NETWORKED ESTABLISHMENT PROCESSES IN TRANSITION ECONOMIES

ABSTRACT
The purpose of this article is to identify and to understand the critical features of foreign firms' establishment processes in transition economies markets. To this end the paper examines the establishment processes of Scania in Croatia and Statoil in Estonia by applying a model developed from the network approach. The findings show that Statoil's ability to leverage a number of significant actors in its network to support its establishment made the process less cumbersome and less resource-consuming. In the case of Scania, lack of home- and host country support resulted in an arduous and costly process, with Scania's market position changing several times as different problems cropped up. We also found that relationship orientation requires adaptation by the firm and, more critically, by its managers. Moreover, a lack of cross-cultural competence is observed to be an impeding factor in the process.

Keywords: relationships, networks, establishments, actors, resources exchanges, transition economies.

INTRODUCTION

While earlier research e.g., (Dadzie & Owusu, 2015; Wheeler et al., 1996; Williams, 1997; Sun, 1999; Kim et al., 2002; Floyd, 2002; Blomstermo et al., 2006; Hennart & Slangen, 2015; Cardow & Wilson, 2016; Shin et al., 2017) focused on the entry modes firms use to enter foreign markets, the focus here is on the problems associated with establishment and the development of supporting relationships in establishment processes. In sum, this paper focuses on the *process* rather than the *mode* of establishment. In other words, it addresses how firms manage exchange relationships with significant actors in their network to support establishment processes.

The two firms studied have established operations in markets endowed with features that differ from those that prevail in their respective domestic markets. The network model (Axelsson & Easton, 1992; Chetty & Blankenburg-Holm, 2000; Mattsson & Johanson, 2006) could not be adopted in its entirety to illuminate establishment processes in transition economies. Because the network perspective (Tikkanen, 1998; Ashton, 2006; Blankenburg-Holm, 1996; Johanson & Vahlne, 2003) takes a more general approach to establishment as a process of development, we argue that, without modification, the network approach is not necessarily appropriate for all types of economies. One area of focus suggested by Hennart and Slangen (2015) is how the entry decision process is structured. Hence, the establishment model (a modified version of the network model) (Abraha, 1994, 2002) enables us to illuminate the establishment processes of two firms in less developed and loosely structured markets (Croatia and Estonia). Manolova, Manev and Gyoshev (2010) note the importance of inter-firm networks and call for more research, in particular on transition economies. Their study was limited to Bulgaria and measured the network effect on internationalization. In their review of establishment mode, Dikova and Brouthers (2015) discuss how few theoretical lenses have been used, and note a lack of research from 2010 onwards.

The model applied in the current study allowed us to capture the various supporting relationships that enabled the focal relationships in the establishment processes to function properly. According to Fallon (2004), transition economies constitute a complex environment in which firms are subject to institutional and governmental pressures and where significant differences in business culture and practices are a product of past economic and political systems based on communism. This can increase uncertainty and risk for firms. The network model draws on the theories of social exchange and focuses on firm behaviour in the context of interorganizational and interpersonal relationships. It emphasizes the role and influence of social relationships in business transactions (Johanson & Vahlne, 1990). Companies are connected by networks, which aid the development of the interaction between them. The usefulness of applying a network perspective to study international business has long been emphasized in the literature (Johanson & Mattsson, 1988; Keeble et al., 1998; Dadzie & Owusu, 2015).

According to Root (1994:23), "foreign market establishments represent a set of decisions: assessing products in foreign markets; choosing the target product/market; setting objectives; choosing the entry mode; designing the marketing plan; and controlling for performance." In our view, a view also supported by Donaldson and O'Toole (2007), this approach does not sufficiently emphasize the relationship dynamics of foreign market establishments, but instead leads companies to focus on a particular entry mode.

In the innovation literature, e.g. Santoro (2017) evaluated the effect of openness in innovation on Italian SMEs' performance, using a new parameter to assess the degree of openness in introducing new products. The logic behind this study according to Santoro is that although this new open model has established as a common feature in many industries, yet, it is unclear whether SMEs have open-up their subsidiaries, and whether this strategic choice can enhance firm's performance. The findings of this study show that Italian SMEs do engage in open innovation and this strategy has deep and positive effects on performance. The single and joint effects of external and internal 'openness' on subsidiaries' innovation performance were tested by (Ferraris, Santoro & Bresciani, 2017). The findings indicate that external and internal knowledge openness positively affect subsidiaries' innovation performance. Scuotto, Santoro, Bresciani & Del Giudice (2017) investigated whether ICTs oriented to intra-organizational (in-house research and development) and inter-organizational (open innovation) processes improve SMEs' innovation performance. The findings of this study showed that ICTs oriented to intra- and inter-organizational innovation processes improve both these processes in generating new products and/or services. It is very possible that innovation might have an impact on the establishment processes, however the purposes and the research questions addressed in the innovation literature review differs considerably from the purpose and research agenda of this article.

Market entry refers to the initial phase, while *establishments* refers to how firms build position in the market. This article aims to fill the gap by concentrating on the latter, i.e. the processes of establishment.

The germane question here is: What do Scania's and Statoil's establishment processes in the less developed and loosely structured markets of the transition economies of Croatia and Estonia, respectively, look like? Applying a model developed from the network approach will help us to answer this question and thereby deepen and broaden our understanding of the establishment process. The paper consists of this introduction, followed by a presentation of the theoretical framework, methodology, two descriptive case studies and our analysis, and closes with the conclusions drawn and implications of future research.

THEORETICAL FRAMEWORK

The Network Approach

Networks are important for the establishment process (Kampori et al., 2017; Atnashev & Vashakmadze, 2017; Dadzie & Owusu, 2015; Persson et al., 2015; Michailova & Nechayeva, 2014; Greve, 1995) where relationships and resources are essential to facilitating market establishments. As Yu et al. (2011) also suggest, networks accelerate new venture sales into foreign markets. Consequently, interactions between a number of significant actors operating in a specific network facilitate market establishments (Blankenburg-Holm, 1996; Axelsson & Easton, 1992). Unlike the foreign direct investment (FDI) perspective that highlights management's planning of the establishment process (Dunning, 1980, 1993), the network approach focuses on understanding the problems associated with establishments and the development of business relationships (Johanson & Vahlne, 2003) with various actors in the market. What happens in one relationship therefore affects the interaction and activities in others (Håkansson & Snehota, 1995). Hence, market establishment cannot be seen solely as a process under the influence of the focal firm alone.

According to the network approach, actors possess resources and, in conducting their operations, perform activities that make them interdependent on each other (Hägg & Johanson, 1982; Johanson & Mattsson, 1988; Håkansson, 1987, 1989; Håkansson & Snehota, 1995; Ford, 1980). Once the relationships are interconnected, a development in one relationship affects the others, positively or negatively. Faced with establishment opportunities and/or challenges, an actor may draw on certain significant actors for complementary capabilities and resources that enhance solutions to situations that arise. Axelsson and Easton (1992) argued that the actions of one actor must be viewed in the context of the other actors in the network. Hence, understanding a firm's foreign market establishments are key to understanding how it deals with the network of relationships used to build and sustain a strong market position that results in competitive edge.

The interdependence of actors thrives best when the relationship is mutual, where the interacting parties give and take from each other and are mutually committed (Hägg & Johanson, 1982). The interacting parties strive for openness, understanding, patience and trust (Morgan & Hunt, 1994), and engage in mutual learning (Ford et al., 1986). Being committed to- and willing to adapt allows the actors to strengthen their knowledge, technical, commercial, social and administrative bonds (Hägg & Johanson, 1982; Ford, 1997). A firm's market position gives it direct control over its own resources and activities, and indirect control over those of other actors (Johanson & Mattsson, 1988).

The Establishment Process Model

The establishment process model (Abraha 1994, 2002) is a modification of the network approach model and consists of four stages: (1) the historical development of the process, (2) identification and discussion of a firm's focal relationship(s), (3) the various supporting relationships developed by the firm to enable the focal relationship(s) to function properly, and (4) the general environment.

The historical development variable focuses on the actors involved (Abraha, 2002) in initiating the process and who/what influenced its course of direction and resources allocation. Based on the availability of resources, actors and activities, the establishing firm must judge whether there is a potential network in the market. Hence, an actor, in search of other actors that can complement its efforts, can abandon old relationships and/or add relationships to already existing ones (Johanson et al., 1994; Axelsson & Easton, 1992).

The second variable is the focal customer relationship(s) assessed in terms of its (their) stability and strength. This also involves identifying the resources to be exchanged between the establishing firm and its main customer(s). Resources are grouped under products, services, and human- and financial resources. To strengthen their relationships, through their interactions, the actors make several adaptations (Håkansson & Snehota, 1995) – mutual technical, financial, organizational, logistical, social and economic adaptations.

The model's third variable, supporting relationships, are those between the focal firm and other actors, i.e. actors that enable the focal relationship to function properly. The establishing firm must often build supporting relationships (Abraha, 1994; Johanson et al., 1994) because a well-developed network of industrial actors is unlikely to exist in the local market at the time of entry.

The fourth variable is the general environment within which establishment takes place. Here, issues such as the availability of qualified manpower, financial institutions, government rules, regulations and policies, political factors, infrastructure conditions and culture are considered.

METHODOLOGY

A qualitative (Marshall & Rossman, 1995) case study strategy is applied as it is the strategy that serves the purpose "when 'how' or 'why' questions are being posed, when the investigator has little control over events, and when the focus is on a contemporary phenomenon within some real-life context" (Yin, 1994, p. 1). Selecting the appropriate instrument for data collection and analysis enables researchers to get closer (Lincoln & Guba, 1986, p. 210) to the respondents and to uncover issues of relevance in understanding the substantive issues.

Data Collection

The criteria for case selection in this study were: (1) companies established in Croatia and Estonia, (2) companies that actively participated in the establishment process, and (3) companies willing and able to provide information for the study (Fjellström & Guttormsen, 2015). The interview guide used covered the establishment process, the main actors in the process, and vital relationships between the various actors that facilitated the process.

In the case of Statoil, interviews were conducted with 10 key informants at Statoil's subsidiary office in Stockholm and corporate headquarters in Norway, and lasted 90 minutes to two hours. After the interviews, it was deemed that more data was necessary and additional information about the environment was collected from: Swedish and Norwegian trade council officials, the Norwegian and Swedish embassies in Estonia, and press attachés responsible for cultural, trade and commercial activities. The additional data was collected through telephone conversations complemented by e-mail exchanges to elaborate any issues that remained unclear.

In the case of Scania, most of the interviews were conducted via telephone and follow-up emails due to limited resources and geographical distance. The interview guide was sent electronically to the respondents in advance to enable the interviewees to prepare for the interview. The telephone interviews were taped and the interviewer took notes. According to Maxwell (1996), "the main threat to valid description, in the sense of describing what you saw and heard, is the inaccuracy or incompleteness of the data. The audio or video recording of observations and interviews, and verbatim transcription of these recordings, largely solves this problem" (p. 89). In compliance with Maxwell's observation, audio recording of the interviews enabled the authors to be attentive during the interviews. In the interest of confidentiality, all respondents remain anonymous.

Data Analysis

Analysis of the data was conducted in three steps: data reduction, data display, and conclusion drawing and verification (Miles & Huberman, 1994). With respect to the recorded interviews, analysis began while transcribing the interviews. The aim of data display is to organize the data into a "compressed assembly of information" to elucidate appropriate conclusions. Main themes were thus extracted considering the main parts of the analytical framework as this gives the findings an appropriate structure.

While the process was initiated at the initial stage, this step became more dominant in the later stages of the research. And although the three steps are viewed as separate processes, it is important to note that the processes were going on simultaneously throughout the entire study. The findings were analysed on a case-by-case basis to look for convergence with/divergence from the theoretical framework. This approach reduces the introduction of bias into the interviews and results by a particular researcher, and conforms to recommendations regarding source, interviewer and analytical triangulation in qualitative research (see Yin, 1994).

SCANIA IN CROATIA

Historical Development

Scania began operations before foreign firms were allowed to import or set up fully owned firms in Yugoslavia and thus used an agent, Auto Makedonija (AM), which had 30% market share selling mainly heavy trucks. Contracts were signed among Scania and its customers, and Scania transferred the necessary marketing knowledge. Geographical distance was the main problem, making it difficult to interact with customers in the north as AM was located in the South. AM achieved 50 % market share in the south, but was less successful in the north. Later, it opened offices in Sarajevo, Belgrade, Zagreb and Ljubljana to sell trucks in the north. While Scania's customers in Macedonia were satisfied with the services, some customers in Zagreb and Belgrade complained about the distance, technical support and spare parts. In 1991, the exclusive agency contract was thus terminated.

Scania appointed an agent Scanadria SC (SSC) in the north in 1991 and geographical distance and lack of concentration in its core services remained to be the main problems. As Scania and SSC didn't make the necessary investments customers had to travel to Italy to get services. The agency contract was thus terminated and Scania opened a fully owned sister company. In 1997, our key informant formed and became the managing director of Scania East Adriatic Region SC (SEARSC), located in Slovenia. In 1998, Scania Hrvatska SC (SHSC) was established to serve the Croatian market. The demand for trucks was high, and a person with an entrepreneur was hired to build and manage a sales company in Croatia. Qualified sales representatives, technicians and financial administrators with a Croatian background were also employed. Since trucks require both maintenance and repairs, all products and services were imported from Sweden, Holland and France.

Focal Relationships

Repair services were executed in Zagreb which enabled SHSC to inherit the old circle of customers. After about two years, SHSC managed to develop new network of customers. Initially, truck- and service buyers were international transport firms and later, state-owned road-builders such as Hrvatske Autoceste, Hrvatske Sume – a timber exporter, and PAN – a paper industry firm, were added.

SHSC's job was to "sell trucks, perform repairs, and provide other related services." Relative to those of competitors Scanias products were of a higher quality and the most expensive. The customer relations manager narrated that, “When the sales office was first established, emphasis was put on pricing, as customers did not have the financial capacity to buy such expensive trucks.” Later the market became complex, and in addition to price, customers began to value high service quality, better equipped garages, greater accessibility, operating hours and financial solutions, since well-developed banking services were lacking. Despite lenient credit termss, customers’ lack of liquidity and inability to pay on time remained a problem.

“The social adaptations made were of major significance, as Croatians expect strong social relationships with sales representatives and as the sales personnel were mainly Croats, that was not a problem”. The MD learned the local language as customers liked to have a personal relationship with a senior manager. Technical adaptations included adapting trucks to customers’ preferences and demands. Organizational adaptation due to Estonias transition to a market economy was extremely significant for continued operations. Scanias strategy was to appoint a West European MD for the CEE countries, one who could impart the market economy perspective to the employees. The regional manager explained: “Scania’s principle was to be a local company with foreign ownership. It followed local rules, regulations, traditions, and to act as a Croatian company. In the early stages, Scania had problems in transferring the market economy approach to its employees, as the planned economy perspective was deeply rooted in management and ways of doing business.” Expanding the customer base was not considered important. The Croatians believed that, a foreign firm should invest in Croatia and, as it was financed from Sweden, should not receive any profit. SHSC’s goal was to be self-financing. It could operate at a loss initially, after which it was expected to generate revenues to be reinvested in its operations.

Supporting Relationships

Potential partners were primarily small family businesses interested in being trained and authorized. A branch office and service centre were opened in Split. Scania quickly learned the importance of developing good relationships with authorities. Authorities were willing to cooperate with foreign firms and welcomed foreign investment, but bureaucracy was difficult and had an impact on firm operations. It was time-consuming and led to additional costs. For example, import documents and contracts had to be certified by a notary public. A back-office was thus established in Zagreb to provide administrative support in connection with imports.

Local competition was strong, with six other European truck producers represented: Volvo, Mercedes, MAN and Iveco with market shares of 15–20%, and Renault and DAF with a small share. Competition law was very strict and did not allow extensive cooperation among competitors. As noted above, Scania’s prices were higher than the competitors’, but it also offered the most reliable product, meaning less time spent at the garage, lower fuel consumption, and fewer repairs. Other Scania advantage was the organizational structure of its network of garages and after-sales service centres. If a spare part was missing at one garage, it could be delivered within 24 hours from other nearby service centres’.

In cooperation with MAN, Scania succeeded in building the best and most widely spread distribution net, giving them an edge over competitors. “The company’s weak point was purely geographical distances.” To address this problem and to attract more customers it opened a branch office in Split. The ideological/friendship corruption slowly began to disappear, making it easier to develop closer relationships with the state-owned transport companies. Scania did its best to develop social contacts with other significant actors to get the state-owned companies as customers. SHSC increased its market share from 5-17%. Active marketing identifying potential customers, developing personal contacts, visibility at exhibitions and trade fairs, and adding sales representatives were the measures taken to increase market share. Parallel to this they built up a national service network.

General Environment

Corruption was not widespread but bribes were required to facilitate speedy service. *Friendship/ideological* corruption of a non-economic character was common in state-owned companies and practiced mainly during the transition period. E.G., the government ordered state-owned firms, Hrvatske Autoceste and Hrvatske Sume, to buy “Croatian” products sold by MAN, which was represented for several years by a Croatian agent. Scania won state contracts, but the government stopped the purchases. The MDs of the state-owned firms, had personal connections with people in high government apparatus. These MDs and government bureaucrats favour each other and continue to do business the old way.

The old business style means dealing with people you know, and the right contacts are extremely important. Companies lacking such personal contacts were seen with scepticism as business deals are less formal and before one does business, the parties must know each other. Personal relations have strong influence on inter-firm business deals and the building of social networks."

THE CASE OF STATOIL IN ESTONIA

Historical Development

At the initial stage the Soviet legislation was still applicable and Statoil needed Soviet approval to enter the market and Statoil negotiated with the Estonian and Soviet authorities to get establishments permit. The appropriate strategy was to let the Estonian authorities act as mediators and translators. Statoil's CSR strategy covered the cummunity, health, safety, environmental protection, employment conditions, industry and labour standards, social development and human rights. This strengthened the level of trust and commitment for both parties, and Statoil was able to gain an understanding and new insights into the society. This CSR strategy enabled Statoil to prepare for potential risks and to be regarded as a contributor to the society well-being at large.

Statoil's operations was of a long-term as it offered a necessary and important product for society. One informant noted that the riskiness of entering the market due to cultural differences, the low level of technology, and poor business legislation, but Statoil managed to gain the support of influential organizations and authorities, which reduced the risk. As the authorities were also very risk-adverse, Statoil arranged information meetings where plans and problems were openly discussed, contributing to a more open communication among the parties and to reduce the risk for misunderstandings during the establishment process**.**

Focal Relationships

Focal actors relationships were formed "firstly, to improve the possibility of success of establishments." Secondly, supporting relationships would "facilitate proper functioning of the focal relationships." Our key informant stressed, that the company knows that its products are of utmost importance in the oil industry. For the brand name adequate exposure the company needed to have a local presence in Tallinn. "In the oil industry, it is claimed that branding is vital for every company. Lack of familiarity has negative consequences and any establishment effort made is at risk if customer relationships are not properly managed. This shows the necessity of developing strong bonds with the actors in the network."

Supporting Relationships

Connections play a "significant role in promoting proper functioning of relationships with important market actors." The Swedish Foreign Minister and Ambassador to Estonia helped Statoil to develop relationships that facilitate negotiations, and helped to select sites and establish service stations.

Another interviewee explains: "Networks are very important for establishments, but the managerial approach was also a winning concept. To manage problems and discuss plans, meetings were arranged. Swedish employees taught Service management, which at the same time facilitated market knowledge transfer back to the company." Contacts were established with the IMF, the World Bank and the EU. Statoil knows these institutions are ready to assist firms from the West with financial resources to get established in transition economies. One interviewee commented that the Baltic Investment Program, the European Bank for Reconstruction and Development and the Council for the Baltic Sea States "provided financing to facilitate establishments and to develop competitive advantage in the Baltic markets." Those institutions helped Statoil to build a contact and financial network, which facilitated establishments. The Norwegian government established trade agreements with the Baltic States, as the other Nordic countries have to facilitate establishments. The Swedish Trade Council (STC) assisted Statoil in securing services to establish a company and its products, services and ideas in the new market. Knowledge was acquired through feasibility studies, marketing plans, export strategies, market surveys, and a competition analysis supplied and carried out by STC. STC's Information Centre also provided advice and information about regulations and trade practices in Estonia. These tasks were accomplished through close collaboration with the Swedish Embassy, Consulate and Chamber of Commerce in Estonia.

General Environment
Estonian administrative systems were rigid and centralized, business legislation was defective, and there was a general wariness of Western investments in Estonia. Trust was decisive. Prior to establishment decision, Statoil was informed that "many Western-based companies failed in their attempts to enter Eastern markets." Yet, the Estonian government and local actors compromised. In its authorities' encounters, Statoil possessed a "respectful negotiation manner" in which the parties were very culturally sensitive. One interviewee explained: "Statoil showed respect for the local culture and traditions, avoiding misconceptions that could arise when foreign investors enter a market and anticipated potential problem areas through political, environmental and social impact studies."
Network relationships with industrial- and institutional actors and NGOs provided Statoil with the expertise to overcome lack of market knowledge. It supplemented the available data with market research. One interviewee narrated, "Estonian authorities were willing to cooperate as the country was then negotiating membership in the EU, and letting foreign companies invest to contribute to open economy. Statoil took advantage of this quest by developing relationships with the appropriate government and state agencies. These actors are key players when it comes to national interests. The establishment also created jobs for the Estonian society."

ANALYSIS
In the early stages Scania succeeded in developing a market position in one region but, due to certain difficulties, was less successful in others. The lack of success in other regions was due to the geographical distance between the agent and the customers with large market shares, and regulations preventing foreign firms from operating with fully owned subsidiaries. These two reasons practically confirmed the theoretical views discussed in Ford (2002), Abraha (1994), Johanson et al. (1994), Kampori et al. (2017), Persson, et al. (2015) and Michailova & Nechayeva (2014). Specifically, Ford (2002) highlighted that geographical distance has a major impact on the development of buyer-seller relationships, and Abraha (1994) demonstrated that government regulations and actions have a major impact on the establishment process in general, which the case of Scania in Croatia confirms, and on the development and management of buyer-seller relationships in particular. Due to the absence of a market economy model in the region (see also Dikova & Brouthers, 2015), both factors create obstacles to establishment. Success was achieved in one region due to the economic system applied there, as this was the state that used to determine where firms could operate.
This study shows that there are networks in the market and how and to what extent a firm can utilize these networks depends on the form of establishment allowed and where the firm is located. This in turn demonstrates the importance of interacting closely with customers and positioning oneself in market networks, one of the central concepts of the network approach (Axelsson & Easton, 1992; Blankenburg-Holm, 1996; Håkansson & Snehota, 1995). Some Scania customers were very satisfied, whereas those in the major portion of the market were not, the main reason being due to the absence of direct relationship between Scania and the customers, and a second being the distance between the agent and the customers. Consequently, Scania decided to terminate the contract with the first agent and looked for an exclusive agent.
Due to in part to the reasons mentioned above, appointing a new agent did not improve Scania's position. Other related reasons were that the second agent, which also represented a number of other companies, neither assigned priority to Scania's establishment nor made the investments necessary to improve the situation, indicating a clear lack of market commitment. Abraha (1994) highlights a case in Kenya, where ABB faced a similar problem, which affected its position in that market. It can be argued that the second agent didn't function in a way that enabled it to properly manage the relationships with the focal customers. In other words, it could not develop the necessary network to successfully establish Scania. With the subsidiary establishment, on the other hand, Scania was able to develop a spare parts and services network that enabled the focal relationships, that is, built supporting relationships that facilitated the establishment process (Abraha, 1994; Hånell & Ghauri, 2015).
Scania also acquired manpower with adequate knowledge and experience of how to operate in a state-controlled economy, and made several significant adaptations, one of the main ones being financial. Moreover, Scania supplied all the resources and adaptations necessary to succeed in its attempt. As argued

and confirmed by Axelsson and Easton (1992), Ford (2002) and Abraha (1994, 2002), resource exchange and adaptation are at the very heart of the network approach and market establishment.

Two other significant factors also affected the establishment process. Firstly, acquiring the social connections necessary to make successful business deals, which was not exactly easy for Scania as it was new to the market (Donaldson & O'Toole, 2007). Secondly, the "ideological corruption" left over from the former socialist regime. Scania lacked these relationships, which affected its establishment. The impact of ideological corruption was slowly decreasing, but could not be completely ignored as a potential obstacle. These two market realities both confirmed and deviated from Abraha's model (1994, 2002). Confirmation was achieved in the form of observing the same problems as typically seen in Kenya, while deviation was found in that, in Croatia, the problems were substantial and dealing with them very resource-consuming.

In contrast, Statoil's establishment in Estonia went smoothly. Statoil received the support of Estonian and international actors and their networks, and received that support in both Estonia and abroad. It was able to combine the various resources it received from these institutions in providing its products and services to the customer and in developing the networks necessary to manage its establishment adequately. In sum, Statoil drew from and combined domestic, regional and international networks, and was able to successfully establish itself in the Estonian market.

In other words, Statoil developed a central position that connects several significant actors in many directions. The network approach calls this the "centrality" of a certain market position (see Ford, 1997; Blankenburg-Holm, 1996; Ford et al., 1986). In Abraha (1994), these relationships are called "supporting relationships", as they support and facilitate the establishment proess. Once it has developed a successful market network, it also continues to utilize its network of relationships in the management of the network developed. E.G., to get entry permit approval Statoil followed this process. Firstly, it approached the Estonian authorities, which were positive to the initiative. It was also necessary to negotiate and gain the approval of former Soviet Union authorities. Statoil involved the Estonian authorities, which helped to facilitate the permit approval. STC helped Statoil to get established and to sell its products and services, which further strengthened establishments. Connections with those authorities also lent further support and confirmation of Abraha's model and findings (1994, 2002), which suggest that relationships with government agencies are a prerequisite to building a network and managing that network.

A major problem faced by Statoil in Estonia was cultural differences. There is also a degree of general suspicion of Western investments. In parity with our findings, one of the main concerns raised by Hennart and Slangen (2015) is how the entry decision process is structured. For example, the network model could not be adopted in its entirety as it takes a more general approach to market establishments and is thereby not always appropriate for different markets without modification. In a similar vein, Tseng and Kuo (2008) suggest two kinds of network strategies – business and social – and that, compared to firms with FDI in the USA, firms investing in China rely more on cooperative production systems and are more likely to utilize social relationships with the local community and government authorities. Furthermore, maintaining internal social and economic cohesion is likely to exert a greater impact on the costs and efficacy of market entry.

Statoil carefully prepares for actual and potential problems and takes whatever measures necessary to handle actual problems. Typically it handles such problems in its CSR strategy. This supports the findings of Sankar et al. (2006), and indicates that Statoil cares about the society in which it operates and is not only interested in making money. It also shows the company's commitment, allowing it to gain the trust of the authorities and society.

CONCLUSIONS

The firms studied entered the Croatian and Estonian markets that differ from their home markets being economies in transition. The latter are characterized by lack of essential resources, loosely structured and less developed markets, state intervention, high level of bureaucracy and a certain type of corruption inherited from the planned economy. These factors impede the establishment process and, to achieve success they must be dealt with appropriate strategies. Specifically, success depends on a firm's ability to address the problems associated with the establishment process and the development of relationships (Johanson & Vahlne, 2003; Axelsson & Easton, 1992) in collaboration with significant actors such as customers, suppliers, intermediaries, local authorities and foreign authorities, as these actors facilitate the firm's establishment process.

For both firms it was critical to develop exchange relationships with the various actors in the two markets. The establishment processes have been both positively and negatively influenced by the complementary resources and activities (Yu et al, 2011) that emanated from the focal and supporting relationships (Abraha, 1994; Abraha & Mukhtar, 2002) that they had to develop and maintain. The positive impact of the relationships and the environmental conditions are manifested in areas where Scania and Statoil gain a satisfactory market position in their respective markets: their market shares grow, access to critical resources does not pose a problem, and bureaucratic obstacles are negligible. Statoil enjoyed smooth establishment due to access to a network of resourceful actors including central and local authorities, industry actors, the World Bank, IMF and EU, Swedish Trade Council, and the Swedish and Norwegian ambassadors to Estonia.

The negative influences on Scania's establishment is manifested in a poor market position in large areas of Croatia due to geographical distance, which constitutes a real obstacle to reaching its end customers, a lack of mutual orientation and commitment between Scania and its agent and the described bureaucratic impediments. A lack of mutual orientation, commitment and trust between establishing firms and various local actors is attributed to different developmental levels between the host market and the establishing firm's domestic market. These factors led to a breakdown of some exchange relationships (between Scania and agent) and re-creation of others and/or greater commitment by the establishing firm (Scania) to the market by opening its own sales subsidiaries. All in all, to survive and consolidate their relative positions, the interacting parties undertook mutual adaptations in a number of areas, e.g. finance, business practices and managerial attitude. The study also shows that mutual learning, on the part of these interacting actors, is constantly taking place and has a positive and continuous impact on establishments.

THEORETICAL AND PRACTICAL IMPLICATIONS

The study takes a network perspective to international market establishments in which decisions are made and evaluated interactively among the actors involved. The relationship-centred approach demonstrated through the cases that emphasis should be placed on the need for building and maintaining supporting relationships. For the focal relationship to function properly, different types of learning and adaptations must occur, and close relationships must be built. Understanding and fulfilling the international partners' attitudes and expectations are of great significance and relationships with authorities are also highly important as they affect the entire establishment process. Gaining an international relationship orientation requires adaptation by an organization, but more critically by its managers. A lack of cross-cultural relationship skills and orientation can impede a company's growth in international markets (Osarenkhoe, 2009). Socio-cultural differences between home country and the host country also influence the establishment process. The two cases show the role of culture in international business (Fjellström & Zander, 2016). Culture represents an added dimension to what may be more complex relationships to begin with. Relational embeddedness requires sensitivity, likely giving firms that use a relational approach to understanding international business barriers an added edge.

The question, then, is: What are the implications of this for managerial decisions in international relationships? We would suggest that, firstly, a need to understand the cultural context of a relationships with foreign relationships (see also Hewett et al., 2006, and Fjellström & Zander, 2016) and, secondly, managerial skills, e.g. the ability to negotiate and integrate socially across cultures, are important. To operate in an external environment, managers must possess knowledge of business operations, working knowledge of the basic social sciences: political science, law, anthropology, sociology, psychology, economics and geography (Kodama, 2006). This is also supported in part by the cases in this paper, and in part by the network theoretical framework, which has its roots in sociology rather than economics and takes a contrasting view of a firm's links to its environment (Johanson & Mattsson, 1988; Axelsson & Johanson, 1992).

Cultural differences influence relationships and attitudes such as openness, the propensity to trust, commitment, communication patterns, attitudes toward risk, adaptability and flexibility, and business ethics (Hunt & Morgan, 1994; Fallon, 2004). This paper illustrated that for these differences to be incorporated into strategy, when managing relationships across cultures, they need to be examined in depth, and thus subjected to more scientific scrutiny in future research of similar scope and context

(Donaldson & O'Toole, 2007). We therefore call for more research efforts in the area of cultural dimensions with regard to market establishment processes. Once entry has been considered, attention can turn to the growth and development- or internationalization of the firm. Investigating how markets can be expanded using a relationship approach can help to fill the void. Moreover, future research might consider questionnaire studies to compare other countries, especially CEE countries, and place more attention on economic data than on historical background. Alternatively, quantitative research can be done on the same markets but include a larger sample of firms.
It is apparent from this study hat one of the principal challenges of entering a new international market is that developing network connections can involve a restructuring of a firm's network: to become established in a new market, i.e. a network that is new to the firm, the firm must build relationships that are new both to itself and to its counterparts (Axelsson and Johanson, 1992; Axelsson and Easton, 1992; and Osarenkhoe, 2009). If a firm enters a country using a distributor, and then disagrees over the terms of the agreement, it may not make further investments in the country. A manifestation of this can be seen in our study, where Scania terminated its relationship with Scanadria in Croatia because of its lack of trust and commitment. At the opposite end of the spectrum if the relationship networks in the host market are changing rapidly, as in emerging markets, there may appear to be greater opportunities, but it may nevertheless be difficult to identify appropriate partners and attractive investments.

Limitations and future research directions

The first limitation of this study is that it doesn't examine either the investment costs associated with establishments or the costs associated with the development of networks and relationships. Secondly, our sample comprised only Scandinavian firms and thus the results may be heavily influenced by the two home countries-specific characteristics. Thirdly, information was collected from the establishing firms and as their partners views are not taken into consideration the perspective presented can't be comprehensive. A fourth limitation is that the study is conducted in a single theory perspective which makes the data collection, analysis and conclusions drawn far from being comprehensive.
Future studies can be conducted including a large sample of firms in order to get a broader view of the establishment process. Moreover, future studies can be qualitative covering a sample of firms which represent a large population. Such a study can enable researchers to arrive at generalizable results. Lastly, future studies can be done based on a combination of several theories which enables researchers to take into account various concepts and perspectives.

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