

RESEARCH PAPER

Factors Affecting the Degree of Internationalisation in Jordanian Manufacturing Firms

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ABSTRACT

PURPOSE: The purpose of this study is to examine the factors affecting the degree of internationalisation in Jordanian manufacturing firms.

DESIGN/METHODOLOGY/APPROACH: This study has developed a theoretical framework to examine business factors that impact the degree of internationalisation, including organisational culture, international experience, costs, and

CITATION: Al Shraah, A., Alnsour, J., Al-Hyari, K. and Haffar, M. (2022): Factors Affecting the Degree of Internationalisation in Jordanian Manufacturing Firms. *World Journal of Entrepreneurship, Management and Sustainable Development*, Vol. 18, No. 6, pp. 691–705.

RECEIVED: 2 February 2022 / **REVISED:** 15 April 2022 / **ACCEPTED:** 22 April 2022 / **PUBLISHED:** 10 January 2023

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technological capabilities. Data were collected from 168 manufacturing firms listed by the Jordan Chamber of Industry. Hypotheses were tested using multiple regression analysis.

STUDY FINDINGS: The findings reveal that three factors affect the degree of internationalisation, including organisational culture, international experience, and costs. However, technological capabilities are not an influential factor with regard to the degree of internationalisation.

RESEARCH LIMITATIONS/IMPLICATIONS: As this study investigates the manufacturing sector only, it would be interesting to examine the extent to which empirical findings of this study apply to other sectors and developing countries. This study is a cross-sectional survey based on cause-effect relationships between business factors and the degree of internationalisation; therefore, a longitudinal methodology would be useful for further research.

PRACTICAL IMPLICATIONS: The creation of an analytical framework designed to improve the degree of internationalisation would enhance the integration of technological capabilities, innovation, production, and investment; in addition, it would be of benefit in terms of international expansion. Technological capacity could be improved by integrating it with other internal resources in order to effectively respond to the expansion of international activities.

ORIGINALITY/VALUE: This study contributes to the internationalisation theory by providing empirical evidence of whether and why business factors influence the internationalisation process, thereby increasing our understanding of how business factors contribute to successfully accessing global markets. Although international business is a practice adopted by firms, the investigation of internationalisation theory is important for both researchers and managers; therefore, this study extends the research conducted on internationalisation, particularly in the developing country context.

KEYWORDS: *Internationalisation; Business Factors; Manufacturing Firms; Developing Countries; Jordan*

INTRODUCTION

Internationalisation has become one of the most important factors that influence company success and is a vital tool that enables companies to continue in the changing business environment at an international level (Gammeltoft and Cuervo-Cazurra, 2021; Kumar *et al.*, 2013; Anderson, 2011). Internationalisation is regarded as one of the sources that increase the profitability of resource-based firms and a vital capacity that facilitates operations in the global market (Mihov and Naranjo, 2019). However, companies usually face challenges in selling their products in foreign markets due to internal factors (for example, resources, firm size, firm age, product quality, and location) and external factors (for example, procedures, currency concerns, and socio-cultural factors). Therefore, firm performance is a major determinant in managing the internationalisation process and achieving sustainable growth (Kumar *et al.*, 2013). A firm's international performance is often estimated by the ratio of foreign sales to total sales (Gaur and Kumar, 2009), and increasing this ratio requires improving products or services, networks, and manufacturing processes (Haddoud *et al.*, 2021). It also needs an adequate international strategy so as to sell its goods in the global market (Schweizer and Vahlne, 2022; Chandra *et al.*, 2020).

Therefore, recent literature on internationalisation has noticeably shifted its focus onto the relationship between the degree of internationalisation and business factors (Mohr and Batsakis, 2019). For instance, Nelaeva and Nilssen (2022) emphasised shifting focus from organisation- to individual-level learning in the internationalisation process. Successful internationalisation interacts

efficiently with different business factors, such as organisational culture, international experience, cost efficiency, and technological capabilities, in order to achieve sustainable growth (Fernandes *et al.*, 2020; Zeng *et al.*, 2009). Despite the strategic benefits resulting from internationalisation, such as improvements in risk management, access to new technologies and learning practices (Zhai and Ghosal, 2022; Kumar *et al.*, 2013; Pattnaik and Elango, 2009; Mihov and Naranjo, 2019), there are few studies in the current literature that investigate this (Chandra *et al.*, 2020; Haddoud *et al.*, 2021; Anderson, 2011). Moreover, almost all of the existing studies on internationalisation in the current literature focus on Western countries (Chandra *et al.*, 2020), while studies on developing countries are still few in number (Chandra *et al.*, 2020; Haddoud *et al.*, 2021; Anderson, 2011). Therefore, this study enhances the understanding of internationalisation in the context of developing countries.

This study attempts to examine the relationship between various selected business factors, including organisational culture, international experience, costs, and technological capabilities, and the degree to which they affect the internationalisation of Jordanian manufacturing companies. It addresses how the relationship between business factors and the degree of internationalisation can improve knowledge of internationalisation.

THE THEORETICAL MODEL AND HYPOTHESES

Figure 1 illustrates a set of business factors that directly influence the degree of internationalisation of Jordanian manufacturing firms. These factors include organisational culture, international experience, materials and labour costs, and technological capabilities. The following sub-sections explain the interaction between business factors and the degree of internationalisation.

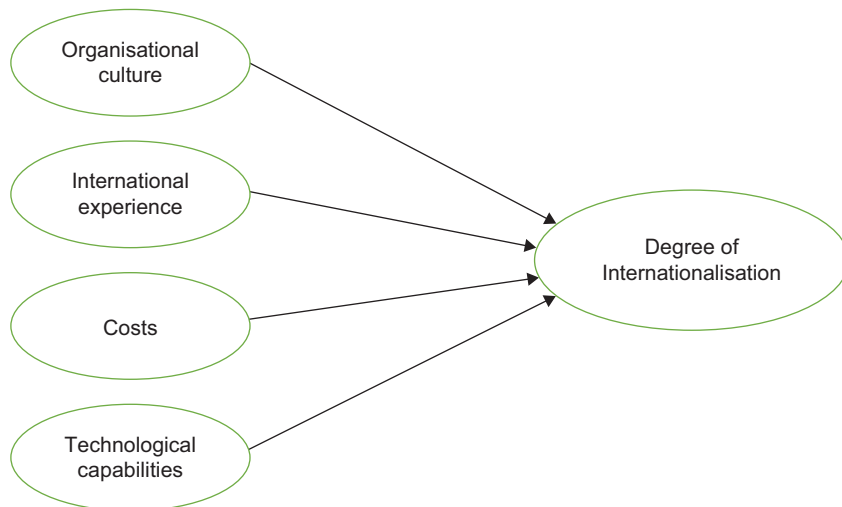


Figure 1: The Theoretical model

Source: Constructed by authors

Organisational Culture

Many empirical studies have demonstrated the association between the degree of internationalisation and organisational culture (for example, Al-Hyari *et al.*, 2012; Xuan, 2018) and that organisational culture directly influences the degree of internationalisation, because it affects employee performance (Xuan, 2018). Both innovation and proactivity are basic attributes of organisational culture in successful internationalised companies (Zeng *et al.*, 2009).

Innovation refers to the processes that enable a firm to produce new products or services, or new ideas, with the aim of improving the efficiency of the firm's competitive advantage (Martin *et al.*, 2016). The structure of an organisation, including its politics, rules, and general attitude, is influenced by core values and beliefs (Szymura-Tyc and Kucia, 2016). Therefore, culture improves innovative aspects of individual employees because it increases their acceptance of innovative philosophy as an instrument to improve performance (Heinzmann and Machado, 2014). There are several philosophies and cultural values in the literature that enhance innovation, such as creativity and initiative, entrepreneurial mindset, autonomy, risk-taking, teamwork, marketing orientation, and flexibility. Proactiveness is the degree to which a firm is able to pursue initiatives, embrace creativity, exploit new opportunities, and become involved in the global market (Xuan, 2018). Therefore, both innovation and proactivity play an important role in growing firms at an international level. Based on this argument, the following hypothesis is proposed:

H_1 : The greater the organisational culture, the higher the degree of internationalisation.

INTERNATIONAL EXPERIENCE

Firms characterised by wider experience in internationalisation are more likely to respond effectively to the internationalisation process. Therefore, the expansion to global markets can be less costly and less risky for firms that already have international experience (Chandra *et al.*, 2020). Moreover, international experience can enable firms to create new international projects while working speedily and successfully towards internationalisation (Lee *et al.*, 2020). Establishing global networks, as part of the international experience, is one of the most important skills required by top managers for successful internationalisation (Oviatt and McDougall, 1994). Gaur and Kumar (2009) state that firms with a higher level of international experience are also more likely to have increased technology and had transformed from exportation activities to foreign direct investment (FDI). Based on previous studies, the following hypothesis is proposed:

H_2 : The greater the international experience, the higher the degree of internationalisation.

MATERIALS AND LABOUR COSTS

The internationalisation process is associated with both risk and investment of resources. A firm's growth is influenced by the cost-efficiency of internationalisation; the most significant operating costs are labour and material, which have a fundamental effect on financial performance (Levy, 1995). Most companies tend to save costs by instigating changes in products or processes in order to operate more efficiently, for instance, relocating industries to countries with lower labour costs and/or establishing factories closer to raw materials. Several empirical studies have found an existing relationship between costs and the degree of internationalisation (Mihov and Naranjo, 2019; Wagner, 2004). Al-Hyari *et al.* (2012) assert that cost influences the degree of internationalisation. Based on the above arguments, the following hypothesis is proposed:

H_3 : The higher the efficiency of cost management, the higher the degree of internationalisation.

TECHNOLOGICAL CAPABILITIES

Technology is essential for company innovation; therefore, firms with high technological capabilities are more likely to successfully expand their activities into foreign markets (Knight and Kim, 2009). Technological capabilities have been verified as a major driver of international sales expansion based on innovative outcomes (Knight and Kim, 2009). Accordingly, a firm's technological capabilities influence its degree of internationalisation; empirically, Lecerf and Omrani (2020) attest a direct, positive, and significant impact of the level of technology on the internationalisation process. Likewise, Wild (2020) confirms that firms with a high level of technology tend to access foreign markets rapidly and successfully. Similarly, Zeng *et al.* (2009) have substantiated a significant association between the level of technology and firm performance in the internationalisation process. Based on this argument, the following hypothesis is proposed:

H_4 : The greater the technological capabilities, the higher the degree of internationalisation.

METHODS

Measurement and Reliability

The Degree of Internationalisation

Most authors measure internationalisation performance by means of financial returns. Zeng *et al.* (2009, p.329) have developed a scale to measure the degree of internationalisation using five categories; each category has a specified ratio. Similarly, Fernandes *et al.* (2020, p.127) have developed a scale that also includes five categories; each category has a predetermined ratio based on company turnover. Both Ruigrok *et al.* (2007, p.358) and Gaur and Kumar (2009, p.179) use the foreign sales-to-total-sales (FSTS) ratio to measure the degree of internationalisation.

Based on the literature, this study measures the degree of internationalisation using the FSTS ratio FSTS. According to Fernandes *et al.* (2020, p.127), the scale consists of:

- (1) less than 10%;
- (2) from 10% to 25%;
- (3) from 25% to 50%;
- (4) from 50% to 75%;
- (5) more than 75%.

Organisational Culture

This variable is measured using 28 items that are based on the current literature (for example, Machado, 2014; Szymura-Tyc and Kucia, 2016). These items represent seven dimensions: competitiveness, social responsibility, support, innovation, emphasis on rewards, performance orientation, and stability. Cronbach's alpha of reliability was 0.874. A ratio scale was adopted to assess the dimensions of organisational culture.

International Experience

Mohr and Batsakis (2019) measure international experience in the internationalisation process using the average number of years individuals had worked abroad before being employed by a company, while Chetty *et al.* (2014) measure international experience as the number of years of international activity an individual has in a company. Similarly, Le and Kroll (2017) use the average number of years an individual has worked for international companies prior to their executive work within a company. Based on previous studies, this study measures international experience by calculating the average number of years staff members have worked abroad before their current work; an ordinal scale was used to assess this variable.

Costs

Costs refer to the ability of firms to control production input costs such as raw materials, labour force, and operating expenses (Wagner, 2004). Cost efficiency can be measured by the sum of the ratios of a firm's material costs to sales and employee costs to sales and the overall cost efficiency, which is calculated as the total of both of these indicators (Wagner, 2004). The amount of change in labour, materials, and overall cost efficiency during the period from 2015 to 2020 is then used to estimate the cost-efficiency change.

Technological Capabilities

Technological capabilities represent the degree of advancement in technology used in manufacturing for internationalising firms. The advanced technological capabilities of a firm generate a strong

competitive advantage and therefore higher returns (Oviatt and McDougall, 1994). Technological capabilities are measured in this study using five items selected from Pangarkar (2008, p.480). Cronbach's alpha of reliability was 0.854, and a five-point Likert scale was adopted to assess technological capabilities.

DATA COLLECTION

The present study targets the Jordanian manufacturing sector, which is comprised of 1,928 firms (Jordan Chamber of Industry, 2020); Table 1 illustrates several indicators regarding these firms. According to the Jordan Chamber of Industry (2020), a large firm has more than 200 employees. Therefore, the number of samples in this study is 500; that is, the number of large firms in Jordan as determined by the Jordan Chamber of Industry. These are the largest firms both in terms of the number of employees and returns from internationalisation activities. Data were collected using an online questionnaire sent to firm managers. Five hundred questionnaires were sent in total, from which 238 were returned in full, yielding a response rate of 47.6%.

Table 1: Industrial Firms

Industrial Sectors	No. Firms	No. Employees	Total Capital (Million \$)	Exports (Million \$)
Mining Industries	34	8,972	713	1,744
Wood and Furniture	101	3,896	51	24
Engineering, Electrical and Information Technology	453	31,725	2,105	982
Chemical and Cosmetic	232	12,835	1,112	1,343
Therapeutic Industries and Medical Supplies Sector	72	9,037	395	982
Food, Catering, Agricultural, and Livestock Industries Sector	591	41,438	864	788
Packaging, Paper, Cardboard, Printing, and Office Supplies Industry	235	8,894	203	323
Construction Industries Sector	210	10,522	402	159
Total	1,928	127,319	5,845	6,322

Source: Jordan Chamber of Industry, <https://www.jci.org.jo/> (2020)

RESPONDENT CHARACTERISTICS

The majority of the managers in the sample are male (86.4%). Descriptive statistics highlight that 68.7% of managers are aged 50 years or older, 24.6% are aged between 40 and 50 years, and 6.6% are aged between 30 and 40 years. Descriptive statistics substantiate that 47.8% have more than 15 years of experience, 46.5% have 15-20 years of experience, and 5.7% have less than ten years of experience. Regarding the variable of education, a substantial majority of managers have a bachelor's degree or higher (89.1%).

DESCRIPTIVE STATISTICS AND CORRELATIONS

Table 2 presents the correlation analysis, together with several indicators for descriptive statistics of the study variables. The findings verify that the mean of the degree of internationalisation is 3.274; this signifies that the FSTS ratio lies between 25% and 50%. It should be noted here that the degree of internationalisation can vary from one firm to another, depending on the effectiveness of the business factors for each. The values of the standard deviations in the study's variables reveal that the means of variables analysed in the study represent the study population accurately; the highest standard deviation was 1.213 (for technological capabilities), and the lowest standard deviation was 0.908 (for costs). The results of the correlation analysis verify a significant association between the degree of internationalisation and organisational culture, international experience, costs, and technological capabilities, with a significant level of 0.01. The highest correlation is calculated as 0.546 between international experience and the degree of internationalisation.

Table 2: Correlation Analysis and Descriptive Statistics

Variable	M	SD	1	2	3	4	5
1. Internationalisation	3.274	0.970	1				
2. Organisational Culture	3.196	1.129	0.489**	1			
3. International Experience	3.209	0.929	0.546**	0.431**	1		
4. Costs	3.030	0.908	0.382**	0.152*	0.230**	1	
5. Technological Capabilities	2.752	1.213	0.310**	0.561**	0.282**	0.098	1

Notes: **Correlation is significant at the 0.01 level (2-tailed); *Correlation is significant at the 0.05 level (2-tailed)

Source: Constructed by authors

MULTIPLE REGRESSION ANALYSIS

Table 3 presents important information about the regression model, the correlation coefficient between the predictors, and the outcome, with an R-value of 0.662. The deterministic coefficient is shown by an R^2 value of 0.438. In this model, the value of the adjusted R^2 , 0.428, is very close to R^2 . The F-ratio is 43.914, which is significant ($P < 0.01$). A tolerance and VIF test for multicollinearity confirms that no support has been found for the existence of a multicollinearity problem. Therefore, the regression model is statistically fit.

Table 3: Regression Model

Independent Variables	Unstandardised Coefficients		Standardised Coefficients	t-Value	Sig.	Tolerance	VIF
	B	Std. Error	Beta				
Constant Internationalisation	0.419	0.227	-	1.845	0.066	-	-
Organisational Culture	0.241	0.055	0.281	4.359	0.001	0.603	1.659
International Experience	0.375	0.059	0.359	6.369	0.001	0.784	1.275
Cost Efficiency	0.272	0.055	0.254	4.939	0.001	0.944	1.060
Technological Capabilities	0.021	0.048	0.026	0.436	0.664	0.683	1.465
R = 0.662	R² = 0.438		Adjusted R² = 0.428	F = 43.914		Sig. 0.000	

Source: Constructed by authors

Table 3 confirms that three independent variables have a significant impact on the degree of internationalisation. Organisational culture has a significant impact on the degree of internationalisation with a Beta of 0.281 (t-value = 4.359, $P < 0.01$). International experience has a significant impact on the degree of internationalisation, with a Beta of 0.359 (t-value = 6.369, $P < 0.01$). Cost efficiency has a significant direct impact on the degree of internationalisation, with a Beta of 0.254 (t-value = 4.939, $P < 0.01$). Finally, technological capabilities have no significant impact on the degree of internationalisation, with a Beta of 0.026 (t-value = 0.436 $P > 0.05$).

DISCUSSION

This study investigates the impact of business factors on the degree of internationalisation, with a particular focus on Jordan. Three factors were substantiated as major impacts affecting the degree of internationalisation, including organisational culture, international experience, and costs. These factors contribute to raising the FSTS ratio; the increase in terms of the study sample is 25-50%. Conversely, a lack of technological capabilities hinders the degree of internationalisation. It should also be noted that net income generated from foreign sales is relatively low. In practice, the revenue resulting from foreign sales was estimated at US\$6.3 billion in the Jordanian manufacturing sector (see Table 1 above). This return is relatively low, especially for a leading sector such as manufacturing, regardless of the FSTS ratio. This may be related to other factors, such as lack of industrial diversification and the nature of goods that focus on lower prices. Additionally, although organisational culture, international experience, and costs are more likely to increase the degree of internationalisation, they cannot be relied on to ensure higher returns as money value.

The results of the study demonstrate empirically that organisational culture has a significant impact on the degree of internationalisation. Therefore, H_1 is fully accepted. These findings

correspond with previous studies confirming a positive and significant impact of organisational culture on the degree of the internationalisation process (for example, Le and Kroll, 2017; Szymura-Tyc and Kucia, 2016; Xuan, 2018). The results reveal that the dimensions of organisational culture, including competitiveness, social responsibility, support, innovation, emphasis on rewards, performance orientations, and stability, were found to be influential in terms of the degree of internationalisation. Findings suggest that the norms, values, and beliefs embedded within Jordanian manufacturing firms are adequate to improve innovation. However, the results suggest that managers have adopted effective instruments in terms of knowledge and planning to understand the complexity of stakeholders' perceptions when managing internationalisation.

Findings reveal that the degree of international experience for individual managers has no significant impact on the degree of internationalisation. Therefore, H_2 is fully accepted. Empirical findings are in line with previous studies (Le and Kroll, 2017; Mohr and Batsakis, 2019). However, the findings of this study demonstrate that managers with international experience assist manufacturing firms in engaging in behaviours that result in an acceptable degree of internationalisation. It appears that international experience has enabled Jordanian manufacturing firms to use foreign strategic partners efficiently, leading to an increase in the degree of internationalisation.

Results indicate that material and labour costs have a positive and significant impact on the degree of internationalisation, therefore lending support to H_3 , and are consistent with previous studies (Eriksson *et al.*, 2015; Mihov and Naranjo, 2019). This implies that material costs and labour costs can respond effectively to international expansion. Current labour and material costs in Jordan enable managers in manufacturing firms to efficiently stay in touch with the speed of internationalisation, indicating that managers have sufficient capabilities to manage costs efficiently and avoid the financial risks associated with international expansion, such as continuous exchange rate fluctuations and inflation. In practice, operating costs did not have a negative impact on foreign expansion, suggesting that the potential benefits of internationalisation are higher than the additional cost involved.

The results substantiate that those technological capabilities have no significant impact on the degree of internationalisation, therefore lending no support to H_4 ; these findings do not support studies found in the literature (e.g., Lecerf and Omrani, 2020; Mohr and Batsakis, 2019; Wild, 2020; Zeng *et al.*, 2009). The findings from this study suggest that growth in Jordanian manufacturing firms is not a result of technological capabilities but of the use of other strategies. The results clarify that there are two reasons for this; either technological capabilities are underutilised, or the level of technology used in manufacturing does not enable firms to increase the degree of international expansion. This indicates an absence of interaction between technological capabilities and other business factors, suggesting that technology cannot operate in a vacuum; it needs to overlap with networking capabilities that create such an interaction. In practice, technological capabilities provide opportunities to increase the degree of internationalisation, while a lack of networking capabilities, or a focus on profits, cannot increase international expansion.

CONCLUSIONS, IMPLICATIONS, AND LIMITATIONS

Internationalisation is an interesting area of investigation, especially when taking into account the degree of internationalisation. Considering the Jordanian manufacturing sector, this study examines the leading factors that influence the degree of internationalisation. Furthermore, research on the internationalisation process is still limited in developing countries, especially Jordan. The current study tested a series of four hypotheses to understand the practices of manufacturing firms in internationalisation. The results verify that the degree of internationalisation in Jordanian manufacturing firms is positively influenced by three factors: organisational culture, managers with international experience, and efficient cost management. The challenge that has the most impact on firms is technological capabilities, which currently hinder the degree of internationalisation. Therefore, this challenge should be addressed. Additionally, this study proposes new directions for future research that could be implemented in the area of internationalisation and provides important insights for managers in terms of improving the degree of internationalisation in Jordan; these findings could be extrapolated into similar countries in developing countries.

THEORETICAL IMPLICATIONS

This study provides important insights into the theoretical and practical aspects of internationalisation. Theoretically, most internationalisation studies focused on Central and Western Europe (Chandra *et al.*, 2020), while this study explores the impact of business factors on the degree of internationalisation in the context of developing countries, as studies on internationalisation in developing countries, particularly Jordan, are very limited (e.g., Chandra *et al.*, 2020; Haddoud *et al.*, 2021; Anderson, 2011). This study contributes to internationalisation theory by providing empirical evidence of whether and why business factors influence the internationalisation process, thereby increasing our understanding of how business factors contribute to successfully accessing the global market. Although international business is a practice adopted by firms, the investigation of internationalisation theory is important for both researchers and managers; therefore, this study extends the research that has been conducted on internationalisation (e.g., Zeng *et al.*, 2009; Noorderhaven and Harzing, 2009; Schubert *et al.*, 2018). Furthermore, this study provides empirical evidence that could be used to conduct comparative research studies in the context of developing countries, as comparative research extensively enhances knowledge.

PRACTICAL IMPLICATIONS

Practically, to improve the degree of internationalisation, an analytical framework that integrates technological capabilities, innovation, and further R&D, together with international expansion, is required. The current degree to which technological capabilities are utilised has not contributed to raising the level of internationalisation. Study findings propose that the level of technology needs to be enhanced systematically by integrating it with other internal resources in order to respond effectively to the expansion of international activities.

R&D is an essential strategy to raise the degree of internationalisation and increase both local and international sales. Investment in R&D is required in order to improve products, processes, and services, so as to increase the potential for manufacturing firms to build a competitive advantage; to achieve this, the current level of technological capabilities must be enhanced. Likewise, developing new products requires attracting industrial scholars and researchers who are able to conduct applied research in technical and industrial fields. Alternatively, the establishment of partnerships with high-tech companies could be exploited to enhance the performance of manufacturing firms. Finally, the development of new knowledge could be achieved by integrating talent, expertise, and experience, which leads to long-term successful internationalisation.

LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The limitations of this research can be seen as opportunities for future studies. Although this study targeted a relatively large sample, the factors studied have explained 42.8% of the variations in the degree of internationalisation. Future studies could consider other factors such as geographic location, firm size, and firm age. This study confirms that neither technological capabilities nor product innovation performance has contributed to improving the degree of internationalisation within the Jordanian context; however, both have significant correlations with the degree of internationalisation. Future qualitative studies could provide a better understanding and further details about these relationships. Moreover, it should be observed that this study is applied to the manufacturing sector only; therefore, it would be interesting to examine the extent to which the empirical findings of this study apply to other sectors and countries. This study is a cross-sectional survey based on cause-effect relationships between business factors and the degree of internationalisation; therefore, a longitudinal methodology would be useful for future research.

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