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Exploring management and entrepreneurial factors in the internationalisation of SMEs: evidence from the Bangladeshi apparel industry

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Abstract: The study aims to explore the internal management and entrepreneurial factors that affect the internationalisation process of ready-made-garment (RMG) SMEs in Bangladesh. The study collects information from 46 apparel SMEs located in Chittagong, Bangladesh, and is followed by a pilot survey. Results reveal that entrepreneurs' management capability, foreign language skill, and e-commerce orientation play an instrumental role in the internationalisation process. In addition to common institutional impediments, the study finds entrepreneurial and managerial capabilities that make a difference in the internationalisation of apparel SMEs. Since the nature of the apparel business is buyer driven, establishing and maintaining a 'network' and 'learning' are the most important aspects for internationalisation process, which are dependent on the entrepreneur's management capability, foreign language skill and the extent to which e-commerce is adopted in the firm. In studying these buyer-driven firms, i.e., RMGs, researchers not only should consider the traditional theories of internationalisation, but take into account the perspectives of both lead firms and supplier firms within the global value chain in which both interact and conduct their operations.

Keywords: SME; internationalisation; global value chain; garments in Bangladesh; emerging market.

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1 Introduction

Internationalisation of firms is a central issue for countries and firms aspiring to participate in an increasingly globalised marketplace in order to benefit from economic globalisation. The benefits from global markets depend on a nation's ability to participate through international trade, investment regimes and activities (Markusen and Venables, 1998; Whitley, 1998) and the firms' competitive advantage (Gassmann and Keupp, 2007; Almor and Hashai, 2004; Julien and Ramangalahy, 2003). SMEs in developing/emerging countries are considered to be a major sector in terms of contributing to sustainable development among others through exports. Data from 2004 shows that SMEs account for 90% of the total number of enterprises in OECD countries, and that 60% of all the companies in emerging economies are SMEs (Tung and Aycan, 2008). However, it is not an exception in Bangladesh, around 90% of all industrial units in Bangladesh are SMEs that generate approximately 25% of the gross domestic product (GDP), employ approximately 31 million people, and provide 75% of household income (Hossain et al., 2009).

Although on the increase, especially related to the more successful emerging economies, studies of the internationalisation of SMEs from developing countries have been few (Yamakawa et al., 2008; Kuada and Sørensen, 2000). This is also the case in Bangladesh, with the exception of one recent study in 2009 of 203 SMEs. This cross-industry study revealed a positive relationship between government export-assistance (external institutional support) and internationalisation of SMEs (Samsuddoha et. al., 2009). Our study in the apparel sector in Bangladesh on the contrary aims to contribute to the literature on how SMEs from the context of a developing country undergo the internationalisation process with the help of firm's internal resources. According to the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) (http://www.bgmea.com.bd), the ready made garment sector (RMG-S) is the highest foreign currency earner in the country with a contribution of over 78% in 2010–2011 and has secured the fourth position after China in the world apparel market, according to WTO report (The Daily Star, 2010). Thus, its performance is very important to the country and also for the SMEs in this sector. This study attempts to focus on internal factors, especially entrepreneurial and managerial (human capital related elements) that make firms internationalise (Perks and Hughes, 2008; Ruzzier et al., 2007; Lloyd-Reason and Mughan, 2002), and hopes to reveal some entrepreneurial dynamics within the apparel SMEs. Entrepreneurship theorists argue that in order to understand the behaviour of the small-to-medium-sized firms, it is necessary to start with an understanding of the entrepreneurs since they represent the main influence on the behaviour of the business (Leonidou et al., 1998).

In this paper, in line with Strandskov (1995) and Leonidou and Katsikeas (1996) as stressed in their literature review, we attempt to develop a country-specific framework which considers the most suitable variables derived from the review of the literature and a pilot-survey to answer the specific question: '*What are the major proactive/internal factors in the internationalisation of RMG-SMEs from Bangladesh', and how do they impact performance*?

We first give an initial overview of the ready-made-garments (RMG) industry in Bangladesh, and then we proceed to discuss the theoretical conceptions that explain the internationalisation process of firms in this industry. A conceptual framework followed by the hypothesis is then developed based on a previous literature review and the pilot-survey results. These results are then tested on the basis of an empirical survey, and analysis and discussion is provided. Finally, we suggest a potential future research direction and make our conclusion.

2 The emergence and development of the RMG industry in Bangladesh

The emergence of an export-oriented RMG industry in Bangladesh can be traced back to a confluence of policy trends at global and national levels since 1977. At the global level, the imposition of quotas on clothing exports from some of the early industrialising countries in East Asia led them to search for quota-free locations to set up garment assembly plants. However, Bangladesh having most favoured nations (MFN) status in the US market until 2005, and later on generalised system of preference (GSP) facility in the EU market provided Bangladeshi RMGs a significant competitive advantage that eventually attracted foreign direct investment (FDI) and contractual export orders from those markets. An example of this in the case of Bangladesh was Daewoo from South Korea. Daewoo met the 'quota hopping' requirement, having a product which was not fully Korean, by entering into an agreement with the local Bangladeshi firm 'Desh Garments'. Following an agreement signed in 1978 for production and exportation of apparel for a five-year period, Daewoo gave virtually free training in production and marketing to 130 Desh supervisors and managers at its state-of-the-art garment plant in Korea, after which they left the production activities to Desh. The effectiveness of the technology transfer to Desh was demonstrated when production within Desh continued to grow after the agreement with Daewoo was abandoned because of internal problems in Korea. The more interesting fact is that within one year, 115 of the 130 people trained in Korea had left Desh to set up their own garment export firms or to be hired at several times their former salaries by the many new factories being set up in the country (Easterly, 2000). At the national level, investment in the RMG industry became even more attractive due to changes in the domestic policy environment that occurred around this time between 1980 and 1990. From the early 1980s, Bangladesh undertook a series of economic reforms to open up its economy under the guidance of the IMF and the World Bank. A new import policy in 1982 announced an export-led growth strategy to be spearheaded by the private sector that resulted in 65% growth in garments factories in the fiscal year 1984–1985 (Uddin and Jahed, 2007). Between 1978 and 1999, the RMG sector earned US$26 billion for the country, of which the value-added component was US$7.6 billion or 29%. A number of direct export incentive schemes were put in place while FDI was encouraged through the establishment of export processing zones outside Dhaka and Chittagong. Further incentives for stimulating investment in RMG were instituted in the early 1990s when only 5% were joint ventures against 95% locally owned private limited companies (Bhattacharya and Rahman, 2000). The incentive structure (such as cash incentives on exports to new destinations, duty drawback facilities, etc.) also led to a dramatic expansion of the export-oriented RMG sector, which expanded from approximately 50 factories employing a few thousand workers in the early 1980s to over 3,000 factories employing roughly 1.8 million workers by 2000 (Khundker, 2002).

In 2009, the figure increased to around 4,825 factories with 3.1 million workers (Board of Investment, 2011), 85% of them women, making the RMG industry a dominant sector in the Bangladesh economy (Libcom.org, 2010). RMG employment growth has averaged about 8% per year (until 2003) and accounted for about 40% of total manufacturing employment in Bangladesh (Kabeer and Mahmud, 2004). During the fiscal year 2007–2008, the overall growth of the export of RMG was 16.16%, which increased to 23.48% between July 2008 and January 2009 of that fiscal year (Basher, 2009). Along with this, a host of ancillary industries producing accessories has also emerged and grown alongside the garment industry. One estimate suggests that 80% of garment accessories were locally produced, for a value of $0.5 billion a year (Bhattacharya and Rahman, 2000). Today, Bangladesh's export earnings are mostly determined by the export of RMG to North American and European countries, with around 75% of total export earnings from this sector in 2007–2008, a figure which jumped to 79% in 2008–2009 fiscal years (Board of Investment, 2011). The garments industry is composed of Knitwear and Woven garments, and the compound growth rate of knit garment export is more than woven garment export both in terms of value and quantity (Uddin and Jahed, 2007). With approximately USD 15 billion in export value in the year 2010, the RMG industry is now the most important industry sector in Bangladesh (13% share of GDP), whom McKinsey & Company called 'Next China' (Berg et al., 2011).

Despite the high attention of the government, the industry has been facing labour unrest for the last few years, which has and continues to result in both damage to the industry and its reputation to the foreign buyers as well as disruption of production. Statistics say, with regard to worker violence, 147 of approximately 4,500 (presently 5,000 approximately) garment factories across the country had been affected by the unrest of workers from January to August of 2009, and 1639 workers were killed in different riots and violent movements until January 2009 (Apparel Bulletin of Bangladesh, 2009; also see, Yardley, 2012), which caused failure to meet lead-time.

Despite more than 30 years' experience in exporting, the RMG industry is still in the up-stream activities. Unlike other export-oriented SMEs, apparel (RMG) firms have a different way of exporting. Their export is derived from the export orders received mostly from Western MNCs/large retail chain stores and the nearest emerging markets (e.g., China and India), and they produce the brands of these buyers instead of their own. In the case of Bangladesh, most of the RMG-SMEs are not involved with the design and product development process, and as a result they belong to the up-stream operation of the value chain, while down-stream activities such as branding and marketing are left on the foreign buyer's side. A recent McKinsey & Company report from November 2011 reveals that Bangladesh is the next hot spot for apparel outsourcing, which is evident from the continuous export order shift from China and increasing export order inflow from the European MNCs (Berg et al., 2011).

3 Literature review

The literature on the internationalisation of companies is quite comprehensive (Coviello and McAuley, 1999; Dana et al., 1999), which is also evidenced from a recent review of the field over the last 50 years (Seno-Aldo, 2010). The literature has been dominated by down-stream internationalisation of companies, i.e., they have been sales and production oriented while the internationalisation of sourcing had been less researched until the outsourcing wave and the R&D internationalisation began in the 1990s. The literature can, broadly speaking, be divided into two main streams. One focuses on the gradual internationalisation from non-export to export and further on to production abroad, i.e., so-called process theories where companies gradually acquire experience and, based on this experience, take the next step on the internationalisation path (Johanson and Vahlne, 1977). The other stream of literature has been more concerned with the FDI of larger companies, i.e., the international activities of multinational companies (MNCs). This stream has been more contingency based, as have, for example, the OLI-theory (Dunning, 1988) or the transaction costs theory (TCT) (Williamson, 1975, 1985). As we shall discuss subsequently, the two streams of literature are not in direct competition with each other, nor are they complementary in the sense of constituting a more holistic theory by being integrated. The theories 'meet' each other in a global value chain where the MNCs as the outsourcer create links to the local producers cum exporters. Thus, both large and small firms within the collaborative relation are symbiotically benefited in the international business network (Etemad et al., 2001).

The starting point for the review of the literature in this study will be the actual context – the local garment producers in an emerging country like Bangladesh, who establish links to MNCs that outsource their production from developed market economies. Thus, on the one side, we have producer-exporters in the emerging economies, and on the other side we have the MNCs, some of which are producers of garments while others are large retail chains. In this sense, we are in need of theories of up-stream internationalisation (from the MNC to local garment producer in the emerging economy) as well as theories of down-stream internationalisation (from garment producer in the emerging economy). In other words, to understand the global value chain for garments, we need both streams of literature mentioned above to capture what happens when the local garment producers meet the MNCs.

In the case of MNCs, we have several theories, including the life-cycle theory (Vernon, 1966), the OLI-theory (Dunning, 1988), and the transaction cost theory (Williamson, 1975, 1985), etc. MNCs are resource rich and stable, and thus have several strategic options including FDI, strategic alliances, and market transactions when they expand globally. In the case of garments – a low tech traditional industry, MNCs are the main efficiency seekers, aiming at reducing factor costs, most notably labour costs, by offshoring production to low labour cost countries. Most producers also outsource production from their own factories located in the developed market economies, but some only offshore the production to capture efficiency advantages. In the former case, the MNCs enter into a contract-based strategic alliance. The two situations – the offshoring and the offshoring-cum-outsourcing – are captured by the transaction cost theory and the FDI theories.

Turning to the local producers cum exporters in the emerging markets, the literature that reflects the situation of the many new and small entrepreneurial companies in an emerging economy is, among others, that of the internationalisation process theories, the born global theories, and the entrepreneurship theories.

The process theories (Johanson and Vahlne, 1977, 2009) describe the process from non-export to exports and further on to license and production abroad. They are based on a learning rationale to overcome the barriers of foreignness through network linkages. Thus, the internationalisation of the company is gradual and orderly, and the internationalisation process is normally divided into a set of distinct stages, with the number and content of the stages depending on the perspective used by the researcher. This theory has been criticised for being too deterministic and rigid. Various studies have found that companies may not move beyond a certain stage or they may leapfrog one or more stages. The most severe critics came from the 'born global theory' (Knight and Cavusgil, 1996) and 'international new venture' theory (McDougall et al., 1994; Oviatt, and McDougall, 1994). In this theory, the company does not have a first stage on the home market where it accumulates resources and experiences before entering the foreign markets. Internationalisation has been part and parcel of the conceptualisation of the company from the beginning. Secondly, the born global company often produces niche products with globally distributed and fragmented demand. Thirdly, the born global firm is often relatively small and does not have the resources to expand globally relatively quickly. Therefore, the born global seeks partners that have a global outreach and thus can quickly bring the niche product of the born global to all corners of the world.

Turning to the entrepreneurial literature, the focus is on opportunity (Ardichvili et al., 2003) and strategic options (Sørensen and Dao, 2009), but also resource constraints both financial and in terms of capabilities and competences that may, as we shall see when reviewing the MNC literature, cause the entrepreneurs to be captives of the MNCs.

Turning to the literature on motives for internationalisation, a distinction is made between proactive and reactive motives (Perks and Hughes, 2008). A proactive motive is, for example, when a company is driven by a management ambition to achieve a global position, while a reactive motive is when, for example, a company goes international because the domestic market has low or nil growth. The FDI theories mostly see the MNC as proactive, searching systematically across the globe for new opportunities, such as those for outsourcing. In that sense, local producers can be reactive, knowing that the MNCs will discover them, if they make themselves accessible. According to the process theory of internationalisation, companies can be both pro and reactive, but more often they are reactive; for example, they generally react to unsolicited orders from a foreign customer (Kuada et al., 2006). On the other hand, the entrepreneurial literature assumes the entrepreneur to be proactive in the search and exploitation of opportunities. Similarly, the born global literature also views the born global firm as proactive in its search for global opportunities, the level of proactiveness being hampered only by lack of resources and competences, not by ambitions.

In a dynamic perspective, the process model for internationalisation of companies focuses on how the company gradually internationalises based on its experience gained over time. The theory focuses primarily on market choice and choice of entry modes, and the strategic options for the company are derived from these experiences. The born global theory is relatively silent when it comes to the dynamic aspects. Most likely, the born global company will one way or another be absorbed by the MNCs with which it made the strategic alliance. The entrepreneurship literatures see the entrepreneur as creative and innovative, and the entrepreneurial firm is conceptualised as moving through various stages of development. However, the stages are not necessarily the same as in the internationalisation process theory.

The MNC theory related to outsourcing also has a dynamic dimension, not related to the MNC as much as to the outsourcee. The literature has found that they are frequently 'captured' by the MNCs in the sense of total dependence of the foreign MNC customer, who is not interested in giving up his tight control over the supplier as he often has invested in developing the supplier. However, the literature has identified a set of development steps that the outsourcee cum exporter goes through (Humphrey, 2004; Sturgeon, 2008).

In the case of garment exporting, Gereffi (1999) identified four steps in which he envisages the development and upgrading of the garment industry in developing countries as a process starting with the simple assembly stage (cut, make, and trim – CMT) after receiving the order from a foreign buyer. Consequently, companies upgrade to an own equipment manufacturing (OEM) stage, where producers undertake more operations, including the procurement function, the quality control function, the logistics function, etc. The following stage is that of own-design-manufacturing (ODM) and/or own-brand-manufacturing (OBM), i.e., qualitative move into design functions and the branding of products (Kuada et al., 2006). Other studies have, however, found that the development process and strategic options are less linear. For example, Smakman (2003) found that an exporter that focused and specialised in being a large scale subcontractor could earn a good profit from this specialisation. Furthermore, Sørensen and Dao (2009) found in a single case study that the producer had many options to choose from and that entrepreneurial talent rather than mechanical reaction to MNC demands was crucial for choosing the right options. It was also found that the strategic options increased if the local demand was on the rise so that the company had options to develop products for the local market.

These options cannot, however, hide the fact that the exporter in an outsourcing framework is, to a large extent, driven by the outsourcer and that the exporter often only practices indirect export and thus has very little insight about the foreign markets, and supplies, although they may be imported, are often acquired from local agents or importers (Gereffi and Korzeneiewicz, 1994; Gereffi et al., 2005). So, they learn and export through the local networks as well as international networks or contacts. Rasiah et al. (2010) in a study on garments firms in India reveal that despite lower technological and marketing intensities SMEs are characterised by a positive and strong relationship between their export intensity, R&D and marketing intensities and are strongly integrated with the global garment value chains.

This review of the literature provides us with no clear conclusion as to what happens when the MNC in each endeavour to globalise meets the local (garment) producer from the emerging economy in its endeavours to export. The MNC, especially according to the global value chain literature (Gereffi et al., 2005), does not leave much strategic room for the local producer. Relating the process theory and the born global theory to the local producers in an emerging economy, we find that many new entrepreneurial garment producers resemble the born global companies. They have been globally oriented from the outset, and they are so resource weak that they have to link themselves to global players. They produce, however, not a niche product but a standard product and they need support not just related to market reach, but also related to production and sourcing. The MNC theory provides room for some upgrading under MNC control. Turning to the entrepreneurial literature with its focus on opportunity (Ardichvili et al., 2003), Sørensen and Dao (2009), however, found that such outsourcees may not be very captive. In a competitive market and assuming an entrepreneurial spirit, a global market will inevitably provide the entrepreneur with some strategic options.

In summary, while most theories of internationalisation have the perspective of one specific company, in this review of the literature we adopted a global value chain perspective and thus focused on the interaction between companies. This has provided us with the opportunity to review the literature on internationalisation from the perspective of the seller (the local producer/exporter) as well as the buyer (the MNC). In the empirical study, presented below, we will look at internationalisation from the point of view of the garment producer who exports to the outsourcing MNCs, not from the perspective of the MNCs who outsource.

4 Study framework and hypothesis

While the literature review was relatively broad, the empirical study of the RMG manufacturers will focus on the internal drivers of internationalisation to reveal what it takes to be a successful producer cum exporter of apparel to overseas MNCs. From the above discussion, we can identify a number of internal firm conditions that warrant inclusion in a holistic set of factors motivating an entrepreneurial manager's decision and ability to internationalise. Similarly, results from a pilot survey of 25 RMG-SMEs in Chittagong (see Table A1, Appendix) also revealed a set of factors of interest for this study. The pilot study was based on the framework and factors from Dhanaraj and Beamish (2003) to test its usefulness in a Bangladeshi context. The study showed that the data needed for the framework, such as financial data, sales, firm size, etc., could not be obtained easily from the firms. However, the semi-structured interviews in the pilot survey provided some additional information and interesting dimensions, such as leadership, language skills, and motivation, which are also referred to in several studies.

Based on the results of the pilot-survey and internationalisation literature, we draw the following conceptual framework that mostly emphasises proactive internal factors, which can broadly be categorised as:

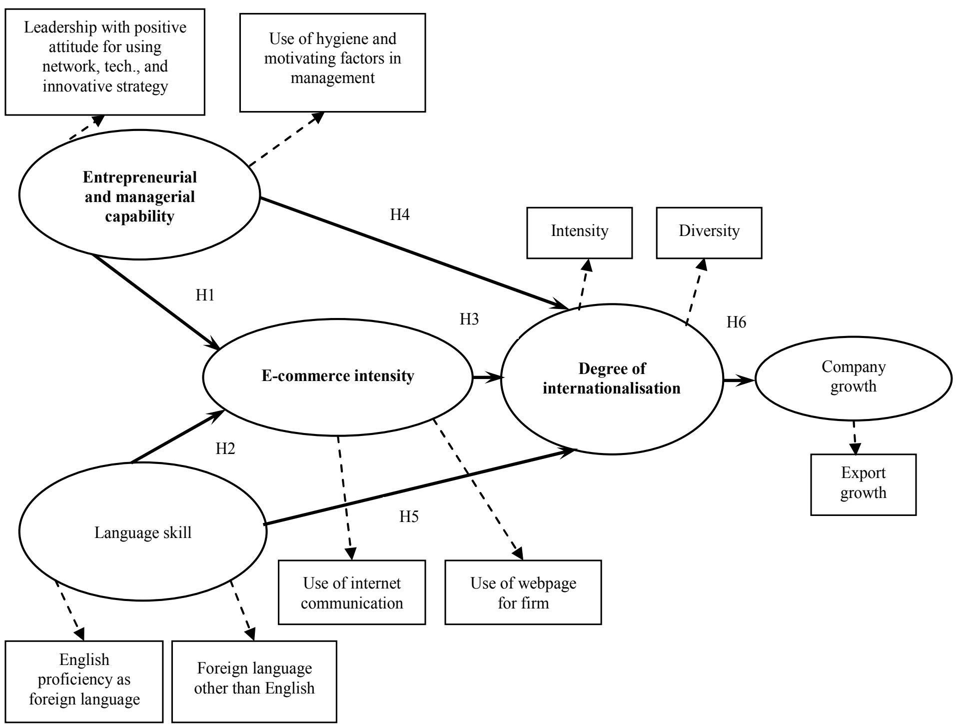
a entrepreneurs' and managers' leadership quality and good sense of employee motivation

b entrepreneurs' foreign language skills

c the extent to which e-commerce is used.

The first two variables are necessarily related to the management and entrepreneurship capability of the entrepreneurs, as well as their personal competency and skills. The third variable, e-commerce intensity, has two dimensions; first, entrepreneurs must have skills and willingness to use e-commerce to exploit network benefits, which will, as a result, encourage employees in adopting e-commerce for communication and management of the operation, and second, e-commerce as infrastructure in firms has an impact on communication and network, which has a subsequent effect of the entrepreneurs' motivation and willingness to use e-commerce. Both the dimensions are combined as e-commerce is definitely a mediating variable through which internationalisation can be pursued. Internationalisation is, therefore, an effect of the three variables in which managerial/entrepreneurial capability and foreign language skills lead an entrepreneur's commitment and extent of enthusiasm to be involved in internationalisation through the motivation for and infrastructure of e-commerce at the firm. On the one hand, 'entrepreneurial as well as managerial capability', and 'entrepreneurs' foreign language skill' are affecting the e-commerce intensity and the degree of internationalisation at the firm; while, conversely, 'e-commerce intensity' is individually affecting the firm's internationalisation because of its nature of use in international communication and networking. The growth of firms has been treated as dependent on internationalisation in the case of export-oriented firms.

Figure 1 Conceptual framework of the internationalisation of RMG-SMEs from Bangladesh



Based on the framework in Figure 1, a set of hypotheses were developed and subsequently tested through a survey of 46 RMG-SMEs.

4.1 Entrepreneurial and managerial quality (independent variable)

Entrepreneurial and managerial quality is a key proactive internal variable for internationalisation of firms (Johanson and Vahlne, 2009; Davidsson and Honig, 2003; Dhanaraj and Beamish, 2003), especially where entrepreneurs hold the top position with tight supervision of the management team (Tsang, 2001) and make the final decision for internationalisation. Primarily, it is an entrepreneur's desire, attitude and commitment that lead the managerial team to exert and exploit the highest degree of capabilities in management (Rialp-Criado et al., 2002). Entrepreneurial decisions also make sure that effective linkages are ensured throughout the value chain operation (Lumpkin and Dess, 1996; McDougall and Oviatt, 2000). The rest is the firm's professional skills, innovativeness, and experiences (Welch and Luostarinen, 1988) that make internationalisation successful. Ibeh (2003) in a study on 78 SMEs in Nigeria found that international network and the firm specific competencies drive the export performance. RMG-SMEs need to pursue a humanistic management philosophy with a view to address personnel satisfaction with good care (Li and Hu, 2002). This is because of the high intensity of labour in the industry, which demands that firms ensure employee motivation in order to assure smooth production (Lockwood et al., 2010) and satisfactory quality (Gervais et al., 2009), which is necessarily related to the continuity and stability of export growth. These are the basic requirements that foreign MNCs/foreign buyers demand in order to continue business relation with foreign outsourcing partners. The RMG firms in Bangladesh are not necessarily high-technology oriented, but they are, of course, network dependent because of the collaborative nature of the network's linkages throughout the global value chain. Thus, e-commerce can be used as a convenient, personalistic and low-cost communication vehicle (Chen and Parker, 2007). Johanson and Vahlne (2009) point out that entrepreneurial and leadership quality is the key determinant of developing, nursing, and exploiting network benefits for internationalisation of SMEs. Thus, the hypotheses are:

Hypothesis 1(H_1) The higher the entrepreneurial and managerial capability of the firm, the higher the e-commerce intensity.

Hypothesis 4 (H_4) The higher the entrepreneurial and managerial capability of the firm, the higher the degree of internationalisation.

4.2 Foreign language skill of entrepreneurs (independent variable)

Skill in foreign language is a good measure to assess SME entrepreneurs' interpersonal communication abilities, dynamism for being involved in foreign relationships, and enthusiasm toward being part of a foreign network (Obben and Magagula, 2003; McAuley, 2001). Knowledge of foreign languages makes it more likely that entrepreneurs will visit foreign countries/foreign trade fairs and stimulate direct conversation and interaction with potential customers abroad, and thus get a first-hand impression of export potential and build business relationship. Foreign language skills also help entrepreneurs to access the internet as well as participate in video-conferences within foreign network settings. Since learning is inevitable in the process of information exchange, building impression and relationship, and knowledge gathering about buyer and the market, entrepreneurs ability to learn in foreign language helps expanding international business (Singh et al., 2010). Trust building and collaboration between partners requires personal relations and interaction, which also depends on effective communication (López-Duarte and Vidal-Suárez, 2010). Communication skills do not necessarily mean one language skill, but proficiency in multiple languages, which is a key factor in the language diversity dimension in international communication (Harzing and Feely, 2008). Kogut and Zander (1992) point out that in order to have effective cross-border information and knowledge transfer (especially tacit knowledge) communication integrity is vital, which is related to the intensity of the communication and trust in the relationship. Based on this discussion, the following two hypotheses are formulated:

Hypothesis 2 (H_2) The better the language skill of the entrepreneurs, the higher the e-commerce intensity of the firm.

Hypothesis 5 (H_5) The better the language skill of the entrepreneurs, the higher the degree of internationalisation of the firm.

4.3 Use of e-commerce by SMEs (mediating variable)

The triumph of ICT, commonly known as e-commerce in business, (William et al., 2004) has made it possible for SMEs to be in the global value network from a distant place without being in the hierarchical governance structure of the MNCs who outsource to SMEs in developing countries (Sørensen, 1997). This possibility of e-commerce in the business-to-business operation of internationalisation has led SMEs from developing countries to have cheaper, quicker and more convenient access to methods allowing them to negotiate business deals, receive orders, maintain linkages throughout the value chain activities, and to acquire foreign market information and knowledge (Nguyen, 2007; Freund and Weinhold, 2004; Clarke and Wallsten, 2004). E-commerce methods such as the internet and IP-telephonic conversation has allowed SMEs to exploit the local and international network benefits for exporting more efficiently than before (Gregorio et al., 2009; Chen and Parker, 2007). Todd and Javalgi (2007) in a study in India found that advancement in information technology and the available communication infrastructure help SMEs to participate in global markets. Therefore, the skill of e-commerce for entrepreneurs and its use in the management of SMEs are essential for making relationship, maintaining communication throughout the value chain, and gaining up-to-date knowledge of products, innovation, process, business opportunities and trends for the successful export marketing operation (Hinson and Adjasi, 2009). Results of them can be effective and useful for the firm when entrepreneurs, in the case of entrepreneurial SMEs, have enthusiasm and positive attitudes towards the absorption of e-commerce in firm management, as well as resource availability. Wang and Ngoasong (2012) in a study in China found that wholesale network (global) and the e-commerce facilities helped internationalise SMEs. So, e-commerce helps developing network, network of the SMEs help developing international market (Johnsen and Johnsen, 1999).

Therefore, the hypothesis is:

Hypothesis 3 (H_3) The higher the e-commerce intensity at the firm, the higher the degree of internationalisation.

4.4 Degree of internationalisation and company growth (dependent variable)

The objective of this study is to examine the degree of influence of internal variables on internationalisation/exports of RMG-SMEs and how the internationalisation in turn affects company growth. Export intensity (the share of sales that are exported) is an outcome of the export strategy of the firm, and quite often the question of 'How much to export?' Is treated in relation to 'What markets to export to?' The export literatures often use the number of country-markets served to measure export diversity (Lee and Yang, 1990; Cooper and Kleinschmidt, 1985; Ayal and Jehiel, 1979). A study by Julien and Ramangalahy (2003) suggests that competitive export strategy affects the firm performance, and in this regard, firm's growth (financial) can be an effective measure of performance for the export-oriented SMEs. Dhanaraj and Beamish (2003) suggest that export intensity as well as export diversity is reflective of the extent of internationalisation of the firm, i.e., it is indicative of the degree of internationalisation (Sullivan, 1994). Papadopoulos and Martin (2010), however, found the similar result that the degree of internationalisation affects the export performance.

Hypothesis 6 (H_6) The higher the degree of internationalisation of the firm, the higher the company growth.

5 Methodology

5.1 Sample

Chittagong was selected as the sample area because 95% of the RMG firms here are export oriented (Infoshop News, 2008), and therefore, the sample is likely to match the purpose of the study.

The RMG-SMEs were randomly selected [using probability-proportional-to-size ('PPS') sample] from the list (official register) of Chittagong Chamber of Commerce and Industry (CCCI). In total 50 RMG-SMEs were selected from the list. Prior to the selection of the sample, we excluded firms which were on the list but not in operation. We also made sure that:

1 the firms selected was export-oriented enterprises and had continuous export records of a range from 8 to 20 years (in order to avoid those of a born global-like nature, which have distinctive capabilities and financial/technological strength from the beginning)

2 the firms have updated export licenses

3 the firms are enjoying benefits as SME from financial institutions.

As far as the definition of SME is concerned, Obben and Magagula (2003) states that there is no standard definition for an SME. Various studies consider different SME-characteristics when selecting SMEs for survey, and the definition also varies from country to country. As apparel industry is very labour intensive, we choose to use the definition of Reid (1984), which defines an SME as a company with 100 to 500 employees. This is a relatively broad range and will be suitable for the labour-intensive Bangladeshi RMG firms.

5.2 Constructs used

The following constructs have been used in the conceptual framework. They are borrowed from several studies cited in the hypothesis development section.

1 Entrepreneurial and managerial quality: (LIATSN) + (PMMC):

   a leadership with an innovative attitude towards the use of new technology, business strategy, and local/foreign network (LIATSN)

   b practice of modern management concept (job satisfaction and job security for managerial people) (PMMC).

2 Language skill: (ACE) + (ELEB)

   a ability to communicate with foreigners in English language (ACE)

   b expertise in a number of languages other than English and Bengali. (ELEB).

3 E-commerce: (UIC) + (WCNI)

   a use of internet communication with a mind of exploiting network benefits (UIC)

   b website of the company with necessary information (WCNI).

4 Degree of internationalisation: (FEY) + (EVIVD)

   a frequency of exports in a year (FEY).

   b export of a variety items (product), and to various destinations (EVIVD).

5 Company growth: exact figures of growth (calculated from the present year and last year export value in US dollars).

5.3 Data collection

Data are collected from entrepreneurs and managers of RMG-SMEs. A questionnaire was developed for each category of respondents. The questionnaire was tested by two entrepreneurs and managers prior to the final survey. The questionnaire for entrepreneurs (A) contains information about the language proficiency of the owner, commitment to use the internet for network building and business benefit exploitation, use of the internet and the webpage of the firm, intensity as well as diversity of exports, and the financial growth of the firm (in percentage). The questionnaire for managers (B) contains information about leadership of the entrepreneur, enthusiasm toward using innovative technology and creative strategies, motivation to maintain and build networks for relationships, and use of motivational as well as hygiene factors in management. The measures are translated into Bengali from English, followed by a back-translation procedure, in accordance with common standards, to verify the equivalence between Bengali and English (Peng, 2001). The interviewer completes the questionnaire based on the respondent's answer to the question and the interview took approximately 40 to 60 minutes. We used subjective methodology (dialogue) to capture the perception of interviewees against any variable, but ultimately, we recorded them based on their self-report on the given five-point Likert-type scale where the range moves from 1 (very poor) to 5 (very high). As the interview was semi-structured, we also recorded some important information that respondents provided in relation to the study, which we used while discussing the data.

Out of 50 firms in the sample, we received responses from 92% (46 RMG firms with 46 entrepreneurs and 46 managers = 92), while the other four (firms) entrepreneurs did not allow us to interview them. In interviewing managers, we cautiously notice that there is no kinship between managers and entrepreneurs, which keeps the responses unbiased, especially with regard to the entrepreneurs' leadership capabilities. When we found the entrepreneur and manager to be the same person, we opted for the next management post in which the employed person was salaried. The managers surveyed were either from HRM or the marketing department, and we considered their seniority (by asking their length of service) and availability while interviewing them. Most of the managers (81%) have formal business educations, e.g., a bachelor's or master's degree or a certificate from some form of training programme, but very few of the entrepreneurs have any formal business education. They have learned by being in the business and network for a long time or attending seminars and workshops. The interviews were conducted in 2008 by a senior researcher who was accompanied by a research assistant from a university in Chittagong. We used our own social network to make appointments for the interviews. Every interview with an entrepreneur/a manager was initiated through a prior telephone call to make sure of permission and appointment.

5.4 Data analysis

We use correlation and ordinary least-square (OLS) regression to show the linear relationship between the variables of each hypothesis (see, King and Soule, 2007). The causal nature of the present model is examined through the PASW software. Based on the positivistic research philosophy, we surveyed the entrepreneurs and managers of RMG-SMEs in Bangladesh, as it is known to be a very appropriate method of collecting data for descriptive or exploratory studies, and suitable where individuals are the unit of analysis for measuring attitude, perception and personal qualitative skills, etc. (Rossie and Freeman, 1993; Kerlinger, 1986). At this point, our main objective in this study is not to over-emphasise the amount of change in the dependent variables by the effect of the independent variables, as presented in regression results, but to trigger the sense that the variables used and the factors mentioned (discussion section) are important in the internationalisation of RMG-SMEs in Bangladesh.

6 Empirical findings

6.1 Descriptive statistics

Table 1 reports the means, standard deviation, minimum and maximum value of the variables for the internal resources of the exporters. The 46 firms surveyed have an average age of 14 years and an average number of 297 employees. In terms of age, the youngest employee is aged nine years and the oldest one is 20 years old. All companies are thus well established, with many years in the exporting business. In terms of size, the range is from 160 to 456 employees, and although the apparel industry is labour-intensive, the survey does not comprise very small firms. Even so, we should expect some diversity as to the internal resources and competences within this range; although one may argue that in terms of management, the requirements are similar whether you run one shift or three shifts or whether you have 200 to sew for you or 400 hundred.

Looking at the degree of internationalisation, we used a composite measurement comprising frequency of order fulfilment, number of export items, and number of export destinations measured in terms of countries (and not customers). Table 1 shows that, on average, firms are almost 64% international when measured on the composite measurement, but the standard deviation is relatively high, meaning that we have companies that export more than five times per year and with an assortment of many items exported to different continents. Referring to Table 2, we can see that, on average, the frequency of export transactions is as important in the composite measurement of internationalisation as the number of items and destinations. However, the data on number of items and destinations do indicate a certain tendency to focus on items and destinations.

Turning to the entrepreneurial management and capability, the average quality of management is 4.84 out of 10, and is thus not impressive in any way as judged by the managers. Referring again to the more detailed data in Table 2, the LIATSN measurement (*Leadership with innovative attitude towards the use of new technology, business strategy, and local/foreign network)* shows an average of 3.1 (on five-point scale) against the PMMC-measurement (*Practice of modern management concept: job satisfaction, hygiene and safety condition)* of 1.7. It seems that the firms are little concerned with work conditions and worker relations and more concerned with overall management and external relations. In interpreting these data, it should be recalled that the responses come from both the entrepreneurs/owners and the managers.

Language skill overall is 4.02 points out of 10. Since all respondents are in the exporting business, this seems to be very low. The detailed data in Table 2, however, provides us with some explanation. The average of 4.02 is composed of two categories of measurements, one being English skills, the other being foreign languages other than English. Even if the data are disaggregated, English skill reaches an average of 3.1 out of 5, i.e., barely 2/3 of the 46 companies have the ability to communicate with foreigners in English. In terms of other languages, hardly any companies have skills in other foreign languages. One explanation for the low command of English is that some companies do not deal with foreigners directly. They are sub-suppliers to local and intermediates with whom they can speak in Bengali.

Turning to e-commerce capacity and capabilities, table 1 shows that the average degree of digital nativeness (adoption to e-commerce) is approximately 52% based on the questions asked. The spread is high, with some companies rated 1 (out of 10) and others rated at nine points. The detailed figures from Table 2 show that companies especially score high on the use of the internet but relatively low on their website sophistication. Interviews indicated that some companies do not have websites and that the internet is primarily used for e-mail communications.

Finally, growth measured as increase in turnover over the present and previous year indicates an average increase of 10.34%. The standard deviation is relatively high, with the minimum increase being 2.0% and the maximum being as much as 31.57%.

Looking across the individual parameters, the respondents have the highest average score in relation to e-commerce (5.19) followed by management capabilities (4.84) and language skills (4.02). Looking at the disaggregated data (Table 2), the use of the internet scores the highest (3.3 out of 5) followed by English skills (3.1) and strategic leadership (3.1). The lowest scores are the skills in a second language (.09), human resource management (1.7), and website use (1.8). Thus, the companies are able to communicate in English and use technology (e-mail) as well as manage international relations, but they are weak on personnel management and more sophisticated use of the internet, especially regarding websites. With this mediocre resource and competence profile, the companies are able to have a relatively high degree of export activity and they are able to grow. The findings seem to fit overall with the general observation that MNCs are on a proactive search mission for static efficiency.

Table 1 Descriptive statistics of measured variables for SMEs internationalisation

Descriptive factors	*Entrepreneurial and managerial quality*	*Language skills*	*E-commerce*	*Degree of internationalisation*	*Export growth*	*No. of employees*	*Age of the firm*
Maximum	9.0000	8.0000	9.0000	10.0000	31.5700	456.00	20.00
Minimum	1.0000	.0000	1.0000	2.0000	2.0000	160.00	09.00
Mean ($\bar{X}$)	4.84	4.02	5.19	5.68	10.34	297.13	14.28
Standard deviation	2.04	2.11	2.54	2.31	5.16	67.49	2.35
Observation	46	46	46	46	46	46	46

Table 2 Descriptive statistics of measured sub-variables

Variables	*Sub-variables*	*N*	*Minimum*	*Maximum*	*Mean*	*Std. deviation*
		Statistic	*Statistic*	*Statistic*	*Statistic*	*Statistic*
Entrepreneurial and managerial quality	LIATSN	46	1.00	5.00	3.0870	1.27934
	PMMC	46	.00	4.00	1.6957	1.07227
	ACE	46	.00	5.00	3.1087	1.44880
Language skills	ELEB	46	.00	3.00	.9348	.90436
	UIC	46	1.00	5.00	3.3478	1.19661
E-commerce	WCNI	46	.00	4.00	1.8261	1.41899
Degree of internationalisation	FEY	46	1.00	5.00	2.9565	1.05318
	EVIVD	46	1.00	5.00	2.6957	1.42781

Note: 0 = not present at all, or cannot say; 1 = very poor; 5 = very high.

6.2 Correlation and regression result

Table 3 reports all hypotheses are positively correlated between dependent and independent variables at a significant level. This might seem surprising, but the underlying notion is that the pilot survey results led us to incorporate consistent sub-variables and questions that eventually became similar to what respondents replied in the final survey. This later affected the correlation coefficients. In the hypothesis: H1 to H5, the coefficient of determination (R^2) indicates a strong relationship between independent and dependent variables, and thus all five hypotheses are proved (Table 3). In case of H6, the value of coefficient of determination (R^2 = .64) is relatively moderate because of the unequal export growth in SMEs (minimum 2% to maximum 31.5% growth).

While looking into the individual data of each firm, we notice that a higher mean of entrepreneurial and managerial quality (LIATSN and PMMC) has a higher growth of export, though there was no hypothesis developed in this regard.

Table 3 Output of correlation and regression (all observations used)

Hypothesis	*Correlation coefficient (two-tailed) (R)*	*t-value*	*F-value*	*P-value*	*Regression R^2*	*Adjusted R^2*
H1	.848	10.609	112.551	.000**	.719	.713
H2	.875	12.016	144.378	.000**	.766	.761
H3	.972	27.350	747.997	.000**	.946	.944
H4	.846	8.736	76.325	.000**	.716	.710
H5	.881	12.218	149.275	.000**	.776	.771
H6	.800	8.736	76.325	.000**	.640	.631

Note: **Correlation is significant at the 0.01 level.

7 Discussion

The survey of the RMG-SMEs in Bangladesh shows that their resource base is rather weak, while also showing that the stronger the resource base, the higher the performance measures in terms of exports and growth in exports. Overall, these findings seem to be in line with the literature on the global value chain for garments (Gereffi et al., 2005; Sørensen, 2006).

The global players within the garment industry are searching for static efficiency, which they were able to find in Bangladesh. Furthermore, the global players are also interested in outsourcing (rather than FDIs), and as they outsource from these companies, they possess the necessary production skills and are thus able to formulate ‘blueprints’ of what they want. The literature on outsourcing and garment production in developing nations has also shown that outsourcing can take place at different stages, ranging from a ‘cut and sew-stage’ where the producer undertakes the simplest processes to a stage where the producer delivers ‘the full package,’ including procurement of materials, quality control, etc. Even at the full package stage, the relationship between the Bangladeshi producer and the multinational outsourcer is characterised by what Gereffi et al. (2005) call ‘captive governance’, i.e., a relationship where the producer is highly dependent on the outsourcer.

Even if the study confirms that the Bangladeshi garment producers are captive due to their weak resources, it also reveals nuances related to the resource base and what it takes to grow within captivity.

The language skill consideration focuses on English, and even here, the language skills represented in the data show a wide range, from poor to well founded. This reflects what our interviews revealed in that in a number of cases, the RMG-SMEs work with local partners and thus are not in direct contact with the global buyers. Furthermore, the interviews showed that it was often the manager and not the entrepreneurs themselves who were dealing with the foreign customers on a day-to-day basis.

In the case of e-commerce, the situation is similar. In fact it is not fully correct to label the interviewees' skills as e-commerce skills. The RMGs have invested in computers primarily for e-mail use and the creation of a rudimentary website that serves the purpose of making the company visible or searchable.

The questions on language and e-commerce have been answered by the entrepreneurs themselves. It is their perception of the resources and it may thus be seen as what they find to be enough to run the business. It may, of course, also reflect what can be allocated as the sales that vary tremendously among the companies.

On the other hand, even if the company can operate on low skills, the study also shows a clear correlation between both language and internationalisation and e-commerce and internationalisation. This further indicates that the extent of language skill and e-commerce capabilities of those firms is what it pays as an investment in training on language, business education and e-commerce infrastructure, etc. The correlation coefficient is the highest in these two cases, with investing in e-commerce proving especially necessary for the RMG-SMEs to increase internationalisation.

Turning to the managerial and entrepreneurial capabilities, the picture is less clear. The findings show that the RMG-firms have low capability in terms of innovation and strategic management, particularly with regard to management related to human resources. At the same time, there is a positive correlation between the managerial and entrepreneurial capabilities and internationalisation. While you can survive on low capabilities as an entrepreneur, as indicated by the non-reporting of negative profit, there is a risk of employee turnover and unrest, as well as low quality of production, which could negatively affect the internationalisation.

While a conclusion of statistical significance cannot be reached based on our data, the positive relation between capabilities and internationalisation is most likely linked to upgrading (Gereffi et al., 2005; Sørensen, 2006), i.e., the increase in capabilities is associated to moving from cut and trim to the full package, but not reaching the ability to launch unique brands. This being the case, the data indicates a positive relationship between capabilities, upgrading and internationalisation.

The data on entrepreneurial and managerial capabilities, however, also reveal that managers do not have positive perception about the leadership capabilities of entrepreneurs – the owners. It is the managers who answered the questions on entrepreneurial and managerial capability, and it is, thus, their assessment of the entrepreneurs.

However, the interview results further reveal that Bangladeshi RMG-SMEs have been pursuing centralised management with high power distance between employees and entrepreneurs'. Lower motivation in employees and lower degree of trust between entrepreneurs and managers are also a common feature, which is similar to Taiwanese RMG firms (Chen and Parker, 2007) and Ghanian firms' internationalisation (Kuada and Sørensen, 2000).

The major weakness of the internationalisation lies in the entrepreneurial quality and learning opportunity, which is related to e-commerce orientation vis-a-vis foreign network linkages and foreign country visits. However, entrepreneurs and managers both need to have trusting relationships to ensure synergy for knowledge generation and learning about design and innovation from foreign partners in order to upgrade the industry from static to dynamic efficiency.

The interviews also reveal that some common problems that impede the growth of SMEs in internationalisations are lack of bank loans, lack of gas and electricity supply, and the poor quality of Chittagong port management, which are similar to the results that McKinsey & Company found in their study on Bangladesh's garments industry (Berg et al., 2011).

Overall, the study provides an insightful picture of the internal resources and competences of RMG-SMEs that serve as sub-contractors to MNCs. They can survive and have positive profits by squeezing the resources and competences, but they could also prosper by investing in the basic resources and competences, as these are correlated with internationalisation. To prosper, the internationalisation measures indicate that it is essential to have the capability of producing different kinds of products and reaching different countries. Here, the interviews indicated that although the producers were captives of the multinational buyers, they were not dependent on one single buyer since the relationship to buyers depends on many factors, especially price, quality, lead-time, and communication. They had relations with different buyers depending on the situation and the terms and conditions that they are able to meet.

8 Conclusions

This study investigates the major proactive factors that boost internationalisation of ready-made garments from Bangladesh, with a special focus on export as a means of internationalisation. It further investigates how entrepreneurs' managerial quality and foreign language skills through e-commerce orientation affect internationalisation of firms and, in turn, impact export growth. Networking with value chain members and learning from external actors for SMEs are the underlying benefits of e-commerce adoption and foreign language skills in case of internationalisation. The study also reveals that entrepreneurial leadership and managerial capability is another key factor that affects the internationalisation as well as the firm's growth.

Firm size (financial capital and number of employees) has been highly emphasised in many studies on SMEs internationalisation, including Dhanaraj and Beamish (2003), but this could be an outcome of the entrepreneurial resources and market demand of the firm's product. However, we do not necessarily rule out the influence of this variable, but instead emphasise the findings that this study reveals. The notion we build in this study is that proactive entrepreneurial and managerial resources and technical capabilities (language and e-commerce) in entrepreneurial firms are essential and critical for the internationalisation of RMG-SMEs. The critical feature of this study is that these resources are impossible to enhance unless they are sensed and improved by the entrepreneurs themselves. This finding is in line with Ardichvili et al. (2003) and partially in line with Brouthers et al. (2009), where they emphasise entrepreneurial, managerial, and financial resources, in addition to the foreign market expertise of the firm.

The Bangladesh Government, BGMEA, and the multilateral organisations who work on the capacity building of the exporting firms can use these findings to improve their strategic approach for addressing what is lacking in the industry.

9 Limitation and future research

A sample of 50 companies with the linear regression method is not suitable for the deeper understanding of the multi-factor effect on the internationalisation of RMG-SMEs in Bangladesh. However, considering this to be a triggering work in the context of Bangladesh, future research can be pursued with more samples from different clusters, using more variables and employing a structural equation model for better understanding of the impact of multi-factors. In this regard, two groups of factors, proactive and reactive, can be used to evaluate the degree of influence of each group separately on the internationalisation process of SMEs.

Future research can also be pursued at a deeper level with the case study approach for understanding the nature of linkages, knowledge spill-over and upgrading of the industry in relation to entrepreneurial dynamics. Furthermore, a study could also consider both RMG firms who are internationalising and who have failed to internationalise (Ţurcan et al., 2010), which would enable researchers to look at SMEs internationalisation from dual sides.

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Appendix

Pilot survey result

Table A1 Percentage of response on different variables and the remarks by interviewees

Variables	*Sub-variable: 1*	*Sub-variable: 2*	*Sub-variable: 3*	*Who were surveyed + other variables found important in the survey*
Firm size	Employee	Sales		(CEO/entrepreneurs)
	12% replied	12% replied		Respondents reported the importance of language skill and willingness to use e-commerce to exploit the international network
Enterprise	Leadership	Innovation	Commitment	(Managers)
	72% replied	72% replied	72% replied	Entrepreneurs' leadership, commitment, flexibility, good sense of motivation were emphasised
Technological intensity	R&D			CEO/entrepreneurs were surveyed
	(No budget)			
Degree of internationalisation	Intensity	Diversity		CEO/entrepreneurs were surveyed
	80% replied	80% replied		
Performance	Profit	Growth	Market share	CEO/entrepreneurs were surveyed
	(No reply)	80%	(No reply)	
Basic requirements hindering export (subjective answer)	• Most of the firms stressed the liquidity crisis that hinders them in forward-buying the raw materials at a competitive price. In this regard they point to the complexity of bank loans for this purpose.			
	• Another important element that all firms highlighted as crucial is the continuous supply of gas and electricity, and the disruption of which that hampers the production and quality in the assembly line of production. Poor management of the seaport is also stressed by most of the interviewees.			

Note: Firms surveyed (N) = 25, firms responded = 20, non-response = 5.