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This is a Final draft version of a publication  
published by Springer, Cham  
in Emerging Issues in Global Marketing

**DOI:** 10.1007/978-3-319-74129-1\_10

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### **Please cite the publication as follows:**

Uzhegova M., Torkkeli L., Salojärvi H., Saarenketo S. (2018) CSR-Driven Entrepreneurial Internationalization: Evidence of Firm-Specific Advantages in International Performance of SMEs. In: Agarwal J., Wu T. (eds) Emerging Issues in Global Marketing. Springer, Cham

**This is a parallel published version of an original publication.  
This version can differ from the original published article.**

# CSR-driven Entrepreneurial Internationalization: Evidence of Firm-Specific Advantages in International Performance of SMEs

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## **Abstract:**

This study examines an emerging yet somewhat neglected theme in international and global marketing literature, namely the role of corporate social responsibility (CSR) and market-sensing capability in international enterprises. Specifically, we illustrate how CSR and market-sensing capability impact international performance in the context of small- and medium-sized enterprises (SMEs). The results from a sample of 85 internationalized Finnish SMEs indicate that social responsibility serves as a mediator of market-sensing capability on international performance. Moreover, market-sensing capability along with social responsibility also has a positive direct effect on an SME's international performance. Thus, the study links global marketing, strategic management and sustainability literatures to explain the emerging paradigm of sustainable international entrepreneurship.

**Keywords:** Corporate Social Responsibility, International marketing, Internationalization, Small- and medium-sized enterprises

## **Introduction**

A major emerging issue in global marketing is the role of corporate social responsibility (CSR) in international entrepreneurial firm growth and expansion. Today, companies are increasingly expected to exhibit CSR, i.e., the "duty of every corporate body to protect the interest of the society at large" (Holme & Watts, 1999). However, as we have seen from the public scandals of companies that in some cases have previously been on top of CSR rankings (e.g., Volkswagen), societal and customer expectations related to CSR can have a complex impact on the behavior of corporations globally. Moreover, the extant research on CSR in the context of global marketing has prevalently aimed to explain the phenomenon in the context of large multinational enterprises (MNEs; e.g., Jamali, Zanhour & Keshishian, 2009; Kolk & Van Tulder, 2010), leaving several topics mostly unexplored. However, the majority of the companies in the world, particularly, in the EU, are small- and medium-sized companies, with SMEs being responsible for 99.8 % of all business in the non-financial sector in the EU. Being important employers, with 66.8 % of jobs and accounting for more than half of the gross value added generated, they are critical for the growth and social integration of the region (European Commission, 2015/2016).

With a CSR emerged previously as an issue for MNCs, nowadays SMEs witness that CSR has grown to be a global concern that they need to address, especially if involved in international operations. Hence, the first of these unexplored gaps is the impact of CSR on international entrepreneurial growth and internationalization. Studies of international entrepreneurship (IE) have not included CSR as part of the research ontology (see Jones, Coviello & Tang, 2011). Yet, in SMEs CSR is manifested differently from MNEs (Perrini, Russo & Tencati, 2007), and despite a growing body of literature on socially responsible practices of large firms engaged in business globally, the role of SMEs remains under-researched (Hoogendoorn, Guerra and van der Zwan, 2014). For instance, while large companies are known for extensive marketing of their CSR practices, leading to an increased corporate reputation and differentiation from competitors (Gallego-Alvarez et al., 2010), SMEs do not tend to articulate their CSR commitment widely (Nielsen & Thomsen, 2009). Moreover, even though CSR is more often attributed to the large firm, the research field of international business (IB), which primarily has a large multinational company as a research unit, is still lacking a holistic approach to CSR issues (Pisani et al., 2017). The IE as a research field is defined by McDougall and Oviatt (2000: 903) as “...a combination of

*innovative, proactive and risk-seeking behaviour that crosses national borders and is intended to create value in organizations.*”, with the topics of firm behavior, and value creation being the primary focus of the field.

Second, with most of the studies focused on investigating the antecedents of CSR in large corporations (i.e. Yang & Rivers, 2009; Crilly, Schneider & Zollo, 2008), in the context of SMEs and IE this topic is currently under-researched. Thus, the extant literature in the emerging IE research field does not explain the role of CSR in internationalization of SMEs. Third, international entrepreneurial growth and expansion strategy may come to depend on both CSR and other firm-specific advantages, such as the extent of their organizational characteristics and capabilities (Torugsa et al., 2013). SMEs may be engaged in CSR because of the family tradition, the entrepreneur’s personal values, community-embeddedness or feeling the need to contribute to the wider society (Ellerup Nielsen & Thomsen, 2009; Looser & Wehrmeyer, 2015). However, until now there has been scant evidence of either in the international context, hence there is still a limited understanding of whether and how CSR affects international performance of SMEs.

On top of all that, a recent literature review of Eteokleous, Leonidou & Katsikeas (2016) pointed out that the research field of international marketing still lacks evidence of performance outcomes of CSR activities. In addition, the integrative models incorporating mediators and moderators are called upon to identify the conditions under which CSR leads to specific outcomes. On a firm level, a competitive intensity may serve as an enabling condition for CSR being a moderator in the marketing capabilities–performance relationship (Kemper et al., 2013).

We seek to respond to these omissions by illustrating how CSR drives entrepreneurial internationalization among SMEs, and how firm-specific advantages in the form of market-sensing capability and the orientation toward responsible practices are intertwined with these dynamics. This study presents a view into the shifting paradigms in international and global marketing, by illustrating global marketing in a transition stage from being primarily a concern of large corporations, which have already learned how to operate under the grown concern for business responsibility, to SMEs. At the same time the traditional approach of SMEs to internationalization is nowadays is challenged towards the need to communicate their commitment to the stakeholders globally in the host countries. This study reveals that responsible business behavior opens the new opportunities if combined with the responsiveness toward the global market needs, and thus,

present a shifting paradigm with SMEs in global marketing. In doing so, we apply regression modeling on a data of 85 internationally operating SMEs originating from Finland and adapt Turker's (2009) CSR measure while conducting mediation analysis.

This study continues as follows: First, we outline the literature suggesting the role of CSR and market-sensing capability in the context of SMEs, with particular focus on internationalizing SMEs. We then follow that with the quantitative study, where we examine the dynamics of market-sensing capability and CSR on SME internationalization in detail. We conclude by discussing the results and their implications on the theory and practice of SME internationalization and growth.

## **Literature review**

### **CSR**

The definitions of the concept of CSR are many. In the research papers and in the practitioners' reports it is ambiguous and sometimes referred to as a "*complex jungle of CSR definitions*" (Crane et al., 2013: 9). One of the early definitions is: "*the conduct of a business so that it is economically profitable, law-abiding, ethical and socially supportive in order to fulfill economic, legal, ethical and philanthropic responsibilities*" (Carrol, 1983: 608). Another definition, also used in international marketing field according to Eteokleous et al. (2016) review, captures the issue of CSR activities being something more than what is already required by law: '*actions that appear to further some social good, beyond the interests of the firm and that which is required by law*' (McWilliams and Siegel, 2001: 117). Often, research papers adopt the definition of the European Commission, "*a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis*" (Commission of the European Communities, 2001: 8), which emphasizes the voluntary nature of these actions. The voluntary aspect is also seen in this definition used in the Marcel van Marrewijk (2003: 102) review: "*company activities – voluntary by definition – demonstrating the inclusion of social and environmental concerns in business operations and in interactions with stakeholders*". In the study of SMEs' CSR communications, Parker et al. (2015: 364) define CSR as "*voluntary values, technologies and practices which directly or indirectly result in a positive (or reduce negative) impact on the environment, employees or external stakeholders*".

Key concepts from the above definitions of CSR are: economic; interaction with stakeholders; social and environmental concerns; voluntariness. Indeed, in the attempt of systematization, Dahlsrud (2006) has analyzed 37 definitions and outlined five dimensions of the CSR concept, with those dimensions used most often being *stakeholder* and *social*, followed by *economic* and *voluntariness*, with *environmental* being the least used.

Moore and Spence (2006) argue that CSR, as a term, does not capture the approach required for SMEs. Studies of CSR in the SME context adopt the various definitions of CSR: some of the definitions are not that specific about the size of the company as Wood (1991) explains: “*company's configuration of social responsibility, social responsiveness, policies, programs, and observable outcomes as they are related to the company's relationship with society.*” while others emphasize the importance of entrepreneurs’ personal values as Maclagan (1998) does: “*a process in which business owner-managers take responsibility for identifying and accommodating stakeholder interests.*”

The updated definition from the European Commission does not refer to voluntary nature or “going beyond the regulation” features, nor does it address the issue of size, stating that CSR is “*the responsibility of enterprises for their impacts on society*” (European Commission, 2011:6). In line with Cavusgil & Cavusgil’s study (2012) which claims that “*stakeholders are more vocal and actively seek solutions to a wide array of environmental and social issues.*” we propose that SMEs are able to answer to this call, though not through the implementation of standardized and formalized CSR practices but rather through the responsible business behavior (RBB). Used in the Avram & Kühne’s (2008) study of Austrian SMEs, RBB is “*an instrument to develop a sustained competitive advantage by relating social and environmental issues to the value chain of the company.*” RBB is used in this study instead of CSR, as it is universal, doesn’t constrain for the size, sector or a geographical scope and thus, can be applied to SMEs operating in the international context. Responsible business behavior constitutes the consciousness about the environment and the society, and that the firm’s competitive advantage can either be facilitated or constrained by taken strategic and operational decisions.

The differences in the CSR definitions used in the studies of large companies and SMEs embedded in the organizational characteristics of different-size firm. A number of characteristics in regard to CSR are listed in the Table 1.

Table 1 Differences in CSR between MNCs and SME (Baumann-Pauly et al., 2013; Blomqvist & Posner, 2004; Jenkins, 2009; Nielsen & Thomsen, 2009; Russo & Tencati, 2009)

	<b>MNC</b>	<b>SME</b>
<b>Conceptual definition of CSR</b>	Often includes one or several of following dimensions: <i>stakeholder, social, economic, voluntariness, environmental.</i>	Often includes one or several of the same five dimensions, but also, the <i>individual dimension</i> such as responsibility of firm’s owner-manager, leader or entrepreneur is emphasized.
<b>CSR integration into the company</b>	Explicit leadership support by the CEO and the board, the existence of CSR coordination unit (person or a department) which is responsible for dealing with CSR.  Incentive systems and trainings to promote CSR awareness among employees, as well as for performance evaluation and reporting.	The owner-manager, often highly involved into SME’s operations, has an influence on the values and culture of the company, and thus, may expose CSR throughout the company.  Low hierarchy in management, more open and fluid communication within the company facilitate the involvement of all employees in CSR through the informal measures.
<b>CSR’s integration with marketing strategy</b>	Integrated approach - the brand and CSR operate in synchrony (firm tells one compelling story).  Selective approach - CSR manifests itself in very specific, targeted ways, i.e. in the form of subbrands.  Invisible approach - CSR is present only in strategic level guiding the company but hidden in external communications and initiatives.	Use involvement and communication-oriented activities such as cause-related marketing and corporate advertising.  Having high adaptability, SMEs are able to quickly respond to the market needs with the products or services with the environmental/social benefits in their value.
<b>Public expectations in terms of CSR</b>	Proactive participation and “activity level” by which they contribute to collaborative CSR initiatives (i.e. UN Global Compact).  Maintaining the relationships with the external stakeholders such as NGOs.	Collective involvement with other SMEs or suppliers to mutually address CSR issues, i.e. in the form of CSR-related networks, such as industry associations.
<b>Communications and positioning strategy of CSR</b>	Develop solutions for issues of global public concern on human rights or climate change, such as codes of conduct or corporate policies.  Make extensive public commitments to CSR and regularly publish CSR reports.	SMEs run by informal management approaches lack proper communication tools for reporting.  Transparency of activities toward third parties is disclosed only on demand.  Account on indirect word-of-mouth communication with internal and local stakeholders.
<b>Form of implementation</b>	Support initiatives which involve “material” support such as giving and sponsorships.	Small firms implement responsible behaviors toward specific categories of stakeholders through owner’s personalized relations between firm and the society.  Medium-sized firms commit to their community through volunteering

## **Global marketing and CSR**

Marketing and CSR are intertwined topics, especially in the area of global marketing and multinational corporations. In their reflection about the future of international marketing in the era of transformations and a truly global marketplace, Cavusgil & Cavusgil (2012: 210) note that CSR “will rise as a marketing theme and will drive strategies.” Indeed, the study of Hadjikhani, Lee and Park (2016) illustrates how CSR is used as an MNC’s marketing strategy, which aided the firm’s entry through investments into the social and environmental issues in the target country. Such tracking of the customers’ social concerns and their further application into the marketing strategy for the good of the company is referred to as a social marketing concept (Crane and Desmond, 2002). CSR, in the form of the triple-bottom line (social, environmental and economic), does not include the customers as the stakeholders. However, firms that have market-focused sustainability, by integrating the customers among other stakeholders into their marketing strategy, have an opportunity to create a marketing strategy that is valuable, rare, inimitable and difficult to substitute (Barney, 1991; Wernerfelt, 1984).

Customers’ trust, loyalty and perceptions of corporate reputation are influenced by the perceived CSR (Stanaland, Lwin & Murphy, 2011). CSR can serve as a tool for positive perception of company, its products or services by especially those consumers seeking identification with the firm (Bhattacharya & Sen, 2004); with this kind of customer loyalty leading to the wider customer support (Luo & Bhattacharya, 2006).

However, companies also need to be able to adapt their CSR practices on a global scale, as the importance of maintaining an image of social responsibility can vary between both emerging and developed markets (Li et al., 2010) as well as within different developed economies (Maignan & Ralston, 2002). CSR also brings added challenges to global marketing due to the fact that the cultural disposition of consumers and customers can determine how they view CSR activities of foreign firms compared to domestic ones, which can cause the effectiveness of cause-related marketing vary at the global level (Choi et al., 2016). At the same time, having a global brand can still have a positive impact on consumer perceptions, assuming that the foreign company is sufficiently agile to account for local culture and taste (Becker-Olsen et al., 2011).



An emerging paradigm in this discussion is the role of CSR in international entrepreneurship, which seeks to explain how entrepreneurial internationalization drives companies to international and global markets. The context of SMEs is particularly in need of further clarification, as the ways in which small companies address the issues related to CSR are different from the large corporations (Perrini, 2006), which means that extant research conducted with large multinationals is not generalizable for SMEs. For instance, the CSR communication, as a part of marketing activities, has been addressed by MNCs in a more systematic way compared to small firms (Baumann-Pauly et al., 2013) through the wide variety of channels such as corporate web sites, annual reports and other publicly available documents. Thus, from the global marketing standpoint, they present a phenomenon that is both emerging and distinct from most of the extant research on international and global marketing.

Moreover, firms in manufacturing industries tend to communicate more CSR, being exposed to a wider variety of environmental, labor and social issues compared to service firms (Lattemann et al., 2009). Having business activities which are less visible to the wider public and media, SMEs are less likely to see a significant benefit in a publicity-driven approach to CSR communication and reporting (Baumann-Pauly et al., 2013), preferring instead to have an informal reporting in the form of face-to-face interaction with stakeholders (Spence, 2004). In sum, for all of the reasons mentioned above, clarifying the role of CSR in internationalization outcomes of SMEs provides a novel contribution to both literature on global marketing as well as to that of international entrepreneurship.

## **Hypothesis Development**

Through the empirical part of this study, we aim to posit three factors that drive international SMEs to achieve higher international performance: market-sensing capability, social responsibility, and environmental responsibility. These linkages suggested in our conceptual model are elaborated in the following sections, thereby deriving the testable hypothesis.

According to the resource-based view (RBV) every organization has unique resources and capabilities (Song et al., 2007). Capabilities are defined by Day (1994) as “*complex bundles of skills and collective learning, exercised through organizational processes that ensure superior*

*coordination of functional activities*”. Such organizational capabilities are an integral part of how MNCs operate at the international and global level (Augier & Teece, 2007; Teece, 2014).

Market sensing capability in particular has been stated to be critical among other capabilities for successful business development (Day, 1994). According to capabilities classification by Hooley et al., (1999), a market-sensing capability is one of the strategic marketing capabilities – a group of capabilities which is defined as the ability of senior management to examine the surroundings. The concept of market-sensing capability refers to a firm’s ability to learn about its market environment, be aware of change in it, and to use this knowledge in a way to guide its marketing actions (Day, 1994). These abilities to sense the markets have been found particularly important when entering international markets (Armario et al. 2008).

According to Day (1994), market-sensing capability precedes market orientation which has been regarded as the foundation and thus, a central concept in the marketing discipline (Drucker, 1954; Gebhardt et al., 2006; Kotler, 2000). Market orientation concept includes two major sub-dimensions: customer orientation and competitor orientation (Hagen et al., 2012). In the literature, there are two mutually complementing perspectives of market orientation (Armario et al., 2008). A cultural perspective conceptualizes market orientation as a part of organizational culture that includes creation and delivery of value to the customers (Narver & Slater, 1990), whereas a behavioral one considers market orientation in terms of specific behaviors of the organization (Kohli & Jaworski, 1990).

In line with that, Lindblom et al. (2008) stresses that market-sensing capability is an essential element of market-oriented behavior since it includes organizational learning regarding, e.g., customers’ explicit and latent needs. Market orientation, in turn, according to the previous literature has a positive impact on business performance, including the financial performance (Han et al., 1998; Kirca et al., 2005; Kohli & Jaworski, 1990; Narver & Slater, 1990, Slater & Narver 1994) and customer-centric performance (O’Cass et. al 2012). Although market orientation research in the international context remains relatively sparse and recent, support for the positive relationship between market orientation and international performance has also been found for example by Kwon & Hu, (2000), Cadogan et al., (2003), Armario et al, (2008). However, despite the positive performance outcomes found, the ability of the market orientation to explain market performance has also been criticized as such positive outcomes are often not directly explained by

the status of market orientation but instead by some other constructs either mediating or moderating the relationships (Olavarrieta & Friedmann, 2008). As a result, it has been suggested that more attention should be paid to market-sensing capability as a key antecedent of firm performance as at the end market-sensing capability well captures the main elements of market orientation construct defined by Kohli and Jaworski (1990) but at the same time is likely to provide a more direct path to explaining why some firms perform better than others (see Olavarrieta & Friedmann, 2008).

In general, marketing capabilities, such as the capabilities for brand management (e.g., Angulo-Ruiz et al., 2014; Merrilees et al., 2011; Möller & Anttila, 1987), innovation (e.g., Ngo & O’Cass, 2009), customer-linking (O’Cass et al., 2012; Fahy et al. 2000), channel bonding (e.g., Prasad et al., 2001; Ripolles & Blesa, 2012), networking (e.g., Perez-Cabanero et al., 2012), external and internal marketing capabilities (Morgan et al. 2012), and specialized marketing capability (Elango & Pattnaik, 2007) – all which are found to relate positively to the firm’s performance. In addition, dynamic marketing capabilities such as global marketing capabilities (Chang, 1996; Fahy et al., 2002; Kotabe et al., 2002) and market-sensing capability (Day, 1994; 2002), have been found to have performance implications in the global context (Prange & Verdier, 2011).

According to Londblom et al., (2008), high level of market-sensing capability of entrepreneurs can lead to higher growth in firms. Market-sensing capability has also a positive effect on the speed to market (Arduyan, 2016) and product innovativeness (Zhang and Wu, 2013) as firms with sensing capabilities are known for their ability to constantly sense emerging trends and proactively act on them rather than responding only to the clear signals (Day, 2011). Following this, it can be assumed that market-sensing capability may also influence the international performance of the company.

An emerging theme is the role of dynamic capabilities in internationalization of SMEs (see Knight & Cavusgil, 2004; Autio et al., 2011; Torkkeli et al., 2012), where marketing strategy in general (Knight, 2000), and marketing-related capabilities in particular (Lee & Hsieh, 2010; Weerawardena et al., 2007) influence the ways in which the enterprises conduct marketing and operations abroad. Based on Day (2002) and Vorhies & Morgan (2005), it is assumed that firms with developed market-sensing activities gain competitive advantage and superior business performance.

International performance is one of the main outcomes that research on entrepreneurial internationalization has sought to explain (e.g., Knight, 2001; Kuivalainen et al., 2004; Leonidou et al., 2002; Zou and Stan, 1998). It can be explained through either degree of internationalization (cf. Sullivan, 1994) or through subjective assessments of how well a given enterprise has succeeded in their operations abroad and to what extent they have reached their goals for internationalization. International performance measures in the literature are mainly of the latter type (Leonidou et al., 2002) and should be favored when aiming to operationalize international performance in this type of research (Zou and Stan, 1998). Thus, in this study we also refer to international performance as the extent of success internationally as assessed by the managers of the enterprises and aim to operationalize it through a Likert-scale measure.

As market sensing capability can be linked to the increased overall performance, we propose that it is also linked to increased *international* performance: other types of organizational capabilities have been linked to international performance in extant literature (e.g., Jantunen et al., 2005; Lu et al., 2010; Torkkeli et al., 2012). There is also some evidence of the relationship between market orientation and international performance (Armario et al., 2008). Moreover, marketing capabilities in general can foster international commitment and, subsequently, performance (Blesa et al., 2008). While the extant studies have not assessed market sensing capability directly and have not examined the role of CSR as part of their study setting, they provide a basis to hypothesize the following:

***H1 Market-sensing capability will increase firm's international performance***

Since the CSR practices as applied in large corporations are hardly applicable to the small firms as such, there was an attempt to reposition the CSR concept to better fit SMEs by Ryan, O'Malley and O'Dwyer (2010), who reconsider CSR to the concept of responsible business practice (RBP) in order to apply it for the small firms with the topology matrix below in Table 2.

Table 2 A typology of responsible business practice orientation (adapted from Ryan et al. 2010)

Social Mission	Environmental Mission	
	High	Low
	High	Sustainable enterprises
Low	Environmentally responsible enterprises	Market-driven responsible enterprises

In this topology, small firms are differentiated according to the RBPs they adopt, which in turn are dictated by the firms' unique features. Environmentally responsible firms, sometimes also referred as to ecopreneurs, are involved in environmentally sustainable practices due to various reasons which can be categorized into five groups: resistant, reactive, anticipatory, innovation-based, and sustainability-rooted (Klewitz & Hansen, 2014). Out of these, the reactive behavior of SMEs is rooted in the answer to the external pressure to engage in responsible practices. Such stimuli may be environmental regulations (Bianchi & Noci, 1998) or actors in public-private partnerships that SMEs are involved in (Hansen & Klewitz, 2012). Post and Altman (1994) divide the environmentalism according to its drivers, one of which is market-driven environmentalism, i.e., adhering to market incentives in the firm's actions.

The same issue applies to socially responsible enterprises which, in the context of SMEs, are referred to as social entrepreneurship. Compared to entrepreneurship, social entrepreneurship is different in terms, i.e., measuring the performance through social impact rather than financial indicators (Spear, 2006). However, even if they are not engaged in social entrepreneurship, SMEs are noted as having strong relationships between the firm, its employees and the local community (European Commission, 2003).

Different SMEs are attributed to different types of RBP as well as they can change their type with the time. For instance, RBP may be initiated for market reasons: thus, the enterprise will be called market-driven responsible enterprise, meaning a firm that made significant changes to the processes or products in order to be positioned as responsible. While shifting from such a short-term competitive response to more strategic adaptations, such firms may change to another type of RBP throughout the company's operations, however, market-driven RBP is a first step in this process. In other words, these firms are responsive to the external, market-driven influence and therefore need to possess a market-sensing capability which may drive their responsible behavior further toward sustainable enterprise. Based on these notions, we hypothesize that:

***H2a** Market-sensing capability will increase the social responsibility of an international SME*

***H2b** Market-sensing capability will increase the environmental responsibility of an international SME*

Derwall, Guenster & Koedijk (2005) claim there are a number of benefits associated with environmental initiatives, such as business risks reduction, reputation increase and new markets development. Focusing on large US firms, several quantitative studies have demonstrated the positive linkage between environmental performance of large firms and their financial performance (Russo & Fouts, 1997; Karagozoglu & Lindell, 2000; Clarkson et al., 2011).

The scarce amount of recent studies shows mixed results in this regard in the international and global context. CSR can either facilitate or hinder innovation and internationalization efforts depending on their type (Costa et al., 2015), while the impact of environmentally friendly export strategies on competitive advantage in foreign markets is complex (Leonidou et al., 2015). For instance, since the firm's responsibility increases the consumer and employee trust in the organization, it can be assumed that this will positively affect the firm's activities also in the foreign markets. The support for it was demonstrated in the study of MNC in Hadjikhani et al. (2016), and in fact the explanation for that may be that CSR *'creates a reputation that a firm is reliable and honest'* (McWilliams and Siegel, 2001: 120).

Overall, there is a lack of empirical evidence when it comes to the environmental performance of smaller firms (Qian & Xing, 2016). Molina-Azorín et al. (2009), in their review of the impact of green management on financial performance, state that most studies show a positive impact. However, all these studies that were reviewed have a large listed company as a unit of analysis, whereas there is as yet no research proving that the same positive trend is also prevalent in privately owned firms. In the same vein, there is a lack of research that investigates the link between a company's responsibility and international performance, with the rare evidence indicating that CSR can have a positive impact on performance (Ben Brik, Rettab and Mellahi, 2010). Thus, we hypothesize that:

*H3a Social responsibility will increase SMEs international performance*

*H3b Environmental responsibility will increase SMEs international performance*

## **Research framework**

Based on the literature review and the subsequent hypotheses developed, this study argues that market-sensing capability and responsible business practices are important in the

internationalization processes of SMEs, contributing to their international performance. In this research framework, a firm's responsibility for the environment and for society is considered to be two parts of business responsibility.

The framework proposes a direct relationship between market-sensing capability and the responsibility to society and the environment, as well as the mediating role of business responsibility between the market-sensing capability and an SME's international performance. Overall, the research framework implies that the responsibilities to society and the natural environment improve a firm's market-sensing capability, which then improves its international performance. The research framework is presented in Figure 1, showing the interrelations and five hypotheses discussed above.

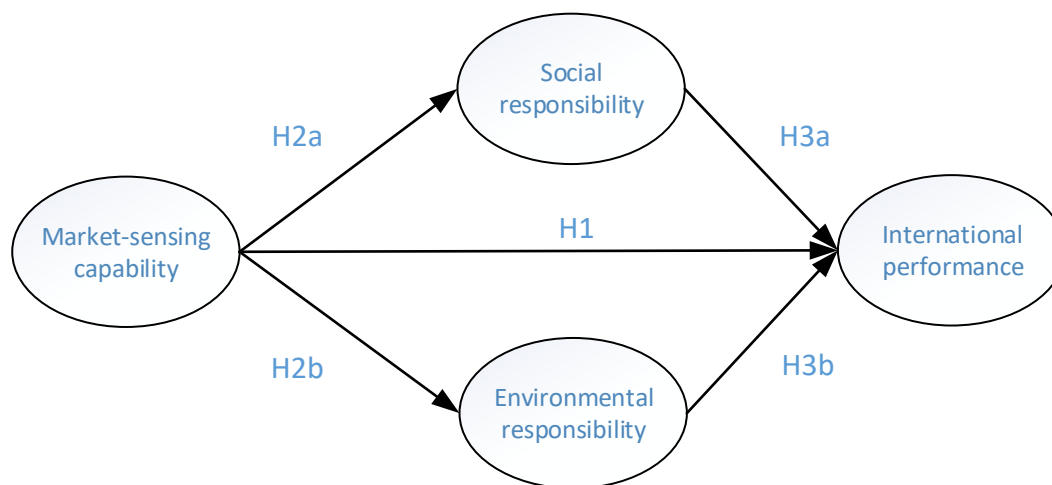


Figure 1 A research framework

## Research design

### Data collection

First, in order to test the hypotheses, we collected data through an online survey. The sample data for this study was collected in May-September 2014 via a web-based survey instrument. The initial sample of SMEs with the employee headcount within the limits of 10-250 employees, was drawn from the Amadeus online database of Finnish small- and medium-sized companies. The yielded sample of 1130 companies was a cross-industrial one including firms from several industries: forest industry, chemical industry, metal industry, other manufacturing activities and mining and quarrying, energy supply, water supply, waste management and construction.

As a result, we identified a total of 1,130 firms to be contacted by phone. A total of 78 of them were judged non-eligible, with the eligibility determined by the requirement that the respondents needed to have independence in terms of strategic decision-making. Because of this, sub-branches and Finnish subsidiaries of foreign firms, for example, were excluded from the study. The respondents were typically CEOs or other higher-level managers. 311 firms declined to participate in the study, with the most common reason being the lack of time. 306 firms were not reached despite several efforts. At the end, final responses were received from 148 firms, thus resulting in a 14 % response rate (148/1052). After clearing the data from duplicates, allowing only one filled-in survey per company, 141 companies constituted a sample. Out of this sample, 85 SMEs with international operations constituted the final sample used in this study. The distribution of the final sample by industry is presented in Figure 2.

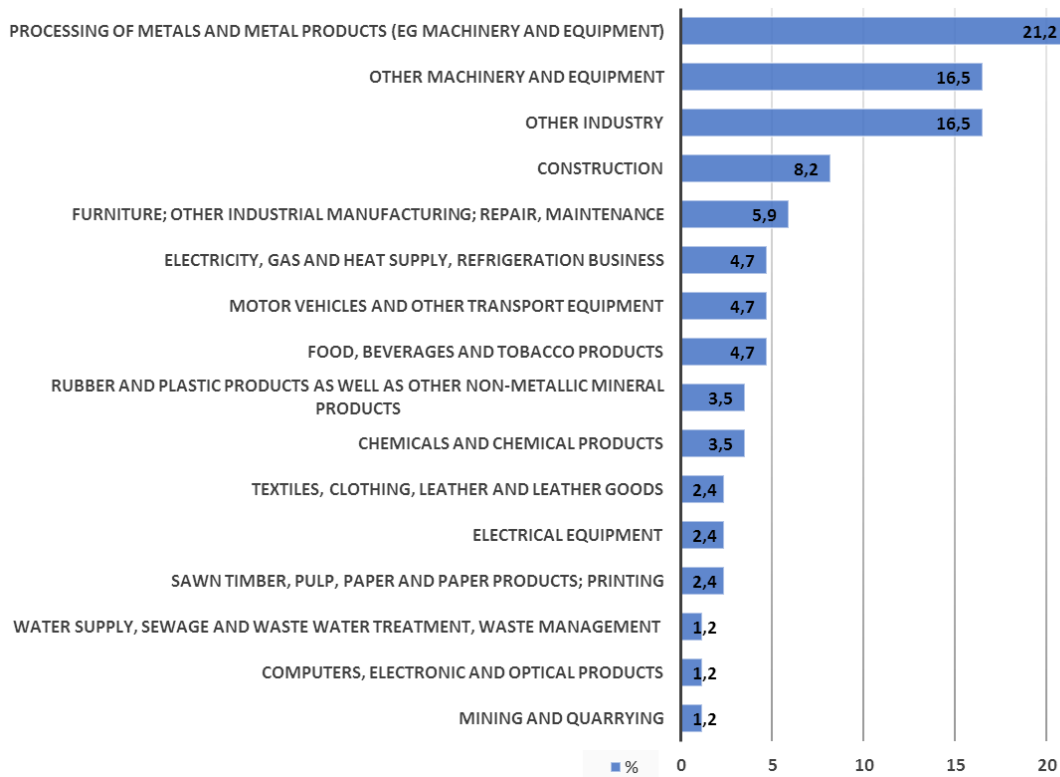


Figure 2 Distribution of sample by industry, % from total sample

Concerning the international operations, companies had on average 20.3 years of international operations in an average of 8.5 countries. The countries of the first international entry were Sweden for 31% of companies, Germany for 12%, Russia for 11%, Estonia for 9% and Soviet Union for 4% of companies. On average, the international operations constituted 26.9% of turnover at the



moment of data collection. As showed in Figure 3, own exports (58%) was the most used primary international entry mode within the final sample SMEs, followed by exports with a retailer/distributor (24%).

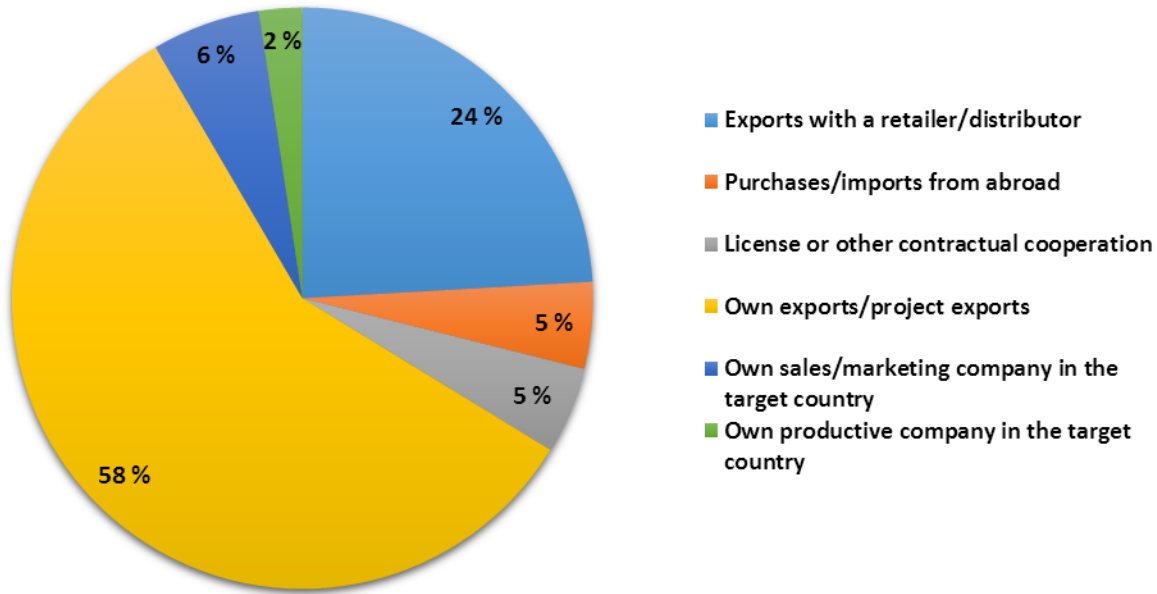


Figure 3 A primary international entry mode.

### Measurement of key variables

International performance was evaluated based on the decision-maker’s perception of the firm’s performance in foreign markets. The six-items scale was borrowed from Nummela, Saarenketo & Puumalainen’s (2004) study, and one item was added and measured on a seven-point Likert scale (1 = strongly disagree to 7 = strongly agree).

This and other scales in this study were measured on a seven-point Likert scale (1 = strongly disagree to 7 = strongly agree). The international performance scale items converged on a single factor that explained 66.8% of the total variance. Kaiser-Meyer Olkin measure of sampling adequacy (KMO) value was 0.81 and Bartlett's test of sphericity statistically significant (sig.<0.01).Communality values ranged between 0.53 and 0.75, while the individual factor loadings ranged between 0.72 and 0.91 (see appendix 1 for the detailed listing). The Cronbach's alpha value of this resulting scale was 0.92, indicating a reliable measure. We further ensured reliability and convergent validity through calculating composite reliability (CR) and average variance extracted (AVE) values for each scale. CR values should in general be above 0.60

(Bagozzi & Yi, 1988), while AVE values of 0.50 or higher indicates sufficient convergent validity (Hair et al., 2009). For the international performance scale, the CR value was 0.93 and AVE 0.66, indicating sufficient convergent validity. The resulting scale items were:

- 1) *Generally speaking, we are satisfied with our success in the international markets*
- 2) *We have achieved the turnover objectives we set for internationalization*
- 3) *We have achieved the market share objectives we set for internationalization*
- 4) *Internationalization has had a positive effect on our company's profitability*
- 5) *Internationalization has had a positive effect on our company's image*
- 6) *Internationalization has had a positive effect on the development of our company's expertise*
- 7) *The investments we have made in internationalization have paid themselves back well*

Five items measuring social responsibility were adapted from Turker's (2009) study. CSR to society was regarded as a responsibility to social and non-social stakeholders. The items for CSR converged in a single factor explaining 71% of the total variation. Communalities ranged from 0.59 to 0.79, and individual factor loadings between 0.77 and 0.89. KMO value was 0.74, and Bartlett's test is again significant. Cronbach's alpha value for the resulting measure was 0.90, AVE value was 0.71 and CR 0.92, altogether suggesting a sufficiently reliable and valid scale, with the following items:

- 1) *Our company participates to the activities which aim to protect and improve the quality of the natural environment*
- 2) *Our company makes investment to create a better life for the future generations*
- 3) *Our company implements special programs to minimize its negative impact on the natural environment*
- 4) *Our company targets a sustainable growth which considers to the future generations*
- 5) *Our company contributes to the campaigns and projects that promote the well-being of the society*

Environmental responsibility has been measured by eight self-developed items based on reviewing available literature on sustainability (e.g. Menguc & Ozanne, 2005). For the environmental responsibility scale, again, the factor analysis converged on a single scale explaining 52% of the total variation, with a KMO value of 0.82 and a significant ( $p < 0.01$ ) Bartlett's test of sphericity. Communality values of the individual items ranged between 0.39 and 0.65, with factor loadings ranging between 0.62 and 0.81. The corresponding AVE value was 0.55 and CR 0.89. Cronbach's alpha value was 0.85, indicating sufficient reliability of the scale with the items:

- 1) *We pay much attention to the environmental hazards resulting from the manufacture of our products*
- 2) *We apply the lifecycle analysis when we assess the environmental friendliness of our products*
- 3) *We set waste reduction goals for our suppliers*
- 4) *We actively advance the recycling and reuse of our products*
- 5) *Our products are part of the process reducing environmental hazards and/or climate change*
- 6) *Our company utilizes clean technology (incl. products, services, processes, technologies), which prevents or reduces negative environmental effects of business activities*
- 7) *Preventing damage to nature is a central goal of our business activities*
- 8) *Production that saves natural resources is a central goal of our business activities*

Items measuring market-sensing were conceptualized on the basis of Day's (1994; 2002) work. The items of the market sensing capability similarly converged in a single factor, explaining 54.7% of the total variation. KMO value was 0.74 and Bartlett's test again significant at the 0.01 risk level. Communalities ranged between 0.38 and 0.76, while individual factor loadings ranged between 0.62 and 0.87 (see appendix 1). Cronbach's alpha value for the resulting scale was 0.77, AVE value was 0.54 and CR value 0.85. The resulting measure included the following five items:

- 1) *We have systematic processes, with which we interpret prevailing trends in the market environment*
- 2) *We actively follow our competitors' procedures*
- 3) *Our company's employees regularly discuss the effect of market trends and new products on our activities*
- 4) *We quickly analyse and interpret changes taking place in market demand*
- 5) *We regularly envision what our industry will look like after the next 20 years*

In addition, two control variables – firm age and firm size – were included. A firm's size was measured by the number of its employees, and the firm's age was operationalized by the number of years passed since the firm's establishment; thus, the effects on dependent variables (social responsibility, environmental responsibility and international performance) are controlled. The choice for the control variables in this case was clear, as firm size and firm age are the control variables that are used most often in marketing studies (Kamboj & Rahman, 2015). The firm size difference, even within the SME category, was noticed in the study of Preuss & Perschke (2009), where medium-sized firms differed from small and micro firms in their approach to CSR, while the study of Hoogendoorn et al. (2014) demonstrated that an SME's age is not related to the

environmental practices of the firm. Firm age may relate to the level of experience and managerial competences of the firm, hence it may affect the firm's performance (Zhan & Luo, 2008).

Finally, we accounted for several potential biases and ensured further validity of the survey setting through several means: In order to minimize potential common method variance (CMV) and increase data reliability, we took both ex-ante and post-hoc measures, seeking to adhere to the guidelines set forth by Podsakoff et al. (2003). Namely, we guaranteed confidentiality and anonymity to respondents and, as the survey was part of a larger project covering a variety of issues relevant to SMEs, it is unlikely that the responses would have been consciously aligning themselves with the expected theoretical linkages. Some questionnaire items were negatively worded in order to avoid halo effect, and the scales used in this study were also inquired upon in different parts of the questionnaire. Moreover, we conducted Harman's single-factor test as a post-hoc test against CMV. In the test, the first factor accounted for 33.4% of the variance, indicating that CMV should not have been a concern in the analysis. In addition to testing for CMV, we tested for convergent validity of the scales through the examination of AVE and CR values as mentioned above, and for discriminant analysis through comparing AVE values of constructs to the squared correlations between them, with the former being higher than the latter in all cases, thus indicating discriminant validity.

## **Results**

### **Hypotheses testing**

Table 3 reports the descriptive statistics and zero-order correlations associated with study variables. The mean age of the firms in our sample is 34 years, and their size in terms of employees is relatively small with a mean of 60 employees. The correlation coefficients and variance inflation factors (VIF; not tabulated, but all below 10; Hill and Adkins, 2001) do not raise a concern for multicollinearity.

Table 3 Descriptive statistics and correlations of key variables

	Mean	Std. dev.	1	2	3	4	5	6
<b>1 Market-sensing capability</b>	4.22	0.98	1					
<b>2 Environmental responsibility</b>	4.05	1.29	0.34**	1				
<b>3 Social responsibility</b>	4.22	1.35	0.42**	0.74**	1			
<b>4 International Performance</b>	4.26	1.37	0.24*	0.18	0.36**	1		
<b>5 Firm Age</b>	34.18	25.78	0.06	0.02	0.08	0.19	1	
<b>6 Firm size</b>	59.078	53.09	0.05	0.17	0.20	0.27*	0.25*	1

Note: \*p < 0.05, \*\*p < 0.01.

Models 1 and 3 (Table 4) included only control variables - firm size and firm age. Neither firm age nor firm size was significantly related to social or environmental responsibility. In Model 2, with the inclusion of control variables, social responsibility regressed on market-sensing capability. In Model 4, with the inclusion of control variables, environmental responsibility regressed on market-sensing capability. In Models 2 and 4 market-sensing capability positively affected the social responsibility ( $\beta = 1.80$ ,  $t = 4.59$ ,  $p < 0.001$ ) and environmental responsibility ( $\beta = 0.38$ ,  $t = 3.66$ ,  $p < 0.001$ ) of the firm. Thus, H2a and H2b were supported.

Table 4 Results of hypotheses test

Independent variables	Model 1 Social responsibility		Model 2 Social responsibility		Model 3 Env. responsibility		Model 4 Env. responsibility		Model 5 International performance	
	$\beta$	t-value	$\beta$	t-value	$\beta$	t-value	$\beta$	t-value	$\beta$	t-value
<b>Market-sensing capability</b>	-	-	0.42	4.25***	-	-	0.34	3.23**	0.23	2.12*
<b>Environmental responsibility</b>	-	-	-	-	-	-	-	-	-0.19	-1.31
<b>Social responsibility</b>	-	-	-	-	-	-	-	-	0.32	2.11*
<b>Control variables</b>										
<b>Firm Age</b>	0.03	0.33	0.03	0.33	-0.01	-0.13	-0.01	-0.17	0.19	1.95
<b>Firm size</b>	0.20	1.75	0.19	1.84	0.17	1.52	0.16	1.54	0.24	2.30*
<b>Model estimation</b>										
<b>R<sup>2</sup></b>	0.04		0.22		0.03		0.14		0.29	

adj. R <sup>2</sup>	0.02	0.19	0.00	0.11	0.24
F	1.80	7.51***	1.18	4.36**	5.91***

Note: \*p<0.05, \*\*p < 0.01, \*\*\*p < 0.001

Model 5 considered a firm’s environmental responsibility, social responsibility and market-sensing capability as sources for international performance. The result showed that both market-sensing capability ( $\beta= 0.23, t= 2.12, p < 0.05$ ) and social responsibility ( $\beta= 0.32, t= 2.11, p < 0.05$ ) positively affected perceived international performance, whereas environmental responsibility ( $\beta= - 0.19, t= -1.31, p > 0.05$ ) did not. Thus, H3a and H1 were supported, but H3b was not. It was found that firm size was positively associated with international performance. The SMEs with more employees may possess a variety of resources including human resources and capital to maintain international operations and, consequently, be more satisfied with the international business goal execution.

### Mediation

Since the links between social responsibility - market-sensing capability and social responsibility - international performance were positive, this study further analyzed the mediating role of social responsibility in the relationship between market-sensing capability and international performance. For these purposes, multiple regression analyses were run to assess each component of the proposed mediation model (Figure 4).

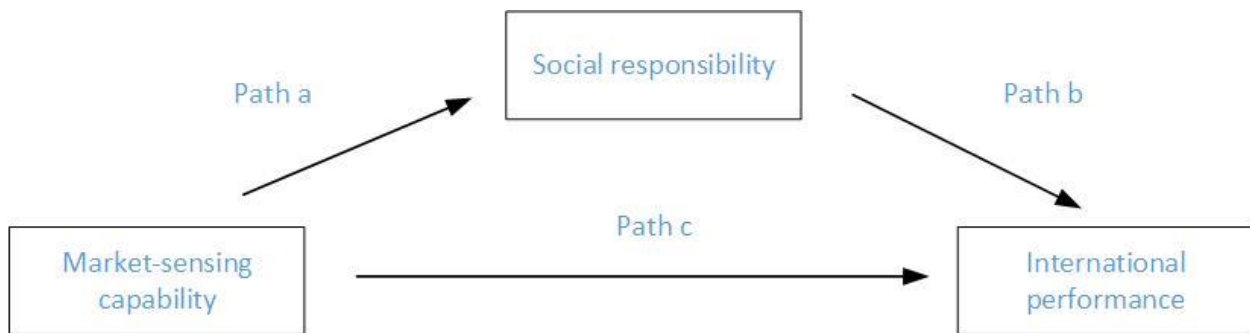


Figure 4 A mediating model

It was found that all paths in Figure 2 were significant: Path a (market-sensing capability - social responsibility) ( $\beta=0.50, t=3.95, p<0.001$ ), Path b (social responsibility-international performance) ( $\beta=0.28, t=2.41, p<0.05$ ), and Path c (market-sensing capability-international performance) ( $\beta=0.38, t=2.89, p<0.01$ ). Next, mediation analyses were tested using the bootstrapping method

with bias-corrected confident estimates (MacKinnon, Lockwood and Williams, 2004; Preacher and Hayes, 2004). In this study, the 95% confidence interval of the indirect effects was obtained with 5000 bootstrap samples (Preacher and Hayes, 2008). Figure 5 displays the results.

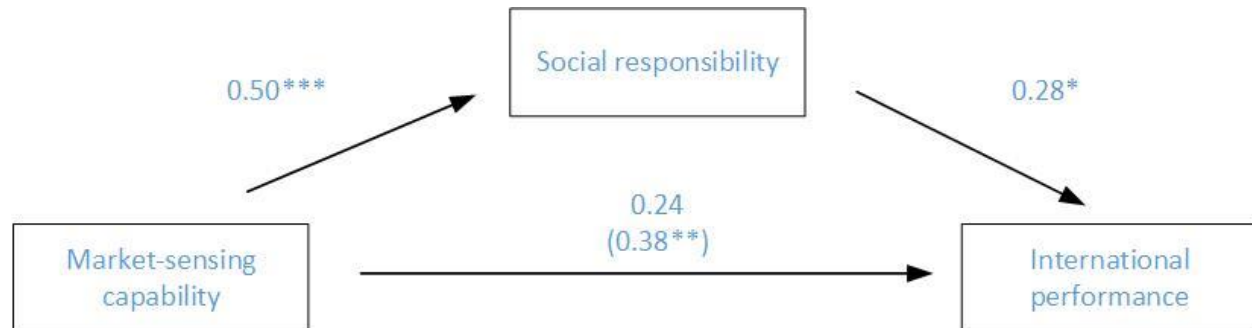


Figure 5 Indirect effect of Market-sensing capability through Social responsibility on International performance

Note: \* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$

As a result, it was found that mean indirect effect from the bootstrap analysis is positive and significant ( $a \times b = 0.141$ ), with a 95% confidence interval excluding zero (0.0389 to 0.3115). In the indirect path, a unit increase in market-sensing capability increases social responsibility by a = 0.5012 units. Since  $b = 0.2813$ , market-sensing capability staying constant, a unit increase in social responsibility increases international performance by 0.2813 units on a 0 to 1 scale. The direct effect  $c'$  (0.2461) became non-significant ( $p = 0.0872$ ) meaning there is no direct effect of market-sensing capability on international performance in this case. Results of the mediation analysis confirmed the mediation role of social responsibility in the relation between market-sensing capability and international performance, and since  $a \times b$  significant and  $c'$  is non-significant, it is an indirect-only mediation (Zhao, Lynch, & Chen, 2010) or “full mediation”.

Even though the environmental responsibility was non-significant in the regression model 5, we conducted an additional mediation analysis using the above-mentioned bootstrapping method with bias-corrected confident estimates, 95% confidence interval, and 5000 bootstrap samples. This mediation analysis tests if there is an indirect effect of environmental responsibility through the social responsibility on international performance. For this mediation analysis the model is the following: path a is environmental responsibility - social responsibility ( $\beta=0.76$ ,  $t=9.44$ ,  $p<0.001$ ), path b is social responsibility-international performance ( $\beta=0.49$ ,  $t=3.13$ ,  $p<0.01$ ), and path c is environmental responsibility - international performance ( $\beta=0.19$ ,  $t=1.62$ ,  $p>0.05$ ). The results of the analysis indicated that mean indirect effect is positive and significant ( $a \times b = 0.3779$ ), with a



95% confidence interval excluding zero (0.1208 to 0.6707). The direct effect  $c'$  (-0.1854) remained non-significant ( $p = 0.2635$ ); and since  $a \times b$  is significant with  $c'$  being non-significant, there is an indirect-only mediation was found, meaning environmental responsibility increase international performance through the social responsibility being a mediator in this case.

## **Discussion and implications**

### **Theoretical implications**

The results of this study highlight how the combination of firm-specific advantages in the form of organizational characteristics and capabilities are intertwined with responsible business practices and together enhance international entrepreneurial growth. The results suggest that responsible business behavior results from sensing the market, however, responsible behavior only does not necessarily facilitate SMEs' international performance. The findings demonstrated that market-sensing capability led to both higher social responsibility and environmental responsibility. While market-sensing capability, socially responsible behavior and firm size together directly enhance international performance (H3a), environmentally responsible behavior do so through social responsibility only. In addition, social responsibility was confirmed to be a mediator between market-sensing capability and international performance. Thus, the empirical part of this study provided evidence that market-sensing capability serves as a source for international performance (H1) as well as for both social responsibility (H2a) and environmental responsibility (H2b).

The direct positive relationship found between market-sensing capability and international performance of the firm is contrary to the studies that considered the market-sensing capabilities among the SMEs. These studies have not found strong evidence for market-sensing capability directly influencing firm performance, as in the study of Lindblom et al. (2008) where positive effect on profitability was not confirmed. However, that study did not assess the international dimension, and thus our results extend those findings to also account for performance and growth of internationalizing SMEs.

Market-sensing capability had a positive relationship on both types of responsibilities in the sample firms as hypothesized. This result suggests that it is easier for a company to notice and incorporate the responsible practices into its operations when it is responsive to customers and competitors.

Contrary to evidence in extant literature supporting the positive role of environmental responsibility on a firm's performance, this study found no direct relationship between environmental responsibility and international performance (H3b). This insignificant finding implies that environmental responsibility by itself has no direct effect on the internal performance of the SME. Contrary to environmental responsibility, higher levels of social responsibility were found to predict better international performance (H3a). This might be due to social responsibility involving less resource-consuming actions compared to environmental responsibility, which is crucial for an SME with relatively scarce resources at its disposal. As noted by Gelbmann (2010), SMEs often find sustainable practices challenging, as adhering to such practices may require significant additional time and investment for communicating them to stakeholders, leaving less resources for the company for use in its internationalization process, most notably its marketing abroad.

Moreover, we found a mediating role of social responsibility between market-sensing capability and international performance in the analysis, as well as between environmental responsibility and international performance. In the first case this means that market-sensing capability should help SMEs achieve social responsibility in order to achieve a better international performance. The role of market-sensing capability indirectly impacting the performance of an SME is visible in the study of Ardyan (2015), who found that market-sensing capability has a positive effect on product innovativeness success, which then serves as a mediator between market-sensing capability and the performance of an SME. In the second, this means that environmentally friendly practices executed by company contribute to the wellbeing of the local society and through that contribute to the enhanced international performance.

The higher international performance in this study was partially resulted from a firm size meaning SMEs with more employees may be more successful to manage activities in multiple international locations. This result is in line with Manolova, Manev & Gyoshev (2010) where firm size in terms of employees was positively associated with SME's export intensity. The more human resources allow broadening firm's consumer base and thus, decreasing the coordination costs and potentially achieving a higher sales volume, which results in economies of scale and scope (Aulakh, Kotabe, & Teegen, 2000; Gomes & Ramaswamy, 1999). This is also contrary to findings that indicate that small firms perform better than medium-sized firms (Wolff and Pett, 2000).

This study therefore has implications on the emerging issues in global marketing in several ways: First, it clarifies the role of CSR in form of responsible behavior towards society and towards the environment in the context of international entrepreneurial growth. Then, it also posits the necessity of strategic management through social responsibility and market-sensing capability in opportunity for internationalizing SMEs to align with the global markets dynamics and to perform better when internationalizing.

The greatest impact of responsible business behavior in the internationalization of SME would be on product development decisions. By sensing the demand of host markets, the same product could be sold simultaneously in several countries to groups with similar levels of demand for social and environmental issues. Moreover, products in line with a certain level of standards for responsibility being in demand in one country can be targeted in the future to countries that now have lower responsibility requirements. Such a lower level of responsibility requirements in some countries combined with the current product alternatives being unaffordable for consumers, may launch a product redesign or adaptation processes in order to consider entry of this market as a step of international entrepreneurial growth.

In terms of promotion, SMEs often tend to have a lack of disclosure of their responsible practices. The market sensing brings the knowledge of a consumer type on the host market and thus, allows the adjustment of communication of responsibility-related issues while internationalizing. Depending on the needed communication type, SME may maintain their image and facilitate the acceptance of their products in host countries if matched right.

Then, dictated by the international entry mode, the distribution should also be adjusted to the market conditions and, to the partners' strategies concerning the responsibility business practices if resellers are involved. Consequently, pricing policy for different markets might be built taking into account in addition to the market knowledge such factors as different pricing for products that marketed as "responsible" or "sustainable" as a differentiation strategy, or requirements from distribution channel.

As a result, the SME's marketing strategy including product, promotion, distribution and pricing should be carefully adapted in accordance with the knowledge received from target markets and responsible business practices adapted in company to match varying levels of demand for various countries while considering new market entry.

Academically, this study extends previous approaches to the organizational capability - international performance relationship in a few aspects. First, this study confirms that market-sensing capability has a critical role in SME's international performance, providing empirical evidence for it being an antecedent of organizational change in behavior.

Second, integrating the IE and CSR perspectives, this study enhances our understanding of the market-sensing capability - international performance relationship by employing social responsibility as a mediator, since it appears partially in a respond to market situation and contributes to the performance in international markets. Given the limited research on both responsible market-sensing capability and responsible business practices in SME's internationalization, this finding is unique in the literature since the mediating roles of responsible business behavior has not been examined when explaining the market-sensing capability – international performance relationship.

Third, it links the SMEs internal firm-specific advantages in social responsibility as major determinants of their responsible business behavior. In doing so, it extends the studies in global marketing on CSR (Becker-Olsen et al., 2011; Choi et al., 2016), marketing-related capabilities (e.g., Prasad et al., 2001) to the SME context, thus bringing forth additional contribution to complement those from the large MNC context (Jamali, Zanhour & Keshishian, 2009; Kolk & Van Tulder, 2010). CSR and the increasing prevalence of software startups and other SMEs in markets globally bring forth arising themes also for research on international marketing. As the results of this study show, both are relevant and linked to marketing through specific marketing-related dynamic capabilities.

In sum, we found that the impact of market-sensing capability on international performance is mediated by the extent of social responsibility exhibited by the SME. Thus, social responsibility has a central role in entrepreneurial internationalization, and that this impact is both fostered and tempered by organizational capabilities and operational characteristics of the enterprise. The results help clarify the mixed evidence in previous literature concerning the effect that CSR activities can have on company performance (Ben Brik et al., 2010; Husted & Allen, 2007; Margolis & Walsh, 2003; McWilliams & Siegel, 2000; Orlitzky & Benjamin, 2001; Orlitzky et al., 2003), specifically by outlining how the two elements of CSR, namely social responsibility and environmental responsibility, affect the international performance of SME. Clarifying the role

of market-sensing capability brings up another novel finding: Even though extant literature has investigated the mediating role of innovation capabilities and competitive advantages in the market orientation–performance relationship (Han et al., 1998; Zhou et al., 2005, 2008), there is still limited knowledge about the processes which are influenced by market-sensing capability and implications for the international performance of firms. This study contributes to adding to that knowledge and linking it to CSR and performance specifically.

### **Managerial implications**

The findings of this study can help SMEs develop effective management strategies. Our findings that market-sensing capability improves responsible business behavior which then contributes to international performance of SMEs may improve the understanding of SMEs managers why development of firm’s capabilities matters. This study supports that not only market-sensing capability is a key for better international performance but combined with social responsibility it brings more results for the company. As this study demonstrated, the market-sensing may serve as a source for improvement of responsible practices in the firm; thus, SMEs need to find ways to develop and maintain the market sensing both in home and host countries from the diverse perspectives. Consequently, paired with the well-developed market-sensing capability, the international operations of the SMEs may become better. To achieve this, market sensing should be strategized and maintained so that acquisition of needed market knowledge can be achieved.

The social responsibility is often operationalized in small companies through the strong embeddedness with the local community and employment of the locals affecting the local community wellbeing. Entrepreneurs and owner-managers in charge of decision-making in small businesses should consider the advantages of responsible business behavior for international performance. For SMEs, both internationalization and responsible business practices are activities which require a contribution of often limited resources and prioritizing, and hence, managers are assessing in what way RBB and “doing good” will influence their company as they do with internationalization strategy. Our finding that social responsibility contributes positively to international performance suggests that managers can obtain competitive advantages and benefit by contributing resources into issues related to social responsibility while already having

international operations. For instance, they can improve their international operations by explicitly emphasizing the socially important issues for the host market local community.

Our findings also suggest that firms are not always able to benefit from responsible business behavior. Environmentally responsible behavior will pay off and improve international performance only through social responsibility and thus, shouldn't be totally ignored even though not showing a direct effect, but rather combined. Indeed, internationalized SMEs should realize that contribution to responsibility can represent a beneficial strategy, particularly in the recent time with the stakeholders, such as customers are expressing their social and ecological concerns. To managers, this means that improving the business responsible practices is an important intermediate step in converting organizational capabilities into performance gains.

It is an emerging issue that SME are often involved in responsible business behavior, however, without strong positioning within the company and an external communication. While it is not advised that SMEs to be pushed and strictly controlled by policies to disclose this information as opposed to large companies, the government officials and policy makers should take a step further in order to lead the SMEs to more open communication about their commitment. Starting from the home countries, the bodies and state agents that provide consultation about exports and internationalization for SMEs should include the advice on what would be the most beneficial tactic for particular SME when going abroad in question of addressing the responsibility issues in the host market with the use of international marketing instruments.

### **Limitations and future research**

The results and their interpretation must be considered in the context of this study's limitations. One of the limitations is that this study is a one-country study with Finland having its own specific features, makes the results less generalizable for all countries. Thus, future studies might consider the differences of the host markets for the internationalization strategies of SMEs and, consequently, different socially responsible behavior in regard, towards what are the customers' values and expectations in this market. Also, the research which compares developed and emerging economies as both, home and host countries may reveal interesting insights.

Several methodological limitations may restrict the generalizability of our findings, including using a relatively small sample size and applying Likert-scale items across the variables. Hence,

expanding the scale of the sample and incorporating objective measures for international performance is beneficial for future studies. Moreover, since the dynamics of the effect of responsible practices over international performance may differ along with the internationalization process, the longitudinal study that examines the effects of internationalization over several years may reveal certain differences. For a further investigation, it is advised to measure a firm size is a composite measure combining number of employees with i.e., few-year average yearly revenues.

## **Conclusion**

The aim of this study was to highlight an emerging area linking global marketing and international entrepreneurship research, the impact of CSR and dynamic capabilities related to marketing in an international and global context. Specifically, the empirical part of the study examined how market-sensing capability and CSR are interlinked in explaining the international performance of SMEs. In doing so, the present study has contributed, by linking together global marketing, strategic management and CSR-themed research, to explaining how SMEs operating internationally and globally can benefit from developing marketing-related capabilities while maintaining socially responsible business practices in the process.

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## Appendix 1

### International performance

	Communalities	Factor loadings
IP1	,740	,860
IP2	,559	,748
IP3	,633	,796
IP4	,750	,866
IP5	,610	,781
IP6	,528	,727
IP7	,833	,913

### Environmental responsibility

	Communalities	Factor loadings
ER 1	,654	,809
ER 2	,590	,768
ER 3	,410	,640
ER 4	,412	,642
ER 5	,529	,727
ER 6	,387	,622
ER 7	,583	,764
ER 8	,662	,814

### Social responsibility

	Communalities	Factor loadings
SR 1	,792	,890
SR 2	,737	,859
SR 3	,639	,800
SR 4	,784	,885
SR 5	,587	,766

### Market-sensing capability

	Communalities	Factor loadings
MS1	,437	,661
MS2	,562	,750
MS3	,764	,874
MS4	,590	,768
MS5	,385	,620