

KEY ENABLERS FOR INTERNATIONAL BUSINESS EXPANSION OF JORDAN COMPANIES – A PLS-SEM APPROACH

Sufyan QUDAH^a, Alexandru CĂPĂȚÎNĂ^{b}, Adrian MICU^c*

^a „Dunărea de Jos” University of Galati, Romania; Embassy of Jordan in Romania

^{b,c} „Dunărea de Jos” University of Galati, Romania

ABSTRACT

Considering the limited empirical evidence on Jordan companies' internationalization approach, we seek to identify the prioritization of international dimension of business in this country, to assess Jordan companies' interest for international expansion, but also expectations related to international expansion. Based on a PLS-SEM approach, the ambition of this study is to explore Jordan companies' readiness for international expansion and to identify and capture the opportunities of Jordan companies to approach foreign markets, in line with their experience in international business. The findings retrieved from this study contribute to the development of body of knowledge in this research stream, by revealing the correlations among variables with significant predictive power on international business management.

KEYWORDS: *international business, foreign markets, governmental support, strategic capabilities*

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1. INTRODUCTION

Jordan companies face the challenge of serving a wide range of interests of their foreign business partners. To meet this challenge, international managers need to go beyond their local business model and find new ways of collaborating in the global arena. The capability to cooperate with international business partners of Jordan companies lies in sharing resources and coordinating international strategy and business relationship management.

International development in the case of Jordan companies is perceived as being a multidimensional decision process, affected both by both internal factors and external ones (especially, governmental support).

The objective of this research consists of determining the correlations among different latent variables, such as interest for international expansion, experience in international business, development of capabilities to approach foreign markets, readiness for international expansion, governmental support for international business and expectations related to international expansion, in the particular case of Jordan. At the best of our knowledge, this is the first research that addresses this topic in this country.

Structural Equation Modelling - Partial Least Squares (PLS-SEM) is considered an adequate method for the objectives of this quantitative study, as it allows estimation of complex cause-effect international business relationships in a path model with relevant latent variables for Jordan companies' internationalization process.

* Corresponding author. E-mail address: alexandru.capatana@ugal.ro

2. THEORETICAL BACKGROUND

While Jordan's economy has been recently influenced by external shocks such as regional instability and recessions due to Covid-19 pandemic, it remains a stable and influential economic hub in the Middle East that reflects great promise in international business. This can be attributed to improved governance, the presence of entrepreneurial spirit among Jordan people, and expanding market segments opened to international markets, such as services, tourism, pharmaceuticals, energy (including renewable and alternative energy), and information, communications and technology (ICT). The country's small and medium-sized enterprises (SMEs) are perceived as catalysts that offer Jordan avenues for prosperity. SMEs not only strengthen productivity and generate tax revenue; they attract foreign investment and they seek to approach foreign markets.

A study conducted by Al Khattab et al. (2008) outlines a positive relationship between the degree of internationalisation of the firms from Jordan, measured by their years of experience in international business, their weight of revenues generated by international business relationships and the number of countries in which they are operating. The internationalization facing Jordanian firms are therefore partly a reflection of the wider issues all firms in the Middle East region; empirical evidence reveals that many Jordanian international firms tend to operate mainly in Middle Eastern markets.

Jordanian business culture to represent a version of modern cultures where employees are not afraid of disagreeing with their bosses, and are consulted in decisions related to their work, leading to a low power distance, considering Hofstede model. This means that the actions to approach external markets is encouraged, as Jordanians are famous of having a high interest for knowledge and to involve in cross-cultural contexts. Furthermore, Jordan is considered one of Arab countries with the highest skilled workers, capable to adapt rapidly to international business relations (Alkailani et al., 2012).

The Jordan firms endowed with international market experience and knowledge are expected to develop a smooth internationalization process, and to achieve the expected success within international markets. One of the major obstacles perceived by the companies, in general, and Jordan firms, in particular, during their internationalization process, is the lack of external markets knowledge rather than their capability to acquire this market knowledge (Martin et al., 2022). The networking events and seminars organized by Jordan's Ministry of Planning and International Cooperation to train SMEs to develop their international relational skills could help them enhance their approach of foreign markets. The networking support could embrace the form of trade missions to specific foreign markets, and internationalization advisors with expertise about specific foreign markets and relational skills. These activities could enable Jordan firms to identify suitable business partners in foreign markets.

The majority of firms in Jordan are small and their development chances are highly connected with export activities. Policy makers consider that the creation and development of entrepreneurial spirit is one of the key mechanisms by which unemployment and implicitly poverty can be alleviated in Jordan (Al-Shaikh, 2013). The Export-Led Growth strategy adopted by Jordan political decision-makers aims at increasing the capacity to address international market needs, mainly due to the economic openness. Exports are perceived by Jordan government the key pillar of economic growth expansion (Al-Assaf and Al-Abdulrazag, 2015).

The barriers for Jordan SMEs to evaluate their internationalization readiness are related to a wide range of factors, such as the shortage of liquidity and working capital, the gaps in external market knowledge and market analysis, incapacity to understand the main differences between national and overseas potential customers, the lack or limited of international business networking and the international sales channels (Jarrar, 2021).

3. METHOD

The development of international business relationships represents a key factor for Jordan companies in their actions oriented toward internationalization. In this regard, we conducted a pilot quantitative survey on 40 Jordan companies in different stages of their internationalization process, to explore their representatives’ opinions on different insights related to their interest for international expansion, their experience in international business, the development of their capabilities to approach foreign markets, their readiness for international expansion, the governmental support for international business and their expectations related to international expansion.

A questionnaire based on 18 items analysed on 5-points Likert scale and 3 demographics items has been posted online (<https://forms.gle/1zjQnPQuQm8whTJf7>) and sent to the representatives of Jordan companies. We invited more than 100 companies’ representatives from top and middle management positions to achieve a convenience sample of 40 validated responses. The invitations to fill in the online questionnaire has been sent in the period May – August 2022.

The main goal of the correlational research based on Structural Equation Modelling - Partial Least Squares (PLS-SEM) approach consists of revealing the strength of relationships between 6 constructs, namely: interest for international expansion (IIE), experience in international business (EIB), development of capabilities to approach foreign markets (DCAFM), readiness for international expansion (RIE), governmental support for international business (GISB) and expectations related to international expansion (ERIE). Each construct has been built on three items from the questionnaire, whose distribution of answers have been interpreted in the previous section of this research report. For all the constructs, we adopted a reflective measurement model evaluation, due to the nature of items that reflect different perspectives of the constructs’ content. Figure 1 highlights the relationships between the latent variables included in the research model, indicated by arrows pointing from the exogenous latent variable considered a predictor to the dependent (endogenous) latent variable.

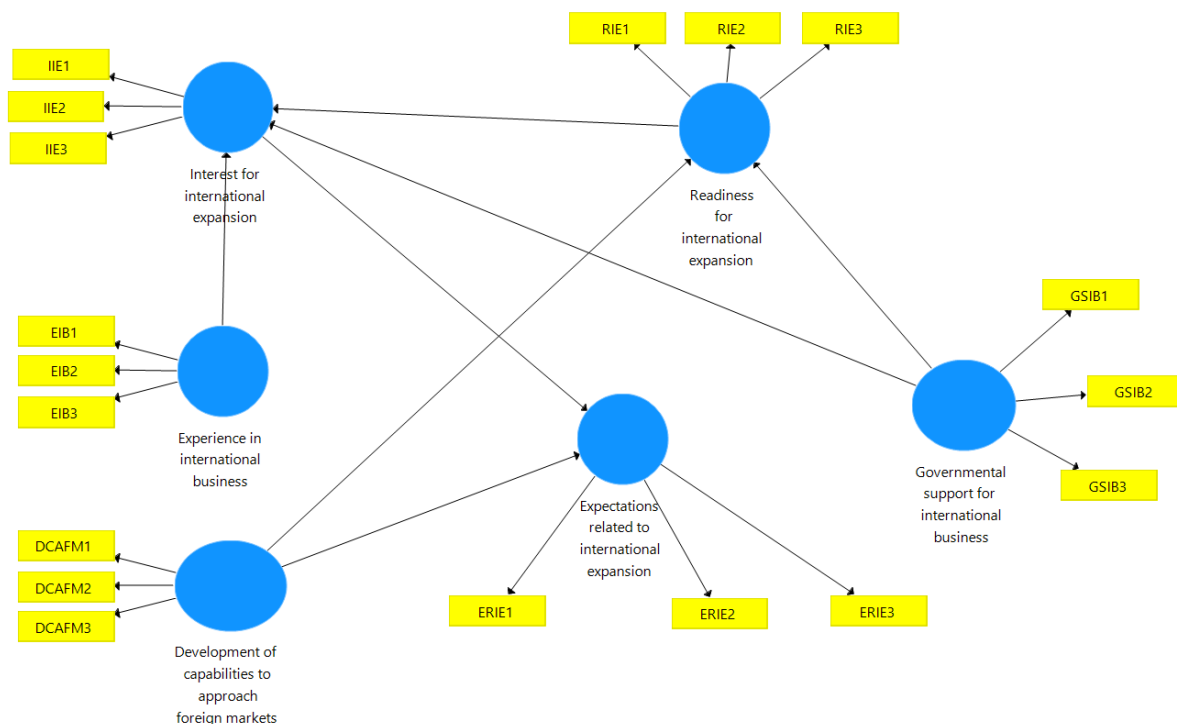


Figure 1. Conceptual model determined by PLS-SEM approach

Source: Smart PLS 3 software output

The hypotheses have been developed as it follows:

- H1: The development of capabilities to approach foreign markets has a significant effect on the expectations related to international expansion;
- H2: The development of capabilities to approach foreign markets has a significant effect on the readiness for international expansion;
- H3: The experience in international business has a significant effect on the interest for international expansion;
- H4: The governmental support for international business has a significant effect on the interest for international expansion;
- H5: The governmental support for international business has a significant effect on the readiness for international expansion;
- H6: The interest for international expansion has a significant effect on the expectations related to international expansion;
- H7: The readiness for international expansion has a significant effect on the interest for international expansion.

4. FINDINGS

All path coefficients associated to the structural model are presented in Figure 2. The development of capabilities to approach foreign markets has *the strongest effect* on the readiness for international expansion (0.649), followed by the effect of the interest for international expansion on the expectations related to international expansion (0.625). The *weakest effect* can be found between the development of capabilities to approach foreign markets and the expectations related to international expansion (0.003). The other relationships can be characterised by moderate effects generated by the independent constructs on dependent ones. Furthermore, the readiness for international expansion *mediates* the relationship between the governmental support for international business and the interest for international expansion. We observe that the direct path from governmental support for international business and the interest for international expansion reflects a higher path coefficient (0.324) than the intermediate paths mediated by the readiness for international expansion (path coefficients 0.104, respectively 0.211).

The variables: EIB (experience in international business), GSIB (governmental support for international business) and RIE (readiness for international expansion) explain 32.3% from the variance of the endogenous variable IIE (interest for international expansion), as the coefficient of determination in this case is 0.323. The variables: DCAFM (development of capabilities to approach foreign markets) and IIE (interest for international expansion) explain 39.3% of the endogenous variable ERIE (expectations related to international expansion), while the variables: DCAFM (development of capabilities to approach foreign markets) and GSIB (governmental support for international business) explain 45.6% from the endogenous variable RIE (readiness for international expansion).

The estimation of the conceptual model provides empirically tested data on the relationships between the indicators and the latent variables (reflective measurement model in our case), respectively the relationships between the latent variables (the structural model). The purpose of structural equation modelling using the partial least squares (PLS-SEM) method is to maximize the average explained variance (value of the coefficient of determination) of the endogenous latent variables in the structural model.

The evaluation of the reflective measurement model will be carried out by determining the level of internal consistency (Cronbach Alpha and the composite confidence level), convergent validity (assessed by the mean variance extracted) and discriminant validity (assessed by the Fornell-Larcker criterion and the Heterotrait-Monotrait ratio (HTMT)).

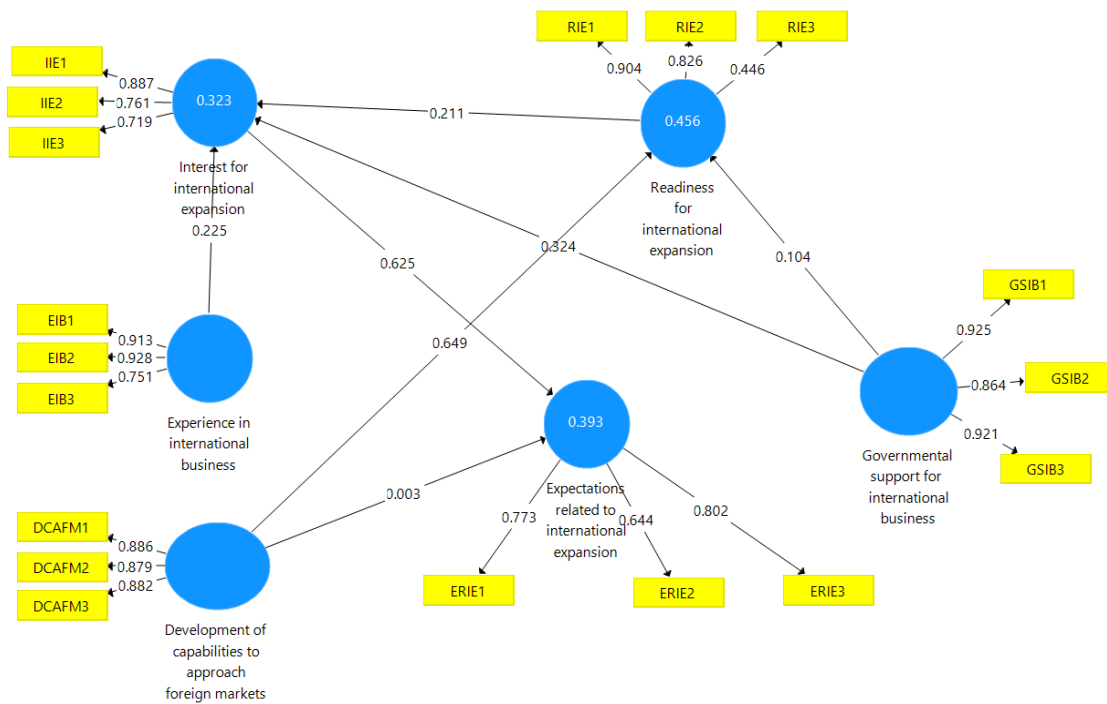


Figure 2. Path coefficients in the structural model

Source: Smart PLS 3 software output

Outer loadings are the key indicators that illustrate the trajectory from latent variables to indicators and show how much each item contributes in absolute terms to the description of a reflective construct. Most of the outer loadings overcome the recommended threshold of 0.7, being highlighted in green colour, and only two related to items ERIE2 and RIE3 are under this threshold (Figure 3). This means that the contributions of items to the six constructs are significant.

	Development of capabili...	Expectations rel...	Experience in int...	Governmental ...	Interest for inter...	Readiness for int...
DCAFM1	0.886					
DCAFM2	0.879					
DCAFM3	0.882					
EIB1			0.913			
EIB2			0.928			
EIB3			0.751			
ERIE1		0.773				
ERIE2		0.644				
ERIE3		0.802				
GSIB1				0.925		
GSIB2				0.864		
GSIB3				0.921		
IIE1					0.887	
IIE2					0.761	
IIE3					0.719	
RIE1						0.904
RIE2						0.826
RIE3						0.446

Figure 3. Outer loadings associated to the items embedded in the questionnaire

Source: Smart PLS 3 software output

Cronbach Alpha is a measure of the internal consistency or reliability of a variable's measurement, reflecting how correlated the variables within the structural model are. The minimum accepted threshold for this indicator is 0.7.

Only two constructs from six, namely ERIE (expectations related to international expansion) and RIE (readiness for international expansion) are below the threshold, while the other four (DCAFM - development of capabilities to approach foreign markets, EIB – experience in international business, GSIB – governmental support for international business and IIE – interest for international expansion) overcome this threshold, leading to a satisfactory overall assessment of this indicator and consequently, the reliability of the measurement tool is validated (Figure 4).

Matrix	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)	Copy to Clipboard
	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance...	
Development of capabilities to approach foreign markets	0.858	0.859	0.913	0.779	
Expectations related to international expansion	0.590	0.601	0.785	0.552	
Experience in international business	0.845	0.930	0.901	0.753	
Governmental support for international business	0.891	0.942	0.930	0.817	
Interest for international expansion	0.704	0.754	0.834	0.627	
Readiness for international expansion	0.578	0.697	0.784	0.566	

Figure 4. Evaluation of the structural model's convergent validity

Source: Smart PLS 3 software output

In the case of discriminant validity, the Fornell-Larcker criterion compares the square root of the average variance extracted (AVE) with the correlation of the latent variables. A latent variable should better explain the variance of its own indicators than the variance of other latent variables. Therefore, the square root of the AVE of each reflective variable should have a higher value than the correlations with other latent variables, a fact confirmed in this empirical research (as the AVE values for DCAFM (0.882), ERIE (0.743), EIB (0.868), GSIB (0.904) and IIE (0.792) are higher than the correlations with the other latent variables, illustrated below the main diagonal in Figure 5).

Discriminant Validity

Fornell-Larcker Criterion	Cross Loadings	Heterotrait-Monotrait Ratio (HT...	Heterotrait-Monotrait Ratio (HT...	Copy to Clipboard:	Excel Format		
		Development of cap...	Expectations rela...	Experience in intern...	Governmental ...	Interest for in...	Readiness for...
Development of capabilities to approach forei...		0.882					
Expectations related to international expansion		0.392	0.743				
Experience in international business		0.659	0.267	0.868			
Governmental support for international business		0.172	0.395	0.162	0.904		
Interest for international expansion		0.621	0.627	0.432	0.406	0.792	
Readiness for international expansion		0.667	0.264	0.735	0.216	0.446	0.752

Figure 5. Fornell-Larcker criterion within discriminant validity assessment

Source: Smart PLS 3 software output

The other measure for discriminant validity is the Heterotrait Monotrait (HTMT) correlation ratio. The HTMT is able to achieve higher specificity and reliability rates compared to the cross-loading criterion and the Fornell-Lacker criterion. HTMT values close to 1 indicate a lack of discriminant validity. Using HTMT as a criterion involves comparing it to a predefined threshold. If the HTMT value is greater than this threshold, it can be concluded that there is a lack of discriminant validity.

Some authors suggest a minimum threshold of 0.85. In most correlations from our structural model, the values are under the threshold, only in three correlations, the values are higher (RIE -> DCAFm, IIE->ERIE and RIE->EIB) – Figure 6.

Discriminant Validity

	Development ...	Expectations r...	Experience in i...	Governmental ...	Interest for ...	Readiness for inte...
Development of capabilities to approach f...						
Expectations related to international expan...	0.527					
Experience in international business	0.763	0.356				
Governmental support for international bu...	0.204	0.541	0.207			
Interest for international expansion	0.754	0.954	0.528	0.474		
Readiness for international expansion	0.918	0.506	1.048	0.356	0.660	

Figure 6. HTMT criterion within discriminant validity assessment

Source: Smart PLS 3 software output

The PLS-SEM method does not take into account that the data are normally distributed, which implies that significance tests cannot be applied to test whether coefficients such as weights, external loadings, and relationship coefficients are significant. Instead, PLS-SEM relies on a nonparametric bootstrap procedure to test the significance of the relationship coefficients estimated in PLS-SEM. In the bootstrapping procedure, subsamples are created with observations drawn randomly from the original data set (by replacement). The subsample is then used to estimate the structural model. This process is repeated until a large number of random data samples, approximately 5,000, have been created. Parameter estimates (weights, outlier loadings, and relationship coefficients estimated from subsamples) are used to obtain standard errors for the estimates. With this information, T-test values and asymptotic significances (p-values) are calculated to assess the significance of each estimate and validate or reject the research hypotheses.

Figure 7 reflects the structural model generated after applying the bootstrap procedure, in which the asymptotic significance values (p-value) are highlighted on the link relations between the latent variables.

The data reflected in Figure 8 are useful for supporting/rejecting the hypotheses from the structural model, based on their associated p-values. Hypotheses are supported, since the p values do not exceed the maximum significance level allowed of 0.05. In addition, the T-test shows us the magnitude of the correlation between the latent variables in this structural model.

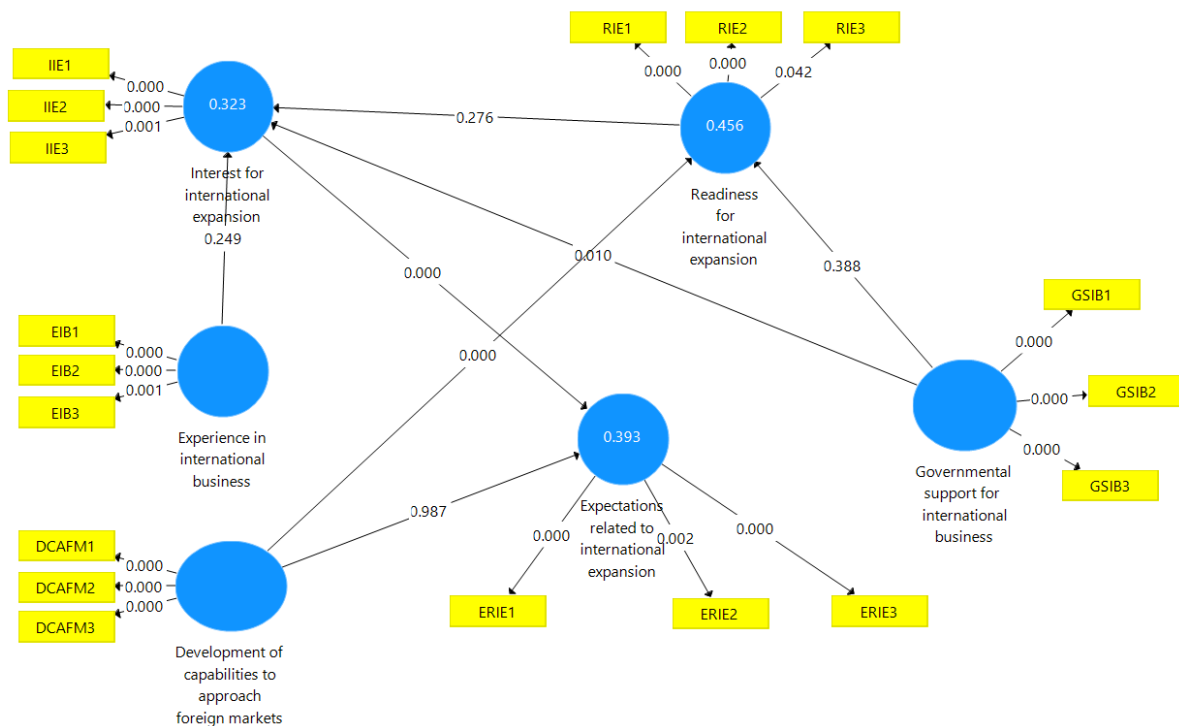


Figure 7. Determination of the p-values associated with the relationships between the variables of the model, after applying the bootstrap procedure
 Source: Smart PLS 3 software output

Path Coefficients

Mean, STDEV, T-Values, P-Values	Confidence Intervals	Confidence Intervals Bias Corrected	Samples	Copy to Clipboard:	Excel Format	R Format		
				Original ...	Sample ...	Standard ...	T Statistics...	P Values
Development of capabilities to approach foreign markets -> Expectations related to international expansion				0.003	-0.020	0.192	0.017	0.987
Development of capabilities to approach foreign markets -> Readiness for international expansion				0.649	0.657	0.107	6.080	0.000
Experience in international business -> Interest for international expansion				0.225	0.237	0.195	1.154	0.249
Governmental support for international business -> Interest for international expansion				0.324	0.335	0.125	2.596	0.010
Governmental support for international business -> Readiness for international expansion				0.104	0.137	0.120	0.864	0.388
Interest for international expansion -> Expectations related to international expansion				0.625	0.633	0.160	3.916	0.000
Readiness for international expansion -> Interest for international expansion				0.211	0.207	0.193	1.091	0.276

Figure 8. Asymptotic significance p and T-test values for the seven hypotheses from the structural model
 Source: Smart PLS 3 software output

A synthesis of hypotheses’ test results is outlined in Table 1.

Table 1. Overview on hypotheses

Hypothesis	Decision
H ₁ : The development of capabilities to approach foreign markets has a significant effect on the expectations related to international expansion	Rejected
H ₂ : The development of capabilities to approach foreign markets has a significant effect on the readiness for international expansion	Supported
H ₃ : The experience in international business has a significant effect on the interest for international expansion	Rejected

H4: The governmental support for international business has a significant effect on the interest for international expansion	Supported
H5: The governmental support for international business has a significant effect on the readiness for international expansion	Rejected
H6: The interest for international expansion has a significant effect on the expectations related to international expansion	Supported
H7: The readiness for international expansion has a significant effect on the interest for international expansion	Rejected

Source: authors

The strongest correlation has been found between the development of capabilities to approach foreign markets and the readiness for international expansion, offering opportunities to Jordan companies in the international business arena.

5. CONCLUSIONS

This structural model confirms that Jordan companies need to further develop their international business relationships, based on the optimal use of internal resources, experience in approaching foreign markets and involvement in international value chains.

The findings from this study reflect new managerial approaches at Jordan governmental level regarding the strategic actions capable to develop the capabilities of companies to approach foreign markets and to upgrade their readiness for international expansion.

This study has valuable implications for governmental decision-makers, who will understand how the pillars of business international expansion can be supported with public policies oriented toward real needs of Jordan companies.

Being a pilot study, we are aware of the main limitation related to the small convenience sample of Jordan firms, which participated at the survey. We are collecting new responses to enhance the statistical relevance of findings, considering that PLS-SEM needs a quantitative approach.

Future research will also involve a configurational study, considering combinations of antecedent conditions affecting the interest for international expansion.

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