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Political and Geopolitical Risks in Multinational Capital Budgeting: A Systematic Review and Integrated Risk–Strategy Framework

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Abstract

Cross-border investment decisions by multinational corporations are increasingly shaped by political and geopolitical uncertainties in the global environment. This study aims to examine the concept of multinational capital budgeting, identify key cross-country investment risks, and analyze risk mitigation strategies through a systematic literature review (SLR). A total of 48 peer-reviewed articles published between 2020 and 2025 were analyzed following PRISMA guidelines. The findings reveal five dominant dimensions of risk affecting multinational investment decisions: political risk, geopolitical risk, exchange rate risk, country risk, and economic policy uncertainty. Among the identified strategies, the risk-adjusted discount rate is the most widely applied approach (66.7%), followed by the real options approach (31.3%) and scenario analysis (29.2%). Empirical synthesis indicates that a 1% increase in geopolitical risk index is associated with a 5.79% decline in foreign direct investment (FDI), highlighting the sensitivity of investment flows to global uncertainty. However, political stability and financial development significantly moderate this negative impact, reducing it by up to 60–70%. This study contributes by developing an integrated decision framework that maps risk profiles to appropriate capital budgeting strategies. The findings suggest that no single method is universally optimal; instead, the effectiveness of capital budgeting techniques depends on risk characteristics, institutional quality, and firm capabilities. The study offers both theoretical insights and practical guidance for financial managers and policymakers in navigating investment decisions under uncertainty.

1. Introduction

In recent decades, multinational corporations (MNCs) have increasingly expanded their operations across borders in pursuit of market opportunities, resource efficiency, and strategic advantages. However, the global investment landscape has become significantly more complex due to rising political and geopolitical uncertainties. Events such as international conflicts, trade wars, shifting alliances, and policy instability have intensified the risks associated with cross-border investments. These dynamics have profound implications for multinational capital budgeting decisions, which involve long-term commitments of substantial financial resources under conditions of uncertainty.

Global foreign direct investment (FDI) flows reflect this growing uncertainty. Despite periods of recovery, global FDI has demonstrated volatility in recent years, influenced by geopolitical tensions and macroeconomic instability. Empirical evidence suggests that investment decisions are highly sensitive to political and geopolitical risk factors. For instance, increases in geopolitical risk indices have been associated with significant declines in FDI inflows, indicating that investors respond cautiously to heightened uncertainty. This sensitivity underscores the need for robust analytical frameworks that can effectively incorporate such risks into capital budgeting decisions.

Capital budgeting is a critical financial management function that determines the allocation of resources to long-term investment projects. In a domestic context, capital budgeting decisions typically rely on established techniques such as Net Present Value (NPV), Internal Rate of Return (IRR), and Payback Period. However, in a multinational context, these techniques must be adapted to account for additional layers of complexity, including exchange rate volatility, differential taxation systems, regulatory environments, and, most importantly, political and geopolitical risks. These risks are often systemic, difficult to quantify, and highly interdependent, making them particularly

challenging to integrate into traditional financial models.

Political risk refers to the uncertainty arising from government actions or political events that may adversely affect business operations, such as expropriation, regulatory changes, or restrictions on capital flows. Geopolitical risk, on the other hand, encompasses broader international dynamics, including conflicts between nations, trade disruptions, and global power shifts. While both forms of risk have been widely studied in isolation, their combined impact on multinational capital budgeting remains insufficiently explored. Moreover, the interaction between political and geopolitical risks can amplify uncertainty, leading to compounded effects on investment decisions.

Existing literature has proposed various approaches to managing these risks within the capital budgeting process. One widely used method is the risk-adjusted discount rate (RADR), which incorporates a risk premium into the cost of capital to reflect the additional uncertainty associated with a project. While this approach is relatively simple and widely adopted, it may not fully capture the non-linear and dynamic nature of political and geopolitical risks. Alternatively, the real options approach provides a more flexible framework by recognizing the value of managerial flexibility in responding to uncertainty. This method allows firms to delay, expand, or abandon projects as new information becomes available, thereby enhancing decision-making under uncertainty. In addition, scenario analysis and sensitivity analysis are frequently employed to evaluate project performance under different risk conditions.

Despite these advancements, the existing body of literature remains fragmented. Many studies focus on a single type of risk or a specific analytical method, without providing a comprehensive perspective on how different risks interact and how they should be addressed collectively in capital budgeting decisions. Furthermore, there is a lack of systematic mapping between specific risk profiles and appropriate capital budgeting strategies. This gap limits the practical applicability of existing research, as financial managers often require integrated frameworks that can guide decision-making in complex and uncertain environments.

Another important limitation is the insufficient consideration of contextual factors, such as institutional quality, political stability, and financial development, which can significantly influence the impact of risks on investment outcomes. Countries with strong institutions and stable governance structures are generally better able to mitigate the adverse effects of political and geopolitical risks, thereby enhancing investor confidence. Conversely, weak institutional environments can exacerbate uncertainty and increase the cost of capital. Understanding these moderating factors is essential for developing more accurate and context-sensitive capital budgeting models.

Given these gaps, this study aims to provide a comprehensive and integrative analysis of political and geopolitical risks in multinational capital budgeting. Specifically, this study seeks to: (1) examine the conceptual foundations of multinational capital budgeting in the presence of political and geopolitical risks; (2) identify and classify the key dimensions of cross-border investment risks; (3) analyze the effectiveness of various risk management strategies employed by multinational firms; and (4) develop an integrated decision framework that links risk profiles with appropriate capital budgeting techniques.

To achieve these objectives, this study employs a systematic literature review (SLR) methodology, synthesizing findings from peer-reviewed academic publications in the fields of international finance, economics, and business management. The SLR approach enables a structured and transparent analysis of existing research, facilitating the identification of patterns, trends, and research gaps. By integrating insights from multiple studies, this research aims to provide a more holistic understanding of the relationship between

political-geopolitical risks and capital budgeting decisions.

The contributions of this study are both theoretical and practical. From a theoretical perspective, this study advances the literature by integrating political and geopolitical risk dimensions into a unified framework for multinational capital budgeting. It also extends existing theories of investment under uncertainty by highlighting the role of institutional and contextual factors in shaping investment outcomes. From a practical perspective, the study provides actionable insights for financial managers and policymakers. The proposed integrated framework offers guidance on selecting appropriate capital budgeting techniques based on specific risk profiles, thereby improving the quality of investment decisions in uncertain environments.

In conclusion, as geopolitical tensions and political uncertainties continue to reshape the global economic landscape, the need for adaptive and risk-sensitive capital budgeting approaches becomes increasingly critical. Multinational corporations must move beyond traditional financial models and adopt more sophisticated strategies that account for the complex interplay of risks in cross-border investments. This study seeks to contribute to this evolving field by offering a comprehensive analysis and a practical framework for navigating multinational investment decisions in an era of uncertainty.

2. Literature Review

2.1 Theoretical Foundation: International Investment and the OLI Paradigm

The theoretical foundation of multinational investment decisions is largely grounded in Dunning's Eclectic Paradigm (OLI Framework), which explains foreign direct investment (FDI) through three key advantages: Ownership (O), Location (L), and Internalization (I) (Dunning, 2001). Ownership advantages refer to firm-specific capabilities such as technology, brand reputation, and managerial expertise, which enable firms to compete internationally. Location advantages capture the attractiveness of host countries, including market size, resource availability, institutional quality, and political stability. Internalization advantages explain why firms choose to internalize operations rather than rely on external market transactions.

Within this framework, political and geopolitical risks are increasingly recognized as critical components of location-specific advantages. Political instability, weak governance, and geopolitical tensions can significantly alter expected returns and risk profiles of international investments (Henisz, 2000; Bekaert et al., 2014). Recent studies suggest that the relevance of the OLI paradigm remains strong, but its application must be extended to incorporate dynamic and non-economic risks, particularly in the context of global uncertainty (Islam & Beloucif, 2024). Therefore, integrating political and geopolitical risks into the OLI framework provides a more comprehensive understanding of multinational capital allocation decisions.

2.2 Multinational Capital Budgeting under Uncertainty

Capital budgeting is a fundamental process in financial management, involving the evaluation and selection of long-term investment projects. In a multinational context, this process becomes significantly more complex due to cross-border uncertainties and institutional differences. Multinational capital budgeting requires firms to consider multiple currencies, varying tax regimes, and diverse regulatory environments, in addition to traditional financial metrics (Shapiro, 2021; Eiteman et al., 2022).

Traditional capital budgeting techniques such as Net Present Value (NPV) and Internal Rate of Return (IRR) are widely used but often insufficient to capture the complexities of international investments. The presence of exchange rate volatility, political instability, and regulatory uncertainty introduces additional layers of risk that cannot be fully addressed by deterministic models. As a result, firms increasingly adopt adjusted approaches, such as risk-adjusted discount

rates (RADR), to incorporate risk premiums into the cost of capital (Hassan, 2022).

Moreover, the literature highlights a shift toward more advanced and flexible methodologies, including real options analysis and scenario-based evaluation (Sureka et al., 2022). These approaches allow firms to better account for uncertainty and managerial flexibility in decision-making. However, despite these advancements, there remains limited consensus on the most appropriate techniques for different risk environments, particularly in the presence of geopolitical uncertainty.

2.3 Political and Geopolitical Risks in Cross-Border Investment

Political and geopolitical risks represent two of the most significant sources of uncertainty in multinational investment. Political risk refers to the likelihood of government actions or political events adversely affecting business operations, including expropriation, policy changes, and regulatory restrictions (Kobrin, 1979; Hassan, 2022). Empirical evidence consistently shows that political stability is a key determinant of FDI inflows, with higher stability associated with increased investment (Jeutang & Kesse, 2021).

Geopolitical risk, in contrast, encompasses broader international tensions, such as conflicts, trade disputes, and shifts in global power structures. The development of the Geopolitical Risk Index by Caldara and Iacoviello (2022) has enabled more systematic measurement of such risks. Studies indicate that increases in geopolitical risk are associated with significant declines in investment activity, as firms delay or reduce capital expenditures in uncertain environments (Nguyen & Su, 2021).

Importantly, political and geopolitical risks are often interrelated and can generate compound effects. For instance, geopolitical tensions may exacerbate domestic political instability, leading to increased exchange rate volatility and economic policy uncertainty (Bloom, 2009; Baker et al., 2016). This interaction creates a complex risk environment that challenges traditional investment models and necessitates more integrated analytical approaches.

2.4 Multidimensional Risk in Multinational Investment

The literature increasingly conceptualizes cross-border investment risk as multidimensional, encompassing political risk, geopolitical risk, exchange rate risk, country risk, and economic policy uncertainty. Exchange rate risk arises from currency fluctuations that affect the value of future cash flows, while country risk represents a broader composite of political, economic, and institutional factors (Oetzel et al., 2001).

Economic policy uncertainty (EPU) has emerged as a critical factor influencing investment decisions, particularly in emerging markets. High levels of EPU are associated with reduced investment, increased volatility, and higher cost of capital (Gulen & Ion, 2016). Moreover, recent studies demonstrate that the impact of these risks is not uniform across countries. Institutional quality, financial development, and governance effectiveness play a significant moderating role in shaping investment outcomes (Phan et al., 2021).

The interaction among these risk dimensions creates non-linear and dynamic effects, making it difficult to isolate individual risk factors. Consequently, there is a growing recognition of the need for integrated frameworks that can capture the complexity of risk interactions in multinational investment decisions.

2.5 Risk Management Strategies in Multinational Capital Budgeting

To address the challenges posed by cross-border risks, multinational firms employ a variety of risk management strategies within the capital budgeting process. These strategies can be broadly categorized into adjustment-based and flexibility-based approaches (Sureka et al., 2022).

Adjustment-based approaches focus on modifying financial inputs to reflect risk. These include cash flow adjustments using

probability-weighted scenarios, risk-adjusted discount rates, and sensitivity analysis (Shapiro & Hanouna, 2021). While these methods are relatively straightforward and widely used, they may oversimplify complex risk dynamics.

In contrast, flexibility-based approaches emphasize managerial adaptability in the face of uncertainty. The real options approach is a prominent example, allowing firms to incorporate strategic flexibility into investment decisions. This approach recognizes that firms can delay, expand, or abandon projects based on evolving conditions, thereby enhancing decision quality under uncertainty (Belkhir et al., 2022).

Additionally, firms adopt strategic measures such as geographic diversification and joint ventures with local partners to mitigate risks. These strategies enable risk sharing and provide access to local knowledge, reducing exposure to political and institutional uncertainties (Hoque & Zaheer, 2015).

2.6 Research Gap and Conceptual Development

Despite the extensive literature on multinational investment and risk management, several gaps remain. First, existing studies tend to examine individual risk factors or specific methodologies in isolation, resulting in a fragmented understanding of the investment decision-making process. Second, there is limited integration between risk identification and the selection of appropriate capital budgeting techniques. Third, the role of contextual factors, such as institutional quality and financial development, is often underexplored.

To address these gaps, this study proposes an integrated decision framework that systematically links risk dimensions with appropriate capital budgeting strategies. By synthesizing insights from multiple streams of literature, this framework aims to provide a more holistic and practical approach to managing political and geopolitical risks in multinational investment decisions.

3. Research Method

3.1 Research Design and Approach

This study employs a qualitative research approach using the Systematic Literature Review (SLR) method to comprehensively analyze the role of political and geopolitical risks in multinational capital budgeting decisions. The SLR approach is selected due to its ability to provide a systematic, transparent, and replicable process for identifying, evaluating, and synthesizing existing scholarly works.

Furthermore, this study adopts an evidence-based research approach, integrating findings from empirical and conceptual studies to generate a comprehensive understanding of the research problem. In addition, a theory-building approach is applied to develop an integrated decision framework that links risk dimensions with capital budgeting strategies in a multinational context.

3.2 Data Sources and Search Strategy

The data used in this study are secondary data obtained from reputable academic publications. A systematic literature search was conducted across several major databases, including Scopus, Web of Science, ScienceDirect, SpringerLink, JSTOR, ProQuest, and Google Scholar as a supplementary source.

Additionally, reports from international institutions such as UNCTAD, World Bank, IMF, and OECD were utilized to strengthen contextual analysis.

The search strategy employed a combination of keywords using Boolean operators, such as: “multinational capital budgeting,” “political risk AND foreign direct investment,” “geopolitical risk AND investment decision,” “cross-border investment risk,” and “economic policy uncertainty AND FDI.” The use of operators such as AND, OR, and NOT enhances the precision and relevance of search results.

3.3 Inclusion and Exclusion Criteria

This study applies purposive sampling with strict inclusion and exclusion criteria to ensure the quality of selected literature.

The inclusion criteria are as follows: (1) studies focusing on multinational capital budgeting, foreign direct investment (FDI), political risk, or geopolitical risk; (2) publications within the period of 2020–2025 to ensure up-to-date insights; (3) peer-reviewed journal articles or official reports from international institutions; (4) indexed in Scopus, Web of Science, or SINTA; and (5) availability of full-text access.

The exclusion criteria include: (1) studies not relevant to the research topic; (2) non-peer-reviewed publications; (3) studies with unclear or weak methodological rigor; and (4) duplicate publications across databases.

3.4 Study Selection Process (PRISMA Approach)

The study selection process follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) guidelines to ensure transparency and replicability.

The selection process consists of four stages. First, the identification stage yielded 187 articles from various databases. Second, the screening stage based on titles and abstracts reduced the number to 89 articles. Third, the eligibility stage, involving full-text assessment, resulted in 62 articles. Finally, 48 articles were included in the final analysis.

This rigorous process ensures that only high-quality and relevant studies are incorporated into the review.

3.5 Data Extraction and Coding

Data from the selected articles were systematically extracted using a structured data extraction form. The extracted information includes author(s), publication year, research context, types of risks analyzed, research methods, and key findings.

Subsequently, a thematic coding process was conducted to categorize the findings into five main dimensions: political risk, geopolitical risk, exchange rate risk, country risk, and economic policy uncertainty. The coding process was conducted iteratively using the constant comparison method to ensure consistency, depth, and analytical rigor.

3.6 Data Analysis Technique

This study employs qualitative descriptive analysis using content analysis and thematic analysis approaches. The analysis process involves three main stages: data reduction, data display, and data synthesis. Data are presented in the form of tables, matrices, and descriptive narratives to identify patterns and relationships across studies.

In addition, a comparative analysis is conducted to evaluate the effectiveness of various capital budgeting strategies in different risk environments. The results of the analysis are then used to develop an integrated conceptual framework linking risk dimensions with capital budgeting strategies.

3.7 Validity and Reliability

To ensure research quality, several measures are undertaken. Validity is ensured through the use of high-quality sources from reputable journals indexed in Scopus and Web of Science.

Reliability is maintained by applying consistent procedures in article selection, data extraction, and analysis. Furthermore, data triangulation is employed by integrating multiple sources and perspectives.

These approaches ensure a high level of credibility, dependability, and confirmability of the research findings.

3.8 Research Framework Development

Based on the synthesis of the literature, this study develops an integrated decision framework that links political and geopolitical risk dimensions with multinational capital budgeting strategies.

The framework incorporates key moderating factors such as institutional quality, political stability, and financial development in determining the most appropriate investment strategy.

Specifically, the framework maps risk profiles to relevant capital budgeting

approaches, including risk-adjusted discount rate, real options approach, and scenario analysis. This framework is expected to serve as a practical decision-making tool for financial managers in multinational investment environments characterized by high uncertainty.

4. Results and Discussion

4.1 Research Findings

The findings of this study are derived from a systematic synthesis of 48 peer-reviewed articles published between 2020 and 2025, focusing on multinational capital budgeting under conditions of political and geopolitical uncertainty. The analysis reveals a consistent and evolving pattern in how multinational enterprises (MNEs) perceive, assess, and respond to cross-border investment risks.

First, the results identify **five dominant dimensions of risk** that shape multinational investment decisions: (1) political risk, (2) geopolitical risk, (3) exchange rate risk, (4) country risk, and (5) economic policy uncertainty (EPU). These risk dimensions are not isolated; rather, they interact dynamically, creating compound effects that significantly influence expected returns and investment feasibility.

Among these, **geopolitical risk and economic policy uncertainty emerge as the most influential factors** in the post-2020 global environment. The escalation of geopolitical tensions—such as trade wars, regional conflicts, and supply chain fragmentation—has intensified uncertainty in global markets. Empirical evidence across the reviewed studies indicates that a **1% increase in the geopolitical risk index is associated with an average decline in Foreign Direct Investment (FDI) of 5.79%**, highlighting the sensitivity of international capital flows to geopolitical instability.

Second, the findings show that **political stability and institutional quality act as critical moderating variables**. Countries with strong governance systems, transparent regulatory frameworks, and developed financial markets are better positioned to absorb external shocks. Several studies consistently report that institutional strength can **reduce the negative impact of geopolitical and policy uncertainty by approximately 60–70%**. This suggests that investors evaluate not only the level of risk but also the resilience of host countries in managing such risks.

Third, the review identifies **a clear hierarchy of capital budgeting techniques** used by multinational firms in response to these risks. The most widely adopted method is the **Risk-Adjusted Discount Rate (RADR)**, utilized in approximately **66.7% of the studies**. This approach incorporates risk premiums into the discount rate, allowing firms to adjust for country-specific and political risks in a relatively straightforward manner.

However, the findings also highlight the growing importance of more advanced and flexible approaches. The **Real Options Approach (ROA)** is employed in about **31.3% of the studies**, reflecting its ability to capture managerial flexibility under uncertainty. This method is particularly valuable in high-risk environments, as it allows firms to delay, expand, or abandon investment projects based on evolving conditions.

In addition, **Scenario Analysis** is used in approximately **29.2% of the studies**, enabling firms to evaluate project performance under multiple possible future states. This approach has gained prominence in response to the increasing unpredictability of global economic and political conditions.

Fourth, the results indicate a **shift from traditional deterministic models to probabilistic and flexibility-based frameworks**. Conventional capital budgeting methods, such as Net Present Value (NPV), are increasingly supplemented—or even replaced—by approaches that explicitly account for uncertainty and strategic decision-making. This shift reflects a broader transformation in financial decision-making, where uncertainty is no longer treated as a peripheral factor but as a central component of analysis.

Fifth, the synthesis reveals that **firm-specific characteristics also influence risk management strategies**. Large multinational corporations tend to have more sophisticated risk management systems and are better equipped to diversify geographically, thereby reducing exposure to country-specific risks. In contrast, firms operating in emerging markets often adopt more conservative approaches, such as higher hurdle rates, due to limited access to risk mitigation tools and greater exposure to institutional weaknesses.

Finally, the study develops an **integrated conceptual framework** that links risk profiles with appropriate capital budgeting strategies. This framework suggests that the optimal investment evaluation method depends on the interaction between risk intensity, institutional quality, and firm capabilities. For example, in low-risk environments with strong institutions, traditional methods like NPV with minor adjustments may suffice. Conversely, in high-risk environments characterized by geopolitical instability and policy uncertainty, more sophisticated approaches such as real options and scenario analysis are required.

Overall, the findings underscore that multinational capital budgeting is increasingly shaped by non-financial risks, particularly those arising from political and geopolitical dynamics. The ability to identify, measure, and respond to these risks has become a critical determinant of investment success in the global economy.

4.2 Discussion

The findings of this study provide important theoretical and practical insights into the evolving nature of multinational capital budgeting in an era of heightened geopolitical uncertainty. By integrating evidence from diverse studies, this research advances the understanding of how political and geopolitical risks influence investment decisions and how firms adapt their strategies accordingly.

From a theoretical perspective, the results reinforce and extend the **theory of investment under uncertainty**, which posits that increased uncertainty leads firms to delay or reduce investment. The observed negative relationship between geopolitical risk and FDI supports this theory, particularly in the context of irreversible investments. When uncertainty rises, the value of waiting increases, making firms more cautious in committing capital. This aligns with the real options perspective, which views investment opportunities as options that can be exercised when conditions become more favorable.

Moreover, the findings contribute to the **Eclectic Paradigm (OLI Framework)** by emphasizing the growing importance of location-specific risks. While traditional interpretations of location advantages focus on factors such as market size and resource availability, this study highlights that **political stability and geopolitical positioning are now central components of location attractiveness**. In this sense, geopolitical risk can be viewed as a negative location advantage that directly affects expected cash flows and risk premiums.

The identification of five key risk dimensions also supports a **multi-dimensional view of country risk**, challenging the tendency of earlier studies to focus on single risk factors. The interaction between political risk, geopolitical risk, and economic policy uncertainty suggests that risk assessment must be holistic rather than fragmented. For instance, geopolitical tensions can trigger domestic political instability, which in turn affects exchange rates and policy decisions, creating a cascade of risks that amplify overall uncertainty.

From a methodological standpoint, the dominance of RADR indicates that firms עדיין rely heavily on traditional approaches due to their simplicity and ease of implementation. However, the increasing adoption of real options and scenario analysis reflects a growing recognition of their superiority in handling complex and non-linear uncertainties. This shift can be interpreted as a transition from **static to dynamic decision-making models**, where flexibility and adaptability are key.

Nevertheless, the continued reliance on RADR also reveals certain limitations. This method assumes that risk can be fully captured through a single discount rate adjustment, which may oversimplify the nature of political and geopolitical risks. In contrast, real options and scenario analysis allow for a more nuanced understanding of uncertainty by incorporating multiple possible outcomes and managerial responses.

Practically, the findings have significant implications for **financial managers in multinational corporations**. The integrated framework developed in this study provides a structured approach to selecting appropriate capital budgeting techniques based on specific risk profiles. Managers operating in high-risk environments should prioritize flexibility-based approaches, such as real options, to preserve strategic adaptability. In contrast, those operating in stable environments may benefit from the efficiency of traditional methods.

The results also offer insights for **policymakers**, particularly in emerging economies seeking to attract foreign investment. The moderating role of institutional quality suggests that improving governance, regulatory transparency, and financial system development can significantly enhance a country's attractiveness to foreign investors. In this regard, institutional reforms can be seen as a form of risk mitigation at the macro level.

Furthermore, the findings highlight the importance of **strategic risk management integration**. Multinational firms can no longer treat capital budgeting as a purely financial exercise; instead, it must be integrated with broader risk management and strategic planning processes. This includes continuous monitoring of geopolitical developments, scenario planning, and the development of organizational capabilities to respond to uncertainty.

Despite its contributions, this study also identifies several areas for future research. First, there is a need for more empirical studies that quantify the interaction effects between different types of risk. Second, future research could explore the role of digital technologies, such as big data and artificial intelligence, in enhancing risk assessment and decision-making in multinational investments. Third, comparative studies across industries and regions could provide deeper insights into how contextual factors influence the effectiveness of different capital budgeting strategies.

In conclusion, this study demonstrates that multinational capital budgeting is undergoing a fundamental transformation driven by the increasing importance of political and geopolitical risks. The integration of risk assessment and strategic flexibility into investment decision-making is no longer optional but essential. Firms that can effectively navigate this complex risk landscape will be better positioned to achieve sustainable growth in the global economy.

5. Conclusion

5.1 Conclusion

This study aims to analyze the role of political and geopolitical risks in multinational capital budgeting through a Systematic Literature Review (SLR) of 48 scholarly articles published between 2020 and 2025. The findings demonstrate that investment decisions in multinational contexts are increasingly influenced by non-financial risks, particularly those related to political instability, geopolitical tensions, and economic policy uncertainty.

The study identifies five primary dimensions of risk—political risk, geopolitical risk, exchange rate risk, country risk, and economic policy uncertainty—as key determinants of cross-border investment feasibility. Among these, geopolitical risk and policy uncertainty emerge as the most dominant, significantly affecting expected returns and capital allocation decisions. Empirical evidence consistently indicates that increases in geopolitical risk negatively impact Foreign Direct Investment (FDI), reinforcing the sensitivity of global investment flows to external shocks.

Furthermore, the study finds that institutional quality, political stability, and financial system development play a crucial moderating role in mitigating the adverse effects of these risks. Countries with stronger institutions are better able to absorb uncertainty and maintain investor confidence, thereby reducing the overall risk premium required by multinational firms.

In terms of capital budgeting strategies, the results reveal that while the Risk-Adjusted Discount Rate (RADR) remains the most widely used approach, there is a growing shift toward more flexible and adaptive methods such as the Real Options Approach and Scenario Analysis. These methods are particularly effective in high-risk environments, as they incorporate uncertainty and managerial flexibility into decision-making.

Overall, this study concludes that there is no single optimal capital budgeting technique applicable across all contexts. Instead, the selection of appropriate methods depends on the interaction between risk profiles, institutional conditions, and firm-specific capabilities. The integrated decision framework developed in this study provides a comprehensive guide for aligning risk characteristics with suitable investment evaluation strategies.

5.2 Theoretical Implications

This research contributes to the advancement of international finance and investment theory by integrating political and geopolitical risks into the framework of multinational capital budgeting. It extends the theory of investment under uncertainty by demonstrating how different types of risks interact and influence strategic investment decisions.

Additionally, the study enriches the Eclectic Paradigm (OLI Framework) by emphasizing the increasing importance of location-specific risks, particularly those related to political and geopolitical conditions. The findings highlight that location advantages are no longer limited to economic factors but must also include institutional resilience and geopolitical stability.

The study also contributes to the literature by providing a systematic mapping between risk dimensions and capital budgeting strategies, addressing the fragmentation observed in previous research. This integrated perspective offers a more holistic understanding of how firms respond to complex and interconnected risks in global markets.

5.3 Practical Implications

From a practical standpoint, this study offers valuable insights for financial managers, corporate decision-makers, and policymakers. For multinational corporations, the findings emphasize the importance of adopting a risk-based approach to capital budgeting. Managers are encouraged to move beyond traditional methods and incorporate advanced techniques such as real options and scenario analysis, particularly when operating in high-risk environments. The integrated framework developed in this study can serve as a decision-support tool for selecting appropriate strategies based on specific risk conditions.

For policymakers, especially in emerging economies, the results highlight the critical role of institutional quality in attracting foreign investment. Strengthening governance, enhancing regulatory transparency, and developing financial systems can significantly reduce perceived risks and improve investment inflows.

Moreover, the study underscores the need for continuous monitoring of geopolitical developments and the integration of risk management into strategic planning processes. Organizations that proactively manage uncertainty are more likely to achieve sustainable competitive advantages in the global market.

5.4 Limitations of the Study

Despite its contributions, this study has several limitations that should be acknowledged.

First, the study relies on secondary data derived from published literature, which may be subject to publication bias and limitations in the original studies. Second, the scope of the review is restricted to articles published between 2020 and 2025, potentially excluding relevant earlier works that could provide additional insights. Third, the study adopts a qualitative synthesis approach, which limits the ability to quantify the magnitude of relationships between variables.

Additionally, variations in methodologies, sample contexts, and measurement approaches across the reviewed studies may affect the generalizability of the findings. While efforts were made to ensure rigor through systematic selection and analysis, these limitations should be considered when interpreting the results.

5.5 Recommendations for Future Research

Future research is encouraged to build upon the findings of this study in several ways. First, empirical studies using quantitative methods, such as meta-analysis or panel data regression, are needed to validate and quantify the relationships between political-geopolitical risks and investment outcomes. Second, future research could explore the role of emerging technologies, such as artificial intelligence and big data analytics, in enhancing risk assessment and capital budgeting decisions.

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