

Navigating the Global Innovation Landscape: The interplay of knowledge management, corporate diplomacy, and business performance in multinational corporations

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ABSTRACT

Objective: The study aimed to explore how knowledge management practices influence innovative capacity and, subsequently, business performance, while also analysing the moderating influence of corporate diplomacy on this relationship. We investigated the complex interplay between knowledge management, innovative capacity, and business performance within the global business environment, examining the moderating role of corporate diplomacy. The research stemmed from the increasing pressure on organisations to innovate and adapt amidst globalisation, recognising knowledge management's and corporate diplomacy's crucial roles in achieving sustainable competitive advantage.

Research Design & Methods: We utilised a quantitative research design employing partial least Squares structural equation modelling (PLS-SEM). We collected data from 208 multinational corporations (MNCs) operating in diverse Asian markets.

Findings: The findings revealed that knowledge acquisition, utilisation, and dissemination positively influenced innovative capacity, which, in turn, positively affected business performance. Furthermore, corporate diplomacy demonstrated a positive direct effect on business performance. Crucially, we observed a negative moderating effect of corporate diplomacy on the relationship between innovative capacity and business performance.

Implications & Recommendations: Research Implications: This study contributes to the theoretical understanding of how firms can leverage both technological and sociopolitical capabilities to achieve superior performance. It highlights the importance of integrating innovation and diplomacy strategies for MNEs seeking to compete effectively in the global arena. Practical Implications: The findings provide valuable insights for managers seeking to enhance their firms' performance through a combination of knowledge management, innovation and diplomacy. The study suggests that investments in both areas and efforts to align and integrate these capabilities can yield significant returns. It also underscores the importance of adapting diplomatic strategies to leverage specific innovations and target key stakeholders.

Contribution & Value Added: This study offers a novel perspective on the interplay between knowledge management, innovative capacity, business performance, and the moderating role of corporate diplomacy. It moves beyond examining these capabilities in isolation to explore their synergistic effects on business performance. By highlighting the importance of integrating these two strategic levers, the study provides valuable insights for both academics and practitioners.

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INTRODUCTION

The global business environment has undergone rapid and profound changes in recent decades, driven by globalisation, technological advancements, and shifting geopolitical dynamics. These transformations have pushed companies to adopt innovative strategies to secure competitive advantages and sustain growth. Knowledge management has emerged as a strategic asset in this context, enabling organisations to create, distribute, and apply knowledge to enhance their innovative capacity and business performance (Akhtar *et al.*, 2024). The capacity to effectively manage knowledge is fundamental to promoting innovation, as it equips organisations with the essential tools required to develop new products, processes, and business models. These elements are vital for addressing the intricate demands of global markets (Bui, 2024).

Simultaneously, scholars consider innovative capacity to be a key determinant of business performance. Firms that possess strong innovative abilities are more capable of adjusting to market shifts, satisfying customer demands, and sustaining their competitiveness (Truong & Nguyen, 2024). However, achieving this requires not only internal innovation processes but also the ability to navigate external challenges, such as geopolitical risks and regulatory complexities. This is where corporate diplomacy plays a pivotal role. Corporate diplomacy, defined as the strategic management of relationships with external stakeholders, enables firms to mitigate risks, shape regulatory environments, and foster trust among diverse actors (Hartwell & Ursprung, 2024). By aligning corporate interests with societal and geopolitical demands, corporate diplomacy is increasingly recognised as a critical enabler of sustainable growth in the global business environment (Yiu & Saner, 2017). Moreover, the implementation of the United Nations' Sustainable Development Goals (SDGs) has amplified the need for businesses to demonstrate their commitment to social and environmental sustainability. Corporate diplomacy is instrumental in helping firms navigate these complexities by forging partnerships, fostering transparency, and engaging in constructive dialogues with governments, civil society organisations, and other stakeholders (Salvi & Ruël, 2022). In this context, businesses that integrate corporate diplomacy into their strategies are better equipped to address stakeholder expectations, enhance their reputation, and achieve long-term performance goals.

Despite the essence of knowledge management, innovative capacity, and corporate diplomacy in shaping business performance, existing literature has largely examined these dimensions in isolation. Academics have directed limited focus towards the synergies among these elements and how corporate diplomacy moderates the relationship between innovative capacity and business performance. As global businesses navigate an increasingly interconnected and volatile environment, a comprehensive understanding of these interdependencies is imperative.

While both corporate diplomacy and innovative capacity individually contribute to enhanced business performance, their interaction may involve complex trade-offs rather than simple additive effects. As firms intensify their corporate diplomatic activities to secure social license, manage regulatory relationships, and navigate political complexities, they potentially face diminishing or even negative returns on these investments with respect to innovation outcomes. This trade-off perspective suggests that excessive diplomatic engagement may divert critical resources, financial, human, and attentional, away from core innovation activities (Henisz, 2016). Furthermore, the institutional orientation often associated with corporate diplomacy might foster organisational conservatism and risk aversion that conflict with the experimental mindset necessary for breakthrough innovations (Bolewski, 2022). As stakeholder relationships deepen, firms may also face mounting pressure to align their innovation efforts with external expectations rather than market opportunities, potentially compromising the commercial viability of their innovations (Rajagopal, 2024).

These theoretical tensions suggest that while moderate levels of corporate diplomacy may enhance the innovation-performance relationship by securing necessary operational legitimacy and market access, excessive diplomatic activities might diminish innovation's performance impact through resource diversion, strategic compromise, and organisational inertia.

We sought to address this gap by exploring the relationship between knowledge management, innovative capacity, and business performance, with a special focus on the moderating role of corporate diplomacy. First, while extensive research exists on the individual impacts of knowledge management and innovative capacity on business performance, their integrated effects remain underexplored. Prior studies have confirmed knowledge management's role in promoting innovation by facilitating the generation and application of new ideas (Agyapong *et al.*, 2024) and linked innovative capacity to improved financial and environmental performance (Akhtar *et al.*, 2024). However, scholars rarely address the interplay between these dimensions, particularly in the context of global businesses operating in dynamic and complex environments. Understanding how knowledge management and innovative capacity jointly influence business performance is critical for developing holistic strategies that enhance organisational resilience and competitiveness. Secondly, while scholars have studied the direct effects of corporate diplomacy on business performance, its potential moderating role in the relationship between innovative capacity and business performance remains largely unexplored (Jiang *et al.*, 2024). It is important to understand whether and how corporate diplomacy influences innovation effectiveness in driving business performance. The central research gap identifies an inadequate theoretical conceptualisation and empirical testing of the mediating or moderating function of corporate diplomacy within the specific relationship between an organisation's innovative capacity and its business performance. Existing literature strongly establishes the importance of both constructs individually, as well as their related components (Jiang *et al.*, 2024a). On the one hand, concepts closely aligned with innovative capacity, such as green creativity and green innovation, are proven predictors of enhanced environmental and financial performance. Furthermore, studies demonstrate that internal organisational mechanisms, notably green dynamic capability, can strengthen the relationship leading from green creativity through green innovation to performance outcomes (Agyapong *et al.*, 2024). Scholars consider corporate diplomacy a critical strategic approach, often identified as a dynamic capability, for utilising diplomatic skills to manage influence, obtain a 'social license to operate,' and navigate complex sociopolitical environments (Egea *et al.*, 2020). The theoretical intersection is evident, as key functions of corporate diplomacy, such as engaging external stakeholders, are viewed as dynamic capabilities essential for enterprise performance in regimes of rapid technological change. However, research focusing on corporate diplomacy's direct effect on performance has predominantly focused on the synergistic or substitutive interactions *between* the dimensions of corporate diplomacy itself (Jiang *et al.*, 2024a). Crucially, acknowledged limitations within current corporate diplomacy scholarship explicitly call for future studies to examine underlying mechanisms, such as legitimacy and knowledge exchange, mediators of corporate diplomacy's influence on performance (Bolewski, 2022; Salvi & Ruël, 2022). This highlights the need for further exploration into how corporate diplomacy interacts with internal resource strengths. Therefore, a significant gap remains in exploring the precise mechanisms by which the strategic deployment of diplomatic influence, via instruments like networking, competitive intelligence, corporate reputation, and lobbying, either mediates the path from internal innovative capacity to competitive BP outcomes, or moderates the strength of that innovation-to-performance link, thereby leveraging the firm's non-market strategy to amplify its internal innovative capabilities.

This understanding can help organisations optimise their investments in both innovation and corporate diplomacy. Addressing these gaps is not only academically significant but also practically relevant. In an era where businesses are expected to contribute to global sustainability initiatives, such as the SDGs, understanding the role of corporate diplomacy in enhancing knowledge management and innovation can provide actionable insights for managers. Moreover, given the increasing prevalence of complex global challenges, such as climate change, supply chain disruptions, and geopolitical conflicts, exploring these interdependencies is essential for fostering sustainable business practices and long-term performance. We aimed to bridge these research gaps by examining the relationship between knowledge management, innovative capacity, and business performance in the global business environment, with a specific focus on the moderating role of corporate diplomacy. Firstly, we investigated how knowledge management and innovative capacity jointly influence business performance, thereby providing a holistic understanding of their interplay. Secondly, we examined how corporate

diplomacy moderates this relationship, highlighting its potential to amplify the positive effects of innovative capacity. By addressing these objectives, the study seeks to contribute to the theoretical and practical understanding of how businesses can leverage knowledge management, innovation, and corporate diplomacy to achieve sustainable growth and competitive advantage.

The research article is organised as follows: Section 2 reviews relevant literature and theoretical foundations. Section 3 details the research methodology. Section 4 presents the findings and analysis. Section 5 discusses the results, and Section 6 concludes with implications, limitations, and future research suggestions.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

Corporate Diplomacy in Multinational Corporations (MNCs)

Corporate diplomacy has emerged as a critical capability for multinational corporations (MNCs) operating in an increasingly complex global landscape. Defined as the strategic use of diplomatic skills by firms to build relationships with key stakeholders and advance corporate interests, corporate diplomacy enables MNCs to navigate challenges posed by geopolitical uncertainties, cultural differences, and institutional voids (Bucheli *et al.*, 2023). It facilitates the cultivation of legitimacy and the acquisition of valuable resources in host countries, which is particularly vital for addressing the liability of outsidership that MNCs often face (Muldoon, 2005).

Social capital theory provides a robust framework for understanding corporate diplomacy, as it emphasises the importance of networks and relationships in accessing resources and reducing transaction costs (Lin, 2002). We may conceptualise corporate diplomacy as a multidimensional construct targeting three key stakeholder groups: host-country exchange partners, host-country regulators, and expatriate compatriots (Jiang *et al.*, 2024). Host-partner-oriented diplomacy focuses on building relationships with local business partners to enhance business legitimacy and market access (Ingenhoff & Marschlich, 2019). Host-regulator-oriented diplomacy involves cultivating ties with government officials to secure regulatory support and navigate political uncertainties. Meanwhile, compatriot-oriented diplomacy leverages connections with expatriates to tap into trust-based networks that facilitate resource exchange (Egea *et al.*, 2020).

Empirical studies have underscored the positive impact of corporate diplomacy on business performance. For instance, Jiang *et al.* (2024) found that corporate diplomacy enhances subsidiary performance by mitigating operational uncertainties, improving resource acquisition, and fostering local market integration. Furthermore, the complementary and substitutive effects of different forms of corporate diplomacy suggest that MNCs must adopt a portfolio approach to maximise their effectiveness. For example, host-partner-oriented diplomacy can substitute compatriot-oriented diplomacy by providing similar resources, while host-regulator-oriented diplomacy complements compatriot-oriented diplomacy by offering unique regulatory insights (Yiu & Saner, 2017). These findings highlight the strategic importance of corporate diplomacy in global operations, particularly in the context of emerging markets where institutional and cultural challenges are pronounced.

Resource-based View With Knowledge Management and Innovative Capacity

The resource-based view (RBV) posits that firms achieve competitive advantage by leveraging resources that are valuable, rare, inimitable, and non-substitutable (Barney, 1991). Knowledge management (KM) and innovative capacity are two such strategic resources that enable firms to respond effectively to environmental changes and maintain competitive positioning. Notably, KM encompasses the processes of knowledge acquisition, dissemination, and utilisation, which collectively enhance an organisation's ability to generate and apply insights (Ngoc-Tan & Gregar, 2018). On the other hand, innovative capacity refers to a firm's ability to develop new products, services, processes, or business models that drive performance outcomes (Khraishi *et al.*, 2022).

Knowledge acquisition involves the identification and assimilation of external and internal knowledge, which serves as a foundation for innovation (Idrees *et al.*, 2023). For instance, firms that

actively acquire market intelligence and technological insights are better positioned to identify opportunities and threats, thereby enhancing their innovative potential (He *et al.*, 2013). Knowledge dissemination, which entails the sharing of information across organisational units, fosters collaboration and creative problem-solving (Khoa & Huynh, 2024; Mikulecký & Mikulecka, 1999). Finally, knowledge utilisation emphasises the practical application of insights to develop solutions that address business challenges, making it a crucial driver of innovation (Wach *et al.*, 2018). Together, these dimensions of KM strengthen a firm’s absorptive capacity and innovative capacity, enabling it to achieve superior performance in dynamic markets (Bui, 2024).

As a derivative of KM, innovative capacity plays a pivotal role in translating knowledge into tangible business outcomes. The development of eco-friendly products, the adoption of advanced manufacturing processes, and the creation of new business models exemplify how innovative capacity contributes to sustainability and competitive advantage (Ávila, 2021; Liu *et al.*, 2019). Moreover, innovative capacity is intricately linked to corporate diplomacy, as firms with stronger innovative capabilities are often better equipped to engage stakeholders and build legitimacy. For example, innovative firms can leverage their technological advancements to establish credibility with host-country regulators, thereby enhancing the effectiveness of corporate diplomacy (Hartwell & Ursprung, 2024). This study proposed the research model as Figure 1.

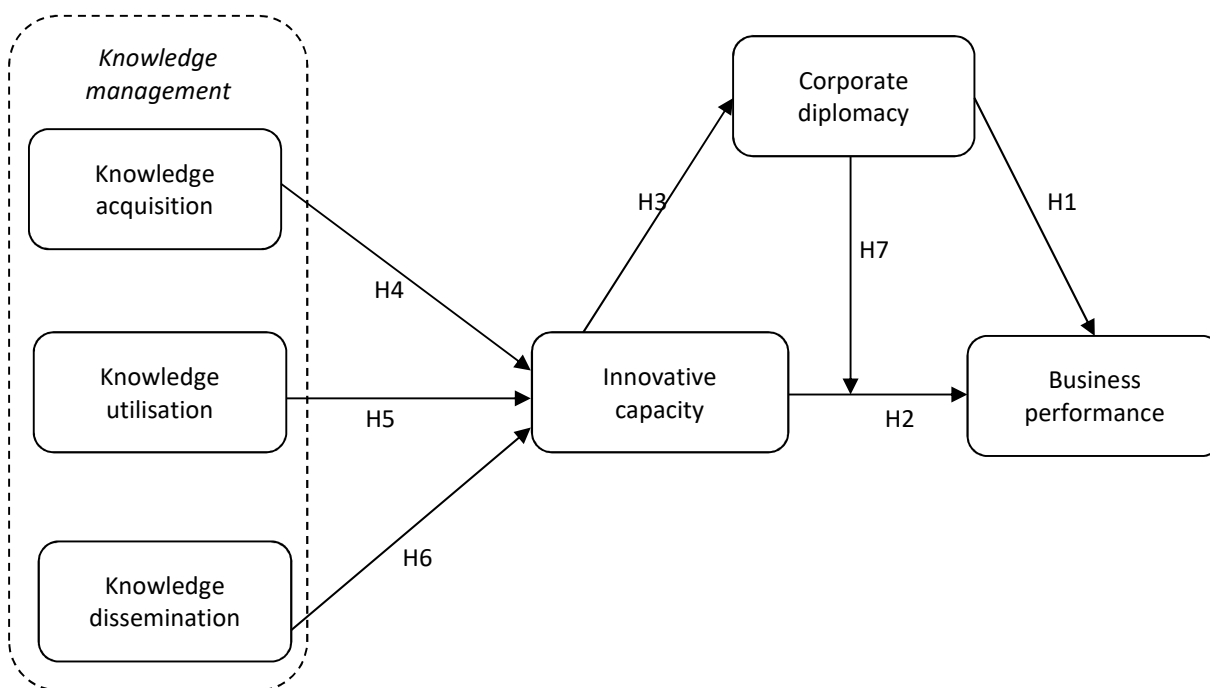


Figure 1. Research model
Source: own elaboration.

Research Hypotheses Development

Research has empirically linked corporate diplomacy to enhanced business performance through its capacity to address the liability of outsidership and secure legitimacy in host markets. By building relationships with critical stakeholders such as host-country regulators and local business partners, corporate diplomacy enables MNCs to access essential resources and navigate institutional complexities (Egea *et al.*, 2020). For instance, host-regulator-oriented diplomacy provides firms with regulatory insights and political legitimacy, which are crucial for reducing operational uncertainties and fostering market acceptance (Li *et al.*, 2017). Similarly, host-partner-oriented diplomacy facilitates resource acquisition and market integration by fostering trust and cooperation with local exchange partners (Najaf & Najaf, 2021). These mechanisms collectively enhance subsidiary performance, as evidenced by Jiang *et al.* (2024), who found that corporate diplomacy significantly improves sales growth, profitability, and return on investment in foreign subsidiaries. Therefore, we proposed H1:

H1: Corporate diplomacy positively impacts business performance.

Innovative capacity constitutes a critical determinant of business performance, as it enables firms to develop new products, services, and processes that meet evolving market demands. Drawing on the RBV, innovative capacity constitutes a unique and inimitable resource that drives competitive advantage and value creation (Barney, 1991). Empirical studies have demonstrated the positive impact of innovation on financial and operational outcomes. For example, Truong and Nguyen (2024) found that firms with high innovative capacity achieve superior environmental and financial performance by introducing eco-friendly products and processes. Similarly, Akhtar *et al.* (2024) highlighted the role of green innovation in enhancing market differentiation and customer satisfaction. These findings underscore the strategic importance of innovative capacity in achieving business success. Hence, we hypothesised:

H2: Innovative capacity positively impacts business performance.

Innovative capacity enhances a firm's ability to engage stakeholders and build legitimacy, thereby strengthening its corporate diplomacy efforts. Firms with strong innovative capabilities are better positioned to demonstrate their value to host-country regulators, local partners, and expatriate compatriots. For instance, innovative firms can leverage their technological advancements to establish credibility and gain regulatory support (Henisz, 2016). Moreover, the development of unique and sustainable solutions enhances a firm's reputation and facilitates trust-based relationships with stakeholders (Yiu & Saner, 2017). These dynamics suggest that innovative capacity serves as a foundation for effective corporate diplomacy. Therefore, we proposed H3:

H3: Innovative capacity positively impacts corporate diplomacy.

Knowledge acquisition constitutes a foundational element of knowledge management that enables firms to identify and obtain critical information that drives innovation. Firms that invest in acquiring external knowledge, such as market insights or technological advancements, are better equipped to generate novel ideas and solutions (Khraishi *et al.*, 2022; Weisha, 2021). For instance, partnerships with external stakeholders can provide access to new knowledge domains, fostering creativity and innovation. The application of acquired and disseminated knowledge is crucial for translating innovative ideas into tangible outcomes. Knowledge utilisation enables firms to align their resources with strategic goals, fostering the development of new products, processes, or business models (Wach *et al.*, 2018). Duong *et al.* (2022) highlight that effective knowledge utilisation enhances organisational agility, enabling firms to respond proactively to market opportunities. Knowledge dissemination facilitates the internal sharing of acquired knowledge, promoting collaboration and cross-functional integration. This process ensures that all organisational units are aligned and equipped to contribute to innovation initiatives (Bui, 2024). By fostering a culture of knowledge sharing, firms can enhance their innovative capacity and drive organisational performance. Hence, we hypothesised:

H4: Knowledge acquisition positively impacts innovative capacity.

H5: Knowledge utilisation positively impacts innovative capacity.

H6: Knowledge dissemination positively impacts innovative capacity.

Corporate diplomacy amplifies the impact of innovative capacity on business performance by shaping favourable external conditions, such as regulatory support and market access (Jiang *et al.*, 2024; Tran, 2024). Firms that engage in corporate diplomacy are better positioned to leverage their innovative capacity for competitive advantage and long-term performance. Corporate diplomacy can enhance the positive impact of innovative capacity on business performance by building trust and credibility with stakeholders. By showing dedication to ethical and sustainable business practices, firms can enhance their reputation and attract customers, investors, and partners, which ultimately contributes to improved business performance (Yiu & Saner, 2017). The effectiveness of innovative capacity in driving business performance may be contingent upon the moderating role of corporate diplomacy. By building relationships with key stakeholders, corporate diplomacy enhances a firm's ability to capitalise on its innovative capabilities (Salvi & Ruël, 2022). Specifically,

compatriot-oriented diplomacy is hypothesised to be the most effective mechanism due to the inherent benefits of shared culture, trust, and accelerated communication, which efficiently transfers readily usable tacit knowledge. Furthermore, we hypothesise specific interaction effects that define the nuances of the moderating mechanism. First, compatriot-oriented diplomacy and host-partner-oriented diplomacy are expected to exhibit a negative joint effect (substitution) on performance, as both aim to acquire similar market resources and business legitimacy, resulting in diminishing marginal returns or redundancy when both efforts are high (Jiang *et al.*, 2024a; 2024b). Secondly, compatriot-oriented diplomacy and host-regulator-oriented diplomacy are expected to show a positive joint effect (complementarity) on performance, as the politically derived resources (regulatory knowledge, political legitimacy) acquired through the regulator channel are distinct and non-substitutable by compatriot networks. Instead, compatriots can serve as effective intermediaries to officials, maximising the combined impact. This multi-faceted mechanism, rooted in cultivating social capital, demonstrates how corporate diplomacy moderates the efficacy of innovative capacity by optimising access to external support and managing strategic tensions among stakeholder demands (Ingenhoff & Marschlich, 2019). These dynamics suggest that corporate diplomacy amplifies the impact of innovative capacity on business performance. Therefore, we hypothesised:

- H7:** Corporate diplomacy moderates the relationship between innovative capacity and business performance.

RESEARCH METHODOLOGY

Measurement Scale

We captured knowledge management (KM across three dimensions: knowledge acquisition (KAC; 5 items; *e.g.*, 'Our firm often gathers intelligence about competitors' activities'), reflecting the ability to gather knowledge internally and externally (Ngoc-Tan & Gregar, 2018); knowledge utilisation (KUT; 5 items; *e.g.*, 'We effectively incorporate acquired knowledge into our decision-making processes'), focusing on applying knowledge for problem-solving and improved performance (Duong *et al.*, 2022); and knowledge dissemination (KDI; 4 items; *e.g.*, 'We ensure that knowledge is shared systematically across departments'), measuring knowledge sharing within the organisation (Khoa & Huynh, 2023). Innovative capacity (ICA; 5 items; *e.g.*, 'Our firm develops new and unique products tailored to global markets') assessed the firm's ability to create new offerings (Fidel *et al.*, 2018). Corporate diplomacy (CDI; 5 items; *e.g.*, 'We actively engage with host-country regulators to build positive relationships') measured stakeholder relationship management (Jiang *et al.*, 2024). Finally, we evaluated business performance (BP; 3 items; *e.g.*, 'Our firm's sales growth has exceeded that of major competitors') relative to competitors, considering sales growth, profit margins, and return on investment (Khoa, 2023). We assessed the reliability and validity of these scales through confirmatory factor analysis (CFA) and internal consistency tests. We rated each construct on a 5-point Likert scale, ranging from 1 ('Strongly Disagree') to 5 ('Strongly Agree'), ensuring a robust evaluation of the relationships between knowledge management, innovative capacity, business performance, and the moderating role of corporate diplomacy.

Sample and Data Collection

We employed a quantitative research design targeting senior and middle managers from multinational corporations (MNCs) operating across multiple countries. We constructed the sampling frame using databases from international business associations and chambers of commerce, focusing on MNCs with significant international operations.

We used a stratified random sampling technique to ensure representation across different industries and geographical regions. We administered the survey online using the Qualtrics platform between October 2023 and January 2024. Following the approach of Yiu and Saner (2017), this study targeted respondents with at least three years of experience in their current organisation and direct involvement in international operations. To minimise common method bias, we implemented several procedural remedies:

1. We used different response formats for different sections.
2. We randomised the question order.
3. We guaranteed respondent anonymity.
4. We created a psychological separation between predictor and criterion variables.

We distributed the survey to 413 potential respondents. We strategically selected multinational corporations (MNCs) from the manufacturing, services, and technology sectors as these industries face a strong need for corporate diplomacy to translate their innovative capacity into superior business performance. The manufacturing sector faces acute demands for sustainability and green innovation due to its substantial resource consumption and environmental impact, making corporate diplomacy essential for securing operational and political legitimacy from local partners and regulators (Szegeedi *et al.*, 2025). Innovation inherently drives the technology (High-Tech) sector, yet its performance is highly susceptible to external non-market turbulence, such as political risks and techno-nationalism. High-tech MNEs rely on corporate diplomacy as a dynamic capability to manage these complex geopolitical forces and coordinate global strategies, ensuring innovation efforts successfully circumvent institutional barriers. Finally, the services sector must overcome the inherent liability of outsidership by deeply embedding itself in local economies. Service MNEs utilise corporate diplomacy, often through robust corporate social responsibility and host-partner-oriented diplomacy, to cultivate trust, acquire an ‘institutional role,’ and gain a competitive edge in diverse regulatory environments. Therefore, these three sectors offer distinct contexts from physical resource management to geopolitical risk and market embeddedness to comprehensively study the moderating influence of corporate diplomacy on innovation outcomes.

After two follow-up reminders, we received 234 responses (56.7% response rate). Following data cleaning and removal of incomplete responses, we retained 208 valid responses for analysis, exceeding the minimum sample size requirement for structural equation modelling (Hair Jr *et al.*, 2016). To assess non-response bias, we compared early and late respondents using t-tests on key variables, showing no significant differences. Additionally, we conducted Harman’s single-factor test to check for common method variance, with the unrotated factor solution accounting for less than 50% of the variance, suggesting common method bias was not a significant concern. The sample demonstrated good representation across management levels, industries, and geographical regions. The majority of respondents (78.4%) have more than five years of experience in their current organisation, suggesting they possess sufficient knowledge about their organisation’s practices and capabilities. Table 1 presents the demographic profile of the respondents.

Table 1. Respondent Profile

Characteristic	Category	Frequency	Percentage
Position level	Senior management	73	35.1%
	Middle management	135	64.9%
Industry sector	Manufacturing	82	39.4%
	Services	76	36.5%
	Technology	50	24.1%
Experience	3-5 years	45	21.6%
	6-10 years	98	47.1%
	>10 years	65	31.3%
Home country	Asia-Pacific	89	42.8%
	Europe	62	29.8%
	Americas	57	27.4%

Source: own study.

RESULTS AND DISCUSSION

Measurement Scale

We evaluated the measurement model using convergent validity, discriminant validity, and internal consistency reliability to ensure the reliability and validity of the constructs used in this study. We employed the partial least squares structural equation modelling (PLS-SEM) and analysed using Smart-PLS software. Convergent validity was assessed through three metrics: Cronbach’s Alpha (α), composite reliability (CR), and average variance extracted (AVE). Cronbach’s Alpha measures internal consistency, with values above 0.7 indicating acceptable reliability. Composite reliability (CR) evaluates the reliability of the construct as a whole, with a threshold of 0.7. AVE measures the proportion of variance captured by the construct relative to the variance due to measurement error, with values above 0.5 considered adequate (Hair *et al.*, 2010). Furthermore, we assessed the outer loadings of the individual items, with values above 0.7 generally considered acceptable (Hair *et al.*, 2019). Table 2 summarises the results for each construct. All constructs demonstrated satisfactory levels of convergent validity. Cronbach’s Alpha (CA) values ranged between 0.793 and 0.916, indicating high internal consistency for all constructs. Similarly, the CR values ranged between 0.880 and 0.934, exceeding the threshold of 0.7, and AVE values ranged between 0.594 and 0.881, confirming that more than 50% of the variance in indicators was explained by the respective latent variables. Outer loadings for all items were above 0.7, further supporting the reliability of the measurement model.

Table 2. Convergent validity results

Construct	CA	CR	AVE	Outer Loading
Knowledge acquisition (KAC)	0.835	0.884	0.604	0.716-0.821
Knowledge utilisation (KUT)	0.830	0.880	0.594	0.715-0.804
Knowledge dissemination (KDI)	0.793	0.866	0.617	0.771-0.806
Innovative capacity (ICA)	0.906	0.930	0.726	0.840-0.866
Corporate diplomacy (CDI)	0.916	0.934	0.881	0.927-0.956
Business performance (BP)	0.901	0.918	0.835	0.907-0.925

Source: own study.

We evaluated discriminant validity through the Fornell-Larcker criterion and the heterotrait-mono-trait (HTMT) ratio. The Fornell-Larcker criterion requires that the square root of AVE for each construct surpasses its correlation with other constructs. Furthermore, HTMT values below 0.85 indicate acceptable discriminant validity (Henseler *et al.*, 2014). Table 3 summarise the results. The Fornell-Larcker criterion confirmed discriminant validity, as the square root of AVE for each construct exceeded its correlations with other constructs. Moreover, HTMT values were below 0.85 for all construct pairs, further supporting discriminant validity. These results indicate that each construct was distinct and measured a unique dimension of the research model.

Table 3. Discriminant validity results

Variable	Fornell-Larcker criterion results						HTMT criterion results					
	BP	CDI	ICA	KAC	KDI	KUT	BP	CDI	ICA	KAC	KDI	KUT
BP	0.914											
CDI	0.437	0.938					0.464					
ICA	0.704	0.455	0.852				0.774	0.485				
KAC	0.463	0.200	0.627	0.777			0.531	0.221	0.717			
KDI	0.451	0.053	0.591	0.631	0.785		0.532	0.093	0.695	0.774		
KUT	0.551	0.331	0.686	0.634	0.574	0.771	0.626	0.371	0.783	0.759	0.701	

Source: own study.

Structural Model

We assessed the structural model through evaluation of R^2 , f^2 , Q^2 , variance inflation factors (VIF), and path coefficients to assess the relationships among the constructs. We used Smart-PLS software for the PLS-SEM analysis.

The R^2 values indicate the proportion of variance explained by the independent variables, while Q^2 values assess the predictive relevance of the model. Table 4 presents the R^2 and Q^2 results. The R^2 values indicated that knowledge management dimensions (KAC, KUT, KDI) explained 55.4% of the variance in innovative capacity, while innovative capacity and corporate diplomacy explained 55.6% of the variance in business performance, and innovative capacity explained 20.7% of the variance in corporate diplomacy. Moreover, Q^2 values exceeded zero for all constructs, confirming the model's predictive relevance (Hair *et al.*, 2017).

Table 4. R^2 and Q^2 Values

Construct	R^2	Q^2
Innovative Capacity (ICA)	0.554	0.397
Business Performance (BP)	0.556	0.446
Corporate Diplomacy (CDI)	0.207	0.180

Source: own study.

We assessed the variance inflation factor (VIF) values to ensure no multicollinearity among the predictor variables. Noteworthy, VIF values below 5 indicate acceptable levels of collinearity (Hair *et al.*, 2011). Table 5 presents the VIF results and f^2 value. All VIF values were below 5, indicating no significant collinearity issues among the predictor variables in the structural model. The PLS-SEM analysis in Table 5 revealed that knowledge utilisation had the most substantial impact on innovative capacity, exhibiting a medium effect size ($f^2 = 0.220$), while knowledge acquisition and dissemination demonstrated more negligible effects ($f^2 = 0.059$ and 0.050 , respectively). As expected, innovative capacity itself strongly influenced business performance, with a large effect size ($f^2 = 0.489$). Interestingly, innovative capacity also had a medium-sized effect on corporate diplomacy ($f^2 = 0.261$), suggesting a link between innovation and diplomatic engagement. While corporate diplomacy's direct impact on business performance was relatively small ($f^2 = 0.073$), its primary role was a negative moderator of the innovation-performance relationship, a previously discussed finding. These results underscore the importance of knowledge utilisation for driving innovation and, ultimately, business performance, while also highlighting the complex interplay between innovation, corporate diplomacy, and firm success.

Table 5. Collinearity (VIF) and f^2 results

Relationship	VIF	f^2	Effect Size
KAC → ICA	2.033	0.059	Small
KUT → ICA	1.827	0.220	Medium
KDI → ICA	1.814	0.050	Small
ICA → BP	1.419	0.489	Large
ICA → CDI	1.000	0.261	Medium
CDI → BP	1.348	0.073	Small

Source: own study.

We conducted the path analysis to evaluate the hypothesised relationships between knowledge management dimensions (KAC, KUT, KDI), innovative capacity (ICA), business performance (BP), and the moderating effects of corporate diplomacy (CDI). The analysis used partial least squares structural equation modelling (PLS-SEM) in Smart-PLS software to generate path coefficients, t-values, and p-values and assess the significance of the relationships and the strength of the moderating effects.

The results in Table 6 show that all the direct relationships between knowledge management dimensions (KAC, KUT, KDI) and ICA were positive and statistically significant. The strongest predictor of

ICA was KUT with a path coefficient of $\beta = 0.423$, $t = 6.241$, $p < 0.001$, followed by KAC with $\beta = 0.232$, $t = 3.382$, $p < 0.01$, and KDI with $\beta = 0.202$, $t = 2.915$, $p < 0.01$. These findings highlight the importance of effectively acquiring, utilising, and sharing knowledge to enhance the firm’s ICA. Furthermore, the relationship between ICA and BP was also significant ($\beta = 0.555$, $t = 13.805$, $p < 0.001$), indicating that innovation-driven organisations achieve superior business outcomes. This result aligns with prior research emphasising the critical role of innovation in driving organisational success (Chen & Chang, 2013). Moreover, ICA positively impacts CDI ($\beta = 0.455$, $t = 8.965$, $p < 0.001$), and CDI has a positive effect on the BP ($\beta = 0.209$, $t = 3.9$, $p < 0.001$).

Table 6. Path coefficients and hypothesis testing

Hypotheses	Path Coefficient (β)	t-value	p-value	Result
KAC -> ICA	0.232	3.382	0.001	Yes
KUT -> ICA	0.423	6.241	0.000	Yes
KDI -> ICA	0.202	2.915	0.004	Yes
ICA -> BP	0.555	13.805	0.000	Yes
CDI -> BP	0.209	3.900	0.000	Yes
ICA -> CDI	0.455	8.965	0.000	Yes
mod_ICA_BP -> BP	-0.255	4.993	0.000	Yes

Source: own study.

We found that corporate diplomacy moderated the relationships between ICA and business performance significantly. The negative and significant path coefficient for the interaction term in Table 6 (mod_ICA_BP -> BP, $\beta = -0.255$) indicates that CDI negatively moderated the relationship between ICA and BP. This confirms the hypothesis of a negative moderating effect. This negative moderation implies that the positive effect of ICA on BP is weaker when CDI is high, as shown in Figure 2. While innovation is generally beneficial for performance, the benefits diminish when a firm engages in extensive corporate diplomacy.

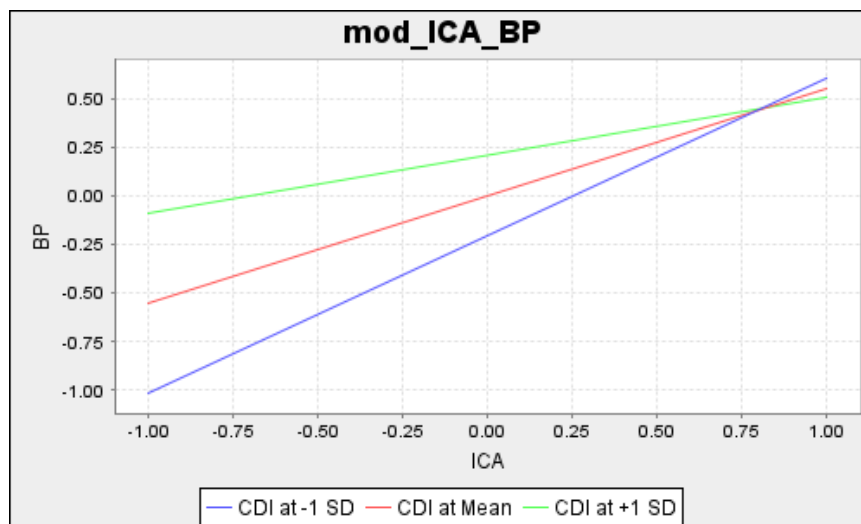


Figure 2. The moderating effect of corporate diplomacy on the relationships between innovative capacity and business performance

Source: own elaboration.

Discussions

We investigated the relationships between knowledge management, innovative capacity, and business performance in the global business environment, with corporate diplomacy serving as a moderating factor, as in Figure 3. The results validated the existing literature and extended prior research by underscoring corporate diplomacy’s pivotal role in enhancing knowledge management practices’ effectiveness and translating innovative capacity into superior business outcomes.

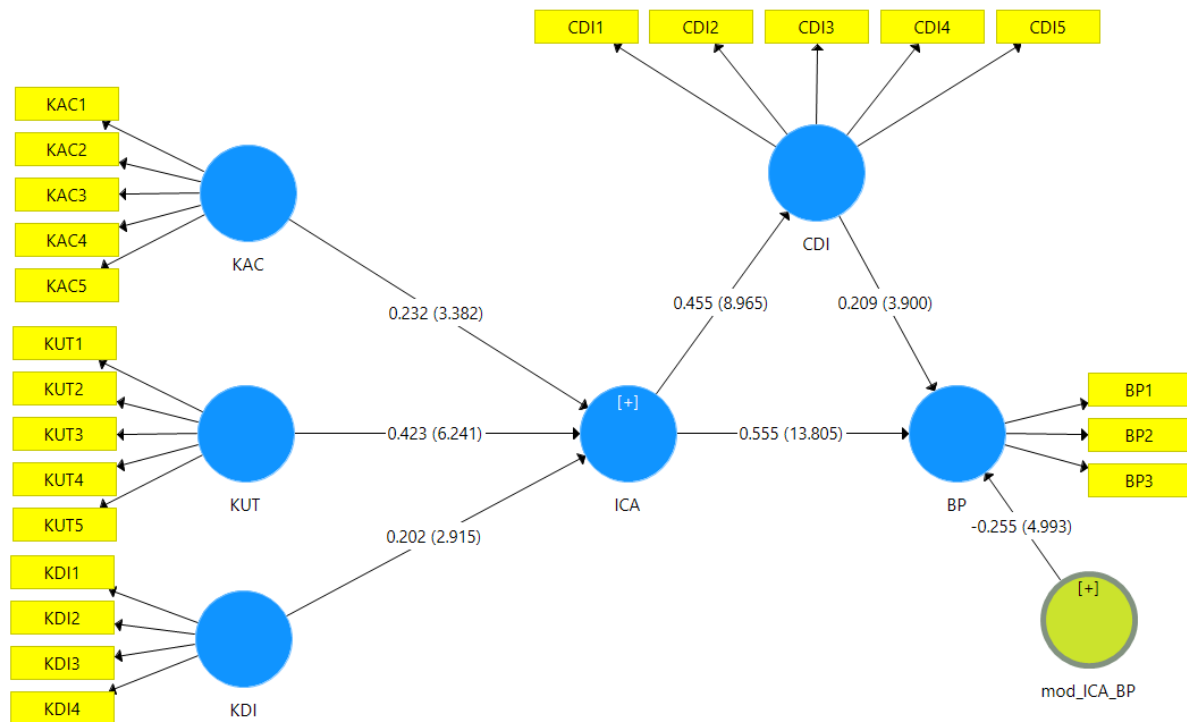


Figure 3. PLS-SEM results model

Source: own elaboration in SmartPLS.

Our findings are consistent with prior research that emphasises the significance of knowledge management as a critical driver of innovative capacity. We found that knowledge acquisition, utilisation, and dissemination all enhance innovative capacity significantly, mirroring the conclusions of Santoro *et al.* (2018), who highlighted the role of knowledge management processes in enhancing creativity and innovation. Specifically, our results align with their assertion that effective knowledge acquisition from external sources like partnerships and market research enhances a firm's ability to innovate. Similarly, Joseph (2023) demonstrated that the application of knowledge is instrumental in driving innovation, a finding corroborated by our study, which identified knowledge utilisation as the strongest knowledge management predictor of innovative capacity. Moreover, our findings reveal that knowledge dissemination is critical for fostering collaboration and promoting the diffusion of innovative practices within organisations. This supports the work of Bui (2024), who argued that internal knowledge-sharing mechanisms, such as training programs and cross-departmental collaborations, are essential for creating an innovative culture. By validating these relationships in the context of multinational corporations (MNCs), our study provides further evidence that knowledge management dimensions are indispensable for building innovative capacity and achieving competitive advantage.

The positive and significant relationship between innovative capacity and business performance observed in this study is consistent with prior research by Zeb *et al.* (2021), who posited that firms with strong innovative capacity are better equipped to introduce novel products, improve operational efficiency, and adapt to shifting market demands. Our findings also align with insights from Zhang *et al.* (2023), who emphasised the importance of innovation in contributing to the United Nations' Sustainable Development Goals (SDGs). In addition to improving profitability and market share, innovative capacity enables firms to engage in ethical and sustainable practices, thereby enhancing their reputational capital. Notably, this study reveals relatively high explanatory power ($R^2 = 0.548$) for the innovative capacity-business performance relationship, further supporting the proposition that innovation is a key determinant of business success in dynamic global markets. This finding adds to the growing body of literature that underscores the strategic importance of innovation as a source of sustainable competitive advantage in the resource-based view framework (Bhat *et al.*, 2024; Zhao *et al.*, 2024).

Innovative capacity and corporate diplomacy are intertwined drivers of business performance, particularly for multinational enterprises. A firm's ability to develop novel products, services, and processes (innovative capacity) creates potential value, but realising this potential often requires navigating complex international environments and building relationships with diverse stakeholders. This is where corporate diplomacy becomes crucial. By engaging in strategic stakeholder management and building sociopolitical capital, firms can gain access to new markets, secure critical resources, mitigate risks, and enhance their reputation (Egea *et al.*, 2020). Furthermore, innovative offerings can serve as valuable tools for corporate diplomacy, strengthening relationships with governments and communities, particularly in sectors with high social impact (Doh *et al.*, 2022). This synergistic interplay between innovation and diplomacy creates a virtuous cycle, where innovation generates value, diplomacy facilitates its capture, and enhanced performance fuels further investment in both capabilities.

The negative moderating effect of corporate diplomacy on the relationships between innovative capacity and business performance, constitutes a distinctive contribution of this study. The moderating effect of corporate diplomacy on the innovative capacity-business performance relationship further validates the work of Hartwell and Ursprung (2024), who argued that corporate diplomacy enhances credibility and stakeholder trust, which are crucial for translating innovation into business success. By engaging with governments, NGOs, and civil society organisations, firms can align their innovative efforts with broader societal goals, thereby creating value for both the business and its stakeholders. However, high levels of corporate diplomacy may divert resources (financial, human, and time) away from innovation activities, thus reducing the impact of innovation on performance (Jiang *et al.*, 2024). Moreover, a strong focus on diplomacy might encourage risk aversion, potentially hindering the implementation of radical innovations that could disrupt existing relationships. Firms might prioritise maintaining harmony over pursuing potentially disruptive innovations (Rajagopal, 2024). Extensive diplomatic efforts could shift the firm's focus away from market-oriented innovation towards building and maintaining relationships with stakeholders. This might lead to innovations that prioritise social or political objectives over market competitiveness. To maintain positive relationships, firms might compromise on the features or quality of their innovations, potentially limiting their market impact. While corporate diplomacy can enhance a firm's ability to operate effectively in global markets, theoretical perspectives suggest that excessive diplomatic engagement may actually attenuate the relationship between innovative capacity and business performance. Firstly, resource allocation theory (Barney, 1991) suggests that organisations possess finite resources that must be distributed across competing strategic activities. As corporate diplomacy intensifies, it consumes significant financial, human, and attention resources that might otherwise support innovation implementation. This resource diversion can constrain a firm's ability to translate innovative capacity into tangible performance outcomes, particularly when diplomatic activities expand beyond optimal levels (Ocasio, 1997).

Secondly, institutional theory provides a framework for understanding how excessive corporate diplomacy might constrain innovation's performance impact. As firms deepen their diplomatic engagements, they become increasingly embedded in institutional networks that demand conformity to established norms and practices (DiMaggio & Powell, 1983). This institutional isomorphism can generate strategic rigidities that impede the implementation of truly novel or disruptive innovations. While moderate institutional embeddedness provides the legitimacy necessary for innovation acceptance, excessive conformity pressure may lead firms to pursue incremental rather than transformative innovations, thereby reducing innovative capacity's performance impact (Henisz, 2016).

Recent corporate practices reflect the regulatory mechanisms identified in this study. The Huawei case exemplifies the successful employment of corporate diplomacy to safeguard innovation capacity and sustain performance amid geopolitical instability. Since the implementation of US sanctions in 2019, Huawei has augmented its collaborations with governments in the Middle East, Africa, and Latin America through scholarly investments, joint research and development centres, and global communication initiatives (Ambashi, 2020). These actions have empowered the organisation to bolster its institutional legitimacy and mitigate policy risks, thereby enabling it to maintain its innovation performance despite external constraints (Tang & Li, 2011; Kuo, 2024).

In contrast, the Apple case clearly illustrates the strategic trade-offs between innovation and diplomacy. Apple's deep dependence on the Chinese supply chain and regulatory environment has compelled it to engage in diplomacy to maintain favourable relations with the Chinese government, while shifting production to India and Vietnam to mitigate geopolitical risks (Chennai & Cupertino, 2022). Furthermore, Apple has recently intensified its exploration of investment avenues to establish most of its manufacturing and innovation hubs within the United States, aiming to avoid being caught between U.S.-China tensions (Vengattil, 2025).

These two cases reinforce the study's empirical findings that corporate diplomacy is a conditional capability which boosts innovation performance when balanced, but can undermine outcomes when it crosses a threshold or deviates from political direction.

While prior studies have explored the individual relationships between knowledge management, innovative capacity, and business performance, few have examined these constructs in an integrated framework or considered the moderating role of corporate diplomacy. For instance, Bhardwaj and Srivastava (2021); and Islam *et al.* (2022) emphasised the importance of knowledge management and innovation but did not account for the external environmental factors that influence these relationships. By incorporating corporate diplomacy as a moderating variable, this study bridges this gap and provides a more comprehensive understanding of how firms can leverage knowledge management and innovative capacity to achieve superior performance. Furthermore, this study contributes to the growing body of research on business diplomacy by empirically validating its impact on organisational outcomes. While Salvi and Ruël (2022) underscored the importance of corporate diplomacy in navigating complex global environments, our findings extend their work by demonstrating its moderating effects on knowledge management and innovation processes. This highlights the need for MNCs to integrate corporate diplomacy into their strategic frameworks to enhance their competitiveness and sustainability.

CONCLUSIONS

Theoretical Contributions

This study provides valuable insights into the complex interrelationships between knowledge management, innovative capacity, corporate diplomacy, and business performance in multinational corporations operating in Asian markets. Our analysis revealed that knowledge management practices, specifically knowledge acquisition, utilisation, and dissemination, significantly enhance firms' innovative capacity. Knowledge utilisation emerged as the strongest predictor ($\beta = 0.423$), followed by knowledge acquisition ($\beta = 0.232$) and dissemination ($\beta = 0.202$), collectively explaining 55.4% of the variance in innovative capacity.

The findings further demonstrate that innovative capacity strongly drives business performance ($\beta = 0.555$), confirming innovation's critical role in achieving competitive advantage. Corporate diplomacy also exhibits a positive direct effect on business performance ($\beta = 0.209$), suggesting that stakeholder relationship management contributes independently to organisational success. However, our most notable finding is the negative moderating effect of corporate diplomacy on the innovation-performance relationship ($\beta = -0.255$). This unexpected result indicates that while both innovation and diplomacy individually enhance performance, excessive diplomatic activities may diminish the performance benefits derived from innovation.

This study extends the RBV framework by incorporating corporate diplomacy as an external factor that complements and enhances the effectiveness of internal resources, such as knowledge management and innovative capacity. Traditional RBV perspectives emphasise the role of internal resources and capabilities in achieving competitive advantage. However, this research demonstrates that external factors, such as corporate diplomacy, can interact with and strengthen internal resources, providing a more comprehensive view of resource optimisation. By situating corporate diplomacy within the RBV framework, the study bridges the gap between internal resource management and external environmental factors, offering a more holistic perspective on how firms can achieve sustainable competitive advantage. This extension is particularly relevant in dynamic and

uncertain global environments, where external stakeholder relationships and geopolitical factors play a critical role in shaping organisational outcomes.

Another key contribution of this study lies in its empirical validation of corporate diplomacy as a critical variable in global business environments. While much of the existing literature on corporate diplomacy has been normative, focusing on its conceptual importance, this study provides robust evidence of its practical impact on organisational performance. By integrating corporate diplomacy into the relationships between innovative capacity and business performance, the study underscores the necessity for firms, particularly MNCs, to adopt a dual focus on internal resources and external stakeholder engagement. This empirical contribution extends the understanding of corporate diplomacy beyond its traditional domains, such as public affairs and corporate social responsibility, situating it as a strategic enabler of innovation and performance.

The study provides a significant contribution to the knowledge management and innovation literature by empirically demonstrating the interconnectedness of knowledge management dimensions and their collective influence on innovation outcomes. While previous research has often focused on individual knowledge management practices or isolated elements of innovation, this study provides a comprehensive framework that aligns these constructs. By identifying the distinct yet complementary roles of knowledge acquisition, utilisation, and dissemination in boosting innovative capacity, the research highlights the importance of a balanced approach to knowledge management practices. Furthermore, the findings provide new insights into the mechanisms through which knowledge management practices translate into enhanced business performance, offering actionable guidance for both scholars and practitioners.

Finally, this study emphasises the strategic importance of integrating internal resources (knowledge management and innovative capacity) with external factors (corporate diplomacy) to achieve superior performance in global business environments. This dual focus addresses a critical gap in the literature, where studies have traditionally either concentrated on internal capabilities or external environmental factors. By demonstrating the interactive effects of knowledge management, innovative capacity, and corporate diplomacy, the study provides a robust framework for understanding how firms can navigate the complexities of global markets. This contribution is particularly relevant for MNCs, which operate in environments characterised by high levels of uncertainty, competition, and geopolitical challenges.

Managerial Implications

The findings of this study provide actionable insights for managers, policymakers, and practitioners operating in global business environments. By highlighting the interplay between knowledge management, innovative capacity, business performance, and corporate diplomacy, this research offers practical strategies to enhance organisational competitiveness and sustainability.

Managers in multinational corporations must prioritise the systematic implementation and optimisation of knowledge management practices to enhance their innovative capacity. Specifically, firms should develop mechanisms to acquire external knowledge through strategic alliances, partnerships, and market research. This includes monitoring technological trends, understanding customer needs, and identifying opportunities in competitive markets. Moreover, firms can encourage the application of acquired knowledge by integrating insights into product development, business processes, and problem-solving. Managers should create an environment where knowledge is actively utilised to generate value. The managers foster cross-departmental collaboration and knowledge-sharing by implementing platforms such as intranets, training programs, and knowledge repositories. These systems ensure that knowledge flows seamlessly across the organisation, driving collective innovation efforts.

The study underscores the critical role of corporate diplomacy in moderating the relationships between innovative capacity and business performance. Managers must integrate corporate diplomacy into their strategic frameworks by building trust-based relationships with governments, non-governmental organisations, civil society, and local communities. These relationships can help firms navigate regulatory challenges, mitigate geopolitical risks, and access valuable resources. They need to train senior executives and managers in corporate diplomacy skills such as negotiation, cultural intelligence,

and stakeholder management. These capabilities enable firms to operate more effectively in diverse and dynamic environments. Furthermore, they can use corporate diplomacy to advocate for policies and initiatives that support innovation, such as government incentives for research and development, infrastructure development, and intellectual property protection.

Secondly, while investing in corporate diplomacy activities yields direct performance benefits through enhanced stakeholder relationships and reduced institutional friction, managers must carefully calibrate their diplomatic investments. Our findings suggest firms should pursue a balanced approach, engaging in sufficient diplomacy to secure operational legitimacy and market access, but not to the extent that it diverts critical resources from innovation or creates organisational inertia that undermines the implementation of innovative initiatives. Specifically, managers should consider corporate diplomacy as complementary to, rather than a substitute for, innovation strategies. Diplomatic efforts should be strategically aligned with innovation objectives, targeting stakeholders who can facilitate market acceptance of innovations rather than pursuing broad relationship-building that may not translate to performance gains. This balanced approach ensures firms capture both the direct benefits of diplomacy and the full performance impact of their innovative activities.

The study emphasises the pivotal role of innovative capacity in driving business performance. Managers should take strategic actions to maximise the impact of innovation on organisational success, including allocating sufficient resources to research and development activities to foster the development of novel products, services, and processes. This includes adopting emerging technologies such as artificial intelligence and data analytics to enhance innovation outcomes. Creating an organisational culture that encourages creativity, experimentation, and risk-taking. This involves empowering employees to contribute new ideas, rewarding innovation, and ensuring leadership commitment to innovative initiatives. They must use corporate diplomacy to secure external support for innovation, such as government grants, cross-sector collaborations, or access to international markets. Corporate diplomacy can also help firms mitigate external risks that may hinder innovation efforts, such as regulatory barriers or geopolitical instability.

Limitations and Future Research

This research has several limitations that should be acknowledged. Firstly, the cross-sectional design limits our ability to establish causal relationships between constructs. The relationships identified may evolve differently over time, particularly as firms develop deeper stakeholder relationships. Secondly, relying on single-source data from individual respondents within each firm introduces potential common method bias, despite our statistical controls. Thirdly, we operationalised corporate diplomacy as a unidimensional construct, potentially overlooking the nuanced effects of its different dimensions (host-partner, host-regulator, and compatriot-oriented diplomacy). A significant limitation of this study is that we measured business performance exclusively through three self-reported Likert-scale items assessing perceived performance relative to competitors, rather than through objective financial metrics. This approach introduces potential biases, as respondents may overestimate their organisation's performance due to social desirability or limited visibility into competitors' actual results. The subjective nature of these measures makes it difficult to validate the magnitude of performance effects or distinguish between different performance dimensions (financial, market, operational). Furthermore, the absence of objective performance data limited our ability to determine whether the observed moderating effect of corporate diplomacy translates into measurable financial outcomes that would interest shareholders and other stakeholders. Finally, we did not test for measurement invariance across industries or regional contexts, which may limit the generalisability of our findings across diverse business environments.

Several promising avenues for future research emerge from this study. Researchers should apply the Johnson-Neyman technique to identify the specific threshold at which corporate diplomacy begins to negatively moderate the innovation-performance relationship, providing more precise guidance for managerial decision-making. Future studies should also disaggregate corporate diplomacy into its constituent dimensions to determine which aspects most significantly influence the innovation-performance relationship. To address the limitations in performance measurement, future studies should

incorporate objective financial indicators from annual reports or financial databases (e.g., ROI, sales growth, market share) alongside subjective measures. This multi-method approach would enhance measurement validity and provide more robust evidence regarding the economic impact of knowledge management, innovation, and corporate diplomacy. Furthermore, multi-group analyses comparing the model across different industries, firm sizes, and regional contexts would enhance understanding of when and where the moderating effect is most pronounced.

Researchers should also consider employing multi-source data collection by gathering performance assessments from multiple stakeholders within each organisation and external industry analysts to mitigate common method bias. Moreover, longitudinal research designs tracking both perceptual and objective performance measures over time would not only establish causality more convincingly but also reveal whether the negative moderating effect of corporate diplomacy on the innovation-performance relationship affects short-term versus long-term performance differently. Furthermore, developing more nuanced performance measures that distinguish between financial, operational, market, and sustainability dimensions would provide deeper insights into which specific aspects of business performance are most affected by the interplay between innovation and corporate diplomacy. Finally, qualitative case studies exploring the mechanisms underlying the negative moderation effect would provide richer insights into the practical tensions between innovation implementation and diplomatic activities. By addressing these research directions, scholars can advance theoretical understanding of how firms can optimise the integration of innovative capacity and corporate diplomacy to achieve sustainable competitive advantage in complex global markets.

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Use of Artificial Intelligence

The manuscript is free of AI/GAI usage.

Conflict of Interest

The authors declare that the research was conducted in the absence of any commercial or financial relationships that could be construed as a potential conflict of interest.

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