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**REASONS FOR
DE-INTERNATIONALIZATION:
AN ANALYSIS OF ESTONIAN
MANUFACTURING COMPANIES**

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INTRODUCTION

Motivation for the research

Extensive research on internationalization¹ of enterprises started with the rapid growth of foreign trade and foreign direct investments in 1960s. Since that time, a large number of researchers have analyzed the factors that have influenced the internationalization process and patterns, the impact of internationalization on parent company and home economy, threats and opportunities of internationalization, and several other problems related with international activities of firms.

At the beginning of the 1970s, an extensive research of internationalization processes of enterprises started in the Nordic countries. Over three decades these issues have been discussed in a considerable number of research papers. The idea of sequential development of international operations was suggested by Luostarinen in 1970, Johanson and Wiedersheim-Paul in 1975 and Johanson and Vahlne in 1977 and developed further by several researchers (for example, Luostarinen in 1979, and Welch and Luostarinen in 1988). Despite continuous research in this area for over thirty years the subject has not been exhausted since the knowledge about international activities of firms needs continuous updating as “processes like liberalization, globalization and increasingly rapid technological change lead to internationalization constantly taking on new shapes and directions” (Benito 2000, p. 3).

While internationalization processes have got a lot of attention, the field of de-internationalization is rather unexplored and the body of literature covering this issue is quite limited. There are only a few contributions that focus exclusively on the topic of de-internationalization² (see, for example, Benito and Welch 1997, Mellahi 2003 and Turcan 2003a, 2003b). The present literature about de-internationalization has concentrated on defining this concept and introducing the main processes of de-internationalization activities. Benito and Welch (1997) developed a framework in which the present commitment to

¹ Internationalization is defined as “a process of increasing involvement in international operations” (Luostarinen, Welch 1997, p. 249). Ahokangas suggests that instead of defining internationalization as a process of increasing involvement in international operations, the adjustment of resource stocks for international activities should be the focal point of discussion (Ahokangas 1999, p. 20).

² Benito and Welch have suggested that de-internationalization is “any voluntary or forced action that reduces a company’s engagement in or exposure to current cross-border activities” (Benito, Welch 1997, p. 9).

a market and the management's role are decisive in formulating changes in strategy that can lead to the de-internationalization of (some) activities. In this approach, internal and external changes are considered to be an input for the management's decision, but the potential reasons behind de-internationalization are not thoroughly discussed. Mellahi (2003) who used the example of Marks & Spencer have also been interested in analyzing the role of the management team in initiating de-internationalization activities. Turcan (2003a, 2003b) suggested a model where entrepreneurial commitment, time, and strategic changes are considered as the main components of a decision about de-internationalization. He has paid particular attention to analyzing de-internationalization processes from entrepreneurship perspective and in the context of small firms.

Hence, all these studies have presented the definition of de-internationalization and have explained the process of de-internationalization but have not focused on analyzing the main reasons that are behind de-internationalization decisions. Despite the research about foreign divestments (see, for example, Benito 1997; Boddewyn 1979, 1983a, 1983b; Chen, Wu 1996; Chopra *et al.* 1978; Larimo 1998; Sachdev 1976; Tornedon, Boddewyn 1974; Tsetsekos, Gombola 1992) and export withdrawals (see Bonaccorsi 1992; Pauwels, Matthyssens 1999; Welch, Wiedersheim-Paul 1980), foreign market exit processes are not distinctly conceptualized in international business research.

Until the end of the 20th century, most of the research into internationalization concentrated on analyzing the internationalization processes of enterprises in developed countries. However, emergence of new attractive markets in Central and Eastern Europe (CEE) at the beginning of the 1990s was a great opportunity for several enterprises in developed countries to expand their international activities and opened up new research avenues for scientists. It has to be considered that the firms from developed countries have reached the globalization stage (see the classification by Kirpalani and Luostarinen 1999, p. 33) while most firms in the transition and developing countries are still struggling at the export stage (this is also noticed by Kwon and Hu 2001, p. 58). Because of these and several other reasons, several authors call for a deeper research into international activities of enterprises in transition economies (see, for example, Bishop 2001; Pollard 2001).

Due to the lack of experiences and competitive advantages, at the beginning of the 1990s only a few firms in Estonia were interested in entering the foreign markets. By now the situation has completely changed as the enterprises are increasingly engaged in export activities and the foreign direct investment outflows are increasing each year. It could be expected that the internationalization process of enterprises in Estonia would differ to some extent from the traditional processes as suggested by the researchers from the Scandinavian countries. For example, the size of the local market and/or low level of purchasing power might force enterprises to speed up internationalization. At the same time, the average size of the companies tends to be smaller than in the larger and/or more

developed markets and thus organizational capabilities set limits to making use of foreign direct investments in entering the new markets. In addition, some differences in selecting target markets are also expected since the competitive advantages of the firms are quite often based on the inward foreign direct investments and thus the companies are not carrying out their own internationalization strategies but the ones of foreign owners.

Estonia is a small transition country which had extremely liberal economic policy until its integration into the European Union. By comparison with the other Central and Eastern European countries, Estonia has been relatively competitive in attracting foreign direct investments which have contributed to the acceleration of the transition processes and building up competitive advantages of the local enterprises. At the same time, because of the limited local market, internationalization is inevitable for a great deal of enterprises for further growth. This domestic pull together with lack of international experience may result in wrong decisions, which in turn may lead to de-internationalization. Several Estonian firms have already faced problems in international markets. In the future increase in production costs and limited production capacity may lead to a decline in international competitiveness and cause de-internationalization of several Estonian manufacturing enterprises. Thus, more in-depth understanding of the experiences of Estonian internationalizing firms and reasons behind de-internationalization activities is needed in order to be able to avoid blunders, promote international expansion and implement supportive policy measures.

The aim and research tasks of the thesis

The main aim of the present thesis is to identify which of the reasons for de-internationalization that are suggested in the theoretical framework apply in the case of Estonian manufacturing enterprises. To achieve the aim, the following research tasks are set up:

- 1) in order to develop a basis for analyzing de-internationalization motivations, the main ideas of internationalization process models and the present criticism of these approaches are going to be introduced,
- 2) as the analysis of de-internationalization will later be carried out within the target market and operational mode dimensions, the existence of target market and operational mode paths in internationalization processes are going to be thoroughly discussed,
- 3) a framework for analyzing the reasons for de-internationalization is going to be developed on the basis of both the discussion presented in the earlier parts of this dissertation and the results of previous research into the causes of foreign divestments and export withdrawals,

- 4) for identifying the importance of de-internationalization activities in Estonia the overall context and main changes in Estonian manufacturing enterprises' international operations are going to be introduced,
- 5) formulation of the research hypotheses about the main reasons behind de-internationalization of Estonian manufacturing enterprises and a short description of the research methodology is going to be presented in the next part of the dissertation,
- 6) finally, an analysis of the reasons prompting Estonian manufacturing companies to de-internationalize is going to be made and a synthesis of the research results is provided.

The structure of the thesis

The present thesis consists of two major parts. The first part constitutes a theoretical basis for the following analysis, covering the main lines of discussion on incremental internationalization processes and suggesting a framework for analyzing the possible motives for de-internationalization. The second part of the thesis consists of the development of the hypotheses, introduction of the data and research methodology, and an analysis of the de-internationalization motives in Estonian manufacturing enterprises. The general logic of the dissertation is illustrated by Figure 1.

As mentioned above, there are only a few contributions in the field of de-internationalization and thus the theoretical base has yet to be developed. Some authors suggest that de-internationalization is merely a reverse process compared to internationalization (see, for example, Drogendijk 2001, p. 12; Turcan 2003a, p. 211). Therefore behavioral internationalization process theories are going to be used for creating the basis for analyzing de-internationalization processes. These models allow us to analyze international operations along several dimensions instead of concentrating only on the operational mode choice aspect. Moreover, as the gradual increase in knowledge is the main determinant of international activities, these models seem to be the most appropriate ones for analyzing internationalization processes carried out by the firms from transition countries.

Due to these reasons, the dissertation starts with introduction of the main contributions in international business research that consider internationalization process to constitute several incremental steps. At first the Uppsala model is discussed. As this approach was introduced almost thirty years ago, a considerable number of researchers have analyzed the validity of the framework proposed by Johanson, Vahlne and Wiedersheim-Paul. While both support and controversies have been reported, the main critical arguments have also been pointed out, enabling us to identify and present the limitations and exceptions of the framework of the reasons behind de-internationalization.

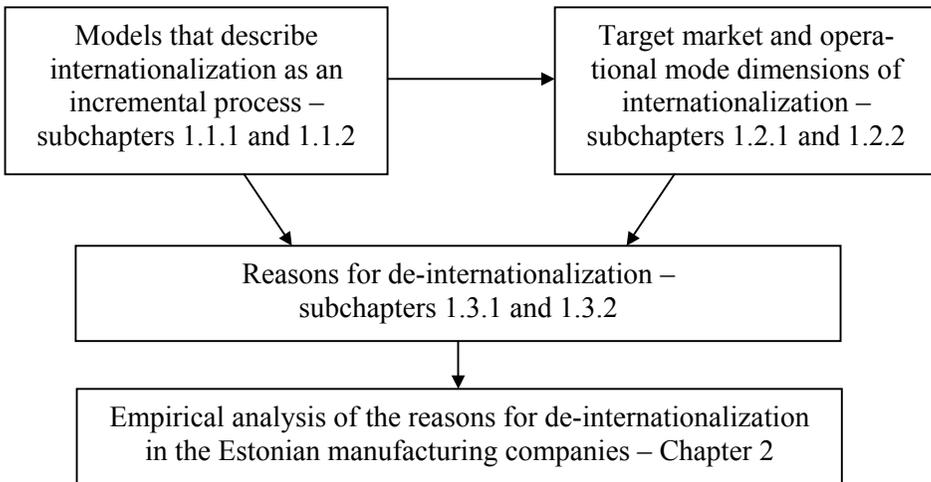


Figure 1. The general logic of the dissertation.

Next, Finnish contributions are going to be analyzed. The POM-approach suggested by Luostarinen and Welch is superior to the Uppsala model in the sense that it constitutes several different dimensions along which the internationalization process develops. However, this approach has received much less attention in the research. Besides the POM-model, contribution by Liuhto, who suggested the REM-model for analyzing internationalization is briefly discussed. The last part of subchapter 1.1.2 compares the internationalization process models suggested by other researchers. As there is a multiplicity of such models, only some of them are going to be discussed thoroughly. All the abovementioned contributions about incremental internationalization processes are applied in developing the framework that consists of potential reasons for de-internationalization.

Having pointed out the main ideas of incremental internationalization, deeper analysis of only two dimensions is presented in subchapters 1.2.1 and 1.2.2. The focus is on the target market and operational mode patterns. Figure 2 presents the main aspects covered in the analysis of these dimensions.

The product and organizational capacity dimensions are not the subjects of the present dissertation. The reason for excluding them is that most of the Estonian manufacturing companies are still in the phase of exporting the products and these companies who have reached the stage of selling services, systems, or know-how are rare. Thus, only a few cases, if at all, of de-internationalization along the product dimension can be found. The organizational capacity dimension is left out for several reasons, the most important of them being difficult operationalization of this dimension.

Before developing a framework for analyzing reasons behind de-internationalization, the main lines of reasoning presented in literature on foreign

divestments and export withdrawals is presented. On the basis of intuitive search and theoretical foundations presented in previous subchapters, the main reasons for de-internationalization are proposed and grouped, and the importance of each group of motives to the firms that are at different stages of internationalization is discussed.

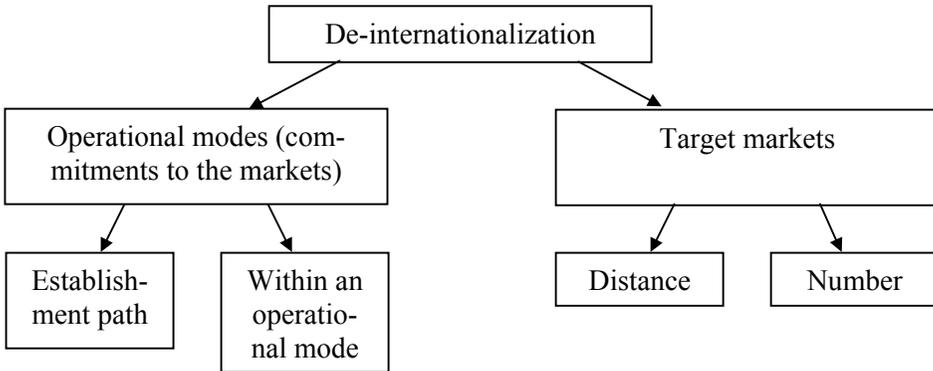


Figure 2. Aspects covered in the analysis of the operational mode and target market paths.

Due to the globalization and liberalization of foreign direct investment regimes (see World Investment Report 2001, p. 6), government forced divestments (for a classification and analysis of main reasons consult Hawkins *et al.* 1976) are relatively rare and will therefore not be thoroughly discussed in the present dissertation. In the case of export activities, implementation of tariff and non-tariff barriers is discussed in some parts of the dissertation as a possible explanation for redirection or withdrawal of export, but as no detailed data about exported products is available, the real effect of tariffs cannot be determined.

The second chapter starts with a brief overview of the main tendencies of international activities of Estonian firms and by developing the hypotheses to be tested afterwards. At the beginning of each subchapter, attention is paid to introducing the main characteristics of the data and this is followed by a short description of research methodology. The analysis of de-internationalization of Estonian manufacturing enterprises is in the present dissertation based on the data provided by five case studies and two databases.

1. The database of Estonian manufacturing enterprises comprising balance sheet and income statement data of 325 enterprises over the period 1996–2002. Multinomial logistic regression analysis is going to be used for detecting the main reasons for de-internationalization in the case of this dataset.

2. The data collected by the Estonian Trade Promotion Agency about the activities of both domestic and foreign-owned enterprises (covers the periods 1999–2000 and 2002–2003). After removing the firms belonging to the service industries and taking into account the missing values, the number of firms in the samples is 80 and 118 respectively. In this case differences between those firms that have de-internationalized from a particular market as compared to those that have increased commitment are studied by means of an ANOVA analysis.

The data of these databases is used due to several reasons. For example, the first database covers 8.7% of companies and 49.3% of export sales in Estonian manufacturing enterprises in 2002, thus providing a good starting point for de-internationalization analysis since it enables us to detect the overall tendencies and reasons for de-internationalization. In addition, the database also involves those enterprises that have been closed down.

As compared to case study methodology, quantitative analysis has at least two advantages. First, compared to positive developments, firms are usually not eager to discuss their negative experiences (this tendency is noted, for example, by Pauwels, Mathhyssens 2002, p. 3) or they want anonymity, but in such a small business society like Estonia, anonymity of firms cannot be guaranteed in the case of in-depth case study and description of the enterprise. In making use of these databases, anonymity is easier to be assured. Secondly, information collected through interviews about the negative experiences is likely to be biased to some extent as the managers are often emphasizing the influence of external changes but do not want to discuss their own mistakes (or they even do not realize that they were the main reasons for dissolution of foreign activities) (see also Forsgren 2002, p. 268). The quantitative data provided by the above-mentioned databases decreases the risk of biased information but unfortunately at the cost of depth of information. Due to the latter shortcoming, case study analysis that is carried out in the last part of this dissertation enables to provide broader and in some sense also more profound analysis of reasons behind de-internationalization in Estonian manufacturing companies.

The empirical analysis presented in this dissertation has several shortcomings deriving mainly from the characteristics of the data and the nature of the international activities of Estonian manufacturing enterprises. Firstly, there is a relatively small number of de-internationalization incidents thus far. Secondly, information is insufficient about the de-internationalization activities of small enterprises and therefore the analysis is biased towards large firms. Due to this, not all findings necessarily apply in the case of smaller manufacturing firms. Moreover, the size of the companies under investigation may easily affect the role of lack of international experience as compared to other reasons behind de-internationalization. Thirdly, there are some difficulties in analyzing de-internationalization along several dimensions. This problem is acute especially in the case of the database of Estonian manufacturing enterprises. Finally, it is difficult to compare directly the results gained from

different sources of data due to the differences in depth of information. To conclude, the empirical analysis in the present dissertation is limited to Estonian manufacturing enterprises, and the operational mode and target market dimensions.

Theoretical limitations

Internationalization process models are used as a theoretical basis in the present dissertation for analyzing de-internationalization tendencies and building a framework for this kind of analysis. Transaction cost analysis, industrial network approach and business strategy approach are not the subjects of the thesis due to the limited scope of the study (for a comparison of these approaches and internationalization process model see Dunning 2001; Weisfelder 2001; Whitelock 2002).

The transaction costs theory is left aside since it explains the initial choice of operational mode – contractual modes versus foreign direct investments – but does not address the issue of potential changes in operational modes when the firm moves to the later stages of internationalization. The absence of dynamics in this line of research is also stressed by Teece (1986, p. 36). Because of these shortcomings, the line of reasoning about choice of operational mode put forward by transaction cost theorists is not covered in the present dissertation.

Network theory is also extensively used for explaining internationalization of enterprises. A lot of research has been done in this area (see, for example, Björkman, Forsgren (2000) for an overview of the main research directions and results; Ford 2002 for comparison of internationalization and network theory; and Welch and Welch 1996 for a discussion about linkages between internationalization and networks). In Estonia Tõnu Roolaht (2002b) and Tiia Vissak (2003) addressed this issue in their doctoral dissertations, concentrating, respectively, on the relationship aspects of internationalization and the network perspective of internationalization of foreign-owned enterprises. In the present dissertation, some aspects of the network theory are used for explaining de-internationalization of enterprises among several other explanatory variables and because of this only a short description of some aspects of network theory is presented in the first part of the dissertation (for a comparison of the Uppsala model and network approach see Johanson, Vahlne 1990; Ahokangas 1999).

An additional body of literature that is closely related to network approach is the one of relationship dissolution. Namely, there are several contributions that concentrate on analyzing termination of relationship both at the interpersonal (see, for example, Hocutt 1998) and inter-firm level (see Giller, Matear 2001; Pressey, Mathews 2003). The focus of this literature is on analyzing dyads and is therefore much more detailed than the approach of the present dissertation, where the analysis is carried out at firm level. Although studies about relationship dissolution suggest several motivations behind termination,

most of them require rather detailed information about particular relationships. Due to unavailability of this kind of data and difficulties in gathering and generalizing it in the case of Estonian manufacturing enterprises, this line of research will not be covered in the dissertation. However, it provides several interesting research opportunities for the future. For example, four different layers – country, industry, firm, and relationship level – can be distinguished between and analyzed.

Theories explaining the movement of foreign direct investments between countries are not covered in the thesis, since they mostly concentrate on answering the question why these investments are made, and a lot of them concentrate only on macro-level determinants. These theories are targeted to explain the initial impulse to (increase) commitment to the foreign market(s). In contrast, the focal question of the present dissertation is what happens afterwards when the strategy, market conditions or other factors change. The authors of the Uppsala model discussed the differences between their approach and eclectic theory and they concluded that “the two frameworks in their present shape are inconsistent as the basic assumptions are so different” (Johanson, Vahlne 1990, p. 18). Another argument for excluding FDI theories from this dissertation comes from Estonia’s situation. Namely, the importance of foreign investments as a foreign market entry mode is relatively low.

In introducing the internationalization theories, the emphasis is on explaining outward internationalization. A large body of literature covering the area of inward internationalization and cooperative forms had to be left out due to the limited scope of the present dissertations. However, this strand of literature would definitely deserve in-depth study (suggestions for further research in this area can be found, for example, from Luostarinen, Welch (1997), Reichel (1988), Welch, Luostarinen (1993)) as the reasons for de-internationalization may stem from (lack of) experiences with inward internationalization, or cooperative ventures.

Many researchers have addressed the issue of export success (see for an overview Aaby, Slater 1989; Westhead *et al.* 2001). This field of research is related to de-internationalization but there are also several differences. First, analysis of de-internationalization covers a variety of operational modes instead of concentrating on export alone. Second, de-internationalization may evolve for several reasons, and poor performance is only one of the explanatory variables. Third, poor performance is rarely defined and seldom discussed in the research on export success; most authors have concentrated on either analyzing positive incidents or comparing exporters with non-exporters. However, several factors that affect export success have also some influence in the case of de-internationalization. Thus, the following analysis rests in some parts on explanations suggested in export success research.

In conclusion, the current dissertation concentrates on the logic suggested by internationalization process models and literature on export withdrawals and divestments in developing the framework for analyzing the reasons behind de-

internationalization activities. There are several other avenues for research in the field of de-internationalization and hopefully, future studies will improve our knowledge in these areas.

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Naturally, all the mistakes and errors found in this dissertation are the sole responsibility of the author.

1. THEORETICAL FOUNDATIONS OF THE ANALYSIS OF REASONS FOR DE-INTERNATIONALIZATION

1.1. Theories of incremental internationalization of enterprises as a basis for analyzing the reasons behind de-internationalization

1.1.1. The Uppsala internationalization process model

Research on internationalization of enterprises started several decades ago. Until now a considerable number of studies have addressed this issue. Several researchers have suggested that internationalization is a sequential process. This kind of approach has been especially popular among Nordic scholars. There are a number of scientists who have claimed that de-internationalization is merely a reverse process by comparison with internationalization (see, for example, Drogendijk 2001, Turcan 2003a). Therefore it is important to present the main strands of research and main models describing internationalization processes in the present dissertation. So the following subchapters serve to introduce the main lines of reasoning in this area and discuss the aspects pointed out by several scholars in the light of their applicability to the analysis of reasons for de-internationalization.

The first ideas of sequential internationalization and importance of experiences in that process can be found from an article published as early as in 1956. In it Penrose pointed to a strong tendency by firms to expand their activities to new lines of business and to new markets. She suggested that the expansion is usually not a continuous uni-directional process but there are fluctuations caused by internal and external conditions. Among other internal resources, Penrose stressed the importance of experience. She claimed that “a very considerable input of the managerial and technical resources of the investing firms may be required to ascertain what foreign opportunities exist and how they may best be taken advantage of” (Penrose 1956, p. 228). Moreover, she noted that the original investment into the foreign market is in many cases small and has exploratory nature. As the firm gains new experience and information about the target market, new opportunities for further investment – these were not apparent at the time of initial investment – evolve. (*Ibid.*, p. 228) However, the above-mentioned ideas presented by Penrose in her article, were remarks rather than central points of discussion.

These ideas were addressed more thoroughly and developed further by the Nordic scholars. Models of sequential internationalization processes evolved

almost simultaneously both in Finland (Luostarinen 1970, 1979) and Sweden (Johanson and Wiedersheim-Paul 1975 and Johanson and Vahlne 1977).

Johanson and Wiedersheim-Paul (1975), and Johanson and Vahlne (1977, 1990) developed an approach known as the Uppsala model (or U-model). It describes internationalization as a sequential process, where market commitment decisions and current activities depend on market knowledge and current commitment in this particular market and *vice versa*, forming a causal cycle (see Figure 3). One very interesting point that the authors make is: “the model expects that the internationalization process, once it has started, will tend to proceed regardless of whether strategic decisions in that direction are made or not” (Johanson, Vahlne 1990, p. 12). As one can understand from this, the Uppsala model is mainly oriented to analyzing increasing commitment incidents rather than withdrawals from the foreign markets. This kind of approach is likely to be the result of the situation of the world economy at the time of constructing the Uppsala model, as this was the period of rapid increase of international activities of firms and de-internationalization activities were almost non-existent. However, the situation today raises the question whether an increase in market knowledge may lead to a decrease in commitment to a particular market in the future, suggesting that this model should cover not only positive but also negative developments in commitment.

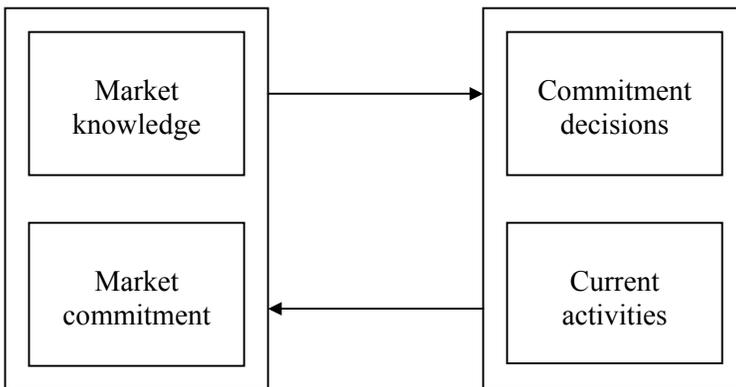


Figure 3. The basic mechanism of internationalization – the aspects of state and change (Johanson, Vahlne 1977, p. 26).

The authors of the model suggest that the incremental nature of internationalization is the result of lack of resources and knowledge about foreign markets. Lack of information and experience increases the risk level that is related to operating abroad, and this risk can be decreased by stepwise extension of both operational modes and target markets (for learning effects see also Appendix 1). (Johanson, Wiedersheim-Paul. 1975, p. 306; Johanson, Vahlne 1977, p. 26)

Market commitment is defined in the Uppsala model as a combination of two factors – the amount of resources committed and the degree of commitment (how difficult it is to find alternative use for the resources and to transfer them elsewhere) (Johanson, Vahlne 1977, p. 27). During its first export sales, the firm gets to know about the new market opportunities and confirms the existence of market potential, and thus the “perceived basis for export involvement is extended and strengthened” (Welch, Wiedersheim-Paul 1980, p. 339).

Knowledge consists of two parts in this particular approach³ – general knowledge enables the establishment of similar activities in other markets, while market-specific knowledge provides information about business opportunities in a particular country, being therefore a driving force of the internationalization process. Market-specific knowledge assumes experience in that market, while general knowledge can be easily transferred from one country to another. (Eriksson *et al.* 1997, p. 352; Johanson, Vahlne 1977, p. 28; Johanson, Vahlne 1990, p. 12)

Welch and Welch argue that experimental knowledge is effective only in the case when the company is able to make use of it in further international operations (Welch, Welch 1996, p. 15). In several cases, routines for employing the knowledge are absent and thus experimental knowledge can easily be lost (for example, in the case of staff movements). Björkman and Forsgren add to this argument by pointing out that the Uppsala model does not provide explanations for the possibility of misinterpretations of knowledge. (Björkman, Forsgren 2000, p. 12) The other aspect that has to be considered is that the Uppsala model assumes that existent experimental knowledge promotes the increase of commitment to the particular market. But the model does not take into account that additional knowledge gained through experience may lead to the conclusion that de-internationalization is reasonable. The author of the present dissertation believes that this may easily be the result in a number of cases.

The knowledge creation and accumulation part of the Uppsala internationalization model is also questioned by Petersen, Pedersen and Sharma (2001) who discuss the assumptions laid out in the classical model in the light of previous developments in knowledge understanding (see also Appendix 2). While the classical Uppsala model emphasizes only one source of knowledge – own experience –, several additional sources of knowledge acquisition may also be suggested (see Figure 4). As the speed (and possibly also direction) of internationalization processes is in the Uppsala model dependent on acquiring knowledge, subsequently a brief discussion of other possible sources of knowledge in addition to own experience is presented since they may influence the appearance and importance of particular reasons for de-internationalization.

³ There are also other possibilities for classifying knowledge (e.g., tacit and explicit) but these are not covered by the present dissertation.

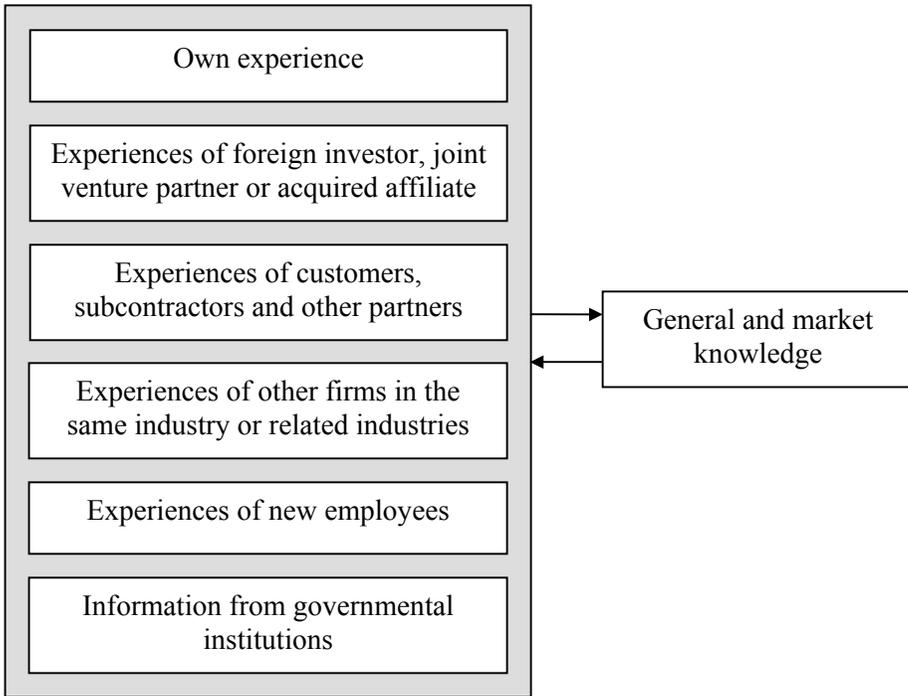


Figure 4. Sources of general and market knowledge (compiled by the author).

The experiential knowledge gained by the firm through its own experience has a quality of being accumulated incrementally over time (Kogut, Zander 1993, p. 631). Accelerated knowledge gathering or knowledge transfer from outside sources is possible, for example, in the case of change in ownership (foreign investor may provide knowledge about its home market and/or other target markets). Organic evolution of the internationalization is assumed in the sequential development models and thus expansion through mergers, acquisitions and alliances is left out (Bell, Young 1998, p. 6; Melin 1992, p. 104). However, as the importance of this kind of market entrance strategies has increased, their impact cannot be suppressed. Acquisition of an enterprise or establishment of joint venture or alliance serve in several cases also as the sources of gaining access to the knowledge about (operating in) foreign markets (Forsgren 2002, p. 263; Hagedoorn 1993, p. 374; Hennart 2000, pp. 103, 106; Welch, Welch 1996, p. 16). For example, foreign investments that are by several researchers classified as resource-seeking are particularly targeted to gathering knowledge through the abovementioned channels.

Network theory emphasizes the importance of other network members in improving the knowledge base and mediating or even generating impulses for moving abroad. Similarly to the latter case, the firm may at least in some part

rely on its partner's knowledge and because of that its own previous experiences will lose some of their importance in explaining the internationalization process. For example, Madsen and Servais (1997, p. 565) suggested that, by comparison with other firms, the internationalization process of subcontractors may be much faster and different, and they may expand into many markets very fast. The above-mentioned arguments have resulted in upgrading the Uppsala model, taking into account the network approach to internationalization (see Appendix 3).

Furthermore, besides the network members' impact on market characteristics and firms' resources that co-determine choices and changes (Reid 1983, p. 44), activities of other firms, changes in environment (Ford 2002, p. 230) and impact of competition on the market entry (Whitelock 2002, p. 345) should also be considered for overcoming the single-company orientation that is often expected to operate in some generalized environment (Ford 2002, p. 228). Some of these issues are tackled by Vahlne and Nordström (1993) who discussed the impact of combinations of company and industry characteristics (national, regional or global) on the internationalization pattern, concluding that the probability of following the pattern proposed by the Uppsala model is more likely in the case of nationally oriented industry or nationally oriented firm as in such cases the competitive aspects do not affect the internationalization processes significantly. An explanatory power of the Uppsala model in the case of different combinations of firm and industry internationalization is presented in Appendix 4. This figure indicates that in the later stages of development explanations other than the Uppsala model are likely to apply in explaining both the internationalization and de-internationalization activities of the firm. This aspect should definitely be considered in constructing a framework for analyzing the reasons for de-internationalization.

A comparatively similar approach has been put forward by Johanson and Mattson who divided internationalizing firms into four groups, depending on the internationalization level of both the firm and network (see Appendix 5). If the firm is the first one in its network who is expanding to the international market, it has to rely only on its own experience; at the same time, this enables it to gain competitive advantage. If the network is internationalized but the firm is only taking its first steps in international markets, it has a wider range of sources to increase its knowledge base as it can at least to some extent rely on the knowledge gathered by other network members. (Johanson, Mattson 1988, p. 298–306) It is also suggested that imitative learning is an additional option for overcoming the disadvantages related to a limited amount of experiential knowledge (Björkman 1990, p. 286; Eriksson *et al.* 1998, p. 343; Forsgren 2002, p. 260). If the firm is in the first stages of international development but the network has internationalized, then mimetic behavior is possible. This is one of the reasons why the validity of stage models in describing the internationalization of groups of firms other than Early Starters may be questioned (Johanson, Mattson 1988, p. 310; Madsen, Servais 1997, p. 572). Therefore it is likely

that the reasons for de-internationalization differ, depending on the internationalization level of both the firm and its network members.

Other firms are not the only possible source of knowledge. The role of employees in getting access to the additional knowledge is also stressed by several authors. Hiring new staff with relevant knowledge, skills, and expertise (Forsgren 2002, p. 260; Welch, Welch 1996, p. 16) is one option for the firms who are eager to expand abroad or rapidly increase their commitment to particular market(s). A similar line of reasoning can also be found in explaining the emergence of born globals. Namely, the founders of these firms mostly have previous international experience in the same industry and thus they have already gained the knowledge about foreign markets (Madsen, Servais 1997, p. 569). Hence, besides knowledge that is accumulated in the firm, experiences of its employees are also essential and may have a significant impact on the (de-)internationalization process.

As a conclusion of the previous discussion, it can be suggested that besides the knowledge gathered by the firm itself, it is important to also take into account the impact of knowledge gained from outside sources. It can considerably influence the internationalization and de-internationalization processes and patterns. Therefore, in constructing the framework for analyzing the reasons for de-internationalization, additional knowledge from outside sources should definitely be included as one of the influential factors.

Even though researchers question neither the importance nor influence of the Uppsala model, many critical remarks have been expressed by scholars since the introduction of the model. As this criticism points out some of the weaknesses of the model and leads in several cases to improvements in the model, we present below the main line of reasoning put forth by the critics.

For example, there are different opinions about whether the Uppsala model is appropriate for analyzing international activities of born globals. Madsen and Servais concluded that in the case of born globals many basic assumptions of the Uppsala model are applicable. It is likely that in the case of born globals, instead of geographical expansion, the problem-solving capabilities in the global industry serve as a central issue. Therefore, in selecting the target markets, the experience of founders and customer-related factors are more important than the physical or psychic distance between markets. (Madsen, Servais 1997, pp. 574, 577) Hence, here the emphasis is again on other sources of knowledge than the firm's own experience.

Similar results were also obtained by Moen, who found that born globals did not enter the nearest market in the first order. This kind of development was valid in the case of new and local firms (export share below 25 per cent) but these firms usually indicated no ambition for further international developments, which questions the applicability of gradual development principles in the case of these firms. Thus, it is suggested that the Uppsala model does not seem appropriate for explaining the internationalization of newly established firms. (Moen 2002, pp. 169–170; Oviatt, McDougall 1994, p. 50)

Several authors have claimed that the Uppsala model fails also to explain the internationalization process of service firms and is applicable only in the case of producers (Bell 1995, p. 62; Bell, Young 1998, p. 10; Ford 2002, p. 230). Furthermore, there are opinions that even all producers do not follow the incremental internationalization process. Market-seeking producers are claimed to be the only ones that behave according to the path determined by the model (Bell, Young 1998, p. 6; Petersen, Pedersen 1997, p. 125; Petersen, Pedersen 1999, p. 74). But there are also opponents of these views who claim that the incremental internationalization process can also be noticed in the case of service firms (see for example, Sacramento *et al.* 2002).

The previous discussion implies that in the case of born globals and/or service firms, the reasons for de-internationalization can differ. Moreover, the differences may appear also in the case of producers with different strategic objectives. Because of this, generalization of the findings is a rather difficult task.

One of the assumptions in the stage models is that before internationalizing, firms have been operating at the home market. Bell and Young (1998, pp. 11–12) claim that this might not be true in the case of smaller countries and/or emerging nations, small-scale, high-technology firms or service providers.

Actually, this aspect has also caught the attention of the authors of the U-model. Namely, they have pointed out three exceptions to the internationalization process described by their model (Johanson, Vahlne 1990, p. 12): 1) firms with large resources do not need to follow this pattern, 2) in stable and homogeneous markets, other kinds of development are possible, and 3) firms with previous plentiful experience in foreign markets can take bigger steps. In addition, Johanson and Wiedersheim-Paul have stressed that the model is probably applicable first of all to firms with small domestic markets (Johanson, Wiedersheim-Paul 1975, p. 305). These exceptions lead us to the proposition that the reasons for de-internationalization and processes may vary, depending on several factors, such as the size of the firm, stage of internationalization, nature of the target market, and other aspects. Therefore, in constructing the framework for analyzing reasons for de-internationalization and carrying out empirical research, these aspects should be kept in mind.

However, the model does not explain why different firms originating from the same market and industry have different internationalization patterns. Andersson explains the differences by entrepreneurial orientations and has an opinion that entrepreneurs' intentions are most influential at the beginning of international operations (Andersson 2000, p. 77).

Some authors have criticized the model in terms of the stages of internationalization that the model covers. The authors have mentioned that it is rather difficult to differentiate between the stages in the establishment chain. Nor do they expect that in all target markets all steps are taken – some markets are too small for large resource commitments and as the experiences of the firm increase, it is possible to jump over some steps of the establishment chain.

(Johanson, Wiedersheim-Paul. 1975, p. 307) Forsgren also argues that the Uppsala model concentrates on the first stages and does not sufficiently explain the later developments since firms accumulate tacit knowledge which through decrease in perceived uncertainty allows them to take bigger steps and thus decreases the need for incremental development (see also Appendix 6) (Forsgren 2002, p. 262). The authors of the Uppsala model do not fully agree with this, arguing that in the later stages knowledge and market resources are no longer constraining factors, nor is the allocation of resources affected by the unknown but is based on real market conditions (Johanson, Vahlne 1990, p. 14). This approach is supported by the results of an empirical analysis carried out by Millington and Bayliss (1990). Here again the need for discussing separately firms that are in different stages of the internationalization process is emphasized. This leads us to the conclusion that there may exist differences in the reasons for de-internationalization depending on the amount of accumulated knowledge and the stage of internationalization.

The criticism of sequential internationalization models also involves several other aspects. Bell and Young have pointed out that these models have oversimplified the complexity of foreign market entry processes; in time this simplification has become irrefutable and the actual processes have been forgotten (Bell, Young 1998, p. 5). The existing model is also deterministic and does not take into account the possibility of regression and termination in internationalization processes (Andersson 2000, p. 76; Bell, Young.1998, p. 10; Drogendijk 2001, p. 12; Melin 1992, p. 104; Molero 1998, p. 544). The whole process is assumed to be uni-directional and inevitable once the first steps are taken (Bell, Young 1998, p. 11). As several authors (Bell, Young 1998, p. 15; Luostarinen *et al.* 1990; Welch, Welch 1996, p. 14) have pointed out, this might not be the case for several reasons. At first, firms in mature industries tend to de-internationalize and thus both backward and forward developments can take place. It is also suggested that the internationalization process of the firms is cyclical rather than linear. Secondly, small firms may abandon their target markets due to changes in the economic or political situation in the host market or favourable developments in the home market.

In addition, several authors have pointed out that internationalization processes have accelerated over the last decades as a result of globalization processes and the development of global information systems and communications, and transportation infrastructure (Bell, Young. 1998, p. 10). Consequently, in an increasingly global environment, stage theories are less relevant (Bell 1995, p. 62; Hedlund 1986, p. 15; Petersen, Pedersen 1999, p. 74).

Keeping in mind the focus of the present dissertation, accelerated internationalization processes may operate as a precondition for de-internationalization. At first, assumed similarities between markets do not necessarily exist. Secondly, speeding up the internationalization processes may result in poor analysis and wrong decisions and this increases the probability of de-

internationalization. Therefore, one factor that should be considered in the analysis of de-internationalization is the speed of the internationalization process.

The validity of the Uppsala model has been tested by many researchers. The results have provided support and have also pointed out several controversies about the model. Barkema, Bell and Pannings (1996), Bishop (2001), Brouthers, Brouthers and Nakos (1998), Chang (1995), Erramilli (1991), Galan, Galende and Gonzalez-Benito (1999), Hashai and Almor (2004), Kogut and Chang (1996), Kwon and Hu (2001) found that the U-model describes the actual internationalization processes well, while Bell (1995), Björkman and Eklund (1996), Bonaccorsi (1992), Clark (2001), Jones (1999), Molero (1998) got results that were different from what was expected. Studies by Ali and Camp (1999), Ali and Mirza (1998), Andersson (2000), Lam and White (1999) presented mixed results. Petersen and Pedersen claim that differences between the results of empirical studies and the Uppsala model come from several sources. For example, several studies include the foreign operations that are not market-seeking in their nature, the studies do not take into account that there might be a gradual development within the operational mode, and in the case of psychic distance they calculate the national aggregate and do not take into account the characteristics of the firm or decision-maker. (Petersen, Pedersen 1997, pp. 126, 130)

In spite of the criticism presented above, and the opinion that internationalization models lack theoretical foundations (Bell, Young 1998, p. 10), the value of the Uppsala model cannot be overestimated. The attention paid to the model by several researchers proves that this explanation of the internationalization process is of high value.

Using the previous discussion of the Uppsala model for developing a theoretical basis for analyzing de-internationalization processes and determinants, several different questions should be answered.

- 1) Is the de-internationalization process also stepwise like the internationalization process or not?
- 2) If the market knowledge grows, can it lead to a decision to de-internationalize instead of a decision to increase commitment to a particular market?
- 3) If the firm is not following the comparatively slow and stepwise pattern of international development, does this increase the probability of de-internationalization?
- 4) It is suggested that the incremental development in foreign markets mostly happens in the first stages of the internationalization process. Therefore, are there differences in the impact of previous international experiences on de-internationalization depending on the stage of internationalization?
- 5) If the level of uncertainty in the target market increases faster than the knowledge stock, is it necessarily followed by de-internationalization?

- 6) If we consider additional sources of knowledge (see also Figure 4) and their role in the internationalization process, does their existence or absence have an impact on de-internationalization?

The role of the focal issues of the Uppsala model – incremental development of international activities and gradual increase in knowledge and experience – should be discussed when developing a basis for analyzing reasons behind de-internationalization. The ideas expressed in the Uppsala model and limitations pointed out by previous studies fit nicely with the present state of the international activities of Estonian manufacturing enterprises. The Estonian local market is small, the enterprises are in the first stages of internationalization and the majority of international operations have a market-seeking nature. Hence, the abovementioned questions apply also when analyzing the reasons for de-internationalization among Estonian manufacturing enterprises.

1.1.2. The POM-model and other internationalization models

While the Uppsala model has been extensively used for explaining the incremental internationalization process of enterprises, the POM-model created by another Nordic scholar – Luostarinen – has got considerably less attention even though it contains additional dimensions. At first, in 1970, Luostarinen concentrated on analyzing the incremental nature of the operational mode pattern. He believed the internationalization process to consist of eight phases (Luostarinen 1982, p. 143): 1) the starting phase of export operations, 2) the development phase of export operations, 3) the mature export phase, 4) the starting phase of foreign operations, 4) the development phase of foreign operations, 6) the mature foreign operations phase, 7) the phase of international operations, and 8) the phase of becoming an international firm.

Afterwards, in 1979, Luostarinen distinguished three dimensions of the internationalization process – product (P), operational mode (O) and market (M) and in the later publications one more dimension – organizational capacity – was added to the POM-pattern; they all can be analyzed at the level of a firm, country and world (see also Figure 5 and Appendix 7) (Luostarinen 1989; Luostarinen, Welch 1997; Welch, Luostarinen 1988). In addition to the operational mode and market dimensions that were covered already in the Uppsala model, four types of products – goods, services, know-how, and systems – are distinguished. Luostarinen suggested that incremental internationalization exists also at the product level and the international product strategy is determined by the differences in knowledge. It is claimed that through experience, a company may detect sales opportunities for other products in foreign markets since additional knowledge reduces risk, uncertainty, and changes the degree of lateral rigidity. (Luostarinen 1989, pp. 96–98, 101–102)

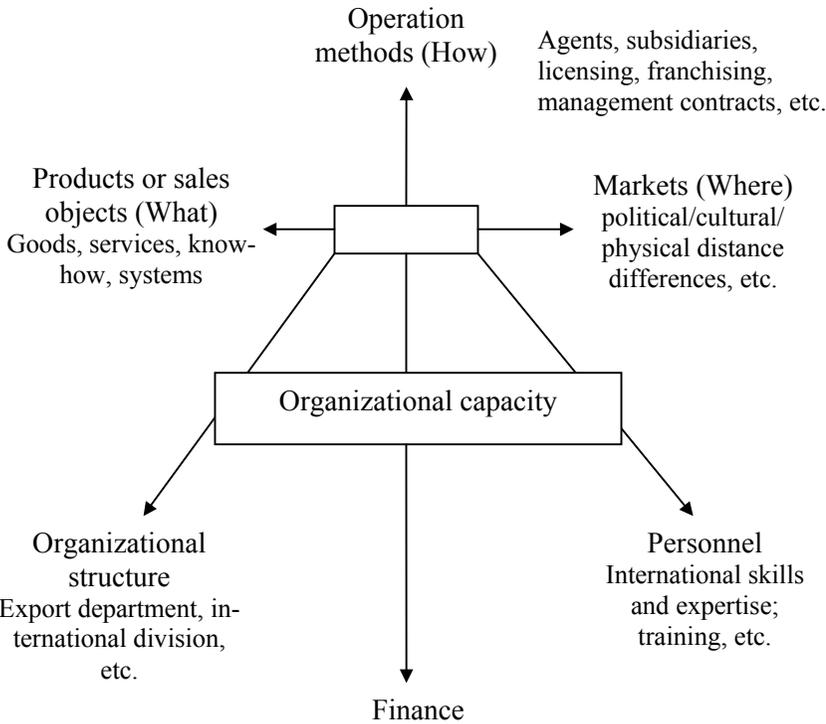


Figure 5. Dimensions of internationalization (Luostarinen, Welch 1997, p. 252; Welch, Luostarinen 1988, p. 39).

Hence, as compared to the Uppsala model, the POM-model leads our attention to the point that there are several different dimensions along which de-internationalization can be analyzed. Moreover, this approach stresses the importance of the interplay between these different dimensions. This was not explicitly suggested by the Uppsala model. Therefore, in building the framework for analyzing the reasons for de-internationalization, not only is it important to focus on discussing the net effects but also to distinguish between developments along different dimensions.

Chang suggests an approach that is comparable to Luostarinen's product dimension. Namely, Chang claims that incremental approach is visible at a firm's business line level – the most competitive business lines are the first subjects to enter international markets but as the experience grows, the firm is also going to internationalize these product lines where it has only a few advantages. This approach was also validated by an empirical analysis on the basis of Japanese investments in the United States. (Chang 1995, pp. 389, 399) As compared to the opinions of several scholars, this study suggests that de-internationalization might be more likely to occur in the later stages of the

international activities of the firm since the knowledge gained about the foreign markets does not need to balance the relative lack of competitive advantages. Moreover, the knowledge has been gained through marketing products with distinctive advantages, but the same approach need not be applicable in the case of products that face intensive competition.

The fourth dimension that is explicitly distinguished in the POM-model – organizational capacity – consists of finance, personnel capability and organizational structure. The authors of the POM-model have mentioned that these are the most important aspects, but there are also other possibilities for widening the array of dimensions to be taken into account. The need for the organizational capability dimension is determined by the fact that three other dimensions do not cover the internal changes in company that have also a significant impact on the internationalization pattern. (Luostarinen, Welch 1997, p. 254) This dimension helps overcome some of the shortcomings pointed out in the case of the Uppsala model in the previous subchapter. For example, the possibilities of gaining additional information and knowledge from the (new) employees are covered here by this dimension.

Keeping in mind the possible reasons for de-internationalization, the lack of fit between developments in international markets and internal changes may easily appear to be one of the impulses why foreign operations fail to succeed and meet the expectations. The internal environment of the firm has to guarantee the basis for continuing development and knowledge accumulation and absorption. Otherwise even the good products may fail in markets with a high potential. Therefore, this aspect should be taken into account in analyzing de-internationalization.

This fourth dimension has also received some criticism. Chetty claims that Welch and Luostarinen have not given a clear explanation why they chose these dimensions of organizational capacity for assessing internationalization and omitted, for example, firm characteristics, decision-maker characteristics, and firm competencies. She also suggests that inclusion of the domestic market dimension would improve the model considerably. (Chetty 1999, p. 126) However, the author of the present dissertation has an opinion that these are determinants of internationalization (Luostarinen classifies them as push factors) but not the dimensions of the internationalization process.

Several authors have stressed the superiority of the POM-model over the Uppsala model. For example, Chetty has an opinion that the model constructed by Welch and Luostarinen helps overcome most of the shortcomings pointed out in the case of the Uppsala model. Among other positive aspects, she found that the diversity of dimensions in the POM-model allows firms to leapfrog some stages and the depth of internationalization may vary between different dimensions. (Chetty 1999, p. 125) This aspect is also mentioned by Luostarinen who claims that the firm does not necessarily need to go through all the phases but can jump over some of them (this holds mainly for big firms) (see also Figure 6) (Luostarinen 1982, p. 145). For example, firms can skip some of the

stages if they have experienced a management team. Narrower global niches and rapidly decreasing transportation and information costs may have the same effect. (Gankema *et al.* 2000, p. 16) This kind of approach indicates that leapfrogging may cause de-internationalization as the knowledge gained from one market is not necessarily fully applicable in the other.

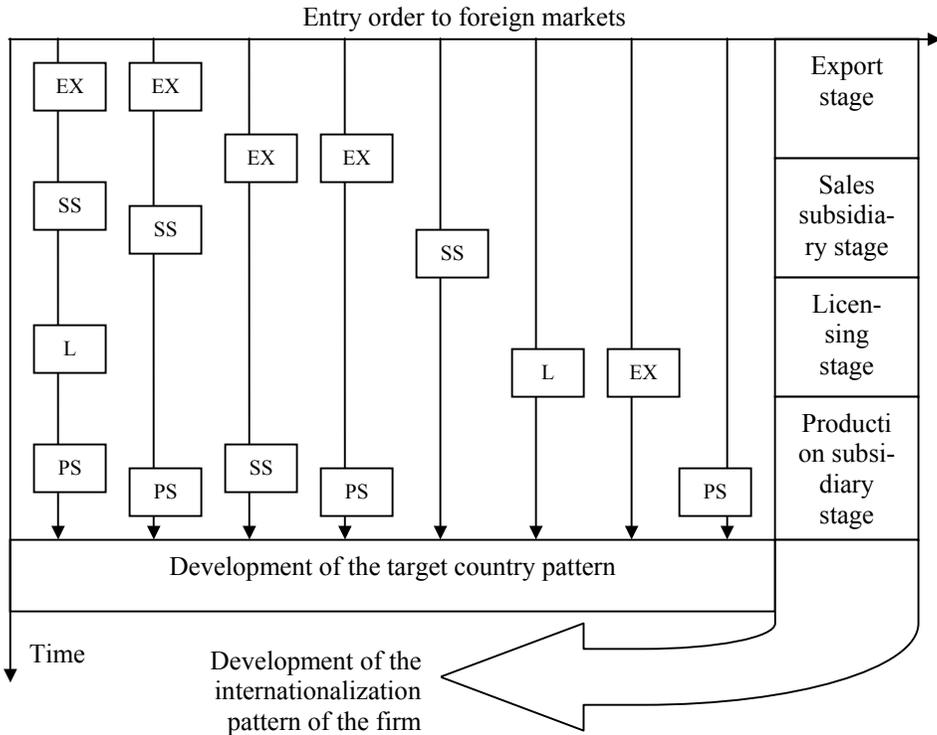


Figure 6. Internationalization pattern of the firm as a sum of target country patterns (Luostarinen, Welch 1997, p. 264).⁴

The reason for stepwise development in the international market is in the POM-model explained somewhat differently as compared to the Uppsala model. Namely, it is stressed that this kind of development gives to the firm an opportunity to test its production in the target market and on the basis of the results of the test, further steps are taken if the market conditions are favourable (Kirpalani, Luostarinen 1999, p. 5). Thus, backward movements are also possible if there is no sufficient demand for the particular product in the target market. As already mentioned in the previous subchapter, in the Uppsala model,

⁴ EX – export, SS – sales subsidiary, L – licensing, PS – production subsidiary.

a linear uni-directional process is explicitly suggested and the commitment level depends more on knowledge and less on success in a target market.

This does not mean that the POM-pattern is not affected by international experience and knowledge about target markets. Luostarinen has also stressed the importance of knowledge, for the uncertainty felt towards international business depends on it. He distinguishes between three types of uncertainty – object, operational mode, and target area uncertainty. These uncertainties can be affected by experiential or informational knowledge. (Luostarinen 1989, p. 56) Distinguishing between different types of uncertainties, Luostarinen stresses once more the importance of different dimensions of internationalization. While increase in commitment may take place along one dimension, stagnation or even de-internationalization may appear along others. Therefore, both in defining de-internationalization and building the framework for analyzing the reasons for de-internationalization, distinction between different dimensions should not be left aside.

The specific knowledge has three forms – information that is received from the country, communication through face-to-face contacts in the target market, and personal experience in conducting business activities in the target market (Luostarinen 1989, p. 127). Unlike the researchers from Uppsala, Luostarinen does not stress so much the importance of knowledge in increasing the commitment to the market, but points out that “these orderly changes in the product, operation and market strategies were explained as being due to the changes in the degree of lateral rigidity through the organizational learning process based largely on discontinuities, that is, on serious problems or crises in the internal or external premises of the firm” (Luostarinen 1989, p. 175). Hence, this knowledge will help to change lateral rigidity but does not have any direct impact on the internationalization pattern, and the stepwise internationalization process is the result of rigid decision-processes.

Luostarinen has an opinion that at the beginning of internationalization, the POM-combination is often determined by an external source of impulse, whereas in the later changes of international market penetration, the firm is directing its internationalization process through strategy formulation (the importance of internal impulses is increasing as compared to external impulses). At the same time, he stresses the importance of the experience gained in the first phases of internationalization since it has a decisive impact on the future developments. (Luostarinen 1989, pp. 118–119, 176) The importance and role of internal impulses in determining the internationalization pattern again leads our attention to the vital role of internal changes as the international expansion proceeds. If the organization is not adapting according to the new circumstances and challenges, the internal impulses may be absent, insufficient or even wrong and therefore a basis for de-internationalization is created.

Luostarinen and Welch stress that stepwise internationalization is widespread, but as several researchers have pointed out on the basis of empirical evidence, this pattern is by no means universal and is not necessarily

smooth and regular. There are often “plateaus” between the stages for absorbing and consolidating knowledge gained during previous stages and waiting for new opportunities and/or threats. Sequential development of internationalization processes are more characteristic at the company and target market level and in the earlier stages of a firm’s internationalization process. (Luostarinen, Welch 1997, pp. 261–262, 263) Once more the importance for distinguishing between different dimensions of internationalization is pointed out. The “plateaus” described above are likely to be at least to some extent diversified and therefore stagnation may take place along one dimension while increase in commitment or de-internationalization in others may appear.

It is even suggested that nowadays incremental development in the foreign markets “is not any more necessarily the best way to proceed to internationalize” (Kirpalani and Luostarinen 1999, p. 11) as this traditional approach is too slow. This is explained by the specialization of firms that results in searching the best niche markets all over the world. Inward internationalization has also quite a decisive role as it makes it possible to learn about the weaknesses and opportunities of different operational modes without performing outward internationalization activities themselves. Large-scale scientific technology based projects carried out by strategic alliances also favour dropping the stepwise internationalization approach. The competitive pressure felt by born globals has the same effect and suggests faster and often reverse internationalization processes. (*Ibid.*, pp. 11–13) These fast developments may easily result in poor analysis and wrong decisions and are therefore likely to act as reasons for de-internationalization.

The number of empirical studies that have exclusively addressed control of the validity of the POM-model is quite small. Besides the research done by the authors of the model, Chetty (1999) too has attempted that. The support was found to the operational method and market dimension proposed but in the case of the product dimension, the results did not validate the hypothesis. One reason for the lack of empirical studies might be the complexity of the model – gathering sufficient and comparable data about all dimensions from a number of different firms is a rather complicated task.

In conclusion, the POM-model is definitely an important contribution to the analysis of the internationalization processes of firms despite the fact that most criticism directed against the Uppsala model is valid also in the case of this model. The advantage of POM-model stems from adding several new dimensions. Furthermore, while the Uppsala model was based on the analysis of four Swedish firms, the database behind the POM-model is considerably larger, consisting of more than 1,000 Finnish firms that are active in international markets.

The previous discussion adds several aspects that should be considered in analyzing de-internationalization processes. For example, if internationalization takes place along several dimensions, it is likely to hold also in the case of de-internationalization. Therefore, it seems to be reasonable to analyze, besides the

overall de-internationalization of the firm, also the processes that take place along the operational mode, target markets and product dimensions. The importance of internal changes and impulses has also been pointed out and therefore this has to be taken into account in building a framework for analyzing the reasons for de-internationalization. The context of Estonian manufacturing enterprises' international operations favors also distinction between different dimensions. The majority of the firms are still in the export phase and at the first stages of product dimension, hence there are no big differences between firms in terms of these dimensions. At the same time, there are differences in developments along the target market dimension.

Besides the Uppsala and POM-models, there are also several other models describing internationalization. One of them – the REM-model – was developed a few years ago by Liuhto (2001a, 2001b) for analyzing internationalization processes (see Figure 7). The model consists of three dimensions – reason for internationalization (R), environment selection (E), and modal choice (M). The difference between this and the Uppsala and POM-model is that it discusses the reasons for internationalization. At the same time, the REM-model describes only two dimensions of the POM-model. This can be explained with the purpose of development of the model. Namely, Liuhto set up this model for analyzing internationalization processes of Russian oil and gas firms. As the product is natural resource and not a manufactured good, the distinction used by Luostarinen in the product dimension is neither applicable nor necessary in analyzing these firms. However, Liuhto suggests that the REM-model might provide a framework also for analyzing the internationalization of other companies (Liuhto 2001b, p. 21).

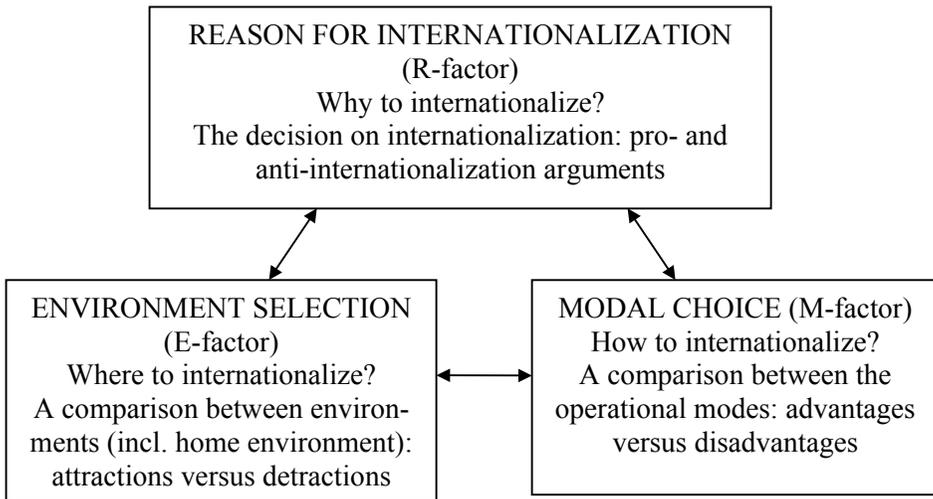


Figure 7. The REM-model (Liuhto 2001b, p. 21).

In his model Liuhto named the dimension describing target market selection that of environment selection, his argumentation being that national borders are disappearing and thus 'environment' seems to be a more appropriate term than 'country of location' (Liuhto 2001b, p. 18).

As the REM-model has been introduced lately, no empirical evidence other than that provided by Liuhto himself is available. However, the analysis of internationalization of Gazprom and Lukoil shows that incremental development within the E- and M-dimensions can be suggested in the case of these firms (Liuhto 2001b, pp. 41–42). Analogous results were obtained in analyzing The Hungarian Oil and Gas Company (Liuhto 2001a, p. 11).

The REM-model raises an additional issue to be addressed in analyzing reasons for de-internationalization. Namely, as there is a wide variety of reasons for internationalization, it can be expected that the initial motive and de-internationalization decision are somehow linked. Therefore the discussion about de-internationalization should shed light on the existence and strength of these linkages.

The behavioural models that emerged in North America in the late 1970s and early 1980s also support the idea of incremental increase in dependence on foreign activities (especially on exports) and greater commitment to a growing number of target markets as the firm gathers international experience (Bell, Young 1998, p. 8). Most of these models concentrate on describing stepwise development in exporting activities. The relative similarity of the models has led to the opinion that "except for the initiating mechanism, the differences between the models seem to reflect the semantic differences rather than real differences about the nature of the internationalization process" (Andersen 1993, p. 212). To illustrate this point, a number of models put forward by various researchers are presented in Appendix 8. However, for analyzing the developments that have taken place in 25 years, some of the models are briefly introduced in the subsequent paragraphs.

In 1977 Bilkey and Tesar developed an export process model containing six stages – starting from the situation when a firm is not interested in exporting at all up to the stage when the management is interested in expansion to psychologically distant countries (see also Appendix 8). They found out that in the first stages the perceived barriers to exporting including such aspects as difficulty in understanding foreign business practices, difficulty in obtaining adequate representation in a target market, etc. are higher. The results of their empirical study showed that the internationalization process tends to be stepwise and the impulses for moving from one stage to the next vary. (Bilkey, Tesar 1977, p. 95) These impulses behind the development may also suggest why some firms do not succeed and have to de-internationalize. Moreover, as the impulses of moving from one stage to another are different, it is likely that there are different reasons for de-internationalization of firms that have different levels of commitment to the foreign markets.

More than 20 years later, Anderson, Graham and Lawrence distinguished five different stages of internationalization in their research of companies in early stages of internationalization. The first level is called “aspirational” – during it the aims and motives of internationalization are perceived and this stage is important for gaining an understanding of the stages that follow. At the procedural level learning about the target market(s) takes place. Next, the behavioural level comprises reacting in accordance with a particular foreign environment’s needs and getting more information about the actual market conditions and customs. In the interactional level a firm concentrates on building up and maintaining relationships with new and existing stakeholders. The final stage – conceptual level – stresses the importance of constant re-evaluation of thinking and operations in the later stages of internationalization. (Anderson *et al.* 1998, pp. 495–501) Despite the fact that this model does not discuss the possibility of de-internationalization either, it adds several aspects to the discussion as compared to the model described above.

The most evident change that has taken place over 25 years is that the impact of the other market actors on the internationalization processes has gained importance. For example, on the basis of the analysis of a wholesale firm Andersson suggests that there are differences in the internationalization process determined by connected actors internationalizing concurrently. According to this framework, the internationalization process consists of three stages: 1) the start-up phase, 2) the strategic alliance phase, and 3) the phase of dismantling (Andersson 2002, p. 377). The circular model developed by Andersson is presented in Figure 8. Therefore, in building the framework for analyzing the reasons for the de-internationalization activities of network members as well as other external influences should not be overlooked.

A comprehensive overview and thorough analysis of several export development models is presented by Leonidou and Katsikeas in 1996. Regarding the critique of those models, they mention that export development models do not take into consideration the whole portfolio of a company’s activities, no clear boundaries between different export stages are defined, and the operationalization of explanatory variables is rather simplistic. They also point out that the selection of an appropriate operational mode by an internationalizing firm tends to be a matter of strategic choice rather than a predetermined action. (Leonidou, Katsikeas 1996, pp. 525–528, 541) These critical remarks are apparently the result of an approach that most of the scholars use in their empirical research. Namely, they focus on analyzing the overall level of a firm’s internationalization instead of concentrating on the changes that took place along different dimensions. Making a distinction between different dimensions can therefore add significantly to the value of the research results both in analyzing internationalization and de-internationalization.

Most models are claimed to suffer from limitations concerning time-scales. An important limitation is also that clear boundaries between internationali-

zation stages in the models are not presented and the processes behind moving from one stage to the next are also poorly described (Bell, Young 1998, p. 5; Molero 1998, p. 544). These models concentrate on dividing the developments in international markets into stages rather than on explaining how the movements from one stage to another take place (Barkema *et al.* 1996, p. 152; Droegendijk 2001, p. 8).

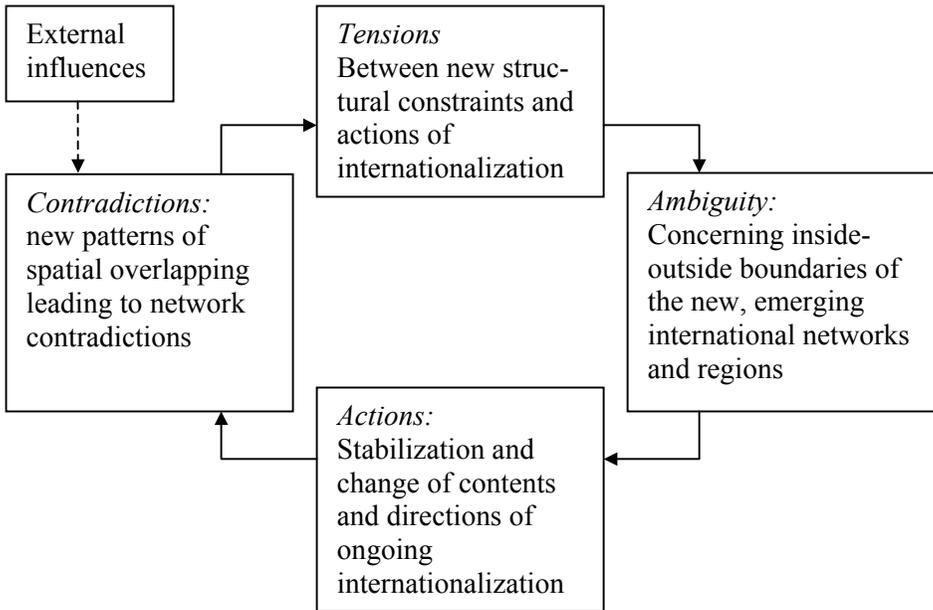


Figure 8. A circular process model of internationalization (Andersson 2002, p. 380).

The export development models that were discussed in the previous subchapter point out that in analyzing both internationalization and de-internationalization processes changes can take place also within the operational mode. Therefore, in building a framework for analyzing de-internationalization we cannot set the boundaries in such a way that only “radical” changes, for example, in operational mode are taken into account. This approach seems likewise to be suitable for analyzing the reasons behind the de-internationalization of Estonian manufacturing enterprises since most of them are still engaged only in export activities and therefore in a majority of cases changes in commitment to foreign markets take place within one operational mode.

In conclusion, taking into account the abovementioned aspects, it is evident that the weaknesses emphasized in the case of the Uppsala and POM models are to a large extent present also in all these models. However, there is a need to differentiate between firms that only start their international activities and those

that are already experienced since the knowledge base and determinants that influence their decisions tend to differ significantly. Because of this and regardless of several shortcomings, the approaches covered in subchapters 1.1.1–1.1.2 are made use of in the following chapters when explaining reasons for de-internationalization.

1.2. Contribution of the literature about the market and operational mode paths to analyzing the reasons for de-internationalization

1.2.1. The target market path

The target market pattern is the subject of discussion both in the Uppsala and POM models and it has been widely researched by scientists in several empirical studies both at the country, industry, and firm level. It is suggested that three possible methods for selecting a target market can be distinguished: 1) the systematic approach, 2) the non-systematic approach, and 3) the relationship approach. The first of them explains how decisions should be made rather than how decisions are made. The non-systematic approach is the one that explains target market selection procedures in the sequential internationalization models by concentrating on answering the question about how the markets are selected. The relationship approach has several points of resemblance with traditional internationalization process models, the main difference being that in selecting the market, a dyad is the central actor and the impulse often comes from the foreign enterprise. (Andersen, Buvik 2002, pp. 348–349) Still, the latter approach can be viewed as an improvement of the non-systematic approach since it does not exclude the possibility of the incremental pattern as the possibility of having information about potential counterparts is higher in the case of more closely situated countries (however, due to the rapid development of informational infrastructure there is a tendency that the closeness of countries is not as important nowadays as it used to be some decades ago).

Andersson claims that the target market selection process differs between different groups of entrepreneurs. Those that he classifies as marketing entrepreneurs⁵ see the choice of market as one part of the overall strategy. Technical entrepreneurs take into account other players' actions and thus the selection is

⁵ The marketing entrepreneur has identified a need and has an idea how to meet this. The technical entrepreneur is mainly interested in technology and product and production development. The structure entrepreneur is often active in mature industries and his main interest is to restructure companies and industries. (Andersson 2000, pp. 80–81)

reactive. A competitive situation in the industry is the most important determinant in selecting markets for structure entrepreneurs. (Andersson 2000, p. 83) Therefore, a firm's strategy in the foreign markets and its network influence its choice of the target market and because of this these aspects should be considered in analyzing the reasons for the de-internationalization of enterprises. Regardless of the entrepreneur's nature, the need for a thorough analysis of potential target markets is evident, especially in the case when the firm's international activities have a wider scope (this aspect is stressed both in the early and recent writings on international business research – see for example, Robock, Simmons 1966, p. 45; Rugman 2001, p. 586).

In discussing the selection of a target market, the focus in the present dissertation is on analyzing the existence of a relatively pre-determined path that firms follow when selecting possible markets for their products. For example, Andersen and Buvik have argued that some firms may use the stepwise procedure, using the traditional approach at the beginning and the relationship development procedure in the later stages of the selection process. They also mention that the choice of approach depends on several aspects – customer type, transaction specific assets, environmental uncertainty, resource commitment, and entry mode. (Andersen, Buvik 2002, pp. 355–359) Hence, the interplay of different aspects influences the target market pattern. It also needs to be noticed that in the case of this approach different principles are made use of in selecting target markets and therefore it is likely that the motives underlying de-internationalization and the speed of this process differ between the stages of internationalization. In developing the framework for analyzing the reasons for de-internationalization, these aspects should be taken into account.

The most important factor influencing market selection that is stressed by researchers in the case of internationalization process models is uncertainty about foreign markets. This is higher and the amount of knowledge about the markets is lower in the case of distant markets. Beckerman noticed already in 1954, when studying distance and the pattern of Intra-European trade, that there is a tendency to concentrate on trading with the “near” countries (Beckerman 1954, p. 34).

Since geographic distance alone does not provide sufficient information about differences between countries, the concept of psychic distance (Luostarinen has also used the terms “institutional distance” and “business distance” – see Luostarinen 1984, p. 56 and Luostarinen 1989, p. 139, respectively) has been introduced. According to the definition, psychic distance is “a sum of factors preventing the flow of information from and to the market” and it depends on differences in language, education, business practices, culture and industrial development between two countries. The uncertainty related to foreign markets and the impact of psychic distance can be reduced through interaction and integration with the market environment. (Johanson, Vahlne 1977, p. 24, 29) Hence, if the firm gathers international experience, the impact of psychic distance on selecting target markets decreases. Once again the need

for distinguishing between different stages of internationalization can be noticed as the influence of reasons behind de-internationalization is likely to be different.

The deficiency of knowledge about distant market increases lateral rigidity towards entering this market. In the case of near markets, the need for general knowledge is small (the countries are expected to be more or less alike) but specific knowledge has to be gained about the target market. (Luostarinen 1989, p. 126) Firms do not often perceive the need for gathering this specific knowledge about their neighboring countries, assuming that they are similar to the home market, or they overestimate their knowledge about near markets. This may easily result in wrong decisions and may therefore cause de-internationalization also in the case of near markets.

Generally, firms prefer entry to similar markets because it enables them to reduce uncertainty, facilitates transfer of both technology and managerial resources, and assures demand for their products (Erramilli 1991, p. 480). Companies that are in the early stages of internationalization are usually interested in entering the markets that are more familiar and less costly to penetrate (Luostarinen classifies these as 'hot' markets). Usually these are the markets which are closest in psychological and cultural terms. Market selection, dominated by concerns of uncertainty in the early phases of international expansion, increasingly becomes a function of economic opportunity (organizational capabilities) as the firm gains experience. Thus, a company's shift to more distant markets (towards 'cold' markets, according to the classification suggested by Luostarinen) is an indication of greater maturation of its internationalization process. (Erramilli 1991, p. 481; Luostarinen 1989, p. 182; Welch, Luostarinen 1988, p. 40, 41)

The same kind of reasoning can be found already in Vernon's work. He limited the analysis of similarities between markets to the level of economic development but suggested that the firm will first of all enter similar markets and afterwards will look for possibilities to lower its production costs in the developing countries (Vernon 1966, pp. 197–198). Thus, an incremental approach is applied when selecting the target markets in order to cope with the uncertainty in the first stages of foreign activities and to meet the economic opportunities later on. Therefore, distinguishing between the reasons for de-internationalization at the different stages of internationalization seems reasonable.

In their comprehensive overview of empirical studies in the field of export development processes Leonidou and Katsikeas briefly describe the issue of market expansion in exporting firms. They suggest that firms have three stages of export development – pre-engagement, initial and advanced export. In the first stage, the firm is likely to undergo an extraregional expansion (that is, expansion within the regions of its own country base). Then, limited corporate resources, fear of the unknown and other barriers are responsible for the firm adopting a concentrated foreign focus at initial stage of export activities.

Finally, as the firm acquires more resources, seeks to exploit more foreign opportunities and gains expertise in handling export problems, it spreads to a large number of markets at the final stage of export development. (Leonidou, Katsikeas 1996, p. 533) This approach emphasizes two aspects of the target market path – the distance of markets and the number of markets. It is important to note that de-internationalization in terms of target market dimension can take place in several ways – decrease in the number of markets is one of them and replacement of the market which has a high psychic distance with one which has low distance serves as another example. Taking into account only the changes in the number of markets may easily result in inadequate results.

The validity of relationships suggested by Leonidou and Katsikeas between international experience and target markets is supported by the analysis carried out by Erramilli on the basis of internationalizing US service firms. He found out that firms choose culturally similar foreign markets at a low level of experience, but expand their activities to unfamiliar territories when they have reached higher levels of experience. (Erramilli 1991, p. 490, 494)

Somewhat different results by comparison with the previous study have been provided by several researchers. For example, Clark and Pugh suggest that besides geographical closeness, the size and affluence of the target market and cultural similarity should also be taken into account in analyzing the priorities of different potential markets. The results of their empirical analysis verified the importance of affluence and geographical proximity as the main determinants in selecting target markets while the other two factors were not statistically significant. (Clark, Pugh 2001, p. 292)

In his analysis of small internationalizing software firms, Bell found out that about 50–70 per cent of firms entered psychically close markets. For other firms following clients, sectoral targeting and industry trends were the main determinants in selecting target markets. Therefore, he suggests that psychic distance does not provide a sufficient explanation for the initial market selection process. (Bell 1995, pp. 64–67) There are different explanations to this kind of result. The first one is related to the specific features of the industry under consideration. Namely, firms in the computer industry are often born internationals and in many cases do not follow the traditional internationalization patterns. The other explanation comes from the fact that software is often a complementary and adapted product and therefore the influence of other network members is higher.

An analogous result to Bell's findings was also presented by Benito and Gripsrud in case of FDI decisions. They did not find any support to the view that later FDIs are made to more distant countries in comparison with the initial investments, and that the distance between home and target countries is increasing if additional experiences are gained (Benito, Gripsrud 1992, pp. 470–472). Thus the validity of approach suggested by the Uppsala model is questionable and factors other than distance should also be taken into account. In this case, the explanation is likely to come from the nature of foreign investments as these

are usually not made in the first stages of internationalization. In many cases firms gather knowledge about foreign markets through their export activities and finally, in the stage of foreign investments, they are already active in several foreign markets and therefore a move from near markets to the more distant ones may not be clearly distinguishable in the case of traditional standardized products.

Bell and Young (1998, pp. 13–14) have suggested several reasons why the target market pattern of internationalizing companies might be different from the one suggested by internationalization process models. Firstly, firms tend to choose markets where there is a need and greatest opportunities for their products. Not always have these markets the smallest psychic distance. Secondly, if the firm starts its international activities through indirect exports and export orders are placed by firms from distant countries, it is expected that the firm moving from the passive to the active stage will continue servicing the market with which it is already familiar, unless the risk level is too high. Thirdly, firms may follow their clients or other network members into international markets and in these cases the concept of physical closeness of the target market does not necessarily apply. Finally, regional integration that takes place in several regions over the world also reduces the significance of distance between countries in internationalization processes. As the result of this discussion, Bell and Young (1998, p. 14) claim that “while ‘psychic distance’ might have had a bearing on the internationalization patterns of some firms in the past ... it can no longer be accepted as a core assumption pertaining to the internationalization process”.

Therefore, besides the psychic and geographical distance between countries, the size of the target market has also to be considered in internationalization decisions. For example, Galan, Galende and Gonzalez-Benito concluded on the basis of an analysis of Spanish internationalizing companies that the potential of the host market is the most important determinant in target market selection (Galan *et al.* 1999, p. 783). Firms can start their foreign operations either in large markets or small countries – there is no clear rule about that. However, using the example of Sweden, Johanson and Wiedersheim-Paul suggest that firms with a small local market might prefer to start their foreign operations in smaller target markets since these are more similar to their local market and require a smaller initial resource commitment, or have less competitive domestic industries (Johanson, Wiedersheim-Paul. 1975, p. 308). Such an approach might also be applicable in the case of Estonian internationalizing firms. As mentioned earlier, besides the distance of markets, the number of markets should also be taken into account. If we now add the size of the market, it can lead us to the conclusion that servicing one big market does not necessarily need to be more risky than servicing several small markets with a similar psychic distance. However, this conclusion may be misleading as market-specific knowledge is likely to differ more in the case of different countries than in the case of different regions of the same country. Therefore the uncertainty level

is expected to be higher in the case of a higher number of markets. Diversification of activities can thus be one of the reasons for de-internationalization.

It is also argued that the importance of distance between markets as compared to market size depends on the selected operational mode – in the case of agents, distance is an important determinant but sales subsidiary establishments are expected to be more influenced by the market size (Johanson, Wiedersheim-Paul 1975, p. 308). As the likelihood of establishing sales subsidiaries is higher in the later stages of internationalization, we can conclude that at the beginning of the internationalization process, distance is the main influencing factor, but its importance decreases as the internationalization process proceeds. Hence, once again the discussion leads us to the suggestion that reasons for de-internationalization are likely to be different in the case of firms at different levels of internationalization.

Several authors have analyzed the reasons for not following the incremental pattern in selecting target markets. Johanson and Vahlne propose that commitment decisions will be made in small steps unless the firm has very large resources, markets are stable or homogeneous, or the firm has experience from similar markets (Johanson, Vahlne 1977, p. 30). At the same time, Stray, Bridgewater and Murray argue that reduced barriers between markets enable simultaneous entry to several foreign markets (Stray *et al.* 2001, p. 11) and initiate the emergence of a “born internationals”.

However, despite the increasing numbers of born internationals nowadays, it does not necessarily mean that firms enter several markets simultaneously. Oviatt and McDougall defined an international new venture as “a business organization that, from inception, seeks to derive significant competitive advantage from the use of resources and the sale of outputs in multiple countries” (Oviatt, McDougall 1994, p. 49). Taking into account the number of countries involved and coordination of value chain activities, they distinguished between four different types of international new ventures (see Figure 9). Hence, besides home market, these firms also enter the foreign market(s) in an early stage of activities, which does not mean that the number of target markets has to be high and that they do not follow the target market pattern in selecting the markets.

Then, another aspect to be analyzed when discussing the existence of a target market path is how many markets should be entered simultaneously. This question is especially important in the light of Erramilli’s opinion that the geographic scope of activities is more influential than the length of international experience in the market selection procedure (Erramilli 1991, pp. 480–481, 490). Thus the diversity of experience is more important than its intensity.

In general, two possible strategies can be used in expanding to foreign markets. Market concentration follows the ideas of incremental development in international markets and in this case the firm concentrates its activities on a few key markets. An alternative strategy is that of diversification. In this case, rapid entry to several markets is undertaken at the same time (see also Table 1). (Mas-Ruiz *et al.* 2002, p. 349)

Coordination of value chain activities	Few activities coordinated across countries (primarily logistics)	Export/Import Start-up	Multinational Trader
	Many activities coordinated across countries	Geographically Focused Start-up	Global Start-up
		Few	Many
		Number of countries involved	

Figure 9. Types of international new ventures (Oviatt, McDougall 1994, p. 59).

Table 1. Differences between market concentration and diversification strategies

	Concentrated expansion		
Expansion experience (years)	less than 5	or	more than 5
Geographical dispersion (number of countries)	less than 5		6–12
Assignment of marketing efforts (% of marketing budget / % of sales in 5 main external markets)			more than 1
	Diversified expansion		
Expansion experience (years)	less than 5	or	more than 5
Geographical dispersion (number of countries)	more than 12		13–20
Assignment of marketing efforts (% of marketing budget / % of sales in 5 main external markets)			less than 1

Source: author's table on the basis of Mas-Ruiz *et al.* 2002, pp. 353–354.

Mascarenhas suggests that if the target markets are small, firms may simultaneously enter multiple markets for exploiting the economies of scale. This pattern of international development is especially likely in the case of industrial products and relatively homogeneous international needs. (Mascarenhas 1992, p. 500) The same tendency may also appear in the internationalization of Estonian enterprises since several main target markets (for example, Latvia and Lithuania) are relatively small. On the other hand, the resources of Estonian

enterprises are limited, which decreases the likelihood of simultaneous entry to several markets.

The results of the analysis of small technology-based firms in the UK by Stray, Bridgewater and Murray suggest that young and small companies have entered many countries and began to do so very soon after incorporation. The older and larger companies waited some time before internationalizing but have also entered many countries. The third group of firms – young, small and low export-intensity companies – has entered relatively few countries. (Stray *et al.* 2001, p. 20)

Kwon and Hu studied the internationalization processes of Korean firms. Among other aspects, they analyzed the average number of target markets in different groups of firms, finding that the firms exporting via foreign intermediaries are on average active in 6.5 foreign markets, while the firms using distributors and/or agents have operations in 7.1 markets. The average number of target markets is significantly higher if the firm has made foreign direct investments. In the case of creation of a foreign sales office and branch, the respective number is 10.9, whereas creation of foreign production units presumes operations in 18.2 different countries. (Kwon, Hu 2001, p. 60–61) These results emphasize again the idea of an interrelationship between the operational mode and target market paths that was expressed earlier in this subchapter.

If, besides the statements that are presented in the internationalization process models, we take into account also concentration and diversification strategies, it appears that the relationship between the number of target markets and international experience does not need to be linear and may look as depicted in Figure 10. Internationalization process models suggest that firms tend to increase the number of target markets and expand to more distant markets as their international experience increases. Several firms use the strategy of entering a number of target markets in the early stages of the internationalization process as then the potential of several markets can be tested and also the need for investments is small. Afterwards, however, several firms concentrate their activities on a smaller number of markets and try to gain a higher share of the market by committing significant resources. Later on the expansion to additional target markets takes place. Hence, it appears that the probability to de-internationalize in terms of the number of markets served is likely to be highest in the middle stages of the internationalization process. In this case withdrawals are usually not induced by lack of experience. It is a change in the firm's strategy that is likely to be the main reason for de-internationalization from some markets.

In conclusion, the above discussion indicates that there is a tendency to move from the markets with small psychic distance towards more distant ones in expanding the activities to international markets. However, in the light of previous globalization tendencies and rapid developments in communication infrastructure, the distance between countries is no more as influential as it used

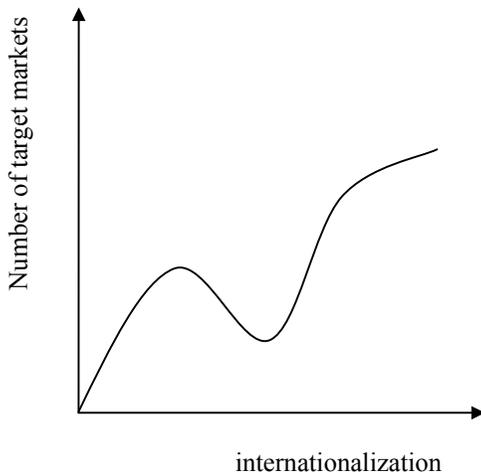


Figure 10. Relationship between the number of target markets and the level of internationalization (compiled by the author).

to be. Nevertheless, taking into account that the present dissertation concentrates on analyzing Estonian enterprises, it is reasonable to suggest that psychic distance is still an important factor for these firms in selecting target markets (previous studies that have used gravity models for analyzing trade linkages between Estonia and its main trade partners have reached similar conclusions; see for example Paas 2000 and Paas, Tafenau 2004). There are several arguments underlying this statement. Firstly, in the transformation countries, companies lack not only foreign market experience but also overall market experience. This problem was especially acute at the beginning of the transformation processes. Secondly, subcontracting to Finnish and Swedish companies constitutes a great deal of Estonian exports. Thus, the international experience is mostly related to these markets. Thirdly, the main competitive advantage of Estonian enterprises in several target markets is the low price and in this case transportation costs, which depend on the distance between countries, are very important. The influence of transportation costs is especially high in the case of bulky goods which constitute a high share of Estonian exports.

As the discussion in this subchapter indicated, besides the distance of the target market, the number of markets is also the subject of discussion and an important aspect to be considered in the analysis. Most Estonian firms are relatively small in size and therefore short of resources and production capacity. Hence it is reasonable to assume that most firms would concentrate their activities on a small number of markets.

In building the framework for analyzing the reasons for de-internationalization, this subchapter pointed out several aspects to be taken into consideration. First, as the market selection criteria differ between the stages of inter-

nationalization, it can be assumed that the reasons for de-internationalization are also different. Second, selection of target markets does not only mean deciding upon the number of markets but also considering the psychic distance, size of the market, operational mode, and several other aspects. Therefore all these aforementioned aspects have to be incorporated into the de-internationalization analysis. Third, de-internationalization does not take place only in the case of decrease in the number of target markets and therefore besides the changes in the number of target markets all other changes in the markets portfolio (for example, replacement of one market with another) should be taken into account.

1.2.2. The operational mode path

Several approaches have been used to explain the choice of operational mode by a firm when it enters foreign markets. Besides the incremental approach, the transaction cost theory (see Rialp *et al.* 2002) and analytic hierarchy process based simulation model (see for example, Levary, Wan 1999) are the most common explanations. The aim of the present dissertation is not to give a comprehensive overview of all possible options for selecting the best target market entry mode. The following subchapter concentrates on analyzing the existence of certain sequences of operational modes in internationalizing companies. Both theoretical explanations and results of previous empirical research are used for detecting the incremental nature of the operational mode dimension.

Johanson and Wiedersheim-Paul (1975, p. 307) suggest that firms follow the establishment chain in entering foreign markets. This chain consists of four stages: 1) no regular export activities, 2) export via independent representatives (agents), 3) sales subsidiary, 4) production/manufacturing. In the Uppsala model experience and knowledge are perceived to be the most important determinants in selecting the entry mode similarly to the choice of the target market. As the operational modes that are made use of are likely to differ between the internationalization stages due to the differences in perceived uncertainty that is related to commitment of resources, the reasons both for increasing and decreasing a commitment, likelihood of de-internationalization, and costs related to withdrawal from a foreign market are likely to differ. Thus, these aspects should be taken into account in developing the framework for analyzing the reasons underlying particular de-internationalization decisions.

Luostarinen has also suggested in his POM-model that there is a certain sequence of operational modes to be used when entering foreign markets (see also Appendix 8), moving from lower towards higher commitment as the firm's international experience increases (Luostarinen 1989, pp. 109, 111), but besides the experience he proposes a set of additional variables that determine the choice of operational mode (see Appendix 9). However, the importance of international experience is high also in this approach.

The influence of experience, knowledge of foreign markets, and the distance between countries on the choice of operational mode are discussed and analyzed by a number of authors who use these explanatory variables among several others. For example, Agarwal and Ramaswami (1992) propose a framework of three groups of factors affecting the choice of operational mode (see Figure 11). Stage theories, on the other hand, that are the subject of the present dissertation, concentrate mainly on the first set of factors called ownership advantages, and particularly on international experience in explaining the choice of foreign market entry mode. As the discussion in subchapter 1.1 indicated, the size of the firm, the nature of its product, and its market potential may decrease somewhat the influence of experience. At the same time, risks that are related to the choice of the operational mode are in the stage models drawn together and are explained by the uncertainty level of foreign operations that depend on international experience.

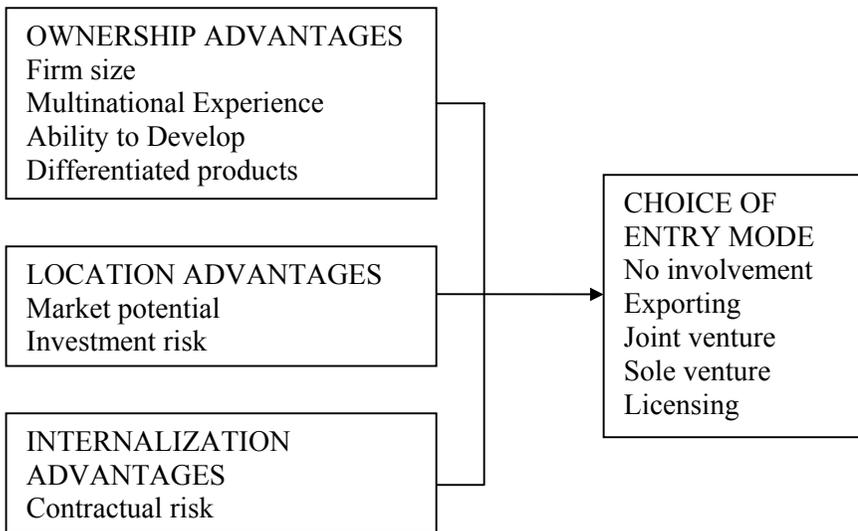


Figure 11. Entry mode choice factors (Agarwal, Ramaswami 1992, p. 5).

Regardless of Cantwell and Narula’s opinion, who claim that incremental approach “has now largely been abandoned” (Cantwell, Narula 2001, p. 158), there is an impressive body of examples and studies confirming the existence of a relationship between experience and commitment decisions. For example, the results gained by Rialp, Axinn and Thach indicated that high-commitment operational modes were used by the firms that do not feel the lack of knowledge (Rialp *et al.* 2002, p. 147). Madhok tested the importance of experience-related variables on selecting the operational mode in 14 companies and found that all the interviewees mentioned that lack of experience influenced their competi-

tiveness in the target market and would hinder the company's ability to operate there in the preferred manner (Madhok 1996, p. 351). So, the importance of knowledge and experience was clearly expressed. However, these studies did not differentiate between international knowledge and market-specific knowledge.

Kim and Hwang tested the importance of three groups of determinants – global strategic variables, environmental variables and transaction-specific variables – on foreign market entry mode choice. The results showed that unfamiliarity of foreign market was statistically significant in determining the level of commitment to the foreign market. (Kim, Hwang 1992, p. 47) Here the importance of market-specific knowledge was clearly expressed and we can suggest that lack of experience may cause difficulties in committing the appropriate level of resources. The commitment level may easily be either too low because of the high level of perceived uncertainty, or too high because of the inadequate evaluation of the market potential or the firm's capabilities, and therefore lack of market-specific experience and knowledge may easily result in de-internationalization of the activities.

Larimo analyzed the significance of international experience, market-specific experience and cultural distance in determining the choice between acquisition and greenfield investment. All three variables appeared to be statistically significant. Longer cultural distance and international experience favored the choice of greenfield investment, whereas the existence of market-specific experience caused the choice of acquisition. The latter was explained as follows: if the firm gains market-specific knowledge, it knows more about the local firms and therefore it is easier to evaluate properly the prospects of acquisition. (Larimo 1999, pp. 10–11, 19) Thus, the existence of international experience allows selecting among a wider variety of operational modes, while market-specific knowledge and experience enables one to select the most appropriate level of commitment to the particular market.

The importance of experience in selecting the operational mode was confirmed also by Agarwal and Ramaswamy, who suggested that multinational firms tend to choose a sole venture or joint venture rather than no involvement. At the same time, smaller and less multinational firms prefer no entry or entry through a joint venture rather than the sole venture mode. (Agarwal, Ramaswami 1992, pp. 18–19)

Barkema and Vermeulen carried out a research for analyzing the propensity to use greenfield or acquisition in expanding to the foreign markets. Their study provided support to the learning perspective as firms with higher multinational diversity tended to use greenfields. If the expansion took place into related industries, greenfields were used more often than acquisitions, but in the case of expansion into unrelated industries, the latter operational mode was usually exploited. (Barkema, Vermeulen 1998, p. 19) Here the similarities between expansion to new markets and to new industries are easily noticeable. A new

environment increases the level of uncertainty and due to this, a lower level of commitment is likely.

A study by Kogut and Singh confirmed that both cultural distance and national attitudes towards uncertainty avoidance have an impact on the selection of the operational mode. At the same time, international experience appeared to be statistically insignificant. (Kogut, Singh 1988, pp. 426–427) The insignificance of international experience is not surprising in this case as the cultural distance includes similar aspects.

Apart from the studies that support the views of the internationalization process models, there are also a number of empirical studies that have shown deviations from the operational mode path. For example, Hagedoorn has an opinion that the evolutionary pattern of operational modes is frequently, but not necessarily, followed by firms in entering the foreign markets (Hagedoorn 1994, p. 9).

Even though Björkman and Eklund found out in their study of Finnish investors in Germany that 55 manufacturing companies followed the establishment path suggested by the Uppsala model, there were also 31 leap-froggers and only 4 firms followed the entire chain. They did not find clear evidence that firms with more experience are more likely to leapfrog some stages. However, this kind of development is likely in the case of establishing a production unit. The size of the firm, high competition concentration ratios, presence of a major global competitor and the nature of production (industrial or consumer good) were not very important in explaining deviations from the establishment chain. An interesting result is that firms with lower international experience tended to skip some stages. The authors explain that with the fact that in some industries, it is difficult to establish sales units. (Björkman, Eklund 1996, pp. 41–44) Another explanation might be that some of the firms are impatient and are increasing their involvement too fast. In the latter case de-internationalization tendencies are likely to appear as the cumulative stock of knowledge about a particular target market is in several cases inadequate.

Stobaugh mentions that there are a number of reasons why firms are forced to use high-commitment operational modes earlier than it is expected in the stage models. Two of the reasons are large market and high transportation costs that are related to the distance of the market where the demand for a product exists. (Stobaugh 1969, pp. 130, 133) This does not mean that a firm starts its international activities by high-commitment international modes. On the contrary, usually these firms have gathered some international experience from their nearby markets. However, it is reasonable to assume that de-internationalization caused by lack of experience is likely in the case of products with high transportation costs and low value. Thus, besides the amount of knowledge, the motivation behind internationalization is likely to influence de-internationalization decisions.

Gruber, Mehta and Vernon suggest also that in the case of large markets the likelihood of setting up the production facility is higher than in the case of small

markets (Gruber *et al.* 1967, p. 32). Thus, external factors may speed up the internationalization process along the operational mode dimension. At the same time, it is not necessarily to be speeded up along other dimensions.

Argumentation by Buckley and Casson is similar to the previous ones as they suggest that in the case of limited size of the target market some of the operational modes may never be employed. On the other hand, in the case of a large market, the firm may use FDI for servicing the market and previous steps are not considered. (Buckley, Casson 1981, pp. 79–80) Thus, if the firm has the diversification strategy in market selection, it can be expected that it will not reach the higher stages of internationalization along the operational mode dimension. In the case of a large target market and concentration strategy, leap-frogging the previous steps might be expected. Here again, the interrelationships between the selection of a target market and the operational mode that were discussed in the previous subchapter are emphasized. In the light of developing a framework for analyzing the reasons behind de-internationalization, it is important to notice that the use of the diversification or concentration strategy may result in different reasons for de-internationalization and a different pattern of de-internationalization. Moreover, interrelationships between different dimensions of internationalization should be considered in the analysis.

Born internationals are also likely to be outliers from the traditional establishment path. When selecting the operational mode, these firms tend to prefer hybrid structures (for example, joint ventures) to export, as the founders of these enterprises are not afraid of employing and cooperating with people with different backgrounds (Madsen, Servais 1997, p. 578). It is also claimed that nowadays there is a tendency in several industries to skip exporting and engage in assets-augmenting foreign investments (Bell, Young 1998, p. 15). Also, it is not unusual any more that MNE uses multiple operational modes in the same location (Cantwell, Narula 2001, p. 158; Petersen, Welch 2002, p. 161). Hence, industry and product-specific features also influence the selection of the operational mode.

As the brief overview of previous research on selecting the operational mode in entering the foreign markets showed, the results are mixed. The negative relationships between experience and commitment of resources can be justified by an ethnocentric argument. This means that inexperienced firms often prefer full ownership and control; they want their own nationals to have key positions in their foreign ventures. As the amount of experience grows, movement towards polycentrism may take place and the firm might feel more confident in making use of foreign expertise. As a result, Erramilli suggests that there is a U-shaped relationship between experience and desire for control (see Figure 12). This view was supported by an empirical analysis. The analysis showed also that the length of international experience has a more important role in entry mode selection than the scope of experience. (Erramilli 1991, pp. 483–484, 493) This result is in line with the suggestion presented earlier in the present subchapter, according to which the existence of higher international

experience allows one to choose from among a wider variety of operational modes and the scope of experience increases the likelihood of selecting the best operational mode for a particular market.

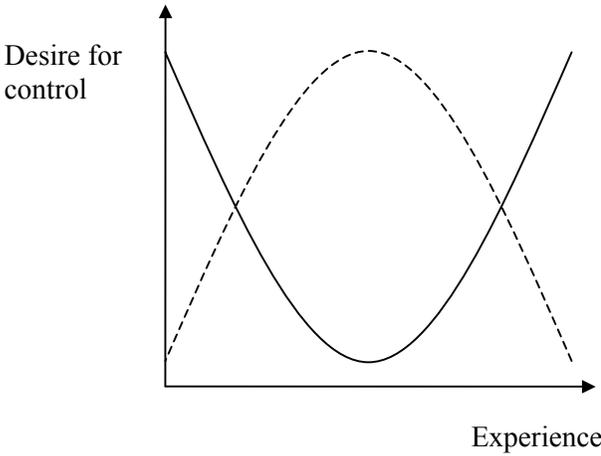


Figure 12. Effect of experience on a firm's desire for control (dashed line stands for Madhok's approach and the bold one for Erramilli's approach; author's figure on the basis of Erramilli 1991, p. 486; Madhok 1996, p. 354).

Madhok suggested also that the relationship between experience and entry mode should be U-shaped – firms in the initial and final stages of internationalization prefer collaboration, while only partly internationalized firms use subsidiaries (Madhok 1996, p. 354). Thus, the results of this study contradict the results obtained by Erramilli. The differences in results may be caused, for example, by the specific features of a product or industry, motivation for internationalization, or activities by the other network members. However, there can also be some differences in defining the operational mode and understanding the switch from one operational mode to another. The relationship suggested by Erramilli is valid in the case of a sequence where export activities are replaced by contractual modes, and in the later stages of internationalization foreign investments are used. On the other hand, the sequence where indirect export activities lead to the use of direct export and contractual modes or foreign subsidiaries later on fits the curve suggested by Madhok.

This leads us to the additional aspect that has to be considered in the case of the operational mode path. Namely, the previous discussion concentrated on analyzing the existence of the establishment path within which low-commitment operational modes are sequentially replaced by high-commitment ones as the international experience increases. But in several cases the commitment to the market may increase within the operational mode and there is necessarily no

move from one foreign market entry mode to another. Some firms will continue their export activities even at the late stages of internationalization.

For example, Bell suggests, on the basis of the results of the study of small software firms, that these firms do not follow the entry mode pattern proposed by stage models. None of the firms has changed its operational mode, even if they have been active in the target market for a considerable time. (Bell 1995, p. 71) Petersen, Welch and Welch (2000, p. 689) suggest that managers do not consider the possibility of change in the operational mode at the later stages of internationalization in their initial entry to the foreign market despite the fact that these changes are relatively common. In his dissertation, Luostarinen claims that the change in operational mode will not take place as long as it is possible or reasonable to use the present operational mode. Sometimes companies just see no need for changing the operational mode they are using and they prefer to repeat successful internationalization patterns. (Luostarinen 1989, pp. 118–119) But all this does not mean that an increase in commitment within the operational mode does not take place and therefore in analyzing de-internationalization, besides changes between the operational modes, also changes within the operational modes should be taken into account.

After all, it could be expected that during the time some changes in the operational mode will take place as the additional knowledge favors increased involvement in the foreign market or dissatisfaction with activities leads to withdrawal. Besides the importance of knowledge, changes in the target or home market conditions or in the firm's strategy are the most common reasons for considering changes in the present entry mode (see also Figure 13). According to Luostarinen, two aspects have to be considered in analyzing the changes in the operational mode (Luostarinen 1982, pp. 135–138): 1) is the change planned (he suggests that historically most of the changes were not planned and depended on some impulse from internal and/or external factors, but this tendency is changing); 2) is the change voluntary or involuntary (in other words – is it caused by changes in business environment or not). All these aspects should also be considered in building a framework for analyzing the reasons behind de-internationalization decisions.

Benito, Pedersen and Petersen have discussed the determinants of operational mode change and have divided the factors into several groups. Motivators encourage alterations in operational modes, while switch deterrents make such changes costly. Switching motivators are dissatisfaction with the current intermediary, accumulation of market knowledge, target market growth, and growth of the company. Contractual restrictions, loss of local sales revenue, recruitment and training costs and foreign operation learning costs are classified as switching deterrents. In addition to these motivators and impediments, they have also used several control variables (see also Appendix 10). (Benito *et al.* 1999, pp. 7, 24) The importance of performance has been stressed in another study by the same authors, where they divide determinants of operational mode switch into three groups (Petersen *et al.* 2000, p. 48): 1) performance factors, 2)

information-asymmetry factors, and 3) switching-costs factors. As the switch of the operational mode can also take place in the direction of decrease in commitment to the particular market, these aspects play an important role also in the case of de-internationalization decisions.

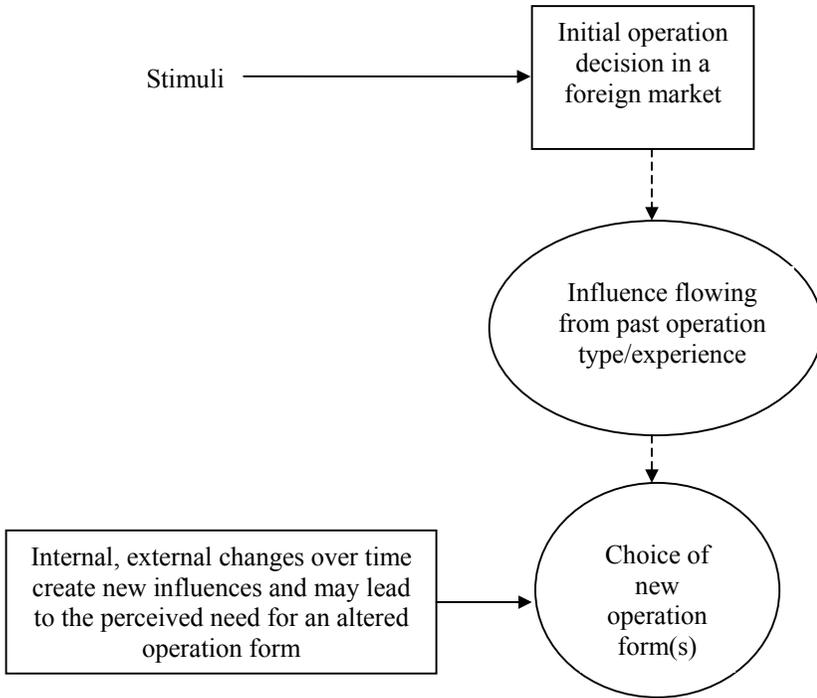


Figure 13. Longitudinal factors in international operations decisions (Luostarinen, Welch, 1997, p. 13).

The results of two empirical analyses by these authors showed the significance of market knowledge and international experience. Differences occurred in the significance of distance to the intermediary (in one study it appeared to be statistically significant, but in the other it was insignificant). Switching costs were also highly significant and because of these several firms have not changed the operational mode despite sufficient knowledge. (Benito *et al.* 1999, p. 24; Pedersen *et al.* 2002, pp. 339–340) Hence, switching or sunk costs can significantly influence the operational mode pattern of a firm as they can impede both the increase or decrease of internationalization and therefore this aspect should definitely be considered when analyzing de-internationalization of international activities.

The above discussion has shown that even though there is no complete agreement about the shape of the operational mode path (the linear approach

was suggested by the Uppsala and POM-models, and the U-shaped path by Erramilli and Madhok), most of the researchers tend to support the view that international experience and foreign market entry mode choice are related. However, besides change in the operational mode, commitment level may also change within the operational mode. There are several reasons for such development – insufficient knowledge about foreign markets, too small target market, lack of resources for changing the operational mode, and switching costs being only some of them. As most Estonian firms are suffering from the lack of resources for exploiting high commitment operational modes, a great deal of the following analysis in this dissertation will concentrate on changes in commitment levels within an operational mode.

The present subchapter pointed out several aspects that have to be considered when developing the framework for analyzing the reasons for de-internationalization. First, both international and market-specific experience and knowledge are important, as the first one determines the set of operational modes within which the firm can choose in a certain level of uncertainty, and the latter one enables selection of an optimal operational mode to be exploited in a particular market. Second, sunk costs of operational modes differ to a large extent and therefore, at a higher level of commitment, the likelihood of de-internationalization activities is lower not only because of the international experience but also due to the higher costs related to withdrawal; and this aspect should be considered in the framework. Third, interrelationships between different dimensions are important. For example, the operational modes and commitment levels that are made use of in the case of diversification or concentration strategy are likely to be somewhat different and therefore the international strategy and motivation for internationalization have an impact on the reasons for de-internationalization.

1.3. Integrated approach to the reasons behind de-internationalization of enterprises

1.3.1. Divestments and export withdrawals

As mentioned in the introduction of the present dissertation, despite the lack of studies focusing on de-internationalization, divestments and export withdrawals caught researchers' attention already several decades ago. The main processes and determinants being similar both in the case of divestments and export withdrawals, the following subchapter presents an integrated approach to the main aspects that have been analyzed in the previous contributions to this field. However, if necessary, a clear distinction between these two is pointed out.

Divestments are usually defined as a total or partial termination of active foreign operations on either a voluntary or involuntary basis through sale,

liquidation, expropriation and/or nationalization (Boddewyn, Torneden 1973, p. 26; Boddewyn 1983b, p. 346; Chopra *et al.* 1978, p. 14). Similar definitions are suggested also in the case of export withdrawals. For example, Pauwels and Matthysens define export withdrawal as a firm's strategic decision to remove a product/market combination from its international portfolio (Pauwels, Matthysens 1999, pp. 10–11). Besides strategic withdrawals, forced export withdrawals are also possible as in the case of divestments. Therefore, both export withdrawals and divestments can be involuntary (forced by the actions of the host country government) or voluntary. The latter type includes both failures and strategic withdrawals from the foreign market(s).

There are several different classifications of reasons of divestments and export withdrawals. On the basis of the results of previous research done in this field, Boddewyn divides the determining factors into seven groups (Boddewyn 1979, pp. 22–26): 1) financial considerations, 2) poor pre-investment analysis, 3) adverse economic conditions, 4) lack of fit and resources, 5) structural and organizational factors, 6) external initiating pressures, and 7) foreignness and national differences. These factors can roughly be divided into two categories: 1) mistakes in pre-internationalization decisions and activities, and 2) changes in (target) market conditions (including government interventions).

The first group of triggers applies usually in the case of these firms that are inexperienced in international markets. In this occasion firms often do not realize the necessity of a careful target market selection process and tend to underestimate the importance of a thorough analysis of the target market. Poor decisions may also be the outcome if the firm does not know how to collect sufficient information about the foreign market or does not have enough resources for acquiring or analyzing the information.

The evidence from previous empirical studies provides several examples for illustrating this kind of reasoning. For instance, one of the firms in a study carried out by Anderson, Graham and Lawrence commented their withdrawal and pointed out that despite market research that indicated a good potential of the target market, the firm was not prepared for unwritten social and market customs, power structure and several other aspects characteristic of this target market. They emphasized that planning and research about cultural and employment issues should have been deeper. (Anderson *et al.* 1998, p. 497) The results of the study by Cavusgil (1984) indicated that only 4% of experimental exporters perceived that an analysis of foreign markets is a complex task and requires a high level of analysis.

Empirical evidence also suggests that the major reasons for drawbacks are internal and could have been avoided by market research and proper planning before the venture (Luostarinen 1989, pp. 206–207). The need for a thorough analysis and careful study of foreign operation is often perceived only in the case of continual poor performance, but in this case it is often easier to withdraw than to find remedies for improving the performance (Torneden, Boddewyn 1974, p. 90). These results suggest that in several cases firms do not

perceive the need for in-depth analysis of the target market or they do not realize that due to the differences in cultural, economic and political environments there are several aspects besides the market potential and demand that have to be paid attention to.

Welch and Wiedersheim-Paul argue that there is clear evidence that first export attempts are often experimental in their nature and thus a failure or withdrawal from exporting after having made a start is in many cases inevitable (a position of withdrawal in their framework can be seen from Appendix 11). Their study of 75 Australian enterprises (14 of them were failed exporters) showed that almost 86 per cent of the failed exporters had had only minor and/or sporadic export activities. An interesting difference occurred, indicating that failed exporters had started exporting more rapidly than continuing exporters. (Welch, Wiedersheim-Paul 1980, pp. 333–334, 338) The latter might have been the result of absent or insufficient pre-export preparation, inadequate evaluation of market opportunities or unnecessary speeding up of the internationalization processes.

The mistakes deriving from insufficient planning and analysis in selecting a proper degree of commitment to the foreign markets may also cause withdrawals from foreign markets. Some firms commit too many resources and these unwise investments need liquidation in order to rationalize the use of resources (Sachdev 1976, p. 116; Shaver 1998, p. 584). On the other hand, small firms are often eager to ensure that they can leave foreign markets with low costs as soon as it is needed (Bonaccorsi 1992, pp. 630–631). Hence, they tend to avoid investments needed for granting success in the target market. As the discussion in the last subchapter suggested, firms have to acquire international experience in order to use different operational modes. They also have to gather market-specific knowledge for determining the proper degree of commitment to the particular market. As at the beginning of international activities this knowledge and experience tend to be poor, mistakes are likely to appear and these can lead to de-internationalization.

The impact of the existence of previous foreign experience and distance between countries on their success in international markets has been verified by several authors (see for example, Benito 1997, p. 1373; Tsang 1999, p. 96). Insufficient experiences in international markets may result, for instance, in inadequate objectives for foreign activities. If the firm is not actively seeking international business opportunities and is more or less passively accepting export orders, this will usually result in sporadic export performance and may accordingly lead to negative experience and an early withdrawal from the international market (Luostarinen 1989, pp. 61–62). For instance, Ahokangas pointed out in his study that one firm perceived exporting to be an instrument for stabilizing production and the seasonal cycles and foreign operations were not an objective by itself (Ahokangas 1999, p. 13). Such an approach may easily result in withdrawal as the firm is not paying enough attention to the

foreign market(s). Underestimation of market potential and possibility for wrong interpretation of market signals is also possible.

The importance of the abovementioned reasons is verified by the empirical research carried out by Jaffe and Paternak, who pointed out 8 factors that were mentioned by exporters as their reasons for ceasing to export. Among them, most important were inadequate financing and distribution. Lack of information about foreign markets was mentioned in 8 cases out of 48 and positioned as the third in importance. Uncompetitive prices, insufficient profitability and quality of goods and difficulty in meeting delivery schedules were also mentioned by some of the firms. (Jaffe, Paternak 1994, p. 28)

Summing up the previous discussion, it is possible to suggest that withdrawals resulting from misjudgements take often place due to lack of previous international experience – inexperienced firms often fail to perceive the importance of pre-internationalization analysis or do not know how to carry it out properly. Therefore these mistakes are likely to occur in the first stages of the firm's international activities but as the amount of international knowledge grows, the likelihood of withdrawals caused by mistakes in pre-internationalization decisions tends to decrease. In the light of this discussion, it appears that in building up the framework for analyzing the reasons for de-internationalization, the stage of internationalization has a significant role in determining the importance of different reasons.

Besides pre-export preparation, negative feedback, managerial commitment to export, and internal ability to make adjustments in accordance with the target market's needs also have a significant impact on the decision to withdraw. 43% of the failed exporters mentioned external environmental changes as the determining factor in the case of withdrawals. (Welch, Wiedersheim-Paul 1980, pp. 340–341) Therefore, it is important to keep the company updated about the changes in the target market conditions. In addition to changes in customers' needs, implementation of new rules and policies by the host governments have to be monitored carefully because in several cases new laws favor local enterprises and thus increase their competitiveness. For example, Encarnation and Vachani (1985) have described the effect of implementation of barriers on foreign ownership in India that forced several multinational companies to leave the country. Year by year most governments have removed direct impediments to foreign investments, however, several indirect hindrances still exist.

Most of the research on divestments and export withdrawals concentrates on negative changes in the external conditions but positive changes may also cause partial or full exit from the foreign markets. One such example is growth in the domestic market. Elango's study showed that growth of the domestic market both in nominal terms and by comparison with foreign markets increases the opportunity of withdrawal (Elango 1998, p. 213). Hence, developments both in the home and host markets have to be considered, otherwise the results are likely to be biased.

Moreover, a withdrawal does not necessarily mean a failure (Pauwels, Matthysens 1999, pp. 10–11) but can also derive from restructuring of the activities (Richbell, Watts 2000, p. 80) or changes in strategy like, for instance, (Benito 1997, p. 1366): a) reallocation or concentration of resources, b) change in operational mode, and c) withdrawal from a particular market. For example, Boddewyn expresses an interesting opinion that divestments may be the result of following the leader. This means that the initial withdrawal by one firm may be followed by imitator(s) (Boddewyn 1983b, p. 349). These followers can be both competitors and other network members (e.g., suppliers) of the firm that made the first step. For competitors the presence in a foreign market might not be necessary any more (applies especially in the case of oligopolistic competition), while for suppliers it might not be possible any more as they have lost market for their production. Thus, an initial de-internationalization by one firm may be followed by other firms from this industry and related industries and therefore it is important to take into account the information from external sources and the activities of the related firms when analyzing the reasons for the de-internationalization decision of a particular firm. Hence, the network context of the firm has to be incorporated into the analysis.

While Boddewyn suggests that divestments depend on the strategic movements of other firms in the industry, Benito proposes that the likelihood of divestments is the result of the strategy that the multinational firm possesses. Namely, in the case of a transnational strategy, divestments tend to be more likely than in exploiting a global, multinational or international strategy (Benito 2003, p. 28). Thus, strategic orientation and also motives for internationalization tend to influence the likelihood of de-internationalization.

Divestments are more likely in the following cases (Benito 1997, pp. 1366–1367; Richbell, Watts 2000, pp. 82, 84, 86): 1) the company is diversified and top-managers are geographically and/or emotionally remote from the subsidiary; 2) the subsidiary is relatively small as compared to others; 3) scale economies can be achieved in transferring the production to some other subsidiary (with spare capacity); 4) the plant has a smaller range of activities than some other plant; 5) mature industry; 6) poor performance; 7) strategic considerations (for example, exit from unrelated industries, low interdependence between units, the need to focus on core activities); 8) culturally distant countries; 9) the plant is located in some other country than the head office. Besides the impact of international experience on de-internationalization discussed at the beginning of the present subchapter, three other groups of reasons for de-internationalization can be suggested – distance, poor performance, and rationalization or concentration of activities. Perceived distance between countries and competence of coping with the international differences is closely related to the international experience and knowledge about foreign markets and therefore a separate distinction of this aspect will not be necessary in the following analysis.

Vahlne and Nordström suggest that de-internationalization is a normal process in the case of global firms as it enables better use of scarce resources. Economies of scale, global standardization of the products and decreasing transportation costs also favor this kind of backward movement. (Vahlne, Nordström 1993, p. 544) However, there are other opinions too, as several authors claim that divestments are seldom strategic in nature because they are usually not based on long-term planning processes and are mostly the result of environmental changes (Boddewyn 1983a, p. 27; Sachdev 1976, p. 127). It is likely that in the 1970s and 1980s most divestments were the reaction to unfavorable changes in the target market environment but by now foreign direct investment regimes have been liberalized in most countries and therefore this motivation need not prevail any more. So the focus has shifted toward other motivations like, for example, strategic divestments.

Besides insufficient pre-internationalization analysis, unfavorable changes in the target market environment and strategic considerations, poor performance is often mentioned as the most decisive determinant of divestments and export withdrawals (see for example, Lindgren, Spångberg 1981, p. 40; Pauwels, Matthyssens 1999, pp. 21–22; Tornedon, Boddewyn 1974, p. 87). There are several reasons for poor performance. It may result from pre-internationalization mistakes, insufficient knowledge, experience and effort, inadequate interpretation of market signals, or inappropriate marketing mix. In one of his studies Luostarinen has pointed out that the major reason for poor performance of internationalized Finnish firms is that their internationalization process was developed to the phase that was impossible to handle with the existing managerial and personnel capabilities (Luostarinen, Welch 1997, p. 255). Therefore, a bundle of different reasons and developments both in the internal and external environment can cause poor performance.

The rate of return is often used as a measure of performance in a target market. Riahi-Belkaoui suggests that the rate of return is related to the level of internationalization. As the unsatisfactory performance in foreign markets is one reason for de-internationalization, its relationship with the level of internationalization is of great interest. The results of an empirical analysis showed that firms performed better in the middle stages of internationalization (rate of foreign revenues to total revenues between 14 and 47 per cent) while at the beginning and later stages there is a negative relationship (Riahi-Belkaoui 1998, p. 319). Thus, in the first stages of internationalization, besides lack of knowledge about foreign markets and misjudgements, other factors may also have an impact on the de-internationalization decision. For example, if the firm does not have enough resources to cope with the low rate of return at the early stages of internationalization, de-internationalization may easily take place. However, these mistakes are likely to be a by-product of the lack of international experience.

Chen and Wu propose on the basis of their study of divestments in Taiwan that the first 20 months are the most critical time for a foreign subsidiary and

after this the plant is likely to survive (Chen, Wu 1996, p. 180). Benito and Welch discuss the interrelationships between foreign market commitment and international experience and knowledge development, suggesting that even though international experience is increasing as time goes by, withdrawals are likely at some stages of international activities but usually they are followed by increased resource commitment. Withdrawals may be the result of acquiring knowledge about the requirements of international operations. (Benito, Welch 1994, p. 12) For example, the firm may learn that its current strategy or resources are not sufficient for successful servicing of the target market. Thus, additional knowledge may lead to temporary or permanent de-internationalization. A similar approach was presented in subchapter 1.2.1 of the present dissertation, in Figure 10 and at the discussion about diversification and concentration strategies in target market selection.

The opinion that there is no inevitability in continuance of the internationalization process has been expressed by several other authors. Van den Berghe has even expressed an opinion that “de-internationalization is an incremental part of the internationalization processes” (van den Berghe 2001, p. 6). However, withdrawals are most likely at the early stages of export development (Luostarinen, Welch 1988, p. 250; Pauwels, Matthyssens 1999, p. 11). For example, in analyzing the Italian manufacturing firms that were exporting their production, Bonaccorsi found that only a small number of exporting companies were stable exporters, while in most firms at least temporal exits occurred. As a result, it is emphasized that internationalization need not be treated as an irreversible process but as an easily reversible one, depending on the changes in the environment. (Bonaccorsi 1992, pp. 616, 618) Besides these changes, the developments within the firm are also important – acquisition of additional knowledge, implementation of new technologies, change of organizational structure or strategy, and several other aspects may all lead to re-internationalization.

In the case of export activities, de-internationalization tends to take place more often than in the case of foreign investments. There are different explanations for this tendency. For instance, Nees mentions that often divestments are last-resort decisions that are put into practice only then when all other decisions have led to insufficient outcomes (Nees 1979, p. 78). Sunk costs and interrelatedness of subsidiary with other units are the main deterrents of divestments (Benito 1997, p. 1366; Benito 2003, p. 4). In the case of export activities, the amount of committed resources is relatively modest and therefore de-internationalization is usually easier and less costly. However, if the firm decides not to withdraw from a particular market, the pressure to internationalize and poor results with the operational mode that is presently made use of may result in considering those alternatives which have never been used before and are not in line with the existing practices (Luostarinen 1989, p. 119), but these extra commitments may easily lead to additional and even bigger losses when the results, despite the changes made, remain poor.

Moreover, as within one enterprise divestments are quite rare, the knowledge needed for successful implementation of divestments is often absent and thus additional losses due to the overly long termination process can easily evolve. Tornedon and Boddewyn found that the divestment process usually takes slightly more than two years and they did not find any differences between companies with different international experience (Tornedon, Boddewyn 1974, p. 93). Two distinct processes may take place in the firm before the withdrawal. At first, an endogenous misfit may appear, meaning that some members of the organization have an opinion that the poor performance is the result of insufficient commitment to the market and poor implementation of the current marketing strategy. Other members of the organization may face an exogenous misfit – in their opinion the current market approach is not suitable any more due to the changed environment. (Pauwels, Matthyssens 1999, pp. 21–22) As a result of these misfits different processes usually take place but both of them, as a rule, lead to withdrawal from a market (see also Figure 14). On the basis of this discussion, it is evident that lagged data have to be used when analyzing the reasons for de-internationalization and in the case of export, the withdrawal lag is likely to be shorter than in the case of divestments.

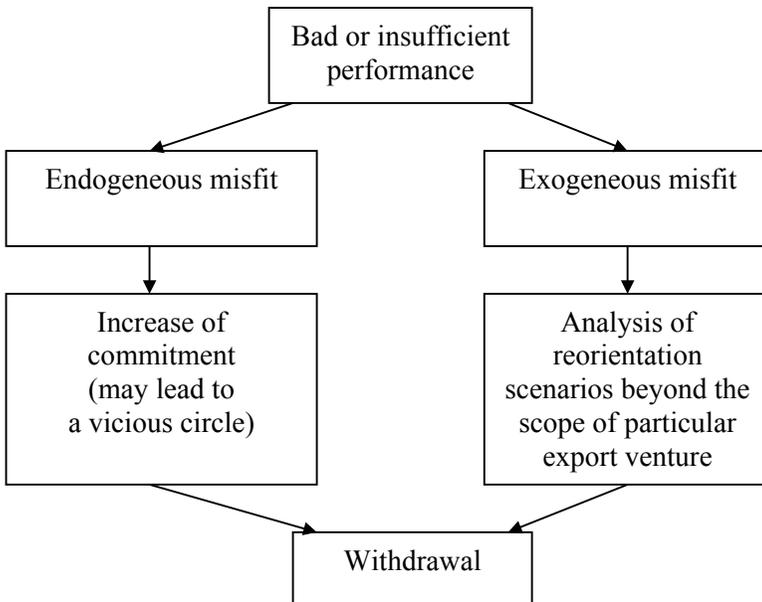


Figure 14. Export withdrawal process (author’s interpretation of the framework suggested in Pauwels, Matthyssens 1999).

On the basis of an extensive case study survey of four Dutch small and medium-sized companies Pauwels and Matthyssens (1999, pp. 28–29) worked out a six-phased model of export withdrawal (see Appendix 12). One very important aspect that they learnt during their study was that in two out of the four firms withdrawal was followed by a learning process and strategy changes in other international operations, thus the experiential knowledge was made use of also in other international activities. The researchers suggest that “a successful strategic withdrawal may lead to a better strategic foundation of the entire international market portfolio” (Pauwels, Matthyssens 1999, p. 32). The learning aspect is also stressed in the case of divestments (see Appendix 13). Hence, if a firm has once de-internationalized, the likelihood of doing it again will be smaller in the future.

However, most managers tend to avoid recalling negative experiences and thus the experience is often lost. Therefore, learning from both own and others’ experiences is relatively complicated. At the same time, some authors suggest that routines and administrative structures are amended on the basis of learning from both failure and success achieved in international activities (Eriksson *et al.* 2000, p. 29). Similar reasoning is also expressed by Nees who claims that after the first divestment decision the following ones are carried out faster and the decision process is shorter (Nees 1979, p. 72).

In several cases, the reason or prerequisite for de-internationalization is the change of the management (see, for example Andersson 2000, p. 76; Björkman 1990, p. 276; Ghertman 1988, p. 65; Lindgren, Spångberg 1981, p. 38). After de-internationalization, new managers may even know how to do it but they lack the knowledge about what mistakes led to the dissolution of the foreign operation. In addition, new managers tend to see the previous outcomes more negatively (Levitt, March 1988, p. 325) and thus wrong interpretations are easy to come. This complicates the application of the knowledge gained in the de-internationalization process to future withdrawals even more.

In summing up the discussion that was presented in this subchapter, at first it has to be reminded that de-internationalization, export withdrawals and divestments are not synonyms. The last two terms represent and describe only some parts of de-internationalization. The main differences between these phenomena will be discussed at the beginning of the next subchapter.

Despite several differences of the concepts, the above discussion provides a lot of useful knowledge when building up a framework for analyzing the reasons for de-internationalization. Firstly, at least three groups of reasons that cause withdrawals from foreign markets can be pointed out. These are lack of international experience, poor performance, and change in strategy. All of them consist of a list of different aspects that may lead to de-internationalization of (some of) a firm’s activities. Secondly, the impact of each of these above-mentioned groups is likely to be dependent on the stage of internationalization. Thirdly, besides the changes in the external environment both at home and in the host markets, developments within the firm can also cause return to the

home market. Fourthly, often the conditions in the foreign market fail to live up to the expectations of the firm, yet withdrawals do not take place due to high sunk costs or other reasons. Therefore, the activities of the other network members, sunk costs, and strategic orientation of the firm may increase or decrease the likelihood of de-internationalization, depending on the particular situation. Finally, it is reasonable to suggest that de-internationalization is less likely in the case when the same firm has withdrawn some of its foreign activities in the past, as the knowledge gained will help improve the performance of other subsidiaries. Still, there are at least two exceptions to this – when the knowledge is lost or when there is a change in a firm’s strategy.

In the case of Estonian manufacturing enterprises, lack of international activities is likely to be the dominant reason for de-internationalization. On the other hand, restructuring of the activities that have been carried out by foreign investors has been significant as well – so changes in strategy can also influence foreign operations.

1.3.2. Framework for analyzing the reasons for de-internationalization

As discussed in the previous subchapters, most authors perceive internationalization to be a uni-directional process that goes on if the firm gains additional knowledge during its foreign operations (see Figure 15). Even if the possibility of de-internationalization is mentioned, it is usually stressed that de-internationalization is expected to be later followed by re-internationalization (see for example, Kirpalani, Luostarinen 1999, p. 9). In reality, however, the de-internationalization processes have intensified due to increased global competition and withdrawals from foreign markets will necessarily not be followed by re-internationalization.

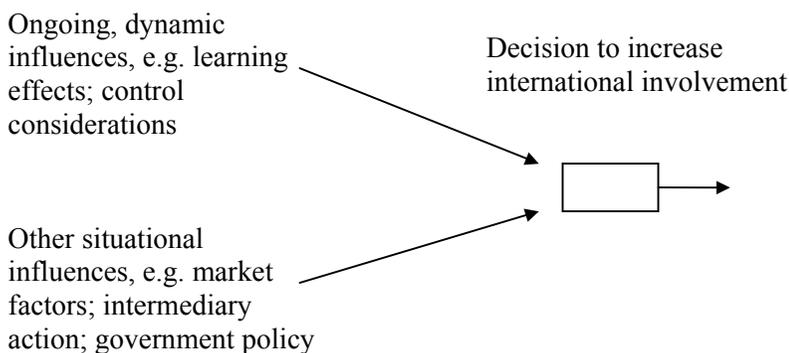


Figure 15. Determinants of forward momentum (Luostarinen, Welch 1997, p. 265; Welch, Luostarinen 1988, p. 51).

The concept of de-internationalization is somewhat different compared to those of divestments and export withdrawals. True enough, all of them comprise activities that can be: 1) voluntary or involuntary in nature, 2) complete withdrawal from the market or decrease in commitment to the particular market, 3) followed by re-internationalization. However, the main distinctive feature of de-internationalization is that it can be analyzed along several different dimensions (operational mode, target markets, products), while both export withdrawals and divestments focus on changes in commitment to the particular market and therefore on the operational mode aspect.

Mellahi has defined de-internationalization as “a voluntary process of decreasing involvement in international operations as a response to organizational decline at home or abroad, or as a means of enhancing corporate profitability under non-crisis conditions” (Mellahi 2003, p. 151). This definition captures most of the characteristics of de-internationalization. However, it is limited in the sense that it covers only voluntary de-internationalization, leaving out the involuntary processes. Furthermore, this definition ignores the fact that decrease in involvement may take place in terms of products offered in foreign markets, the number of markets served and the operational mode, and thus it would be useful to analyze not only the net effect of changes in different dimensions but also the changes in the dimensions separately.

For example, Chetty proposes that in several cases de-internationalization may appear in one dimension while at the same time an increase in the overall level of internationalization may take place as the depth of internationalization along other dimensions increases (for example, a firm may concentrate on servicing all markets by export by closing down some foreign production units, but at the same time the variety of products offered and markets served increases) (Chetty 1999, p. 137). Similar ideas are also expressed by Dass who argues that since firms have limited amounts of resources and different projects compete for resources, one type of diversification may be substituted for another. This means that, for example, a firm might decrease its international diversification by concentrating on a smaller number of target markets in order to increase product diversification by introducing new ones. (Dass 2000, p. 138)

Figure 16 illustrates the need for analyzing besides the overall changes in internationalization of the firm also the changes along different dimensions. Only one example is presented here and in this example the market dimension is considered. Namely, the changes in a number of target markets are addressed. There are four possibilities both for changes in the firm’s internationalization (full or partial de-internationalization, stagnation, and increase in internationalization) and for changes in the number of target markets (decrease, increase, or the same with or without the change in the markets). As a result, a 16-fields matrix can be put forth. Three combinations (fields 5, 9, and 13) are impossible, since in the case of full de-internationalization of the firm, the number of the markets cannot remain the same or even increase. This leaves us with 13 possible combinations.

Internationalization/de-internationalization of the firm

		Full de-internationalization	Partial de-internationalization	Stagnation	Increase in internationalization
Number of target markets	Decreases	1	2	3	4
	Same, but change in markets	5	6	7	8
	Same, no change in markets	9	10	11	12
	Increases	13	14	15	16

Figure 16. Combinations of changes in internationalization of the firm and in the number of target markets served ⁶ (compiled by the author).

Now, if we talk about the overall de-internationalization of the firm, we usually have in mind all eligible combinations of the two first columns (fields 1, 2, 6, 10, and 14). At the same time, de-internationalization in terms of a number of target markets is represented by the eligible combinations in the two first rows (fields 1–4, 6–8). The incongruence of these two areas can easily be noticed. There are only three combinations that are taken into account in both cases – fields 1, 2, 6 – but all the others are left out in one or the other approach. Therefore, an analysis of both firm-level changes in foreign market commitment and changes along different dimensions will contribute to a better understanding of these processes.

De-internationalization can be full or partial. Benito and Welch have suggested that full de-internationalization is more probable during the first stages of the internationalization process and the probability will decrease as the commitment to the foreign markets increases (see Figure 17a). At the same time, partial de-internationalization tends to occur in the first or late stages of internationalization (Figure 17b). (Benito, Welch 1997, pp. 17–18)

There are various reasons why enterprises decide to de-internationalize. The results of subchapters 1.1 and 1.2 and discussion about export withdrawals and divestments that was presented in the previous subchapter indicated that these reasons can be divided into three main groups (see also Table 2). Firms withdraw from foreign markets mainly because they lack international

⁶ The numbers stand for different potential combinations.

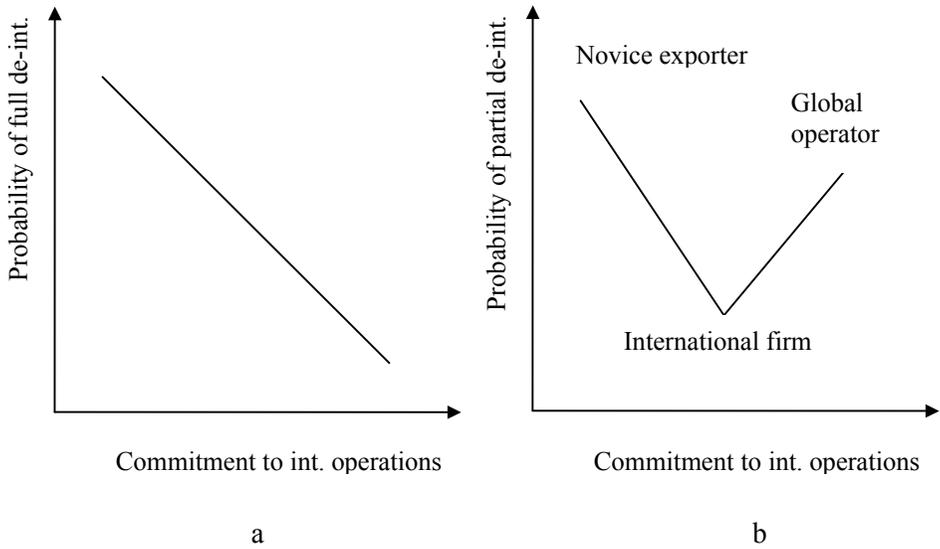


Figure 17. Full and partial de-internationalization and commitment to international operations (Benito, Welch 1997, pp. 17–18).

experience, change their strategy or have poor results. The impact of these groups of the de-internationalization reasons is not the same for firms at different stages of internationalization. These effects will be discussed below.

The first group of reasons consists of those related to the lack of international experience. Most of the discussion presented in the previous subchapter that was focusing on the pre-internationalization analysis and decisions falls into this category. In addition, in the first stages of international activities several firms do not pay enough attention to the foreign market as its share is small compared to the home market, and managers often tend to underestimate the value of sufficient information and previous knowledge.

The internationalization models that were introduced in subchapter 1.1 ignore the possibility that a firm's strategy may change and as a result of this full or partial de-internationalization may take place. One example is the case where there is a change in ownership and for example, a foreign owner's intention is to use all the production of the firm in its local market. The other possible reasons for de-internationalization that are related to change in strategy are pointed out in Table 2.

The third group of reasons that may cause de-internationalization is related to poor performance and/or increase in costs. According to the Uppsala model, an increase in production costs at home is likely to lead to an increase in the commitment to the target market if a production subsidiary is set up (similar argumentation on the example of governmental interventions is presented by

Table 2. Three groups of reasons for de-internationalization

LACK OF INTERNATIONAL EXPERIENCE	Insufficient pre-internationalization analysis
	No previous outward or inward internationalization
	Too rapid and/or early expansion to the foreign market
	Inadequate interpretation of market signals
	Decrease in the value of previous experience and knowledge due to the rapid changes in target market
	Choice of inappropriate target market and/or operational mode
	Misfit of product and/or insufficient adaptation to the market
	Insufficient attention to foreign markets (focusing on sporadic export)
CHANGE IN STRATEGY	Focusing on core markets and/or core activities
	Change of target markets due to increase in demand at home and/or insufficient growth in the target market
	New managers and/or owners with different strategic perspectives
	Constraints of manufacturing capacity, scarcity of resources and qualified personnel
	Maturing of the product in the target market
	Change of operational mode
	(De-)internationalization of related industries
	External shocks (including government intervention)
POOR PERFORMANCE OR INCREASE IN COSTS	Increase in production costs
	Increase in transportation costs and/or tariffs
	Increase in competition (from the home country, host country, or third country)
	Poor performance

Source: compiled by the author on the basis of the discussion presented in the previous subchapters.

Kogut, Chang 1996, p. 223). But there is no explanation in the models to what happens if there is a production subsidiary in the foreign market but due to an increase in costs it would be more profitable to produce in some other country (even if the transportation costs are taken into account). As the latest developments in the world economy have indicated, the tendency of moving production to the regions with lower production costs (for example, to Asia) is deepening and therefore this kind of reasoning behind de-internationalization is gaining importance.

It is important to note that in most cases different reasons have a simultaneous effect and the motives are interrelated (this is depicted by the dark

gray area in Figure 18). Nevertheless, there are likely to be differences in respect of the dominating group of reasons for de-internationalization at the different stages of internationalization (see Figure 19). Lack of experience is expected to be the most influential in the first stages of foreign market expansion when the firm is exporting its product(s) only to 1–2 target markets; afterwards its importance declines. Benito and Welch have even suggested that in the later stages of foreign operations, internationalization may turn out to be a barrier to de-internationalization (Benito, Welch 1997, p. 14).

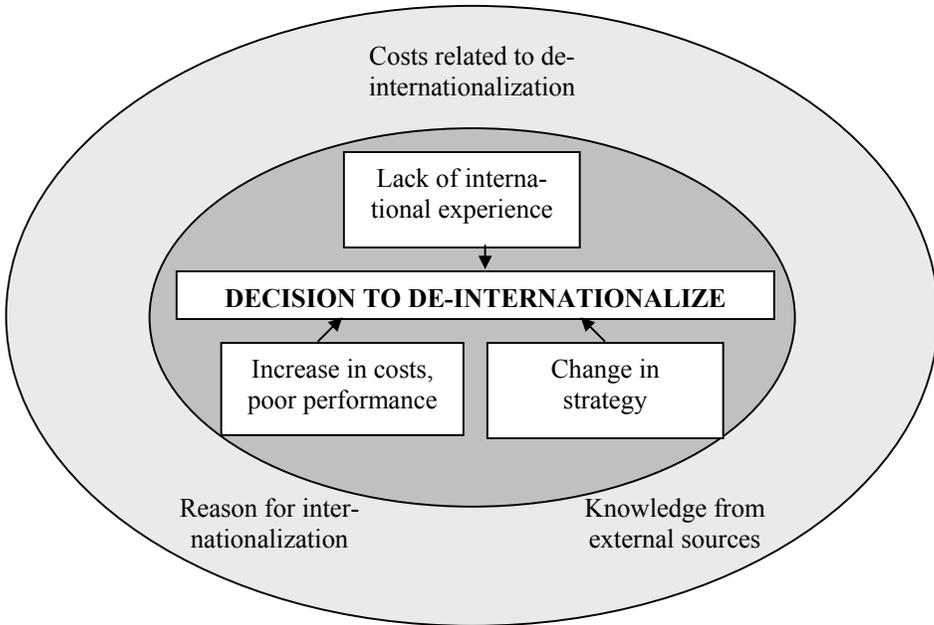


Figure 18. Framework for analyzing de-internationalization decisions (compiled by the author).

At the same time, increase in costs⁷ is likely to occur within a longer period of time and thus the possibility that this will lead to de-internationalization is relatively unlikely at the beginning of international activities. On the other hand, in the case of firms that have large-scale international activities, the impact of costs on de-internationalization tends to be moderate as multinationals can easily use transfer pricing or other measures for decreasing the effect of higher costs. Additional aspects that may help eliminate the impact of cost increase are the potential for market arbitrage and higher bargaining power that are

⁷ In this dissertation, the term “increase in costs” denotes an increase in production or transportation costs, or in tariffs.

characteristic of internationally diversified firms (Lee, Habte-Giorgis 2004, p. 105). Therefore, increase in costs tends to be most influential in the middle part of the internationalization process. However, this does not mean that other groups of reasons have no influence at all, but it is likely that at this stage the share of de-internationalization decisions that are made because of the increase in costs or poor performance as the main reason is higher than that of the other groups of reasons. It has to be kept in mind that all groups of reasons are interrelated and therefore only suggestions about the relative importance of each group in the different stages of internationalization can be made.

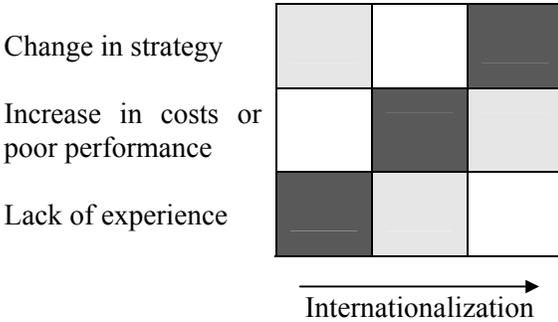


Figure 19. Relative importance of different groups of reasons for de-internationalization in different stages of internationalization (darker area means higher importance) (compiled by the author).

Change in strategy is the last group of reasons for de-internationalization. These reasons are most likely to dominate in the late stages of internationalization as a multinational may want to rationalize its activities and concentrate on core activities. A moderate influence of this group of reasons can also be expected on the firms that take first steps in international markets, for they may easily learn that, for example, they do not have enough capacity to meet the demand.

The decisions are not taken in a vacuum. Benito and Welch suggest in their framework (see also Appendix 14) that past international experiences as well as current developments should be taken into account in analyzing de-internationalization tendencies (Benito, Welch 1997, p. 19). In the present dissertation, these aspects are covered by de-internationalization motives. At the same time, considering the discussion presented in the previous subchapters, there is a need to distinguish between three additional aspects – external sources of additional knowledge, reasons for internationalization, and costs related with de-internationalization (these are presented in the light gray area in Figure 18) – that determine the existence of the influence and relative importance of all the reasons pointed out in Table 2. It is also important to understand that these factors may both increase and decrease the probability of de-internationalization.

As there are various possibilities for gaining knowledge from external sources (see also subchapter 1.1.1 and Figure 4), this factor is likely to decrease the effect of the lack of previous international experience. At the same time, it may easily generate changes in strategy which can both increase or decrease the possibility of de-internationalization. The impact of this factor on costs and other motives is not likely to be significant. Furthermore, its influence will diminish as the firm gradually improves its own knowledge base through experiential learning (see Figure 20).

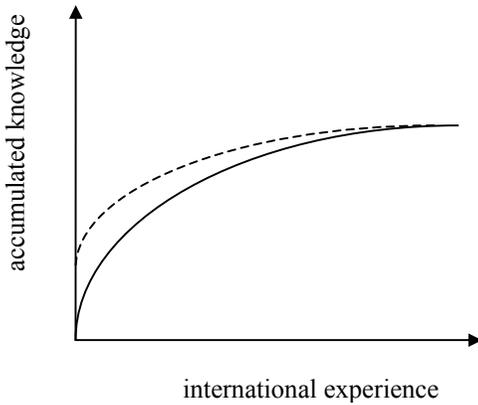


Figure 20. Relationship between accumulated knowledge and international experience (dashed line depicts the amount of knowledge in the case of existence of external sources of knowledge, bold line stands for own experience) (compiled by the author).

The reasons why firms internationalize vary. The interrelationships between this factor and the market and operational mode decisions are emphasized, for example, by Liuhto (see subchapter 1.1.2 and Figure 7). During the first stages of internationalization, firms are usually seeking new markets for their products and this is the primary motive. Therefore, the influence of this factor is likely to be marginal at the beginning of international activities. As the commitment to the foreign markets increases, the wider scope of activities becomes available. For instance, in the case of foreign investments Dunning has distinguished between four different motives (Dunning 2000, pp. 164–165; Dunning 2001, p. 44): market-seeking foreign investments, efficiency-seeking foreign investments, natural-resources-seeking foreign investments, and strategic-assets-seeking foreign investments. Thus, this factor gains importance as the internationalization process proceeds and a wider set of possibilities becomes available.

The third factor that influences the relative importance of different groups of reasons for de-internationalization is the costs related to closing down (some of) international operations (see also discussion in subchapter 1.2.2 and Appendix 10). According to the internationalization process models, firms increase their commitment to the foreign market in time. The costs caused by closing down the production plant are usually higher than the exit costs in the case of export operations. On the other hand, as the international experience grows, the firm knows better how to minimize the costs that arise with the full or partial dissolution of foreign operations. Thus, the influence of this factor is ambiguous and the effect depends on the level of commitment and experience, but it can be expected that the influence is highest at the middle level of internationalization.

The above discussion leads to the conclusion that in analyzing partial and full de-internationalization both at the level of a firm and along different dimensions, several aspects have to be taken into account. There are three main groups of reasons for de-internationalization and their relative importance depends on the stage of internationalization. Besides this, their impact is also influenced by the knowledge gained from external sources, the reason for internationalization, and exit costs. The next part of this dissertation concentrates on analyzing the relative importance of different groups of reasons for de-internationalization and the influence of the three abovementioned factors in the context of de-internationalization of Estonian manufacturing enterprises. Since most Estonian enterprises are still in the first stages of internationalization, lack of international experience is expected to be more influential than other reasons.

2. RESEARCH INTO THE REASONS FOR DE-INTERNATIONALIZATION OF ESTONIAN MANUFACTURING ENTERPRISES

2.1. Importance of de-internationalization activities in the Estonian manufacturing industry and description of the hypotheses and methodology

2.1.1. De-internationalization tendencies in the context of international activities of Estonian manufacturing enterprises

The issues related to internationalization of Estonian enterprises have been addressed by several researchers; therefore only the most important aspects of these processes are briefly discussed at the beginning of the present chapter as the overall context of internationalization forms a basis for analyzing reasons behind de-internationalization. Extensive analyses of the motives for internationalization, as well as the processes and influencing factors in Estonia have been carried out, for example, by Liuhto and Jumpponen (2002), Reiljan (2003b), Roolaht (2002a, 2002b), Varblane (2001), Varblane, Reiljan and Roolaht (2003), Vissak (2003).

By comparison with developed Western European countries, the different nature of the internationalization processes in transition countries derives from the experience and knowledge possessed by the enterprises involved. Enterprises in Western Europe have developed sequentially and have had time to get used to globalization processes of the world economy. Knowledge about foreign markets and commitment to international markets has accumulated step-by-step during a relatively long period of time. Most Central and Eastern European (CEE) countries, on the other hand, had neither private ownership nor knowledge about the business routines characteristic of market economies until recently.

There were differences even between the transition countries themselves; at the beginning of the transition processes, the CEE economies had quite unequal starting positions. For example, in the case of Estonia, before 1991 all foreign trade had been coordinated by Moscow and so knowledge about foreign activities was absent in this newly independent republic, while the Central European socialist countries, at the same time, were experienced exporters. Moreover, while private enterprises had been permitted in several countries (for example, Poland and Hungary), others had no market economy experience

whatsoever. So not only was there lack of foreign market experience, but also lack of knowledge of the local market. At the same time, due to globalization and integration, most firms in transition economies are now experiencing pressure to internationalize and the pace of internationalization processes is faster than predicted by the traditional sequential internationalization theories (Svetličič, Rojec 2003, p. xxix). This lack of experience and pressure to find markets for their products abroad may easily result in wrong decisions, causing de-internationalization.

The internationalization of Estonian enterprises started at the beginning of the 1990s. By comparison with several other CEE countries, this process has been somewhat more accelerated in Estonia. There are two main reasons for this. At first, the local market is limited and thus does not offer many possibilities for expansion. This problem is acute especially in the case of those enterprises that were established in the Soviet period for servicing the whole market of the Soviet Union and therefore have large production capacity. After the dissolution of the Soviet Union, these large enterprises started to actively search for new opportunities in foreign markets. Due to the small size of the Estonian economy, the survival of those enterprises was extremely important as in most of the industries 1–2 big enterprises accounted for a large share of the output and lay-offs of employees, or closing down the production plants would have increased the instability of the whole economy. Fortunately, the producers from Finland, Sweden and several other Western European countries were interested in taking advantage of Estonian low level of production costs. Therefore most Estonian enterprises could relatively easily find new markets for their production.

The other aspect that has contributed to the acceleration of the internationalization processes in Estonian enterprises is that foreign direct investment (FDI) inflows into Estonia have been remarkable. In the privatization processes, foreign enterprises were allowed to compete on equal grounds with the local ones, which, as described above, in many cases helped solve several problems faced by large enterprises. Since foreign investors have contacts and distribution channels in foreign markets, their subsidiaries' entry to international markets is facilitated. An additional advantage is that foreign owners have gathered some experience in operating in international markets and can transfer at least some of this knowledge to their Estonian subsidiaries, exploiting it in combination with the local capabilities and low-cost inputs when expanding to new target markets. This additional knowledge from external sources is likely to decrease the influence of lack of knowledge as a reason for de-internationalization in Estonian manufacturing enterprises.

During the 1990s, most of the export in the transition countries was based on low labor costs. There were no remarkable differences in labor costs between the Central and Eastern European countries while differences with the developed countries were significant. For example, in 1995 there was a 10.5 times average difference between the wages in the Estonian and Finnish manufactu-

ring sectors (Reiljan, Varblane 2001, p. 8), which resulted in relocation of several activities from Finland to Estonia. Similar processes were evident in the case of Swedish enterprises that have transferred the manufacture of many labor-intensive products to Estonia. Likewise, there are several similarities between the developments in the other CEE countries. There too cost advantages made it possible to reorient the exports, especially of high quality goods, to the Western European markets,. However, continuous development throughout the years and integration with the European Union has resulted in the rise of labor costs and convergence of wage and cost levels. Therefore, several labor-intensive industries are now losing their competitive edge in international markets (see for example, the discussion about sustainability of labor-cost-based export competitiveness in Tamm 2004). Moreover, emergence of the new production opportunities in Asia further facilitates this process. This decline in competitiveness should be compensated for by switching to the manufacturing of capital-intensive and/or high-technology products, but in this area it is not easy to compete with the highly developed countries. Thus, drawbacks in terms of export activities can be expected during the forthcoming years in several industries and a rise in the role of poor performance and/or increase in production costs as the reasons behind de-internationalization is likely.

Until now most Estonian enterprises have used export in order to enter foreign markets. The outflows of foreign direct investments are increasing but they are still considerably smaller than the volume of export (see also Appendix 15). This suggests that most of the changes in commitment to foreign markets have taken place within one operational mode and therefore an analysis of de-internationalization in terms of the operational mode dimension should not take into account only radical changes (switch between different operational modes).

In the case of outward foreign direct investments in Estonia, the composition of main target markets has not changed considerably during the years and the fluctuations in terms of the relative share of different markets have been small. The most interesting target country for foreign investments is Cyprus in whose case the investments are not related with money laundering but indicate registration of ships. However, most of the foreign direct investments have been targeted to our neighboring countries Latvia and Lithuania (see Table 3). This choice of target markets is unsurprising since these are Estonia's neighboring countries with a similar level of economic development and strong linkages established during the Soviet period. Concentration to these markets has also been facilitated by the foreign owners of Estonian enterprises who are interested in their presence in all three Baltic States and have used Estonia as a platform for entering the Latvian and Lithuanian markets. However, a limited scope of foreign experience involves problems that may hinder further internationalization activities and may cause de-internationalization in the case of more distant target countries.

Table 3. FDI stock abroad by main target countries in 1998 and 2003

Country	1998		2003	
	EEK (th.)	%	EEK (th.)	%
Lithuania	612,256	23.0	5,656,729	44.7
Latvia	1,403,143	52.7	3,576,404	28.2
Cyprus	352,956	13.3	1,738,473	13.7
Italy			551,353	4.4
Russia	13,905	0.5	371,784	2.9
Ukraine	80,949	3.0	341,068	2.7
Finland	8,860	0.3	166,671	1.3
TOTAL	2,660,300	100.0	12,668,000	100.0

Source: Direct Investment Stock by Countries 2004.

As this dissertation focuses on analyzing the reasons for de-internationalization of Estonian manufacturing enterprises, the share of outward investments into the manufacturing sector is of great relevance. Table 4 shows that only 7.3% of the FDI stock is targeted to this sector (see also Appendix 16 for detailed data of the period 1998–2003). While the volume of investments has increased, the share has been stable. Over the last years, major developments have taken place in the fields of transport, storage, communication, and real estate. The relatively modest position of investments into manufacturing may be attributed to the foreign owners' policies, the weakness or lack of competitive advantages, and/or the lack of financial resources. The mutual closeness of the Baltic markets has also limited the volume of investments into manufacturing since it is possible to serve all three markets from one production plant without incurring considerable transportation costs. When analyzing the foreign investments related reasons for de-internationalization of Estonian manufacturing companies, it has to be borne in mind that the share of foreign investments into manufacturing is not high and therefore the number of firms to be included into the analysis is likely to be small. It must be pointed out that several Estonian manufacturing companies have preferred to establish sales subsidiaries rather than invest into manufacturing.

Table 5 gives an overview of the main developments in Estonian exporting activities. As can be seen, the export volume has increased in most cases. The only exception is Russia, which has faced a significant decrease in export volume, as a result of which its share among Estonia's main export partners has declined during the period under observation. There have been mainly positive developments in the case of other markets.

Table 4. FDI stock abroad by the field of activity in 1998 and 2003

Field of activity	1998		2003	
	EEK (th.)	%	EEK (th.)	%
Finance	1,519,350	57.1	4,822,253	38.1
Transport, storage, communication	509,100	19.1	3,211,155	25.3
Real estate, renting and business activities	199,147	7.5	2,316,725	18.3
Wholesale, retail trade	184,933	7.0	933,679	7.4
Manufacturing	191,777	7.2	925,297	7.3
Construction	21,537	0.8	135,932	1.1
TOTAL	2,660,300	100.0	12,668,000	100.0

Source: Direct Investment Stock by Fields of Activity 2004.

Table 5. Export to the main target countries in 1995 and 2003

Country	1995		2003		Change (times)
	EEK mio.	%	EEK mio.	%	
Finland	4,431.2	23.3	16,203.5	25.9	3.7
Sweden	2,250.3	11.8	9,520.3	15.2	4.2
Germany	1,388.4	7.3	6,177.4	9.9	4.4
Latvia	1,417.9	7.4	4,393.7	7.0	3.1
Great Britain	627.6	3.3	2,610.7	4.2	4.2
Denmark	625.8	3.3	2,444.8	3.9	3.9
Russia	3,114.0	16.4	2,439.9	3.9	0.8
Lithuania	852.9	4.5	2,340.5	3.7	2.7
Norway	362.0	1.9	2,245.7	3.6	6.2
Netherlands	827.8	4.3	1,890.1	3.0	2.3
USA	482.9	2.5	1,552.8	2.5	3.2
TOTAL	19,042.6		62,531.4		3.3

Source: General Exports ... 2004; author's calculations.

It was pointed out earlier that in their outward foreign investment Estonian enterprises have mainly concentrated on Latvia and Lithuania. The data about export activities indicate similar tendencies – 41% of the foreign sales are targeted to Finland and Sweden. This concentration is in many cases inevitable due to either the foreign owners' policies or the limited production capacity of the Estonian enterprises that does not allow them to service several markets simultaneously. Moreover, this concentration enables gathering of detailed

market-specific knowledge, thus increasing competitiveness in these markets. On the other hand, Estonian enterprises are highly dependent on the growth of these markets and thus negative developments in the target markets have wider repercussions than merely influencing the success of foreign activities. For instance, some industries have faced several setbacks in demand in these markets and have been forced to diversify their foreign activities through increasing the number of target markets. However, it is not easy under the time pressure deriving from decline in demand as the international experience is still relatively poor and application of the knowledge gathered from the comparatively well-known neighboring countries is difficult in other regions.

To sum up, both in the case of foreign investments and exports, foreign activities have been concentrated to a small number of target markets and this may cause de-internationalization either from these markets in case of decline in demand or from the other countries as the firms do not know how to apply their earlier experience in new contexts. On the other hand, most of the foreign activities are targeted to neighboring countries and therefore the lack of knowledge as the reason behind de-internationalization of Estonian enterprises is not necessarily more influential than other motivations.

In the recent past, Estonian enterprises have faced difficulties in their foreign activities at a market they were familiar with and had strong trade linkages inherited from the Soviet period. Namely, a drastic fall in exports to Russia took place in 1998 and 1999 during the Russian crisis, after which the export has not recovered yet (see Figure 21 for the developments in export volume). The decline was caused mainly due to the devaluation of the Russian rouble and the imposition of double-tariffs on Estonian products. The industries that lost their positions in the Russian market are mainly in the food sector – the export of meat, fish and dairy products has declined significantly. Before the crisis, these sectors constituted a significant share of exports to the Eastern market. The previous results indicate that a bigger wave of de-internationalization from Russia took place in 1998–1999. After these years only competitive enterprises with a sufficient knowledge base have been active in Russia. In the case of these enterprises de-internationalization due to the lack of experience is rather unlikely.

Now that the crisis is over, the Russian market is growing but it is difficult to find a competitive edge in it as the production costs in these abovementioned sectors of the manufacturing industry have increased due to the sizable investments made during the integration into the European Union to meet the latter's high sanitary standards. Because of these above aspects, Estonian companies have no price advantages in this target market. On the basis of the country of origin effect other countries have advantages by comparison with Estonia in most product categories (one of the exceptions being dairy products in which Estonian goods have a good reputation and are highly valued). Therefore, it is not easy to find a competitive edge and suitable niche in the Russian market. In addition to the abovementioned aspects, several Estonian firms have little

knowledge of and experience in operating abroad and also lack such financial resources as are possessed by firms from developed countries. Also, several Estonian businessmen tend to be overly confident about their knowledge of the Russian market, ignoring the fact that many changes have taken place in the last decade (similar tendencies are also reported in the case of U.S. firms entering the Canadian market – see O’Grady and Lane 1996 for a detailed discussion). This overconfidence often results in poor analysis of the market and therefore several firms have failed in (re-)entering this market. Thus, differences in the reasons behind de-internationalization between these enterprises that have entered the Russian market after the crises as compared to those that have been active there for a longer period are likely.

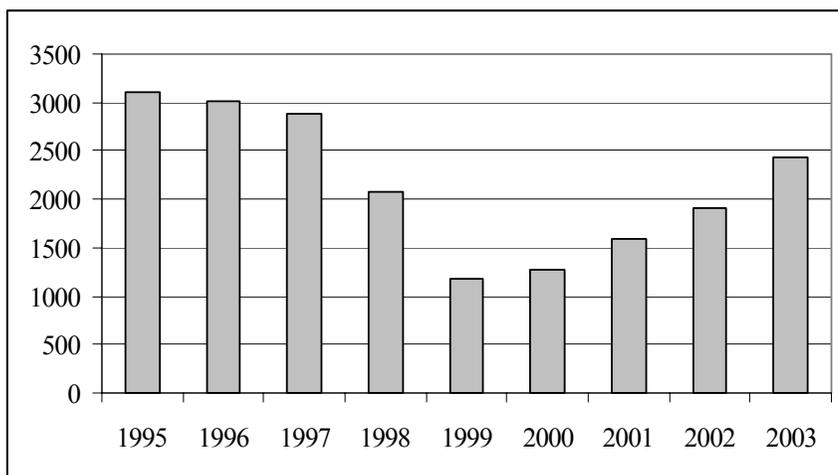


Figure 21. Estonian exports to Russia, in millions of kroons (General Exports ... 2004).

The share of export sales in turnover differs significantly between the sectors of the manufacturing industry (see Appendix 17). Tanning and dressing of leather and the manufacture of motor vehicles and transport equipment were highly internationalized sectors already in 1996, while most other sectors and enterprises only started their international activities then. The speed of internationalization⁸ is also an important aspect to be taken into account. Figure 22 indicates that the highest speed has been reached by the textile manufacturers, followed by wood processing and office, electrical, radio and medical equipment producers.

⁸ Wagner defines the speed of internationalization as a change in the degree of internationalization (foreign sales divided by the total sales) during the period under examination (Wagner 2004, p. 452).

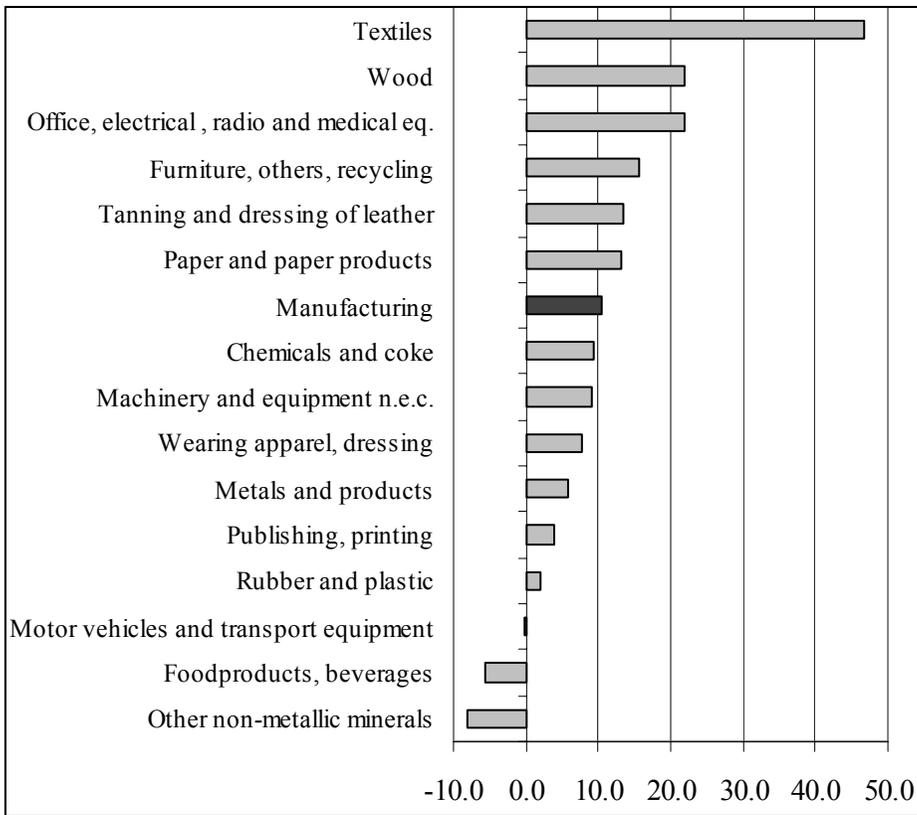


Figure 22. Speed of the internationalization⁹ of the Estonian manufacturing industries during the period 1996–2002 (author’s calculations on the basis of Aggregated Data ... 2004).

The main reason for the rapid rise in the importance of foreign markets in these sectors is the activities of foreign investors who use the production of these industries as input in their production plants in other countries or guarantee the market for the production through their distribution channels. In the textile industry, Borås Wäfveri AB has transferred all its production from Sweden to Estonia to Krenholm Ltd. and its production has been marketed in several foreign markets. As the net sales of Krenholm constituted about 35% of the net sales of the industry, the activities of this company influence significantly all the data of this sector. A similar situation is also in the two other above-mentioned industries. In the wood sector, Stora Enso acquired majority owner-

⁹ Wagner defines the speed of internationalization as a change in the degree of internationalization (foreign sales divided by the total sales) during the period under examination (Wagner 2004, p. 452).

ship in the leading Estonian wood manufacturer Sylvester Ltd. in 2002 and after that a rapid increase of international activities has taken place both in terms of export and establishment of foreign subsidiaries. In the case of office, electrical, radio and medical equipment manufacturing, Elcoteq Tallinn Ltd., a subsidiary of Elcoteq Network Corporation, determines the trends in the sector. Therefore, knowledge from external sources and foreign investors' strategies significantly influence the changes in commitment to the foreign markets in the case of these enterprises and industries.

It is interesting to note that while in most sectors the share of exports in turnover has increased, there are two – food products and beverages, and other non-metallic minerals (mainly construction materials) – where there has occurred a decline and focusing on the local market. In the case of food industry, net sales have risen 1.4 times during the period 1996–2002 and the speed of home market growth is considerable as the 1.5 times growth is reported. During the period, the manufacture of other non-metallic minerals has faced even a higher growth rate both in net sales (2.6 times) and especially in the sales in the home market (2.9 times). Home-market growth and presumably also the limited production capacity have caused a decrease in the ratio of export sales to turnover. However, as it was already pointed out above, these industries have also suffered due to the Russian crisis; without the latter, the developments would have been more impressive. In short, various reasons have simultaneously influenced the de-internationalization activities in these industries.

Now, taking into account the developments in the international activities of different sectors, four groups of industries can be distinguished, depending on their level of internationalization in 1996 and 2002 as compared to the manufacturing industry average (see Table 6). There are six industries in the first group where both in 1996 and 2002 the share of foreign sales was higher than the manufacturing industry average. These sectors' export constituted 41% in 1996 and 36% in 2002 of all manufacturing export sales. As the internationalization process of these industries has been the fastest, lack of knowledge and experience may easily appear to be a significant reason behind de-internationalization of enterprises belonging to these sectors.

The second group, where the share of export has dropped below the industry average, exported 11% of manufacturing production in 1996 and 13% in 2002. At the same time, these sectors experienced high growth both in the home market (2.6 times) and export sales (3.3 times) during the period and therefore this slight change does not indicate the lack of competitiveness of these sectors in the foreign markets. The main reasons behind the developments in international activities in the third and fourth groups of industries, where the average level of export sales in turnover was below the manufacturing industry average at the beginning of the period under investigation, were already discussed above.

Table 6. Export share in the turnover of the sector as compared to the manufacturing industry average in 1996 and 2002

		2002	
		Above manufacturing industry average	Below manufacturing industry average
1996	Above manufacturing industry average	<ul style="list-style-type: none"> • Paper and paper products • Chemicals and coke • Furniture, others, recycling • Wearing apparel, clothing • Motor vehicles and transport equipment • Tanning and dressing of leather 	<ul style="list-style-type: none"> • Metals and products • Machinery and equipment n.e.c. • Rubber and plastic
	Below manufacturing industry average	<ul style="list-style-type: none"> • Wood • Office, electrical , radio and medical equipment • Textiles 	<ul style="list-style-type: none"> • Publishing, printing • Food products, beverages • Other non-metallic minerals

Source: author's calculations on the basis of Aggregated Data ... 2004.

It is often argued that international activities of Estonian enterprises depend on the existence of foreign owners and on foreign owners' strategies (see, for example, Lättemägi 2003, p. 245; Reiljan 2003a, p. 150; Roolaht 2002b, pp. 125–126; Vissak 2003, p. 135). Figure 23 summarizes the average level of foreign capital penetration in the groups of industries described above. It appears that the first group of firms with above-average export share in turnover in both periods indeed had a higher share of foreign ownership in 1996. The influence of foreign ownership can therefore easily apply as the main explanatory variable, but since detailed data are available only for the period 1996–2002 and do not cover earlier years, it is not possible to determine the direction of a causal relationship and therefore it is unclear whether the firms have internationalized rapidly due to foreign ownership or whether foreign owners have been attracted to firms that have developed at a greater pace. However, the existence of foreign owners is likely to decrease the influence of lack of knowledge as a motivator for de-internationalization in the case of rapid internationalization processes.

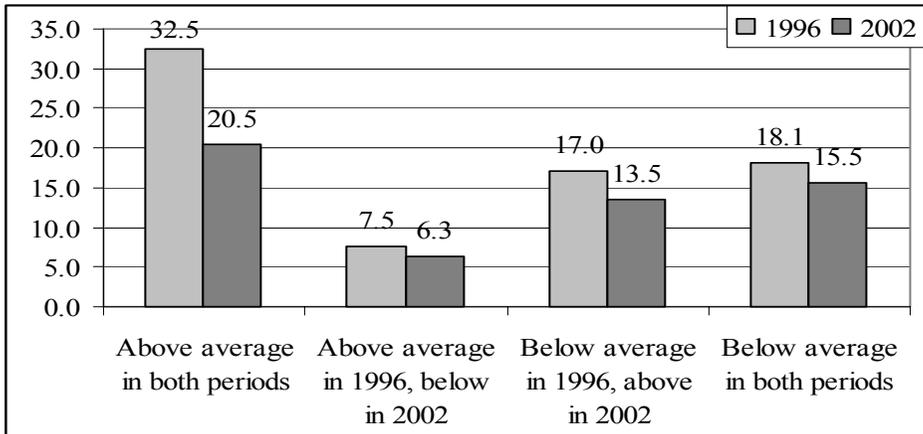


Figure 23. Foreign capital penetration in total fixed assets (%) in industries with different levels of internationalization (author's calculations on the basis of Aggregated Data ... 2004).

In conclusion, Estonian enterprises have mostly internationalized through export activities and the outward foreign investment flows have been modest. Therefore, the experience of operating production affiliates abroad is small or in several industries even absent. However, the volume of investments abroad has increased over the years and the data do not suggest that there have been significant de-internationalization activities in the case of foreign subsidiaries. The export data present a slightly different situation as there has been a decrease in both export volume and share in the case of Russia. Aggregated data about the Estonian manufacturing industry suggest that besides the Russian crisis, growth of the home market applies also in several cases as the reason for the decrease in foreign activities. On the other hand, the role of foreign ownership in international activities of the Estonian enterprises will be further analysed in the following parts of this dissertation.

2.1.2. Development of the research hypotheses and introduction of research methodology

The following hypotheses are based on the discussion presented in the first part of the dissertation and take into account Estonia's situation. The framework of reasons behind de-internationalization that was developed in subchapter 1.3.2 suggested that there are three main groups of reasons – lack of international experience, change in strategy, and increase in costs and/or poor performance – and three influencing factors that have impact on the decision to de-internationalize (see also Figure 18 in subchapter 1.3.2). According to this

classification, the hypotheses can be divided into two groups (see Table 7). The first one concentrates on analyzing the importance of different groups of reasons causing de-internationalization, while the focus of the second group of hypotheses is on analyzing the influence of knowledge from external sources, reasons for internationalization, and costs related to de-internationalization.

Table 7. The general logic of research hypotheses

REASONS FOR DE-INTERNATIONALIZATION		
<i>HYPOTHESES 1–7</i>		
Lack of international experience <i>H1–H4</i>	Change in strategy <i>H5–H6</i>	Increase in costs, poor performance <i>H7</i>
INFLUENCING FACTORS		
<i>HYPOTHESES 8–10</i>		
Additional knowledge <i>H8–H10</i>	Reason for internationalization	Costs of de-internationalization

Data in the last subchapter indicated that several Estonian firms are still in the first stages of their international activities and therefore lack of international experience as a reason for de-internationalization is likely to be influential. Because of this, there are four hypotheses concentrating on the analysis of different aspects of this group of reasons. At the same time, an increase in costs and poor performance are still gaining importance and due to this and some limitations in data only one hypothesis addresses this group of reasons. The data sets limits also on analyzing the role of the influencing factors – only the impact of additional knowledge as an influencing factor is discussed. The reasons for internationalization and costs related with withdrawals are not considered in the empirical analysis in this dissertation.

Lack of international experience is the first group of de-internationalization reasons addressed in the empirical analysis since it is believed to be the most influential in the case of Estonian enterprises. The internationalization process models that were discussed in subchapters 1.1.1 and 1.1.2 suggest that there is a lack of foreign experience and target market knowledge at the beginning of foreign activities. Apart from being inexperienced in international markets, these firms usually do not know exactly, what are the best marketing strategies that could be put to use in the target market. Sometimes the need for adaptation of marketing mix is not perceived at all or is thought to be too expensive. Furthermore, several firms are not ready to make sufficient commitments to the target market at the beginning of the internationalization process.

Similar argumentation is also presented by Larimo, who claims that in the case of longer experience in foreign markets firms learn to find the most appropriate target markets and are able to interpret correctly the market signals

and fluctuations. He suggests that both international and country-specific experience have to be taken into account. (Larimo 1998, pp. 14–15) The importance of knowledge and commitment to exporting on export success is also pointed out by Koh (1991, p. 53). To sum up, due to the relative absence of both experiential and market-specific knowledge in Estonian manufacturing enterprises, de-internationalization is likely in those firms that are in the first stages of internationalization. Therefore the following hypothesis is set up:

H1: De-internationalization is more likely in the first stages of internationalization.

Several arguments have been presented to support the hypothesis that de-internationalization depends on the distance of the target market (see also subchapter 1.2.1). Firstly, in the case of distant markets, the knowledge about them tends to be relatively superficial and much more difficult and/or costly to acquire. This means that wrong decisions are easier to follow. Next, another aspect is related to coordinating and monitoring of the activities in these markets – it is usually easier in the near markets. The third aspect focuses on the exit barriers. Namely, the perceived exit barriers are lower in the case of distant markets as the knowledge about these markets, and often also the emotional detachment, is smaller (see, for example, Larimo 1998, p. 13). Subchapter 2.1.1 indicated that Estonian firms have mostly focused their activities on nearby markets and therefore the knowledge about more distant markets is modest. Taking all these aspects into account, it is reasonable to assume that:

H2: De-internationalization is more likely in the case of distant markets than near ones.

The size of the firm is an important aspect to be considered in expanding within the home market and it is even more influential in the case of foreign expansion. Small firms have usually less expertise in foreign markets as the number of employees that can contribute additional knowledge is smaller (see also subchapters 1.1.1 and 1.1.2). Furthermore, the attention paid to foreign operations in small firms is likely to be insufficient due to the small number of employees. There are two additional aspects that should be taken into account in the case of small firms. Firstly, they usually do not have enough resources for adapting the product to the needs of the target market. Secondly, the production capacity of these firms is relatively small and because of this effective servicing of several markets is often impossible. Previous research on divestments has also suggested that the size of the firm is an important determinant (see, for example, Chen, Wu 1996, p. 179). These aspects are likely to apply also in the case of Estonian manufacturing firms since most of the firms are small. Therefore, it can be expected that:

H3: De-internationalization is more likely in the case of small firms than big ones.

The fourth hypothesis takes into account the particular features of internationalization of the Estonian enterprises. Namely, during the Soviet period, the production of Estonian manufacturing enterprises was targeted to the eastern market and some of these relationships survived the collapse of the Soviet Union. However, due to the transformation processes, most of the enterprises dissolved their activities in the eastern markets for several years and concentrated on privatization and restructuring. After they had accomplished these latter objectives, they found large eastern markets to be the most attractive and familiar. Many Estonian businessmen had (and some of them still have) the illusion that they knew the Russian market and were aware of all the opportunities and threats it involves (this aspect was discussed also in subchapter 2.1.1). They ignore the fact that since 1990 the situation has changed considerably, whereas the processes have not been exactly similar to those that have taken place in Estonia. An analogous approach is also pointed out by Chetty (1999, p. 133) in the case of New Zealand firms exporting to Australia, and Björkman describes the situation where managers are overconfident about their capabilities and control as the “illusion of control” (Björkman 1990, p. 280).

Because of this overconfidence, firms do not pay enough attention to pre-internationalization analysis of the eastern markets and therefore wrong decisions have often been made. Furthermore, the possibility to gain some additional knowledge from external sources (for example, from foreign investor) does not necessarily decrease the probability of de-internationalization, since there are big differences in foreign market entry processes in the case of Eastern European markets as compared to traditional foreign market entry processes (this is suggested by Ghauri and Holstius 1996, p. 87). At the same time, western markets are perceived to be different as compared to the business practices that dominated in the Soviet Union. Therefore decisions are usually based on a deeper analysis. As a result of this argumentation, it is reasonable to assume that:

H4: De-internationalization is more likely in the enterprises which have directed their production to the Eastern European markets than in those that have sent their production to the western markets.

Change in strategy may also cause de-internationalization (see for example, subchapters 1.2.1 and 1.2.2). In the present dissertation, this group of reasons is represented by two hypotheses. First, possible changes in strategy are analyzed in the context of changes in ownership. The database to be employed in the empirical analysis covers the period 1996–2002. In Estonia, most enterprises were privatized before 1996 and therefore there are only a few cases in the

database where state ownership was replaced by private ownership. Because of this only changes from local to foreign ownership and *vice versa* are considered.

In Estonia, foreign investors have mainly been interested in exploiting the advantage of low production costs (see, for example, Reiljan 2002, p. 112) and so the exported production is in most cases targeted either at their home country and/or at some of the parent company's target markets. Thus it can be expected that the number and composition of target markets will also change after the change of ownership. De-internationalization may likewise appear in the case when the foreign investor decides to concentrate on servicing the local Estonian market. If there are no changes in the ownership, radical changes in strategies are less likely and therefore it can be suggested that:

H5: De-internationalization is more likely in case there is change in ownership within the period.

The second aspect that can lead to a change in strategy and cause de-internationalization is the growth of the home market (see subchapter 1.3.1). During the Soviet period, several Estonian enterprises were established for servicing the large Soviet market with a particular product. After independence was regained, these enterprises faced a situation in which they had a large production capacity, but the local demand, due to the low income level, was either small or even completely absent. This forced them to search actively for new markets abroad and several of them succeeded in finding them. By now the situation in the local market has changed as the purchasing power and living standards have risen significantly, which has resulted in larger demand. Hence, several firms can now concentrate on the local market again (Figure 22 and discussion in the previous subchapter suggested similar tendencies). This discussion leads to the following hypothesis:

H6: De-internationalization is more likely in the case of rapid growth in the domestic market.

The following hypothesis concentrates on analyzing the importance of costs as a reason for de-internationalization. As discussed already in subchapter 1.3.1, the increase in costs is likely to result in dissolution of foreign activities. The firm may lose its competitive edge in some markets or in the worst cases even in all target markets. In Estonia, the share of high-tech production is modest and most of the foreign activities are based on cost advantages (this was pointed out already in subchapter 2.1.1). However, differences in production costs between Estonia and its main target markets are decreasing and if the transportation costs are taken into account, the cost advantages have already been lost in some industries (Reiljan, Varblane 2001). Therefore it could be expected that:

H7: De-internationalization is more likely in the case of rapid increase in costs or decrease in operating profit.

All the following hypotheses are set up in order to analyze the influence of additional knowledge from external sources on the de-internationalization decision (Figure 4 in subchapter 1.1.1 presented an overview of the main sources of additional knowledge). As the lack of knowledge is expected to be the main deterrent for foreign activities in the Estonian manufacturing industry, the impact of outside sources of knowledge is expected to be significant and therefore several hypotheses are set up for controlling these effects.

Foreign investors have contributed to the Estonian economy by transferring new technology and know-how (Ghauri, Holstius 1996, p. 75; Männik 2001, p. 180). Often knowledge of foreign markets and international operations is also the subject of transfer. Thus, foreign-owned firms are expected to have more knowledge about international markets than the firms based on Estonian local capital. Furthermore, it has to be considered that in several cases local subsidiaries of multinational enterprises do not have to carry out international marketing operations by themselves, this being exclusively the responsibility of the headquarters (Elenurm 1999, p. 2). In such cases the firms do not need to possess knowledge of foreign markets and previous experience. The previous subchapter also indicated that foreign capital penetration is higher in the case of those firms which have export share in turnover above the industry's average. Therefore the following hypothesis is set up:

H8: De-internationalization is more likely in the case of locally-owned firms than foreign-owned firms.

The internationalization level of firms and industries differs to a large degree (Appendix 5 presents the framework suggested by Johanson and Mattson for distinguishing between different levels of internationalization). As a result, the pressure to the firm to internationalize varies as well. If a firm belongs to a highly internationalized industry, it faces intense pressure to expand its activities to foreign markets (see, for example, Bloodgood *et al.* 1996, p. 62; Madsen, Servais 1997, p. 572), or it may easily lose its competitive edge even in the local market. Thus, the firm is forced to internationalize and under the time pressure errors in choosing the target market, selecting the operational mode, etc. are likely to occur. The same might apply in the case where the market is international (see, for example, Jones 1999; Madsen, Servais 1997, p. 576). Another aspect that calls for attention here is that regardless of the possibility to get market knowledge from the firms belonging to the same industry as the local firm, these firms that entered the particular market earlier have several advantages, which is why the survival rate of new entrants is likely to be lower (see, for instance, Shaver 1998, p. 578). Table 6 that was presented in subchapter 2.1.1 indicates that there are several differences in the export share in

turnover between different Estonian industries and thus it is important to analyze the role of a firm's and industry's internationalization level on the decisions to de-internationalize. Therefore:

H9: De-internationalization is more likely in the case of new entrants to the foreign markets who are active in the industry that is highly internationalized.

On the other hand, de-internationalization is also likely to appear in such cases where the firm is already active in international markets but the industry as a whole is not internationalized at all. The argumentation behind this statement is that the firm has to gain both experimental and market knowledge by itself and network support is rather unlikely. For example, Bonaccorsi (1992, p. 629) claims that in the case of small firms, collective experience is the most important determinant for a decision to export or to increase commitment. Analogous argumentation can also be found from Chang (1995, p. 391) who suggests that belonging to a business group and gaining knowledge about foreign markets from the other members of the group will lower the risks and will promote foreign entry. The importance of knowledge acquisition from other firms is also emphasized by Eriksson, Johanson, Majkgard and Sharma (1997, p. 344). This argumentation leads us to the following hypothesis:

H10: De-internationalization is more likely in the case of firms active in the industry that is not internationalized at all.

All these hypotheses are going to be addressed in the subsequent parts of the dissertation. However, as the data employed do not enable us to control the validity of all hypotheses both in the case of large datasets and case analyses (see Table 8), some aspects need further confirmation in the following studies.

To validate the above hypotheses, three different sources of data is going to be employed. Firstly, the database of the Estonian manufacturing enterprises covering the period 1996–2002. The importance of different reasons behind de-internationalization is in the case of this data analyzed by using multinomial logistic regression analysis. Secondly, the data gathered by the Estonian Export Agency and Enterprise Estonia in 2001 and 2004 about the target markets of Estonian exporters. In this case an ANOVA analysis is going to be applied to identify whether there exist any differences between those firms that have de-internationalized from particular markets and other ones. In subchapter 2.3, the results of 5 case studies of Estonian firms that have de-internationalized (some of) their foreign operations are presented and discussed. In order to gather detailed information about the case firms, interviews are going to be conducted and an extensive search in secondary sources of data is going to be carried out.

Table 8. Coverage of research hypotheses in the following parts of the dissertation

Part of the dissertation	Hypotheses									
	1	2	3	4	5	6	7	8	9	10
Subchapter 2.2.1	X		X		X	X	X	X	X	X
Subchapter 2.2.2	X	X	X	X		X	X	X		
Case studies	X	X			X	X	X			

There are differences in the depth of the information gained from different sources. The case study analysis enables us to provide in-depth information and managers’ opinions about the main motivations behind withdrawals from foreign markets. The other sources create a more general frame and context for this understanding (see Figure 24). In the following analysis, movement from general sources of data towards more specific ones is applied.

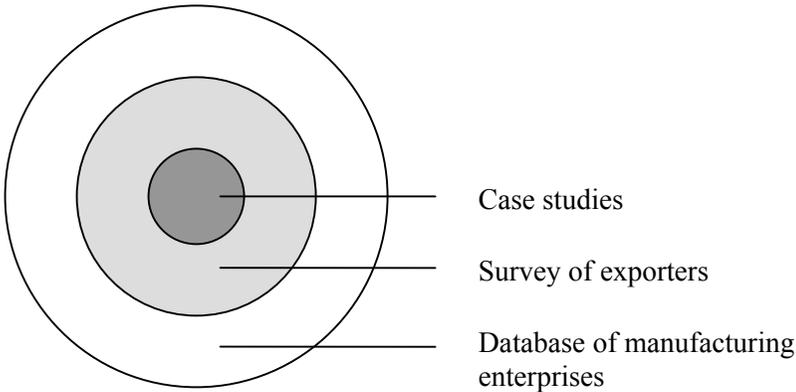


Figure 24. Different layers of analysis of the reasons for de-internationalization of Estonian manufacturing enterprises.

Differences in the data can be characterized, for instance, by the ability to grasp changes in a firm’s commitment to international markets within and along different dimensions (see also Figure 2 in introduction). While the database of the manufacturing enterprises enables us to follow only the movements within operational mode, surveys of exporters also provide information about the target market path (see Table 9). The superiority of information that is collected through case studies comes from the fact that the latter let us follow the changes both within and between operational modes and along the target market path.

Table 9. Coverage of changes in commitment to international markets by different sources of data

	Operational mode pattern		Target market pattern	
	Establishment path	Within the operational mode	Number of markets	Distance of markets
Database of manufacturing enterprises		X		
Surveys of exporters		X	X	X
Case studies	X	X	X	X

In the following analysis, both quantitative and qualitative research methods are applied. This allows between-method triangulation, thereby enabling us to test the degree of external validity of research findings and contributing to getting more comprehensive knowledge about the research object (Jick 1979, pp. 603–604; Miller, Fox 2004, p. 36). Moreover, the limitations of one method can be in this case compensated for by the counter-balancing strengths of another (Huettman 1993, p. 42) and if we get similar results through different methods, we can be more confident about the validity of our findings (Stoecker 1991, p. 106).

The multi-method approach entails also some problems, one of them being the difficulty of deciding whether all components of the approach should be weighted equally. If the latter applies, determination of weights is likely to be subjective (Jick 1979, p. 607). In this dissertation higher importance is appointed to the case studies since the information gained from them is more detailed and allows analysis of the core of the research problem.

Unfortunately, the following analysis does not cover the foreign investments activities equally well with export activities. There are several reasons for that. Firstly, Estonian manufacturing enterprises have mostly internationalized through export activities while the share of direct investments has been relatively modest. Secondly, the survey “Outward Foreign Direct Investments in Estonia 2001” that was completed in 2001 by the Faculty of Economics and Business Administration of the University of Tartu had 70 respondents and covered 46.3% of all Estonian outward foreign direct investments, but there were only 19 manufacturing firms in the sample. Since 5 of them did not provide the necessary information about their foreign subsidiaries, the number of firms that can be analyzed herein is 14. Only 3 of the firms had de-internationalized some of their activities. Due to the small number of observations the results of this survey are not discussed.

2.2. De-internationalization activities in the Estonian manufacturing enterprises

2.2.1. Reasons for export withdrawals by the Estonian manufacturing companies

The following subchapters of this dissertation will concentrate on analyzing the reasons behind the de-internationalization decisions of Estonian manufacturing firms. At first, the de-internationalization activities of exporting firms are going to be analyzed. The database of Estonian manufacturing enterprises that contains balance sheet data for the period 1996–2002 provides a good opportunity for that. It includes 325 enterprises; 18 of them had no export activities and were removed, leaving us with 307 observations.

Table 10 indicates that the sample formed by the Estonian Statistical Office encompasses aggregated data relatively well if we take into consideration that this dissertation concentrates on analyzing the international activities of enterprises. On average, the data covers 64% of 1996 export sales and 49% of 2002 export sales. However, there are relatively large variations in terms of different industries, e.g., in the case of rubber and plastics in 1996, and textiles in 2002 there is information only about a third or even less of the export activities. On the other hand, most of the foreign sales are covered in the case of other non-metallic minerals (92%) in 1996, and paper and paper products (94%) in 2002.

Appendix 18 shows that despite these variations, the distribution of the aggregated and sample data is similar. The manufacture of food products and beverages is marginally overrepresented in the sample, while wood industry is underrepresented, but the differences are not large. Therefore it can be concluded that the sample fits the aggregated data reasonably well and can be used for drawing conclusions about the international activities of the Estonian manufacturing enterprises.

There is no agreement among researchers about what can be the best measure for describing the rate of internationalization and commitment to foreign markets (see detailed discussion from Vissak 2004). For instance, Sullivan has suggested a composite variable for measuring the degree of internationalization (Sullivan 1994, pp. 331–332, 337) but Ramaswamy, Kroeck and Renforth have an opinion that this summed index is not proper for measuring internationalization due to the latter's multi-dimensional nature. They agree that a composite measure is needed, but argue that the measure suggested by Sullivan lacks theoretical foundations and empirical support. (Ramaswamy *et al.* 1996, pp. 170, 176) Due to this disagreement among researchers, the simplest variable – share of exports in sales – has been used extensively by several researchers (see an excellent overview in Sullivan 1994, pp. 328–329) and is also going to be made use of in the following analysis. However, this indicator is exploited together with the volume of export in order to describe better the

changes in commitment to the foreign markets since only one variable may easily lead to wrong conclusions.

Table 10. Representation of the aggregated data by a sample (%)

	Number of companies	Sales 1996	Sales 2002	Export 1996	Export 2002
Food products, beverages	14.9	56.6	59.8	60.5	57.8
Textiles	9.4	20.2	25.4	44.4	23.0
Wearing apparel, clothing	9.4	47.2	50.3	54.8	57.0
Tanning and dressing of leather	19.7	74.4	81.0	84.8	87.9
Wood	5.9	41.1	34.4	75.0	36.7
Paper and paper products	10.8	47.9	68.5	74.2	93.9
Publishing, printing	4.1	35.8	33.6	50.3	53.1
Chemicals and coke	12.0	42.3	45.9	59.1	55.6
Rubber and plastics	5.8	30.8	24.8	38.6	28.3
Other non-metallic minerals	12.8	67.1	65.7	91.8	75.6
Metals and products	8.2	43.6	31.1	47.8	40.7
Machinery and equipment n.e.c.	7.4	35.3	35.4	63.3	60.6
Office, electrical, radio and medical equipment	5.4	31.0	34.7	63.9	47.5
Motor vehicles and transport equipment	8.9	77.3	45.9	89.0	64.0
Furniture, others, recycling	10.9	59.2	53.8	71.9	54.7
Manufacturing	8.7	48.2	44.9	63.8	49.3

Source: author's calculations on the basis of Aggregated Data ... 2004 and Estonian Manufacturing ... 2004.

Consequently, as the following step, 307 enterprises in the sample are divided into four groups (see Table 11). Both export volume and export share have increased in 164 enterprises' turnover – therefore these firms' commitment to the international market has grown. International activities have also intensified in group 2 comprising 62 enterprises, but in their case home market growth has been even more rapid, which has led to a decline of the share of export sales in turnover. There are 81 enterprises where export withdrawals have taken place – group 3 with 5 and group 4 with 76 enterprises. Hence, de-internationalization is taking place more often than usually perceived as 25% of the firms have faced a decrease in export.

Table 11. Division of the firms in the database

		Export volume	
		increasing	Decreasing
Export share in turnover	increasing	Group 1 164 enterprises	Group 3 5 enterprises
	decreasing	Group 2 62 enterprises	Group 4 76 enterprises

Source: calculations by the author on the basis of Estonian Manufacturing ... 2004.

It is interesting to note that most firms producing machinery and equipment, metals and products, furniture, and wearing apparel have managed to increase their volume of export during the years (see Appendix 19). At the same time, manufacturers of chemicals and chemical products, and publishing and printing represent the other end – a significant number of firms in these branches have withdrawn (some of) their export activities.

Calculations reveal that the average share of export in turnover varies between 40.8 (group 1) and 76.1 (group 2) per cent in different groups of firms. So all the groups are in the stage of developed export (there are naturally some variations in the internationalization level of different firms within the groups but they are not significantly different between the groups). Therefore, there is no clear evidence that mistakes in pre-export analysis and/or sporadic export activities cause export withdrawals by the Estonian manufacturing firms.

However, in dividing firms into different stages of internationalization, several approaches are applicable and here occur similar problems as in the case of measuring the degree of internationalization. Namely, there is no widely recognized classification. For example, Riahi-Belkaoui suggests that if a firm's international sales constitute more than 44 per cent of its overall sales, the firm is highly internationalized, while in the opposite case its internationalization level is low (Riahi-Belkaoui 1996, p. 371). As this number and also other similar approaches are relatively arbitrary, an approach that takes into consideration the relative level of internationalization of the firm compared to the industry's level seems more reliable.

Therefore the firms are divided into groups according to the classification suggested by Johanson and Mattson (1988: 298) (see Figure 25 and Appendix 5). For determining the internationalization level of the industry, it was compared to the average level of export share in sales in the Estonian manufacturing industry (38.3%) in base year 1996 and a similar approach was used in the case of firms where the level of internationalization was compared to the industry average (ranging from 3.4% in publishing and printing to 68.2% in tanning and dressing of leather). It can be expected that in the case of early and late starters sporadic export activities and mistakes in analysis before internationalization have caused withdrawals from the foreign markets but the

results indicate that these firms constitute only about one third of the cases where the export volume and share have both decreased. Therefore, this argument behind withdrawals does not get significant support from here. Somewhat surprisingly, lonely internationals have the highest share of about 45%, which raises the issue of the importance of knowledge from other network members. The other 21% are internationals among others and here, for example, intensive competition of the firms or growth in the domestic market may have caused poor results and decrease in commitment to international markets.

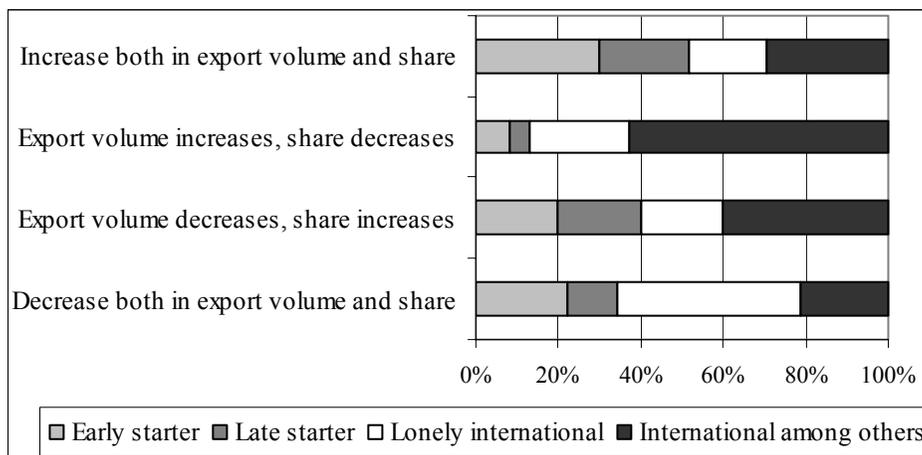


Figure 25. Change in commitment to foreign markets depending on the level of the firm and the industry’s internationalization level in 1996 (author’s calculations on the basis of Estonian Manufacturing ... 2004).

Knowledge about foreign markets increases with international activities. Besides learning from own experience, there are other ways for acquiring necessary knowledge – one of them is foreign ownership. As the foreign owner has information about at least his/her home market, the existence of a foreign owner is expected to decrease the likelihood of export withdrawals. As indicated by Figure 26, there are some differences in the shares of foreign ownership. Group 4 represents the cases where both the export volume and the share of export in turnover have decreased during the period. One reason for this might be that the share of enterprises with foreign owners is about twice as small as in the case of groups 1 and 2. Therefore, these enterprises have had to learn from their own experience, while knowledge transfer from other sources has been relatively modest.

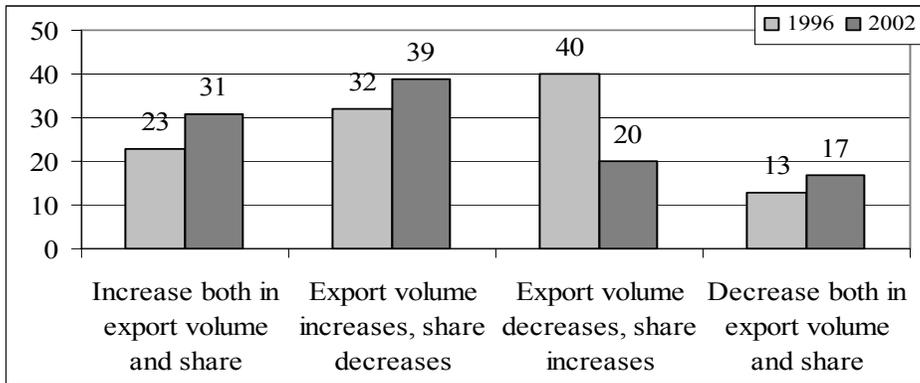


Figure 26. Share of firms in foreign ownership in 1996 and 2002 (author's calculations on the basis of Estonian Manufacturing ... 2004).

Now, considering the discussion about the reasons for de-internationalization that is presented in the theoretical part of this dissertation, it is important to find proxies for evaluating the importance of different potential reasons for de-internationalization and measuring the influencing factors. The indicators that are going to be used in the following analysis are presented in Table 12.

Table 12. Indicators of reasons for de-internationalization and influencing factors

Reason	Motive	Hyp.	Indicator
Lack of international experience	Mistakes in pre-export analysis and/ or sporadic export activities	H1	• Share of export in turnover in 1996 (EXP_SHARE)
	Size of the firm	H3	• Number of employees in 1996 (EMPL)
Change in strategy	Change in owner-ship	H5	• Change from local to foreign ownership or <i>vice versa</i> within the period (OWNER_CH) – value 0 for no change, 1 for change
	Growth in domestic market	H6	• Growth of turnover in the home market in 2002 as compared to 1996 (%) (HOME_GR)

Table 12. (continuation)

Increase in costs, poor performance	Poor performance	H7	<ul style="list-style-type: none"> • Growth in production costs in 2002 as compared to 1996 (COST_GR) • Average level of production costs in turnover 1996–2002 (AV_COST)
Knowledge from the external sources	Existence of foreign owner	H8	<ul style="list-style-type: none"> • Foreign owner (OWNER) – value 0 for foreign ownership, 1 for domestic ownership
	Internationalization level of an industry	H9, H10	<ul style="list-style-type: none"> • Internationalization level of the enterprise in 1996 (INT_LEVEL) – value 1 for early starter, 2 for late starter, 3 for lonely international, 4 for international among others

The indicators are going to be used as variables in the multinomial logistic regression. Change in commitment to the international market (INT) is a dependent variable and enterprises where both the export volume and share have decreased are set to the base category. The model has the following form:

$$\log \left(\frac{P(INT_i)}{P(INT_j)} \right) = B_0 + \sum_{i=1}^N B_i C_i + u_i$$

where INT_i denotes the change in commitment to foreign markets,
 INT_j – decrease both in export volume and share,
 C_i – the indicator,
 B_i – the coefficient,
 u_i – the disturbance term.

All the above-mentioned indicators served as variables in the multinomial logistic regression. This group of the firms, where both the export volume and share had decreased, was used as the reference group. The results are presented in Table 13. It appears that the coefficients of the number of employees (EMPL) as a measure of each firm's size, and its internationalization level as compared to the industry and manufacturing industry averages (INT_LEVEL) are not significantly different from 0 in all three logits.

Table 13. Results of the multinomial logistic regression analysis

	Increase both in export volume and share	Increase in export volume, decrease in share	Decrease in export volume, increase in share
Intercept	8.917** (2.273)	5.776** (2.901)	3.219 (5.384)
EXP_SHARE	-0.006 (0.008)	0.021** (0.010)	-0.006 (0.044)
EMPL	-0.001 (0.001)	-0.001 (0.001)	-0.004 (0.005)
OWNER_CH	0.914* (0.490)	0.562 (0.566)	1.064 (1.271)
HOME_GR	-0.001** (0.000)	0.000 (0.000)	-0.029** (0.014)
COST_GR	-0.040** (0.011)	-0.025** (0.010)	0.059 (0.045)
AV_COST	-0.071** (0.022)	-0.077** (0.028)	-0.062 (0.057)
OWNER	-1.001** (0.448)	-0.682 (0.504)	-1.958 (1.296)
INT_LEVEL	0.011 (0.228)	0.246 (0.301)	0.466 (1.376)

Notes: ** – 5% level of significance; * – 10% level of significance. Standard errors are given in parentheses. The reference group is firms whose export volume and share in turnover have both decreased.

-2 Log Likelihood = 529.330; Chi-square = 128.068 (Sig. = 0.000), pseudo R² = 0.195

The number of observations is 307.

The insignificance of the latter variable confirms the results that were presented already in Figure 25. Namely, all levels of international commitment are relatively equally represented in all the groups of firms. This suggests that the existence of international experience plays no significant role in determining the changes in commitment to foreign markets. This result is also supported by the fact that the export share in turnover (EXP_SHARE) appeared to be significant only in the case of those firms who experienced an increase in export volume but a decrease in its share. These results are somewhat surprising, since lack of international experience was expected to be the most influential reason for the Estonian firms' de-internationalization, because in the transformation countries companies it is not only foreign market experience that firms lack, but also overall market experience. Moreover, subcontracting to Finnish and Swedish companies constitutes a great deal of Estonian exports. Thus their international

experience is mostly related to these markets only – a fact that creates barriers to expansion of their activities to other, more distant markets.

The insignificance of international experience can be justified by the peculiarities of the Estonian economy. Since most firms have had the history of marketing their products in the international market only for about 13 years, the differences between different groups of firms' international experience appear to be less considerable than in the case of developed economies. Also the high share of subcontracting activities in several industries falsifies the results in some extent. Namely, Estonia is still competitive in providing low-cost production opportunities, in which case knowledge of foreign markets and a wide scope of international experience are usually not necessary. Thus, in these firms export can constitute a high share in turnover. This, however, does not indicate that the amount of gathered knowledge would enable them to survive if their subcontracting contracts were dissolved. The latter prospect is inevitably looming in most industries, considering the recent emergence of new production opportunities in Asian countries and convergence of the Estonian wage level with the EU average. As a conclusion to the present discussion it can be suggested that the insignificance of EXP_SHARE and INT_LEVEL indicates that this data does not verify hypotheses 1, 9 and 10 presented in subchapter 2.1.2.

The size of the firm, measured by the number of employees (EMPL), also appeared to be insignificant in all three logits. As with international experience, nor were there considerable differences between the four groups of firms in this case (the average number of employees in 1996 varied between 119.4 and 173.7). Hence, hypothesis 3 gets no support from here.

On the other hand, the variables that represent increase in costs (COST_GR) and/or poor performance (AV_COST) are considerably more significant in the firms that have increased their commitment to foreign markets than in those firms that have withdrawn. An increase in costs and a higher level of average costs (proxy for profitability) both decrease the likelihood of growing commitment to foreign markets. Therefore poor performance is probably one reason why export firms return to their home market, which confirms the validity of hypothesis 7.

There are two variables describing the changes in strategy – growth in the home market (HOME_GR) and change in ownership (OWNER_CH) – that are involved in the analysis. Both of them turned out to be statistically significant if we compared the firms that had expanded their foreign activities with those that had withdrawn some of their export. A higher growth in the home market increases the likelihood of decline in international commitment, whereas a change in ownership is likely to contribute to foreign expansion rather than contraction. Somewhat surprisingly to the author of this dissertation, it turned out that changes from local to foreign ownership did not dominate as remarkably as expected, constituting only 69% of the changes. Hence, better knowledge of the local conditions and application of an appropriate strategy can

compensate for the wider knowledge-base of foreign owners. Thus, hypothesis 5 does not get any support from here, but hypothesis 6 is confirmed.

Besides the internationalization level of an enterprise (INT_LEVEL) that was discussed above, one more variable describing sources of additional knowledge is used in the analysis. The discussion in subchapter 2.1.1 pointed out the impact of foreign direct investments on the internationalization processes of the Estonian enterprises. The importance of ownership (OWNER) was likewise confirmed by the multinomial logistic regression analysis, as this variable appeared to be significant. The results indicate that the existence of a foreign owner will enhance the likelihood of increase in commitment to foreign markets. Hence this data supports hypothesis 8.

To sum up the previous discussion, as distinct from the group of the firms whose export volume and share in turnover have both increased, the group of those that have withdrawn (some of) their export activities comprises mostly locally-owned firms that face higher growth in the home market, have a higher average cost level and an increase in costs. Therefore two main groups of reasons for de-internationalization (change in strategy, and increase in costs and/or poor performance) as well as one additional factor (knowledge from external sources) turned out to be important in the case of Estonian manufacturing firms on the basis of this database.

The additional aspect that needs clarification is what differences are there between the fully and partially de-internationalized firms. For that purpose, a logistic regression analysis containing similar endogenous variables to those presented in Table 12 was conducted. During the period 1996–2002, 24 firms withdrew all their export activities, while in the case of 52 firms only partial de-internationalization took place.

In the analysis, the partially de-internationalized exporters were set for the reference category. The results indicate that only one of the variables, export share in turnover (EXP_SHARE), is statistically significant (see Table 14). Consequently, in the case of the firms that are more committed to foreign markets the likelihood of full withdrawal is smaller. It can be inferred that full withdrawal mostly takes place in the first stages of internationalization when the firm is relatively inexperienced and discovers, for example, that its resources are insufficient for servicing the particular foreign markets, or that these markets fail to meet its expectations. In the case of experienced firms, however, full de-internationalization is less likely, since their experience enables them to find new markets if there are unfavorable developments in the target markets. This discussion is supported by the fact that the average share of exports was lower in the case of those firms that fully withdrew their export (29% vs. 55%). All the other variables turned out to be insignificant and therefore we can conclude that these two groups of de-internationalizing firms are relatively identical and there is no inevitable need to distinguish between them.

Table 14. Results of the logistic regression analysis

	Full de-internationalization	
	Coefficient	Std. error
Intercept	10.568*	5.982
EXP_SHARE	-0.037**	0.017
EMPL	-0.003	0.002
OWNER_CH	0.186	1.059
HOME_GR	0.000	0.000
COST_GR	0.002	0.015
AV_COST	-0.095	0.059
OWNER	-0.729	0.940
INT_LEVEL	0.115	0.430

-2 Log Likelihood = 76.999; Chi-square = 17.797 (Sig. = 0.023), pseudo R² = 0.188
The number of observations is 76.

Table 15 summarizes the results presented in this subchapter. Only three of the hypotheses were supported by the data. Against all expectations, lack of international experience did not turn out to be the main influential group of reasons determining Estonian manufacturing enterprises' export withdrawals from foreign markets. As already mentioned above, this may result from the relatively similar knowledge-base of the enterprises belonging to different groups and a high share of subcontracting activities. Instead of the amount of international experience, changes in strategy and profitability proved to be influential.

Table 15. Validity of the hypotheses in the case of the Estonian manufacturing enterprises' export activities

Reasons and influencing factors	Hypothesis	Result
Lack of international experience	H1	Not supported
	H3	Not supported
Change in strategy	H5	Not supported
	H6	Supported
Increase in costs, poor performance	H7	Supported
Knowledge from the external sources	H8	Supported
	H9, H10	Not supported

It has to be kept in mind, however, that this database contains only balance sheet and income statement data and therefore it is possible to use only proxies for measuring the potential influence of different groups of reasons that can be

behind the de-internationalization decisions. Therefore, these results need validation by more detailed and precise data that is going to be analyzed in the following subchapters.

2.2.2. Changes in commitment to target markets

To analyze the validity of the hypotheses presented in subchapter 2.1.2, the data drawn from two surveys of Estonian exporters is going to be used. These surveys (“Estonian Exporter 2000” and “Estonian Exporter 2003”) were carried out by the Estonian Trade Promotion Agency and the Enterprise Estonia in 2001 and 2004, respectively. The first comprehensive survey of Estonian exporters was made already in 1998 by the Estonian Trade Promotion Agency, and the Faculty of Economics and Business Administration of the University of Tartu. Since then, exporters have been surveyed every year and 7 consecutive surveys have been completed. Unfortunately there have been several changes in the structure of the questionnaire and only 2 of the 7 surveys provide all the information needed for the purposes of this dissertation.

The first survey (“Estonian exporter 2000”) reflects the changes that occurred in 1999–2000 and enables us to analyze the Estonian manufacturing enterprises’ activities right after the Russian crisis. The second survey “Estonian Exporter 2003”, on the other hand, covers the period characterized by a much more stable business environment, allowing us to compare the changes in commitment to the foreign markets with the earlier results. This comparison will be instrumental in avoiding possible misinterpretations that may derive from the relative instability of the Estonian manufacturing enterprises’ activities as a result of the Russian crisis.

Table 16 presents the data about two samples such as the number of employees, sales, and export sales. The total number of exporters that responded in 2001 was 93 but 13 observations had to be left aside due to the missing or incomplete data. In 2004, there were 138 respondents, 20 of whom did not provide all the necessary information. This leaves us with the samples of 80 in 2001 and 118 respondents in 2004, encompassing, respectively, 1.8 and 2.7 per cent of the total number of enterprises in the manufacturing industry.

On the other hand, these two samples embrace quite a significant part of the sales and export sales of the manufacturing industry. Therefore we can suggest that the both samples are biased towards bigger firms, which in turn may render some reasons behind de-internationalization insignificant (for example, lack of international experience is expected to influence smaller firms more than large ones). The data also indicates that producers of other non-metallic minerals are strongly overrepresented as compared to the manufacturing industry average in both years, while at the same time rubber and plastic manufacturers are under-represented.

Table 16. Representation of the aggregated data by samples (%)

	1999–2000 sample compared with 1999 aggregated data			2002–2003 sample compared with 2002 aggregated data		
	Number of companies	Sales	Export	Number of companies	Sales	Export
Food products, beverages	1.2	7.3	9.2	2.0	20.5	28.8
Textiles	3.6	10.9	24.2	3.1	8.9	8.5
Wearing apparel, clothing	1.4	8.0	9.5	2.4	8.5	9.6
Tanning and dressing of leather	3.1	9.8	11.3	3.1	5.1	5.7
Wood	2.1	27.9	30.9	1.9	17.2	21.4
Paper and paper products	0.0	0.0	0.0	2.1	25.2	36.0
Publishing, printing	0.0	0.0	0.0	0.3	6.3	29.2
Chemicals and coke	3.2	12.1	25.3	3.6	17.0	20.9
Rubber and plastic	0.0	0.0	0.0	0.8	0.7	1.4
Other non-metallic minerals	4.1	36.2	83.2	9.6	30.3	62.8
Metals and products	1.7	20.9	44.2	3.3	21.9	35.4
Machinery and equipment n.e.c.	2.5	11.1	21.4	3.0	9.7	17.3
Office, electrical , radio and medical equipment	1.5	3.5	2.7	4.1	20.0	23.2
Motor vehicles and transport equipment	2.4	3.4	3.6	5.0	5.2	5.7
Furniture, others, recycling	3.1	25.9	31.8	3.2	7.7	7.1
Manufacturing	1.8	13.0	21.4	2.7	15.7	19.2

Source: author's calculations on the basis of Aggregated Data ... 2004, Estonian Exporters 2001, and Estonian Exporters 2004.

These surveys provide information about sales and export volume, profit, number of employees, main target countries of export activities, existence of quality certificates, main problems hindering exports, and opinions about governmental support schemes. As the main focus in this subchapter is on the target market pattern of de-internationalization of Estonian manufacturing firms, the following analysis will concentrate on this aspect. Figure 27 indicates that Finland and Sweden are the target countries for more than a half of the firms in the samples (see Appendix 20 for detailed data about the number of firms exporting to different markets and their average commitment to export markets). This result is in line with the aggregated export data that was

presented in subchapter 2.1.1. As a motivation behind this choice of target markets both geographic and cultural proximity can be pointed out. Moreover, compared to the other neighboring countries of Estonia (Latvia, Lithuania and Russia), the purchasing power is significantly higher in Finland and Sweden and therefore it is easier to find a competitive edge in these markets.

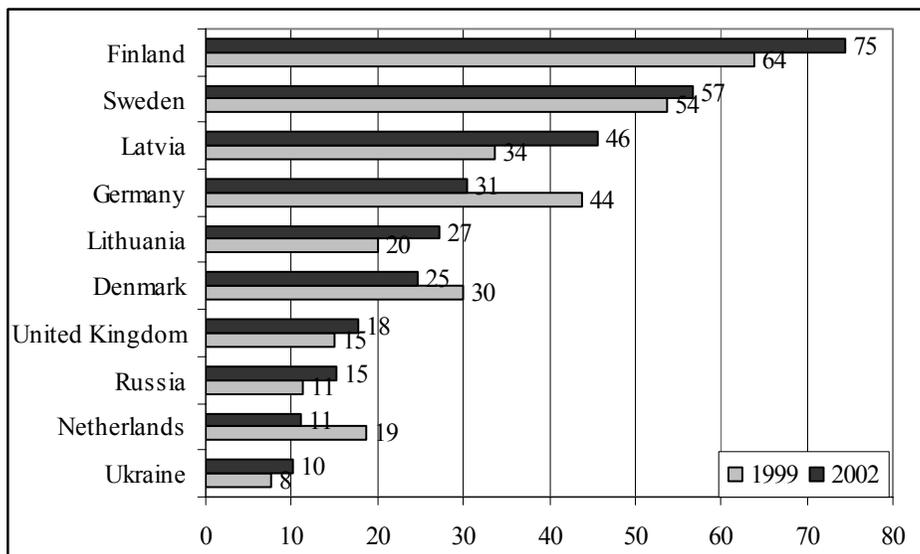


Figure 27. Share of firms having export activities in a particular market (% of all firms in the sample) (author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004).

Appendix 21 presents comparative data about the geographic and cultural distances and GDP per capita compared to Estonia of these ten countries that are covered by the surveys of Estonian exporters. The cultural distance between countries is calculated according to the formula suggested by Kogut and Singh (1988, p. 422):

$$CD_j = \sum_{i=1}^4 \left\{ (I_{ij} - I_{ie})^2 / V_i \right\} / 4,$$

where CD – cultural distance of the country j from Estonia,
 I_{ij} – index for the cultural dimension i in the country j ,
 V_i – variance of the index of the cultural dimension i ,
 e – Estonia.

Appendix 21 suggests that Estonia has the biggest cultural distance with Russia and the United Kingdom. Unfortunately no data is available about Latvia, Lithuania and the Ukraine, but as these countries have several similarities with Russia in terms of cultural context, it can be expected that the distances with these countries are also relatively high. On the other hand, it is important to consider that for fifty years these countries were closely related and operated according to the rules implemented by the Soviet Union. Thus, at the beginning of the transformation processes, their economic conditions and business cultures were similar and strong linkages between enterprises and people had been established. Combining this with the geographic proximity, it is possible to conclude that these countries are not as distant as suggested by the cultural distance measure.

The data indicates that the United Kingdom and Denmark have both long cultural and geographic distances from Estonia. Nevertheless a significant number of the exporting firms have at least some export sales in this market (see also Figure 27). As not so many foreign investments originate from these countries, it is likely that Estonian exporters are attracted by the high purchasing power in these countries.

Hypothesis 2 formulated in subchapter 2.1.2 suggests that de-internationalization is more likely in the case of distant markets than near ones. According to the data presented in Appendix 21 we can expect that de-internationalization activities are characteristic of manufacturing enterprises that export their products to the United Kingdom, the Ukraine, Russia, the Netherlands and Denmark. In other markets de-internationalization is expected to take place less often.

Figure 28 presents the data about the share of firms that have withdrawn (some of) their export activities in comparison with the firms that were active in the particular market. The share of withdrawals is low in the case of the nearby markets Finland and Sweden, as also suggested by the hypothesis. On the other hand, Latvia, Lithuania and Germany experienced a higher share of de-internationalization than more distant Denmark, the Netherlands, and the United Kingdom, especially in 2003. This unexpected result can be explained by several aspects. First, in the case of more distant markets, firms can perceive higher uncertainty which is likely to lead to a more careful and thorough pre-internationalization analysis that enables avoiding several mistakes caused by unfamiliarity with the market. In the case of Latvia and Lithuania, several managers tend to overestimate their knowledge and superiority of their products and this can easily lead to de-internationalization. Secondly, most firms have entered the nearby markets at the beginning of their internationalization processes and, having gained the experience from these markets, they are expanding to the new markets now. Therefore, they can assess their potential competitiveness in the particular market and more adequately analyze the risks related with the international activities. They still lack market-specific knowledge, but this hurdle can be overcome with a thorough analysis that is caused by higher perceived uncertainty.

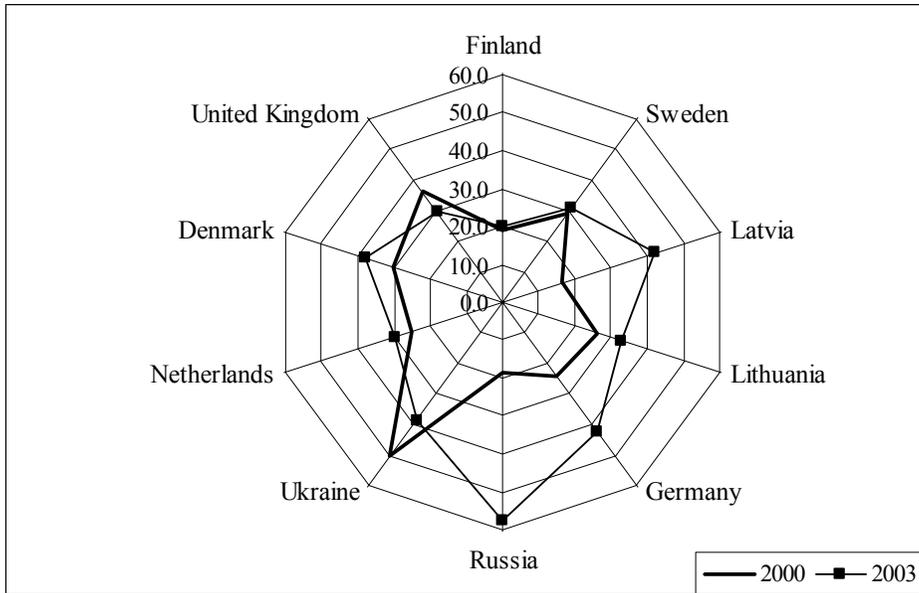


Figure 28. Share of firms that have de-internationalized from a particular market (% of firms active in the market) (author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004).

The third aspect behind de-internationalization from Latvia and Lithuania is that several Estonian manufacturers or their parent companies have started production operations also in the other Baltic states and as a result these enterprises have increased their commitment to the other foreign markets, found new markets or have concentrated their activities on servicing the Estonian local market. Germany's high proportion of de-internationalization in 2003 is the result of government's policy that caused withdrawal of many blockhouse exporters from this market. Namely, it was not allowed to use Estonian labor-force for building houses in Germany. To date this barrier has been removed but several blockhouse builders have already found new target markets for their production and are no longer interested in returning to this market.

As expected, Russia and the Ukraine have both experienced relatively high rates of de-internationalization. In the case of Russia there were only a few de-internationalization activities in 2000 but considering the situation after the Russian crisis, when only a few competitive enterprises were active in this market and a wave of de-internationalization had taken place a year before, this result is not surprising. Difficulties in operating in and re-entering this market are better described by the 2003 figure which indicates that as much as 60% of the enterprises exporting to Russia had withdrawn from this market. Presumably these are mostly the enterprises that have entered the market in the last years. In

this case they are likely to lack the knowledge and experience needed for successful operation in Russia.

Figure 29 presents data about the share of full de-internationalization incidents from among all the de-internationalization cases in different target markets. Contrary to the results described above, the distance of a target market has an influential role here. In the case of nearby markets, full de-internationalization from an export market is rather rare. At the same time, most of the distant markets (the United Kingdom in 2003 and Denmark in both years) are characterized by a high rate of full de-internationalization.

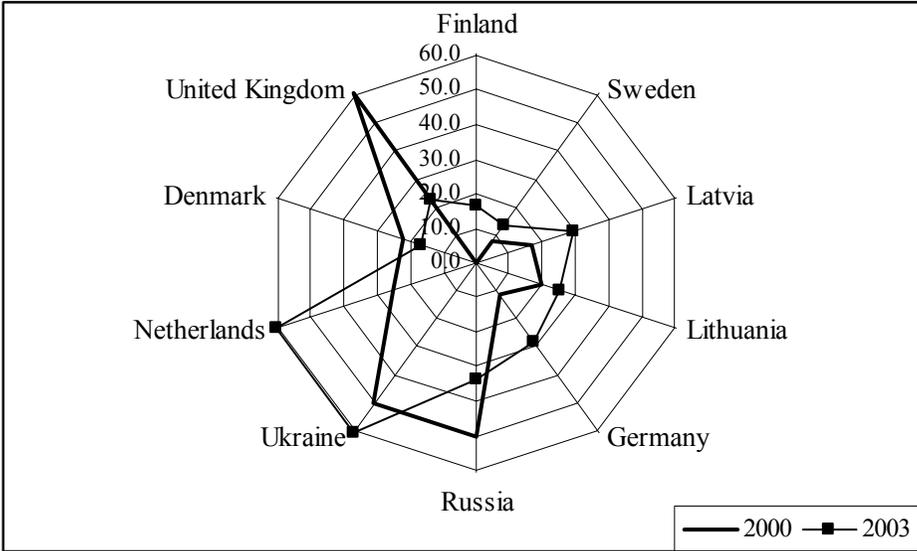


Figure 29. Share of full de-internationalization incidents of all de-internationalization cases (author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004).

The previous discussion does not provide full support to hypothesis 2, since in the case of some high-distance markets (the Netherlands, Denmark, the United Kingdom) the share of de-internationalization activities was lower than in the case of nearby markets. On the other hand, full de-internationalization is more likely in the case of distant markets than close ones. Therefore, no clear answer can be given about the validity of hypothesis 2.

Table 17 summarizes other hypotheses and proxies that are going to be made use of when analyzing the validity of hypotheses in this subchapter. As compared to subchapter 2.2.1, these databases provide an opportunity to use more detailed data and several new variables. Firstly, average export experience in years can be taken into consideration in assessing the international experience of Estonian manufacturing firms. Secondly, detailed data being available about

export target markets, dummies that describe the main export market can be used. Finally, as described in the theoretical part of this dissertation, firms tend to concentrate on only on few or diversify their international activities in different stages of internationalization, so a change in strategy can take place. Having detailed data, it is possible to analyze whether de-internationalization is characteristic of the firms which concentrate their activities on 1–2 main target markets. Unfortunately there is no data about the production costs and changes in costs in these databases and therefore only profitability can be used as a proxy for measuring poor performance. Other variables are the same that were employed also in the multinomial logistic regression analysis of the Estonian manufacturing industry database in the last subchapter.

Table 17. Indicators of de-internationalization reasons and additional aspects

Reason	Motive	Hyp.	Indicator
Lack of international experience	Mistakes in pre-export analysis and/ or sporadic export activities	H1	<ul style="list-style-type: none"> • Export experience (years) • Share of export in turnover in 1999 or 2002 • Share of the main export market (%)
	Size of the firm	H3	<ul style="list-style-type: none"> • Number of employees in 1999 or 2002
	Western market is unfamiliar	H4	<ul style="list-style-type: none"> • Main export market is other than Russia or the Ukraine – value 1 for the western market, 0 for Russia and Ukraine • Main export market is an Eastern European transition country – value 1 for Eastern Europe, 0 for other countries
Change in strategy	Growth in domestic market or concentration of international activities	H6	<ul style="list-style-type: none"> • Growth of turnover in the home market in 2000 or 2003 compared to 1999 or 2002 (%) • Change in the share of the main export market (%)
Increase in costs, poor performance	Poor performance	H7	<ul style="list-style-type: none"> • Profitability in 1999 or 2002
Knowledge from external sources	Existence of a foreign owner	H8	<ul style="list-style-type: none"> • Foreign owner – value 1 for foreign ownership, 0 for domestic ownership

For testing the validity of the hypotheses, the firms were divided into different groups and an ANOVA-analysis was used for analyzing the existence of statistically significant differences between the groups. Both in the case of 1999–2000 and 2002–2003 data, the following grouping criteria were applied:

- 1) firms were divided into three groups – those which had increased their commitment in all export markets, firms that had withdrawn (some of) their activities from one market; firms that had withdrawn (some of) their export activities from 2 or more markets (see Appendix 22 for aggregated results of the ANOVA analysis);
- 2) firms were divided into three groups in the case of all ten target countries – those that had no activities in a particular market, those that had increased their commitment to a particular market, and those that had de-internationalized from a particular market (see Appendix 23 for aggregated results of the ANOVA analysis for each of the ten countries).

Table 18 presents a summary of the results of the ANOVA analysis. This table was compiled on the basis of Appendices 22–23 and only the existence of statistically significant differences of those firms that have de-internationalized compared to both those ones that have no export to a particular market or have increased their commitment to an export market have been taken into consideration. The difference had to be present in the case of at least one sample.

The data indicates that there were no statistically significant differences in the case of three variables – growth in the domestic market as compared to the previous year, change in the share of the main target market, and profitability. Thus, change in strategy and poor performance are not the main distinguishing factors between the firms that have increased their commitment to the international market(s) and the ones that have de-internationalized. Thus we can conclude that hypotheses 6 and 7 are not supported by the given data.

Taking into account that Estonian enterprises have been active in foreign markets for a mere 14 years, some variables in the analysis seemed to have less value than others. For example, in the case of export experience, variation between firms is relatively small and because of this it was expected that the variable would not contribute much to the results.

Contrary to the expectations, export experience turned out to be significantly different between the groups in several cases. Besides this variable, two more appeared to be statistically significant in more than half of the cases – these were the size of the firm measured by the number of employees, and the main target country of the enterprise.

Table 18. Summary of the results of the ANOVA analysis

Sample	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Number		X	X	X		X				X
Finland	X									
Sweden	X					X				X
Latvia	X	X	X	X		X				
Lithuania	X	X	X	X	X	X				
Germany			X	X						X
Russia	X	X	X		X	X				
Ukraine	X		X	X	X	X				
Netherlands		X	X							
Denmark			X	X						X
United Kingdom			X							

X – existence of a statistically significant difference between the groups.

Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Appendices 24 and 25 reflect average values of those variables that proved to be significantly different between the groups. Table 19 summarizes these results, indicating whether the average value of a particular indicator of the firms that have de-internationalized is higher or lower than that of the two other groups of firms (those which do not export to this market, and those which have increased their commitment to a particular market).

Table 19. Average values of variables of de-internationalized firms compared to the other groups of firms

Sample	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	majority foreign ownership
Number of withdrawn markets		lower	lower	higher		yes	no
Finland	higher						
Sweden	higher					no	no
Latvia	higher	lower	lower	higher		yes	
Lithuania	higher	higher in 1999, lower in 2002	lower	higher	no	yes	
Germany			lower	higher			no
Russia	lower	lower	lower		yes in 1999, no in 2002	yes	
Ukraine	lower		lower	higher	no in 1999, yes in 2002	yes in 1999, no in 2002	
Netherlands		lower	lower				
Denmark			lower	higher			no
United Kingdom			lower				

Against expectations, de-internationalized firms have been active in the foreign markets in most of the cases for a longer period than the other enterprises. The only exceptions here are Russia and the Ukraine, in whose cases de-internationalized firms have less export experience. This can be explained by the fact that most of the experienced firms were forced to withdraw from the

Russian market during the Russian crisis. Now they perceive high uncertainty to be connected with this market and prefer to target their export at some other countries. On the other hand, less experienced firms are often too eager to enter foreign markets and ignore the need to carry out a proper analysis of the target market. Moreover, Russia is a huge and nearby market and attracts several managers. This has led to a situation where several firms have sporadic export activities in the Russian market and this is the main reason for the high share of de-internationalized firms (see also Figure 28 earlier in this subchapter). At the same time, it can be suggested that moving to new and more distant export markets is the main motivation behind withdrawal from (some of) their export markets in the case of experienced exporters who have withdrawn from other countries than Russia or the Ukraine.

The next variable that allows us to evaluate the influence of the lack of knowledge shows a tendency that is in accordance with the expectations. Namely, the results indicate that de-internationalized firms have a lower share of export in turnover than the ones that have increased their international commitment. This suggests that withdrawals can be the result of sporadic export activities. This argument is also supported by the fact that there are statistically significant differences between different groups of firms in terms of their shares in the main target market. These firms that have more diversified export activities and do not concentrate on gaining knowledge and servicing one main market withdraw their foreign activities more often than other ones. Hence we can suggest that an internationalization strategy applied by an enterprise influences further commitment decisions.

To sum up, these variables that were used for measuring the lack of knowledge in the first stages of internationalization as a reason behind de-internationalization activities of the Estonian manufacturing firms provided mixed results. Data about the share of export in turnover and the share of the main export market is in line with the suggested pattern, but in the case of export experience in years some deviations from the expected result have appeared. However, since two out of three variables strongly support the validity of the hypothesis and in the case of the third variable the results are mixed, we can conclude that the data supports the validity of hypothesis 1.

Data in Table 19 indicates that there is a clear tendency that the firms that have withdrawn (some of) their export activities are significantly larger than the others in terms of the number of employees. This result suggests that smaller firms are in many cases more flexible and can therefore provide a higher value or more appropriate service to their clients. This, in turn, is likely to decrease the likelihood of de-internationalization. As a second argument, it can be suggested that bigger enterprises often represent Soviet-time inheritance and therefore cannot boast such efficient production and management processes as are characteristic of smaller firms. Finally, in the case of bigger firms, withdrawals from some foreign markets can also be the result of replacement of nearby markets with more distant ones. As a conclusion, it can be suggested that

hypothesis 3 was not supported by this data since de-internationalization is more characteristic of big than small firms.

Hypothesis 4 claims that de-internationalization is more likely in the case of these firms that have targeted their production to the Eastern European markets than in the case of those whose export sales mostly come from developed countries. In more than half of the cases this statement is supported (see Table 19). Stability of the business environment, a smaller influence of increased production costs, and in many cases deeper pre-export analysis of the target market that is determined by a higher perceived uncertainty can be pointed out as the main motivations behind this result. Hence, hypothesis 4 is valid in the case of Estonian manufacturing firms.

The role of foreign owners in determining the pace and pattern of Estonian manufacturing enterprises' international activities have already been pointed out and discussed in many cases in this dissertation. The data of Estonian exporters provides evidence that de-internationalization activities are more characteristic of those firms that have no foreign owners. Therefore, hypothesis 8 is fully supported.

Table 20 summarizes the results of the discussion presented in this sub-chapter. On the basis of the data presented herein, the following characteristic features of de-internationalized enterprises can be pointed out:

- they have been active in foreign markets for a number of years;
- the main target market for their production is Estonia and they export only half or even less of their production;
- in terms of the number of employees they are big enterprises;
- their export activities largely concentrate on the markets of Central and Eastern European transition countries;
- they have applied a diversification strategy in determining the number of target markets;
- they have no foreign owners.

Table 20. Validity of the hypotheses in the case of the Estonian manufacturing enterprises' export activities

Reasons and influencing factors	Hypotheses	Result
Lack of international experience	H1	Supported
	H2	Mixed results
	H3	Not supported
	H4	Supported
Change in strategy	H6	Not supported
Increase in costs, poor performance	H7	Not supported
Knowledge from the external sources	H8	Supported

The data employed in this subchapter provided several new insights into the reasons behind the de-internationalization activities of Estonian manufacturing firms. However, this approach still lacks a complex analysis of the de-internationalization processes along several dimensions of the internationalization pattern. This shortcoming is tackled in the final part of the present dissertation by analyzing the results of five case studies.

2.3. Case studies of the de-internationalization of five Estonian manufacturing enterprises

2.3.1. Introduction of the case companies

The analysis in previous subchapters relied on the relatively general data about Estonian manufacturing enterprises' international activities. This provided an opportunity to identify the impact of different groups of reasons leading to de-internationalization decisions at a general level. For a deeper insight into the research problem, also five case studies were carried out as they enabled us to provide complementary data.

The case study research started with making a list of those Estonian manufacturing enterprises that have withdrawn at least some of their international activities. The archives of two Estonian biggest newspapers – *Äripäev* and *Postimees* – were used for gathering information about de-internationalization incidents. To limit the search, two main selection criteria were applied. In the first place, the firm had to have international activities in several foreign markets. Secondly, the decrease in foreign activities is not a small deviation compared to the previous year but it is far more radical in nature. As a result, a list of 24 companies was composed. It is suggested that a sample of 4–10 case studies would provide a sufficient basis for analysis. In deciding upon the number of cases it is important to consider the volume of data that can be obtained and coped with. (Eisenhardt 1989)

As the next step, six companies were selected for interviewing and closer scrutiny. Eisenhardt (1989, p. 537) suggests that choosing cases of extreme situations or polar types helps to extend the knowledge about a particular research problem. This concept was applied in selecting the case firms. Figure 22 in subchapter 2.1.1 indicated that the speed of internationalization differs between the branches of the Estonian manufacturing industry. Two of the selected firms represent the industries that have internationalized rapidly, while the other two had the average speed of internationalization and the last two represent food industry which experienced negative developments in terms of internationalization. There are also differences between the firms in terms of the existence of a foreign owner, the target markets and the nature of products. Some of the firms have mostly concentrated on subcontracting activities, while

others are oriented to finding markets for their own products through export activities or establishing production subsidiaries. Therefore, these firms represent different practices and allow us to analyze the reasons behind de-internationalization from different perspectives.

Two of them (Õsel Foods and Ühinenud Meiereid) were food manufacturers whose main target market was Russia. Ühinenud Meiereid went bankrupt due to the Russian crisis, Õsel Foods suffered losses for some time but after restructuring of the activities it turned out to be one of the most successful enterprises in Estonia's food sector. The following two companies (Klementi and Sangar) represent the Estonian clothing industry that has targeted most of its production to the Baltic States and Nordic countries. The development of the two companies has been rather different, a very important influential factor behind the differences having been ownership. Namely, while Klementi had a foreign owner, Sangar has been based on the local capital during the whole period. The fifth case company, Tarmeko, is a furniture manufacturer with huge production facilities inherited from the Soviet period that has redirected its foreign sales from Eastern to Western European markets. Finally, Tarkon is a manufacturer of fine mechanical components, its sales being highly dependent on long-term contracts and its activities tightly integrated with its customers.

As the next step, an interview plan (see Appendix 26) was drawn up on the basis of the discussion presented in the theoretical part of this dissertation. After that the representatives of all the six companies were contacted by phone. Having got their initial consent, the interview plan was then sent to them by e-mail for a final decision. Five of the six representatives agreed to be interviewed. Interviewee from Ühinenud Meiereid sent his answers by e-mail. Unfortunately they were rather shallow and therefore will not be used in the following analysis and Ühinenud Meiereid is altogether left aside. All the other interviews were carried out in August–October 2004.

Yin (1994, p. 91) suggests that besides the information gathered by interviews, other sources of evidence allow triangulation and contribute therefore in gaining better knowledge about the case companies. Because of this, the following part of this subchapter concentrates on introducing all five case companies. Besides information about their international activities, a brief overview of history and the main milestones in their development are described in order to provide the context of their activities both in local and foreign markets and identify potential reasons behind their de-internationalization decisions.

Klementi has a history that dates back to the year 1944 when it was established in Tallinn. It continued operation throughout the whole Soviet period. Privatization of the enterprise started in 1994 and was completed in 1997. It was privatized by PTA Group OY which acquired 68% of the shares (Klementi Annual ... 2001, p. 1). By the year 2000, foreign ownership had grown up to 79%; the rest of the shares are traded in the Tallinn Stock Exchange (Klementi Annual ... 2002, p. 1).

Klementi has three main fields of activities – design, manufacturing, and sale of ladies' wear. Besides its own production it also provides subcontracting services. However, the share of the latter has decreased over the years (see Appendix 27). One of the reasons for the increase in the importance of own production lies in the fact that after its parent company PTA Group OY went bankrupt in 2002, Klementi bought its well-known trademarks, and these sales that were previously reported as subcontracting to parent company are now reflected in the annual reports as sales of own production.

Klementi started its international activities already before its privatization by a foreign owner. Its first trials were carried out in the Finnish and Swedish markets. It was apparent that the Estonian local market is too small and therefore, besides the Nordic direction, Klementi was also interested in entering Latvia and Lithuania. However, the management realized that developing a retail chain that would encompass the Baltic States, Russia, and the Ukraine or even Poland is not realistic due to lack of resources. Therefore they decided to concentrate their activities on a smaller number of markets, subcontracting, and wholesale activities in Finland and Sweden. (Võõras 2004)

Appendix 28 provides a short overview of Klementi's main developments in international markets between 1998 and 2003. In this period, Klementi faced three main challenges. First, entry into several new markets (e.g., Austria and England in 1998, Norway in 2003), establishment of sales subsidiaries and retail outlets in the other Baltic States, and search for trustworthy representatives in Finland and Sweden in order to guarantee a better representation and establish a platform for further development. In the Baltic States, Klementi has concentrated on developing its own retail chain, while in the Nordic countries wholesale activities have been considered to be the most suitable for servicing these markets. This strategy has resulted in a relatively stable development of export sales (see Table 21) and raising their share in turnover. As compared to the other firms in the clothing industry Klementi has a lower share of export in turnover (see Appendix 29). This can be explained by a relatively lower share of subcontracting activities than the industry's average, and the important role of the local market.

The second aspect affecting Klementi's development during the period was the bankruptcy of its parent company in 2002. This was an unexpected event that significantly destabilized not only Klementi's sales in the Nordic markets but also all its other activities. Klementi was taken over by the Estonian venture capital company Alta Capital which also acquired the main trademarks of PTA Group (PTA, MasterCoat, Piretta, and several others). This event had a serious effect on the operating results both in 2002 and 2003.

The third aspect to be mentioned here is Klementi's de-internationalization activities in some export markets. During this period, there were significant drawbacks in all Klementi's main target markets (see Table 22). The termination of agent contracts in Sweden and Norway took place in 2001 and replacement of agents in Finland and Sweden in 1998. The influence and/or

motivations of these strategic changes are also reflected by the data. Today all these abovementioned markets are serviced by sales subsidiaries concentrating on wholesale trade. In the Lithuanian market, Klementi has switched from developing its own retail chain to cooperation with a leading retailing company, Apranga. The latter has 23 shops in Lithuania, representing Hugo Boss, MaxMara, Mango, Mexx and several other well-known trademarks in Lithuania (Matson 2003b). As a result, Klementi's shops in Lithuania were closed down in 2003.

Table 21. Klementi's performance indicators (millions of kroons)

	1997	1998	1999	2000	2001	2002	2003	Change (times)
Total sales	98.5	124.6	106.2	113.5	110.6	133.3	133.6	1.4
Export sales	57.3	60.7	52.7	61.7	61.6	73.3	81.9	1.4
Net profit	5.3	1.6	-2.8	1.3	1.0	-31.9	-21.6	
Number of employees	753	692	675	628	612	665	630	0.8

Source: compiled by the author on the basis Klementi Annual ... 1999, pp. 2, 4; 2001, pp. 3, 6; 2002, pp. 3, 7; 2003, pp. 5, 11; 2004, pp. 4, 10.

Table 22. Klementi's sales by target country in 1997–2003 (thousands of kroons)

	1997	1998	1999	2000	2001	2002	2003
Estonia	41,188	63,847	53,437	51,888	48,954	59,944	51,725
Finland	36,793	29,595	32,974	37,365	42,709	47,386	42,487
Sweden	9,990	5,698	6,140	8,389	5,836	7,916	21,547
Latvia	4,218	9,537	6,385	7,532	7,942	7,102	9,844
Lithuania	4,795	13,066	5,100	7,245	4,107	10,443	7,408
Germany	1,014						
CIS		1,416	200				
others	466	1,420	1,919	1,125	1,043	467	619

Source: Klementi Annual ... 1999, p. 25; 2001, p. 21; 2002, p. 34; 2003, p. 25; 2004, p. 30.

The strategy applied by Klementi before 2002 envisaged the development of its own retail system in the Baltic States, where the company used its own trademark. On the other hand, its parent company's trademark Piretta was used in the case of export sales to Finland and Sweden. (Klementi Annual ... 2002, p. 6) After the bankruptcy of PTA Group OY, the new management board announced its plans to concentrate on developing two trademarks – Klementi in the Baltic States and PTA in the Nordic countries (Klementi Annual ... 2003, p.

7). At present Klementi's strategy relies to a large extent on launching the PTA trademark in the Baltic countries. For example, in Estonia three retail outlets have changed from Klementi to PTA, while in Latvia and Lithuania products with the PTA label have been introduced. (Matson 2004) It is likely that in the future the old trademark Klementi will be entirely replaced by PTA, since the latter is widely known in the Nordic countries and hence more important for the company (Kängsepp 2004a).

Sangar was established in 1944 in Tartu, being active in felt-industry at that time. During the Soviet period, several other enterprises were incorporated into Sangar and thus the activities of the enterprise were diversified involving the manufacture of both footwear and clothing. The enterprise was restructured in 1956 and after that it concentrated on mass production of garments. Sangar's first international operations took place as early as in the 1980s when joint manufacturing of jeans with the Finnish company Beavers and subcontracting to the Swedish company Textec AB started. (History 2004)

Sangar's privatization started in 1990 and was completed in 1993. There were 385 employees in the enterprise at that time. Sangar started to concentrate heavily on subcontracting activities, and most of the production was targeted to the Finnish and Swedish markets. (History 2004) Appendix 30 indicates that Sangar's orientation to foreign markets has been higher than the clothing industry average. However, in the last few years the local market has shown growth tendencies, which has led to a slight decrease in the share of export in sales.

At the beginning of its internationalization process, Sangar provided subcontracting services for several Finnish and Swedish firms. Since its technology was out of date, it mainly carried out simple procedures. (Kaasik 2004) Over the past few years, significant investments have been made in procuring and introducing modern technology (History 2004), which has enabled the company to carry out more sophisticated manufacturing procedures. Hence, a conversion from a low-cost to high-quality producer has taken place, which has led on developing own production and a slight decrease in the importance of subcontracting in the last years (see Appendix 31).

Besides its own products Sangar manufactures goods for the well-known trademarks Harrods, Eton, Stenströms, Austin Reed, Burberry's, Carnet, Oscar Jacobson, Lee Cooper, Peak Performance (Sangari kuue ... 2001). About 80% of its production is shirts and about 80% of them are marketed under other trademarks (Niitra 2004a). Nowadays a remarkable proportion of the shirts that are sold under the world-famous Scandinavian trademarks are produced in Tartu (History 2004). This is reflected also in the data about the target countries of Sangar's subcontracting activities as the share of Sweden and Finland is already more than 90% (see Appendix 32). This is about to change in the near future since Sangar's products have reached the upper end of some client's possibilities. Therefore, the company is searching for new target markets for its production. At the moment, for example, negotiations are underway with two agents from Great Britain. (Kaasik 2004)

In the second half of the 1990s, after having invested in updating the technological base, the management of Sangar perceived a strong need to switch from being a production-oriented company to becoming a customer-oriented one. The need to find new clients was also recognized. The firm established retail outlets in Estonia and Latvia for selling its own production. According to the plans, 6–7 new shops were planned to be opened each year. Since the sales in Latvia and Lithuania were increasing (see Table 23), in 2001 there were also plans to expand to the Ukraine, Poland and Russia (see Appendix 33 for a summary of the main events in Sangar’s international activities). As different from the strategy applied in the Baltic States, Sangar has always used agents in Finland and Sweden.

Table 23. Sangar’s sales by target country in 1999–2003 (thousands of kroons)

	1999	2000	2001	2002	2003
Estonia	15,649.4	18,735.2	25,145.9	30,877.4	35,899.8
Denmark	488.8	1,619.0	3,821.2	1,537.7	3,659.5
Finland	17,552.7	13,978.9	20,441.2	11,482.2	14,050.8
Germany	198.0	554.4			
Latvia	3,466.1	7,001.5	10,084.0	11,719.1	7,296.3
Lithuania			0.0	3,190.7	396.8
Norway	17,859.2	10,129.6	8,049.2	5,973.1	824.5
Sweden	23,587.0	23,068.5	27,887.3	39,226.7	41,272.9
others	0.0	0.0	0.0	0.0	262.5

Source: Sangar Annual ... 2000; 2001; 2002, p. 17; 2003, p. 29.

Low profitability (see Table 24) and different strategic visions of the owners and chairman of the board, Jaan Kallas, led to a change both in the board and strategy of Sangar in 2002. As a result, the only retail outlet in Lithuania and one of the three outlets in Latvia were closed down in 2002 and 2003, respectively. In 2004 Sangar made a strategic decision to concentrate only on the manufacture of shirts in the future and will close down the production of all other items (Kängsepp 2004c). Therefore, several changes are expected to take place in the near future in its international activities.

Table 24. The performance indicators of Sangar (millions of kroons)

	1999	2000	2001	2002	2003	Change (times)
Total sales	78.7	75.2	95.4	104.0	102.9	1.3
Export sales	63.1	56.5	70.3	73.1	67.0	1.1
Net profit	2.2	6.8	4.2	0.1	5.6	2.5

Source: Sangar Annual ... 2000; 2001; 2002, p. 17; 2003, p. 29.

Tarkon was established in 1907 in Tartu under the name Telephone Factory “Edisson-Kompagnie”. The company produced telephones and radio receivers and its first export activities started in 1924 to Latvia and Finland. Before World War II the Swedish company Ericsson acquired majority ownership in the company and new product lines of turn indicators for cars and precision mechanics operations diversified the company’s product portfolio. The production was exported to 27 foreign countries, including those of Africa and America. (History of the ... 2004)

In 1940 the company was nationalized. During the Soviet period, black boxes or flight recorders for both civil and military aircraft were its main products. Privatization of Tarkon started in 1994 and was completed in 1996 when a Swedish company, Hallberg Sekrom Fabriks, acquired 60% of Tarkon’s shares. The share of the foreign owner has increased over the years and is 85% now. (History of the ... 2004)

After privatization, Tarkon concentrated on the telecom sector and performed well (see Table 25). Its sales to the telecom sector constituted about 80% of its turnover. The terror attack on 9 September 2001 in USA caused the termination of the cooperation project of third-generation telecommunication networks between Tarkon and Ericsson (Rozental 2001b) and induced telecom sector crises in the whole world. Because of this, in 2002 Tarkon faced the need to diversify its production. It found a new market and started to produce heat-systems components under the contracts of Swedish companies TA and ABB. This has enabled the company to decrease the share of the telecom sector significantly: in 2002 it constituted only 39 per cent of Tarkon’s turnover. Appendix 34 presents data about the distribution of Tarkon’s sales in 2004.

Table 25. Tarkon’s performance indicators (millions of kroons)

	1997	1998	1999	2000	2001	2002	2003	Change (times)
Total sales	36.1	65.3	83.9	188.2	164.1	171.9	211.0	5.8
Net profit	4.2	2.7	4.2	29.7	5.3	-6.3	-6.0	
Number of employees	254	327	382	542	637	550	530	2.1

Source: Niitra 2002; Pau 2004; Randmaa 2004; Rozental 2000a, 2001a, 2002a, 2002b, 2002c, 2004.

In terms of the number of employees, in 2004 Tarkon was the second largest manufacturer in the Estonian electronics industry with 550 employees. The company has about 100 partners, about 12 of them being big clients (for example, Ericsson, TA, Intermeq Printer AB, LGP Allgon, Elcoteq Tallinn) whose orders constitute most of Tarkon’s turnover. Tarkon has realized that its competitive edge lies in providing fast and flexible service and it cannot com-

pete in terms of production capacity (Randmaa 2004). In order to increase its competitiveness, Tarkon has concentrated on providing a more complex service over the years. This has been possible by attracting several Swedish companies (EBÖ, NPP Industry, Medical Device Technology) to transfer their production here and in this way establishing a small cluster of producers providing complementary manufacturing processes and services in its territory. (Rozenal 2004)

The main challenges in Tarkon's international operations have arisen due to the telecom sector crisis caused by the 2001 terrorist attack of the World Trade Center. This has forced Tarkon to diversify its production and find new clients. Other changes have been mainly caused by the termination of some production contracts with smaller clients. Changes in plans may also be needed due to changes in some client's strategies. For example, in 2004 there was a change in one big client's ownership, which caused postponement of some expansion plans that had been announced at the beginning of the year. (Pau 2004)

To conclude, after dissolution of the Soviet Union, Tarkon was forced to find new target markets for its production. The company started with sporadic export activities in the Scandinavian market. The involvement of a foreign owner has boosted its export activities that had been above the industry's average until 2000 (see Appendix 35). The share of export in turnover has dropped after that due to growing demand at the home market and a crisis in the world telecom sector.

Tarmeko is a furniture producer established in 1947 in Tartu. It has 900 employees and belongs among the biggest manufacturing enterprises in Estonia. It produces solid pine furniture, office furniture, upholstered furniture, and form-pressed veneer. (Tarmeko 2004) The enterprise was privatized in 1994 when 66.6% of the shares were sold to the Estonian owners. This process was completed in 1997 when the remaining 33.4% of its shares were sold. (Lühiuudised 1997)

In the Soviet times, Tarmeko was a well-known producer in the Soviet Union's market, providing high-quality products of contemporary design. After the dissolution of the Soviet Union it had to start reorientation of its sales to the Western European markets. There are two main lines of products – furniture and furniture components – that Tarmeko exports. In the case of furniture, it sells products in foreign markets under its own brand (Niitra 2004b).

Reorientation of export trade from Russia and the Ukraine to Western Europe was relatively successful. In order to increase competitiveness in the international markets, Tarmeko made several investments into updating its technological base. Moreover, hiring a foreign designer helped make necessary adaptations in Tarmeko's production in order to cater for the taste of customers in foreign markets. The purchasing power of Estonian customers is low and therefore local needs are not considered to be highly important. During the years 2000–2002 most of Tarmeko's production is sold in foreign markets (see Appendix 36).

Besides Western markets, Tarmeko was also interested in the potential of the Ukraine. In order to gain better access to this market, a joint venture enterprise with a Ukrainian partner was established in 1996. This subsidiary was responsible for distributing Tarmeko's production in the Ukraine. In 1997 the joint venture started to produce furniture from details produced in Estonia. However, instability of this market is the main reason for avoiding high commitment to the Ukrainian market. (Tamme 1997)

Not all Tarmeko's international activities have been successful. However, Tarmeko's export is diversified and therefore drawbacks in several markets have not influenced the results and export activities very much (see Appendix 37 for Tarmeko's export sales by target countries). In 1995–1996 Tarmeko experienced several problems with its distributors in Switzerland and Finland. In both cases the company experienced losses. The main reason behind the problems was lack of experience in selecting distributors. (Heinsalu 1996) There have been also problems in Denmark since one of the Tarmeko's big clients in this market went bankrupt in 2002 and this influenced sales to Denmark (Toomsalu 2003).

Tarmeko has had to cope with two recessions in the German and one in the French market. Recession in sales to France in 2002 was caused by reduced demand for furniture components after the 2001 terrorist attack (Rozenal 2002c). The first recession in Germany took place in 1996 and the second started in 2003. In the latter case Tarmeko faced problems that were caused by the decrease in demand at that market. Due to this recession, the competition between producers intensified, which put pressure on Tarmeko. As a result, Tarmeko was forced to lower its prices. Additional problems appeared in the raw material market, since the entrance of Stora Enso by acquisition of the biggest wood procurement company Sylvester in Estonia resulted in intensified competition for pine and birch timber. All these reasons contributed to a drop in profitability (see also Table 26). (Tarmeko Annual ... 2004: 3)

Table 26. Tarmeko's performance indicators (millions of kroons)

	2000	2001	2002	2003	Change (times)
Total sales	240.3	246.4	259.7	201.8	0.8
Export sales	184.5	186.9	205.8	154.5	0.8
Net profit	1.1	2.8	0.7	-7.8	
Number of employees	1,286	1,212	1,189	938	0.7

Source: Tarmeko Annual ... 2001, pp. 8, 18; 2002, pp 7, 17; 2003, pp. 7, 17; 2004, pp. 7, 17.

Lack of raw materials and their rapidly growing prices are acknowledged as common problems for all furniture manufacturers in Estonia. At the same time,

it is not possible to increase prices in the target markets since the intensity of competition is high. (Niitra 2004b) On the other hand, Tarmeko's clients are interested in wider production portfolios and smaller series. For example, five years ago a big German retail chain bought 500–1000 identical bedroom furniture sets a month. Now there is a demand for more diversified products and the number of identical sets to be sold is only 200 a month. (Niitra 2004b) These two tendencies are likely to influence Tarmeko's success both in the local and international markets in the following years.

Ösel Foods was established in 1993 in Saaremaa by a Finnish businessman, Carl-Erik Sundblad, who gained 50% of the shares, while the other 50% was divided between two Estonians. In the following year, the firm expanded its activities by buying a manufacturing plant in Tartu. In the summer of 2001 the foreign owner acquired another 25% of the enterprise, thus getting full control over the company. In spring 2003 he decided to sell its shares to another owner and the management of the company. (Saaremaal ... 2003, Ösel Foodsi ... 2003)

Ösel Foods started with producing soft drinks and ketchup. In 1996, it launched the production of meadow mushrooms, but competition by cheaper mushrooms imported from the Netherlands forced the company to withdraw from this area of business in 1999. (Rozental 1999b) However, they were interested in diversifying their production and therefore bought a fish producer from the Norwegian owner Moon Holding in 1999 (Rozental 2001d). The initial plan for selling fish products envisaged Russia as the main market and the company intended to make use of the same distribution channels that were exploited for selling ketchup. They wanted to decrease the number of different products and exploit scale economies by manufacturing large quantities. Unfortunately these plans did not realize due to a recession in the fish products market; the company was forced to find alternative means for using its production facilities. One of the plans announced in 1999 was to start packaging frozen fruits and vegetables. However, this plan was never implemented. (Rozental 1999a)

Ösel Foods started its activities in foreign markets, namely in Russia, already in 1993. Before establishing a production plant there they exported about 800 tons of ketchup to Moscow every month and had about 15% share of the ketchup market in Moscow. (Kald 1999) A joint venture enterprise of Ösel Foods (60% of shares) and its Russian partner, wholesale enterprise Mir 93 (40% of shares) started its activities in 1998. Ösel Foods invested 27 million kroons in order to start the manufacture of ketchup and plastic packages. The sales were planned to be 70 million kroons in the first year and about 120 million kroons in the following years. The expected payback period was 4 years. (Traks 1998) However, not all the plans were realized. In 1998, the production plant in Lõtarkino was producing 250 tons of ketchup but it would have been able to produce 4 times as much. The manufacture of packages was successful and enjoyed a buoyant demand. (Kald 1999)

The production plant in Russia was established in order to avoid double tariffs imposed on Estonian production. However, as a result of devaluation of the Russian rouble, and the Russian crisis, the ketchup produced by Õsel Foods turned out to be too expensive. This caused a two-fold decrease in their market share. (Kald 1999)

In October 1999 the management of Õsel Foods made a visit to Moscow. After that they declared that they were not going to withdraw from the Russian market but discussed the need for additional investments. However, aware of the high risk level of the Russian market, they did not want to borrow money for additional investments. (Kald 1999) In April 2000, Õsel Foods argued that their Russian production facility was suffering losses and therefore it would be wise to sell the factory. They affirmed that there were no problems with their business partners or governmental institutions. (Kalev ja ... 2000) However, already in May the management of Õsel Foods admitted that they had no control over the Russian factory any more and had to bear the losses.

In June 2001 Õsel Foods sold its affiliated company Paljassaare Kalatööstus (producing fish products) to Lithuanian businessmen (Heinsalu 2001). At that moment Paljassaare Kalatööstus' annual sales were 89 million kroons and it gave work to 115 employees. The main markets for fish products were Estonia (35% of the sales), Latvia and Lithuania (32%), Finland (20%), and some Central European countries (13%). (Rozental 2001d) The money gained from selling its fish production branch to another owner and one of its brands to Coca-Cola was invested in developing Õsel Foods' new juice brand, Aura. The juice brand Aura was launched in 2000 (Saaremaal ... 2003). Subsequently, Õsel Foods concentrated its activities, replacing the strategy of diversified activities by concentration on the soft drinks and juice market (see also Figure 30).

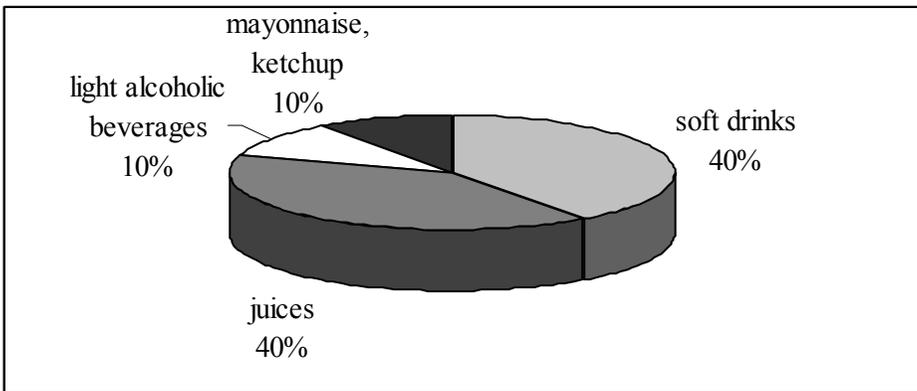


Figure 30. Distribution of Õsel Foods' production in 2001 (%) (Rozental 2000b).

In 2003, Õsel Foods was sold to the second largest Estonian beverages producer, A. Le Coq, for 160 million kroons (Traks 2003b). At that moment Õsel Foods' juice brand Aura had a 25% share in the Estonian juice market (Traks 2003a) and the company showed good operating results (see Table 27).

Table 27. Õsel Foods' performance indicators (millions of kroons)

	1996	1997	1998	1999	2000	2001	2002	Change (times)
Total sales	73.5		101.5	153.0		106.6	162.2	2.2
Net profit	0.6	3.5	2.0	-32.2	22.0	19.0	15.8	26.3

Sources: Rozental 1999a, Saaremaal ... 2003, Tähismaa 2000, Õsel Foodsi ... 2003.

To sum up, the familiarization with the case companies indicated that the internationalization processes and patterns of the firms differ quite significantly. For example, while Tarmeko has diversified its target country portfolio, Tarkon and Õsel Foods represent the other end of the scale with concentration of their activities mainly on one market. There are also differences in terms of operational modes that have been made use of, in ownership, share of subcontracting activities, and several other aspects. Hence, the large variety of the activities of the case companies enables us to consider the main developments in international markets that are characteristic of Estonian manufacturing enterprises and draw conclusions about the main reasons behind de-internationalization.

2.3.2. Analysis of the case studies

Appendix 38 presents information about the interviewed person, de-internationalization activities and existence of foreign owners in each of the case companies. In all the cases the interview was arranged with the person who had been CEO at the time of setbacks in foreign markets or had been in the company for a long period and therefore knew the developments and main motivations behind the changes in international strategy. All the interviews were taped, except the one with Olari Taal from Õsel Foods. The duration of interviews was approximately one hour. The following part of the subchapter concentrates on discussing the validity of the hypotheses presented in subchapter 2.1.2 in the light of the information gathered from the interviews.

H1: De-internationalization is more likely in the first stages of internationalization.

In the first stages of its international activities **Klementi** faced problems due to its lack of experience. Especially difficult was the selection of distributors in foreign countries. For example, in the case of Finland, they had three contracts with agents before they found the right person.

The most difficult process is finding the right sales representatives for each market. For example, in Finland only the fourth distributor remained and we had good cooperation with him. In Sweden we had a friendly agreement to terminate the contract before deadline with one of our distributors. Of course, we had to pay quite high compensation for that. With another one we had a law suit and had to drop it since the lawyer's fees would have been too high. /.../ Moreover, he didn't have any property – everything belonged to his wife. And this was not the first time for him to cheat.

Madis Võõras, Klementi

The previously described incidents took place in the early stages of Klementi's international activities. On the other hand, Klementi has experienced de-internationalization also in the later stages. First, due to the bankruptcy of its foreign owner, it was forced to withdraw from the Nordic markets for two seasons and re-entering was rather difficult. Secondly, in 2003 Klementi closed down its own retail outlet in Lithuania and switched to cooperation with the retail chain Apranga. Thus, de-internationalization in terms of the operational mode that was exploited in the Lithuanian market took place.

To sum up, Klementi has de-internationalized both in the first and later stages of its international activities. There have been different reasons for these withdrawals. In the earlier period, lack of experience and sporadic export activities were dominant and therefore the main motive seems to be inexperience. In the later stages, the influence of foreign ownership and changes in strategy prevailed.

Sangar is active in the same industry as Klementi but its strategy and product portfolio are in some respects different. Sangar concentrated in the first stages of internationalization heavily on subcontracting activities and was producing shirts under different labels of Nordic enterprises. This strategy was rather successful and enabled the company to develop its own brand. In this stage it had the concept that the whole Baltic market was its home market and the strategy envisaged developing a retail chain that would encompass all three Baltic States for selling Sangar's own production.

De-internationalization activities have been characteristic of the later stages of Sangar's international activities. To begin with, it lost contracts with some of its subcontracting partners in Norway and Denmark, the production price here was too high for these clients. Secondly, they closed down their Lithuanian activities and one shop in Latvia. The latter was the result of bad choice of

location for the shop. De-internationalization from Lithuania was caused by change of strategy that was applied in 2002.

We entirely withdrew from the Lithuanian market and closed the operations down due to the total change in strategy. /.../ We decided that in the future we would not develop our own brand but would concentrate entirely on producing under a private label. /.../ Our activities in Lithuania were at the development stage at this time. There was one retail outlet and we had agreements for opening a couple of others but the first one was not profitable. /.../ All the costs related to this market had to be covered by this one small shop which was ineffective. Therefore we decided to close down all the operations there. /.../ We aren't exporting to Lithuania at all now.

Triin-Anette Kaasik, Sangar

Tarkon started its international activities after the dissolution of the Soviet Union with a few partners and simple production and has developed step-by-step. Its internationalization process has been relatively stable and changes have been mainly determined by external factors. For instance, export to Ireland was withdrawn since the production of a particular printer was transferred to America. The efforts of developing a new printer and all costs that had been made during two years turned out to be losses that both parties had to cover themselves.

There has been a major shift in Tarkon's production portfolio since the company was forced to diversify its activities due to the recession in the world's telecommunications sector. Before the crisis they were tempted to enter the fast growing US telecommunications market. The plans to enter it were not entirely affected by the terrorist attacks as Americans had already decided that they were not going to switch to third-generation solutions. Due to the disappearance of the US market and a crisis in the telecommunications sector, Tarkon was forced to find new markets and competitive advantages within a short period of time.

In a sense, there has been a change in strategy. In the beginning we were concentrating our efforts on the telecommunications sector and tried to develop this side. Changes in 2000 indicated that we had to diversify our activities in order to guarantee stability.

Toomas Noorem, Tarkon

To sum up, Tarkon has had a relatively stable internationalization process. While its first international activities were not characterized by de-internationalization processes, they have appeared in the later stages of development.

In the case of **Tarmeko**, there have been de-internationalization incidents both in the earlier and later stages of its international activities. The first wave

of de-internationalization was definitely not caused by lack of experience. Namely, withdrawals from the Russian and other CIS countries' markets were the result of low purchasing power and the influence of the Russian crisis on these markets was also apparent.

In the Soviet time we produced office furniture. There were three big producers and from our factory five railway carriages of furniture were sent out every day. After losing this market, we had to decide where to put this furniture. There were interested buyers in Russia but the terms of payment and bookkeeping in Russia was a total mess. They came here, put their dollars on the table and carried the furniture away. This was the only way to sell. /.../ During the Russian crisis only 10% of our production was sold in Estonia, all the rest went to other former member states of the Soviet Union. Suddenly, in two years this market just disappeared. /.../ It was difficult to find new markets so promptly. High instability, no experience ...

Olev Nigul, Tarmeko

In search of new markets Tarmeko has had experiential export activities in a number of countries. The volumes sold to each particular market in a particular year significantly depend on the contracts and growth rates of those markets. The problems that Tarmeko and several other Estonian furniture producers have faced in Germany were described already in the previous subchapter. In this case recession of the market caused de-internationalization.

Tarmeko has its own sales representative only in the German market and therefore it can control the sales activities directly and solve problems fast. In the case of other markets it has terminated several contracts with its clients.

We have not rejected markets but clients. /.../ Some of our clients have reclamations all the time while others who sell the same products do not have any reclamations. It is so difficult to control who is responsible for damage in the case of distant countries. /.../ Dishonest clients often realize that we are not able to fight with them. In such cases we prefer termination of a contract. /.../ The other reason for terminating contracts has been that we do not have enough capacity to provide such big volumes as the client needs.

Olev Nigul, Tarmeko

We can conclude from Tarmeko's experience that the company has had de-internationalization incidents both in the earlier and later stages of its internationalization process. The reasons behind withdrawals have been different. High diversification of the export activities and concentration on subcontracting in

several markets are the additional reasons to those that were already pointed out in the previous paragraphs.

By comparison with the other case companies, **Ösel Foods** has presumably suffered the biggest losses caused by de-internationalization. The company had been successful in the Russian market for several years, selling ketchup in open markets. In some months its production capacity in Estonia even failed to meet the demand and so Valio produced ketchup in Finland for Ösel Foods. In this light it seemed to be reasonable to establish a factory in Russia. Long-term cooperation with the company’s Russian distributor had created trust and therefore they decided to establish a joint venture enterprise. Ösel Foods’ foreign owner was also extremely eager to expand the production operations in Russia. However, the owner and managers of Ösel Foods still had so little international experience that it was rather easy to cheat them.

There are two main reasons why we lost the enterprise in Russia. At first, about 50% of the problems was caused by our foolishness. Another 50% was Russian business culture.

Olari Taal, Ösel Foods

The Russian partner suggested building a production plant on the territory of a Russian military factory. This appeared to be one of the many misjudgements. Namely, Ösel Foods lost control over its Russian production plant also because of its location: in a few months’ time their people were simply not allowed to the territory of the military factory any more. Unfortunately, Ösel Foods had no reliable proof of the value of technology and investments that it had made and could not even file a lawsuit.

As a conclusion of the five case studies, we can suggest that the first stages of Estonian manufacturing enterprises’ internationalization are not characterized by extensive de-internationalization incidents (see Table 28). Instead, the latter have appeared in the later stages. The hypothesis found full support only in the case of Ösel Foods and partial support by Klementi and Tarmeko. The validity of hypothesis 1 is not supported by the cases of Sangar and Tarkon.

Table 28. Appearance of de-internationalization activities (denoted by X) in the case firms

	First stage	Later stages
Klementi	X	X
Sangar		X
Tarkon		X
Tarmeko	X	X
Ösel Foods	X	

One potential explanation for this result is that at the beginning of the transition period most Estonian firms had few resources to support their international ambitions, which enabled them to avoid major blunders at that time. All the other firms except Õsel Foods concentrated relatively heavily on subcontracting activities at that time and the low production costs here guaranteed a competitive edge. In the later stages, some of the firms have started developing their own brand and have been interested in carrying out the activities abroad by themselves. Overconfidence about both their product's superiority and their knowledge of foreign markets are likely to be the main reasons for the de-internationalization of Klementi and Sangar. Tarkon and Tarmeko, on the other hand, have both faced recession in their main target market or sector and therefore concentration of their activities has caused problems. Õsel Foods is the only firm that faced major de-internationalization in the early stages of its international development, the main influencing factor being lack of experience.

H2: De-internationalization is more likely in the case of distant markets than near ones.

In the case of **Klementi**, the distance between countries was not highly important. The data indicates that the company has either stopped or decreased its export to Germany, Austria and Canada, and have been relatively successful in less distant markets such as Finland, Sweden, Latvia and Lithuania. However, they have faced several drawbacks also in these markets and in the case of Lithuania they have moved backward in terms of operational mode. Instead of distance, the main problem has been that Klementi's production capacity is too small and its resources quite inadequate for product promotion.

Germans said 3 years ago at a seminar that an Eastern European producer has to consider at least half a million euros, that is about 8 million kroons, per season per brand if it is interested in entering the German market. At the same time, Klementi's marketing budget was around 5 million kroons a year for promotion and all kinds of other things. /.../ We tried in a number of places. We participated in fairs both in Germany and Austria. All German sales were actually carried out via Austria. /.../ We had very good contacts with one married couple in Austria and they were very interested in selling our products and therefore we tried to enter the German market, but regrettably it appeared that our capacity was too small. They also say clearly – if you are interested in selling, you have to promote. /.../ A wise businessman would not go and try the thing the potential success rate of which is relatively low, but at the same time we had nobody to learn from. Experienced Finnish businessmen had an opinion that we wouldn't succeed, but we did not believe them.

Madis Võõras, Klementi

In the case of Canada, this is a usual result of a trade fair. Two Canadian boys found us at a fair in Helsinki, and they had a buying organization in Finland. They just took our products for sale. /.../ We considered it to be an interesting opportunity.

Madis Võõras, Klementi

Sangar has fully de-internationalized its Lithuanian activities and in terms of distance between the countries this is the most distant country among its main target markets (see also Appendix 21). Triin-Anette Kaasik from Sangar pointed out several aspects that are characteristic of Lithuanian business culture and are different from the company's other markets.

You need to have your own representative there. For example, this is not a problem any more but it was before May 1 that smaller clients did not want to carry out the customs formalities by themselves. /.../ And the second important aspect is the control mechanism. You have to check whether the buyer who takes your products for sale does exist also in the following month that is, hasn't vanished into thin air, and pays for the goods. /.../ We experienced this problem several times. /.../ Moreover, there is only one term of payment in Lithuania – after the realization of the goods. We were unpleasantly surprised by this. You cannot make any financial plans. Retail stores do not want to take any risks.

Triin-Anette Kaasik, Sangar

In the case of **Tarkon**, de-internationalization has been more characteristic of distant markets, for example, Ireland and the USA. In the event of those, external influences played a major role instead of the distance of the markets. However, there have also been some other cases of withdrawals from foreign markets and Toomas Noorem has pointed out the main reasons for them:

Yes, there have been de-internationalization activities and usually it is more difficult with distant countries. We don't know exactly what happens with our products there and, of course, the relationship with the client is also relatively shallow.

Toomas Noorem, Tarkon

One very interesting aspect is that Tarkon has experienced problems in entering to and operating in the Finnish market that is close to Estonia both in cultural and geographic terms. The difficulties are not caused by the business culture or lack of competitive advantages but rather by the nationality of Tarkon's foreign owner.

Most of our products are targeted to Sweden. The ownership structure of an enterprise determines this to a large extent and this ownership acts as an impediment in the case of the Finnish market. Swedes and Finns are like Estonians and Latvians ...

Toomas Noorem, Tarkon

Tarmeko's experience suggests that the distance between countries is not of utmost significance for de-internationalization from several markets but it has a role in a number of cases.

There are also other reasons for reducing export to some markets significantly. For example, we have sold our products to Japan, but the transportation costs are high and it is not easy to compete with products from China. Is it clever then to put strong efforts into it? If there is a reclamation, you have to travel to Japan to solve it and this is expensive.

Olev Nigul, Tarmeko

In the case of **Õsel Foods** and its ketchup production we can talk only about one foreign market – Russia. The cultural and geographic distance of this market is much higher than in the case of the Baltic countries and Finland. The main problem seemed to be that neither the foreign owner nor the Estonian owners and management perceived the business cultures to be significantly different compared to Estonia. They realized the differences later, in the process of the establishment of a production plant but did not consider these problems to be highly influential in their case. They relied on their Russian partner and believed that they would be able to solve all problems.

To conclude, the previous discussion leads us to suggest that neither a clear target market pattern nor a strong linkage between the distance of the target market and de-internationalization activities exists in the Estonian manufacturing enterprises (see Table 29). Hypothesis 2 is supported by Tarkon and Õsel Foods, found partial support by Klementi and Tarmeko and was not supported by Sangar.

Table 29. Occurrence of de-internationalization activities (denoted by X) in the case firms

	Nearby markets (Baltic countries, Finland, Sweden)	Distant countries
Klementi	X	X
Sangar	X	
Tarkon		X
Tarmeko	X	X
Õsel Foods		X

H5: De-internationalization is more likely in case there is change in ownership within the period.

Klementi is the only company that faced a change in ownership within the observable period. This change caused withdrawal from the Nordic markets for a while since the enterprise was not able to deliver their collections for two seasons. However, Klementi's strategy has remained the same even under the new management and owners – it is interested in selling its products in the Nordic and Baltic markets. In this light, we can conclude that despite temporary problems in the Nordic markets, the withdrawal was not caused by a radical strategic change accompanying change in ownership.

This is an accident or bad luck that in the period of bankruptcy the collections for two seasons were not delivered. We had the possibilities. If the trustees had been cooperative, then we would have had ... /.../ But they didn't want to take risks and therefore one season was omitted. After that new owners bought the enterprise and due to this another season was omitted and then in the third season re-entry started. /.../ But the dealers had replaced PTA with other brands by that time and this created new barriers. It was a pity.

Madis Võõras, Klementi

It is impossible to give a clear answer about the validity of hypothesis 5 on the basis of the case study data, since only in one case a change of ownership occurred. However, on the basis of this one example it is not possible to provide reliable conclusions since in this case the change in ownership was not the result of a strategic change but was enforced by the bankruptcy of the foreign owner. Therefore extensive conclusions about the influence of change in ownership on de-internationalization activities could easily be misleading.

H6: De-internationalization is more likely in the case of rapid growth in the domestic market.

None of the representatives of the case companies perceived growth in the home market to be an influential reason behind their de-internationalization decisions. The growth rates of the domestic markets in the industries of the case companies are shown in Table 30. During the years under discussion the highest growth has been experienced in the sector where Tarkon is active, but Tarkon's activities have been mainly oriented to foreign markets. On the other hand, Õsel Foods concentrated its activities entirely on the home market after de-internationalization, despite the lowest growth rate by comparison with the others.

Table 30. Growth of turnover in the domestic market (%) in different Estonian manufacturing industries

	1996	1997	1998	1999	2000	2001	2002	1995-2002
Clothing	29.6	7.3	22.4	1.9	23.8	3.2	17.9	161.3
Office, electrical, radio, and medical equipment	210.5	15.2	5.0	-12.0	26.4	33.1	19.4	563.9
Furniture	108.2	22.5	6.8	-4.6	11.9	8.7	15.2	264.0
Food products, beverages	23.8	24.1	12.3	-12.2	7.1	12.4	4.4	90.3

Source: author's calculations on the basis of Aggregated Data ... 2004.

In **Klementi**, the domestic market is not perceived to be an influential reason for de-internationalization but rather a barrier to international activities.

Every business starts from the home market. If you have a local market with 1 million or 1.5 million inhabitants, then this market is never effective and is never going to be the leading market. If you have a home market with 50 million inhabitants, then there is a possibility for success.

Madis Võõras, Klementi

Sangar, on the other hand, perceived at the beginning of its international activities that the whole Baltic market was its home market. During the application of a new strategy the concept of home market was also revised.

Now our home market is Estonia. Actually we regard Latvia to be a foreign market. To be honest, it is somewhere else. /.../ Latvia is the biggest export market for our own production now.

Triin-Anette Kaasik, Sangar

Rather contrary to Klementi, **Tarmeko** has an opinion that a small home market is a driving force behind internationalization.

Our production capacity is too big for the Estonian market. If the purchasing power in Estonia was higher, they would buy all our production. /.../ It is mainly the weakness of the Estonian market that forces us to look for opportunities abroad.

Olev Nigul, Tarmeko

Toomas Noorem from **Tarkon** emphasized that it is important to search for new opportunities also in the local market and other Baltic States and these markets may provide good opportunities in the future. However, up to now the local market has not induced de-internationalization activities. On the other hand, domestic demand was not influential in closing down **Õsel Food**'s operations in Russia but this enterprise concentrated on servicing the local market after the de-internationalization processes.

This discussion leads us to the conclusion that the domestic market has not been a significant reason for de-internationalization in the case of the above five Estonian manufacturing enterprises. Therefore hypothesis 6 is not supported.

H7: De-internationalization is more likely in the case of a rapid increase in costs or a decrease in operating profit.

This motivation has not been very influential yet and not all the firms commented on that issue. Madis Võõras from **Klementi** mentioned that they had to terminate one contract in Finland because of too high provision and therefore low profitability of a contract. On the other hand, **Sangar**'s de-internationalization from Lithuania was mainly caused by a change in strategy, but apart from this, the inefficiency and low profitability of the Lithuanian operations were also mentioned. The Latvian operations that were profitable were retained despite the strategic change.

In the case of **Tarmeko**, low profitability and loss of competitive advantage based on low production costs can easily appear to be the main reasons behind its withdrawal from some markets in the near future. In the case of Germany, there has already been a pressure to reduce the prices. Since 51% of Tarmeko's sales came from Germany in 2003, this will significantly influence the company's future strategy.

Similar issues are expected to rise also in **Tarkon**:

The profitability of our activities is an important issue. I believe that we will restructure our activities in the future in order to guarantee sufficient and stable profitability.

Toomas Noorem, Tarkon

On the basis of the above opinions, we can conclude that low profitability has not forced the case firms to de-internationalize and therefore hypothesis 7 is not strongly validated by these cases. It found partial support in the case of Klementi and Sangar and is likely to apply mainly in the case of those firms that have concentrated on providing subcontracting services. However, the growing importance of this issue is acknowledged and in the coming years this may easily appear to be the prevailing motivation behind the de-internationalization decisions.

The results of the case study analysis are presented in Table 31. It is interesting to note that none of the hypotheses apply for all case firms. The

problem may derive from the difficulties in generalization of the findings – the case firms differ in several aspects.

Table 31. Validity of the hypotheses in the case of five Estonian manufacturing enterprises

Reasons for de-internationalization	Hyp.	Result
Lack of international experience	H1	Supported by Ösel Foods, partial support by Klementi and Tarmeko; supported in the case of internationalizing with own production
	H2	Supported by Tarkon and Ösel Foods, partial support by Klementi and Tarmeko
Change in strategy	H5	Not clear
	H6	Not supported
Increase in costs, poor performance	H7	Partial support by Klementi and Sangar; this reason applies mainly in the case of subcontracting activities

Despite support provided to one or another hypothesis, there are in every case also some firms that have experienced different developments due to their different strategic orientation, existence of foreign owner, field or activity or some other distinguishing aspect. The following subchapter compares the results of the current case study analysis with the ones that were presented in the earlier parts of this dissertation on the basis of more general data.

2.3.3. Synthesis of the research results

The analysis of reasons for de-internationalization of Estonian manufacturing enterprises presented in this chapter of the dissertation relies on three types of data. Since there are differences in depth of the data (see Table 9 in subchapter 2.1.2), it is understandable that some contradictions in results may exist.

In terms of **lack of experience** as the main driving force behind the de-internationalization decisions of the Estonian manufacturing firms we can conclude the following:

- De-internationalization is not characteristic of the initial stage of firms' international activities. However, it depends on the activities of a firm – these firms that concentrated on subcontracting during the first years of their activities have until lately not experienced pressures to withdraw some markets or clients from their portfolio. On the other hand, de-internationalization seems to be characteristic of the first stages of international activities in the case of own production marketing. Therefore, a distinction between internationalization through subcontracting as compared to selling its own

production seems to be useful in order to specify the significance of a firm's international experience as the reason for de-internationalization.

- High distance of a target market both in cultural and geographic terms does not necessarily mean a higher likelihood of de-internationalization. In a number of cases, termination of activities from nearby markets has taken place.
- These firms that have directed their production to the Eastern European markets have experienced de-internationalization more often than those that have targeted their activities to the western markets.
- We cannot conclude that small firms face de-internationalization more often than big ones.

Change in strategy was the second group of reasons for de-internationalization under examination. The results of the analysis suggest that:

- Change in ownership does not promote de-internationalization activities in Estonian manufacturing firms.
- The influence of growth in the domestic market on the de-internationalization decision has been modest and appeared to be significant in the case of general data provided by the database of the Estonian manufacturing industry. More specific data indicates that de-internationalization is rather the result of concentration of the activities or replacing some of the target markets with other ones.

Poor performance is also often considered to be influential in terminating (some of) the foreign activities of a firm. The analysis of Estonian manufacturing enterprises showed the importance of this reason in the case of general data. The surveys of exporters and case studies did not support the argumentation that a rapid increase in costs or a decrease in operating profit will result in de-internationalization. However, the increase in the importance of this reason in the following years is acknowledged and pointed out by several interviewees.

The only influential factor shaping the context of de-internationalization decisions involved in the analysis in this dissertation was **knowledge from external sources**. The results of the analysis led to the following suggestions:

- The existence of a foreign owner decreases the likelihood of de-internationalization. Locally owned firms terminate (some of) their foreign activities more often.
- The context of an industry's overall level of internationalization does not influence significantly the decision to de-internationalize. Late starters and lonely internationals do not withdraw some of their international activities more often than firms that can find more support from the other firms in the industry or do not face such intensive competition in the target markets from the other Estonian firms.

The results of the above discussion and analysis presented in the previous sub-chapters are summarized in Table 32. The data indicates several contradictions in the results. Case studies provide more detailed and in-depth data and therefore enable us to concentrate on analyzing the core of the problem under

investigation (see also Figure 24 in subchapter 2.1.2). Therefore, a higher importance as compared to other sources of data is attached to the findings from the case studies in determining the importance of different groups of reasons of de-internationalization in Estonian manufacturing enterprises. The discussion of the main results of the case study analysis and opinions of interviewees about the reasons of de-internationalization are presented in the following paragraphs.

Õsel Foods is the only firm of the case companies where lack of experience has been the one and only reason for de-internationalization. In other case companies this aspect has not been influential at all or had a smaller impact than other motivations.

Table 32. Main reasons for de-internationalization¹⁰

Source of data	Lack of international experience	Change in strategy	Increase in costs	Additional knowledge
Database of manufacturing enterprises	–	+/-	+	+/-
Surveys of exporters	+/-	–	–	+
Case studies	+/-	+	–	

Klementi and **Sangar** are active in the same industry, nevertheless their internationalization strategies and reasons for de-internationalization have been rather different. While Triin-Anette Kaasik from Sangar pointed out the change of strategy as the main reason for terminating some foreign activities, there was a wide variety of motivations in Klementi. These differences are illustrated by the opinions of both interviewees.

In our case, 99% of the reasons behind de-internationalization were justified by internal change. /.../ At the beginning we had the strategy that the whole Baltic market is our home market, but we changed this approach.

Triin-Anette Kaasik, Sangar

I would say that about 70% are factors you can control by yourself and about 30% are such factors that you are not able to control. /.../ The most important part of the game is in your own hands./.../ You should be more aggressive, more definite. We are in many cases too trustful and believe foreigners' nice stories.

Madis Võõras, Klementi

¹⁰ + depicts supportive evidence for this group of reasons behind de-internationalization; – shows that the data did not provide support to this particular group of reasons; +/- stands for situation where some of the hypotheses that grasp the nature of a particular group of reasons for de-internationalization are supported and some are not validated.

Besides change in strategy, in the case of Sangar there has also been a slight impact of the low profitability of its Lithuanian operations. At the same time, the main reasons for de-internationalization activities in Klementi include the following:

- it was not able to provide sufficient capacity and had inadequate resources for promotion (Austria, Germany);
- export trials (Canada, Austria, Germany);
- lack of experience (change of the representatives in Finland and Sweden);
- change of strategy (Lithuania);
- bankruptcy of the foreign owner.

Both **Tarkon**'s and **Tarmeko**'s internationalization processes can be characterized by a change in strategy within the observation period. These strategic changes and de-internationalization from some markets are closely related. In Tarkon the change has been mainly determined by a telecommunications sector's crisis that forced it to diversify its production portfolio. On the other hand, there are no major changes in Tarmeko's production portfolio in terms of diversification, but there is a switch from low-cost towards higher value-added production in order to remain competitive in foreign markets.

We have taken this kind of direction that we don't want to produce cheap products any more. We have started production of more sophisticated furniture details. /.../ For us it is important to move towards the manufacture of high quality products. This isn't easy. It needs technological restructuring and training of employees. /.../ However, we can survive only if we start producing high quality furniture. /.../ We have changed our product policy in the sense that we don't produce so many low-price products any more.

Olev Nigul, Tarmeko

Other reasons for de-internationalization activities in Tarmeko are as follows:

- lack of experience (Switzerland and Finland – distributors),
- bankruptcy of a client (Denmark),
- decline in demand (Germany),
- terrorist attack (France).

The conclusions of the above discussion are presented in Table 33. These results indicate that change in strategy appeared to be important in all the cases except Ösel Foods. But compared to those strategic reasons that were captured by the hypotheses, the other aspects turned out to be more influential. Increase in costs or poor performance, in turn, gained only modest support as a motivation for withdrawals. Contrary to the expectations, lack of international experience was not considered to be a significant influential factor in terminating international operations by all the enterprises. On the other hand, as already mentioned at the beginning of the present subchapter, if we had

distinguished between subcontracting and own export activities the results would have been slightly different in terms of the importance of the lack of knowledge as a motivation for de-internationalization.

Table 33. Main reasons for de-internationalization in the five case firms

	Lack of international experience	Change in strategy	Increase in costs
Klementi	X	X	
Sangar		X	X
Tarkon		X	
Tarmeko	X	X	
Õsel Foods	X		

To sum up, both case study analysis and the comparison of the research results presented in Table 32 indicate that change in strategy is the most important reason behind de-internationalization activities of Estonian manufacturing enterprises. This is followed by lack of international experience. Increase in costs and poor performance has not influenced de-internationalization decisions significantly yet. The result of this dissertation is summarized by a modified version of the framework that was presented in the theoretical part of the dissertation (see Figure 31).

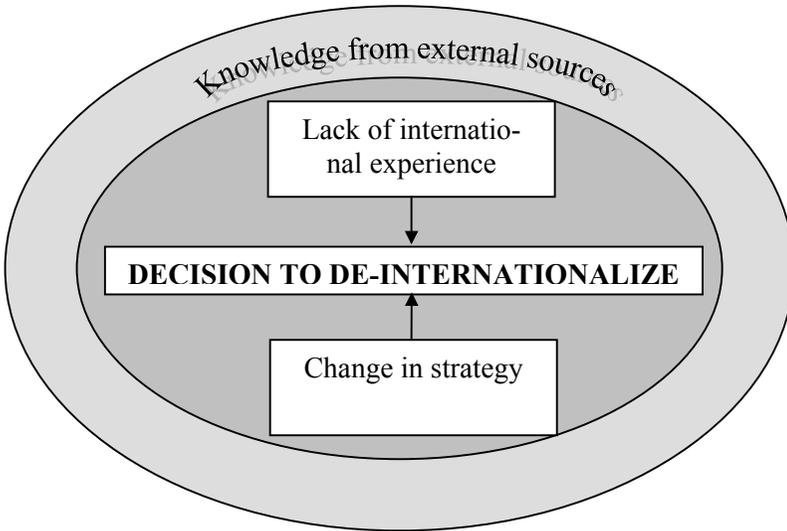


Figure 31. The importance of different reasons for de-internationalization in the case of Estonian manufacturing enterprises.

This result raises one more interesting issue. Namely, Figure 19 suggests that the importance of different groups of de-internationalization reasons varies between the stages of a firm's internationalization. These suggested relationships generally found support from the previous analysis. However, in some case firms this approach failed to describe the motivations for terminating foreign activities. Generalization of research findings leads us to the additional suggestion that these relationships may apply better at the level of a country than a firm (see also Appendix 7 for Luostarinen's approach involving different levels of the internationalization pattern). Estonian manufacturing firms are mostly in the first stages of their international development, exporting to several countries but having only modest outward foreign investments. Changes in strategy and lack of international experience have influenced their de-internationalization decisions. Due to the integration in the European Union and development of economy it can be expected that the advantages deriving from the country's low cost level are diminishing. This will lead subcontractors to finding new markets and/or contracts in other countries worldwide. Therefore an increase in costs and poor performance are likely to dominate the next wave of de-internationalization activities of the Estonian manufacturing firms.

CONCLUSION

This dissertation focused on developing a framework for analyzing the reasons behind de-internationalization and controlling the influence of these reasons in the case of Estonian manufacturing enterprises. As a result of the analysis, it appeared that change in strategy and lack of international experience are the characteristic motivations for de-internationalization of Estonian firms while poor performance or increase in costs have only a modest influence.

The dissertation comprises two chapters. The first chapter is theoretical, discussing the main theoretical concepts that are used for identifying the main groups of reasons and formulating the framework for analyzing the reasons behind enterprises' de-internationalization decisions. The second chapter focuses on controlling the influence of different groups of reasons in the case of Estonian manufacturing firms. The analysis presented in this dissertation is based on three different sets of data: 1) balance sheet and income statement data of Estonian manufacturing enterprises, 2) surveys of Estonian exporters, 3) five case studies. In the present section, we will at first introduce briefly the main concepts leading to the formulation of the framework for analyzing the motives for termination of (some) of the international activities. Next, an overview of the research hypotheses and data is presented and after that the results of the empirical study are summarized. Finally, suggestions for future research in the area of de-internationalization are presented.

The theoretical concepts leading to the formulation of a framework for analyzing the reasons for de-internationalization

To develop the theoretical basis for analyzing the reasons behind de-internationalization decisions, three main realms of literature were used, namely, internationalization process models, literature about target market and operational mode patterns of enterprises' internationalization, and research in the area of export withdrawals and divestments.

Internationalization process models (the Uppsala model, Luostarinen's POM approach and others) contribute to the knowledge about the main stages and development patterns of international activities of firms. These models emphasize that commitment to foreign markets should be in accordance with the knowledge and experience that the firm possesses. It is reasonable to start with low commitment foreign operation modes and to concentrate the activities

to these markets that are close both in geographic, cultural and economic terms. Afterwards, when the firm has gained knowledge and experience, the movement towards higher commitment operational modes and more distant countries takes place.

These models point out several issues that are important in developing the framework of de-internationalization reasons. Firstly, they distinguish between different stages of internationalization and suggest that, for example, lack of knowledge is influential only at the beginning of the enterprise's international activities. This may easily apply also in the case of de-internationalization analysis – the importance of knowledge stock as a motivation for terminating foreign operations can decline over time more easily than other reasons. Therefore it is reasonable to suggest that there are different reasons behind de-internationalization decisions at different stages of a firm's international development. Secondly, there are various sources of knowledge and therefore it is important to consider not only the firm's own experience, but also the role of knowledge from external sources. Thirdly, it is important to analyze the influence of rapid internationalization on the likelihood of de-internationalization activities. Finally, internationalization processes can be analyzed on a firm's level, but it is also possible to differentiate between several dimensions (product, operational mode, target market, organizational capacity). Application of this kind of approach seems to be beneficial also in the case of de-internationalization. Moreover, besides changes along different dimensions, it is in many cases useful and possible to analyze also changes within, for example, the operational mode.

Estonian firms have been active in international markets for slightly more than a decade, having started their activities without significant knowledge of foreign markets or international experience. Therefore these models that explain internationalization processes in the context of a growing stock of knowledge and experience seem to fit well for analyzing both internationalization and de-internationalization activities. For example, rapid internationalization processes or skipping some stages of development may easily lead to de-internationalization. One way for reducing the influence of inexperience is gaining knowledge from outside sources. The share of foreign investment penetration in Estonia is relatively high; therefore it can be suggested that this has contributed to gaining relevant knowledge about foreign markets. Hence, lack of knowledge is expected to be a less influential reason for the de-internationalization of Estonian manufacturing firms in foreign-owned companies than in local ones.

The following chapter of the theoretical part focused on the target market and operational mode paths of internationalization. As it was pointed out already earlier, internationalization and de-internationalization can both take place along several dimensions. Only two of them are dealt with in this dissertation. Product dimension was left aside due to the lack of respective data and the nature of Estonian manufacturing firms' foreign activities. Organi-

zational capacity was skipped because of difficulties in conceptualizing and measuring it.

An analysis of the target market path resulted in a suggestion that firms tend to diversify their activities during the first stages of internationalization, in the middle part there can easily appear changes in strategy and concentration on only a few markets with the highest potential. Afterwards the number of markets is likely to increase again. Thus, de-internationalization seems to be the result of a change in the strategy of the firm at some stages of its international activities. Most Estonian firms are still at the very end of their internationalization processes and therefore, on average, they have relatively few target markets and a tendency towards diversification of their activities to new markets. So it can easily appear that the strategic change leading to a de-internationalization is apparent only in some cases and is not characteristic of the majority of the firms.

The other aspect to be discussed in the context of the target market path is the distance between countries. It is suggested that enterprises tend to move to more distant countries only at the later stages of internationalization. Thus, de-internationalization can easily be caused by selecting distant target countries at the early stages of international activities. Estonian firms have primarily concentrated on servicing nearby markets, but there are also several trials in more distant countries. Hence, it is possible to discuss whether skipping earlier stages of the target market path and entering more distant countries will result in de-internationalization from a particular market.

The operational mode path suggests development from low commitment operational modes towards high commitment ones when the firm's international experience increases and perceived uncertainty related to foreign markets declines. However, there is no complete agreement about the shape of the target market path and the authors' opinions are quite contradictory. Therefore, de-internationalization due to a strategic change that is characteristic of some parts of internationalization processes cannot be suggested here. In Estonia most firms are at the stage where they have export activities but have not made outward foreign investments yet. Moreover, licensing as an operational mode for servicing foreign markets is used only in a few cases by Estonian manufacturing firms. This suggests that during the analysis of de-internationalization along the operational mode dimension, the emphasis should lie on the changes within operational modes since there are not so many changes between operational modes.

The discussion of the operational mode path suggested also that besides knowledge from outside sources there are at least two additional influencing factors that could shape the context of de-internationalization decisions. Namely, costs of terminating (some of) the foreign activities and motivation for internationalization can easily influence the impact of several reasons for de-internationalization and therefore both increase or decrease the probability of a de-internationalization activity. Considering Estonian manufacturing firms,

these two additional influencing factors are likely to be of less value than, for example, in the case of firms from developed countries. This kind of argumentation is based on the nature of Estonian firms' foreign activities. Namely, they have mainly been motivated by servicing the market and in this case reversal of foreign activities is rather easy and the costs are relatively modest by comparison to other motivations such as efficiency- or natural-resources seeking. Hence, the influence of these factors is in most cases modest.

The third chapter of the theoretical part started with discussion of the main reasons behind export withdrawals and divestments. This enabled us to identify three main groups of potential reasons for de-internationalization that have appeared to be significant in the earlier studies about export withdrawals and divestments. It is suggested in this literature that the importance of these reasons may vary, depending on the stage of firm's international activities. All these aspects had to be considered also in developing the framework for analyzing the reasons for de-internationalization.

De-internationalization is somewhat different from export withdrawals and divestments. Namely, it allows analysis along and within several different dimensions, while the latter usually consider only radical changes in operational mode. Considering the discussion in the previous chapters of the theoretical part, we suggested a framework that consists of three main groups of reasons for de-internationalization and three additional influencing factors that shape the context of de-internationalization decision. These three groups of reasons are lack of international experience, change in strategy and poor performance or increase in production costs. Their impact depends on the influencing factors such as the reason for internationalization, knowledge from external sources and costs related to de-internationalization.

The impact of the abovementioned three groups of reasons for de-internationalization is likely to vary between different stages of the enterprise's international activities. Lack of international experience is likely to dominate at the beginning of foreign activities, poor performance or increase in costs are likely to be most influential in the middle part of internationalization, and change in strategy gains significance during the developed stage of the firm's international operations. These suggestions and developed framework of de-internationalization reasons are used as a basis for identifying the main reasons for termination of international activities in the Estonian manufacturing enterprises.

The research methodology and data

For controlling the validity of three main groups of de-internationalization reasons that were suggested in the theoretical part of the paper, and the influence of external knowledge from outside sources, ten hypotheses were set up. Two influencing factors – the reason for internationalization and costs of de-internationalization – were in this dissertation left aside in the empirical analysis

due to the problems pointed out already earlier in this conclusion. Namely, the main motivation behind internationalization of most of the Estonian manufacturing enterprises is servicing of foreign markets through export activities. Therefore it is difficult to draw conclusions about its influence due to the similarity of the firms in this respect. Moreover, this motivation for internationalization usually means relatively low commitment to foreign markets and therefore the costs of de-internationalization are not high. There are also problems with gaining access to reliable data that would allow drawing conclusions about the significance of costs as an influential factor that shapes the context of de-internationalization decisions.

There are three different types of data that was analyzed in the empirical part of the paper and an approach of moving from more general towards more detailed data was applied. The first database contains balance sheet and income statement data of 325 Estonian manufacturing enterprises for the period 1996–2002. Due to the missing values, some of the observations had to be dropped and so the final number of observations was 307. This data allowed analyzing the validity of 8 hypotheses and multinomial logistic regression analysis was applied.

After that, concentration on more specific data took place and databases containing the results of two surveys of Estonian exporters were used in order to discuss the importance of different groups of reasons behind de-internationalization processes of the firms. These surveys were carried out in 2001 and 2004 and contained 80 and 118 observations, respectively. In the case of this data firms were divided into groups according to their changes in commitment to a particular target market. The existence of statistically significant differences between those firms that had increased their commitment to a particular target market and those that had de-internationalized was controlled by an ANOVA analysis. This data allowed us to draw conclusions about the validity of 7 hypotheses.

Finally, detailed data about the reasons for de-internationalization of the Estonian manufacturing enterprises was gathered through 5 case studies. These firms represented the clothing industry, the manufacturing of office, electrical, radio and medical equipment, the furniture industry and the food industry. Interviews with the representatives of the case firms were completed during August–October 2004. This data enabled us to control the validity of 5 hypotheses. Since the information gained through the case studies provides a good and in-depth insight into the most important motivations behind the termination of foreign activities a higher value as compared to other data is assigned to these results in generalizing the main findings of this dissertation.

Validity of hypotheses and generalization of findings

The ten research hypotheses that were suggested in subchapter 2.1.2 can be divided into four groups. The first four hypotheses were set up for controlling the influence of lack of experience as a motivation for terminating foreign activities. The two following hypotheses concentrate on the influence of change in strategy. Hypothesis 7 controls the existence of a significant impact of poor performance or an increase in production costs. Finally, the last three hypotheses are targeted to identify the role of knowledge from external sources on shaping the context of the de-internationalization results. All these hypotheses and the main results of the empirical analysis are presented in the following paragraphs.

H1: De-internationalization is more likely in the first stages of internationalization.

The first hypothesis was fully supported in the case of surveys of exporters and by Ösel Foods. Partial support was provided by Klementi and Tarmeko. The analysis indicates that it seems to be reasonable to distinguish between subcontracting and own export activities in future studies in this area. The hypothesis is likely to be invalid in the case of subcontracting since in this case de-internationalization would rather appear in the later stages of development when the enterprise can lose its competitive edge either due to increasing costs or some other reason. The data that was employed in the present dissertation did not allow clear distinction between these two groups of firms.

H2: De-internationalization is more likely in the case of distant markets than near ones.

This hypothesis found mixed support from the general data but was validated by Tarkon and Ösel Foods and partially supported by the cases of Klementi and Tarmeko. Compared to other reasons for de-internationalization, distance appeared to be rather insignificant. This result can be justified by a more careful analysis in the case of more distant markets and in several cases Estonian managers tend to overestimate their knowledge of nearby countries like Latvia and Lithuania. As it was mentioned also earlier in this dissertation, most of the Estonian firms have their foreign operations only in the neighboring countries and in terms of growth in the local market, some of these companies have withdrawn (some of) their international activities in order to meet the demand in Estonia. This will apply especially in the case of smaller firms.

H3: De-internationalization is more likely in the case of small firms than big ones.

This hypothesis was not validated by the data. The reason behind the insignificance of this motivation may lie in higher flexibility of the production and higher customer orientation in the case of smaller firms, which may provide more sustainable competitive advantage. Moreover, smaller firms often also tend to carry out a more careful analysis of the target markets since they have only limited resources to be committed to international activities.

H4: De-internationalization is more likely in the enterprises which have directed their production to the Eastern European markets than in those that have sent their production to the western markets.

This hypothesis found support from the data. Firms tended to de-internationalize their activities from Russia, the Ukraine and other Eastern European transition countries. This hypothesis holds especially in the case of full de-internationalization incidents. One explanation behind this kind of result is that the majority of the Estonian manufacturing firms do not possess significant competitive advantages in the other transition countries since the level of production costs and the level of economic development in these countries is relatively similar to the situation in Estonia. On the other hand, Estonian manufacturing firms are still competitive in providing subcontracting services for Western European companies.

H5: De-internationalization is more likely in case there is change in ownership within the period.

This hypothesis was not validated by the data that was employed in the empirical part of the dissertation. Therefore we can suggest that either most new owners have not changed the strategy, or these changes have promoted an increase in commitment to international markets. In the case of these firms that were analyzed in the final part of dissertation, only one had had a change in ownership within the period, but this change did not generate any considerable changes in strategy. However, this one case did not provide a clear answer about the validity of the hypothesis.

H6: De-internationalization is more likely in the case of rapid growth in the domestic market.

The database of the Estonian manufacturing industry supported the validity of this hypothesis. Hence we can conclude that developments in the local market influence the de-internationalization decisions taken by Estonian manufacturing enterprises. However, the interviews indicated that termination of activities in one market is rather induced by concentration of activities on only a few markets or replacing some foreign markets with more profitable ones, but not by the growth of the domestic market.

H7: De-internationalization is more likely in the case of rapid increase in costs or decrease in operating profit.

This hypothesis was supported by the database of the Estonian manufacturing industry. Case studies of Klementi and Sangar provided partial support to the hypothesis. Moreover, the case studies indicated the growing importance of this issue in the future. The relatively modest support to this group of reasons behind de-internationalization thus far is likely to be determined by the high share of subcontracting activities in the export of Estonian manufacturing firms and the importance of Western European countries among Estonia's main export markets.

H8: De-internationalization is more likely in the case of locally-owned firms than foreign-owned firms.

This hypothesis found support in the empirical part of the dissertation. Locally owned firms which usually possess less experience and knowledge de-internationalize their international operations more often than foreign-owned companies.

H9: De-internationalization is more likely in the case of new entrants to the foreign markets who are active in the industry that is highly internationalized.

H10: De-internationalization is more likely in the case of firms active in the industry that is not internationalized at all.

Neither of the hypotheses that concentrated on researching the influence of the internationalization level of an industry found support in the present dissertation. Therefore we can conclude that information and knowledge that is gained from other companies active in this industry in Estonia do not contribute significantly to deciding upon de-internationalization.

The previous discussion leads to the conclusion that most of the hypotheses failed to get strong support from all three sources of data. However, after assigning higher importance to the information gained through case studies, it is possible to conclude that in Estonian manufacturing firms, change in strategy and lack of international experience have been the main groups of reasons behind de-internationalization. Knowledge from external sources has also contributed to shaping the environment for de-internationalization decisions. Poor performance and increase in costs have not been significant yet, but their importance is growing.

These findings suggest that managers of the Estonian manufacturing firms should constantly analyze the potential of different target markets in order to find new solutions in the case of decline in demand in their present markets. Secondly, the importance of the costs related to closing down foreign operations or changing the operational modes have to be acknowledged and clearly calculated in order to avoid big losses in case of unfavorable developments. Managers should also promote the means for retaining and adopting the knowledge gained both from internationalization and de-internationalization incidents in order to apply it in the case of re-internationalization or activities in other target markets.

The above findings also contribute to the case of governmental institutions. First, in developing the support schemes and providing financial support to the firms that are active in international markets, those that sell own production and providers of subcontracting services have to be differentiated between. Secondly, most of the supportive measures in Estonia have thus far been targeted to exporters. At the same time, foreign investment outflows grow year after year. Hence, an increase in attention to foreign investors would significantly contribute to decreasing the role of the lack of international or market-specific experience in closing down foreign subsidiaries and promotes therefore in many cases the establishment of distribution channels for selling goods produced in Estonia. Finally, in the near future, an increase in production costs is likely to be

the most influential motivation for de-internationalization. Hence, an analysis of sustainability of international competitiveness of different industries and implementation of policy measures supporting manufacturing of products with high value added is instrumental in avoiding significant drawbacks in the Estonian manufacturing enterprises' foreign activities.

Recommendations for future research

There are several avenues open for future research into de-internationalization. At first, future research of different aspects of de-internationalization should also consider a broader spectrum of theoretical foundations. For example, the transaction cost approach and the network approach should be addressed for analyzing additional reasons for withdrawal.

Internationalization research has mainly concentrated on analyzing the market and operational mode dimensions thus far. At the same time, the product dimension seems to be rather unexplored. Thus, more research in this field both from the perspective of internationalization and de-internationalization activities is welcome. Moreover, a complex approach that would integrate all dimensions of internationalization and linkages between inward and outward internationalization would contribute a lot to our understanding of (de-) internationalization processes.

There are also several possibilities for improving the analysis by involving additional variables. For example, Larimo (1998) suggests that the age of the foreign subsidiary in the case of investments, diversification of activities, and R&D intensity can be used. The present study did not cover the above-mentioned variables for various reasons. One of them is the lack of adequate data.

Several additional research avenues and new topics can also be suggested. One of the possibilities is to concentrate on analyzing how costly the de-internationalization process is and how big is the influence of these costs on de-internationalization activities. These cost aspects are closely related to the value of the firm. Therefore it would be interesting to identify the changes in an enterprise's value (see also Tsetsekos, Gombola 1992), taking into account the costs arising during the termination process of the international activities, on the one hand, and the overall influence of de-internationalization on the firm's activities, on the other hand.

The other option is to concentrate on researching the decision processes that lead to de-internationalization (see also Boddewyn 1983; Ghertman 1988; Tornedon, Boddewyn 1974) and organizational changes that precede or follow the de-international activities. One very interesting area would be the analysis of the linkages between the de-internationalization processes, the organizational structure and exploitation of previous knowledge and experience and how this experience is applied in the future international strategy.

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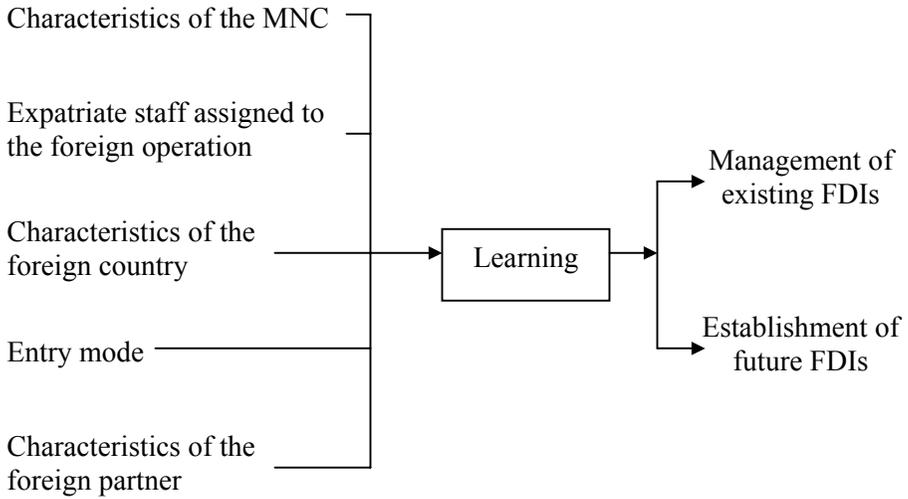
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APPENDICES

Appendix 1. Determinants and consequences of learning from internationalization



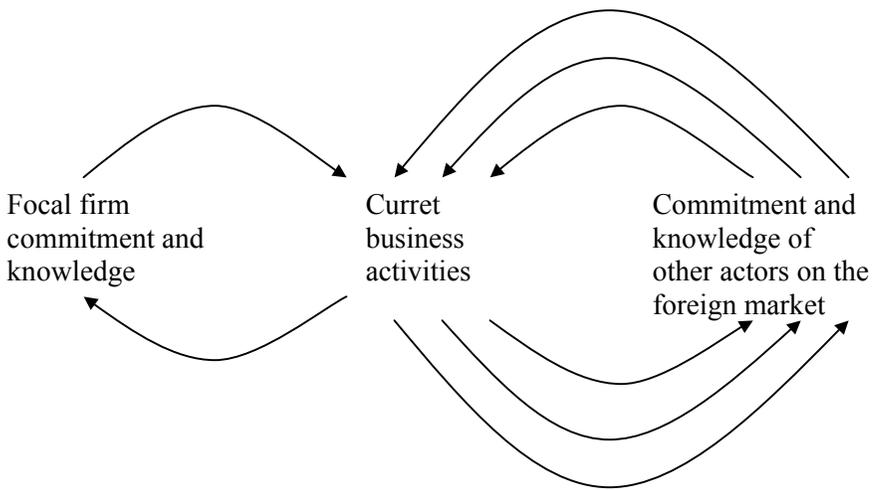
Source: Tsang 1999, p. 93.

Appendix 2. Post-Uppsala development of knowledge understanding

Uppsala theorists' original knowledge presumptions	Examples of subsequent developments in knowledge understanding
Crucial knowledge is market-specific	<ul style="list-style-type: none"> • General internationalization knowledge is crucial • Decomposing market knowledge • Knowledge about learning process is crucial (double-loop learning)
Crucial knowledge acquired via conduct of business activities	<ul style="list-style-type: none"> • Learning through mimetic behavior • Learning via recruitment of knowledgeable persons • Learning as a function of time and variation
Crucial knowledge is embedded in individuals	<ul style="list-style-type: none"> • Crucial knowledge might be embedded in teams • Crucial knowledge might be embedded in company routines • Crucial knowledge might be embedded in networks
Crucial knowledge is tacit	<ul style="list-style-type: none"> • Codification/articulation of (most) crucial knowledge is feasible • New information technology makes codification less costly • New communication technology makes codification more beneficial
More knowledge increases international involvement proportionately	<ul style="list-style-type: none"> • More knowledge may deter resource commitment • Intra-organizational knowledge diffusion requires appropriate incentives • Decision-makers might not be risk averse
Lack of knowledge detains the internationalization process	<ul style="list-style-type: none"> • Knowledge may propel firms' internationalization process • Internet opportunities might drag firms into rash international expansion • In the global marketplace, firms do not need any specific knowledge

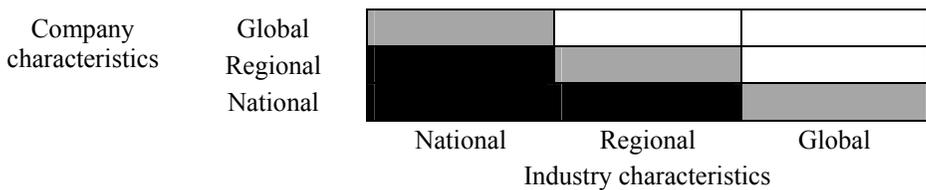
Source: Petersen *et al.* 2001, p. 26.

Appendix 3. The multilateral aspect of the internationalization process



Source: Johanson, Vahlne 1990, p. 19.

Appendix 4. The experience-based model's ability to provide unambiguous explanations to patterns in the internationalization process under various industry and firm conditions (the darker the color, the stronger the ability)



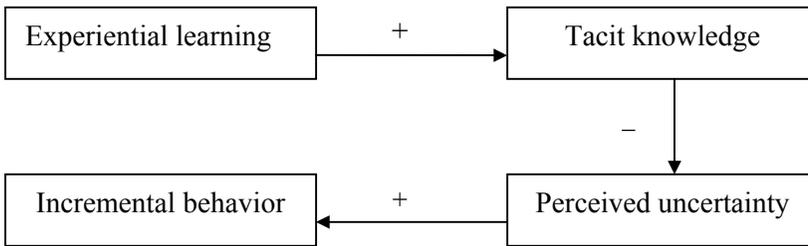
Source: Vahlne, Nordström 1993, p. 545.

Appendix 5. Internationalization and the network model

		Degree of internationalization of the market	
		Low	High
Degree of internationalization of the firm	Low	The Early Starter	The Late Starter
	High	The Lonely International	The International Among Others

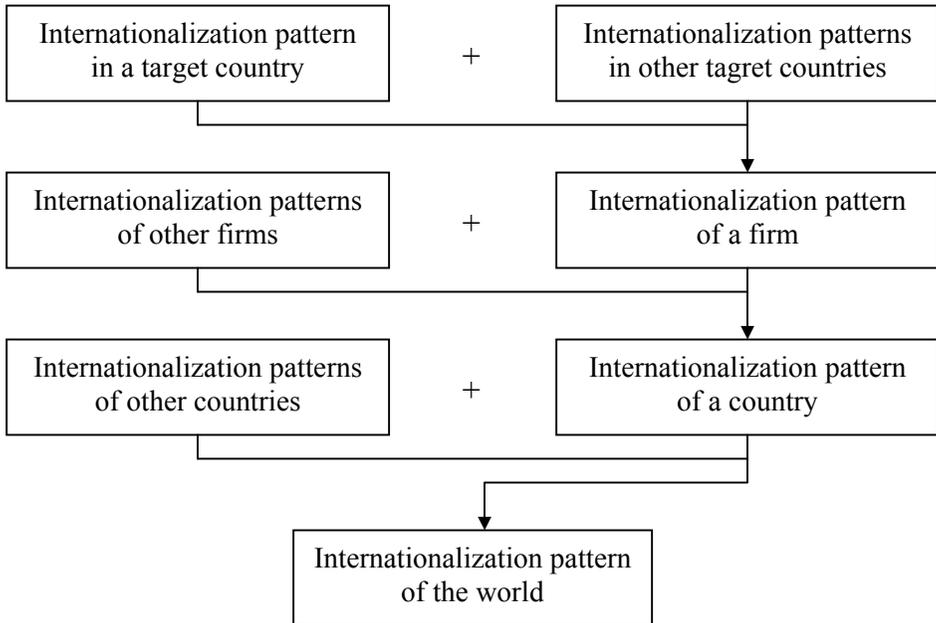
Source: Johanson, Mattson 1988, p.298.

Appendix 6. The relationship between experiential learning, tacit knowledge, perceived uncertainty and incremental behavior



Source: Forsgren 2002, p. 262.

Appendix 7. Composition of internationalization patterns at different levels



Source: Luostarinen, Welch 1997, p. 258.

Appendix 8. Overview of different stage models describing internationalization of enterprises – internationalization, operational mode, market and product paths

INTERNATIONALIZATION PROCESS
<p>Bilkey and Tesar (1977):</p> <ol style="list-style-type: none"> 1) management is not interested in exporting, would not even fill an unsolicited order; 2) management is willing to fill unsolicited orders, but makes no effort to explore the feasibility of exporting; 3) management actively explores feasibility of active exporting; 4) experiential exporting to some psychologically close country; 5) firm is an experienced exporter to that country and adjusts exports optimally to environmental changes; 6) management explores the feasibility of exporting to psychologically distant countries.
<p>Luostarinen (1979):</p> <ol style="list-style-type: none"> 1) starting stage of internationalization, 2) development stage of internationalization, 3) growth stage of internationalization, 4) mature stage of internationalization.
<p>Cavuşgil (1980):</p> <ol style="list-style-type: none"> 1) domestic marketing only, 2) pre-export stage, 3) experimental involvements in psychologically close countries, 4) active involvement, 5) committed involvement.
<p>Czinkota (1982):</p> <ol style="list-style-type: none"> 1) completely uninterested firm, 2) partially interested firm, 3) exploring firm, 4) experimental exporter, 5) experienced small exporter, 6) experienced large exporter.
<p>Barrett and Wilkinson (1986):</p> <ol style="list-style-type: none"> 1) nonexporters who never considered exporting, 2) nonexporters who investigated exporting, and previous exporters 3) current exporters with no direct investment abroad.
<p>Axinn (1988):</p> <ol style="list-style-type: none"> 1) awareness, 2) interest, 3) evaluation, 4) trial, 5) adoption.

<p>Moon and Lee (1990):</p> <ol style="list-style-type: none"> 1) lower stage of export involvement, 2) middle stage of export involvement, 3) higher stage of export involvement.
<p>Lim, Sharkey and Kim (1991):</p> <ol style="list-style-type: none"> 1) awareness/recognition of exporting as an opportunity, 2) interest in selecting export as a viable strategy, 3) intention to initiate export, 4) trial and adoption of exporting.
<p>Rao and Naidu (1992):</p> <ol style="list-style-type: none"> 1) nonexporter – no current level nor future interest in exporting, 2) export intender – current nonexporter with an interest to export opportunities, 3) sporadic exporter, 4) regular exporter.
<p>Dudley and Martens (1993):</p> <ol style="list-style-type: none"> 1) introductory phase, 2) colonization, 3) unification, 4) rationalization, 5) strategy maintenance.
<p>Edvardsson, Edvinsson and Nystrom (1993):</p> <ol style="list-style-type: none"> 1) prospecting, 2) introduction, 3) consolidation, 4) reorientation.
<p>Leblanc (1994):</p> <ol style="list-style-type: none"> 1) first landing, 2) going native, 3) integration.
<p>Crick (1995):</p> <ol style="list-style-type: none"> 1) completely uninterested firm, 2) partially interested firm, 3) exporting firm, 4) experimental exporter, 5) experienced small exporter, 6) experienced larger exporter.
<p>Anderson, Graham and Lawrence (1998):</p> <ol style="list-style-type: none"> 1) aspirational, 2) procedural, 3) behavioral, 4) interactional, 5) conceptual.

Andersson (2002): 1) start-up phase, 2) strategic alliance phase, 3) dismantling phase.
OPERATIONAL MODE
Luostarinen (1970): 1) starting phase of export operations, 2) development phase of export operations, 3) mature export phase, 4) starting phase of foreign operations, 5) development phase of foreign operations, 6) mature foreign operations phase, 7) phase of international operations, 8) phase of international firm.
Johanson and Wiedersheim-Paul (1975): 1) no regular export activities, 2) export via independent representatives (agent), 3) sales subsidiary, 4) production/manufacturing.
Luostarinen (1979): 1) non-direct investment marketing operations, 2) non-direct investment production operations, 3) direct investment marketing operations, 4) direct investment production operations.
MARKET
Luostarinen (1979): 1) hot, 2) warm, 3) medium, 4) cool, 5) cold.
PRODUCT
Luostarinen (1979): 1) goods, 2) services, 3) systems, 4) know-how.

Source: Anderson *et al.* 1998, pp. 492, 495; Andersson 2002, p. 372; Axinn 1988, p. 62; Bell, Young 1998, p. 9; Bilkey, Tesar 1977, p. 93; Johanson, Wiedersheim-Paul 1975, p. 307; Leonidou, Katsikeas 1996, p. 522; Luostarinen 1982, p. 143; Luostarinen 1989, pp. 182–183; Rao, Naidu 1992, p. 151;

Appendix 9. Factors determining the choice of operational mode

<p>TARGET COUNTRY-RELATED FACTORS</p> <ul style="list-style-type: none">• size of target country markets• market form in target country• production circumstances in target country• distribution circumstances in target country• operation climate in target country
<p>HOME COUNTRY-RELATED FACTORS</p> <ul style="list-style-type: none">• size of home country markets• market form in home country• production circumstances in home country• distribution circumstances in home country• policy towards foreign operations in home country
<p>HOME AND TARGET COUNTRY-RELATED FACTORS</p> <ul style="list-style-type: none">• distance between home and target country• relation to political power blocks
<p>FIRM-RELATED FACTORS</p> <ul style="list-style-type: none">• structure-related factors<ul style="list-style-type: none">- size of the firm- economies of scale- degree of production capacity utilization• character-related factors<ul style="list-style-type: none">- line of industry- age of the firm- research intensity of the firm• product-related factors<ul style="list-style-type: none">- customer-structure characteristics of the product- product use characteristics- cost-bearing characteristics- adaptation need of the product- product's sensitivity to business fluctuations- suitability to the current product line- patentability of the product- age of the product• planning-related factors<ul style="list-style-type: none">- mission of the firm- total objectives of the firm- total strategy of the firm• foreign operations-related factors<ul style="list-style-type: none">- foreign operation policy- scale of foreign operations of the firm- length of time involved in foreign operations- role of foreign operations

DECISION MAKING PROCESS-RELATED FACTORS

- size of decision situation-related factors
 - impulse-related factors
 - previous knowledge of markets
- searching process-related factors
 - intensity of searching process
 - reliability of information
- decision making-related factors
 - attitudes of decision makers
 - level and number of decision makers
 - decision-making criteria

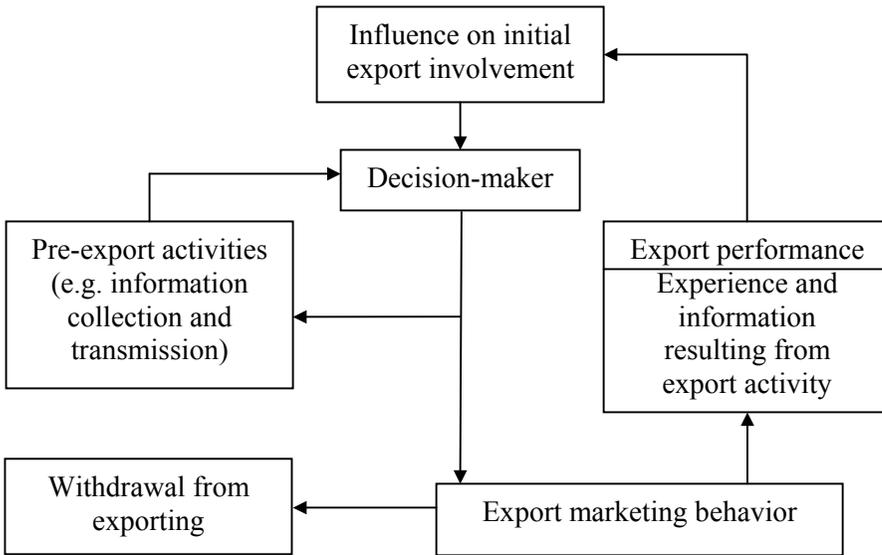
Source: Luostarinen 1982, pp. 26–116.

Appendix 10. Factors determining the change of operational mode

Impetus to switch	Diminishing satisfaction with the foreign intermediary
	Exporter's accumulation of market knowledge
	Export market growth
	Growth of exporting company
Impediments to switching	Contractual restrictions
	Loss of local sales revenue
	Recruitment and training costs
	Foreign operation learning costs (exporter's lack of international experience)
Other variables	Control and monitoring
	Expected sales volume
	Available resources
	Type of product
	Cultural and geographic distance

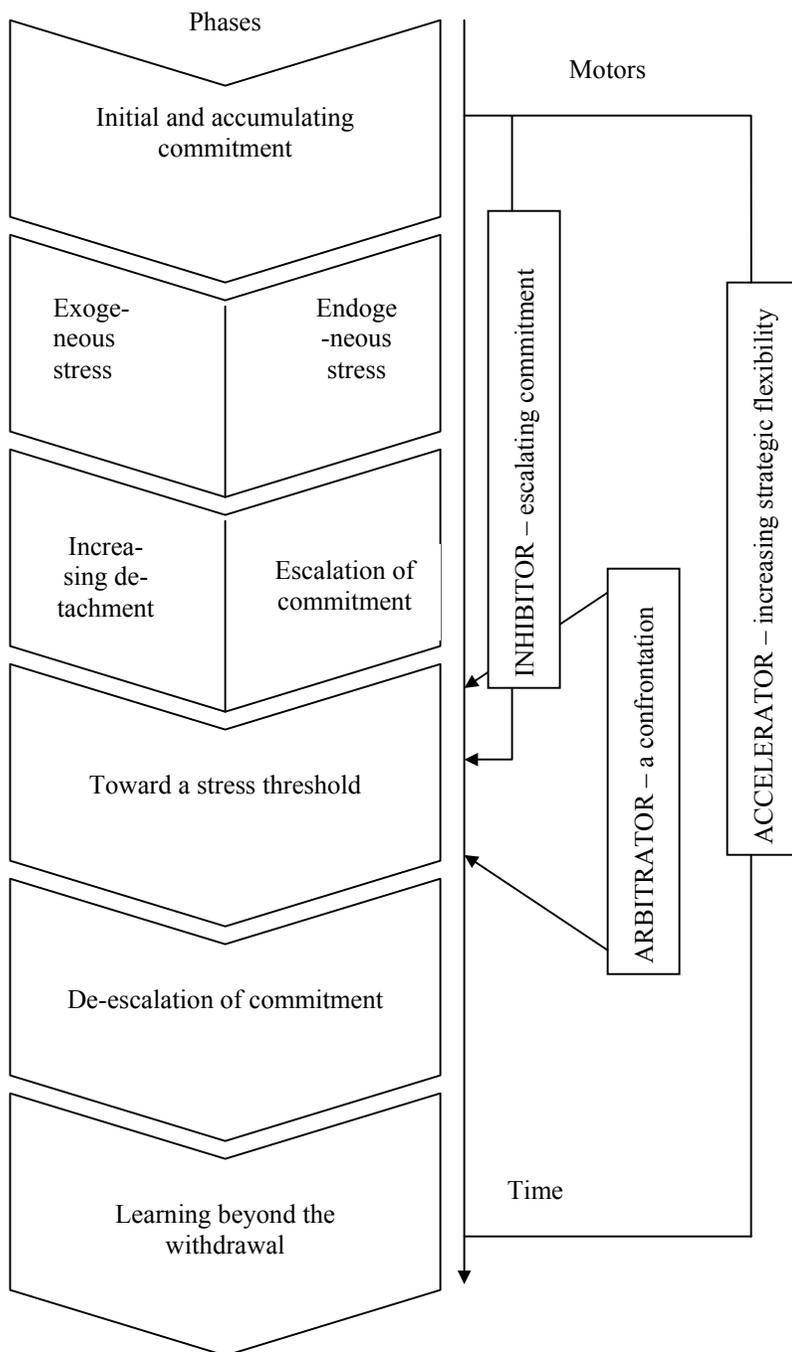
Source: author's table on the basis of Pedersen *et al.* 2002, pp. 329–332.

Appendix 11. Influences on initial export marketing behavior



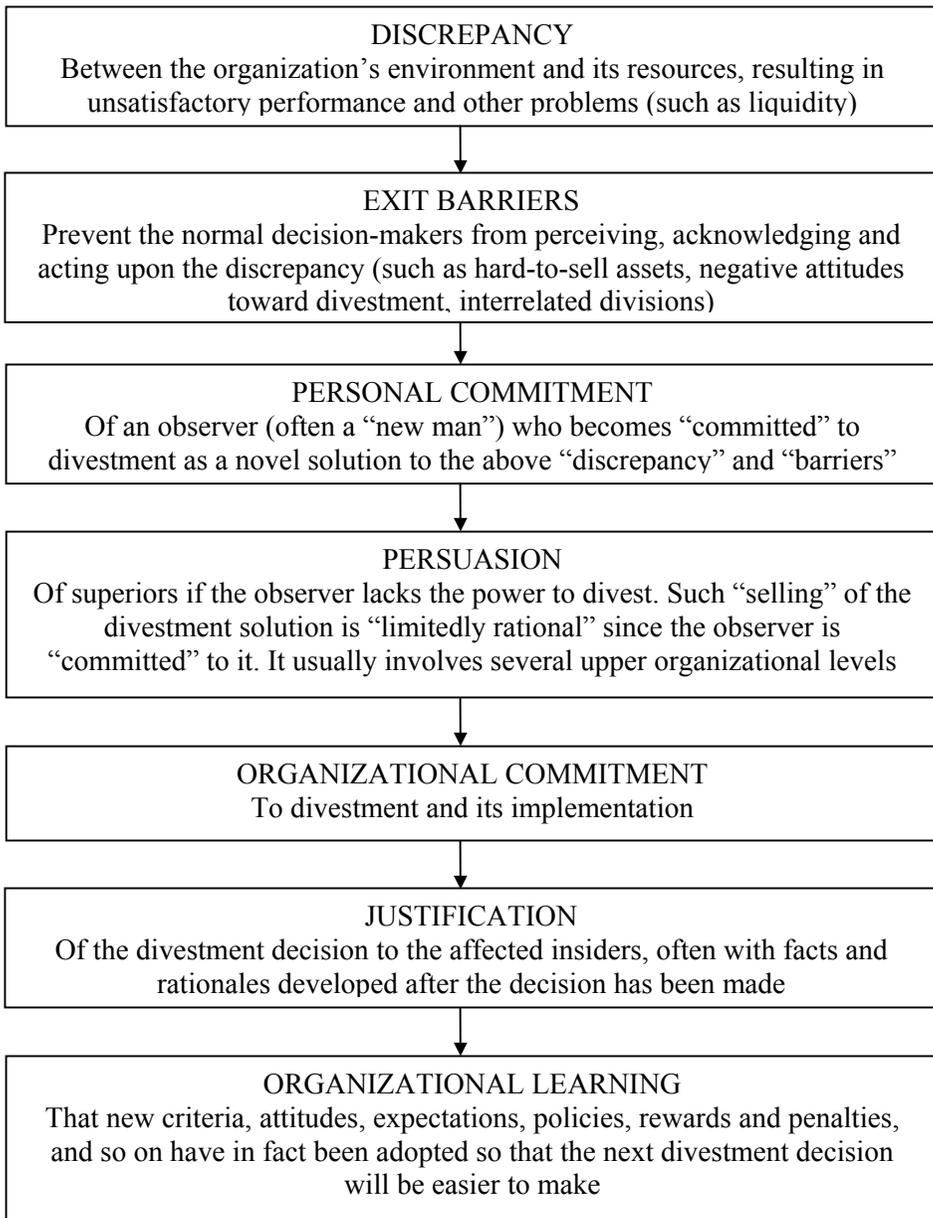
Source: adapted from Welch, Wiedersheim-Paul 1980, p. 335.

Appendix 12. A process model of export withdrawal



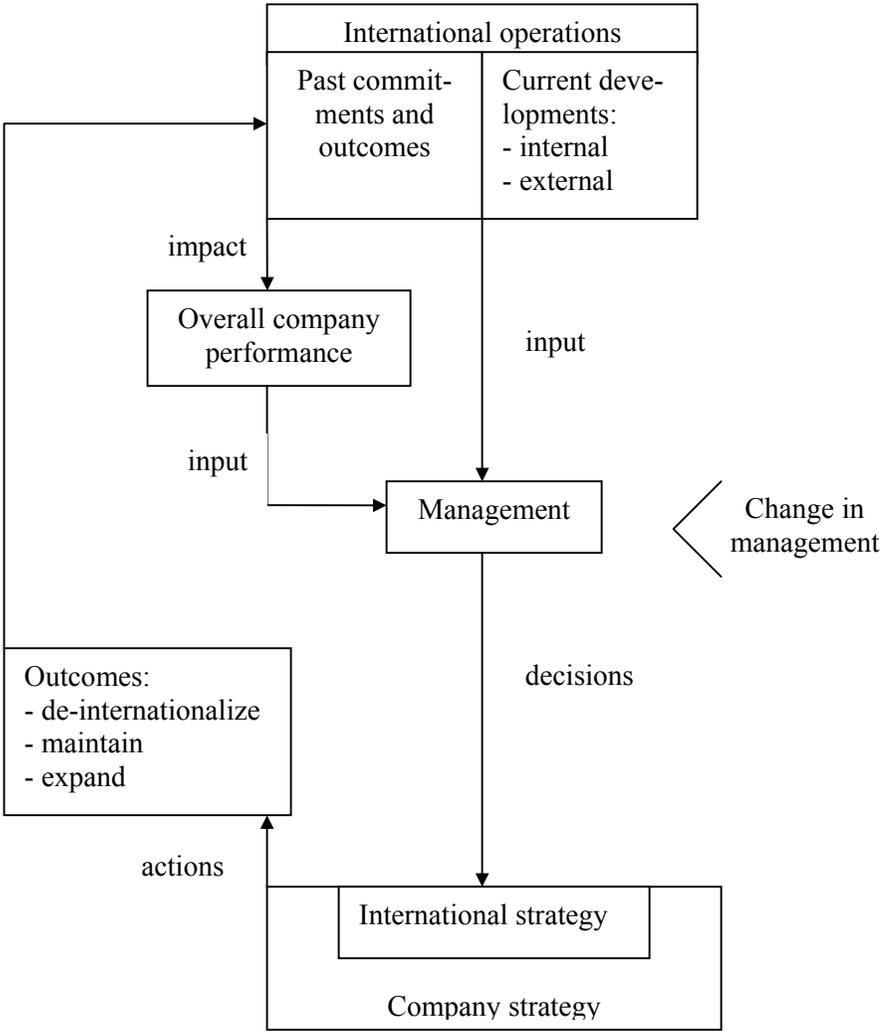
Source: Pauwels, Matthyssens 1999, p. 31.

Appendix 13. The divestment decision process model



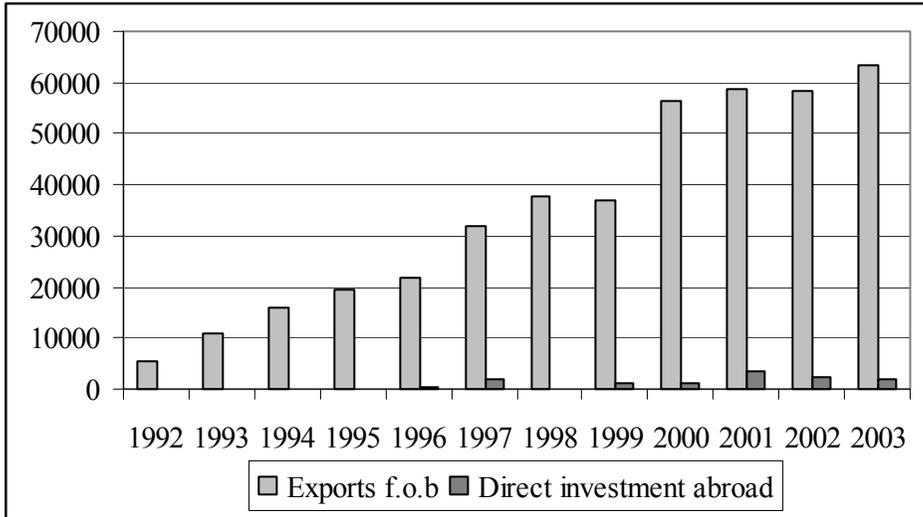
Source: Boddewyn 1983a, p. 26.

**Appendix 14. De-internationalization and international strategy:
a framework**



Source: Benito, Welch 1997, p. 20.

Appendix 15. Export and outward foreign direct investments transactions during period (EEK million)



Source: Balance of Payments ... 2004.

Appendix 16. Outward foreign direct investments stock by fields of activity at the end of the year 1998–2003 (EEK thousand, %)

	1998		1999		2000		2001		2002		2003	
Agriculture, hunting, forestry							8,643	0.1	22,367	0.2	58,854	0.5
Manufacturing	191,777	7.2	537,495	12.3	688,597	15.8	1,367,932	17.5	1,208,603	12.0	925,297	7.3
Construction	21,537	0.8	12,012	0.3	32,822	0.8	70,066	0.9	108,055	1.1	135,932	1.1
Wholesale, retail trade	184,933	7.0	333,269	7.6	342,588	7.9	306,671	3.9	613,334	6.1	933,679	7.4
Hotels, restaurants									65,442	0.6		
Transport, storage, communication	509,100	19.1	448,634	10.3	770,851	17.7	1,244,083	15.9	2,156,909	21.4	3,211,155	25.3
Finance	1,519,350	57.1	2,730,315	62.4	1,372,910	31.5	3,264,365	41.8	3,906,156	38.7	4,822,253	38.1
Real estate, renting and business activities	199,147	7.5	281,387	6.4	1,099,322	25.2	1,501,191	19.2	1,960,935	19.4	2,316,725	18.3
Other community, social and personal service activities			3,722	0.1	7,971	0.2	21,936	0.3	22,355	0.2		
Not classified	20,608	0.8	18,563	0.4	20,188	0.5						
TOTAL	2,660,300	100.0	4,376,100	100.0	4,357,600	100.0	7,815,700	100.0	10,097,600	100.0	12,668,000	100.0

Source: Direct Investment Stock by Fields of Activity 2004.

Appendix 17. Export share in turnover in different branches of Estonian manufacturing industry 1996–2002 (%)

	1996	1997	1998	1999	2000	2001	2002
Foodproducts, beverages	29.1	34.4	28.4	22.0	24.8	24.7	23.3
Textiles	36.7	40.2	40.0	44.0	45.3	78.7	83.4
Wearing apparel, clothing	58.1	60.7	60.5	64.1	64.9	67.6	65.9
Tanning and dressing of leather	68.2	69.6	77.6	83.8	84.4	82.0	81.8
Wood	35.0	55.6	52.0	57.4	62.3	58.9	56.9
Paper and paper products	51.7	57.7	60.3	65.5	68.9	65.0	64.8
Publishing, printing	3.4	2.7	3.4	2.4	5.0	5.3	7.2
Chemicals and coke	52.1	55.4	51.1	51.9	60.9	63.5	61.5
Rubber and plastic	44.7	37.4	33.3	38.7	46.1	49.9	46.6
Other non-metallic minerals	34.6	41.7	30.7	32.3	31.7	29.9	26.7
Metals and products	38.6	36.0	36.8	38.0	38.5	45.6	44.5
Machinery and equipment n.e.c.	38.7	40.3	42.2	47.1	44.7	51.5	47.8
Office, electrical , radio and medical	36.2	43.3	53.8	60.5	65.3	58.9	58.0
Motor vehicles and transport equipment	67.1	71.4	68.2	67.9	69.3	67.2	67.0
Furniture, others, recycling	53.3	55.8	61.4	63.5	65.1	69.6	68.9
Manufacturing	38.3	42.7	40.9	42.8	46.7	49.1	48.8

Source: Aggregated data ... 2004.

Appendix 18. Distribution of an aggregated (AG) and sample (S) data (% of manufacturing industry)

	Number of companies		Sales 1996		Sales 2002		Export 1996		Export 2002	
	AG	S	AG	S	AG	S	AG	S	AG	S
Foodproducts, beverages	9.9	16.9	32.2	37.8	20.7	27.6	24.5	23.2	9.9	11.6
Textiles	4.8	5.2	6.9	2.9	5.9	3.3	6.6	4.6	10.1	4.7
Wearing apparel, clothing	10.0	10.7	4.0	3.9	4.5	5.1	6.1	5.3	6.1	7.07
Tanning and dressing of leather	1.9	4.2	1.3	2.0	1.1	2.0	2.3	3.0	1.9	3.33
Wood	17.2	11.7	7.7	6.6	15.7	12.1	7.1	8.3	18.3	13.6
Paper and paper products	1.0	1.3	1.5	1.5	2.3	3.5	2.0	2.3	3.1	5.85
Publishing, printing	9.6	4.6	4.6	3.4	4.4	3.3	0.4	0.3	0.7	0.71
Chemicals and coke	2.4	3.3	10.8	9.5	5.9	6.0	14.8	13.7	7.4	8.38
Rubber and plastic	2.9	2.0	2.3	1.4	3.6	2.0	2.6	1.6	3.4	1.96
Other non-metallic minerals	4.2	6.2	4.3	6.0	5.1	7.5	3.9	5.6	2.8	4.29
Metals and products	9.0	8.5	5.5	5.0	7.4	5.1	5.5	4.1	6.7	5.53
Machinery and equipment n.e.c.	6.6	5.5	3.0	2.2	3.2	2.5	3.1	3.1	3.1	3.86
Office, electrical, radio and medical equipment	8.3	5.2	5.3	3.4	7.8	6.0	5.0	5.0	9.2	8.89
Motor vehicles and transport equipment	2.2	2.3	3.8	6.1	4.3	4.4	6.7	9.3	5.8	7.59
Furniture, others, recycling	9.9	12.4	6.8	8.3	8.0	9.6	9.4	10.6	11.4	12.6

Source: calculations by the author on the basis of Aggregated Data ... 2004 and Estonian Manufacturing ... 2004.

Appendix 19. Sectoral distribution of firms depending on the internationalization/de-internationalization activities

	Increase both in export volume and share	Export volume increases, share decreases	Export volume decreases, share increases	Decrease both in export volume and share
Foodproducts, beverages	30	2	1	19
Textiles	5	6	0	5
Wearing apparel, clothing	18	10	1	4
Tanning and dressing of leather	7	3	0	3
Wood	22	6	0	8
Paper and paper products	2	1	0	1
Publishing, printing	6	0	1	7
Chemicals and coke	4	1	1	4
Rubber and plastic	3	1	1	1
Other non-metallic minerals	9	3	0	7
Metals and products	16	7	0	3
Machinery and equipment n.e.c.	9	7	0	1
Office, electrical , radio and medical equipment	8	3	0	5
Motor vehicles and transport equipment	5	0	0	2
Furniture, others, recycling	20	12	0	6
Manufacturing	164	62	5	76

Source: calculations by the author on the basis of Estonian manufacturing ... 2004.

Appendix 20. Average commitment to the export markets in 1999 and 2002

Country	1999			2002		
	Number of firms	Average share of this export market	Average export to this market	Number of firms	Average share of this export market	Average export to this market
Denmark	24	15.6	7,978.6	29	15.6	17,782.2
Finland	51	40.2	12,598.3	88	46.7	12,570.9
Germany	35	32.7	15,350.5	36	24.0	12,776.8
Latvia	27	8.2	4,522.5	54	12.5	12,228.2
Lithuania	16	11.2	6,040.3	32	10.4	13,093.4
Netherlands	15	16.4	10,068.0	13	11.8	17,236.9
Russia	9	8.4	7,913.8	18	14.2	18,842.4
Sweden	43	30.4	11,590.8	67	27.7	10,088.4
Ukraine	6	15.9	3,025.8	12	19.3	15,420.1
United Kingdom	12	22.2	13,128.8	21	20.4	20,983.9

Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Appendix 21. Cultural, geographic and economic distance between Estonia and its main trade partners

	cultural distance	geographic distance (km)	GDP per capita (PPP) in 2003 as compared to Estonia
Denmark	1.069	842	2.5
Finland	0.041	84	2.2
Germany	0.932	1,045	2.2
Latvia		277	0.8
Lithuania		528	0.9
Netherlands	0.372	1,464	2.3
Russia	2.215	869	0.7
Sweden	0.942	383	2.2
Ukraine		1,057	0.4
United Kingdom	1.536	1,788	2.3

Source: author's calculations on the basis of Hofstede 2001, pp. 500–502; How Far ... 2004; The World ... 2004.

Appendix 22. Results of the ANOVA analysis – number of withdrawn markets

	number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
1999-2000	Number of withdrawn markets										
	increased – withdrawn 1	41		X							X
	increased – withdrawn 2 or more	19	X	X	X		X				X
	withdrawn 1 – withdrawn 2 or more	20	X								
2002-2003		F	4.074	7.664	2.806	0.488	3.088	0.605	0.675	1.185	7.363
		Sig.	0.021	0.001	0.067	0.616	0.051	0.549	0.512	0.311	0.001
		44		X							
		33		X							
		41		X							
		F	1.588	1.168	23.281	1.325	1.058	0.686	1.495	0.962	1.289
	Sig.	0.215	0.315	0.000	0.270	0.351	0.506	0.229	0.385	0.279	0.409

X – the mean difference is significant at the 0.05 level.
 Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Appendix 23. Results of the ANOVA analysis for ten target countries

Results of the ANOVA analysis – Finland

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
1999–2000	Finland											
	no export – increase	27										
	no export – decrease	43										
2002–2003	increase – decrease	10										
		F	0.423	0.308	1.088	0.777	2.041	0.958	0.137	0.337	1.344	1.523
		Sig.	0.657	0.736	0.342	0.464	0.137	0.388	0.872	0.715	0.267	0.224
	no export – increase	27						X				
	no export – decrease	73	X									
	increase – decrease	18										
	F		2.156	0.529	0.878	0.045	0.693	2.783	1.826	1.368	0.071	0.949
	Sig.		0.121	0.591	0.419	0.956	0.502	0.066	0.165	0.259	0.931	0.390

X – the mean difference is significant at the 0.05 level.

Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Latvia

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Latvia	no export – increase	44		X	X			X				
	no export – decrease	30	X									
	increase – decrease	6	X									
		F Sig.	4.702 0.012	7.603 0.001	2.780 0.068	0.498 0.610	0.120 0.887	4.812 0.011	0.657 0.521	0.372 0.690	0.317 0.729	0.888 0.416
	no export – increase	60		X	X	X		X				
	no export – decrease	34		X	X	X		X				
	increase – decrease	24										
		F Sig.	0.965 0.384	14.632 0.000	11.224 0.000	5.301 0.006	2.186 0.117	8.768 0.000	1.551 0.216	0.468 0.627	0.037 0.963	0.195 0.823
2002–2003												

X – the mean difference is significant at the 0.05 level.
Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Lithuania

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Lithuania	no export – increase	61		X				X				
	no export – decrease	14	X				X					
	increase – decrease	5		X			X					
		F	2.152	11.852	0.297	0.166	3.592	10.847	0.105	1.475	0.251	0.332
		Sig.	0.124	0.000	0.744	0.847	0.032	0.000	0.900	0.235	0.779	0.718
2002-2003	no export – increase	81		X	X	X		X				
	no export – decrease	25		X	X	X		X				
	increase – decrease	12										
		F	2.073	7.794	24.184	8.444	1.701	6.644	1.089	0.892	0.795	1.235
		Sig.	0.131	0.001	0.000	0.000	0.187	0.002	0.340	0.413	0.454	0.295

X – the mean difference is significant at the 0.05 level.
Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Germany

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Germany	no export – increase	42			X	X		X				
	no export – decrease	29			X	X						X
	increase – decrease	9										
		F Sig.	0.831 0.440	0.135 0.874	4.665 0.012	4.421 0.015	0.914 0.405	2.471 0.091	0.235 0.791	0.073 0.930	0.182 0.834	3.678 0.030
	no export – increase	75			X							
	no export – decrease	25			X							
	increase – decrease	18										
		F Sig.	1.298 0.277	0.638 0.530	12.457 0.000	0.229 0.796	0.119 0.888	1.476 0.233	0.114 0.892	0.536 0.586	0.780 0.461	0.007 0.993
1999–2000												
2002–2003												

X – the mean difference is significant at the 0.05 level.
Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Russia

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Russia	no export – increase	69					X	X				
	no export – decrease	9		X				X				
	increase – decrease	2					X					
		F	0.977	3.211	1.146	1.766	9.763	6.644	0.369	1.138	1.389	0.964
		Sig.	0.382	0.046	0.323	0.178	0.000	0.002	0.692	0.326	0.256	0.386
2002-2003	no export – increase	97	X		X		X					
	no export – decrease	9			X		X					
	increase – decrease	12	X									
		F	4.693	0.283	7.992	0.684	8.184	1.155	1.059	3.304	0.129	0.087
		Sig.	0.011	0.754	0.001	0.507	0.000	0.319	0.350	0.040	0.879	0.917

X – the mean difference is significant at the 0.05 level.

Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Ukraine

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Ukraine	no export – increase	72		X			X	X				
	no export – decrease	4					X	X				
	increase – decrease	4						X				
		F	1.079	7.419	1.561	1.666	11.550	34.091	0.265	0.899	1.324	1.583
		Sig.	0.346	0.001	0.216	0.196	0.000	0.000	0.768	0.411	0.272	0.212
2002–2003	no export – increase	105	X				X	X				
	no export – decrease	8			X	X						
	increase – decrease	5	X			X	X	X				
		F	3.873	0.100	4.441	3.918	19.545	10.339	0.627	0.836	0.201	0.218
		Sig.	0.024	0.905	0.014	0.023	0.000	0.000	0.536	0.436	0.818	0.805

X – the mean difference is significant at the 0.05 level.
 Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – Denmark

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
Denmark	no export – increase	50										
	no export – decrease	21			X	X						X
	increase – decrease	9										
		F	1.945	0.768	3.614	2.746	0.602	0.458	0.389	0.407	1.077	3.233
		Sig.	0.151	0.467	0.032	0.071	0.551	0.634	0.679	0.667	0.346	0.045
2002-2003	no export – increase	86			X	X						
	no export – decrease	20			X							X
	increase – decrease	12										X
		F	0.716	1.173	6.746	2.707	0.666	1.317	0.235	0.314	0.595	4.740
		Sig.	0.491	0.313	0.002	0.071	0.516	0.272	0.791	0.731	0.553	0.011

X – the mean difference is significant at the 0.05 level.
Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Results of the ANOVA analysis – the United Kingdom

		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country	growth in domestic market (%)	change in the share of main target market (%)	profitability in 1999 or 2002 (%)	majority foreign ownership
1999-2000	The United Kingdom											
	no export – increase	66										
	no export – decrease	9										
2002-2003	increase – decrease	5										
		F	0.413	0.364	2.718	2.776	0.211	1.098	0.614	0.307	0.112	0.776
		Sig.	0.663	0.696	0.072	0.069	0.811	0.339	0.544	0.737	0.894	0.464
	no export – increase	87			X							
	no export – decrease	22			X							
	increase – decrease	9										
	F	0.287	1.432	8.105	1.658	0.387	1.124	0.524	1.588	1.093	0.659	
	Sig.	0.751	0.243	0.001	0.195	0.680	0.328	0.594	0.209	0.339	0.519	

X – the mean difference is significant at the 0.05 level.
Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004.

Appendix 24. Average values of variables with statistically significant differences – number of withdrawn markets

	Number	number of firms	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a transition country	majority foreign ownership
1999–2000	increased	41	82.3	72.2	103.9	0.0	0.6
	withdrawn 1	19	79.6	56.6	152.3	0.1	0.3
	withdrawn 2 or more	20	65.9	47.0	245.7	0.2	0.2
2002–2003	increased	44	75.5	81.1	87.0	0.1	0.5
	withdrawn 1	33	67.6	59.8	91.8	0.2	0.3
	withdrawn 2 or more	41	68.0	49.7	130.1	0.2	0.4

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Appendix 25. Average values of variables with statistically significant differences for ten target countries

Average values for variables with statistically significant differences – Finland

	Finland	number of firms	export experience (years)
1999–2000	no export	27	5.9
	increase	43	5.6
	decrease	10	6.6
2002–2003	no export	27	6.5
	increase	73	7.8
	decrease	18	9.4

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Sweden

	Sweden	number of firms	export experience (years)	main export market is a transition country	majority foreign ownership
1999–2000	no export	31	5.9	0.1	0.5
	increase	35	5.2	0.1	0.5
	decrease	14	7.2	0.1	0.1
2002–2003	no export	43	8.5	0.3	0.5
	increase	52	7.4	0.1	0.3
	decrease	23	7.1	0.0	0.4

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Latvia

	Latvia	number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a transition country
1999–2000	no export	44	5.3	85.5	68.1	149.7	0.0
	increase	30	6.0	66.7	53.5	133.4	0.2
	decrease	6	8.7	73.0	62.2	232.7	0.0
2002–2003	no export	60	7.2	81.8	74.2	67.3	0.0
	increase	34	8.6	54.8	54.6	131.5	0.3
	decrease	24	8.0	65.4	52.8	154.7	0.2

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Lithuania

		Lithuania						
		number of firms	export experience (years)	share of export in turnover in 1999 or 2002 (%)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country
1999–2000	no export	61	5.7	82.7	63.5	142.4	1.0	0.0
	increase	14	5.8	54.3	58.0	170.5	1.0	0.3
	decrease	5	8.5	79.9	58.1	189.0	0.8	0.2
2002–2003	no export	81	7.2	76.8	73.5	72.4	1.0	0.1
	increase	25	8.7	58.6	42.1	177.9	0.9	0.3
	decrease	12	9.6	54.6	47.8	164.6	0.8	0.3

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Germany

		Germany			
		number of firms	share of the main export market (%)	number of employees in 1999 or 2002	majority foreign ownership
1999–2000	no export	42	70.3	82.8	0.6
	increase	29	54.7	213.0	0.3
	decrease	9	48.5	259.6	0.1
2002–2003	no export	75	72.3	104.7	0.4
	increase	25	49.7	88.5	0.4
	decrease	18	50.7	114.8	0.4

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Russia

		number of firms	export experience (years)	export share in turnover in 1999 or 2002 (%)	share of the main export market (%)	main export market is a western market	main export market is a transition country
1999–2000	Russia						
	no export	69	5.8	79.5	63.5	1.0	0.0
	increase	9	6.9	69.9	50.2	0.8	0.2
	decrease	2	4.0	44.3	72.6	1.0	0.5
2002–2003	no export	97	7.3	71.0	68.3	1.0	0.1
	increase	9	12.1	73.7	41.2	0.8	0.2
	decrease	12	8.0	65.6	48.7	0.8	0.3

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Ukraine

		number of firms	export experience (years)	share of the main export market (%)	number of employees in 1999 or 2002	main export market is a western market	main export market is a transition country
1999–2000	Ukraine						
	no export	72	5.7	63.7	142.0	1.0	0.0
	increase	4	6.0	57.4	125.8	0.8	0.3
	decrease	4	7.8	40.2	374.7	0.8	0.8
2002–2003	no export	105	7.5	66.1	97.2	1.0	0.1
	increase	8	12.0	59.5	102.0	0.5	0.6
	decrease	5	6.6	33.0	304.0	1.0	0.2

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences –
the Netherlands

	The Netherlands	number of firms	export share in turnover in 1999 or 2002 (%)	share of the main export market (%)
1999–2000	no export	64	79.1	67.0
	increase	12	78.9	42.4
	decrease	4	48.9	44.1
2002–2003	no export	101	68.4	67.7
	increase	12	86.6	45.2
	decrease	5	77.9	39.0

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – Denmark

	Denmark	number of firms	share of the main export market (%)	number of employees in 1999 or 2002	majority foreign ownership
1999–2000	no export	50	67.9	113.3	0.5
	increase	21	55.5	172.3	0.3
	decrease	9	46.4	291.4	0.1
2002–2003	no export	86	69.2	87.5	0.4
	increase	20	52.0	160.0	0.5
	decrease	12	48.9	118.0	0.0

Source: author’s calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Average values for variables with statistically significant differences – the United Kingdom

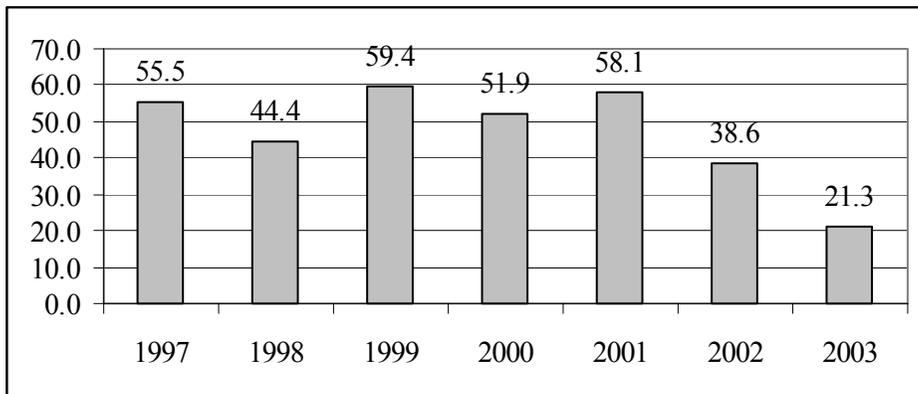
	The United Kingdom	number of firms	share of the main export market (%)
1999–2000	no export	66	65.2
	increase	9	51.7
	decrease	5	41.6
2002–2003	no export	87	69.4
	increase	22	52.0
	decrease	9	43.9

Source: author's calculations on the basis of Estonian Exporters 2001 and Estonian Exporters 2004; the sample where a statistically significant difference appeared is depicted by gray color.

Appendix 26. Interview plan for the case studies

1. Please describe the main stages and characteristic features of your enterprises' internationalization process.
2. What are the main markets where your company has closed down (some of) the operations?
3. What are the main reasons behind your de-internationalization from particular target markets (for example, cost level, termination of contracts, etc.)?
4. Have you decreased the number of products offered in some markets? What are the main motives behind this decision?
5. Have you changed the operational mode in some of your foreign markets? What were the main motives behind this change?
6. Have you switched to servicing a particular market through export, or de-internationalized fully after closing down a production plant in a particular target country?
7. How do you evaluate the relative importance of internal versus external reasons (for example, business environment and governmental policies in a target market, developments in the Estonian market, etc.) behind de-internationalization?
8. Has your foreign owner influenced the decision to de-internationalize? How and in which way has he done that?
9. Have the activities of other enterprises in the sector and/or related sectors influenced your decision to de-internationalize from a particular target market?
10. For how long have you been active in a particular target market before de-internationalization decision?
11. What kind of initial motivations did you have prior to entering a particular target market (for example, servicing of the market, increasing the effectiveness, reaction to the competitors' activities, etc.)?
12. Have you faced any difficulties in de-internationalizing from a particular market? Did they influence the duration of the de-internationalization process?
13. What kind of costs were incurred by de-internationalization? Where there any specific costs at all?
14. Where there any particular features characterizing this market from which you have de-internationalized if you compare it with your other markets?
15. Have you exploited the knowledge gained from this de-internationalization incident in the other market(s) where you operate? In what way have you done that?
16. How and in what way has this de-internationalization decision influenced your operations in other markets, enterprise's strategy, perceived uncertainty level related to different foreign markets, etc.?

**Appendix 27. Share of subcontracting in export sales (%)
in Klementi during 1997–2003**



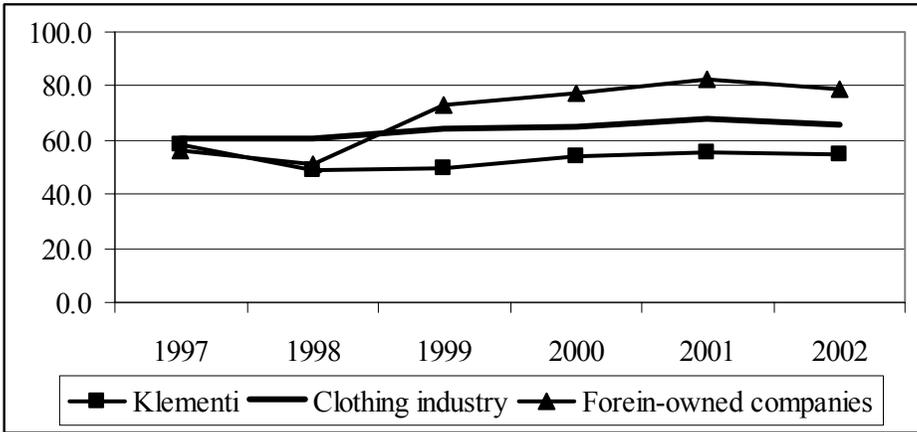
Source: author's calculations on the basis of Klementi Annual ... 1999, p. 24; 2001, p. 21; 2002, p. 33; 2003, p. 24; 2004, p. 32.

Appendix 28. Summary of Klementi's international activities

Year	Main developments in international markets
1998	<ul style="list-style-type: none"> • due to the Russian crisis drawbacks in marketing their products in all three Baltic States appeared • replacement of agents in Finland and Sweden • first sales in Austria and England • establishment of a sales subsidiary Klementi Trading OY in Finland on 1 Oct. 1998
2000	<ul style="list-style-type: none"> • establishment of new retail outlets in Estonia, Latvia, and Lithuania • establishment of a sales subsidiary (wholesale trade) Klementi Vilnius UAB in Lithuania on 17 April 2000
2001	<ul style="list-style-type: none"> • establishment of new retail outlets in all three Baltic States (there were 19 retail outlets in total at the end of year) • decrease in sales in Lithuania was determined by the switch from wholesale to retail trade • termination of contracts with sales representatives in Sweden and Norway
2002	<ul style="list-style-type: none"> • bankruptcy of PTA Group OY on 21 April 2002 • Estonian venture capital company Alta Capital acquired majority ownership in Klementi from PTA Group OY • Klementi acquired from PTA Group OY the internationally recognized trademarks PTA, MasterCoat, Piretta, Avenue, Clubline, and Mallimari • Klementi Trading OY in Finland started its activities again in August 2002 • Toomas Leis was appointed CEO on 28 November 2002
2003	<ul style="list-style-type: none"> • establishment of Klementi Trading AB (wholesale trade) in Sweden on 31 July 2003 • acquisition of SIA Vision (retail trade) in Latvia on 29 Aug. 2003 • cooperation with the leading retailing company, Apranga, in Lithuania led to closing down of Klementi's retail outlets there • entry to the Norwegian market (wholesale)
Plans for 2004	<ul style="list-style-type: none"> • opening of a retail outlet in Oslo • research of market potential in Russia

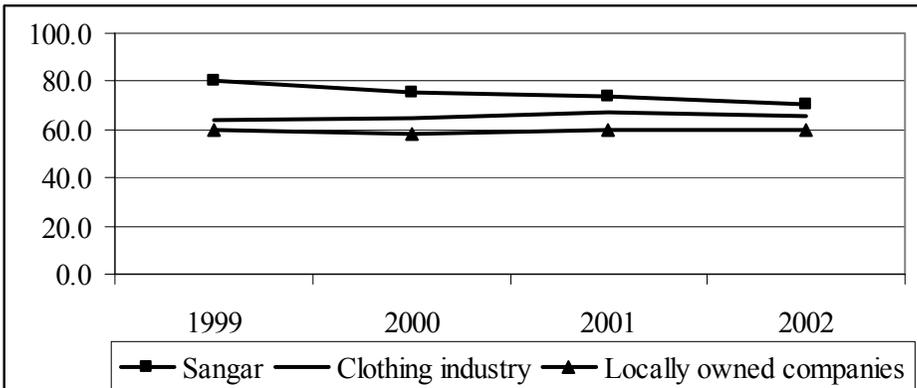
Source: compiled by the author on the basis of Klementi Annual ... 1999, p. 1, 17; 2001, p. 4; 2002, pp. 4–6; 2003, pp. 4–5; 2004, p. 4, 21; Kängsepp 2004b; Matson 2003a.

Appendix 29. Average share of export sales in net sales (%) in Klementi, the clothing industry and foreign-owned clothing companies



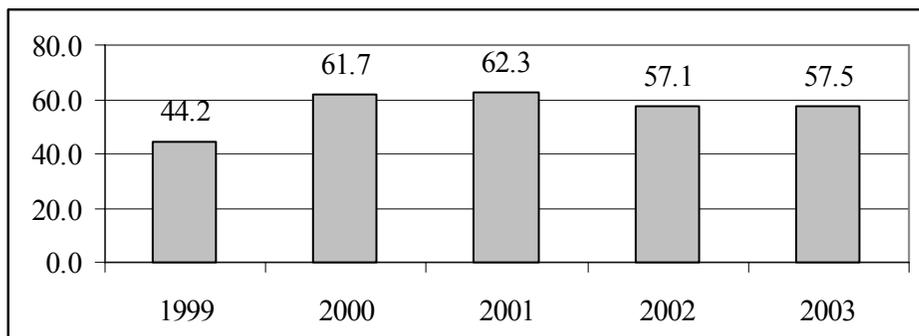
Source: author's calculations on the basis of Aggregated ... 2004 and Klementi Annual ... 1999, p. 25; 2001, p. 21; 2002, p. 34; 2003, p. 25; 2004, p. 30.

Appendix 30. Average share of export sales in net sales (%) in Sangar, the clothing industry and locally owned clothing companies



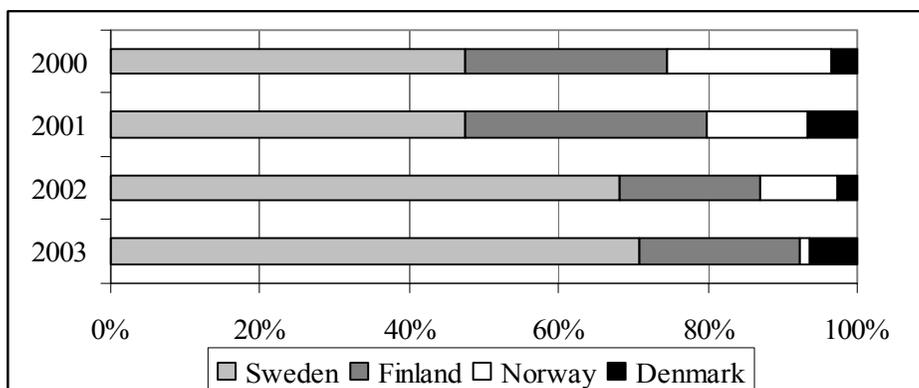
Source: author's calculations on the basis of Aggregated ... 2004; Sangar Annual 2000; 2001; 2002, p. 17; 2003, p. 29.

Appendix 31. Share of subcontracting in export sales (%) in Sangar during 1999–2003



Source: author's calculations on the basis of Sangar Annual 2000; 2001; 2002, p. 17; 2003, p. 29.

Appendix 32. Share of different target countries (%) in Sangar's subcontracting trade in 2000–2003



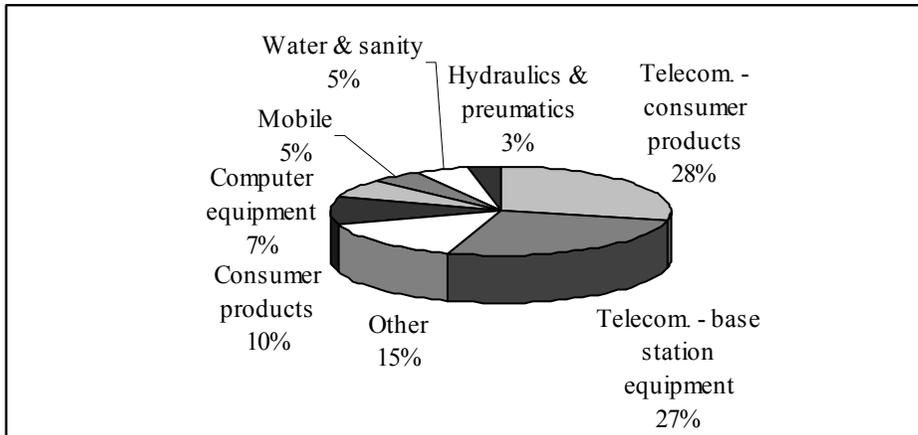
Source: author's calculations on the basis of Sangar Annual 2000; 2001; 2002, p. 17; 2003, p. 29.

Appendix 33. Summary of Sangar's international activities

Year	Main developments in international markets
2001	<ul style="list-style-type: none"> plans of expansion to the Ukraine, Poland and Russia were announced cooperation agreement for five years with Eton
2002	<ul style="list-style-type: none"> Gunnar Kraft was appointed CEO in August Sangar announced plans for establishing a big jeans factory under the license of Saez Merino Lois Jeans closed down a retail outlet in Lithuania
2003	<ul style="list-style-type: none"> closed down one of the three retail outlets in Latvia
Plans for 2004	<ul style="list-style-type: none"> plans to start the manufacture of jeans in cooperation with M.A.S.I. Company OY of Finland at the end of year plans about entering Great Britain were announced in March

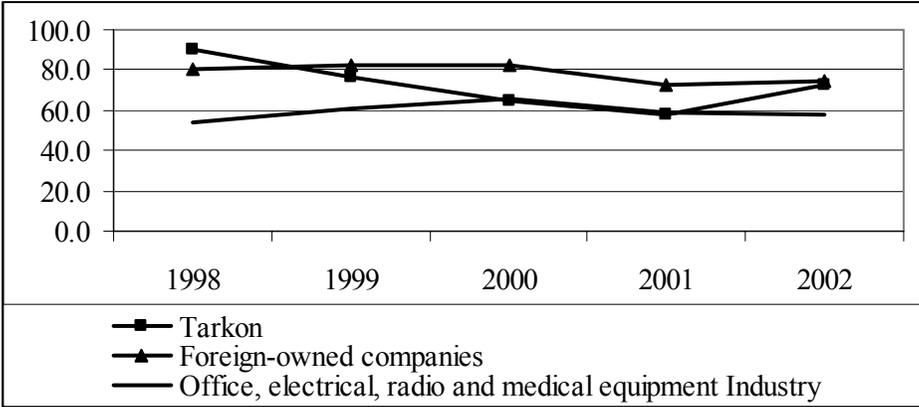
Source: Kohler 2004; Paimets 2004; Rozental 2001c, 2003; Sangar investeerib ... 2001; Sangari nõukogu ... 2002; Tigasson 2002.

Appendix 34. The main market segments of Tarkon in 2004



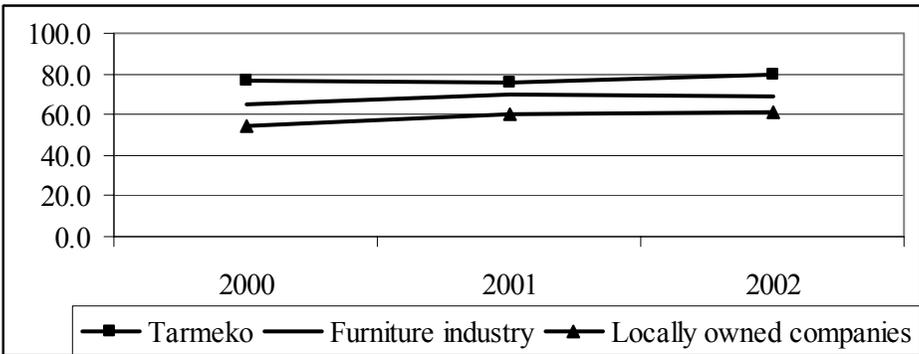
Source: About the ... 2004.

Appendix 35. Average share of export sales in net sales (%) in Tarkon, the office, electrical, radio and medical equipment industry and foreign-owned companies of this industry



Source: author’s calculations on the basis of Aggregated ... 2004; Niitra 2002; Pau 2004; Randmaa 2004; Rozental 2000a; 2001a; 2002a; 2002b; 2002c; 2004; Vissak 2003, p. 78.

Appendix 36. Average share of export sales in net sales (%) in Tarmeko, the furniture industry and locally owned companies of furniture industry



Source: author’s calculations on the basis of Aggregated ... 2004, Tarmeko Annual ... 2001, p. 18; 2002, p. 17; 2003, p. 17.

Appendix 37. Tarmeko sales by target country 2000–2003
(thousands of kroons)

	2000	2001	2002	2003
Austria	1,734.4	2,593.1	4,615.3	1,960.8
Bekgium	7,837.8	7,017.1	5,199.5	3,067.5
Czech Republic	0.0	1,103.1	937.4	90.5
Denmark	11,838.6	9,182.5	7,056.7	2,848.5
England	6,424.5	4,963.0	1,795.9	0.0
Finland	18,120.6	14,916.2	13,297.4	12,845.1
France	42,908.4	44,905.6	33,712.9	34,731.9
Germany	74,471.3	81,069.8	116,634.5	78,785.0
Greece	0.0	1,801.4	1,454.4	1,943.1
Hungary	2,550.0	1,273.9	538.1	0.0
Ireland	2,356.8	0.0	0.0	0.0
Italy	0.0	2,616.3	2,481.4	1,491.5
Japan	29.0	221.5	0.0	31.3
Latvia	3,696.9	3,487.9	1,901.3	1,120.1
Lithuania	5.7	62.3	556.0	401.5
Netherlands	4,201.1	1,056.7	420.9	240.8
Norway	958.5	597.4	1,928.2	1,586.4
Poland	1,415.3	1,311.1	2,989.9	679.1
Russia	41.9	40.0	477.3	257.6
Sweden	3,682.5	4,883.0	7,658.1	8,181.6
Switzerland	844.2	1,888.3	1,328.5	529.3
Ukraine	1,360.5	1,628.5	831.9	913.3

Source: Tarmeko Annual ... 2001, p. 18; 2002, p. 17; 2003, p. 17; 2004, p. 17.

Appendix 38. Comparative data of the case companies

	Klementi	Sangar	Tarkon	Tarmeko	Õsel Foods
Interviewed person	Madis Võõras, CEO until 2002	Triin-Anette Kaasik, marketing director; chairman of the board of the Estonian Clothing and Textile Association	Toomas Noorem, CEO until 2002; has 10% of Tarkon's shares	Olev Nigul, former CEO; chairman of the board	Olari Taal, CEO in 1999–2001
Date of the interview	3 Sept. 2004	13 Sept. 2004	6 Oct. 2004	30 Aug. 2004	13 Oct. 2004
De-internationalization activity	Subsidiary in Lithuania, export to Finland and Sweden	Retail outlets in Latvia and Lithuania	Export of products for the telecommunications sector; Ireland	France, Germany, Japan, Denmark, Finland, Switzerland; export trade	Russia, subsidiary and export of fish products
Foreign owner	yes	no	yes	no	yes

Source: compiled by the author.

SUMMARY IN ESTONIAN – KOKKUVÕTE

VÄLISTURGUDELTAANDUMISE PÕHJUSED: EESTI TÖÖSTUSETTEVÕTETE ANALÜÜS

Töö aktuaalsus

Ettevõtete rahvusvahelistumise¹¹ uurimine algas 1960. aastatel, mil toimus nii väliskaubanduse kui ka otseste välisinvesteeringute mahu kiire kasv. Sellest ajast alates on paljud teadlased käsitlenud nii rahvusvahelistumise protsessi mõjutavaid tegureid, rahvusvahelistumise mõju ematettevõttele ja koduriigile, rahvusvahelistumisega seotud ohtusid ning võimalusi ja mitmeid muid eelnevalt nimetatud teemadega seotud probleeme.

Põhjamaades algas ettevõtete välistegevusega seonduva põhjalikum uurimine 1970. aastatel ja kolme aastakümne jooksul on rahvusvahelistumisega seonduvaid teemasid käsitlenud suures hulgas teaduslikes töodes. Etapiviisilise rahvusvahelistumise idee tekkis praktiliselt üheaegselt nii Soomes kui ka Rootsis (Luostarinen tutvustas neid põhimõtteid 1970.a., Johanson ja Wiedersheim-Paul 1975.a., Johanson ja Vahlne 1975.a.) ning seda on oma töödes kasutanud ning edasi arendanud paljud teadlased. Vaatamata eelnevatele uuringutele ei ole rahvusvahelistumisega seonduvad teemad end veel ammenandanud, kuna ettevõtete välisturgudel tegutsemisega seonduv informatsioon vajab pidevat uuendamist, sest maailmamajanduse liberaliseerumine, globaliseerumisprotsessid ja üha kiirenev tehnoloogia areng toovad rahvusvahelistumise protsessides kaasa mitmeid muutusi.

Kui ettevõtete rahvusvahelistumine on leidnud laialdast tähelepanu, siis välisturgudel taandumisega¹² seonduvaid aspekte käsitleva teaduskirjanduse maht on küllaltki tagasihoidlik. Siiani on kirjutatud vaid mõned artiklid, mis keskenduvad vaid sellele teemale (näiteks Benito ja Welch 1997, Mellahi 2003 ning Turcan 2003a, 2003b). Senised välisturgudel taandumist puudutavad artiklid on peamiselt pööranud tähelepanu selle kontseptsiooni määratlemisele ning peamiste välisturgudel taandumisega seonduvate protsesside tutvustamisele. Benito ja Welchi (1997) poolt loodud raamistikus tuuakse (mõningatelt)

¹¹ Rahvusvahelistumist defineeritakse sageli kui ettevõtte järjest suurenevat seotust välistegevusega (Luostarinen, Welch 1997, lk. 249).

¹² Benito ja Welch (1997, lk. 9) loevad välisturgudel tagasitõmbumiseks (*de-internationalization*) kõik vabatahtlikud või sunnitud tegevused, mille käigus väheneb ettevõtte seotus välisturgudega.

välisurgudelt taandumist mõjutavate aspektidena välja praegune seotus konkreetse turuga ning juhtkonna tegevus. Selles käsitluses on haaratud nii ettevõtte sisemised kui ka välised tegurid, kuid peamine rõhk on taandumise protsessi kirjeldamisel mitte selle põhjuste põhjalikul analüüsil. Mellahi (2003) kasutas Marks & Spenceri näidet, et käsitleda juhtkonna tegevust välisurgudelt taandumisel. Turcani mõlemad artiklid (2003a, 2003b) keskenduvad välisurgudelt taandumise protsessi käsitlemisele ettevõtja vaatepunktist ning peamiselt pööratakse tähelepanu väikestele ettevõtetele.

Seega, eelnevad käsitlused on määratlenud välisurgudelt taandumise olemuse ja selgitanud välisurgudelt tagasipöördumisega seonduvaid protsesse, kuid pole pööranud piisavat tähelepanu välisurgudelt taandumiseni viivate tegurite põhjalikule analüüsile. Lisaks eelnevalt nimetatud teadustöödele on küll ka olemas välisallüksuste sulgemist (*divestment*) (vt. näiteks Benito 1997; Boddewyn 1979, 1983a, 1983b; Chen, Wu 1996; Chopra *et al.* 1978; Larimo 1998; Sachdev 1976; Tornedon, Boddewyn 1974; Tsetsekos, Gombola 1992) ja ekspordi vähendamist (vt. näiteks Bonaccorsi 1992; Pauwels, Matthyssens 1999; Welch, Wiedersheim-Paul 1980) puudutavad kirjutised, kuid kuna need erinevad välisurgudelt taandumisest (*de-internationalization*) mitmete aspektide poolest, siis võib väita, et välisurgudelt lahkumisega seonduv vajab veel põhjalikku uurimist.

Ettevõtete rahvusvahelistumise uurimises keskendus enamik kirjutistest kuni 20. sajandi lõpuni arenenud tööstusriikide ettevõtete analüüsile. 1990ndatel aastatel toimunud Kesk- ja Ida-Euroopa riikide iseseisvumine tõi arenenud riikide ettevõtetele kaasa uued välisest tegevuse arendamise võimalused ning avas teadlastele uued uurimissuunad. Kui arenenud riikide ettevõtted on valdavalt jõudnud globaliseerumise staadiumisse (vt. Kirpalani, Luostarinen 1999, lk. 33 esitatud klassifikatsiooni), siis valdav enamus arengumaade ja siirderiikide ettevõtetest on siiani alles ekspordi staadiumis (sellise järelduse on teinud ka Kwon ja Hu 2001). Selliste erinevuste tõttu on mitmed autorid (vt. näiteks Bishop 2001, Pollard 2001) rõhutanud siirderiikide ettevõtete rahvusvahelistumise süvaanalüüsi vajalikkust.

1990ndate aastate alguses olid vaid üksikud Eesti ettevõtted huvitatud välisurgudele sisenemisest. Tänapäevaks on olukord kardinaalselt muutunud ning ettevõtete eksporditegevus ja välisinvesteeringute maht kasvavad igal aastal. Võib arvata, et Eesti ettevõtete rahvusvahelistumine erineb mõnevõrra traditsioonilistest protsessidest, mis on Põhjamaade teadlaste varasemates uuringutes välja toodud. Üheks põhjuseks võib siin olla näiteks see, et koduturu väiksus ja madal ostujõud sunnivad ettevõtteid kiirendama rahvusvahelistumise protsesse. Samal ajal on siinsed ettevõtted üldjuhul väiksemad kui suuremates ja/või kõrgema arengutasemega riikides ja see piirab välisinvesteeringutega uutele turgudele sisenemist. Lisaks eelnevalt nimetatud aspektidele võib arvata, et paljudel juhtudel viivad Eesti ettevõtted ellu välisomaniku strateegiat ning see võib mõjutada näiteks sihtturgude valikut.

Eesti on väike siirderiik, millel oli Euroopa Liiduga ühinemiseni väga liberaalne majanduspoliitika. Võrreldes teiste Kesk- ja Ida-Euroopa siirderiikidega on Eesti olnud välisinvesteeringute ligimeelitamisel küllaltki edukas ja see on kiirendanud siirdeprotsesse ning aidanud suurendada kohalike ettevõtete konkurentsivõimet. Samal ajal tingib aga koduturu väiksus kiire välisurgudele sisenemise, et kindlustada ettevõtte areng ka tulevikus. Selline surve ning välisurgudel tegutsemise kogemuse puudus võib aga viia valede otsusteni, mis omakorda võib tuua kaasa vajaduse mõnedelt välisurgudelt tagasi tõmbuda. Eelkirjeldatud probleemidega on puutunud kokku juba mitmed Eesti ettevõtted. Tootmiskulude kasv tulevikus ning tootmismahu piiratus võivad viia siinsete ettevõtete konkurentsieeliste kadumisele ning seega võivad mitmed Eesti tööstusettevõtted leida end olukorrast, mil nad peavad välisurgudelt (osaliselt) taanduma. Seega, Eesti tööstusettevõtete seiniste kogemuste ning välisurgudelt tagasitõmbumise peamiste põhjuste välja selgitamine võimaldaks vähendada ebaõnnestumisi, toetada ettevõtete välisurgude kasvu ning vajadusel rakendada riiklikke toetusmeetmeid.

Uurimuse eesmärk ja ülesanded

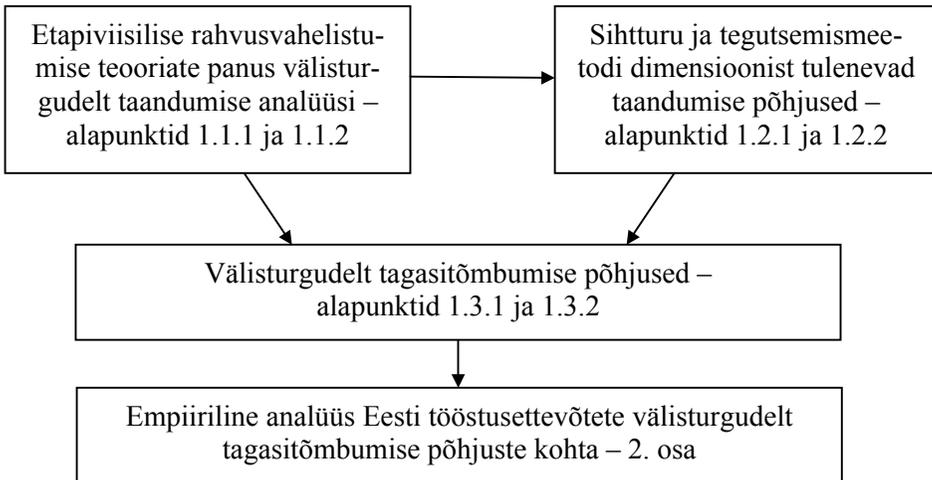
Käesoleva doktoritöö eesmärk on selgitada välja, millised teoreetilises raamistikus käsitletud ettevõtete välisurgudelt tagasitõmbumise põhjused kehtivad Eesti tööstusettevõtete puhul. Eesmärgi täitmiseks vajalikud uurimisülesanded on järgmised:

- 1) välisurgudelt taandumise põhjuste analüüsi teoreetilise baasi loomiseks tuuakse välja etapiviisilise rahvusvahelistumise põhimudelid ning nende kriitika;
- 2) kuna välisurgudelt tagasitõmbumist analüüsitakse käesolevas töös sihtturu ja välisurgudel tegutsemise meetodi dimensioonide lõikes, siis käsitletakse põhjalikult varasemaid teaduslikke töid, mis on keskendunud seaduspärade tuvastamisele ettevõtete rahvusvahelistumises nende kahe dimensiooni puhul;
- 3) välisurgudelt tagasitõmbumise põhjuste analüüsimise raamistiku loomisel sünteesitakse käesoleva töö teoreetilises osas toodud seisukohad ning varasemad uuringud, mis käsitlevad välisallüksuste sulgemist ja ekspordi vähendamist;
- 4) Eesti ettevõtete välisurgudelt taandumise tähtsuse ja nende otsuste tegemise konteksti määratlemiseks analüüsitakse Eesti tööstusettevõtete välisurgude tegevuses toimunud peamisi muutusi;
- 5) eelneva alusel formuleeritakse hüpoteesid peamiste Eesti tööstusettevõtete välisurgudelt tagasitõmbumise põhjuste kohta ja tutvustatakse kasutatavat uurimismetoodikat;

- 6) järgneva analüüsiga tuuakse välja peamised välisurgudelt taandumise põhjused Eesti tööstusettevõtete puhul ning esitatakse doktoritöö peamiste tulemuste süntees.

Doktoritöö teoreetiline taust

Käesolevas doktoritöös kasutatakse välisurgudelt tagasitõmbumise põhjuste analüüsimise teoreetilise raamistiku loomiseks käsitlusi, mille võib jagada kolme gruppi. Need on etapiviisilise rahvusvahelistumise teooriad, teaduslikud tööd, mis keskenduvad sihturu ja välisurjul tegutsemise meetodi analüüsimisele ning uurimused välisallüksuste sulgemise ja ekspordi vähendamise kohta. Nimetatud suunaga kirjutistest tuuakse välja peamised ettevõtete välisurgudelt tagasitõmbumise põhjuseid käsitlevad aspektid, mis sünteesitakse käesolevas doktoritöös ühtseks teoreetiliseks baasiks. Dissertatsiooni üldine loogika ja teoreetilise raamistiku loomise alused on esitatud joonisel 1.



Joonis 1. Doktoritöö ülesehituse üldine loogika.

Etapiviisilise rahvusvahelistumise mudelid (Uppsala mudel, Luostarineni POM-mudel ja teised) toovad välja peamised ettevõtete rahvusvahelistumise etapid ja põhijooned. Nendes mudelites rõhutatakse, et ettevõtte seotus välisurgudega peab olema kooskõlas ettevõttesse akumulieeritud teadmiste ja kogemustega. Soovitav on alustada välisurgudel tegutsemise meetoditega, mille puhul ressursside seotus on väike ning kontsentreerida tegevus nii geograafilises, kultuurilises kui ka majanduslikus mõttes lähedastele turgudele. Pärast välisurgudel tegutsemise kogemuse saamist liigutakse edasi suurema ressursside seotusega meetodite ning kaugemate turgude suunas.

Ettevõtete etapiviisilise rahvusvahelistumise mudelite analüüsi alusel võib välja tuua mitmed aspektid, mis on olulised välisurgudelt taandumise põhjuste teoreetilise raamistiku loomiseks. Esiteks, nendes mudelites eristatakse rahvusvahelistumise staadiume ja leitakse, et kogemuste puudus avaldab ettevõtte välistegevusele mõju vaid selle alguses. Sama võib kehtida ka välisurgudelt taandumise puhul – kogemuse puuduse olulisus välistegevuse vähendamise põhjusena võib võrreldes teiste põhjustega aja jooksul väheneda. Seega võib arvata, et erinevates rahvusvahelistumise etappides olevate ettevõtete puhul ei kehti samad välisurgudelt taandumise põhjused. Teiseks, teadmisi võib lisaks enda kogemustele saada ka teistelt suhtevõrgustiku liikmetelt ning seetõttu tuleb analüüsida ka sellele tähelepanu pöörata. Kolmandaks on oluline vaadata, kas väga kiire rahvusvahelistumise protsess avaldab mõju välisurgudelt taandumise tõenäosusele. Neljandaks, ettevõtete rahvusvahelistumist on võimalik analüüsida nii ettevõtte tasandil kui ka erinevate dimensioonide (toode, tegutsemismeetod, turg, organisatsiooni võimekus) lõikes. Selline lähenemisviis võib osutuda kasulikuks ka välisurgudelt tagasitõmbumise analüüsimisel. Lisaks muutustele erinevate dimensioonide lõikes tuleks pöörata tähelepanu veel ka sellele, et eristada muutusi välisurjul tegutsemise meetodi sees ning meetodite vahetust.

Eesti ettevõtted on tegutsenud välisurgudel vaid pisut rohkem kui kümme aastat ja nad alustasid situatsioonis, kus välisurgude kohta teadmised ning seal tegutsemise kogemus praktiliselt puudusid. Seega sobivad need rahvusvahelistumise mudelid, mis seovad välistegevuse aja jooksul suureneva kogemuste hulga ja teadmistega Eesti ettevõtete välistegevuse kasvu ja vähenemise kirjeldamiseks hästi. Näiteks võivad kiire rahvusvahelistumine ning mõningate etappide vahele jätmine viia välisurgudelt tagasitõmbumiseni. Üks võimalus kogemuste puuduse leevendamiseks on teadmiste kogumine teistelt suhtevõrgustiku liikmetelt. Eestis on välisosaluses olevate ettevõtete osakaal kõrge ning seetõttu võib arvata, et välisomanikud on võimaldanud saada ligipääsu rahvusvahelisi turge puudutavale teabele. Eelnevast võib järeldada, et välisosaluses olevates Eesti tööstusettevõtetes võiks välisurgudelt tagasitõmbumine toimuda harvemini kui kodumaisel kapitali põhinevates ettevõtetes.

Teoreetilise osa järgmine peatükk keskendus sihturu ja välisurjul tegutsemise meetodi dimensioonide põhjalikule analüüsile. Käesolevas doktoritöös piirdatakse vaid nende kahe dimensiooniga. Toote dimensioon jäi vaatluse alt välja vastavate andmete puudumise ning Eesti tööstusettevõtete välistegevuse eripärade tõttu. Organisatsiooni võimekuse aspekti kaasamist takistavad aga probleemid selle dimensiooni kontseptualiseerimisel.

Sihturu dimensiooni puudutavad varasemad uurimused viitavad sellele, et ettevõtted kalduvad välistegevuse esimestes etappides hajutama oma tegevust mitmetele turgudele, seejärel võib aga toimuda strateegia muutus ning tegevuse kontsentreerimine olulisematele turgudele. Kogemuse suurenedes ja ettevõtte kasvades võib hiljem taas tulla kasutusele turgude hajutamise strateegia. Eelnevast võib järeldada, et mõningates rahvusvahelistumise etappides võib

välisurgudele tagasitõmbumise põhjuseks olla strateegia muutus. Kuna enamuse Eesti ettevõtteid on alles rahvusvahelistumise esimeses etapis, siis on nad valdavalt keskendunud vaid üksikute turgude teenindamisele ning alles liiguvad sihtturgude hajutamise suunas. Seega võib selguda, et Eesti tööstusettevõtete puhul ei ole strateegia muutus välisurgudele taandumise põhjusena oluline.

Lisaks teenindavate välisurgude arvule tuleb sihtturu dimensiooni lõikes pöörata tähelepanu ka turgude kaugusele. Varasemad uurimused näitavad, et ettevõtted sisenevad kaugemal asuvatele turgudele alles välisesteguvuse hilisemates staadiumites. Seega võib kaugete sihtturgude valimine välisesteguvuse algusetapis tuua kaasa sealt taandumise. Eesti ettevõtted on siiani valdavalt keskendunud lähedalasuvate turgude teenindamisele, kuid mitmed ettevõtted on tegevad ka kaugematel turgudel. Seega on võimalik analüüsida, kas kohe suurele arvule turgudele keskendumine ja kaugete sihtturgude valimine toob kaasa välisurgudele tagasitõmbumise.

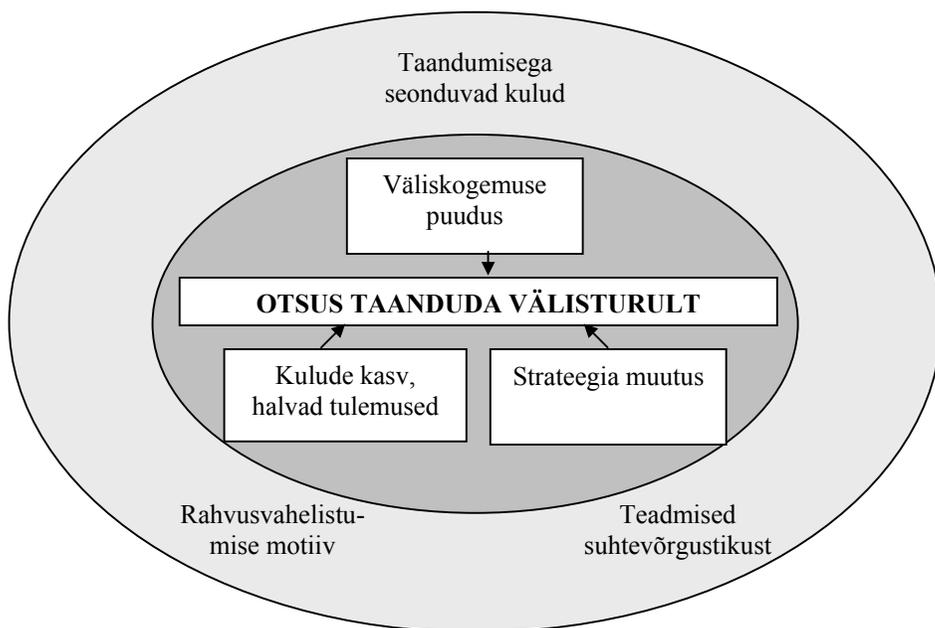
Välisurgudel tegutsemise meetodite kasutamisel kehtib seaduspära, mille kohaselt esialgu seotakse välisuruga vähe ressursse ning alles kogemuste kasvades ning välisurgudega seonduva ebakindluse taseme vähenedes liigutakse suurema seotuse tasemega meetodite kasutamise suunas. Siiski on erinevate autorite seisukohad selles osas mõnevõrra lahknevad ja kohati koguni vastandlikud. Seega ei saa varasemate käsitluste alusel anda ühest hinnangut, kas ja millistes välisesteguvuse etappides võiks strateegiline muutus tegutsemismeetodi dimensiooni lõikes olla tõenäoline ja viia välisurgudele taandumiseni. Enamuse Eesti ettevõtetest kasutab välisurgude teenindamiseks ekspordi ja ei ole veel välisinvesteeringuid teinud. Litsentsimist kasutatakse välisurule siseneamiseks Eesti ettevõtete poolt aga haruharva. Seega tuleb tegutsemismeetodi dimensiooni puhul Eesti tööstusettevõtete analüüsimise juures pöörata peamine tähelepanu ühe meetodi sees toimuvatele muutustele, kuna meetodi vahetamine toimub harva.

Ettevõtete rahvusvahelistumise seaduspärade analüüs tegutsemismeetodi dimensiooni lõikes näitas, et lisaks eelnevalt mainitud teistelt suhtevõrgustike liikmetelt saadud teadmiste tuleb arvestada veel vähemalt kahe täiendava aspektiga. Nimelt võivad konkreetse tegutsemismeetodi kasutamise lõpetamisega seonduvad kulud ja rahvusvahelistumise esialgne motiiv avaldada olulist mõju välisurgudele tagasitõmbumist mõjutavatele teguritele ja seega suurendada või vähendada tagasitõmbumise tõenäosust. Eesti ettevõtete puhul on nende kahe aspekti mõju tõenäoliselt tagasihoidlikum kui arenenud riikidest pärit ettevõtete puhul. Nimelt on valdavale enamusele Eesti ettevõtetele välisurule sisenemise peamiseks motiiviks sihtturu teenindamine ja sel puhul on tegevuste tagasipööratavus ning seonduvad kulud üldjuhul oluliselt väiksemad kui näiteks efektiivsuse suurendamisest või loodusvarade kasutamisest huvitatutel. Seega võib arvata, et eelnevalt nimetatud aspektide mõju on Eesti ettevõtete puhul valdavalt tagasihoidlik.

Töö teoreetilise osa viimase peatüki esimeses pooles keskenduti välisallüksuste sulgemise ja ekspordi vähendamise peamiste põhjuste analüüsimisele

varasemate uuringute tulemuste alusel. Analüüsi tulemusena oli võimalik välja tuua kolm peamist välisurgudelt tagasitõmbumist mõjutavate tegurite gruppi. Lisaks on varasemad käsitlused näidanud, et erinevates rahvusvahelistumise etappides on nende põhjuste gruppide mõjus erinevusi. Neid aspekte arvestati ka välisurgudelt taandumise põhjuste analüüsi teoreetilise raamistiku loomisel.

Välisurgudelt tagasitõmbumine on mõneti erinev välisallüksuste sulgemise ja ekspordi vähendamisega võrreldes. Nimelt toimub selle puhul muutuste analüüs nii tegutsemismeetodi sees kui erinevate tegutsemismeetodite vahel ning erinevate dimensioonide lõikes. Lähtuvalt teoreetilise osa eelnevates peatükkides esitatud arutluskäigust ning tehtud järeldustest oli võimalik luua raamistik välisurgudelt tagasitõmbumise põhjuste analüüsimiseks. See sisaldab kolme põhjuste gruppi, milleks on väliskogemuse puudus, strateegia muutus ja tootmiskulude kasv või halvad tegevustulemused (vt. joonis 2). Nende põhjuste gruppide olulisust ning välisurult taandumise otsust mõjutavad aga omakorda veel kolm täiendavat aspekti – suhtevõrgutiku liikmetelt saadud teadmised, taandumisega seonduvad kulud ja ettevõtte rahvusvahelistumise motiiv.



Joonis 2. Välisurgudelt tagasitõmbumise põhjuste analüüsi raamistik.

Välisurult taandumise põhjuste olulisus varieerub tõenäoliselt rahvusvahelistumise etappide lõikes (vt. joonis 3). Välistegevuse algetapil on tõenäoline, et peamiseks tagasitõmbumise põhjuseks on kogemuste puudus, seejärel võivad muutuda olulisteks tootmiskulude kasvuga seonduvad argumendid ja strateegia muutus mõjutab eelkõige neid ettevõtteid, millel on ulatuslik välistegevus.

Eelnevalt toodud seaduspärasusi ning välisturgudelt tagasitõmbumise põhjuste analüüsimiseks loodud teoreetilist raamistikku kasutati töö empiirilises osas Eesti tööstusettevõtete välistegevuse lõpetamise või vähendamise põhjuste kindlaks tegemisel.

Strateegia muutus			
Tootmiskulude kasv või halvad tulemused			
Väliskogemuse puudus			
	 Rahvusvahelistumine		

Joonis 3. Erinevate välisturgudelt tagasitõmbumise põhjuste olulisus rahvusvahelistumise erinevates etappides (tumedam värv tähistab suuremat olulisust).

Uurimismetoodika ja kasutatavad andmed

Töö teoreetilises osas toodud välisturgudelt tagasitõmbumise põhjuste olulisuse kontrollimiseks Eesti tööstusettevõtete jaoks ning suhtevõrgustike teistelt liikmetelt saadud teadmiste olulisuse hindamiseks püstitati empiirilise analüüsi jaoks kümme hüpoteesi. Kaks taandumise otsust mõjutavat aspekti – taandumisega seonduvad kulud ja rahvusvahelistumise motiiv – jäid analüüsist välja käesolevas kokkuvõttes eespool nimetatud põhjustel. Nimelt on valdava enamuse Eesti tööstusettevõtete puhul peamiseks välisturgudele sisenemise motiiviks sihtturu teenindamine ekspordi kaudu. Kuna ettevõtete vahel suuri erinevusi ei ole, siis oleks selle aspekti olulisuse kohta raske järeldusi teha. Lisaks sellele tähendab sihtturu teenindamise motiiv sageli suhteliselt nõrga ressursside seotuse astmega turule sisenemise meetodite kasutamist ning seetõttu ei ole välisturgudelt tagasipöördumine üldjuhul seotud suurte kuludega. Kuludega seonduva info kogumine on keeruline ja ka see on üheks põhjuseks, miks nimetatud aspekti mõju välisturult tagasipöördumise otsusele ei ole käesolevas töös Eesti ettevõtete puhul analüüsitud.

Käesoleva doktoritöö empiirilises osas kasutatakse andmeid kolmest erinevast allikast ning käsitluses liigutakse üldisematelt andmetelt detailsemate kasutamise suunas (vt. tabel 1). Eesti tööstusettevõtete andmebaas sisaldab 325 ettevõtte bilansi ja kasumiaruande andmeid aastate 1996–2002 kohta. Kuna mõnede ettevõtete puhul osad andmed puudusid, kujunes antud uurimuses vaatluste arvuks 307. Nende andmete alusel analüüsiti multinoomse logistilise

regressioonanalüüsi (*multinomial logistic regression analysis*) abil kaheksa hüpoteesi kehtivust.

Tabel 1. Välisturgudelt tagasitõmbumise põhjuste analüüsimise võimalused erinevatest allikatest pärinevate andmete puhul

	Välisturul tegutsemise meetod		Sihtturud	
	Meetodi muutus	Muutus meetodi sees	Turgude arv	Turgude kaugus
Eesti tööstusettevõtete andmebaas		X		
Eksportööride küsitlused		X	X	X
Juhtumianalüüs	X	X	X	X

Järgnevalt kasutati detailsemat infot, mis pärineb Eesti Ekspordiagentuuri ja Ettevõtluse Arendamise Sihtasutuse poolt aastatel 2001 ja 2004 teostatud küsitlustest “Eesti Eksportöör”. 2001.a. küsitlus sisaldas infot 80 Eesti tööstusettevõtte ja 2004.a. teostatu 118 tööstusettevõtte välistegevuse kohta. Nende andmete puhul jagati ettevõtted gruppidesse vastavalt sellele, kas nad olid eelneva aasta jooksul konkreetset sihtturul oma tegevuse mahtu suurendanud, seda vähendanud või ei tegutsenud vastaval turul üldse. Gruppidevaheliste statistiliselt oluliste erinevuste olemasolu analüüsiti ühefaktorilise dispersioonanalüüsi (ANOVA) abil. Nende andmete alusel oli võimalik teha järeldusi seitsme hüpoteesi kehtivuse kohta.

Empiirilise osa lõpus kasutati välisturult tagasipöördumise põhjuste kindlakstegemiseks informatsiooni, mis koguti viie Eesti tööstusettevõtte (Klementi, Sangar, Tarkon, Tarmeko, Ösel Foods) juhtumianalüüsi käigus. Need ettevõtted esindavad rõiva-, elektroonika-, mööbli- ja toiduainetetööstust. Intervjuud ettevõtte esindajatega viidi läbi ajavahemikus august–oktoober 2004 ja kogutud andmed võimaldavad hinnata viie hüpoteesi kehtivust. Kuna juhtumianalüüsi käigus kogutud informatsioon võimaldab välisturgudelt tagasipöördumise põhjuste täpsemat analüüsi, antakse nendele andmetele eelnevalt tutvustatutega võrreldes mõnevõrra suurem kaal.

Töös püstitatud uurimisväited ja nende analüüsi tulemused

Käesoleva doktoritöö alapunktis 2.1.2 esitatud hüpoteesid võib jagada nelja gruppi. Esimesed neli hüpoteesi kontrollivad välistegevuse kogemuse puuduse mõju välisturgudelt taandumisele. Kaks järgmist hüpoteesi keskenduvad strateegia muutuse mõjude hindamisele. Hüpotees 7 kontrollib tootmiskulude kasvu ja halbade tegevustulemuste mõju olulisust. Viimased kolm hüpoteesi on

suunatud välistest allikatest saadud teadmiste poolt ettevõtte rahvusvahelise tegevuse kontekstile avaldatava mõju hindamisele. Kõik eelnimetatud hüpoteesid ja peamised tulemused on esitatud järgnevalt.

H1: Välisturgudelt tagasipöördumine on tõenäolisem rahvusvahelistumise esimestes etappides.

Esimene hüpotees leidis kinnitust eksportööride küsitluse andmete ja Ösel Foodsi puhul. Osaline kinnitus saadi sellele Klementi ja Tarmeko juhtumite analüüsimisel. Analüüs näitas, et tulevikus tehtavates uuringutes oleks soovitatav eristada allhanketöid ja omatoodangu eksporti, kuna nende vahel on küllaltki olulised erinevused. Kogemuste puuduse aspekt ei leidnud kinnitust allhanketööde puhul, kuna nendel juhtudel on ilmselt olulisem tootmiskulude taseme aspekt, mis võib põhjustada Eesti tööstusettevõtete tagasipöördumist välisturgudelt rahvusvahelistumise hilisemates etappides, mil tootmiskulud Eestis kasvavad ja mitmed ettevõtted kaotavad seeläbi konkurentsieelise. Kahjuks ei võimaldanud käesolevas töös kasutatud andmed põhjalikku analüüsi, et teha kindlaks allhanketööde tegijate ja omatoodangu turustajate erinevuste ulatus.

H2: Välisturgudelt tagasipöördumine on tõenäolisem kaugemate sihtturgude puhul.

Üldised andmed, mis pärinesid Eesti tööstusettevõtete andmebaasist ja eksportööride küsitlusest, ei võimaldanud selle hüpoteesi kehtivuse kohta selgeid järeldusi teha, küll aga toetasid hüpoteesi kehtivust Tarkoni ja Ösel Foodsi juhtumid ning osaliselt ka Klementi ja Tarmeko kogemused. Võrreldes aga sihtturu kauguse olulisust teiste välisturgudelt taandumise põhjustega, osutus see küllaltki ebaoluliseks. Sellise tulemuse põhjendusena võib välja tuua näiteks selle, et kaugemate sihtturgude puhul viivad ettevõtted läbi põhjalikuma analüüsi, kuid näiteks Läti ja Leedu puhul ollakse teadmiste olemasolus ja oma toote headuses liiga kindlad. Samas tuleb aga ka arvestada seda, et enamuse Eesti tööstusettevõtete välisstegevus on suunatud lähiturgudele ning seega võib näiteks koduturu kasvust tingitud tagasitõmbumine tuua kaasa just nendelt turgudelt lahkumise. See argument kehtib eriti väikeste ettevõtete puhul.

H3: Välisturgudelt tagasipöördumine on tõenäolisem väikeste kui suurte ettevõtete puhul.

See hüpotees ei leidnud analüüsi käigus kinnitust. Sellise tulemuse põhjuseks võib olla näiteks see, et väiksemad ettevõtted on võimelised pakkuma paindlikumat teenindust ning orienteeruvad rohkem klienditeenindusele ning saavutavad seeläbi jätkusuutlikuma konkurentsieelise. Lisaks võib välja tuua veel ka asjaolu, et väiksemad ettevõtted viivad sageli läbi põhjalikumad sihtturu uuringud, et oma nappe ressursse, mida neil on võimalik kasutada välisturgudele tungimiseks, võimalikult efektiivselt paigutada.

H4: Välisturgudelt tagasitõmbumine on tõenäolisem nende ettevõtete puhul, mis on suunanud oma toodangu Ida-Euroopa turgudele võrreldes nendega, mis on orienteeritud lääneriikide turgudele.

See hüpotees leidis kinnitust, kuna ettevõtted pöördusid sagedamini tagasi Venemaa, Ukraina ja teiste Ida-Euroopa riikide turgudel. Eriti selgelt avaldus see tendents mingil turul tegevuse täieliku lõpetamise puhul. Üks selgitus sellise tulemuse juures seisneb asjaolus, et Eesti tööstusettevõtetal pole teiste siirderiikide ettevõtetega võrreldes üldjuhul märkimisväärseid konkurentsieeliseid, kuna tootmiskulude ja majanduse arengu tase nendes riikides on suhteliselt sarnane. Samas on aga Eesti ettevõtetal konkurentsieelis lääneriikide turgudel, kuna tootmiskulude tase on Eestis oluliselt madalam kui arenenud tööstusriikides.

H5: Välisturult tagasitõmbumine on tõenäolisem juhul, kui toimub ettevõtte omanike vahetus.

Töö empiirilises osas kasutatud andmed ei kinnitanud selle hüpoteesi kehtivust. Seetõttu võib arvata, et uued omanikud pole kas ettevõtte strateegias muutusi teinud või on need muutused soodustanud välistegevuse kasvu. Ainult üks juhtumianalüüsi kaasatud ettevõtetest oli vaadeldava perioodi jooksul omanikke vahetanud, kuid see muutus ei toonud esialgu kaasa suuri muutusi strateegias. Ühe juhtumi alusel pole aga hüpoteesi kehtivuse kohta võimalik järeldusi teha.

H6: Välisturgudel tagasipöördumine on tõenäolisem olukorras, kus koduturg kasvab kiiresti.

Eesti tööstusettevõtete andmebaasi analüüsi tulemused toetasid selle hüpoteesi kehtivust ja seega on võimalik järeldada, et koduturu kasv avaldab mõju Eesti tööstusettevõtete taandumisele välisturgudel. Samas näitasid aga juhtumianalüüsid, et pigem on välisturult tagasitõmbumine seotud tegevuse kontsentreerimisega üksikutele välisturgudele või vahetatakse mõningad suuremat kasumlikkust tagavate turgude vastu, kuid koduturg ei mängi seejuures olulist rolli.

H7: Välisturgudel tagasitõmbumine on tõenäolisem kiire tootmiskulude kasvu või kasumi vähenemise puhul.

Selle hüpoteesi kehtivust toetasid Eesti tööstusettevõtete andmete analüüsi tulemused ning osaline toetus saadi Klementi ja Sangari juhtumite analüüsil. Lisaks viitas juhtumianalüüside käigus kogutud informatsioon sellele, et nimeetatud motiiv muutub ettevõtjate hinnangul järgnevate aastate jooksul üha olulisemaks välisturgudel taandumise põhjuseks. Selle põhjuste grupi suhteliselt väike tähtsus senini toimunud taandumiste puhul tuleneb sellest, et Eesti ettevõtted on oma ekspordi suunanud valdavalt lääneriikide turgudele ning allhanke pakkumisele.

H8: Välisturgudel tagasitõmbumine on tõenäolisem kodumaisel kapitalil põhinevate ettevõtete kui välisomanduses olevate ettevõtete puhul.

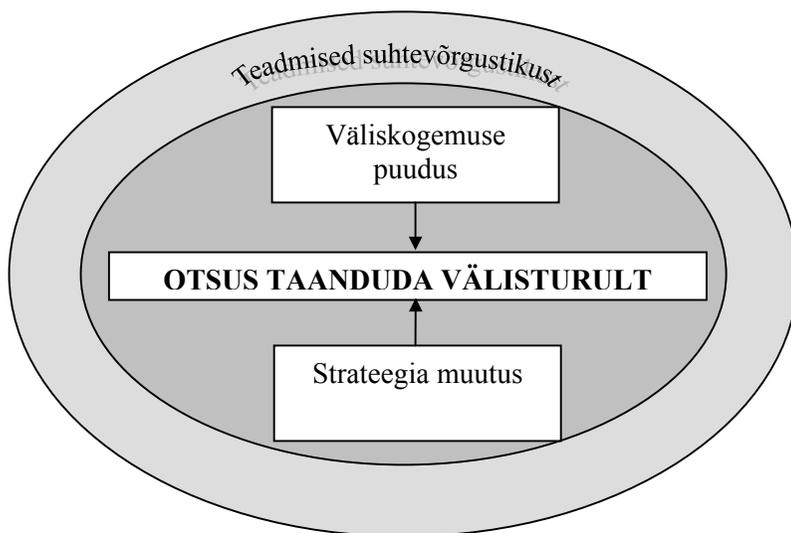
See hüpotees leidis töö empiirilises osas teostatud analüüsi käigus kinnitust. Kodumaisel kapitalil põhinevates ettevõtetes on üldjuhul teadmiste ja kogemuste hulk väiksem ning seetõttu kalduvad nad sagedamini välisturgudel taanduma kui välisomanduses olevad ettevõtted.

H9: Välisurgudelt tagasitõmbumine on tõenäolisem nende ettevõtete puhul, mis alles alustavad oma välistegevust, kuigi tööstusharu rahvusvahelistumise tase on juba kõrge.

H10: Välisurgudelt tagasitõmbumine on tõenäolisem nende ettevõtete puhul, mis tegutsevad tööstusharus, mis ei ole veel rahvusvahelistumist alustanud.

Kumbki eelnevalt toodud hüpoteesidest, mis keskendusid suhteõrgutiku liikmetelt saadud teadmiste olulisuse hindamisele, ei leidnud analüüsi käigus kinnitust. Seega võib järeldada, et Eesti tööstusettevõtete puhul ei avalda sama tööstusharu teistelt ettevõtetelt saadud teadmised ning nende tegevuse jälgimine olulist mõju välisurgudelt taandumise otsuse tegemisele.

Ülaltoodud tulemuste alusel saab väita, et mitmed hüpoteesid ei leidnud kinnitust kõikide analüüsis kasutatud andmeallikate puhul. Siiski, kui anda juhtumianalüüside käigus kogutud informatsioonile üldisemate andmetega võrreldes suurem kaal, siis võib tuua välja, et strateegia muutus ja välistegevuse kogemuse puudus on siinsete ettevõtete puhul peamisteks välisurgudelt tagasitõmbumise põhjusteks (vt. ka joonis 4). Suhteõrgutiku liikmetelt saadud informatsioon avaldab samuti mõju taandumise otsuse tegemisel. Samas pole aga tootmiskulude kasv ja halvad tegevustulemused siiani välisurgudelt taandumise põhjustena väga olulist rolli mänginud, kuid samas tuleb arvestada, et nende olulisus kasvab.



Joonis 4. Erinevate välisurgudelt tagasitõmbumise põhjuste olulisus Eesti tööstusettevõtete puhul

Esitatud tulemused viitavad sellele, et Eesti tööstusettevõtete juhid peaksid pidevalt pöörama tähelepanu uute võimalike sihttrugude analüüsimisele, et praegustel turgudel toimuva nõudluse vähenemise tingimustes oleks kiiresti võimalik oma tegevus ümber orienteerida. Teiseks, ettevõtted peavad teadvustama, et tulevikus tootmiskulude kasvu mõju suureneb ja välisturu teenindamise meetodi vahetamisega võivad kaasneda küllaltki suured kulud. Seetõttu tuleb enne uuele turule sisenemist ja/või strateegia muutust ebaõnnestumiste vältimiseks neid aspekte põhjalikult hinnata. Ettevõtete juhtkonnad peaksid tulevikus pöörama suuremat tähelepanu ka rahvusvahelistumise ja välis-turgudelt tagasitõmbumise käigus saadud kogemuste säilitamisele, et tulevikus nendele või uutele turgudele sisenendes oleks võimalik seda kogemust ära kasutada.

Käesoleva doktoritöö tulemused on kasulikud ka riiklikele institutsioonidele, kuna võimaldavad arendada toetusmeetmeid ja pakkuda finatstoetusi. Üheks oluliseks aspektiks on sealjuures omatoodangu turustajate ja allhaken-teenuste pakujate selge eristamine. Teise aspektina võib välja tuua asjaolu, et siiani on valdav osa riiklikest toetusmeetmetest suunatud eksportööridele. Samal ajal kasvab aga välisinvesteeringute väljavool aasta-aastalt. Seega võiks suurema tähelepanu pööramine välisinvestoritele kogemuste ja informatsiooni vahendamise kaudu vähendada välisallüksuste sulgemise tõenäosust. Kolmandaks, tulevikus muutub tootmiskulude tähtsus välis-turgudelt tagasitõmbumise põhjuste hulgas üha suuremaks ning seetõttu tuleks viia läbi põhjalik analüüs Eesti erinevate tööstusharude konkurentsivõime jätkusuutlikkuse kohta ning toetada kõrge lisandväärtusega toodete tootmist, et vähendada tõsiste tagasi-löövide ilmnemise ohtu Eesti ettevõtete välistegevuses.

Soovitusi tulevasteks uuringuteks

Välis-turgudelt tagasitõmbumisega seonduv temaatika väärib põhjalikku uurimist ka tulevikus ning selleks on mitmeid erinevaid võimalusi. Esiteks on tulevikus tehtavates uuringutes võimalik võtta aluseks suurem hulk teoreetilisi käsitlusi. Näiteks oleks kasulik analüüsi lülitada ka transaktsioonikulude teooria ning suhtevõrgustike käsitlus, et tuua välja täiendavaid välis-turgudelt taandumise põhjusi.

Senised ettevõtete rahvusvahelistumist puudutavad uuringud on peamiselt keskendunud välis-turul tegutsemise meetodi ja sihtturu dimensioonide käsitlemisele. Samal ajal on aga toote dimensiooniga seonduv valdavalt jäänud tähelepanuta. Seega tuleks selle valdkonna põhjalikum uurimine ning kõiki rahvusvahelistumise dimensioone hõlmav ning nii sissepoole kui väljapoole suunatud rahvusvahelistumist haarav kompleksne lähenemine kasuks nii ettevõtete rahvusvahelistumist kui ka välis-turgudelt tagasitõmbumist puudutavatele uuringutele.

Lisaks ülalnimetatud võimalustele oleks üheks töö arendamise suunaks kindlasti ka täiendavate tegurite lisamine analüüsi. Näiteks soovitab Larimo (1998), et välisallüksuse vanus, välistegevuse hajutus ja uurimis- ja arendustöö maht võiksid olla olulised välisurgudelt taandumist mõjutavad aspektid. Käesolevas doktoritöös nimetatud tegureid ei käsitletud. Selle peamiseks põhjuseks oli vastavate andmete puudus.

Välisurgudelt tagasitõmbumise põhjuste kõrval võiks tulevased uuringud pöörata tähelepanu ka selle hindamisele, millised kulud kaasnevad erinevatelt turgudelt taandumisega ning kui suured need kulud on. Need kuludega seonduvad aspektid on tihedalt seotud ka ettevõtte väärtusega. Seega oleks tulevikus huvitav uurida muutusi ettevõtte väärtuses (vaata ka Tsetsekos, Gambola 1992), mis tulenevad ühelt poolt välisurgudelt taandumisega seonduvatest kuludest ja teisalt välistegevuse vähendamisest üldiselt.

Teiseks võimaluseks on keskenduda välisurgudelt tagasitõmbumisega seonduvate otsustusprotsesside analüüsimisele (vt. ka Boddewyn 1983; Ghertman 1988; Tornedon, Boddewyn 1974) ja organisatsioonilistele muutustele, mis nende välisurgudelt taandumisega kaasnevad. Lisaks oleks väga huvitav tuua välja seosed välisurgudelt tagasitõmbumise, organisatsiooni struktuuri ja taandumise protsessi käigus kogutud teadmiste edaspidise kasutamise vahel.

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