

Understanding The Relationship Between Dynamic Capabilities And Internationalization Readiness With Innovation As Mediating In The Smes In Jordan

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Abstract

The purpose of this research is to explore the influence of dynamic capabilities on the internationalization readiness. In the same aspect, the innovation role has been treated as a mediating variable in SMEs. The problem of this research is recognized from the fact of that SMEs cannot survive in the market for long time due to the replications of their product and services with less price charged by the competitors, also due to the existence of internationalization barriers. Yet, there are many positive indicators about the dynamic capabilities that enterprisers own. The partial least square structural equation modeling (PLS-SEM) technique is utilized to test the study hypotheses. In this study, an adopted questionnaire was employed, the research population covers the SMEs in Jordan, the sample includes 306 SMEs selected based on clear criteria. The targeted respondents were mainly the managers from each SME. The following are the study's principal findings: 1) dynamic capabilities have a significant impact on internationalization readiness; 2) dynamic capabilities have a significant impact on innovation; 3) innovation has a significant impact on internationalization readiness; and 4) innovation mediates the relationship between dynamic capabilities and internationalization readiness. Nonetheless, this study presents a full evaluation of the essential elements for internationalization readiness in order to provide practical feedback. The government and policymakers should use the findings of this study to enhance the country's economic development.

Keywords: internationalization readiness, dynamic capabilities, innovation, SMEs, Jordan.

Introduction

The organizations in both of emerging and developed economies and markets are extending their business activities to the farthest limits, chiefly in the countries that took part in international or regional commercial agreements and treaties for trading cooperation and markets penetrations purposes (Ghaith, 2020; Soobramanien & Worrall, 2017). As a consequence, academics and practitioners shed the lights and pay higher attention to many emerging aspects and challenges

compressing; the rivalry, the competition approaches (e.g. cost or differentiating competitions), the competitive advantage, the entry barriers to any market or industry, the sustainability and development, also the entrepreneurship's contributions that turned to be a must in the recognition of new market opportunities (Girod & Whittington, 2017).

Entrepreneurs and managers' ability to detect, seize, exploit, and subsequently turn market gaps and requirements into opportunities is heavily

affected by their proactiveness in spotting these opportunities. These skills fall under the category of "managerial dynamic competencies" (Schilke, 2014). Many supportive conversations in the same time range stated that opportunities are not only found, but also created. These academic arguments also looked into how entrepreneurialism and innovation may be developed, modified, or tailored to gain access to new markets and countries (Teece, 2017). It was also established that the formation and recognition of market opportunities are dependent on the entrepreneur's individual characteristics, such as prior knowledge, social networks, and, lastly, the entrepreneurial own capabilities to grasp market notifications (Shane & Venkataraman, 2000).

Field specialists, researchers, experts, and academics have put in tremendous work in the last few decades to introduce and investigate managerial dynamic capabilities as a relatively new idea in the strategic management field. When they agree on a standardized baseline, they have arrived at a common ground. It was characterized as a set of talents that can be used to evaluate managers' ability to innovate, alter, and then extend ways for organizations to improve (Helfat & Martin, 2015). As a result, the dynamic capabilities emphasize proving the ability to create competitive advantage by successfully sensing, reading, evaluating, exploiting, and responding to rapidly changing business contexts. In other words, businesses with managers who have noticeable dynamic capacities will observe noticeable changes in the quality of decisions, the speed with which decisions are made, and the speed with which decisions are made, the realism of strategic changes implementation, and the boosting in the organizational performance (Alvarez & Barney, 2017).

As previously said, internationalization is a potential strategy for breaking into new markets; yet, its success is contingent on diligent reading, scrutiny, and assessment of the new markets. However, this would only be fruitful for a limited time due to competitors' replication of products and services, or due to a pricing comparison between local and imported products. As a result, firms with internationalization goals must be inventive in order to increase their chances of achieving the necessary results (Abdullah, Rosnan, & Yusof, 2018; Al-Nimer, Ghaith, & Mutia, 2021).

Scholars and academia have shown a strong interest in the topic, discussing the role of various factors such as social capital and

networking (Domurath & Patzelt, 2019; Onkelinx, Manolova, & Edelman, 2016), firm resources (Azman¹ & Isa, 2021), firm characteristics (Baum, Schwens, & Kabst, 2015), and top management's exposure, education, and capabilities (Dau, Moore, & Kostova, 2020). Despite its importance in foreign market entry and international markets, managers' psychology has received less than enough attention thus far (Vlacic, González-Loureiro, & Eduardsen, 2019). More specifically, academic studies have ignored the role of innovation and dynamic capabilities to internationalization of SMEs in developing countries (Jordan). Hence, this first study of its kind viz-a-viz the said variables to fill the gaps in research on SMEs.

Literature Review and Hypotheses Development

The management authors and scholars presented the internationalization readiness concept as "the level of preparedness all firms should reach prior to internationalization to ensure the success" (Al-Nimer et al., 2021; Arafat, Khan, Ansari, & Saleem, 2022; Yan, Wickramasekera, & Tan, 2018). According to facts and statistics, the majority of the SMEs have limited their trading activities only to the national levels. Furthermore, they do not have clear intentions or plans to enter any joint venture abroad due to the high risks associated with leaving home and penetrate external markets. Yet, it is contended that by reaching the internationalization readiness state, any organization will seriously reduce these risks through passing the learning phase and accomplishing the readiness components (Pinho, Martins, & Soares, 2018b). This preparation for the internationalization direction is straightly linked to the organizational success of joint ventures, licensing or export agreements.

By looking into the empty part of the internationalization readiness cup, there are many barriers which could be classified into internal and external barriers. The internal barriers are allied with the organizational resources and in-house followed approaches compressing; the deficient in production capacity and a shortage of financial resources. Yet, the external barriers are mainly grounded in the foreign environment that the organization is willing to be part of, this could compress; the political regulations and the fluctuating foreign exchange rates (Santhosh, 2019).

Backing into the SMEs context, the Organization for Economic Co-operation and Development (Rahman, Akter, & Radicic, 2020) suggested four main barriers among SMEs before deciding their internationalize readiness, including The shortage of working capital (current assets – current liabilities), The shortage of information that results from the weak market analysis, The inability to understand the differences and similarities between the national and overseas potential customers (lack of networking), The lack of managerial capabilities (as agreed with the problem of this research), and The lack of distribution channels.

Chong, Ong, Abdullah, and Choo (2019), define innovation and internationalization as two strategic activities that are inextricably linked. Their relationship could be rationalized by the fact that internationalization is merely a kind of innovation, and that successful internationalization demands innovation from businesses with better business understanding (Al-Nimer et al., 2021; Peters & Vellas, 2019). Organizations, on the whole, tend to grow in terms of profitability and international sales. Chong et al. (2019), define internationalization as a market pattern based on generating novel products and services that are aligned with the strategy.

In its most basic form, innovation is described as a type of uniqueness that has a beneficial impact on a company's competitive advantage and growth in the global market. Furthermore, innovation is well-considered as a competitive advantage for businesses competing in a global market. To put it another way, innovation aids firms who are attempting to achieve a distinct competitive edge in order to maintain a steady market position (Carneiro, Bamiatzi, & Cavusgil, 2018).

Priyono, Nursyamsiah, and Darmawan (2020), investigated deeply in their intensive research in the impact of having strong managerial dynamic capabilities in obtaining the organizational agility with noticeable cut-off costs. They came up with supportive conclusions to the goals of the study. Moreover, they indicated that having managers with high dynamic capabilities will also assess in reducing the extent of uncertainty, building solid knowledge, fostering an organizational

innovation and dynamic competition, reducing hazards and finally swift the responding to the technological changes and the regular financial disruption.

In this study, the researchers explored a set of mechanisms by which the managers may standardize the desired levels of organizational agility in fewer risks and costs, also they tried to explore how to relate these mechanisms to the organizational strategy.

Wójcik and Ciszewska-Mlinarič (2020), studied the impact of organizational knowledge about the internationalization on enhancing its ability of going international, developing a competitive advantage and adopting the precise strategies in the background of multinational enterprises. Moreover, they inspected on the repercussion of this impact on understanding the strategic renewal in case of operating in ambiguity conditions. For the research methodology, the researchers adopted an in-depth case study on Microsoft (as one of the leading organizations in internationalization knowledge).

The crucial outcomes of the research designated that internationalization knowledge critically and significantly impact the fostering in strategic renewal of multinational organizations. Also, the results stressed on that managers who own sensing, seizing, and transforming capabilities jointly afford the essential foundations that enable internationalization knowledge to play its effective role on strategic renewal. The researchers proposed the following hypotheses, consistent with the purpose of the current study:

- H₁:** dynamic capabilities has significant effect on internationalization readiness in Jordanian SMEs.
- H₂:** dynamic capabilities has significant effect on innovation in Jordanian SMEs.
- H₃:** innovation has significant effect on internationalization readiness in Jordanian SMEs.
- H₄:** innovation mediate the relationship between dynamic capabilities and internationalization readiness in Jordanian SMEs.

Methodology

Flick (2018), has grouped the approaches according to the purpose and type of research which is exploratory research. Thus, this study adopt the design of quantitative descriptive survey. A single survey research objective guide this study. Hence, the questionnaire call for a thorough procedure of data gathering. Inuwa, Mashi, and Salisu (2017), stated that ascertaining the internationalization readiness of managers towards SMEs require the exploration into their thoughts and behaviour. As such, this study employ a survey design to acquire the information necessitated from the determined sample.

The target population in this study comprises managers in all registered SMEs have a number of employees from 5-99 in Jordan. In relation to this, Krejcie and Morgan (1970), as cited in Sekaran and Bougie (2016) propose that for a population of 1581, the sample size should be no less than 306. This sample size used by this research owing to the

size of the target population. Further, the technique of proportionate random sampling is also employed in this study. The purpose is to determine the number of managers in the sample scope of study. With the aim of achieving reliability in analysing the collected data, different statistical software have been applied to perform data analysis represented by Structural Equation Model (SEM), specifically Partial Least Square (PLS-SEM), precisely SmartPLS version 3.

Demographic Characteristics and Company Information

The demographic profile of the respondents shows the basic information of the selected respondents under the study. It is an essential part of the research for interpretation of the basic information's of the selected respondents. The summarize results are presented in the table below.

Table 1: Demographic Information

		Frequency	Percent	Valid Percent	Cumulative Percent
Age	18-25	83	27.1	27.1	27.1
	26-33	111	36.3	36.3	63.4
	34-41	84	27.5	27.5	90.8
	42 and above	28	9.2	9.2	100.0
	Total	306	100.0	100.0	
Gender	Male	180	58.8	58.8	58.8
	Female	126	41.2	41.2	100.0
	Total	306	100.0	100.0	
Education	Diploma	43	14.1	14.1	14.1
	Bachelor	131	42.8	42.8	56.9
	Master	88	28.8	28.8	85.6
	Others	44	14.4	14.4	100.0
	Total	306	100.0	100.0	
Sector	Service	72	23.5	23.5	23.5
	Manufacturing	58	19.0	19.0	42.5
	Logistics	58	19.0	19.0	61.4
	Information Technology	30	9.8	9.8	71.2
	Retail	45	14.7	14.7	85.9
	Other	43	14.1	14.1	100.0

	Total	306	100.0	100.0	
International	Yes	202	34.0	34.0	34.0
	No	104	66.0	66.0	100.0
	Total	306	100.0	100.0	
Existence	Less than 5 years	60	19.6	19.6	19.6
	6-10 years	121	39.5	39.5	59.2
	11-15 years	104	34.0	34.0	93.1
	16 and more years	21	6.9	6.9	100.0
	Total	306	100.0	100.0	
Employees	1-4	95	31.0	31.0	31.0
	5-19	94	30.7	30.7	61.8
	20-99	117	38.2	38.2	100.0
	Total	306	100.0	100.0	
Reasons	Expansion	97	31.7	31.7	31.7
	Increased Sales	76	24.8	24.8	56.5
	Company Strategy	76	24.8	24.8	81.4
	Demand for other Markets	38	12.4	12.4	93.8
	Others	19	6.2	6.2	100.0
	Total	306	100.0	100.0	

Data Analysis and Results

The first step of data analysis was a descriptive analysis of data using SPSS (version 25). Then, Smart PLS (version 3.3.3) was used in order to the assessment of measurement model and structural model (hypotheses test). Descriptive statistics are crucial because it would be

difficult to visualize what the data was indicating if we just presented it as raw data, especially if there was a lot of it. As a result, descriptive statistics helps us to present data in a more meaningful fashion, making data interpretation easier. The mean and standard deviations of all variables considered in the study are shown in table 2 below.

Table 2: Descriptive Statistics

	N	Mean	Std. Deviation
Gender	306	1.4118	.49296
Age	306	2.1863	.93805
Education	306	2.4346	.90389
Sector	306	3.1536	1.75161
International	306	1.6601	.47444
Existence	306	2.2810	.85666
Employees	306	2.0719	.83060
Reasons	306	2.3660	1.22140
MKT_READ	306	4.5322	1.7693
FUN_READ	306	4.361	1.6398

MC_READ	306	4.23284	1.39789
MKT_INNOV	306	4.385	1.6037
PER_INNOV	306	4.4565	1.6747
TECH_INNOV	306	4.260	1.7231
SEN_CAP	306	4.435	1.7084
SEI_CAP	306	4.4150	1.71282
RECON_CAP	306	4.381	1.6963
Valid N (listwise)	306		

The measurement model assessment of this study included individual indicator reliability, convergent validity, and discriminant validity. Table 3 shows the results of individual indicator reliability and convergent validity. The factor loading for all items ranged between 0.731 to 0.897. Thus, should retain items with loadings of 0.7 or

greater (Hair, Risher, Sarstedt, & Ringle, 2019). Furthermore, Cronbach's alpha and composite construct reliability scores were higher than the indicated threshold of 0.70 and above (Hair Jr, Hult, Ringle, & Sarstedt, 2016). Meanwhile, Table 3 indicated all constructs achieved values greater than the suggested threshold value of 0.50 for the Average Variance Extracted (AVE) (Hair Jr et al., 2016). Appendix A shows the results of measurement model assessment.

Table 3: Results of Measurement model

Model Construct	Measurement Items	Loading	CR	AVE
Internationalization Readiness	MKT_READ	0.877	0.910	0.772
	FUN_READ	0.897		
	MC_READ	0.861		
Innovation	TECH_INNOV	0.822	0.874	0.698
	MKT_INNOV	0.837		
	PER_INNOV	0.847		
Dynamic Capabilities	SEI_CAP	0.87	0.857	0.667
	SEN_CAP	0.843		
	RECON_CAP	0.731		
	TEC_CON	0.942		

Hypothesis Testing

PLS is a non-parametric analysis that does not require data to be normal, as stated in the approach. As a result, the t-values are likely to be inflated or deflated, resulting in a type one mistake. As a result, Wong (2013) recommends using the bootstrapping process. A large number of subsamples (e.g. 5000) are taken from the original sample with replacement to determine bootstrap standard errors, which in turn offers approximate t-values for the structural path significance testing (Wong, 2013).

The path coefficients, which represent the theorized links that link the constructs, must also be examined by the researcher. The route coefficient indicates the strength of the association between two latent variables for the researcher. As proposed by Ramayah, Yeap, Ahmad, Halim, and Rahman (2017) the critical values for significance in two-tailed and one-tailed tests are discussed. As a result, the direct impacts of the hypotheses are tabulated in Table 4 below using Smart-PLS and bootstrapping (5000) as indicated by (Chin, 1998).

Table 4: Path Coefficient Assessment

Hypothesis	Relationship	Direct Effect (β)	Standard Error	T Stats	P Values
H1	Dynamic Capabilities -> internationalization readiness	0.309	0.068	4.531	0.00
H2	Dynamic Capabilities -> Innovation	0.475	0.071	6.711	0.00
H3	Innovation -> internationalization readiness	0.33	0.07	4.74	0.00

The study's first hypothesis is on the relationship between dynamic capabilities and internationalization readiness. The above table of path coefficient evaluations demonstrates that the above-mentioned hypothesis was found to be positive and significant at a level of significance of 5%. H1 of the study is supported, as demonstrated by the $\beta = 0.309$, t -value = 4.5, and p -value = 0.000. Dynamic capabilities have a strong and favorable impact on internationalization readiness, according to the findings. In addition, the study's second hypothesis concerns the relationship between dynamic capabilities and innovation. The above table of path coefficient evaluations demonstrates that the above-mentioned hypothesis was found to be positive and significant at a level of significance of 5%. H2

of the study is supported, as demonstrated by the $\beta = 0.475$, t -value = 6.71, and p -value = 0.000. Dynamic skills have a large and favorable impact on innovation, according to the findings. Finally, the study's H3 focuses on the link between environmental dynamism and internationalization readiness. The above table of path coefficient evaluations demonstrates that the above-mentioned hypothesis was found to be positive and significant at a level of significance of 5%. H5 of the study is supported by the values of $\beta = 0.33$, t -value = 4.74, and p -value = 0.000. Environmental dynamism has a considerable and favorable impact on internationalization readiness, according to the findings. To test the study's mediation effect, Hair et al.(2017) recommends bootstrapping the indirect effect for the mediation analysis. The mediation test is shown in table 5.

Table 5: Mediating Relationship

Hypothesis	Relationship	Indirect effect (β)	Standard Error	T Statistics	P Values
H4	Dynamic Capabilities -> Innovation -> internationalization readiness	0.157	0.039	4.037	0.000

The above hypothesis 4 test for the mediation of innovation in the relationship of dynamic capabilities and internationalization readiness. The result indicate a $\beta = 0.157$ while the p value = 0.000 which is less than 0.05 showing a significant mediation of the innovation in relationship of dynamic capabilities and internationalization readiness.

Discussion

In this study dynamic capabilities has been identified to have positive influence on internationalization readiness in Jordanian SMEs. The result showed that the proposed

relationship is found statistically significant at 95 per cent confidence interval ($\beta = 0.309$, t -value = 4.531, p -values = 0.00) significance at $p < 0.01$, which indicated support for H₁. This result is consistent with previous studies the examined internationalization readiness in SMEs (Falahat, Ramayah, Soto-Acosta, & Lee, 2020; Freixanet & Renart, 2020; Petrou, Hadjielias, Thanos, & Dimitratos, 2020; Rosnan & Chua Abdullah, 2018; Sijabat, 2018).

Freixanet and Renart (2020), found that dynamic capabilities plays an important role and it has positive and significant relationship with internationalization readiness to accept

manager SMEs. Researcher's like (Anwar, Shah, & Khan, 2018; Christmann, 2019; Theriou, Aggelidis, & Theriou, 2014) revealed that dynamic capabilities has significant influence on internationalization readiness. Thus, researcher can conclude that dynamic capabilities has a positive relationship with internationalization readiness and finding suggest that the level of managers' response to the statement concerning capabilities is deemed to belong in good category. This study suggests that contemporary firm internationalization is not associated with traditional factors such as financial assets, physical assets, or infrastructure.

Also; the relationship between dynamic capabilities and innovation is found statistically significant at 95 per cent confidence interval ($\beta=0.475$, $t\text{-value}=6.711$, $p\text{-values}=0.00$) significance at $p<0.01$, which indicated support for H_3 . This result is consistent with previous studies the examined dynamic capabilities in SMEs (Eikelenboom & de Jong, 2019; Garbellano & Da Veiga, 2019; Khan, Atlas, Ghani, Akhtar, & Khan, 2020; Khan, Atlas, Xuehe, Khan, & Khan, 2020; Permana, Laksmana, & Ellitan, 2017). Al-Manasrah (2020), have stated that if a dynamic capabilities exists and support in Jordanian SMEs. Similarly, (Fallon-Byrne & Harney, 2017; Khan, Atlas, Ghani, et al., 2020; Lin, Su, & Higgins, 2016; Mousavi, Bossink, & van Vliet, 2018) postulated the dynamic capabilities significant influence on innovation. Thus, researcher can conclude that dynamic capabilities has positive relationship with innovation. The structural model exhibiting the links between dynamic capacities and adoptive management innovation, as well as the measurement model reflecting indicators (items) of each construct, were both examined using PLS-SEM. The consequences of dynamic capacities were generally validated, but not totally, as expected. As a result, the research supports the importance of dynamic talents in the innovation process.

In order to test the relationship between innovation and internationalization readiness, the researcher develop Hypothesis H_3 , which states that, "Innovation has significant effect on internationalization readiness in Jordanian SMEs". The results of the PLS-SEM bootstrapping approach point out

a positive significant association between innovation and internationalization readiness at ($\beta=0.33$, $t\text{-value}=4.74$, $p\text{-values}=0.000$) ($p<0.01$). Since this result is positive but significant at 1%, it can be concluded that positive relationship exists among the variables. In other words, innovation is positively and significantly related to internationalization readiness in Jordanian SEMs.

This accepted association between innovation and internationalization readiness aligns with previous research grounded in operational management (Bahl, Lahiri, & Mukherjee, 2020; Nosi, Pucci, & Zanni, 2017; Singh & Kota, 2017). Innovation has an important and direct influence on behaviour of the managers of Jordanian SEMs. The researcher believes that innovation can either encourage a manager to give out his best for the sake of hotel goals or it can discourage or demoralize managers and can be dangerous for the performance of the SEMs.

The current research has hypothesized that the innovation may have a positive mediating effect on the relationship between dynamic capabilities and internationalization readiness. Managers' innovation is important variable in the determination of internationalization readiness. The relationship show the coefficient of indirect effect to be 0.157 with the P-value of 0.000 ($p<0.01$). Thus, it can be concluded that innovation between dynamic capabilities and internationalization readiness is significant. This implies that innovation really matter much in determining the internationalization readiness in Jordanian SMEs of the managers. Hence, the hypothesis is accepted. This is consistent with some previous studies that there is relationship to dynamic capabilities in the services sector with internationalization readiness (Mudalige, Ismail, & Malek, 2019; Pinho, Martins, & Soares, 2018a; Uner, Cetin, & Cavusgil, 2020).

In Jordanian SMEs, innovation refers to the utilization of a practical idea to successfully employ a firm's capabilities, and it extends beyond products and services to include process and system changes. Innovativeness may aid Jordanian businesses in recognizing the importance of branding, not only for the successful commercialization of

innovations, but also as a useful tool for better tailoring new services to client demands. Furthermore, in the context of services, the corporate brand is frequently identical to the brand of the service being commercialized, so good management of Jordanian SMEs and its application in innovations helps to strengthen the firm's reputation as an innovative firm, improves consumer acceptance of new services, and strengthens the firm's competitive position in the market. Some studies suggest that innovation can contribute to brand equity, while others argue that a company's ability to innovate is influenced by SMEs' competitive stance, and that innovation can interact with one another to affect sales.

Limitations and Recommendations for Future Studies

Despite the fact that this study was successful in answering its research objectives, the study's limitations must be addressed in order to determine the extent to which the findings are typical. The most significant restriction of this study is the use of a single case study, which precludes generalizations by definition. However, as indicated in the methodology section, the purpose was never to make a broad generalization, but rather to investigate a company that defies statistics and hence can provide unique and context-specific insights on the subject. Random sampling was one of the strategies used to select the right case study for this study, and this method has been criticized for being biased. As a result, even though criterion sampling was used as the primary method for selecting the case study, some bias may appear in relation to the selected case study.

Regarding this, Future research can also test the model in non-Arab nations to examine if dynamic capabilities and internationalization readiness are significantly related. The study sample may be comprised of inexperienced managers or those of low experience to compare the findings with this study. Future studies may also test the model using employees of top management, rather than their managers to conduct a comparison among the findings. Jordan's neighbouring nations are similar in characteristics, thus for this purpose, it would be favourable to extend the study to non-Arab nations.

Lastly, it is also recommended that future studies include the direct and indirect effects of the variables to examine the moderating effects between them. For example, future studies could focus on the moderating effect of organizational culture between innovation capabilities and innovation performance, and the mediating effect of learning capabilities between environmental dynamism and internationalization readiness. This would furnish a deeper understanding of the variable's relationships.

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