

INTERNATIONALISATION AND THE FINANCIAL PERFORMANCE OF COMPANIES

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Abstract

Research background: The literature of Polish authors points to the study of the financial performance of companies in the process of internationalisation by means of classic profitability indicators. Foreign literature goes beyond this area of studying the performance of companies in the internationalisation process. The authors propose less standard indicators for assessing company performance: market capitalisation, asset value, EBITDA (not ROA, ROE, ROS).

Purpose: The purpose of this paper is to assess the impact of internationalisation on selected financial ratios of Asian companies in the food sector.

Research methodology: Purposive sampling was used in the study and the selection of units was based on the availability of financial data in the EMIS database. The target population comprised joint-stock companies in the food sector in Asia that had export operations between 2000 and 2022.

Results: On the basis of the results of internationalisation and its impact on selected financial results and the relationships between financial indicators (EBITDA, asset size, market capitalisation) examined, it was decided to reject the main hypothesis.: There are links between internationalisation and factors

indicative of a company's economic performance and the interrelationship between these factors (total assets, EBITDA, market capitalisation).

Novelty: This research presents the impact of internationalisation on less commonly used indicators in performance evaluation, which can be considered a novel contribution to prior studies.

Keywords: financial management, internationalisation, financial performance, company, management

JEL classification: F65

Introduction

As globalisation and the accompanying liberalisation processes progress, there are parallel processes of corporate internationalisation. In the research conducted so far, one of the most important themes is the relationship between the internationalisation process of companies and their economic performance. This provides an opportunity to develop recommendations to guide the impact of internationalisation on company performance.

In the Polish literature, we are most often confronted with a classical approach that examines the relationship between profitability ratios (ROA, ROE, ROS, etc.) and internationalisation. A slightly different approach can be found in foreign-language publications, where studies are not limited to traditional profitability ratios, but use other financial data that directly or indirectly indicate a company's financial situation.

Using this reasoning, the authors created 3 models in which the variables are:

- internationalisation as measured by sales volumes outside the country,
- market capitalisation as the product of the number of shares and the market price (the market value of the company),
- EBITDA,
- value of total assets (in accounting terms),

in subsequent models that act as either explanatory or explanatory variables. Such an approach, according to the authors, will allow for a broader capture of statistically significant relationships occurring between factors that are important to the topic at hand. In view of the above, a hypothesis is posed:

- H: There are links between internationalisation and factors indicative of a company's economic performance and the interrelationship between these factors (total assets, EBITDA, market capitalisation)

The general hypothesis is developed by the sub-hypotheses contained in the models of the following section. The object of the research was the food sector in Asian countries. The research was conducted between 2000 and 2022 among 301 companies. The market of Asian companies was chosen due to the fact of the growing importance of these countries (random selection in the population was used without applying the criterion of proportionality depending on the size of the country) in the world economy and the strong growth of foreign investments made by these countries. The food industry was chosen because of the enormous importance of this sector in the economy of these countries. In the following paper, it is assumed that only the first degree of internationalisation, i.e. exports, is studied – due to the ease of quantifying the degree of internationalisation so understood. Financial performance is defined in the paper by analysing the indicators: market capitalisation, asset value, EBITDA.

1. Internationalisation and corporate financial performance – a literature study

Given the relationship it has with various disciplines such as management, finance, technology and international business (Hitt, Ireland, Hoskisson, 2007; Contractor, Kundu, Hsu, 2003; Denis, Denis, Yost, 2002). The relationship between internationalisation and financial performance has been examined from different study approaches (Abdi, Aulakh, 2018). Power is important. Internationalisation is understood as a process where a company gradually increases and deepens its relationships with international markets (Johanson, Valhne, 2009). Likewise, financial performance is a dependent variable that is used to quantify the efficiency and effectiveness of a company, that is, how the company implements its financial resources (Ichsan et al., 2021). In this order of ideas, the international business literature assumes that the internationalisation of companies generates a positive impact on their financial performance (Velez-Calle, Sánchez-Henríquez, Contractor, 2018; Pangarkar, 2008; Sullivan, 1994). On the contrary, when empirically testing these variables internationalisation and financial performance, there is a part of the literature that identifies that this relationship is not entirely positive for companies (Ruigrok, Wagner, 2003). This difference in results makes the study and understanding of this relationship a priority area in international business. This contradiction of results indicates that the relationship between internationalisation and financial performance depends on the interactions between the advantages and disadvantages of internationalisation on

financial performance (Cuervo-Cazurra et al., 2018). Specifically, the study of this relationship focuses on three central themes, first, the form that the relationship takes, and second, the determinants of this relationship (Jiang et al., 2020; Oh, Contractor, 2014). Most studies on the relationship between internationalisation and financial performance have focused on firms in developed markets, with limited research on emerging markets. This is important given that the origin and place of operation of a company can be a factor that affects the behaviour of the internationalisation and financial performance relationship (Vélez-Calle, Sánchez-Hernriquez, Contractor, 2018; Cuervo-Cazurra et al., 2018). Likewise, five basic forms of internationalisation-performance relationship have been identified in the literature: (1) positive linear relationship, (2) negative linear relationship (Likitwongkajon, Vithessonthi, 2023; Gomes, Ramaswamy, 1990), (3) relationship in form of “U” (Ruigrok, Wagener, 2003), (4) inverted “U” shaped relationship (Hitt, Hoskinson, Kim, 1997) and, (5) “S” shaped relationship (Contractor, Kundu, Hsu, 2003). More recently Oh and Contractor (2014) identify that internationalisation produces different effects on financial performance. In stage 1 of internationalisation, the financial performance of companies is negative, specifically when they expand within geographically close markets. In stage 2, where the company already operates in more distant markets, internationalisation, financial performance gradually improves, becoming positive; finally, in stage 3, financial performance returns to being negative.

The literature in recent years has provided progress on the relationship between internationalisation and financial performance. Not only is internationalisation phenomenon and financial performance analysed, but the internationalisation phenomenon is analysed associated with other management terms, specifically that internationalisation is measured with other management elements such as international entrepreneurship (Schwens et al., 2018), innovation (Hsu, Lien, Chen, 2015), speed of internationalisation (García-Canal, García-Canal, Guillen, 2017), digitalization (Bhandari et al., 2023) and re-internationalisation (Yu, Fletcher, Buck, 2022).

1.1. Internationalisation-performance in Asian Firms

The literature about internationalisation- financial performance has been focussed on firms from developed economies such as the USA and Europe (Likitwongkajon, Vithessonthi, 2023). In this regard, the literature about this relationship in emerging economies has been less studied (Velez-Calle, Sanchez-Henriquez, Contractor, 2018). However, some studies have been carried out in Asian firms, the literature in Asia has been divided into three categories,

Japanese firms, Chinese firms, and firms from other Asian regions such as India and Southeast Asia.

One of the first studies about Asian firms was carried out by Lu and Beamish (2001), using a sample of 164 Japanese small and medium enterprises (SMEs) to test the hypothesis and found a positive impact on internationalisation and financial performance. Another research with Korean and Japanese firms (Ahn, Fukao, Kwon, 2004). Research with Japanese firms studied internationalisation- financial performance relationship from the perspective of international intensity, international diversity, and international distance, the results demonstrate that international intensity and international distance produce “sigmoid” effects of financial performance and international diversity generates a “U”-shaped performance (Miller, Lavie, Delios, 2016).

The Chinese firms are a special case, due to this firms operate in unusual economic, political and social conditions which affect their internationalisation strategies (Chen, Tan, 2012). Considering this issue several studies have been identified related to the internationalisation and financial performance of Chinese firms. The differential effects of internationalisation on two dimensions of family firm performance, growth, and profitability, the results show that internationalisation has a positive impact on growth but a negative impact on profitability (Lu, Liang, Shan, Lian, 2015). Other studies with Chinese firms identified contradictory results where the financial performance has a negative relationship with internationalisation (Wang et al., 2023; Wei, Nguyen, 2020)

Another amount of research about Asian firms has focussed on other countries and regions but in less quantity. Purkayastha and Gupta (2023) used a sample of 419 Indian firms with the results suggesting that internationalisation and performance help to alleviate the negative influence of business groups. A study carried out with 285 firms from Laos suggests a form of “S” in the internationalisation-performance relationship (Phan, Nguyen, Phan, 2020).

2. Sampling and methods

Purposive sampling was used in the study and the selection of units was based on the availability of financial data in the EMIS database. The target population comprised joint-stock companies in the food sector in Asia that had export operations between 2000 and 2022. The companies were to be from the food company sector, be joint stock companies, and export their products.

The research sample consisted of firms observed over time, forming a balanced panel data structure. Therefore, hypotheses were tested using panel models. For observations of units n at time t , panel models were estimated according to equation (1)

$$y_{nt} = \alpha + x_{nt}^T \times \beta + \epsilon_{nt} \quad (1)$$

where:

y_{nt} – was the response variable,

x_{nt}^T – was a vector of K companion variables (predictors),

ϵ_{nt} – was the model fit error, α was the intercept (constant),

β – was a vector of regression coefficients associated with the companion variables.

For the error component of the model ϵ_{nt} , the error was the sum of the individual effect η_n for unit n and the residual effect v_{nt} (also known as the idiosyncratic effect). An additional assumption made in the sampling was the limitation of the legal form of the companies drawn in the sample – due to the availability of financial data, it was decided to draw joint stock companies from the food sector. The third limitation for the drawn sample was the geographical region – it was decided to draw companies from Asian countries. 301 companies were drawn. A study of the relationship between internationalisation and its financial performance was conducted among Asian listed companies between 2000 and 2022. Financial data from the Thomson Reuters and Emis database were used.

The following models were selected to test the general hypothesis using a two-way fixed effects model. In this study, a two-way fixed effects panel model was applied. This model allows for controlling both individual effects (differences between firms) and time effects (the impact of macroeconomic events and changes over time) on the dependent variable. It is an extension of the classical fixed effects model, additionally accounting for factors specific to a given period that may influence the financial performance of the examined companies. For unit i at time t , the model is specified as follows:

$$y_{it} = \alpha + \mu_i + \lambda_t + X_{it}\beta + \epsilon_{it}$$

where:

y_{it} – dependent variable (e.g., market capitalisation, EBITDA, total assets),

α – model constant,

μ_i – individual effect (a firm-specific constant, such as management strategy or business characteristics),

λ_t – time effect (macroeconomic variables and global trends affecting all firms in a given period),

X_{it} – vector of explanatory variables,

β – vector of regression coefficients,

ϵ_{it} – error term.

Model assumptions

1. **Elimination of individual effects** – allows for accounting for unobserved, time-invariant firm characteristics that may influence the dependent variable.
2. **Elimination of time effects** – controls for the impact of macroeconomic trends, such as inflation, business cycles, and regulatory changes.
3. **Assumption of no autocorrelation and heteroskedasticity in residuals** – verified using diagnostic tests (e.g., Breusch-Pagan test, Wooldridge test).
4. **No multicollinearity between explanatory variables** – assessed during variable selection and model evaluation.

Application of the model

This model is particularly useful in financial analyses when:

- the objective is to examine the impact of internationalisation on firms' financial performance across different countries and years,
- there is a need to separate the effect of individual firm characteristics from the influence of time trends,
- panel data is available for either a **balanced** or **unbalanced panel**, and there is a necessity to control for firm- and period-specific effects.

Applying a two-way fixed effects panel model ensures a more precise estimation of relationships between variables, eliminating the influence of confounding factors that could distort the interpretation of results.

3. Empirical study

Model 1

Throughout the empirical analysis, it was decided to econometrically verify three models. The panel model analysed, model 1 with two ways effects within a model, allowed

the impact of three variables – internationalisation (logarithm), EBITDA and total assets (logarithm) – on market capitalisation (logarithm) to be assessed. The following sub-hypotheses were adopted:

H1: Internationalisation has an impact on market capitalisation

H2: EBITDA has an impact on market capitalisation

H3: Total assets have an impact on market capitalisation

The model was estimated using data from 301 companies ($N = 301$, observations = 2,446) over the period 2000–2022. The fitted model explained 26.7% of the variance in the dependent variable. The high F-statistic value (122.10) provided evidence against the null hypothesis that all regression coefficients were equal to zero, i.e. that there was no statistical significance between the analysed variables. A p-value < 0.001 indicated that we could reject the null hypothesis in favour of the alternative hypothesis that at least one of the regression coefficients was different from zero. The results of fitting the two-way panel model in terms of robust covariance matrix estimation are shown in Table 1.

Table 1. Result of fitting model 1

Market capitalisation (logarithm)				
Explanatory variables	B	SE	t	p
Internationalisation (logarithm)	-1.13×10^{-2}	1.61×10^{-2}	0.71	0.480
EBITDA	1.66×10^{-8}	2.42×10^{-8}	0.69	0.492
Total assets (logarithm)	0.82	4.51×10^{-2}	18.10	<0.001

Source: own elaboration.

The explanatory variables in model 1 are: internationalisation, EBITDA, total assets, variables explained by market capitalisation.

Based on the results of Table 1, it was shown that the regression coefficient for the logarithm of the degree of internationalisation was -1.13×10^{-2} , but the p-value was 0.480, which was greater than the standard significance level of 0.05. This meant that the degree of internationalisation did not have a significant effect on the market capitalisation of the firm in this model. In practice, this suggested that expansion abroad did not necessarily lead to an increase in the market value of the firm. In other words, international activities alone were not strong enough to affect a firm's market value, and other factors such as a firm's strategy, market position or specific business may be more relevant.

The coefficient for EBITDA in the model was 1.66×10^{-8} , but the p-value was 0.492, which was greater than 0.05. This suggested that EBITDA did not have a significant effect on market capitalisation in this model. It could appear that companies with higher profitability have higher market capitalisation, but it is possible that investors and the market may be guided by other factors such as anticipated market trends, company innovation or management effectiveness.

The coefficient for the logarithm of total assets was 0.82 and the p-value was less than 0.001, indicating clear statistical significance. This meant that companies with higher total assets tended to have higher market capitalisation, assuming all other variables remained constant. Firms that tended to have a higher asset value also tended to have a higher market value (understood in the paper as market capitalisation)

In summary, of the variables included in the model, only the logarithm of total assets had a significant effect on a company's market capitalisation. This indicated that the size of the firm, as measured by total assets, was crucial in determining market value. The model showed a lack of significance for the degree of internationalisation and EBITDA. However, this does not mean that these factors are not significant at all, as their influence can be created by other explanatory variables not included in this model. The dynamics of market capitalisation are complex and multidimensional, and understanding them may require consideration of a wider range of factors.

Model 2

The panel model analysed, model 2 with two ways effects within a model, allowed the impact of three variables – internationalisation (logarithm), market capitalisation (logarithm) and total assets (logarithm) – on the dependent variable EBITDA (standardised value) to be assessed. The following sub-hypotheses were accepted:

H4: Internationalisation has an impact on EBITDA

H5: Market capitalisation has an impact on EBITDA value H6: Total assets have an impact on EBITDA value

The model fitted the financial performance of $N = 301$ companies, $Nobs = 2446$, over the period of the years 2000–2022. The value of the $F = 9.03$ statistic, together with $p < 0.001$, allowed the conclusion that at least one variable had a significant effect on EBITDA.

The results of fitting the two-way panel model in terms of robust covariance matrix estimation are shown in Table 2.

Table 2. Result of fitting model 2

EBITDA (standardised)				
Explanatory variables	B	SE	T	p
Internationalisation (logarithm)	0.05	0.02	3.19	0.001
Market capitalisation (logarithm)	0.04	0.05	0.70	0.481
Total assets (logarithm)	0.90	0.17	5.16	<0.001

Source: own elaboration.

The explanatory variables in model 2 are: internationalisation, market capitalisation, total assets, variables explained by EBITDA.

The regression coefficient for the logarithm of the degree of internationalisation was 0.05 and statistically significant ($p = 0.001$). This suggested that a higher degree of internationalisation was associated with increased firm operating profitability. This could be interpreted to mean that firms that were internationally active were able to achieve greater operational efficiency. This is consistent with the theory that expanding into new markets can lead to increased scale and scope of operations, which in turn can lead to improved profitability.

The coefficient for the logarithm of market capitalisation was 0.04, but this was not statistically significant ($p = 0.481$). This meant that in this model, the size of the company, as measured by market capitalisation, did not have a significant effect on its operating profitability. This can be interpreted to mean that although company size is often taken as an indicator of its strength and stability, it does not necessarily translate into higher operating profitability. The coefficient for the logarithm of total assets was 0.90 and was statistically significant ($p < 0.001$). This suggested that companies with higher total assets tended to have higher operating profitability. This may reflect the fact that companies with more assets have more resources that they can use to generate profits.

In summary, the model results indicated that the degree of internationalisation and total assets had a significant impact on operating profitability, as measured by EBITDA. A higher degree of internationalisation and higher total assets were associated with higher EBITDA. There was no statistical significance between market capitalisation and EBITDA.

As part of further research, it would be worthwhile to investigate what other factors may influence a company's operating profitability and whether the observed relationships behave in the same way in different sectors originating from the same countries. Furthermore, the study of the impact of the degree of internationalisation on operating profitability could be extended to analyse the impact of different internationalisation strategies on profitability.

Model 3

The panel model analysed, model 3 with two ways effects within a model, allowed the impact of three variables – internationalisation, market capitalisation and EBITDA – on the dependent variable, the logarithm of total assets, to be assessed. Consequently, the sub-hypotheses were set:

H7: Internationalisation has an impact on the value of total assets

H8: Market capitalisation has an impact on the value of total assets

H9: EBITDA impact on total assets

The model fitted the financial performance of $N = 301$ companies, Nobs = 2446, over a period in the years 2000–2022 and explained 35.0% of the variance in the outcome variable. The value of the $F = 70.51$ statistic, together with $p < 0.001$, allowed the conclusion that at least one variable has a significant effect on the logarithm of total assets. The results of fitting the two- way panel model in terms of robust covariance matrix estimation are presented in Table 3.

Table 3. Result of fitting model 3

Total assets (logarithm)				
Explanatory variables	B	SE	T	p
Internationalisation (logarithm)	0.13	0.070	2.03	0.042
Market capitalisation (logarithm)	0.27	0.020	13.53	<0.001
Total assets (logarithm)	0.12	0.023	5.24	<0.001

Source: own elaboration.

The explanatory variables in model 3 are: internationalisation, EBITDA, market capitalisation, variables explained by total assets. Based on the results obtained in Table 3, the following relationships are shown: The regression coefficient for the degree of internationalisation tested was 0.13 and was statistically significant ($p = 0.042$). There is a relationship between the degree of internationalisation and the size of a company's assets. This may imply that firms that expand more internationally tend to have larger assets, perhaps due to increased access to markets and resources internationally.

The coefficient for the logarithm of market capitalisation was 0.27 and was statistically significant ($p < 0.001$). This indicated a strong relationship between market capitalisation and total company assets. Companies with a higher market value tended to have more assets. This

was as expected, as companies with a larger market capitalisation are often larger in terms of scale and resources.

The coefficient for standardised EBITDA was 0.12 and was statistically significant ($p < 0.001$). This suggested that companies with higher operating profitability tend to hold more assets. This may reflect the fact that companies that are more profitable can reinvest their profits in assets, which in turn leads to asset growth.

In summary, the model results suggested that the degree of internationalisation, market capitalisation and EBITDA were significant predictors of a firm's total assets. The higher degree of internationalisation, higher market capitalisation and higher EBITDA were associated with higher total assets.

These results may have important implications for firms' management and investment strategies. For example, they may suggest that companies should pursue international expansion to increase operational profitability. Investors may also pay attention to these factors when assessing a company's growth potential.

Conclusions

The relationship between internationalisation and financial performance has been widely explored in developed economies, while research on emerging markets, particularly in Asia, remains limited. Studies on Asian firms highlight diverse patterns depending on the country, with Japanese firms showing mixed effects based on international intensity and diversity, while Chinese firms exhibit both positive and negative financial performance outcomes. Additionally, research on firms from other Asian regions, such as India and Southeast Asia, suggests that the internationalisation-performance relationship varies across contexts, emphasizing the need for further investigation into regional differences and influencing factors.

The size of a company's business as presented by market capitalisation is not necessarily related to the degree of internationalisation (measured in studies as the share of exports in total revenue). The level of capitalisation can result from a number of factors: the attractiveness of the sector, the development of the sector, the degree of competitiveness of the company itself.

The total assets examined in the model, show a correlation and impact on the level of capitalisation. The greater the assets, the greater the possibility of achieving an increase in a company's operating profitability. Internationalisation, measured as the share of international sales (exports) in total revenue, increases the level of total revenue by expanding into foreign markets. Especially those in which the profitability of sales proves to be higher than in

the home market. The size of assets is positively relevant to the generation of the financial result. The structure of assets should be examined, and the question should be answered as to whether it allows for a good economic performance of the company itself. In the context of management in the food sector, it is worth mentioning that inventory levels are important. It should be assumed that an asset structure characterised by a high stock level would consequently not give a positive relationship between total assets and EBITDA.

Total assets, defined as the assets of the company, were summarised in the research along with the explanatory variables internationalisation, market capitalisation and EBITDA. Each of these variables showed a positive impact on the size of total assets. A company wishing to increase the value of its assets may choose to enter foreign markets.

In the case of the analysis of Asian companies in the food sector, it should be assumed that the positive effect of the impact of internationalisation on the value of total assets should result from finding the right directions for internationalisation (market selection, strategy for entering selected markets, finding a sector with a structure conducive to entering foreign markets, and, finally, properly conducted diversification of the company's activities – including in terms of selling products on foreign markets). At the same time, assets can be multiplied by achieving higher EBITDA and high market capitalisation. The increase in market capitalisation associated with positive investor feedback is conducive to the expansion of the company's assets.

It was assumed that a positive verification of the general hypothesis is associated with the presence of statistically significant relationships between internationalisation and the studied factors determining company performance, as well as between the factors themselves.

Statistical significance was demonstrated for the following sub-hypotheses:

- H3: Total assets have an impact on market capitalization
- H4: Internationalisation has an impact on EBITDA
- H6: Total assets have an impact on EBITDA value
- H7: Internationalisation has an impact on the value of total assets
- H8: Market capitalisation has an impact on the value of total assets
- H9: EBITDA impact on total assets

Statistical significance was not demonstrated for the following sub-hypotheses:

- H1: Internationalisation has an impact on market capitalisation
- H2: EBITDA has an impact on market capitalisation
- H5: Market capitalisation has an impact on EBITDA value

As all sub-hypotheses cannot be accepted, the general hypothesis must be rejected.

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