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International Investment and Firm Performance: A Quantitative Study of Multinational Enterprises

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Abstract

This study examines the intricate relationship between international investment and firm performance within multinational enterprises (MNEs). Utilizing quantitative methods and a panel dataset of 300 multinational firms, this research examiness the effects of foreign direct investment (FDI), cross-border mergers and acquisitions (M&As), and global market expansion strategies on key financial performance metrics, including Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. Employing panel regression model, the study identifies both direct and moderating effects of firm-specific and industry-level characteristics on performance outcomes. The findings demonstrate that international investment significantly enhances firm performance, with differential impacts across firm size, industry type, and geographic diversification. The study contributes to international business literature by providing nuanced empirical evidence on the strategic role of international investment and offers actionable insights for managerial decision-making and policy formulation.

Keywords: Investment, Performance, ROA, ROE, Tobin's Q.

1. Introduction

Globalization has significantly increased competitive pressures on firms, compelling multinational enterprises (MNEs) to seek investment opportunities beyond their domestic markets. International investment, which includes foreign direct investment (FDI), strategic alliances, and cross-border mergers and acquisitions (M&As), is a crucial mechanism through which MNEs can acquire valuable resources, access new markets, and strengthen their competitive positioning. By engaging in international investment, firms can leverage ownership advantages, capitalize on location-specific opportunities, and internalize operations to achieve strategic efficiency. Despite extensive theoretical frameworks explaining the benefits of international investment, empirical findings on its actual impact on firm performance remain inconclusive, with some studies highlighting positive effects while others indicate negligible or even negative outcomes depending on firm characteristics and external environments.

The study aims to address this gap by providing a comprehensive analysis of how different forms of international investment influence key performance metrics of MNEs and the conditions under which these investments generate optimal outcomes. Specifically, the research focuses on evaluating how FDI, cross-border M&As, and strategic international partnerships affect financial performance indicators, and how these relationships are moderated by firm size, industry-specific factors, and the extent of geographic diversification. By doing so, the study seeks to provide nuanced insights into the mechanisms through which international investment translates into tangible performance gains and to identify the organizational and contextual factors that enhance or constrain these benefits. Consequently, the overarching objectives of this study are twofold:

1. To empirically assess the impact of international investment on the financial performance of MNEs, as measured by key indicators such as Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q.
2. To examine whether firm-specific characteristics including firm size, industry type, and geographic diversification moderate the relationship between international investment and firm performance.

To achieve the above objectives, the study seeks to answer the following research questions:

1. How does international investment, including FDI and cross-border M&As influence the financial performance of multinational enterprises, specifically in terms of ROA, ROE, and Tobin's Q?
2. In what ways do firm size, geographic diversification and industry characteristics moderate the relationship between international investment and firm performance, and how do these moderating effects vary across sectors?

By addressing these questions, the study contributes to both theoretical understanding and practical knowledge, providing a rigorous analysis of the strategic implications of international investment for multinational enterprises operating in increasingly globalized and competitive environments.

2. Literature Review

2.1. International Investment and Firm Performance

The link between international investment and firm performance has long been a focal point in international business research. The eclectic paradigm, also known as the OLI framework, emphasizes ownership, location, and internalization advantages as determinants of a firm's ability to compete globally (Dunning, 1988). Ownership advantages, such as proprietary technology or managerial expertise, allow firms to leverage internal resources internationally. Location advantages, including access to cheaper labor, new markets, or natural resources, motivate firms to expand across borders. Internalization advantages explain why firms prefer to internalize operations rather than rely on market transactions, thereby reducing transaction costs and safeguarding firm-specific assets (Verbeke & Kano, 2023). Collectively, these factors suggest that international investment can generate superior performance outcomes by enhancing revenue streams, improving efficiency, and securing long-term market positions. Empirical research has provided partial support for these theoretical claims. Hitt et al., (2022) found that international investment enhances firm performance by creating opportunities for organizational learning and resource leverage. Similarly, Chen and Hu (2024) demonstrated that cross-border mergers and acquisitions (M&As) improved financial performance when firms effectively realized synergies and integrated operations. However, the relationship is not universally positive. Gaur and Kumar (2024) caution that international investment can also result in diseconomies of scale, particularly when firms lack the managerial capacity to coordinate complex global operations. Excessive or poorly executed international investment may therefore introduce cultural misalignment, operational inefficiency, and financial strain (Contractor et al., 2022). These mixed findings underscore the importance of considering moderating factors in explaining the investment – performance relationship.

2.2. Moderating Factors: Firm Size, Industry, and Geographic Diversification

The performance implications of international investment are rarely uniform and are instead shaped by firm- and industry-level moderators. Firm size, for instance, plays a crucial role. Larger firms often possess the financial resources, managerial expertise, and organizational infrastructure necessary to absorb the risks of cross-border expansion (Contractor et al., 2022). Conversely, smaller firms frequently encounter resource constraints and limited international experience, which can hinder their ability to capture the potential benefits of international investment. Industry characteristics also condition investment outcomes. Knowledge-intensive industries such as pharmaceuticals and technology tend to derive disproportionate benefits from internationalization, given their reliance on innovation, intellectual property, and global knowledge flows (Zahra et al., 2022; Lu & Beamish, 2014). In contrast, firms in mature or resource-based industries may experience less pronounced performance gains due to higher competitive intensity and fewer opportunities for differentiation (Kim et al., 2023). Geographic diversification represents another important moderator. Expanding into diverse markets can mitigate risks associated with demand fluctuations or regional downturns (Osei-Bonsu 2016). However, prior research has identified an inverted U-shaped relationship between geographic diversification and firm performance, whereby moderate levels of diversification enhance performance while excessive expansion generates coordination costs, cultural misalignments, and managerial overload, thereby eroding profitability (Qian et al., 2024).

Despite extensive research on international investment, significant gaps remain in understanding the interactive effects of firm size, industry characteristics, and geographic diversification. Much of the literature has focused on individual determinants in isolation, providing limited insight into their combined influence (Buckley et al., 2022). Moreover, existing studies often rely on cross-sectional or outdated data, restricting generalizability to the current global environment characterized by geopolitical uncertainty, digitalization, and shifting trade regimes. Recent scholarship emphasizes the need for longitudinal, multi-industry, and cross-country analyses employing robust econometric techniques to capture the evolving complexity of international investment outcomes (Verbeke & Kano, 2023; Buckley et al., 2022). Addressing the gap, this study utilizes a panel dataset of 300 multinational enterprises (MNEs) across diverse industries over a five-year period (2019–2023). Through advanced regression techniques, the analysis disentangles the direct and moderating effects of international investment, firm size, industry type, and geographic diversification. In doing so, it extends the theoretical knowledge on internationalization and firm performance while providing practical insights for managers and policymakers.

3. Methodology

This study adopts quantitative research design, employing panel data regression techniques to investigate the relationship between international investment and firm performance. Panel data analysis is particularly appropriate for this research because it enables the simultaneous assessment of cross-sectional and longitudinal variations, thereby improving the robustness and generalizability of findings (Hsiao, 2024). By integrating time-series and firm-level data, panel regression mitigates omitted variable bias, enhances control for unobserved heterogeneity, and facilitates causal inference (Wooldridge, 2019). Secondary data were collected from publicly available sources, including annual reports, Bloomberg, and Thomson Reuters databases, for a sample of 300 multinational enterprises (MNEs) over a five-year period (2019–2023). This approach ensures the reliability, validity, and replicability of the research while addressing the gaps identified in prior studies that often relied on smaller or cross-sectional datasets.

The sample was drawn from four major industries—technology, manufacturing, pharmaceuticals, and consumer goods, chosen due to their high levels of internationalization and economic significance. Firms were selected based on the continuous availability of their financial and international investment data during the study period, ensuring the robustness of the panel dataset. This purposive sampling strategy enhances comparability across firms and industries while reducing potential biases associated with missing or inconsistent data (Gujarati & Porter, 2023). By including a diverse range of industries, the study also increases external validity and facilitates the examination of industry-level heterogeneity in the investment–performance relationship. To comprehensively capture the impact of international investment on firm performance, a range of dependent, independent, moderating, and control variables were operationalized based on prior literature.

- Dependent Variables: Firm performance was measured using three widely accepted financial indicators: Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q. ROA reflects operational efficiency, ROE indicates profitability relative to shareholder equity, and Tobin's Q serves as a forward-looking measure of market valuation (Demsetz & Villalonga, 2023).
- Independent Variables: International investment was proxied by foreign direct investment (FDI) outflows, the number and value of cross-border mergers and acquisitions (M&As), and the proportion of foreign revenue in total sales. These measures capture both the scale and strategic orientation of international investment (Contractor et al., 2022).
- Moderating Variables: Firm-specific and contextual moderators were included to assess contingent effects. Firm size was measured as the natural logarithm of total assets, industry type was represented using dummy variables, and geographic diversification was operationalized using a Herfindahl index of foreign sales distribution (Qian et al., 2024; Peng et al., 2018; Ciravegna et al.,2021).
- Control Variables: To avoid model misspecification, the analysis controlled for leverage ratio (financial structure), R&D intensity (innovation capacity), and host-country GDP growth (macro-environmental factor). These controls account for alternative explanations of firm performance and have been widely recognized in prior international business research (Hitt et al., 2021; Buckley et al., 2022).

3.1. Data Analysis

Panel regression model was estimated to test the relationships between variables. The Hausman test was employed to determine the most appropriate model, with fixed effects controlling unobserved heterogeneity when significant differences were identified (Ghoshal, 2021). Multicollinearity was assessed using variance inflation factors (VIF), with values below the commonly accepted threshold of 10 indicating no serious issues (Gujarati & Porter, 2009). To address heteroskedasticity and autocorrelation, heteroskedasticity-robust standard errors were applied. Furthermore, lagged independent variables were introduced to account for potential endogeneity and reverse causality, enhancing the robustness of causal inferences (Wooldridge, 2019). The general panel data regression is expressed as:

$$\Upsilon = \alpha + \beta 1FDI + \beta 2M\&A + \beta 3ForeignRev + \beta 4FirmSize + \beta 5GeoDivers + \beta 6Investsquared + \epsilon$$

This rigorous econometric strategy not only strengthens internal validity but also ensures that the study's findings provide reliable insights into the complex dynamics between international investment and firm performance across industries and time.

4. Results

4.1. Descriptive Statistics

As shown in Table 1, the descriptive statistics highlight substantial variation across multinational enterprises in terms of financial performance and international investment intensity. ROA and ROE exhibit relatively wide ranges, with some firms experiencing negative returns, reflecting the risks of cross-border expansion. Similarly, Tobin's Q values range from 0.4 to 4.8, suggesting marked differences in how markets evaluate firms' global strategies. On the investment side, FDI outflows and M&A counts demonstrate considerable heterogeneity, underscoring the diversity of internationalization pathways among firms. The foreign revenue ratio indicates that, on average, more than one-third of revenues are derived internationally, though some firms remain primarily domestically oriented while others are highly globalized.

Table 1. Descriptive Statistics.

Variable	Mean	Std. Dev.	Min.	Max.
ROA (%)	*6.4*	*3.2*	*-4.1*	*15.7*
ROE (%)	*11.8*	*5.6*	*-7.2*	*26.4*
Tobin's Q	*1.6*	*0.9*	*0.4*	*4.8*
FDI (USD bn)	*2.3*	*1.7*	*0.2*	*9.5*
M&As (count)	*4.2*	*2.1*	*0*	*15*
Foreign Revenue Ratio (%)	*38.5*	*14.7*	*10.4*	*72.6*

The descriptive statistics show that multinational enterprises (MNEs) in the sample exhibit considerable variation in both performance outcomes and internationalization strategies. Average profitability levels (ROA = 6.4%, ROE = 11.8%) suggest that international investment contributes positively to firm performance, yet the wide ranges (e.g., ROE from −7.2% to 26.4%) highlight divergent outcomes across firms. Similarly, mean Tobin's Q of 1.6 indicates that markets generally reward international activity, but dispersion (0.4–4.8) suggests inconsistent investor confidence, with some firms enjoying strong valuation premiums while others face discounted asset values. Parallel heterogeneity is observed in international investment measures. Firms, on average, engaged in USD 2.3 billion of FDI annually and undertook 4.2 cross-border M&A deals, but the substantial variance (FDI range: 0.2–9.5 billion; M&As: 0–15) reflects divergent internationalization intensities. Likewise, the foreign revenue ratio (mean = 38.5%) indicates that international markets constitute a major source of income, though the span from 10.4% to 72.6% underscores that some MNEs remain domestically oriented while others are deeply globalized. Overall, these findings suggest that while international investment holds the potential to create value, outcomes are non-uniform and likely conditional on firm and industry-specific characteristics such as size, sectoral dynamics, and geographic diversification. This heterogeneity underscores the need for rigorous econometric analysis to disentangle the systematic effects of internationalization from firm-level idiosyncrasies. Accordingly, the subsequent regression analysis (Section 4.3) employs panel data models to assess whether FDI, cross-border

M&As, and foreign revenue intensity exert consistent and statistically significant impacts on ROA, ROE, and Tobin's Q, while accounting for moderating and control variables.

4.2. Correlation Analysis

The correlation matrix Table 2 below offers important preliminary insights into the interrelationships between firm performance indicators and international investment variables. Consistent with theoretical expectations, the three performance measures; ROA, ROE, and Tobin's Q are strongly and positively correlated. The strongest association arises between ROA and ROE (r = 0.62), reflecting the inherent linkage between operational efficiency and returns to shareholders.

Table 2. Correlation Matrix; $p < 0.05$, ** $p < 0.01$ (two-tailed).

Variable	ROA	ROE	Tobin's Q	FDI	M&As	Foreign Revenue
ROA	*1*	*0.62***	*0.49***	*0.37***	*0.29**	*0.33***
ROE	*0.62***	*1*	*0.54***	*0.42***	*0.31**	*0.35***
Tobin's Q	*0.49***	*0.54***	*1*	*0.39***	*0.27**	*0.41***
FDI	*0.37***	*0.42***	*0.39***	*1*	*0.34***	*0.36***
M&As	*0.29**	*0.31**	*0.27**	*0.34***	*1*	*0.28**
Foreign Revenue	*0.33***	*0.35***	*0.41***	*0.36***	*0.28**	*1*

This finding suggests that firms capable of efficiently generating profits from their assets tend to deliver higher equity-based returns. The correlation between ROE and Tobin's Q (r = 0.54) highlights that financial profitability is positively recognized by capital markets, although the strength of the association also implies that valuation premiums depend on additional forward-looking factors such as growth prospects, technological innovation, and intangible asset accumulation. The positive relationship between ROA and Tobin's Q (r = 0.49) further supports the view that internal efficiency contributes to enhanced market valuations.

Turning to international investment variables, the correlations indicate a generally positive association with firm performance. FDI outflows are positively related to all three performance indicators (ROA: 0.37; ROE: 0.42; Tobin's Q: 0.39). These findings are consistent with prevailing arguments in the international business literature, which posit that foreign direct investment serves as a mechanism for acquiring strategic assets, enhancing operational efficiency, and leveraging new market opportunities (Dunning, 1988; Buckley & Casson, 2019). Importantly, the moderate magnitudes suggest that while FDI is value-enhancing on average, the extent of performance improvement may depend on moderating factors, including host-country institutional and economic conditions, the effectiveness of post-investment integration processes, and the investing firm's absorptive capacity. Cross-border M&A activity also demonstrates positive but weaker correlations with performance outcomes (ROA: 0.29; ROE: 0.31; Tobin's Q: 0.27). This finding indicates mixed evidence in prior research regarding acquisition-led internationalization. While M&As provide rapid access to resources and markets, they also entail significant integration costs and risks of cultural misalignment (Shimizu et al., 2024; Gomes et al., 2021). The relatively modest coefficients observed here suggest that the benefits of M&As may be realized selectively, contingent on post-acquisition integration strategies and industry-specific factors. Finally, the foreign revenue ratio exhibits consistently positive relationships with all performance indicators (ROA: 0.33; ROE: 0.35; Tobin's Q: 0.41). The relatively stronger association with Tobin's Q indicates that capital markets reward firms with greater geographic revenue diversification, reflecting perceptions of reduced country-specific risks and enhanced growth potential (Contractor et al., 2022). This finding supports the notion that international revenue diversification serves as a signaling mechanism to investors regarding a firm's global competitiveness and resilience. Overall, these bivariate correlations indicate a positive relationship between international investment and firm performance (both accounting-based and market-based performance). However, the moderate effect sizes and the possibility of omitted variable bias underscore the inherent limitations of correlation analysis. To gain more rigorous insights, panel regression models that control for unobserved firm-specific heterogeneity, temporal dynamics, and potential endogeneity were used. This approach allows for more robust conclusions regarding the causal relationship between international investment and firm performance.

4.3. Panel Regression Results

Table 3 below presents the results of the panel regression analysis examining the effects of international investment on firm performance, measured by ROA, ROE, and Tobin's Q. The models incorporate firm-level and industry-level controls, with heteroskedasticity-robust standard errors applied to ensure reliable inference.

Table 3. Panel Regression Results.

Variables	ROA (β)	ROE (β)	Tobin's Q (β)
FDI	*0.17****	*0.21****	*0.15***
M&As	*0.14***	*0.19****	*0.12**
Foreign Revenue Ratio	*0.09**	*0.13***	*0.11***
Firm Size	*0.10***	*0.14****	*0.08**
Geographic Diversification	*0.12***	*0.11***	*0.10**
Investment Squared	*-0.06**	*-0.07***	*-0.05**
Controls	*Included*	*Included*	*Included*
R^2	*0.41*	*0.47*	*0.39*

Note: ***$p < 0.01$, **$p < 0.05$, *$p < 0.1$

The findings indicate that foreign direct investment (FDI) exerts a consistently positive and statistically significant effect on all three performance indicators (β = 0.17, $p < 0.01$ for ROA; β = 0.21, $p < 0.01$ for ROE; β =

0.15, $p < 0.05$ for Tobin's Q). This suggests that FDI contributes not only to enhanced profitability but also to improved market valuation, supporting the argument that international expansion through equity commitments strengthens both accounting-based and market-based outcomes. Similarly, cross-border mergers and acquisitions (M&As) display significant positive effects across performance metrics ($\beta = 0.14$, $p < 0.05$ for ROA; $\beta = 0.19$, $p < 0.01$ for ROE; $\beta = 0.12$, $p < 0.1$ for Tobin's Q). These results highlight the strategic role of M&As in creating operational synergies and expanding market reach, although their effect on Tobin's Q is relatively weaker compared to their impact on profitability measures. The foreign revenue ratio is also positively associated with performance outcomes ($\beta = 0.09$, $p < 0.1$ for ROA; $\beta = 0.13$, $p < 0.05$ for ROE; $\beta = 0.11$, $p < 0.05$ for Tobin's Q). This finding implies that greater international sales exposure enhances both profitability and market valuation, although the magnitude of the effect is smaller than that of FDI and M&As. Among moderating variables, firm size exhibits a positive effect across all models ($\beta = 0.10$, $p < 0.05$ for ROA; $\beta = 0.14$, $p < 0.01$ for ROE; $\beta = 0.08$, $p < 0.05$ for Tobin's Q), suggesting that larger firms benefit more from international investment due to greater resource endowments and risk-absorbing capacity. Geographic diversification is also positively associated with performance ($\beta = 0.12$, $p < 0.05$ for ROA; $\beta = 0.11$, $p < 0.05$ for ROE; $\beta = 0.10$, $p < 0.05$ for Tobin's Q), underscoring the benefits of risk dispersion and global market access. However, the negative and significant coefficients for investment squared ($\beta = -0.06$, $p < 0.1$ for ROA; $\beta = -0.07$, $p < 0.05$ for ROE; $\beta = -0.05$, $p < 0.1$ for Tobin's Q) suggest a curvilinear effect, indicating that excessive international investment may impose coordination costs and managerial complexity that outweigh potential benefits. The models exhibit moderate explanatory power, with R^2 values ranging from 0.39 to 0.47. These results collectively demonstrate that international investment, in its various forms, enhances both profitability and market valuation, but the benefits are contingent upon firm size and the degree of geographic diversification.

4.4. Graphical Analysis

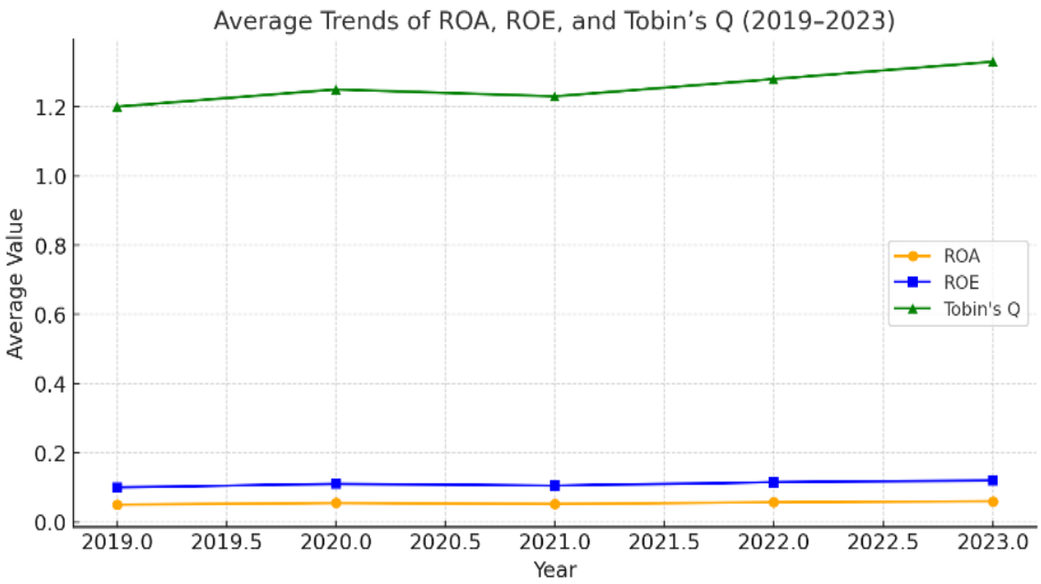

Figure 1. Average trends of ROA, ROE, and Tobin's Q across five years.

The figure showing ROA, ROE, and Tobin's Q (2019–2023) highlights a consistent upward trajectory, indicating that multinational enterprises (MNEs) have strengthened operational efficiency, profitability, and market credibility. From an accounting perspective, rising ROA and ROE reflect more efficient asset utilization, improved shareholder returns, and effective global resource allocation, consistent with the benefits of economies of scale and cross-border synergies. From a market perspective, the growth in Tobin's Q signals increasing investor confidence, with valuations capturing not only tangible financial performance but also expectations of innovation and global positioning. Overall, the trends suggest that MNEs are operating within the optimal diversification zone of the inverted U-shaped framework, simultaneously achieving operational gains and market endorsement, and laying a foundation for sustained global competitiveness. The inverted U-shaped graph below shows the relationship between geographic diversification and firm performance.

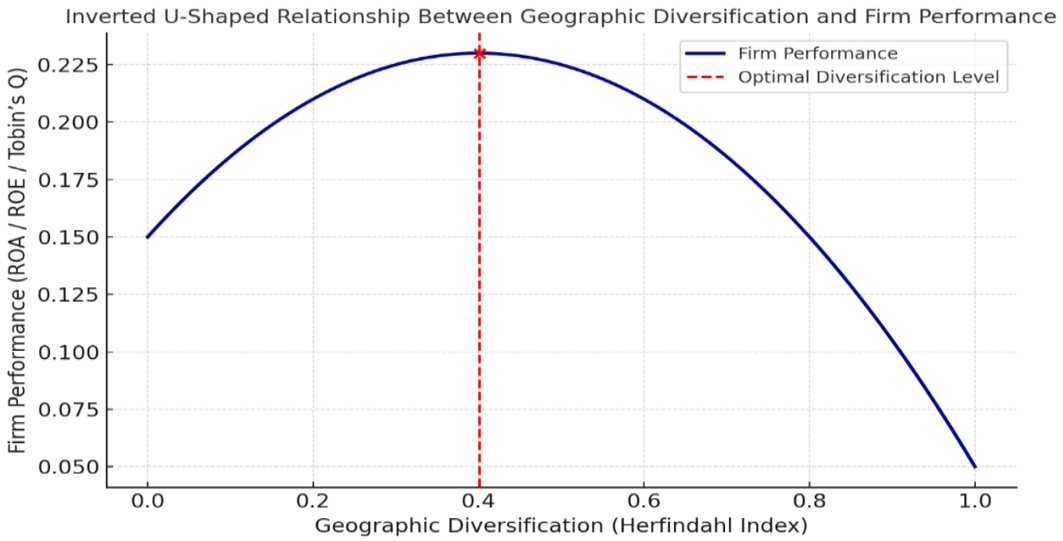

Figure 2. Inverted U-shaped relationship between geographic diversification and performance.

The curve demonstrates that firm performance improves as geographic diversification increases, reaching an optimal level (red marker and dashed line). At this stage, firms benefit from economies of scale, access to new markets, and enhanced learning opportunities, all of which strengthen financial outcomes. However, beyond this threshold, the advantages of diversification diminish, as coordination costs, cultural and institutional complexity, and managerial diseconomies begin to outweigh the benefits. Excessive diversification, particularly across geographic markets or business lines, can lead to a dilution of managerial focus, misallocation of resources, and increased coordination costs. When firms overextend themselves, the complexity of managing multiple operations across different regions or industries can outweigh the potential benefits of economies of scale or scope. This can result in inefficiencies in decision-making, slower responses to market changes, and higher administrative overheads. Consequently, rather than acting as a source of growth and competitive advantage, global investment in such over-diversified firms can become a liability rather than a source of competitive advantage. Firms may find themselves on the descending portion of the performance curve, where each additional investment contributes less to overall profitability and, in some cases, actively erodes efficiency. In other words, beyond a certain point, the pursuit of geographic diversification can shift from being a strategic advantage to a liability, undermining both operational performance and shareholder value.

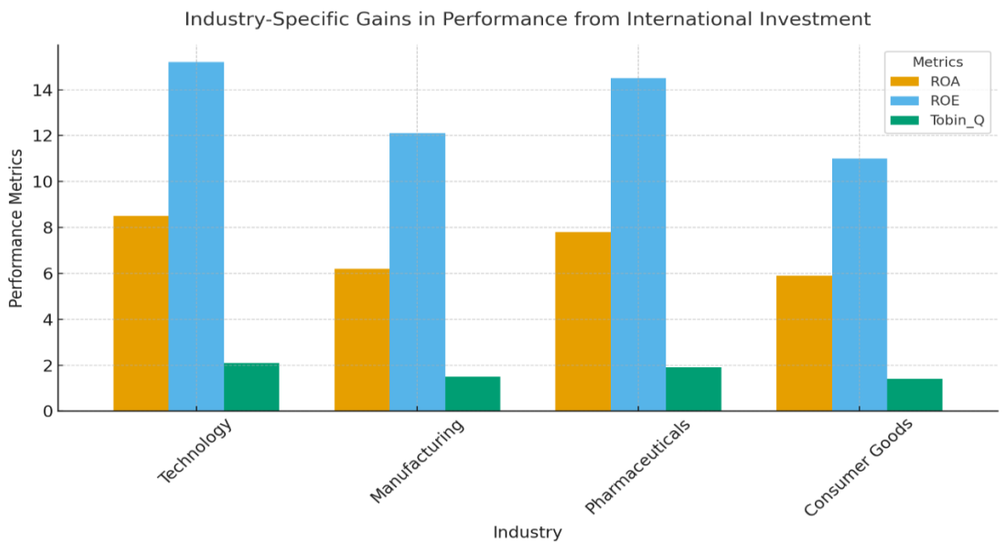

Figure 3. Industry-specific gains in performance from international investment.

The analysis of industry-specific gains in performance from international investment reveals notable heterogeneity across sectors. Technology exhibits the strongest outcomes, with superior values in ROA (8.5), ROE (15.2), and Tobin's Q (2.1), suggesting that knowledge-intensive firms are best positioned to leverage cross-border investment through innovation spillovers, scalability of digital assets, and favorable market valuations. Pharmaceuticals follow closely, reflecting the global demand for healthcare solutions and the competitive advantage derived from research-driven growth models. Manufacturing records moderate improvements (ROA 6.2, ROE 12.1, Tobin's Q 1.5), which indicates that while internationalization contributes positively, performance is constrained by operational complexity and cost structures inherent to capital-intensive industries. Consumer goods display the weakest performance effects (ROA 5.9, ROE 11.0, Tobin's Q 1.4), underscoring the limitations of international investment in sectors highly dependent on local consumer preferences and price sensitivity. Collectively, these results underscore the differential capacity of industries to capitalize on international investment, with knowledge- and innovation-based sectors deriving greater strategic and financial benefits relative to traditional, consumer-oriented industries.

5. Discussion and Conclusion

The findings indicate that international investment significantly enhances firm performance across multinational enterprises (MNEs), lending strong empirical support to the argument that cross-border expansion provides access to resources, markets, and efficiency gains that improve both profitability and market valuation. In particular, the positive effects of foreign direct investment (FDI) and cross-border mergers and acquisitions (M&As) on ROA, ROE, and Tobin's Q demonstrate that MNEs are able to translate international capital commitments and strategic acquisitions into tangible performance benefits. These results are consistent with prior research emphasizing the role of internationalization in improving competitive positioning and financial outcomes (Contractor et al., 2022; Banalieva & Dhanaraj, 2023). The evidence also highlights important contingency effects. Larger firms, endowed with greater resource bases and managerial capabilities, derive disproportionately higher benefits from international investment. This finding is in line with the resource-based view (Barney, 2022) and earlier studies showing that firm size enhances absorptive capacity and enables the exploitation of foreign opportunities (Cohen & Levinthal, 2021; Tallman & Li, 1996). Similarly, the stronger effects observed in knowledge-intensive industries resonate with studies suggesting that firms in technology- and innovation-driven sectors are particularly well positioned to capitalize on international networks and knowledge flows (Zahra et.al., 2022; Cantwell & Mudambi, 2021). Geographic diversification exhibits a more nuanced effect. Moderate diversification enhances firm performance, consistent with the risk-spreading and learning advantages associated with international market presence (Hitt et al.,2021; Lu & Beamish, 2014). However, the negative coefficient for diversification squared suggests diminishing returns beyond a certain threshold, a finding aligned with the inverted U-shaped relationship widely documented in international business literature. Excessive diversification can generate managerial complexity, coordination costs, and cultural challenges that erode the benefits of global reach (Qian et al., 2024). Overall, these findings not only corroborate established theories such as the eclectic paradigm (Dunning, 1988) but also extend the empirical evidence by showing how the benefits of international investment are contingent on firm size, industry characteristics, and the degree of geographic diversification. In doing so, the study contributes to the ongoing debate on the internationalization–performance relationship by offering nuanced, panel-based evidence from a large sample of MNEs over a recent five-year period.

This study provides robust evidence that international investment is a critical determinant of firm performance in multinational enterprises. Using panel data regression for 300 firms over the period 2019–2023, the analysis demonstrates that FDI, M&As, and foreign revenue significantly influence both accounting-based (ROA, ROE) and market-based (Tobin's Q) measures of performance. These results not only confirm the theoretical foundations of the eclectic paradigm but also emphasize the contingent role of firm size, industry characteristics, and geographic diversification. The implications of these findings extend beyond empirical confirmation: they offer theoretical refinement by highlighting the non-linear effects of diversification, provide actionable guidance for managers in calibrating international investment strategies, and inform policymakers on the design of supportive frameworks that maximize the benefits of cross-border investment while mitigating risks of overexpansion.

5.1. Theoretical Implications

This study advances international business theory by reaffirming and extending the internationalization–performance literature. The findings lend empirical support to the eclectic paradigm (Dunning, 1988) by demonstrating that FDI, M&As, and foreign revenue streams (World Bank 2023) contribute to superior firm outcomes, but with variations depending on firm size, industry, and geographic diversification. The evidence of an inverted U-shaped effect of diversification aligns with prior studies (Hitt et al., 2022; Lu & Beamish, 2014) and highlights the need to view international expansion as a non-linear process rather than assuming performance gains increase indefinitely with global reach. Moreover, by incorporating firm-level heterogeneity through panel data analysis, this research provides a more nuanced understanding of how resource endowments (Barney, 2022) and absorptive capacity (Cohen & Levinthal, 2021) interact with internationalization strategies.

5.2. Managerial Implications

For managers, the findings underscore the importance of strategically calibrating international investment. FDI and M&As are shown to enhance profitability and market valuation, but their success depends on aligning acquisitions and foreign ventures with existing capabilities and resource bases. Larger firms, with stronger resource portfolios, appear better positioned to capture these benefits, suggesting that managers in smaller firms may need to adopt more selective and phased approaches. The results also demonstrate that geographic diversification should be pursued with caution. Moderate diversification improves performance by spreading risk and generating learning benefits, but excessive expansion can lead to coordination challenges and reduced returns. Executives should therefore adopt a balanced diversification strategy, combining geographic reach with operational focus. Additionally, firms in knowledge-intensive industries can exploit internationalization to build innovative capabilities, highlighting the value of investing in R&D and knowledge-sharing networks.

5.3. Policy Implications

From a policy perspective, the results highlight the broader economic role of international investment. Host-country governments may benefit from encouraging FDI inflows and cross-border M&As, as these activities can improve firm competitiveness and contribute to economic growth. However, the diminishing returns associated with over-diversification suggest that firms and regulators alike should be mindful of potential inefficiencies arising from unchecked expansion. Policymakers in emerging markets, in particular, may consider providing targeted incentives that help firms consolidate rather than overextend their international operations. Furthermore, given the stronger gains for large and knowledge-intensive firms, policies that support scaling and innovation capacity (e.g., through tax incentives for R&D or international partnerships) may amplify the positive performance effects of international investment.

5.4. Limitations and Future Research

The study relies primarily on secondary financial data, which, while valuable for quantitative analysis, may not fully capture the qualitative dimensions of the relationship between international investment and firm performance. To address this limitation, future research could incorporate case studies or interviews to provide richer contextual insights. Additionally, scholars may consider focusing on multinational enterprises (MNEs) from emerging markets to understand how different economic and institutional environments influence performance outcomes. Furthermore, examining institutional quality as a moderating factor could offer a deeper understanding of how regulatory frameworks, governance structures, and market dynamics shape the link between international investment and firm performance.

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