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Sustainability and financial success in global markets

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Abstract

In today's globalized economy, both achieving international growth and integrating sustainability (ESG) practices are key strategic issues for companies. Companies operating abroad encounter different regulatory environments and stakeholder expectations, which often encourage higher ESG (environmental, social, governance) performance as they adapt to foreign norms. Similarly, strong ESG performance can facilitate international expansion by improving a company's reputation and reducing the risks perceived by investors and partners. The interaction between a company's foreign presence (e.g., share of foreign revenues), size and capital structure, and ESG performance is complex and partly reciprocal. Large multinational companies in particular face intense scrutiny, while small and medium-sized enterprises (SMEs) may become international companies through green shoots or may be constrained by resource limitations. This study examines these dynamics and proposes a conceptual model that links internationalization, firm characteristics, and ESG performance, treating firm type (SME or large firm) as a moderating factor.

Subject Classification: *91G50.*

Keywords: *ESG, Internationalization, Sustainability, Company size, Capital structure.*

1. Introduction

The convergence of internationalization and sustainability has become a central area of international business research. As companies enter international markets, they encounter different regulatory

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frameworks, different cultural norms, and increased scrutiny from global stakeholders. External forces may compel companies to improve their environmental, social, and governance (ESG) performance, not only to comply with host country regulations, but also to increase their legitimacy among investors, consumers, and civil society [2, 14]. At the same time, rigorous ESG practices can provide a strategic advantage by reducing perceived risk and improving corporate reputation, thereby facilitating entry into foreign markets [6, 7]. The relationship between internationalization and sustainability is reciprocal. International exposure facilitates the adoption of ESG, while strong ESG capabilities improve global competitiveness.

Despite increased scrutiny, the relationship between internationalization and ESG remains complex and context-dependent. Large multinational corporations (MNCs) have excellent resources, established compliance frameworks, and reputations, while small and medium-sized enterprises (SMEs) often face significant resource constraints that hinder the effective implementation of sustainability initiatives [3, 18]. For SMEs, sustainability can serve as a market differentiator in niche segments, facilitating entry into international markets through innovation and flexibility rather than size. In addition, company-specific characteristics such as size and leverage influence the extent to which companies prioritize ESG, as larger and more leveraged companies are generally subject to greater investor scrutiny and are more dependent on positive market perceptions [4, 12, 8].

This study aims to contribute to the literature by systematically analyzing the relationships between internationalization and ESG performance, distinguishing between large companies and SMEs. The study integrates theoretical frameworks, including the Uppsala model, the OLI paradigm, and institutional theory, with the latest empirical evidence to propose a conceptual model that identifies internationalization and firm characteristics as primary predictors of ESG, with firm type acting as a moderator of these relationships.

The remaining sections of the study are structured as follows. The next section reviews the relevant theoretical and empirical literature on the relationships between internationalization, ESG, and firm-specific characteristics. This is followed by the formulation of a conceptual model and hypotheses describing the expected relationships. The next section examines the empirical findings in the literature, with a particular focus on the different implications for SMEs and large firms. Finally, the study concludes with theoretical contributions, managerial implications, and directions for future research.

2. Literature review

Several theories explain the possible relationship between internationalization and ESG performance. According to the traditional Uppsala model, companies gradually acquire international knowledge and experience in successive stages of entering foreign markets, similar to the gradual integration of corporate sustainability practices. Dunning's OLI (Ownership-Location-Internalization) paradigm [5] emphasizes that multinational companies must take into account location-specific variables (such as environmental regulations and social norms) when making international investments. As a result, companies may adopt higher ESG standards internationally due to stricter regulations in host countries and pressure from stakeholders (institutional theory), while also developing their ESG capabilities to meet these requirements. This is consistent with Oliver's synthesis of resource-based and institutional perspectives: companies develop internal competencies (ESG strategies) while meeting external legitimacy requirements [14].

As a result, robust ESG performance can become a significant strategic asset. According to the resource-based view, sustainability initiatives can lead to competitive advantage through innovation and efficiency. Well-managed, socially responsible companies often enjoy the benefits of trust and stable stakeholder relationships, which facilitate financing and market entry. Eccles and fellow researchers [6] show that companies that excel in ESG transparency and innovation enjoy greater trust from stakeholders and achieve better long-term performance. Galbreath [7] points out that companies that communicate their ESG practices effectively experience a reduced perception of risk, which facilitates capital raising and international expansion. Jo and Harjoto [10] show that transparent governance and employee satisfaction, as dimensions of ESG, increase company value during international expansion. In summary, theoretical frameworks indicate a positive relationship between international presence and ESG performance: as companies globalize, they face increased external pressure and opportunities that improve ESG objectives [11].

This effect may depend on the size and resources of the company. Large companies generally have greater reserve resources and are subject to increased public scrutiny, which often leads to increased investment in sustainability initiatives. In contrast, SMEs do not have formal ESG

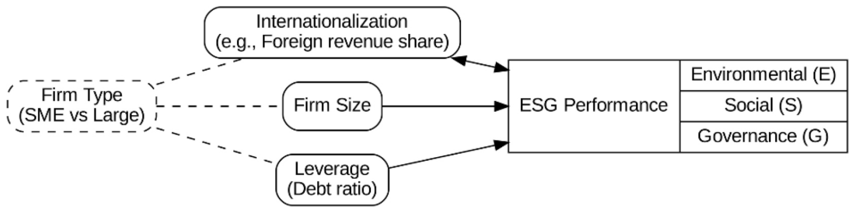

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Figure 1

Conceptual model of the effects of internationalization, company characteristics, and company type on ESG performance.

reporting or dedicated CSR departments, but they can globalize by focusing on sustainability gaps or leveraging their flexibility. Balla [3] describes a global SME based in Hungary whose rapid international expansion was driven by a sustainability-oriented niche product, emphasizing the importance of entrepreneurial thinking. The figure below illustrates our conceptual framework: international expansion and company characteristics (size, capital structure) have a positive impact on ESG, while company type (SME or large company) moderates these effects.

This conceptual diagram shows that internationalization, as indicated by the proportion of foreign revenues, directly influences a company's ESG performance, which is divided into environmental (E), social (S), and governance (G) components. Company characteristics, including size and leverage (debt ratio), appear as additional direct determinants of ESG outcomes. The model also indicates company type (distinguishing between SMEs and large companies) as a moderating variable (indicated by dashed squares and lines), which influences the intensity or direction of the relationships between predictors and ESG performance. The two-way arrow between internationalization and ESG indicates a potential feedback loop, showing that internationalization can affect ESG performance, while ESG performance can also influence the degree of internationalization.

Empirical results

Numerous studies have examined the relationship between sustainability performance, ESG and CSR activities, financial performance, and corporate reputation. They agree that ESG and CSR overlap conceptually, but ESG scores provide market participants with a more indicator-based assessment. Giese et al. [8] argue that companies with high ESG scores perform well financially and have lower stock price volatility. Eccles et al. [6] found that transparency related to ESG-oriented practices and environmental innovation can increase stakeholder confidence, resulting in a more stable business environment for the organization. According to Albuquerque, Koskinen, and Zhang [1], social responsibility reduces corporate risk while providing a sustainable competitive advantage and better market perception. Jo and Harjoto [10] show that transparent corporate governance and employee satisfaction both have a positive impact on corporate value, improving the company's negotiating position when expanding into foreign markets. Galbreath [7] agrees, emphasizing that effectively communicated and implemented ESG initiatives mitigate stakeholders' risk perceptions, thereby facilitating capital raising and global expansion.

The increased attention of ESG stakeholders—investors, regulators, and society at large—puts significant pressure on companies, especially multinational or export-oriented companies. Strike, Gao, and Bansal [15] showed that multinational companies operate in different regulatory and cultural contexts, which requires compliance with higher CSR/ESG standards. Attig et al. [2] found that for globally active companies, the proportion of foreign revenues is significantly correlated with higher CSR scores, especially in terms of environmental and social aspects. Marano, Tashman, and Kostova [13] analyzed the CSR reports of multinational companies in emerging markets and concluded that international presence allows companies to circumvent less stringent domestic regulations, although this comes at the cost of greater pressure from stakeholders in more developed markets. Godos-Díez et al. [9] emphasized that excellent sustainability performance brings reputational benefits that facilitate entry into international markets (e.g., better credit ratings or better partnership opportunities).

A more significant international presence (exports, foreign subsidiaries, share of foreign revenues) is positively correlated with the intensity of CSR/ESG practices. Participation in foreign markets is generally associated with increased stakeholder scrutiny and varying regulatory and cultural expectations. However, some studies suggest the opposite effect, implying that robust CSR/ESG performance can act as a "reputational resource," facilitating companies' entry into or expansion in international markets.

3. Conceptual model and hypotheses

Based on the theory and evidence, we propose a conceptual model for future testing.

H1: Higher levels of internationalization (measured by the share of foreign revenues) lead to better overall ESG performance, as companies face stricter external pressure abroad. Companies with a high degree of internationalization are expected to deliver outstanding ESG performance. This is because, as companies become more internationalized, they must comply with stricter regulations and stakeholder requirements in foreign markets, which prompts them to adopt more advanced sustainability practices. This argument is consistent with institutional and stakeholder theory: multinational companies often improve their ESG disclosures and performance to gain legitimacy in host countries. Empirical evidence supports this relationship; for example, companies engaged in foreign direct investment tend to achieve significantly better ESG ratings, particularly in terms of environmental considerations, than companies operating exclusively domestically.

H2: Larger company size and higher leverage (capital structure) are also positively related to ESG scores, as larger or debt-financed companies strive for better market perception and compliance. An increase in company size and higher leverage (greater debt financing) are expected to show a positive correlation with ESG scores. Large companies generally have greater resources and are subject to greater public scrutiny, which encourages them to invest in sustainability initiatives; as a result, they often achieve better ESG performance than smaller companies. Highly leveraged companies are also motivated to develop ESG initiatives, as lenders and investors view robust CSR/ESG performance as a sign of risk reduction and excellent management. Research shows that companies with significant debt obligations often demonstrate greater commitment to corporate social responsibility (CSR) and, thanks to their comprehensive sustainability reporting, have access to better capital and lower borrowing costs. Consequently, both size and capital structure may prompt companies to improve their ESG performance in order to benefit from favorable.

H3: Companies with higher short-term profitability are less focused on ESG (negative correlation), reflecting the short-term trade-off between short-term performance and sustainability investments. Short-term profitability is expected to show a negative correlation with ESG focus, indicating a trade-off between immediate financial performance and long-term sustainability investments. During periods of significant short-term profits or intense financial pressure, managers may prioritize financial goals over environmental or social initiatives, which often yield uncertain or delayed returns. Previous studies show that companies often reduce or postpone ESG investments in order to increase quarterly profits when faced with short-term performance targets. The focus on short-term profitability can drain resources allocated to ESG initiatives, which may lead to a deterioration in sustainability performance in the near term.

H4: Company type moderates these effects: large companies are more influenced by international pressures and therefore show stronger ESG improvements with globalization, while SMEs may be constrained or use sustainability as a strategic niche. Figure 1 illustrates these relationships, providing guidance for subsequent empirical analysis. The impact of the above factors may be moderated by company type, particularly company size (large companies versus SMEs). Large companies, especially multinationals, are more exposed to global stakeholder expectations and regulatory norms, which means that their internationalization often results in significant improvements in ESG performance. Such companies can leverage their massive operations and structured sustainability initiatives to respond effectively to global pressure. In contrast, small and medium-sized enterprises often face resource constraints and reduced visibility, which can hinder their ability to improve ESG performance, even when operating in global markets. Small and medium-sized enterprises (SMEs) differ fundamentally from large multinational companies in terms of their organizational characteristics and resources, so they may not be able to reap the same ESG benefits from globalization. Smaller companies can use sustainability as a strategic differentiator in niche sectors, but under international pressure, their overall ESG progress is less pronounced than that of larger companies.

4. Implications for SMEs and large companies

Our findings highlight an important managerial insight: internationalization and sustainability must be strategically integrated. Large multinational companies should leverage their resources and visibility with stakeholders to set ambitious ESG goals, as these come with reputational and financial benefits (e.g., access to green financing). For SMEs, the message is complex: entering foreign markets can increase a company's ESG requirements, which can potentially strain limited resources. Nevertheless, SMEs can capitalize on this by highlighting niche green innovations or certifications that differentiate them in global value chains. Supporting SMEs in developing their ESG competencies (through training or financing) can therefore improve their international competitiveness.

Regulators and investors need to recognize that globalization tends to 'push' companies towards sustainability rather than 'pull' them, especially in the short term. Policies that promote the international harmonization of ESG standards (e.g., EU regulation, global reporting frameworks) can enhance this effect. The relatively weaker link with corporate governance suggests that policymakers and boards of directors need to independently prioritize corporate governance reforms, such as anti-corruption measures and board diversity. Future research could then examine differences across industries or regions in these relationships, as well as reverse causality (i.e., whether companies with inherently strong ESG profiles are more prone to internationalization).

5. Conclusion

This study confirms that a company's international scope is positively correlated with its ESG performance, which is consistent with both theoretical and empirical evidence. Companies operating in international markets face different standards and oversight, which compel them to improve their sustainability practices. Larger companies and those with greater influence achieve significantly higher ESG scores, suggesting that size and financial pressure correlate with ESG investments. The inverse relationship between short-term profitability and ESG points to a managerial trade-off, suggesting that a focus on immediate profits may undermine sustainability.

Our conceptual model (Figure 1) highlights that these effects differ across company types: large companies gain greater benefits from internationally mandated ESG improvements, while SMEs can strategically leverage sustainability or resource constraints. Managers need to align international expansion initiatives with sustainability strategies and incorporate long-term ESG goals into corporate planning. Investors and regulators should encourage this alignment by promoting ESG transparency and creating supportive frameworks, such as incentives for green bonds or sustainability certifications for SMEs. Future empirical studies could extend our model by examining causal relationships and exploring sector-specific complexities, thereby improving our understanding of globalization and sustainability across different types of companies.

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