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Global Supply Chain Management of RMG Outsourcing: Factors Affecting Country Selection

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Abstract

This paper aims to understand factors determining location decision, or country selection of Readymade Garments (RMG) outsourcing in global supply chain management. In the process, this article fills a knowledge gap by proposing a unique model that relates country determinant factors and firm's motives to location choice specific for RMG outsourcing moderated by firm's size and age. The overall framework enlightens the scholars about the significance of distinguishing factors as the basis for differential outsourcing location decisions. Multinational managers may find it useful to identify the optimum outsourcing location decisions considering idiosyncratic factors that are unique to RMG outsourcing location decision.

Keywords: RMG, global supply chain management, outsourcing, location determinants, firms' internationalization motives

Paper type: Conceptual paper

1. Introduction

In today's business world global sourcing has become a common trend. Due to fierce competition (Arlbjorn & Luthje, 2012), shrinking product life cycle, evolving new knowledge, technology, and innovation, changing customer taste and preferences and stakeholder's pressure, companies today constantly needs to change their value chain. For some companies, revamping value chain resulted in doing business globally. This has provided them with access to cheap labor and raw materials, low cost production, access to new technology, quality, flexibility, increased responsiveness, reduced cycle time, better financing, markets, arbitrage opportunities, and better incentive offered by the host (Ferdows, 1989; Jiang, Frazier, & Prater, 2006; Kogut & Kulatilaka, 1994; Venkatraman, 2004). However, the success of this global operation mostly lies on how efficiently the global supply chain is managed. Thus, for most of the company's global supply chain has become a source of competitive advantage (Manuj & Mentzer, 2008).

However, global supply chain management entices with numerous risks that are not relevant to the local companies. Meixell and Gargeya (2005) stated that substantial differences in these global situations such as distance, lead-time, tariff, non-tariff trade barriers, different local cultures, languages and practices, worker skills, supplier availability, supplier quality, equipment and technology, telecommunications and exchange rate not only complicates decisions but also diminishes the effectiveness of business processes. Only risk-adjusted supply chain management can translate into improved financial performance and competitive advantage (Hauer, 2003). Manuj and Mentzer (2008) has identified broadly four global supply chain risks: *Supply Risks* (supplier opportunism, product quality, transit time, risks affecting suppliers); *Demand Risks* (demand variability, forecast error, competitors move, risks affecting consumers); *Operational Risks* (inventory ownership, asset and tool ownership, quality and safety) and Other Risks (currency exchange rate risk and safety). In response to the increased global complexity, a company can choose among different globalization strategies (Arlbjorn & Luthje, 2012), such as outsourcing and offshoring.

Offshoring refers to the restructuring the company value chain geographically; in other words, a company can offshore the activities of its value chain in different parts of the world. For example, GM has its production base in China and USA. However, in the case of outsourcing, companies involve in agreement with an independent domestic or international supplier to supply the product or to perform services. Sometimes a supplier can play the role of outsourcing orchestration: managing end-to-end chains around the world. For example, the 106-year-old Hong-Kong based supply chain orchestration Company Li & Fung started its operations by linking Asian apparel suppliers with American and European apparel brands. Today, however, it offers supply chain design and management services that include product design services, logistics and distribution services for companies around the globe. When to offshore and outsource?

Mudambi and Venzin (2010) has identified that offshoring and outsourcing decisions are not static, and hence, companies need to adapt offshoring and outsourcing decisions for two reasons: firm-level dynamics (spillovers and 'catch-up') and external dynamics stemming from the competitive environment. Firm-level dynamics assert that when firms go for outsourcing or offshoring, they create a spillover effect on the local firm. The expertise and knowledge of foreign companies spill over the host country companies, and they try to catch up these foreign companies by offshoring their R&D and marketing activities in advanced countries. For example, the Chinese appliance producer Haier began as a private label manufacturer; later it set up R&D and design facilities in the USA, Canada, Japan, France, and the Netherlands to source knowledge and launch its own brands. Consequently, the advanced countries' firms must continually need to increase their rate of innovation and search for new places for new capabilities. External dynamics holds that the comparative advantages various nations change over time. These substantial changes in national competitiveness would likely be felt at the industry level and clearly show that location decisions need to be revised continually. For example, the USA began outsourcing and offshoring from Mexico; as labor cost raised, they move to China and now for the same reason they are moving to Bangladesh and Vietnam. The offshoring and outsourcing decision also depend on issues like control, industry, and strategy.

Abramovsky and Griffith (2006) has found that companies that are invested more on ICT are more likely to choose to outsource than offshoring. Mudambi and Venzin (2010) found that when manufacturing firms are vertically integrated they prefer more offshoring than outsourcing because they can exercise more control over operations. Alternatively, businesses that believe in high-value creation and specialization goes for offshoring. For example, Samsung went for offshoring to have control over the entire value chain, while Apple relied heavily on outsourcing of more standardized activities keeping the R&D and marketing activity internally.

2. Outsourcing

Started in the 1950s, Outsourcing has been widely accepted and practiced since 1980 (J. Hätönen & Eriksson, 2009). However, today we compete in an outsourcing economy (J. Hätönen & Eriksson, 2009), where production activities are highly decomposed (Carson, 2007); more focus is given to the core operations taking advantage of external resources around the world. Couple of theories seems to be influential behind the idea of outsourcing; such as theory of specialization (Smith, 1776), theory of comparative advantage (Ricardo, 1891), Factor endowment theory (Heckscher & Ohlin, 1991), transaction cost theory(Coase, 1937; O. E. Williamson, 1979; O. E. Williamson, 1981) and Resource-based view (RBV) (Wernerfelt, 1984, 1995). However, the most influential idea is the transaction cost theory (J. Hätönen & Eriksson, 2009) and RBV among the others. The theme of the transaction cost theory is that the organization should seek outside sources when production cost higher than that of purchasing from the market.

However, the theories over time have been changed, and outsourcing encompasses more dimension than it used to be. J. Hätönen and Eriksson (2009) has divided the evolution of outsourcing into three phases (Figure 1): Big Bang, Bandwagon, and Barrierless Organizations.

	Big bang	Bandwagon	Barrierless organizations
Time period	1980s to early 1990s	Early 1990s to early 2000	From early 2000 onwards
Prime motives	Cut costs	Cut costs, capability enhancement, process improvement	Organizational transformation
Buzzword	Outsourcing	Strategic outsourcing	Transformational outsourcing
Outs. location	Domestic	International	Global
Management of the outsourcing relations	Arms-length, transactions	Strategic alliances	Collaborative development
Organization	Efficient organization	Focused organization	Virtual organization
Core organizational competences	Management of key strategic business units (SBUs)	Key strategic competences (core competences)	Dynamic competences and network competences
Strategic rationalization	Profit maximizing	Strategic and competitive edge	Survival
Outsourcing objects	Structured and well defined turnkey manufacturing processes	Strategically important organizational process	Projects highly knowledge-intensive and creative in nature
Main theories[a]	Transaction cost theory	Resource/competence-based view	Organizational theories

Figure 1. Outsourcing evolution

Source: Adapted from J. Hätönen and Eriksson (2009).

Big Bang: The tenure of Big Bang lasted until the 1980s, companies outsourced non-essential activities to cut production costs and maximize profit. The buzzword "outsourcing" used as a means to become efficient. Initially, most outsourcing was done locally (Mudambi & Venzin, 2010).

Bandwagon: Positive experiences influenced more and more companies to jump on the outsourcing bandwagon, which prompted a new age in the outsourcing history. Managers shunned the idea of Strategic Business Unit (SBU) and incorporated the concept of "strategic outsourcing". The management philosophy of "focus on your core competence, and outsource the rest" was becoming popular among various industries. Companies opt for searching external skills, competencies, knowledge and capabilities beyond their limit of boundaries and started to build the relationships with their suppliers and vendors.

Barrierless Organization: At the end of 20th century, outsourcing had become a norm rather than an exception. Global vendor access and shrinking cost of communication provided all companies regardless of their industry, geographical location or the size a possibility to restructure their businesses. The new buzz word of the 21st century is "Transformational outsourcing", which refers to creating new radical and adaptive business models resulted in a shift in the paradigm. Management focus is more on cooperation, collaboration, and co-development in managing outsourcing relations. The next shift may be Intelli-Sourcing (Fine, 2013).

Intelli-Sourcing: In the post-industrialized Markets, Firms view is more on control rather than ownership of firm's value-creating activities (Mudambi & Venzin, 2010). New economy calls for continually refining the core competencies and modifying the existing pool of knowledge, skills, and resources. The capability to do so may be the only sustainable competitive edge (J. Hätönen & Eriksson, 2009) of future. Fine (2013) asserted the same issue that the combination of local knowledge and global networks and the capacity to knit relations in the production supply chain that facilitate collaborative cost reduction will win the game. The new business model is based on this idea. For example, Li & Fung has a core team consisting of multinational employees, each of them runs apparel businesses and served clients in multiple countries. Moreover, Li & Fung does the job of optimizing their clients' benefits and protecting them from public relations catastrophes caused by supplier malfeasance. These capabilities of Li and Fung accompanied by geographically spread customers, suppliers, and employees; serve only things such as sourcing of designs, brands, manufacturing, logistics, and distribution; have become a new business model in fashion and apparel industry.

From the phases of evolution of outsourcing, we can see that motives of outsourcing have been changed over time. J. Hätönen and Eriksson (2009) has identified roughly three key purposes for which companies are outsourcing. Firstly, cost savings and releasing resources for comparatively more profitable business. Secondly, process improvement, gaining flexibility through internal reorganization, lessening the time to market, accessing flexible workforce. Thirdly, capability enhancement. Yet, in another article, Kremic, Icmeli Tukel, and Rom (2006) found the cost, strategy (used by private entities) and politics (public bodies) are the motives for outsourcing. Outsourcing has both hidden cost and benefits (J. Hätönen, 2009; Kremic et al., 2006; Milecova, Grznar, & Szabo, 2010). For firms, it helps to learn the international market, gain access to networks, increased quality, cost saving, augmented staffs and funds that support for future internationalization. Outsourcing involves costs of loss of core competence, increased costs and morale. Next question is what to outsource.

In a firms' value chain, discovery propelled knowledge creating high-value-added activities such as R&D, and strategic planning normally is done at the upstream; marketing or user propelled knowledge creating high-value-added activities such as product promotion, and market research are commonly done at the downstream. The middle stream includes manufacturing and other processes. The usual trend is that companies outsource the middle of the value chain to lower cost countries. In simple words, the products suitable for outsourcing are mature, end-of-life-cycle products (Kamann & Van Nieulande, 2010). Manufacturing firms are more prone to outsourcing (Mudambi & Venzin, 2010), but service tells a different story.

India is told to be “world’s back office.” She offers various back office services such as call center customer support, patient diagnostic report analysis, software, animation production and financial analysis. Head, Mayer, and Ries (2009) have identified the following main reasons for service outsourcing. Firstly, the service sector is labor intensive, i.e., generating employment about three times more than that of manufacturing industries. Secondly, the service sector contains a relatively large share of highly educated workers or knowledge workers. However, Mudambi and Venzin (2010) found that because financial companies are vulnerable to administrative differences among nations and the value creation process is comparatively complex, outsourcing in financial and banking industry is less existent. Outsourcing success relies on certain key factors and strategies.

The key success factors of outsourcing from low-cost countries (Kamann & Van Nieulande, 2010) are a clear plan and well-defined approach, top management support, proper communication, relationship management and commodity package. Kamann and Van Nieulande (2010) also added small firms that are inexperienced in outsourcing should involve local agents and keep design and final assembly in-house whereas large enterprises should involve with the direct supplier to have better control. Mudambi and Venzin (2010) suggested that low-value-added activities should be offshored to emerging markets while high-value-added activities should be outsourced to advanced markets through transformational outsourcing, where the intention is to learn from the outsourcing partner and transfer the learning back to home (Linder, 2004).

Location and supplier selection in outsourcing are still a critical issue in outsourcing because different location offers various opportunities and benefits, but these benefits vary over time(J. Hätönen & Eriksson, 2009; Mudambi & Venzin, 2010). SMEs tend to shore their activities near and therefore prefer proximity over cost advantage and skills (Kotlarsky & Oshri, 2008). The location, timing, and supplier decision is the interplay of comparative and competitive advantages of location and supplier (Meixell & Gargeya, 2005). Three most important things in the outsourcing decision are the strategic intent, country selection, and supplier selection. Kotlarsky and Oshri (2008) suggested strategic intention must be clarified before selecting country and supplier.

However, very few researchers (Anderson & Parker, 2002; Boardman Liu, Berger, Zeng, & Gerstenfeld, 2008; Dominic, Mahmood, Murugesh, & Sridevi, 2008; Dou & Sarkis, 2010; Fill & Visser, 2000; Grover & Teng, 1993; Kremic et al., 2006) worked on decision about outsourcing rather than finding out the location selection variables and firms’ intentions focusing on outsourcing (Boardman Liu et al., 2008; Graf & Mudambi, 2005) let alone apparel sector. Moreover, the study of the literature shows that researchers have identified the country selection and firm’s intention variables more from the prism of FDI and internationalization rather than outsourcing. Consequently, this research will focus on identifying the factors that influence the location selection for RMG combining literature from international business discipline.

2. Literature Review

We attempted to determine the elements, which are influencing the country selection from the different disciplines and try to build up a frequency distribution to recognize the commonly utilized criteria. Table 1 summarizes the country factors and Table 2 summarizes the firms’ motives identified and used by different researchers for location/ country selection.

Table 1. Factors affecting country selection

Factors	Definition	Authors and Year	Frequency
Country-created resources / Macroeconomic factors (size, growth rate, economic strength of a country or region, Income tax, inflation rates, currency fluctuations and infrastructure)/institutional environment (Political, Societal, and Regulatory) / Property Based Resource/ Contained Resources/ System Resources	Country-created-resources is the result of from public expenditure in infrastructure, institutions, education technologies and formation of effective firms, financing, property and IP right, favorable regulations	Johanson and Vahlne (1977); Hodder and Dincer (1986); Breitman and Lucas (1987); Cohen and Lee (1989); Barney (1991) ; Cohen et al. (1989); Haug (1992); Hennart and Park (1994); Kogut and Kulatilaka (1994); Black and Boal (1994); Gutierrez and Kouvelis (1995); Arntzen et al. (1995); Canel and Khumawala (1996); Miller and Shamsie (1996); Rosenfield (1996); Huchzermeier and Cohen (1996); Kouvelis and Gutierrez (1997); Dasu and de la Torre (1997); Munson and Rosenblatt (1997); Vidal and Goetschalckx (2001); Henisz and Delios (2001); Xu and Shenkar (2002); Hadjinicola and Kumar (2002);Nagurney et al. (2003); Globerman and Shapiro(2003); Meixell and Gargeya (2005);Graf, Mudambi (2005); Flores and Aguilera (2007); Tsang and Yip (2007); Galan et al., (2007); Cuervo-Cazurra et al. (2007); Kotlarsky, Oshri (2008); Madsen (2009); Dunning (2009); Hatonen (2009); Holburn and Zelner (2010); Jin and Farr (2010); Mudambi and Venzin (2010); Rahman (2010); Kamann and Van Nieulande (2010); Uddin and Boateng (2011); Oh and Oetzel (2011); Jain et al. (2013)	**43**
Experience-based resources / Intangible Resources / Human and Organizational Resources	Knowledge, Know-how on marketing, branding, technology	Wernerfelt (1984); Breitman and Lucas (1987); Grant (1991);Haug (1992); Verdin and Williamson (1994); Markides and Williamson (1996); Lowe et al. (2002);Graf, Mudambi (2005); Buckley et al., 2007; Slater et al., (2007); Grossman, Rossi-Hansberg (2008); Jain et al. (2013)	**12**
Cost-competitiveness-based resources / Natural Resources / Tangible Resources	Based on the low cost of labor, technology, and natural resources, etc.	Wernerfelt (1984); Grant (1991); Barney (1991) ; Miller and Shamsie (1996); (Boardman Liu et al., 2008);Tsang and Yip (2007); Dunning (2009); Mudambi and Venzin (2010); Kamann and Van Nieulande (2010); Jain et al. (2013)	**10**
industrial rivalry and imitation and agglomeration	Decisions based on competitors' location decisions	Guillen (2002); Alcacer (2006); Rose and Ito (2008); Yuan and Pangarkar (2010); Tan and Meyer (2011); Kamann and Van Nieulande (2010)	**6**
Cultural Factors	Language, Culture, Religion, etc.	Kogut and Singh (1988); Li and Guisinger (1992); Flores and Aguilera (2007); Tihanyi et al.(2005); Jin, Farr (2010)	**5**
Firm experiential learning	Knowledge of culture needs of customers, etc. through experience	Barkema and Drogendijk (2007); Belderbos et al. (2011)	**2**
Customer following	Location decision based on primary customers' movement	Petrou (2007)	**1**

Source: Meixell and Gargeya (2005); Jain, Hausknecht, and Mukherjee (2013) and Own Research

Table 2. Motive behind country selection

MOTIVES	Definition	Authors and Year	Frequency
Asset Seeking		Wernerfelt (1984); Dunning (1988); Barney (1991); Grant (1991); Black and Boal (1994); Verdin and Williamson (1994); Markides and Williamson (1996); Miller and Shamsie (1996);Graf, Mudambi (2005) ; Cuervo-Cazurra et al. (2007) ; Hatonen (2009), Jain et al. (2013)	**12**
Market Seeking		Hirschman (1958); Kobrin (1980); Dunning (1988); Verdin and Williamson (1994); Markides and Williamson (1996); Kotlarsky, Oshri, (2008); Jain et al. (2013)	**7**
Relationship Seeking		Hirschman (1958); Kobrin (1980); Chen and Chen (1998); Graf, Mudambi (2005); (Boardman Liu et al., 2008); Jain et al. (2013)	**6**
Opportunity Seeking	Due to quota restrictions, institutional voids and/or anti-dumping penalties, these firms use internationalization to circumvent these restrictions.	(Boardman Liu et al., 2008); Luo and Tung (2007); Jain et al. (2013)	**3**
Survival		Chen, Chen (1998); Petrou, 2007; Mudambi and Venzin (2010)	**2**
Stake Holders		Graf, Mudambi (2005); Hatonen (2009)	**2**
Supply Chain Flexibility and Risk Minimization		Mendonca Tachizawa and Gimenez Thomsen (2007)	**1**

Source: Jain et al. (2013) and own study.

From the previous outsourcing literature, we have seen that since the evolution of its current state, outsourcing firms have been mainly focused on cost saving, efficiency, and resources. Only 14% of the research has been done using these variables. On the contrary, more than half of the (55%) of the researcher used macroeconomic variables and country created resources (Jain et al., 2013) for their research in selecting country. Table 1 clearly indicates that the previous literature mainly concentrated on foreign direct investment (FDI) or offshoring company activities. This finding reflects Mudambi, Venzin (2010)'s findings that the mainstream literature on outsourcing usually fails to explore the location decision. This study will try to shade light on this vacuum area by unearthing the factors affecting country selection in outsourcing.

3. Factor Affecting Country Selection for RMG Outsourcing

Keeping outsourcing and apparel industry in mind, we can broadly classify the variables in country factors (Table 3) and firm factors (Table 4).

Table 3. Country determinant factors used for this study

Factors Affecting Country Selection	Sub-Category
Macroeconomic and Political variables	- Strength & Stability of economy
	- Tax and Tariffs
	- Currency and Exchange Rate
	- Infrastructure (Port, Road, Communication, energy, etc.)
	- Political System and Stability
	- Laws and Regulations & Authority
	- Incentives offered by Governments
	- Geographic Distance
	- Transparency & Security
Socio-Cultural Variables	- Language and Communication Skills Barriers
	- Cultural Differences
	- Religion
Comparative/ Competitive Advantage Variables	- Low labor cost
	- Skilled labor force
	- Experience of the workers and management
	- Technology used
	- Know-how, Innovations
	- Concentration of Alternative Sources

Macroeconomic and Political variables. These variables include the natural and country created resources (Jain et al., 2013). Such as strength & stability of the economy, tax, and tariffs, currency and exchange rate, infrastructure (port, road, communication, energy, etc.), political system and stability, laws and regulations & authority, incentives offered by governments, geographic distance and transparency & security. Roberts and Almahmood (2009) has found that geographic distance is negatively related to FDI. Some countries such as Bangladesh and Malaysia have created opportunities for the foreign firms through offering incentives, creating a special economic zone, exceptional tax brackets and regulation that foster the international trade development. We posit that

P1a: Macroeconomic variables influence the country selection in outsourcing, *ceteris paribus*.

Comparative/ Competitive Advantage Variables. These variables include low labor cost, skilled labor force, the experience of the workers, natural resources, management, technology, know-how and available alternative supply source. When a firm goes for outsourcing, it achieves productivity effect, relative price effect and labor supply effect (Grossman & Rossi-Hansberg, 2008). For example, US apparel companies outsource Hong-Kong based service organization Li & Fung to manage their outsourcing. Buyers from different parts of the world outsource from developing countries for cheap labor source. So we posit that

P1b: Comparative/ competitive advantage variables influence the country selection in outsourcing, *ceteris paribus*.

Socio-Cultural Variables. These variable includes language and communication skills barriers, cultural differences and religion. Roberts and Almahmood (2009) has found that culture plays a crucial role in FDI. Galan, Gonzalez-Benito, and Zuñiga-Vincente (2007) have found that even though Latin America is geographically in a distant position, Spanish firms chose Latin America for investment for cultural affinity. Companies want to source from the countries which are close to their culture or psychological differences. Because, cultural differences can result in miscommunications and misperceptions that can overshadow many of the advantages (Kotlarsky & Oshri, 2008). For this reason, US apparel industries seemed started outsourcing from Mexico. Moreover, cross-border trade is likely to have a higher margin, because countries close to each other appears to understand one another. So we posit that

P1c: Socio-Cultural variables influence the country selection in outsourcing, *ceteris paribus*.

Table 4. Firms factors influencing country selection

MOTIVES	Explanations
Asset Seeking	Companies move for outsourcing to access the resources which they do not have in their country of operations.
Market Seeking	Companies start outsourcing from the country so that it can better understand the market and later on start their functioning in that country.
Relationship Seeking	Companies started outsourcing to build a relationship with government, business firms, and citizens so that they can initiate the business later.
Imitation-Opportunity-Survival Seeking	Based on competition and survival Imitating or following others / Bandwagon Effect Opportunities created due to quota, or trade agreement
Stake Holders Pressure	Sometimes home country government regulations, citizen customers, and shareholders pressure companies forced to choose one country over another.
Supply Chain Flexibility and Risk Minimization	To minimize the global supply chain risk and make it flexible companies opt to outsource over FDI and a portfolio of countries for outsourcing.

Firms Factors for Country Selection: J. Hätönen (2009) has found that the firm's decision to outsource affected by non-locational factors. These factors are fundamental motives behind outsourcing. Kotlarsky and Oshri (2008) suggested that the firms ought to crystallize their motives before evaluating the constraints, facilities and appealing factors of a potential offshore location. These factors motivate the firms' management whether to choose from one country or not or make a portfolio of countries for outsourcing. The motives are:

Assets Seeking. Companies move for outsourcing to access the resources which they do not have in their country of operations. These assets may be technology, natural resources, human skills, management skills, innovations, etc. Thus, we posit that,

P2a: Asset seeking motive influences the country selection in outsourcing, *ceteris paribus*.

Market Seeking. Companies start outsourcing from the country so that it can better understand the market and later on start its operation in that country. For example, UNI QLO, a Japan-based apparel company started outsourcing from Bangladesh and China, but later on, they have opened showrooms in these countries. Thus, we posit that,

P2b: Market seeking motive influences the country selection in outsourcing, *ceteris paribus*.

Relationship Seeking. Companies started outsourcing to build the relationship with government, business firms, and citizens. Internationalization is a nexus of networks. Large mature companies and small high-tech firms seem to seek more relationship network (Chen & Chen, 1998). Foreign companies develop the relations with suppliers that may allow them to have better quality products at cheap price and access to local business network, to accrue societal influences and to influence regulations that create or evade barriers to entry and to develop non-market resources (Hong, 2004; Hoskisson, Eden, Lau, & Wright, 2000; Kotlarsky & Oshri, 2008). Thus, we posit that,

P2c: Relationship seeking motives influence the country selection in outsourcing, *ceteris paribus*.

Imitation-Opportunity-Survival Seeking. From the evolution of outsourcing, it has been observed that firms seek for outsourcing to cut their cost to compete and survive. The laggard companies started imitating outsourcing observing the success of first mover outsourcing companies within and across the industry; this process has given a rise to bandwagon effect in outsourcing. In other cases, some companies went for opportunity seeking causes. For example, during the MFA period, many firms seem to setup garments manufacturing facility in developing countries such as Bangladesh to reap the benefit of MFA. Thus, we posit that,

P2d: Relationship seeking motive influences the country selection in outsourcing, *ceteris paribus*.

Stakeholders Pressure. Sometimes home country government regulations, citizen, customers, and shareholders pressure forced companies to choose one country over another. Hatonen (2009) has found that the companies need to consider the external shareholders' view if the outsourcing activities are visible. In the case of apparel, each cloth is marked with source country tag, for this reason, the outsourcing companies are more prone to stakeholder's action or reaction. For example, US companies choose to outsource from Bangladesh rather than

Myanmar and North Korea, because of government regulations in 90's. Due to Rana Plaza's catastrophic event citizens, customer's negative impression forced some companies of EU and USA to change the sourcing policy or shift the location. Thus, we posit that,

P2e: Stakeholders pressure influences the country selection in outsourcing, *ceteris paribus*.

Supply Chain Flexibility and Risk Minimization. To minimize the global supply chain risk and make it flexible companies choose to outsource over FDI and a portfolio of countries for outsourcing. For example, Uni Qlo sources their apparel from different parts of the world such as Bangladesh, China, etc. The country portfolio helps them to be flexible to move from one location to another as no capital investment deter them to float. Besides this portfolio of countries helps them to minimize supply risk; when one country fails to supply another can. We posit that

P2f: Supply chain flexibility and risk minimization motives influence the country selection in outsourcing, *ceteris paribus*.

4. Proposed Model

Till date literature review shows that there are so many theories on international trade and FDI location decision (Galan et al., 2007). For example, Mercantilism, theory of absolute advantage (Smith, 1776); theory of comparative advantage (Ricardo, 1891); theory of factor proportion (Heckscher & Ohlin, 1991); international product cycle theory (Vernon, 1979); exchange rate theories (Aliber, 1971; Blonigen, 1997); theories related to the process of internationalization (Hirsch, 1976; Johanson & Vahlne, 1977); theories of risk diversification (Rugman, 1979); agglomeration theories (Krugman, 1991; Porter, 1996); theories related to government-induced incentives (Loree & Guisinger, 1995); and knowledge-enhancing (dynamic) theories of location (Chen & Chen, 1998; J. Dunning, 1988; Kuemmerle, 1999).

Moreover, Galan et al. (2007) has found some researchers (Anand & Kogut, 1997; J. Dunning, 1988; Globerman & Shapiro, 1999; Li & Guisinger, 1992; Lunn, 1980; Tan & Vertinsky, 1996) examined the factors that determine FDI from one or several developed countries to other developed countries; while other researchers (Agodo, 1978; Sabi, 1988; Tahir & Larimo, 2004; Tatoglu & Glaister, 1998; Woodward & Rolfe, 1993) examined the factors that determine FDI one or several DCs to LDCs; yet other researchers (Chen & Chen, 1998; Lecraw, 1993) studied from LDC's invest in other LDCs or DCs. Still, none of these theories provide a satisfactory explanation of specific factors that influence the managers to locate their investment through FDI (Galan et al., 2007), let alone outsourcing.

However, the following models (widely accepted but very few) are suitable for finding out the answer for the specific factors that influence country selection in FDI.

4.1 The Eclectic Paradigm

Electrical paradigm was developed by J. H. Dunning (1988). Eclectic paradigm has its root in economic and/or organizational theory. The theory assert that an enterprise makes foreign direct investment (FDI) in different countries depending on three independent advantages or variables OLI: ownership (O); internalization (I); and localization (L). Ownership advantages refer to some factors (such as brand, trademark, production procedures, entrepreneurship, and returns to scale) or resources possessed by investing firm that its competitors lack. Internalization advantages evolve from comparing different markets by imperfection and transaction costs related to exports, contracts or FDI. Localization advantages stem from the favorable conditions (raw materials availability, cheaper wages, superior tax benefits) offered by the host country. Based on the interaction of these gains, the model tells a company whether to import or export or go for FDI. Firm's current locational advantages determine the future ownership advantages. The fundamental assumption is that firms opt for establishing their value-added activities at the optimum profitable location. Thus, the form of advantages derived from internationalization and host country location determine the competitive advantage and future survival. However, electric paradigm failed to address the dynamism of the changing international location through different stages of development (J. H. Dunning, 2001). To accommodate this Dunning (2001) suggested to apply the Investment Development Path (IDM).

4.2 The IDP Paradigm

The model has its roots in the studies performed by Narula (1993), J. H. Dunning and Narula (1996) and Narula and Dunning (2000). In the words of J. H. Dunning (2001):

"*The basic hypothesis of the IDP is that as a country develops, the configuration of the OLI advantages facing foreign-owned firms that might invest in that country, and that of its own firms that might invest overseas,* *undergoes change, and that it is possible to identify both the conditions making for the change and their effect on the trajectory of the country's development. The concept also suggests the ways in which the interaction between foreign and domestic firms might itself influence the country's investment path*."

IDM paradigm helps to choose a location for FDI based on the objectives and location factors (Galan et al., 2007). The paradigm categories the countries according to five stages of development. First group consists of wealthy industrialized nations, DCs (stage 4 and 5 based on characteristics); second group consist of the newly industrialized countries (NICs), which are on the way to converge to DCs (stage 3) and third group consist of Least Develop Countries (LDCs) (stage 1and 2 based on characteristics). Based on the position of the host and the home country it is easy to identify the location factors that attract FDI (Galan et al., 2007). J. Dunning (1988) identified three main motives for FDI: natural resources, new markets, and strategic assets. The first two motives are asset seeking in nature, and the third one is asset augmenting (Galan et al., 2007). The DCs will invest in LDCs and NICs with asset seeking and market seeking motive and LDCs may invest in DCs with strategic asset and market seeking a motive. However, after a decade, Jain et al. (2013) developed a theoretical model that essentially identify the location determinants for emerging firms to invest in other emerging companies and DCs.

Recently, Jain et al. (2013) has developed a matrix with the interaction of firm resources (Country created resources, cost-competitiveness based resources, experience-based resources and multinational business network relational resources) and internationalization motives (for example, market-seeking, asset-seeking, resource-seeking, and efficiency-seeking) that essentially identify the location factors for emerging nation firms' FDI. The new thing in this model is that they used opportunity seeking motive as an additional variable that tried to incorporate a situation where firms due to quota restrictions, institutional voids and/or anti-dumping penalties, use internationalization to circumvent these restrictions. However, all of these models based on FDI, not outsourcing. As a result, none of these models could satisfactorily fill the essence of country selection focused on outsourcing.

In this study, we will use these three models and factors from our previous literature reviews to develop a model that could identify the factors affecting country selection for outsourcing of RMG. Our proposed idea is given in Figure 2.

4.3 Variables

The independent variables include the country related variables and firm's motives. We include one dependent variable selection that is composed of the duration of outsourcing and future commitment. The dependable variable will as a byproduct help us to identify the firms motive and country selection variable that are essential for long-term commitment and short-term sourcing. We will use firm size and location as moderator variables. We assume the firms' motive and country determinants may be moderated by the firms' size and location. Thus, we posit

P3g: Firms' size influences the firm's motive in the country selection, *ceteris paribus*.

P3h: Firms' location influences the firm's motive in the country selection, *ceteris paribus*.

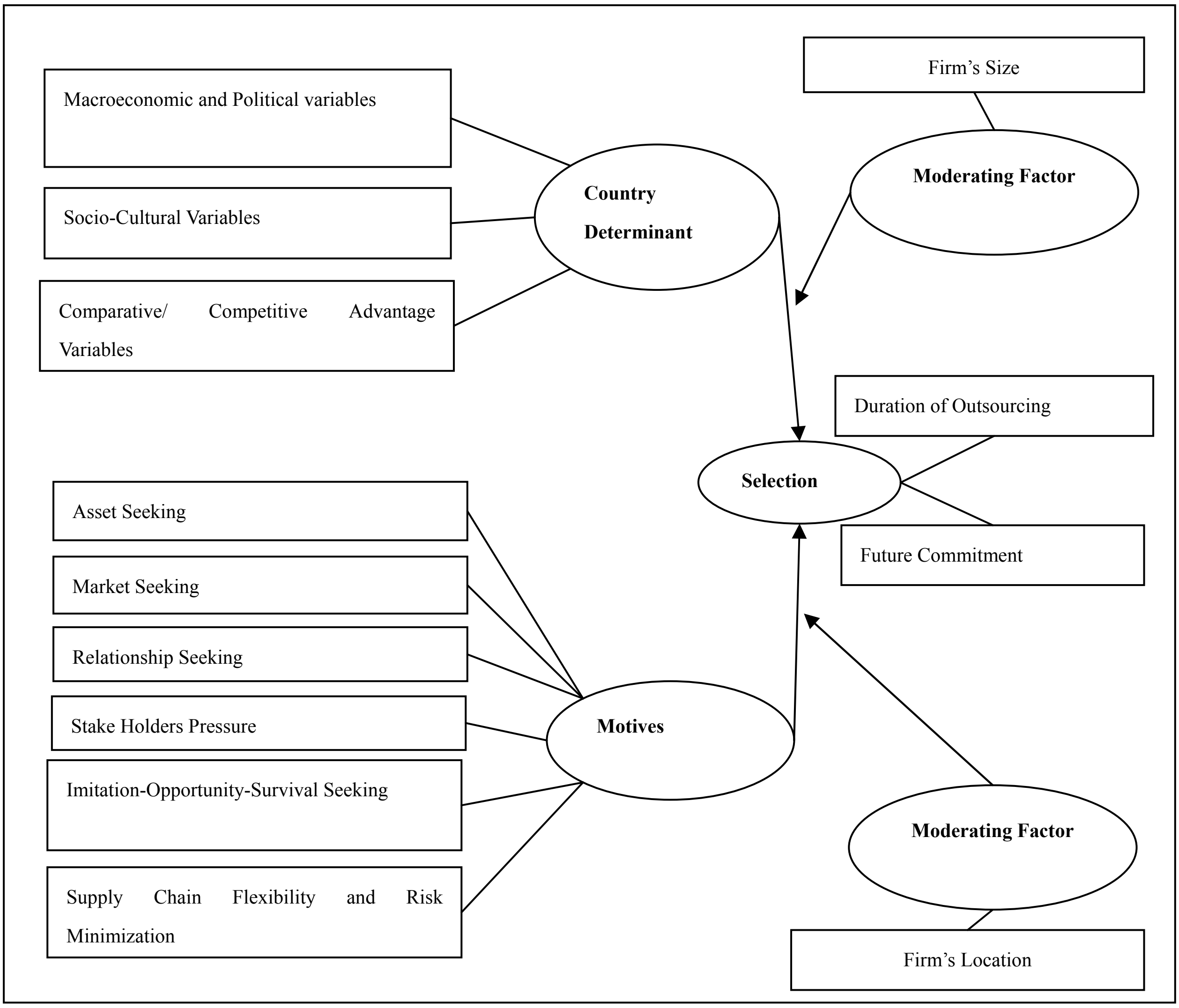

Figure 2. Proposed model for selecting country for outsourcing RMG

5. Conclusion and Implications

It is evident from our literature review that studies on factors determining outsourcing location decision are rare or unavailable. Most of the research were concentrated on mainly two things: determinants of location decision for FDI and make or buy decisions of outsourcing. Limited studies in this area resulted in the failure of outsourcing or costly outsourcing by the companies. For successful outsourcing decisions, managers need more information (Kremic et al., 2006).

Our study tried to fill this knowledge gap by proposing a model of outsourcing based on the findings of previous literature. As single factor theory is less successful to find out the causes (Jain et al., 2013), we used a combination of factors: country factors and company's motive (independent variables); Location decision (dependent variable); and moderating factors such as firm's size and location.

Every industry is unique and hence possess unique characteristics. Location determinants in global supply chain management are distinctive to the relevant industry. Keeping this in mind this paper has following implications:

Theoretical implications from the study are three folded. Firstly, we identify the salient country determinants for internationalization that could be used as outsourcing location determinants for RMG. Secondly, our proposed model will help researchers to identify and match the country determinants with that of firms motives of location selection (Jain et al., 2013). Researchers could use this model in other industry too to identify, match and validate the collective impact of the factors in determining outsourcing location determinant irrespective of countries' level of development. Finally, we also contributed to the global supply chain management literature.

We argue that outsourcing location decisions rely on a complex of location characteristics and firm's motives moderated by firms' size and location. However, these contributions are reinforced further through an empirical study through survey questions or evaluation of companies' documents. New variables may emerge which could be added, and other may be replaced based on context and industry.

Managers in the different industry have been so far aligned their location choices mostly based on country variables (Buckley et al., 2007). Moreover, the scarce literature on outsourcing location determinants induce the making sub-optimal location decisions. This model will help the managers to identify the stimulus for deciding RMG outsourcing location.

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