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MASTER OF SCIENCE IN INTERNATIONAL BUSINESS

Title of Thesis:

FACTORS INFLUENCING INTERNATIONALIZATION OF THE TEXTILE AND  
CLOTHING SME's

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**TITLE**

**FACTORS INFLUENCING INTERNATIONALIZATION  
OF THE INDIAN TEXTILE AND CLOTHING SME'S**

**RUDRAKSH MISHRA**

**Msc in International Business, 2018-2019**

**National college of Ireland**

**"Submitted to the National College of Ireland, August, 2019"**

# **ABSTRACT**

The Indian Textile industry is one of the oldest and biggest textile industries in the world with unique characteristics. Nonetheless, it has been a symbol of India's cultural heritage. There is international recognition towards the Indian textile with unique manufacturing processes and outstanding handmade quality. With an abundance of raw materials and labor, with already established recognition and demand for the Indian Textile, the following paper reviews the factors influencing internationalization of SME's in the Indian textile industry.

The following paper is based on a qualitative method with an exploratory and inductive approach adopted by the author with primary data collected through interviews and secondary data through academic literature. The main purpose of the paper is to find out the factors affecting the internationalization process of SME's and the main drivers as well as the obstacles to it. The researcher attempts to gain insights into the practical problems faced by small scale industries to expand operations abroad. The different types of challenges they are faced with and the various incentives for them to look abroad. There is also a focus on the effects of this expansion abroad on the current domestic market.

In the present age and stage of Globalization, it is very common for even smaller companies to think globally and expand abroad due to new additions such as E-commerce, enhanced networking, etc. However, there are certain industries in some countries that are still facing challenges that have not been consolidated by advancements in technology. The author aims to look at these intangible factors through ground reality in the Indian market and from the Indian small scale firms as well as their export overseas. The study looks at the merits/demerits of expansion as well as the natural impediments towards them.

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# **ACKNOWLEDGEMENTS**

First and foremost, I would like to express my gratitude, especially by thanking my supervisor, Mr Frank Devitt for his valuable support through the whole dissertation process.

I would also like to thank my family for their continued support in all my ventures.

I would also congratulate the entire batch of 2019 and would thank them for an amazing journey through the masters.

Finally a special thanks to Nidhi Mishra for her support.

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## **KEY WORDS**

SME – Small & Medium Enterprises

MNE- Multi-national Enterprise

GDP- GROSS DOMESTIC PRODUCE

T&C - Textiles and Clothing

MFA – Muti-Fibre Agreement

USD – United State Dollar

EEF- Emerging Economy Firms

IBV – Institution based view

RBV – Resource based view

CAGR- Compounded annual growth rate

B2B – Business to Business

# **INTRODUCTION**

## **Overview**

The studies that were conducted in the yesteryears have not been conclusive enough in their attempt of finding empirical evidence of patterns & trends in the expansion strategies of SME's (Small & Medium sized enterprises) in developing countries over the years. Also, the fact that SME's play an integral role in a countries economic condition makes it all the more important for additional more research in the field. Sizeable studies have been conducted by researchers on the role, development and importance of SME's within a nation's economy. Much of such studies have been focused primarily on developed markets {(Hutchinson, Fleck, and Lloyd-Reason, 2009),(Wickramasekera, 2004)}. However, economies of emerging markets are picking – up the pace and quickly becoming markets with high untapped potential, causing a shift in focus. The author, therefore, tries to analyze a developing market like India for this exploratory research and make an Indian-specific/centric model of factors affecting internationalization of SME's. This present study will focus on the **textile** industry of India. The objectives of the study shall be to provide insights into the process of SME internationalization as well as to ascertain suggestions for future research.

## **SME**

SME's play a very integral role in the successful functioning in an Economy, especially in developing countries like India, providing a constant employment source as well as generating a substantial part of the (Gross domestic product) GDP and Revenue. Also, the role of Import/export commerce in the overall financial/economic growth of a country cannot be overstated (Barro and Sala-i-Martin, 1992). The contribution in terms of overall value addition and national income of an SME in a nation's economy is very high. In India, SME's contributes by generating 45% of overall industrial output, 40% of India's exports and 60 million jobs (MSME, 2018). Moreover the growth in the overall size of the SME market worldwide, due to the adoption of increased entrepreneurial strategies, further enhances the importance of these enterprises in the world market and relays the need to focus on such enterprises. However, there has not been the same academic interest shown in this field, in terms of the number of researches in the field as compared to SME's from small economies. There are few researches conducted which are available on entrepreneurship dealings abroad in emerging economies (Bruton et al., 2008).

## **Internationalization**

Internationalization is a process in which a firm either develops an attitude towards foreign activities or is actively involved in business activities abroad (Johanson and Wiedersheim, 1975). This refers to a strategy of operating a business in another country through the many ways available (e.g.; agent, subsidiaries, production). How a firm can internationalize depends on the nature of good the firm is producing as well as the targeted market conditions. In the current age and stage of globalization, it has become imperative for firms of all sizes to have an international approach of management and to think global. In the Indian textile industry, there is a lot of scope for improvement in terms of export especially

with the high demand for Indian raw materials like cotton, jute, and silk. The produced Indian cotton is known worldwide for its unique ginning process and therefore has a competitive advantage (Begum and Das, 2018). The company's ability to sell abroad, their goods are known for its export competitiveness (Ketels, 2010). India has export competitiveness and the prerequisites/resources to sell but still is lagging far behind the industrial capability of other major textile exporters such as China.

### Indian Market Overview

Located in Asia, India is the second-largest country in the world in terms of population. India is the second-largest textile producing country in the world and has an outstanding reputation in terms of the quality of its products as per the UN Comtrade report of 2014 (Economic times, 2014). India has around 42m SME's registered, representing 95% of all business entities. Out of this 31% are registered under the manufacturing sector, 36% in trading and 33% in other sectors (MSME, 2018). India has around 5.1% market share of the overall worldwide textile exports (IBEF, 2018). India has a very close linkage between its agriculture (Raw material; eg cotton) and the textile industry due to cultural traditions resulting in a connected and efficient environment for textile production. The Textile Industry in India has a share of 2% of the overall GDP, 7% share of the total industrial production and 15% share in terms of total exports (Ministry of Textiles, 2018). Fig 1 shows the evolution of the Indian textile& clothing industry in the last 7 years. (Refer to Appendix 7, 8 & 9 for the breakdown of the cotton production around the world, India's textile export figures and Export of Indian textile items in the world respectively.)

FIGURE 1: Market size of Indian textile and clothing industry. Source: India Brand Equity Foundation.

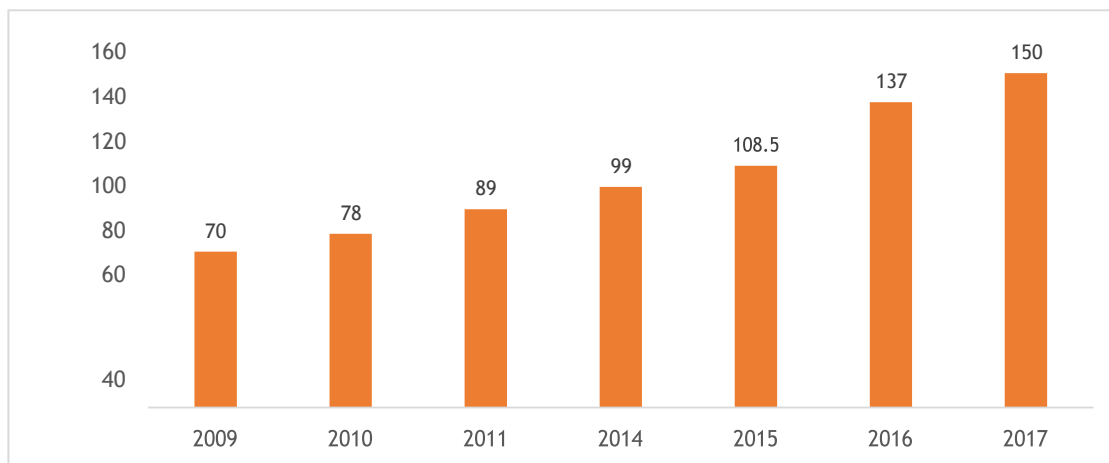
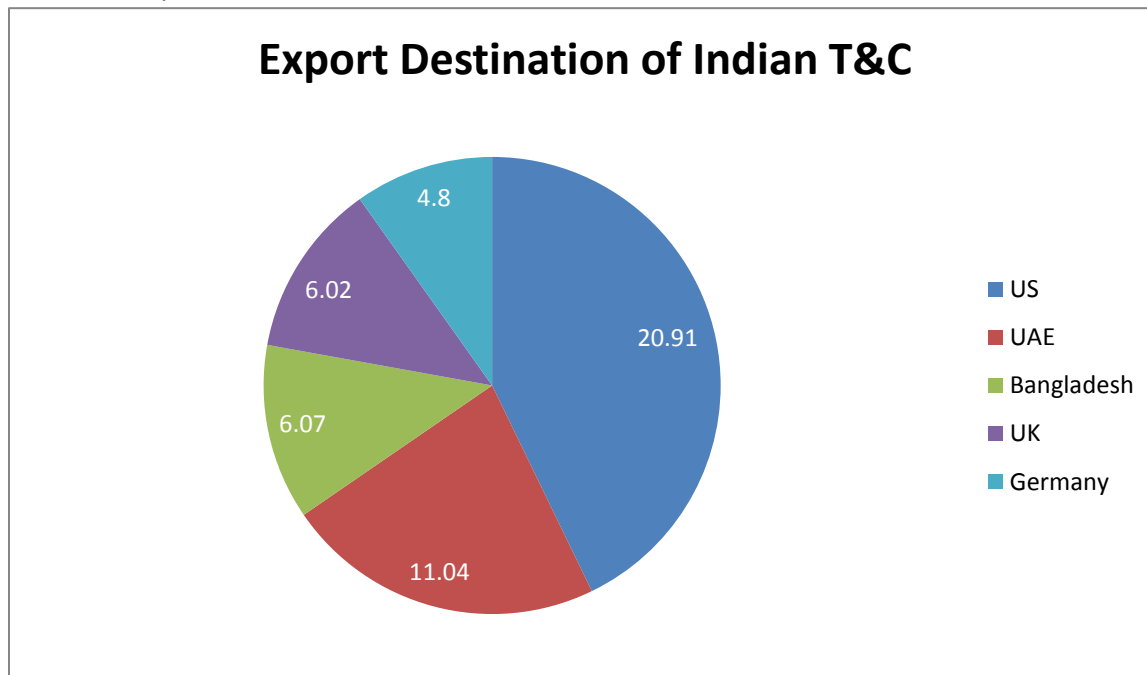


TABLE 1: TOP 5 EXPORTERS OF TEXTILES AND CLOTHING IN THE LAST 20 YEARS. SOURCE: WORLD TRADE ORGANIZATION (2018)

Textiles					
	Value (US\$ Billion)	Share in World Exports (%)			
	2017	2017	2010	2005	2000
China	110	37.1	30.5	20.3	10.4
EU	69	23.4	27	34.9	36.7
India	17	5.8	5.1	4.1	3.6
U.S.	14	4.6	4.8	6.1	7.1
Turkey	11	3.9	3.6	3.5	2.4
Clothing					
China	158	34.9	36.7	26.6	18.2
EU	130	28.6	28.4	31	28.7
Bangladesh	29	6.5	4.2	2.5	2.6
Vietnam	27	5.9	2.9	1.7	0.9
India	15	4.1	3.2	3.1	3.0

The table (table 1) shows the top 5 exporters of Textile and clothing industry in the world. India is the third-largest region. The following figure no. 2, demonstrates the export destination if Indian Textile and clothing T&C industry. India has a robust T&C industry which has the strength to compete with markets globally. This robustness and sustainability can be credited due to abundance in raw materials, vertically integration in facilities in production and cheap labor (Anthony and Joseph, 2014). However, more recently there has been a lack of investment and a delay in up-gradation of technology which is slowly but surely adversely affecting the Indian T&C industry. The results have been such that the Indian man-made fiber was found to be more expensive by 20-25% than the standard internationally as per the Indian ministry of textiles (Wazir Advisors, 2016). Exporting companies have to devise strategies to survive in the global market due to the intense competition and the ease of Substitution. They have to adopt advancement in technologies and management systems to constantly improve productivity (Agarwal, 2014).

FIGURE 2: Export Destination of Indian T&C



#### Reasons for choosing the study;

India is the second-largest textile producer with favorable government conditions for conducting small scale business activities. Promotion of small enterprises has always been an integral strategy of the Indian government and the Indian textile industry has a good reputation globally. Yet, even with these favorable odds, a large number of small scale firms in the Indian economy are not able to export internationally or scale up to international operations. These are the conditions the author aims to ascertain and also to find suggestions to these small scale Industries through the analysis of the Indian textile industry.

The current research on the topic is unsuccessful in providing empirical evidence of findings especially in India and therefore the topic remains fairly unexplored (Kuada and Sörensen, 2000). An Aspect of this is the fact that SME's are scattered throughout the country and therefore it is very difficult to exactly ascertain and establish a common standard between SME's due to differences in natural factors like geography, climate and labor condition, etc. There are large numbers of uncontrollable factors that influence the decision for an SME to internationalize. In India, cultural and traditions also play a role in dictating labor mentality and in turn small scale industry strategies due to a strong following of the cultural legacies. As the Textile industry is a labor-intensive industry, the costs associated with labor in the pivotal factor in the overall productivity and firm competitiveness. SME's in India have a very different approach to business in terms of their human resource allocation due to the abundance of labor.

There was research carried out by past researchers to analyze the Indian market and its export potential, particularly in the Indian textile & clothing Industry (Kathuria 2013, Kannan 2018). Another researcher carried out research to judge the selling ability of Indian Textile produce and found that India had a competitive advantage in most products which it was exporting abroad (Dhiman and Sharma, 2017). This combined with the condition that international competitiveness results greatly, as opposed to foreign market demand, in increasing export shares making the Indian textile and clothing industry thrive (Kim, 2009).

## **METHODOLOGY ADOPTED**

The methodology adopted for the following research is based on **exploratory qualitative** literature research. The researcher will analyze the primary data collected from one-on-one interviews with managers/owners of SME's as well as the secondary data available concerning case studies in business journals, white papers, analyst reports, and other secondary sources. The author will discover the various factors affecting SME internationalization from the SME's through interviews and divide them into 3 broad categories.

The factors affecting SME's decision to internationalize is classified into 3 categories which are:

- Internal
- External
- Natural impediments

The internal factors would be characterized as the inner affairs of the enterprise for, eg; firm resource, capability, owner motivation, company vision, networking, etc.

External factors would include all factors affecting the enterprise which are not controlled by the firm itself, for eg; target market conditions, government regulations, policies, geographic distance, etc.

The third factors would be inherent barriers which cannot be overcome by strategy, for eg; Socio-and behavioral Economic factors such as culture, traditions, nature of human resource or ease of trade-related policies, etc. All these factors play a major role in the company's ability to internationalize.

## **DISSERTATION OUTLINE**

The research study is presented by dividing the content into chapters. The first chapter is about the internationalization of SME's and a brief background including the present conditions in the chosen market. Further, the chapter introduces the framework of the research demonstrating the aims & objectives and the spectrum of literature available. The second chapter shall be based on the review of available literature about the topic. This chapter shall go into depth about the textile industry in India as

well as in the world, followed by the various factors affecting the internationalization of SME's in India. All aspects possible will be studied in the literature review and different views shall be taken (IBV plus RBV). The succeeding chapters shall go into the explanation of the Methodologies chosen for the study and the collection of primary as well as secondary data. This section is then followed by the Analysis and findings section which constitutes the Primary data gathered through the personal interviews. This section also constitutes the analysis of this data. The next section focuses on the Discussion of the primary data and the linkage of the findings with the secondary research data. Following this the conclusion of the study as well as the reference list which shall use a Harvard style of presentation. Finally, the Appendix, which would constituting all the rough work and important statics for the study.

## **LITERATURE REVIEW**

### **INDIAN MANUFACTURING SME's**

SME's around the world are characterized differently as also that each country defines them differently (Curran and Blackburn, 2001). Some classifications are based on head-count of employees or man-force while others may be defined by revenue capping. For example, In the European Union, which is a developed region, SME's are defined as companies with less than 500 people (Curran and Blackburn, 2001). In India on the other hand, the government defines SME's into two categories; Manufacturing Enterprise and Services enterprise and as a company not earning more than 2.5 million USD (MSMED, 2006). The Indian government has further distinctions in place.

Table 2: **Definition of MSMEs in India**                      **Source: Chamber of SME, Govt of India**  
(As Per Micro, Small & Medium Enterprises Development (MSMED) Act, 2006)

<b>Description</b>	<b>Investment Plant &amp; Machinery USD(\$)</b>
Micro Enterprises	upto \$ 62,500
Small Enterprises	above \$ 62,500 & upto \$ 1.25 million
Medium Enterprises	above \$ 1.25 million & upto \$ 2.5 million

These above descriptions are only a measure of the Investment which goes into the project in terms of the plant and machinery which is different from the way most other countries define SME's. Another aspect is that there is a difference between most markets in terms of valuations of their micro, small, medium. For instance, the medium enterprises in Europe have a maximum turnover of 50 million Euros whereas Indian medium enterprises have much lower revenue requirements (European Commission). There is a mismatch in the number of employees also in this regards as a small enterprise In Europe would have less than 50 employees with a turnover of about 10 million Euros(Ibid). Enterprises in India with the same turnover but would have 8 times the number of employees because of the cheap labor and inferior technology. Technology also plays a major role in terms of the overall production ability and the quality of the output. And because of this, a lot of western countries prefer China with an already established and excellent logistics as well as superior technology and higher industrial output. This is an issue Indian SME's face in all western markets they operate in.

Another major factor is the geographic distance involved. Most of the major export destinations for Indian textile SME's are far away and therefore it adds to the expenses of freight, which is quite a demotivating factor for most Indian SME ventures abroad. This is so because the majority of Indian textile export markets are based in Europe and the Americas. India which is situated in Asia does not have major export destinations as most of the countries neighboring it have established domestic textile industries and are self-sufficient. The only exceptions to this are Bangladesh which is heavily reliant on India for cotton and the UAE who always has the option to substitute with so many countries in India vicinity offering similar options.

## **INTERNATIONALIZATION**

There is a basic understanding that small companies first progress in their domestic market and in turn, as a consequence of incremental decisions, are driven into internationalization (Burenstam-Linder, 1961; Vernon, 1992). Therefore Internationalization is a term used to signify the transition over to an outward mindset of the company in terms of adding more international markets or expanding its customer base abroad. The company could have an international mindset from the start of operations or could develop this strategy after establishing stability in its domestic market. There are also 'Born-Global' firms who concentrate on the needs of niche international markets (Rennie, 1993; Madsen and Servais, 1997; Cavusgil and Knight, 2009;). Firms often employ strategies with an emphasis on economies of scales or some sort of complete advantage to establish their foothold in the foreign market. There have been studies demonstrating that there is no correlation between the size of the firm and intensity of export of the firm in terms of the ratio of its export to sales (Bonaccorsi, 1992; Zucchella, 2001).

There is a tough choice for firms to decide whether to internationalize or consolidate domestic growth. There are however difficulties when it comes to internationalization, for companies albeit internally as well as externally. There is also an assumption that the most pivotal impediments are firm resource and the lack of knowledge. However, these impediments can be minimized by allowing time for the



management to learn about the foreign market and how operations could be sustained in the target market. There is a need to generate and develop awareness about trade rules, mandate policies such as licensing, shipping requirements, contingent packaging and labeling requirements, port authorization, taxes, etc. When aiming to expand, SME management needs to be mindful of developing base logistics in their target markets in addition to the above mentioned operational and functional arrangements. These could include setting up warehousing partners or distribution networks. Therefore, all perceived risks must be reduced to achieve internationalization by keeping the operational feasibility in mind. Therefore a reduction of the perceived risk can be achieved and internationalization could be stimulated keeping the operational feasibility in mind (Johanson and Wiedersheim, 1975). There is however always an increase in the resource commitment of the firm, due to expansion abroad and therefore domestic operations/expansion strategies could be affected for the firm.

### **UPPSALA MODEL OF INTERNATIONALIZATION**

The Uppsala model was first presented by Johanson and Wiedersheim-Paul in the year 1975. The model was developed further in the year 1977 by Vahlne and Johanson. The model is used commonly to explain the internationalization of small firms (Andersson, 2004). There are two patterns described, the first is the firm successively enters new markets and begins with countries which have similarities in terms of culture, education and business practices as well as language. This is also defined as the psychic distance between countries (Hollensen, 2001). The second pattern is described in four stages defining the route to foreign entry. The first stage starts from no regular export activities to start of operational activities through agents/independent representatives. The third stage is establishing sales subsidiaries and then gradually into the fourth stage, which is manufacturing or production. This model is based on the fact that SME's enter into the market with relatively low resource commitment and a low risk to start with. Gradually then the SME's move into high resource commitments and take high-risk strategies in terms of establishing production facilities (Johanson and Wiedersheim, 1975).

### **SME NETWORKING**

According to some researchers, networking is an integral part of the internationalization process especially for smaller firms (Rutashobya and Jaensson, 2004). Networking has become so much more significant after the outburst of globalization where firms now have to not only consider domestic competition but competition from abroad in terms of partnerships and trade agreements. These agreements are easier to accomplish and are beneficial to both firms in their respective domains. Therefore SME's have to always be on the lookout for their market share as competition could arise from anywhere in the world. Networking, whether internal or outside the SME, therefore is attributed to enhancing a firm's performance. (Fuller-Love and Thomas, 2004) This is easier said than done though as most SME owners in the emerging market, do not generally possess international connections or networks.

International networking is thus a strategy that firms would pursue to curb constraints in terms of resource (Lipparini and Lorenzoni, 2000). Nonetheless, personal relationships in business networks can lead to the internationalization of firms faster and easier (Johanson and Mattson, 1988). One of the

biggest barriers for SME internationalization is having a trusted logistics network strong enough to sustain operations. Personal relationships and networks often give a sense of better trustworthiness. In this regard, Networking can also be tangibly beneficial to give SME's from emerging economies, access to newer technologies which can boost development and implementation of better products designed for export markets (Athreye & Kapur, 2015).

## **FACTORS MOTIVATING INTERNATIONALIZATION**

Most obvious factors that would motivate an SME's to internationalize are expansion, bigger target market, increasing profits, building a brand, etc. These are generally initiated by the forces acting on the SME and can be categorized into two reasons; reactive and proactive (Czinkota, Johanson, and Ronkainen, 2002). Proactive are reasons in which the company management internally assesses the situation and moves towards internationalization due to reasons such as networking, increasing customer base, increasing profits and revenue. Reactive reasons, on the other hand, are responses to the situation in the current domestic market. These reasons have a direct impact on the company strategy and its expansion plans in reaction to the occurring like changes in govt regulations, product substitution, decrease in demand, etc. Also, these factors include push and pull factors. Push factors arise from proactive reasons which push the firm towards internationalization. These factors are largely affected by unsatisfactory domestic conditions in the current market of operation. Pull factors are the components of situations in the foreign market as well as the current controlling government policies. These factors include attractive foreign markets, appealing foreign export policies of the domestic government, etc. Positive situational opportunities are also a dictating factor when SME's decide to internationalize (Littunen and Tohmo, 2003). Therefore some cases are push affected whereas other cases are when pull factors were dominant (Etemad, 2004).

Another researcher proposed that Western SME's and their Internationalization is fueled by "strategic objectives" in place of push and pull factors, which are the current reality of SME's from emerging economies. (Mathews, 2006) This holds true as firms from the developed market have different problems as opposed to SME's from emerging economies. Internationalization of firms from emerging markets, therefore, is generally not based on having overwhelming assets but on the ability of the company to leverage its operations around organizational learning (Yamakawa et al., 2008).

Gaining a deep understanding of why firms internationalize will result in better clarity on the preparation required by the SME before internationalization (Senik et al, 2010).

## **OBSTACLES TO INTERNATIONALIZATION**

Internationalization of SME's has a lot of advantages for the companies but there are barriers which repel this expansion of SME's to access markets abroad. SME's are generally considered as very small contributors to Internationalization due to constraints such as managerial, technical and financial (Golinelli, 1992; Oviatt and McDougall, 1994). Nonetheless, SME's play a major part in their respective market. It remains a difficult decision to make for SME's and their management to either follow a global approach or a proximity approach (Zucchella, 2001). In the research paper titled, "Internationalization of Chinese Entrepreneurial Firms" (2013), Authors deduced that, "exports by small Chinese firms are driven

by social and intellectual capital of the entrepreneur and their entrepreneurial proclivity, and the innovativeness/uniqueness of the product/offering” (Alon, Yeheskel , Lerner, Zhang, 2013). The management of the SME, therefore, plays an important part in all strategies of the company. The vision of the management is key to defining the strategies adopted and the approach taken by the lower levels of management.

In India majority of small scale textile mills are family owned and therefore there is a deficiency in the governance of the company due to the management not being fully equipped with management intellect needed for internationalization. This is where external management help would be influential as an external and independent executive would give out better decisions keeping all aspects of the operational feasibility in mind. This is where a board of directors would be beneficial for the company in terms of the implementation as well as the selection of the strategy (Calabrò A, Mussolino D, 2013). Also in terms of investments, having a board of directors for the SME would be beneficial as investors would value the SME more. Researches have proved that government subsidiary is helpful but only in the starting stages of the expansion and after that private financial investment is of the utmost importance to develop in the international markets (Cardoza, Fornes, Manag, 2011).

These obstacles are subjective in nature and they depend on factors such as the nature of SME’s business, target export market, government relations, etc. There is, therefore, a gap in the literature in this regard as every SME from a country will face different obstacles relative to the nature of their own business, their country’s relation in terms of policies & trade with the target market and the geographic distance between the countries, etc. The obstacles faced, therefore, are different for EEF as compared to firms from developed countries (Gaur et al., 2014). The institutional environments and the firm resource capabilities of firms from developed countries are very different from EEF’s (Wang, Cao, Zhou & Ning, 2013).

All EEF’s face unique challenges that are relative to their economy and subjective to their target market as well as the nature of their business. There are therefore many obstacles that SME’s have to consider before drawing up expansion plans. These obstacles are again classified into internal and external obstacles. Internal obstacles are related to the firm’s capability and operational feasibility of the company in the market abroad. These obstacles include lack of resource, lack of foreign market connections or networks, lack of knowledge about the international market abroad and the risk feasibility of the firm. These obstacles have to be treated internally and therefore concern the firm itself. The other types of obstacles are the external factors relating to market operations abroad. These are factors including the government policies/ acceptability of operations in the target market as well as the current domestic market. These also include regulatory barriers as well as the economic and political condition of the target market in terms of operational viability, keeping in mind the difference in culture, business operations, etc.

Another important external factor is the difference in currency valuations and exchange rate fluctuations. Exchange rate plays a major role in determining the price of goods in countries abroad. Especially for a developing country, these would eventually result in a make or break of that good in the country as a favorable exchange rate would yield added profits and an unfavorable exchange rate would

add to the cost of the good. There are constant fluctuations in the exchange rates of currencies and this is a major challenge for operation for small firms as a major change in the rates could result in highly inflated prices resulting in heavy losses. Moreover, an important aspect of the exchange rates is the buying capacity of the currency in the target market abroad for the SME, which would be a factor when pricing the particular good in that market. This would be important as there will have to be adequate information about the pricing of the target market to correctly price the product.

A failure in pricing in the market abroad will result in failure of the product to gain traction and hence would result in the international competition taking over the market share. The competitiveness of a firm in terms of its exports refers to the ability of the firm to sell abroad (Gupta2009). This is a measure of sales to operational costs of the firm.

There are other factors which are typically not even considered in research on firms from developed markets, for example, corruption, informal competitors and instability politically (McCann & Bahl, 2016; Gokalp, Lee & Peng, 2017).

### **EXPORT PROPENSITY OF FIRMS FROM EMERGING ECONOMIES**

The following section is important to read as this will factor in all research conducted by the firms before internationalization. There has been research carried out on the export performance of firms from emerging economies (Zou & Stan, 1998; Bernard et al., 2011). In summation, there are a few factors highlighted in these papers. Firstly, Firm specifications like age of operation and size of operations are indispensable when it comes down to export. Firm size dictates the economies of scale for that firm and the production scope. Firm age dictates knowledge capabilities, networks and export capabilities for international expansion. There are exceptions to this in terms of firms which are Born-Global. Secondly, Domestic competitive conditions affect the export capabilities of the firm. If the domestic market is very competitive, it makes it hard for the firm to deviate its resources towards expansion abroad as all resources are committed for the primary domestic market. Lastly, the structure/personality of the ownership is important. Ownership of a firm plays a major role in dictating the expansion strategies of the company (Sousa et al., 2008). Not only the ownership, but the experience in mid-level management is crucial to success abroad.

Managers with relevant international experience are difficult to find for SME's from emerging economies and therefore this scarcity makes them valuable for firms intending to enter markets overseas (Bloom, Genakos, Sadun & Van Reenen, 2012). Moreover, besides concentrating on product quality, the success of export operations require adept management capable of entering and sustaining in the foreign market. SME's generally would lack the brand power of MNE's and therefore would have to adapt to the particularities of international markets. These adoptions may be performed for increasing export performance on the product, production processes, supplier management, and segregation as well as targeting of the customer base (Lages & Montgomery, 2005).

Recently, the researchers have started concentrating on the factors affecting Export performances of EEf's due to the dependence of economies on these types of businesses, but there is limited knowledge as well as context yet because of the late start (Refer Agnihotra & Bhattacharya, 2015; Yi, Wang &

Kafouros, 2013). Most of the present knowledge is Industry related and subject to the adaptation and transposition of capabilities and firm resource of companies to satisfy the demand in the market abroad (Lengler, Sousa & Marques, 2013). Researcher have looked at this issue from a country-level perspective, taking governmental export policies and promotions into account and the factors enabling or inhibiting the performance of EEf export (For reference He, Brouthers & Filatotchev, 2013; Alvarez, 2004). Another important facet of Export Performance of firms is the level of production technology, especially for emerging economies.

Technology on all levels of operation plays an important role in deciding the export performance but either having similar technology to the target market or having a niche way of production which is in demand for the target market makes the process of adaption easier for the firm. There is a constant need to upgrade technology and many firms, therefore, turn to outside support to compliment as well as strengthen their technological capabilities. Moreover, facilitating overall organizational growth in terms of development and advancement of current operational products and processes (Krammer, 2016).

## **GLOBAL TEXTILE MARKET ANALYSIS**

The Textile market over the world is a labor-intensive industry and therefore there are entry-level jobs offerings for unskilled labor in developing as well as developed markets. There is segmentation in this industry with respect to the high- quality fashion market and lower quality mass production market. The high-quality market is characterized by recent technologies, highly skilled and paid workers & Designers as well as a high degree of pliability. The other major market segment is the mass production market which primarily produces standard (low-tech, par quality) products such as standard apparel, uniforms, underwear, etc. This market is primarily based in emerging economies and the target markets for the firms in the segment are primary B2B major importers in developed countries. Bigger apparel multinational enterprises in the western countries outsource the production process to the cheap labor markets in emerging economies to reduce production costs. However, there is an intense competition in the segment as there always lies the threat of substitution due to the availability of multiple options for these MNE's. Most textile and clothing market are now, with evidence, following this relocation of production as well as outsourcing to cost-efficient suppliers in emerging economies keeping geographical proximity in mind (Navaretti et al., 2001).

After the abolishment of the Multi-fiber Agreement (1962-2005), which had governed the amount of textile trade between countries worldwide, there has been a gradual decrease in tariff distortions for textile trade between countries. Moreover, the global textile market is constantly expanding with a steady rate (APPENDIX 6) with a CAGR of over 5% worldwide. Refer to Appendix 1, 2& 3 for the top 10 exporters of Textiles in the world and the value of the global apparel market.

## **INDIAN TEXTILE MARKET**

The Indian textile industry has been around for a long time with some estimates ranging from the days of printing blocks and dyes around 250 BC. The availability of a diverse range of fibers combined with the intricacy of weaving available with the revolutionary manual looms and their natural dyes have tempted buyers from all around the world for ages. The colonization of India by the British saw a disruption to this natural growing habitat of textiles and weakened the whole system. This period left the industry lagging in terms of updating their technology with time, something which still remains an issue in some places. Nonetheless, the Indian textile industry is the 2<sup>nd</sup> largest employing Industry for the country, after the agriculture sector, with a 5% contribution to the economy in terms of the GDP. The Indian textile industry is also unique due to its close ties with the country's agriculture sector as well as the culture and traditions of the nation (Dixit and Lal, 2019). As per estimates, the total Indian exports for the textile industry for the financial year of 2017-18 were US\$ 40 billion and is projected for growth in the future. The total sector's production is said to be around \$120 billion. The industry is partially dependent on the agriculture industry for raw material. The industry is a big contributor to the Socio-Economic goals of the nation by employing to people from all races of life, including teenagers. The T&C industry has become one of grave importance to the Indian economy and is likely to grow aggressively in the coming decades. The table below shows the expected growth of different sectors in the Indian Textile Industry. (Refer to Appendix 4 for the Overall Indian Textile market size. )

**Table 3 : Growth projections for Indian Textile Industry**

n/n	2015-16	2025-26	CAGR
<b>Exports</b>	US\$ 40 bn.	US\$ 150 bn.	14 per cent
<b>Domestic market</b>	US\$ 79 bn.	US\$ 250 bn.	12 per cent
<b>Total</b>	US\$ 119 bn.	US\$ 400 bn.	13 per cent
<i>Source: Internal Estimates, Ministry of Textiles, Government of India.</i>			

There is still an apprehension that the full potential of the market is not being utilized as most of the firms in the market are not exporting currently. Refer to Appendix 10 for the framework for the Indian textile products categories and their breakdown. In the textile industry, there are 3 steps followed for the production of clothes that are; Spinning, Weaving and Finishing. The participation of major textile industries in the 3 steps of production is only 3% total (Dixit and Lal, 2019). There, therefore, is a reliance on SME's of the industry for production processes. The Indian textile industry imports about 40% of the raw materials required for these production processes. On the production sector, over 70% of the total produced goods are used for domestic markets. Hence, there is a big market for Indian SME's to consolidate before looking internationally. The product flow and information flow is depicted in Appendix 11 (Ngai et al, 2014).

The Indian textile Industry is the third-largest manufacturer of cotton, second largest for silk, fifth in the world for fibers & yarn and is the biggest producer of jute (Dhiman and sharma, 2016). The Indian government has provided strong support in terms of favorable policies for the Textile sector with an allowance of 100% FDI for the sector (Raichurkar and Ramachandran, 2015). As for the major destinations for export, the EU and the US continue to be the major export destinations for Indian SME's with an overall contribution of more than 50% export (Aktar, 2017). The Indian aspires to grow at 20% in terms of the overall exports in the next decade and to consolidate a domestic growth of 12%.

There are 4 major items exporting from Indian textile industry abroad: Cotton, jute, silk, and wool.

These textiles are majorly found in the following part/states of the country (Min of Textiles, 2018):

1. Cotton- Maharashtra, Karnataka, Gujrat, Delhi, Andhra Pradesh. ( Western & Southern)
2. Jute- Assam, Bihar, Orissa, Tripura, and Mizoram. (North- East)
3. Wool: Jammu and Kashmir, Rajasthan. (North and West)
4. Silk: Mysore, West Bengal, Tamil Nadu, and Andhra Pradesh.

The export market in India is divided into 4 major regions: Western, Southern, Northern and North-Eastern. There are also three main export hubs of textiles in the country which are in the west (Gujrat and Maharashtra), in the South (Telengana, Andra Pradesh, Karnataka, and Tamil Nadu) and the Eastern part of the country (West Bengal, Assam, Orissa). The major port cities situated in the three major export hubs namely: (Mumbai, Ahmedabad) in the west, (Kolkata, Guwahati) in the East and (Vishakhapatnam and Bangalore) in the south.

## **CONCLUSION**

The Indian textiles and clothing industry is expected to sustain overall growth in the coming years. The uniqueness of this particular industry is an advantage for the Indian SME's due to the close relationship with the agriculture sector. There is a natural abundance of raw materials and labor in the sector within the market which makes it a promising industry for the future. The Industry, however, is based on small decentralized firms who collectively are part of huge industrial capability but are weakened when they try to operate individually (Chandra, 2006). There are therefore obstacles for SME's to internationalize arising from both the internal markets as well as the external markets. These obstacles are challenges faced by the firms that range from internal resource capability to international motivation to unavailability of Limited knowledge/networks in foreign markets. The Indian market also holds the distinction of having a complete value chain in terms of production of fibers to the production of finished garments (Samar Verma, 2002). The biggest threat to the Indian textile market comes from China and the increasing competition arising due to keeping the prices competitive. Another important facet is the slow progress in terms of gaining international quality standard which would be acceptable in most western markets and competing against international brands from those markets (Sharma and sehgal, 2015).

## **RESEARCH QUESTION**

The Research question and the Sub- questions are as follows:

**To study and analyze the factors influencing Internationalization of SME's in the Textile and Clothing industry in India.**

The **research objectives** are as follows;

- The first objective is to find out the primary internal drivers of SME internationalization in the Indian textile Industry.
- The next objective is to establish major external environmental factors of internationalization for EEf's in the Indian textile Industry.
- The last objective is to identify the main obstacles and impediments to internationalization for SME's in the Indian textile Industry.

## **METHODOLOGY**

### **RESEARCH DESIGN**

The Research design is defined as a framework that dictates the analysis as well as the collection of the data to complete a study (Kinnear & Taylor, 1996). This is the structure which keeps the study relevant to the issues in terms of the economic viability of the whole research (Churchill & Iacobucci, 2006). The research design is instrumental in gaining the right perception of the Methodology adopted by the researcher.

A lot of research has been done on the importance of the methods adopted for a case study. Therefore "the case study method allows investigators to retain the holistic and meaningful characteristics of real-life events – such as individual life cycles, small group behavior, organizational and managerial processes, neighborhood change, school performance, international relations, and the maturation of industries" (Yin, 2008; p 4).

The research will follow an **exploratory** as well as a **cross-sectional** design and will aim to add to the present literature on the topic. Internationalization of SME's in manufacturing over a long period of



time. This, therefore, was the most suitable approach for the collection of the data (Hesse-Biber and Leavy, 2006).

## **RESEARCH METHOD**

There are 2 major research methods Qualitative and Quantitative. Quantitative data is designed to gather data in terms of facts, statics, and numbers. This method is therefore based on organized as well as a well-structured analysis of the data available. Quantitative analysis is generally concerned with measurable quantities such as weight, time duration, budget or investment, etc. This method can be utilized to quantify the variables related to a topic or theory. This quantification helps to generalize results from a robust sample to a larger population indicative of a phenomenon. Data collection in a quantitative capacity is a more targeted approach and may leave out the impact of intangible factors such as attitudes or traditional values as they are not numerical and are subjective.

Qualitative method, on the other hand, refers to the collection of information that is designed to describe the topic rather than measure it. This method is less structured and seeks to include depth of the total understanding of the research topic. Qualitative Research is used to form an understanding on a particular topic and generating awareness of underlying reasons, opinions or motivations. This type of research helps uncover trends in thought and opinions, and dive deeper into the problem/theory. Data collection using this method can be unstructured or more targeted. Popular methods of data collection can include extensive and systematic literature reviews, personal interviews or group discussions. Qualitative methods can be of five types: ethnography, narrative, phenomenological, grounded theory, and case study. Lastly, comprehensive qualitative research can also form the basis or foundation of quantitative research.

For this research, it was deemed most appropriate to use Qualitative technique as the author aims to uncover thoughts, trends on SME internationalization. At this, stage where most emerging markets such as India have an unstructured and decentralized SME sector, it would be more difficult to generate quantitative insights without robust qualitative foundation. The lack of use of technology such as online platforms may have also created gaps in information if a purely quantitative approach was used. The author hopes to achieve a sound basis and insights into the obstacles faced by SME en-route to globalization. Qualitative research combined with few primary interviews will not only ensure validation of literature findings but help to uncover deeper attitudinal or behavioral economic patterns on the topic. The author also acknowledges that based on this foundational qualitative work, a quantitative study can be designed as future work to quantify and rank the impact factors.

## **RESEARCH PHILOSOPHY**

There are different philosophies that are available to take for researches in the field. The two philosophies available are positivism and Interpretivism. The former approach is based on quantitative methods and the scientific validation of data in terms of logical explanations as well as a mathematical proof. The following approach has an emphasis on quantitative over qualitative analysis. The second approach is interpretivism, which is based on qualitative methods such as human observations and interviews. This is a philosophy which opposes positivism in terms of having an individualistic approach

as opposed to the societal approach taken by former. The philosophy of the research corresponds to the process of acquiring and validation the knowledge used.

Research Method	Positivism	Interpretivism
Usage	<ul style="list-style-type: none"> <li>Scientific method can and should be extended to the study of human mental and social life</li> <li>It's use of quantitative facts that help classify social world in an objective way. This categorization or classification is then used to count set of observable social facts and ultimately produce statistics</li> </ul>	<ul style="list-style-type: none"> <li>Provides both qualitative and quantitative analysis</li> <li>Data collection is more extensive since this method requires detailed study of variables and also includes cultural, traditional and societal aspects</li> </ul>
Nature of conclusion	Objective and absolute	Subjective and relative
Focus of interest	What is general	What is specific
Goal of research	Explanation, strong prediction	Understanding, weak prediction

The above table justifies that use of Interpretivism method allows a view of the topic which is not just factual or objective but is socially construct and relevant as it is given meaning by people (SME owners and laborers in this case). By using this method the conclusive theory is based on analysis of variables such as conscious belief in the inherent value of the type of behavior (e.g. attitude of unskilled or uneducated workers), strategies or business plans determined by owner's specific affections and emotional states or business decisions governed by traditions, etc. Use of Positivism although would have helped generate objective conclusions such as the basis of division of labor or set-up of modern and traditional societies, it would have remained mechanical or theoretical. Given this and with the aim to include ground realities in addition to academic facts the **Interpretivism** method was deemed most suited for the present research.

## RESEARCH APPROACH

A top-level approach to any social research can be explained by a simple research circle (refer below)

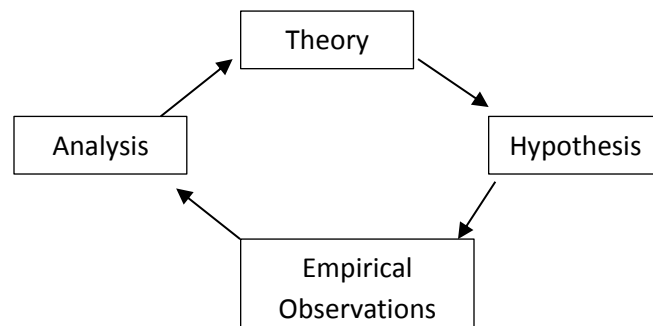


Figure 3: Research Circle

The circle represents a research process with each step leading into another as follows:

- Theory: Represents a set of ideas which help elaborate a social phenomenon
- Hypothesis: A testable prediction about the relation between two or more variables impacting the said social phenomenon
- Empirical observations: Things that one can identify in the social world
- Analysis: Qualitative data analysis of themes from literature reviews or statistics or primary interviews

Inductive and deductive research methods specify where we begin on this research process i.e. where the research journey begins. To elaborate, in inductive research we begin with a research question which guides the collection of empirical data. This collected data is then used to generate a hypothesis. In the next steps, the developed hypothesis is validated by additional data. The conclusive outcome of this is a set of ideas or social theory which can be used to explain a social phenomenon or topic. However, if a deductive method is followed, the research begins by generating a hypothesis based on existing theories. The remaining steps are designed to nullify or validate the hypothesis. This is done by data collection which feeds back to the hypothesis.

E.g. Inductive research: How do undergraduate students view the causes of poverty? What do they perceive an acceptable solution? (Phillips, 2015)

E.g. Deductive research: Are perceptions of discrimination among young adults related to psychological distress? Does discrimination help to explain racial differences in depression? (Taylor, 2002)

As is clear from the examples provided above, inductive research begins with empirical data while deductive research begins with a tentative or testable hypothesis which is based on existing theory. Therefore, since the research presented by the author in appended sections aims to study the factors

affecting the internationalization of SME in emerging markets – an **inductive** research method has been selected. To identify and analyze the impact of variables affecting SME a targeted literature review was conducted. The findings were substantiated with primary interviews by SME owners within the country. By adopting an inductive research method, existing gaps in the data could be highlighted and ultimately a theory is formed as a conclusion. Since all data and information in this regard is fragmented, a deductive method was considered inapplicable to achieve the research objective for this particular work. Using the inductive method, a comprehensive and predictive theory is formed which relays the current and futuristic situation of SME expansion in India.

## **RESEARCH FRAMEWORK**

The following list depicts the Narrow down process used by the Author as well as the reasons for choosing the particular industry. Keeping in mind the fact that author started with the desire to identify the factors affecting Internationalization of SME's from the emerging country was because SME's from developed economies face different challenges and scope than EEF's. There is also the fact that there is substantial potential in the Indian Small scale industry to expand further and has inherently all factors to perform exceptionally well in terms of raw materials, cheap labor, favorable policies, etc. There is however an underperformance of firms in the industry. The Framework is:

- The worldwide statics and international export reports were used to identify major exporting markets.
- Since the study had to be carried out in emerging economies, 3 regions were identified based on export. (Latin America, Africa, and Asia)
- Among these regions, based on the availability of data and research, Asia was chosen for the study because it would not be feasible for the researcher to attempt research due to the geographic distance in those regions.
- Within Asia, using a top-level secondary approach, the researcher concluded that there are 3 attractive exporters of textiles in the market, namely India, China, and Japan.
- Out of the 3 major export markets, India was chosen because of general difficulty in finding data for China and Japan due to the language barrier, the lack of understanding of the researcher at the grass-root level for cultural and traditional problems as well as business practices.
- Another factor in choosing India was that the author had previous working experience in India and therefore was more understanding of the barriers and way of business operations in India. The author had limited interaction with any firms from China and Japan.
- Within India, there is a lot of Export/Import commerce and therefore Non-tech industries were recognized because of the product-driven strategies. The various factors would be more in terms of Non-tech product-based companies as compared to Tech SME's. Technology dictates expansion strategies of companies itself and has the limited effect of barriers, such as language, cultural, etc on international trade due to the nature of the industry. Therefore Non-tech SME's were targeted.
- There were 4 potential industries identified namely; Leather, Textile, Food, and jewelry. Food and jewelry are again industries that are not common and are subjected to the uniqueness of India. The

author was looking for generalized industries to better standardize the research findings and show clear findings.

- Textile was chosen out of the remaining 2 industries because of it being a bigger industry, the availability of more data, the potential of the industry in India and globally. There was also more potential to better gauge the respective factors of internationalization of the Indian SME Vis-a-vis their international competition from other markets in their geometric vicinity.

## **DATA**

This study was based on the analysis of both sets of data to achieve an optimal result of the objectives. This was done by the researchers to provide academic validation of the theories and to test them. The researcher intended to compare the current understanding of the SME market in India by collecting the relevant information through unorganized personal interviews in person and the telephone wherever appropriate. There was, therefore, an Academic validation of the currently available literature on the whole topic with the analysis of the primary data and the comparison with the conclusion of the reviewed literature. The Analysis of the findings of the interviews and the insights gained by the researcher is compared with the existing knowledge of the literature available on the matter.

There were 2 types of data which was collected for this research. These are;

### **PRIMARY**

Primary data is defined as first – hand information which has originality in its character. (Kothari, 2004) To better understand the factors influencing Internationalization of SME's from the Indian textile market, data was collected through the analysis of the responses received in one on one personal interview with executive-level employees of the targeted SME's. The following study is based on a **cross-sectional** time horizon as the researcher with this study aims to add to the already present knowledge about the topic which has been passed on by the previous researcher. Also, since this is research which takes into account the various changes in the factors affecting internationalization of SME's, this study will include observations about the same over a long period of time.

### **SAMPLING, COLLECTION, AND FRAMEWORK**

The methods chosen for the sampling of the data was systematic sampling. The sample size was 20 SME's for the research with an expected rejection ratio of around 50%. These companies were chosen

based on major textile exporting regions in India. The framework of the data sampling for the research is as follows:

- Reports from Ministry of textiles and clothing were used to identify the major exporting textile items from India.
- This resulted in the identification of 4 major export textiles: Cotton, Silk, Jute and wool
- Further analysis revealed the Geographic positioning of States/ regions of the country producing these textiles and exporting them.
- There were 4- 5 primary regions which were identified. They were further narrowed down to the 3 regions (West, South, and East) most appropriate with considerations given to major crop production in the state and exporting capability in terms of availability of logistical networks.
- After the identification of these regions, sub-regions, and important markets for these regions were further analyzed to narrow down the scope.
- The next step was the identification of major SME's in the industry in these regions.
- The SME's were then further narrowed down to only those SME's who are currently exporting their produce in other domestic markets (States or regions) of the country.
- A list of 20 SME's was finalized to form the sample of the research.
- These SME's were then contacted by E-mail to ask for their availability for conducting personal interviews.
- 8 responses were received with the other 12 SME's expressing their unavailability for the research.
- Further interview schedule was prepared and accepted by all parties.
- These schedules were shared with the remaining sample size along with brief information about the research, types of questions and the type of information gathering, metc.
- There was a further withdrawal of 2 SME's after the stage
- The meetings were scheduled. Due to geographic constraints, 2 of the representatives request telephonic interviews. All the 6 interviews took place were between 14<sup>th</sup> July to 26<sup>th</sup> July 2019.
- The received responses were in the Indian National language, Hindi. They were then translated and analyzed by the author.

The theme of the interview is illustrated below concerning the objectives of the research study. The following table depicts the survey questions and the corresponding objectives, context and the outcomes/insights expected about the following factors.

**Table 4 : One-on-One interview theme**

Objective	Survey Question	Context	Expected Outcome/Insights about the following factors.
<b>Factors affecting for internationalization for SME'S in the textile industry in India</b>	1. Within the organization, what factors significantly influence the decision to go global?	<ul style="list-style-type: none"> <li>• Author was aiming to substantiate findings from literature about factors affecting internationalization with local business owners</li> </ul>	<ul style="list-style-type: none"> <li>• Degree of awareness about internationalization</li> <li>• Existence of vision of globalization</li> </ul>
	2. According to you, what are the most beneficial aspects of internationalization for your business?	<ul style="list-style-type: none"> <li>• This question aims to probe at the ambition of business expansion within SME in developing nation such as India</li> </ul>	<ul style="list-style-type: none"> <li>• Mindset or outlook towards expansion into foreign markets</li> </ul>
<b>What are the external factors influencing SME's decision to Internationalize</b>	3. As an SME, what motivates your decision to sell your products outside the Indian market and internationalize?	<ul style="list-style-type: none"> <li>• If motivated, do SME in emerging economies have resources or awareness to execute internationalization</li> </ul>	<ul style="list-style-type: none"> <li>• Level of commercial or financial aptitude for profit maximization</li> </ul>
	4. What makes an International market attractive to your firm?	<ul style="list-style-type: none"> <li>• The answers would hopefully demonstrate ease of doing business domestically v/s avenues to expand</li> </ul>	<ul style="list-style-type: none"> <li>• Approach to business – tactical v/s strategic</li> </ul>
<b>The major obstacles and impediments to firm internationalization.</b>	5. What are the major challenges you may face within the organization with regards to Internationalization.	<ul style="list-style-type: none"> <li>• Level of encouragement received in emerging markets by SME for entrepreneurship</li> </ul>	<ul style="list-style-type: none"> <li>• Risk aversion and solution finding appetite</li> <li>• Acumen or realization of what it would take to compete globally</li> <li>• Awareness level of legal, policy and investment requirements</li> </ul>

	6. What challenges would you expect to face in the target Market	<ul style="list-style-type: none"> <li>• Legal, policy or technical acumen of SME and availability of avenues to improve</li> </ul>	<ul style="list-style-type: none"> <li>• Understanding of global markets and standing in global competition</li> <li>• Acumen for global standards</li> </ul>
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The questions that were asked were broad in nature and therefore there was a division of the study objectives into categories. The questions that were asked were hence designed to retrieve as much ground information as possible about these categories by keeping them very broad, open-ended so that the responder can reply in his context and a detailed response is received with the recognition to the hierarchy of significance of factors with respect to the importance of each aspect. This was done so that a completely unbiased, unaltered perception is created for the researcher to observe the actual ground factors influencing SME's.

## SECONDARY DATA

Secondary data is defined as the information which has been collected by researchers in the past and the data which has undergone academic statistical analysis as well as being academically presented. (Kothari, 2004) The analysis of the data therefore collected is referred to as Secondary data analysis. There was substantial secondary data available on the phenomena of internationalization of SME's from the developed countries as well as general internationalization of firms abroad. However, the researcher experienced an insufficiency when searching for study related to the internationalization of SME's from the Indian textile industry.

Moreover, this unavailability was a trend that was observed in the global expansion of small scale EEf's. This was surprising as major companies of all industries are moving their production operations to the cheap labor countries in Asia and Africa. Nonetheless, there were still studies partly related to the present studies which were analyzed, as also previous studies that were conducted in different emerging economies which were examined. The secondary data, therefore, contributed to the overall understanding of the author and assisted in the process of the development of the objectives and the research question. Further, this research was the foundation for further research of the primary data collected. This research provided the researcher with the perceived knowledge with respect to this topic and therefore gave the researcher a chance to validate these academic findings with the current data available.

Secondary data collection framework is as follows.

- A research study collection of all relevant scholarly articles was created. The research approach followed was a top-down approach.



- General information about the internationalization of companies followed by the internationalization of SME's through the literature available online.
- Further, Internationalization of Worldwide Textile SME's was analyzed.
- More collection was done of the research regarding EEf's, followed by the internationalization of SME's from emerging markets.
- An understanding of all factors involving Internationalization of SME's was developed and then presented into the 3 categories used in this study. (Internal, external and major obstacles)
- The available data regarding Internationalization of Indian SME's was then analyzed next, followed by similar research on SME'S of the Indian textile Industry.
- This data was then analyzed with respect to the collective list of factors affecting international SME's.
- This analysis was then further compared with the results of similar studies conducted in SME's situated abroad for further validation of the segmentation of factors.
- A clear list of objectives was therefore established and tabulated to form the research objectives of the study and as a foundation for the primary data collection.

The research used secondary sources of information available on the topic including books, Academic Literature, Business Journals, White papers, Analyst reports as well as other secondary sources. There was also the use of the resources at the Library of National College of Ireland for the Data Collection. The other secondary sources included data from Academic sources like articles, research data and professional sources like business reports, Indian Governmental reports and global reports including Eurostat, The European Commission, UN, etc. Another source of secondary data was relevant industry reports that were circulating around the globe including Wazir Advisors and PWC etc.

## **ANALYSIS & FINDINGS:**

The following section has been structured by listing the responses of 6 SME's in the Indian textile industry to the questions related to each of the 3 objectives, followed by a brief analysis of the responses by the researcher. The 6 questions asked are open-ended questions designed to ask for as much information from the responders. Below are the summaries of the responses received from one-on-one interview from representatives of the firms who are at an executive level within the company. These interviews were conducted in the Indian local language (Hindi) due to the preference of SME's executives/owners. The responses were then translated with summation into English by the author.

The sample size of the research was 20 SME's. It was widely accepted by the author that there will be a rejection rate of around 50 %. The number of responses that were received is 6. All the 6 firms manufacturer raw materials such as Cotton, Jute, and Silk as well as standard clothing products such as T-shirts, briefs and underwear apart from accessories like handkerchiefs and socks. These companies are located in the Western and Southern market in India and have an operational revenue range of about 1 million Euros and employ around 200-500 people. The details of these 6 companies are attached in

Appendix number 5. For standardization, the companies shall have a numerical substitutive of their names. These shall be assigned for each company and shall be the numerical values (1-6). The questions shall be followed by the responses for each firm followed by the analysis as well as the key takeaways.

## **OBJECTIVE 1**

**Factors affecting for internationalization for SME'S in the textile industry in India.**

**Question 1: Within the organization, what factors significantly influence the decision to go global?**

- Company 1: *"Since our organization is small, ultimately any decision making power lies with the owners or the founders of the company. It depends on their attitude and perception of the global market whether they would be in favor of taking a massive step such as this in terms of the risks involved. As such, I feel the decision to go international would depend on their perception or attitude towards internationalization. "*
- Company 2: *"I think it depends on how much we know about the global markets. Currently, in our present organizational structure, we do not have any personals that have the responsibility of conducting any research or gathering any kind of information about the functioning of a foreign operating market. Since there is no one or a source to advocate the merits and demerits of going international, there has not been any discussion of internationalization in the company policy."*
- Company 3: *"Being a small company, going international involves financial and a resource commitment. Our financial health at a point in time is to be taken into account, if and when we decide to go global. In India, we already have an established distribution network. We cannot plan to go international unless we develop contacts that can introduce us to the market overseas."*
- Company 4: *"Our current employees are mostly Unskilled and belong to the relatively unstable and uneducated category. They are mostly day workers and any business decision is taken by the owner and few personals in the top management. We currently do not have the necessary human resource to guide as well as to direct us in the process of selling abroad and ultimately internationalization."*
- Company 5: *"Our overall capability of selling abroad depends on 3 elements; What the owner's vision is regarding expansion, do we have the financial and resources to complement this strategy and do we have the necessary experience to go ahead with the process keeping all the risks in mind in terms of the effects on the domestic market. A decision like this requires in-depth knowledge about the target market as well as about the rules and import regulations of that market."*
- Company 6: *"The most significant factor of considerations for our organization is our economic performance in the current domestic market and out near future forecasts. To operate in the foreign market and to achieve sustenance in that market, there has to be strategies in place to make sure there is a continuation of any growth achieved in that market. We also have to consider whether our current infrastructure would be able to handle the demands of the market we wish to penetrate. There should also be enough margins in terms of the overall profits."*

## ANALYSIS

From the answers received from the respondents, it is evident that an organization's decision to go global is heavily influenced by the perception of international trade in the eyes of the owners and key decision-makers of the company management. In the Indian Textile SME's, the majority of the workforce comprises of unskilled or semi-skilled labors. The number of employees who are technologically sound and aware of the global trade environment is a minority, especially in emerging economies. Since Internationalization as a process is a very complex process in nature and involves thorough research of the market conditions as well as an in-depth knowledge about the rules and regulations of the framework, it, hence, requires skilled, knowledgeable personnel within the organization who can effectively deal with the requirements of such an undertaking.

The **key findings** were:

- Profit maximization
- Increasing overall revenue/ expanding operations
- Better brand image
- Bad domestic market condition a motivating factor.
- Lack of workforce capable of expansion

### QUESTION 2: According to you, what are the most beneficial aspects of internationalization for your business?

- Company 1: *"Profit maximization is our main objective. The biggest advantage of selling abroad is reaching a wider audience. In business the more we sell the more we earn. Since foreign markets would offer the opportunity to expand our current customer base, the chances of increasing our revenues are higher. Also when it comes to fabrics, reputation is a key determinant of success. A global presence would enable our customers in the local market to identify us as the best option available"*
- Company 2: *"A global presence is a vital factor in enhancing brand image. People are more likely to trust a company which has an international presence. A positive reputation definitely would instill confidence in our existing retailers and wholesalers when it comes to the authenticity and the quality of our fabrics."*
- Company 3: *"The more customers we can reach, the better our chances of increasing sales. Any company especially a small company like ours aims at surviving in the local market and increasing*

*our scale of operations so that we can expand as a company in terms of quantity of production and ultimately the overall turnover. Positive Impact in terms of monetary benefits and expansion of operations is certainly the most attractive benefit of Internationalization. “*

- *Company 4: “As a Small firm, it is always important to grow and enhance our existing operations. But in a country like India for internationalization especially from government and private sources is very challenging. By selling abroad, we can raise the capital required to re-invest in our company ourselves and gain a competitive edge in the market by implementing better technologies and machinery in terms of production equipment, thereby improving the quality of our products which would bring in more customers and continue the cycle of expansion. “*
- *Company 5: “Every company dreams of going big, going international but as an SME, money is the most important resource to enhance our market positioning as well as our operations and our organizational efficiency in general. In international markets, Textiles can be sold at a higher price also taking into considerations foreign currency exchange while our cost of manufacturing would remain the same. This means we would have more money to invest in further expansion of the company. “*
- *Company 6: “As a company in the Indian textile industry, irrespective of our performance in the local market, it is difficult to gain funding for the expansion of operations especially abroad. Any company can grow only through expanding their customer base and increasing their revenue generation. Internationalization would help us achieve both these objectives. “*

## **ANALYSIS**

In tune with the generation of capital and revenue diversification as the primary motivator for firms to expand operations in foreign markets, Profit maximization, increasing customer base and creating the foothold in foreign markets are identified to be the most attracted benefits to an SME. India as an emerging economy, due to intense domestic as well as international competition and having low barriers to entry in their domestic market does not provide an environment naturally where SME's can easily achieve funding or any financial assistance in the form of subsidies from the government. Considering the present conditions, improving business processes and raising the scale of operations depend heavily on the SME's ability to raise capital. The International markets attractiveness lies in its potential to offer Indian SME's the opportunity to sell their products in a market where the demand for the same is very high. Aside from the financial aspect, Quality is another element capitalizing on which, an SME can differentiate itself from its competitors. An international or global presence always lends a certain level of credibility to the manufacturer or supplier and helps them increase their sales in the domestic market. The researcher concludes that revenue generation, profit maximization and the potential for growth are the key benefits that motivate an SME to make the all-important decision of internationalization and going global.

The key findings are:

- Enhanced brand image
- Better customer base
- Increased profits
- Reinvestment profits in current operation
- Competition in Indian T&C is fierce

## **OBJECTIVE 2**

**What are the external factors influencing SME's decision to Internationalize?**

**Question 3. As an SME, what motivates your decision to sell your products outside the Indian market and internationalize?**

- Company 1: *"As an SME, money is the most important factor for business operations and therefore, raising money in foreign currency would help us invest more in our domestic operations. Also, selling abroad would enhance the quality perception of my fabrics in the local market. Cash inflow in foreign currencies, expanding our customer base is the basic need".*
- Company 2: *"We want to expand our operations and scale-up. For that, we need to raise enough funds to support our infrastructural developments and build the required capital. Indian goods can be sold at a higher value in the foreign market and this would help us maximize our revenue, which is the most significant factor influencing our decision to penetrate the global market".*
- Company 3: *"The Indian domestic market is extremely competitive due to the domestic demand and the existence to many suppliers offering the same products that our company is manufacturing. For survival, therefore, product diversification is crucial. To increase variety in our existing product portfolio we need another source of revenue generation aside from our domestic operations. Going international would help us achieve this goal".*
- Company 4: *"Irrespective of better quality, our company cannot sell our products at a higher rate than the market price since my customers would switch to a cheaper alternative. Going international would help my company increase our revenue and help us maximize our profits, enhance our existing operations and improve the credibility of our brand associating it with global presence".*
- Company 5: *"Indian Textiles and clothing is a very popular commodity in the domestic as well as the international market and as a supplier/manufacturer we want to capitalize on this advantage. Not only would investing in global operations increase our overall profitability but would also promote our strength in the domestic market. Creating brand recognition on a global level would help us achieve our long term vision of emerging as a leading manufacturer in the close vicinity in the Indian textile industry. "*
- Company 6: *"The Indian market is highly competitive and reaching a point of saturation since supply is almost equal to the demand. The global market offers unlimited opportunity to grow and the*

*potential is mostly untapped. Selling overseas would be our first step of increasing our scale of operations from a smaller enterprise to a bigger one. “*

#### **ANALYSIS:**

Based on the responses collected the researcher considers the financial capability of the firm to be the most significant factor in influencing an SME's decision in the particular industry to go global. The Indian domestic textile and Clothing market consists of innumerable small scale suppliers and manufacturer of Indian fabrics and apparel. Due to the existence of a high number of small manufacturers offering similar options, selling rates are determined by the market forces of demand & supply and price differentiation cannot be practiced by any of the players in the market. As such, SME's can only increase revenue generation by expanding their customer bases and penetrating new markets where competition is low and operations are sustainable, Indian fabrics on account of their aesthetic appeal are very popular in most western markets and are as such providing Indian SME's with the opportunity to increase their sales by offering their products at a cheaper rate than established multinationals, yet still earning more than the operations in their domestic markets. Also, Profit arising from such investments provides SME's with funds for capital investments.

The key findings are:

- Benefit due to transactions in Foreign Currency
- Better Capital generation ability
- Better opportunities to grow and expand further
- Domestic reinvestment

#### **QUESTION 4: What makes an International market attractive to your firm?**

- Company 1:” *Since our objective is profit maximization; our ideal market would be one where Indian textiles and clothing are in high demand. It can be a part of the overall portfolio of the industry or more products. The economic stability and the political climate of the foreign country is another key consideration. We would prefer selling in a market where there is less intense competition, unlike India, and we could sell our products with a profit-driven margin in mind. “*
- Company 2:” Ideally, we would like to sell in a market where the rules and regulations are favorable or even acceptable to new entrants in the market and restrictions in terms of governmental laws and import duties would be minimal. Also, since we would be exporting freight and logistics charges, the total cost of transportation and the geographic distance will play a key role in determining the importance of the market. “
- Company 3:” The most important factor for us is the language and knowledge barrier. We do not want to sell in a market where it would be difficult to build relationships with dealers due to communication barriers. Secondly, the overall market potential is very important to us, we would

choose a market only if the demand for our product is high, the overall number of domestic and international competitors is less and the economic and regulatory legalities of market entry are minimal. “

- Company 4:” We would focus on markets where English is the predominantly spoken language as that is the only language comfortable for us in terms of business operations. Also, we want the market to be lucrative in terms of financial offerings, for instance, if we sell in a market where the value of our currency is high (Rupee), we would get better returns which we can reinvest in our domestic operations. “
- Company 5:” Our Company would like to target those markets which show an interest in the Indian culture and the corresponding textiles. We would like to save on the promotional costs in the initial stages of foreign operation as far as possible. Government regulations are a very important consideration. Moreover, the shipping costs and the related expenses such as freight insurance and import duties would also play a major role in deciding the market locations.”
- Company 6:” The ideal market for our operations is where we can maximize the revenue and minimize the working operational costs. Customers looking for Indian textile market should be high enough to support as well as to sustain business operations. There should be minimal communication and entry barriers and the ease of setting up a distribution network would be preferable through trusted known sources. “

## **ANALYSIS**

From the responses, it is clear that most Indian SME’s would like to sell to markets where there is a constant high demand. This can be understood from the fact that most companies have to undertake a significant cost to sell their goods abroad. As such, they wish to target markets where the potential to gain returns is substantially high or there is a good probability on the return on investment. The ease of doing business in any particular economy is another key consideration since the political environment as well as the economic stability within the country affects those conducting business in it. In the Nascent stages of Internationalization, and since an SME has a limited budget, costs incurred due to the logistical demands in terms of freight and shipping costs can affect a deal to a great extent. Finally, since the ultimate objective is profit maximization, the currency rates have to be taken into consideration when making a decision. It is also worth noting that currency fluctuates frequently. Ideally, an SME would always want to sell in a market where the value of their domestic currency is higher.

The key findings were:

- Higher exchange rates of the target market
- Low entry barriers towards the target market
- Government policies affect trade
- Language barrier is a big problem
- Logistical and geographical barriers an issue.
- Production intensity

### **OBJECTIVE 3**

**The major obstacles and impediments to firm internationalization?**

**QUESTION 5: What are the major challenges you may face within the organization with regards to Internationalization.**

- Company 1: *" We are doing fairly well in the current domestic market as of now. Since our key decision-makers are of a traditional mindset, they consider investing abroad to be an unnecessary and an unwelcomed risk. Also, due to a genuine lack of interest with respect to going global, it is difficult to convince them to allocate any portion of the overall resources towards operations abroad. "*
- Company 2: *" There are many challenges but the biggest challenge my company would face is the lack of credible knowledge about the whole internationalization process. The entire process involves complex documentation, adhering to policies and regulations and therefore currently we do not feel capable enough to navigate through the whole process of internationalization. This, therefore, seems like a risk considering the current domestic operation. "*
- Company 3: *" Most of our capital and resources are required for the smooth running of our current domestic market due to the high demand in the Indian textile market. At this stage it is not possible to reallocate resources, withdrawing resources from our current domestic operations and divert them towards a move (internationalization) which does not guarantee us success. The key issue is the lack of resource, be it financial, skilled man-power or lack of technological prowess."*
- Company 4: *" Our higher management is concentrated on our local market and is not looking to expand globally unless there is a recognized demand. Due to the lack of managerial motivations, it seems unlikely that company funds would be used for foreign investments when we are doing fairly well in the local market. There is a huge amount of risk associated with the expansion of operations abroad which cannot be justified to the senior management in the absence of concentrate data/knowledge".*
- Company 5: *" There is nobody within the organization who can compile an effective report covering the benefits of internationalization and convincing the seniors that the returns would be acceptable with respect to the potential profitability of the new market abroad. Ideally, we would require someone with international experience to conduct thorough market research with respect to our product portfolio that would justify diverting firm resources from the domestic market to the international market".*
- Company 6: *" There is a general lack of knowledge when it comes to the senior management of the company to look at foreign markets abroad. Our owners have tried the idea but are wary of too much change this step would bring in the domestic market. There is a set system in place for the overall operations that the management is to ( Family owned)"*



## Analysis

The biggest challenge that most Indian SME's seem to face lies in the indifferent attitude of the key decision-makers in the management have towards the concept of diverting resources and funds instead of internationalization. Since most of these businesses are family-owned businesses that have been passed down, the proprietors do not wish to disrupt the performance of the business in introducing something that they lack the knowledge to and in the face of the huge amount of investment required as well as the risk associated. Also since most of the SME's have limited funds and there is sufficient demand in the Indian market the top management of these SME's do not show risk-taking attitude. There is also a distinct lack of confidence and motivation when it comes to venturing into something new and in their way is unnecessary. Finally, most Indian SME's consist of unskilled labors and a few local employees with basic qualification lacking the vision required for internationalization. The process of expansion abroad is a complicated one that requires informed and decisive professionals who can research as well as draft a convincing proposal and present it in a manner that convinces the western markets to choose them from the international competition available.

The key findings were:

- Absence of motivation from the leadership
- Lack of overall Information
- Shortage of the capital required for the expansion
- Scarcity of information regarding Financial, technological and regulation.
- Lack of skilled, knowledgeable and capable human resource for expanding abroad

### Question 6: What challenges would you expect to face in the target market?

- Company 1: *" We would prefer to target a market where the official language used for business would be English. As an SME, we would choose to avoid hiring intermediaries to negotiate the deals as they would end up eating into the profits of the company. According to me, one of the biggest issues would be the lack of knowledge about the target market. Also due to no network available, there is no way of establishing a trusted knowledge base in the foreign markets".*
- Company 2: *" Our dealers and the distribution network are the main reasons for our success in the Indian market. In any foreign market, we would face the challenge of not having the right contacts who can introduce as well as settle us in the market and provide detailed information about trends, consumption patterns, the day to day functioning of the market. There would thus be a lack of an idea of the problems faced by similar companies in the foreign market".*
- Company 3: *" Since we are in the B2B, it has taken a lot of years of successful operation to establish trust in the current scenario. In the new market, we would be at a distinct disadvantage since we do not know any of the realities of the market including competitors, problems, obstacles, etc. As a foreign company, it would be difficult to find agents who would help us negotiate a profitable deal".*
- Company 4: *" To penetrate and sustain operations in any new market, a trusted dealership network is extremely important since we do not currently possess any idea about the prices or the nature of the business transactions in the foreign market industry. Also, we need personnel at all levels who can*

*help us with the legal aspects of the internationalization process. Since many Asian countries manufacture similar fabrics and may already have either an established presence or links with local distributors, it would be difficult for us to gain a foothold”.*

- *Company 5:” For our initial foray into the international market, our options would be severely limited due to the language barriers. Also, there are cultural as well as traditional differences in the dealings of different markets and we can be severely hindered by this in our primary market. The main issue is the lack of knowledge about the market, competitor analysis as well as the inside knowledge about the opportunities and threats presented by the foreign market”.*
- *Company 6: “ Considering the lack of market insights, contacts, and trustable agents, there remains a high risk of us landing in an unfavorable deal. Due to budgetary constraints, we might now be able to afford the research and the due-diligence necessary to invest in a completely unknown market. This coupled with the fact that there is a domestic competition that we have to deal with in addition to the international competition that we might face in the market, it just does not seem viable”.*

## **ANALYSIS**

Firms in the particular category responded by addressing the lack of networking as one of the primary obstacles to internationalization. This theme was noticed in all responses and the fact that the top management of every company is responsible for the expansion strategies of that company. It is, therefore, this motivation which plays as an important barrier for executives to consider internationalization. It is after all the owner’s company and therefore there is a general lack of motivation by the owners to change any parameters that could affect their current business operations. Another important obstacle was the language barrier. In Europe which is a major market for Indian exporting SME’s only one country is English speaking. There is, therefore, an inherent distance of these companies with the other countries and the SME’s lack the motivation as well as the resources to try and find new ways to bypass this obstacle. There was a consensus with the general lack of knowledge of the firms about the foreign market and the resources needed to gain this. Another import factor was the international competition in the foreign markets and the difference in firm resources levels of that competition with respect to these companies. This further discouraged owners/the management to take risks and disrupt domestic operations in any way. Finally, a general lack of trust for some companies with their foreign distribution network was observed. The trust which is of the utmost importance in the B2B sphere is not there to an extent for an SME internationalizing for the first time and therefore the management finds it hard to invest money in untrusted sources.

The key findings are:

- Unavailability of trusted distribution network
- Language barrier restricts the target market
- Inadequacy of the procedural knowledge
- Deficiency in terms of the lack of firm adaptability
- Lack of resources to perform market analysis
- Risk of failure affecting the domestic market

- International competition

## **DISCUSSION**

The interviews with the representatives of the company did provide some unique insights and validations in terms of the factors affecting international of SME's. There were similarities observed in terms of the findings from similar studies conducted in different markets as well as some unique factors which are found in the Indian market. The factors include the importance of international contacts, information regarding international opportunities, knowledge of markets abroad, a wide spectrum of inner firm issues, external factors as well as the motivation of the firms.

### **Challenges faced by the SME's.**

The textile and clothing industry is a flexible but quality-driven industry with cost minimization at the core. There are several challenges that are unique to Indian SME's like the lack of motivation from the management. This may be due to the low-risk taking abilities of the management or due to the intense competition in the domestic market, but this is one of the biggest hurdles which has come out of the research. This is something which cannot be changed or improved. This mindset of the person responsible is the deciding fate of the expansion plans of a company.

Another unique problem is the size of operations. Indian firms are typically smaller than their international opponents for example firm from china. Also, in terms of logistics, Indian SME's do not have the strongest freight network and therefore not only the production time but the overall shipping time taken for orders may be a big factor that international firms choose other countries than India. This adversely affects the export capability of the firm in international markets. Due to the Intense Domestic competition, it would make sense for this to be a demotivating factor for SME owners as a risk of resource diversification would greatly demolish their current business operations capability. This is further amplified by the fact that in the domestic Indian markets, there has been an increase in Chinese textile imports. This is a small share but still a beginning.

The Industrial output is further low because of the decentralized and scattered Textile Industry in India. The absence of larger firms negates the option of selling directly through an MNE. Even the technology available is the older generation which adds to the inefficiency of these companies. Another facet is the unskilled labor present who are trained on existing production process and equipment which is old. Replacing the equipment and training the workforce would be too expensive and would affect productivity. However, Indian firms cannot internationalize without increasing efficiency as the threat of substitutes would come into play for potential buyers. This factor is present at different levels and not only in the labor but also in terms of the management and the technical manpower required. There is a shortage of managers and executive who have the necessary knowledge, motivation as well as the experience in expansion of operations internationally. This is further detrimental to the whole idea of internationalization.

Moving on, there was a general lack of information observed with regards to the formal processes/licenses/certifications required for firms to enter new markets. Firms lack the motivation to collect the resources needed to acquire this information. Indian firms, especially in the textile face favorable policies to expansion through the Indian government but the western markets, would charge import duties on the products. Unless an economy of scales is reached, this leaves the Indian produce either too expensive for the international buyer or having a decreased profit margin. This is another factor due to the decentralized small units of manufacturing in the Indian textile industry.

Maintaining the supply of produce in both international and the domestic market would be a problem and there is certainly no chance of slipping in either market. There is fierce competition in both markets with cut-throat competition. Even if expansion is reached, the SME's management was not found to be confident of sustenance of the achieved growth. In practicality, if in such a situation, even one of the markets is lost, it would have serious implications for the firms on their operating ability. The exemption to this is if the firm gains production capability in all markets they enter. For Indian SME's this would be very challenging.

There was a lack of technological capability which adversely hampers the company's ability to stay with the time and therefore there is low up-gradation of manufacturing processes. Further, this also negatively affects the firm's ability to exploit e-commerce resources to increase revenue or generate capital for expansion the way Chinese firms have expanded. Therefore entering the market and dealing with existing competition is a problem since common sense dictates that a company would only change a supplier when they get a better deal.

Lack of networks is also an obstacle which the SME's were facing. During the introduction of the study, the researcher asked 2 respondents about the expansion of their companies in a different region of the country, and the respondents revealed that most expansion at least in the textile industry was done through trust and word of mouth. Both the companies had networks in those 2 regions through which expansion was initiated. Furthermore, SME's and their owners would generally not have these kinds of contacts abroad. Also, because there aren't any major Textile MNE's India may not be the preferred destination for their orders for big retailers in the western market.

There are many softer hurdles which were identified such as language barriers creating perceived distances and distribution networks not trustworthy of the risks involved. Distribution networks are very important for expansion into a new market and are widely accepted as an important requirement by internationalizing firms of all sizes. To establish an effective distribution network abroad is a momentous task and has domestic subjective challenges of its own.

Lastly, The Indian SME's have a lot of cultural and traditional influence in business operations and therefore cultural value systems influence the business sense as well as the decision making the ability of the firms. It is worth noting that SME's prioritize these values more than profits. Due to India being big and a very diverse country, globalization and its effects have not reached the small scale industry fully yet.

#### **Drivers of internationalization for firms**

There were many aspects which could be concluded on based on the responses received by the researcher. There are a lot of Drivers of growth and positive signs in terms of Indian Manufacturing Industry with the saturation of the Chinese economy. The primary drivers of growth were in the study divided into 2 parts: internal and external.

### **External**

The foremost driver of internationalization of SME's in the Textile and Clothing Industry was the increasing focus of the government on the SME sector. There have been policy decisions in favor of this expansion by the government in an attempt to increase the export capabilities of the country. This remains a mainstay driver for the SME's in the year to come. There has been a removal of policy impediments which was at times initiated by global competition and by trade regulations internationally otherwise. Nonetheless, there are still improvements to be made with respect to labor reforms, shipping operations, credit for up-gradation of technology, etc.

The international market will provide a better return in terms of the overall sales also due to the differences in currency rates. Generally, the Indian currency has favorable return rates when compared with western companies and therefore it would be beneficial for domestic SME's to produce spending the Indian Rupee and to sell in Dollars.

Foreign markets should have a stable demand for the products that are being exported. A decrease in demand would be detrimental to the whole operation and would affect an SME more than a large competition. Extensive market research, therefore, has to be carried out to find the right market for the right type of fabric. Most SME's lack the resources to carry this market research as also the motivation. Moreover, these are things that can be bought with capital, but the bigger factor is the lack of vision in terms of expansion. This is something which is personal and cannot be influenced easily.

Availability of contacts or foreign networks also ranks high when considering drivers. These contacts or networks can not only provide trusted distribution networks but also facilitate the transfer of newer technologies which could further improve the export capacity of the firm and therefore, in turn, the revenue of the firm. This would not only help the firm grow internationally but can also assist in domestic growth.

### **Internal**

The most common internal driver was found to be profit maximization and increasing revenue. This is perceived to be important for the firm because the firm wants to re-invest the earnings back into operations to achieve an even higher expansion rate. A major sector where companies want to re-invest is the products and equipment section which would modernize the available equipment and further enhance the productivity of the company.

Another important driver for companies is the requirement to expand their customer base which would result in better profits and increased revenue. Expanding as well as diversifying the customer base was a factor most respondents were positive about. This was especially the case when the sales were from

western markets, which therefore results in the SME selling their produce in exchange for a currency with a higher valuation than their domestic one.

There is a constant demand in the Indian market and therefore, to satisfy that demand, there has to be a constant production. A point worth noting is that SME's in India have the opportunity to achieve economies of scale to their advantage because of this constant domestic demand and therefore this would present them with an advantage in terms of the overall cost advantage abroad but the SME's have failed to follow this effectively.

Further, another point worth mentioning is that sales in the Indian Textile market are dependent on Word of Mouth advertising. This is another important driver for firms to internationalize as this will substantially enhance their brand image in the domestic market. Not only brand image, but there will also be a positive increment in the overall acceptability of that particular brand in the domestic market. This will increase market share domestically as well.

Finally, another unique aspect of the Indian Textile market is the close relation with the agriculture sector for raw materials in India. Due to close relations in both these sectors, the resources are there, but motivation is lacking.

Comparing both the factors in terms of obstacles, internal obstacles seem more important to deal with for a firm to internationalize than external ones. This is so because, if there is no motivation internally, firm resource and firm capability have no point. Similarly, in terms of Drivers, the author would pick external factors to be more important for a firm than internal factors. This is because; the benefits achieved from external drivers would outperform internal drivers by a lot due to the selling abilities of those markets as well as the currency power in terms of western markets. Nonetheless, the author is positive about the growth and expansion of the Indian Textile Industry. It will just be interesting to see if China can maintain the current global market share and if India can outperform China in terms of the industrial textile output globally.

## **LIMITATIONS OF THE STUDY**

The study was conducted with the help of responses received from the participating six small scale industries. This number is too low to generalize for the entire country with many operating SME's. The Indian SME market is decentralized and therefore making it even harder to standardize or to collect data. The industries in the sector are traditional and cultural and therefore follow ancestral wisdom for operation. There are also factors in different regions of the country which could be faced by those SME's and therefore this study may not be able to fully explain them. Future research should include Textile SME's that have internationalized to again add a new perspective to the knowledge pool.

## **CONCLUSION**

Overall many aspects of internationalization were observed, some have always affected the way firms internationalize and others are unique to the Indian market. Therefore this study contributes to the already available literature as well as the overall understanding of the expansion of SME's in the Indian textile industry abroad. This paper looks at the various drivers and the obstacle faced by these companies in the market. The findings provided various unique characteristics about the Indian market condition such as the importance of motivation at the management level for the company.

The study also looked at the factors affecting the export performance of Indian firms and the challenges in efficiency of operations. The responses received conveyed that external drivers have a bigger impact on firm performance than internal drivers of the expansion. The opposite was found to be true in the case of obstacles as internal impediments were more effective in stopping expansion abroad than external impediments. In case of factors affecting internationalization of SME's, the 2 key factors that were obtained were the networking and motivation of the management for internationalization of SME's. There were further obstacles identified like lack of knowledge, networks, resources, the intense competition in the Indian domestic market, etc.

In agreement with the previous literature available about the topic, Domestic and global situations trigger internationalization and therefore it then depends on the vision/strategy of the management of the SME to decide their firm's fate in terms of the internationalization. Owner's vision and management capability are big factors which decide the future of the expansion. Another important takeaway is the fact that due to the heavy involvement of culture and traditions in business for Indian small scale industry owners and the role it plays in influencing the business sense and the decision-making process. Further, in the Indian Domestic market, firms have to look for product differentiation since price differentiation in the market may not be feasible.

This research should be the basis of further researchers in the same field with a bigger overall scope so that more insights can be drawn. This will be critical for the firms in obtaining a deep understanding of the whole process of internationalization and things to consider before making this decision. Because there is no turning back once the process is initiated, further research shall decrease the perceived risk of the firms as also shall provide them with the knowledge required to undertake an operation. Also, SME's should look to employ personnel with international experience not only for internationalization but to broaden their horizons in terms of their organizational vision. This will result in the development of better processes. Further, Indian firms should constantly evolve to keep up with the dynamic nature of international markets to avoid falling behind. All in all the future looks bright for the Indian Textile Industry and it could be brighter if certain aspects are dealt with by the government, the management of SME's and the International buyers abroad.

Future research on the topic shall reveal the true extent of the influence of the factors affecting internationalization and it would be interesting to see the effects in different industries in the Indian market and abroad.

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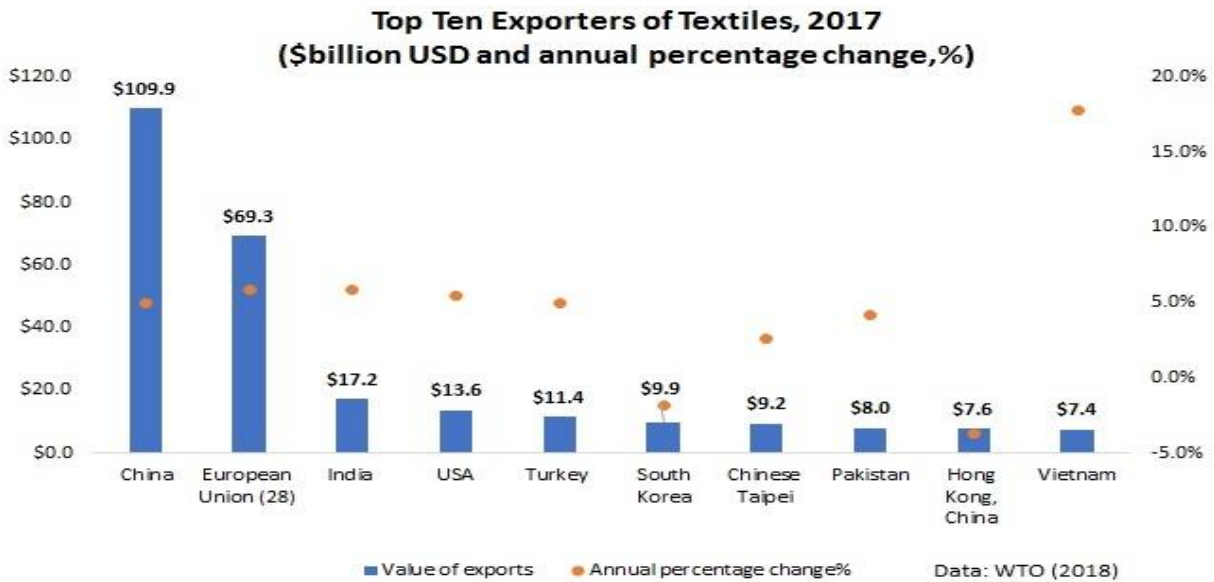
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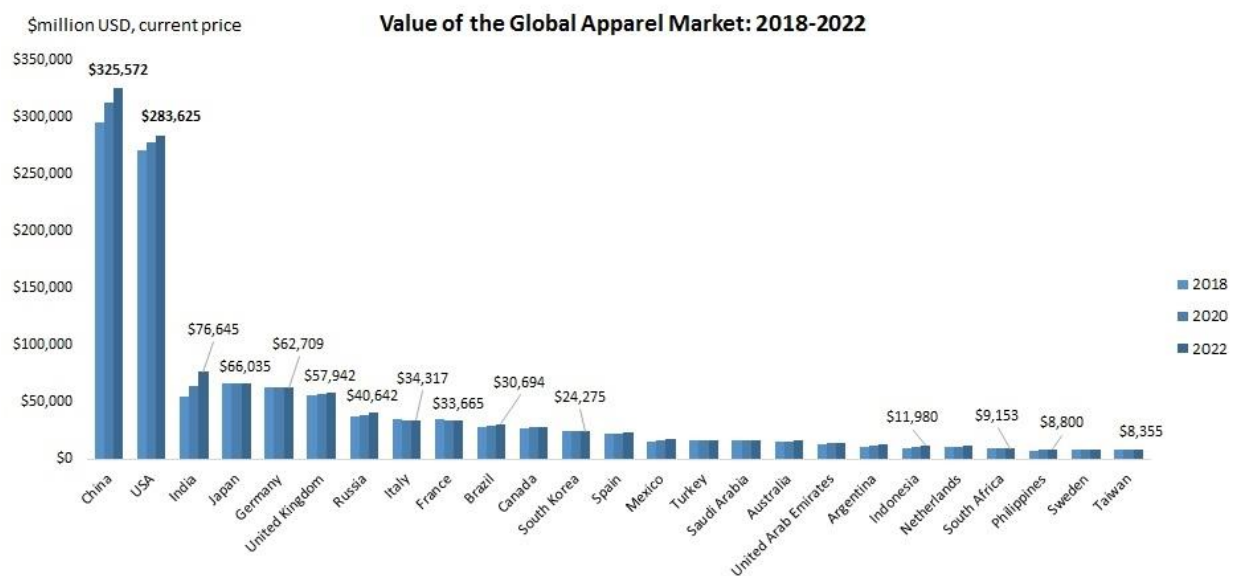
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## APPENDIX

APPENDIX FIG 1: Source: WTO (2018)

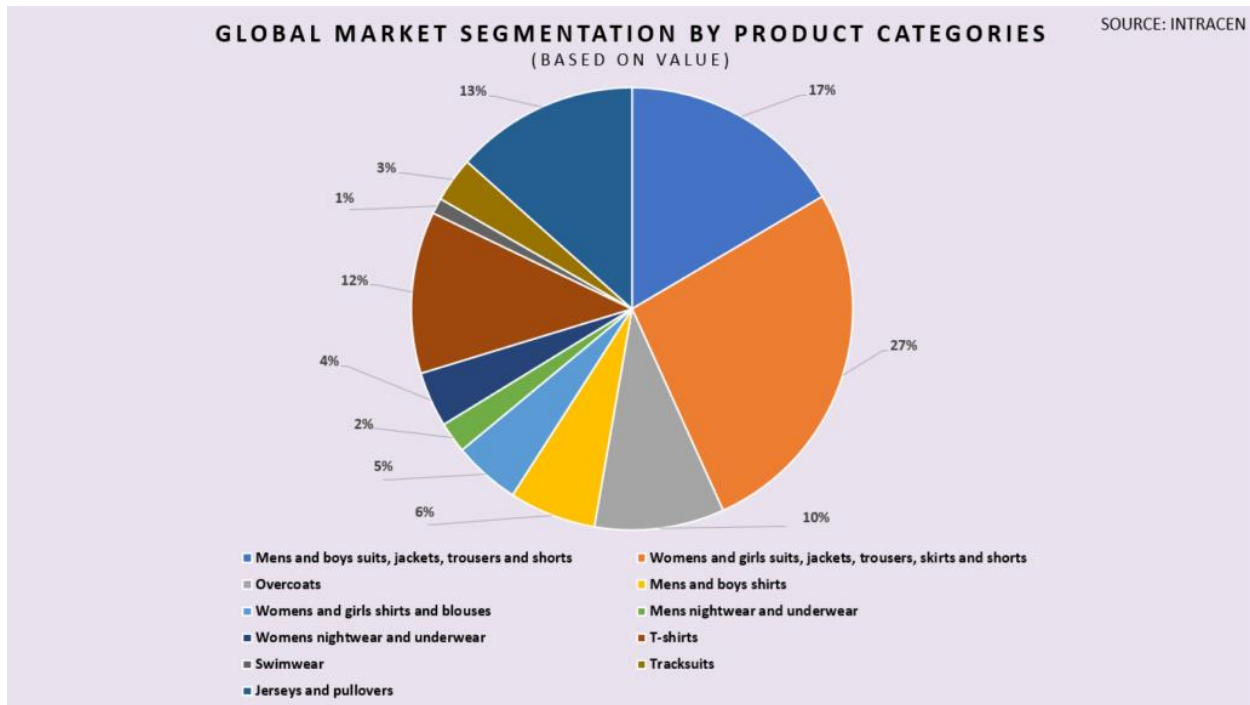


APPENDIX FIG 2:

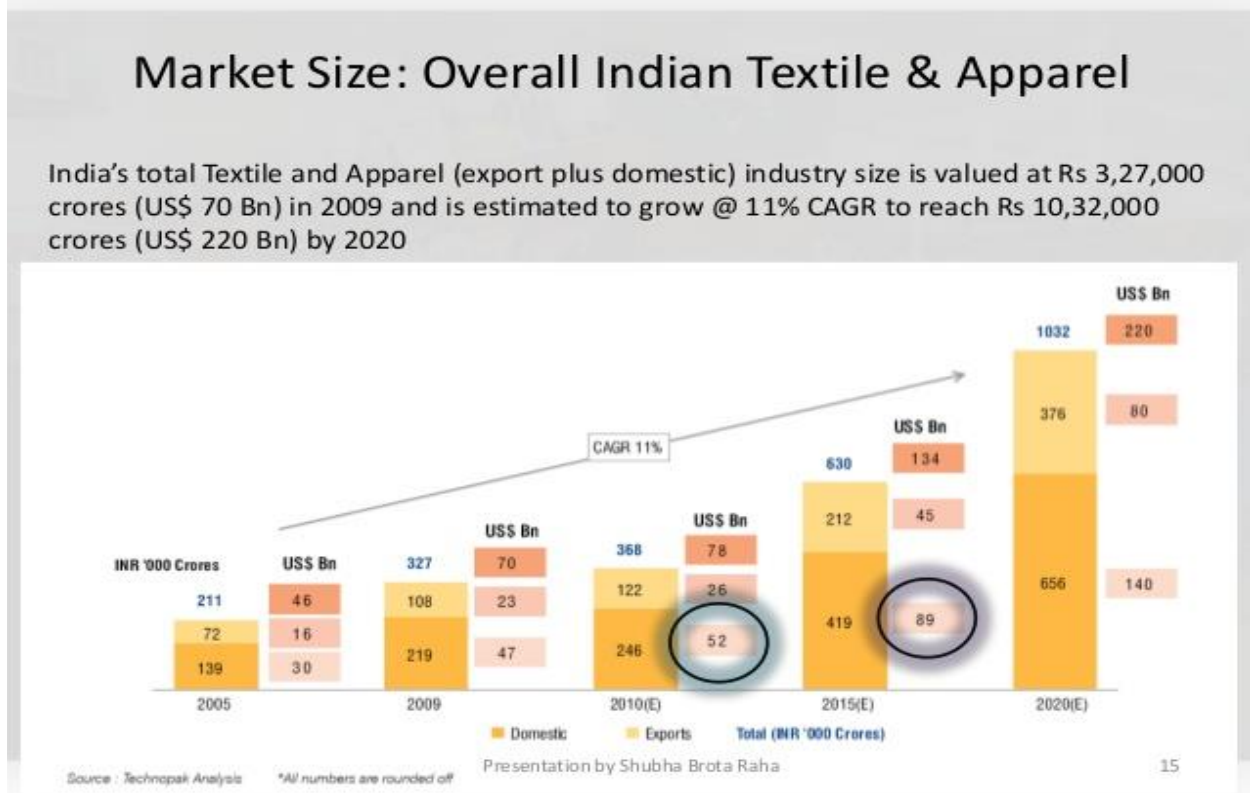


Data source: Euromonitor Passport (2018)

Appendix fig 3:



Appendix 4: Market size (Source : Technopak Analysis)



## APPENDIX 5:

### List of 6 SME's

COMPANY 1: Mansarovar Handlooms Pvt Ltd, (Hyderabad, India)

Company 2: Sikander Textiles (Mumbai, India)

Company 3: Shree Ram Textiles (Mumbai, India)

Company 4: Kalia Fabrics ( Pune, India)

Company 5: Dutta Handlooms ( Nashik, India)

Company 6: Maa Durga Textiles( Secundrabad, India)

**Contact details are available upon request from the Author.**

Appendix 6: Apparel Market Size. (Wazir , 2016)

## Apparel market size will touch US\$ 2.1 trillion by 2025

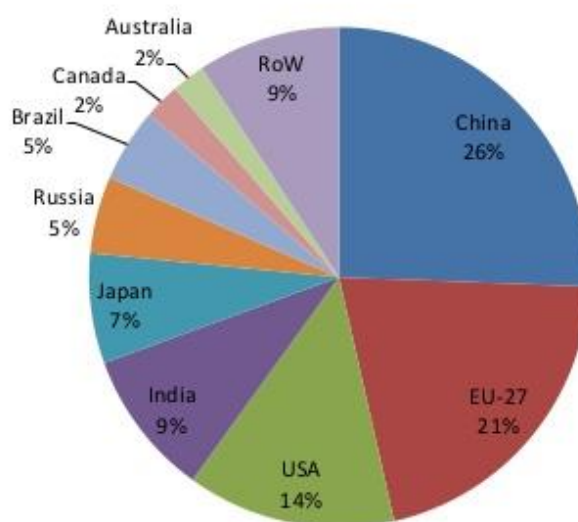


### Projected Apparel Market Size and Break-up

Values in US\$ Bn.

Region	2013	2025	CAGR
EU-27	355	440	2%
USA	230	285	2%
China	165	540	10%
Japan	110	150	2%
Brazil	60	100	5%
India	46	200	12%
Russia	45	105	8%
Canada	30	50	4%
Australia	25	45	5%
Rest of the world	80	195	8%
<b>Total</b>	<b>1,146</b>	<b>2,110</b>	<b>5%</b>

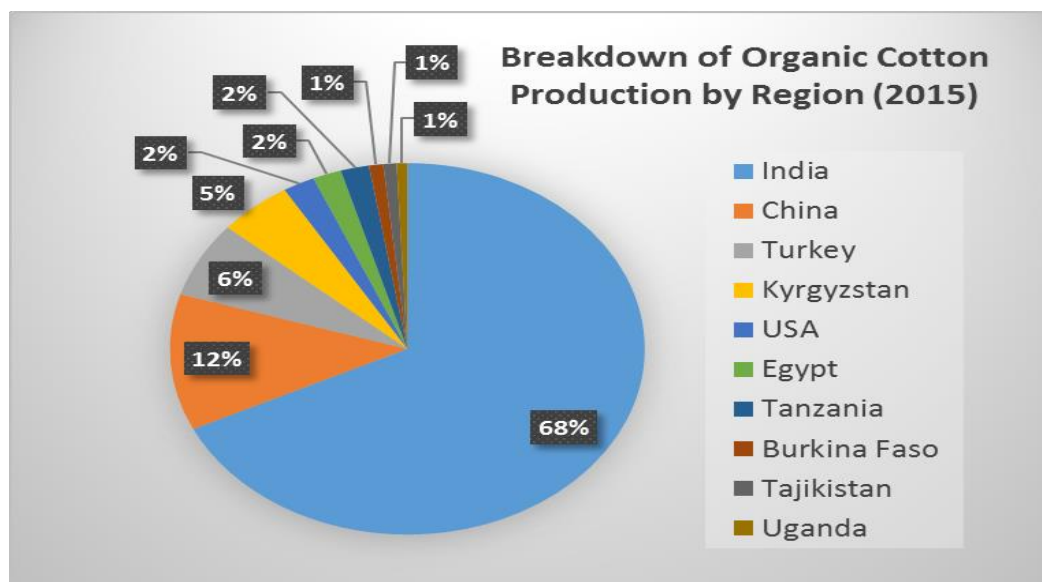
Market share 2025



<sup>6</sup> Source: Wazir Advisors



Appendix 7:



Source: <http://www.eai.in/ref/reports/organic/india-organic-textile-opportunities-guide>

APPENDIX 8:

**India's textiles and apparel exports (₹ bn)**

	Oct'17	Oct'18	(% Chg)
Cotton yarn, made up, handloom products etc	53.76	67.04	25.0
Man made yarn/fabric/made ups etc	23.12	30.37	31.0
Jute mfg, including floor covering	1.51	1.92	28.0
Carpet	6.68	10.13	52.0
Handicrafts and handmade carpet	8.70	10.78	24.0
Textiles	93.77	120.25	28.0
Apparels	54.02	83.27	54.0
<b>All commodities</b>	<b>1,489.63</b>	<b>1,986.35</b>	<b>33.0</b>

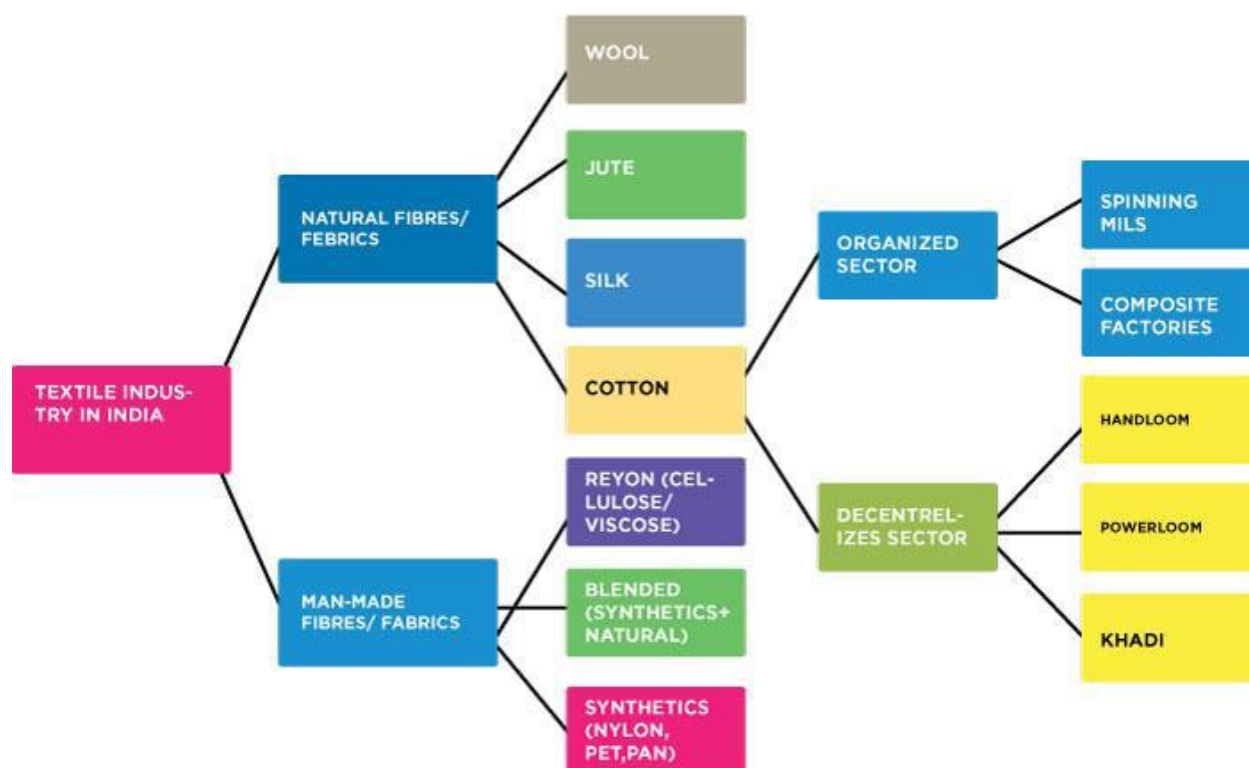
Source: DGCI&S

APPENDIX 9:

Export of textile items (in Million US \$)					
ITEMS	2013-14	2014-15	2015-16	2016-17	2017-18
Fiber incl. waste	4521.44	2711.85	2768.31	2520.74	2792.73
Yarn	6725.73	5984.31	5403.98	5260.58	5487.86
Fabrics	4676.39	4949.65	4572.89	4316.51	4349.51
RMG	15003.87	16847.20	16984.08	17469.43	16664.84
Made Ups	4469.39 4	4645.26	4584.91	4720.35	4996.72
Other textiles	2174.21	2521.27 2	2434.20	2342.46	2328.49
Total	37571.033	37659.52	36748.383	36630.07	36620.15
% change over the previous year	13.68	0.24	-2.42	-0.32	-0.03

Source : Monthly Statistics of the Foreign Trade of India. DGCIS, Kolkata.

Appendix 10: Indian Textile Industry; (Source: textiletoday.com)



APPENDIX 11: Inflow and outflow of Product Information Source: (Ngai et al. 2014)

