








Building social legitimacy through NGOs partnerships: evidence from micro-multinationals

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ARTICLE INFO

Keywords:

NGO coupling
NGO salience
NGO activism
Dynamic capability
Social innovation
Social legitimacy
Emerging markets
Micro-multinationals

ABSTRACT

Micro-multinationals from emerging markets (mEMNEs) face significant challenges in establishing social legitimacy in foreign markets due to resource constraints and limited knowledge of local societal issues. This study examines how mEMNEs leverage partnerships with non-governmental organizations (NGOs) to develop dynamic capabilities for social innovation and, ultimately, to build social legitimacy in other emerging markets. Drawing on survey data from 143 Pakistani mEMNEs operating internationally, we find that NGO coupling positively influences the development of dynamic capabilities. These effects amplify when NGO salience and activism are high. Furthermore, social innovation mediates the relationship between NGO coupling, dynamic capabilities, and social legitimacy. Our findings extend dynamic capabilities theory into the social domain and contribute to understanding how resource-constrained multinationals from emerging markets can overcome legitimacy deficits through strategic stakeholder engagement. We also provide practical insights for managers on leveraging NGO partnerships and offer policy recommendations for facilitating cross-border social innovation initiatives.

1. Introduction

Multinational enterprises (MNEs) are increasingly expected to act as responsible global citizens by addressing societal issues (Doh et al., 2023). This expectation is particularly relevant in emerging markets, where societal challenges are large and social innovations are needed. Societal challenges are most actively addressed by non-governmental organisations (NGOs), which try to fill institutional voids (Minefee and Bucheli, 2021). In this context, so-called ‘NGO coupling’—referring to strategic partnerships between MNEs and NGOs—is gaining scholarly and practitioners’ attention.

Coupling from the side of NGOs has been acknowledged as relevant because the impact of NGOs on societal challenges is bound to remain limited without active involvement of – and engagement with – the ‘for profit’ side of societies. Coupling from the side of MNEs has been considered relevant, because NGOs are known for their provision of information, resource mobilization, and activism aimed at advocating

for social change (Spar and La Mure, 2003). Their deep-rooted access to local knowledge, norms, and social embeddedness can help MNEs identify entrepreneurial opportunities for mutual value creation and social innovation (Webb et al., 2010). Social innovation, thereby, refers to the development of new products and services that create societal value by addressing unmet societal needs and improving living standards (Adomako and Tran, 2022).

Partnerships between NGOs and MNEs, consequently, allow MNEs to leverage a wider set of capabilities that are crucial in addressing societal challenges (cf. Waddock, 1991, Teegen, 2003, Kolk and Lenfant, 2015). This finding seems particularly challenging for emerging market micro-MNEs (hereafter mEMNEs). Like large EMNEs, they are required to establish social legitimacy in foreign (emerging) markets, but often lack the (dynamic) capabilities necessary to effectively address societal challenges through social innovation at scale (Khan et al., 2024). Social innovation is often regarded as a “grand challenge”—one that typically requires the development of dynamic capabilities, which are generally

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<https://doi.org/10.1016/j.jbusres.2026.116097>

Received 2 October 2024; Received in revised form 20 February 2026; Accepted 22 February 2026

Available online 3 March 2026

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more accessible to larger EMNEs and necessitate multiple-stakeholder involvement and cross-sector collaboration (c.f. Van Zanten and Van Tulder, 2018, van Tulder, 2011, Van Tulder et al., 2021).

In this study, we posit – other than might expected – that mEMNEs may be even more dependent on coupling with NGOs than larger MNEs or EMNEs. The reason: to compensate for constraints such as limited resources and inadequate knowledge of relevant social issues (Prashantham, 2011). This line of inquiry is especially pertinent, given that managing (social) legitimacy in the face of institutional differences across emerging market environments remains a core challenge for effective internationalization strategies (Kostova and Zaheer, 1999). The challenge of establishing social legitimacy in foreign markets for emerging market MNEs consequently deserves further attention (Buckley et al., 2023)—especially when these firms are small or medium-sized. We argue that successful mEMNEs strategically couple with NGOs to engage in social innovation and build social legitimacy in foreign emerging markets.

Past studies on MNE-NGO coupling that explored the motivations of partnering (Kourula, 2010) predominantly emphasized the value of these partnerships for enhanced global governance (Vachani et al., 2009, Prahalad and Bruggmann, 2007). As already noted by Marano and Tashman (2012), much less attention has been paid to how MNE-NGO coupling contribute to a firm's social legitimacy—defined as the degree to which a firm's actions are perceived as appropriate in relation to socially constructed norms, values, and beliefs (Suchman, 1995, p.574). Legitimacy forms a core concept in institutional theory (Suchman, 1995, p.571) and emphasizes mechanisms that support social embeddedness and shape firms' strategies (DiMaggio and Powell, 1983, Deephouse, 1996). From an institutional perspective, firms are driven not only by economic rationality but also by the desire to establish legitimacy in the environments in which they operate (Dacin, 1997, Deephouse, 1996, DiMaggio and Powell, 1983, Meyer and Rowan, 1977, Scott, 2008). In this respect, institutions are thought to influence the strategic choices of firms (Peng, 2003).

Following these considerations, the overarching objective of this study became to examine the mechanisms behind – and effects – of NGO coupling of mEMNEs on social innovation and legitimacy in other emerging markets. More specifically, we researched the question how mEMNEs build social legitimacy in foreign emerging markets by using NGO coupling as a leverage mechanism for developing dynamic capabilities that drive social innovation. We explored the role played by *NGO salience and NGO activism in shaping this relationship*. *NGO salience refers to the degree to which mEMNEs prioritize the demands of NGOs and integrate them into social planning* (Husted and Allen, 2007). Salience plays a key moderating role in shaping the effectiveness of NGO coupling. *NGO activism characterizes the way NGOs actively advocate social change, providing resources, and influencing policy, which can further amplify the impact of NGO coupling by encouraging firms to align actions with societal expectations and develop social innovation*.

Under high NGO salience firms have to pay significant attention to satisfying the demands of NGOs and influencing social planning for value creation (Husted et al., 2015). Firms are more likely to engage with NGOs (Husted and Allen, 2007) which encourages them to develop suitable capabilities for addressing societal issues (Thijssens et al., 2015). Social activist groups in a given market pressure MNEs to meet social goals (Spar and La Mure, 2003) and can even force them to exit markets if they fail to align with their social mandates (Minefee and Bucheli, 2021). Fierce NGO activism in a particular society amplifies the role of NGOs in providing support in initiatives addressing societal problems, and advocating for and monitoring the effects of policies (Seo et al., 2009).

If our argument fits, we can expect that EMNEs in general, and mEMNE in specific will be increasingly required to engage with NGOs, in order to develop relevant capabilities for addressing social problems (Briscoe and Gupta, 2016). Taking all these considerations into account, our study therefore aims to answer the following questions: *To what*

extent do NGO salience and activism moderate the effects of mEMNEs-NGO coupling on the development of dynamic capabilities for social innovation? To what extent does social innovation mediate the effects of coupling and dynamic capabilities on social legitimacy in host emerging markets?

Given the call to extend dynamic capabilities research to understand new international business realities (Zahra et al., 2022), this study pursued a distinct research question: how effective NGO coupling can contribute to developing dynamic capabilities for social innovation. We contribute to the dynamic capabilities theory (Tece et al., 1997) by showing its relevance for social innovation, beyond traditional innovation. We highlight how NGO mechanisms shape the dynamic capability development process. Specifically, we argue – and empirically validate – that internal (NGO salience) and external (NGO activism) contingency factors shape the effects of mEMNE-NGO coupling on dynamic capabilities for social innovation. Given mEMNEs represent a new breed of rapidly internationalizing firms (Kyriakopoulos et al., 2025), the mechanisms through which mEMNEs successfully couple with NGOs and attain social legitimacy in foreign emerging markets remain largely unexplored (c.f. Vachani et al., 2009). We contribute to this discourse by demonstrating how such firms can achieve social innovation and social legitimacy in other (host) emerging markets, while we offer additional insights for managerial and policy implications on the basis of anecdotal discussions with managers.

2. Selective literature review

Table 1 presents a selection of studies that examine the societal contributions of MNEs across three lines of research: (1) sustainability, (2) social responsibility, and (3) MNEs' motives for engaging with NGOs. Studies within the sustainability theme emphasize the importance of coupling with NGOs to support sustainable and responsible activities (Scherer and Smid 2000). The corporate social responsibility literature highlights the role of stakeholder pressure in compelling MNEs to act responsibly (Park et al. (2014). Meanwhile, the MNE-NGO coupling literature focuses on the outcomes of such collaborations, such as the achievement of social legitimacy (cf. Marano and Tashman, 2012).

Many MNEs engage in relatively strong coupling engagement with NGOs to establish or confirm a reputation as responsible businesses (Laufer, 2003). For example, Starbucks collaborates with NGOs to support small farmers in receiving living wages, thus demonstrating social responsibility (Argenti, 2004). MNEs, such as HP in India, implement social strategies aimed at developing good will that can help in larger market developments (Dunn and Yamashita, 2003). Studies on the generic motives behind MNEs' coupling with NGOs, mainly include legitimacy building as motivator (Marano and Tashman, 2012, Vachani et al., 2009, Spanuth and Urbano, 2023). However, to the best of our knowledge, the process through which mEMNEs establish social legitimacy remains largely unexplored and represents an important area of research.

Studies that considered how more specific MNE-NGO collaboration enabled firms to address social concerns (Vachani et al., 2009), focused on NGOs acting as sources of information and key advocates in shaping the norms for social innovation (Doh and Teegen, 2002). NGO have been considered key actors in shaping MNEs' global social strategies (Teegen et al., 2004) and key determinants for their social responsibility strategies (Park and Cave, 2018). Yet their role in dynamic capabilities for social innovation is under-explored. Our research is positioned NGO coupling research stream in addressing these gaps.

It is important to note that a key takeaway from the review of related literature presented in Table 1—focusing on sustainability, social responsibility, and engagement of MNEs with NGOs—is the noticeable lack of studies examining the role of NGO coupling in developing dynamic capabilities for social innovation in emerging markets. This gap is particularly significant, as the success of MNE-NGO coupling depends on the extent to which NGO resources enhance a company's ability to

Table 1
Selected studies on MNE-NGO coupling.

Study	Topic	Study type	Findings
[1] Sustainability			
Scherer and Smid (2000)	MNEs coupling with intergovernmental organisations and NGOs for sustainability.	Conceptual	The stability of world orders is disrupted by social and environmental standards. The joint efforts of MNEs, intergovernmental organisations, and NGOs are important for sustainability
Liu and Heugens (2024)	MNEs and Chinese NGOs collaboration for sustainability in global supply chain	Secondary database	The study explores how NGOs exploit collaborative opportunities presented by MNEs to enhance local firms' sustainability performance. In this respect, it is found that supply chain that ties MNEs to their local partners offers these NGOs a favorable opportunity to gain leverage over local firms by establishing MNE-NGOs collaboration. To encourage local businesses operating within the global supply-chain networks of MNEs in adopting sustainable practices, leverage helps NGOs enhancing legitimacy. However, this mediated stakeholder effect diminishes when governmental structural constraints lessen the capacity for synergy, as when governments priorities environmental protection over MNE-NGO partnerships.
Liu et al. (2020),	NGO-MNE coupling for sustainability and social responsibility in the fast-fashion industry.	Conceptual	Discusses the three causes (casual indeterminacy, fragmented external environment, and discrete internal environment) and four benefits (adaptability to environmental changes, flexibility, innovation, and firewalls for separate identity) for loose MNE-NGO couplings. The study also discusses the dark side of coupling.
[2] Social responsibility			
Park et al. (2014)	Stakeholder (including NGO) influence on MNE	Survey	Primary (consumers, managers, employees, and business collaborators) and

Table 1 (continued)

Study	Topic	Study type	Findings
	social responsibility activities		secondary (governments, NGOs, media, and local community) influence MNE social responsibility.
Park and Cave (2018)	MNEs characteristics for developing social responsibility in international joint ventures in the context of South Korea.	Survey	Consumers, competitors, and NGOs are primary determinants of responsible behaviours.
[3] MNEs motives for engagement with NGOs			
Seo et al. (2009).	NGO activism	Survey of 75 transnational NGOs based in the USA	Promoting firm's image and fund raising are two important functions of new media for the NGO. Firm capacity and objective are predictors of NGO new media use in public relations, while firm efficiency and revenue do not predict it.
Kourula (2010)	Firm engagement with NGOs in different institutional contexts	Single case study of a global forest products company	MNE engagement with NGOs. Propositions are developed based on company's motives and engagement strategies and the effects of civil society distance on engagement strategies.
Marano and Tashman (2012)	MNE-NGO partnership and legitimacy	Conceptual	Reviews the complexities inherent in MNEs' social legitimacy. Propositions are developed to suggest how complexities in legitimating environment drive MNE decisions to couple with NGOs.
Rana and Sørensen (2021)	MNE subsidiaries' collaborations with civil society actors including NGOs for legitimacy	Multiple case study	MNE-civil society coupling co-develops different levels of legitimacy in terms of acceptance, image, endorsement, and synergy in an institutional void.

implement with sustainable impact (Caligiuri et al., 2013). Despite this importance, research on the intersection of NGO coupling and MNEs' dynamic capabilities for social innovation remains limited.

Furthermore, NGOs often campaign against the negative effects of globalization and the abuse of MNE power in this process, which compels MNEs to align with NGOs in addressing societal problems, even if this is part of a reactive strategy (Kolk and Van Tulder, 2010). In doing so, NGO coupling is considered not only important for legitimacy-seeking but as a means through which collaboration generates essential knowledge and experience to develop the capabilities needed for engaging in social welfare activities (Ansari et al., 2012).

However, dynamic capabilities are often contingent upon internal and external environmental factors (Pitelis et al., 2024). When NGO salience and activism are high, the coupling relationship with NGOs becomes more strategically valuable, thereby amplifying the effects of such coupling on capability development. Accordingly, our study tries to fill this gap in the MNE's engagement with NGOs theme of the literature by examining the overlooked contingency mechanisms of both NGO salience and NGO activism in the coupling-dynamic capabilities relationship for social innovation in the specific context of emerging markets from the angle of mEMNEs.

The framework put forward in this paper theorizes NGO coupling not as a capability itself but as a relational channel through which dynamic capabilities are developed. We further argue that the strength of this capability development process is shaped by NGO salience—reflecting the firm's strategic prioritization of stakeholder demands. Taken together, we articulate a mechanism-based explanation of how external stakeholder engagement shapes internal adaptive capacity and ultimately, social innovation outcome.

Furthermore, we examine how internal (NGO salience) and external (NGO activism) contingencies moderate the coupling-capability relationship, providing a nuanced view of when and why coupling is most effective for developing dynamic capabilities.

3. Hypothesis development

The hypothesis development for this study served four ambitions: (1) to elaborate reasons why we can anticipate that MNE-NGO coupling in foreign emerging markets positively influences the development of dynamic capabilities; (2) to separate the various ways NGOs impact MNE behaviour influences the development of dynamic capabilities in emerging markets; (3) to consider the effect of mEMNE-NGO coupling in more detail by considering the way social innovation can be mediated by dynamic capabilities; (4) what the latter mechanism reveals for the way social legitimacy in foreign emerging markets can be enhanced. Wherever covered in the literature, we distinguish between MNEs and mEMNEs.

3.1. Linking mEMNE-NGO coupling and dynamic capabilities

In broadening the dynamic capability logic of Teece et al. (1997), we argue that NGOs can be important stakeholders that can actively contribute to building mEMNEs' capabilities. mEMNEs often lack deep insights into prevailing social issues. In contrast, NGOs—due to their grassroots presence and specialized knowledge—enable mEMNEs to identify critical social problems and uncover emerging opportunities for social value creation. NGOs can act as important stakeholders in the development of sustainable solutions aimed at improving societal welfare (Mok et al., 2021, El Chaarani and Raimi, 2022). As such, NGO coupling places mEMNEs at a strategic advantage by enhancing their ability to sense and understand grassroots problems, capitalising on the extensive knowledge that NGOs possess. This externally acquired knowledge not only feeds into sensing but also supports internal learning processes of mEMNEs through repeated interaction, thereby enhancing their sensing capability for social innovation.

In the seizing and transforming dimensions of dynamic capabilities, NGOs serve as co-creators of knowledge and institutional translators. Their embeddedness in local contexts and alternative logics allow mEMNEs to interpret social needs not just as constraints but as opportunities to reconfigure operations. A broad application of the dynamic capabilities' theoretical notion implies that markets can also be created by the interactions and actions of organizations that empower emerging market firms to set benchmarks they ordinarily cannot achieve alone (Cavusgil and Deligonul, 2024). NGOs coupling facilitates the integration of social considerations into business practices, such as product design, and delivery mechanisms, which enable the reconfiguration of these practices through continuous adaptation. In other words, NGO

coupling act as a bridging mechanism that enables mEMNEs to reconfigure and align their practices in response to evolving social needs. Unlike larger MNEs, mEMNEs often lack the internal resources and expertise required to address complex social challenges. Therefore, forming partnerships with NGOs becomes a crucial channel for capability and learning that supports the reconfiguration and seizing functions within the firm. It is through the relational interface of coupling—not the mere presence of external actors—that firms internalize, refine, and apply externally sourced knowledge in adaptive ways (cf. Zahra and George, 2002).

It has been widely acknowledged that international collaborations with influential actors can spur a firm's market knowledge and resources, improving the dynamic capabilities needed to facilitate innovation (Fu et al., 2022, Zhao et al., 2022, Maksimov et al., 2019). By collaborating with NGOs, mEMNEs can gain access to unique resources, skills, and abilities that would not otherwise be available internally. This can assist businesses in identifying market movements and trends (sensing), speeding up market responses (seizing and responding), and, in some cases, co-creating novel new business models (Teegen et al., 2004). We emphasize that NGO coupling does not represent a capability per se but rather serves as relational mechanism through which such capabilities are developed. In this view, the NGO relationship enables learning, sensemaking, and strategic adaptation—three underlying engines of capability formation. This process is particularly critical for social innovation, whereby complexity and stakeholder multiplicity challenge firms' conventional knowledge boundaries. Combined, these arguments support the following hypothesis:

H1. *NGO coupling in foreign emerging markets positively influences the development of dynamic capabilities.*

3.2. Taking various forms of NGO activities into account

Stakeholder salience is defined as the “degree to which firms give priority to the stakeholder claims” (Mitchell et al., 1997, p.854). NGO salience occurs when firms place significant attention on meeting the demands of specific NGOs, which influences in particular social planning for value creation (Husted et al., 2015). When firms are highly attentive to and prioritize NGOs, they will be more inclined to engage in NGO collaboration (Husted and Allen, 2007), which makes NGOs import stakeholders in pushing social innovation practices. mEMNEs can therefore be considered highly dependent on NGOs, due to their limited capabilities and knowledge on social innovation (Prashantham, 2011). Accordingly, NGO salience may amplify the extent to which firms strategically absorb and apply NGO resources for internal capability development. Under high NGO activism, the effect of coupling on dynamic capabilities is expected to be stronger because under such a condition, firms motivations for satisfying NGO demands increases the likelihood of internalizing NGO-derived knowledge and aligning internal processes to address societal goals (cf. den Hond et al., 2015, Doh et al., 2019). In high-salience contexts, firms are more likely to allocate managerial attention and strategic focus (cf. Ocasio et al., 2018, Ocasio, 1997) toward integrating NGO knowledge into internal routines, thereby facilitating dynamic capability development. This suggests that NGO salience heightens organizational receptivity and learning motivation—critical ingredients in transforming coupling into substantive capability outcomes (cf. Zahra and George, 2002).

Collectively, it can be argued that in contexts of high salience, firms that actively engage in collaborations with NGOs are more likely to sense opportunities, seize insights, and transform operations through NGO-derived learning. Conversely, under conditions of low NGO salience, even structurally close NGO relationships may be deprioritized or treated symbolically, limiting their motivation for collaboration and, consequently, leading to lack of contribution to capability development. Hence, NGO salience strengthens the NGO coupling–capability relationship by creating a higher degree of strategic attention to NGO coupling and facilitating the integration of NGO knowledge in

developing capabilities.

H2a. *NGO salience positively moderates the relationship between NGO coupling and the development of dynamic capabilities.*

Social activist pressure forces MNEs to make decisions in new ways, and pursuing social goals helps them gain a competitive advantage (Spar and La Mure, 2003). Social activists can even force MNEs to exit countries if they fail to align with their mandate (Minefee and Bucheli, 2021). In this regard, NGO activism, explained as NGOs active engagement in providing aids and services, education, advocacy, as well as monitoring and assessing of policies Seo et al. (2009), can influence organisational policies and strategies, driving firms to develop new skills and capabilities (Briscoe and Gupta, 2016). When operating in markets with high NGOs activism, firms need to develop unique capabilities suited to meet societal concerns (Spar and La Mure, 2003). Accordingly, they would need to reconfigure resources to contribute to social change (seizing and transforming) (Teece et al., 2016, Teece et al., 1997). This can be underpinned by the dynamic capabilities theory that asserts for unique capabilities development (Teece et al., 1997). These capabilities allows tackling complex foreign market environment (Khan, 2020).

Arguably, markets with high levels of NGO activism may serve as dynamic contexts where sensing, seizing, and transforming are essential for social innovation practices. This argument can be further supported by the fact that social innovation is a complex phenomenon (Husted and Allen, 2007) that requires firms to be aware of social issues (sensing) and reconfigure resources to contribute to social change (seizing and transforming) (Teece et al., 1997, Teece et al., 2016). These complexities – operationalized by NGO activism in our research – place pressure on MNEs to couple with NGOs to attain legitimacy (Marano and Tashman, 2012) and access the resources needed to address societal problems (Brown and Kalegaonkar, 2002, Offenheiser and Holcombe, 2003). We thus conceptualize NGO activism as an external environmental moderator. When NGO activism is high, the institutional and stakeholder environment increases the strategic value of NGO collaborations (cf. Doh and Guay, 2006, Liu and Heugens, 2024). This, in turn, amplifies their effects on dynamic capability development. Thus, we propose that:

H2b. *NGO activism positively moderates the relationship between NGO coupling and the development of dynamic capabilities.*

3.3. Zooming in on mMNE-NGO coupling and social innovation

While studies presented in Table 1 emphasize the general role of MNE-NGO coupling in addressing social responsibility and sustainability, it can be inferred that mMNE-NGO coupling is likely to lead to social innovation in foreign emerging markets – not as a luxury or strategic add-on but as a necessary condition for social innovation. While NGO coupling may influence social innovation, we argue that this relationship is not direct. Rather, dynamic capabilities serve as the mechanism through which NGO coupling leads to social innovation outcomes for mMNEs. While NGO partnerships offer access to knowledge and relationships, these resources must be internalized and strategically enacted to produce meaningful social impact.

Applying dynamic capability perspective, it is often argued that emerging market firms are accustomed to dealing with grand societal challenges at home. They are adaptable in reorganising and reallocating their resources and strategies to create social value. Their agility and adaptability enables them to seize and reconfigure their resource base for social goals (Zahoor et al., 2024). Rooted in emerging markets, they naturally have closer ties to local communities and better familiarity with emerging markets. Accordingly, they may be better positioned to understand and react to social problems at a granular level (Khan et al., 2024). Their smaller size and more localized operations might also enable faster decision-making processes compared to larger MNEs, which tend to be more bureaucratic. These specific characteristics of mMNEs make their approach to sensing and seizing opportunities

distinct from the strategies employed by larger MNEs. Collectively, these arguments hint at the relationship between mMNEs' dynamic capabilities and social innovation.

When MNEs have relatively greater institutional distance between home (Western) and host (emerging) markets, they are less likely to commit to social responsibility practices (Reimann et al., 2015). EMNEs find it easier to overcome some of the barriers to operate in the host emerging market due to lower institutional distance (Tang and Buckley, 2022). We expect that a smaller institutional distance also positively influences the way NGO coupling impact dynamic capabilities and social innovation. NGOs have been acknowledged as important stakeholders that can allow mMNEs to sense societal needs, seize opportunities, and mobilise resources for innovation practices (Brown and Kalegaonkar, 2002, Offenheiser and Holcombe, 2003, Spar and La Mure, 2003). Lashitew et al. (2020) propose that embeddedness in social networks provides accessibility to diverse resources for implementing social innovation through collaborations with external partners (e.g., NGOs in context of this research).

Nevertheless, even for mMNEs, foreign contexts involve varying degrees of institutional unfamiliarity. NGO partners serve as crucial institutional intermediaries—helping firms interpret local norms, expectations, and regulatory voids. This enhances the role of dynamic capabilities by enabling firms to absorb, adapt, and integrate NGO-derived knowledge into innovative responses that resonate with societal needs. In such contexts, the dynamic capabilities of sensing, seizing, and transforming become critical for converting NGO engagement into sustainable impact.

The role of dynamic capabilities in emerging markets, in particular, concerns the organization's capacity to identify its stakeholders, communicate with them, gain knowledge from them, and adapt as necessary in creating a societal impact (Dentoni et al., 2016, Van Tulder et al., 2016). Rather than assuming a direct effect of NGO relationships on social innovation, our model theorizes capability development as an intervening construct that translates relational input into organizational output. This perspective emphasizes that access does not equal advantage unless firms possess the internal capacity to absorb, transform, and deploy external knowledge (Khan et al., 2019). Therefore, NGO coupling is not expected to lead to social innovation directly, but through its influence on dynamic capabilities. These capabilities—developed through stakeholder interactions—enable firms to reconfigure business practices for sustainable and inclusive innovation.

H3. *Dynamic capabilities mediate the relationship between NGO coupling and social innovation, such that NGO coupling enhances social innovation through the development of sensing, seizing, and reconfiguring capabilities.*

3.4. Social legitimacy

Micro-multinationals from emerging markets (mEMNEs) face significant challenges in establishing social legitimacy in foreign markets due to resource constraints and limited capabilities. Extending dynamic capabilities theory into the social domain, we argue that resource-constrained micro-multinationals from emerging markets can overcome legitimacy deficits through strategic stakeholder engagement, particularly with NGOs. MNEs establish social legitimacy by coupling with NGOs for responsible practices (Oetzel and Doh, 2009, Marano and Tashman, 2012, Bos et al., 2013) and by engaging in social innovation (Verleye et al., 2019). Furthermore, dynamic capabilities enable firms to gain competitive advantage by empowering them to innovate in response to emerging trends (Teece et al., 1997). Beyond financial performance-related advantages, a firm can have an advantage in terms of social legitimacy, which is critical concern for mMNEs, which often suffer from liabilities of smallness and lack of resources. Through cross-border social innovation initiative, mMNEs may thus overcome their social legitimacy deficits.

H4. Social innovation mediates the relationship between NGO coupling, dynamic capabilities, and the development of social legitimacy in foreign emerging markets.

Fig. 1 represents our conceptual framework.

4. Methodology

4.1. Context

Pakistan is a frontier emerging market, where many firms engage in strategic alliances that extend beyond mere exporting to international markets. However, these firms are often resource-constrained and lack strong reputation due to country-of-origin effects, which can hinder their international success. In this context, social innovation emerges as a crucial strategy for building social legitimacy, especially in foreign markets. The social issues prevalent in emerging markets present opportunities for mEMNEs, making them ideal settings for social innovation practices, thereby enhancing their social legitimacy and contributing to sustainable development goals. Understanding these capabilities is crucial, as mEMNEs need to leverage them to achieve positive social impact, garner goodwill, and solidify their position as responsible global citizens.

4.2. The data collection process

The term ‘micro multinationals’ refers to a small or medium enterprises (SMEs) that controls and manages value added activities through advanced forms of internationalising (beyond exporting) in more than one country (Dimitratos et al., 2003, Lu and Beamish, 2001, Prashantham, 2011). We collected data from Pakistani manufacturing firms that fit that definition. Firms were identified from the industry and trade directories and chamber of commerce, using a convenience-based sampling approach as a single comprehensive database does not exist in Pakistan. The firms we identified consistently export and marketing their products in foreign markets. As qualifying criteria we selected those firms that had advanced commitments in foreign markets, particularly through cooperative alliances beyond mere exporting (Dimitratos et al., 2014, Shin et al., 2017, Prashantham, 2011, Vanninen et al., 2017). Furthermore, we selected SMEs as those firms with less than 250 employees.

To ensure that the selected firms correspond with the definition of mEMNEs it is ascertained that these firms were applying the same internationalisation mode in more than one market.

Pakistani small medium enterprises (SMEs) makes up more than 90% of all firms that contribute to the country’s economic growth through

export and internationalising activities (DailyTimes, 2021). The firms in our sample were those with fewer than 250 people and were engaged in strategic cooperative alliances as a mode of operation in three or more markets.

We collected our data through the efforts of paid and trained research assistants who administered the survey in Pakistan. The approach has been suggested as effective for data collection (Khan et al., 2019), given that the firms in this market prefer a more personalised approach to data collection. Our sample respondents were senior managers (one per firm) who were in charge of their respective firms’ innovation related projects in emerging markets. To control for possible country bias—as a firm’s strategies may differ from one foreign country to another—we asked managers to consider their most important emerging (foreign) market. We took this approach based on the review and feedback provided by expert and senior academics on the survey questionnaire prior to the data collection stage.

Out of the 280 firms identified, 114 completed the questionnaire (a 41% response rate). Additionally, 29 further responses were obtained via those managers who kindly helped us by snowballing the questionnaire across their respective networks. As a result, our final sample included 143 mEMNEs (a 51% response rate). The sample size is consistent and can be considered adequate and representative for this market based on prior cited studies on Pakistani internationalising firms focusing on societal responsibilities (Zahoor et al., 2023). We collected our data in a single wave in 2023.

4.3. Scales

We adopted established multi-item scales from prior validated studies and carefully adapted them to reflect the social innovation context of mEMNEs. Respondents were asked to rate the items on a 1–7 Likert scales (1 = strongly disagree; 7 = strongly agree). Our scale selection was guided by strong theoretical alignment with construct definitions and demonstrated reliability in previous international business and strategy research. Our constructs were operationalised as follows:

NGO coupling: Measured using three items adapted from Wuyts and Geyskens (2005) and Hofman et al. (2016). The construct is defined and operationalised as the firm’s collaborative relationship with NGOs aimed at driving social innovation in a key foreign emerging market. These sources were selected because they capture inter-organizational knowledge exchange and coordination mechanisms that closely mirror the dyadic interactions between mEMNEs and NGOs.

NGO salience: Measured using three items adapted from Husted et al. (2015). This scale captures the extent to which the firm and its top management attend to and consider NGO demands when addressing social innovation in their key foreign market.

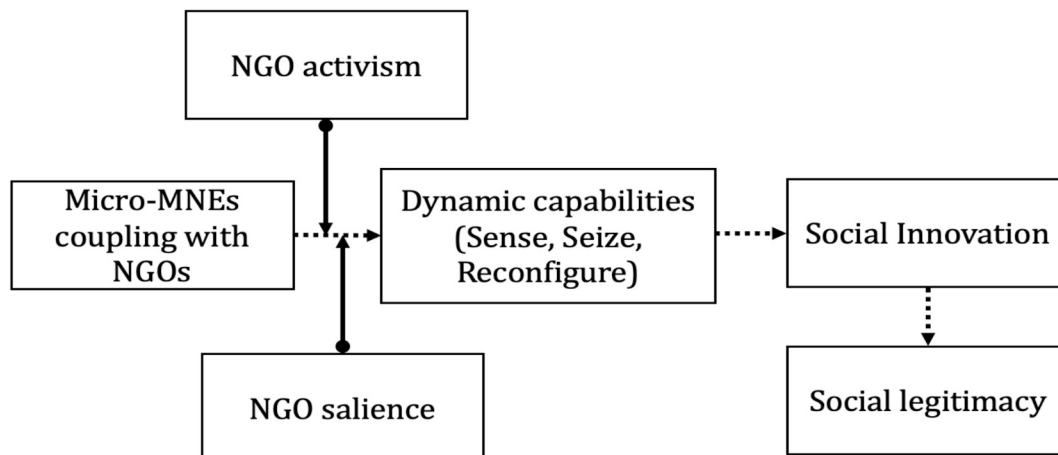


Fig. 1. Conceptual framework.

NGO activism: Measured using four items adapted from Seo et al. (2009). This construct is defined and operationalized as the degree of active NGO engagement in delivering aid and services, promoting education and advocacy for social innovation and related issues, and monitoring and assessing relevant policies. This operationalization aligns with our theoretical perspective that treats NGOs as both service providers and institutional influencers.

Dynamic capabilities: Measured using fourteen items adapted from Kump et al. (2019), comprising five items for *sensing*, four for *seizing*, and five for *reconfiguration*. This construct is defined and operationalized as the firm’s ability to address social challenges and problems through the development, adaptation, and deployment of strategic capabilities.

Social innovation: Measured using six items adapted from Adomako and Tran (2022). This scale captures the firm’s development of new products and services that create societal value by meeting social needs and improving living standards in its key foreign emerging market.

Social legitimacy: Measured using four items were adapted from (Pushkarskaya et al., 2021). This construct is defined and operationalized as the extent to which the firm is respected, recognized, and perceived as committed to societal well-being within the context of its key foreign emerging market.

We also controlled for the possible confounding effects of firm age, firm size, and the number of R&D employees. The firms in our sample have an average size of 176.10 employees, with an average of 5.29 R&D employees. Approximately 95% of the firms (n = 136) have been in existence for more than 15 years, while the remaining firms have operated between 10 and 15 years.

Furthermore, to assess common method variance, we included an unrelated marker variable (restaurant performance) to capture respondents’ satisfaction with the restaurant they last visited, measured on a four-item scale (whereby 1 = very dissatisfied; 7 = very satisfied). This scale was adopted from Zhou et al. (2019). This variable serves as a psychologically and substantively unrelated construct to our focal variables.

4.4. Common method bias assessment

We addressed the possibly of common method bias by using both procedural and statistical remedies. First, we adopted an ex-ante procedure suggested by Podsakoff et al. (2012). In doing so, we ensured the anonymity and confidentiality of the participants. We informed them that there were no preferred or correct answers. Furthermore, we avoided complicated wording and ensured that the questionnaire was developed in simple, concise English language. We also provided clear instructions on how to complete the questionnaire. We counterbalanced the order of independent and dependent variables. These procedural approaches have also been adopted in earlier studies on innovation (Zhou et al., 2019). To ensure that the measurements reflected their intended aims, the questionnaire was reviewed by two academics experts.

Secondly, in relation to the statistical analytical approach, the survey included an additional, theoretically unrelated construct to measure common method bias using the marker variable technique proposed by Lindell and Whitney (2001). To this end, we included restaurant performance as an additional measure in the questionnaire. The results of the analysis indicated no common method bias, and the assessment of this test is reported in the subsequent results Section 5.2.

5. Analysis and results

5.1. Factor analysis, reliability, and discriminant validity

First, we performed the Principal Component Analysis for factor loadings. All items loaded into their respective scales with established reliabilities and with a lowest loading of 0.720 (see Table 2).

Table 2
Factor analysis.

Items	Factor loading
Organizational coupling with NGOs ($\alpha = 0.771$). For social innovation in our firms’ key foreign-emerging market:	
1. Our company works very intensively with NGOs	0.817
2. Our company has very close relationships with NGOs,	0.845
3. Our company and NGOs have a very collaborative relationship, like a real team.	0.826
NGO salience ($\alpha = 0.886$). For social innovation in our firm’s key foreign-emerging market:	
1. NGOs have a great deal of consideration from our organization.	0.893
2. Our top management team dedicates a great deal of time and attention to NGOs.	0.914
3. Satisfying the demands of NGOs is important to our top management team.	0.903
NGOs activism ($\alpha = 0.845$). Rate the extent of NGO activism for social innovation in your firm’s key foreign-emerging market.	
1. Provision of direct aid and services for social innovation.	0.857
2. Active engagement in research and public education regarding social problems.	0.814
3. Advocacy	0.839
4. Monitoring and assessment of the effects of policies	0.793
Dynamic capability ($\alpha = 0.948$). Rate your firm’s following capabilities for social innovation in its key foreign-emerging market.	
<i>Sensing</i>	
1. Our firm is aware of the best social innovation practices in its key foreign market.	0.720
2. Our firm is up to date on current social problems.	0.796
3. Our firm systematically searches for information on current social challenges.	0.741
4. As a firm, we know how to access new information regarding social problems.	0.807
5. Our firm always has an eye on our key competitors’ social innovation activities.	0.762
<i>Seizing</i>	
6. Our firm can quickly relate to any external new knowledge for social innovation.	0.777
7. We recognize what new information can be utilized by our firm for social innovation.	0.813
8. Our firm is capable of turning new knowledge into process and product innovation suited to address social problems.	0.756
9. Current information leads to the development of new products or services suited to address social problems.	0.755
<i>Reconfiguration</i>	
10. By defining clear responsibilities, we successfully implement social innovation plans for changes in our firm.	0.742
11. Even when unforeseen interruptions occur, change projects are consistently seen through in our firm.	0.793
12. Decisions on planned changes for social innovation are consistently pursued in our firm.	0.801
13. In the past, we have demonstrated our strengths in implementing changes.	0.787
14. In our firm, change projects can be put into practice alongside the daily business.	0.779
Social innovation ($\alpha = 0.942$). Rate the extent of the major social innovation of the firm in the key foreign-emerging market.	
1. Our company develops new products and services that have social impacts.	0.863
2. The value of our new products and services is beneficial to society as a whole.	0.891
3. Our new products and services serve both material and non-material human needs.	0.885
4. Our company develops new products and services that solve social problems.	0.892
5. Our new products and services improve the standards of living.	0.890
6. Our company develops new products and services that satisfy social needs and improve living standards.	0.864
Social legitimacy ($\alpha = 0.816$). Rate your firms’ social legitimacy in its key foreign-emerging market.	
1. Our firm has earned respect in its key market	0.811

(continued on next page)

Table 2 (continued)

Items	Factor loading
2. Our firm is recognized as reliable in its key market	0.797
3. Our firm is recognized as being committed to society in its key market	0.791
4. Our firm is recognized as dedicated in its key market	0.814
Marker variable ($\alpha = 0.875$): Please rate your level of satisfaction with a restaurant that you recently visited.	
Friendliness of the service personnel	0.832
Availability of healthy meals	0.848
Cleanliness of the place	0.870
Presentation of meals	0.863

Furthermore, the Cronbach alpha was also found to reveal that the scales were reliable. Smallest Cronbach alpha value was 0.771 (see Table 2). The model fit was tested in AMOS, that showed a good fit (CFI = 0.95; TLI = 0.94; IFI = 0.95; RMR = 0.09; RMSEA = 0.04; CMIN/df = 1.29; $p = < 0.01$).

Next, we examined the discriminant validity of the scales by calculating the average variance extracted (AVE) for the constructs. The AVE values for all constructs were found to be higher than 0.500 and higher than the square of correlations between any two constructs (see Table 3).

5.2. Common method bias test

To check for common method bias, we followed the marker variable approach suggested by Lindell and Whitney (2001). The marker variable (restaurant performance) did not significantly correlate with any of the constructs in our study. This lack of correlation satisfied the preliminary condition for the chosen construct to serve as a marker variable. Next, we used the lowest correlation of a construct with the marker variable (i.e. dynamic capability with restaurant performance, $r = 0.023$) to adjust the correlations between the main constructs. The adjusted correlations that were significant prior to the adjustment remained significant, except for two that could be considered significant at one tailed p values of < 0.05 . Overall, the adjusted correlations remained significant, and the findings collectively provide evidence for the absence of common method bias (Piercy et al., 2006).

5.3. Endogeneity assessment

Endogeneity problems may arise when a predictor variable is significantly correlated with the error term of the dependent variable, potentially leading to confounding results (Rutz and Watson, 2019; Ebbes et al., 2021). To address this concern, we applied the Gaussian copula method (Eckert and Hohberger, 2023; Park and Gupta, 2012). The test revealed that the Gaussian copulas were non-significant (all p-

Table 3
Descriptive statistics of scales.

Variable	Mean (S.D)	AVE	NC	NS	NA	DC	SI	SL
1. NC	4.776 (1.08)	0.688	-	0.158 (0.025)	0.134 (0.018)	0.227** (0.052)	0.187* (0.035)	0.183* (0.033)
2. NS	4.571 (1.58)	0.816		-	0.231** (0.053)	0.155 (0.024)	0.207* (0.043)	0.166* (0.028)
3. NA	4.566 (1.20)	0.683			-	0.293** (0.086)	0.562** (0.316)	0.370** (0.137)
4. DC	4.741 (0.87)	0.599				-	0.421** (0.177)	0.254** (0.065)
5. SI	4.768 (1.29)	0.776					-	0.562** (0.316)
6. SL	4.958 (1.11)	0.646						-

NC = NGO coupling; NA: NGO activism; NS = NGO salience; DC = Dynamic capability; SI= Social innovation; SL = Social legitimacy.

Square of correlations are reported in brackets, next to the correlation values.

* and ** represent significance of correlations at the 0.05 and 0.01 levels, respectively.

values > 0.10) for the moderated-mediated model (analysis performed using Smart-PLS v4 software). Thus, we confirmed the absence of any endogeneity issues.

5.4. Adequacy of sample size for statistical analysis

Adopting a post-hoc G*Power analysis, we examined the robustness of the sample size for statistical analysis. In doing so, we performed path-by-path correlations for the hypothesised relationships. The minimum power value was found to be 0.951, exceeding the 0.800 threshold, which indicates sufficient statistical power. This approach has also been adopted in the literature (Von Delft et al., 2019).

5.5. Main results

To test Hypotheses 1–3, we used the Process macro 9 (moderated mediation model) with 5000 bootstrap samples and a 95% confidence interval. For Hypothesis 4, the mediation was examined using Process Macro 6 (mediation model). This approach is consistent with prior studies that test the moderated-mediation and mediation-only models separately (Rahman et al., 2023). The process macro is used when the effects of two moderators between the independent variable and the mediator of the model are to be examined. The absence of a 95% confidence interval or when zero lies between the lower and upper intervals implies insignificance (Preacher and Hayes, 2008). The confidence intervals are very precise, indicating that the model demonstrates precision and predictive validity (Nayak et al., 2021). The results of the moderated-mediation model are reported in Tables 4 and 5.

The results in Table 4 show that NGO coupling positively influences dynamic capability ($\beta = 0.185$; LLCI = 0.028; UCLI = 0.342), so we accepted H1. Furthermore, NGO coupling was found to positively interact with NGO salience ($\beta = 0.171$; LLCI = 0.029; UCLI = 0.312) and NGO activism ($\beta = 0.178$; LLCI = 0.010; UCLI = 0.346) in influencing dynamic capability. Fig. 2a and 2b also depict these positive moderation effects. Therefore, we accepted Hypotheses 2a and 2b. A noteworthy finding from the model analysis is that the interaction of NGO coupling at high levels of both salience and activism positively affects dynamic capabilities (NGO coupling X Both, r square change = 0.068; $p < 0.004$).

The direct regressed influence of NGO coupling on social innovation ($\beta = 0.195$ at $p = 0.022$) and social legitimacy ($\beta = 0.184$ at $p = 0.031$) were found to be positive and significant. However, the effects of NGO coupling on social innovation were non-significant in the presence of dynamic capability ($\beta = 0.108$; LLCI = -0.049; UCLI = 0.264) (see Table 4). Moreover, the effects of dynamic capabilities were found to be positive and significant ($\beta = 0.395$; LLCI = 0.239; UCLI = 0.551). Hence, it can be concluded that the effects of NGO coupling on social innovation are mediated by dynamic capability, leading to the acceptance of Hypothesis 3. Table 5 further shows the index of moderated mediation, whereby both NGO activism and NGO salience were found to be

Table 4
Moderated-mediation (process model 9).

Dynamic capability				
Variables	β	p-value	LLCI	ULCI
NC	0.185	0.022	0.028	0.342
NA	0.288	< 0.01	0.126	0.450
NC * NA	0.178	0.038	0.010	0.346
NS	0.065	0.428	-0.097	0.228
NC * NS	0.171	0.018	0.029	0.312
<i>Controls</i>				
Firm size	0.002	0.574	-0.005	0.009
Firm age	-0.025	0.945	-0.748	0.697
R&D employees	-0.031	0.601	-0.150	0.088
<i>Moderation effects</i>				
NC X NA	0.026	0.038		
NC X NS	0.034	0.018		
NC X Both	0.068	0.004		
INDIRECT EFFECT ON SOCIAL INNOVATION				
Variables	β	p-value	LLCI	ULCI
NC	0.108	0.175	-0.049	0.264
DC	0.395	<0.01	0.239	0.551
<i>Controls</i>				
Firm size	-0.003	0.416	-0.009	0.004
Firm age	-0.140	0.694	-0.843	0.563
R&D employees	-0.056	0.330	-0.170	0.058

NC = NGO coupling; NA: NGO activism; NS = NGO salience.

Table 5
Moderated-mediation effects.

SOCIAL INNOVATION			
Variables	β	LLCI	ULCI
Direct effect	0.108	-0.049	0.264
<i>Index of Moderated-Mediation</i>			
NA	0.070	0.003	0.149
NS	0.068	0.0003	0.125

NA: NGO activism; NS = NGO salience.

moderators of the mediation path for social innovation via dynamic capability.

Table 6 shows the results for the mediation-related hypothesis for social legitimacy. The first criterion for mediation is that the relationship between the independent variable (i.e., NGO coupling) and the first mediator (i.e., dynamic capability) should be significant. The results indicate that NGO coupling positively influences dynamic capabilities in

emerging markets ($\beta = 0.219$; LLCI = 0.054; UCLI = 0.384). Furthermore, the effects of the independent variable on the second mediator (social innovation) should be reduced or become non-significant in the presence of the first mediator (dynamic capability). The effects of NGO coupling on social innovation ($\beta = 0.108$; LLCI = -0.049; UCLI = 0.264) were found to be non-significant in the presence of dynamic capability. The effects of dynamic capability on social innovation were found to be positive and significant ($\beta = 0.395$; LLCI = 0.239; UCLI = 0.551). The next criterion is that the effects of the independent variable and the first mediator on the outcome variable (social legitimacy) should be non-significant in the presence of the second mediator (social innovation). The effects of NGO coupling ($\beta = 0.071$; LLCI = -0.071; UCLI = 0.213) and dynamic capability ($\beta = 0.014$; LLCI = -0.139; UCLI = 0.168) on social legitimacy were found to be non-significant, while social innovation was found to positively and significantly influence social legitimacy ($\beta = 0.564$; LLCI = 0.411; UCLI = 0.717).

Table 7 shows that the direct effect of NGO coupling on social legitimacy is insignificant ($\beta = 0.071$; LLCI = -0.071; UCLI = 0.213). The indirect effects are significant via the mediated influence of both dynamic capability and social innovation ($NC \rightarrow DC \rightarrow SI \rightarrow SL$: $\beta = 0.049$; LLCI = 0.011; UCLI = 0.107). The total indirect effect was found to also be positive and significant ($\beta = 0.113$; LLCI = 0.006; UCLI = 0.235), and the total effect of the model was also positive and significant ($\beta = 0.184$; LLCI = 0.018; UCLI = 0.350).

6. Discussion and implications

This study demonstrates that mEMNEs can become agents of social change in emerging markets by coupling with NGOs. MNE-NGO coupling often underlies strategic goals such as sharing of resources and knowledge, developing new capabilities, and gaining access to learning opportunities (Marano and Tashman, 2012). Coupling with NGOs and developing high NGO salience under high NGO activism can help emerging market mEMNEs develop dynamic capabilities for social innovation and legitimacy in these markets. Our study substantiates and extends prior work on coupling with NGO for social innovation in international contexts, which has been predominantly qualitative (Rana and Sørensen, 2021, Marano and Tashman, 2012, Kourula, 2010). Moreover, earlier studies did not examine how NGO coupling mechanisms lead to the development of dynamic capabilities. This examination is critical because of the unique character of dynamic capabilities which can help firms better navigate the complexities related to sustainability (Teece, 2007).

6.1. Theoretical implications and contributions

This study makes several theoretical contributions to the literature on dynamic capabilities, MNE-NGO coupling, and social legitimacy of

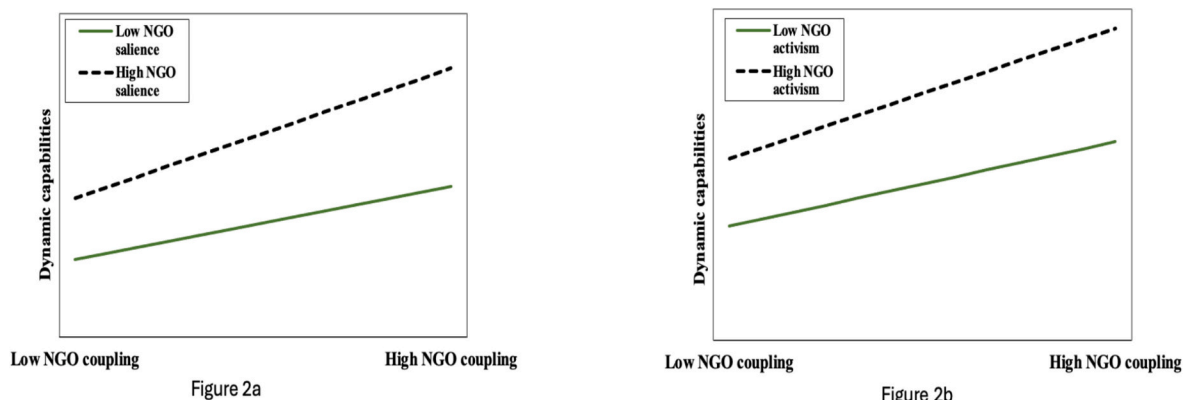


Fig. 2. Moderation plot.

Table 6
Mediation model (process model 6).

Construct	DC				SI				SL			
	β	p-value	LLCI	ULCI	β	p-value	LLCI	ULCI	β	p-value	LLCI	ULCI
NC	0.219	0.010	0.054	0.384	0.108	0.175	-0.049	0.264	0.071	0.326	-0.071	0.213
DC					0.395	<0.01	0.239	0.551	0.014	0.854	-0.139	0.168
SI									0.564	< 0.01	0.411	0.717
<i>Controls</i>												
Firm size	0.003	0.383	-0.004	0.010	-0.003	0.416	-0.009	0.004	-0.001	0.650	-0.007	0.005
Firm age	-0.075	0.845	-0.0834	0.683	-0.140	0.695	-0.843	0.563	0.382	0.237	-0.254	1.018
R&D employees	-0.070	0.262	-0.192	0.053	-0.056	0.330	-0.170	0.058	0.112	0.035	0.008	0.215

NC = NGO coupling; DC = Dynamic capability; SI = Social innovation; SL = Social legitimacy.

Table 7
Direct, total and indirect effects.

Variables	β	LLCI	ULCI
Total Effect of NC on SL	0.184	0.018	0.350
Direct Effects of NC on SL	0.071	-0.071	0.213
<i>Indirect effects</i>			
NC → DC → SL	0.003	-0.037	0.047
NC → SI → SL	0.061	-0.042	0.166
NC → DC → SI → SL	0.049	0.011	0.107
Total indirect effect	0.113	0.006	0.235

mEMNEs. Specifically, we advance understanding of how resource-constrained mEMNEs leverage NGO partnerships to develop dynamic capabilities for social innovation, ultimately establishing social legitimacy in foreign emerging markets.

6.1.1. Contributions to dynamic capabilities theory

We extend dynamic capability theory beyond commercial innovation into the social innovation domain by empirically demonstrating that dynamic capabilities—specifically sensing, seizing, and reconfiguring—are critical for mEMNEs to address societal challenges and establish social legitimacy in foreign emerging markets. This finding shows that dynamic capabilities can help resource-constrained mEMNEs from emerging markets address societal challenges in foreign emerging markets and establish their social legitimacy in these markets.

Our findings suggest that dynamic capabilities are developed by establishing close/deep collaborative relationships with NGOs in foreign emerging markets. We identify NGO coupling as a critical relational mechanism through which mEMNEs develop these capabilities, thus enhancing the NGO-MNE coupling perspectives by incorporating the relational resources. Through such collaborations, firms can identify social needs, seize opportunities to address them, and reconfigure resources to create social value, thereby gaining recognition and legitimacy in host markets.

6.1.2. Contributions to MNE-NGO coupling literature

This research advances understanding of coupling mechanisms by identifying NGO salience (internal) and activism (external) as boundary conditions that shape the development of dynamic capabilities. This challenges the traditional firm-centric perspective of dynamic capabilities and underscores the critical role of external stakeholders in shaping firm-level innovation for social impact. Our empirical validation of these relationships addresses gaps in the NGO coupling literature, at the interface of international business and social innovation.

6.1.3. Contributions to emerging market multinationals legitimacy research

Our study extends the conceptualization of mEMNEs by showing how these resource-constrained firms enact social innovation to

establish legitimacy, as such firms often face significant legitimacy deficits (c.f. Peng et al., 2024, Zhang et al., 2018). Given that mEMNEs are a new breed of firms that were relatively recently conceptualised (Vanninen et al., 2017, Dimitratos et al., 2003, Dimitratos et al., 2014), our findings extend the conceptualisation of how such firms from emerging markets can establish social innovation and legitimacy through the mechanisms of NGO coupling and dynamic capabilities. We further elaborate how sensing, seizing, and reconfiguring capabilities operate specifically in the context of social innovation by enabling mEMNEs to identify social needs, seize social opportunities, and reconfigure resources to create social value in host markets.

Additionally, by examining both internal and external factors—such as NGO salience and activism—our study introduces a more nuanced view of dynamic capabilities, demonstrating that external factors such as NGOs, can significantly influence the internal capabilities of firms. This extends the traditional, firm-centric view of dynamic capabilities by highlighting the important role of external stakeholders in shaping firms’ capabilities for social innovation aimed at foreign markets.

Overall, our findings bridge multiple streams of research—dynamic capabilities theory, MNE-NGO coupling, and mEMNE legitimacy—by empirically demonstrating how relational mechanisms with NGOs and the development of dynamic capabilities facilitate social innovation for legitimacy in foreign markets.

6.2. Managerial and policy implications

Our study also established additional (anecdotal) insights from more in-depth discussions with nine managers of mEMNEs who were willing to provide their perspectives about the managerial challenges and expectations of policymakers regarding enabling social innovation in emerging markets. These managers expressed the belief that coupling with NGOs is of paramount importance for the development of socially innovative products, and that social innovation is the responsibility of all companies across industries and countries. They asserted that the NGOs’ knowledge of the social needs of and challenges faced by emerging markets is critical to help their firms to align their strategies and capabilities in creating value for emerging market societies, in

which there is a great need for innovation.

The managers also expressed the belief that NGOs are more aware of the social policies and trends found in emerging markets, and that such informational resources help them to detect and materialise any opportunities. They also mentioned that those companies in their industry that have connections with NGOs operating in emerging markets are more capable of addressing societal issues. They further asserted that, without these important connections, firms are unable to realise any potential opportunities. By partnering with NGOs, firms are often better able to sense and even change their strategies to respond to needs effectively. This provides external validity to our finding that NGO coupling facilitates firms' dynamic capacity to serve social purposes.

Three implications for mEMNEs can be drawn from our findings. First, mEMNEs face legitimacy-related challenges which prompts them to recognise the distinct functions of NGO salience and activism. In attempting to gain social legitimacy, they should strategically partner with NGOs to remain cognisant of the societal grand challenges found in emerging markets and align with NGOs demands to address them. Second, the managers of mEMNEs need to be aware of the NGOs operating in their foreign markets and of their capacity to support firms in social innovation. Third, the managers of resource-constrained mEMNEs from emerging markets can develop capabilities for social innovation by leveraging their connections with NGOs, with their knowledge of local grassroots societal problems. However, this type of information is often not widely diffused (Marano and Tashman, 2012). Managers might consider developing network connections with a range of other organisations with experiential knowledge—e.g., business associations and universities—to develop capabilities for social innovation in emerging markets.

The managers also provided insights into how policymakers can help in developing capabilities for social innovation. They suggested that policymakers could provide cross-border platforms suited to exchange knowledge about influential NGOs operating in emerging markets. They reiterated the importance of facilitating development programmes for capacity building in social innovation activities. They also affirmed the importance of collaboration between home market institutions and their foreign market counterparts in creating policies aimed at supporting social innovations at entry. Managers asserted that foreign market policymakers can do so by providing informational knowledge about active NGOs, facilitating and building linkages between MNEs and NGOs, and offering subsidies for developing products that create social value.

6.3. Limitations and future research directions

Our study has empirical limitations that can be addressed in future (replication and deepening) research. Our study for instance did not consider the industrial and institutional structure of foreign emerging markets. Furthermore, country-level controls such as focal market type, institutional quality, cultural dimensions, or economic development, are additional factors to address potential confounding effects. Our study abstracted from NGO purposes such as ecological, social or economic, which presents an obvious area for further fine-tuning of our results. Our study also did not fully capture distinct types of NGOs (e.g., grassroots, advocacy, mutual support, or other forms). Future studies that examine the specific nature of NGOs can thus use the found patterns to further fine-tune ways in which members' involvement in social innovation can be channelled. One way to do this, for instance, is to take views on social innovation and legitimacy of organizations into account. The present study did not measure public awareness, which is equally relevant to further explore, particularly in relation to brand differentiation and social legitimacy. Following Teece's work on complementary assets, future research can consider specific cooperative strategies with channel members in developing complementary assets for social innovation (Teece, 1986). To add further theoretical value to our study, we suggest additional (follow-up) questions that future studies can address (see Table 8).

Table 8
Suggestions for future research.

Research Questions	Rationale	Relevant Theoretical Perspective
What are the managerial challenges faced by mEMNEs in addressing grand societal challenges in emerging markets? How do these challenges vary for particular societal problems (e.g., poverty, equality, diversity, and inclusion), and how can they be addressed for stakeholders' wellbeing?	mEMNEs may face different challenges related to a particular social problem prevalent in a society. Future studies should explore these challenges and potential solutions for creating value for stakeholders.	Stakeholder theory
How can mEMNEs establish socio-political legitimacy through social innovations? What roles do market and non-market strategies play in this regard?	mEMNEs also face challenges in building political legitimacy. To achieve this, they need to navigate social and political challenges of foreign markets (Sun et al., 2023). Future studies can explore socio-political legitimacy building through social innovation and whether market and non-market strategies play complementary or substitutive roles.	Legitimacy perspective, Institutional theory
How can mEMNEs' value chain partners facilitate social innovation? What key capabilities do mEMNEs require in upgrading their upstream and downstream value chain activities to develop socially innovative products?	Recent studies in sustainability contexts advocate rejuvenating upstream and downstream value chain activities to solve societal problem (e.g., climate change) (Khan et al., 2023). It would be interesting to explore what capabilities mEMNEs need to upgrade their value chain for social innovations.	Capability-based view Organizational learning theory
What roles do formal and informal institutions play in facilitating mEMNEs' social innovation?	Another important avenue that has remained largely neglected is the role of formal and informal institutions in supporting social innovation (Rao-Nicholson et al., 2017).	Institutional theory
What is the role of cross-sectoral governance and multi-stakeholder collaborations in enhancing the effectiveness of mEMNEs' social innovation outcomes?	Given the complexity of societal challenges, involvement of multiple stakeholders beyond NGOs (e.g., governments, international organizations, community groups) may be critical. Investigating how governance structures and multi-stakeholder collaborations influence mEMNEs' dynamic capabilities and social legitimacy would enhance understanding of systemic approaches to social innovation.	Institutional theory Stakeholder theory

Contextually, we acknowledge the use of single-country data as a limitation of this study. Future studies could test the generalizability of our framework across mEMNEs operating from emerging and advanced economies. Methodologically, mixed-method studies combining qualitative interviews, survey data and secondary data could provide deeper insights into the challenges faced by mEMNEs in building social innovation and legitimacy in their foreign markets. Future studies could

benefit from survey instruments with more neutral phrasing, which would help mitigate any bias and allow for a more comprehensive exploration of NGO involvement in firm social strategies. Finally, the sample was partly recruited through snowball sampling to obtain additional responses. This approach may yield a sampling bias network of firms with similar characteristics, thereby reducing variability in key constructs. Accordingly, we suggest that future studies to employ a larger and more diverse sample, along with a consistent sampling approach, to enhance the generalizability of the findings.

7. Right retention statement

“For the purpose of open access, the author has applied a Creative Commons Attribution (CC BY) [or other appropriate open licence] licence to any Author Accepted Manuscript version arising from this submission.”

8. Ethics

The project had obtained ethics approval from the University of Aberdeen.

CRedit authorship contribution statement

Huda Khan: Writing – review & editing, Writing – original draft, Methodology, Formal analysis, Data curation, Conceptualization. **Zah-aeer Khan:** Writing – review & editing, Writing – original draft, Supervision, Methodology, Conceptualization. **Rob van Tulder:** . **Martin Meyer:** Writing – review & editing, Writing – original draft, Conceptualization. **Tamer Cavusgil:** Writing – review & editing, Writing – original draft, Conceptualization.

Funding

There was no external funding that supported this project.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Data availability

The authors do not have permission to share data.

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