

DETERMINANTS OF INTER-FIRMS'EXPORT COMPETITIVENESS: CASE OF INDIAN CARPET INDUSTRY

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ABSTRACT

This paper has tried to understand the determinants of export competitiveness in the thriving carpet industry of India. The data for firm competitiveness has been collected from Bhadohi and Mirzapur districts of Uttar Pradesh, together famously known as the carpet belt of India. A total 100 questionnaires were used and after data cleaning, final dataset had 96 questionnaires. The competitiveness of the firm was explored through five-point Likert scale and 18 variables were identified. Through Exploratory Factor Analysis, the determinants of export competitiveness were reduced into four major constructs namely quality management and product differentiation, focus on the foreign market, state support, licensing and other non-tariff restrictions and networking. These constructs explain 87% of the export competitiveness of the carpet firms.

KEYWORDS: *Firm Competitiveness, Factor Analysis, Carpet Industry, India*

INTRODUCTION

The carpet industry of India has been an essential part of the small-scale industry of India and has been thriving since its inception. The industry is a small scale and cottage industry exhibit labor intensive nature as well as high skill and excels in the production of famous beautiful handmade carpets. The industry has been a significant contributor to the generation of employment and income, net foreign exchange earnings and reducing regional disparities by providing employment in rural areas. This industry was conceived at the time of Mughal Emperor, Akbar. The industry has transformed itself since then. It has been able to aptly adapt to the changing domestic and international markets and has survived and thrived facing global competition. The top five Indian cottage industries are cotton weaving, silk weaving, carpet making, leather industry, metal handicrafts and small food processing industries (Joy, MT and Kani, RM). The carpet industry therefore becomes pivotal in the growth and development of the economy. Thus, a study in a direction to understand the carpet industry success story becomes worth exploring.

The carpet industry is an integral and essential part of the Indian Economy. The carpet industry of India exported a total value of 1442 million US dollar in the year 2015-16 to the world (CMIE). The carpet industry of India has maintained the supremacy over the global market and rank first in the production and export of carpet in terms of value and volume. The carpet industry of India is able to do so as the labor with skills are still present and the industry is able to cater the needs of the ever-changing taste and preference of the consumer, especially the foreign consumers, around 80-85 percent of carpets manufactured in India are exported.

Carpet industry of India is able to maintain its position in the global market due to several factors. The political turmoil in Iraq and Pakistan might have helped India retain number one position but the availability of cheap and skilled labor adequately; its geographical proximity with Calcutta, the major seaport via Grand Trunk road from which shipping is done and the presence of a cluster of carpet which means the industry is concentrated in some specific region which makes the production and trading of carpet easy.

The carpet industry of India is crucial for the economy as an employment generator, foreign exchange earner, and to reduce the regional disparities etc. But the study of the industry to better understand the needs and barriers of the trade for the industry has never been taken up properly. We didn't find the significant literature regarding carpet industries trade competitiveness though it is an export-oriented industry.

LITERATURE REVIEW

Many studies have been conducted inquiring into the competitiveness of many industries. Competitiveness also varies in many regards and different studies have been done dealing with a different level of competitiveness. Competitiveness may be defined as the strength of firm to survive and sustain in a global competitive atmosphere (Porter, 1990). Export performance was found to be affected by factors such as foreign ownership, firm size, geographical location and technological capabilities (Wignaraja, 2008). Exports have been considered as an engine of economic growth by generating employment and foreign exchange etc. Small scale industry has performed well in exports (Lee and Habte-Giorgis, 2004). The firms that carry on exports have to face international competition and that's why maintaining competitiveness and efficiency becomes very crucial for such firms for survival in the international market (Matanda and Freeman, 2009).

There are many ways in which export barriers are classified. Export barriers in many studies have been classified into internal and external constraints. These internal and external constraints determine the growth of firms and firms either lose their share in the market or are unable to further extend the export volume (Leonidou, 2004). There are few studies which classify the dimensions into an economic and strategic category which implies objective and subjective division. In actual nature, economic and strategic dimensions are complementary in nature and are inter-linked and application of both can increase the export performance of the firms (Stoian, Rialp and Rialp, 2011). Different studies have taken up different dimension to measure export performances and constraints. The need is to develop different ways to measure export performance through constructing different dimensions so that the problem regarding exports should be captured in totality (Solberg and Olsson, 2010).

Exports require more processes than the domestic catering of the goods. Export faces many constraints namely attitudinal, operational and structural constraints. These barriers dissuade the firm's growth and reach its efficiency level and at times even pose threat to the survival of the firm (Koksal and Kettaneh, 2011). Export barriers reduce the efficiency of the firms and such barriers can lead to wastage of resources, manpower, time, etc. and thereby reducing the overall efficiency of the firm. These negative implications of export barriers need to be studied (Ortega, 2003; Da Silva and Da Rocha, 2001).

Export barriers can be of many forms and nature. Competition in the global market, inability to offer satisfactory prices, economic instability abroad, lack of government assistance, lack of market information, political instability abroad, perception of high business risks and costs abroad, shortage of working capital, high tariff and non-tariff barriers, inadequate transportation and infrastructural facilities, restrictions imposed by rules and regulations, different customer habits and attitudes, difficulty in locating and obtaining representation, unfavourable foreign exchange rates, different product standards and specifications, inadequate and untrained staff, unfamiliarity of foreign business practice, different cultural traits and language abroad, difficulty in handling documentation and procedures and inability to offer technical after sales service are the major constraints faced by exporting firms Leonidou (2000).

The institutional barriers to the SME in the transitional economies were studied by employing the institutional theory to discover the perceived barriers. The study divided these barriers into two broad segments which were formal rules and informal rules. The formal rule included the tax policies and business administrative practices while the informal rule was a wide range of activities which has been limited to only the formal unofficial culture such as corruption and failure of formal rules. Data was collected through a survey conducted in Lithuania based on 6 points Likert scale. The study used ward's grouping method for hierarchical clustering to form four new variable which were formal, informal, and environmental and skill related and also used Logit and Multinomial Logit Model. The study showed that the SME owner who perceived them to be affected by formal barriers also comprehended themselves to be affected by informal barriers and vice-versa. SME owner who comprehended themselves to be influenced by environmental barriers also perceived them to be affected by the skill barriers and confirmed the presence of interrelatedness of these intuitional barriers but could not back up the transitional effect which was based on the date of business start-up as the results turned out to be insignificant (Aidis, 2005). A study of 69 exporters from Brazil and indicated that inadequate incentives, strong international competition and exchange rate policies are the major obstacles to exporting firms (Da Silva and Da Rocha, 2001). Lack of resources, strong foreign competition and lack of export knowledge as export barriers are some of the major barriers recognized (Ortega, 2003).

Many studies have been conducted to find out the bottlenecks to trade, competitiveness, and exports. Different industries have been facing different problems and at different levels. Thus, to get a better understanding of the problem faced by the carpet industry, a separate study was needed. This paper thus has taken up this course to get an insight into the problems faced by the carpet industry in exporting its product.

MATERIALS AND METHODS

Participants and Data Collection

The study relies on a primary data, collected in the Bhadohi and Mirzapur districts of Uttar Pradesh. The stratified random sampling design has been used for the selection of the sample manufacturers cum exporters. We succeeded to collect 100 completed questionnaires, 60 from Bhadohi and 40 from Mirzapur but 4 of the completed questionnaires did not contain a sufficient level of information to be included in the quantitative analysis of the study, thus our total sample consists of 96 respondents. The structured questionnaire contains questions regarding export performance, constraints, competitiveness and other socio-economic factors. These questions were framed keeping in mind the nature of the industry. The questions were framed on five points Likert scale with the smallest number (1) assigned to no problem and highest number (5) to the very big problem.

Measurement

As mentioned earlier, there is a lack of consensus on how to measure the firm's competitiveness because the concept is multidimensional and dynamic in nature. Given a diverse range of theories, hypothesis, and variables of the firm's competitiveness, we conducted a series of one to one interview with the respondents in order to improve our understanding of carpet firm's competitiveness in the Indian context. We discussed the important competitiveness indicators with manufacturers cum exporters during pivot survey and with officials from Indian Carpet Export Promotion Council (CEPC), and concluded with a set of competitiveness items and questions to be included in the survey.

Empirical Results

In this section, we first provide descriptive statistics of the survey that were delivered to firms, followed by the results of firm's competitiveness variables. Firm competitiveness variables are formed through factor analysis.

Descriptive Statistics

Carpet as an industry contains several sub-heads, apart from general profile such as age, religion, caste and education level of the respondents, the other question in the survey explored what kinds of raw materials firm's usually use, nature of firms, competitors, and future expectations.

The survey showed that the exporters are mostly (about 90 percent) in the age bracket of 21 to 60 with the highest percentage (about 48 percent) in the 21-40 age brackets. Only 2% are involved before the age of 20, and 41% in the age composition of 41-60 while 9.38% of exporters in the age composition of more than 60 still work in the industry. This shows the activeness of even old aged exporters involved in the business. The study also showed the dominance of Muslim exporters although the participation of Hindus in the carpet industry has increased significantly as was being told by many respondents during the survey. The art of carpet weaving in the world has come from and flourished by the Muslim community. This happened in India too but it is no longer restricted to any religion or even social group. The highest social group participation was of OBC with about 73 percent.

No exporters were found to be illiterate though some had very low level of educational attainment. 3.13% had only primary education, 5.21% had a secondary level of education, 13.54% had high school education level. 50% of exporter had completed their graduation which shows that most of them are graduated. But exporters with post-graduations

were only 25%. The reason which was found during the survey was the pressure which the children have from their family to enter the family business. Many times, the children are being told that they need to learn the family business which needs early entry into the business. Thus, often killing the desires of children to pursue higher education or enter into other job opportunities or work. Exporters with formal technical education are just 3.13%. Often exporters learn the technicality of the trade through their family rather than any formal institution. Carpet business is mostly the kind where the business is passed on to the children. The already established firms have their generation working in the industry. New exporters enter the market too. Often the family pressurizes children to carry on their legacy. The industry is open to all, whoever possesses the right ingredient to carry on this artwork.

The carpet industry is an export-oriented industry and during the survey, it was proved. 89% of respondent export their product while only 11% don't export. The exports are done mostly on their own which is 75.58% and 24.42% export through agents.

The carpet industry has been able to maintain the share in international market. A country like Iran is experiencing the political upheaval and thus it's unable to compete. Still, the Indian carpet industry faces lots of competition from within and outside. The survey showed that 46.88% faces major competition from other enterprises within the country. 9.38% faces major competition from producers in the importing countries. The new emerging threat to the handmade carpet industry is the rise of the machine-made industry and change of preference of buyers for cheap and non-durable carpets which are fulfilled by the machine made an industry. 26.04% feel major competition from the machine-made anindustry. The handmade carpets are more elegant, durable but expensive. Exporters of handmade carpets have urged the government to establish raw material banks, better finance, and development of infrastructural facilities. 17% face competition from different other sources. The exporters believe that the industry needs to be made more competitive so that it can withstand the global competition. The cost of production should come down so that it can become more competitive.

Raw materials used in the industry are several and constitute of wool, cotton, silk, jute, polyester, etc. The raw material for carpet is not available in good quality in India. Much of it has to be imported from countries like Switzerland, Australia, etc. Raw material like silk has to be procured from Surat, the sometimes cotton backing material has to be purchased from Kanpur, thus procurement of raw material is one of the issues faced by the industry. The respondents told that the supply of raw material has remained stagnant in past few years. Only 16.67% said that the supply of raw material has increased while 3.13% said that the supply of raw material has decreased. But 80.21% of respondent said that the supply of raw material has been experiencing a stagnant trend. Many asked the government to build a rich raw material bank at subsidized prices.

The exporters were asked questions regarding future expectation from their firms and what contributes to the growth of their firm. 63.54% of the exporters have a noptimistic approach towards the future of their firm. They believe that the firm will grow very much in future. 15.63% believed that their firm will grow but not to an extraordinary degree. In other words, the growth of their firms will

Table 1: Descriptive Statistics of the Respondents

	Frequency	Percent
Age		
less than 20	2	2.08
21-40	46	47.92
41-60	39	40.63
above 60	9	9.38
Religion		
Hindu	34	35.42
muslim	62	64.58
Caste		
general	20	20.83
Obc	70	72.92
sc/st	6	6.25
Education		
primary	3	3.13
secondary	5	5.21
higher secondary	13	13.54
graduation	48	50
post-graduation	24	25
technical/vocational education	3	3.13
Export		
No	11	11.46
Yes	85	88.54
Mode of Export		
Own	65	75.58
Agent	21	24.42
Competitors		
other enterprises within the country	45	46.88
producer in importing country	9	9.38
machine made industry	25	26.04
Other	17	17.71
Awareness of Government Schemes		
Yes	82	85.42
No	14	14.58
Design Application		
provided by traders/buyers	73	76.04
self-innovation	23	23.96
Agreement with Suppliers		
No	81	84.38
Yes	15	15.63
Type of Raw Materials		
Cotton	1	1.04
Wool	3	3.13
Silk	12	12.5
Jute	77	80.21
others	3	3.13
Trend in Raw Supply		
increased	16	16.67

decreased	3	3.13
stagnant	77	80.21
Future Expectations		
very encouraging	61	63.54
encouraging	15	15.63
Static	20	20.83

Competitiveness Variables: Results of Factor Analysis

The reliability analysis for scale was carried out before applying any other technique. The reliability of questionnaire turned out to be as high as 0.75 as shown in the given table 2. The scale of the study shows that the data is reliable enough to apply required techniques and to draw reliable and unbiased conclusions.

Table 2: Reliability Test

Average inter item covariance	0.1411199
Number of items in the scale	18
Scale reliability coefficient	0.7551

In order to find whether the data is suitable to carry on the factor analysis, the Kaiser-Mayer-Olkin (KMO) measure was undertaken. The results are shown in the given table 3. The KMO for all variables appeared significant. The KMO measure for the overall data in the study was about 63 percent. This indicates that the sample is adequate to carry forward the factor analysis.

Table 3: Kaiser-Mayer-Olkin (KMO) Test

Variables	KMO
Product differentiation	0.694
Organization culture	0.631
Market Information	0.637
Education and Training	0.645
Research and development	0.708
Cost disadvantage	0.751
Poor quality of raw material	0.782
Skilled Manpower	0.695
Standard of Foreign Buyers	0.762
Marketing Abroad	0.595
Volatility in Foreign demand	0.655
Sales and distribution network	0.543
Vertical integration	0.598
Preferential government policies	0.429
Export Licensing requirement	0.321
Export Quota	0.563
Connection with politicians and state officials	0.478
Industry cooperation and network	0.433
Overall	0.629

This study has employed the Exploratory Factor Analysis to test the set objectives. The result of Exploratory Factor Analysis has divided 18 variables into four major constructs. The four constructs were named (1) Quality

management and product differentiation, (2) focus on the foreign market, (3) state support, licensing and other non-tariff restrictions and (4) networking.

Quality Management and product differentiation which happens to be the first construct includes in it nine variables namely Product differentiation, Organization Culture, Market Information, Education and Training, Research and development, Cost disadvantage, Poor quality of raw material, Skilled Manpower and Standard of Foreign Buyers. The second construct is named Focus on Foreign Market and includes four variables namely Marketing Abroad, Volatility in Foreign Demand, Sales and distribution network and Vertical integration. Among these four variables, the marketing abroad has retained highest value. The third construct state support, licensing and other non-tariff restriction includes three variables preferential government policies, Export Licensing requirement, and Export Quota. The final and fourth construct networking includes two variables only namely Connection with politicians and state officials and Industry cooperation and network.

These four dimensions/constructs helped access the firms' attempt to help facilitate its trade and exports. Factors namely product differentiation, market information, marketing abroad and education and training have highest loading factors which are above 0.65. The Quality management and product differentiation have nine variables with the Eigenvalue of 4.08. This construct explains 40% of the export competitiveness. The focus on the foreign market has four variables with Eigenvalue 2.17. This construct explains 21% of the export competitiveness. The state support, licensing and other non-tariff restrictions contain three variables with Eigenvalue of 1.4. This dimension explains the export competitiveness to 14%.The networking construct has two variables with Eigenvalue 1.1 and explains 11% of the export competitiveness. These constructs together explained 87% of the export competitiveness of the carpet industry of India.

Table 4: Competitiveness Constructs

	Quality Management and Product Differentiation	Focus on Foreign Market	State Support, Licensing, and other Non-Tariff Restrictions	Networking
Product differentiation	0.718			
Organization culture	0.489			
Market Information	0.734			
Education and Training	0.660			
Research and development	0.625			
Cost disadvantage	0.612			
Poor quality of raw material	0.626			
Skilled Manpower	0.654			
Standard of Foreign Buyers	0.546			
Marketing Abroad		0.717		
Volatility in Foreign demand		0.529		
Sales and distribution network		0.529		
Vertical integration		0.549		
Preferential government policies			0.525	
Export Licensing requirement			0.559	
Export Quota			0.457	
Connection with politicians and state officials				0.542
Industry cooperation and network				0.461

Variance explained	0.402	0.214	0.144	0.111
Percent of total variance explained	0.402	0.616	0.761	0.872
Initial eigenvalues	4.083	2.175	1.464	1.131
Cronbach's α	0.831	0.694	0.286	0.308

In order to find out the internal consistency, Cronbach's alpha has been used. The value Cronbach's alpha for four constructed dimensions namely (1) Quality management and product differentiation, (2) focus on the foreign market, (3) state support, licensing and other non-tariff restrictions and (4) networking are 0.831, 0.694, 0.286 and 0.308 respectively. The test result shows internal consistency of the survey. This internal consistency allows us to carry on with the Exploratory Factor Analysis which would help in determining the factors which are causing obstruction in the firm's exports and trade of carpets. In other words, the aim is to find out the reasons which are reducing the competitiveness of the Industry.

Exploratory Factor Analysis helps in reducing the data by the formation of the construct in groups. In the study, 0.40 has been set as the floor to include in the matter of competitiveness. Eigenvalues which are more than one (as given in the figure) was selected for the formation of the construct of competitiveness.

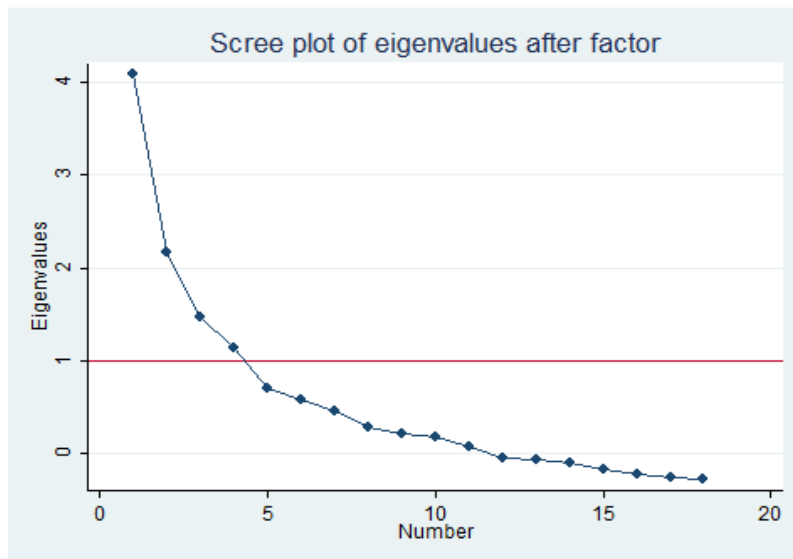


Figure 1: Scree Plot of Eigen Values

Table 5 lists the mean of each item and generated constructs resulted by the factor analysis. The construct of networking has the highest average score of 4.56 (Table 5) due to higher scores obtained by both (i) connection with politicians and state officials and (ii) industry cooperation and network. The construct of the focus on foreign market follows with the average score of 3.62 largely due to marketing abroad, vertical integration, and salesdistribution network. State support in the form of export licensing requirement and preferential government policies are also highly ranked by the respondents with the average score of 3.64 and 3.55 respectively.

The construct of quality management and product differentiation is last in the ranks (2.41) despite the fact that it includes the highest rated competitiveness item of production.

Table 5: Means of Competitiveness Constructs and Items

	Mean	Standard Deviation
<i>Quality management and Product differentiation</i>	2.41	0.99
Product differentiation	3.41	1.21
Organization culture	1.72	0.98
Market Information	3.08	1.28
Education and Training	3.04	1.08
Research and development	1.54	0.66
Cost disadvantage	1.72	0.75
Poor quality of raw material	3.09	1.41
Skilled Manpower	2.54	0.91
Standard of Foreign Buyers	1.57	0.63
<i>Focus on Foreign Market</i>	3.62	1.05
Marketing Abroad	3.97	1.11
Volatility in Foreign demand	3.13	1.11
Sales and distribution network	3.60	1.09
Vertical integration	3.78	0.90
<i>State support, Licensing, and other non-tariff restrictions</i>	3.20	0.89
Preferential government policies	3.55	1.06
Export Licensing requirement	3.64	0.80
Export Quota	2.41	0.80
<i>Networking</i>	4.56	0.71
Connection with politicians and state officials	4.48	0.88
Industry cooperation and network	4.65	0.54

DISCUSSION AND CONCLUSIONS

The carpet industry of India is an export-oriented industry and competitiveness matters to the industry most. This handmade industry exports majority of its product. Being mostly saturated in two small adjacent districts of eastern Uttar Pradesh namely Bhadohi and Mirzapur, it faces problems on many fronts. The entire industry relies on exports and they have to face high competition in the global market. The carpet industry of India is facing several bottlenecks. The efficient and low cost of production is a must for the industry's survival. For survival and growth of carpet industry in a highly competitive globalized market, some measures should be undertaken. This study explored some of the determinants of competitiveness in the Indian carpet industry. We used past literature to form a questionnaire addressed to exporters of carpet firms across Bhadohi and Mirzapur. The questions included in the survey reflect 18 competitiveness items identified at survey design stage.

Based on 96 responses, the study applied explanatory factor analysis (EFA) to identify constructs of competitiveness by grouping competitiveness items. The EFA grouped these items into four constructs. Based on the definition of items, we identify these constructs as (1) Quality management and product differentiation, (2) focus on the foreign market, (3) state support, licensing and other non-tariff restrictions and (4) networking. We find that according to carpet exporters (respondents), the competitiveness of carpet firm is heavily determined by the networking with the politicians and government officials as well as strategies to focus on foreign markets.

Quality management and product differentiation is a compulsion for the carpet industry in order to maintain its competitiveness in the global market. For this, skill development and training programs should be undertaken by the firms

as well as at the government level. Training of labor in the carpet-making process is a must. Technical knowledge in the workers needs to be developed. The carpet industry being handmade industry, skill is a prerequisite for its working. Thus, training programs for laborers at different levels such as weaving, technical training, etc. should be initiated and some specialized institutes like National Institute of Micro, Small and Medium Enterprises (NI-MSME) to give regular training to laborers should be established. There is a dire need for establishing a raw material bank for carpet industry so that raw material at reasonable rates and on time can be obtained. Free flow of market information should be made through different channels of media and governmental bodies. Innovation in products and style will claim greater market. This means the cost of production has to be brought down without reducing the quality of the product so that competition in the global market from other countries as well as from other substitutes can be dealt with properly.

The entrepreneurs in SSIs such as carpet exporters face many infrastructural handicaps. The advocacy of a cost effective transportation system as well as the easy and timely availability of information is needed. Suggestion of more effective interaction with the government bodies as well as the installation of technological advancement is required. Energy sources should be freely available to them for better working (Kumar, 2010). Advocacy of the use of promotional activities such as accesses to institutional credit on low rates rather than providing tax exemption benefits will help increasing the competitiveness of the industry (Bagchi et al, 2006)

Competitiveness is greatly affected by the focus on the type of market. Hurdles such as fluctuating demands, marketing abroad, etc. should be better dealt so that these factors don't reduce the competitiveness of the carpet industry. The better marketing can be done only by increasing the productivity and efficiency of the industry. The negligence on the part of government has created several bottlenecks for the exporters. The government should help this industry, as the exporters are not only self-employed but are also creating jobs for thousands. Proper social and business networking should be developed. Networking helps in reducing demand slum and an increase of competitiveness. Cooperation of both government and exporters can help maintenance and increment of competitiveness of exporting carpet firms.

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