Networked establishment processes in transition economies

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Abstract: The purpose of this article is to examine the establishment processes of Scania in Croatia and Statoil in Estonia applying a model developed from the network approach. The findings show that Statoil's ability to leverage significant actors in its network to support its establishment made the process less cumbersome and less resource-consuming. Scania's lack of home- and host country support, on the other hand, resulted in an arduous and costly process, with its 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. A lack of cross-cultural competence is also observed to be an impeding factor in the process.

Keywords: networks; establishment processes; actors; resource exchanges; activities; transition economies; network approach; relationships.

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1 Introduction

Earlier research (e.g., Dadzie and Owusu, 2006, 2015; Hennart and Slangen, 2015; Shin et al., 2017) focused on the entry modes to foreign markets. The present study, however, focuses on the process rather than the mode of establishment. In other words, it addresses how firms manage exchange relationships in their network to support establishments.

The two firms in our study, Statoil and Scania, entered markets endowed with features that differ from those that prevail in their domestic markets. The network model (Axelsson and Easton, 1992; Mattsson and Johanson, 2006) could therefore not be adopted in its entirety to illuminate establishments in these transition economies. Because the network perspective (Tikkanen, 1998; Ashton, 2006; Johanson and Vahlne, 2003) takes a more general approach to establishment as a process of development, we argue that, without modification, the network approach is not appropriate for all types of economies. The establishment process model (Abraha, 1994), however, enabled us to illuminate establishments of the two firms in loosely structured markets (Croatia and Estonia). Manolova et al. (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 internationalisation. In a subsequent 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.

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, which increase uncertainty and risks (Vajjhala and Baghurst, 2014). The network model draws on the theories of social exchange and focuses on firm behaviour in the context of inter-organisational and interpersonal relationships. It emphasises the role and influence of social relationships in business transactions (Johanson and Vahlne, 1990). Companies are connected by networks, which aid the development of the interaction between them. The usefulness of a network perspective to study international business has long been emphasised in the literature (Johanson and Mattsson, 1988; Keeble et al., 1998). The model applied in the current study allowed us to capture the supporting relationships that enabled the focal relationships to function properly.

According to Root (1994, p.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, this approach does not sufficiently emphasise the relationship dynamics of establishments, but instead leads companies to focus on entry modes. Later, Santoro (2017) evaluated the effect of openness in innovation on SMEs' performance, using a new parameter to assess the degree of openness in introducing new products. Santoro's findings show that Italian SMEs do engage in open innovation and that 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 et al. (2017). Their findings indicate that the openness of external and internal knowledge positively affects subsidiaries' innovation performance. Scuotto et al. (2017) research showed that information and communication technologies (ICTs) oriented to intra- and inter-organisational innovation processes improve both processes in generating new products and/or services.

Market entry refers to the initial phase, while *establishment* refers to how a firm builds its market position. This article aims to fill the gap by concentrating on the latter. The question addressed is: What do Scania's and Statoil's establishment processes in the less developed and loosely structured markets 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. Following this introduction, the paper presents the theoretical framework, methodology and two case studies, before moving on to the analysis, conclusions and future research implications.

2 Theoretical framework

2.1 The network approach

Networks are important for the establishment process (Kampouri et al., 2017; Atnashev and Vashakmadze, 2017; Michailova and Nechayeva, 2014), where relationships are essential to facilitating market establishments. As Yu et al. (2011) also suggest networks accelerate new venture sales into foreign markets. Consequently, interactions between significant actors in a specific network facilitate market establishments (Axelsson and Easton, 1992). Unlike the foreign direct investment (FDI) perspective, which highlights management's planning of establishments (Dunning, 1980, 1993), the network approach focuses on the problems associated with establishments and development of business relationships (Johanson and Vahlne, 2003) with actors in the market. What happens in one relationship affects the interaction and activities in other relationships (Håkansson and Snehota, 1995). Hence, establishments 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 one another (Hägg and Johanson, 1982; Johanson and Mattsson, 1988; Håkansson, 1987, 1989; Håkansson and Snehota, 1995). 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. 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 is 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.

This 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 and Johanson, 1982). The interacting parties strive for openness, understanding, patience and trust, and engage in mutual learning (Ford et al., 1986). Being committed to the relationship and willing to adapt allows actors to strengthen their knowledge and technical, commercial, social and administrative bonds (Hägg and Johanson, 1982; Ford, 2001).

2.2 The establishment process model

The establishment process model (Abraha, 1994) is a modification of the network approach and consists of four stages or 'variables':

1 the historical development

2 identification and discussion of focal relationship(s)

3 the supporting relationships developed to enable the focal relationship(s) to function properly

4 the general environment.

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

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

The third variable, supporting relationships, are relationships between the focal firm and the other actors that enable the focal relationship to function properly. The establishing firm must often build these supporting relationships (Abraha, 1994) because a well-developed network of industrial actors is unlikely to already exist in the local market.

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

3 Methodology

A qualitative (Marshall and 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, (2003), p.1]. Selecting the appropriate instrument for data collection and analysis enables researchers to get closer to the respondents and to uncover issues of relevance in understanding the substantive issues.

3.1 Data collection

The criteria for case selection were:

1. companies established in Croatia and Estonia
2. companies that actively participated in the establishment process
3. companies willing and able to provide information (Fjellström and Guttormsen, 2016).

The interview guide used covered the establishment process, the main actors and the relationships among the actors in the process.

In the case of Statoil, interviews were conducted with 10 informants in Stockholm and corporate headquarters in Norway, and lasted 90 minutes to two hours. Later, additional information about the environment was also collected from: Swedish and Norwegian trade council officials, the Norwegian and Swedish embassies in Estonia, and press attachés, through telephone conversations complemented by email contact to elaborate any issues that remained unclear.

In the case of Scania, most of the interviews were conducted via telephone and follow-up emails. The interview guide was sent electronically to the respondents in advance to prepare for the interview. 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/video recording of observations and interviews, and verbatim transcription of these recordings, largely solves this problem" (p.89). In accordance with Maxwell's observation, audio recording of the interviews enabled us to be attentive during the interviews. In the interest of confidentiality, all respondents remain anonymous.

3.2 Data analysis

Analysis of the data collected was conducted in three steps: data reduction, data display, and conclusion-drawing and verification (Miles and Huberman, 1994). With respect to the recorded interviews, analysis began while transcribing the interviews. The aim of data display is to organise 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, to give the findings appropriate structure.

While the process was initiated at the initial stage, this step became more dominant in the later stages. And although the three steps are viewed as separate processes, it is important to note that they were going on simultaneously throughout the study. The findings were analysed on a case-by-case basis to look for convergence/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, 2003).

4 Scania

4.1 Historical development

Scania began its operations in Croatia before foreign firms were allowed to set up fully owned firms in Yugoslavia and thus used an agent, Auto Makedonija (AM), which had a 30% market share selling mainly heavy trucks. Contracts were signed between Scania and its customers, and Scania transferred the necessary marketing knowledge. Geographical distance made it difficult to interact with customers in the north as AM was based in the south. AM achieved a 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 supply of spare parts. The exclusive agency contract was thus terminated in 1991.

Scania then appointed an agent, Scanadria SC (SSC), in the north but geographical distance and lack of concentration in its core services continued to be a main problem. As Scania and SSC did not make the necessary investments, customers had to travel to Italy to get services. This agency contract was thus also terminated and Scania opened a fully owned sister company. In 1997, our key informant became the managing director (MD) of Scania East Adriatic Region SC, located in Slovenia. In 1998, Scania Hrvatska SC (SHSC) was established to serve the market. The demand for trucks was high, and 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. The products (i.e., trucks) as well as maintenance and repair services continued to be imported from the firm's operations in Sweden, Holland and France.

4.2 Focal relationships

Repair services were executed in Zagreb, which enabled SHSC to take over the old customer base. After about two years, SHSC managed to develop a new network of customers. Initially, truck- and service buyers were international transport firms and, later, state-owned road-builder 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, Scania's products were of a higher quality and more expensive. As the customer relations manager noted, "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 service quality, better equipped garages, greater accessibility, operating hours and financing solutions, since well-developed banking services were lacking.

"The social adaptations made were of major significance, as Croatians expect strong social relationships with sales representatives. And, as the sales personnel were mainly Croatians, that was not a problem". The MD learned the local language, which also helped, as customers liked to have a personal relationship with a senior manager. Technical adaptations included adapting the trucks to customer preferences and demands. Organisational adaptation in light of Croatia's transition to a market economy was extremely significant. Scania's strategy was to appoint a MD from Western Europe for the CEE countries, someone 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 acted as a Croatian company. In the early stages, Scania had problems transferring the market economy approach to its employees, as the planned economy perspective was deeply rooted in management and old ways of doing business". Expanding the customer base was not a priority. The Croatians believed that foreign firms should invest in Croatia and, as the firm was financed from Sweden, it should not receive any profit. SHSC's goal was to be self-financing.

4.3 Supporting relationships

Potential partners were primarily small family businesses interested in being trained and authorised. Branch office and service centre were opened in Split. Scania learned the importance of developing good relationships with authorities. Authorities were willing to cooperate with foreign firms and welcomed foreign investment, but bureaucracy was an issue and had an impact on firm operations. Managing this 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 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 each with a small share. Competition law was very strict and did not allow extensive collaboration among competitors. As noted above, Scania prices were higher than the competitors. It also offered the most reliable product, however, meaning less time spent at the garage, lower fuel consumption, and fewer repairs. Another Scania advantage was the organisational 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 another nearby service centre.

In cooperation with MAN, Scania built the most efficient, widely spread distribution net, giving them an edge over competitors. "The company's weak point was purely geographical distances". To address this problem it opened a branch office in Split. 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 acquire 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.

4.4 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 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 at top levels in the government apparatus. These MDs and bureaucrats favoured each other and continued to do business the old way.

The old business style meant less formal dealing with people you already know, and the right contacts were extremely important. Companies who lacked such contacts were viewed with some degree of scepticism. Personal relations have strong influence on inter-firm business deals and the building of social networks.

5 Statoil

5.1 Historical development

When Statoil first entered Estonia, the old Soviet legislation was still applicable and the firm needed Soviet approval to enter the market. It negotiated with the Estonian and Soviet authorities, and the appropriate strategy was to let the Estonian authorities act as mediators and translators. Statoil's corporate social responsibility (CSR) strategy covered the community, health, safety, environmental protection, employment conditions, industry and labour standards, social development and human rights. This strengthened trust and commitment for both parties, and Statoil was able to gain an understanding and new insights into the society. This strategy enabled Statoil to prepare for potential risks and to be regarded as a contributor to Estonian society's well-being.

Statoil's operations were of a long-term nature as the firm offered a necessary and important product. One informant noted 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 organisations and authorities, which reduced the risk. As the authorities were also very risk-averse, Statoil arranged information meetings where plans and problems were openly discussed, contributing to a more open communication between the parties and reducing the risk for misunderstandings.

5.2 Focal relationships

Focal actors relationships were formed 'firstly, to improve the possibility of success'. Secondly, supporting relationships 'facilitated 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 adequate exposure of the brand name, 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".

5.3 Supporting relationships

Connections play a "significant role in promoting proper functioning of relationships with important actors". The Swedish foreign minister and ambassador to Estonia helped Statoil to develop relationships that facilitated 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 become 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 the 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.

5.4 General environment

The Estonian administrative systems were rigid and centralised, business legislation was defective, and there was a general wariness of Western investments in Estonia. Trust was decisive. Prior to its 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 encounters with authorities, Statoil maintained a 'respectful negotiating 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".

Relationships with industrial- and institutional actors and NGOs provided Statoil with the expertise to overcome a lack of market knowledge, and supplemented the available data with market research. As one interviewee stated, "Estonian authorities were willing to cooperate as the country was then negotiating membership in the EU, and letting foreign companies invest to contribute to an 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 Estonian society".

6 Analysis

In the case of Scania, the firm initially developed a good position in one region but was less successful in others. The lack of success 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 confirm the theoretical views discussed in Ford (2001), Abraha (1994), Johanson et al. (1994), Kampouri et al. (2017) and Michailova and Nechayeva (2014). Specifically, Ford (2001) highlighted that geographical distance has a major impact on buyer-seller relationship development, and Abraha (1994) demonstrated that government regulations and actions have a major impact on establishments 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 in the region (see also Dikova and Brouthers, 2015), both factors create obstacles to establishment. Success was achieved in one region due to the economic system applied there, as it was the state that used to determine where firms could operate.

This study shows that there are networks at play in the market, and how and to what extent a firm can utilise 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 and Easton, 1992; Håkansson and Snehota, 1995). Some Scania customers were very satisfied, whereas those in the major portion of the market were not, one reason being 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.

Appointing a new agent did not improve Scania's position, however, for reasons relating to the second agent neither assigning priority to Scania's establishment nor making the investments necessary to improve the situation, indicating a lack of market commitment. Abraha (1994) highlights a case in Kenya where ABB faced a similar problem, which affected its position in that market. In Scania's case, 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 subsequent subsidiary establishment, Scania was able to develop a spare parts and services network that enabled the focal relationships, that is, build supporting relationships that facilitated the establishment process (Abraha, 1994).

Scania 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 of the resources and adaptations necessary to succeed. As argued and confirmed by Axelsson and Easton (1992), Ford (2001) and Abraha (1994), resource exchange and adaptation are at the heart of the network approach and market establishment.

Table 1 Similarities in the case firms' establishment processes

Common traits	*Scania*	*Statoil*
Operating in a transition economy	This firm had to deal with problems such as lack of critical resources, less-developed markets, state intervention, high level of bureaucracy, corruption, hindrances inherited from the planned economy era. These problems negatively affected strategy implementation and business practices.	Statoil dealt with problems such as lack of critical resources, less-developed markets, state intervention, high level of bureaucracy, corruption, hindrances inherited from the planned economy era. These problems negatively affected strategy implementation and business practices.
Drawing on complementary resources/activities of focal and supporting relationships	Scania used a tremendous amount of its focal- and supporting relationships to deal successfully with the numerous challenges in operating in a transition economy.	Statoil successfully utilised its focal- and supporting relationships to deal successfully with the numerous challenges in operating in Estonia.
Relative importance of social relationships	Social connections with government agencies were necessary to make successful deals; they also helped to better understand the people the firm interacted with and to develop mutual trust.	Social relationships helped Statoil to deal with cultural differences as Estonians were suspicious about the intentions of Western investment. Through social relationships the interacting parties came to understand and trust each other.
Mutual adaptation	Scania and the significant actors it interacts with had to mutually adapt to each other with respect to finance, business practices, and managerial attitude to succeed and to strengthen their relative positions in the marketplace.	Statoil and the significant actors it interacts with had to mutually adapt to each other with respect to finance, business practices, and managerial attitude to succeed and to strengthen their positions in the marketplace.

Two other significant factors also affected Scania's establishment process: firstly, acquiring the social connections necessary to make successful business deals, which was not exactly easy as Scania was new to the market (Vajjhala and Baghurst, 2014); and secondly, the ideological corruption left over from the former 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 confirm and deviate from Abraha's model (1994). 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.

Table 2 A summary of some outcomes of the firms' establishment process

Some outcomes	*Scania*	*Statoil*
The support a foreign firm gets from some significant and independent actors can be decisive for successful establishment in a country.	Scania did not have easy access to international and local actors in Croatia that could, through their complementary resources/activities, facilitate the firm's establishment process. It had to do much 'experimenting', e.g., engaging agents to work for them. It encountered a number of problems with the two consecutive agents used before receiving permission to establish its own subsidiary. It was then that Scania was able to start to build significant market share, from 5 to 17%	From the very inception, Statoil received massive support from Estonian and international actors, and was thus able to draw on the various actors' resources and activities, including tapping into those actors' national and international networks. All of this provided a smooth and successful establishment process for the firm.
Relationships with customers, particularly the key ones.	Scania had problems developing and maintaining some significant and close relationships with many of its customers; the vast geographical distances between areas where it operates in Croatia makes it difficult to reach most of its end-customers. The geographical distances and problems such as lack of mutual orientation between the agents and Scania resulted in a very weak market position. In relative terms, however, Scania has attained a satisfactory market position.	Statoil had no trouble establishing, developing and maintaining relationships with its customers. Its market share is constantly growing, and it has a satisfactory market position.

In contrast, Statoil's establishment in Estonia went smoothly, having received the support of Estonian and international actors and their networks, and having received that support both in 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 necessary networks. In sum, Statoil drew from and combined domestic, regional and international networks, and was able to successfully establish in Estonia.

Essentially, Statoil developed a central position that connects several significant actors. The network approach calls this the 'centrality' of a certain market position (see Ford et al., 1986). In Abraha (1994), these relationships are called 'supporting relationships', as they support and facilitate establishments. Once developed, Statoil continued to utilise its network in the management of the network. Statoil followed this process to secure an entry permit, for example, starting by approaching the authorities, which were positive to the initiative. It was also necessary to gain the approval of former Soviet authorities. Statoil involved the authorities, which facilitated the permit approval. The Swedish Trade Council helped Statoil to get established and to sell its products/services, which further strengthened establishments. Connections with these authorities lent further support and confirmation of Abraha's model and findings (1994), suggesting that government agencies relationships are a prerequisite to building and managing that network.

A major problem faced by Statoil 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, e.g., the network model could not be adopted in its entirety as it takes a more general approach to 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 utilise 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 Sen et al. (2006), and indicates that Statoil cares about the society it operates in 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.

7 Conclusions

The firms studied here entered the Croatian and Estonian markets, both economies in transition, that differ from their home markets. Economies in transition are characterised by a lack of essential resources, loosely structured and less-developed markets, state intervention, a high level of bureaucracy, and a certain type of corruption inherited from the planned economy (Vajjhala and Baghurst, 2014). These factors impede the establishment process and, to achieve success, they must be handled 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 and Vahlne, 2003; Axelsson and 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 Scania and Statoil, it was critical to develop exchange relationships with the various actors in their respective 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 and 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 these markets: their market shares grow, access to critical resources does not pose a problem, and bureaucratic obstacles are negligible. Statoil enjoyed a smooth establishment due to access to a network of resourceful actors, including central and local authorities, industry actors, the World Bank, IMF and EU, the 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. In the case of Scania, these factors led to a breakdown of some exchange relationships (between the establishing firm and its agents) and re-creation of others and/or greater commitment by the establishing firm to the market by opening its own sales subsidiaries. To survive and consolidate their relative positions, the interacting parties undertook mutual adaptations in a number of areas, including 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.

8 Theoretical and practical implications

The current study takes a network perspective to international market establishments in which decisions are made and evaluated interactively between the actors involved. The relationship-centred approach used in the cases demonstrates 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 international partners' attitudes and expectations is 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 organisation, but more critically by its managers. A lack of cross-cultural relationship skills and orientation can impede a company's growth in international markets (Vajjhala and Baghurst, 2014). Socio-cultural differences between the home country and the host country also influence the establishment process. The two cases studied show the role of culture in international business (Fjellström and 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, there is a need to understand the cultural context of a firm's relationships with foreign actors (see also Fjellström and Zander, 2016) and, secondly, that managerial skills, e.g., the ability to negotiate and integrate socially across cultures, are important. To operate in foreign environment, managers must possess knowledge of business operations and a 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 and Mattsson, 1988; Axelsson and Easton, 1992).

Cultural differences influence relationships and attitudes such as openness and the propensity to trust, as well as commitment, communication patterns, attitudes toward risk, adaptability and flexibility, and business ethics (Vajjhala and Baghurst, 2014). This paper illustrates 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.

It is apparent from this study that 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 Easton, 1992; Ferraris et al., 2016). If a firm enters a country using a distributor, and then disagrees over the terms of the agreement, it may not pursue 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.

9 Limitations and future research directions

The first limitation of this study is that it does not examine 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. As their partners' views were not surveyed, the perspective presented cannot be considered comprehensive. A fourth limitation is that the study is conducted from a single-theory perspective, which makes the data collection, analysis and conclusions drawn far from comprehensive. Future research might consider questionnaire studies that compare other countries, especially CEE countries, and place more attention on economic data rather than historical background. Alternatively, quantitative research can be done on the same markets but include a larger sample of firms. Such a study could enable researchers to arrive at more generalisable results. Lastly, future studies based on a combination of several theories would enable researchers to take into account various additional concepts and perspectives.

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