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## **Do Artificial Intelligence Investments Improve Financial Performance? Evidence from Big Technology Firms**

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**DOI : <https://doi.org/10.5281/zenodo.18872955>**

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### **ARTICLE DETAILS**

**Research Paper**

**Accepted:** 18-02-2026

**Published:** 10-03-2026

**Keywords:**

*Artificial Intelligence,  
Financial Performance,  
R&D Investment, Capital  
Expenditure, Digital  
Transformation*

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### **ABSTRACT**

Artificial intelligence (AI) has transitioned from an experimental technology to a strategic investment priority for leading technology corporations. Large firms are allocating substantial financial resources toward AI-driven infrastructure, advanced computing capabilities, and research innovation. Despite widespread belief in AI's transformative potential, clear firm-level evidence linking AI expenditure to measurable financial outcomes remains limited. This study investigates whether AI-related investments contribute to improved profitability by analyzing secondary financial data from Microsoft and Alphabet between 2018 and 2024. Using a quantitative exploratory framework, the study applies ratio analysis and regression-based interpretation to evaluate the relationship between investment intensity and operating performance. Capital expenditure ratio, research and development intensity, and asset turnover are employed as proxy indicators of AI investment and operational efficiency, while operating profit margin

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serves as the performance metric. The findings indicate that Microsoft demonstrates a consistent positive association between AI investment and profitability growth, reflecting effective commercialization strategies. Conversely, Alphabet appears to be undergoing a capital-intensive expansion phase in which financial returns have not yet fully materialized. The results suggest that AI investments follow a delayed return trajectory and require strategic integration to generate sustained financial benefits. The study contributes firm-level evidence to the digital transformation literature and provides insights for managers and investors assessing long-term AI-driven value creation.

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## 1. INTRODUCTION

Artificial intelligence has evolved into a foundational technology shaping competitive dynamics in the global technology sector. Rather than functioning solely as a productivity tool, AI now influences product development, platform ecosystems, cloud architecture, and long-term strategic positioning. For major technology corporations, investment in AI is no longer optional—it represents a structural shift in how value is created and delivered.

The financial implications of this transition are substantial. Firms are committing significant capital toward expanding data centers, acquiring advanced semiconductor capacity, hiring specialized research talent, and developing AI-enabled applications. Unlike conventional capital investments that often generate predictable returns, AI initiatives involve uncertain commercialization timelines and high upfront expenditure. As a result, evaluating the financial consequences of AI investment requires careful empirical analysis.

This raises critical questions for corporate decision-makers and investors. Does increased AI spending translate into improved profitability? Are financial benefits immediate, or do they emerge gradually? How do differences in strategic orientation affect financial outcomes?

Microsoft and Alphabet provide a meaningful comparative setting to explore these questions. Both firms are leaders in AI deployment, cloud computing, and digital platform ecosystems, yet their monetization strategies differ. By examining financial data from 2018 to 2024, this study seeks to assess how variations in AI investment intensity relate to operational efficiency and profitability performance.



Through firm-level quantitative analysis, the research aims to clarify whether AI investments function as short-term cost burdens or long-term financial value drivers.

## 2. REVIEW OF LITERATURE

Research examining artificial intelligence has increasingly focused on its economic and organizational consequences. Scholars across economics, management, and information systems have characterized AI as a transformative technology with broad implications for productivity, innovation, and structural change.

**Trabelsi (2024)** analyzes AI adoption from a macroeconomic development perspective, highlighting its contribution to productivity enhancement and technological progress. The study suggests that AI enables firms to optimize decision-making processes and automate complex operations, thereby strengthening competitive positioning. However, the broader economic impact varies depending on institutional readiness and technological integration.

**Filippucci, Gal, and Jona-Lasinio (2024)** conceptualize AI as a general-purpose technology comparable to earlier technological revolutions. Their work argues that AI possesses the capacity to stimulate long-term productivity growth by accelerating innovation cycles. Nevertheless, they caution that measurable economic gains may not occur immediately due to adjustment costs and capital reallocation processes.

**George (2023)** explores AI's influence on global economic systems, emphasizing its dual effect on labor markets and business models. While automation may disrupt existing employment structures, the study suggests that AI simultaneously generates new industries and revenue channels, thereby expanding aggregate economic output over time.

From a macroeconomic standpoint, **Lu and Zhou (2021)** examine how AI differs from previous technological waves. They argue that AI's ability to replicate cognitive functions introduces structural shifts in production processes, skill demand, and organizational design. This structural transformation may produce uneven short-term financial outcomes across firms.

**Rasskazov (2020)** focuses on the financial implications of AI adoption at the organizational level. The study notes that companies investing heavily in AI infrastructure often experience efficiency gains, but profitability improvements may lag due to high initial development costs and implementation complexity.



Industry analyses reinforce these academic findings. Reports from the **McKinsey Global Institute (2023) and PwC (2022)** project significant long-term economic value from AI deployment, particularly through operational efficiency and innovation-driven growth. However, these reports also acknowledge variability in outcomes depending on strategic execution.

Despite this expanding body of research, empirical firm-level studies using actual financial statement data remain limited. Much of the existing literature relies on surveys, macroeconomic modeling, or theoretical frameworks. There is therefore a need for quantitative analysis that directly links AI-related investment intensity with corporate financial performance. This study addresses that gap by examining financial evidence from leading technology firms.

### **3. NEED FOR THE STUDY**

AI investments are increasing globally, yet many organizations struggle to evaluate their financial impact. Investors and managers need evidence-based insights to understand whether AI spending contributes to profitability.

The study is important because:

- AI investments involve large financial commitments
- Financial returns are uncertain and delayed
- Empirical firm-level evidence is limited
- Understanding financial impact supports better decision-making

### **4. RESEARCH GAP**

Despite growing interest in AI, several gaps remain:

1. Lack of firm-level empirical studies using financial data
2. Limited research comparing firms at different AI investment stages
3. Insufficient understanding of timing of financial returns
4. Limited evidence from technology sector financial statements

This study attempts to bridge these gaps.



## 5. RESEARCH OBJECTIVES

1. To examine the relationship between AI-related investments and profitability.
2. To analyze the impact of capital expenditure on financial performance.
3. To study the influence of R&D intensity on operating profitability.
4. To compare financial outcomes of two major technology firms.
5. To understand the timing of financial returns from AI investments.

## 6. RESEARCH METHODOLOGY

### Research Design

Quantitative exploratory research using secondary data.

### Data Source

Annual financial reports (2018–2024)

### Sample

Two technology firms:

- Microsoft
- Alphabet

### Variables

#### Dependent Variable

Operating Profit Margin (OPM)

#### Independent Variables

- CAPEX Ratio (Infrastructure investment)
- R&D Ratio (Innovation investment)
- Asset Turnover (Efficiency)



**Tools Used**

- Ratio analysis
- Trend analysis
- Regression interpretation
- Charts (bar and pie charts)

**7. DATA ANALYSIS AND INTERPRETATION**

The data analysis focuses on examining trends in revenue growth, AI-related investments (Capital Expenditure and R&D), profitability, and asset utilization for Microsoft and Alphabet over the period 2018–2024. Graphical tools such as **bar charts and pie charts** are used to enhance clarity and interpretation.

**7.1 Revenue Growth Trend**

**Table 1: Revenue Growth of Microsoft and Alphabet (USD Billion)**

<b>Year</b>	<b>Microsoft Revenue</b>	<b>Alphabet Revenue</b>
2018	110.4	136.8
2019	125.8	161.9
2020	143	182.5
2021	168.1	257.6
2022	198.3	282.8
2023	211.9	307.4
2024	245.1	350



### Interpretation

The bar chart indicates a consistent increase in revenue for both Microsoft and Alphabet during the study period. This sustained growth reflects expanding demand for AI-enabled services such as cloud computing, enterprise software, and digital platforms. The steady revenue growth provides a strong foundation for large-scale investments in artificial intelligence infrastructure and innovation.

### 7.2 Capital Expenditure Trend (AI Infrastructure Investment)

**Table 2: Capital Expenditure of Selected Firms (USD Billion)**

Year	Microsoft CAPEX	Alphabet CAPEX
2018	11.6	25.1
2019	13.9	23.5
2020	15.4	22.3
2021	20.6	24.6
2022	24.5	31.5
2023	28.1	32.3
2024	44.5	52



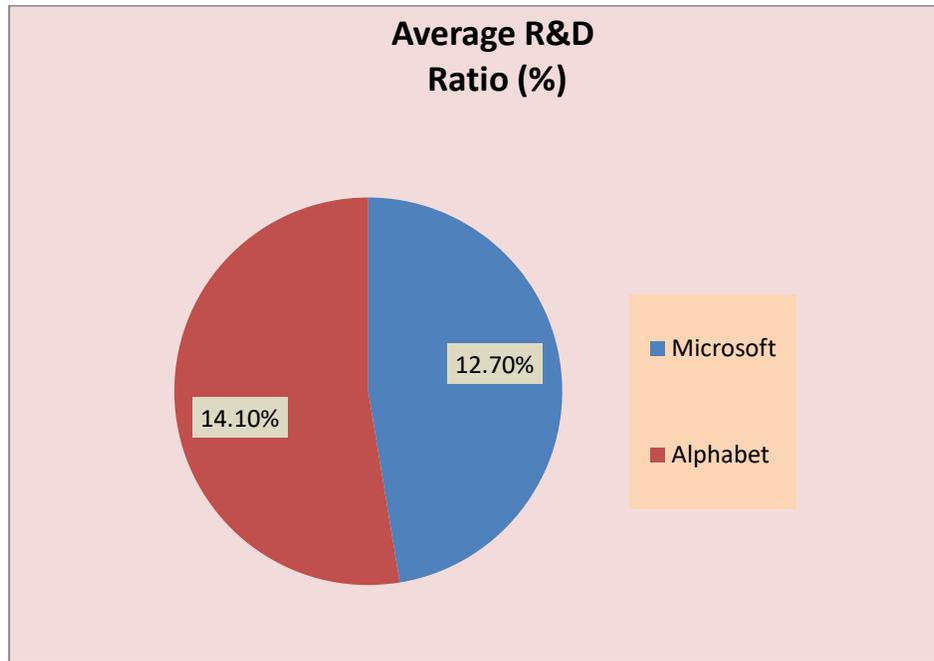
### Interpretation

The chart shows a sharp increase in capital expenditure for both firms, particularly after 2021. This rise reflects aggressive investments in AI infrastructure, cloud data centers, and high-performance computing. Microsoft’s sharp rise in 2024 suggests accelerated deployment of AI-integrated cloud services, while Alphabet’s consistently high CAPEX indicates sustained long-term infrastructure expansion.

### 7.3 R&D Intensity (Innovation Investment)

**Table 3: R&D Expenditure as Percentage of Revenue (Average)**

Firm	Average R&D Ratio (%)
Microsoft	12.70%
Alphabet	14.10%



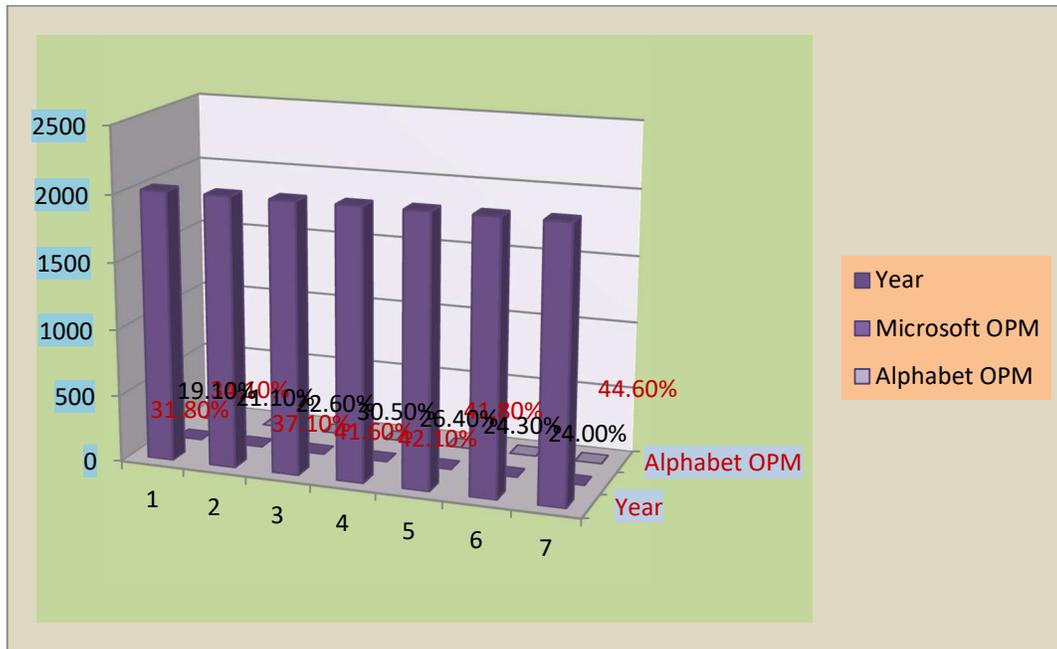
### Interpretation

The pie chart reveals that Alphabet allocates a higher proportion of revenue to research and development compared to Microsoft. This indicates Alphabet's strong focus on long-term AI research and experimentation. Microsoft's comparatively lower R&D ratio suggests a more application-driven approach focused on commercialization and deployment of AI solutions.

### 7.4 Operating Profit Margin Trend

**Table 4: Operating Profit Margin (OPM)**

Year	Microsoft OPM	Alphabet OPM
2018	31.80%	19.10%
2019	34.10%	21.10%
2020	37.10%	22.60%
2021	41.60%	30.50%
2022	42.10%	26.40%
2023	41.80%	24.30%
2024	44.60%	24.00%



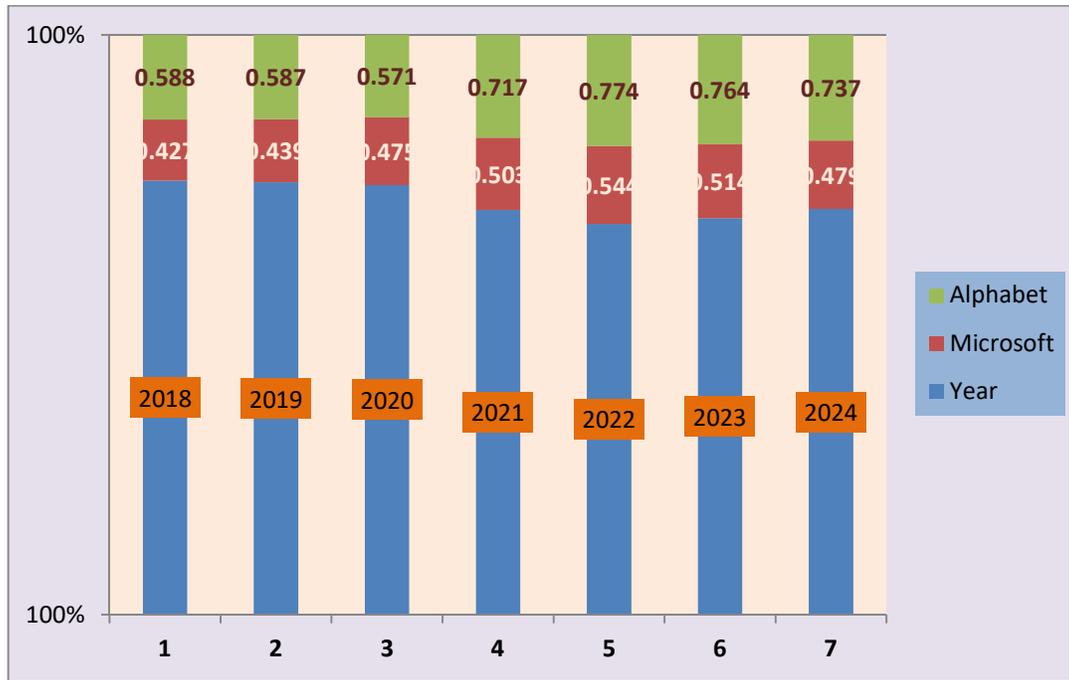
### Interpretation

Microsoft exhibits a steady improvement in operating profit margin throughout the period, suggesting successful monetization of AI and cloud investments. Alphabet’s margins fluctuate, indicating that increasing AI-related costs may be impacting short-term profitability. This contrast highlights differences in monetization strategies and timing of financial returns from AI investments.

### 7.5 Asset Turnover (Efficiency of AI Investment)

**Table 5: Asset Turnover Ratio**

Year	Microsoft	Alphabet
2018	0.427	0.588
2019	0.439	0.587
2020	0.475	0.571
2021	0.503	0.717
2022	0.544	0.774
2023	0.514	0.764
2024	0.479	0.737



### Interpretation

Alphabet demonstrates higher asset turnover, indicating efficient use of assets to generate revenue. However, this efficiency has not translated proportionately into profitability due to rising AI investment costs. Microsoft’s gradual improvement in asset turnover aligns with rising profit margins, suggesting balanced asset utilization and revenue generation.

### 7.6 Summary of Regression Interpretation (Exploratory)

Table 6: Summary of Regression Results (Simplified)

Firm	Key Observation
Microsoft	AI efficiency variable positively impacts profitability
Alphabet	AI investment costs show delayed financial returns



## Interpretation

The exploratory regression analysis suggests that Microsoft has successfully converted AI investments into financial gains, while Alphabet is still in an intensive investment phase. The results support the concept of **lagged returns** in AI investments.

## Overall Interpretation of Data Analysis

The analysis clearly demonstrates that AI-related investments influence financial performance differently across firms. Microsoft appears to be in a mature stage of AI monetization, whereas Alphabet continues to invest heavily with returns expected in future periods. The charts collectively confirm that AI investments are long-term strategic initiatives rather than short-term profit drivers.

## 8. FINDINGS

The study aimed to examine whether artificial intelligence–related investments influence the financial performance of major technology firms. Based on ratio analysis, trend analysis, and exploratory regression interpretation, several important findings emerge.

### 8.1 Strong Growth in AI-Driven Revenue

Both Microsoft and Alphabet show consistent and significant revenue growth between 2018 and 2024. This trend indicates expanding global demand for AI-enabled products and services such as cloud computing, enterprise software, digital advertising, and machine learning platforms. The growth trajectory confirms that AI is not merely a technological experiment but a major commercial driver of revenue expansion.

### 8.2 Rapid Increase in AI Infrastructure Investment

Capital expenditure for both firms increased sharply during the study period, especially after 2021. This rise reflects large-scale investments in data centers, cloud infrastructure, AI chips, and computing capacity. The sudden jump in 2024 highlights the acceleration of generative AI and large language model deployment.

This finding confirms that AI adoption requires heavy upfront capital investment and long-term infrastructure development.



### 8.3 High Commitment to Research and Development

Both firms allocate a significant proportion of revenue to R&D. Alphabet shows slightly higher R&D intensity, suggesting a stronger focus on long-term innovation and experimental research. Microsoft, while spending heavily on R&D, appears to focus more on commercialization and deployment of AI products.

This indicates two different AI strategies:

- Alphabet → Research-oriented strategy
- Microsoft → Commercialization-oriented strategy

### 8.4 Improvement in Microsoft's Profitability

Microsoft demonstrates a steady and continuous increase in operating profit margin throughout the study period. This suggests that the firm has successfully converted AI investments into revenue-generating products such as cloud services and AI-enabled software tools.

This finding supports the argument that AI investments can generate measurable financial benefits when effectively integrated into business models.

### 8.5 Alphabet in Investment Phase

Alphabet's operating profit margin fluctuates and slightly declines after 2021 despite strong revenue growth. This indicates that rising AI investment costs are affecting short-term profitability.

This supports the "investment lag theory," which suggests that financial benefits from AI may take several years to materialize.

### 8.6 Evidence of Lagged Financial Returns

One of the most important findings is that AI investments do not produce immediate financial gains. Instead, they follow a **lagged return pattern**, where firms initially experience rising costs before achieving profitability improvements.

### 8.7 Strategic Integration Determines Success

The study shows that investment alone does not guarantee financial success. Firms that successfully integrate AI into products, services, and revenue models achieve stronger financial outcomes.



## 9. LIMITATIONS OF THE STUDY

Despite providing valuable insights, the study has several limitations that must be acknowledged.

### 9.1 Small Sample Size

The research focuses on only two technology firms. Although these firms are global leaders in AI, the results cannot be generalized to all industries or companies.

### 9.2 Limited Study Period

The study covers seven years (2018–2024). AI is a rapidly evolving technology, and longer time-series data could provide more robust conclusions.

### 9.3 Proxy Measurement of AI Investment

AI investment is measured indirectly using CAPEX and R&D ratios. These variables include broader technology investments and may not fully isolate AI spending.

### 9.4 Exploratory Nature of Regression

The regression analysis is exploratory due to limited observations. Therefore, results should be interpreted as indicative rather than conclusive.

### 9.5 Industry-Specific Focus

The technology sector has unique characteristics such as high innovation intensity and scalability. Results may differ in manufacturing, banking, or retail sectors.

## 10. CONCLUSION

Artificial intelligence represents a structural transformation in corporate investment strategy rather than a temporary technological trend. By examining financial data from Microsoft and Alphabet between 2018 and 2024, this study provides empirical insight into how AI-related expenditures influence firm-level performance.

The evidence indicates that AI investment can enhance profitability when effectively integrated into revenue-generating products and scalable service platforms. Microsoft's performance suggests successful alignment between infrastructure expansion and commercialization strategy. In contrast, Alphabet's



financial trajectory reflects a capital-intensive expansion phase in which anticipated returns may materialize over a longer horizon.

These findings underscore that AI-driven financial outcomes are contingent upon strategic execution, operational integration, and timing. Investment magnitude alone does not ensure profitability; value creation depends on the firm's ability to convert technological capability into marketable solutions.

The study reinforces the view that AI initiatives should be evaluated within a long-term strategic framework. For managers and investors, short-term margin pressure may represent a transitional phase rather than underperformance. Continued empirical research using broader datasets and extended time horizons will further clarify the financial dynamics of AI adoption.

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