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An internalization perspective on subsidiaries' reputation and its impact on subsidiaries' marketing advantage: The moderating roles of resources and autonomy

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ABSTRACT

Internalization theory of Multinational Enterprises (MNEs) provides a paradigm in the international business field. Contemporary discussions consider MNEs as differentiated network with self-initiated subsidiaries. However, while moving away from pure hierarchy, internalization theory has not fully particularized the coordinating mechanism across MNEs' networked subsidiaries. Accordingly, we propose a novel role of subsidiaries' reputation within their MNEs. Based on primary data from subsidiaries' perspective, our findings are threefold. First, we demonstrate that a subsidiary's reputation within the MNE is a critical driver for subsidiary-specific advantages. Second, we examine how subsidiaries' strategic actions can send signals to their headquarters and sister subsidiaries to build its reputation. Finally, along with the reputation-building process, we reveal the contingencies of subsidiaries' autonomy and resources within the MNE. Our results show that internalization enables a differentiated network mechanism constituted by reputation, autonomy control, and resource allocation across MNEs' networked subsidiaries.

1. Introduction

Internalization theory of multinational enterprises (MNEs) provides a paradigm in the international business (IB) field (Buckley & Casson, 2020; Forsgren & Holm, 2021; Narula, Asmussen, Chi, & Kundu, 2019). As a paradigm, internalization theory of MNEs allows a variety of assumptions, propositions, and perspectives to reason the comparative advantage of MNEs, such as better formal, hierarchical control (Buckley & Casson, 1976; Hymer, 1976), more effective resource allocation (Rugman & Verbeke, 2003), and favorable contexts for socialization (Hennart, 1986; Hennart, 2010). Taking the MNE as a differentiated network, internalization theory of MNEs has moved from how internalization resolves market imperfections to how internalization cultivates MNEs' competitive advantages (Buckley, 2018; Buckley & Casson, 2020; Narula, Asmussen, Chi, & Kundu, 2019; Narula & Verbeke, 2015; Rugman & Verbeke, 2003).

A great stream of research in internalization theory highlights the role of socialization across MNEs' networked headquarters and subsidiaries (Forsgren & Holm, 2022; Hennart, 2010; Meyer, Li, & Schotter, 2020; Rugman & Verbeke, 2003). According to internalization theory, when it comes to MNEs' coordination among their subsidiaries, socialization serves as an informal mechanism that complements formal, hierarchical controls (Hennart, 2010; Meyer, Li, & Schotter, 2020; Rugman & Verbeke, 2008). Rugman and Verbeke (2003) further emphasized that MNEs must employ a "balanced set of conventional coordination and control tools as well as socialization mechanisms." Building on these insights, this study firstly adopts and examines the socialization perspective within internalization theory to explore a critical phenomenon in IB management — subsidiaries' embeddedness with external and internal stakeholders (i.e. dual embeddedness). The motivation of our investigation was driven by a scholarly debate in internalization theory that questions whether subsidiaries might be excessively influenced by external stakeholders due to its external embeddedness (Buckley, 2011; Meyer, Mudambi, & Narula, 2011;

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Narula, 2014; Rugman, 2014). Verbeke and Greidanus (2009) emphasized that a mismanagement of subsidiary's internal and external embeddedness could lead to MNEs' systematic bounded reliability. However, despite the significance of the issue, there is a scarcity of studies in internalization theory considering how and why subsidiaries develop internal and external embeddedness.

Taken together, this study intends to answer the following questions: *How does the subsidiary initiate and manage its internal and external embeddedness to gain marketing advantages in the local market through reputation-building efforts within the MNE? In such process, what are the key MNE governance mechanisms encompassing the subsidiary?*

Regarding subsidiaries' goal in managing dual embeddedness, we focused on subsidiaries' marketing advantage in the local market. Marketing advantage refers to the value, relative to competing alternatives, delivered to target consumers as a result of effective marketing implementation (Day & Wensley, 1988; Morgan, 2012). Our attention on marketing advantage was driven by the following reasons. First, extant research calls for studies applying internalization theory in the marketing area (Buckley & Casson, 2011; Casson, Porter, & Wadeson, 2016). For instance, Buckley and Casson (2011) noted 'Introducing marketing explicitly into the internalization theory of the multinational enterprise considerably extends the power of the theory.' Additionally, to cultivate marketing advantage in the local market, it requires subsidiaries to combine and integrate both internal marketing assets within their MNEs as well as the external market knowledges of local consumers and stakeholders. In other words, it takes subsidiaries both firm-specific and location-specific knowledge sources to properly translate firm-specific advantages, which in turn meet local needs and preferences (Cavusgil, Zou, & Naidu, 1993; Song, Droge, Hanvanich, & Calantone, 2005). Hence, to develop marketing advantage, subsidiaries would be driven to cultivate both internal and external embeddedness, which offers an appropriate context for this study on subsidiaries' dual embeddedness management.

This study will contribute to the internalization theory in three ways.

Table 1
Selected conceptual research on internalization theory of MNEs.

Author and Year	Unit of Analysis	*Governance Mechanisms*			Key Insights
		Hierarchy (Autonomy)	Resource Management	Socialization	
Rugman and Verbeke (2003)	MNEs and headquarters'	✓	✓	✓	1. Relaxing the traditional transaction-cost-based assumptions to better understand contemporary MNEs 2. Internalization enables superior resource flow and socialization to sustain and strengthen MNEs' advantages. 3. Subsidiaries' initiatives could be critical sources of MNEs' long-term competitive advantages.
Rugman and Verbeke (2008)	MNEs and headquarters'	✓		✓	1. Suggesting MNEs' normative integration (socialization) could be more idiosyncratic and difficult to replicate than formal organizational structures and hierarchies. 2. Modern MNEs should adopt a mix of regulative (hierarchy) and normative (socialization) integrations across subsidiary network to further their comparative advantages from internalization.
Buckley (2009)	MNEs and headquarters'	✓	✓		1. Considering modern MNEs as a differentiated network of "global factories." 2. Internalization theory needs to focus more on the flexibility and the cooperative mode of operation to coordinate across networked subsidiaries and stakeholders.
Buckley and Strange (2011)	MNEs and headquarters'	✓	✓		1. The literature focuses on external market failures but neglects the internal costs of MNEs. 2. Urged studies to analyze the mechanisms of managing internal costs of information, cost of coordination, and cost of motivation (incentive schemes to align the actions across sister subsidiaries).
Meyer, Mudambi, and Narula (2011)	Headquarters and subsidiaries'	✓	✓	✓	1. While pure hierarchy does not apply, modern MNEs face the challenge of managing their subsidiary network. 2. The challenge arises from subsidiaries' structural tradeoff in balancing between their internal and external embeddedness.
Asmussen, Chi, and Narula (2022)	Headquarters and subsidiaries'	✓	✓	✓	1. Clarifying that internalization theory does not assume that the MNE is all powerful or that it can dictate the choices with its foreign business partners. 2. Proposing relational mechanisms as a complementing approach to the behavioral controls. 3. Emphasizing the learning perspective of MNEs, as it benefits MNEs with effective asset recombination when it gains experience and knowledge.
Casson (2022)	Headquarters and subsidiaries'	✓	✓	✓	1. Highlighting the inter-relatedness across hierarchy, resource allocation, and socialization. for example, hierarchical structure determines the cost of inter-communication and resource flows.ing the inter-relatedness across hierarchy, resource allocation, and socialization. For example, hierarchical structure determines the cost of inter-communication and resource flows. 2. Conceptualizing the management of subsidiaries within a MNEs as 'a team of teams.', urging more studies on the socialization perspective to enrich internalization theory.
Zeng, Grøgaard, and Björkman (2023)	Headquarters and subsidiaries'	✓	✓	✓	1. Proposing socialization to be a central approach for MNEs' control and coordination across subsidiaries. 2. The review underscores that the research field of MNE control and coordination lacks this conceptual clarity, making it difficult to navigate and expand this field of study.Urging more research on the complementarity or substitute effects across different MNEs' organizational mechanisms.

First, this study makes an initial attempt in internalization theory to holistically examine the governance mechanisms of autonomy, resource allocation, and socialization from subsidiaries' perspective. These governance mechanisms have been widely discussed across conceptual works in the field of internalization theory (see Table 1). Table 1 shows that, in the literature, it has been agreed that autonomy control, resource allocation, and socialization are the three major MNEs' governance mechanisms to coordinate MNEs' networked subsidiaries.

Specifically, Zeng, Grøgaard, and Björkman (2023) offer a critical review and highlight the importance of socialization in coordinating subsidiaries within MNEs. Their findings align with the focus of the current study. However, Zeng, Grøgaard, and Björkman (2023) also identify significant issues that requires clarification in the field. One of their concerns is a lack of theoretical clarification to address whether these MNE governance mechanisms complement or substitute from each other. In response, drawing on the latest discussions in internalization theory that conceptualize the MNE as a differentiated network (Asmussen, Chi, & Narula, 2022; Buckley & Casson, 2020; Forsgren & Holm, 2022; Narula & Verbeke, 2015; Rugman, Verbeke, & Yuan, 2011), this study incorporates the social network theory to empirically analyze subsidiaries. Our lens will extend the internalization theory by emphasizing how MNE governance mechanisms contribute to the characterization of a differentiated network across subsidiaries. Consequently, this approach provides an explanation for the management of dual embeddedness within subsidiaries.

Second, Zeng, Grøgaard, and Björkman (2023) also criticize prior research for weak definitions and operationalizations of MNEs' socialization mechanism across subsidiaries. In response, we specify and analyze a critical element of socialization within the MNE: subsidiary's reputation. Subsidiary reputation represents the collective judgments of the parent company and sister subsidiaries regarding the subsidiary's internal and external network relations. By examining subsidiary reputation, the study aims to provide a more precise and well-defined understanding of the socialization mechanism within MNEs. More specifically, the justification for focusing on subsidiary reputation is rooted in the social network theory, which suggests that an actor's reputation plays a significant role in stimulating and stabilizing its future network dynamics (Granovetter, 1985). According to this perspective, an established reputation enables an actor to safeguard and facilitate future collaborations with other networked actors (Lin, 1999). Applying these insights, this study argues that subsidiaries, when initiating and managing their internal and external network embeddedness, are aware of the potential impact on their reputation within the MNE. Therefore, this study proposes a novel approach by examining subsidiary reputation to assess whether it functions as a critical socialization mechanism within MNEs.

Finally, the study extends the insights from a subsidiary-centric perspective to shed light on how MNEs moderate the socialization mechanism across subsidiaries. Contemporary research in internalization theory conceptualizes the MNE as a specialized network rather than a pure hierarchy (Buckley, 2018; Buckley & Casson, 2020; Kano & Verbeke, 2019; Rugman, Verbeke, & Yuan, 2011). However, in moving beyond the pure hierarchy, the motivation for subsidiaries to maintain their integration within the MNE remains a conceptual gap in the literature (Buckley, 2011; Buckley & Strange, 2011). As moving away from pure hierarchy allows subsidiaries to develop self-initiated activities within the MNEs, subsidiary-centric research in internalization theory becomes essential. Without considering subsidiaries' perspective, it is challenging to fully understand whether internalization theory addresses the incentives and mechanisms behind subsidiaries' balances and tradeoffs in dual embeddedness management. By adopting a subsidiary-centric approach, the study provides more nuanced insights into the socialization dynamics of internalization theory.

This study is organized as follows. First, we present the theoretical background. Then, we provide our conceptual framework and hypotheses, followed by research design, method, and empirical findings. Finally, we conclude with the implications for theory and practice, research limitations and our recommendations for future study.

2. Theoretical background

2.1. Internalization theory, governance mechanisms, and subsidiary

Internalization theory of MNEs addresses MNEs' governance mechanisms in building comparative efficiency and effectiveness (Buckley & Casson, 2020; Forsgren & Holm, 2022; Narula, Asmussen, Chi, & Kundu, 2019; Strange & Humphrey, 2018). Contemporary research regards MNEs as differentiated networks to gain and sustain competitive advantages (Buckley & Casson, 2020; Forsgren & Holm, 2022; Narula, Asmussen, Chi, & Kundu, 2019; Rugman & Verbeke, 2003). Overall, internalization theory provides a paradigm to understand how MNEs enhances "the capacity to orchestrate complex networks" (p. 1747, Asmussen, Chi, & Narula, 2022).

As illustrated in Table 1, extant research delineates the internal governance mechanisms of MNEs (Buckley, 2011; Buckley & Strange, 2011; Meyer, Mudambi, & Narula, 2011; Rugman & Verbeke, 2003; Rugman & Verbeke, 2008). These discussions address how internalization enables MNEs with multiple governance mechanisms for their subsidiaries, such as managements of autonomy (Buckley, 2010; Buckley & Strange, 2015), resources (Buckley, 2018; Rugman & Verbeke, 2003), and socialization (Rugman & Verbeke, 2003; Rugman & Verbeke, 2008). To elaborate, decision-making autonomy, also named hierarchy, fiat, or formal control in the literature, is a classic governance mechanism in addressing market imperfections (Hennart, 1993; Strange & Humphrey, 2018; Williamson, 1991). Resource management arises from MNEs' internalized routines and infrastructures, which enables the comparative effectiveness of resource storage and allocation across subsidiaries (Buckley, 2018; Dunning & Lundan, 2008). Socialization is widely addressed as an informal integration mechanism that complements the formal, regulated controls on subsidiaries (Hennart, 1993; Rugman & Verbeke, 2003; Rugman & Verbeke, 2008). Building upon these conceptual insights, scholars have undertaken empirical studies to investigate and validate these ideas. In Table 2, we provide a summary of relevant empirical research on subsidiary that adopts the lens of internalization theory and demonstrate the following gaps in the literature stream.

First, while socialization mechanism in coordinating subsidiaries has been extensively discussed in conceptual works (Table 1), empirical research on how subsidiary benefit from socialization mechanisms in achieving its goals is limited (Table 2). Most empirical works on internalization advantage for subsidiaries focus on the mechanisms of autonomy control and resource allocation (Bowman, Foulser-Piggott, & Beamish, 2023; Contractor, Yang, & Gaur, 2016). The lopsided focus of these empirical studies implies the need for an empirical investigation on (1) How does MNEs' internal socialization mechanism influence their subsidiaries? (2) How does socialization complement with the mechanisms of autonomy control and resource allocation?

Second, related to the previous point, conceptual research has consistently emphasized the need for empirical studies that "access primary data provided by firms and managers themselves" (Rugman & Verbeke, 2003, p. 135) to analyze MNEs' combination of governance approaches (Buckley & Casson, 2020; Rugman, 1981). In other words, extant research calls for primary investigations into the "black box" of MNEs' internal governance mechanisms (Buckley & Strange, 2011; Rugman & Verbeke, 2008). However, as illustrated in Table 2, empirical research on subsidiaries have predominantly adopted secondary data (Contractor, Yang, & Gaur, 2016; Gaur, Pattnaik, Singh, & Lee, 2019; Mohr, Konara, & Ganotakis, 2020). While this approach allows for the examination of autonomy control and resource allocation mechanisms — as these variables can be adequately captured through secondary data proxies — it leads to a disproportionate focus on these aspects. Overall, relying solely on secondary data in prior research on subsidiaries within

Table 2
Selected empirical research on subsidiary based on internalization theory.

		Variables for MNE Governance Mechanisms			*Data Characteristics*	
Author and Year	**Unit of Analysis**	**Hierarchy (Autonomy)**	**Resource Management**	**Socialization**	**Primary/ Secondary Dataset**	**Subsidiary Performance Indicator**
Nguyen and Rugman (2015)	Subsidiaries	• Subsidiary-level financial management decision-makingSubsidiary autonomy	• Subsidiary internal equity financing	NA	Combination of Primary and Secondary datasets.	• Subsidiary financial performanceMarket share growth compared with competitors.
Contractor, Yang, and Gaur (2016)	Subsidiaries	• Equity ownership structure	• Intangible assetsPatents	NA	Secondary dataset.	• Subsidiary profitability measured by its return on assets.
Castaldi, Gubbi, Kunst, and Beugelsdijk (2019)	MNEs and subsidiaries	• Equity ownership structure	• Business group affiliation of the parent firm.	NA	Secondary dataset.	• Subsidiary profitability measured by its return on assets.
Gaur, Pattnaik, Singh, and Lee (2019)	MNEs and subsidiaries'	• Equity ownership structure	• Subsidiary human capital intensity • Subsidiary advertising intensityParent firm R&D intensity	NA	Secondary dataset.	• Subsidiary's survival in the host markets.
Mohr, Konara, and Ganotakis (2020)	Subsidiaries	NA	• Labor productivityLabor productivity growth	NA	Secondary dataset.	• Foreign-to-domestic ownership change.
Bowman, Foulser-Piggott, and Beamish (2023)	MNEs and subsidiaries	• Equity ownership mode	• Parent experience in natural disasters Parent R&D intensity • Parent advertisement intensity	NA	Secondary dataset.	• Subsidiary's survival in the host markets.
The current study	*Subsidiaries*	*Subsidiaries' autonomy within the MNEs*	*Subsidiaries' resources within the MNEs*	*Subsidiaries' reputation within the MNEs*	*Primary dataset.*	• *Subsidiaries' marketing advantage.*

the context of internalization theory might overlook crucial variables, such as socialization mechanisms. Hence, there is a need for primary studies that provide a more comprehensive understanding.

Finally, with the evolution of internalization theory, the notion of a pure hierarchy has been replaced by the recognition that subsidiaries have a certain level of self-initiation (Buckley, 2011; Buckley & Strange, 2011; Rugman & Verbeke, 2003). However, even within the same MNE, subsidiaries typically have different sources of information, strategic goals, and local reprioritization. The existing literature extensively discusses the coordination challenges faced by modern MNEs in aligning subsidiary activities (Kano & Verbeke, 2015; Narula, Asmussen, Chi, & Kundu, 2019). It remains unclear regarding how MNEs integrate and coordinate across self-initiated subsidiaries (Buckley, 2011; Buckley & Strange, 2011; Mudambi, 2011; Verbeke & Greidanus, 2009). In particular, Meyer, Mudambi, and Narula (2011) provide a seminal discussion and pointed out MNEs' coordination challenge largely results from subsidiaries' local tradeoff between internal and external embeddedness. Nevertheless, in internalization theory, empirical research focusing on subsidiaries' dual embeddedness remains scarce.

Taken together, to fill these gaps in the literature, we develop a subsidiary-centric examination with primary data on socialization, internal and external embeddedness, level of autonomy, and level of resource availability. Our approach offers a logical and essential step to better understand how internalization enables differentiated governance mechanisms across networked subsidiaries within MNEs.

2.2. Subsidiary reputation

To analyze the role of socialization in the MNE network, we focus on subsidiaries' internal network reputations, driven by insights from social network theory. Following the latest research in internalization theory, which views the MNE as a differentiated network (Rugman & Verbeke, 2003; Rugman & Verbeke, 2008; Rugman, Verbeke, & Yuan, 2011), we incorporate social network theory to address how a subsidiary coordinates with other internal and external network actors to develop its reputation within the MNE.

Social network theory emphasizes reputation within the network (Burt, 2000; Granovetter, 1985; Jones et al., 1997; Lin, 1999, 2008). In their review of organizational reputation, Lange, Lee, and Dai (2011, p.15) suggest that "reputation entails perceptions that the firm has a particular attribute of interest or value to the perceiver." Rindova, Williamson, Petkova, and Sever (2005) specify two requirements for organizations to build reputation: (1) stakeholders should evaluate an organization positively on a specific attribute and (2) an organization should receive large-scale collective recognition in its field. These two criteria apply in our research context because a subsidiary belongs with other subsidiaries in the MNE network and its strategic actions are evaluated by headquarters and its sister subsidiaries (Anderson, Håkansson, & Johanson, 1994; Ring & Van de Ven, 1994). Due to the conceptual relevance to internalization theory, internal and external embeddedness are viewed as strategic actions taken by subsidiaries. As network embeddedness can be considered a signal of subsidiary quality and intention (Gulati & Higgins, 2003; Park & Mezias, 2005), subsidiary reputation is generated when other stakeholders within the MNE perceive and judge a focal subsidiary's acts based on its unique set of relations with internal and external network members (Afuah, 2013; Anderson, Håkansson, & Johanson, 1994; Håkansson & Johanson, 1988).

Social network theory suggests that each actor adopts strategic actions according to its long-term interests in the network (Granovetter, 1983, 1985; Lin, 1999). Accordingly, we posit that each subsidiary constantly seeks a prestigious reputation within the MNE network, as this may be beneficial for the subsidiary's information access and future collaboration with other internal stakeholders (Anderson, Håkansson, & Johanson, 1994; Jones et al., 1997). Therefore, subsidiaries are expected to be motivated to cultivate their own reputations within the MNE. In addition, social network theory argues when network access is restricted and closed-ended, the role of socialization is likely to be more important (Jones et al., 1997; Lin, 2002). As subsidiaries within the MNE network can only be established via internalization, the entire MNE characterizes

a severely restricted, closed network, and thus the subsidiary's reputation within its MNE becomes critical. Accordingly, we argue that the subsidiary deliberately considers its reputation when taking strategic actions.

2.3. Subsidiary internal and external embeddedness

Regarding a subsidiary's strategic actions in the MNE, we focus on the former's efforts to initiate and manage its internal and external network embeddedness. As discussed, managing these relationships remains a critical issue in internalization theory, as mismanagement could lead to grievous issues for MNE governance (Buckley, 2011; Buckley & Strange, 2011; Li, Liu, & Thomas, 2013; Rugman & Verbeke, 2003; Rugman, Verbeke, & Yuan, 2011). Internal and external embeddedness, in our study, refer to knowledge exchanges between the focal subsidiary and its internal and external stakeholders, respectively. Specifically, to extend internalization theory's understanding of a subsidiary's local marketing, we focus on its market knowledge exchanges. Buckley and Casson (2014) note that "Bridging the gap between the economic theory of the MNE and marketing theory would have significant advantages for both subjects. The applicability of MNE theory would be extended, and its predictive implication for international marketing would be refined." To address this call, this study considers a subsidiary's local marketing advantage and thus includes the subsidiary's knowledge exchanges with internal and external stakeholders. For subsidiaries, successful marketing requires both (1) sufficient knowledge of the MNE's existing market-based assets and resources and (2) appropriate knowledge of the local market to competently translate the MNE's market-based assets and resources into proper local marketing implementations.

From rich discussions in MNE internalization theory, a stream of literature in subsidiary evolvement has explored the challenges of internal and external embeddedness (Figueiredo, 2011; Forsgren, Holm, & Johanson, 2005; Garcia-Pont, Canales, & Noboa, 2009; Meyer et al., 2011). Scholars argue that external network embeddedness with host-market stakeholders is essential for subsidiaries to access local market knowledge (Andersson, Forsgren, & Holm, 2001; Birkinshaw, Hood, & Young, 2005; Hallin, Holm, & Sharma, 2011; Mudambi, 2011). However, an excessive level of external network embeddedness may cause the subsidiary to be less integrated in the MNE because it may be influenced more by its stakeholders in the local market than by those within the MNE network (Andersson & Forsgren, 1996; Gammelgaard, McDonald, Stephan, Tüselmann, & Dörrenbächer, 2012). Likewise, while internal network embeddedness benefits subsidiaries in transferring and leveraging firm-specific advantages (Garcia-Pont et al., 2009), an excessive level of such connections creates challenges around organizational inertia (Meyer et al., 2011). Therefore, subsidiaries' internal and external embeddedness has been a central focus across multiple IB literature streams. These discussions support our notion of subsidiaries' internal and external embeddedness as key strategic actions within the MNE.

We apply social network theory and propose that the subsidiary should consider its reputation while developing its internal and external embeddedness. Our application of social network theory is consistent with the contemporary discussions of MNE internalization theory that regard the MNE as a specialized network (Buckley, 2018; Buckley & Casson, 2020; Narula & Verbeke, 2015; Rugman, 2014). Studies based on social network theory show that a company's network reputation is the aggregate level of quality attributed to the company based on its prior relationships in the network (Swaminathan & Moorman, 2009). A company's strategic actions send signals to associated networked stakeholders (Roberts & Dowling, 2002); therefore, before executing business decisions that the MNE feels will build or maintain its reputation, the company should consider how its networked stakeholders might perceive and interpret such decisions (Connelly, Certo, Ireland, & Reutzel, 2011). Thus, reputation puts pressure on companies to maintain the integrity of its signals (Rao, Qu, & Ruekert, 1999). In our research context, we argue that the subsidiary's levels of internal and external embeddedness send signals to its stakeholders within the MNE, and this signaling shapes the subsidiary's reputation internally (Gulati & Higgins, 2003; Park & Mezias, 2005). Overall, our notion furthers insights into the socialization aspects of internalization theory (Buckley, 2011; Buckley & Strange, 2011; Forsgren & Holm, 2022; Rugman & Verbeke, 2003; Verbeke & Greidanus, 2009).

3. Conceptual framework and hypotheses

Our conceptual framework considers a subsidiary's strategic actions, namely internal and external network embeddedness, and examines their impacts on subsidiary reputation (see Appendix A). Accordingly, we analyze how subsidiaries can achieve a local marketing advantage through reputation-building efforts. Moreover, we examine how such socialization processes can be contingent upon decision-making autonomy and resource allocation, which represent the subsidiary's conditions determined by the MNE.

3.1. Network embeddedness and subsidiary reputation

Based upon the idea that firms are embedded in social networks (Burt, 1992; Dyer & Singh, 1998; Granovetter, 1985; Uzzi, 1996), a subsidiary is simultaneously embedded in two business contexts: the internal MNE network and the external (host country) network (Ghoshal & Bartlett, 1990). In this study, a focal subsidiary is considered tied to actors in its internal and external networks via flows of knowledge that may pertain to customers, competitors, suppliers, sales, and/or technology. The existence of collaborative ties and relationships drives the process of knowledge exchange and interactions (Tsai & Ghoshal, 1998; Yamin & Andersson, 2011). Accordingly, a focal subsidiary's internal network embeddedness is associated with its knowledge relationships and interactions with headquarters and its sister subsidiaries (Achcaoucaou, Miravitlles, & Leon-Darder, 2014; Garcia-Pont et al., 2009; Michailova & Zhan, 2015; Yamin & Andersson, 2011). Similarly, the level of external network embeddedness is the result of a focal subsidiary's knowledge ties with external local actors (e.g., customers, distributors, suppliers) (Andersson & Forsgren, 1996; Andersson, Forsgren, & Holm, 2002; Michailova & Zhan, 2015; Nell, Ambos, & Schlegelmilch, 2011; Yamin & Andersson, 2011).

The concept of embeddedness has been employed to stress the crucial role of ties with other actors as a driver of a subsidiary's distinct role in the MNE network (Andersson, Forsgren, & Holm, 2002, 2007; Forsgren, Holm, & Johansson, 2005; Garcia-Pont et al., 2009; Polidoro, Ahuja, & Mitchell, 2011; Powell, Koput, & Smith-Doerr, 1996; Yamin & Andersson, 2011). Adopting the social network view that proposes network ties signal the unobservable characteristics of network entities (Podolny, 2001), we expect subsidiaries with a high degree of internal/external embeddedness to develop a reputation within the MNE (Polidoro, Ahuja, & Mitchell, 2011; Powell, Koput, & Smith-Doerr, 1996). As the subsidiary is a sub-unit of the MNE network, *subsidiary reputation* reflects how a focal subsidiary's abilities and motivations are perceived by headquarters and the sister subsidiaries.

Internal network embeddedness depends upon the amount of collaborative ties between a focal subsidiary and its parent MNE and/or sister subsidiaries (Tsai & Ghoshal, 1998). Subsidiaries with more experience in collaborating with other units are likely to position themselves in knowledge-rich networks and to become more embedded in the MNE network (Powell, Koput, & Smith-Doerr, 1996). A high degree of internal embeddedness can create opportunities for a focal subsidiary to learn from other units as well as to share knowledge within the MNE (Bartlett & Ghoshal, 1989). Internally embedded subsidiaries can quickly identify and access new knowledge available within the MNE network. In addition, they can be involved in more timely knowledge exchanges with other units via benefit-rich networks. As there are common organizational norms, routines, and practices in the

MNE to which the subsidiary belongs, subsidiaries embedded in their own internal network may exchange a set of knowledge with other units that is relatively easy to learn (Michailova & Zhan, 2015), and thus may develop distinct competencies. Moreover, internally embedded ties entail joint problem solving arrangements that enable the focal subsidiary to coordinate activities and work through problems with other units in its internal network (Uzzi, 1996). As a result, internally embedded subsidiaries signal their motivations to contribute to other units in the MNE as well as to develop and build upon trust-based ties. Accordingly, we argue that internal network embeddedness positively increases the focal subsidiary's reputation, which can be attributed to its trust-based relations, contributions to the MNE network, and distinct competencies. Thus, we hypothesize the following:

Hypothesis 1b. *Hypothesis 1a: The greater the degree of a subsidiary's internal network embeddedness, the higher will be the subsidiary's reputation.*

On the other hand, a focal subsidiary that is strongly embedded in its external network can gain knowledge through its interactions with a diverse set of actors in that local environment (e.g., customers, distributors, and suppliers). Such local knowledge is distinct from knowledge sourced in the internal network, which carries the traits and imprint of the MNE (Michailova & Zhan, 2015). Subsidiaries with more cooperation experience in their local environment are better able to locate themselves in knowledge-rich positions. When a subsidiary gains access to knowledge by forming ties with various actors in its local environment, it is more likely to develop knowledge that is heterogeneous, unique, and novel (Huber, 1991). Due to its wide portfolio of relationships, subsidiaries embedded in their external networks are more likely to develop specialized knowledge resources relative to other subsidiaries in the MNE network (Andersson, 2003; Li, Liu, & Thomas, 2013; Michailova & Zhan, 2015). External network embeddedness may enable a subsidiary to build a strong reputation by becoming an entity recognized for its distinct knowledge within the MNE network (Moore, 2001; Moore & Birkinshaw, 1998). Furthermore, it holds the potential for knowledge spillovers into other units in the MNE. Several studies suggest that externally embedded subsidiaries can hold formally assigned roles, such as being a center for research and development (R&D) or a capability provider, and be trusted for their potential benefits to other units in the MNE network (Andersson, 2003; Michailova & Zhan, 2015). Consequently, such subsidiaries can attract attention and recognition from the MNE parent and/or sister subsidiaries. Within their MNE networks, subsidiaries with high external embeddedness may be perceived as having the ability and motivation to create value relative to others, thereby building a strong reputation. Accordingly, we propose:

Hypothesis 1b. *The greater the degree of a subsidiary's external network embeddedness, the higher will be the subsidiary's reputation.*

3.2. Subsidiary reputation and subsidiary marketing advantage

Signals can be used to reduce information asymmetries between two parties (Spence, 1973). Within the MNE network, the two types of information asymmetry are subsidiary ability and motivation (Elitzur & Gavius, 2003). As parent MNE and sister subsidiaries' individual interpretations of the focal subsidiary's previous actions and performance aggregate into collective judgments, signals about the subsidiary's abilities and motivations diffuse in the MNE network, thereby building up the reputation of the subsidiary in its internal network (Achrol, 1997; Coleman, 1988; DiMaggio & Powell, 1983; Podolny, 1993; Raub & Wessie, 1990; Rindova, Williamson, Petkova & Sever, 2005). Accordingly, subsidiaries with good reputation may have established trustworthiness and competence in their MNE networks.

Subsidiary reputation is a valuable intangible resource in which the subsidiary invests, and thus an important source of marketing advantage (Barney, 1991; Fombrun & Shanley, 1990; Lamotte, Chalencon, Mayrhofer, & Colovic, 2021; Rindova, Williamson, & Petkova 2010; Podolny, 1993; Wilson, 1985). Here, *marketing advantage* refers to the superior value delivered to target markets relative to competing alternatives as a result of a subsidiary's marketing strategy implementation efforts (Day & Wensley, 1988; Morgan, 2012). Specifically, marketing strategy involves product, promotion, distribution, and pricing decisions correlated with the strategic ambitions of the subsidiary (Cook, 1985; Culliton, 1948; Vorhies & Morgan, 2005). A subsidiary's high-reputation network may be associated with its marketing advantage for the following reasons: Subsidiaries with greater reputational advantages aspire to enhance their marketing advantage, and thus are more likely to search for new marketing opportunities or to make riskier strategic moves. Furthermore, as reputation is the result of subsidiaries' past actions and performance, managers of subsidiaries with good reputations may feel more confident about their own abilities to create value from their strategic marketing actions. From the signaling perspective, reputation acts as a signal to reassure headquarters and the sister subsidiaries of the focal subsidiary's ability to respond to current and emerging market expectations. This positive signal received by other units in the MNE network may enhance those units' willingness to cooperate with and support the subsidiary in its marketing activities. In addition, well-reputed subsidiaries can anticipate that their current behavior will affect not only the immediate benefits that they will accrue in the current relationship, but also the subsequent behavior of other units in the MNE network, and thus their own future outcomes. This relationship may require them to trade short-term pay-offs for long-term advantages (Fudenberg & Kreps, 1987; Raub & Weesie, 1990; Shapiro, 1983; Wilson, 1985). Thus, subsidiaries with a high reputation may feel pressure to maintain successful relationships within their networks, which could be translated into a superior marketing advantage. As a result, the subsidiary can leverage its relationships to build superior competencies relating to product, promotion, distribution, and/or pricing management and achieve more or better outcomes than its competitors due its marketing competence. Collectively, reputational advantages may spill over to the subsidiary's marketing activities in the local market. Therefore, we posit the following:

Hypothesis 2. *The greater the subsidiary's reputation, the greater will be that subsidiary's marketing advantage.*

3.3. The moderating effects of subsidiary autonomy on subsidiary reputation

In MNE-network studies, MNEs are not uniform units, but are differentiated in terms of their relationships with subsidiaries (Ghoshal & Bartlett, 1990; Nohria & Ghoshal, 1997). Within this differentiated MNE network, each relationship between a parent company and a subsidiary is unique in terms of the degree of autonomy (Gammelgaard et al., 2012). Subsidiary autonomy is defined as the degree of freedom or independence of a subsidiary, which allows it to make strategic and/or operational decisions on its own behalf (Birkinshaw, Hood, & Jonsson, 1998; Li, Liu, & Thomas, 2013). The extent of decision-making autonomy given to the subsidiary can determine how it may leverage its embedded relationships with other units within the MNE network (internal network) or outside the boundaries of the MNE (external network) to maximize its business performance.

One important source of knowledge for the subsidiary is the internal MNE environment. The focal subsidiary's internal network embeddedness comprises knowledge links with the parent company and sister subsidiaries that contribute to the development of its own knowledge base. Based on the transnational corporation view of Bartlett and Ghoshal (1989), knowledge generated in all parts of the MNE is shared across the entire internal network. From the signaling perspective, subsidiaries with knowledge ties in the internal network can send signals to the parent company and/or sister subsidiaries about their abilities and intentions (Elitzur & Gavius, 2003; Gulati & Higgins, 2003). Accordingly, we argue that autonomous subsidiaries well embedded in the

MNE network will send stronger signals that they have the ability to develop competencies as well as are willing to integrate themselves into the MNE. This in turn will enhance reputational advantages for the subsidiary.

Autonomy allows the subsidiary to act proactively and leverage its internal network embeddedness to generate potential contributions to the MNE (Garcia-Pont et al., 2009) and thereby enhance its reputation. Internal network embeddedness shifts the focal subsidiary's motivations away from the narrow pursuit of immediate economic gains toward the enrichment of trust, reciprocity, and a long-term perspective in its relationships (Larson, 1992; Uzzi, 1996). A study by Garcia-Pont et al. (2009) shows that an internally embedded subsidiary can use this position to achieve subsidiary distinction, defined as the differentiation of the subsidiary from the rest of the MNE. Achieving distinction is an important determinant of subsidiary survival and thus an integral part of subsidiary strategy. At the same time, subsidiaries strive to achieve a balance between being too different from the rest of the MNE (to avoid the risk of being dismantled) and being too similar to other units within the MNE (to prevent being redundant). In order to achieve balance, the focal subsidiary may leverage its autonomy to better integrate in its MNE network and develop ties with the parent company and sister subsidiaries involving knowledge exchanges. Autonomous subsidiaries can send stronger signals about their trustworthiness and competencies, resulting in a better reputation. Thus, we propose:

Hypothesis 3a. *An increase in subsidiary autonomy increases the positive effect of that subsidiary's internal network embeddedness on the subsidiary's reputation.*

Externally embedded subsidiaries establish and maintain unique and idiosyncratic business linkages with local actors (e.g., customers, distributors, and suppliers), and conduct interactive learning processes through fine-grained information exchange and trust (Uzzi, 1996). Because external embeddedness requires the mutual adaptation of activities between a subsidiary and its local business partners, it can develop highly context-specific knowledge resulting from its in-depth involvement in the local environment (Najafi-Tavani et al., 2015; Sumelius & Sarala, 2008). Thus, the focal subsidiary's external network embeddedness can be considered a strategic source of knowledge (Andersson, Forsgren, & Holm, 2007; Uzzi & Lancaster, 2003) that can be exchanged with the parent company and sister subsidiaries (Achcaoucaou, Miravitlles, & Leon-Darder, 2014; Ambos, Ambos, & Schlegelmilch, 2006). To the extent that the focal subsidiary acquires and/or creates valuable knowledge for the MNE, the parent company and sister subsidiaries become dependent on it to some degree, and a relationship of mutual dependence between the focal subsidiary and other units emerges. From the signaling perspective, the subsidiary's interorganizational ties with local actors act as signals of its competencies and intentions, which in turn influence its reputation.

However, while externally embedded subsidiaries can provide access to a variety of knowledge and competencies, autonomy may diminish the focal subsidiary's interest in contributing to the overall performance of the MNE. Subsidiaries with a high degree of autonomy can have the flexibility to cope with the local market and adapt business practices to local demands (Ambos & Birkinshaw, 2010; Harzing, 1999; Roth, Schweiger, & Morrison, 1991). A subsidiary may be given more autonomy because it is in a better position than headquarters to evaluate the needs and demands of the particular market that it serves. Subsidiary managers with autonomy have more freedom to make resource allocation decisions, as they are more able to identify the particular resources needed and to deploy them appropriately to meet the requirements of important customers, distributors or suppliers (O'Donnell, 2000). Hence, autonomous subsidiaries can be easily distracted from the main goals and objectives of the MNE (Asakawa, 2001). We expect that autonomous subsidiaries embedded in close and reciprocal knowledge relationships with local actors will send signals that they are more likely to use their decision-making freedom to leverage these business linkages to benefit themselves at the expense of MNE. These autonomous subsidiaries may display dysfunctional behaviors that may lead to relationship damage within the MNE network (Homburg & Prigge, 2014). As a result of conflict and distrust that may occur between the focal subsidiary and other units in the MNE network, subsidiary autonomy is expected to diminish the positive effects of external embeddedness on subsidiary reputation. Thus, we propose:

Hypothesis 3b. *An increase in subsidiary autonomy decreases the positive effect of that subsidiary's external network embeddedness on the subsidiary's reputation.*

3.4. The moderating effect of resource allocation to the subsidiary on marketing advantage

In the MNE network, headquarters is the principal unit, justifying its status by creating value for the MNE as a whole. Accordingly, it bears a holistic responsibility for the overall operations of the MNE and plays a critical role in the evolution of subsidiaries (Birkinshaw & Hood, 1998). One managerial action that headquarters employs to create value is to engage in resource allocation for subsidiary activities. That is, headquarters is responsible for managing an internal capital market by owning the control rights for allocating resources to the projects carried out by its subsidiaries (Dellestrand & Kappen, 2012). Hence, it acts as an orchestrator of resources and is primarily interested in allocating resources efficiently across its network of subsidiaries to exploit local opportunities while maintaining a global focus (Bartlett & Ghoshal, 1989; Nohria & Ghoshal, 1994). Headquarters often operates under resource constraints, and thus must prioritize and support subsidiary projects that have the potential to add value to the MNE as well as that enable the subsidiary to achieve a competitive advantage in its local market (Hymer, 1976).

A subsidiary may be allocated resources by headquarters for several reasons. First, headquarters develops overarching strategies and allocates resources to the subsidiary with the intention of creating value for the MNE as a whole. This function is an indication that the subsidiary possesses capabilities that are valuable for the MNE's value creation (Holm & Pedersen, 2000). Second, headquarters' resource allocation to a subsidiary can signal its intent to grant advanced status, which in turn provides the subsidiary's project with organizational legitimacy and trust (Fidler & Johnson, 1984). Third, as headquarters is assumed to operate with superior knowledge regarding internal and external markets, it can protect subsidiaries from the external market by allocating resources to the subsidiaries in which it feels they are needed most (Dellestrand & Kappen, 2012). Through this method, subsidiaries can obtain additional resources from within the MNE at a lower cost than they could on the external market.

According to the resource-based view of a firm, resources are heterogenous across firms, and thus firms are able to create a marketing advantage relative to competitors due to resource heterogeneity (Peteraf, 1993). Resource heterogeneity results from the possession of both tangible and intangible resources. Firm resources enable the firm to conceive of and implement marketing strategies that improve its competitiveness in the marketplace (Barney, 1991). Based on this literature, we expect subsidiary reputation, a key intangible resource, to have a stronger effect on marketing advantage when subsidiaries are allocated valuable resources by headquarters (Barney, 1991; Day, 1995). A subsidiary's reputational advantages will enhance cooperation with other units of the internal network in its marketing operations. Good reputation coupled with resources will facilitate value creation for the MNE as a whole, thus providing the subsidiary with a greater marketing advantage. In addition, subsidiaries with a good reputation will feel more pressure to be involved in marketing competence development, and be motivated to commit to the success of their projects so they can maintain their advanced status. Thus, well-reputed subsidiaries with greater resources are more able to develop and implement their

marketing strategy efforts successfully, thus achieving a marketing advantage. That is, subsidiaries with greater resource support can enjoy more positive spillovers from their reputational advantages to their marketing operations. Thus, we hypothesize the following:

Hypothesis 4. *An increase in headquarters' resource allocation to the subsidiary increases the positive effect of that subsidiary's reputation on the subsidiary's marketing advantage.*

4. Data and methods

4.1. Data collection

The data used in this study were collected from 234 subsidiaries located in Turkey, one of the most rapidly emerging economies where MNEs prefer to invest (worldpopulationreview.com, 2022). Therefore, selecting Turkey allowed us to sample many subsidiaries with different marketing activities. These subsidiaries belong to MNEs with headquarters in 32 countries across North America, Europe, Asia, and Australia. On average, the subsidiaries have been in business for 16.3 years. The number of employees ranges from 50 to 350. To identify MNEs in Turkey, we compiled and compared lists of foreign-capital companies from secondary sources. These sources included the *Bulletin of International Direct Investment Data*, prepared by Turkey's under secretariat of treasury, the *Capital Journal*'s list of "Turkey's Top 500 Private Companies", the "List of Companies with Foreign Capital" published by the International Investors Association of Turkey, and Nielsen Market Research Company's "Top 100 Advertisers" list. After this comprehensive search and a screening process, 539 firms were found to be suitable according to two preliminary criteria: (1) the share of foreign capital in the capital composition of the subsidiary should be at least 50% or higher, and (2) the subsidiary should have a marketing/sales department. These subsidiaries were involved with manufacturing (12.4%), service (35%), and trade (52.6%) operations.

Data collection was conducted in two stages. In stage one, the firms were contacted by telephone and informed about the purpose of the study. In addition to requesting the company's participation, we requested the names and contact details of executives whom we could subsequently contact. To identify the key informant, we asked for senior-level managers who were knowledgeable about the subsidiary's activities, strategies, and performance. Next, these managers were contacted by telephone and asked to participate in the study. They were also sent an email, which included a cover letter accompanied by a statement of research objectives. A second round of emailing and follow-up calls took place two weeks after the first emailing as a reminder to those who did not respond to the first email. Participating companies were promised an executive report summarizing the results of the study.

In stage two, we contacted managers who were willing to participate in the study to arrange face-to-face interviews. Of the 539 companies, 234 agreed to participate, resulting in a response rate of 43.4%. For each subsidiary company, we asked two manager informants to fill out the two sections of the survey. Senior marketing/product/brand managers answered a questionnaire about internal and external network embeddedness, subsidiary reputation, subsidiary autonomy, resource allocation, market performance, and financial performance variables. Assistant marketing/product/brand managers were assigned a questionnaire about product advantage, promotion advantage, distribution advantage, and pricing advantage variables. We used several control variables to account for effects that we do not explore in the study. These effects were drawn from previous literature (Ciabuschi, Dellestrand, & Martin, 2012; Nell, Ambos, & Schlegelmilch, 2011). The control variables, such as subsidiary size (employee numbers), subsidiary sales (sales numbers from the previous accounting year), and subsidiary experience (years of operation in Turkey) were reported by both managers. We cross-checked the control variables across paired questionnaires afterwards to ensure that they matched.

4.2. Measures

We tested the scales in accordance with previous studies in the literature, and their adaptation found to be in line with the subject and scope of our study. In addition to existing scales, we generated new scales in accordance with the theoretical basis and purpose of this study, using the framework proposed by Churchill (1979). We conducted a comprehensive literature review to determine the intended use of the scales and to evaluate their application in similar studies. The definitions, foundational origins, and selected quotes of the focal constructs in internalization theory is summarized in Table 3.

Specifically, we defined constructs, generated an item pool, and determined measurement formats. We developed multiple item scales based on the international business, social network, and marketing literatures. The initial item pool was reviewed by a number of experts in academia and industry. A pilot test was conducted with 15 managers and five academics. Through this process, the appropriateness of the questions in the survey was examined for their validity of measurement. On the basis of this review, some statements were dropped and others were modified. The measures were originally designed in English and then translated into Turkish, with the Turkish version carefully proofread by two native speakers. The final draft was then back-translated into English to examine the accuracy of the survey content (Dawson & Dickinson, 1988) (see Appendix B).

Network embeddedness refers to the existence of ties between a subsidiary and its internal and external network partners (Echols & Tsai, 2005; Gulati & Gargiulo, 1999; Uzzi, 1996). Drawing on the social network literature, in our study, a subsidiary's network ties are represented by its knowledge exchanges with network partners (Polidoro, Ahuja, & Mitchell, 2011). Accordingly, *internal network embeddedness* measured the extent to which a subsidiary has knowledge exchanges with headquarters and sister subsidiaries, while *external network embeddedness* assessed the extent to which a subsidiary has knowledge exchanges with external actors in the local market. Consistent with the network literature, network embeddedness was measured as the ratio of actual knowledge ties to potential knowledge ties that a subsidiary can have in its internal and external network (Ghoshal & Bartlett, 1990). To measure internal network embeddedness, we first calculated the potential number of a subsidiary's knowledge acquisition and knowledge-sharing ties with headquarters and sister subsidiaries for five different types of knowledge: customers, competitors, suppliers, sales, and technology (see Appendix B). Accordingly, the total number of potential internal knowledge linkages for each subsidiary is 20. Then, we divided the total number of a subsidiary's actual knowledge ties by the total number of potential knowledge ties in its internal network. To measure external network embeddedness, we first calculated the potential number of a subsidiary's knowledge acquisition and knowledge-sharing ties with its external partners in the network for five different types of knowledge, as illustrated in Appendix B. Thus, the total number of potential external knowledge linkages for each subsidiary is 10. Then, we divided the total number of a subsidiary's actual knowledge ties by the total number of potential knowledge ties in its external network.

Subsidiary reputation was measured by three items. We reviewed the literatures on organizational reputation (Lange, Lee, & Dai, 2011; Raub & Weesie, 1990; Rindova, Williamson, Petkova, & Sever, 2005) and network identity (Anderson, Hakansson, & Johanson, 1994; Bonner, Kim & Cavusgil, 2005). Based on this review, we developed a new three-item scale to capture the reputation of a focal subsidiary in the MNE network. We used a five-point Likert scale, ranging from "1 = strongly disagree" to "5 = strongly agree," to measure subsidiary reputation.

Marketing advantage was defined as a second-order construct, consisting of the dimensions including product advantage, price advantage, distribution advantage, and promotion advantage. *Product advantage* was measured based on three items adopted from Li and Calantone (1998) and Song & Parry (1996). Together, these measures assessed a subsidiary's product advantage in relation to its competitors' products.

Table 3
Definitions, foundational origins, and selected quotes of the focal constructs in internalization theory.

Focal Constructs	Definitions	Foundational Origins in Internalization Theory	Selected Quotes
Internal embeddedness	The extent to which a subsidiary has knowledge exchanges with the headquarters and sister subsidiaries (Echols & Tsai, 2005; Gulati & Gargiulo, 1999; Uzzi, 1996).	• Subsidiaries' balance between internal and external embeddedness enables MNEs' continued learning and resource access (Mudambi, 2011; Rugman & Verbeke, 2001). • Mismanagement of subsidiaries' dual embeddedness could lead to a systematic flaw, namely bounded reliability (Meyer, Mudambi, & Narula, 2011). • How to incentivize subsidiaries' self-initiated integration with the MNE remains unclear (Buckley, 2011; Zeng, Grøgaard, & Björkman, 2023).	• *"New internalization theory recognizes that subsidiaries are embedded in different external contexts, and that developing firm-specific advantages (FSAs) may occur throughout MNEs' internal and external networks" (p. 4,* Zeng, Grøgaard, & Björkman, 2023*).* • *"Subsidiaries must be 'externally embedded' within each local context while also being sufficiently 'internally embedded' within the MNE network for the benefits of external embeddedness to be potentially available to the rest of the MNE" (p, 236,* Meyer, Mudambi, & Narula, 2011*).*
External embeddedness	The extent to which a subsidiary has knowledge exchanges with external actors in the local market (Echols & Tsai, 2005; Gulati & Gargiulo, 1999; Uzzi, 1996).		
Reputation within the MNE	The collective judgments of the parent company and sister subsidiaries regarding the subsidiary's internal and external network relations (Fischer & Reuber, 2007; Lange,Lee,& Dai, 2011).	• Contemporary discussion regards MNEs as specialized networks (Buckley, 2011; Rugman & Verbeke, 2003), while reputation is crucial for network actors (Lin, 1999). • Socialization plays a critical mechanism for MNEs' coordination across subsidiaries (Mudambi, 2011; Zeng, Grøgaard, & Björkman, 2023).	• *"Competing for the knowledge flow position aims to either secure more inflows of critical knowledge from corporate members or boost a subunit's reputation and influence within the system via capitalization of its knowledge contribution to the system" (p, 76,* Luo, 2005*).* • *"… (on gaps in the literature) the MNE's internal functioning was described in a very stylized way, without much recognition of the impact of the credibility, experience, and reputation of individuals and groups within the organization" (p. 239,* Rugman & Verbeke, 2001*).*
Autonomy within the MNE	The degree of a subsidiary's independence in decision-making (Roth & Morrison, 1992).	• Hierarchy, organizational fiat, and ownership control resolve market imperfections (Williamson, 1985). • Autonomous subsidiaries' self-initiated strategic behaviors could be a source of MNEs' competitive advantage (Rugman & Verbeke, 2003).	• *"Headquarters uses hierarchical "hard control" mechanisms such as centralization or formalization to curtail the autonomy of subsidiaries creating large benefit streams" (p. 499,* Cuervo-Cazurra, Mudambi, & Pedersen, 2019*).* • *"Hierarchy over-comes these problems by constraining actions through management directive rather than price signals, replacing the market by another mechanism and not merely internalizing it" (p. 463,* Buckley & Strange, 2011*).*
Resource within the MNE	The degree to which the headquarters allocated managerial, technological, and financial resources to the subsidiary (Dellestrand & Kappen, 2011; Miao,Zeng,& Lee, 2016).	• MNEs operate a more effective and efficient way of transferring knowledge and firm-specific advantages across borders (Buckley, 2018; Kogut & Zander, 1992; Rugman & Verbeke, 2003). • Resource access from the MNE constitutes a primary internalization advantage for subsidiaries (Gaur, Pattnaik, Singh, & Lee, 2019).	• *"We argue that internalization theory can help regionalization scholars unbundle regional strategy by matching resource bundling needs with various firm-level resource recombination practices" (p. 83,* Verbeke & Kano, 2016*).* • *"A key attribute of a successful global factory is flexibility. Flexibility is the ability to reallocate resources quickly and smoothly in response to change" (p.232,* Buckley, 2009*).*
Marketing advantage	The value, relative to competing alternatives, delivered to target consumers as a result of effective marketing implementation (Day & Wensley, 1988; Morgan, 2012).	• Marketing remains an uncharted area for internalization theory (Buckley & Casson, 2011). Marketing requires both quality source for both firm-specific and location-specific knowledge (Cavusgil & Cavusgil, 2012).	• *"Introducing marketing explicitly into the internalization theory of the multinational enterprise considerably extends the power of the theory" (p.1,* Buckley & Casson, 2011*).*

Price advantage was measured using five items. We developed a new measure based on prior research in pricing capabilities (Dutta, Zbaracki,& Bergen, 2003; Vorhies, Harker, & Rao, 1999; Vorhies & Morgan, 2005), which concentrated on a subsidiary's pricing advantage in relation to its competitors' pricing. *Distribution advantage* was measured by four items, capturing a subsidiary's distribution advantage over competitors. The items were newly developed based on previous studies relating to distribution capabilities and channel management (Vorhies, Harker, & Rao, 1999; Vorhies & Morgan, 2005; Weitz & Jap, 1995). *Promotion advantage* was measured by three items adapted from Vorhies, Harker, and Rao (1999) and Vorhies & Morgan (2005). These items assessed a subsidiary's promotion advantage in comparison to its competitors' promotion activities. We used a seven-point Likert scale, ranging from "1 = the worst" to "7 = the best," to measure product, price, distribution and promotion advantages.

Subsidiary autonomy was measured by a single item adapted from Roth & Morrison (1992) capturing the degree of a subsidiary's independence in decision-making. We used a five-point Likert scale, ranging from "1 = strongly disagree" to "5 = strongly agree," to measure subsidiary autonomy.

Resource allocation to the subsidiary was measured using three items adapted from Dellestrand and Kappen (2011) and Miao, Zeng, and Lee (2016). These items assessed the degree to which headquarters allocated managerial, technological, and financial resources to the subsidiary. We used a five-point Likert scale, ranging from "1 = the least" to "5 = the most," to measure resource allocation to the subsidiary.

4.3. Analysis and results

Using the Anderson and Gerbing (1988) approach, we first conducted a confirmatory factor analysis (CFA) to check the validity of our measurement model. Then, we ran a structural equation modeling (SEM) analysis to examine our hypotheses. We conducted all the analyses using the software Mplus, version 7. The control variables were included in the SEM analyses. As discussed, we had two key informants for each company subject in our research design to avoid the common method bias.

4.3.1. Measurement model results

Table 4 demonstrates the scales, reliability, convergent validity, and

Table 4
Confirmatory factor analysis.

Constructs & Scales	*Standardized Coefficients*	*AVE*	*CR*
Construct: Product/Service Advantage		0.6361	0.8383
PROD1	0.866		
PROD2	0.839		
PROD3	0.674		
Construct: Price Advantage		0.5115	0.8393
PRICE1	0.748		
PRICE2	0.681		
PRICE3	0.743		
PRICE4	0.742		
PRICE5	0.657		
Construct: Distribution Advantage		0.7533	0.9242
DA1	0.896		
DA2	0.897		
DA3	0.863		
DA4	0.813		
Construct: Promotion Advantage		0.6804	0.8639
PROM1	0.903		
PROM2	0.745		
PROM3	0.819		
2nd Order Construct: Subsidiary's Marketing Advantage		0.5344	0.8209
Product/ Service Advantage	0.738		
Price Advantage	0.764		
Distribution Advantage	0.735		
Promotion Advantage	0.685		
Construct: Subsidiary Reputation within the MNE-Network		0.5124	0.7591
SR1	0.715		
SR2	0.736		
SR3	0.696		
Construct: Resource Allocation to the Subsidiary		0.5076	0.7537
RA1	0.804		
RA2	0.697		
RA3	0.625		

CFA goodness-of-fit: Chi-square = 335.570 (df = 272), CFI = 0.977, RMSEA = 0.029, SRMR = 0.040.

fitness of our CFA model (Anderson & Gerbing, 1988; Hu & Bentler, 1998). The convergent validity is satisfactory as all the item loadings reach statistical significance at alpha = 0.01 (Bollen, 1989; Hair, Black, Babin, & Anderson, 2009) and all the average variances extracted (AVE) are above the threshold of 0.5 (Fornell & Larcker, 1981; Hair et al., 2009). The reliability of each construct is also satisfactory, as all the composite reliability (CR) statistics are above 0.7 (Hair et al., 2009). The CFA model shows appropriate goodness-of-fit with Chi-square = 335.570 (df = 272), RMSEA = 0.029, CFI = 0.977, and SRMR = 0.040 (Hu & Bentler, 1999). The second-order construct, marketing advantage, also indicates satisfactory convergent validity and reliability from the first-order aspects of product, price, promotion, and distribution advantages (Hair et al., 2009). We presented the correlation matrix and the discriminant validity test in Table 5. We employed the Fornell and Larcker (1981) matrix to examine the discriminant validity. Specifically, as all the square roots of AVE for reflective constructs exceed the correlation of corresponding construct pairs, the discriminant validity of our measurement model is satisfactory.

4.3.2. Structural model results

For hypotheses testing, we summarized the structural model in Table 6. In Model 1, we demonstrated the baseline model that includes all main effect hypotheses (H1a, H1b, and H2) and controls. Model 1 shows satisfactory goodness-of-fit with Chi-square = 411.310 (df = 300), CFI = 0.959, RMSEA = 0.036, and SRMR = 0.061 (Hu & Bentler, 1999). Then, the latent moderated structural model (LMS) was performed to test the hypothesized interactions (H3a, H3b, H4) in Model 2.

Previous studies show that, compared to the traditional orthogonal

Table 6
Results of structural model.

	Model1	Model2
Controls		
Subsidiary Size -> Reputation	−0.005	−0.010
Subsidiary Experience-> Reputation	0.025	−0.004
Sales-> Reputation	0.034	0.006
Subsidiary Size -> Marketing Advantage	0.058	0.057
Subsidiary Experience-> Marketing Advantage	0.058	0.047
Sales -> Marketing Advantage	0.073	0.099
Hypothesized Paths		
Internal Network Embeddedness -> Reputation (H1a)	0.053	−0.291
External Network Embeddedness -> Reputation (H1b)	0.052	0.247*
Reputation -> Marketing Advantage (H2)	0.213*	0.255**
Internal Network Embeddedness* Autonomy -> Reputation (H3a)		0.684*
External Network Embeddedness* Autonomy -> Reputation (H3b)		−0.358*
Reputation* Resources -> Marketing Advantage (H4)		0.202*
Autonomy -> Reputation	−0.206**	−0.445
Resources-> Marketing Advantage	0.112	0.082
Model Goodness-of-Fit Statistics		
Chi-square	411.310	
CFI	0.959	
RMSEA	0.036	
SRMR	0.061	
AIC	14163.364	14141.958
Adjusted BIC	14200.095	14180.102

Note: *: significant at alpha = 0.05. **: significant at alpha = 0.01 (two-tailed). The coefficients reported are standardized. Following the criteria by Asparouhov and Muthén (2021), the LMS moderation model (Model 2) offers more statistical rigor than the baseline model (Model 1), because (1) the interaction paths are significant and (2) moderation model gives the lower AIC and adjusted BIC.

Table 5
Correlation matrix and discriminant validity.

	1	2	3	4	5	6	7	8	9
1. External Network Embeddedness	–								
2. Internal Network Embeddedness	0.098	–							
3. Subsidiary Reputation	0.058	0.053	**0.716**						
4. Marketing Advantage (2nd Order)	−0.200	−0.092	0.255	**0.731**					
5. Subsidiary Autonomy	0.002	−0.014	−0.202	−0.015	–				
6. Resources to the Subsidiary	0.062	−0.059	0.495	0.199	−0.004	**0.712**			
7. Subsidiary Experience	0.062	−0.068	0.014	−0.075	0.091	−0.026	–		
8. Subsidiary Size (Employee No.)	0.049	0.075	0.004	0.089	0.075	−0.027	0.115	–	
9. Subsidiary's Sales	−0.042	−0.071	0.034	0.095	0.115	0.067	0.075	−0.102	–

Note: The square root of AVE for reflective constructs is on the diagonal.

approach for testing interaction in SEM, LMS is more rigorous in avoiding overly inflated residuals that detriments the model fit (Cheung & Lau, 2017; Klein & Moosbrugger, 2000; Little, Bovaird, & Widaman, 2006; Asparouhov & Muthén, 2021). Although the LMS algorithm does not offer traditional goodness-of-fit statistics such as CFI, RMSEA, or SRMR, past research has established sophisticated criteria to check the validity of LMS results. According to Little et al. (2006) and Klein and Moosbrugger (2000), Model 2 has better statistical rigor than Model 1 for two reasons: First, Model 2 has lower AIC and BIC than Model 1, suggesting the added interaction paths are meaningful in improving the model. Second, all the interaction paths in Model 2 are significant, indicating these hypothesized paths are statistically meaningful. Overall, Model 1, as a baseline model, demonstrates appropriate goodness-of-fit (Hu & Bentler, 1998), establishing the fitness and rigor of Model 2. Then, Model 2 displays enhanced statistics in terms of AIC and BIC compared to Model 1 (Little et al., 2006; Asparouhov & Muthén, 2021). Therefore, Model 2 is statistically more robust and preferable.

Surprisingly, H1a proposing that an increase of the subsidiary's internal embeddedness will expand the subsidiary's reputation is not supported (Model 1: $\beta = 0.053$, $p > 0.05$; Model 2: $\beta = -0.291$, $p > 0.05$, $t = -1.361$). The results partially support H1b suggesting that an increase of the subsidiary's external embeddedness augments its reputation within the MNE network (Model 1: $\beta = 0.052$, $p > 0.05$; Model 2: $\beta = 0.247$, $p < 0.05$, $t = 2.372$). The results support our H2 proposing that subsidiaries with a greater reputation within the MNE network are more likely to develop subsidiary-specific marketing advantages (Model 1: $\beta = 0.213$, $p < 0.05$; Model 2: $\beta = 0.255$, $p < 0.01$, $t = 2.616$).

All the hypothesized interaction paths are supported in Model 2. Hypothesis H3a, that the subsidiary's autonomy positively moderates the link between the subsidiary's internal embeddedness and reputation within the MNE network, is supported ($\beta = 0.684$, $p < 0.05$, $t = 2.076$). We also find support for H3b, that the subsidiary's autonomy negatively moderates how the subsidiary's external embeddedness influences the subsidiary's reputation within the MNE network ($\beta = -0.358$, $p < 0.05$, $t = -2.152$). Finally, H4 is also supported ($\beta = 0.202$, $p < 0.05$, $t = 2.085$), suggesting that resource allocation to the subsidiary amplifies the connection between the subsidiary's reputation within the MNE network and its marketing advantage. Appendices C, D, E present the interaction plots of H3a, H3b, and H4.

4.3.3. Common method variance

Our results are not biased by the common method variance (CMV) for several reasons. First, we asked multiple informants for each subsidiary subject in the data collection. The research design with multiple respondents ensures the robustness of our results from CMV (Lindell & Whitney, 2001; Podsakoff, MacKenzie, & Podsakoff, 2012). Second, the hypothesized interaction effects are significant in our results. According to Chang, van Witteloostuijn, and Eden (2010), significant interaction paths imply the SEM model is robust from CMV because complicated interaction effects are less likely to be pictured by respondents when they complete the questionnaires.

We employed two post checks to examine the CMV threat. First, we employed Harman's single-factor analysis (Chang et al., 2010; Podsakoff & Organ, 1986). The single factor explains 12% of the variance, which is far below the threshold of 50% (Harman, 1976). Second, following the Simmering, Fuller, Richardson, Ocal, and Atinc (2015) and Williams, Hartman, and Cavazotte (2010) procedures, we conducted a CFA marker test across all the reflective constructs in our model. The multiple-item marker variable scales were adapted from the irrelevant concept of unlearning in our research (see Appendix B).

The results of the CFA marker test are summarized in Appendix F. Confirmatory factor analysis with the marker variable shows satisfactory goodness-of-fit and discriminant validity that support the appropriateness of the marker (Hu & Bentler, 1999). The insignificant chi-square difference between the baseline model and constrained model indicates insignificant method effects in our results (Williams et al., 2010). Then, the insignificant chi-square difference between the constrained and unconstrained models further supports the method equivalence of our CFA markers (Lindell & Whitney, 2001; Williams et al., 2010). We also ran the restricted model for the marker test, but the model could not converge with the maximum likelihood approach. Overall, these post checks support that our results were not contaminated by CMV.

4.3.4. Robustness test

We offer a robustness test to check if the results remain valid when linking our final dependent variable (marketing advantage) to subsidiary-level performance indicators. We employed indicators of market performance and financial performance to conduct the robustness test (see Appendix B). The scales of market performance and financial performance were adapted from Katsikeas, Morgan, Leonidou, and Hult (2016). For each subsidiary subject, we asked the senior marketing/product/brand managers to assess these two aspects of subsidiary performance in the previous accounting year. The results of the structural models are summarized in Appendix G.

The CFA model of the robustness test with two added performance constructs shows satisfactory reliability (with all the CRs above 0.7), sufficient convergent validity (with all the AVEs above 0.5), and appropriate discriminant validity that fits the Fornell and Larcker (1981) criteria (Hair et al., 2009). The goodness-of-fit statistics are also satisfactory, with Chi-square = 885.178 (df = 531), CFI = 0.942, SRMR = 0.040, and RMSEA = 0.048 (Hu & Bentler, 1998). In Table 5, the structural model shows consistent results with our analysis. The baseline model with the main hypothesized effects indicates appropriate model fit (Hu & Bentler, 1999). The LMS model still indicates better statistical rigor than the baseline model, with lower AIC and BIC. The path coefficients of the robustness test demonstrate congruent path significances. The two added paths from marketing advantage to market performance ($\beta = 0.291$, $p < 0.01$, $t = 3.881$) and to financial performance ($\beta = 0.142$, $p < 0.05$, $t = 1.98$) are both significant, supporting that our model provides implications for subsidiary-level performance.

4.3.5. Model misspecification and endogeneity tests

To check whether our model misses critical paths, we followed the Little, Bovaird, and Widaman (2006) approach to conduct a systematic selection for alternative SEM models (see Appendix F). As the LMS approach does not offer traditional goodness-of-fit statistics, Little et al. (2006) suggest two critical approaches in selecting the more rigorous LMS models: lowered AIC/BIC statistics and significant moderation paths. Based on these criteria, all alternative models (Models 1–3) with additional moderation paths (shown in Appendix H) are less robust than our proposed model (Model 0). Hence, our alternative model check rules out possible moderation paths, including resources moderating between internal embeddedness and reputation (Model 1), resources moderating between external embeddedness and reputation (Model 2), and autonomy moderating between reputation and market advantage (Model 3).

To further rule out misspecification issues of reversed causality and omitting important variables or paths, we adopted model implied instrument variable estimation using a two-stage least-square approach (MIIV-2SLS) (Bollen, 1996, 2019; Bollen et al., 2021; Bollen, Kolenikov, & Bauldry, 2014). The above is a SEM approach that utilizes a multiple-indicator estimate of method to generate instruments from observed variables (Bollen, Gates, & Fisher, 2018; Bollen et al., 2014). It identifies internal instruments of a set of observed variables to be uncorrelated with equation disturbance, and various simulations and empirical examinations in SEM demonstrate that the internal instrument performs the equivalent function as the external instrument variables for post-checking SEM model misspecification (Bollen, 1996, 2019; Bollen et al., 2021; Bollen et al., 2014). As SEM model misspecification implies reverse causality and omitting critical variables, MIIV-2SLS provides a reliable approach to post check primary endogeneity threats (Cortez & Hidalgo, 2022; Liu, Deligonul, Cavusgil, & Chiou, 2021). In doing post

checks for SEM models, MIIV-2SLS is more advantageous and rigorous than the traditional 2SLS approach for estimating and testing the SEM model, as the former considers any other subset of equations (Bollen et al., 2021). Therefore, the MIIV-2SLS method could statistically examine whether the SEM model suffers from model misspecifications.

We employed a five-step MIIV-2SLS analysis, following the Bollen et al. (2021) procedure. The analysis was completed with the latest MIIV SEM package (Oct 12, 2022) in RStudio. First, the orthogonal product-term model was employed, because the current MIIV-2SLS statistical programs do not support LMX due to technical constraints. We used a mean-centered product-term to avoid boosted equation errors. Then, we identified the MIIVs that were not correlated with equation errors. Third, following the suggestion of Bollen (1996) and Bollen et al. (2021), we put the MIIV back in the SEM model using 2SLS estimation, with a bootstrapping number of 1,000. Finally, we used the Sargan test on SEM structural paths to determine whether our paths suffer from model misspecification or endogeneity, shown in Appendix I. The results show that all Sargan statistics are not significant, indicating that model misspecification or endogeneity threats do not significantly bias the model estimates. The MIIV-2SLS results also demonstrate consistent patterns of path significance with our SEM model, suggesting the robustness of our proposed model paths.

5. Discussion

Surprisingly, H1a and H1b, regarding how internal and external network embeddedness expand a subsidiary's reputation within the MNE network, were not supported. An explanation for this result could be that the signaling of a subsidiary's embeddedness across the internal and external environment is only valid when the subsidiary is granted a sufficient level of decision-making autonomy. When the subsidiary's strategic behaviors are not completely driven by the subsidiary's own willingness, it is less likely that such strategic behaviors will send a credible signal to other MNE-network stakeholders. Support for our H3a and H3b is also consistent with such a notion. That is, when the subsidiary is granted sufficient decision-making autonomy, the signaling of the subsidiary's embeddedness in internal and external environments becomes salient and significantly affects the subsidiary's reputation within the MNE. Our results offer important insights into networked subsidiaries. As internalization enables MNE-level consolidation of autonomy to its networked subsidiaries, we find that sending a signal of the subsidiary's strategic actions to other MNE-network stakeholders is not universal but contingent on the subsidiary's level of granted decision-making autonomy.

Our results support H2, suggesting that subsidiaries with a high reputation can achieve a marketing advantage in the local market. Because both internal and external knowledge ties are essential for effective marketing by subsidiaries, paying attention to the marketing aspect allows a comprehensive approach to exploring the subsidiaries' network embeddedness in internal and external environments, reputation, and subsidiary-specific advantages. Finally, our results support H4, regarding the positive moderating effect of resource allocation to the subsidiary on the relationship between subsidiary reputation and marketing advantage. That is, subsidiaries with a high reputation earn the legitimacy to better leverage their available resources within the MNE network, which can enable the former to achieve a better marketing advantage.

This study contributes to internalization theory and the wider IB field in several ways. First, to understand subsidiaries' internal and external embeddedness, we introduce reputation as a novel socialization mechanism within a network of subsidiaries. Our findings reveal that a subsidiary's internal embeddedness builds reputation when the subsidiary is granted a high level of decision-making autonomy. An important implication for these findings is that, under limited formal control, socialization motivates each networked subsidiary to remain integrated within the MNE network. Our findings answer the calls for research from internalization theory regarding how MNEs motivate subsidiaries' internal network embeddedness to sustain MNE-level coherence (Ambos et al., 2019; Meyer et al., 2011; Rugman, Verbeke, & Yuan, 2011; Buckley, 2011). Through a cross-fertilization of social network and internalization theories, this study addresses a socialization aspect of MNE integration. Our results show that subsidiaries with high decision-making autonomy are more motivated to build internal embeddedness with other MNE-network stakeholders, in pursuance of enhanced reputations and subsidiary-specific advantages.

Second, our results yield new insights to understanding how MNEs address the bounded reliability problem (Kano & Verbeke, 2015; Verbeke & Greidanus, 2009). The results suggest that when the subsidiary is granted higher decision-making autonomy, the less the subsidiary's external network embeddedness elevates its reputation within the MNE. These results indicate that the reputation mechanism eases the bounded reliability problem raised by research in internalization theory. That is, prior research contends that idiosyncratic information sources and stakeholders in host markets demand a local re-prioritization for each subsidiary, leading to a bounded reliability problem at the MNE level (Kano & Verbeke, 2015; Alan Rugman, Verbeke, & Yuan, 2011; Verbeke & Greidanus, 2009). Conceptual research suggests that without full formal controls, subsidiaries might achieve excessive external embeddedness or insufficient internal embeddedness, which would then fail to maintain MNE-level integration (Buckley, 2011; Meyer et al., 2011; Verbeke & Kenworthy, 2007). Extending these insights, our results show that socialization offers a critical alternative mechanism in integrating networked subsidiaries under limited formal controls. Our findings suggest that in terms of building reputation within the MNE, subsidiaries granted high decision-making autonomy would be more motivated to build internal embeddedness and less motivated to build external embeddedness. These results imply that reputation serves as motivation for autonomous subsidiaries to sustain a necessary level of MNE-network integration. Therefore, our study fills the research gap of MNE-network integration by showing that reputation is a socialization mechanism (Buckley, 2011).

Third, our findings on reputation practice across subsidiaries within the MNE network offer implications for internalization theory. As mentioned, internalization theory has shifted away from the conventional view of hierarchy versus market (Narula & Verbeke, 2015) but has not fully clarified how MNEs manage issues of external imperfections, such as information asymmetries and moral hazard. Our findings suggest this management may be achieved through the role of reputation. Reputation offers a signal to mitigate information asymmetries, to safeguard against opportunistic behaviors, and to ground future collaborations among networked subsidiaries (Jones et al., 1997; Kilduff et al., 2006; Raub & Weesie, 1990; Tsai & Ghoshal, 1998). Hence, the problems of information asymmetry and moral hazard emphasized by early internalization theory are partly resolved by the reputation practice within the MNE network. Therefore, moving beyond full hierarchy, we demonstrate internalization enables a differentiated socialization practice such as reputation to address the imperfections that would arise outside the MNE context.

Fourth, our findings contribute to internalization theory by showing two differentiating factors of the MNE network from the market-based business network: the consolidation of decision-making autonomy and resource allocation (Hill, 1985; Verbeke & Kenworthy, 2007; Williamson, 1975). By taking the subsidiary's perspective, we find that a subsidiary's decision-making autonomy and resources perform critical contingencies in the dynamics of reputation building. To elaborate, prior research finds a market-based business network carries inherent inefficiencies due to its imperfect distribution of autonomy and resources across the networked actors (Provan et al., 2007; Provan & Kenis, 2008). In market-based networks, the leading business with autonomy and resources might only concern itself with the business's interests rather than the network-level interest. In contrast, we find internalization enables a differentiated mechanism across MNE subsidiaries to shape firm

dynamics toward MNE-level interests. Therefore, extending from the notion that conceptualizes an MNE as a differentiated network (Alan Rugman & Verbeke, 2008; Verbeke, 2003, 2013), we more precisely lay out how internalization enables differentiated mechanisms of decision-making autonomy and resource allocation to the MNE's network actors (subsidiaries).

Finally, our findings complement the evolutionary approach to subsidiaries. The notion of evolutionary subsidiaries is built on the assumption that "excludes cases of self-serving or empire-building behavior, in which the subsidiary develops capabilities that are not aligned with the strategic priorities of the MNC" (p.783, Birkinshaw & Hood, 1998). Based on this very strong assumption, the literature stream offers a piece of normative advice that subsidiaries should always be supported by sufficient autonomy and resources in order to enhance subsidiaries' entrepreneurship and performance (Birkinshaw, 2000; Birkinshaw et al., 2005; Rugman, Verbeke, & Yuan, 2011; Verbeke, 2013). Rather than making such a strong assumption that subsidiaries are free of "self-serving" actions, we acknowledge that subsidiaries are self-managed and seek subsidiary-specific interests. With a shift toward a more relevant assumption on subsidiaries, we introduce insights into subsidiaries' concerns for reputation within the MNE network. Indeed, instead of the normative advice that subsidiaries should always be supported, our results suggest that headquarters could strategically consolidate MNE-level support to each subsidiary. That is, with considerations of each subsidiary's potential, strategic importance, and profitability in mind, the MNE could holistically coordinate the allocation of autonomy and resources to each subsidiary so as to orchestrate the overall MNE network. Therefore, rather than only supporting the evolution of individual subsidiaries, our study supports a more proactive role for MNE-level management actions, with the aim of integrating its network of self-managed subsidiaries to enhance the MNE's overall efficiency and effectiveness.

More specifically, by regarding autonomy and resource availability as contingencies for subsidiaries within MNEs, we demonstrate MNEs' differing network mechanisms from traditional business networks, that is, those without internalization. Prior research on traditional business networks indicates that each company's autonomy and resources in the network are largely determined by the company's own network position (Burt, 2000; Chow & Chan, 2008; Lin, 2008). However, in such settings, the leading company is likely to utilize its autonomy and resources based on the company's own interest rather than considering the collective interest of the whole business network (Keast & Mandell, 2013). Such a network governance problem characterizes an agency issue in traditional business networks that reduces network-level performances (Bayne, Schepis, & Purchase, 2017; Keast & Mandell, 2013; Provan et al., 2007; Provan & Kenis, 2008).

Following the notion to regard MNEs as a differentiated network, we argue that a key governance advantage of MNEs is orchestrating the subsidiary network with a better allocation of autonomy and resources (Hill, 1985; Verbeke & Kenworthy, 2007; Williamson, 1975). Internalization enables an MNE-level orchestration of autonomy and resources across subsidiaries to improve the MNE-level performance (Jarillo, 1988) by holistically considering each subsidiary's strategic importance, potential, and risk. Our notion resonates with other conceptual works of internalization theory (Meyer et al., 2020; Alan Rugman, Verbeke, & Yuan, 2011). In addition, Verbeke and Kenworthy (2007) propose that in order to administrate multiple subsidiaries pursuing self-initiated strategic actions within MNEs, headquarters should "set product/market *scope boundaries*, make key *resource allocation* decisions, and focus on overall organizational performance (Verbeke & Kenworthy, 2007, p. 946)." Accordingly, from the subsidiary perspective, this study examines whether present autonomy and resource availability constitute important contingent conditions for subsidiaries within an MNE.

This study has limitations that offer possible directions for future research. First, this study investigates the marketing advantage of subsidiaries. We focus on this advantage to underscore the subsidiary embeddedness dilemma, as both external and internal network embeddedness are essential in cultivating marketing advantages. Future studies may explore whether our findings are applicable to other aspects of subsidiary-specific advantages, such as R&D and innovation. Second, this study addresses how reputation-building practices resolve problems arising from dual subsidiary embeddedness, as we find autonomous subsidiaries to be incentivized to cultivate internal embeddedness to build and maintain a prestigious reputation. Future studies might investigate other functions of reputation-building practices in terms of coordinating the MNE network. Third, we follow the internalization and social network literature and focus on two MNE-level management actions: the consolidated allocation of decision-making autonomy and resources. Future work may extend our research by exploring other management actions, such as control of information flows and differentiated MNE-governance routines. Fourth, our samples are subsidiaries operating in the same host-country market, Turkey. An extension of this study to multiple host-country markets would allow a systematic comparison of different institutional contexts. Fifth, the primary data confirm our theoretical framework from the subsidiary's perspective. Further work is needed to examine whether our conjectures are also validated from the headquarters' perspective. Finally, even though the response rate in this study is over an acceptable rate in the IB and strategy literatures, an additional test for the likelihood of non-response bias could be needed.

6. Conclusion

In conclusion, we suggest the following modifications to enable internalization theory to comprehend subsidiaries' internal and external embeddedness and its consequent effects on networked multinationals. We introduce reputation as a novel socialization mechanism within a network of subsidiaries and our results yield new insights to understanding how MNEs address the bounded reliability problem. We shed light on reputation practices across subsidiaries within the MNE network and show two differentiating factors of the MNE network from a market-based business network: the consolidation of decision-making autonomy and resource allocation.

These results have important managerial decision-making implications. This study focused on the perspective of MNE subsidiaries, which lends it a degree of distinction. From the viewpoint of a subsidiary, it is clear that focusing on its internal reputation will enhance its position in its MNE's differentiated network. Managing links with headquarters is crucial, and this needs to be balanced against local embeddedness. Developing locational and strategic uniqueness is a means of enhancing a subsidiary's role in the orchestration strategies of its headquarters. Self-initiated strategies using local embeddedness can be successful, as long as they are not at the expense of internal embeddedness and do not jeopardize the crucial relationship with headquarters. There are also clear implications for headquarters strategy as a mirror of subsidiary strategy. Monitoring subsidiaries and coordinating across the differentiated network of subsidiaries emerges from our work as paramount objectives for a firm. The orchestration role of headquarters needs to account for the reputation, resources, and local embeddedness of its subsidiaries. We therefore propose a re-evaluation of strategic priorities for both subsidiaries and headquarters in the differentiated network of the modern MNE.

Subsidiary managers should find our results helpful in designing their local dual embeddedness. This is a common practice in many MNEs' host markets, especially emerging markets such as India and China, which implement FDI incentives or regulations that steer foreign MNEs' embeddedness with local stakeholders in order to create jobs and knowledge transfer. While these host-market incentive policies might appear beneficial, subsidiary managers should be cognizant of the cost of excessive local embeddedness — it might become detrimental to the subsidiary's reputation within the MNE. Further, to address the institutional voids in emerging markets, such as unsophisticated

infrastructure and ineffective legal framework, subsidiaries in emerging markets tend to cultivate deep and long-term relationships with local stakeholders to smooth and expand businesses. However, our findings point out that such approach might cost the subsidiary's internal reputation within the MNE. Future research might follow our insights to examine whether such detrimental effects become more salient under certain institutional dynamics between MNEs' home- and host-countries. For example, under the concurrent geo-political tensions between the U.S. and China, the Chinese subsidiary of American MNEs (so does the American subsidiary of Chinese MNEs) might be under higher pressures of balancing their dual embeddedness.

Policy implications also flow from our analysis. The MNE is shown to reflect a balance between internal and external embeddedness, with individual (national) subsidiaries competing for attention and resources within their MNE networks. National governments need to be aware of the pressures of international competition in attracting foreign investment. Enhancing the viability of local subsidiaries helps to retain and attract subsidiaries, but this focus should not be at the expense of the local national subsidiary contributing to the firm as a whole. Policy inducements and subsidies to local subsidiaries should be designed not only to help the local unit but also to benefit the entire MNE. Our findings suggest the underemphasized constraints for local policy (and possibly local involvement in the firm): When an autonomous subsidiary demonstrates excessive external embeddedness in the local market, the subsidiary might undergo a reputation issue in its MNEs. Government policies need to be 'smarter' in understanding the role of subsidiaries in a differentiated-network MNE.

CRediT authorship contribution statement

Peter Buckley: Writing – original draft, Conceptualization. **Destan Kandemir:** Writing – original draft, Methodology, Data curation, Conceptualization. **Steven Y.H. Liu:** Conceptualization, Writing – original draft, Writing – review & editing, Methodology, Project administration, Software. **Esra F. Gençtürk:** Data curation.

Declaration of competing interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

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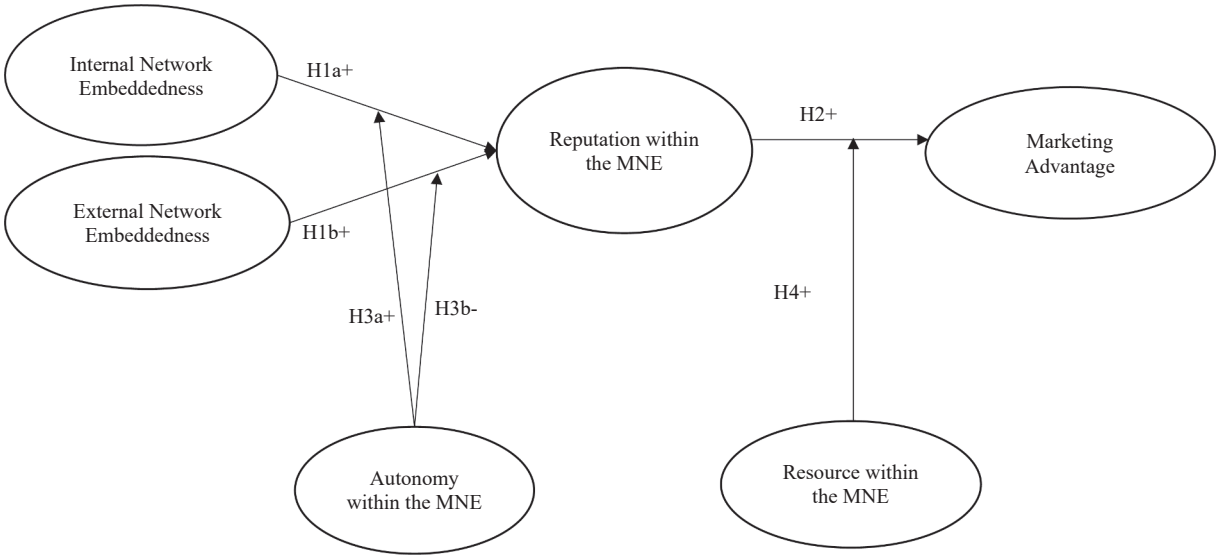
Appendix A. Conceptual framework



Appendix B. Scale items

Please indicate which types of knowledge are acquired from or shared with the following sources:

Internal network embeddedness

	Acquired knowledge from The headquarters	Shared knowledge with	Acquired knowledge from Sister subsidiaries	Shared knowledge with
Customer knowledge				
Competitor knowledge				
Sales knowledge				
Technological knowledge				
Supplier knowledge				

Please indicate which knowledge types are acquired from or shared with the following sources:

External network embeddedness

	Acquired knowledge from Partners in the local market (i.e. customers, distributors, retailers, and suppliers)	Shared knowledge with Partners in the local market (i.e. customers, distributors, retailers, and suppliers)
Customer knowledge		
Competitor knowledge		
Sales knowledge		
Technological knowledge		
Supplier knowledge		

Subsidiary Reputation within the MNE-Network
(5-point Likert scale ranging from '1 = strongly disagree' to '5 = strongly agree')

SR1. Our subsidiary is trusted by the sister subsidiaries within the MNE.
SR2. Our subsidiary is benchmarked by the sister subsidiaries within the MNE.
SR3. Our subsidiary provides benefits to the sister subsidiaries within the MNE.

Subsidiary Autonomy
(5-point Likert scale ranging from '1 = strongly disagree' to '5 = strongly agree')

AUT1. Our subsidiary is dependent on other units (the headquarters and sister subsidiaries) in decision-making. (rc).

Resource allocation to the subsidiary
(5-point Likert scale ranging from '1 = the least' to '5 = the most')
Relative to the sister subsidiaries;

RA1. Our subsidiary attracts financial resources.
RA2. Our subsidiary attracts managerial/administrative resources.
RA3. Our subsidiary attracts technological resources.

Marketing Advantage
Product/Service Advantage
Please evaluate the product/service advantage of your business unit relative to your major competitors. *(7-point Likert scale ranging from '1 = the worst' to '7 = the best')*

PROD1. In terms of ease of use; i.e., the extent to which a product is easy to learn or use.
PROD2. In terms of quality; i.e., the extent to which a product/service has tighter specifications, is durable, lasted longer, or is safer to use.
PROD3. In terms of uniqueness; i.e., the extent to which a product/service has unique features.

Price Advantage
Please evaluate the pricing advantage of your business unit relative to your major competitors. *(7-point Likert scale ranging from '1 = the worst' to '7 = the best')*

PRICE1. In terms of providing economic value to customers.
PRICE2. In terms of offering price promotions (e.g., discounts, deals).
PRICE3. In terms of flexibility in determining pricing terms, conditions and allowances.
PRICE4. In terms of its price point policy.
PRICE5. In terms of reflecting market changes in its prices quickly.

Distribution Advantage
Please evaluate the distribution advantage of your business unit relative to your major competitors. *(7-point Likert scale ranging from '1 = the worst' to '7 = the best')*

DA1. In terms of providing customer services (e.g., information, product demonstration, delivery, installation, warranty, returns and repairs).
DA2. In terms having stronger relationships with its channel members.
DA3. In terms of preferability by this channel member.
DA4. In terms of the effectiveness of field sales force/representatives (e.g., the number of salespeople, the number of customer contacts per salespeople).

Promotion Advantage
Please evaluate the promotion advantage of your business unit relative to your major competitors. *(7-point Likert scale ranging from '1 = the worst' to '7 = the best')*

PROM1. In terms of the effectiveness of its advertisements (e.g., informativeness, persuasiveness, creativity).
PROM2. In terms of the effectiveness of its sales promotions.
PROM3. In terms of the ratio of sales to promotion investments.

Market Performance (for robustness test)

Please evaluate the performance of your business unit over the past year relative to your major competitors. *(5-point Likert scale ranging from '1 = much worse' to '5 = much better')*

MP1. Market share in sales volume.
MP2. Market share in sales value.
MP3. Number of sales points.
MP4. Annual sales volume growth.
MP5. Annual sales value growth.

Financial Performance (for robustness test)

Please evaluate the performance of your business unit over the past year relative to your major competitors. *(5-point Likert scale ranging from '1 = much worse' to '5 = much better')*

FP1. Return on investment.
FP2. Return on sales.
FP3. Return on assets.
FP4. Average profit margin

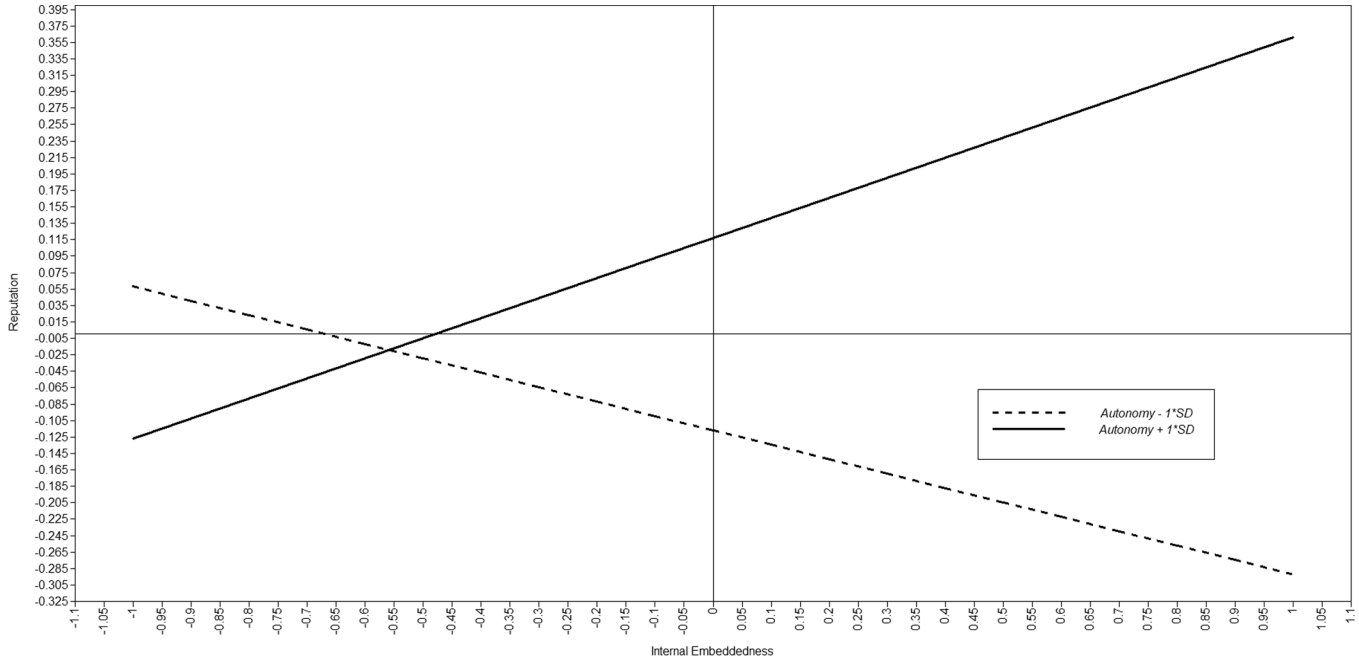
Unlearning

(5-point Likert scale ranging from '1 = never' to '5 = always')

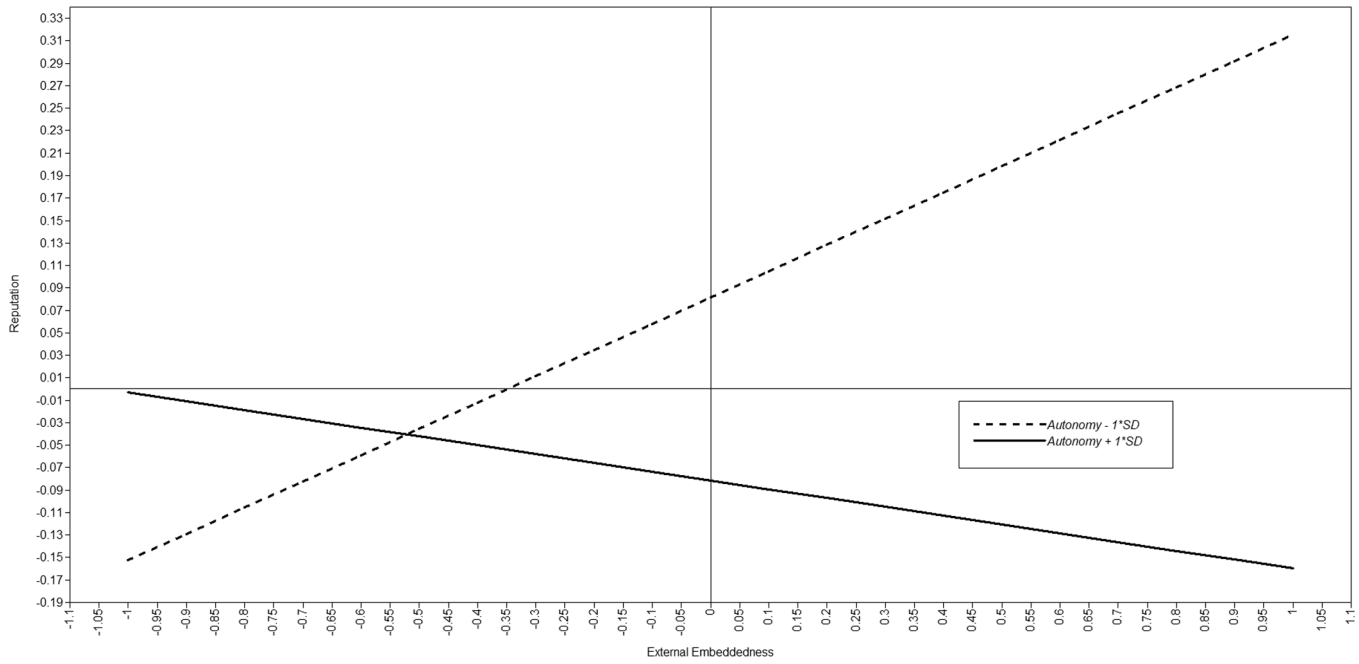
UL1. We try to learn from our mistakes so that they are not repeated.
UL2. We assess the validity of customary procedures and methods.
UL3. We intentionally ignore knowledge that has become obsolete in our organizational memory.

rc: reverse coded.

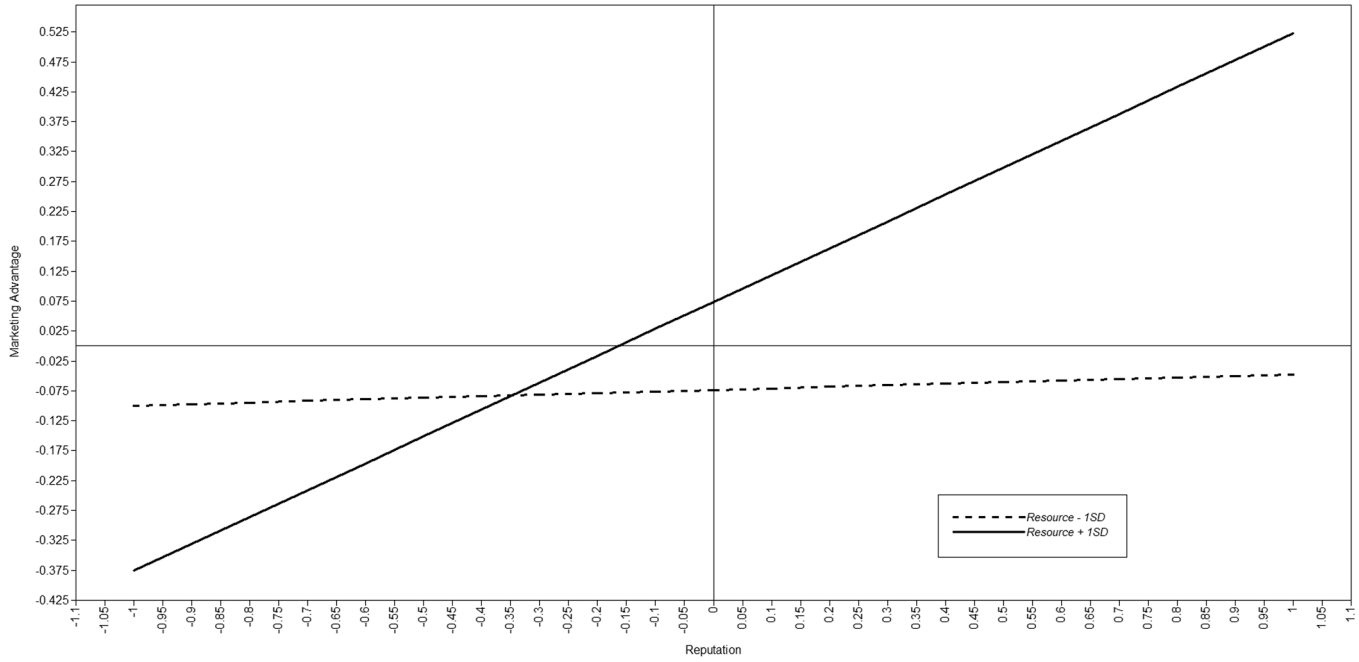
Appendix C. Interaction of subsidiary's internal network embeddedness and autonomy (Hypothesis 3a)



Appendix D. Interaction of subsidiary's external network embeddedness and autonomy (Hypothesis 3b)



Appendix E. Interaction of subsidiary's reputation and resources within the MNE (Hypothesis 4)



Appendix F. Marker test for CMV post check

Model	χ^2	df	CFI
CFA with Marker Variables	509.550	78	0.923
Baseline	517.508	93	0.926

(*continued on next page*)

(*continued*)

Model	χ^2	df	CFI
Method-Constrained	516.536	92	0.926
Method-Unconstrained	492.555	72	0.927
χ^2 Comparison Results	**$\Delta\chi^2$**	**Δ**	**χ^2 Critical Value**
Baseline vs Method-C	0.972	1	3.841
Method-C vs Method-U	23.981	20	31.410

Note: The model inequivalence test between baseline and method-constrained models is not significant, indicating method variance does not significantly alter the results. Indeed, the insignificant inequivalence between method-constrained and method-unconstrained models further support that neither congeneric nor non-congeneric method variance creates significant threats to our results.

Appendix G. Linking marketing advantage with performance variables

	Model1	Model2
Model Paths		
Internal Network Embeddedness -> Reputation (H1a)	0.053	−0.079
External Network Embeddedness -> Reputation (H1b)	0.053	0.074*
Reputation -> Marketing Advantage (H2)	0.198*	0.398*
Internal Network Embeddedness*Autonomy -> Reputation (H3a)		0.872*
External Network Embeddedness*Autonomy -> Reputation (H3b)		−0.701*
Reputation * Resources -> Marketing Advantage (H4)		0.196*
Autonomy -> Reputation	−0.206**	−0.404
Resources -> Marketing Advantage	0.105	0.006
Marketing Advantage -> Market Performance	0.290**	0.291**
Marketing Advantage -> Financial Performance	0.140*	0.142*
Model Goodness-of-Fit Statistics		
Chi-square	951.966	
CFA	0.936	
RMSEA	0.050	
SRMR	0.055	
AIC	18278.745	18275.500
Adjusted BIC	18336.430	18334.836

Note: *: significant at alpha = 0.05. **: significant at alpha = 0.01 (two-tailed). The control variables include subsidiary size, subsidiary experience, and subsidiary sales.

Appendix H. Alternative moderation models

	Model0	Model1	Model2	Model3
Hypothesized Paths				
Internal Network Embeddedness -> Reputation (H1a)	−0.291	−0.205	−0.207	−0.209
External Network Embeddedness -> Reputation (H1b)	0.247*	0.175*	0.172*	0.179*
Reputation -> Marketing Advantage (H2)	0.255**	0.258*	0.245*	0.263*
Internal Network Embeddedness*Autonomy -> Reputation (H3a)	0.684*	0.492	0.490	0.490
External Network Embeddedness*Autonomy -> Reputation (H3b)	−0.358*	−0.261	−0.248	−0.262
Reputation* Resources -> Marketing Advantage (H4)	0.202*	0.215	0.238	0.205
Autonomy -> Reputation	−0.445	−0.311	−0.325	−0.314
Resources-> Marketing Advantage	0.082	0.065	0.069	0.066
Added Paths in Alternative Models				
Internal Network Embeddedness * Resources-> Reputation		0.076		
External Network Embeddedness * Resources-> Reputation			−0.021	
Reputation*Autonomy-> Marketing Advantage				0.036
Model Selection Statistics				
AIC	14141.95	14142.70	14143.82	14143.25
Adjusted BIC	14180.10	14181.31	14182.43	14181.86

Note: *: significant at alpha = 0.05. **: significant at alpha = 0.01 (two-tailed). The control variables include subsidiary size, subsidiary experience, and subsidiary sales.

Appendix I. Model implied instrument variable estimation using two-stage least squares (MIIV-2SLS)

Structural	Estimates	Z-Value	>|Z|	argan	f	P(Chi-Square)
Reputation				0.834	4	0.934
r.o. Internal Embeddedness (H1a)	−2.734	−0.834	0.404			
r.o. External Embeddedness (H1b)	3.976	1.568	0.117			
r.o. Internal Embeddedness * Autonomy (H3a)	1.600*	2.480	0.013			
r.o. External Embeddedness * Autonomy (H3b)	−2.638*	−2.004	0.045			
r.o. Autonomy	6.100	1.051	0.293			
r.o. Subsidiary Size (control)	0.235	0.338	0.735			
r.o. Subsidiary Experience (control)	−0.017	−0.535	0.593			
r.o. Sales (control)	−0.238	−0.661	0.509			
Marketing Advantage				0.232		0.857
r.o. Reputation (H2)	0.359	0.849	0.396			
r.o. Reputation*Resource (H4)	1.112*	2.112	0.035			
r.o. Resource	−0.752*	−2.077	0.038			
r.o. Subsidiary Size (control)	−0.326	−0.474	0.635			
r.o. Subsidiary Experience (control)	−0.036	−0.943	0.346			
r.o. Sales (control)	−0.326	−0.474	0.635			

Note: r.o. = being regressed on. The insignificance of the Sargan Chi-square tests shows our results of the structural model is robust from the threats of model misspecifications, such as omitting important variables or reverse causality (Bollen, 1996, Bollen, 2019).

Financial Performance (for robustness test).

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