coordination regarding taste, viticulture, winemaking, food preferences etc. (see table three for examples of AS from the data). For example, wine makers sometimes travel large distances out to specific importers and spend days there entertaining the importer's customers at wine maker's dinners, having producer specific tastings, making customer visits (restaurants, hotels etc.), and visiting stores to educate sales personnel, among other activities. Such activities, even if they are relatively infrequent, consume time, travel costs, products, promotions, salaries, marketing material etc. and therefore represent significant investments in the specific exchange partner, for both parties, but these investments are required to build the brand and image of a particular wine in the minds of consumers. Importers may also, although typically less frequently, travel to the producer and stay there for some time to gain insights into particular geographical features, wines, grapes, production methods, local foods, casks and storing, bottling etc., allowing them to convey a compelling story to their customers upon return. Essentially *authenticity* plays a key role for the branding of luxury wine (Beverland 2005) and the described activities are needed to communicate this authenticity out to international consumer markets.

- Insert table 3 here -

Some fine wine could of course make small sales numbers without developing asset specificity simply by being on the shelf, but satisfactory sales levels are unlikely. Another exception is when a wine has gained an extreme high-end reputation, which can then sustain itself through third parties

(internet, journalists, blogs etc.), without conscious development of asset specificity by the involved parties. However, in the vast majority of exchanges, significant AS levels are required to propel sales.

Uncertainty, comprised of task ambiguity and market dynamism, is also considerable in these exchanges. High distance exchanges is more prone to betrayal because information asymmetry is higher and interaction and communication are more difficult (Leonidou et al. 2017). International importer-exporter exchanges are known to contain significant task ambiguity (Buvik and Andersen 2002; Genctürk and Aulakh 2007). Performance evaluation is difficult because the parties lack familiarity and knowledge of each other's business and information asymmetries are significant (Aulakh and Genctürk 2008). Second, large geographic distances complicate the task of monitoring a distributed set of exchange partners. However, performance measurement may be somewhat easier for the importer than the exporter, because the former can detect performance parameters such as producer quality and delivery directly and therefore the exporter is less likely to succeed with opportunism (Heide 1994; Katsikeas, Skarmeas and Bello 2009). The second element of uncertainty, market dynamism, is even more significant in international exchanges (Andersen and Buvik 2001). The international import-export nature of the exchange exposes it to uncertainty because managers have to deal with partners in multiple different markets (Aulakh and Genctürk 2008). Cross-border trade introduces a range of additional market dynamism factors, such as currencies and distance related factors (Bello and Gilliland 1997). Moreover, a wide range of idiosyncratic properties that increase market dynamism further challenges the wine industry. Consumer taste varies and is affected by a range of less transparent factors such as marketing campaigns, wine journalism, and internet communication. Factors related to regional weather, climate, and agriculture make capacity and quality unpredictable and volatile year by year. Also, the complex international wine industry, with highly varying production and consumption structures

both globally and from country to country, undergoes continuous changes in terms of high levels of bankruptcies, new start-ups, mergers/acquisitions, overproduction, cross-industry effects, and supply chain migrations among others (Bisson et al 2002).

Findings

Overall Governance Choices

Given that contracts are sometimes used as governance mechanisms in international exchanges, we asked respondents both about contractual and relational governance. Overall, we found that interviewees applied contractual governance to a very limited extent. Only four respondents claimed that contracts were or could be valuable governance choices and only I7 and I10 had contracts with sufficient breadth and detail to safeguard the exchanges. Apart from these four respondents, the broad attitude was against written contracting to safeguard the exchanges. Instead, respondents relied primarily on RG, but also with some documented instances of MG. The difference resided in the perceived business potential of an exchange partner. Those that were regarded good opportunities for high volumes and business development attracted asset specific investments, and the managers relied solely on relational governance for these exchanges. However, in six exchanges, the managers found that it was not worth making specific investments and developing a strong relationship and then settled for market governance up front. It is important to note that we did not really pursue market governance in our questionnaire. Hence, the actual number of market-governed exchanges of the interviewees is likely to be higher. For the importers, the market exchanges could be instances where the producer's wine was considered important for their overall portfolio. *"They have a wine with extreme power that our other producers don't have. We only sell it when customers ask for it. And we don't communicate with them"* (I2-AU7). In other cases, the wine was extremely high-end and the importer received an annual allocation together with marketing material, making it essentially market governance. The producers' reputation and

wine press ratings sold the wine and the importer simply received the allocated bottles and facilitated the exchange with the consumer: “*It is one-way communication. They tell you how many you can get. Then you send the order. There is nothing more to it than that*” (I11-AU29). From the producer side, market governance typically occurred when larger international importers became too power focused and applied high price pressure leading to market governance: “*You get a buyer that’s just come from buying chips or soft drink to wine, so it’s a commodity*” (P13-IM35). In these exchanges, relational governance was not possible or required because the exchange functioned without notable need for specific assets and therefore market governance was the default choice up-front. In the remaining exchanges, the interviewees confessed to a dominant relational governance attitude, seeking to rely on the social tie as a safeguarding mechanism.

Intended Relational Governance

Despite being the intention in 73 exchanges, RG was only realized in less than half of them. Table four shows the seven intended relational governance (RG) categories identified through analysis of our data. We identified only 33 exchanges in the “full RG” category with the degree of tie strength required for safeguarding the exchanges. In the other six categories, the managers aimed for RG but ended up with something else.

- Insert table 4 here -

Early Termination

In these exchanges, managers argued that they entered them with the intention of building RG, but various factors changed this decision early on and they were terminated without significant investments in the exchanges. Three exchanges (I1-AU2, I7-AU22, and P8-IM17) were terminated already in the start-up phase by the other party. In the first exchange, AU2 regretted and told I1 immediately at their first visit to the production site that they would go with a larger importer. In the second, AU 22 opportunistically bypassed the agent (I7) to deal directly with a customer. In the

third, IM17 “popped up” on P8’s premises and showed high enthusiasm and interest in future exchange, but never actually placed more than three small orders: *“They came here and they looked fine... but I wonder whether it was just because they wanted a hot country and we were hot at that moment. But when it came down to actual brand-building – that’s when they fell over”*. IM 17 stopped responding to e-mails and the exchange was therefore suspended. A similar thing happened to P11, who became somewhat emotional talking about the disappointment relative to IM27, who ended up choosing another producer with a larger assortment: *“There is no substitute, as everyone knows, to having absolutely superb relations to your customers and if you can’t have that then it is not going to work... They were nice people and we entertained them here... I was so excited about it, but unfortunately they didn’t go with us. I had hoped they would stick with us because I looked after them (regarding pricing issues). But they only ordered twice and then stopped. I e-mailed them (several times) but got no reply. I also called them, but I couldn’t understand the message on their answering machine”*. In the final two exchanges (I1-AU4 and P7-IM14) in this category, the interviewees terminated the exchanges. Whereas P7 simply discovered that they needed a bigger importer in that market (than IM14), I1 had some sales concerns regarding AU4 up front: *“Extraordinary good wine – real nice and elegant – not too powerful. Really nice people and everything... But they only had a few quite expensive wines, not a broader price range – so the first sales never went above “reasonable” and we had to drop it again. They also screwed up the export permit so the wine was withheld in Australian customs for a month“*. Despite a promising relationship and high product quality, other business concerns meant that this exchange had to be ended early stage.

Never Went Further than Market Governance

In other instances, the exchanges continued despite initial difficulties, but as MG. For example, in I6-AU19, the exchange was planned and the first order placed, but when the wine came in the store,

AU19 raised their prices without allowing I6 any voice. Consequently, they abandoned any further relational development, but small wine transactions continued. We observed similar instances of abandoned RG, as the managers evaluated and learned from early exchange experience. I3-AU11, I11-AU28, and I15-AU39 simply turned out to have low sales potential and the importers relegated them to “portfolio wines”. I11 explained: *“We use them (AU28) to cover a hole in the portfolio. Sales are ok. They have been pushing for more, but it is not really an interesting wine”*. I15 explained how he had down-prioritized one producer (AU39): *“It is good wine and we are happy about it. But it has been forgotten in the big play”*. We identified similar instances (P1-IM3, P8-IM20, and P11-IM29) of fit or mutual focus issues, discovered in the early stages by the producer respondents. P1 contemplated IM3: *“We had some sales. Then they wanted to focus on another AU producer. Then their sales slowed and we came back into the limelight. But now they have started doing things differently – getting wines over in bulk”*. Interestingly, the reverse happened for P1 in the exchange with IM1, who sold too little and only very high-end assortment: *“We told them that we would drop them and go to IM2. But then they placed another small order and so we just kept on feeding them. So it sort of continued even though they got quite upset”*. In this case, one party wanted to terminate the exchange, but then accepted continuance as MG.

In Process Termination

These exchanges progressed beyond the early stage. The parties had experienced some business potential and made some asset specific investments. They were therefore vulnerable because the exchanges were not yet strong enough for safeguarding. Three exchanges (P3-IM7, P10-IM25, and P13-IM34) ended because of a strategic change, where the importer decided to downgrade and pursue a more competitive market, and the producer had no choice but to leave them in order to protect their brand and profits. For example, P3 argued: *“We moved away from this agent. They were focused on supermarkets, entry point level and they wanted the wine cheaper and cheaper. That is crazy for a company like ours where the real margin is mid and upper price”*. In another

exchange, P7 had a healthy business with IM15 when another company acquired their importer, and the new owner could not find a place for P7's wine in their assortment. In the final two exchanges in this category, relational issues triggered the dissolution. P8: *"He (IM21) wanted us to meet hand-selected customers. But he absolutely abhorred us having any form of direct contact with (other) customers – so it becomes a matter of trust. Also, no one would tell us their prices. Going through their system (with several distributors) what we thought was initially a fair price eventually ended up being crazy. We had no product control at all"*. P10-IM26 was regarded as a fairly strong and well developing relationship, when trust issues came in the way and disrupted it. IM26 wanted to bill through and placed multiple considerably sized orders, but could not get sales going and in order to save face just placed the wine into stock, without informing P10. P10 eventually found out: *"He was holding 95% in stock, and ready to place the next order. We could see (eventually) that this was not going anywhere so we put an end to the relationship, amicably"*. In the two latter cases, problems with low trust and opportunism ended up dissolving the relationships.

Developing Towards RG

Some exchanges were described as developing towards RG, without actually having the strength yet to safeguard the exchange. A few of these exchanges (I2-AU8 and P11-IM30) were newly started, with a perceived business potential and a managerial attitude that time would tell if they would be successful business exchanges. These exchanges were widespread among our respondents and as P13 observed, *"everybody looks good on paper"*, indicating some uncertainty associated with future developments. However, in other exchanges in this category, the relationship and the business seemed to be highly regarded and considered promising from an early stage. In these instances, the managers really felt that they had found a good fit and expectations were high for developing them into RG and strong business. The other party seemed highly committed already early on and invested time and resources in the exchange, triggering a similar mutual focus and commitment

from the managers. I2 explained one of these exchanges: *“I am out to find the coming stars – and I really seriously think I hit the spot with (AU6)... Our collaboration has been great”*. P7 described how such a relationship triggered investments that accelerated the exchange further: *“I am going back (to IM16) later this year and I will put lots of effort into building this market further. I see most growth when I am actually with their sales rep going out to customers, taking wine in there, talking to customers, help them get the wine on the list... doing dinners and stuff like that”*. P8 accounted for the focus and communication that accelerated relationship building (to IM18) in the early stage: *“We got some communication going and that has kept us on our toes. They want magazine photos and information and stuff... so we figure that if they are proactive on that then we will support them. They seem like the sort of people we like to do business with... Now we will put more equity into it and try to double their sales”*. P8 clearly felt that he had found a strong relationship combined with a high quality wine with lots of business potential. Many managers accounted for the existence of these ready-made almost ideal relationships, where potential seemed to be recognized right away and relationship development could accelerate fast. P13: *“We like these “beach-heads” where we make the right decision for the long term... this is the way to do it. With the right people there (IM36) it was quite an easy decision to go in with them. And this importer has been incredible”*. However, in the overall portfolio, only a few relationships developed this way. Our data shows that these ready-made ideal relationships appeared in four out of the six developing exchanges.

Incomplete RGs

Some exchanges developed into generally healthy business relationships, but turned out to miss one or more essential relational components, which meant that the ties were not really sufficiently strong to safeguard the exchanges. For example, the relationship between P2 and the oldest importer (IM4) with historically high sales never really grew into the full RG range. P2: *“All they could say*

was: *“If you want to see less on the shelf (higher sales) then bring the price down”* And I said: *“But we have a business relationship!”* There should be flexibility and talk between the companies because obviously we both want to make a living. We also found out that a customer was only able to buy our wine if he bought someone else’s cheap crap (in a package deal). How unfair is that and what does that do to me?” Trust and flexibility were clearly lacking. Another importer accounted for an otherwise strong relationship (I6-AU16), but without adequate information exchange. The communication and responsiveness of AU16 was so poor that it hurt the profitability of I6.

The remaining exchanges in this group all lacked commitment. I6 actually had felt a strong tie with AU18 earlier, but during visits the I6 people seemed somewhat uninterested and *“didn’t look after him”*, which reduced his own willingness to commit. Both P1 and I9 also suffered from low commitment from IM2 and AU25 respectively, who clearly spend most of their resources serving other exchange partners. Finally, I13 admitted never really committing to AU36, anticipating future problems in their business exchange. Perceived low trust, commitment or problems with living up to relational norms meant that fear of opportunism was present with these managers.

Broken RGs

Interestingly, some respondents argued that specific exchanges had earlier been long-term RG, but were then abandoned. One cause of these dissolutions was the substitution of key boundary spanners (I1-AU3, I7-AU21, and P4-IM9). In I1-AU3 this was due to a generational succession: *“The successor took over and it has not worked well. The successor wasn’t open in the usual Aussie way. And now it was suddenly a week or two before they answered my mails”*. In IM9, the key boundary spanner building the relationship decided to pursue other interests within the wine industry, and P4 stopped receiving orders after a while. In the I7-AU21 exchange, it was a change in winemaker, reducing the quality of the wine, which caused the split. Changes in business prospects could also cause a relational break. P13 told the story of a small importer (IM37) that he

had to leave for a larger one: *“She was fantastic – selling a few things here and there. But there were opportunities to work with other importers with a broader coverage in this market. It was disappointing for her – there was a friendship there – but then you’ve got to put business first”*.

Opportunism caused the break in the remaining four broken RGs. Hence, despite confidence and a believed safeguard in the established relationship, the other party still ended up acting opportunistically. I12 watched as AU33 increased prices four times for a total of 100%, in addition to eliminating one of his best-selling wines from their production portfolio, leading him to abandon them in good spirits. In P11-IM31, the parting was not equally amicable. After a successful history of trading, IM31 asked for increasingly extended credits and then suddenly skipped payments altogether: *“They get people to pay up-front – establish a trading relationship. Things go beautifully for a few years – then BANG – there is a payment fault. We then got international chasers onto them at a 20% commission... I am still stinging from that”*.

In the final exchange in this category, we actually interviewed both producer and importer (I5-AU14/P10-IM24). I5 laid the split out the following way: *“We had them for four to five years and it went really well. Then they suddenly sent us bottles with 12% alcohol – we could not sell it. He sent someone here to taste it and we agreed that they should replace the bottles. But then he mailed us that he couldn’t just hand away replacements due to toll and shipping and the like. He is now on ice. I really thought I could trust him – that he wouldn’t send us such a batch of crap”*. Seen from the other side of this exchange (P10), the break was reported as *“growing apart”* and attributed to the financial crisis generating a huge stock that needed to be sold before further business could be pursued. Overall, the relatively high number broken RGs (more than 10% of the intended RG exchanges) suggests that even relationships believed to be strong enough for safeguarding may sometimes fail.

Full RGs

The full RGs all displayed the key constructs of relational governance: trust, information exchange, flexibility and commitment. Displaying these characteristics simultaneously, the exchanges were considered safeguarded. Table five provides an overview of the 33 full RG exchanges along with quotes demonstrating different elements of the relationships.

- Insert table 5 here -

Table five demonstrates the very high level of closeness experienced by these managers, often even developing into personal friendships. Interestingly, only I7 and I10 applied plural governance, with a very strong relationship, but combined with a detailed contract.

Discussion and Theoretical Implications

A small but growing literature deals with governance dynamics, including the developmental aspects of relational governance. This literature has documented three primary changes that characterize relational governance dynamics:

- 1) Evolving RG based on interactive experience and learning, increasing the strength of the relationship.
- 2) Arising tensions caused by changed exchange conditions and the interactive efforts of the parties to restore the exchange.
- 3) Changes cause by changed exchange conditions or one (or both) parties' opportunistic behavior, leading to exchange termination.

In this paper, we contribute by providing evidence for several additional relational governance changes, as documented in our investigation of international producer-importer exchanges. Figure 1 shows the different changes found in the data and the subsequent findings refer to this figure.

- Insert figure 1 here -

First, our data provides support for introducing a distinction between intended and realized governance. The studied managers gradually invest in the specific exchange to establish and accelerate sales, and then only over time observe if RG is achievable. Azoulay, Reppenning and Zuckerman (2011) documented a similar discrepancy between intended and realized RG. Exposed to power differentials, managers in their study aimed for RG, but ended up using power to apply pressure on suppliers instead. In our study, managers intend to create RG, but frequently end up with MG, termination or incomplete RG. Relational governance is a bilateral governance mechanism, which requires two relationally oriented parties that continue to realize positive outcomes in their exchange. Sometimes, the manager her/himself deliberately chooses to settle for something less than full RG. However, in many other instances, the other exchange party's behavior, attitude or properties hinder full RG. In other words, there is sometimes a gap between pre-formation evaluation of business potential and governance choice, and post-formation governance realization. Only 33 of the 73 exchanges actually developed into a degree of RG where they were robust enough to safeguard the exchange, displaying the four key relational criteria *trust*, *flexibility*, *information exchange*, and *commitment*. We therefore suggest that overall, relational governance may be even more dynamic and vulnerable than extant literature depicts. At least our findings provide ample support for the part of the literature dealing with pre- to post-formation changes in governance (Ariño, Ragozino and Reuer 2008; Reuer, Zollo and Singh 2002).

Contractual Governance

Our data only documented two instances of contractual governance (I7 and I10) (which is why we have not shown these in figure one), and these managers were simultaneously relational – practicing plural governance. Perhaps more interestingly from a governance dynamics perspective, we documented no instance of changes from relational intent to later implementing a contract. Despite a high documented number of “failures” to realize RG, the studied managers did not implement

contractual or plural governance as a response, despite significant levels of uncertainty and asset specificity. Multiple interviews showed that this preference against contracts and for RG persisted, even if RG was not successfully developed and after experiencing serious losses from opportunistic acts in an exchange. Relational governance remained their preferred governance choice. In other words, the sole reliance on RG left the managers quite vulnerable in the 26 exchanges with significant asset specific investments but without sufficient RG strength to safeguard (see table four). These findings are interesting in light of the extant exchange governance literature, which predicts the application at least one governance mechanism, and preferably both as complements to each other, in exchanges with at least moderate asset specificity and uncertainty (Cao and Lumineau 2015; Das and Teng 1998).

***P1:** Importers and producers prefer relational over contractual or plural governance of their international business exchanges, and this preference persists over time despite negative exchange experiences.*

The strong preference for RG could be because small companies often tend to prefer RG over written contracts (Larson 1992). Low levels of administrative capabilities and limited resources characterizing producers and importers could also work against contracting ability (Ariño, Ragozino and Reuer 2008; Bello and Gilliland 1997). Moreover, the number of exchanges the international producers and importers have to manage puts even more strain on the resources for contracting (Aulakh and Genctürk 2008; Roath and Sinkovics 2015).

Changes Connected to MG

Looking at the specific states and the changes between them, we find that despite the dominance of relational governance, MG is actually chosen deliberately up-front in some exchanges (see figure one). Here, the importers and producers need the wine for their portfolio or the other party hinders RG development, However, the managers keep the exchanges alive, but make no investments to

develop it further. More importantly, intended RG sometimes turn into realized MG. Managers essentially make a pre-formation conscious choice of RG, but then observe the early stages of exchange development, and reevaluate the business and/or relationship potential of the exchange, and decide that RG cannot be achieved or is not viable. As a result, they relegate the exchange to MG, suspending asset specific investments, focus, and relationship development efforts, but maintain the business from these exchanges, despite its limited size.

***P2:** Producers and importers may turn intended RG into actual MG of their international exchanges, because of experienced dissatisfaction with: 1) business development, and/or 2) relational events or behaviors.*

RG Changes

RG changes in a number of different ways. We find evidence for two changes that are well described in the literature (see page 23). The first and most dominant is the evolutionary path from RG intention to its realization (see figure one). This change is the widely accepted interactive gradual relationship development process known from studies of international business exchanges (Cullen, Johnson and Sakano 2000; Roath and Sincovics 2015) and IOR/alliance development studies (Dwyer, Schurr and Oh 1987; Larson 1992). Second, we also find several instances of fully developed RGs that one party terminates for different reasons. Hence, our results lend support to at least some extant contributions pointing to weaknesses even in full RG exchanges. RG's displaying all four relational attributes were terminated, specifically when faced with opportunistic acts, organizational change, new exchange opportunities, or simply misperceived RG strength. It is known in the literature that organizational change can break an otherwise strong business relationship (Uzzi 1997; Zheng, Roerich and Lewis 2008), and that under particular circumstances, when managers face constant new valuable exchange opportunities, otherwise committed partners can be lured away from an RG exchange (Lazzarini, Miller and Zenger 2008). Indeed, business

sometimes seems to get in the way of the relationship, as the parties seek not just to safeguard, but also maximize exchange performance (Puranam and Vanneste 2009). Finally, our data showed that one terminated RG seemed to occur simply because managers (mainly producers) misjudged relational strength.

P3: Fully developed international RG exchanges between importers and producers may become terminated for the following reasons: 1) organizational change, 2) new perceived alternative business opportunities, 3) opportunistic acts or 4) misperceived RG strength.

Interestingly, we found only insignificant evidence for the second type of change described in the literature – interactive restoration of a troubled exchange (see page 23). As the relatively high number of instances of termination show, the investigated importers and producers prefer termination over restoration. Most studies of restoration deal with alliances or otherwise closely knit highly interactive buyer-seller exchanges, where joint problem solving (Uzzi 1997) or interactive conflict resolution (Kumar and Nti 1998) are available. However, one feature of international producer-importer exchanges is their low interaction frequency (Zhang, Cavusgil and Roath 2003), making resolution almost impossible. Thus, we contribute to the literature by documenting a different change path relative to extant exchange governance research.

P4: Importers and producers involved in international exchanges tend to terminate RG exchanges instead of restoring them when facing tensions.

This leads to another novel finding in our data. Several managers, primarily those with considerable experience from many years in the wine sector, emphasize the critical importance of being able to sense up-front if an exchange prospect could develop into a full RG exchange partner. With only 50-50 chances of success combined with the proved restoration difficulties, managers simply need a heightened success rate in their early stage engagements. In many exchanges (primarily type four

and seven in table four), managers sense already during the first encounters that these other parties have an above average possibility of succeeding with full RG. Some managers claimed that they possess such a heightened sensing capability; for example, P8's claimed ability to "*find good relationships*". Such a capability is in play in the very first pre-formation face-to-face meetings regarding the potential for future business exchange. Here, managers make a relational assessment, judging the other party's communication and behavior, relational attitude, professionalism, and knowledge of fine wine and the industry etc. These early evaluations allow the managers to project the potential of an exchange into the future, adjust their expectations, and make improved choices whether or not to proceed with a potential partner. The literature has provided evidence for several types of exchange capabilities, such as indirect capability (Araujo, Dubois and Gadde 2003) or bonding capability (Schreiner, Kale and Corsten 2009), but not an initiation stage "relationship sensing capability". Such a capability may arise by accumulating alliance experience in all the past exchanges of a given manager (Heimeriks and Duysters 2007).

P5: *A "relationship sensing capability" can improve importers and producers' chances of realizing post-formation RG in their international exchanges.*

From RG Intention to Incomplete RG Governance

Despite relational issues, the importers and producers sometimes accepted to live on with exchanges that had not achieved full RG strength, typically because they represented considerable realized business for them. Missing one of the four key relational attributes, such as commitment, these exchanges never really appeared adequately safeguarded to the respondents (type five in table four). The managers claimed that these were strong relationships, but at the same time argued that they missed one or more central elements, which meant that they were not entirely confident and felt inadequately safeguarded. For example, four of the six exchanges in this category had three relational components, but lacked commitment, which meant that opportunism (for example leaving

for, or channeling the majority of resources to another party), was perceived likely. Successful business, relatively high AS, a history of exchange, and an established position in the portfolio, meant that these exchanges were not terminated, but maintained and governed in this non-safeguarded, but nevertheless relatively stable mechanism. We contribute to the literature on international business exchange governance by documenting this change from a developing RG into the incomplete RG mechanism.

***P6:** International RG exchanges between producers and importers may develop close to full RG, but still miss one or more key relational elements, and settle as incomplete RGs.*

Portfolio Effects on Relational Governance Dynamics

Finally, we find evidence for a considerable portfolio effect on dynamic governance choices in the studied international producer-importer exchanges. All RG changes above are affected by the managers' broader portfolio of exchanges. For example, the choice of terminating an exchange is conditioned by whether or not the managers' are simultaneously succeeding or failing with other exchanges. More generally, our data suggest that one credible explanation for these managers' determination to stick with relational governance, despite its clear limitations, is that they view safeguarding not in a dyadic, but in a portfolio perspective. They accept that some exchanges with significant asset specificity are vulnerable to opportunism for extended time periods (in process or incomplete RGs), as long as they have other exchanges in their portfolio, which are tightly safeguarded relationally and generate business. Many respondents accounted for this understanding of portfolio governance, and all companies except I2, P1, and P10, had at least one strong "backbone" RG exchange in their international portfolio. The three exceptions had either just begun building their relationships (I2), or had a domestic sales channel as a backbone (P1 and P10). The literature has predominantly treated governance as a dyadic phenomenon, but in managerial reality, safeguarding concerns may often include the network context of the dyad. This network effects has

been indicated in various parts of the international exchange governance literature (Aulakh and Genctürk 2008; Beamish and Lupton 2016), and several authors have identified this as a critical limitation of broader governance research (Aulakh and Genctürk 2008; Granovetter 1992; Jones, Hesterly and Borgatti 1997). Sarkar, Aulakh, and Madhok (2009) framed the concept of relational portfolio governance and found evidence for its effect on value generation in a sample of technology firms, where broader knowledge-based and collaborative value generation is highly relevant. Our results provide evidence for a similar effect, specifically in international producer-importer exchanges without technology content and with lower interaction frequencies. The portfolio effects connect closely with the intended-realized distinction. Essentially, because producers and importers spend a larger proportion of their exchange management time being vulnerable (no contract and few full RGs), they need to build and manage the broader portfolio.

P7: Dynamic governance choices of importers and producers in international exchanges are affected by their broader portfolio of exchange partners.

Conclusion and Managerial Implications

The objective of this paper was to explore the dynamics of relational governance choices of producers and importers, who face high uncertainty and medium to high asset specificity in their international exchanges. Through a qualitative study of exchanges between Australian producers and Danish importers of fine wine, we find that the managers' resort almost entirely to relational governance, including only a few market exchanges and with contracting being of little significance. However, managers only develop relationships strong enough for safeguarding in less than half of the studied exchanges. They intend on RG, but frequently end up with something else. Our findings lend support to already established relational governance dynamics theory by showing that changes can occur as an evolution in relational strength over time or as break-ups of the exchange despite full RG status. However, we also make significant novel contributions to the

literature on international producer-importer exchange governance, by documenting that these managers rarely restore exchanges, but prefer to eliminate them given their limited possibilities for interactive resolutions of differences. This is possible because of the portfolio context that heavily affects their governance choices. The successful producers and importers manage a portfolio of exchanges where order and satisfactory business must be secured in the portfolio rather than each individual dyadic exchange, for example employing at least one or a few strong relational exchanges, which make up for the remaining vulnerable exchanges. We contribute to the literature on international exchange governance by lending support for two main relational development paths, but also documenting several new relational governance changes, as well as portfolio and capability related phenomena. Overall, the changing nature relational governance is important because governance that relies on perceptions of international exchanges as static may be much less efficient than governance efforts recognizing the changing nature of governance. Research must aspire to understand how governance changes in order to help managers govern their international exchanges, and in this paper, we have attempted to increase this understanding. This leads us to the managerial implications.

First, producers and importers engaging in international exchanges have fewer available governance options compared to alliance managers. Their reliance on relational governance makes sense because they lack the resources nor knowledge to negotiate, manage and enforce contracts with a wide range of international partners. However, the same characteristics mean that they cannot uphold high frequency and intensity interactions with their international partners either. Our findings suggest that the managerial capabilities that dominate parts of the literature, aimed at resolving conflicts, solving problems, or engaging in various collaborative activities with partners to preserve or restore relationships, are not available or feasible to the producers and importers. In the typical case, they have to manage the entire long-distance international portfolio with only one or a

few employees, who sometimes also produce the wine (producer side) or manage sales channels (importer side). They can apply their relational skills to develop trust and commitment when they meet exchange partners, exchange information openly and frequently, and show flexibility in their dealings, but they lack the time or resources for extensive longer-term series of interactions, such as those described in studies of alliances, joint ventures or buyer-seller partnerships. Their skills must therefore develop in other directions in order to gain maximum efficiency from their international exchanges.

Our data shows that portfolio governance is a critical managerial capability. Given the constraints producers and importers are faced with, they need to manage each individual dyadic exchange, but with consideration of the broader portfolio, essentially safeguarding their exchanges and optimizing their business across all relationships in their international portfolio. Dyad relational governance choices must be informed and balanced by the broader portfolio. With at least some backbone fully developed relationships that generate considerable business, the managers can more easily attempt to develop new exchange opportunities, without being too vulnerable if they fail to develop into full relationships. Portfolio governance also needs to include termination capabilities. Our data revealed that termination can range from being informed, swift and efficient to surprising, slow, and resource consuming. The most competent producers and importers recognize a failed exchange early, for example knowing per experience certain behaviors or communications from their counterpart, which indicate that they are down prioritizing them. They then communicate the split amicably while limiting potential losses, or relegate the exchange to market governance. Efficient termination of low performing exchanges liberates resources for developing other business opportunities. We speculate that the existence of the incomplete RG is due to less than optimal portfolio governance of the producers and importers. Furthermore, the termination of an early stage intended RG is preferable over termination of a fully developed relationship with asset specific investments,

although full RG failures can sometimes be difficult to avoid. Interestingly, the RG intention that dominates the governance choices of these managers means that they managers are building relationships most of the time. But the relational governance must then occasionally, and as our data showed frequently quite abruptly, be substituted with termination or relegation to MG. This combination of two possibly widely different skill sets may be difficult to master for some managers. Finally, the documented relationship sensing capability must also be included in our managerial recommendations. Since this capability is created through considerable managerial experience, it may be difficult to simply implement. However, we advise international producers and importers to be more cognizant of the very first interaction encounters with potential exchange partners. Some of our informants with many decades of experience were able to account in detail for the early encounters with both failed and successful exchange partners and use the distinctions to inform future governance conduct. Hence, managers are advised to contemplate and assess early encounters to evaluate the likelihood of success, instead of being blinded by the communicated business potential of a given exchange. Our data shows that the development of such a capability can increase the chances of finding good relationships among international producers and importers.

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Governance (Williamson 1999, p. 1090).	<i>“A means by which to infuse order in a relation where potential conflict threatens to undo or upset opportunities to realize mutual gains”</i>
Asset specificity (relationship specific adaptations) (Cannon, Achrol and Gundlach 2000, p. 181).	<i>“Investments made to modify processes, product technologies, or procedures to the specific needs of and/or capabilities of an exchange partner”.</i>
Opportunism (Luo 2006, p. 122).	<i>“The acts and behaviors performed by one party to seek unilateral gains at the expense of another party by breaching explicit or implicit agreements, exercising private control, withholding or distorting information withdrawing commitments or promises, shirking obligations, or grafting joint earnings”</i>
Market dynamism (Cannon, Achrol and Gundlach 2000, p. 181).	<i>“The degree of variability in a firm’s supply market”</i> (this was a study of buying companies – hence <u>supply</u> market)
Task ambiguity (Cannon, Achrol and Gundlach 2000, p. 181).	<i>“The difficulty of obtaining or understanding information regarding a suppliers tasks or functions”</i> (this was a study of buying companies – hence <u>suppliers</u> tasks and functions)
Contract (Zhou and Poppo, 2010, p. 679)	<i>“Contracts, backed by legal institutions, specify the roles of both parties and the procedures as to how exchanges are to be carried out”</i>

Table 1: Key governance related definitions.

Company	Set-up	Interviewee	Time
DENMARK	Channels		(min.)
I1	Retailer (1 store) + B2B + HORECA	Owner	115
I2	Import company (mainly HORECA sales)	CEO	103
I3	B2B sales (on the road)	Part Owner	99
I4	Retailer (2 stores) + B2B + HORECA	Owner	76
I5	Retailer (1 store) + B2B sales – associated with I11	Owner	53
I6	Retailer (1 store) + HORECA + sales to a few other wine stores	Owner	62
I7	Agent + retailer (one store)	Owner	109
I8	Retailer (30+ stores) + B2B + HORECA	Purchasing manager	82
I9	Retailer (3 stores) + B2B + HORECA	Purchasing manager	128
I10	Import company – sales only to medium/high end supermarket chain	CEO	45
I11	Retailer (50+ stores) + B2B + HORECA	Product manager	130
I12	Retailer (1 store) + B2B + Restaurants	Owner	118
I13	Retailer (1 store) + B2B + HORECA	Part owner	93
I14	Import company – sales to supermarkets	Owner	87
I15	Large retailer (major supermarket chain)	Head wine merchant	72
<i>Pilot</i>	<i>Retailer (one store) – associated with PG purchasing group</i>	<i>Part owner</i>	<i>84</i>
<i>Not included for analysis</i>	<i>Retailer (one store) + B2B (indirect buying)</i>	<i>Store manager</i>	<i>96</i>
AUSTRALIA	Activities (location)		
P1	Producer (Barossa)	General sales manager + assistant	55
P2	Producer (McLaren Vale)	Part owner/winemaker + other part owner	86
P3	Producer (McLaren Vale)	CEO + Marketing director	39
P4	Producer (McLaren Vale)	Part owner	88
P5	Producer (McLaren Vale)	Marketing director	67
P6	Producer (McLaren Vale)	Export director	56
P7	Producer (McLaren Vale)	General manager	34
P8	Producer (Barossa)	Owner/winemaker	83
P9	Producer (multiple brands Barossa and McLaren Vale)	Sales manager	85
P10	Producer (Barossa)	Part owner/winemaker + sales manager	61
P11	Producer (McLaren Vale)	Owner/winemaker	57
P12	Producer, export company (Barossa)	Owner/CEO	96
P13	Export company representing several AU brands + producer (Barossa)	Export manager	81
P14	Producer (McLaren Vale)	Sales director	55
P15	Producer (various locations)	Owner/winemaker	39
P16	Export company, intermediary, producer, consultant (McLaren Vale)	Owner/CEO	50
<i>Pilot</i>	<i>Producer – several brands (Barossa, McLaren and other)</i>	<i>Export manager</i>	<i>37</i>
<i>Not included for analysis</i>	<i>Producer - just (re)starting exports – (McLaren Vale)</i>	<i>CEO</i>	<i>65</i>

Table 2: The companies in the study plus interviewees (HORECA refers to HOtel, REStaurant and CAtering).

I2	<i>“Their winemaker has been here and went around and made wine tastings, and activities and similar with our customers... We need to present the wine for our (on the road) sales people, who can taste it. Then they need to talk to their customers (HORECA). Then their (restaurants, hotels etc.) wine card needs to be changed”</i>
I3	<i>“If another importer was to substitute me they would need to spend time building up the sales. I have the knowledge of the customers and who bought this wine before”</i>
I4	<i>“They need to spend money travelling back and forth – it costs a lot to get a new importer. It is like – if I come to my customers with a new wine – then argh... they need to try it, send it out to their customers and so on – it is very costly”</i>
I8	<i>“We arrange travels for our store personnel to go down there (to the producer) and experience it and get it under the skin. And then come back and tell our customers that it is fantastic – the story they can tell”</i>
I14	<i>“We have put a lot of money into marketing AU37”</i>
P1	<i>“We give them some tasting stock so they can go out there and get people to taste it”</i>
P4	<i>“We develop comic newsletters every month; brochures we send to them, sometimes we make banners, t-shirts, aprons. We just send a heap of aprons to Denmark for our guys to wear if a new restaurant is opening. All waiting staff wore them for three months. It’s promotional”</i>
P8	<i>“We spend money on airfares and hotel rooms generally, and that’s our marketing budget... being in the marketplace. We will invest 10 percent on travel and accommodation of what the market (importer) buys from us”</i>
P15	<i>“You can’t chop and change (importer). There is so much invested capital in the assets. Then there’s all the intellectual capital that goes with the accumulated knowledge about how the vintages have gone and how the history has gone and all of that”</i>

Table 3: Interview excerpts showing asset specificity from the data.

	Early termination (1)	Never went further than market governance (2)	In process termination (3)	Developing towards RG (4)	Incomplete RGs (5)	Broken RGs (6)	Full RGs (7)
# of exchanges	6/73	8/73	6/73	6/73	6/73	8/73	33/73
Asset specificity	None	None	Some	Some	Substantial	Extensive	Extensive
Brief description	Intended RGs, but some element of misfit quickly discovered - dissolved	Intended RGs, but lacking potential quickly realized – kept as MG	Ended during the process of development towards RG	High perceived business and relationship potential – high focus	Misses one or several relational elements to reach full RG	Were believed to be full RGs, but key events led to termination	Have all the elements required for safeguarding

Table 4: Exchanges with intended RG.

Company	Illustrative quotes
I1-AU5	<i>"They are really fair with our agreements. It works. They treat me well"</i>
I3-AU10	<i>"They are incredibly pleasant. Some wine producers are more like: "do you want to buy it or not?" But these guys want to do something – they are more flexible and all of that"</i>
I4-AU12	<i>"I had them for 10 years. They answer quickly, they do what they promise, deliver as promised... It's super. Their mentality is really close to ours"</i>
I4-AU13	<i>"When they are here they stay at my place. We get a few drinks and I cook Danish food for them. They have helped me in difficult situations – they know that I have treated them well"</i>
I5-AU15	<i>"It just runs really well. With his COUNTRY X importer no one wanted to talk to him. When he came here our customers wanted to talk to him all day"</i>
I6-AU17	<i>"They are fair and there is good communication. They invite me out and even have a house where I can live. Others do that also – but then they are in the phone immediately (demand something in return)"</i>
I7-AU20	<i>"They are really pleasant to work with. They mean a lot to me because they have been good to me"</i>
I8-AU23	<i>"They ask if we can do something (push sales). And we say "if you do this then we will do that" – we solve it that way. Turn a declining sales curve to something positive – that is joint trading"</i>
I8-AU24	<i>"We have a good collaboration. We make some joint plans and attempt to implement them. And we have never had any problems"</i>
I9-AU26	<i>"They have a fantastic communication. Our owners attended their birthday just last week and while there, they were informed about many things. We are a perfect match"</i>
I10-AU27	<i>"One of the most trustworthy companies I have traded with. A "total relationship"</i>
I11-AU30	<i>"He visits twice a year. He was awarded the world's best wine maker some years ago – but he is not too big to go with us to winemaker's dinners and entertain"</i>
I12-AU31	<i>"They played a giant role for me since day one. Super family – same humor as me. Above board all the way through"</i>
I12-AU32	<i>"Really strong relationship. And really good story – "prestige winemaker goes solo". Some of his other importers has dumped prices a few times, but he is looking into that"</i>
I12-AU34	<i>"I know them privately. They are really complaisant. We have made exclusive tastings with their really old vintages – then I mail him to show how it went"</i>
I13-AU35	<i>"Our collaboration has been a great success. Our best-selling wine to date. We are on the phone or mail with them every week"</i>
I14-AU37	<i>"A good family that I have known for 20 years. I don't know anyone more honest than these guys. It is very fair"</i>
I15-AU38	<i>"We have a gentleman agreement (on exclusivity). I won't see his wine in other outlets here – I know him that well. We do business because we like trading with each other"</i>
P2-IM5	<i>"We are on the same wavelength. If they ask me anything there is normally good reasoning behind it and we always compromise. There is flexibility and talk between us"</i>
P3-IM6	<i>"I have a personal relationship with their CEO – with no drafts and diagrams etc. "</i>
P4-IM8	<i>"I told him we would like to expand our distribution. He said that with him this was not a possibility. But he told me that if I want to do other channels then it is up to me"</i>
P4-IM10	<i>"A real backbone for us. When I first met him years ago he said "I can do business with you – you don't bullshit about what's going on" We have even been on vacation to Greece"</i>
P5-IM11	<i>"The communication is quite open – about how things come and go. We agree that if things change dramatically we come back and readdress price point (example)"</i>
P6-IM12	<i>"When I was there he took me around and showed me sights. So over time you form a friendship with these people"</i>
P7-IM13	<i>"We talk face to face and they can understand where we come from – and if changes are made to price, marketing, promotion or the like then it's got to be worthwhile for both"</i>
P8-IM19	<i>"When we find good relationships we strive to maintain them and take a long term view. They asked us to help them on the price and we will do that"</i>

P9-IM22	<i>“We are comfortable with what (information) we are getting because there is trust. Its relationship based – over 20 years”</i>
P11-IM28	<i>“We traded for 10 years and I always give them credit. They refer to me as their Australian sister now!”</i>
P12-IM32	<i>“In every essence it is a partnership – very, very close. They are running a store anniversary – and who do they come to (for promotion) – us!”</i>
P13-IM33	<i>“It’s a very transparent process – we work through distribution, freight, margins, retailers etc. We sit down and look at the prices and collectively make adjustments”</i>
P14-IM38	<i>“It is a great fit. If they could all happen like this one it would be fantastic”</i>
P15-IM39	<i>“It turned into a sincere friendship, and then actually into a family connection! It is long term! So you have to treat each other fairly – or it doesn’t last”</i>
P16-IM40	<i>“We have a very good relationship – and it certainly has been successful – our highest FOB (Free On Board) market”</i>

Table 5: The 33 full RG exchanges along with excerpts demonstrating the relational elements (parentheses added).

Figure 1: The various documented governance changes with intended and realized states.