

Internationalization Behaviour of SME's (Small and Medium Enterprises) (A Study of Exporters of Traditional and Non-Traditional Sector in Pakistan)

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Abstract:

Internationalization of small and medium enterprises has been widely studied in developed countries, but there is not very little work done on SME's (Small and Medium Enterprises) in developing countries such as Pakistan. Small and medium enterprises are of utmost importance to the economy of any country due to various reasons, which includes the contribution of SME's in generating employment, a suitable share in the GDP (Gross Domestic Products) of the country, and earnings of foreign exchange for the country. Moreover the flexibility of SME's to cope with shocks and ability to bear the upcoming scenario of open trade, in which the thing which will save these SME's is the low overhead charges. The objective of the research paper is to identify the process and mechanism of internalization in Pakistan SME's with respect to two sectors of Pakistan. One i.e. Textile sector the most traditional sector with a new and modern perspective, non-traditional sector i.e. Software sector. The importance of human capital can never be neglected in any organization. Entrepreneurs are in our economy of traditional business are all in one who has the authority of decision making. The study was conducted in three phases and the category saturation method was used as sampling technique.

Key Words: *small and medium enterprises, textile sector, software sector, business hub, traditional, non-traditional, light industry.*

1. Introduction

The importance of small firms in any economy can never be neglected as they are providing employment, foreign exchange and contributing to national economy. Moreover the flexibility of small and medium firms to cope with every type of problems and their ability to face the free trade in the coming years due to smaller size, make them powerful candidate for research study. Further the ability of small firms to enter in export market is a surprising phenomenon. Which takes a lot of resources which these organizations are not having in general. Moreover it will be helpful for novice founders who want to enter in export market by studying the phenomenon. What sort of problems these small firms are facing in export market and what are the other important factors which count to provide supporting environment to these small and medium organizations. Government sector should take steps to solve the problems which these export oriented firms are facing from some of the government based institutions as the whole of sector is shouting about these organizations.

The focus of the research paper is to explore in depth, mechanism of internationalization i.e. how small and medium enterprises (SME's) enter in export market. What are the facilitating factors and what are the factor and which are the hampering the growth of small and medium enterprises in international market. Small and medium enterprises are 90% of total business in Pakistan. SME's comprise the heterogeneous activities but its active presence in service and manufacturing is felt prominently because of large scale manufacturing and corporate sectors limitations in creating all national demand for goods and services. SME's play critical role in manufacturing sector by providing 80% of industrial employment, contributing 30% to GDP (Gross Domestic Product) and generating one fourth of the sector's export earnings (EPB 2002). Its contribution to value added in manufacturing sector has risen from 27% in 1980-81 to 35% in 1997-98 but its share in employment in the manufacturing sector declined from 85% to 83% (EPB 2002). This implies productivity improvements in the last two decades. It provides employment at lesser cost and its capital requirement is also low.

The factors which were studied as the main focus are accumulated experience of partners which is supposed to be the main vehicle of small firm entry in export market. (P. Westhead et al, 2001, A.c. Cooper et al, 1994) international orientation (T.S Manolova et al, 2002 and Dichtl et al, 1994) and international business skills (T.S. Manoolva et al, 2002) also helps firms to get international market knowledge by staying or by studying abroad (T.S. Manolova et al, 2002). The mode of entry for small and medium are different in different sectors. Demographics characteristics (A.C. Cooper et al, 1994) of the partners which includes age, gender, education, and race were studied whether those were having any impact on internationalization of firms or not. The family and friends had played important role in helping the firms to get in international market was studied (P. Westhead et al, 2001). Moreover the previous experience of owners and employees had count a lot for this purpose (P. Westhead et al, 2001). Though firm size and export intensity are positively related but this hypothesis can't be found true in our economy (Morgan et al, 1994). The firm location is said to be an important factor for firm who are located near to the destination countries (P. Dimitratos, 2002). Younger firms are more prone to internationalization and enter in export market far before than older firms (P. Westhead et al, 2002).

After a deep and through study of literature review some factors were identified and a little survey for extracting information from the respondent was conducted. Later on the objectives of the study were developed with the help of the combination of literature review and first phase of interviews. After that incomplete things were requestioned from the respondents in the first phase so that the information acquired must portray complete and comprehensive picture of the firms. The research objectives are mentioned below,

- 1) Accumulated experience between firms of textile and software sector varies a lot
- 2) The network play an important role in entry and growth of small firms in both sectors
- 3) Adverse local market conditions forces the SME's to shift from local to market to international market.
- 4) The modes of entry into international market are different between both the sectors.
- 5) Export promotion organizations of government sector play a limited role in the promotion of SME's in the international market.
- 6) Government is perceived as hindrance in the growth of export oriented firms.
- 7) The role played by the industry association of textile sector is better than by industry association of software sector.
- 8) The age of the firm is related to the environment.

2. Literature Review

In recent years, world has seen a major resurgence of small business. In the developed nations, over half of the commercial and industrial employment is provided by this sector (Barrow, 1997). Small and medium enterprises provide 81% employment in Japan, 57% in USA, 52% in European countries and 43% in Denmark (SMEDA, 2000). Similarly these SME's contribute a large percentage of the total number of firms in developed countries. In Europe they contribute more than 95% of the total firms, for Italy this number is 90% and for Denmark this figure standing at 92% (Barrow, 1997). This sector is not only big enough in number but also contributing significantly towards the GDP of these countries. It has a 53% contribution in the GDP of Japan and 50% to USA GDP (Murphy et al, 1996). So, all these figures show that the SME's make a major contribution to output and employment and it appears to be increasing over time.

Though small business till 70's had hardly excited the policy maker but things have changed significantly since then. In recent years the rate of new formation in small business has been very high (Barrow, 1997; Murphy, 1996; SMEDA, 2000; World Bank, 2001). There are certain variations in the rate of growth due to the sectoral, spatial and temporal variations, but over all this rate is high throughout the world (Terry et al, 1992). Similarly the mortality rate in this sector is also very high. The business failure is more likely in the early years, particularly immediately following start up. Many researchers have identified different factors, which have an apparent relationship with the mortality of the business. Some of these factors are competition, technology, market structure, excess capacity, product range, skill levels, quality factors ownership, location, macroeconomics conditions and firm's legal status (Murphy, 1996; Terry, 1992).

It is difficult to be precise about what has caused the trend toward smaller firms, but some observations on the issue explain that it is due to the greater willingness of the financial sector to support entrepreneurship, emergence of more niche markets, advances in technologies, inclination of governments towards privatization and because it is considered a way out of the unemployment trap (Murphy, 1996; Barrow, 1997; Sandra, 1996). The poor performance of the large firms and increase in the demand of service, a sector which is dominated by small firms are also the push factors for the growth of the small firms (Jafri, 2001; ILO, 2001; Terry, 1992).

Small businesses have a vital spark in the economy, without exception throughout the 1980s and 1990s countries have sought ways and means to stimulate and increase in the numbers of small firms starting up in the economy. SME's have their effect on the GDP, income distribution, tax revenue, employment, efficient utilization of resources and stability of family income (SMEDA, 2001). They help to diversify a nation's economic base and provide it with the opportunity of responding to a variety of market conditions. In the following lines, the importance of small firms is discussed in context of employment, exports, innovation, competitiveness, mobilization of resources and social needs.

Research on the internationalization of small firms has proliferated in the past twenty years. In general, small firm internationalization is approached using three distinct but interrelated, perspectives (internationalization process, export development and international entrepreneurship). Common to the three areas of research is the importance of personal factors (Manolova et al, 2002).

Internationalization process theories are rooted in behavioural models of uncertainty avoidance. These models posit that internationalization progresses in a gradual and carefully controlled manner (Chetty and Campbell, 2003; Bell, 1995) in that firms choose to export to countries that are physically and culturally close to the home country and therefore require less resource-intensive investments. As firms gain expertise in internationalization, they expand in a series of concentric circles to countries that are physically and culturally more distant and require greater resource commitments. The key explanatory variable in the process models is the experiential market knowledge of the decision maker.

In contrast, export development models focus on the difference between successful and unsuccessful exporters. These models develop firm and managerial profiles, defined as sets of identifiable behavioural characteristics, which distinguish between internationalization and non-internationalization firms. This stream of research identifies numerous sets of personal factors as determinants of export behaviour such as perception of environment (Manolova et al, 2002), and demographics (Moini, 1995). Lacking, however, is a common conceptual thread that would link the disparate constructs together.

Recent case-based work on global work on global start-ups employs an alternative perspective to stage theory, arguing that the founders of international new ventures are more alert to the possibilities of combining resources from different national markets because of the competencies they develop from their earlier activities (P. Westhead et al, 2001; Wiedersheim-Paul et al, 1994). It follows then that these entrepreneurs possess an unusual constellation of competencies (Halikias, 2003), which lead them to pursue a strategy of internationalization.

2.1 SME's in Pakistan:

The Punjab directorate of industries (PDI) defines a small unit as one with fixed assets worth rupees 10 million or less excluding the cost of land. The Punjab small industries corporation (PSDI), sets this limit as rupees 20 million. According to PDI, all enterprises with assets excluding land valued between rupees 10 million and 100 million rupees are medium scale units. PSDI defines medium scale unit as enterprises with assets excluding land valued between 20 million and 100 million rupees. All enterprises employing less than 10 persons are classified as cottage industries while those employing over 10 persons are categorized as small or medium-sized enterprises.

Moreover, the definition of small and medium enterprise development authority is given below and it was decided to utilize the definition of the most popular and concerning department in the research, which is of small and medium enterprise development authority (SMEDA). According to them,

Table 2.1 SMEDA Definition Characteristics

SMEDA: SME Definition		
Category	Employment	Rupees in Million
Small	Between 10-35 people	2-20
Medium	Between 36-99 people	20-40

Source: <http://www.smeda.org/define.htm>

In Pakistan, no uniform definition of SME's exists. More than seventy years have passed and so far no concentrated efforts are observed which could define the SME's sector. The government seems to appreciate the importance of SME's in the economic development of the country and the role played by these enterprises in employment creation (ICMAP, 2001). Numerous departments and public sector agencies with the intention to facilitate the development of SME's, tried to come up with their own versions of definition.

Table 2.2 Definition of SME's

Institution	Micro	Small	Medium
State Bank of Pakistan	Na	Capital assets up to Rs. 20 million excluding (land and building)	250
Federal Bureau of Statistics	Na	Less than 10 employees	Na
Small Business Finance Corporation	Na	Productive assets of Rs. 20 Million	Productive assets of Rs. 100 Million
Punjab Small Industries Corporation	Na	Fixed Investment up to Rs. 20 Million	Na
SMEDA	Less than 10 employees, Productive assets up to Rs. 2 Million	10-35 employees Productive assets Rs. 2-20 Million	36-99 employees Productive assets Rs. 20-40 Million

Source: SMEDA (2001)

The point of concern is not that these definitions failed to achieve the desired objective but the issue is that most of these definitions have been formulated by taking into consideration the financing needs to these enterprise, whereas the issue of investment, technology, human resource development and most important of all the regulatory framework haven't been given due consideration (Jafri, 2000; ILO, 2001). Another problem is defining the small business is related to the limited focus as most of the time SME's are defined while keeping one sector of the economy i.e. manufacturing sector and other sectors which also contribute to economic growth and development are neglected (SMEDA, 2000; Mahmood, 1999). Before the establishment of SMEDA, the federal bureau of statistics was conducting the small researches for the government of Pakistan. In those studies, it is evident that the definition hinges on the criterion of registration under the factories act, 1934.

2.2 Government Role in SME's Development:

The government of Pakistan keeping in view the importance of SME's has adopted multi-pronged approaches at the regional, sub regional and national levels. The initiatives at the regional and sub-regional levels include efforts to strengthen economic integration and cooperation. At the national level, structure adjustment programs have been in operation along with attempts at restructuring and diversifying the production base, integration the informal sector into the economic mainstream and stimulating increased participation at the enterprise level (World Bank, 2001). In 1972, small industries corporation were established in each province. In the province of Punjab, Punjab Small Industries Corporation (PSIC), in Sindh Small Industries Corporation (SSIC), in KP Small Industries Development Board (SIDB) was developed. These provincial level support institute established industrial estates, common facility centres, training institutions and some of them also provided micro credit to entrepreneurs. Over the past few years the growth in services of provincial level institutions has been stagnant due to numerous factors including inadequate financial resource and limited technical capabilities (World Bank, 2001).

Over the years the government has developed a wide network of numerous support institutions for the development of small scale enterprises in the country. In the past, SBFC (1972), and RDFC (1985) were

established to disburse loans to relatively lower rates and to promote less developed areas of country. Merger of the above two organizations has resulted in SME bank now.

2.3 Problems of SME are in Pakistan:

In spite of playing a vital role in developing the industrial base SME sector hasn't been able to realize its full potential due to different reasons. Historically, due to the uniform policy for large and small enterprises, specific needs of small and medium enterprises have been left unattended. The foremost problem identified in the survey of Gallup is the unavailability of formal financing (Gallup, 2001). The survey shows that SME's usually are unable to get institutional credit and their size restrict them to access from capital markets. The lack of infrastructural facilities also hampers the growth of SME's (Hussain, 1998). The industrial estates developed by the government are not enough to house all the SME's in the country and are also generally poorly managed.

Majority of the SME's use obsolete technology resulting in inefficient and costly production (ICMAP, 2001). Bulk of the small scale industries is unable to upgrade their existing facilities due to lack of funds and lack of knowledge about new technology (Jafri, 2001). Even if technology transfer takes place, there is serious shortage of trained personnel to handle the change. So, another pertinent problem is the lack of industry specific skilled labour force because there not enough vocational training institutes for the purpose of skill development in Pakistan. So, workers are given on the job training (Kemal, 1993).

Marketing is still another area of SME weakness. Often, SME's produce something but are unable to sell it. This can be contributed to lack of marketing management in SME's. An important factor which may also has hurt SME's is the limited role of industry associations. There are about 500 industry associations in the SME sector in Pakistan (Hussain, 1998) but only a few are involved in industrial counselling, training, marketing and export promotion (Gallup, 2001).

Another area of concerned is government regulations and dealing with the government departments. In a Gallup survey it is pointed out that small entrepreneur spend on the average over Rs. 15,000 per year and 12% of their entrepreneurial time in coping with government regulation (Mahmood, 1999). A majority of people also complained about the tax regulations as they are viewed harshest or mot irksome. Poor electricity supply, difficulties in getting an electricity connection, utility bills, poor roads, discontinuity in water supply, access to raw material, law and order, government intervention, insufficient demand, tough competition and lack of transportation are some of the problems which Pakistani entrepreneurs are facing at the moment.

3. Research Methodology:

This research will use the case study approach in order to check the internationalization behaviour of exporting small and medium enterprises (SME's). According to different researchers the knowledge of exporting could not strengthen by using in-depth interviews and longitudinal studies to investigate the causality between export behaviour and behaviour (Gripsrud, 1990; Lee and Yang, 1990). According to the case study method we can draw some conclusion because in this way the detail knowledge can be collected which enable u to evaluate the problems facing to firms.

The research methodology includes 32 case studies from the textile companies and 10 case studies taken from software sector in Pakistan. Each company has overlapping concern of export business.

4. Discussion and Analysis

4.1 Proposition 01:

Accumulated experience between firms of textile and software sector varies a lot.

Accumulated experience of owners is an important factor which help the organization in many ways, in business operations related to management of production, manufacturing techniques and handling of human resource problems and many more which is not in the context of this research. The context in which accumulated experience is used is the role of accumulated experience helping small firms in the

internationalization process. Accumulated experience is the experiences of owner including all the partners before the start of exports. Whether, it belongs to job experiences of the partners, or the experience of running their own business. The role of the family, friends and previous job experience of employees can't neglect.

Sample of analysis of accumulated experience of selected firms	
Firm Name	Accumulated Experience
Textile Sector	
Sober Textile	18 years of running his own business
Husain Industries	15-16 years in his own business
Lal Industries	16 years of running his own business
Maria Enterprise	34 years business experience
Software Sector	
Trisoft	After completing their education, started his own software business
Software	1 year business experience
Acrologix	No previous business or job experience
Virtual Works	4 years job experience in software house

So far as the international exposure perspectives, textile sector have more experience than software sector.

Sector	No. of Respondent	International Exposure	Percentage
Software	10	7	70%
Textile	33	2	6%

4.1.1 Conclusion of Proposition 01:

The followings are the results on the basis of above mentioned data,

1. Owners in the textile sector are having generally more experience of running their own business as compare to software sector. The owners of software sector don't have enough experience in perspective of business or jobs.
2. Family business is proved to be important in textile sector and have no or less role as there in no existence of family business in software sector due to its newness in the economy.
3. Foreign studies and jobs are common in software sector as compare to textile sector.
4. The accumulated experience of export managers is important in textile sector but having no relation or importance in software sector.

4.2 Proposition 02:

Networks play an important role in entry and growth of small firms in both sectors

The network is identified as the people who can help the owners and firms in identifying and giving some reference of any buyer and as it's related to export of small and medium firms so that's why any foreign buyer. These includes friends, family, and export manager links, supply to local exporters. The main feature or the characteristics that distinguishes the family and friends network from others is that, it provides the owners with information without any financial benefits on the other hand there are a lot of other resources which helps the firms by taking sort of fees or commission. Here are the views of owners extracted from the analysis of interviews.

Sample of role of network in exports	
Firm Name	Network Role
Textile Sector	
Sober Textile	Manufacturing for the friends who were exporters lead to contacts with the original buyer
Husain Industries	A friend who was an indenter from Faisalabad helped him entry in Bangladesh market, but that was a failure. After that on the basis of previous knowledge of export manager and indenter was contacted who gave them their first export order.
Lal Industries	Previous supply to local market helped in identifying the customer.
Maria Enterprise	A business friend asked him to provide the required items
Software Sector	

Trisoft	Father's friend client who was doctor in foreign gave him first client
Softwerc	One of his friend offered job to one of the owners in US which later zero resulted in a project in the same market
Acrologix	Personal reference was vital for the company to enter into export market.
Virtual Works	Friends helped him in getting his first export order

4.2.1 Comparison of role played by networks in internationalization of small firms

4.2.2 Textile sector

Textile sector is highly characterized by this phenomenon, as friend and family people helping the firm to enter into export market. The friends of owners staying abroad and they have good knowledge about international market trends. They refer the different clients for export purpose. The export managers links and previous knowledge about international market becomes a source of entry in international market.

The example of Husain Industries can be quoted here, this firm entered in the export market on the basis of previous knowledge of export manager, who has been working in rainbow industries and he was well conversant with the export procedures and was having knowledge two or three parties, who was working with Rainbow Company at the time. When this export manager joined Husain Industries he utilized his previous knowledge about customers and an indenter was contacted who was working in Rainbow Company in previous time. The export manager also knew about the current problem indenter was facing with the rainbow industries, he exploited the opportunity and was succeeded in getting regular first export order from that indenter.

4.2.3 Software Sector:

Software sector is not highly characterized by this phenomenon but still there are situations, where network has played a role for firm entry into export market. In Trisoft Technologies case, owner get useful support from father. One of his father's friend living in United States, in that way they catch the first export order from foreign market. In second case, it was gain a mutual friend who helped him in capturing the project. The owner visiting the abroad to create some links with foreign market customers. Moreover, it happened that these cases firms are having their sales and marketing offices abroad which are working hard to get the projects.

4.2.4 Conclusion:

Software and textile sector are characterized by the impact of networks. These personal networks play important role in the internationalization of small and medium enterprises. Whether the organization is too small or big, or whether it belongs to software sector or textile sector, the roe of network is found in almost every case. There are certain organizations that entered through the help of buying houses or by establishing their own sales offices abroad.

4.3 Proposition 03:

4.3.1 Adverse local market conditions forces the SME's to shift from local market to international market.

Reason behind leaving the local market completely or partially are the factors related to local market operations which create problems in business operations and even hurt the existence of small and medium firms. Adversity of local market condition is measured by the factors such as delayed recovery of payments in local market which reduces the business size in terms of investment and hence the ability of producing further sales. Profit margins are very low in local market as compared to profit margins in export market. The cut throat competition in local market. The clients in local market most often go for credit sales at very easy and flexible term of payment. In order to cover local market small and medium firms have to go for complete marketing efforts from manufacturing to sales staff. This needs huge amount of investment which these small organization aren't having. The local market size is very small as compare to export market. As per the above mentioned reasons are taken from the analysis of interviews of respondent firms. Some scripts are shown below as a sample that what are the views of respondent firms in this regard.

Trisoft	IT Illiterate Unaware customer
Softwerc	The nature of product they are dealing is not meant for local market
Acrologix	There are project in the local market but mostly floated by Govt. Private industry is less interested in automation
VirtualWorks	No opinion

These adverse local market conditions have created enough problems

4.3.2 Conclusion

From the analysis of interviews, I came to know that local market conditions for textile industry are totally different from software sector. Textile sector is facing problems like recovery of payments small market size lower margins, credit sales etc. some of the problems are overlapping like lower margins and product suitability for local market. But factors related with the willingness of client to shift from manual to automated processes and illiteracy and unawareness of clients is related with the local market problems faced by software sector of Pakistan.

4.4 Propositions 4

4.4.1 Modes of entry into international market are different between both the sectors.

Mode of entry is defined as the route through which firms enter in export market. There are a few routes identified after the analysis of respondent firms. The routes are showed and discussed below and the analysis script is given below.

Sample of Mode of Entry into Export Market	
Firm Name	Mode of Entry into Export Mkt
Textile Sector	
Sober Textile	Directly contacting the buyer for whom he was previously manufacturing on behalf of exporter friends lead to contact with the original international buyer
Hussein Industries	On the basis of previous job experience of export manager an indenter was contacted to enter in export market. Later on links were taken from business directories and buyers were contacted through it. One of the recipient replied form

	Holland which was later on converted into export order.
Lai Industries	Personally contacted the buyer who was purchasing their manufactured products from other exporters.
Maria Enterprise	Local market visits lead to meeting with a Canadian party who gave him order.
Software Sector	
Trisoft	Personal contacts were utilized to enter into export market.
Softwerc	Personal networks helped him getting the project from US company.
Acrologix	Personal contacts build during stay abroad while on job.
VirtualWorks	Network gave way to clients in first 2 market.

4.4.2 Modes of entry in export market

1. Entry with the help of personnel networks
2. Entry through buying houses
3. Entry through foreign indenters

	Holland which was later on converted into export order.
Lai Industries	Personally contacted the buyer who was purchasing their manufactured products from other exporters.
Maria Enterprise	Local market visits lead to meeting with a Canadian party who gave him order.
Software Sector	
Trisoft	Personal contacts were utilized to enter into export market.
Softwerc	Personal networks helped him getting the project from US company.
Acrologix	Personal contacts build during stay abroad while on job.
VirtualWorks	Network gave way to clients in first 2 market.

4. Entry through establishment of foreign sales offices
5. Personally contacting the foreign buyers by taking buyer information from published information.
6. Exhibitions became a source of buyer information

Moreover there are certain results of networks doing jobs in textile sector and hence having knowledge and references of foreign buyers. These contacts were also utilized to enter in export market.

Another situation identified is that previous supplies to local exporters identify those customers to whom those local exporters have been supplying. Owner of aober textile is the better example for this situation. He has been supplying to local exporter and even doing all the documentation of the export procedures on behalf of those local exporters who were actually friends of the owner. In all that process he was well aware of the parties to whom local exporters were sending the products. At some time in past problem of payments incurred and the owner of sober textile at this point contacted the buyers and telling the situation and getting the first export order in return.

So far as the software sector is concern, it is too having certain situations where personnel have helped them in getting their first export projects.

4.4.3 Entry through Buying House

Buying houses are an organization working on behalf of foreign buyers. They take a commission from foreign buyers and assure the quality of products here in local market so that it is checked in the start before shipping the orders, so that the problem of quality may not occur when the shipment is on buyer's port. This creates problems on part of small manufacturing firms. To solve such problems buying house exists. Though buying houses are not meant to take commission from local manufacturers but they still practice this illegal activity and exploit the small manufacturers.

Major portion of textile garments organization are operating through buying houses and none of the others are involved in this activity.

4.4.4 Entry through Foreign Indenters

Foreign indenters are also operating in local market and in foreign market also who have links with foreign buyers and have orders from those. 2 cases were identified in textile sector that entered in export market through indenters. In one organization export manager of the firm was aware of the indenter and later contacts were created with that.

4.4.5 Entry through Foreign Office Establishment

This phenomenon is common in software sector, where they are of the view that it is difficult for them to manage client's problems due to the working of projects. The development phase of the project consists of months and even years if the project consists of month and even years if the project is too much technical in nature. The project/product is reviewed throughout the development phase; these people cannot manage regular visits to foreign countries to check the problems the product is creating for clients. At this time the foreign office does the analysis and saves time of the company.

4.4.6 Personally contacting the foreign buyers by taking buyer information from published sources

Export Promotion Bureau, Industry Associations, Chamber of Commerce and PSEB are sent certain inquiries from foreign buyers that they want to purchase these things from local markets. This information is floated with members and asked to contact these inquiries personally. But the reliability of such information is in question. Most of the respondents have said that these contacts are proved to be fake and hence result in time and resource wastage.

4.4.7 Exhibitions become a source of buyer information and entry⁷ into export market

Most of the organizations other than garments sector participate regularly in exhibitions which lead to certain things including the contacts with foreign buyers. Role of exhibitions will be discussed later in a little bit detail. Owner of Maria Enterprise got his latest export orders form participation in exhibition in

Germany named HamTex.

4.5 Proposition 5

4.5.1 Export promotion organizations in / of Government, sector play a limited r: in the promotion of SME's in the international market

Export Promotion Bureau and Pakistan Software Export Board are the two organizations which are operating in Govt, sector for the promotion of expert business. Textile quota management and Regulatory control of expense are viral sensitive functions of the EPB. As the only organization with direct contact with exporters and regulatory authorities it also plays an active and proactive role in helping create the most favorable exporting environment.

(Source: http://www.epb.gov.pk/epb/export_vision.jsp)

PSEB is helping to promote IT infrastructure in Pakistan. For this purpose they are going for certain incentives to Software Sector which includes help in certification of ISO and CMM. The nature of help is sharing the major portion of cost in certification. Moreover to provide the IT students to software sector as internees. Again the cost is bearrd by PSEB.

Both EPB and PSEB help the member firms by giving latest information about changes in rules and regulations, information about exhibitions etc. After the analysis certain things have been identified which are in negation with what these organizations are meant for and what these organizations are doing.

Sample extract is pasted below,

Role of Export Promotion Organization in Govt. Sector (EPB, PSEB)	
Firm Name	Role of Export Promotion Organization in Govt. Sector (EPB, PSEB)
Textile Sector	
Sober Textile	Corruption of lower staff Unreliable information is provided by them Issuance of quota certificates Certificate of origin
Hussein Industries	Seminars are conducted by EPB. Signing of Quota Certificate of Origin Provide general information not specific to any industry. Must provide sector specific information Helps exporters in trade fare participation Must provide buyer information
Lai Industries	Buyer information through journals
Maria Enterprise	Customers and markets information through monthly bulletin Helps in Visa
	Buyer enquiries are floated to exporters
Software Sector	
Trisoft	Instead of PSEB Govt, should have E- Govt.
Softwerc	Tells about exhibitions
Acrologix	Helps in CMM certification by bearing 75 % expenses. Automation of industries at 75-25 % ratio Helps in exhibition participation for software houses.
VirtualWorks	Unable to give some project to software firms

4.5.2 Comparison of textile and software sector

The Textile sector is the one that have to be in contact with the export promotion bureau regularly specially export oriented firms. The reason for this is that export related documentation is handled by them; either it is quota management or the issuance of visa' EPB has to perform other than these limited tasks that is related with promotion of Pakistani products abroad. EPB is doing, according to the Govt, plans but the real situation that is extracted from the analysis of interviews is portraying a totally different picture of EPB.

Problems associated with EPB are jumbled down as the same words said by respondent firms.

1. Problems in VISA signing
2. Favoritism in VISA signing
3. Anti-export policies of EPB
4. Outdated documents are provided by EPB
5. Unable to provide buyer information/ no buyer information
6. Export discouraging organization
7. Corruption of lower staff
8. Unreliable information is provided by EPB
9. Provided general information not the specific information
10. No role in providing markets.
11. Sudden changes in the rules leads to problems for exporters.
12. No promotion sort of help only provides documentation
13. The Textile sector is ignored by EPB in providing information to new exporters
14. The limited time wording of EPB also creates problem

4.5.3 Software Sector

The Pakistani Software Export Board is trying to promote the IT business and IT culture in Pakistan, by providing certain things to software houses.

1. PSEB is bearing 75% cost of ISO and CMM certification cost so that more firms should go for these quality certificates.
2. Interns are provided to the software house to which PSEB pays for the internship period.
3. PSEB provides regular email to member software houses containing information about trade fairs and IT exhibitions and changes of rules and regulation in IT sector.

But so far as the documentation sort of things are required PSEB is not doing any activity. And moreover, they are not working to promote the software export or even unable to promote local business markets.

4.6 Proposition 6

4.6.1 Govt, is perceived as a hindrance in the growth of export oriented firms

The major role of Govt, other than EPB, which is directly related to exporters, is found by the Sales Tax Department. It is hard to find a single member textile sector who has not claimed that this department should be closed or some other actions must be taken to stop the corruption in this department. Even those members who are able to sales tax refunds from this department, have said that this department should be accounted for what they are doing. Exporters are unable to get their sales tax form even past 6-7 years. Small and medium sized exports which are working with a limited amount of capital, when are unable to get timely returns of the sales tax paid on purchases of raw material, ultimately their business size reduces by the amount stopped in the sales tax department and hence hampering the growth of SME's in export market.

So far as the software sector is concerned govt, has given them rebate on the sales of software which is exported. But research is unable to identify any problem in this regard. The reason is that software sector is not paying anything in advance to govt, that they should claims for repayment.

4.7 Proposition 7

4.7.1 Role played by the industry associations of textile sector is by industry association of Software sector.

I have covered three industry associations, which includes all Pakistan bed sheets and upholstery manufacturers association (APBUMA), Pakistan readymade garments.

Manufacturers and Exporters Association (PRGMEA) and Pakistan Hosiery Manufacturers Association (PHMA). In general these organizations are doing well for the members. Since these are maintained by industry people and it works as the platform for textile members. Membership is necessary for export oriented firms.

Though some of the members have negative responses for industry associations in which the major issue is the presence of industry people in association. The presence of industry people in association discloses the secrets of exporters when the documents are passed by these people. They know each and every thing of exporters about what they are exporting, what is the quality of items, who are the buyers and at what prices they are sending the items. When this information is leaked out exporters business is somehow shifted to others who are aware of the client.

Software sector is having the membership of PASHA, i.e. Pakistan Software House Association. Whatever the aims of pasha are, none of the members have said anything about why they exist and so far as doing nothing for members firms.

4.8 Proposition 8

4.8.1 Exhibitions and trade fairs are a good source of information to export oriented firms.

Textile sector participates well in trade exhibitions which is a great source of buyer information. Moreover, it enhances the exporters information about products other competitors are offering to the market, the business culture prevailing in other markets and meeting with the previous clients let the exporters solve some of the problems both parties are facing. These textile exhibitions are held in Germany, USA, France, Italy and Gulf and in other countries of the world. Exporters which are operated through buying houses don't participate in exhibitions because they don't think so that they can have any benefit of these participations. Moreover the reason for not taking part in trade exhibitions is that they are working as outsourcing departments working under the directions of foreign buyers. What ever they need in context of information is provided by buyers.

5. Conclusion and Findings

The research aims at identify the mechanism of entry into export market for SME's. Moreover the facilitating and hampering factors are identified during the analysis, which helps and or harms the organization in export market operations or effect the survival and growth of SME's. The findings of my research are mentioned below,

- 1) Most of the businesses belonging to textile sector are from family business entrepreneurs.
- 2) Entrepreneurs are helped by the family members in terms of business experiences in terms of financial requirements of the business.
- 3) Businesses belonging to Multan are old firm, which are having an in depth experiential knowledge of owners before entering in export market.
- 4) Education level of entrepreneurs is fairly high among the both sectors, very few of the entrepreneurs are less educated, as education have a positive impact on the understanding of business operation and most likely to understand the language of the foreigners.
- 5) Accumulated experience of the owners in the same sector is higher among exporters belonging to textile sector.
- 6) Owners belonging to software sector can be defined as novice founders not as habitual founders.

- 7) Network had played an important role in the internationalization of ME's in both sectors. Most of the time these were the networks who helped the SME's in getting their first export orders.
- 8) Buying houses are important for small sized exporters as they entry mode for exporting.
- 9) Lower profit margin in local market as compared to export market is the motivational factor for small and medium sized firms to enter in export market.
- 10) Shifting or partly moving to export market from local market is due to delayed recovery of payments in local market in textile sector.
- 11) Most of the firms in software sector are export oriented and are operating in export market rather than in local market.
- 12) Export oriented firms are also found in textile sector but mostly belongs to garments sector.

5.1 Policy implication:

The result of the research highlights certain point on policy makers to take certain steps. The very important thing is the effect of open trade in global economy which can and will be adversely affecting the SME's in Pakistan (Views from respondents). Government should take steps to increase efficiency of these small units and of medium units as well. The behaviour of sales tax department should be corrected and must be taken steps to ease the process of sales tax refunds. Whatever government is trying to do for the textile sector must have a clear implementation of that.

5.2 Limitation of the research:

The conclusions are set within certain limitation.

First, the study was set in a small developing nation with an idiosyncratic business environment (small in size, family run and labour intensive businesses) that influences the way firms operate; this affects the availability of and need for export information sources.

Second, this research focuses on only two business sectors textile and software sector from which generalization for the industry as a whole may not be able to be drawn, because of industry specific influences (technological level, intensity of competition and international orientation).

Third, the research can't identify all the steps regarding internationalization of SME's. There is always a need for improvement in everything and in every aspect of research.

The fourth and finally the interviews were conducted from respondents only in the limited cities of Pakistan, so the final results may lack the broader perspective which only a country wide study can provide. Lack of financial resources and other resources also proved to be an important limitation to this research study.

5.3 Future Research Directions:

The research on the "internationalization behaviour of SME's: a study of traditional and non-traditional sectors" was exploratory in nature. The findings and analysis of this research can be used to develop new hypothesis and support further researches in this field. Due to the limitations of the study a sample size was chosen for this research. The results inferred from the analysis of these case studies might not be valid for the whole industry. So, a bigger sample can be used in the future to get the insight and more authentic results about any particular sector. In this research paper, it is tried to find out the role of different factors which help the SME's in their entry to export market.

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