Corporate Performance under Geoeconomic Fragmentation: Evidence from Iberian Transnational Corporations*

MÁRIO COUTINHO DOS SANTOS [a,b], RAFAEL MYRO [c], ANTÓNIO CARRIZO MOREIRA [a,d], JORGE MOTA [a,d]

[a] CICEE, Universidade Autónoma de Lisboa, Portugal; [b] Universidade Católica Portuguesa, Portugal, [c] Complutense University of Madrid, Spain; [d] Department of Economics, Management, Industrial Engineering and Tourism, University of Aveiro, Portugal

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ABSTRACT

This paper examines the value creation of Iberian transnational corporations (TNCs) from 2013 to 2023, focusing on the impact of geoeconomic fragmentation. Using data from 7,040 TNCs, we find that total shareholder returns (TSR) exhibited variability, driven by macroeconomic recoveries and geopolitical disruptions, with differences between Portuguese and Spanish firms. Lower geoeconomic risk is associated with higher TSR, emphasizing the importance of stable environments for multinational corporations. Additionally, firms with negatively skewed stock returns show higher corporate value as investors demand lower expected returns, particularly for firms not at extreme skewness levels. Our findings highlight the role of risk management and diversification strategies in enhancing firm performance when experiencing geoeconomic challenges. Results provide insights for corporate leaders, investors, and policymakers on the effects of global fragmentation on TNCs' performance. Our results are robust to alternative models and variable specifications.

Keywords: Geoeconomic Fragmentation; Value Creation; Transnational Corporations (TNCs); Total Shareholder Return (TSR); Geoconomic risk.
JEL Codes: F23, G32, M16

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I. Introduction

THE EXTANT LITERATURE on transnational corporations (TNCs) – their operations, governance, and performance – can be systematized into two ambivalent perspectives[1]. The first perspective asserts that "opposition to multinationals has arisen mainly from concerns about undue concentrations of power, and their implications for national sovereignty and cultures" (Zerk, 2006: 7). This view highlights how TNCs "are uniquely capable of deploying their market positions and influence over government to solidify their control, obtaining outsized profits with actions that undermine the public interest" (Foley et al., 2021: 2; see also, Dahan et al., 2006).[2] The second viewpoint proclaims that TNCs "collectively are responsible for large portions of world production, employment, investment, international trade, research, and innovation" (Foley et al., 2021: 1); and, TNCs "propel innovation and productivity, thereby contributing to rising living standards, both at home and abroad" (Almond et al., 2003; Foley et al., 2021: 3; see also, e.g., Kavadis et al., 2024; Linnenluecke, 2022; Macleod & Lewis, 2004; Yin & Jamali, 2016).

Despite those disparate perspectives on their importance and behavior, TNCs still remain central players in the world's economy, accounting for substantial shares of economic production, labor force, and capital expenditure. More specifically, as contended by Santos and Castanho (2022: 2), TNCs contribute to "more than 50% of the world's industrial production today; 67% of international trade; more than 80% of patents and licenses for new technologies, technology and know-how; and almost 90% of foreign direct investment."

After decades of the dynamic integration of markets and economies, countries worldwide have reached an unprecedented level of global connectivity and interdependence. Yet increased tension due to geoeconomic fragmentation of a different nature, mainly since the 2008 global financial crisis, intensified the exposure of TNCs to geoeconomic risk, with spillover effects on their operations and value creation performance. Such effects have transversely impacted the economic sphere of the transnational business ecosystem, inducing readjustments in corporate business models, strategies, and policies (e.g., Baba et al., 2023; Bolt et al., 2023; Charan et al., 2024; Davies & Markusen, 2021; Moraes & Wigell, 2022; Scholvin & Wigell, 2019; Suh & Yang, 2021; Yilmazkuday, 2024).[3]

[1] According to Behrendt and Khanna (2003), at the beginning of the XXI century, TNCs were operating "in at least 70 countries rated at "medium" to "extreme" risk, and more than $150 billion is invested in 50 countries rated "fairly" to "very" corrupt in the Transparency International Corruption Perceptions Index, according to Control Risks Group, a London-based international business consultancy. Though a sagging global economy in 2001 witnessed the first fall in foreign direct investment (FDI) in more than a decade, FDI in developing countries fell by only 14 percent, versus 59 percent in developed economies, according to the United Nations World Investment Report 2002."

[2] Throughout this paper, we use the terms "transnational," "global," "internationalized," and "multinational" corporation / company / enterprise, interchangeably, and in the same sense.

[3] Fjäder et al. (2021: 3) define geoeconomic risk as «the risks associated with economics being

Against this backdrop, the ongoing geoeconomic fragmentation wave should prompt geoeconomic risk and lead value-maximizers TNCs' rational managers / owners, to exercise the available strategic resource allocative options to promote geoeconomic resilience and optimizing long-term economic performance (e.g., Blake & Jandhyala, 2019; Dang et al., 2020; Fjäder et al., 2021; Ioulianou et al., 2021, Ioulianou et al., 2017; Wigell et al., 2022). Among such (real) options to downsize, liquidate, or redeploy international operations from regions more exposed to high geoeconomic risk to those less vulnerable to geopolitical turbulence, require rigorous evaluation of their potential value-creation impact (e.g., Aguilera et al., 2019; Kitsing, 2022).[4]

To the best of our knowledge, empirical analyses of the impacts of the ongoing wave of geoeconomic fragmentation have predominantly been conducted at the aggregate economic level. However, its performance implications at the level of TNCs have received comparatively limited attention in academic research (see, Borin et al., 2023; D'Orazio et al., 2024; Kavadis et al., 2024; Mendoza et al., 2019, for some of the very few exceptions).

To reduce this knowledge gap, this paper attempts to answer the generic research problem of whether the ongoing geoeconomic fragmentation has affected corporate performance, particularly in terms of market value creation. To that end, we use a panel of 7,040 Portuguese and Spanish TNCs spanning the 2013-2023 sample period, to estimate fixed-effects (FE) and random-effects (RE) regression models, to examine: (*i*) how shareholders of Iberian TNCs have fared in terms of market value creation, as measured by the total shareholder return (TSR) measure; (*ii*) the role played by the geoeconomic risk, proxying for the ongoing geoeconomic fragmentation shocks, on shareholders' value performance; and (iii) the effect of stock returns skewness on TSR.

Since joining the European Economic Community (EEC) in 1986, and the third phase of Economic and Monetary Union (EMU) in 1999, the Portuguese and Spanish economies have become increasingly integrated. Since then, their markets and corporate sectors appear to have been behaving strategically in tandem, shifting "from distant neighbours to associates" (Chislett, 2016; see also, e.g., Royo, 2007; Royo & Manuel, 2003).

Following integration into the European Union, Iberian companies experienced rapid and significant growth in internationalization, recovering time lost during previous decades of isolationism.

Subsequently, by the end of the hyper-globalization era (1989–2007), a growing number of large Spanish and Portuguese corporations, alongside a growing number of medium-sized and some small enterprises, had evolved into transnational corporations (TNCs). By the end of this era, Iberian companies accounted for nearly 3% of the global stock of foreign direct investment (FDI), a figure that has since declined to 1.5% as a result of the Financial Crisis and the subsequent pandemic. In the early stages, these

used by states for power political objectives». The ongoing process of geoeconomic fragmentation acts as a 'transmission channel' of geopolitical dynamics, transmitting its 'impulses' to the exposure to geoeconomic risk of transnational business organizations (e.g., Wigell et al., 2022).

[4] Arguably, firms leverage their diversification options to optimize value creation, reaping operating and financial synergies, induced by the capture of market power, economies of scale, and potential coinsurance effects (e.g., Hann et al., 2013; Leland, 2007).

investments were predominantly directed toward EU markets, particularly in the case of Portuguese companies, as well as to regions with which they shared historical linguistic and cultural ties, such as Latin America and parts of Africa (Fernández-Otheo & Myro, 2008).

However, for nearly two decades—despite the challenges posed by the Financial Crisis—Iberian investments, especially those from Spain, have diversified, increasingly targeting highly competitive non-EU markets, such as the United Kingdom and North America. From a sectoral perspective, the leading role has been assumed by service-based industries, with banking and insurance, telecommunications, and retail predominating in Spain, while Portugal has seen growth in scientific and technical professional services, as well as real estate (Myro & Solana, 2020).

Our main contributions to the literature are threefold. First, we document that from 2013 to 2023, the TSR of Iberian TNCs was shaped by macroeconomic stability and geopolitical disruptions, with Spanish TNCs consistently outperforming Portuguese counterparts due to larger size, diversified operations, and greater resilience to external shocks. Second, we find that the relatively geoeconomic stability over the sample period significantly enhances TSR for Iberian TNCs, with higher stability mitigating cross-border operational risks, benefiting multinational diversified firms, particularly in manufacturing, possibly due to their capital-intensive nature and supply chain complexity. However, Portuguese TNCs underperform compared to their Spanish counterparts, reflecting underlying structural and macroeconomic differences. Finally, we show that negatively skewed stock returns were linked to higher corporate value and lower required returns, while positively skewed returns increased risk premiums and reduced valuations. Firms with extreme skewness characteristics showed no significant differences in TSR or corporate value, highlighting convergence in investor expectations.

The remainder of the paper is organized as follows. Section 2 discusses the theoretical and empirical foundations of the three specific research questions posed. Section 3 describes the dataset and the empirical methodology. Section 4 presents and interprets the results. Section 5 concludes with a summary of findings and conclusions.

II. Literature Review and Research Questions

In this section, we parsimonious review of the key conceptual frameworks offered in the literature published on geoeconomic fragmentation and its implications for the transnational business sector, notably, regarding value creation performance level that anchors this study.

A. Research Design and Methodology

The wave of geoeconomic fragmentation that emerged mostly after the 2008 global financial crisis has created a complex, volatile, and uncertain business environment for TNCs. The rise of geopolitical volatility, and the consequent deterioration of geoeconomic risk, has made the measurement of economic performance for TNCs operating in diverse geographic areas and institutional environments, a central component of their

management and governance systems (e.g., Bolhuis et al., 2023; Caldara & Iacoviello, 2022; Das et al., 2019; D'Orazio et al., 2024; Fjäder et al., 2021; Ioulianou et al., 2021, 2017; Hassan et al., 2019; Pringpong et al., 2023).

Recent geoeconomic fragmentation phenomena, such as regional geopolitical conflicts, have significantly intensified, and are "testing the resilience and strategies of multinational corporations" (Levy et al., 2024: 2). Among the most influential geopolitical events we include: (i) The United Kingdom's (UK) withdrawal from the European Union (EU) (e.g., Armour et al., 2017; Fuller, 2022; Kokkinis, 2016); (ii) Competitive disputes between the United States (USA), the EU and China: these disputes pertain to digital technologies, energy transition advancements, and battery-electric cars (e.g., Rogoff, 2024; Wingender et al., 2024); (iii) Disruptions in international trade, global commodity markets and supply chains (e.g., Campos et al., 2023; Crowe & Rawdanowicz, 2023; Kamasa, 2022; Rojas et al., 2022; Solingen et al., 2021; World Trade Organization, 2023); (iv) Foreign direct investment (FDI) flows (e.g., Aiyar et al., 2024; Alam et al., 2023; Feng et al., 2023); (v) Russia's invasion of Ukraine (e.g., Aizenman et al., 2024; Cipriani et al., 2023; den Besten et al., 2023; Lim et al., 2022; Moffat & Poitiers, 2024; Soussane et al., 2023; White et al., 2022); and (vi) The geopolitical-military conflict between Israel and Palestine (e.g., Najjar, 2024), amongst others.[5]

B. Micro-Level Value Creation Performance Measurement

Business enterprises, like TNCs, are set up as a dynamic pool of resources and typically managed under the standard neoclassical 'going concern' tenet of perpetual sustained shareholder value creation (e.g., IAASB, 2009; Teece, 2009). Under this framework, how corporate resources should be allocated "to maximise value over the long term" (Koller, 2024) is a central question for corporate management.[6]

In his seminal *Econometrica* article, Nobel laureate Jean Tirole (2001: 1) postulates that "the standard definition of corporate governance among economists and legal scholars refers to the defense of shareholders' interests." Or, as enunciated by Shleifer and Vishny (1997: 737), the "ways in which suppliers of finance to corporations assure themselves of getting a return on their investment."

Despite long-standing debates in mainstream corporate financial economics scholarship literature about corporate's adequate objective function, shareholder value

[5] According to Sonnenfeld *et al.*'s (2022: 68) estimates, Western sanctions enforced after the invasion of Ukraine may have caused Russia to lose enterprises "representing ~40% of its GDP, reversing nearly all of three decades' worth of foreign investment". According to the Chief Executive Leadership Institute of the Yale School of Management, as of 8/12/2024, "over 1,000 companies have publicly announced they are voluntarily curtailing operations in Russia to some degree beyond the bare minimum legally required by international sanctions — but some companies have continued to operate in Russia undeterred", https://som.yale.edu/story/2022/over-1000-companies-have-curtailed-operations-russia-some-remain, accessed on August 12, 2024.

[6] According to Kumar (2016: xv), "value creation is fundamental for the existence of a firm from the perspective of all its stakeholders, which includes shareholders, employees, customers, suppliers, creditors, local community, state, and others."

creation has been predominantly used as a corporate main objective (e.g., Hart & Zingales, 2017; Fatemi et al., 2015; Koller et al., 2020; Jensen, 2010; Rappaport, 2002; Venanzi, 2012). Yet, as of today, the appropriate metric to gauge corporate value creation performance is not an undisputed research topic.

As argued by Finegan (1991: 33), "perhaps the most accepted principle of microeconomics is that the value of any project is the sum of anticipated cash inflows, net of outlays, discounted to present value at a risk-adjusted cost of capital" (see also, Samuelson, 1973). There is also a broad agreement among corporate financial economists that, under an informationally efficient capital markets framework, the stock price reflects investors' expectations about the firm's going concern contingent operating cash flow stream (e.g., Crouhy et al., 2023). In this vein, as postulated by Bacidore et al. (1997: 11), "the obvious metric for judging firm performance is the stock price,", or the returns based on themselves.

Under this framework, "measures of shareholder wealth creation focus on the firm's stock price performance and seek to determine how much shareholders increase their wealth from one period to the next based on the dividends they receive and the appreciation in the firm's stock price" (Bacidore et al., 1997: 14; see also, e.g., Desai et al., 2022).[7]

It is widely acknowledged that, theoretically, in the presence of an integrated and semi-strong informationally efficient capital markets setting à la Fama (1970), all geoeconomic risk publicly available information is fully and globally incorporated in asset prices.[8] By implication, security market prices are unbiased estimators of investors' aggregate value creation expectations of managerial intertemporal strategic decision-making on the firm's asset-in-place and growth opportunity portfolios (e.g., Copeland and Tufano, 2004; Morck, 2014). Against this background, the present value of investors' (rational) expectations about the future cash flow stream, is an unbiased estimator of stock prices.

There is a relatively broad agreement among corporate financial economics scholars, that the Total shareholder return (TSR) constitutes a robust market-based metric measure for gauging long-term shareholder value creation (e.g., Bessembinder et al., 2023; Koller et al., 2020; Renzi et al., 2015; Securities and Exchange Commission, 2022). TSR is a comprehensive, buy-and-hold composite measure of shareholder return encompassing stock's share price appreciation and cash distribution to shareholders, in the form of dividends and share buybacks within a specific timeframe (e.g., Desai et al., 2022; Mauboussin & Callahan, 2023).

In contrast to accounting-based backward-looking performance metrics, such as the return-on-assets (ROA) or the return-on-equity (ROE), TSR is a market-based forward-looking measure of shareholder value creation.

[7] Using data for the Bazacle company, the earliest documented shareholding corporation, le Bris et al. (2019: 248) estimated the TSR over the 1372-1946 period, as "an average dividend yield of 5% per annum and near-zero long-term, real capital appreciation."

[8] Theoretically, under integrated and informationally efficient capital markets, all geoeconomic risk publicly available information is fully and globally incorporated in asset prices (Fama, 1970; see also, Morck, 2014).

C. Transnational Corporate Diversification and Value Performance

There is voluminous literature on the business economics of transnational business organisations and one of its most prolific branches has been focused on studying corporate diversification, notably, the implications of diversification for economic performance and governance in light of the complex range of risks TNCs encounter.

TNCs operate under conditions of idiosyncratic uncertainty stemming from business cycles in product and factor markets, and are exposed to macroeconomic, political, social, financial, and institutional shocks. These factors collectively contribute to systematic industry business risk exposure, with significant implications for corporate performance and governance, especially during adverse states of the nature (e.g., Nelson & Winter, 2002).

Given this context, TNCs decision-makers face complex, interdependent, and challenging geopolitical business environments, to which they ought to respond strategically, aiming at capturing "the benefits of downside risk reduction and upside potential enhancement" (Tong & Reuer, 2007: 4; see also, Driouchi & Bennett, 2011; Ioulianou et al., 2017; Kitsing, 2022; Procher & Engel, 2018; Trigeorgis & Reuer, 2017).

A well-known received wisdom suggests that a "wise man (should) not venture all his eggs in one basket" (Miguel de Cervantes Saavedra, Don Quixote, 1605; https://www.haynesbarker.com/alleggs-onebasket/, accessed on December 27, 2024). Within this framework, we should expect geographical corporate diversification to be positively related to value creation (see also e.g., Berger & Eeckhoudt, 2021).

By their intrinsic nature, TNCs are geographically diversified business enterprises that, arguably, are prone to reaping potential performance benefits from diversification. Yet, despite accumulated evidence, those findings remain inconclusive, reflecting the persistence of a diversification-value puzzle (e.g., Barros et al., 2024; de Andrés et al., 2016; George & Kabir 2012; Kim & Mathur, 2008; Morck & Yeung, 1991; Qian, 1996).

For example, Mathur et al. (2004: 748), probing the linkage between economic performance and the degree of transnational diversification, found that "a strong association exists between multinational activity and performance." Additionally, they document a "non-linear relation between geographic diversification, as measured by foreign sales, and excess value" (see also, Mendoza et al., 2019).

Martin and Sayrak (2003: 39) posit that "managers may want their firm to engage in diversification as a means of reducing firm specific risk. At the same time, stockholders who own diversified portfolios of common stocks may not want the firm to diversify if they can do it more cheaply in their individual investment portfolios." Nonetheless, authors conjecture that "investors can obtain the benefits of international diversification indirectly through multinational firms, and therefore do not need to hold foreign equity in their portfolios."

Contrastingly, Rowland and Tesar (2004: 790) assert that "multinational firms do not provide diversification benefits." Furthermore, Gande et al. (2009: 1515) "document that global diversification enhances firm value." These divergent findings underscore the complexity of the diversification-performance nexus and suggest that further research is mandatory to clarify these dynamics. Yet, as postulated by Campa and Kedia (2002: 1731),

the "documented discount on diversified firms is not per se evidence that diversification destroys value".

D. Geoeconomic Risk at the TNC Level

TNCs, by the very nature of their operational idiosyncrasies, are exposed to an array of both diversifiable, and systematic risk factors, which include geopolitical and geoeconomic risks.

Findings of recent research suggest that between geoeconomic risk and stock prices across the world, a statistically significant inverse relationship exists (e.g., Demiralay & Kilincarslan, 2019; Pástor & Veronesi, 2013; Yilmazkuday, 2024; Zaremba et al., 2022).

As articulated by Das et al. (2019), financial economics literature suggests that market risk premia and governmental economic policy uncertainty tend to be positively related to predicting and, by implication, implying an adverse effect on stock prices. Demiralay and Kilincarslan (2019) found a negative relationship between geopolitical riskiness and the returns of travel and leisure stocks, highlighting sector-specific vulnerabilities. As insightfully pointed out by Fisman et al. (2022: 1179), "some risks can be traded and can thus be managed by financial instruments. Others, many of which are important risk factors faced by firms (particularly in the international operations context), are not tradable."

Bekaert et al., (2016: 1-2) postulate that TNCs "must assess the effects of political risk on expected cash flows and discount the expected cash flows at a discount rate reflecting systematic (not political) risk." This underscores the need for sophisticated risk assessment mechanisms that distinguish between political and systematic risks while maintaining a focus on value creation.

E. Diversification and Stock Returns Skewness

There is a continuing debate about the so-called "conglomerate puzzle" (e.g., Banal-Estañol et al., 2013; Marinelli, 2010). One side of the puzzle asserts that firm diversification destroys value (e.g., Hann et al., 2013). The other side contends, that the market may discount the value of diversified firms in relation to a portfolio of comparable single-segment legally independent firms (e.g., Altieri & Nicodano, 2024; Mota & Coutinho dos Santos, 2022; Theodossiou & Savva, 2016).

Bessembinder et al. (2023), document that stock markets command a positive return premium, in contrast with returns at the individual stock level, which exhibit negative premia. They consider the evidence as implying a "strong positive skewness in the distribution of returns to individual stocks, particularly at longer horizons" (Ib.: 34).

Bressan and Weissensteiner (2021) approached the 'diversification discount' through the lens of the stock returns skewness metric. They found that diversified firms, in their case a sample of banks, "have less skewed stock returns, i.e. they are more likely to perform badly than non-diversified" firms. Therefore, they argue, that because of being less exposed to stock returns skewness risk, investors are more likely to "demand higher future returns, thereby lowering corporate value" (Ib.: 1; see also, Berger & Eeckhoudt, 2021).

Taking stock of the above discussion of theoretical and empirical literature, we formulate the following research questions to guide our analysis:

RQ1: How have shareholders of Iberian TNCs fared in terms of total shareholder return (TSR) during the 2013–2023 period, and what patterns emerge across countries and time?

RQ2: How does geoeconomic fragmentation influence the total shareholder return (TSR) of Iberian TNCs?

RQ3: How does the skewness of stock returns influence total shareholder return (TSR) and the corporate value of Iberian TNCs, and are these effects consistent for firms with extreme skewness characteristics?

III. Data Description and Empirical Implementation

A. Sample Selection and Data Description

The research questions were tested on a sample of transnational firms headquartered in Portugal or Spain, drawn from the Orbis world database, for the 2013-2023 period. Data for the equity risk premium and risk-free rate were drawn from https://pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/ctryprem.html and https://data.ecb.europa.eu/data/data-categories/financial-markets-and-interest-rates/euro-area-yield-curves/all-government-bonds-yield-curve/spot-curve,[9] respectively.

The concept of a transnational corporation was adopted as the coordinating entity of a network of multiple legally independent firms, including subsidiaries domiciled abroad.

To be included in the sample, firms had to meet the following criteria: (i) being a transnational corporation holding, directly and/or indirectly, a minimum of 50.01 percent ownership in any subsidiary; (ii) must have been incorporated and have a registered office in Portugal or Spain; (iii) must have been active throughout the sampling period; and (iv) must have eight or more years of data available for the set of variables used.

Using the above-mentioned selection criteria, a sample of 7,040 transnational firms was constructed, resulting in 77,440 firm/year observations, based on Total Assets data.

B. Empirical Implementation

The empirical component of this paper aims at probing three research questions. The first is to assess the shareholder value creation performance. The second is to test for the influence of geoeconomic fragmentation on the TSR of Iberian TNCs. To this end, we

[9] More specifically, https://data.ecb.europa.eu/data/datasets/YC?dataset%5B0%5D=Financial+market+data+-+yield+curve+%28YC%29&filterSequence=dataset&advFilterDataset%5B0%5D=Financial+market+data+-+yield+curve+%28YC%29&resetAllFilters=false&filterType=basic&tags_array%5B0%5D=Rating+A%2B&filtersReset=false&showDatasetModal=false

estimated a static panel data regression model, random and fixed effects, on a vector of firm, industry, and macroeconomic level characteristics. Finally, the third is to assess the impact of stock return skewness on TSR and the corporate value among Iberian TNCs, and whether these relationships hold for firms with extreme levels of skewness.

Our testing procedure comprised both fixed effects (FE) and random effects (RE) models to address unobserved heterogeneity. This approach captures time-invariant characteristics specific to each entity (e.g., firms) that cannot be directly observed, ensuring consistent and efficient estimation.[10]

The dependent variable in the analysis is the total shareholder return (TSR). The first set of independent variables account for firm characteristics: operating cash flow (OCF); distance to distress (DtD); cost of equity (KoE); market-to-book ratio as a proxy for growth opportunities (MtoB); geographical diversification level measured by Jacquemin and Berry's (1979) entropy index (GDl); and *Listed*, a dummy variable that identifies the TNCs with shares of stock traded on a regulated secondary market.

Industry-level characteristics include industry dummy variables (Industry_Dummies*)*. At the macroeconomic level, independent variables encompass geoeconomic risk (GeR), where lower scores indicate higher risk, and a country dummy variable (Country_Dummy).

All variables included in the model are specified in Table 1.

Table 1: Variable Labels and Specifications.

Variables	Specification
Dependent	
TSR	Estimates the holding period return, in terms of capital gains, and dividend distribution and stock buybacks, of a buy-and-hold investment strategy. Was computed, following Benninga and Mofkadi (2021: 130) as the ratio of cash flow distribution (dividends and stock buybacks) to market capitalization (data drawn from Refinitiv Eikon) / equity fair value for private firms; cash distribution for the private firms was computed as the sum of net operating cash flow, change in fixed assets at cost, change in cash and cash equivalents, and change in outstanding net debt.
Independent – Firm-level (X_j)	
OCF	Natural logarithm of net income plus depreciation minus change in working capital.
DtD	Proxied by Z-score computed as the ratio of total equity divided by the average of total assets in t and t-1, plus the return on assets (ROA), all divided by the standard deviation of ROA (Altman et al., 2017; Marques & Alves 2021); ROA was estimated as the net income plus depreciation divided by total assets.
KoE	Equity systematic risk coefficients were estimated using the 'bottom-up' approach (e.g., Beneda, 2003; Damodaran 2015; Renzi et al., 2015). Industry's asset betas were estimated following Kale et al. (1991), as the coefficient of variation of operating cash flow as the total net

[10] The FE model is appropriate when the entity-specific term (μi) is correlated with the independent variables. By eliminating the impact of time-invariant characteristics, FE focuses on within-entity variation (e.g., changes within a firm over time). This is achieved through transformations such as the "within transformation," which removes μi by demeaning each variable at the entity level. The RE model assumes no correlation between μi and the independent variables, allowing for the inclusion of both within- and between-entity variation. RE is more efficient than FE under this assumption and is particularly suitable when the sample is a random selection of entities from a broader population, such as in multi-country or cross-industry analyses. The choice between FE and RE approaches was formally tested using the Hausman specification test, which evaluates whether μi is correlated with the independent variables. The null hypothesis (*H0*) asserts that the RE model is appropriate (μi uncorrelated), while the alternative hypothesis (*H1*) indicates that the FE model is preferred (μi correlated).

	assets weighted, by, average of the individual business risks; industry's asset betas were levered at the TNC level using Hamada's (1972) procedure; for the equity risk premium we followed Damodaran procedure; the risk-free rate was estimated using average annual yields of AAA-rated sovereign treasury bonds.[11]
MtoB	Market capitalization for publicly traded firms (data drawn from Refinitiv Eikon) / equity fair value for private firms, to the book value of equity (the equity fair value was estimated using the standard steady-state Gorgon model, where, ECF, denotes the expected cash flow for equityholders; g, the expected growth rate of ECF proxied by the industry's median reinvestment rate (e.g., Damodaran, 2015); and KoE, the firm's cost of equity; ECFs were estimated as the sum of the EBIT, depreciation, net interest expense, change in net capital expenditures, change in outstanding net debt, change in working capital, and corporate income taxation (see Ruback, 1995).
GDI	The entropy index is a composite measure of firm's geographical diversification level, including the number of countries in which the firm operates, the distribution of a firm's total operating revenue across subsidiaries, and the identification of the degree of relatedness among the various subsidiaries.
Listed	Listed dummy: 0 for private firms and 1 for listed TNCs.
Independent - Industry-level (Y_j)	
Industry_Dummies	Industry dummies were specified based on the main section of the NACE Rev. 2.
Independent - Macroeconomic-level (Z_j)	
GeR	We used the "LSEG Country Risk Ranking". Estimated as the sum of the firm operating revenues originating in each national market multiplied by the corresponding value of the country-specific index from the International Country Risk Guide (ICRG); this variable incorporates detailed information on the final location of corporate business revenues and provides a revenue-weighted measure of firms' exposure to geoeconomic risk (see, e.g., Chou et al., 2017; D'Orazio et al., 2024); Data drawn from Refinitiv Eikon.
Country_Dummy	Country dummy, considering 0 for Spain and 1 for Portugal.

Given the research design and variable specifications, the following regression model was derived:

$$TSR_{i,t} = \alpha + \sum_{j=1}^{6} \beta_j X_{jit} + \sum_{j=1}^{18} \gamma_j Y_{jit} + \sum_{j=1}^{2} \omega_j Z_{jit} + \mu_i + \varepsilon_{i,t} \qquad (1)$$

where X_{jit}, Y_{jit}, and Z_{jit} represent the vectors of j firm-, industry-, and macroeconomic-level characteristics, respectively; α is the common intercept; μ_i denotes entity-specific effect; subscripts refer to firm i at time t; and ε_{it} is the error term with zero mean and constant variance. The regression model also includes year dummy variables to control for time-specific effects. All variable distributions were winsorized at the top and bottom 1st percentile to address potential outliers.

IV. Results

Table 2 presents a summary of the data distribution in the sample, categorized by industry and country. Panel A shows that the sample includes representation from all major industries, with a notable concentration in manufacturing, trade, and services.

[11] Bekaert et al. (2016: 2) suggest using "propose to use the concept of a political risk spread, which essentially extracts the political risk component from sovereign spreads using available information in political risk ratings. This political risk spread can be used to infer the probabilities of a political risk event with which to adjust the expected cash flows. Under certain assumptions, a corrected discount rate adjustment can then be obtained by adding the political risk spread, rather than the full spread, to the usual discount rate."

Table 2. Industry and Country Distribution

The industry classification was based on the main section of the NACE Rev. 2.

Panel A: Industry distribution			
Number	**Industry**	**Number of firms in the sample**	**Percent**
1	Agriculture, forestry, and fishing	79	1.12
2	Mining and quarrying	23	0.33
3	Manufacturing	1,422	20.2
4	Electricity, gas, steam, and air conditioning supply	74	1.05
5	Water supply; sewerage, waste management and remediation activities	30	0.43
6	Construction	547	7.77
7	Wholesale and retail trade; repair of motor vehicles and motorcycles	1,040	14.77
8	Transportation and storage	245	3.48
9	Accommodation and food service activities	97	1.38
10	Information and communication	405	5.75
11	Financial and insurance activities	936	13.3
12	Real Estate	421	5.98
13	Professional, scientific, and technical activities	1,121	15.92
14	Administrative and support service activities	454	6.45
15	Education	36	0.51
16	Human health and social work activities	46	0.65
17	Arts, entertainment, and recreation	38	0.54
18	Other service activities	26	0.37
	Total	**7,040**	

Panel B: Country distribution		
Country	**Number of firms in the sample**	**Percent**
Portugal	1,580	22.44
Spain	5,460	77.56
Total	**7,040**	

Table 3 provides a univariate analysis of the sample's data and, jointly with Figure 1, provides evidence to support the answer to the RQ1.

Table 3. Summary Statistics

This table reports the summary statistics of the variables considered in the empirical implementation in Panel A. The columns present summary statistics for the full sample: mean; median; coefficient of variation (cv); minimum (Min); and maximum (Max). Panels B and C report mean and median for the subsamples of Portuguese (PT) and Spanish (ES) TNCs, respectively, and columns (1) and (2) report parametric tests for equality of means and Wilcoxon-Mann-Whitney tests for equality of medians, respectively, between the two subsamples. *, ** and *** indicate significance at the 10, 5 and 1 percent level, respectively.

Panel A					
Variables	**Full Sample (77,440 firm-year obs.)**				
	Mean	**Median**	***CV***	***Min***	***Max***
TSR_{it}	0.0391	0.0000	2.6868	0.0000	1.0400
OCF_{it}	7.0445	7.0302	0.3316	-4.6052	12.9227
DtD_{it}	38.8044	11.6800	3.1060	-14.5100	1372.8300
KoE_{it}	0.0934	0.0600	1.0942	0.0000	0.3800
$MtoB_{it}$	4.7997	2.0300	1.1613	0.0000	15.0000
GDl_{it}	0.2048	0.0000	1.7009	0.0000	1.5400
$Listed_{it}$	0.0175	0.0000	7.4491	0.0000	1.0000
GeR_{it}	6.4828	8.6100	0.5614	0.0000	9.4200
$Country\_Dummy_{it}$	0.2244	0.0000	1.8590	0.0000	1.0000

Variables	Panel B – PT Subsample (17,380 firm-year obs.)		Panel C – ES Subsample (60,060 firm-year obs.)		t-test (1)	Wilcoxon-Mann-Whitney test (2)
	Mean	Median	Mean	Median		
TSR_{it}	0.0319	0.0000	0.0412	0.0000	6.8121***	6.141***
OCF_{it}	6.7309	6.7459	7.1297	7.1110	16.732***	16.712***
DtD_{it}	16.0065	8.7200	45.3040	12.8400	27.194***	40.626***
KoE_{it}	0.0878	0.0600	0.0950	0.0600	8.197***	11.096***
$MtoB_{it}$	4.9074	2.0400	4.7667	2.0300	-2.007**	1.254
GDl_{it}	0.1993	0.0000	0.2063	0.0000	2.3299**	0.908
$Listed_{it}$	0.0158	0.0000	0.0180	0.0000	1.8839*	1.884*
GeR_{it}	6.4343	8.7700	6.4969	8.5700	1.9901**	-44.199***

Results of the parametric tests for equality of means and Wilcoxon-Mann-Whitney tests for equality of medians between the two subsamples reported in Panels B and C of Table 3 show statistically significant differences between the two subsamples on the analyzed variables, with higher values reported on the subsample of Spanish TNCs for the variables TSR, OCF, DtD, KoE, GDl, GeR.

Spanish TNCs exhibit statistically significantly higher TSR than Portuguese TNCs, which can be attributed to the statistically significant higher operating cash flow, geographical diversification, and lower geoeconomic risk. The higher level of geographical diversification is explained by the higher average number of countries (2.0987 for ES vs. 1.7437 for PT) and operating revenues across subsidiaries (€2,726,213 for ES vs. €143,677 for PT) in which Spanish and Portuguese TNCs operate. This higher level of geographical diversification may amplify the coinsurance effect for Spanish TNCs, mitigating risks and contributing to more stable returns.

The findings further reveal that growth opportunities, as proxied by the MtoB ratio, are statistically different and, on average, higher for Portuguese TNCs than for their Spanish counterparts. This result remains consistent when the average of research and development expenditures, normalized by total assets, is used as a proxy for growth opportunities (0.0326 for Spain vs. 0.0344 for Portugal).

The higher KoE estimated for Spanish TNCs indicates that investors demand higher returns for investing in these firms, possibly due to greater exposure to global markets or higher perceived risk associated with their operations. However, this does not necessarily indicate a disadvantage. Instead, it may suggest that Spanish TNCs are engaging in riskier but potentially more rewarding activities, such as expanding into diverse or emerging markets. Their capacity to generate higher TSRs implies that these companies are successfully transforming the risks associated with higher equity costs into value creation through effective management strategies, superior operational performance, and better exploitation of growth opportunities.

The combination of higher KoE and DtD for Spanish TNCs underscores their ability to balance higher risk levels with robust financial health, thereby enabling them to deliver superior TSR relative to Portuguese TNCs. This finding highlights the strategic advantage of a robust financial position in pursuing global opportunities and managing the complexities of geoeconomic fragmentation.

Figure 1
TSR Trends by Country and Year.

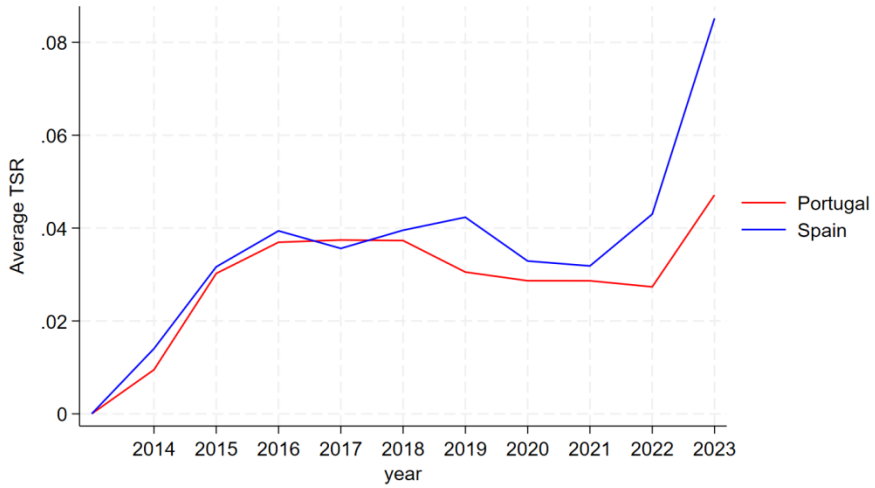

Figure 1 shows fluctuations in TSR over the sample period. Periods of higher TSR are likely to be aligned with macroeconomic stability, while declines correspond to economic shocks or heightened geoeconomic risks. Figure 1 also highlights that Spanish TNCs generally outperform Portuguese TNCs in terms of TSR during the 2013–2023 period, although the gap narrows in specific years.

Between 2013 and 2023, the total shareholder return (TSR) of Iberian transnational corporations (TNCs) varies, shaped by macroeconomic recoveries and geopolitical disruptions, with differences between Portugal and Spain. The period began with moderate TSR gains from 2013 to 2015 as the Eurozone gradually recovered from its sovereign debt crisis, restoring investor confidence and bolstering corporate performance. Spanish TNCs consistently outperformed their Portuguese counterparts during this time, reflecting larger market sizes, greater access to diversified capital markets, and more exposure to the Latin American market than Portuguese TNCs. In contrast, Portuguese TNCs, often smaller and more reliant on external markets, showed lower TSR averages.

TSR trends in 2016 reflect a slowdown coinciding with the Brexit referendum, which may have introduced uncertainty in European markets, disproportionately affecting firms with closer trade ties to the UK. The most pronounced TSR decline occurred in 2020, coinciding with the COVID-19 pandemic's global onset. Portuguese TNCs were particularly affected during this period, reflecting their relatively smaller operational scale and limited capacity to absorb demand shocks. Despite this, both countries experienced a rebound in TSR in 2021, driven by the gradual reopening of economies and increased investor optimism. Spanish TNCs continued to show comparatively higher TSR resilience during these years, benefitting from their larger market presence and access to diversified operations.

These trends underscore the disparities in TSR performance between the two countries, shaped by differences in firm size, market structures, and exposure to external

shocks. Table 4 presents the results of estimating Equations (1), using RE and FE models, providing evidence for answering RQ2.

Table 4. Regression on the Determinants of TSR – Equation (1)

This table summarizes the estimations on the effect of firm-, industry-, and macroeconomic-level on TSR generated by RE and FE models. Columns 3 and 4 report the estimation results for the Spanish (ES) and Portuguese (PT) TNCs subsamples, respectively. Columns 5 and 6 report the estimation results for Manufacturing (Industry Number 2 to 6, according to Table 2) and Trade and Services (Industry Number 7 to 18) TNCs subsamples, respectively. We only reported the FE for the subsamples since, according to the Hausman test, is the model that provides the most consistent estimates. The results on the RE are available from the authors upon request. *, ** and *** indicate significance at the 10, 5 and 1 percent level, respectively. Values enclosed in parentheses are the t or z statistics for coefficients.

Independent Variables	**RE (1)** ***TSR***	**FE (2)** ***TSR***	**FE (3) ES** ***TSR***	**FE (4) PT** ***TSR***	**FE (5) Manufacturing** ***TSR***	**FE (6) Trade & Services** ***TSR***
Firm-level						
OCF_{it}	0.0046***	0.0058***	0.0055***	0.0021***	0.0033***	0.0046***
	(12.40)	(8.03)	(12.26)	(3.82)	(6.12)	(9.99)
DtD_{it}	0.0001***	0.0001**	0.0001***	0.00006	0.00005**	0.00008***
	(6.95)	(2.28)	(6.76)	(0.12)	(1.97)	(6.64)
KoE_{it}	0.2159***	0.2455***	0.2207***	0.1927***	0.2274***	0.2144***
	(27.15)	(18.31)	(23.25)	(15.09)	(18.67)	(23.11)
$MtoB_{it}$	-0.0018***	-0.0016***	-0.0021***	-0.0011***	-0.0016***	-0.0019***
	(-14.85)	(-11.45)	(-13.94)	(-5.65)	(-9.34)	(-11.69)
GDl_{it}	-0.0012	0.0005	0.0028	0.0006	0.0017	0.0006
	(-0.52)	(0.12)	(0.56)	(0.18)	(0.57)	(0.19)
$Listed_{it}$	-0.0283***					
	(-4.73)					
Industry-level						
$Industry\_Dummy_{it}$	Yes	Yes	Yes	Yes		
Macroeconomic-level						
GeR_{it}	0.0005**	0.0003*	0.0004*	0.0006*	0.0011**	0.0004*
	(2.34)	(1.75)	(1.65)	(1.88)	(2.50)	(1.71)
$Country\_Dummy_{it}$	-0.0054***					
	(-2.71)					
Observations	26,492	26,492	20,530	5,962	8,695	17,395
Wald	1,883.35	50.60	44.43	10.31	22.73	31.12
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
R^2	0.0984	0.0698	0.0659	0.0711	0.0907	0.0625
Hausman test	44.23		51.16	33.99	40.08	35.43
	0.0002		0.0000	0.0054	0.0002	0.0035

The results indicate a positive and statistically significant coefficient for GeR, indicating that higher geoeconomic stability (lower risk) is associated with higher TSRs for multinational diversified firms. This finding aligns with the theoretical expectation that stable geoeconomic environments enhance firm performance, especially for TNCs, by mitigating uncertainties that could disrupt cross-border operations and strategic decision-making.

The positive coefficient for GeR in the sample of multinational diversified firms underscores the importance of macroeconomic and political stability in effectively managing global diversification risks. While cross-country diversification provides firms opportunities for growth and risk-sharing, it also heightens exposure to macroeconomic risks in host countries. Thus, higher geoeconomic stability translates into smoother

subsidiary operations and reliable profit repatriation, both of which are critical for maximizing shareholder returns.

OCF is positively and significantly associated with TSR, highlighting the importance of strong operational performance in driving shareholder returns. Although GDl is positive, it is not statistically and significantly related to TSR. This indicatesthat while firms with more diversified operations benefit from risk mitigation and growth opportunities, managing such portfolios introduces complexities that may limit measurable impacts on returns. DtD is positive and statistically related with TSR, which highlights the importance of financial stability in driving shareholder returns. A higher DtD indicates a stronger financial position and lower probability of financial distress, which enhances investor confidence and suggests that financially stable Iberian TNCs are better positioned to withstand external shocks, such as those induced by geoeconomic fragmentation, and to capitalize on opportunities in global markets. The country dummy variable indicates that Portuguese firms tend to underperform *vis-à-vis* Spanish firms in terms of TSR.

These findings build upon and reinforce the results of the univariate statistical analysis, shedding light on the structural differences between Spanish and Portuguese TNCs. The results also emphasize the impact of operational performance, financial stability, diversification, exposure to geoeconomic risk, and investment in growth opportunities on shareholder returns.

In summary, the positive relationship between GeR and TSR demonstrates that multinational diversified firms derive significant value from operating in geoeconomic environments that facilitate cross-border stability and predictability. This finding reinforces the critical importance of geoeconomic stability is a crucial determinant of success for TNCs with globally diversified operations. Furthermore, differences in TSR performance between Portuguese and Spanish TNCs highlight the impact of structural and macroeconomic factors, reinforcing the need for strategies to mitigate risks associated with geoeconomic fragmentation.

The impact of GeR on the TSR is more pronounced for TNCs in the manufacturing sector compared to those in trade & services sector, reflecting the differences in the fundamentals these sectors' operational and strategic characteristics and dynamics.

Manufacturing TNCs tend to operate in more capital-intensive industries, requiring substantial investments in fixed assets. These firms often have longer project life cycles and higher sunk costs, making them more vulnerable to disruptions caused by geoeconomic instability. The complexity of global supply chains in manufacturing, including dependencies on, e.g., raw materials sourced across multiple regions, amplifies exposure to geopolitical events, trade restrictions, and macroeconomic fluctuations. Consequently, the stability provided by lower geoeconomic risk is critical for maintaining predictable operations, cost structures, and profit margins, all of which impact shareholder returns.

In contrast, trade & services TNCs generally operate with lower capital intensity and are more flexible in reallocating resources across regions. These firms often rely on human capital and technology-driven operations, enabling them to adapt more swiftly to changing geopolitical conditions. While geoeconomic stability remains important, its

relative influence on TSR is less pronounced, as these firms are better positioned to absorb and adapt to external risks.

Another difference lies in regulatory environments. Manufacturing firms frequently face stricter environmental and safety regulations, varying significantly across countries. Geoeconomic stability facilitates compliance with such regulations, reducing the risk of disruptions or fines. In contrast, trade & services firms often navigate less rigid regulatory frameworks, providing them with greater agility to expand or to withdraw from markets.

Overall, the more pronounced impact of GeR on the TSR of manufacturing TNCs underscores these firms' dependency on stable geopolitical and economic conditions for efficient operations and value creation. In comparison, the more adaptable nature of trade & services TNCs enables them to mitigate risks associated with geoeconomic fragmentation, rendering their shareholder returns less sensitive to variations in GeR.

Building on the empirical findings of Bressan and Weissensteiner (2021: 1), which document that for diversified firms "due to the lower skewness exposure investors demand higher future returns, thereby lowering corporate value," we address research question 3. This was achieved by estimating the skewness of the market capitalization / fair value in time t+1 and in time t, for each firm. A dummy variable was elaborated to categorize firms based on skewness: firms with positive skewness were assigned a value of 1, while those with negative skewness were assigned a value 0. Panel A of Table 5 presents the results of parametric tests for equality of means and Wilcoxon-Mann-Whitney tests for equality of medians of the variables TSR and MarketCap for the subsamples of positive vs negative skewness. Additionally, Panel B of Table 5 provides a similar analysis for subsamples with high positive (fourth quartile) vs high negative skewness (first quartile).

Results show a statistically significant difference in the means of TSR and MarketCap at the 5 percent and 1 percent significance levels, respectively, between firms with positive and negative skewed returns. Concerning medians, the results indicate that the distributions are statistically different at a 1 percent significance level. However, the means of TSR and MarketCap are not statistically different between firms with highly positive and highly negative skewed returns.

Negatively skewed returns are often viewed as more predictable and stable, which reduces the risk premium demanded by investors, thus increasing corporate value. Conversely, positively skewed returns may be seen as riskier, leading to higher required returns and lower valuation.

Table 5. Parametric Tests for Equality of Means and Wilcoxon-Mann-Whitney Tests for Equality of Median – RQ3

This table reports, in Panel A, parametric tests for equality of means and Wilcoxon-Mann-Whitney tests for equality of medians on the variables TSR and MarketCap between positive-skewed vs negative-skewed firms based on the variable Equity Fair Value. Panel B reports a similar analysis for subsamples of high positive (4 quartile) vs high negative skewness (1 quartile).

Panel A

Variables	Positive Skewness Sample (32,266 firm-year obs.) vs Negative Skewness Sample (3,037 firm-year obs.)					
	Positive	Negative	t-test	Positive	Negative	Wilcoxon-Mann-Whitney test
	Mean			Median		
TSR_{it}	0.0395	0.0348	-2.371**	0.0000	0.0000	-3.256***
$MarketCap_{it}$	46500000.0	180000000.0	8.477***	19010.83	36309.4	13.155***

Panel B

Variables	High Positive Skewness Sample (11,722 firm-year obs.) vs High Negative Skewness Sample (8,076 firm-year obs.)					
	High Positive	High Negative	t-test	High Positive	High Negative	Wilcoxon-Mann-Whitney test
	Mean			Median		
TSR_{it}	0.0375	0.0394	1.237	0.0000	0.0000	0.441
$MarketCap_{it}$	86500000.0	97000000.0	0.653	16918.2	27893.3	14.084***

According to Harvey and Siddique (2000), positive skewness is less favoured due to the increased riskiness of extreme outcomes, thus leading to higher expected returns. In this sense, we should expect positively skewed assets to be less appealing to risk-averse investors, leading to higher required returns and, consequently, lower valuations (Kraus & Litzenberger, 1976).

This evidence documents that for diversified firms exhibiting negatively skewed stock returns, investors expect lower returns, which is reflected in higher corporate value compared to firms with positively skewed stock returns. Conversely, for firms exhibiting extreme positive or negative skewness, investor expectations and corporate value adjustments appear to converge, resulting in no statistically significant differences in returns or valuations (see Bressan & Weissensteiner, 2021).

These findings suggest a nuanced relationship between skewness exposure, return expectations, and valuation. While negatively skewed returns are associated with higher perceived corporate value, this relationship is less pronounced among firms at the extremes of the skewness spectrum, where investor expectations and corporate value align more closely.

Robustness Checks

To check for the robustness of the regression results, we firstly specified an alternative proxy for growth opportunities instead of the MtoB, the R&D intensity, computed as the research and development expenditure for firm *i* at time *t* normalized by the total assets at time *t*-1 (Koller *et al.*, 2020), see model (1), presented in Table 6. Secondly, we specified TSR using a continuous capitalization regime, computed as the natural logarithm of price appreciation in time *t* plus dividends and buybacks divided by the price appreciation in time *t*-1 (for private firms, cash distribution was computed as specified in Table 1), see model (2). Thirdly, we used the lagged GeR variable by one period instead of the variable at its level, model (3). Fourthly, we used the variable Debt Ratio (DebtR) at the firm level, specified as the total debt to total assets for firm *i* at time *t*, instead of the variable DtD, see model (4). Finally, to estimate the MtoB, instead of using g, the expected growth rate of ECF on the standard steady-state Gorgon model, we used the return on invested capital (ROIC) estimated as the net operating profit less

adjusted tax in time *t* to the invested capital in *t*-1 specified as net fixed assets plus net working capital plus intangible assets, following Benninga and Mofkadi (2021), see model (5).

The main results of the robustness checks document, after considering the alternative variables used, that findings are consistent with those previously reported and discussed in terms of coefficient signs, magnitude, and statistical significance level.

Table 6. Regression on the Determinants of TSR using Alternative Variable Specifications

This table summarizes the estimations on the effect of firm-, industry-, and macroeconomic-level on *TSR* generated by FE models, using alternative variables specifications. We only reported the FE since, according to the Hausman test, it is the model that provides the most consistent estimates. The results on the RE are available from the authors upon request. *, ** and *** indicate significance at the 10, 5 and 1 percent levels, respectively. Values enclosed in parentheses are the t or z statistics for coefficients.

Independent Variables	**FE (1)** ***TSR (using R&D)***	**FE (2)** ***TSR (using continuous capitalization regime)***	**FE (3)** ***TSR (using L.GeR)***	**FE (4)** ***TSR (using DebtR)***	**FE (5)** ***TSR (using ROIC)***
Firm-level					
OCF_{it}	0.0049***	0.6843***	0.0046***	0.0044***	0.0032***
	(12.09)	(54.40)	(12.44)	(11.87)	(6.88)
DtD_{it}	0.0001***	0.0013***	0.00008***		0.0005***
	(6.29)	(4.29)	(6.99)		(4.33)
KoE_{it}	0.2453***	1.4393***	0.2160***	0.2227***	0.2299***
	(28.70)	(5.75)	(27.16)	(23.49)	(24.65)
$MtoB_{it}$	-0.0770***	-0.0883***	-0.0018***	-0.0018***	-0.0009***
	(-8.43)	(-24.48)	(-14.78)	(-14.58)	(-5.10)
GDl_{it}	0.0003	0.4508***	0.0005	0.0006	0.0028
	(0.11)	(6.62)	(0.11)	(0.14)	(1.04)
$DebtR_{it}$				0.0341***	
				(5.11)	
Industry-level					
$Industry\_Dummies_{it}$	Yes	Yes	Yes	Yes	Yes
Macroeconomic-level					
GeR_{it}	0.0006**	0.0160**		0.0006***	0.0004*
	(2.49)	(2.31)		(2.74)	(1.65)
$L.GeR_{it}$			0.00056***		
			(2.75)		
Observations	25,885	14,667	26,412	26,593	17,440
Wald	36.89	64.85	54.45	52.13	18.77
	[0.000]	[0.000]	[0.000]	[0.000]	[0.000]
R^2	0.0365	0.1560	0.0699	0.0716	0.0373
Hausman test	51.12	531.75	48.18	88.96	45.52
	0.0000	0.0000	0.0000	0.0000	0.0001

V. Conclusions

Based on the findings, it is possible to present the following conclusions. First, the positive relationship between geoeconomic risk and total shareholder return indicates that stable macroeconomic and political environments significantly enhance shareholder

value. This underscores the importance of external stability for firms operating in diversified, cross-border contexts. As such, given the positive impact of geoeconomic stability on total shareholder return, TNCs should prioritize investments in regions with predictable political and macroeconomic conditions. Additionally, firms should develop risk mitigation strategies for operating in volatile environments. Moreover, TNCs should aim to balance geographic diversification with prudent management of macroeconomic exposure. While diversification offers growth potential, excessive exposure to high-risk regions may diminish these benefits.

A second important conclusion is that TNCs with negatively skewed stock returns are associated with higher corporate value, due to reduced risk premiums demanded by investors. Conversely, positively skewed returns, while potentially lucrative, lead to lower valuations due to their perceived riskiness. As such, given the nuanced investor response to skewness in returns, TNCs with positively skewed stock returns should clearly articulate the potential for high-value outcomes while addressing perceived risks. This approach is essential to maintaining investor confidence and securing long-term value creation.

A third important conclusion is that access to capital and resilience to external shocks can explain total shareholder return performance, as explained by the differences between Spanish and Portuguese TNCs. Nevertheless, as this gap narrowed during certain periods, further research needs to be done to ascertain those differences. As such, it would be interesting to analyze other small economies, such as the Dutch or Danish economies vis-à-vis large economies, such as the British, German or French economies, with diversified capital and incentives for international expansion, to comprehend the differences in performance gaps.

While negatively skewed returns are associated with higher valuations, investors do not always penalize extreme positive or negative skewness equally. As such, future studies could further investigate the consistency of risk perception and valuation frameworks in financial markets. This could be done for larger versus lower economies and different industries, with TNCs in diversified geoeconomic environments. This could also highlight how TNCs navigate fragmented geoeconomic environments, pursue global diversification, and mitigate systemic risks.

Other important research avenues could include the analysis of structural and policy differences that help explain differences between TNCs from diverse countries, exploring, for example, the impact of national policies (e.g., taxation, subsidies, or R&D incentives) on TNC competitiveness, the influence of market size, labor market flexibility, and capital access on TNC performance across countries, the resilience of TNCs in small versus large economies to macroeconomic and geopolitical disruptions.

Another complementary avenue could address how TNCs adapt their strategies in response to geoeconomic fragmentation and increasing political uncertainty, for example, identifying the operational trade-offs between regional specialization and global diversification, examining how TNCs alter their capital allocation, risk management practices, and market entry strategies under different geoeconomic scenarios, or analyzing the sectoral differences in vulnerability to geoeconomic fragmentation, especially in manufacturing versus service industries.

Finally, it would be interesting to assess the alignment between governmental policies and corporate strategies in fostering global competitiveness, namely studying how TNCs influence and respond to trade policies, sanctions, and diplomatic relations, or examining how firms navigate regulatory complexities in multi-jurisdictional environments.

Conflicts of Interest: The authors declare no conflict of interest.

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