
**Factors Influencing the Choice of Entry Mode Strategies for Internationalization:
A Study on the Readymade Garments (RMG) Industry of Bangladesh**

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Abstract: The purpose of this research is to identify the factors influencing the choice of entry mode strategies for internationalization. In order to meet the research objectives the quantitative method, in the form of survey, was adopted in this research. A self-administrative structured survey questionnaire consisting with a set of close-ended questions was developed to collect statistics data which were later analyzed using quantitative data analysis technique to make a conclusion of the research. The study identified that time to market, resources and capabilities, flexibility, risk, return on investment, long-term goal, international relation and experience, law and regulations, uncertainty to access demand, trade barriers, Market size & growth and competition are the influential factors of foreign market entry mode choice of Bangladesh RMG manufactures.

Keywords: Internationalization, Entry Mode Strategy, Readymade Garments (RMG)

Introduction

Bangladesh ready-made garment (RMG) industry started its journey in the late 1970s and has become the largest industry of the country. Bangladesh has become the second largest RMG product exporter in the world after China as it has created significant footprint in the global market while becoming the most significant industry for the economic development of Bangladesh through creating millions of jobs and earning foreign currency (Abedin, 2018). From a humble establishment RMG sector in the country has made phenomenal growth over the last three decades. Now there are more than 5000 factories in Bangladesh employing more than 4.2 billion people (Mutual Trust Bank, 2017).

The development in the Ready-made Garments (RMG) sector is the key contributor of Bangladesh's economic progress. With creating more than 4.2 million employments and earning foreign currency, this sector has been contributing significantly in Bangladesh economic development (The Independent, 2018). Bangladesh RMG sector is the highest contributor of its GDP. It is the highest foreign currency earner of Bangladesh. The contribution of RMG sector in the country's foreign currency earning is increasing day by day and expected to be continued (The Independent, 2018). It is estimated that by 2021, Bangladesh RMG sector will be a \$50 billion market whereas it was only \$28 billion in the year 2014 (Rahman and Siddiqui, 2018).

Since its begging, RMG industry has been experiencing an extensive rate of rapid internationalization. Bangladeshi RMG manufacturers are currently adapting strategic move to capture the growth opportunities in the global market. In fact, total RMG sector of Bangladesh is export oriented and expanding their wings in the global market rapidly. It has already ensured its presence in most of developed economies including Europe and America (Rahman and Siddiqui, 2018).

Choice of appropriate entry mode is always crucial in ensuring successful expansion in foreign market. Entry strategy for foreign market is a comprehensive plan setting out the goals, objectives, policies and resources to guide firm's international expansion over a future period to attain sustainable long-term growth in the global market (Ravelomanana et al., 2015). As a part of its strategies, an organization can choose among different modes of international entry depending of the extent of control the firm is looking for, the level of risk it is ready to take and the available resources to be committed (Amungo, 2014). The choice of firm's entry mode strategy depends on numbers of factors including home and host country factors, and firm-specific factors. In addition, in selecting entry mode strategy, a company would be aware of both external and internal factors having impact on its strategic goals (Kim and Pant, 2010). Over the years, a number of theories have been used to explain entry mode choice decision. They include Resource Based View (RBV), TCA, and electric theory, institutional theory (Brouthers and Hennart, 2007). In international business, these theories have been looked at from mostly two perspectives namely the process perspective and the economic perspective (Hermannsdottir, 2008).

The influence of internationalization entry mode choice of Multinationals Corporation (MNCs) has the areas of research over the years. In fact scholars have formulated numbers of theories such as economic perspective (e.g. Resource Based View by Barney, 1991), process perspective (e.g. Hermannsdottir, 2008) and behavioral approach (e.g. (Johanson and Vahlne, 1977) to explain the process in seeking a better understanding of the factors influencing internationalization and entry mode strategies adopted by MNCs (Ofilli, 2016).

Objectives of the Research

The objective of this research paper is to examine the influencing factors of entry mode choice of Bangladeshi RMG Company's in foreign market and also to make some strategic recommendation for the future Internationalization of Bangladesh RMG industry.

Literature Review

After making the decision to expand in the international markets, firms need to make the most important decision in selecting the possible best mode to enter in the international market. Existing literature on internationalization has identified numbers of factors which have significant influence on the decision of selecting the possible best foreign market entry mode. Literature further categorized these factors into two: firm level factors or internal factors and external factors (Ravelomanana et al., 2015; Zeqiri and Angelova, 2011). A holistic model of Market and Market Entry Mode Selection (MEMS) was introduced by Koch (2001). According to this theory, the factors influencing the market entry mode selection process fall into two broad categories: namely internal and external factors.

Internal factors refer to the factors on which a firm has control. Over the years numbers of studies identified different firm-level or internal factors influencing choice of foreign entry mode (Ravelomanana et al. 2015). According Brassington and Pettitt (2000), a company must need to decide how to enter in the market and their decision of selecting a specific mode of entry is influenced by number on internal factors including speed, cost, payback, long-term goals. In addition to these factors, Hollensen (2001) identified some additional factors including socio-cultural distance, competitive environment, demand uncertainty and country risk, indirect and direct trade barriers, international experiences, product differentiation and complexity, flexibility, market growth and size, and small number of available relevant intermediaries.

According to De Burca et al (2004), managerial reasons, company management, laws and regulations as well as geographical distance have influence on the choice of specific foreign entry mode. Relationship was pointed out as an internal factor by Fredrik and Webster (1992). A holistic model of Market and Market Entry Mode Selection (MEMS) was introduced by Koch (2001). According to this theory, company size and resources, management focus of control, management risk attitude, market share target, profit target, experiences in internationalization, industry feasibility, characteristics of overseas country business environment, image support requirement and global management efficiency requirement are the factors having influence on company choice of entry mode.

The study of Ravelomanana et al. (2015) identified five firm-level or internal factors that influence Small-Medium Enterprises (SMEs) to adopt specific foreign market entry mode. These include company's experience in using market entry modes, complementary resource and strategic issues, level of control, size of the company and risks associated with. The decision of foreign market entry mode selection is also influenced by the need of complementary resource (Peinado et al., 2007). Level of control of the firm in the overseas operations also significantly influences them to select a specific entry mode. Different entry modes are associated with

different types of control such as sole ownership offer full or high control and collaborative modes of operations offer shared or low control. Therefore, an organization with substantial resource commitment and wanting full control overseas operations is likely to prefer wholly owned subsidiaries. On the other hand, firms with nominal commitment of resource may choose entry mode that offers less control such as licensing and exporting (EkeledoK & Sivakumar, 2004).

Root (1994) found target country production and market factors, target country environmental factors and home country factors as influencing factors of market entry mode selection process. According to this theory, external factors influencing foreign market entry mode choice can be categorized into two: foreign country related factors and home country related factors. Foreign country related factors include sales potential, marketing infrastructure, production cost (high or low), import policy, geographical distance, nature of economy (dynamic or stagnant), exchange rate (depreciation or appreciation), cultural distance, and political risk. On the other hand, home country related factors include size of home market (large or small), cost of production (high or low), export promotion policy and policy on investment aboard.

Legal business environment, rules and regulations, social values and cultures, cross-national variation in institutional environments of the host country also influences foreign market entry selection decision (Yiu et al., 2012).

Theoretical Framework

Based on the literature review, following factors have been sorted out which have influenced RMG businesses to choice entry mode to go for global expansion. Therefore, the research will be conducted on the following theoretical framework.

Figure 1: Theoretical Framework



Source: Developed by author based on literature review

Research Methodology

Type of the research: This is a causal research as in this research at first, the factors (cause) which are working behind to influence RMG sector go for internationalization and then the

internationalization of RMG company (effect) will be measured which is matched with the cause and effect relationship feature of the causal research (Malhotra, 2007).

Research approach: The research is using deductive approach where based on the theories related with internationalization, discussed in the literature review, a theoretical framework has been developed and whole research is following that (Malhotra & Naresh, 2006).

Data collection: In this research both types of primary and secondary data were used to full-fill the research problems. *Primary data* were collected through a structured survey questionnaire. The best way to ensure content validity is to select and adapt items from previously validated instruments. Accordingly, all the scale items for this study have been borrowed from previous research. The questionnaire was developed with a set of close-ended questions using a five point Likert scale from Strongly Agree (5) to strongly disagree (1). The questionnaire consisted of two parts where initial part seeks to gather demographic information; second part seeks to identify the influential factors to choose the entry mode strategy to go for international market of Bangladesh RMG companies. *Secondary data* were collected from books, journal, newspapers and websites through both electronic and print library as well as internet search engine.

Population, sample size and sampling method: Employees of different RMG factories located in three district of Dhaka division including Gazipur, Savar and Central Dhaka were the target population of this research. A purposive sampling technique was used to select a sample size of 90 top level employees based on their knowledge, availability and willingness. This sampling technique allowed identifying the respondents with best knowledge of the subject matter (Saunders et al., 2012). In this regards, respondents were employees working in international operations or worked in international operations or involved in internationalization process of RMG companies. The survey was conducted within a period of 25 days starting from 24th September, 2019 to 18th October, 2019. The representative met and delivered the questionnaire to 100 employees involved in international operations or internationalization process of different RMG manufactures. However, only 90 filled questionnaires were received while another 10 partly filled questionnaire received. Therefore, the response rate was 90%. This paper has only considered fully filled questionnaires.

Data analysis technique: The collected data were analyzed with the SPSS 20 version software after that output is showed in table and figure.

Statistical model:

H_0 (Null Hypothesis): $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = \beta_9 = \beta_{10} = \beta_{11} = \beta_{12} = \beta_{13} = \beta_{14} = \beta_{15} = \beta_{16} = \beta_{17}$ [There is no linear relationship between dependent variable (Y) and independent variables (X_s)]

H_1 (Alternative Hypothesis): All $\beta_s \neq 0$ [There is a linear relationship between dependent variable (Y) and independent variables (X_s)]

Dependent variable (Y): Choice of entry mode strategies for internationalization

Independent variables (X_s): Time to market (X_1), Resources and capabilities (X_2), Flexibility (X_3), Risk (X_4), Return on investment (X_5), Long-term goals (X_6), Company size (X_7), International relations and experiences (X_8), Geographic and cultural distance (X_9), Laws and regulations (X_{10}), Exchange rate stability (X_{11}), Political Stability (X_{12}), Trade Barriers (X_{13}), Tax Advantages (X_{14}), Market size and market growth (X_{15}), Competition (X_{16}), Uncertainty to assess demand (X_{17}).

Data Analysis and Findings

Demographic Findings

According to the findings, most of the internationalization related employees in Bangladesh RMG sector are male though most of workers in this sector female. Only 6 out of 90 respondents were found female. The employees of RMG industry, who are related with internationalization, are from different age group. Most of the employees are young and educated, as the age of all the respondents are between 25 to 50 years and, around 95% of employees completed minimum of graduation while only 4.44% failed to do that, though completed higher secondary level. In the context of respondent's duration of service in RMG sector, specifically in international operations department, about 80% of the respondents have more than 3 years experiences of working in international operations, whereas only 20% have less than three years of experiences. Most importantly, none of the respondents was found with less than one year of experience.

Table 1: Respondents demographic profile

| Profile | Groups | Frequency | Percent (%) |
|------------------------|------------------|-----------|-------------|
| Gender | Male | 84 | 93.33 |
| | Female | 6 | 6.67 |
| Age | 25 - 30 | 11 | 12.22 |
| | 31 - 35 | 31 | 34.44 |
| | 36 - 40 | 22 | 24.44 |
| | 41 - 45 | 11 | 12.22 |
| | 46 - 50 | 15 | 16.68 |
| | Above 50 | 0 | 0 |
| Education level | Higher Secondary | 4 | 4.44 |
| | Graduation | 32 | 35.56 |
| | Post-graduation | 54 | 60 |
| Duration of job | 1 - 3 years | 18 | 20 |
| | 4 – 6 years | 36 | 40 |
| | 7 – 9 years | 14 | 15.55 |

| | | | |
|--|---------------|----|-------|
| | Above 9 years | 22 | 24.45 |
|--|---------------|----|-------|

To summarize the demographic information section data analysis, it can be said that Bangladesh RMG industry employees mostly young but experienced and well educated. However, they failed to ensure the participation of female at this level as they did at worker level.

Survey Questionnaire Analysis

The overall regression model and its ANOVA are summarized as follows:

Model Summary^b

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-------------------|----------|-------------------|----------------------------|
| 1 | .759 ^a | .576 | .483 | .44826 |

According to the rule, if the adjusted R^2 value remains closer to R^2 value, the model will be fit. Here, in this survey R^2 value is 0.576 and the adjusted R^2 value is 0.483 which is closer with the value of R^2 . So, the regression model of this survey is fit which represents that there is linear relationship between the dependent variable (choice of entry mode strategies to go international markets) with 17 independent variables (Time to market, Resources and capabilities, Flexibility, Risk, Return on investment, Long-term goals, Company size, International relations and experiences, Geographic and cultural distance, Laws and regulations, Exchange rate stability, Political Stability, Trade Barriers, Tax Advantages, Market size and market growth, Competition, Uncertainty to assess demand).

ANOVA^a

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|-------|-------------------|
| 1 | Regression | 14.668 | 16 | 1.147 | 4.569 | .000 ^b |
| | Residual | 19.954 | 73 | .251 | | |
| | Total | 34.622 | 89 | | | |

From the ANOVA table, it is seen that, the sum of squares value of regression is 14.668 and residual is 19.954 with 16 and 73 degrees of freedom respectively. The F value 4.569 (1.147/0.251) is representing the significance value of 0.000 which is lower than 0.05 significance level. So, according to the rule, the statistic is correct and with the choice of entry mode strategies, identified 17 variables (Time to market, Resources and capabilities, Flexibility, Risk, Return on investment, Long-term goals, Company size, International relations and experiences, Geographic and cultural distance, Laws and regulations, Exchange rate stability, Political Stability, Trade Barriers, Tax Advantages, Market size and market growth,

Competition, Uncertainty to assess demand) are correlated. Therefore null hypothesis of this study is rejected.

Multiple regression coefficients

The estimated regression equation is:

$$Y = \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 + \beta_8 X_8 + \beta_9 X_9 + \beta_{10} X_{10} + \beta_{11} X_{11} + \beta_{12} X_{12} + \beta_{13} X_{13} + \beta_{14} X_{14} + \beta_{15} X_{15} + \beta_{16} X_{16} + \beta_{17} X_{17} + e_i$$

$$Y = 6.755 + 0.131(X_1) + (-1.321)(X_2) + (-.812)(X_3) + (.104)(X_4) + .848(X_5) + (-1.028)(X_6) + 0.096(X_7) + .069(X_8) + (-0.139)(X_9) + 0.168(X_{10}) + 0.001(X_{11}) + 0.105(X_{12}) + 0.104(X_{13}) + 0.108(X_{14}) + 0.324(X_{15}) + 0.191(X_{16}) + 0.115(X_{17})$$

Coefficients^a

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|------------------------|---------------------------------------|-----------------------------|------------|---------------------------|--------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 6.755 | 3.223 | | 2.096 | .040 |
| | Time to market | .131 | .060 | .125 | 2.194 | .030 |
| | Resources and capabilities | -1.321 | .281 | -1.422 | -4.700 | .000 |
| | Flexibility | -.812 | .379 | -.806 | -2.142 | .036 |
| | Risk | .104 | .042 | .131 | 2.475 | .014 |
| | Return on investment | .848 | .325 | .995 | 2.613 | .011 |
| | Long-term goal | -1.028 | .268 | -1.255 | -3.839 | .000 |
| | Company size | .096 | .231 | .079 | .414 | .680 |
| | International relation and experience | .069 | .033 | .107 | 2.051 | .042 |
| | Geographic and cultural distance | -.139 | .343 | -.247 | -.404 | .687 |
| | Law and regulations | .168 | .045 | .243 | 3.748 | .000 |
| | Exchange rate stability | .001 | .228 | .002 | .004 | .997 |
| | Political stability | .105 | .228 | .222 | .459 | .647 |
| | Uncertainty to access demand | .104 | .042 | .131 | 2.475 | .014 |
| | Trade barriers | .108 | .035 | .164 | 3.104 | .002 |
| | Tax advantages | .324 | .366 | .219 | .885 | .379 |
| | Competition | .191 | .045 | .272 | 4.214 | .000 |
| Market size and growth | .115 | .046 | .168 | 2.518 | .013 | |

a. Dependent variable: Choice of entry mode strategies for internationalization

From the above table, it is identified that, among the 17 independent variables, 12 independent variables' significance values are lower than 0.05 levels of significance. Time to market, resources and capabilities, flexibility, risk, return on investment, long-term goal, international relation and experience, law and regulations, uncertainty to access demand, trade barriers, competition and market size & growth have significant role on choice of entry mode strategies to go for international. So, the other variables such as company size, tax advantages, exchange rate stability, political stability and geographic & cultural distance have not significance influence on choice of entry mode strategies to go international market.

Discussion and Conclusion

The questionnaire was deigned to identify the factors affecting Bangladeshi RMG manufacturers' entry mode choice in their internationalization process. The findings of this research support the argument given in the earlier studies except few factors which showing dissimilarities. First of all, according to the result of this research, time to market, resources and capabilities, flexibility, risk, return on investment, long-term goal, international relation and experience, law and regulations, uncertainty to access demand, trade barriers, competition and market size & growth factors influence Bangladesh RMG manufacturers in selecting a specific entry mode. On the other hand, company size, tax advantages, exchange rate stability, political stability and geographic & cultural distance those factors were identified in the theoretical framework haven't any strong influence on Bangladesh RMG manufactures' foreign market entry mode choice.

Furthermore, selecting the most appropriate entry mode has been the key issue in internationalization process. According to the findings, Bangladesh RMG companies vastly use direct and indirect exporting strategies as entry mode choices though there are alternatives entry modes are found suitable for the SMEs from emerging economies. It is recommended that companies should make a comprehensive plan setting out the goals, objectives, policies and resources to guide their international expansion over a future period to attain sustainable long-term growth in the global market. As a part of strategies, they should consider alternative entry modes and thereby choose the best one from among different modes of international entry depending of the extent of control that they are looking for, the level of risk they are ready to take and the available resources to be committed. In making that decision, numbers of factors including home and host country factors, and firm-specific factors should be considered. In addition, in selecting entry mode strategy, a company should be aware of both external and internal factors having impact on their strategic goals.

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