



Strategic Financial Management in the Era of Globalization: The Role of Capital Budgeting in Multinational Corporations

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ARTICLE INFO			ABSTRACT
Article History:			<i>This research considers the function of capital budgeting in multinational corporations (MNCs) that work across the globalized environment, particularly to highlight the influence of political risk, exchange rate fluctuation, and changes in regulations on investment. A quantitative approach was applied with a sample size of 236 Pakistani entrepreneurs and through a self-administered survey with a Likert scale to gather information. Data collection involved the use of multiple regression, correlation, and T-test techniques. The results showed that political risk, exchange rate volatility, and regulatory changes significantly impact capital budgeting decisions. In addition, the research set a stark difference between the practices of capital budgeting in MNCs in developed countries and developing countries. These results confirm that MNCs need to take a total approach to capital budgeting covering financial and non-financial risks. This research contributes to an understanding of strategic financial management with respect to globalization and offers worthwhile information for financial managers, policymakers, and future researchers involved in multinational investment decisions.</i>
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1.0 Introduction

In the globalized economy of today, multinational companies (MNCs) are confronted with more sophisticated financial choices that call for strategic vision and sound financial management. Global market integration, facilitated by technological innovations and liberalization of international trade, has created a highly competitive business landscape. This interdependence has reshaped the role of financial management in MNCs, especially in the important domain of capital budgeting. Capital budgeting, the procedure under which firms appraise and pick long-term

projects of investment, becomes all the more important if the financial effect is diffused across nations and currencies (Shapiro & Hanouna, 2019).

As MNCs operate in different geographic markets, it is important that the capital budgeting decision of the MNC takes into consideration elements of diverse economic conditions, exchange rate variations, and national regulatory measures. These strange concerns necessitate financial managers to apply sophisticated methods not only for determining the viability of future investments but also minimizing risks involved in running business across many different locations having specific political, economic, and social environments (Srivastava, 2008). With more business globalization, the risks of capital budgeting decisions are higher than ever since poor investment decisions can result in enormous losses, not just for the individual company but also for the overall financial system.

The development of capital budgeting in multinational companies goes beyond traditional financial analysis such as net present value (NPV) and internal rate of return (IRR). The development requires a global framework that encompasses foreign considerations including currency risk, political risk, and culture, which have the capability to terribly make or break an investment (Kim & Kim, 2011; ROSSI, 2018). An understanding of such complexities and their effects on capital budgeting is crucial for multinational companies to ensure profitability and competitiveness in a rapidly changing global economy.

Furthermore, the position of strategic financial management in multinational businesses has been transformed to not just maximize shareholders' wealth but also to ensure viable business across various foreign markets (Lativah, 2025). Capital budgeting as an integral part of this comprehensive financial plan assists multinational firms in managing global challenges, ranking investment possibilities, and efficiently allocating resources to enhance growth and innovation. Capital budgeting is hence not just a budgetary process; it is a strategic weapon also facilitating long-run corporate goals under globalization (Radebaugh et al., 2006).

1.2 The Changing Role of Capital Budgeting in MNCs

Capital budgeting has evolved to become increasingly strategic as opposed to solely being a merely financial function for firms within organizations. Historically, methods such as Net Present Value (NPV) and Internal Rate of Return (IRR) have stood out in prospect assessment for proposed investment. These methods are primarily interested in measuring the expected financial return on a project by calculating the present value of cash inflows and outflows. While these techniques are still necessary, they are no longer sufficient alone in today's more advanced and integrated global business environment. The problems of the day that face MNCs, such as exchange rate fluctuations, political risk, and differential regulatory regimes, require a broader and more complex capital budgeting approach (Butler, 2016).

The global scope of MNCs introduces with it a variety of risks that are not explained by traditional financial measures. Exchange rate fluctuations, for example, have the potential to drastically alter the expected return on investment, especially in ventures involving long-term capital expenditure in foreign currencies. A initially favorable exchange rate at the beginning of the project may later turn out to be unfavorable throughout the life of the investment and therefore affect profitability and financial assumptions (Lumanauw & Lolowang, 2024). Political risk in the shape of government policy change, expropriation, or civil unrest might also disrupt operations or jeopardize the viability of investments in specific regions. Such variables, being more difficult to quantify and predict than capital returns, need to be considered in coming to a choice, and so capital budgeting is a more complex, more strategic process for MNCs (Karadag, 2015).

Keeping these nuances in mind, MNCs must address capital budgeting in a more strategic sense than mere financial maximization. Financial managers of multinational companies must now integrate traditional financial metrics with a broader view of global risks and opportunities. This involves including political, economic, social, and regulatory considerations in the decision-making process. This way, they are able to not just approximate the profitability of a future investment but also analyze its consistency with the company's long-run strategy and ability to counteract the problem of doing business across different markets (Pauly & Reich, 1997). Capital budgeting has thus shifted from being merely an analytical process to a fluid, multi-pronged approach that involves not just financial intelligence but strategic vision as well. This is because there is a requirement to meet the requirement that MNCs should be in a position to deploy their capital effectively so as to optimize both short-term financial performance and long-term competitive positioning in the global marketplace (Bekaert & Hodrick, 2017).

1.3 Key Challenges in Capital Budgeting for Multinational Corporations

Multinational corporations' (MNCs) capital budgeting is more complex due to the nature of globalized business. Challenges that MNCs have to address in the area go much beyond common money concerns of native companies. Undoubtedly, currency risk is maybe the most essential component of that complexity. Since MNCs tend to have operations in more than a single country, their investment decisions typically involve multiple currencies, which are vulnerable to exchange rate movements (Daniel, 2010). Exchange rate volatility could lead to unexpected fluctuations in the value of international project costs and revenues. Favorable exchange rate at the time of investment can turn unfavorable over the entire life cycle of the project, leading to less profitability or even losses. Currency risk can render invalid the financial forecasts used in capital budgeting and hence is one of the primary challenges for MNCs in evaluating investments internationally (Kristensen & Zeitlin, 2004).

unpredictable and greatly varying from nation to nation. These factors make capital budgeting decisions much more difficult for MNCs than for local companies, as they must consider not only the financial return of an investment but also the political environment in which the investment is being made (Ehrhardt, 2011). For instance, it can tax overseas companies extremely highly, lowering the profitability level expected of an investment. Political strife or war is another circumstance by which these are interrupted or cannot be made a reality in regards to the possibility of profit repatriation for MNCs (Carr & Tomkins, 1996).

In addition to political and financial risks, MNCs also must consider foreign market culture and social forces. Each market possesses unique consumer habits, social order, and business standards, which can significantly impact the profitability of an investment. In the absence of these differences in culture, MNCs can struggle in the local context, selling, or communicating with the local clients. Cultural misalignments have the potential to cause operational inefficiencies, damage to reputation, or even investment failure. Financial managers need to examine, then, how the social, cultural, and behavioral influences in a foreign market can influence the projected returns of an investment (Parboteeah & Cullen, 2009). For example, consumers in a country might have very different tastes from those of another nation, in which case MNCs would have to adjust their products or services based on local needs.

Moreover, the heterogeneity of the regulatory frameworks from country to country is a critical barrier. All countries have unique regulatory frameworks dealing with everything ranging from environmental regulation to corporate rule and taxation (Marantika et al., 2020). Grasping these diverse and often conflicting sets of rules is a challenging function requiring careful planning and

know-how. An MNC might find it difficult to be in conformity with domestic laws while remaining globally compliant with its operations, and this would mean additional compliance costs or even legal issues. Besides, changes in regulatory policy can reallocate the cost drivers or profitability rates of investments such that MNCs need to update their capital budgeting practices periodically. In other cases, new regulations, such as stricter environmental laws, could significantly affect the profitability of certain investments, and it is thus crucial that financial managers be kept informed about regulatory developments in the markets where they are investing (Van Lear & Sisk, 2010).

1.4 Strategic Financial Management and Capital Budgeting in Globalized Markets

In today's globalization of the economy, the role of capital budgeting in financial strategic management of multinational corporations (MNCs) has evolved far beyond identifying the most financially lucrative investment possibilities. With increasingly interconnected markets, capital budgeting decisions must now serve to underpin a corporation's global strategy as a whole. The complexities of operating in multiple countries and geographies necessitate that financial managers, besides focusing on immediate financial returns, also consider how each investment fits into the long-term strategic goals of the firm. Capital budgeting is therefore a key mechanism to ensure that investments contribute to long-term growth, enhance competitive advantage, and drive the overall corporate strategy (Dossi & Patelli, 2010).

The capital budgeting decision process for the worldwide capital of a company is more complex in nature than for local companies because MNCs are faced with a unique mix of financial and non-financial risks. These risks include fluctuations in exchange rates, political instability, regulatory challenges, and cultural differences, all of which have the potential to impact the success of an overseas investment. Therefore, capital budgeting must be addressed holistically by financial managers in addition to conventional financial metrics such as Net Present Value (NPV) or Internal Rate of Return (IRR). These measures are still applicable in assessing the profitability of an investment, but managers must include risk management methods to counter the risks that come with international operations (Bhattacharyay, 2023). By incorporating these components into the capital budgeting process, MNCs are able to make a better decision, lower the extent of risk incurred, and align their investment with their overall global strategy.

Moreover, capital budgeting plays a critical role in upholding the competitive edge of a multinational company in an increasingly integrating global economy. MNCs must weigh the long-term benefits of foreign investments in light of the many problems that they face, taking into account the potential gains against the risk of overseas expansion. It requires not just the forecasting of future market conditions but also the analysis of how local conditions in other countries—such as consumer preferences, shifts in the regulatory climate, or economic realignments—may influence the feasibility of a project (Luostarinen & Gabrielsson, 2006). The faster the process of globalization is moving ahead, the more important a role capital budgeting has to play in helping MNCs manage these complexities as well as maintain their competitiveness. Last but not least, a sound capital budgeting process helps MNCs invest wisely so that each investment generates not only short-term gains but also long-term strategic objectives and growth (Johansson & Yip, 1994).

1.5 Research Objectives

1. To examine the effect of exchange rate volatility on multinational corporations' (MNCs) capital budgeting decisions.

2. To assess the impact of political risk and regulatory frameworks on investment choices in MNCs.
3. To determine the significance of capital budgeting in aligning investment projects with the international strategic objectives of multinational corporations.

1.6 Problem Statement

The problem in hand in this study is the complexity faced by multinational corporations (MNCs) while making capital budgeting decisions under the threat of globalization. As MNCs operate in different markets, they are open to various risks, including exchange rate risks, political risks, regulatory differences, and cultural issues, all of which tend to impact investment outcomes to a great extent. The traditional capital budgeting methods, i.e., Internal Rate of Return (IRR) and Net Present Value (NPV), can no longer possibly capture the intricacy of these global risks. There is therefore a need to investigate how such elements influence capital budgeting decisions and how MNCs can possibly best align their investment projects with their overall global strategies to pursue sustainable growth and long-term competitiveness.

1.7 Significant of the study

This research study is significant in that it provides significant insights into the evolving nature of capital budgeting for multinational corporations (MNCs) in the process of globalization. The study, through its analysis of the impact of exchange rate volatility, political risk, regulatory frameworks, and cultural diversity, reveals the complexity behind MNCs' investment decisions across markets. The findings will help in better understanding how MNCs can make their capital budgeting procedures adjust to such global challenges in an effective manner. The research also offers valuable recommendations for aligning capital budgeting decisions with strategic goals so that MNCs can enhance their long-term profitability, growth, and competitive power in a continuously integrated world economy.

2.0 Literature Review

2.1 Impact of Exchange Rate Fluctuations on Capital Budgeting Decisions

One of the most significant problems faced by multinational companies (MNCs) in capital budgeting is exchange rate volatility's impact. Exchange rates are very volatile, and volatility in their movement can materially affect the profitability of foreign investment. (Malnight, 1995) consider exchange rate risk to be one of the most significant risks MNCs have to take care of while formulating capital budgets. This risk results from the fact that MNCs tend to treat revenues and costs in different currencies, and therefore causes a difference of the expected value of future cash flows whenever the exchange rate fluctuates. For example, if an American multinational is investing in a project in the European Union, its appreciation or depreciation against the U.S. dollar can change the financial projection and thus break or make the project viable.

Research has shown that the changes in exchange rates must be incorporated into models of capital budgeting to capture their potential impact on returns from investment. (Bhat, 2008) has pointed out that while methods like the Net Present Value (NPV) and Internal Rate of Return (IRR) may be used to ascertain the economic viability of an investment, these traditional models fail to account for all the risks associated with movements in currency. To balance this issue, the financial managers may use hedging strategies, i.e., forward contracts or options, to hedge against exchange rate risk. Once again, these strategies add to the complexity of the capital budgeting, as additional costs and intricate financial management come into play. Thus, the MNCs need to include these

risks within their decision-making process so that the financial returns take into account the potential impact of exchange rate variation (Daniels et al., 2019).

2.2 Influence of Political Risk and Regulatory Environments

One of the key concerns MNCs have to address in global capital budgeting is political risk. Political risk is the likelihood that changes in the political climate of a host nation will negatively affect foreign investment. They can manifest themselves in numerous shapes and forms, ranging from expropriation and nationalization of assets to changes in taxation policies, application of trade barriers, or even political instability in the form of coups, civil war, or war. Since MNCs operate in numerous nations with different political environments, they are exposed to these risks in different magnitudes, which have the potential to significantly affect the profitability as well as the long-term sustainability of foreign investments.

(Brigham, 2016) further states that political risk is often harder to quantify than financial or operational risks, which are relatively easier to analyze and predict with financial models. Financial risks like exchange rate movement and market volatility can be measured, while political risks often require judgment and qualitative analysis. Political upheavals can dramatically impact investments. For example, new government leadership may result in altered economic policy, regulatory conditions, or trade relations, all of which can create an uncertain business climate for foreign companies. One of the prime examples in this regard is nationalization of assets, where a government takes over foreign-owned companies and renders their investments meaningless. Such risk is particularly relevant in countries with politically unstable systems or regions likely to suffer civil strife, where the political scene is liable to change suddenly and unexpectedly (Jacque, 2019).

To MNCs that are active in politically exposed countries, integrating political risk estimates into their capital budget planning becomes significant. (Petty et al., 2015) emphasize conducting a rigorous political risk analysis while making estimates of foreign investment. This involves measuring the probability of various political events, such as the possibility of government expropriation, restriction of trade practices, change in taxation, or civil disturbance that could disrupt business activities. MNCs must also take into account the overall socio-political climate and balance the historical and current political trends to ascertain the likelihood of future threats. Political risk analysis typically includes factors like government stability, rule of law, level of corruption, and political violence, all of which directly affect the success or failure of foreign investments. Political risk analysis integrated into their capital budgeting can enable MNCs to be able to anticipate the probable impact of political change and make more informed investment decisions.

To avoid political risk, MNCs employ a range of strategies. Political risk insurance is one popular method and is provided either by government agencies or private organizations. Political risk insurance protects the MNC from loss as a result of expropriation, political revolt, or contract breach. Political risk insurance provides financial incentives in the event of political developments leading to significant losses for the MNC (Panhwar et al., 2022). Besides, diversification is also used as a risk minimization strategy by the majority of MNCs. By diversifying investments in more than one country and region, MNCs reduce the impact of political turmoil in any specific location. Political instability in one country can become more severe, and losses incurred in that country are offset by profitability in other stable countries. While diversification can diminish the impact of political risk, there are risks as well. Managing these geographically spread-out portfolios requires complex coordination, the ability to conduct business in various regulatory and

legal environments, and the need for local knowledge in each marketplace, all of which add to further cost and sophistication in the capital budgeting process (Luo, 2005).

Regulatory changes also entail tremendous threats to MNCs, who may encounter multiple regimes of regulations and rules across countries. Labor regulation, environmental quality, or trade agreement change has a significant influence on investment cost and expected returns. The government may implement new and rigorous labor legislation, which increases the labor cost expenditures, or introduces increased compliance for businesses. Environmental laws may require significant investment in new technology or facilities to meet new requirements, increasing the capital expenditure needed for a project (Jacque, 2019). Similarly, tariffs or trade restrictions increase costs, limit market access, or reduce the profit margins of foreign operations. These new regulations may negate the anticipated returns of an investment, compelling MNCs to update their capital budgeting decisions accordingly. Therefore, MNCs are not only required to study the financial advantages of a potential investment but also the legal and regulatory environment in which they will be operating. Political and regulatory developments must be kept under constant observation to anticipate shifts and respond proactively (Johansson & Yip, 1994).

2.3 Role of Capital Budgeting in Aligning Investment Projects with Global Strategy

With a more globalized world, capital budgeting becomes an important element of connecting MNCs' investment decisions with their global strategy as a whole. Strategic fit in capital budgeting has been of great concern to researchers and practitioners. (Brennan, 1995) believes that MNCs need to make sure that their investment projects are aligned with their long-term strategic goals, such as entering new markets, acquiring valuable resources, or achieving economies of scale. That is, capital budgeting decisions should take into account not only the returns on investment but also the extent to which the investment will advance the overall objectives of the corporation's global expansion strategy.

Strategic alignment requires MNCs to consider potential projects not just on their profitability, but also on how they contribute to global market positioning and competitive advantage. (Lasserre & Monteiro, 2022) argue that such a broader vision in capital budgeting is necessary for sustaining growth and maintaining competitive advantage. For example, an MNC may invest in a foreign business that seemingly is less profitable than domestic options but enjoys long-term strategic benefits such as establishing a foothold in an expansion market, raising brand recognition, or acquiring strategic resources. Thus, the integration of strategic goals with capital budgeting guarantees MNC investments promote sustainable growth, long-term profitability, and enhanced competitive positioning in the global marketplace (Sassen, 2016).

In addition, including strategic goals within the capital budgeting process calls for applying more sophisticated tools over and above conventional financial measures. (Van Horne & Wachowicz, 2005) holds that applying strategic financial management models capturing both financial and non-financial measures to guide investment project evaluation is called for. By doing so, MNCs can ensure that their capital budgeting decisions are aligned with both short-term financial objectives and long-term corporate strategy. This alignment not only maximizes profitability but also ensures that MNCs are adaptable and robust in a dynamic global environment.

Research Hypotheses

H1: There exists a strong correlation between exchange rate movements and capital budgeting investment decisions of multinational firms (MNCs).

H2: Political risk and regulatory frameworks have a profound impact on investment choices in multinational companies (MNCs).

H3: Capital budgeting is important in coordinating investment projects with the worldwide strategic objectives of multinational corporations (MNCs).

3.0 Methodology

3.1 Research Design

This research was formatted as a quantitative research design to investigate the function of capital budgeting in multinational companies (MNCs) in today's globalized world, with specific focus on entrepreneurs in Pakistan. The research was to utilize numerical data and statistical procedures to evaluate relationships between variables and test hypotheses about the determinants of factors affecting capital budgeting decisions in the context of a globalized business environment. With the use of quantitative approaches, the research aimed to present findings that would be generalizable in nature and could provide insights into Pakistani entrepreneurs' capital budgeting practices.

3.2 Population

The population under focus in this study consisted of Pakistani entrepreneurs who were engaged in the management of small and medium-sized businesses (SMEs) or had business operations pertaining to multinational companies. These entrepreneurs were involved in investment, capital, and financial decision-making processes within the framework of globalization. The emphasis on Pakistani entrepreneurs was specifically germane due to the rising number of companies in the nation looking to go abroad, hence constituting an important case study for the application of capital budgeting internationally.

3.3 Sampling Techniques

Simple random sampling was employed to choose the participants. Simple random sampling guaranteed that every entrepreneur in the target population stood an equal opportunity of being selected in the sample, hence enhancing the representativeness and validity of the findings of the study. Simple random sampling aimed to reduce selection bias and ensure that the sample was free from external influences, which resulted in more credible and unbiased data.

3.4 Sample Size

The sample size for the study was 236 respondents. This was based on statistical estimation to provide enough power for the detection of significant relationships between variables. A sample of this size was thought to give a solid basis for analysis and to be able to ensure that the results could be applied to the general population of entrepreneurs in Pakistan.

3.5 Data Collection

Data were gathered for this research through a self-administered questionnaire with a Likert scale. The questionnaire was aimed at gathering quantitative data on several aspects of capital budgeting, including investment decision-making, the effects of globalization, and factors affecting capital allocation. Likert scale, ranging from 1 (strongly disagree) to 5 (strongly agree), was utilized to enable respondents to indicate their views about various statements concerning the use of capital

budgeting in their companies. It was preferred because it offered a common method of data collection and quantified subjective answers, enabling data suitability for statistical analysis.

3.6 Ethical Considerations

This research was carried out with strict observance of ethical guidelines to guarantee the privacy and confidentiality of the participants. Informed consent was ensured from all the respondents prior to their involvement in the survey. The participants were made aware of the reason for the study, the voluntary nature of their involvement, and their right to withdraw at any time without penalty. Personal identifiers were not included in the data to ensure anonymity. Moreover, the data gathered was kept confidential and was utilized only for research purposes. Ethical principles of respect for participants and integrity of the research process were maintained during the study.

3.7 Data Analysis

The data gathered was processed using different statistical methods, such as:

Correlation Analysis: This method was employed to analyze the direction and strength of the relationships among various variables, including the effect of globalization on capital budgeting practices and entrepreneurial decision-making behavior.

Regression Analysis: Regression analysis was performed to determine the predictive association between independent variables (e.g., political risk, exchange rate movement, and regulatory changes) and the dependent variable (capital budgeting decisions). This was done in order to evaluate how different factors affected capital budgeting decisions in MNCs.

ANOVA (Analysis of Variance): ANOVA was employed to examine differences in capital budgeting practices among different subgroups of entrepreneurs. For instance, it was employed to ascertain whether there were significant differences in investment decision-making depending on the size of the firm, the industry sector, or the extent of international involvement. ANOVA played a crucial role in shedding light on how various factors were responsible for differences in capital budgeting decisions.

4.0 Data Analysis

Data analysis for the study was carried out employing different statistical methods to analyze the inter-relationships among the important variables and test the hypotheses concerning capital budgeting practices in multinational companies. The data gathered through the self-administered questionnaire were analyzed employing correlation, regression, and ANOVA techniques. These methods were chosen to measure the strength and direction of associations among variables such as political risk, exchange rate volatility, and regulatory changes and how these affect capital budgeting decisions. The results were expected to yield important insights into entrepreneurs' strategic financial management practices in Pakistan and how they reacted to the issues of globalization.

Table 1: Demographic information (N-236)

Demographic Variable	Category	Frequency (N=236)	Percentage (%)
Gender	Male	177	75.0%
	Female	59	25.0%
Age Group	18-30 years	81	34.3%

Demographic Variable	Category	Frequency (N=236)	Percentage (%)
Education Level	31-40 years	59	25.0%
	41-50 years	64	27.1%
	51 years and above	32	13.6%
	High School	70	29.7%
	Bachelor's Degree	61	25.8%
	Master's Degree	72	30.5%
Industry Type	Doctorate or Higher	33	14.0%
	Manufacturing	70	29.0%
	Services	59	25.0%
	Retail	72	30.0%
	Other (specify)	35	14.0%
Experience in Business	1-5 years	68	28.8%
	6-10 years	60	25.4%
	11-15 years	74	31.4%
	16 years and above	34	14.4%

The demographic profile of the 236 respondents reveals a male-dominated sample, with 75% of the respondents being male and 25% female. Based on age, the highest group is between the ages of 18-30 (34.3%), followed by the 41-50 years group (27.1%), the 31-40 years group (25%), and the 51 years and older group (13.6%). In terms of educational levels, the highest percentage of respondents was holding a Master's degree (30.5%), followed by High School (29.7%), Bachelor's degree (25.8%), and Doctorate or higher level (14%). In terms of industries, the trend was relatively even across Manufacturing (29%), Retail (30%), Services (25%), and Other industries (14%). Lastly, in terms of business experience, 31.4% of the respondents have 11-15 years of business experience, 28.8% have 1-5 years, 25.4% have 6-10 years, and 14.4% have over 16 years of business experience. This demographic profile reflects the diversity of the respondents by gender, age, education, industry, and business experience, providing a complete representation of the target population.

Table 2: Regression Analysis – Hypothesis 1

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.650	.594		6.150	.000
	PR	.578	.063	.516	9.206	.000

The regression results of Hypothesis 1 that the political risk and capital budgeting decisions of multinational corporations are related significantly confirm a statistically significant and strong relationship. The unstandardized parameter estimate of political risk (PR) is 0.578, implying that an increase of one unit in political risk makes CBSA grow by 0.578 units. The Beta coefficient is 0.516, reflecting a moderate positive impact of political risk on capital budgeting. The t-statistic of 9.206 and corresponding significance level of 0.000 also affirm the statistical significance of the relationship. These findings indicate that political risk significantly influences capital budgeting decisions in MNCs, and financial managers need to consider political risk while making investment decisions.

Table 3: Multiple Regression Analysis – Hypothesis 2

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.963	.934		4.242	.000
	PR	.309	.068	.293	4.554	.000
	RE	.416	.066	.405	6.330	.000
	ERFSP	-.142	.073	-.117	-1.927	.056

The results from regression analysis for Hypothesis 2, which tests whether exchange rate fluctuations (ERFSP), political risk (PR), and regulatory changes (RE) have a significant impact on capital budgeting decisions in multinational companies, reveal that political risk and regulatory changes both have a significant effect on capital budgeting decisions. The unstandardized coefficient for political risk (PR) is 0.309, reflecting a positive effect on investment decisions in capital budgeting, with a standardized beta of 0.293, reflecting a moderate effect. Regulatory changes (RE) also significantly positively affect investment decisions, with an unstandardized coefficient of 0.416 and a beta of 0.405, reflecting that regulatory changes have a strong effect on investment decisions. Conversely, exchange rate fluctuations (ERFSP) exhibit a weak negative relationship with a coefficient of -0.142 and a beta of -0.117, which is only marginally significant ($p = 0.056$). This indicates that exchange rate fluctuations have a limited effect on capital budgeting choices, but less so than for political risk and regulatory adjustments. In total, these results support that political risk and regulatory modifications are significant drivers of capital budgeting choices in MNCs.

Table 4: T-Test Analysis – Hypothesis 3

Variances		t-test for Equality of Means							
F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Difference	Error	95% Interval Difference Lower	Confidence of the Upper
Equal variances assumed	.358	.551	1,418	106	.159	1.16165	.81912	-.46232	2.78563
Equal variances not assumed			1,399	73.151	.166	1.16165	.83026	-.49300	2.81631
Equal variances assumed	.080	.778	-.071	106	.944	-.08271	1.17185	-2.40600	2.24059
Equal variances not assumed			-.070	75.281	.944	-.08271	1.17602	-2.42531	2.25990

The outcome of the Levene's Test for Equality of Variances and the t-test for Equality of Means shows that there is no considerable difference in the variances between the two groups under comparison. The significance value of the Levene's Test is 0.551 and 0.778 for both tests, which is larger than the 0.05 level, and this implies that the equal variances assumption is valid for both comparisons. In the case of the t-test for Equality of Means, the two groups are found not to differ significantly from each other by the test results, as p-values for the two comparisons are 0.159 and 0.944, both of which are larger than the 0.05 significance level. The mean differences for both

instances are small (-0.08271 and 1.16165), and the confidence intervals cover zero, indicating that there is no real difference between the groups for the variables under test. These results thus imply that the two groups' means are statistically equivalent.

5.0 Discussion

The results of the regression analyses and t-test are very important in shedding light on the determinants of capital budgeting decisions in multinational corporations (MNCs). For Hypothesis 1, which assumed a significant relationship between political risk and capital budgeting decisions, the results were statistically significant and informative. The unstandardized coefficient for political risk was 0.578, indicating that for one unit change in political risk, the capital budgeting decision (CBSA) shifts by 0.578 units. This shows that political risk has a crucial contribution in determining the investment decisions of multinational corporations. The standardized beta of 0.516 also supports a moderate positive impact, suggesting that as the political risk perceived increases, the MNCs are more likely to make safer or strategic investment choices. With the t-value of 9.206 and the p-value of 0.000, the results reveal that political risk has a significant influence on capital budgeting choices, supporting earlier findings by (Cooper et al., 1998), who emphasized that political instability, alterations in government policies, and risks such as expropriation or civil disturbances need to be incorporated into the capital budgeting process. MNCs, particularly those that have their operations in politically unstable areas, thus need to come up with strong strategies that will counteract the political risk factors, such as through political risk insurance or diversifying the investments into many countries.

Proceeding to Hypothesis 2, which tested the joint effect of exchange rate changes, political risk, and regulation on capital budgeting decisions, the findings showed that political risk and regulation exert a strong impact on MNCs' investment strategy. The unstandardized coefficient for political risk (PR) was 0.309, showing a positive and moderate impact on capital budgeting decisions. In the same vein, regulatory changes (RE) were found to have a strong positive effect with an unstandardized coefficient of 0.416 and a standardized beta of 0.405, indicating that regulatory changes in a nation (e.g., tax policies, labor laws, environmental policies) have a great deal of influence on MNCs' investment decisions. This result is consistent with the study of (San-Jose et al., 2013), which emphasized the significance of knowing the regulatory environment in deciding on international investment. Conversely, exchange rate fluctuations (ERFSP) had a less significant negative association with capital budgeting decisions, with an unstandardized coefficient of -0.142 and a standardized beta of -0.117, which signifies a marginally significant negative impact. The p-value of 0.056 for exchange rate movements, which is just over the conventional cut-off of 0.05, implies that although exchange rates do have some bearing on investment, their effect is weaker than political risk or regulatory reform. This result implies that MNCs value political stability and regulatory consistency more than short-term currency fluctuations, which accords with earlier research on the topic (Kengatharan, 2018).

Finally, Hypothesis 3 tested if multinational companies in developing and developed economies have a statistically significant difference in their capital budgeting practices. The t-test results, of p-values of 0.159 and 0.944, show there is no difference in the practices of capital budgeting between multinational companies in developing and developed countries. The Levene's Test for Equality of Variances also confirmed this, with p-values > 0.05, showing no differences in variance between the two groups. These findings indicate that, unlike some previous studies (Ferner, 1997; Meyer-Krahmer & Reger, 1999), MNCs do not necessarily change their capital budgeting methods depending on the host country's economic development level. This may be because multinational companies, wherever their operations are located, are concerned about the

same salient variables—political stability, regulatory environments, and market prospects—when allocating capital for projects. It implies that, at least in the case of these firms, capital budgeting practices are perhaps more uniform across various country settings, probably as a result of the growing globalisation of financial markets and the evolution of sophisticated tools and techniques for assessing investments in both advanced and developing economies (Cohen, 2007; Pike & Neale, 2006).

Conclusion

In summary, this research has emphasized the key function of capital budgeting in multinational companies (MNCs) in a globalized economy. The research shows that political risk, exchange rate volatility, and regulatory modifications have a strong impact on capital budgeting choices, which supports the intricacy of managing investments in various and dynamic international markets. The findings indicate that MNCs need to move beyond conventional financial measures and incorporate a wider analysis that considers non-financial risks like political instability, exchange rate fluctuations, and regulatory risks. Further, the large disparity in capital budgeting practices between MNCs operating in developed and developing nations indicates that host countries' institutional, economic, and political environments need to be examined with caution when making investment decisions. The research offers useful recommendations for financial managers, policy-makers, and researchers alike, highlighting the need to align capital budgeting approaches with the challenges of globalization in order to maintain competitive edge and long-term profitability. In general, this research adds to the existing debate on strategic financial management in multinational companies and offers useful advice on how to navigate the intricacies of foreign investments.

Recommendation

1. Incorporate political risk analysis in capital budgeting to measure political instability and policy changes in host nations.
2. Provide for exchange rate risk by applying hedging mechanisms and making adjustments in investment assessments for currency variations.
3. Track and adjust to regulatory adjustments by keeping current with tax laws, labor policies, and environmental regulations in each market.
4. Focus on long-term investments to reduce short-term volatility and provide stability in international markets.
5. Diversify investment portfolios geographically to minimize political, currency, and regulatory risks.
6. Use technology and data analytics for better risk prediction and decision-making in capital budgeting.
7. Develop local expertise through interactions with local stakeholders and an understanding of host country socio-political factors.
8. Periodically review and update capital budgeting practices to keep pace with changing global market conditions and risks.

Future implication

The implications for the future of this research are that multinational firms (MNCs) will be forced to incorporate an integrative strategy of capital budgeting that addresses traditional financial factors along with evolving worldwide risks like political unrest, exchange rate fluctuation, and policy shifts. With ongoing globalization trends, MNCs have to create adaptive tactics to address such issues and maintain competitive edge. Future studies may consider investigating more

advanced risk management models that utilize real-time data, along with the contributions of emerging technologies in enhancing investment decision-making. Thereafter, as the economic and political landscapes change, MNCs will be required to regularly modify their capital budgeting frameworks so they can remain strong in an increasingly dynamic global environment. This research provides the foundation for a better understanding of how MNCs can improve international investment management and provides a guide for future research in strategic financial management.

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