Evolution of East-West Industrial Networks. Experiences from Finnish-Estonian Business

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Abstract
Since the collapse of the former Soviet Union the Baltic countries have started a new phase in their economic, political and social development. Consequently, new business networks have emerged between the Baltic and foreign firms. Especially Finnish firms have shown an interest in Estonian business markets and firms. This new development is partially culturally bound, and partially a necessity for the development to take place in Estonia. A network approach of business development is used as a conceptual base in the study. Through recent case studies and qualitative analysis of Finnish firms’ entry, development and change processes are highlighted, paying special attention to learning and adaptation mechanisms. A processual and contextual view is thereafter used in describing and analysing specific features in the development of Finnish-Estonian business. The results of the paper emphasise the role of learning and adaptation in the fast changing East European markets.

1. INTRODUCTION
The birth of the New Eastern Europe has given rise to a boom in business life attempting to capitalise the potential of these markets. Because the institutions forcing market economy and the needed infrastructure remain undeveloped, along with political and economic turbulence, it is suggested that a totally different approach for establishing and developing business relationships is needed, especially when compared to trade with market economies.

This study focuses on the evolution of industrial networks between Finnish and Estonian enterprises. A processual approach for analysing the development of industrial undertakings by Finnish food production firms in Estonia is presented. The great market potential for foreign goods has often been cited as being one of the major motives for Western firms to enter East European markets. In the food industry market prospects are seen as especially attractive because problems related to the supply of a wider range of high quality foodstuffs is evident in many countries in the region.

The basic objective of the study is to understand and explain how business contacts between Finnish and Estonian firms have started, developed and changed from the entry to the present stage including future prospects. Consequently, a processual approach is adopted to analyse the results. A process is labeled as a sequence of events that describes how things have unfolded over time (Van de Ven, 1992). It is believed that in the present volatile environment longitudinal studies are needed in order to highlight the critical elements of 1) the development of relationships, 2) interaction process and 3) network dynamics and change.

The paper looks at business development of Finnish firms in Estonia from the viewpoint of organizational learning and adaptation, using the network perspective as a basis for analysis.

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Both concepts are supposed to be of crucial importance when trying to predict a firm’s survival and success in the market.

When analysing the results of the study several limitations have to be taken into consideration. Firstly, the empirical data is gathered from a small number of firms, and specific features of entry processes into new markets are highlighted. Secondly, the results concern the experiences of only food production industries. Thirdly, in Maslow’s hierarchy these kind of products represent the basic needs of a human being, thus being more essential than several other types of products. Fourthly, a case-study approach with narrative qualitative data is used in empirical research. This approach is found to be appropriate when studying a new area of reality.

2. THEORETICAL FRAMEWORK

Business development takes place in a company’s national market or in international markets. The mutual development of both domestic markets and international markets is also a possibility. In developing businesses in new markets and especially in new environments the role of learning and adaptation becomes a core issue for decision makers and marketers. The newly independent Baltic States form a challenging area for both theoretical studies and for practical business, taking these aspects into consideration. In this paper the theoretical framework is based on a network view of business development especially noting the role of time in order to grasp the entry process in three different temporal modes (history, present and future modes). The network view in this process is highlighted in this section of the paper.

Networks and Business Evolution in New Markets

When looking at business development of industrial firms in new markets, one is faced with a multitude of environmental factors affecting business transactions. In classical marketing textbooks the external environment is seen as an uncontrollable part of the environment into which the firm markets its products and services. This environment is also a part of the investment milieu, and risks, opportunities and threats are, in a classical sense, aspects to be taken into consideration when entering foreign markets (see for example Cateora 1990, Keegan 1989).

Even more restrictive are the notions of markets using the macro-economic paradigm in the classical theory of foreign trade. Other views for understanding business development include e.g. strategic alliances (e.g. Parkhe 1991) and strategic groups (e.g. McGee & Thomas 1988), the Dunning ‘eclectic approach’ (Dunning 1981, 1988) or the political imperative explaining the direction of foreign trade and investments.


Geographical - or spatial - perspectives play another part in business development and in the process of internationalisation in general and also marketing (place, distribution, location, segmentation of markets and so on) (Törnroos 1991). The role of information networks and physical infrastructure is another spatial dimension inherently needed for executing efficient international contacts in business.

Networks can be used as a way to look at this same process more freely and holistically. We can regard the existence of different kinds of networks for looking at different aspects of developments in business-to-business contexts (spatial, economic, inter-organizational, social and cultural, as well as political perspectives and markets). These aspects of business can be understood in the form of networks fluidly changing in time and space through human interaction and communication. For example, in understanding internationalisation Johanson & Mattson (1988) showed hypothetically how network logics can be used as a base for understanding incremental development of firms’ activities across borders in different ways.

In many studies the role of network evolution and change is highlighted. This implies processual studies, and the role of network development over time. Hence the method should be processual to its nature in order to grasp the evolution and change of business networks in a fluid time-space and social-exchange context. Consequently, this paper chooses this method for examining Finnish business entry and network development in the newly formed Baltic markets. Networks are examined, in this paper, only in a limited sense. This includes the treatment of the issue in the theoretical part of the paper as well. We deal mainly with the evolution of Finnish-Estonian business using three main elements of industrial networks and change: (i) learning and (ii) adaptation, and (iii) process of change.

The Network and Learning Process

Network dynamics cannot and should not be understood without the core concept of learning. Learning can be defined as a cognitive change based on the actors' ability to see and perceive the world in a new way and behave accordingly in a new way and do new/different things as a result of this new insight. Garvin (1993, 79-80) says that the concept of organizational learning has been studied for a long time but the concept seems to be elusive as considerable disagreement remains about the content of this concept. The definitions have certain aspects in common, for example that learning is a process that unfolds over time, and that a link to previous knowledge is made and thus new insights can be derived (cp. Garvin 1993, 80). In learning, history matters too, and also creativity and the continuum between individuals and the organization. In this sense the network concept of "actors", as both individuals and organizations, connecting activities and resources becomes interesting. Individuals are the carriers of learning we incline to believe and are the gatekeepers, processors and communicators of knowledge and learning. The new insight passed or filtered through past experiences and combined with new understanding creates a need for commitment and action. In the case of inter-organizational business and turbulent markets this commitment and action taken creates a need for mutual adaptation processes to take place. This, again creates new environmental conditions and together with other environmental changes creates a new learning "loop". This notion can be compared with the single- and double-loop (individual and organizational) learning processes as described by Kim (1993).

Figure 1. Connections between learning, commitment and adaptation in networks.

We claim that networks are a result of the combination of resources accomplished through the actors' activities (Håkansson 1989). This triangular view of network dynamics and the view of networks as investments in relationships and creation of bonds between partners in the network.
is therefore seen also as a learning process. We therefore want to add the learning dimension and stress its importance in the development of networks. In order to develop networks, learning means the outcome of previous commitments, undertakings and business. Learning also creates a need for commitment, in order for the adaptation mechanism to come into play. A new circle from adaptation to new forms of learning takes place which can explain some of the core features of networks in business. (See Figure 1).

Learning is, of course, never static. It is an ongoing process of change in (often) many actors' behaviour and learning (cp. Dodgson 1993, Kim 1993). This is based on the notion that change always is a part of networks. Changes occur as a result of internal or external pressures affecting networks and its activities. This can be the result of internal network characteristics such as division of labour, or the new insights gained through co-operation within nets. In the case of Eastern Europe, for example, the new Eastern partners can learn how to use Western technology and Western business practices. The Western partner, on the other hand, learns how to deal with their Eastern business partners and how to conduct business in these markets, its cultural characteristics and economic and social realities and so on. Mutuality is the key word for this learning process. For learning to be transformed to adaptation a commitment has to be created - a will and decision to activate adaptive behaviour.

The Network and Adaptation

Adaptation is, in a sense, the outcome of learning processes and altered by them and consequently shaping new learning processes. Adaptation means to "fit into" other actors production systems, technology and markets, and indeed, even to certain cultural and social circumstances (Hallen, Johanson & Seyed-Mohamed 1992). Perspectives about networks affects the adaptation process and how to solve adaptation needs. Some possibilities are, for example, to look at nets as; (i) a focal network, (ii) a focal dyad - network or (iii) the whole networks’ perspective (delimited to the core actors business network). Adaptation also means, to our mind, the formation of new mutual assets. It is really a pre-requisite for new assets to be created. If the parties do not adapt successfully the new resources may never be a reality. Created through the combination of heterogenous resources adaptation in this sense is crucial for networks to be successful and to be formed in a dynamic and successful way. The adaptation process is ongoing change and learning-based as well as action-based on the part of the participants. The ability to adapt, the willingness to adapt, and the possibilities seen through adaptation forms some core aspects of the adaptation process in networks. In East-West business the role of adaptation is crucial. There is still a lot to be learned about the East, including Estonia. In the Finnish case the physical and cultural closeness, as well as the Finnish experience from Eastern business could be one success factor in adaptation. As shown by Hallen et.al. (1992) adaptation is also a learning-based process, altered by power-relations between partners and a change-process in itself.

The Network as a Process

Process means, according to Van de Ven (1992), three different things in management literature; (i) a logic that explains a causal relationship between independent and dependent variables, (ii) a category of concepts or variables that refers to actions of individuals or organizations, and (iii) a sequence of events that describes how things change over time. We shall not go into details here with these three notions except to paraphrase Van de Ven in saying that the last of these is the least understood, but in his mind the most important and valuable. This definition: "...takes a historical perspective and focuses on the sequences of incidents, activities, and stages that unfold over the duration of a central subject's existence" (op. cit. p. 170). We would like to add the temporal dimension of the future, because business actors do have a future orientation with mutual and individual objectives for the future. The notion of processual and relational time could be a notion of time to be used in this setting (cp. Miettilä & Törmroos 1993). In this sense the future becomes indirectly a part of the unfolding present process.

In this paper we look at time and change in networks as a process of change, learning and adaptation from three points in time (if this kind of limitation is possible to do exactly). In order
to examine networks as processes we need to look at the actors' view of the actual activities and learning taking place in entering into the Baltic markets. This process is mutual or reciprocal in its nature. It is altered and affected by the power relations that exists between the partners doing business. In East-West business the gaps in technology, infrastructure, political systems, levels of economic development and systems, marketing skills and consumer and industrial markets, different tastes, preferences and purchasing power tremendously affect most processes in this specific situation (cp. the process-context model of Miettilä & Törnroos 1993). The stage of this transition process in a specific point in time forms the environment in the business development. In the present situation this environment is in a turbulent stage of change and forms a need for quick adaptation and learning processes for networks.

Processes can only be grasped from a time perspective. In the startup phase the formation of links between business partners the process starts by reviewing the history of the counterparts (when taking the subjects' perspective). In a sense of course the histories of the counterparts frames the initial learning phase and the development of "mental space" between business partners. The role of the transition and change in the Eastern economies as well as the disparities between business partners forms the underlying context to look at the development of networks in business.

To sum up, adaptation is an outcome created by human actors based on learning and commitment. Real-life activities are based on the need to act in order to take an advantage of learning and adjust to new circumstances, desires or gaining new insights about the business environment. Action is a part of adaptation in networks, but it cannot be activated without commitment, i.e. the knowledge of a certain need for action. Actions are the "dynamo" for networks to change and start adaptation processes.

3. FINNISH-ESTONIAN BUSINESS RELATIONS IN THE TRANSITION PERIOD

So far the main interest of business activities, as well as research, in East-West business has been directed either to the Central Eastern Europe or to Russia. From the Nordic, and especially from the Finnish firms' perspective the nearly located Baltic countries are of special interest. Estonia has been the most successful of the Baltic countries in overcoming the difficulties of transition and has made relatively good economic progress in terms of low inflation and stable currency as compared to the other Baltic countries. It is estimated that more than 2000 Finnish firms have entered the market. The main reasons for the increased interest can be stated as 1) long historical ties, 2) short geographical distance, and 3) cultural proximity along with a similar language. In addition, it seems that many firms are using Estonia as a gateway when developing their business activities to Russia.

In order to understand the present nature of business relationships between foreign and East European firms we have to be aware of the nature of the ongoing transition process and environmental turbulence in these countries. The concepts of learning and adaptation are extremely important in this context. As suggested by Nieminen (1994), the transition is not merely a macroeconomic phenomena, but to a major extent, a behavioral change process among individuals and organizations in Eastern Europe. Thus, the adoption of new values, habits, attitudes and actions through learning is of crucial importance when analysing the development of business relationships. This learning process is likely to take a long time, which makes the establishment and maintenance of business relationships demanding. However, foreign businesses are expected to act as important intermediaries in this learning process through their activities in Eastern Europe. On the other hand, also foreign firms are opposed to the learning demands, needed when entering new and unfamiliar markets.

As a result of the transition, several environmental changes have taken place, which have had some fundamental effects in the business life. In Table 1 we have identified some of the major changes from planned to transition economy that strongly affect business life. All the presented factors indicate increasing dynamics in business relations as a result of the decreased importance of government interference coupled with the increased importance of direct contacts to customers, suppliers and other actors in the market. This development gives an interesting
background for studying business relations from a network perspective, highlighting the importance of organizational learning and adaptation for both partners.

Table 1. Identification of key changes in the business relationships between Western and East European firms (adapted from Nieminen 1994).

<table>
<thead>
<tr>
<th>Change factor</th>
<th>Planned economy</th>
<th>Transition economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demand</td>
<td>Based on government decisions</td>
<td>Based on customer needs</td>
</tr>
<tr>
<td>Authorization</td>
<td>Government monopoly</td>
<td>Broadening of foreign trade rights</td>
</tr>
<tr>
<td>Networks</td>
<td>Contacts to government intermediaries</td>
<td>Directs contacts to end-users</td>
</tr>
<tr>
<td>Trading partners</td>
<td>Large government organizations</td>
<td>Small private firms</td>
</tr>
<tr>
<td>Size of deliveries</td>
<td>Large</td>
<td>Small</td>
</tr>
<tr>
<td>Quality of relationship</td>
<td>Centralized; high-skilled</td>
<td>Spread</td>
</tr>
<tr>
<td>Operation modes</td>
<td>Indirect export</td>
<td>Entrepreneurial; diverse</td>
</tr>
<tr>
<td>Level of competition</td>
<td>Low</td>
<td>Direct export</td>
</tr>
<tr>
<td>Decision-making</td>
<td>Government dominated</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>Ownership patterns</td>
<td>Government ownership</td>
<td>Moderate; increasing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increasing autonomy of firms</td>
</tr>
</tbody>
</table>

The Estonian food industry and markets represent the industrial context for the present study. The latest developments in Estonia's food industry creates a challenge for Finnish producers, because opening of the markets attracts also other foreign producers. Estonian food industry has been in crises since the departure from the Soviet Union for several reasons. The monetary reform cut down the purchasing power, and cheap deliveries of feed and raw materials, including energy from Russia have decreased drastically. Consequently, Estonia's food supply is very dependent on imports and the interest of foreign firms to restructure this industry.

4. METHODS OF RESEARCH

In order to understand the network development between Finnish and Estonian business actors, a processual approach was chosen for this study. This approach was chosen to trace network development using a case study method, qualitative analysis of primary data collected through personal interviews and interpretation of the collected and computer-processed narrative data by a reduction of these narratives in a formalised way.

All the cases are taken form the food-industry and three cases - Hartwall, Paulig, and Valio - represent direct investments in Estonia for production. Raisio Margariini has so far only been active since 1992 in the market and only through exports. The data collection was made in March-April 1994, within three weeks in order for the situation to be as similar as possible. This is due to the turbulence in the surrounding environment in Estonia and the fast pace of change in the competitive situation, political turns and so on.

The structure of research and data analysis aims at an understanding of the process of change since entry through deriving data from the datamass related to the entry decision, present stage of operation and future prospects. In this sense the study tries to capture the basic logic of the process. This would be best done through participatory research unfortunately not possible in this case. Temporally the most extreme cases date only four-five years back since the initiation of first business negotiations, which makes the validity of the research reasonably fair.

Those individuals providing information for this study had responsibility for the operations in the countries studied. At this point in time only one individual per company has been interviewed. The questions were the same in all cases. Also the questions have been pre-tested and altered after this pre-test. Supplementary secondary data has been collected, mainly from internal company sources, afterwards.
The research method can be criticised on many grounds, for example its validity and generability. At present the case study approach offers good possibilities to learn about specific problems instead of generalising. The case study also reveals the uniqueness of each entry process and network evolution and can grasp the core concepts of learning and adaptation in more depth than many other available approaches.

The cases are presented by first studying the process of development from the strating point to the present situation and finally the future prospects of Estonian business from the perspective of Finnish firms.

5. CASE DESCRIPTIONS

5.1 Case 1: Hartwall Ltd

Hartwall is the market leader in sales and production of beer and soft drinks in Finland. The combine consists of five business units with a total turnover of 1600 million FIM. The company has 2385 employees. Hartwall’s internationalisation has mainly been based on exports of beer with the brand Lapin Kulta. Estonia was their first foreign direct investment project and that case is discussed here in more detail. Hartwall has a joint venture, Baltic Beverages Holding Ltd (BBH) with Procordia Beverages (Sweden). BBH’s acquisition of Estonia’s leading brewery Saku Olletehas is described here. In addition, BBH has acquired two other breweries in the near located regions, Alusdaritava Aldaris in Latvia in 1992 and Baltika in St. Petersburg in 1993.

5.1.1 Early experiences and present situation

Market entry decision
The decision to enter Estonian markets was initiated in the Fall of 1989 after the political revolutions in Eastern Europe, which resulted in the opening of the markets. Saturated home markets created a threat, which demanded the firm to look for new markets abroad. Market entry was also motivated by the fact that they assumed a strong market share in Estonia to improve their position in the domestic market. A threat posed by the European common market forced Hartwall to strengthen its brands in order to protect its strong market position. Estonia is seen at the corporate level as Hartwall’s extended home market, and it was crucial to enter Estonia before their main foreign competitors.

Hartwall started first by small experimental export deliveries in order to have a closer look at the newborn markets. However, soon they realized that they needed a market presence in order to utilize the market potential. The corporate managers decided that the best way to proceed was to get a partner and acquire a local brewery. Hartwall had previously worked together with a Swedish company Procordia Beverages Ab (PB) in product and production development cooperation, representing each others’ brands in their domestic markets. Cooperation was regarded as fruitful for both parties and both had an interest in more intensive cooperation. Estonia was regarded as their major challenge, which later could be extended to cover the whole Baltic Sea region. Both regarded their resources as too small -- even though both were market leaders in their home countries -- to enter the market on their own and they decided to put their resources together and set up a joint venture if they could find a proper partner in Estonia.

A joint venture Baltic Beverages Holding Ltd. (BBH) with Procordia Beverages Ab was formed in 1991 in order to look for prospective breweries in the Baltic States and Russia. After negotiations with several breweries in Estonia, BBH finally chose Saku Olletehas, the market leader in Estonian brewery industry and bought a 60 % stake in the company. BBH wanted to acquire a company that has the basic infrastructure to develop brewery activity and big enough for competitive reasons. The acquisition has proved out to be a good solution and BBH has used the same concept when entering other countries in the region. BBH bought a 60 % stake in Latvia’s leading brewery Alusdaritava Aldaris in 1992 and in Baltika, St. Petersburg’s leading brewery, in 1993.
Market Potential and Growth

Hartwall's managers emphasize that they did not have great ambitions in the short run for the Baltic market, as these markets were seen as quite small with low purchasing power. From the beginning, they wanted to be a part of the development of this industrial branch and in this way acquire a steady market position. The investment was based on the premise that quick returns on invested capital are not expected. Thus, market growth was anticipated to take place only in the long run.

The expectations were much lower than the actual potential for their products proved to be. The whole industry has undergone fundamental changes as a result of improved product quality and economic changes. It took two years to build distribution channels, and to make the improved brand known and accepted by local consumers. They have improved the quality of their own brand Saku (previously produced by their Estonian partner) considerably and after improving their market position Hartwall has been able to increase their direct sales from Finland with another brands as well. During the partnership Saku's market share has risen from 42 % to 55 % within two years. Saku Reval Luxus, a high quality import beer, is produced in Finland and imported by BBH to Estonia. This brand is also a market leader in its own class. In fact, Saku is at present the most profitable business unit of Hartwall.

During the past few years the demand of beer has decreased all over in the Baltic states because of weakening purchasing power, high inflation and general poor economic conditions. However, since early 1993 there has been a drastic increase in the sales of both Saku and Hartwall's own brand exported directly from Finland.

Competition

The level of competition was quite low before the market entry. They had a view that the company that is first able to penetrate the market will have a strong position in the future. Further factors increasing the competitiveness of Hartwall are a logistical advantage (near location), strong brands and local support straight from the beginning. The acquisition of a local brand has proved out to be successful and its improved quality has increased BBH's market position as compared to its major foreign competitors.

Competition has increased considerably since the market entry. At the moment all the major European breweries are operating in the market. The general trend at the moment seems to follow the example of BBH: Western breweries are trying to improve the quality of the local brands together with local manufacturers.

Risks and Problems

Because of low resource commitments, market entry risks were regarded as very low. At market entry it was assumed that Estonia is in a process of gaining back its independence and the political situation will stabilize.

The major problems faced by Hartwall were mainly related to human resources management. Also poor infrastructure created problems. The factory had to be reconstructed because it was technically in poor condition. Overcoming these problems has meant patience and determination. Hartwall has committed itself to the decision of gaining a position in the market whatever happens.

Political and environmental risks have significantly decreased. The major risks perceived by Hartwall at the moment are related to the acquisition of raw materials, import tariffs and taxation. Another concern is the poor economic situation in Estonia, which has resulted in low purchasing power. This creates a problem of adapting the brewery industry to local economic conditions, because sales are extremely dependent on the local purchasing power. However, it is believed that once Hartwall is an insider in the market and thus a part of the local brewery culture, they can better influence the demand. Problem-solving procedures are generally much related to the experience gained by the company in Estonia.
Political Imperative
The rapid market entry was greatly influenced by the fact that BBH negotiated the contract directly with the Estonian authorities, not with the Soviet authorities in Moscow like many others. Relations to the political decision-makers were regarded as extremely important in the entry phase, as the government is a minority partner in the acquired Estonian company. BBH has even one Estonian minister on the board of directors. In general, Estonia’s independence was seen as a factor decreasing political turbulence.

Although the Estonian partner was a government-owned enterprise, Hartwall has met with some political problems. It has been difficult to convince the political decision-makers of the benefits of what Hartwall is doing. Trust building has been of crucial importance in this matter and it has been increased by convincing the locals that Hartwall wants to take part in the development of the local industry. At the beginning the locals thought that they were being taken advantage of by the foreign partners. It has been difficult to convince them how much both Hartwall and Pripps have invested in the venture in terms of capital, time, money and other resources in order to get the production on its feet. This has resulted in numerous conversations between the partners.

Form of Operation
Hartwall started business activities in Estonia by experimental export operations. After setting up a joint venture with PB, BBH acquired Estonia’s leading brewery. They created a distribution network in Estonia with two local importers. After the foundation of BBH, it has represented all of Hartwall’s brands in the market.

Marketing Channels and Distribution
In the beginning the distribution networks were not well developed and wholesale network did not exist. Thus, they started their operations by distributing the products mainly through hotels and restaurants as they regarded foreign businessmen and diplomats as their main customers. At the moment Hartwall has developed its own distribution channels with local warehouses.

Business Relations
Unlike the other cases presented in this study, Hartwall has to deal with two different partners, PB and Saku. Relations with PB are based on long-term cooperation, trust and joint objectives in the Baltic region. Thus, no major problems have occured in these relations. When dealing with their local counterparts Hartwall wants to emphasize the importance of patience and understanding when establishing and developing business contacts. They have decided not to act arrogantly towards their partners in a way that carries the sentiments ”We know how this thing should be handled, you don’t know anything”. Local partners have to be respected as equals and a positive attitude taken toward communication. ”They have their own culture and traditions, which must not be criticized. The poor economic situation is not their fault. We want to be a part of the society’s development process in local terms”, as stated by one of Hartwall’s executives.

In the beginning a lot of new contacts were created in order to find the most appropriate partner as Hartwall did not know at that time whether their brewery project will succeed. The development of business relationships was initially regarded as difficult. The relics of the Soviet impact in individual behaviour was very strong and it was hard to make the locals think in a Western business way. The interviewed export manager Tapani Ilmanen used the term ”work culture” to indicate differences in attitudes towards hard work.

Despite the problems related to establishing business relations with local partners, they have been eager to learn and they have learned surprisingly quickly. It was emphasized that at the moment Hartwall trusts its partners 100 percent. Mutual trust has developed only after 3-4 years of intensive communication, cooperation and education. They expect from their counterparts a commitment equal of their own. Still they have a lot to do in order to increase production efficiency.

BBH has emphasized the flexibility of Saku’s top management. Because the environmental changes are fast, general managers in all subsidiaries are local. Thus, they are ready to react.
quickly to changes in the environment.

Close geographical location and a similar language have been, from the beginning, factors that has eased communication between the partners. This is seen as a big competitive advantage for Finnish firms especially in Estonia. In Latvia and Lithuania, the Swedes are stronger for the same reason.

**Resource Commitment**

Hartwall has invested more internal resources to the project than they anticipated at the outset. In addition to the acquisition of Saku, both Hartwall and PB have been forced to use much of their own personnel in the target country. Saku was in poor condition when it was acquired, practically everything had to be rebuilt. Of the foreign partners especially Hartwall has invested heavily in the renewal of production machinery. Hartwall has also invested about 20-25 million FIM annually in BBH and the investments are expected to be at the same level during the next few years. Although their breweries are profitable, they cannot invest too much of their capital for production development.

**5.1.2 Future Prospects and Problems**

Presently the Baltic countries are still regarded as typical "Vodka-markets" resulting from several decades of strong Russian influence. Thus, beer consumption is low when compared to most Western countries. However, the Baltic countries have a long tradition of beer production and consumption is supposed to move gradually from hard liquers to softer alcoholic drinks, like beer. Thus, all the Baltic countries are expected to have great potential in a long run.

Competition is anticipated to continue growing in the Baltic countries. Northern Europe in general is expected to be a growing market area for European breweries because the government alcoholic monopolies are supposed to collapse in Norway, Sweden and Finland. As the strategic importance of the Nordic countries grows, the interest of other West European to be present in the Baltic countries will also increase. Hartwall considers its future competitive position sound. They have a strong belief in their brands, products and competitiveness. They believe the advantage of being among the first in the market does benefit their future operations as well. In the near future the quality of production has to reach the Western standards. BBH is also investing in distribution and marketing.

The experiences gained from the BBH case has convinced Hartwall’s corporate directors that this is the best way to proceed in the Baltic markets. They are now expanding their operations in the Baltics by acquiring one of Lithuania’s biggest breweries.

Hartwall’s corporate directors decided at the beginning that they want their first projects to succeed as well as possible. They believe that prospective new partners from Russia, Belarus and other near located countries will initiate negotiations once BBH’s reputation is wider known. However, they want first to get operations running smoothly in the Baltics before entering other markets in Russia or the other CIS countries.

**5.2 Case 2: Paulig Ltd.**

Paulig Ltd. is one of the major combines in the Finnish food industry. The basic business areas are coffee and spices. Coffee is the combine’s major product with 60 % of the total turnover and Paulig is a clear market leader in this field in Finland. Paulig’s turnover was 925 million FIM in 1993 and it employed 697 people.

Although Paulig is a newcomer in Eastern Europe it had a marketing affiliate in Tallinn, Estonia in 1938-42, but the relationship had to be terminated in 1942 because of the war. Some of the brands they are selling today were present in the market. The development process of A/S Paulig Baltic, a roastery and Paulig’s greenfield investment in Estonia, is discussed in this case. In addition, Paulig has a marketing unit in St. Petersburg.
5.2.1 Early Experiences and Present Situation

Market entry decision
Interest for the Estonian market arose in the summer of 1991. Estonia and the other Baltic countries along with St. Petersburg and Poland were regarded as "interesting markets" for industrial operations. The main motive for market entry was that the potential demand for coffee. At the time of market entry there were great difficulties in foodstuff supplies and the great needs was the main triggering signal for entry. In addition, cultural and geographical proximity favoured Estonia as opposed to other near-border countries. In the long run, location-specific advantages were also considered significant. After the completion of the Via Baltica route Paulig would have better access to the other Baltic countries, Russia and Poland.

Before the market entry decision Paulig had bought production equipment from a Swedish roastery that stopped operations. These suited Paulig's purposes in Estonia very well as the production lines were not as automated as in Paulig's own lines. During the fall 1991 Paulig looked for proper buildings where to start production and because they did not find anything suitable, they decided to build a new factory.

After the registration of the company Paulig started to do more thorough market research in Estonia. They sent one representative to do field work and look for potential customers in Tallinn. They were especially interested in shops, restaurants and hotels. They collected information of about 500 different customers on how they acted. In further decisions, the results of this survey were decisive.

The second investigation aimed at finding out what kind of coffee the locals wanted. Paulig arranged several consumer tests in hotels and restaurants of seven cities. The local tasted different types of coffee and the best ones were chosen for production.

The third investigation was done by a consulting firm, which tested local consumer behaviour. They found out at which kind of event Estonian people usually drink coffee, and how much they spend on it. At that time there was no secondary information available. After these investigations the construction of the plant was started.

Market potential and growth
Paulig's expectations of the market potential were quite modest, although they knew that Estonians drank quite a lot of coffee in the 1930's when Paulig was present in the market. A clear turn in market demand happened as a result of the development of Estonia's own currency. Since then, coffee consumption has increased continually.

Competition
At the time of market entry there were already about 50 different coffee brands on the market from several West European countries. However, there was no local production and the local demand was fully satisfied by imports. Paulig's brands were exported by several dealers and they kept the price in a very high level. When Paulig started the construction of its own plant, Paulig also started to export its own brands to Estonia. They lowered the price by 40% and the coffee was an instant success. Paulig was also able to utilize its advertisements in Finnish television, because it is possible to watch it in Tallinn as well. Thus, local consumers recognized the company immediately. Sales accelerated clearly after Estonia got its own currency in the summer of 1992.

Paulig has also created a local brand, Olümpia coffee. Estonians now have strong national feelings and Paulig capitalized on this by sponsoring Estonia's Olympic team for the Lillehammer Winter Olympics in 1994. Based on a contract with the Olympic Committee of Estonia, a certain percentage of the sales of Olümpia coffee was donated to the Estonian Olympic team, altogether 40% of the team's total budget. After the Olympics in February 1994 both parties wanted to continue this cooperation till the next Olympics in 1998. Paulig has made a similar arrangement with Latvia and Lithuania.
Another factor which improves Paulig's competitive position in the market is that the local citizens regard Paulig's brands as local -- because they are produced in Estonia -- and seem to favour these against competing brands. Another investigation made in September 1993 about consumer knowledge of different brands in the market showed that Paulig's brands were ranked as the four best known. Thus far Paulig has exceeded its sales budget by over 50% and has been able to keep expenditures down.

Competition has increased as competitors have noticed the success of Paulig. However, Paulig's market share is at the moment 25-30%. One of the major threats is the illegal imports of coffee as some importers do not pay neither customs duties nor turnover tax. In the long run, Paulig feels that their competitive position will remain strong because of their "local" image. Local consumers have a strong loyalty to Estonian high quality brands. High quality coffee remains the cornerstone of Paulig's operations.

**Risks and Problems**

Paulig perceived commercial risks low as they did not invest more than they could afford to lose. Although the economic and political conditions were poor at the time of market entry, no major problems were encountered because Paulig was the first to enter this kind of business and thus got special advantages from the Estonian government.

The major problem in operations was the underdeveloped wholesale system. It started to develop in the spring of 1993 and now Paulig has seven wholesalers. Additional problems include, bureaucracy at a later stage and the lack of business legislation. Poor import control has also been a problem as it is estimated that only about 30% of coffee comes legally into the country.

Local water proved out to be different from that in Finland which meant that those coffee brands Paulig produced in Finland would lose a lot of its quality because of the hardness of the local water. Thus, the coffee needed to be darker than in Finland and, moreover, the price of imported coffee would have been too high because even 16 different sorts of coffee are used for the production of one brand. The investigations made by Paulig showed that the local coffee contained at the highest 25% of coffee, the rest being grain or something else. In some cases the local coffee did not contain any coffee at all. Besides the core product adaptation, Paulig has also adapted the packages to local circumstances. Paulig's coffee imported from Finland is sold in smaller packages so that local consumers can afford to buy it and package texts have been translated to Estonian, along with information how to make good coffee. Besides good service, another reason for product adaptation was that their products could not be exported back to Finland by "jobbers".

**Political Imperative**

During the entry phase the most important relations were those connected to the Estonian government. The president of Estonia realized that the country needed foreign firms to restructure the economy and wanted Paulig to be a good example for other foreign companies. Coffee was also perceived as a potential export product for the country. At that time there were already quite many joint ventures with foreign companies (mainly Finnish and Swedish firms), but only few had built totally new production facilities. Thus, the government committed itself to the project and all permissions were received quickly. The local authoritis were also interested in the case and helped Paulig in all possible ways. They realized that a new factory would bring jobs to the region. The relations to the local authorities have developed over time in a way that even family relations have been established between some executives of Paulig and the local authorities. Paulig found a site for the plant in Saue, about 20 kilometres away from Tallinn and the local authorities donated the site to Paulig in the spring of 1992. Paulig built a new residence for one family who had lived on the site for many years and got the site quickly and without problems.

**Form of Operation**

Paulig's wholly-owned production subsidiary, A/S Paulig Baltic was registered in June 1992. No other alternatives were considered as there was no local production and the locals could not add any value into a joint venture in terms of land, money or know-how. Also the Estonian
government favoured Paulig's 100% ownership. In the summer of 1993 the production started and presently Paulig also exports those brands produced in Estonia to Latvia and Lithuania. Along with coffee, Paulig has also started to export spices from Finland to Estonia.

In addition to a production plant, Paulig has also established a Coffee Institute, which operates in the same building. This aims at informing the customers about differences in coffee types and educating them how to make good coffee. Information is also provided on television, radio and in newspapers.

Marketing Channels and Distribution
Before the establishment of A/S Paulig, Paulig's brands were exported by several dealers to Estonia. However, they kept the price in a very high level and sales were quite minor. When Paulig started the construction of its own plant, Paulig also started to export its own brands to Estonia. At the beginning the retailers bought the coffee straight from the factory, but it became complicated as they had to deal with cash. The situation has improved significantly since the development of a wholesale system. In Latvia and Lithuania, Paulig relies on local importers.

Business Relations
Paulig's policy in business relations has always been based on the establishment of good personal relationships. At the beginning, the Estonian Chamber of Commerce and Industry was very important contact. They gave valuable market knowledge to Paulig's personnel. Hiring an Estonian as a general manager also proved out to be successful.

Paulig has continuously been in contact with several other Finnish businesses having serious operations in the Estonian market. Paulig is a member of the Pro Baltica Forum, a business forum of more than 50 big Finnish, German and Baltic companies. The association works as a link between companies and the government decision-makers in the Baltic states.

At the beginning the biggest problems in business relations was communication. Their local partners did not have any business experience and the main problem was to make them understand Western business practices. Establishing relationships has required most of their patience and understanding. Mr. Nyman emphasized the ability to listen to the locals and understanding their problems. "It would have been a mistake to tell them straight away that they were wrong. I usually said that OK, we can consider your propositions, but we can also try together one of my own ideas. This way they learned to trust us and they noticed that they were not being fooled."

Resource Commitment
After the market entry decision was made, Paulig decided not to invest in the project more than they could afford with their own money. By making the investment with no external finance, Paulig was able to minimize the financial risk related to the operation.

Besides financial resources, Paulig has also used a lot of their own personnel from Finland especially during the construction period. At present, most of the business is managed by Estonians after intensive training by Paulig.

5.2.2 Future Prospects and Problems
Paulig does not expect quick profits from Estonia, its main purpose is to attain long-term presence in the market. In general, Paulig looks positively to the future. They are going to slowly increase commitment in the Estonian market, thus keeping their risks at a low level. At the moment they do not have any plans to enter the other Baltic countries and Russia with the same plan -- a greenfield investment. Their present production facilities give them a possibility to increase production capacity with small investments. Production is presently tied to Estonian consumption, but in the future both Latvia and Lithuania as well as Russia will belong to Paulig Baltic's market areas.

The improvement of political relations between the Baltic states and Russia would be beneficial to Paulig. There are still great difficulties, especially in Russian customs, to export products
from Estonia to Russia. In addition, the consumers in Russia, Latvia and Lithuania cannot understand how the Estonians can produce better coffee than they do. Thus, the country image seems to be a major factor affecting purchasing decisions. This obstacle will not disappear in the short run, it presupposes increased communication and transfer of goods across borders.

5.3 Case 3: Valio Ltd.

Valio Ltd. is a company owned by 50 Finnish co-operative dairies. It manufactures and markets milk, dairy products and other foods in Finland and abroad. Originally founded to handle butter exports on behalf of countryside dairies, Valio has, over the decades, expanded the range of its export products to cover more than 300 different items from very basic dairy products to most sophisticated specialities. Valio is among the 20 biggest Finnish exporting companies with exports to about 135 countries. The firm has 8 foreign subsidiaries, one joint venture and 2 sales representations abroad. Eastern Europe, especially Russia and the former Soviet Union are major target markets in selling its products.

Market Entry Decision
Valio has been engaged in trade with the former Soviet Union about 40 years, and Soviet Union remained Valio's biggest foreign buyer for decades. The collapse of Soviet trade in 1991-92 was extremely difficult for the firm as they noticed that they had relied too much on this market. However, since the birth of new independent nations, their market position has revived back to the level where it was before the collapse. Russia is regarded as the firm's major market area in Eastern Europe. They main export articles are butter and milk powder. In general, a wide product range is used in the transborder areas because of short distances.

The idea for the formation of a joint venture came from the Soviet side. In fact, they insisted Valio to enter into a joint venture, or they would have stopped their imports of butter totally from Valio. This would have been disastrous for Valio as there was already overproduction of butter in Finland.

The negotiations started in 1988 having in mind starting either milk or juice production. The quality of milk was very and thus the idea of starting milk production was not relevant. The same thing happened with juice production. Valio had knowledge in frozen food production and they finally decided to invest in a factory starting to produce fish fingers. The Soviet partner was supposed to contribute fish, and Tallinn was regarded as suitable for this purpose: it located on the coast of the Gulf of Finland, it was geographically close to Finland and cultural and language problems were assumed to be of minor importance. Another reason for the near location was that Valio wanted to guarantee the quality of the raw material. The plant was completed in 1990. As a result of several problems discussed later in this case, Esva went bankrupt in 1993, but it has been able to continue production.

Market Potential and Growth
The planning of Esva did not begin with investigating the market potential; it was done later when the factory was ready. Valio decided that majority of the production had to be targeted to Western countries in order to facilitate quick returns on investment and to be able to pay back the loans that were needed for the investment. However, market potential outside of Estonia was significantly overestimated.

Their access to Western markets has been quite limited, instead they have been able to penetrate Polish, Czech and Romanian markets. In these markets they can take advantage of the product's low price. In Finland Valio has a market share of 30%. Exports to Russia are increasing rapidly. Thus, market prospects are seen as promising.

Competition
At the beginning Valio aimed to export a majority of its production outside of Estonia in order to earn hard currency. Because of poor product image and difficulties in distribution channels Valio has increased its commitment in local markets. At present the main competitors in the food industry come from Finland, Sweden, Denmark, Italy, and in some products categories, the USA. Especially in dairy production foreign firms seem to be hesitant as the threat of a
sharp increase in the price of milk is prevailing. Valio regards its logistic advantage as the most important factor improving its competitiveness when compared to its main competitors. Thus, it is not so important for them to start production in Estonia. Straight exports from Finland are regarded important because they can guarantee the quality of their products and the production capacity is at a higher level in Finland.

Risks and Problems
The main problems related to the JV creation were in fact mistakes made in the planning stage of the JV and problems related to the partner relations. The business idea was too production-oriented, the main idea was that they should only secure the obtaining of raw materials and that the business should have something to do with the food industry, Valio’s main competence area. They had no calculations at what prices and of what quantities they could sell their products. They also made an assumption that the products could be sold to world markets, although Valio had no experience in marketing fish fingers abroad. They had no customers and no distribution channels, they had nothing in place for the marketing of fish fingers.

The European markets had been saturated and the image of the products were not good because of the poor perception of Estonian products. Consequently, they had to invite every potential buyer to the factory and convince them of the quality of the production. In terms of production quality the factory is assumed to be one of the most modern in Europe.

Another problem occured in raw material supplies. The Soviet partner had convinced them that they could supply the fish Valio needed. The first problems occured when Estonia gained back its independence: they did not have any international fishing rights as these rights belonged to the Soviet Union. At that time Estonia had bigger concerns than taking care of its fishing rights. The fish they were able to supply were grey instead of white. Customers in their main market areas did not like that colour of the flesh. Soon after, the partner could not supply any fish. Finally Esva was forced to import its fish from other countries, mainly from Argentina and Poland using hard currency. This was also fatal because they had calculated that all the raw materials could have been bought in roubles and the final products sold in hard currency. Thus, they lost their efficiency advantage over their major competitors. As the products did not meet the qualifications of customers, they had to sell the products at a much lower price than anticipated. Additionally the distribution networks did not function well enough. As a consequence of these problems, Esva finally went to bankrupt in 1993. Since the bankrupt, Esva has been able to continue production and today the company is operating profitably.

Esva has also encountered problems with local managers. The old hierarchy in management decision-making seems to still prevail. The older managers have achieved their position through previous achievements and have usually low commitment to the firm’s decision-making. Thus, Esva is more willing at the moment to hire young managers, which are eager to learn new management issues, are devoted to their work and, and want succeed in what they are doing.

Political Imperative
The most important political imperative has been the independence of Estonia, which resulted in the disappearance of Estonia’s fishing rights and stopped raw material supplies to Esva. Soon after, also the Soviet partner disappeared as a result of the break-up of the Soviet Union. At the moment Esva has strong trust in the local government and political risks are thus regarded as minimal. It is believed that the local political decision-makers understand the importance of foreign firms in the restructuring of the economy.

Form of Operation
A Finnish-Estonian joint venture Esva, in which Valio has 48% ownership, started production in 1990. In 1992 Valio established a wholly-owned sales subsidiary Valio Eesti A/S to import Valio’s other products to Estonia.
Marketing Channels and Distribution

Valio did not have any foreign distribution channels available for exporting the products produced in Estonia, and it took too long time to build the channels.

Business Relations

Relations to agricultural officials and production organizations have been important during the whole existence of Esva. Long-term personal contacts have been established. In order to develop its image, Valio has also educated annually Estonian students in their own Dairy School in Hämeenlinna, Finland at no charge. Relations to political decision-makers have been important because it was considered to be difficult to set up food production without local participation. Market information is collected mainly through Valio’s own personnel in Tallinn.

Valio had at the beginning only one partner, an government-owned Estonian fishing group Estrybrom. A little bit later a Soviet Ail-Union fishing group Sovrybflot joined Esva in order to improve the raw material supply. Their contribution remained unclear from the beginning as they could not improve the raw material supply in any way.

Good personal contacts with the Estonian managers working in Esva are seen as critically important. Maintenance of good relationships has also resulted in joint leisure trips to Lapland, for example.

Resource Commitment

During the past five years Valio has invested in Esva about 80 million FIM (including the guarantees paid to the bank). Valio has also invested in management education. After the bankruptcy Valio has decided to invest in advertising in order to improve company image and to get a wider awareness of the company and its products both in Estonia and Russia. This aggressive policy is also a way to prepare for the future. They are also investing in the education of local retailer sales personnel.

Valio had partly guaranteed the loans for Esva and as it went bankrupt, Valio had to pay a debt of 65 million FIM. The Estonian partner had approximately the same amount of guarantees, but they could not pay. Thus, the Estonian partner still owes the bank the same amount of money, which makes things more complicated.

5.3.2 Future Prospects and Problems

Because of the problems described above, and Esva’s ability to service its loans it went bankrupt. Esva has three options for the future. They can either continue their operations under a new name and leave the previous debts behind, or the bankrupt’s estate could sell the whole factory. The latter one does not seem to be a relevant alternative as the Estonian government does not want to sell. They feel that the plant is one of the finest foreign investments made in the country and they want to keep it. The Estonian partner has still a majority position in the company with 52% of shares. On the other hand, it would be difficult to sell the company to any foreign producer because almost one third of the production is sold to Valio and thus distributed in Finland.

The third option would be that Valio buys its partner out of the venture and then eliminates fish production. The plant could be quite easily modified for dairy production with minor investments. Esva has frozen food production and refrigeration equipment and thus could start producing icecream or yoghurt, for example.

Short term threats stem from import duties and long run threats of losing competitive advantage because of increasing expenditures. Crime has not been a major problem for Esva, but it is expected to grow in the future. This is expected to be a political problem: with no government interference growing crime will scare foreign firms out of the country.

In the long run, the uncertainty related to increases in purchasing power still restricts the willingness of the company to invest in production in Estonia. The quality and continuous
access to raw materials is another concern. If the name of Valio is printed in the product package, they want to be sure that the product is of high quality. Another threat in local production is that the products could be re-exported to Finland at a lower price and thus it would threaten Valio's domestic operations. On the other hand, if import tariffs increase, it emphasizes the necessity of the firm to consider local investments properly in advance as the investment process itself takes quite a long time. At the moment Estonia is still very much dependent on imported food products and thus import tariffs are kept low.

5.4. Case 4: Raisio Margariini Oy

Raisio Margariini is a firm producing consumer margarines for human consumption. It is one of the largest actors in this market in Finland. It is a part of the Raisio Group which specializes in producing different food-products. Its main international activities are export activities, which are fairly new.

5.4.1. Market Entry and Business Development

Market Entry Decision

In 1992, Raisio Margariini [RM] decided to move the headquarters of its export operations from Finland Germany. At that time exports of margarine to the Eastern bloc (Russia and the Baltic countries) were rare.

The first contacts to Estonia were looked for in 1992. Mr. Jonsson of RM, the interviewee, was at that time responsible for the firm's exports. At the beginning he made several trips and took part in many seminars in Estonia. These first visits did not materialize any direct business. One can say that the decisive moment for a take-off in business was after the summer 1992 when Estonia introduced its own currency. Many so called "jobbers" showed up at this point and requested for all kinds of products from the West. This kind of small business did not interest RM. They sought bigger business, and the minimal transaction considered was a full container of butter (and/or margarine). RM looked for buyers from this standpoint. The business started in August 1992, and has reached a relatively stable level quite quickly in the first half of 1993.

Estonia is considered to be a home market area for Raisio. For this reason RM has kept a certain level of exports always available for this market, despite the fact that the export markets to Russia and Poland are huge in comparison to Estonia.

The natural closeness to Estonia is an important factor. Because of the population concentration in the area around the capital of Tallinn, the products of Raisio are familiar to many Estonians through the Finnish television advertisements. As expected, Estonians initiated contacts with RM, thus providing a triggering signal for RM exports.

Market Potential and Growth

The company knows the potential of the market both in relation to the population and its income level. The company did not set up strict objectives concerning sales volumes to this specific market. In relative terms, if we consider Estonia as being a home-market, the country altogether would, in fact, constitute the second largest market-area after Helsinki, according to the population figures.

The company has a certain index for how much a market uses fats for human consumption. It is a complex task to clearly state how much a market uses these kinds of products.

RM has had and still has close relations to the margarine factory in the Estonian capital of Tallinn. The local figures of consumption and markets were based on the Estonian firms' own business experience. It was not, of course, possible to think that any official regional or national statistics about these matters would have existed.

Possibilities for further market development still at the exist. Estonia can be regarded as a virgin "standing forest", full of exploitation possibilities, according to Mr. Jonsson. Everything is still
in the hands of the company itself for taking the opportunity to exploit these possibilities. RM's strategy from the start was brand-product marketing to Estonia which seems to have been a good choice.

**Competition**
Right from the start the competition in these new markets was strong. RM started exporting to Estonia by selling the product "Voimix" (a soft, high quality margarine to be spread on bread). RM could not at the beginning take advantage of the "pull" from the market. The smaller quantities were ordered from some other suppliers. The most important competitors were (and still are) the Swedish margarine producers, but one can say, in a sense, that most European brands are on the market. Another competitor from Finland is Unilever, which exports an international brand produced in Finland.

The competitors (Swedish, Danish, Norwegian and other European producers and Unilever in Finland) have used another strategy. They have tried to produce low-quality products and compete on price. According to Mr. Jonsson there are important differences between margarine products.

The competitive situation is developing all the time. According to Mr. Jonsson the competition closely followed the following stages of development:
1. Unorganized private business in a new unstructured "wild" market
2. Currency-based trade
3. Privatization stage of currency-based firms and wholesale functions emerged
4. Organized wholesale structure for food products

The competition at present is strong. Many producers use the slogans, names and advertisements closely related to the ones used by RM in marketing its margarine "Voimix", which has a strong position on the market. The legislation is still undeveloped and therefore RM has little legal recourse. These were used when competitors sold minarin (at least 40% fat content) instead of margarine (at least 60% fat content). This would be totally unacceptable for example in Finland and it is against the law.

**Risks and Problems**
The risks were of course eliminated. The fact that business started with cash against delivery of products enabled to eliminate some of the risks. This pre-payment arrangement did work until the autumn of 1993 when a wholesaler structure was taking new steps forward. The foreign sellers have shifted to payment periods of 25-30 days. RM has to adapt to this situation. This directly means a credit risk for the company. The guarantees are almost impossible to get from an Estonian business partner. There are still problems with banks in Estonia.

Except for the monetary risks and problems with guarantees RM has not faced any other forms of risks. RM has not experienced any contact with Estonia's criminal element so far. In this sense RM has only positive experiences from the market.

**Political Imperative**
Raisio has developed relationships with the highest political leaders in Estonia. The managers of the company have been involved in discussions with these political leaders. According to Mr. Jonsson these discussions have not had any impacts whatsoever on company operations in this specific market. There was an objective to build up a contact network from the outset, but the real network, important for exports, was formed from contacts other than political. The discussions with political leaders was aimed at possible establishments in Estonia in the form of direct investments or joint ventures. Nothing new has emerged politically since the start according to the informant.

**Form of Operation**
RM has used right from the beginning exports as a form of operation in the Estonian markets.
**Marketing Channels and Distribution**

Operation involves close cooperation with the local dealer, which is also the local buyer. This means, in fact, that the country does not yet have a national dealer system, seller system or marketing organisation.

Today Estonian business is done using the ex-works clause, which means that the Estonian partner picks up the goods from Finland. The dealer structure and channels of distribution are under a rapid change, as already indicated. The wholesaler network is being developed now using foreign capital and ownership to a large extent. The Finnish wholesalers are on the fringes of this development. For example, the Finnish firm KESKO (the biggest wholesaler chain in Finland) will during the spring 1994 open its own wholesaling outlet in Tallinn. As more larger and more efficient chains enter the market, more demands are being put on deliveries. Earlier on, the market in Estonia was demand driven. The day when the distributors become active sellers in the market is not too far away.

**Business Relations**

RM has established business contacts only to serious business partners on the market. The first intense phase of "wild" contacts was at the startup, for more serious business relationships to be formed in this new market. The development of business relationships is much more straightforward on the East-European markets than in the West.

Local firms claiming to be experts in marketing, selling and advertising made contact with RM at this first stage. They told RM that they were specialists on these areas. Unfortunately they had no experience in these areas!

Back to the role of wholesalers on the market, one can say that the triggering function in RM's entry was held by, to a certain extent, the renewed trading houses of the former Eastern trade. The Raisio Group had contacts to the old Soviet-Estonia. The country became independent but the old trading structure was able to continue its operations. This was especially the case concerning food products. The trading houses firstly contacted the newly formed wholesalers. Many of the former margarine business people now are in charge of the banking business in Estonia (after reaping huge profits from early market prices of consumer foodstuffs, including margarine).

The first intense phase of contacts has now been stabilized and contact with the largest wholesaler of food products on the market has been made. The structure of business is now in the hands of those business people who decided that the food business is their main target, and the old method of "scrambled merchandising" is disappearing.

**Resource Commitment**

The single most important transaction has been the 10 mill. FIM investment in the new factory in RM. In total the investments have been much larger. Some of these are so called "forced investments" because of the needed larger quantities. Employment figures have increased also. The investment into an export organization is another internal investment which was built up a few years ago. Today in food production Raisio Margariini has four managers and personnel tied to export activities.

**5.4.2. Future Prospects and Problems**

The threats are basically tied to country-risks. The development of agricultural politics is a large question mark which might influence coming strategies. The protection of Estonian agricultural production has been on the agenda since the country's independence. One does not build up a new food-production industry in Estonia overnight. The country does not at present have the national strength and resources to do this.

In Estonia the food deliveries do not work. How people are fed is a matter of political decision-making. The crucial question is how long the country can afford to pay for the imports of foodstuffs from abroad.
In Estonia one problem is the fact that the new government is not tied to decisions made under the old regime. One can never be sure what the government will come up with. In Estonia there seems at present not to be any direct barriers to trade, and only a few indirect barriers. For example, ships from Finland were not given permission to regular traffic Estonian harbours.

The mental business climate is quite good. In Estonia there are many young business people who are Western-oriented. The future in this sense looks promising.

6. TENTATIVE RESULTS

The results of the study clearly stress the ability of organizations to learn from their business networks and environments. The interpretation and understanding of the changes in these networks and environments have in turn created a need for company adaptation. Out of the case descriptions only some tentative results can be presented at this stage of the research project. The conclusions are tied to the key concepts presented in the theoretical part of the study: (i) learning, (ii) adaptation, and (iii) process.

Learning
Our tentative results suggest that learning is an extremely dynamic factor in the establishment and development of business networks in a complex and fast changing environment.

It was not surprising that learning usually did not take place as a result of gaining new insights and skills from partners. Thus, learning was reaction oriented, that is it took place mainly through interpretation and understanding of the environmental changes.

The results indicate that learning is a long process, where benefits can be achieved only in the long run. During market entry learning was more experimental, which resulted in behavioral changes (adaptation) prior to understanding what the optimal behaviour would look like. In the long run, learning became more internalized by the companies, thus covering at least partially interpretation and understanding of the environmental changes and of doing business in an unfamiliar and fast changing environment. In more competitive markets -- like in the case of Valio -- this would have been riskier, but the companies were among the first to penetrate the markets in their own fields.

Successful learning in business networks is strongly influenced by the ability of the Western partner to interpret the cultural and managerial differences of the Estonian partners. The results seem to indicate very strongly the role of flexibility and understanding of these differences, are vital when establishing and developing business relations.

Mutuality in learning was also emphasized in several cases. In this process, the issues to be learned must be transmitted to the Estonian counterpart, and finally to the whole organization. The results indicate that the Estonian partners’ ability to absorb skills from their Finnish partners succeeded usually better than anticipated. Teaching and learning of management issues takes time, but it is a prerequisite for the network relationship to function properly. Thus, firms do also invest in the relationship.

The results of the study seem to reveal that learning is closely associated to close linkages of the Western firm to local partners/customers and/or politicians and different authorities. The more attention paid to the establishment of good personal relationships, the better are the possibilities for learning.

Adaptation
The following conclusions of adaptation in business networks and to the environment are emphasized. In business networks the basic task is to overcome the mental gaps of partners created by cultural and managerial differences. Intensive communication and education of the partners became evident through our cases. Adaptation taking place in business networks was cited as one of the most important factors predicting a firm’s potential for success.
Adaptation to the local environment is another important issue. Through learning (even if experimental) firm managers build their cognitive maps and adapt accordingly to the environmental stimuli. Besides behavioral issues, adaptation of technology, products and resource commitment were used by the case companies. The case companies emphasized that technology has to be related to the development level of the host country. The level of automation is lower, however the resulted products are still of higher quality than other local production.

It seems that in food production the Western firm needs a "local" image in order to have more positive effects on demand, at least in the long run, when self-sufficiency in food supplies becomes more pronounced than at present. Paulig and Hartwall emphasized their interest in being a part of the development of their industry in Estonia and both have created local high quality products. Consumer attitudes are influenced by strong nationalistic feelings. Although products that are produced in the market have a strong local image, there seems to be difficulties in selling them abroad because of this local image. Thus, country images matter only locally as they seem to have more negative effects in exporting, either to the Western market economies or other countries of Eastern Europe. Resource commitments have been increased only gradually.

Finally we want to emphasize the link between learning and adaptation. If firms are not capable of learning -- that is, interpret and understand the meaning of internal and external signals -- they also cannot adapt successfully, and instead just adjust their activities randomly. In the latter case, any successful experiences of the business are purely accidental.

**Process**

Processual nature of network development takes place at the individual, group and organizational level. Process is influenced by the complexity and speed of environmental changes and abilities of the network counterparts. Technology, culture, politics, products and processes etc. in a transition economy like Estonia form a specific, turbulent event-structure for business.

The processual nature of learning became evident in the case companies. This is naturally linked to the transition of the economy itself, as it is also a process that evolves over time, and fundamental changes, having a greater impact on the firms' strategic decisions, will take place in the long run. Learning through experimentation also emphasizes its processual nature. The length of this process at the organisation level is mainly influenced by the characteristics of individuals -- their ability to interpret and understand the internal and external signals. The processual nature of learning became evident in the case of RM. This firm had little market knowledge compared to the others and also learning effects were considered minor compared to the other case companies.

As the final conclusion we want to stress that learning and adaptation are both ongoing, mutual processes of the actors involved in a business network. Further information is needed to examine the factors that facilitate or inhibit learning and adaptation in starting and developing business networks between West and East European companies.
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