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Firm Performance among Internationalized SMEs: The Interplay of Market Orientation, Marketing Capability and Digitalization

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Abstract: The ability to internationalize has become a competitive necessity for many firms, and one important for survival and growth in the era of globalization. At the same time, digitalization is transforming the locus of entrepreneurial opportunities and entrepreneurial practices, thus offering new perspectives on internationalization. Internationalization requires marketing capability as well as market orientation. However, there is a gap in the literature exploring the interplay of digitalization, market orientation and marketing capability in the internationalization process. The objective of the present study is to improve our understanding of (1) the impact of market orientation, marketing capability and digitalization on firm performance among small- and medium-sized enterprises (SMEs) and (2) the differences in this impact between internationalized SMEs and SMEs operating only in domestic markets. The data were gathered from 101 Finnish SMEs in the wood-product industry, and analyzed with AMOS using path analysis. The results show that marketing capability mediates the effect of market orientation on firm performance. For internationalized firms, market orientation and marketing capability are crucial to their success in foreign markets. However, digitalization has no effect on firm performance with internationalized firms. With other firms, the effect is direct and significant.

Keywords: market orientation; marketing capability; digitalization; internationalization; SME

1. Introduction

The ability to internationalize has become a competitive necessity for many firms, and one enabling survival and growth in the era of globalization (Raymond and St-Pierre 2011). The process of internationalization in small- and medium-sized enterprises (SMEs) is a learning process (Schweizer 2012) and requires bundles of capabilities. Marketing capability in particular (Pham et al. 2017) but also market orientation affect export performance, the latter providing the basis for a firm's commitment to external markets (Knight and Cavusgil 2004). Previous research suggests that the effect of market orientation on business performance is positive across contexts characterized by varying levels of market turbulence, technological turbulence and competitive intensity (Kohli 2017). However, more research is needed to understand the interplay of market orientation and marketing capability in the context of internationalization.

At the same time, digitalization is transforming the locus of entrepreneurial opportunities and entrepreneurial practices (Autio 2017), thus offering new perspectives on internationalization. Autio (2017) argues, that the effect of digitalization creates opportunities for existing SMEs to proactively rethink both their internal and external interactions and how they co-create, deliver, and capture value in their interactions with customers, partners, suppliers, and internal stakeholders.

Digital technologies can be used to extend, enhance, and enrich boundary-spanning interactions in virtually any new venture or small- and medium-sized enterprise. Thus, it is important to consider the effects of digitalization on the internationalization of SMEs.

The context of this research is the wood-product industry in Finland, a sector that has seen major turbulence in recent years. Internationalization has been seen as a way to survive and grow. The degree of internationalization varies across sectors within the industry: [Kettunen \(2013\)](#) revealed that the export share was over 50 percent in the sawmill sector, whereas in the other sectors it was usually under 10 percent. For SMEs operating in the wood product industry, it is vital to learn how to succeed in international markets.

There is still a gap in the literature that explores the interplay of market orientation and marketing capability in the internationalization process. The effect of market orientation and marketing capability on firm performance within international markets is not well researched especially with SMEs as the subject. In addition, digitalization is transforming the ways of operating in international markets but the phenomenon is somewhat unexplored with SMEs. This research contributes to the literature in three important ways. First, it analyzes the effects of market orientation and marketing capability on firm performance with internationalized firms. Second, the study brings new knowledge about the effect of digitalization on firm performance with international markets, and third, it examines the interplay of market orientation, marketing capability and digitalization in the context of internationalized SMEs.

The objective of the present study is to improve our understanding of (1) the impact of market orientation, marketing capability and digitalization on firm performance with SMEs and (2) the differences in this impact between internationalized SMEs and SMEs operating only in domestic markets.

2. Theoretical Framework

2.1. Market Orientation and Marketing Capability

Market orientation (MO) can be interpreted from two perspectives: the cultural perspective or the behavioral perspective ([Armario et al. 2008](#)). [Narver and Slater \(1990\)](#) define MO as the basis of marketing and strategic planning orienting the company toward the creation and delivery of superior value for its customers. This definition represents the cultural perspective. [Kohli and Jaworski \(1990\)](#) in contrast, define MO from the behavioral perspective as the organization-wide generation of market intelligence, entailing the processes of a firm implementing marketing concepts in practice ([Kohli et al. 1993](#)). In addition, [Kohli and Jaworski \(1990\)](#) identify three phases in the process: (1) generating market information from customer's present and future needs; (2) sharing market knowledge within the firm and (3) addressing customers' present and future needs. These two perspectives are complementary: organizational culture generates capabilities and these capabilities are exhibited in certain market-oriented behaviors ([Armario et al. 2008](#)).

[Narver and Slater \(1990\)](#) categorize MO into three different elements: customer orientation, competitor orientation and inter-functional coordination. Customer and competitor orientation refer to the active generation of information from customers and competitors through monitoring market needs and desires. Inter-functional coordination refers to the firm's ability to disseminate this information throughout the firm in a way that creates value for the customer through products and services. Later research has suggested a fourth element, consumer orientation, to be added in MO when operating in consumer markets ([Coley et al. 2010](#)).

Empirical evidence suggests that the effect of MO on business performance is positive across contexts characterized by varying levels of market turbulence, technological turbulence and competitive intensity ([Cano et al. 2004](#); [Kirca et al. 2005](#); [Kohli 2017](#)). Market orientation can be related to business performance either directly or indirectly (e.g., [Verhoef et al. 2011](#); [Narver and Slater 1990](#); [Pelham 2000](#); [Matsuno et al. 2002](#)). In addition, [Spillan et al. \(2013\)](#) established that this relationship between MO and performance can also be found in microenterprises.

The concept of marketing capability has its basis in the resource-based view (RBV), in which a firm is viewed as a bundle of resources, and competitive advantage is based on possession of valuable and rare resources (Barney 1991). The performance differences among firms result from resources which may be firms' assets or capabilities that can be used to create inimitable internal capabilities (Murray et al. 2011). These capabilities are critical in international markets resulting in a firm accruing a competitive advantage (Leiblein and Reuer 2004). The RBV was later complemented by a view emphasizing dynamic capabilities (DC), which highlights the ability of a firm to adjust its processes so as to utilize resources effectively in a dynamic business environment. The DC views competitive advantage as stemming not just from resources but from new resource configurations based on dynamic capabilities (Cavusgil et al. 2007).

For market-oriented firms, the capabilities connected to understanding the markets and customers are central to creating a competitive advantage (Day 1994). Srivastava et al. (2001) emphasize the creation of customer value based on knowledge and relationship resources within the innovation, value chain and customer relationship management processes. As markets become increasingly complex, dynamic capabilities are also increasingly important: the ability to learn from market information, to experiment flexibly and to market in a way that builds relationships (Day 2011). The complexity of markets increases when entering foreign contexts and thus, the value of marketing capabilities becomes even more important. Murray et al. (2011) examined the effect of marketing capabilities on export performance and divided the capabilities into six categories: market intelligence capability, product development capability, export pricing capability, export promotion capability, export distribution capability, and after-sales service capability. The same study found that engagement in market intelligence, product development, price setting and promotional activities have a positive payoff, but there is less need for exporters to nurture after-sales service and distribution capabilities. This shows that different aspects of marketing capability are more important in foreign markets.

Market orientation is a resource that is valuable, rare and difficult to imitate. It is considered one of a firm's internal capabilities, one which can create a sustainable competitive advantage (Hult et al. 2005; Zhou et al. 2008). Market orientation and marketing capabilities are complementary assets that contribute to superior firm performance; MO as a key market-based asset, and firms' marketing capabilities as a key market-relating deployment mechanism (Morgan et al. 2009). Vorhies and Harker (2000) found that firms with high MO also had higher levels of the six marketing capabilities, these being: marketing research, product development, pricing, distribution, promotion and marketing management. Market orientation is a valuable and rare resource, but in order to drive firm performance, it requires complementary capabilities to be fully deployed (Teece 2007).

Based on the theory, we suggest our first hypothesis:

Hypothesis 1. *Both MO and marketing capability have a positive impact on firm performance.*

2.2. Digitalization

Autio (2017) argues that digitalization is transforming entrepreneurship in two ways. The first transformation is the shifting locus of entrepreneurial opportunities in the economy and the second is the transformation of entrepreneurial practices. The current wave of digitalization is considered the third or fourth industrial revolution, or the second machine age (Valenduc and Vendramin 2017). Autio (2017) uses the term "digital disruption" to describe the transformative impact produced by digital technologies and infrastructures on how business, economy, and society operate. Such digital disruption creates opportunities for SMEs for growth and internationalization.

The development of automation enabled by robotics and artificial intelligence brings the promise of higher productivity levels, and also of improved efficiencies, safety, and convenience (McKinsey Global Institute 2017). These digital technologies also transform the world of work, creating entirely new types of digital or virtual labor, both paid and unpaid (Valenduc and Vendramin 2017).

Digitalization will transform the demand for labor, skill requirements, work organization, income volatility and tax bases (Jepsen and Drahoukoupil 2017). New capabilities are required both of employees and of firms trying to grow in the digitalized world.

Digital technologies transform the value-creation logic. As Autio and Thomas (2016) argue, these technologies “boost the value co-creating ability of those interactions by enhancing (through easier accessibility and efficiency), extending (beyond the core exchange of goods and services) and enriching them (through greater data intensity).” This makes digital affordances a potent driver of business model innovation.

Joensuu-Salo et al. (2017) found that despite the opportunities digitalization provides, it is not yet an integral part of Finnish SMEs, in that only a few firms had digitalized their production or developed new revenue models. However, digitalization had a positive effect on firm performance, especially that related to business development. The benefits gained from digitalization influenced image and brand development, customer acquisition, development in customer service and development in competitiveness. A third of the responding firms noted effects on new business opportunities, closer stakeholder relationships and enhancement of business processes.

Kohli (2017) argues, that digitalization has an effect on MO through transforming the generation of market intelligence, the dissemination of market intelligence and responsiveness to such market intelligence. The generation of market intelligence has become faster, easier and cheaper through digitalization, and new technologies make it feasible to enrich and develop market intelligence while disseminating it. In addition, digital technologies have made it easier for businesses to respond quickly to the reactions of customers and competitors. Therefore, digitalization transforms the ways in which MO is deployed.

Based on the theory, we suggest the following:

Hypothesis 2. *Digitalization has a positive impact on firm performance.*

2.3. Internationalization

The international business literature recognizes that internationalization is one of the most important sources of firm growth and improved performance (Lu and Beamish 2001). The ability to internationalize has become a competitive necessity for many firms, enabling their survival and growth under conditions of globalization and in the midst of the knowledge economy. There is no single theory to explain the internationalization of the firm. Among the most powerful theories is the RBV, which argues that when firms follow a global strategy, they favor high-control modes, especially if they possess valuable resources and capabilities (Ekeledo and Sivakumar 2004). Researches have used the RBV to focus on entrepreneurial capabilities as critical factors in the firm's attaining competitive advantage (Hsu and Pereira 2008). The RBV relies on two fundamental assertions: resource heterogeneity and resource immobility.

With the advent of globalization and the knowledge economy, the strategic capabilities that enable the internationalization of SMEs became an important issue. SMEs are usually limited in their resources and international experience. Strategy and entrepreneurship scholars argue that firms succeed by building and retaining a competitive advantage. For example, Ireland et al. (2003) integrated theories from the strategy and entrepreneurship disciplines to explain how firms develop and sustain these advantages. They noted that firms succeed by identifying and exploiting new opportunities and by deploying their resources in ways that allow them to create value. Some of these opportunities lie in the foreign markets, requiring strategies that leverage SMEs' skills and capabilities.

Knight and Cavusgil (2004) suggest that MO provides the basis for a firm's commitment to external markets. Market orientation can be internalized in a firm's internationalization process, and it is one of the antecedents of internationalization particularly when (1) MO develops and promotes learning processes in foreign markets; and (2) firms with a strong MO develop strong marketing

capabilities, such as distribution networks, market knowledge and customer relationships, which provide the firm with a special knowledge of foreign markets (Wright et al. 2007). Armario et al. (2008) suggest that a direct positive relationship exists between MO and a strategy of internationalization, and that the effect of MO on performance in foreign markets is moderated by knowledge acquisition and market commitment. For all firms, the challenge is to sustain competitive advantage in a changing environment (Tallott and Hilliard 2016). Teece et al. (1997) propose dynamic capabilities can explain how firms respond to change through the ability to integrate, build and reconfigure internal and external resources and competencies. Dynamic capabilities are “the capacity of an organization to purposefully create, extend, and modify its resource base” (Helfat et al. 2007).

Organizational learning has been studied as a key factor in firm performance and internationalization. Weerawardena et al. (2015) found that MO and its relation to innovation have a joint effect on early internationalization. That study proposed a model where early internationalizing firms employ dual subsystems of dynamic capabilities: a market-focused learning capability and marketing capability, and a socio-technical subsystem comprised of network learning capability and internally focused learning capability. Researchers found that market-focused learning and marketing capability operate in one subsystem that not only allows learning from markets but also relates such learning to enhanced marketing capability, enabling firms to rapidly take their products to market. Similarly, the socio-technical subsystem, involving internal learning capability and network learning capability, provides new knowledge configurations to develop cutting edge market offerings to address customer needs identified through market learning.

Since its inception in the 1970's, research on international expansion has focused on explaining the slow and incremental internationalization process. Since the late 1980's on, researchers have increasingly scrutinized small firms that operated internationally early in their existence despite limited resources and capabilities. Examples of such firms have been identified in industries including high-technology, software, art, and craft. Over the past twenty years, the pace of globalization has increased rapidly, and technological and economic developments seem to allow SMEs to break into world markets more easily and at lower costs. In particular, information and communication technologies have significantly reduced the costs of operating on a global scale, notably through digital channels for cross-border supply (e.g., e-commerce). Moreover, the fragmentation of production is opening new opportunities for SMEs to participate in international trade, as smaller firms may be more readily able to export “tasks” along global value chains than final products (Lejarraga et al. 2014). In addition, digital platforms have changed the way in which firms operate across borders.

Although researchers have extended the understanding of the variety of factors affecting SME internationalization, MO and marketing capabilities have not been the focus of such research. Digitalization, on the other hand, could be described as a new “game changer” in the internationalization of SMEs worldwide. Digitalization offers new opportunities in foreign markets while at the same time increasing competition in the home market. To achieve a competitive advantage, a company must be aware of changes in a market utilizing digital tools, and also be capable of responding to those changes through digitalization. This requires learning and dynamic capabilities.

Based on the theory, we suggest:

Hypothesis 3. *The impacts of market orientation, marketing capability and digitalization vary across internationalized firms and firms operating only in their domestic markets.*

3. Methodology

A questionnaire was distributed to 504 (=N) customer firms of Finnish Forest Centre during spring 2016. The Forest Centre is a state-funded organization tasked with collecting and sharing data related to Finland's forests and enforcing forestry legislation. All the firms were SMEs located either in Southern Ostrobothnia or in Central Ostrobothnia in Finland, and registered as operating in the

field of wood production industry. When the firms of retired entrepreneurs and firms that had gone bankrupt were removed from the original N, the potential group of respondents was reduced from 504 to 363. We received 101 answers, a response rate of 28 percent. 31 percent of the respondents were active in international markets, 69 percent only in their domestic markets.

3.1. Measurement Constructs

Market orientation was measured using a 20-item MARKOR-scale (Kohli et al. 1993; Farrell and Oczkowski 1997). Cronbach's alpha for the measurement instrument was 0.77. Marketing capabilities were measured against eight capabilities: market research, pricing, product/service development, distribution, marketing communications, marketing planning and management, customer relations and branding. Capabilities concerning market research, pricing, product/service development, distribution, marketing communications and marketing management were measured using items from Vorhies and Harker (2000). To measure customer relations and branding, items from Vorhies et al. (2011) were added. The final instrument consisted of 24 items. Cronbach's alpha was 0.94. A 7-point Likert scale was used.

Business performance was measured by a 10-item instrument reported by Chapman and Kihn (2009), which is based on that of Govindarajan and Fisher (1990). For this study, the original measurement instrument was adapted to suit Finnish SMEs. The final instrument uses nine items and covers non-financial and financial factors. The items relate to profit, equity ratio, liquidity, turnover, development of new products, market share, market development, personnel development and political-public affairs. Respondents were asked to rate their business performance relative to competitors during the past three years on a 5-point Likert scale. Cronbach's alpha was 0.88.

Digitalization was measured using a 7-item instrument, developed for the current research. The firms were asked to indicate (with yes or no) whether they applied the any of the forms of digitalization on a list in their business (yes or no). The forms listed were, (1) Web pages; (2) Social media; (3) Cloud services; (4) Digital communication with stakeholders; (5) Web commerce; (6) Industrial Internet of Things; and (7) Big data. For the analysis, we computed a variable that indicates how many forms of digitalization the firm uses. The responses indicate that 18.8 percent used none of the forms, 18.8 percent used one form, 24.8 percent used two forms, 15.8 percent used three forms, 12.9 percent used four forms, 7.9 percent used five forms, 1 percent used six forms, and none of the firms used all seven forms of digitalization. This variable was then converted to a natural logarithm because we were interested in the relative change in digitalization rather than the absolute change.

3.2. Initial Analysis

Data were analyzed using SPSS 22-software and AMOS. The normality of the scales was tested using the Kolmogorov-Smirnov and Shapiro-Wilk-tests, which showed that all the variables in our model were normally distributed. Variance inflation factor values were checked to exclude multicollinearity. In addition, homoscedasticity and the normality of residuals were examined. Table 1 presents the correlation results for the studied variables.

Table 1. Correlation results for the studied variables.

	(1)	(2)	(3)	(4)
PERFORMANCE (1)	1			
MARKET ORIENTATION (2)	0.419 ***	1		
MARKETING CAPABILITY (3)	0.443 ***	0.767 ***	1	
DIGITALIZATION (4)	0.278 *	0.311 **	0.239 *	1

*, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

Table 2 presents the mean values of MO, marketing capability, digitalization and firm performance for internationalized firms and firms operating only in their domestic markets. The difference in means was tested with a *t*-test. None of the mean values differ between internationalized firms and firms operating in domestic markets. The mean values of market orientation and digitalization are somewhat higher with internationalized firms although the difference is not statistically significant.

Table 2. Mean values, (standard deviations) and probability values (*t*-test) of variables.

	Internationalized Firms	Firms Operating on Domestic Markets	<i>p</i>
PERFORMANCE	3.1 (0.8)	3.1 (0.8)	0.774
MARKET ORIENTATION	4.6 (0.8)	4.2 (0.83)	0.073
MARKETING CAPABILITY	4.1 (1.0)	4.0 (1.0)	0.599
DIGITALIZATION	0.9 (0.5)	0.8 (0.6)	0.431

Linear regression analysis was undertaken to test the relationships between variables. A series of multiple regression analysis tests showed that MO had a direct effect on performance, but when marketing capability was added into the model, the effect disappeared: The effect suggests mediation (Baron and Kenny 1986). Digitalization had a direct effect on performance. Because the results from the regression analysis showed a possible mediation, path analysis was conducted using AMOS. Path analysis is an extension of the regression model that permits the additional testing of indirect paths and chains of influence (Streiner 2005). The strength of path analysis is its ability to decompose the relationships among variables and to test the credibility of a theoretical perspective (or model). We tested a model where marketing capability fully mediates the effect of MO and in addition, where digitalization has a direct effect on performance. This model was based on the theoretical assumptions and the initial analysis. The final model was tested separately for firms operating only in domestic markets and for those operating in international markets. Goodness of fit measures as suggested by Byrne (2010), were used for model evaluation: comparative fit index (CFI) values greater than 0.90, normal fit index (NFI) values greater than 0.95 and root mean square error of approximation (RMSEA) values less than 0.08, a chi-square value with an insignificant result set at a 0.05 threshold and X²/degrees of freedom ratios of less than 3.0. Figure 1 presents the theoretical model to be tested.

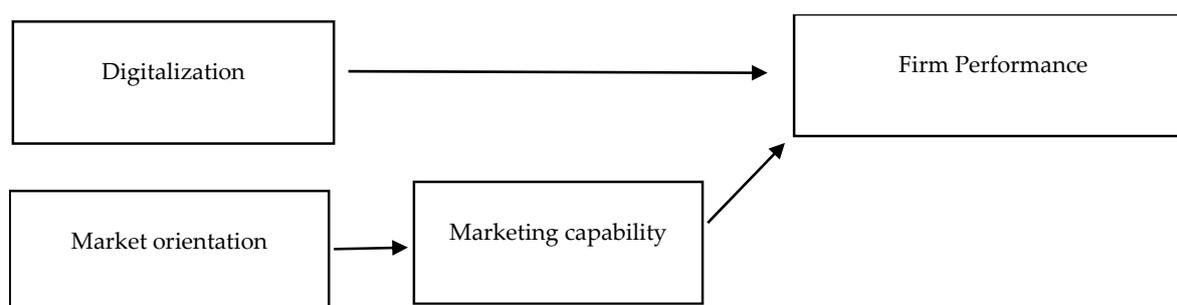


Figure 1. Theoretical model.

4. Results

4.1. Model for Internationalized Firms

Table 3 presents the estimates, standard errors, critical ratios and probability values for the tested model. With internationalized firms, marketing capability fully mediates the effect of MO. Market orientation has a significant and direct effect on marketing capability (standardized regression weight 0.86). The standardized indirect effect on performance is also significant (0.49). Marketing capability has a direct effect on performance (standardized regression weight 0.65), and therefore Hypothesis 1 is

supported. However, digitalization has no significant effect on firm performance, and accordingly, Hypothesis 2 is not supported in the case of internationalized firms.

Table 3. Estimated values, standard errors (S.E.) critical ratios (C.R.) and probability values (*p*) for the path model (internationalized firms).

			Estimate	S.E.	C.R.	<i>p</i>
Marketing capability	←	Market orientation	1.101	0.125	8.828	***
Performance	←	Marketing capability	0.447	0.100	4.487	***
Performance	←	Digitalization	−0.363	0.212	−1.712	0.087

*** indicates significance at the 99% level, respectively.

The model explains 43 percent of the variance in firm performance and 74 percent of the variance in marketing capability. The model fit values are excellent: CFI 1.00, NFI 0.99, RMSEA 0.000, a chi-square value with an insignificant result of 0.670 and X2/degrees of freedom of 0.400. Figure 2 presents the standardized values for the tested model.

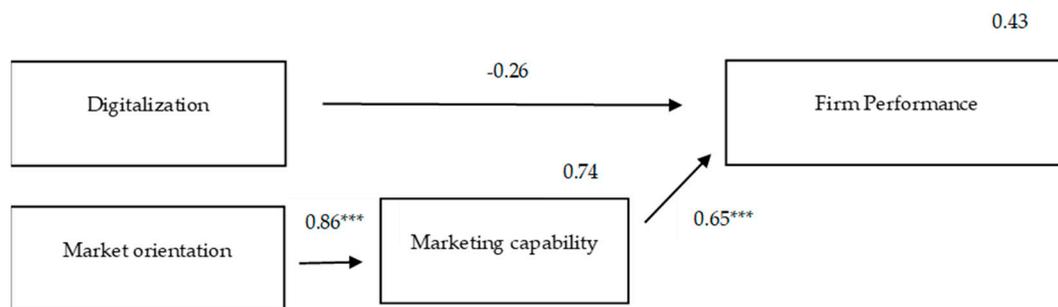


Figure 2. Standardized values for the tested model with internationalized firms. *** indicates significance at the 99% level, respectively.

4.2. Model for Firms Operating Only in Their Domestic Markets

Table 4 presents the estimates, standard errors, critical ratios and probability values for the tested model. In the case of firms operating only in their domestic markets, marketing capability fully mediates the effect of MO. Market orientation has a significant and direct effect on marketing capability (standardized regression weight 0.73). The standardized indirect effect of MO on performance is also significant (0.21). Marketing capability has a direct effect on performance (standardized regression weight 0.28). Hypothesis 1 is also supported in the case of firms operating in their domestic markets. In addition, digitalization has a significant effect on firm performance (standardized regression weight 0.35). Hence, Hypothesis 2 is supported in the case of firms operating in their domestic markets.

Table 4. Estimated values, standard errors (S.E.) critical ratios (C.R.) and probability values (*P*) for the path model (firms operating in their domestic markets).

			Estimate	S.E.	C.R.	<i>p</i>
Marketing capability	←	Market orientation	0.883	0.101	8.715	***
Performance	←	Marketing capability	0.212	0.086	2.455	*
Performance	←	Digitalization	0.459	0.156	2.943	**

*, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

The model explains 25 percent of the variance in firm performance and 54 percent of the variance in marketing capability. The model fit values are excellent: CFI 0.99, NFI 0.97, RMSEA 0.058, a chi-square

value with an insignificant result 0.293 and $X^2/\text{degrees of freedom}$ 1.228. Figure 3 presents the standardized values for the tested model.

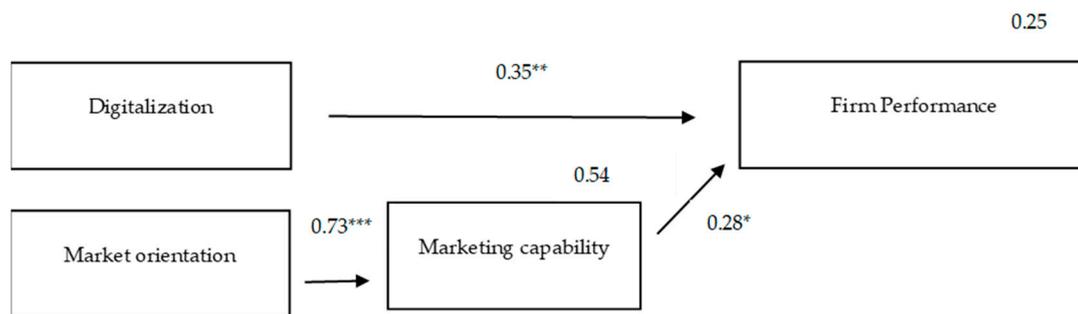


Figure 3. Standardized values for the tested model with firms operating only in their domestic markets. *, **, *** indicates significance at the 90%, 95%, and 99% level, respectively.

The findings support Hypothesis 3. The impacts of MO, marketing capability and digitalization on firm performance vary between internationalized firms and firms operating only in their domestic markets. Digitalization affects firm performance among firms operating in their domestic markets but not among internationalized firms. Market orientation and marketing capability both have either a direct or an indirect effect on firm performance with both types of firms. However, the effect is much stronger with internationalized firms.

5. Discussion

The objective of this study was to improve our understanding of the impact of MO, marketing capability and digitalization on firm performance with SMEs and also to assess the difference in that impact as it applied to internationalized SMEs and SMEs operating only in their domestic markets. With internationalized firms marketing capability fully mediates the effects of MO on firm performance. This is in line with the findings of Murray et al. (2011), showing that marketing capabilities mediate the market orientation–performance relationship. Marketing capability has a direct effect and MO an indirect effect through marketing capability on firm performance. Hypothesis 1 was supported both with internationalized firms, and firms operating only in their domestic markets. The effects of MO and marketing capability on firm performance were even stronger in the internationalized setting, hence supporting Hypothesis 3. It seems that in international markets the importance of MO and marketing capability is heightened. The model is able to explain as much as 43 percent of the variance in firm performance. Evidently, marketing capability and MO are crucial factors for a firm wanting to succeed in international markets. It is important to understand that MO has potential value, but only if a firm takes appropriate strategic actions to capitalize on MO can it create a competitive advantage to deliver stronger performance (Ketchen et al. 2007). The finding supports the argument of Murray et al. (2011) that the development of appropriate marketing capabilities, derived from MO, may be contingent on the demand condition and the level of competition in the dynamic export market.

In this research, digitalization had no effect on the performance of internationalized firms. However, the effect was significant with firms operating in their domestic markets. Hence, Hypothesis 2 was not supported with internationalized firms, but supported with firms operating only in their domestic markets. This finding also supports Hypothesis 3. The finding intriguing because digitalization has been argued to be a new way of reaching foreign markets. It could be that the tools of digitalization are more difficult to utilize fully in the context of a foreign culture. With firms operating in their domestic markets, digitalization had a significant effect on firm performance. It seems that operating in a more familiar market makes it to exploit the positive effects of digitalization. The dynamic capabilities (DC) concept suggests that digitalization is a potential asset but one requiring a firm to be able to adjust its processes so as to utilize this resource effectively in a dynamic business

environment. These findings suggest that firms require heightened levels of this ability when operating in foreign markets.

As is the case with internationalized firms, marketing capability fully mediates the effects of MO on firm performance with firms operating only in their domestic markets. Marketing capability does have a direct effect on firm performance but the effect is far smaller than it is with internationalized firms. This study confirms the view of [Morgan et al. \(2009\)](#) of MO as a key market-based asset, and firms' marketing capabilities as a key market-relating deployment mechanism. In foreign markets, which can be considered more complex, the ability to deploy MO through marketing capabilities becomes even more important. In addition, by operating in foreign markets, firms have enhanced learning opportunities to develop more diverse capabilities than are available to purely domestic firms.

In this research, the RBV is the main theoretical background. It focuses on the SMEs' strategic capabilities as primary determinants of internationalization outcomes. From the point of view of internationalization, the theoretical background could be broadened through the application of contingency theory and the configuration approach. The first focuses on how the capabilities interrelate and combine to achieve outcomes, most often performance, and the second on whether the "best" outcome may be obtained through one or more combinations of capabilities, when the potential of digitalization should be utilized in the context of internationalization.

This study has some limitations. First, the data comes from one country and from one industry, which inevitably limits the generalizability of the results. However, the findings on MO and marketing capability are in line with previous research (i.e., [Murray et al. 2011](#)). Second, there are more firms operating in their domestic markets than in the international markets in the data set. This correctly represents the situation of the industry in the region of Southern Ostrobothnia in Finland but limits the interpretation of the findings. Despite these limitations, this study offers new knowledge on the capabilities required of SMEs trying to succeed in international markets. Nevertheless, future research should aim to extend the understanding of the interplay of MO, marketing capability and digitalization. One option would be to repeat the study in a different industrial setting. Future studies should also delve more deeply into digitalization in the context of foreign markets; the relative lack of impact found here suggests the presence of barriers to utilization that are not yet fully understood. If [Kohli \(2017\)](#) argument on transformation of MO holds true, digital capabilities are inevitably also going to make a difference to performance in foreign markets. It is possible however that the capabilities needed to successfully deploy digital tools are different in foreign markets and less easily acquired. A qualitative study on the practical applications and difficulties of digitalization in a variety of firms operating in international markets might provide some insights.

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