NONLINEAR INTERNATIONALIZATION DURING ECONOMIC TRANSITION: THE CASE OF KRENHOLM GROUP (ESTONIA)

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ABSTRACT

The paper aims to investigate the internationalization process of a Swedish-owned Estonian textile producer Krenholm Group (established in 1857) during economic transition. Based on the literature on slow internationalizers, born globals/international new ventures, de- and re-internationalizers, born-again globals/late starters, the studies on the impact of economic transition on internationalization and on the case study evidence (mainly from the last two decades), the paper concludes that during the internationalization process, a firm's pace of internationalization, selection of foreign markets and export shares of these countries may change several times. This process may be strongly influenced by critical incidents – like sudden changes in the business environment, management or ownership – but also by several other factors. The paper ends with managerial and research suggestions.

KEYWORDS: internationalization, foreign subsidiaries, transition economies, case study

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The research was financed by the Estonian Science Foundation's Grants No. 7405 and 6493 and target financing of the Estonian Ministry of Education and Research No. 0180037s08.

INTRODUCTION

After active research on internationalization processes for more than four decades, several views and approaches have emerged. Some of them have concluded that the internationalization process is usually slow, starting from psychically closest countries and simpler entry modes and continuing with farther markets and more complicated modes, while according to some others, a large number of companies internationalize much faster. On the other hand, non-linear internationalization – including changing the pace of internationalization, entry modes, export shares and the shares of some markets – and the (f)actors influencing it have not received as much research attention although several authors have acknowledged the existence of the research gap in studying such enterprises and internationalization processes. For example, according to Oesterle (1997), neither sequential nor the born-global approaches could explain the full reality and complexity of firms' internationalization. Bell, McNaughton and Young (2001) have acknowledged the existence of many situations between instant and slow internationalizers and the firms never entering any foreign countries. Axinn and Matthyssens (2002) have claimed that the existing internationalization theory is not sufficient to explain all ways of internationalizing – like using combinations of entry and exit strategies. Meyer and Gelbuda (2006) have emphasized the need of studying Central and Eastern European firms as due to the region's complicated history they might not follow the more traditional internationalization routes.

This paper aims to study the internationalization process of a Swedish-owned Estonian textile producer Krenholm Group (established in 1857) during economic transition. Due to the lack of a specific theory on all the aspects of nonlinear internationalization, the literature review of this paper is based on different research streams: the studies on slow and fast, de- and re-internationalization; the ones on born-again globals and on the specific context of Central and Eastern European transition countries. After the methodology section, the case story including information about Krenholm Group's market selection, entry modes, pace of internationalization and the internal and external (f)actors influencing them follows. The study mainly concentrates on the last two decades, but it also includes some earlier data. After discussing the results, the paper ends with managerial and research suggestions.

LITERATURE REVIEW

Although no clearly identified research stream deals specifically with all the aspects of nonlinear internationalization, several studies have mentioned some relevant issues: for instance, Bell, McNaughton and Young (2001) have introduced the concept of "re-born" or "resurrected globals": the companies that after ending their international activities and having none for several years, have been taken over and begun to internationalize fast. Several authors – for example Akhter and Choudry (1993) and Pauwels and Matthyssens (1999) – have acknowledged that some companies may exit and later re-enter some foreign markets. Still, the factors causing such changes in internationalization processes deviating from the slow/gradual or the fast/global path have not received enough research attention. As nonlinear internationalization may have some characteristics of the two more widely studied internationalization processes, it is also necessary to make a short overview of the existent internationalization literature, not only the few studies on nonlinear internationalization.

The authors of the Uppsala (or U-) model (including Johanson and Vahlne, 1977, 1990 and Johanson and Wiedersheim-Paul, 1975), and the innovation-related internationalization (I-) models (for an overview, see Bilkey, 1978 and Morgan and Katsikeas, 1997) have stated that slow internationalization is caused by the lack of experiential market knowledge in the beginning of international activities. At first, firms concentrate on their home market, but then enter closest or comparatively similar and well known countries and use entry modes with less resource commitment: for instance, exporting. After that, they enter other countries and use other entry modes: for example, open overseas sales and production/manufacturing units. Some developers of these research streams have acknowledged that firms may internationalize much faster if they have useful network relationships (Johanson and Vahlne, 2003), helpful foreign owners (Wiedersheim-Paul, Olson and Welch, 1978), considerable experience from similar markets or if they are large or resourceful and their market conditions are stable (Johanson and Vahlne, 1990).

According to the literature on born globals/international new ventures, many companies “leapfrog” into internationalization instead of making incremental steps (Oviatt and McDougall, 1994). This has been caused by the changing global business environment and influenced by several other (f)actors: firm size, unique resources and capabilities (Zahra and George, 2002) and their top management’s desire and commitment to internationalize from the beginning (Madsen and Servais, 1997). Still, some authors – including Oviatt and McDougall (1995) and Wickramasekera and Bamberry (2003) – have stated that such firms may fail because of their newness, inexperience, limited resources and networks.

Some authors have also studied internationalization deviating from linear paths. In addition to Bell, McNaughton and Young (2001), Johanson and Mattsson (1988) have also shown that some domestic-market-oriented firms can suddenly internationalize very fast, skipping nearest markets and simplest entry modes. Such “born-again-globals”/“late starters” may emerge because of critical incidents – acquiring an international company, the internationalization of domestic customers, management or ownership changes (Bell et al., 2001). Several authors (including Blomström, 1990; Dunning, 1994 and Lall, 1993) have agreed that after becoming foreign-owned, companies may internationalize fast because they get know-how, financing, contacts, managerial and marketing assistance. On the other hand, the owners may cut off their foreign markets, make them continue low-value-added activities instead of developing others or confine their linkages with the firms not belonging to the multinational network (Dunning, 1994).

Increasing attention has been also paid to de-internationalization: reducing operations or completely withdrawing from a specific market or switching to entry modes with smaller resource commitment (Calof and Beamish, 1995; Benito and Welch, 1997). There are also some studies on its opposite re-internationalization. These processes may be caused by radical changes in economic policies and industry conditions (Akhter and Choudry 1993) and influenced by exit and re-entry costs (Roberts and Tybout, 1997), managers’ attitudes and previous experience from ending or renewing international operations, the company’s overall commitment to international operations (Benito and Welch, 1994, 1997) and the strength of its network relationships (Hadjikhani, 1997).

In addition to entry modes and market selection methods, it is also important to study the firm’s operating environment. According to Malo and Norus (2006), Meyer and Gelbuda (2006) and Meyer and Skak (2002), the internationalization of Central and Eastern European companies has been impacted by this region’s complicated history. It was especially hard for these firms to internationalize in the beginning of the 1990s, as new companies lacked experience, contacts or foreign market knowledge, while older firms lost some of their previous markets as competition increased. Moreover, both enterprise types have had to deal with losing their low-cost production advantages. Such changes have led to nonlinear internationalization.

METHODOLOGY

A case study method was selected as it enables to conduct research in countries with a sample base too small for using statistical generalization (Chetty, 1996), to combine previously developed theories with new empirical results, investigate phenomena within their real-life contexts and develop new and empirically valid theoretical and practical insights (Eisenhardt, 1989; Gummesson, 2006; Ghauri, 2004; Yin, 1994). This paper is based on a single case as this increases the depth of study (Voss, Tsikriktis and Frohlich, 2002) and allows paying more attention to the less obvious aspects of the investigated setting (Gibb Dyer and Wilkins, 1991).

According to Hitt et al. (2007), to understand complex subjects, multilevel research should be conducted. It should examine the issues at individual, organizational, country- and other levels, while most of the current researchers have selected just one. Zucchella and Scabini (2007) also suggest studying internationalization from a wider and more dynamic perspective instead of concentrating on single decisions and events. This study tries following these suggestions.

The next section presents a story of an Estonian textile producer Krenholm Group (KG). The results are discussed in the following part of the paper. This company was selected because it has had a long and complicated history – the firm was established in 1857 – and its development has not been linear: it has not grown in a smooth pace and it has experienced several periods of local and international growth and decline. KG has been state- and privately-, locally- and foreign-owned. It has been strongly affected by Estonia's economic transition. Moreover, this company has received considerable attention from the Estonian press (there are several hundred articles mentioning its name at least once), so it is easy to get additional information about it. To increase the validity and reliability of the results, allow data triangulation and increase the probability that essential information has not been left out (Karlsen et al. 2003), in addition to interview materials collected from 2002 from interviewing the firm's CEO, different other data sources – local newspapers, the case firm's homepage, its and its foreign owner's annual reports and other materials in Estonian, English, Swedish, German and Russian – were also used.

CASE STUDY EVIDENCE

Baron Ludwig Knoop (1821-1894) established KG in 1857 in Narva, Estonia. The country was then a part of the Russian Empire and in the last two decades, L. Knoop had founded more than 120 textile companies there (he studied in Manchester and in 1839, was sent to Moscow to represent a British firm De Jersey supplying Russian textile producers with cotton and machinery; after establishing useful contacts, he started establishing and developing his own factories). Production in KG started in 1859. With 4500 employees, it soon became Europe's largest textiles factory. In 1872 – two years after a railway line was opened between Paldiski, Tallinn, Narva and St. Petersburg – the number of employees increased to 6000. The factory produced cotton thread, fabric and wadding, supplying them to the whole empire, but also to Southern China and some other countries. KG's success was based on new machinery, high quality, optimal prices and a favorable business climate. In 1900, it received a Grand Prix at the Paris World Exhibition. In 1913, the company produced 11 percent of the empire's cotton products. It had 10 200 employees. After Estonia became independent in 1918, the Russian market fell off and the firm was restructured. Instead of Russia, it started exporting to Western Europe and Scandinavia. KG was not very successful at first: its turnover decreased five times, it lacked cotton and by 1921, the number of employees had fallen to 1400. Still, it managed to continue operating. Moreover, it started producing more types of fabrics and opened sales offices in London, Oslo and Berlin. Even the economic crisis in the beginning of the 1930s did not harm the firm considerably: as customs duties increased, it paid more attention to the home market.

In 1940, the firm was nationalized. During WWII, its factories were strongly damaged, but KG (then called Kreenholmi Manufaktuur) was rebuilt. One of its factories was reopened in 1945, while reconstruction of the rest of KG was finished in 1962. In 1966, a new finishing factory was opened. The firm's sales were reoriented mainly to the Soviet market and its production capacity was increased: the Soviet market was guaranteed for the company, so it did not have to do any marketing. In co-operation with another Estonian textiles producer Balti Manufaktuur (later renamed Baltex 2000; since the end of 2005, the firm has not produced any textiles; its owners have concentrated on real estate development instead), KG produced 183 million meters of textiles a year. In the 1980s, the firm had 13 000 and before becoming Estonian state-owned in 1991, 11 000 employees. In the 1980s, the Planning Committee also allowed KG to export to 22 countries (95 percent of turnover went to the Eastern Bloc and the firm supplied a large share of the Soviet Union's internal market).

In 1991, the Soviet Union dissolved and that market fell off because of unstable demand, high Russian import tariffs, the lack of an investment protection treaty, low prices and lost contacts, so the company had to find new customers. The firm's situation was especially serious in February 1992 when it had to lay off 4000 employees because of substantially increased cotton prices. In 1991-1995, KG filled unsolicited export orders for intermediate buyers from different countries but had no resources, knowledge or original products to export directly. When an order from European or American intermediate buyers came, the firm was able to buy cotton and complete it. KG's main competitive advantage was the ability to produce large amounts with low costs.

Despite of its low-cost advantage, KG was in serious difficulties – as its future was unclear, the banks did not agree to finance the firm, it was not able to invest in new machinery and the suppliers only agreed to sell cotton if it was pre-paid. KG also lacked operating assets. A part of its production operations was closed down and the number of employees was reduced. As a result, the state started looking for a potential investor. The representatives of a Swedish public company Borås Wäfveri AB (BW; a textiles producer established in 1870) visited KG in summer 1993 as one of BW's board members Madis Üürike (and Estonia's Minister of Finance at that time) suggested them to invest to Estonia instead of Poland that BW was planning to enter.

In 1994, KG also started sewing. Estonia's free trade treaty with the EU affected its exports positively as it gained an advantage compared to Russian, Middle-Eastern, Asian and other producers. In December 1994, BW bought a 75.5 percent share of the enterprise (in 1997, it increased its share to 85.8 and in the beginning of 1999, to 100 percent) for 0.8 million EUR, but it also had to 1) cover its debts and interests of 16.84 million EUR (a large share of them was accumulated in the beginning of the

1990s when the firm exported to Russia and had to pay taxes for sales for which the buyers never paid), 2) retain at least 2000 jobs out of 5700 and 3) invest 1.28 million EUR in three years (during that period, the owners actually invested five times more). In 1994, the firm's turnover was 34.3 and net loss 2.1 million EUR (for the data from 1995-2007, see Figure 1). KG started developing and exporting its own products.

As in the Soviet time the firm's employees had not had any marketing experience, KG started schooling them in 1995. Moreover, it started co-operating with Tallinn Art University (now the Estonian Academy of Arts) to train its designers. In August, the firm opened a fully owned sales subsidiary Krenholm Scandinavia AB in Sweden. In that year, its turnover was 45.1 million EUR and the company's main export markets were the USA with 55 and Finland with 10 percent of turnover (for the data from 1997-2007, see Figure 2), while the share of its local market Estonia was about 10 percent and the share of Russia was reduced to 0 as the firm's new general director Meelis Virkebau refused trading with it. The firm's average monthly salary was 95.7 EUR (for the data from 1995-2007, see Figure 3). It decided that in order to reduce risks, it should not export more than ¼ of its turnover to any single market.

In 1996, KG exported almost 95 percent of its production. The main market was still the USA with a 48% share. About 22% was exported to Scandinavia and the rest to Western Europe. The firm started producing medical and other working clothes. It found new customers because some of its Eastern European competitors were closed down. The year ended with a net loss as the cotton prices increased due to the strengthening of the USD: KG bought cotton for 28 and sold its products for 22 million USD (for the rest of production, the buyers paid in other currencies): moreover, it had taken some USD loans. Increasing production costs, a too large number of employees and lack of modern machinery also caused problems for the firm. In November, its employees threatened to start a strike if their salaries would not be increased, but the company managed to reach an agreement without increasing them.

In 1997, KG started to cover the tax debts it had accumulated before privatization (before, it only had to pay interests). It had liquidity problems because the Estonian Taxation Department delayed refunding VAT from exports for up to 50 days. Still, the firm continued exporting and also opened a sales office in Germany. It radically reduced its export share to the USA because of its earlier decision not to sell to any market more than a quarter of its turnover, but also because of high transport costs and relatively low prices there (the USD strengthened, but the foundation of NAFTA gave free access to Mexican producers and this reduced textile prices in the USA). Thus, exports to European countries were increased instead.

In 1998, KG had negotiations for buying a home textiles producer in Holland, but they failed as the firms could not agree on the price. That year, the Asian and Russian crises began and KG struggled with an increasing minimum salary, a strengthening USD, a lack of long-term investment credit and falling world textile prices. Still, the firm invested a record 6.07 million EUR to its production as it could not complete all the orders because of insufficient production capacity. It reached a 60 percent share in the U.S. cotton diaper market, opened a sales office in the UK, started negotiations with the International Finance Corporation (IFC) to get a long-term loan for developing the company further and next spring, for all its efforts, received a prize Estonia’s No. 1 Exporter 1998.

In 1999, a subsidiary Krenholm Germany GmbH was registered. This enabled KG to offer quicker and more flexible customer service, sell the whole product assortment more effectively and increase its credibility on the German market. In the beginning of that year, the firm's turnover decreased because of strengthening of the USD and due to the Asian and South-American crises – their producers sold their textiles below their net costs while KG refused to lower its prices. On the other hand, the firm was positively affected by the launch of the EUR (in non-physical form) in the beginning of that year and by Estonia's accession to the WTO in November: this simplified trade. KG also benefited from the contract with the Estonian energy producer Eesti Energia that agreed to freeze electricity prices to 0.0268 EUR per kWh for the next three years: if it would have increased the price to 0.03 EUR as initially planned, KG would have begun buying energy from Russia (it was also connected to Russian lines since the Soviet time) or started producing electricity itself. The firm also managed to bargain a lower water price than was originally offered.

In 2000, the enterprise exported to 24 countries. In that year, it received a 25.8 million EUR loan/investment contract (signed in the end of 1999 and ending in 2012) from the IFC, Nordic Investment Bank and Nordic Environment Finance Corporation to invest in machinery and logistics, refinance some of its loans and increase operating assets (in addition to that, the IFC also offered management consulting that KG's CEO found very useful) and started building a new sewing factory. The global textiles demand increased as several countries started recovering from the Asian, Russian and South-American crises, but KG had problems because of the strengthening of the USD as it bought all its cotton and had also taken large loans in this currency but sold most of its products in the EU. In addition, the firm's reputation suffered as some other companies illegally sold Russian, Ukrainian and Belorussian lower-quality textiles in Europe under KG's trademark.

In 2001, online sales started and soon reached 10 percent of total sales. Also, a modern sewing factory – according to the firm, Europe's largest – was opened in

August. It started producing terry towels, working clothes and other products. Previously, KG had used some Estonian subcontracting partners, but some of them had had lower production quality and delivery timeliness, so, the opening of the new factory enabled KG to end such partnerships. In November 2001, it acquired a new subsidiary – Aurora Fabrics Ltd – to market its production in the UK. Still, its turnover and exports decreased slightly as demand in USA and Germany decreased: after September 11th, the EU increased Pakistan's textile import quota by 40 000 tons because it allowed British military aircraft to land there. Moreover, free trade treaties between the EU and the South African Republic and between the EU and Mexico were signed, while the conditions of the NAFTA were expanded to Central Africa and the Caribbean. In addition, KG had to pay higher interests than planned as the USD strengthened that year and it also had to raise its salaries as the Estonian minimum salary increased. Still, the company managed to earn a small profit.

The year 2002 ended with a loss. Customers' orders fluctuated considerably in different months, so, in some periods, the firm could not fulfill all of them although it had received additional weaving equipment from their owners' Swedish plant, while in some others it had excess production capacity. As several countries' local currencies were replaced by EUR, customers (especially in Finland) started to mistrust the new prices – as some shops had deliberately miscalculated them in their favor – and decreased their demand. Moreover, between October 2001 and January 2003 cotton prices increased by 80 percent, while the world demand for textiles fell. The fall was especially large in Germany: one of KG's main markets. In addition, one of its major customers in the USA – Kmart – went bankrupt in January 2002 and so the firm also decreased its exports to that country.

In January 2003, Meelis Virkebau – the firm's general director since 1995 – decided to leave it, as his and BW's new owners' and managers' understanding of KG's future development and management differed. The owners wished to reduce the firm's decision-making autonomy as it had invested in machinery without paying enough attention to sales and thus had not fulfilled its plans for several years. The firm used only 75-80 percent of its production capacity. Virkebau claimed: "It is not right for a CEO abandon his beliefs and become an obedient puppet. An enterprise is successful only if it has a thinking leader." After Virkebau, Mats Skogman from Sweden took over the firm, but left a year later because of personal reasons. He was followed by Matti Haarajoki from Finland who is still the firm's CEO. In January 2003, the firm reported that in total, the owners had invested 45.38 million EUR into its development, of which 8.31 million in 2002. Still, the company could not earn a profit as cotton prices continued increasing. Moreover, the USD weakened and the firm's exports to the USA decreased from 22 to 16 percent of its turnover. All these problems led the firm to dismiss hundreds of employees and it had to pay them compensation that also increased the company's losses.

In 2004, KG had to sell its mail order department and some of its real estate and BW had to invest considerably in the firm in order to avoid the KG's liquidation due to negative share capital. Because of these investments, that year ended with a small net profit but without them, the company's net loss would have been larger than in 2003. KG's customers were not satisfied with the firm's relatively high prices, relatively low timeliness of supplies (although this improved somewhat after the 1st of May when Estonia joined the EU) and inability to produce textiles wider than 1.5 meters, while they were more interested in those wider than 3 meters. The demand decreased the most in Germany. The weakening of the USD also reduced KG's exports to the USA. The firm managed to increase its exports to Nordic countries but its overall turnover continued decreasing.

In the beginning of 2005, KG's employees threatened to start a strike if the firm would not agree to retain some of their benefits – for instance, for night shifts – and keep their salaries at least on the same level. Still, they managed to reach an agreement without a strike. In January that year, the textile market of the EU was opened to all WTO members. This affected KG's exports negatively as competition increased considerably and the firm lost it former advantage of offering larger quantities for lower prices. Instead, it had to start producing smaller amounts (but not very small as its machinery was not effective for that) and offering faster deliveries than Asian producers. KG also had some costs because some machinery allowing the production of "intelligent" hi-tech textiles and those wider than 1.5 meters was installed from the owners' closed plant in Ryda, Sweden, so it had to pay for their transportation and employee training. That year, the firm earned a profit only because its owner covered 65 percent of its loans and also took over the rest of its loan payments (including those to the IFC).

In 2006, BW's equipment for producing polymer-coated fabrics was installed in KG. In addition, the company bought laser engraving and printing equipment for improving its product quality. KG also opened Riverside Design House in Narva to display the whole BW Group's assortment. That year ended with a loss for KG as it could not increase prices although production costs grew because of increasing salaries and energy costs: on the contrary, some buyers again demanded the firm to reduce its prices. As KG could not reduce them and a large U.S. customer whose share was about 12-13 percent of the firm's turnover terminated the contract because of that, its exports to the USA decreased considerably. In addition, the company finished two large orders, but the buyers did not pay for them.

In the beginning of 2007, KG bought the equipment of a bankrupt company Polytex Printing from Narva (it was founded in 2002; it had 150 employees and produced 500 000 meters of textiles a month, most of it was exported, but it did not earn any profit). This enabled the firm to produce wider fabrics than before. In January and February, its employees threatened to start a strike if their salaries would not be increased. Their demands were partially met as 97 percent of employees belonged to the firm's trade union and so the owners could not ignore them. In March 2007, the company experienced serious difficulties again: it could not pay for water (the firm stated that the price was increased by 85 percent and the new price was 14 times higher than the actual costs of supplying the water) and electricity on time and it also had some tax debts. After the suppliers threatened to switch off the power and the water, KG promised to pay some of its debts (still, these issues were not completely settled: in the beginning of December all KG's accounts were arrested for about a week and the final compromise with the water supplier was reached in April 2008). Because of these problems, some of its suppliers demanded KG to pay in advance as they could not trust the firm any more. This sped up the company's restructuring plans: otherwise it would not have reduced the number of employees as radically, but would have waited another year. Because of Estonian political problems with Russia, following the "Bronze Night" events on April 26-27 after the relocation of the Bronze Soldier in Tallinn (in the memory of Soviet soldiers killed in WWII), KG had to delay its plans to open a sales office in St. Petersburg, Russia, but it still opened its fully owned subsidiary Krenholm Textile there later that year. Its reputation was damaged because in November it was accused of buying some cotton produced with

Uzbekistan’s child labor and because of that, its Finnish customer Marimekko cancelled all orders (KG changed that supplier – from whom it had bought 8 percent of its cotton – after that and the orders were restored). In September 2007, the firm sold all its real estate for 22.37 million EUR to Narva Gate (a company connected to BW’s owners; it later got a loan of 34.51 million EUR based on it) to cover its debts to different banks. It still owed 16.61 million EUR to its owners. KG got a contract for renting the property from Narva Gate for 18 months for 0.03 million EUR a month, but it also had to pay for electricity, heating and other services and it had to move its production elsewhere during 2008. Narva Gate has promised to invest 640-1280 million EUR to KG’s real estate and convert it into an area with shopping and recreational centers, apartment blocks and office spaces.

In 2007 firm’s exports to the USA ceased because of the unfavorable exchange rate (on the other hand, KG also bought a large share of its cotton for USD and so, in total, it even gained from the new exchange rate). The company considerably reduced the production capacity of its weaving and spinning departments and closed both down in June 2008 as the firm could not compete with low-cost producers: the customers were more interested in lower prices than shorter delivery times (2-5 weeks instead of 6-12 offered by some other suppliers). As a result, by the beginning of June 2008, it reduced its number of employees to 1100 and in the near future, only 800 may remain. The newer machinery of the closed factories was sold to India, Pakistan, Russia and other countries, while some older machines – from the 1950s that the firm still used – were sold for scrap. KG started buying grey cloth from Asia and concentrated on bleaching, printing, dyeing and sewing as they had a higher value-added and the firm could compete with Asian producers even in the longer term. Moreover, it started to pay more attention to ecologically friendly products. Because of closing down some of its factories and moving all its remaining production operations to other premises outside its historical territory, the firm had problems with some suppliers who assumed that the whole enterprise would be closed down. Despite of the problems, its financial director has claimed that in 2008, the firm may earn a profit again. KG's CEO has also stated that the company has to change and work hard in order to survive, but it will.

DISCUSSION

For KG, it has never been possible to concentrate only on the Estonian market as its production capacity has always been too large: for example, in 2007, the firm's average monthly output of grey fabrics was about 3.5 million meters (in the 1980s, it was even 15.25 million meters), while the Estonian population is about 1.34 million. So, since its foundation, the firm has had to find other markets besides Estonia. KG has followed several stages of internationalization, de- and re-internationalization and these processes cannot be fully explained by any single internationalization model. From its foundation in 1857 until Estonia's independence in 1918, the firm sold its products successfully in the Russian Empire and China, but it was not a born global as in the 19th century, Estonia was a part of the Russian Empire. After Estonia became independent, KG's production was reoriented to Scandinavia and Western Europe. The firm's turnover decreased considerably in the beginning of 1920s and it took some time to increase again. Still, the firm managed to grow and open sales offices in the UK, Norway and Germany. After WWII, KG's production was mainly diverted to the Soviet market, but it was also allowed to export to several countries (mostly in the Eastern Bloc). When Estonia regained its independence and the Soviet market fell off, the firm was forced to find new export markets again.

From operation modes, KG has used indirect and direct exporting. It has also established its own sales subsidiaries in Sweden, Germany, the UK and Russia and opened sales offices in Norway, Denmark, Finland, Holland and Lithuania. In its internationalization, KG has not always started from its nearest markets (as the U- or I-models would have expected) and Estonia's neighboring countries Latvia, Finland, Sweden and Russia have not always been the firm's most important export markets: for instance, in 1995, more than a half of the firm's turnover came from the USA while in 1995-2005, the firm did not export to Russia at all (in 2006, it re-entered this market but it gave only a percent of its export share and in 2007, its share increased to two percent). The shares of different markets have changed considerably: while Sweden has become more important recently, she share of Germany has declined and the firm has ended exporting to the USA. KG has now mainly concentrated on Sweden, Finland and the three Baltic states.

The big "jumps" in the firm's development have been caused by a large number of factors. The production system developed in the Soviet time was not suitable in the 1990s and it is even less suitable now. The Estonian economy has developed and the salaries have increased much faster than the Swedish owners had initially predicted. Although KG's average monthly salary has always been below the Estonian average, it is still higher than in several Asian countries and KG's strong trade union has threatened the owners with strikes several times to achieve salary increases. The firm has also had to cope with increasing water, electricity and cotton prices and large fluctuations of the USD exchange rate. As a result, the strategies that were successful in the 1990s, did not work that well in the current century. Several free trade agreements between the USA and its partners and the EU and its partners in the beginning of the XXI century and the opening up of the global textiles market in 2005 worsened the firm's situation further. As KG could not compete with low-cost producers from Pakistan, India, China and other Asian countries, the company had to concentrate on smaller orders that were not as profitable and as suitable for its machinery. Moreover, the customers were more interested in lower prices than higher quality or shorter delivery times. Because of that, KG's turnover decreased and it could not earn a profit for several years. The turnover and profits of its foreign owner BW also declined as it had over the years transferred more and more of its production operations to Estonia. As a result, its ability to transform KG decreased.

It can be also concluded that the firm's managers and foreign owners have not reacted to the changing economic environment quickly enough. For example, the firm did not consider ordering subcontracting from Asia before 2007, it opened its design house in 2006 (it had co-operated with some designers before, but not on such a large scale), it could not produce wide enough fabrics until 2005, it did not reduce the number of employees as fast as it should have (but it had to consider the social aspects of that, too, as it did not wish to increase unemployment in a region where it was already high), it did not renew all its machinery (some machines that had operated until 2008 were more than 50 years old), it could not react to the USD exchange rate fluctuations fast enough and it did not pay sufficient attention to marketing. Although the economic environment has changed, it is still possible to earn a profit in this sector: for example, in 2007, an Estonian home textiles company Wendre belonging to a Swedish firm Trade House Scandinavia AB managed to increase its turnover from 44.0 to 62.9, net profits from 3.9 to 5.5 million EUR and the number of employees from 596 to 648.

For the mistakes made until 2002, KG's management is more responsible as it made all strategic plans and decisions and BW did not reject any of them. In January

2003, the owners forced Meelis Virkebau to leave the company as they had a different understanding of KG's future development. Although BW started controlling KG more tightly since then, the firm's situation did not improve. Still, it cannot be said that KG did not benefit anything from being foreign-owned: BW paid its debts, invested in some of its machinery, brought marketing and management know-how, helped the firm to get quality certificates (including ISO 14001, ISO 9001, Öko-Tex, Nordic Swan and EU-Flower), kept it operating (while some other textile producers – for example, its Estonian competitor Baltex 2000 belonging to Tolaram Group from Singapore – were closed down) and to some extent improved KG's image as BW has been listed on the Stockholm Stock Exchange for about 60 years. Although KG's financial indicators have not improved in recent years, the managers are still relatively optimistic about the firm's future, but it is too early to predict if the following years will be more successful for the firm than the earlier ones.

CONCLUSIONS

From the internationalization literature and the KG case, it can be concluded that the internationalization process can be nonlinear: its pace, the selection and share of foreign markets and entry modes may change several times (and this is not an irregular deviation from the slow or the fast but linear internationalization paths, but a common phenomenon). Such an internationalization process cannot be fully explained only by the U- and I- models, the literature on born(-again) globals/other fast internationalizers, de- or re-internationalizers or other research streams, but it may have some characteristics of the processes described there. Every firm's internationalization process is unique and it is influenced by different factors, actors and critical incidents. In the case of KG, the radical changes of the business and political environment – Estonia's independence in 1918-1940, the WWII in 1940-45, the dissolution of the Soviet Union in 1991, the textiles trade liberalization in the current century and the fluctuations of exchange rates – had a critical role (although the last two also impacted the firm's competitors not only in Central and Eastern Europe, but also in other regions), but ownership and management changes and several important customers' preference of cheaper textiles also had a strong impact.

As this paper was based only on one case, it is hard to give any universal managerial suggestions. Still, it can be suggested that 1) managers should observe and react proactively to the changes in the global economic and political environment, 2) they should search actively for international growth opportunities and be prepared to find others if the current ones lose their attraction, 3) they should not be afraid of making changes in their local or international strategies if it is necessary; 4) they should co-operate actively with domestic and foreign partners as long as it is useful and, finally, 5) they should understand that as every firm is unique and the external and internal environment may change rapidly, copying the experience of other successful companies may not guarantee success.

The future research should emphasize more the unique characteristics of different firms' nonlinear internationalization processes as the current streams of the IB literature do not cover the entire process in all its complexity or all the (f)actors leading to it. More attention should be paid to the changes in the internationalization pace, entry modes and market selection of nonlinear internationalizers, but also to the forces influencing them. Moreover, the internationalization processes of different firms – for instance, foreign- and locally owned, large and small, Eastern and Western European, African, Asian and American – should be compared.

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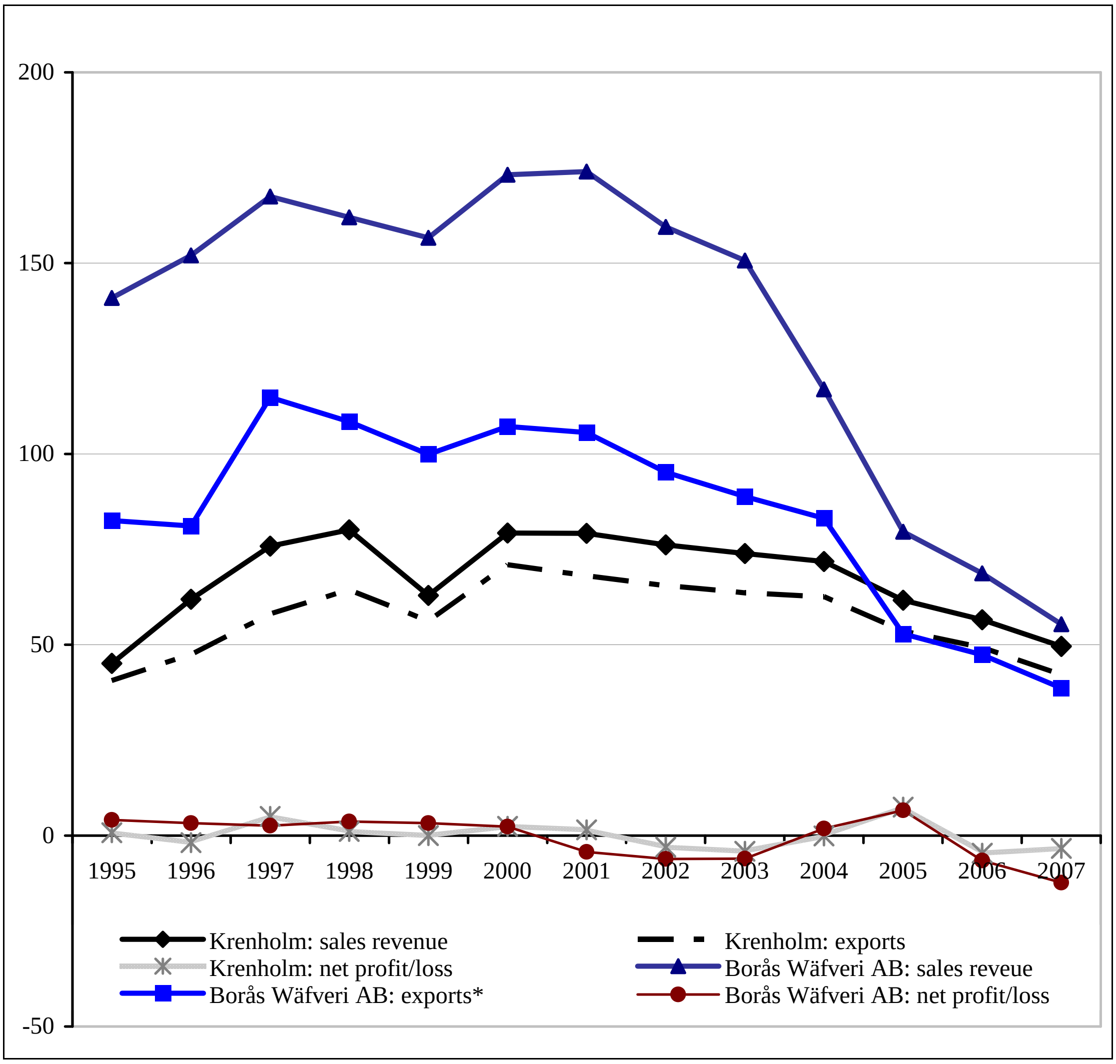

*– In some years, KG's exports were larger than its owner's because they had different home markets: Estonia and Sweden, respectively.

Figure 1. Some economic indicators of KG and BW (all in million EUR)

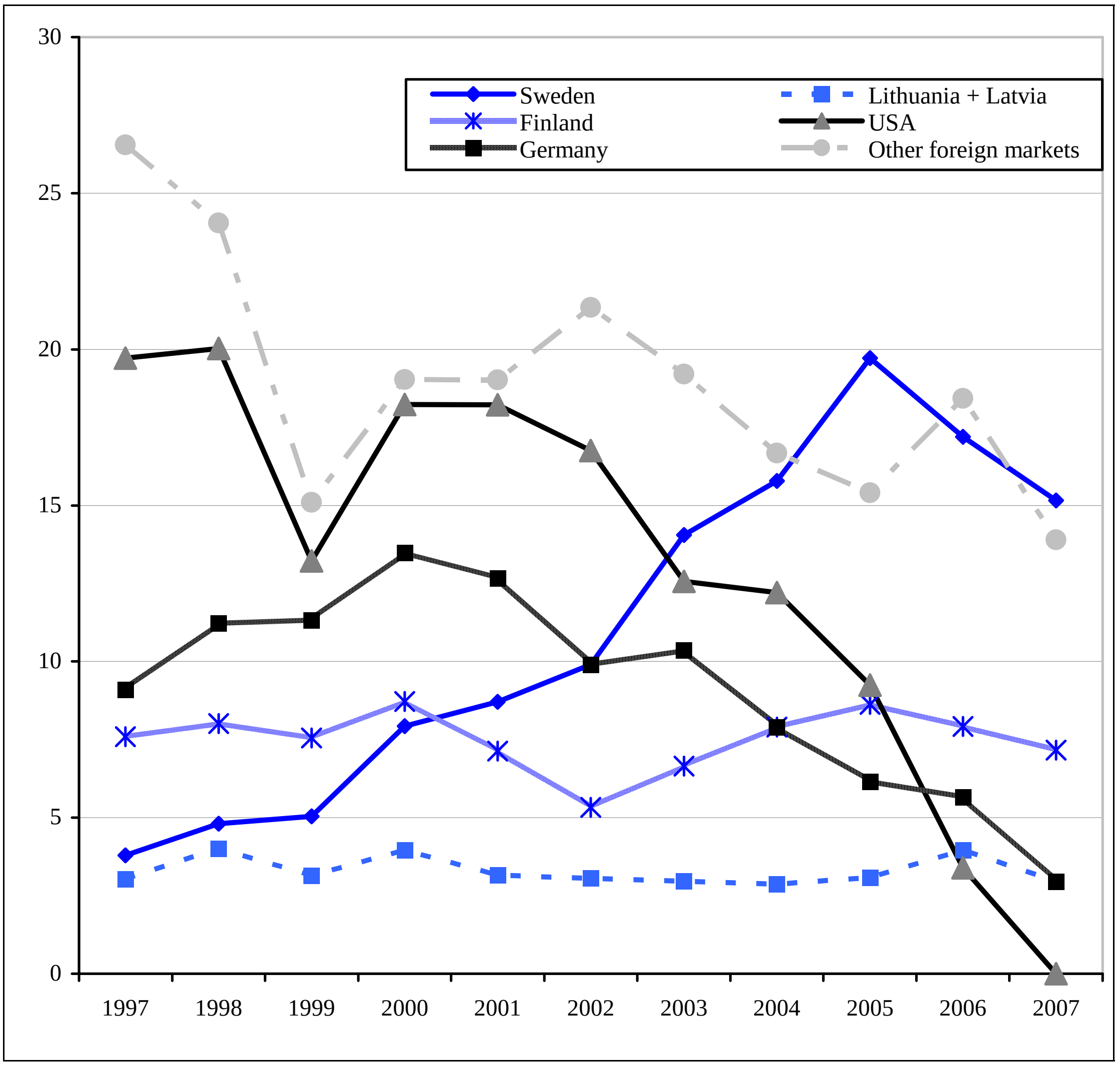

Figure 2. KG’s exports to selected foreign markets (million EUR)

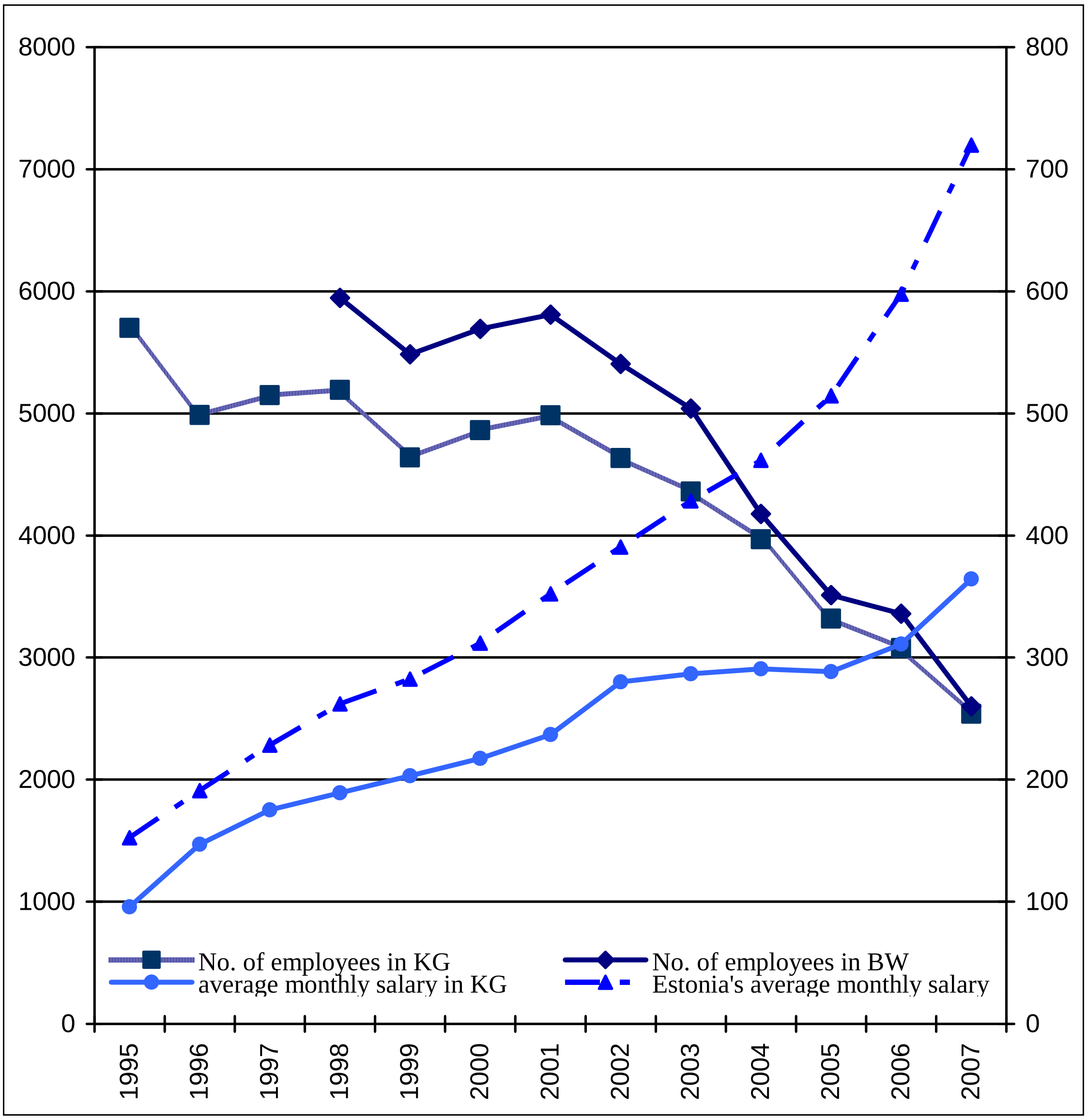

Figure 3. KG's and BW's number of employees (the left axis) and KG's and Estonia's average monthly salary, EUR (the right axis)