Re-Internationalization: a Conceptual Framework and Some Evidence from Estonia

Tiia Vissak
Faculty of Economics and Business Administration, University of Tartu
Narva Rd. 4-A211, 51009 Tartu
Estonia
tiia.vissak@ut.ee

Abstract

Internationalization processes have been actively researched for over 40 years. During the time, several approaches have emerged. Some of them – for instance, the Uppsala model and the innovation-related internationalization models – have stated that the process is relatively slow, starting from simpler foreign entry modes and psychically closest markets and continuing with more complicated entry modes and farther markets, while the born-global approach and some IMP authors have found out that many companies internationalize very fast; they skip several stages and enter far markets very soon after their establishment. Still, most of these studies have a common characteristic: they mainly concentrate on successful companies and often exclude those that experience several periods of success and failure, although several authors have acknowledged the need to study them.

This paper aims to study re-internationalizers: the firms that have been internationally active for some time, but then withdrawn from one or several foreign markets, paid most attention to the local market or some other countries for a considerable time, and then re-entered one, some or all of the previous markets again. To widen the understanding of this under-researched issue, the paper is mainly based on the international business and IMP literature, but it also looks for some useful insights from other research streams.

The paper includes four case studies from Estonia. It pays attention to their internationalization before de-internationalization, the reasons that caused their de- and re-internationalization and their internationalization after that. The paper concludes that firms may restart their internationalization both from closest or farther markets, from entry modes requiring higher or lower commitment and they may re-internationalize very quickly, very slowly or in a moderate pace. Their re-internationalization may be caused by one or more critical incidents – for instance, a takeover by another enterprise or an acquisition of a company with international connections – and influenced by several factors and actors: network relationships, unique resources and capabilities, a change in management's global orientation and so on. In principle, it seems logical to assume that re-internationalizing companies may use at least some amount of their former knowledge of foreign markets, and they may be also able to revive some of their previous network relationships on these markets. Consequently, re-entering a specific market – especially if the company did not withdraw from it a long time ago – might be easier than entering the one where the firm does not have any previous connections.

The paper adds to the IMP literature by adding useful insights from the international business literature, by bringing out distinct characteristics of re-internationalized firms and by developing a conceptual framework of the re-internationalization process. In addition, the paper makes several managerial suggestions.

Keywords: (De- and re-)internationalization, networks, transition economies
Introduction

Internationalization processes have been actively researched for over 40 years. During the time, several approaches have emerged. Some of them – for instance, the Uppsala model and the innovation-related internationalization models – have stated that the process is relatively slow, starting from simpler foreign entry modes and psychically closest markets and continuing with more complicated entry modes and farther markets, while the born-global approach and some IMP authors have found out that many companies internationalize very fast; they skip several stages and enter far markets very soon after their establishment. Still, most of these studies have a common characteristic: they mainly concentrate on successful companies and often exclude those that experience several periods of success and failure. Even a much-cited definition states that internationalization is “the process of increasing involvement in international operations” (Welch and Luostarinen 1988, p. 36).

At the same time, several authors have acknowledged the need to study such enterprises. For instance, Pressey and Mathews (2003) have claimed that due to their “mortality”, in the long-term, all business relationships should end, Akhter and Choudry (1993) have stated that strategically, a decision regarding exiting a foreign market should be as important as entering it because of its long-term consequences on a firm’s performance, Tähtinen and Havila (2004) have emphasized the need to study business life after the end and Oesterle (1997) has stated that neither sequential nor the born-global approach could explain the reality of firms’ internationalization. Bell, McNaughton and Young (2001a) have also agreed that there could be many situations in between of instantly internationalizing companies, slow internationalizers and those that never enter any foreign countries.

This paper aims to study re-internationalizers: the firms that have been internationally active for some time, but then withdrawn from one or several foreign markets, paid most attention to the local market or some other countries for a considerable time, and then re-entered one, some or all of the previous markets again. To widen the understanding of this under-researched issue, the paper is mainly based on the international business and IMP literature, but it also looks for some useful insights from other research streams.

The paper includes four case studies from Estonia. It pays attention to the firms’ internationalization (market selection, pace, entry modes, the selection of business partners and so on) before de-internationalization, the reasons that caused their de- and re-internationalization, and their internationalization after that. It develops a conceptual framework of the re-internationalization process and makes several managerial suggestions.

Literature Review

Studies on the Slow Internationalization Process

A large number of researchers – for instance, supporters of the Uppsala (or U-) model, developed by Johanson and Vahlne 1977, 1990; Johanson and Wiedersheim-Paul 1975 and Vahlne and Johanson 2002, among others, and the authors of innovation-related internationalization (I-) models (for an overview, see Bilkey 1978 and Morgan and Katsikeas 1997) – have stated that internationalization is a gradual process, including a number of stages or developments from lower to higher foreign involvement. This can be explained by several reasons. According to the U-model, the main reason is the initial lack of experiential market knowledge – the driving force of the internationalization process – and the proposition that its acquisition is gradual (see, for instance, Johanson and Vahlne 1990). The I-models also agree that foreign market expansion is incremental and dependent on an enterprise’s experiential learning (Morgan and Katsikeas 1997), but they also state that besides knowledge, several other internal and external actors and factors, like other firms, government agencies, top managers, the companies’ competitive advantages and general economic conditions, may impact internationalization (for an overview, see Bilkey 1978).

Although some authors supporting these research streams have acknowledged that all enterprises do not have to follow this route – for instance, the U-model states that large or resourceful firms or those with considerable experience in similar markets can internationalize more easily especially if market conditions are stable (Johanson and Vahlne 1990) and the I-models propose that foreign-owned firms’ internationalization might differ from that of their domestic counterparts: the headquarters might take
the initial decision to start exporting and organize sales through their global marketing network (Wiedersheim-Paul, Olson and Welch 1978) – the authors of these research streams have not paid considerable attention to de- and re-internationalization. Still some authors – for instance, Barrett and Wilkinson (1985), Reid (1981) and Welch and Wiedersheim-Paul (1980) – have acknowledged that some firms may decide to discontinue exporting.

**Studies on the Fast Internationalization Process**

Since the 1990s, more attention has been paid to born globals and other fast internationalizers. Some authors have noticed that many companies – especially those targeting small, highly specialized global niches (Bell et al. 2003) – “leapfrog” into internationalization despite being young and small, having constrained resources, most volatile markets and, by definition, little or no experience in any market (Oviatt and McDougall 1994). Several authors have explained the emergence of such firms by the increasing role of niche markets, specialized and customized products, shorter product life cycles, larger domestic and international competition, advances in process and communication technology and inherent advantages of small companies: for example, quicker response time, flexibility and adaptability (Coviello and Munro 1995; Knight and Cavusgil 1996; Rennie 1993). Some other factors could have also influenced the emergence of these firms: the background of the founder – including family background, education, entrepreneurial orientation, experience from living abroad and having worked on internationally oriented positions – country characteristics (Madsen and Servais 1997; McAuley 1999), firm size, unique resources and capabilities, financial strength, R&D spending and reputation (Zahra and George 2002). Some reasons for the emergence of such enterprises can be also found from the network approach. Its authors have demonstrated that through network relationships, a firm can increase its ability to innovate and develop its technology (Håkansson and Snehota 2000), acquire brands, skills and local market knowledge (Adarkar et al. 2001). This, in turn, can be crucial for its internationalization. As a result, a typical internationalization sequence has changed from gradual expansion to expansion in leaps by joining the nets (Hertz 1996).

The born global literature does not pay considerable attention to de- and re-internationalization, either, as these processes are not characteristic to purely born-global firms. Still, some authors – for instance, Oviatt and McDougall (1995), Wickramasekera and Bamberry (2003) and Zahra (2005) – have acknowledged that rapid internationalization could lead to potential difficulties because of the companies' newness and inexperience, limited access to resources and existing networks. Many such firms also fail during economic crises.

**Studies on Born-Again Globals**

Born-again globals are the “…firms that have been well established in their domestic markets, with apparently no great motivation to internationalize, but which have suddenly embraced rapid and dedicated internationalization” (Bell, McNaughton and Young 2001a, p. 173). The phenomenon of born-again globals can be caused by a critical incident or a combination of several incidents, occurring around the same time: for example, a change of management, takeover by another enterprise with international networks, acquisition of a company with international connections, the internationalization of a domestic client or contact from a new customer that already has international operations. These incidents may provide the firms with additional foreign market knowledge, human, financial or other resources (Bell et al. 2001b, 2003).

An explanation for this phenomenon can be also found from the concept of late starters developed by network researchers. These companies’ market (including suppliers, customers and competitors) is supposed to be already international but such firms still have remained domestic (Johanson and Mattson 1988) because of trade barriers, a multitude of growth opportunities in the domestic market, low awareness of international opportunities or other reasons (Wilkinson, Mattson and Easton 2000). The late starters’ internationalization may be led by indirect relationships with foreign business networks or by their relationships in the domestic market. Compared to already international companies, these firms are at a disadvantage because their competitors have more knowledge of foreign markets and because it is hard for new entrants to break into an existing network. As markets with close psychic distance might be difficult to enter – the competition may be more intense there – the late starters might start their internationalization by entering more distant markets (Chetty and Blankenburg Holm 2000). Their ability to get some of the necessary foreign market knowledge through their existing network relationships may be a considerable advantage (Johanson and Mattson 1988).
Studies on De-Internationalization

As it can be concluded from the above, the internationalization process may consist of one or several stages, and usually the next stage means more involvement in international operations than the previous one. However, some authors have stated that the reverse of the process, or de-internationalization, may occur at any of the stages, particularly in the early steps of export development (Welch and Wiedersheim-Paul 1980; Welch and Luostarinen 1988). De-internationalization refers to any voluntary or forced actions reducing a firm’s engagement in or exposure to current cross-border activities (Benito and Welch 1997). It can take the form of reducing operations in a market, completely withdrawing from it, switching to modes of operation that entail a lesser commitment of resources – for instance, divesting and starting to export (Fletcher 2001) – reducing ownership stake in a foreign venture, sell-off or closure of foreign subsidiaries or seizure of foreign company’s assets by local authorities (Benito and Welch 1997).

Divestments, export withdrawals and other forms of de-internationalization can be seen as failures, small and gradual adjustments – for example, selling-off a certain entity within a larger subsidiary, outsourcing some activity, or closing down a particular unit – and as a result of a massive re-structuring (Benito 2003). The process of de-internationalization is influenced by the cultural distance between the home and the host country (Benito 1997; Crick 2002), the company’s long-term objectives (Akhter and Choudry 1993), the unit’s and the firm’s overall performance (Boddewyn 1979; Pauwels and Matthyssens 2003), its management’s attitude toward (Boddewyn 1983; Welch and Wiedersheim-Paul 1980) and previous experience from disengagement from foreign operations and preceding experience from international activities (Benito and Welch 1997), the balance of power between supporters and opponents to de-internationalization (Matthyssens and Pauwels 2000), exit barriers (Benito 1997; Boddewyn 1983), re-entry possibility (Akhter and Choudry 1993), the firm’s commitment to the specific operation it plans to disengage from, that operation’s interrelatedness with others (Boddewyn 1979; Benito 2003; Pauwels and Matthyssens 2003), the company's stage of internationalization (Welch and Wiedersheim-Paul 1980) and the extent and type of commitment to international operations in general: the higher it is, the less likely a firm should completely de-internationalize, although partial de-internationalization is quite possible (Benito and Welch 1994). De-internationalization may be also triggered by external forces like expropriation, nationalization (Benito 2003), economic boycotts and potential negative publicity if the firm remains on the market (Akhter and Choudry 1993), increasing resource costs (Boddewyn 1979), changed exchange rates (Crick 2002; Welch and Wiedersheim-Paul 1980), the use of more aggressive strategies and tactics by global competitors, the foreign market’s low readiness for the specific product (Matthyssens and Pauwels 2000), the increase of local (Welch and Wiedersheim-Paul 1980) or permanent decrease in foreign demand, foreign governments’ actions, abrupt changes in foreign country’s political and social conditions (Benito 1997) and business partners’ problems (Benito and Welch 1997). The last aspect is also emphasized in the network approach: network relationships can sometimes also inhibit the internationalization process, instead of quickening it (Ford 1998). Moreover, some firms may decide to leave a market if their partners become active there themselves (Araujo and Rezende 2004).

Studies on Re-Internationalization

There are not many studies concentrating only on re-internationalization, but there are also several that have given some insight into the issue. For instance, Araujo and Rezende (2004), Kutschker, Bäurle and Schmid (1997), Kutschker, Bäurle and Schmid (1997), Luostarinen (1994), Lamb and Liesch (2002) and Pauwels and Matthyssens (1999) have acknowledged that de-internationalization may be followed again by advancing steps: in other words, re-internationalization. Bell, McNaughton, Young and Crick (2003) have introduced the terms “re-born” or “resurrected globals” applying to those firms that have ceased trading for some time, but then have been taken over and begun to internationalize fast.

In addition to takeovers, several other factors and actors may make firms to re-internationalize. Kutschker, Bäurle and Schmid (1997) have emphasized the role of managers as decelerators and accelerators of the internationalization process. Akhter and Choudry (1993) and Hadjikhani (1997) have stated that re-internationalization may occur if foreign market conditions improve. Crick has also claimed that in internationalization, a forward motion through various stages is not always possible or desirable and some firms may have to stop overseas activities and start again once conditions are more favorable (Crick 2004) or they get assistance to deal with their problems (Crick 2002). Welch and
Wiedersheim-Paul (1980) have shown that improved conditions may increase some companies' wish to start exporting again, but the probability is smaller in the case of less advanced exporters. According to Hadjikhani (1997), re-internationalization should be more probable if the firm previously had a high commitment in the specific market.

Benito and Welch (1994) have brought out another important factor for re-internationalization: international experience and knowledge. They have stated that if an emerging internationalizer learns that internationalization was not as easy as it initially expected, it may decide to reduce some of its commitments abroad, but resume them afterwards if its knowledge and experience have developed further. Pauwels and Matthysens (1999) have also agreed that after withdrawal, companies may learn and return to the market. Hadjikhani (1997) has emphasized the importance of network relationships: it is easier to re-enter the market if the previous partner is still there and if it has a good reputation among the locals. Araujo and Rezende (2004) have also acknowledged the importance of network relationships, but inside a multinational network: these relationships may determine how a firm re-enters a specific market. Fryges (2004), in turn, has shown that re-entry costs influence not only the decision to re-enter, but also the decision to leave the market: if they are high, the firm may decide to stay. Roberts and Tybout (1997) have also paid attention to re-entry costs: according to them, these costs tend to increase and after two years of absence from a specific market, they are not significantly different from those faced by a firm that has never been active on that market.

**Propositions**

Although several authors have brought out a number of factors that could influence re-internationalization, there is not enough evidence on how the process could look like: whether it could be slow or fast, how many markets a firm could re-enter and so on. Some propositions could be made based on other internationalization literature, as it seems logical that the re-internationalization process could share some characteristics of the de-internationalization and fast and slow internationalization processes: at least, they should be influenced by similar factors and actors.

Following the above logic, it can be proposed that firms may restart their internationalization both from closest or farther markets, from entry modes requiring higher or lower commitment and they may re-internationalize very quickly, very slowly or in a moderate pace. Their re-internationalization may be caused by one or more critical incidents (for instance, takeover by another enterprise or acquisition of a company with international connections) and influenced by several factors and actors: network relationships, unique resources and capabilities, a change in management’s global orientation and so on. In principle, it seems logical to assume that re-internationalizing companies may use at least some amount of their former knowledge of foreign markets, and they may be also able to revive some of their previous network relationships on these markets. Consequently, re-entering a specific market might be easier than entering the one where the firm has never had any previous connections.

Re-internationalization can be full or partial: a firm might return to all the markets from which it retreated, but it can also only decide to re-enter only one or some of them. Similarly, it may decide to use the same operation modes it used before or only some of them or even use a different mode: for instance, it may have exported to a certain country before, but now it may decide to establish a production subsidiary.

Based on the above discussion, a table with four internationalization types can be developed (see Table 1). Re-internationalizers seem to share some characteristics of traditional internationalizers, born and born-again globals, but their internationalization process is still not completely similar to any of them.

**************
Insert Table 1
**************

Figure 1 brings out some factors influencing the emergence and further development of re-internationalizers. Based on the literature review, it can be concluded that firms should re-internationalize if their (business) environment becomes favorable, they have developed some unique resources and capabilities, their (new) managers are globally oriented and the companies have been able to create some new and retain some previously useful network relationships. Such relationships
could be (re-)created with foreign investors (they might want to expand the company again and enter other countries directly or make the firm to subcontract for their other subsidiaries in other countries) and other companies belonging to the firm’s network: they might also be interested in international re-expansion and need their products abroad. Moreover, re-internationalization could also depend on the firm's reasons for and consequences from initial internationalization – for instance, if the home market is very small then the firm is likely to try to internationalize again – and de-internationalization: for example, if it resulted in large financial losses, the firm might not be very enthusiastic to re-enter the specific market again.

***************
Insert Figure 1
***************

Methodology

This paper is based on case studies as, by combining previously developed theories with new empirically derived insights (Yin 1994), this approach is especially appropriate in new topic areas. Its application can result in transcending the local boundaries of the investigated cases, capturing new layers of reality and developing novel, testable and empirically valid theoretical and practical insights (Eisenhardt 1989; Ghauri 1998; Tsoukas 1989; Stuart et al. 2002; Voss et al. 2002). Case research is capable of discovering true causal relationships (Hillebrand et al. 2001) and creating thick descriptions and rich understandings (Dyer and Wilkins 1991) of phenomena in their natural settings (Dubois and Gadde 2002; Yin 1994): the researcher can understand how and why things happen as they do (Miles and Huberman 1994; Stuart et al. 2002; Yin 1994).

In this paper, multiple case study approach was used. There is no ideal number of cases in this approach. According to Eisenhardt (1989), a study of 4–10 cases usually works well. With fewer than four cases, theory is difficult to generate, and with more than ten cases, the volume of data is difficult to cope with. This paper is based on four cases. Even with such a small number of cases, theoretical generalization can be made: when it is possible to formulate logical conclusions in support of causal relationships, it may be concluded that these relationships should also hold for structurally similar cases (Hillebrand, Kok and Biemans 2001). Such generalizations could be made even from one case (Stuart et al. 2002), but a larger number of cases should augment external validity and help to guard against observer bias (Voss, Tsikritis and Frolich 2002).

By treating each case as an individual study, rather than a sampling unit, the focus shifts to choosing the cases that are best suited for investigating the theory. Each of them should complement the others by examining the findings under various conditions or by addressing different aspects of the overall theory. The goal is that together the set of studies will provide rich support for the theory (Johnston, Leach and Liu 1999; Miles and Huberman 1994) rather than it is representative of the whole population (Chetty 1996).

To increase the findings' generalizability, the four case companies belonged to different owners, were oriented on different markets and did not have similar products or services. Moreover, two of the firms were established in the 1990s, two were much older. Still, they all had something in common: they had to pull back from one or more foreign markets, but they managed to return to some or all of them, and they were quite successful in it. In other words, they could be regarded as re-internationalizers.

The case descriptions are provided in the following section. The results are discussed in the final part of the paper. To increase the validity and reliability in studying these firms’ internationalization, several data sources were used, including personal interviews, local newspapers and journals, the companies’ homepages and annual reports. So, the data provided relatively rich case descriptions.

Case study evidence

Case 1: Tarkon (a system supplier active in telecommunication, automotive industry, energy, climate systems, industrial equipment and other areas). Tarkon’s predecessor, the Telephone Factory Edisson & Co was established in 1907. It had 100 employees. In 1913, the firm started exporting telephones to
Russia. In 1924, the production of radio receivers started. The radios were exported to Latvia and Finland. In 1929, a Swedish enterprise Ericsson became one of the company's major shareholders. The firm's name changed to Tartu Telephone Factory. The enterprise also started precision mechanics operations. In 1939-1940, Tarkon exported to 27 foreign countries, including some in Africa and America. By that time, the number of employees had grown to 300.

In December, 1940, the firm was nationalized and renamed Factory No. 382. In 1940/41, most of the equipment and production together with the records of the company were transported to Russia. During the war, the factory was totally destroyed. In November 1944, it started production again under the name Factory No. 89. The firm was subordinated to Moscow. Since 1948, it concentrated on production of flight recorders ("black boxes") for both civil and military aircraft mostly for the Soviet defense industry. In 1957, it was renamed pk-32 and in 1966, Tartu Control Equipment Factory. In the 1980s, it employed up to 3000 people. A state company Tarkon was formed in December 1992. After Estonia regained independence, the Russian market disappeared. In 1994, the production of "black boxes" ended. The last of them were sold to Poland in 1995. Tarkon had to re-orientate completely. Unfortunately, it lacked financing, modern technology, foreign market knowledge and experience. The firm was practically bankrupt. Its number of employees was reduced from 1400 to less than 300.

As the local demand was low, the enterprise started to seek other export opportunities. At first, it filled small, unsolicited export orders, making very simple mechanical items for the Scandinavian and Western European market. Co-operation with a Swedish company Hallberg Sekrom Fabriks AB (in September 2005, it took a name HSF Group) began in 1993. In the beginning of 1995, the firm started to produce different mechanical details. Tarkon imported components from its cooperation partners, assembled the products, tested and marketed them.

In October 1996, Hallberg Sekrom Fabriks AB bought 60 percent of Tarkon's shares (in 1999, the share of Swedish capital increased to 85%; the rest of stock – 10 and 5 percent, respectively – still belongs to the firm's former and the current Estonian CEO). The firm started to grow fast, as it became able to connect the owners' existing knowledge and customers – its marketing group started searching for new orders for Tarkon – and its own old historical experience of multifaceted manufacturing. It also received raw materials from the parent company. Due to improved financing, it became able to invest in machinery and renovate its production facilities. In July 1999, Tarkon received the ISO 9001 certificate (in December 2005, it also got the ISO 14000 approval). The company's ability to work out its own products increased. Still, it also faced difficulties some years after that: in 2001, the slowdown in the electronics industry, following the terrorist attack on September 11th led to smaller demand and several large customers reduced their orders. The export share also decreased, but this was also partially due to the increased domestic demand. Still, the export share soon started to increase again as the firm found new customers from other sectors. Moreover, in 2006, Tarkon opened a plant in China together with its foreign owner: 50 percent of Hallberg-Sekrom Fabriks China belongs to Tarkon, the rest to HSF. The subsidiary was established because several of Tarkon's and HSF's major customers – for instance, Ericsson and Atlas Copco – had become active there. Moreover, the Chinese market is growing fast and there are many local customers. The enterprise has also made some inquiries for starting production in Russia, but this plan has not realized yet.

From the above it can be concluded that the foreign owner has had a considerable influence on Tarkon's internationalization. Still, in the beginning, there were some negative aspects. Sometimes, Hallberg Sekrom made Tarkon do some simpler work it would have preferred not to do, or to serve certain customers. Most of Tarkon's sales were conducted through the parent company, and so Sweden became its main export market. Now the situation has changed to some extent: in 2002, the foreign owner started transferring its marketing activities to Tarkon (the company has also found new customers through its homepage, other partners, the Federation of Estonian Engineering Industry, foreign embassies, newspapers, the Estonian Investment Agency and the Estonian Technology Agency; in total, it has about 100 customers), and in 2005, procurement and logistics activities followed. This increased the firm's turnover. Sweden is still Tarkon's main market – in 2004, it had a 81.5 percent share – but it has also exported to Finland, France, Norway, Denmark, Latvia, Ireland, the USA and other countries. The firm's number of employees has stabilized around 500.

Tarkon has also co-operated with other companies. Through seminars, fairs and other meetings with different firms and universities, it has also got new ideas. One of those resulted in creation of its technological park. Through the latter, it can offer complete solutions – from a drawing to a final
product – to its customers. Tarkon has tried to involve the firms that have the technological processes it lacks itself or which are too weak. This reduces production costs and enhances the enterprise’s market potential and value-added. Moreover, by producing for different market sectors, the risks accompanying close relationships can be reduced: if one industry falls, the other may rise. In the technology park, Tarkon has six partners: Tarkon Lehtmetall (sheet metal products; Tarkon owns 50 percent of it, the other half belongs to HSF that bought it in 2004 from two Swedish firms Hilmgards Mekaniska AB and Länna Svets & Mekaniska AB), Medeto (medical device technology; 50% of it belongs to HSF and the rest to a Swedish firm Beijer Alma AB), Glaskomponent (industrial glass), EBO (aluminum die-casting), Nyköpings Plastproduktor AB (plastics) and Primus, a producer of consumer products, to which Tarkon is a big supplier of components.

Case 2. Krenholm (a producer of cotton and cotton - polyester / viscose / linen yarns and fabrics, bed linen, curtains, table cloths, garments, diapers, napkins and terry toweling) was established by Baron Ludwig Koop in 1857. The factory’s products were supplied to the whole of Russia and even Southern China. Soon the firm became the largest textile producer in Russia. In 1913, the company produced 11 percent of Russia’s cotton products. It had 10 500 employees. After Estonia became independent in 1918, the firm was restructured. Instead of trading with Russia, it started exporting to Western Europe and Scandinavia. Its turnover decreased five times. After nationalization following World War II, the firm’s production was reoriented to the Soviet market. Before becoming Estonian state-owned in 1991, Krenholm Group had 11 000 employees.

After the Soviet market fell off, the company had to find new buyers. In 1991-1995 it filled unsolicited export orders for intermediate buyers from different countries but had no resources, knowledge or original products to export directly. Krenholm’s main advantage was low cost. In 1995, after Borås Wäfveri AB bought a 75.5 percent share of the enterprise (since 1999, it has been fully-owned), it started developing and exporting its own products, but also sold a large amount of them under other brand names: for instance, IKEA. In August 1995, Krenholm opened a fully owned sales subsidiary, Krenholm Scandinavia AB, in Sweden. At that time, the firm’s main market was the USA with almost a 50% share. Then, Krenholm took a decision not to sell to any market more than a quarter of its turnover. So, the share of European countries was increased. In 1997, Krenholm Group opened a sales office in Germany. In November 2001, it acquired a marketing subsidiary – Aurora Fabrics Ltd, later renamed Krenholm UK Ltd – in the UK. The firm also exported to Finland, Latvia, Lithuania, Norway, Belgium, Holland, Italy, Switzerland and other countries.

In 2002, Krenholm Group announced that having a solid foreign owner was one of its main strengths. The parent company helped to pay the firm’s debts (before privatization the firm was practically bankrupt) and reorganize its production. The company managed to acquire several quality certificates, including WRAP, Öko-tex – 100, ISO 9001:2000 and ISO 14001:2004. The owner also brought knowledge in marketing and management, valuable experience and machinery: for instance, in 2005, the parent company brought some machinery from Sweden allowing Krenholm to produce fabrics wider than 1.5 meters; this should attract more customers. Also, the takeover in a way improved Krenholm Group’s image as its owner has been listed on the Stockholm Stock Exchange for almost 60 years.

In 2003, Krenholm announced of its plan to open an office in Holland by taking over a small sales company and invest in its products’ sales in Southern Europe. The enterprise also intended to employ more sales agents for exports to the UK, Germany and the Benelux countries. Still, these plans did not realize. The firm’s economic results started to worsen in 2002, when one of its major customers, K-Mart, went bankrupt. In January 2003, the owners forced the firm’s CEO Meelis Virkebau to leave the company, as they had a different understanding of Krenholm’s future development. Still, this did not improve the results as fast as it was expected. In 2005, Krenholm’s CEO Matti Haarajoki even told that the enterprise might move some of its operations from Estonia to Russia in the near future because the labor costs are lower there. In 2004, Borås Wäfveri had to invest a considerable sum into the enterprise to keep it from going bankrupt; and the firm had to sell some of its real estate and a mail-order trade department. Krenholm also had to lay off 600 and in 2005, 500 employees. By the end of 2005, only 3100 remained. Still, the firm’s situation may improve. Borås Wäfveri paid back some of Krenholm’s loans and thus the firm earned a small profit: about 0.03 million EUR by initial data. The number of employees may increase by 50 by the end of 2006 as Borås Wäfveri AB decided to move the production of its daughter company AB Svenskt Konstsilke – one of Europe’s leading producers of technical yarns for the tire and hose industries – to the Borås Wäfveri production site in Estonia.
Case 3. Hansabank Group’s history dates back to July 1991 when it started operating as a branch of Tartu Commercial Bank. It launched independent operations in January 1992. In 1998, after it merged with Savings Bank (Hoiupank), Hansabank became Estonia’s largest bank. In the same year, Swedish Förenings Sparbanken (Swedbank) obtained 49.98 percent of Hansabank through a share issue. Swedbank’s share soon increased to over 50 percent and then stabilized at 59.7 percent until the beginning of 2005. Then, Swedbank announced that they would buy all the shares owned by Hansabank’s other shareholders. They achieved full ownership in June.

At first, Hansabank operated locally. In 1995 it opened a representation in Riga and launched Hansa Leasing’s subsidiary, AS Hansa Leasing Latvia. In June 1996, Hansabank purchased 100 percent of Deutsche-Lettische Bank that was founded in 1993 (in October 1996 the bank started operating under the name Hansabank-Latvia and in 1999 its name was changed to Hansabanka). Hansabank’s Latvian operations soon grew further as through the merger with Savings Bank, the bank acquired its subsidiary Zemes Banka. In addition to traditional banking services, Hansabank-Latvia started to offer investment-banking services through Hansabank Markets. In 1999, Hansabanka also acquired Ventspils Apvienota Baltijas Banka (UBB Ventspils).

In 1996, Hansabank established its presence in Lithuania. Differently from Estonia and Latvia, the first company set up there was Hansa Leasing Lithuania. In July 1999, Hansabank’s Lithuanian subsidiary Hansabankas was opened in Vilnius. When Hansabank understood that its market share was too small and there was no sense in continuing with such a little share, it decided to acquire a local bank. Consequently, Hansabank purchased 90.7 percent of Lietuvos Taupomasis Bankas in April 2001. The new bank took the brand name Hansabankas. In 2003, Hansabank also acquired an insurance company Lietuvos Draudimo Gyvybes Draudimas.

In 1997, Hansa Leasing also entered Ukraine under the name DP Hansa Leasing Ukraine but there, operations have always been relatively minor and Hansabank has only employed a couple of people. In Russia, Hansa Capital operated during the years 1997-1998 but after the crisis, active business operations were frozen. Through the merger with Savings Bank, Hansabank Group also acquired FABA Bank in Russia, belonging to Savings Bank since September 1997, but it sold the bank in April 1999 as it defined the Baltic region as its home market. However, the bank decided to re-enter Russia three years later as the market seemed to have a considerable perspective, the competition was not very high and several of Hansabank’s major corporate customers had business interests there. In November 2002, Hansa Capital and the European Bank for Reconstruction and Development (EBRD) established a joint venture Hansa Leasing Russia to offer asset-based financing to railroads and ports (in 2005, Hansabank purchased EBRD’s 25-percent share in the enterprise and became the sole owner). The company focuses on transit sector companies serving Russian-related trade flows through the Baltic economies, but also seeks co-operation with Hansabank Group’s clients operating in the Baltic transit sector as well as Russian companies looking for asset-based financing. In the end of 2004, OOO Hansa Leasing set up a subsidiary in Kaliningrad for leasing industrial equipment and vehicles. By the end of 2005, Hansa Leasing Russia had become Russia’s second largest leasing enterprise with a portfolio of over 200 million USD. In September 2004, Hansabank signed a purchase agreement of 2.5 million EUR for a small corporate bank – Kvest Bank – in order to offer funding to Baltic, Scandinavian and Russian companies for developing their operations in Russia. In 2006, the EBRD bought 15 percent of it. In April 2006, Hansabank Group expanded its banking operations to St. Petersburg and Kaliningrad. In the future, the bank may expand its customer base in Russia beyond Swedbank’s corporate customers and their employees.

Swedbank has mainly helped Hansabank Group with internal audit and risk management and also by sharing knowledge. In addition, Hansabank’s credit rating has improved, compared to September 1997: the long-term deposit rating of the Moody’s Investors Service has grown from Baa2 to A1, the short-term deposit rating from Prime 3 to Prime 1, and the financial strength rating from D+ to C+. There have been also some other benefits. The fact in itself that Hansabank Group has a foreign owner is a sign of stability and trust. It has improved the bank’s image in Latvia and Lithuania. Hansabank Group clearly gained from that when it bought a bank in Lithuania in 2001: then, it defined itself as a Swedish bank. Moreover, Swedbank’s representatives have often advertised Hansabank’s services in Baltic countries. Hansabank Group has also several long-term relationships with companies outside the corporation. For example, in June 2002, it signed a cooperation agreement with OKO Osuuspankkien keskuspankki OY (Finland) for broad coverage of various banking services.
Moreover, in the end of 2005, Hansabank's co-operation partner, Aktia Bank, started active sales of its investment funds in Finland.

In the end of 2005, Hansabank Group had number 7124 employees (this number should increase in the near future as Hansabank intends to establish an insurance company which will provide property insurance services to private and business clients), it reached a 1/3 share in the Baltic market and its Internet bank had over 1.5 million customers. Compared to all other Estonian enterprises, Hansabank had the largest turnover and profit. By 2007 it wants to become a benchmark of a modern banking in Europe and its share in Swedbank’s total profits should increase to over 50 percent in the near future.

Case 4. CVO Group was founded in 1996 by four Estonian entrepreneurs under the name Amendion. It began as a traditional recruitment company. Online services were launched in 1997 and the company was renamed CV-Online. Until 1999, the firm operated locally. Then it decided to internationalize swiftly. As the managers found the Baltic region too small both in terms of population and the number of Internet users to cover the development costs of its services, they decided to enter not only Latvia and Lithuania but also several other countries. In December 1999, the company went to Latvia. In January 2000, CV-Online expanded its capital base by including LHV Ventures (Estonia) and Esther Dyson (USA). This allowed the enterprise to enter the major CEE markets. The Czech office was opened in March, the Lithuanian branch in May, the Hungarian subsidiary in June and the ones in Poland and Russia at the end of August. In addition, CVO Group hired representatives in Bulgaria and Romania. In January 2001, the following expansion took place where in addition to the present owners, one of the leading Central European investment funds, 3TS Venture Partners, participated. Through the deal, the investors gained a majority stake in CV-Online’s holding company, Dutch-registered CVO Holdings NV, while three founders retained minor shares and drew back from the firm’s active management. Its headquarters were moved from Tallinn to Budapest and it became the largest on-line recruitment company in the CEE. In the same year, CVO Group’s managers saw that the organization had grown too large and they lacked resources to manage efficiently. Consequently, CVO Group temporarily suspended its operations in Russia, Romania and Bulgaria, but entered Slovakia. Nevertheless, this did not considerably affect it size, as in Romania and Bulgaria the firm’s offices had not yet started their operations. A year later, it re-entered Russia. In 2004, the firm opened a representation in London. It re-entered Bulgaria and Romania and also expanded to Poland and Slovenia. The firm has also planned to enter Germany, Austria, and Croatia in the near future. In 2005, its turnover doubled to 6.3 million EUR; about 40 percent of it came from online and the rest from traditional recruitment services. In 2006, it is expected to double again. The company has also announced its intention to be quoted on the stock market of Helsinki, London or both in 2006 or later.

Even more than additional capital, CVO Group valued the investors’ ability to raise the company’s efficiency and goodwill and participate in forming its strategy. For example, LHV was selected for their entrepreneurial experience and Esther Dyson for her contacts in Europe and knowledge of the Internet’s future perspectives. The investors also provided CVO Group with information and management know-how and formulated the group’s management team: its CEO and minor shareholder Norrie Sinclair had over 10 years of previous experience in the area of personnel recruitment – he was responsible for developing and managing Nicholson International's network in Central Europe and Turkey. Moreover, the new owners helped to open and develop new offices abroad and find new customers in the CEE. In addition, the enterprise obtained new ideas from their owners’ subsidiaries in other countries: for example, launching job offers via mobile phones.

Besides the foreign investors, CVO Group has paid much attention to its long-term relationships with major newspapers, Internet portals and main customers. To make entering new foreign markets easier, it has also created strong relationships with large multinational corporations operating in the CEE. For example, Kraft, Citibank, ABB, Spar, Philips, Intel and Mars are among CVO Group’s customers. In October 2002, CVO Group formed an alliance with Stepstone ASA – Europe’s leading independent online recruitment company covering 15 markets in Western Europe: Austria, Belgium, Denmark, Finland, France, Germany, Greenland, Italy, Luxembourg, Netherlands, Norway, Portugal, Sweden, Switzerland and the UK – to provide international and multinational recruiters with integrated access to their online recruitment services across Europe. It also has a similar co-operation with Monster. These two firms have also participated in creating EMEAjobs and PreSelector Europe: Internet portals through which they also offer jobs in Africa and the Middle East, not only in Europe.
Discussion

From the above it can be concluded that the case firms’ internationalization processes differ considerably (see also Table 2). From its creation in 1907 to the World War II, Tarkon gradually increased its production and found new export markets. Then, it was forced to reorganize its production and orient itself towards the Soviet market. In the beginning of the 1990s, these markets disappeared and Tarkon had to enter new foreign markets again. The enterprise’s export share gradually increased and then dropped. After that, it started to grow again. During its internationalization and re-internationalization, Tarkon has at first entered neighboring countries, but it has also exported to the USA and opened a joint venture in China. Krenholm Group has followed even more stages of internationalization and de-internationalization. From its foundation in 1856 to Estonia’s independence in 1918, the firm exported successfully to Russia and China. Then, its production was reoriented to Scandinavia and Western Europe. After World War II, Krenholm’s production was diverted to the Soviet market. When Estonia regained its independence and the Soviet market fell off, the firm was forced to find new export markets again. So it started exporting to several European countries, but also to the USA, and established three sales subsidiaries in Europe. Hansabank started its internationalization from the closest markets. At first, it entered Latvia, a year later, Lithuania and after that, Ukraine and Russia. In Latvia and Lithuania, the bank has gradually increased its presence. In Ukraine, the bank still has only minor activity. From Russia, Hansabank had to back up because of the economic crisis, but it returned in 2002. Currently it is also increasing its activities in Finland. CVO Group was local for the first three years and then, after involving foreign investors, entered several CEE countries in a very short time period. In 2001, the company exited Russia, Bulgaria and Romania, but in 2002, it re-entered Russia and in 2004, also Romania and Bulgaria.

************
Insert Table 2
************

The case companies’ de- and re-internationalization has been impacted by several factors and actors. The dissolution of the Soviet Union forced Tarkon and Krenholm to back off from previous markets and find some new ones quickly. The latter also de-internationalized twice before: in 1918 when Estonia became independent, it had to start exporting to the West, while in the 1940s it had to re-orientate its production to Russia and other Soviet republics again. Hansabank decided to withdraw from Russia because of the Russian crisis and because of its plans to concentrate only on Estonia, Latvia and Lithuania, while CVO Group decided to stop its activities in Russia, Romania and Bulgaria because it lacked resources and it was hard to manage such a big organization. Still, all the companies had some common motives, why they decided to re-internationalize: the Estonian market was clearly too small for them, and they could not only concentrate on Latvia and/or Lithuania in addition to their host country, either. Moreover, for Hansabank, customers’ interest played an important role in returning to Russia, while for CVO Group, additional resources helped to re-enter all the three markets from which it had withdrawn.

In addition to changes in market conditions, firms’ resources, capabilities and the management's international orientation, network relationships have also strongly impacted the case firms' internationalization. Tarkon has clearly benefited from having a foreign owner: it has acquired capital, know-how, market access and raw materials. As a result, its turnover and exports have increased considerably and it has become able to establish a joint venture in China. The negative effect – being forced to complete certain orders – has been smaller, especially in the recent years. The other network relationships have, in general, also been beneficial for Tarkon. Through them, the firm has developed new products, reduced production costs and increased its turnover, market potential and value-added. For the (international) development of Krenholm Group, the foreign owner has also been very important. From Borås Wäfveri AB, it has acquired capital, know-how, advice and support and improved its image, and in mid 1990-s, the owner saved it from bankruptcy, but now the firm may need saving again. Moreover, the enterprise operates closely with its other network partners. Hansabank has also gained from having a foreign owner: it has acquired knowledge and assistance in internal audit and risk management, improved its image and credit ratings. To some extent, Swedbank has also eased Hansabank’s internationalization. Through the other network relationships, the bank has been able to further expand its service range for both local and international clients, reduce loan
losses and IT costs. Without the foreign owners’ financing, CVO Group would not have internationalized so quickly, either. The company values highly the investors’ know-how, ideas and assistance in raising its efficiency and goodwill, developing new offices abroad and finding new customers. CVO Group has also cooperated with several other firms outside the owners’ networks to develop new services and enter additional markets.

Conclusions

From the four cases and the literature on the internationalization process and the factors affecting it, it can be concluded that firms may restart their internationalization both from closest or farther markets, from entry modes requiring higher or lower commitment and they may re-internationalize very quickly, very slowly or in a moderate pace. Their re-internationalization may be caused by one or more critical incidents – for instance, a takeover by another enterprise – and influenced by several factors and actors: network relationships (these seemed to be especially important for the four case companies), unique resources and capabilities, a change in management’s global orientation and so on. In principle, it seems logical to assume that re-internationalizing companies may use at least some of their previous knowledge of foreign markets (at least it was true in the cases of Hansabank and CVO Group), and they may be also able to revive some of their previous network relationships in those countries. Consequently, re-entering a specific market might be easier than entering the one where the firm does not have any previous connections, but the period between de- and re-internationalization has a clear role: if a very long time has passed since de-internationalization – like in the cases of Tarkon and Krenholm – there is no difference whether the firm has ever been active on that market or not. Moreover, managers should keep in mind that re-internationalization is not always easy even if the firm has been away from a certain market only for a year or two. So, both exit and re-entry decisions should be made after careful consideration. Several factors should be taken into account: the firm’s resources and capabilities, potential problems from de-internationalization (for instance, court cases because of contract termination), re-entry barriers, the impact on the company’s image and so on. Sometimes, it may be more reasonable not to exit a certain market, at all.

The future research could pay more attention to the re-internationalization process: does it consist of certain stages, how long is usually the period between de- and re-internationalization, do companies prefer to re-enter closest countries more than more distant ones, which re-entry modes they favor and so on. It could also concentrate on the role of network relationships, firms’ resources and capabilities, their managers’ international orientation and the business environment as facilitators and inhibitors of de- and re-internationalization. Moreover, it could be useful to examine the interrelationships between these factors (for instance, how network relationships affect a company’s capabilities and how these influence its managers’ opinion toward re-internationalization) more closely and pay more attention to how the firm’s previous experience from internationalization and de-internationalization might impact its re-internationalization. It is also important to include more cases from Estonia and some from other countries and also perhaps to make a survey to get a better understanding of the de- and re-internationalization processes and their interrelationships.
References


Table 1. A comparison of different types of internationalizers

<table>
<thead>
<tr>
<th></th>
<th>A traditional internationalizer</th>
<th>A born global</th>
<th>A born-again global</th>
<th>A re-internationalizer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Market selection</strong></td>
<td>Home market first, then the firm gradually enters psychically closest markets; after that it may enter farther markets</td>
<td>Far markets (on other continents) very quickly without necessarily entering closest markets or even the home market</td>
<td>Home market first; after more than 10 years, the firm may start its internationalization both from closest or farther markets</td>
<td>Not specified: the firm may start its internationalization both from closest or farther markets, but then it returns from one or more markets or may even completely de-internationalize</td>
</tr>
<tr>
<td><strong>Entry mode selection</strong></td>
<td>Exports first, entry modes with higher commitment – like foreign sales and production subsidiaries – later</td>
<td>Not specified: the firm may start its internationalization both from entry modes with higher or lower commitment</td>
<td>Not specified: the firm may start its internationalization both from entry modes with higher or lower commitment</td>
<td>Not specified: the firm may start its re-internationalization both from entry modes with higher or lower commitment</td>
</tr>
<tr>
<td><strong>Pace of internationalization</strong></td>
<td>Relatively slow, gradual or step-by-step (larger or resourceful firms may be faster)</td>
<td>Very fast, by “leapfrogging” traditional stages and closest markets</td>
<td>No international activities for a long time, but then, the firm internationalizes very quickly</td>
<td>Not specified: the firm may internationalize very quickly, very slowly or in a moderate pace; its pace of de-internationalization may also vary</td>
</tr>
<tr>
<td><strong>Factors influencing internationalization</strong></td>
<td>Experiential market knowledge (especially in the U-model), other firms, top managers, the firms’ competitive advantages and general economic conditions</td>
<td>A small home market, network relationships (for instance, with foreign owners), short product life cycles, large competition, unique resources and capabilities, a change in management’s global orientation</td>
<td>A critical incident: for example, takeover by another enterprise, acquisition of a company with international connections or the internationalization of a domestic client</td>
<td>Takeover, change in management, improved foreign market conditions, (governmental) assistance, experience from and knowledge of foreign markets, network relationships, re-entry costs</td>
</tr>
</tbody>
</table>
Figure 1. The factors influencing re-internationalization: a conceptual framework
Table 2. The de- and re-internationalization of the case companies and reasons causing it

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>The dissolution of the Soviet Union</td>
<td>The dissolution of the Russian Empire (1st period) and the Soviet Union (2nd period)</td>
<td>The Russian crisis and the re-formulation of the firm's strategy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Smallness of the home market</td>
<td>Smallness of the home market</td>
<td>Smallness of the Baltic market, high potential of the Russian market, customers' and foreign owner's interest</td>
<td>Smallness of the Baltic market, aggressive expansion strategy, additional resources</td>
<td></td>
</tr>
<tr>
<td>Mostly exports to Sweden, but has a joint venture in China</td>
<td>Sales subsidiaries in Sweden, Germany and the UK, exports to a large number of countries</td>
<td>Subsidiaries in Latvia, Lithuania, Russia and Ukraine, some co-operative activities in Finland</td>
<td>Subsidiaries in Latvia, Lithuania, Poland, Russia, Hungary, the Czech Republic, Holland, Bulgaria, Romania, Slovenia, Slovakia and the UK</td>
<td></td>
</tr>
</tbody>
</table>
Acknowledgements

The paper was financed by the Estonian Science Foundation’s Grants No 5840 and 6493 and target financing of the Estonian Ministry of Education and Research No. 0182577s03 (T0107). The author thanks Richard Owusu for some suggestions on a very early version of this paper.