NONLINEAR INTERNATIONALIZATION DURING NONLINEAR ECONOMIC DEVELOPMENT: A CASE STUDY FROM ESTONIA

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ABSTRACT

The paper aims to investigate the nonlinear internationalization of an Estonian textile producer Krenholm Group (established in 1857) in the context of nonlinear economic development. Based on the literature on de- and re-internationalizers, born-again globals, but also born globals / fast internationalizers / international new ventures, late starters, the Uppsala (U-) and innovation-related internationalization (I-) models and on case study evidence, the paper concludes that during the internationalization process, a firm's level of involvement in internationalization – including its pace, selection of foreign markets and export shares of these countries – may change several times. This process may be strongly influenced by sudden changes in the business environment, but also by other critical incidents – like management or ownership changes – and several other factors. The paper ends with managerial and research suggestions.

KEYWORDS: internationalization, de-internationalization, re-internationalization, case study

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INTRODUCTION

After active research on internationalization processes for almost five decades, several approaches have emerged. Some of them have concluded that the internationalization process is usually slow and linear, 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 – "born globals" / "born internationals" – internationalize much faster but still in a linear manner. On the other hand, non-linear internationalization – switching entry modes, experiencing substantial changes in export shares and the shares of some markets, slowing down and then quickening the pace of internationalization – and the (f)actors influencing it have not received as much research attention although several authors have acknowledged the existence of the research gap. 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 theories are not sufficient to explain all ways of internationalizing – like using combinations of entry and exit strategies.

Meyer and Gelbuda (2006) and Malo and Norus (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. 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. Moreover, both enterprise types have had to deal with losing their low-cost production advantages and contracting foreign demand during the 2008/2009 and previous economic crises. Such changes have also led to nonlinear internationalization.

The paper aims to investigate the nonlinear internationalization of a Swedish-owned Estonian textile producer Krenholm Group (established in 1857) in the context of nonlinear economic development. 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 literature on de- and re-internationalizers, born-again globals, but also born globals / fast internationalizers / international new ventures, late starters, the Uppsala (U-) and innovation-related internationalization (I-) models. 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. 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 "born again", "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 internationalizing fast. Such firms may emerge because of critical incidents: acquiring an international company, the internationalization of domestic customers; management or ownership changes. 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 linear paths have not received enough research attention.

In studying nonlinear internationalization, the largest number of studies has concentrated on 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 that sometimes follows de-internationalization. Both re- and de-internationalization processes may be caused by radical changes in economic policies and industry conditions (Akhter and Choudry, 1993; Spence and Crick, 2009) 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), the strength of its network relationships (Hadjikhani, 1997) and changes in advantages and disadvantages of operating abroad (Cuervo-Cazurra, Maloney and Manrakhan, 2007).

Some other authors have also shown that internationalization may include sudden "leaps". For example, Johanson and Mattsson (1988) have shown that some domestic-market-oriented firms – "late starters" – may suddenly internationalize very fast, skipping nearest markets and simplest entry modes. Macharzina and Engelhard (1991) have shown that such "leaps" may follow and be followed by stable international development periods. Several authors (including Blomström, 1990; Dunning, 1994 and Lall, 1993) have stated that companies may internationalize fast after becoming foreign-owned because they get know-how, financing, contacts, managerial and marketing assistance. On the other hand, the owners may cut off some firms' 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 and thus, their internationalization may slow down or even cease (Dunning, 1994).

As nonlinear internationalization may follow linear internationalization processes, it is also necessary to make a short overview of that literature. 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 international new ventures / fast internationalizers / born globals, 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; Spence and Crick, 2009). 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.

METHODOLOGY

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

According to Hitt, Beamish, Jackson and Mathieu (2007), multilevel research should be conducted for understanding complex subjects: the issues should be examined 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 follows 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 changes in Estonia's economic environment. 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, different other data sources – local newspapers and business journals, 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. 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 – their number increased to 6000. The factory produced cotton thread, fabric and wadding, supplying the whole empire, but also 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% of the empire's cotton products. It had 10200 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 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 Kreenholmi Manufaktuur) was rebuilt. One of its factories was reopened in 1945, while reconstruction of the rest 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 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), KG produced 183 million meters of textiles a year. In the 1980s, the firm had 13000 and before becoming Estonian state-owned in 1991, 11000 employees. In the 1980s, the Planning Committee also allowed KG to export to 22 countries in addition to serving the Soviet Union's internal market (95% of its turnover went to the Eastern Bloc).

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. Its 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 original products, resources or knowledge to export directly. When an order from intermediate buyers (European or American) 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 – 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% share of the enterprise (in 1997, it increased its share to 85.8 and in the beginning of 1999, to 100%) for 0.8 million EUR, but it also had to 1) cover its debts and interests of 16.84 million EUR (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 since 1995, 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% of turnover (for the data since 1997, see Figure 2), while the share of its local market Estonia was about 10% 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 since 1995, 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% 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 (it sold the rest of production in other currencies): moreover, it had taken some USD loans. Increasing production costs, an excessive 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 KG 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 6.07 million EUR to its production as it clacked production capacity. It reached a 60% 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 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 or started producing electricity itself. The firm also managed to bargain a lower water price.

In 2000, KG exported to 24 countries. It received a 25.8 million EUR loan/investment contract (ending in 2012) from the IFC, Nordic Investment Bank and Nordic Environment Finance Corporation to invest in machinery and logistics, refinance some loans and increase operating assets (in addition, 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 other countries' lower-quality textiles in Europe under KG's trademark.

In 2001, online sales started and reached 10% of total sales. Also, a modern sewing factory 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 40000 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 and it also had to raise its salaries as Estonia's minimum salary increased. Still, the company managed to earn a small profit.

The year 2002 ended with a loss. Customers' orders fluctuated considerably, 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, some customers started to mistrust the new prices and decreased their demand. Moreover, between October 2001 and January 2003 cotton prices increased by 80%, 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% of its production capacity. After Virkebau, Mats Skogman from Sweden took over the firm (he left a year later because of personal reasons; he was followed by Matti Haarajoki from Finland; in December 2008, Igor Poleštšuk was given the post and he, in turn, was replaced in April 2009 by Kenneth Uddh). 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% 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 supply (this improved somewhat after the 1st of May when Estonia joined the EU) and inability to produce textiles wider than 1.5 meters as 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% 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% 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 (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 (up to 325 cm wide); moreover, it also started producing water- and fire-proof fabrics. In that year, it also established a small sales subsidiary in Russia. In January and February, KG's employees threatened to start a strike if their salaries would not be increased. Their demands were partially met as 97% 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 price was increased by 85%) 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. 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. In 2007, the 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). KG's reputation was damaged in November 2007 because it was accused of buying some cotton harvested 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% of its cotton – after that and the orders were restored).

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 by the beginning of 2009 to 1065. 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 all these problems, in 2008, KG had a loss of only 0.05 million EUR (the sum would have been higher, but BW reduced KG's debt to it by 8.24 million EUR). According to the firm's previous CEO in December 2008-April 2009 Igor Poleštšuk, KG paid too much over the market price for raw materials, ordered subcontracting from other firms even if it did not fully use its own production capacity, sold some of its products for prices not covering their production costs as it was beneficial for some managers' personal businesses (he fired some of those) and because Swedish owners took too much funds out of KG. Still, he was quite optimistic about the firm's future as he told that the economic crisis may make some customers more interested in shorter delivery times.

In April 2009, the firm's new CEO Kenneth Uddh announced that despite speculations of the possible bankruptcy or close-down of the enterprise, the owners wish to continue KG's activities and they try to get accustomed to the changed economic environment. He promised to continue the restructuring of the firm's production and logistics and minimizing costs (to compensate the increases in energy and transport price and environmental tax increases) so that it would become able to earn a profit again already in 2009. Still, it could be difficult as due to the economic crisis, some customers have serious difficulties and so it cannot be predicted how many of them cannot pay for their orders. KG would also start paying more attention to products made from ecological cotton as some customers are ready to pay more for them. It was also stated that by the end of 2009, the firm's number of employees could be reduced to 500 and that KG's owners would like to find a strategic partner with whom they could develop the firm further. The firm would mostly concentrate on Scandinavian and other European countries and it would also consider paying more attention to the Russian market again (in 2008, its share was almost 0% of KG's turnover).

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 1.3 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 1% of its export share in 2007, while on 2008, its share dropped to almost 0%). 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 (in 2009 they started dropping, but the minimum salary remained the same). 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 in 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 2006-2007, 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 while in 2008, these numbers were to 65.1, 5.5 and 735, respectively.

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 100, 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 internationalization processes can be nonlinear along several dimensions: the pace, the selection and share of foreign markets and entry modes may change several times. 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 international business 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 and studied which (f)actors are more important in some cases, countries, sectors or industries and less important in some others and why.

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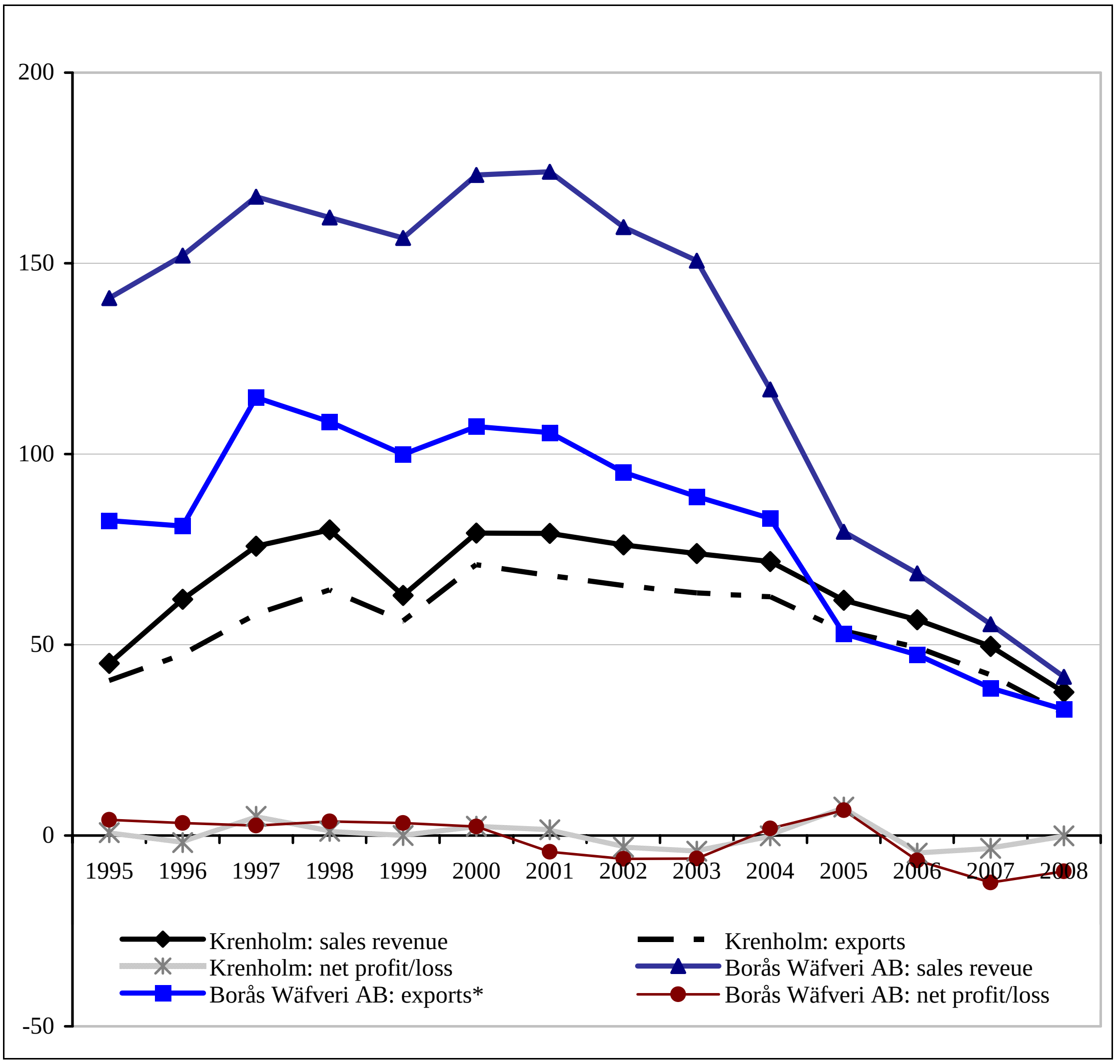

*– In some years, KG's exports were larger than its owner's because they had different home markets: Estonia and Sweden, respectively.

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

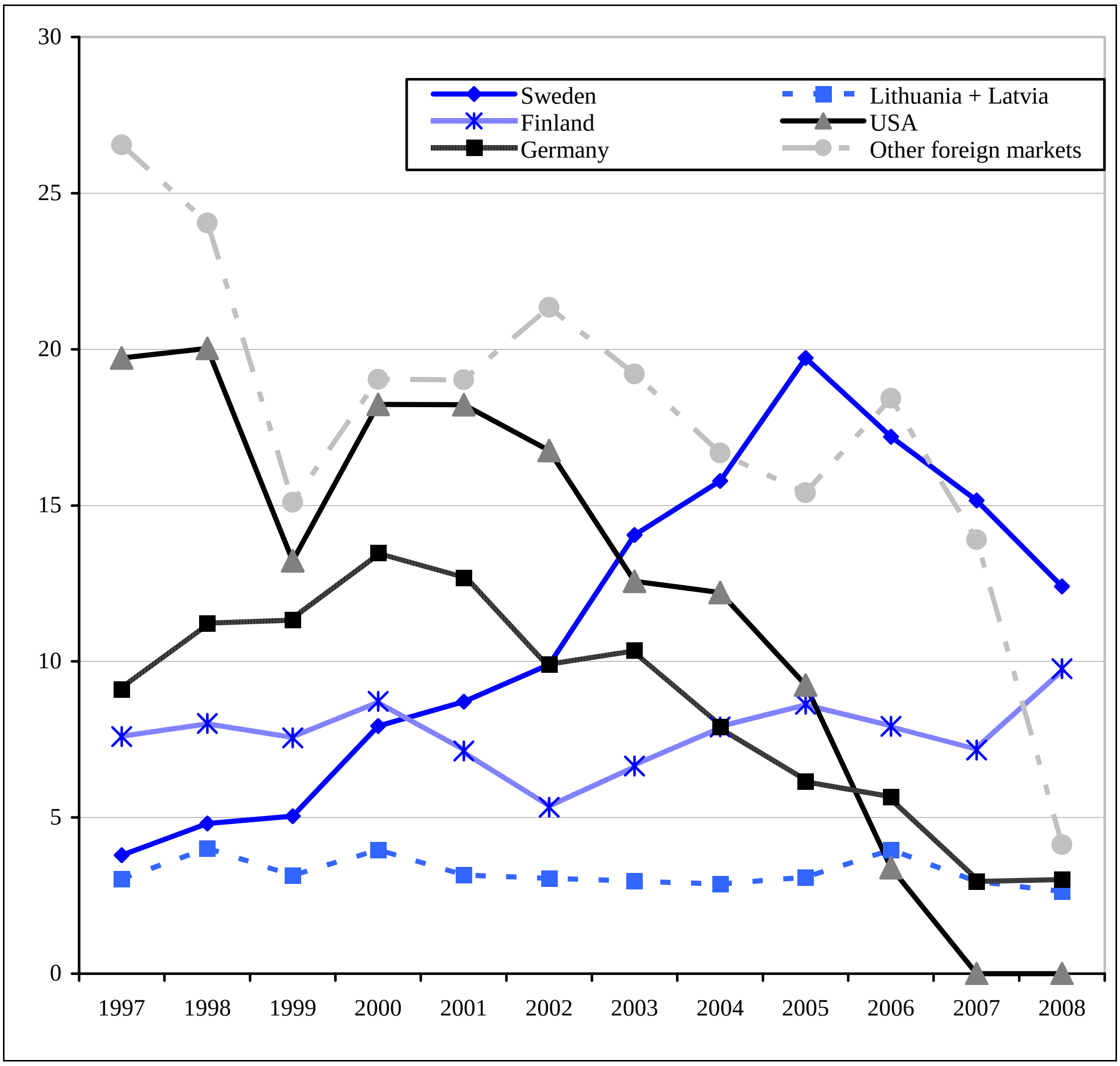

Figure 2. KG’s exports to selected foreign markets (million EUR)

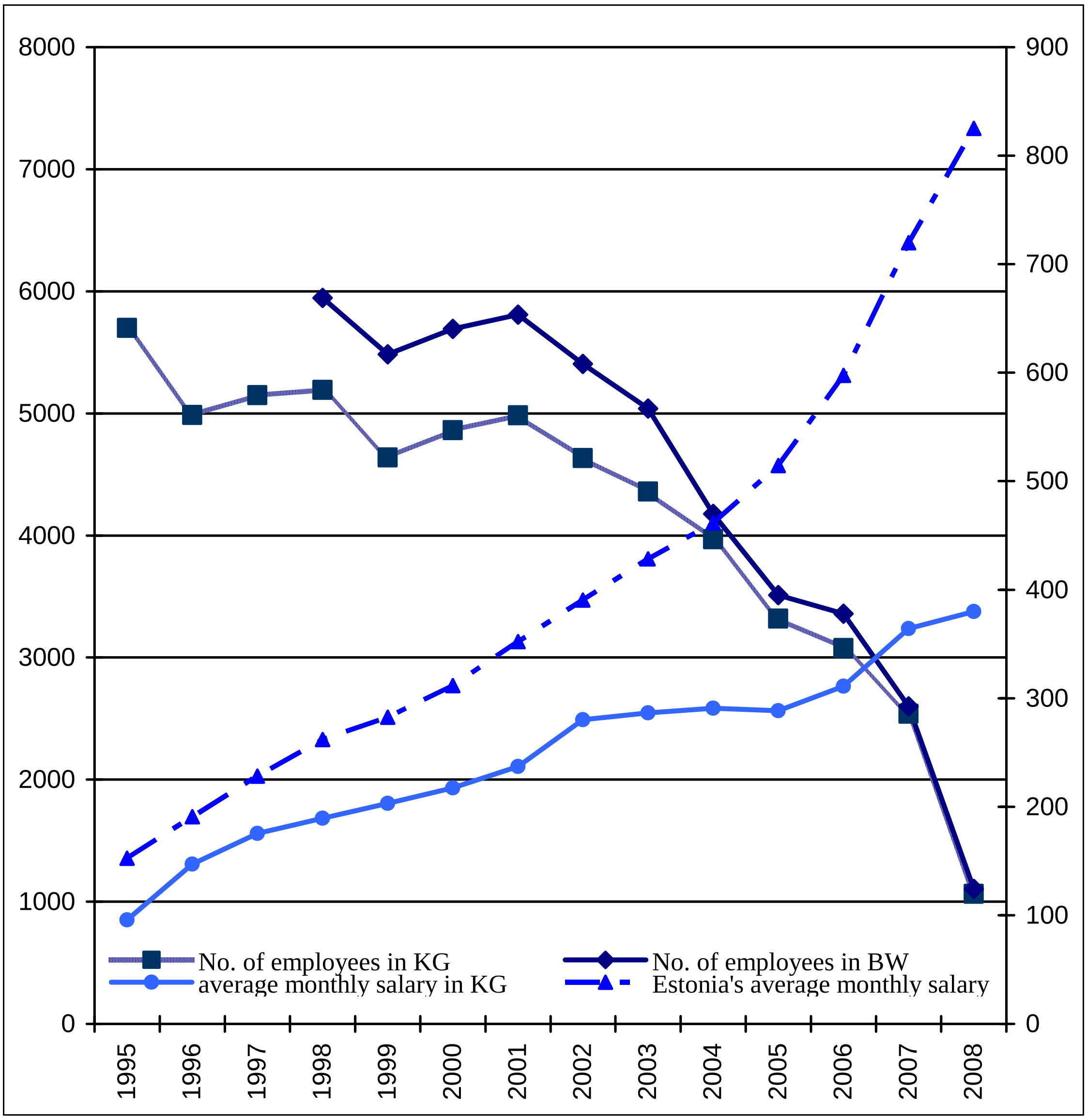

Figure 3. KG's and BW's number of employees (the left axis) and KG's and Estonia's average monthly salary, EUR (the right axis)