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So Good, but So Far Away? The Effect of Institutional Distance on the Parent CSR and Subsidiary Reputation Link

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ABSTRACT

Multinational enterprises (MNEs) leverage strategies of Corporate Social Responsibility (CSR) at the parent and subsidiary levels to build a reputation overseas. Nevertheless, institutional distance can weaken this connection in developing host countries, where MNEs face significant institutional voids. We explore the mechanisms through which CSR enhances subsidiary reputation, focusing on how stakeholders in host developing countries perceive CSR signals sent from headquarters. We further explore the moderating role of formal and informal institutional distance in this relationship. Using a panel of MNEs headquartered in developed countries and operating across Latin America, we employ a multi-stakeholder indicator of the subsidiary reputation based on assessments from key host country stakeholders. The analysis controls for country, corporate, and subsidiary-level factors, including a variable derived from big data analytics. By examining the cross-country parent CSR signals and their subsidiary reputation effects, this study advances the international business literature, providing new insights into how institutional distance shapes the local reputational outcomes of parent CSR strategies.

1 | Introduction

Multinational enterprises (MNEs) facing conditions of underdeveloped institutions in host environments attempt to fill institutional voids (Khanna and Palepu 1997, 2000) through substitution, borrowing, and signaling using nonmarket activities (Doh, Husted, and Matten 2016; Doh, Husted, and Yang 2016). CSR initiatives constitute the main nonmarket activity (Kolk 2016; Zhao 2012). MNEs send CSR signals from the headquarters and subsidiaries (Park et al. 2014), building reputation at both levels (Fombrun 2005; Lange et al. 2011). In particular, the subsidiary reputation sums up how the MNE fills institutional voids through CSR, revealing the extent to which and the degree to which the MNE conforms to local institutional norms and host country stakeholders "accept" the MNE's CSR signals (Rathert 2016a).

CSR activities developed at MNE headquarters are typically shaped by home country stakeholders' priorities (Forcadell and Aracil 2017; Jamali and Neville 2011) and influenced by cross-national considerations (Aguilera-Caracuel et al. 2012; Buchanan and Marques 2018; Doh and Guay 2006; Marano and Kostova 2016; Meyer and Thein 2014). Thus, in assessing MNEs' local reputation, host country stakeholders evaluate CSR designed by the parent company. Because parent CSR is essentially non-observable for the host country stakeholders, they rely on signals representing the unobservable corporate condition and narrow information asymmetries (Connelly

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et al. 2011; Zerbini 2017). However, CSR coming from distant institutional contexts may hamper the value of CSR signals to local stakeholders. Institutional distance—formal and informal-between the home and the host countries plays a double role in shaping how CSR is designed and perceived (Keig et al. 2019). While the design of the MNE's CSR activities is influenced by home-country institutions (Jackson and Deeg 2019), specific host-country institutional factors frame local stakeholders' assessment of CSR signals (Borda et al. 2017; Brammer et al. 2012; Yue and Ingram 2012). Although MNEs may adapt subsidiary-level CSR activities to align with the host-country institutional context, these activities often remain shaped by the overarching influence of home-country institutions (Jamali 2010). As a result, institutional factors in both the home and host countries become critical in shaping stakeholder perceptions of subsidiary reputation, as they affect both the transmission of CSR signals from headquarters and their reception by host-country stakeholders (Highhouse et al. 2007; Rindova and Martins 2012). This interplay underscores the complex role of institutional distance in building local reputation.

A significant body of literature has explored how stakeholders perceive CSR efforts (Crilly et al. 2016; Khalid et al. 2024; Rothenhoefer 2019). Despite offering valuable insights, these studies open two research avenues regarding the signaling impact of MNEs' CSR across countries. First, most studies refer to the CSR signaling effect at a corporate level, often overlooking its implications for subsidiaries. Some exceptions, such as Jiang et al. (2020), examine subsidiary-level materialization, or Ike et al. (2025) examine the responsiveness of CSR activities in subsidiaries. Nonetheless, they fail to account for differences between the home and host countries. These disparities are highlighted by Zimmer and Swoboda (2023), which focus on a single local stakeholder group—consumers—and overlook the broader spectrum of local stakeholders that shape reputation. Second, analyses of CSR effects in international business contexts largely focus on performance outcomes (Zou et al. 2015), with limited attention to reputational effects. This drawback likely stems from the complexity of measuring local reputation, a perceptive construct shaped by the diverse assessments of local stakeholders. Addressing these gaps is crucial to better understanding how CSR signals from MNEs resonate within local institutional and stakeholder contexts.

Thus, there is a need to analyse how CSR efforts at the headquarters level influence subsidiaries' reputations and how institutional distance affects this relationship. This gap is relevant for two reasons. First, local stakeholders primarily evaluate the subsidiary, not the parent company. Neglecting the host country level introduces an essential bias in understanding how institutional distance shapes local stakeholders' assessments and the MNE reputation within the host country. Second, host country stakeholders' perceptions of subsidiaries provide insights into how effectively MNEs fill institutional voids through CSR and the success of CSR in building reputation locally.

We fill this gap by analyzing how host country stakeholders perceive the MNE's CSR and how the institutional distance shapes these judgments. Using a panel of MNEs from developed countries operating in Latin America across sectors, we assess subsidiary reputation from diverse stakeholder groups. Our findings reveal that the impact of headquarters' CSR on subsidiary reputation is contingent on the institutional disparities between home and host countries, with informal institutions exhibiting a non-linear effect on local stakeholders' reputation assessments.

We contribute to the literature on MNEs' reputation through a multi-stakeholder approach that provides a more comprehensive view of reputation than single stakeholder metrics, as is frequent in existing research (e.g., Lii et al. 2013; Swoboda et al. 2017; Walsh et al. 2009). Moreover, by adopting a subsidiary-based lens when analyzing reputation, we offer more granularity than overall MNEs' reputation assessments (El Ghoul et al. 2017; Su et al. 2016). We also contribute to the international business (IB) literature by analyzing the moderating effect of institutional distance in the parent CSR–subsidiary reputation linkage. This approach extends the signaling theory (Zerbini 2017) to cross-border analyses with varying conditions, leading to non-linear effects. More specifically, we find a stepwise moderating effect of informal institutional distance. When this distance is low, no moderating effect occurs. In other words, cultural similarities enable stakeholders in the subsidiary's host country to interpret and value the MNE's CSR initiatives, resulting in a reputational gain. However, once a certain threshold is reached, this distance weakens the relationship, leading to a smaller translation of CSR into the subsidiary's reputation at an intermediate distance and an even weaker effect at higher levels of distance. Our empirical results are useful for managers to allocate resources contingent on institutional differences and stakeholders' views across host countries when defining CSR actions in the home country.

2 | Theory and Hypotheses

2.1 | CSR Signals as a Source of Subsidiary Reputation

Reputation constitutes "the aggregation of a single stakeholder's perceptions of how well organizational responses meet the demands and expectations of many organizational stakeholders" (Wartick 1992, 34). This definition implies a generalized expectation about a firm's future behavior or performance based on collective perceptions of the past (Ferguson et al. 2000; Fombrun and Shanley 1990; Rindova et al. 2006). Thus, through a cognitive process, reputation constitutes a form of social judgment (Bitektine 2011; Ruef and Scott 1998). In that process, stakeholders receive a series of signals about an essential company's attribute (e.g., CSR actions) and evaluate their reliability (Barnett and Salomon 2006; Connelly et al. 2011; Husted 2000a, 2000b; Mahon and Wartick 2003; Scherer et al. 2013; Swoboda et al. 2017).

CSR, or the integration of environmental, social, and governance dimensions in business decisions (Dyllick and Hockerts 2002), constitutes a non-market strategy for MNEs (Bai et al. 2019; El Ghoul et al. 2017; Husted and Allen 2009). The instrumental stakeholder theory (Freeman 1984) posits that effective stakeholder management, addressing their concerns and expectations through CSR, generates stakeholder reciprocation through different mechanisms, with reputation a crucial one (Fombrun and Shanley 1990; Hoepner et al. 2016; Lange et al. 2011). Nevertheless, a CSR-based reputation emerges in

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the context of asymmetric information between firms and stakeholders. The signaling theory (Connelly et al. 2011; Spence 1973; Stiglitz 2000) contends that information asymmetries between two parties may be narrowed by providing observable information (e.g., a signal of CSR commitment) demonstrating the unobservable characteristics. The reliability of this CSR signal becomes crucial to reducing information asymmetries. A reliable CSR signal will generate favorable stakeholder evaluations and improve corporate reputation (Forcadell et al. 2020; Hetze 2016; Mahon and Wartick 2003). The term "reliability" reflects the extent to which a signaler is considered honest or the degree to which the signal corresponds or "fits" actual behavior or unobservable responsible effort (Busenitz et al. 2005; Zhang and Wiersema 2009). The CSR signal reliability implies the correspondence between the firm's CSR signal (e.g., agency CSR rating) and the firm's genuine CSR efforts.

Stakeholders interpret or calibrate the quality of the CSR signals received through a cognitive process (Swoboda et al. 2017), awarding different degrees of reliability to the signals. The signal reliability is affected by a series of factors: the observer (i.e., stakeholder) (Kirmani and Rao 2000); time (Khoury et al. 2013); firm characteristics such as prior CSR engagement, consistency, and a strong track record in CSR involvement (Barnett 2007, 2019; Tetrault Sirsly and Lamertz 2008); features of the CSR initiative such as serving society beyond primary stakeholders (Barnett 2019); and the institutional environment (Park and Mezias 2005; Zajac and Westphal 2004). The same signal (i.e., CSR ratings) can generate heterogeneous reliability among stakeholders across institutional environments (Connelly et al. 2011; Highhouse et al. 2007; Park 2018). Thus, CSR signal reliability can vary among the portfolio of the firm's subsidiaries with heterogeneous institutional settings (Borda et al. 2017; Brammer et al. 2012; Crilly et al. 2016; Su et al. 2016; Zerbini 2017).

2.2 | The Role of Institutional Distance in Building a Subsidiary Reputation for Parent CSR

Institutions are "the humanly devised constraints that structure political, economic, and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules (constitutions, laws, property rights)" (North 1991, 97). Institutions result from social values that evolve from the interaction of the different stakeholders (Heinich 2020). The institutional environment (Oliver 1997; Scott 1987) sets the broader business conditions. However, MNEs operate in multiple and diverse institutional settings, unfolding different business outcomes (Orr and Scott 2008). Organizational practices (i.e., CSR) are influenced by the institutional environment, whereby organizations adopt strategies to gain legitimacy and avoid uncertainty (DiMaggio and Powell 1983; Lawrence and Buchanan 2017). The institutional context shapes how CSR definitions are generated and accepted (Jennings and Zandberg 1995). Therefore, national differences in CSR may be due to divergences in institutional configurations (Matten and Moon 2008), and institutional factors determine whether a firm's activities constitute CSR. CSR practices may be "institutionalized" or "deinstitutionalized" at different times, depending on the institutional environment (Rivoli and Waddock 2011). For that reason, institutional diversity underlies the diverse CSR perceptions of stakeholders across countries. This diversity is relevant for MNEs performing CSR in their home country because host stakeholders' CSR judgments can fundamentally differ from those of the home country stakeholders. Nevertheless, although MNEs may not financially benefit from CSR in some institutional contexts, local stakeholders may reciprocate to socially responsible firms.

Institutional distance captures the dissimilarities between the institutional environment – formal and informal- of MNEs' home and host countries (Hernández et al. 2018; Swoboda et al. 2017; Zhou and Guillen 2016). More specifically, institutional distance scores the similarity/dissimilarity between two institutional contexts. Institutional distance is relevant to many corporate decisions in international business (Eden and Miller 2004; Gaur and Lu 2007), and it is essential for the analysis of the MNEs' liability of foreignness (Campbell et al. 2012; Goodall and Roberts 2003; Lavie and Miller 2008). Institutional distance may create barriers to the reliability of CSR signals sourced in the home country. In other words, MNEs serve different markets subject to heterogeneous institutional contexts (Luo 2001), which determine a heterogeneous calibration of their CSR signals, conferring different degrees of reliability.

2.3 | Formal Institutional Distance and Subsidiary Reputation for Parent CSR

Formal and informal institutional differences shape how host country stakeholders interpret MNEs' CSR signals and the reliability of these signals. The formal institutional dimension (North 1991) refers to the country's property rights and market institutions (Granville and Leonard 2010), business regulations, industry standards (Khan et al. 2015), and educational institutions (Asadullah and Chaudhury 2010). Formal institutional distance—or regulatory distance (Scott 1987)- between MNEs' home and host countries refers to differences in countries' policies, rules, regulations, and governmental control and enforcement mechanisms (Reimann et al. 2015). Differences may arise from the capacity for governments' enforcement, the functioning of property rights, or voids in political institutions, such as bureaucratic corruption (Johnson et al. 2002; La Porta et al. 1997; McMillan and Woodruff 2002). Ghemawat (2001) also includes political hostility between countries, the absence of shared monetary or political association, and colonial ties. Formal institutional distance is directional, with downward institutional distance occurring when MNEs from advanced economies enter emerging markets, and upward institutional distance representing the reverse (Konara and Shirodkar 2018). In contrast, informal institutional distance is neutral since it lacks the prescriptive nature of formal institutions (Kostova et al. 2020).

Adapting to the host countries' formal policies and regulations hampers firms from home countries with very different regulatory traditions from the host countries (Campbell et al. 2012). For example, standards identifying green assets vary across regions, with a European Parlament (2020) that differs from the Colombian Green Taxonomy (2022). Advanced countries increasingly pressure companies to develop sustainable strategies, especially under the UN's 2030 Agenda umbrella. As CSR covers activities beyond legal requirements, a particular initiative can

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be considered CSR in one country and mandatory elsewhere. This is particularly important for companies transitioning from a developed setting to a less-developed country (i.e., a decrease in formal institutional distance). The heterogeneity in the set of activities recognized as CSR (Matten and Moon 2008) may alter the perception of CSR actions from companies in distant regulatory countries.

Besides, the signal noise generated by external factors may interfere with or distort MNEs' CSR signals. Stakeholders may face challenges in interpreting CSR signals from companies in countries with distant formal institutions, as they tend to apply their administrative tradition lens to these signals. In contrast, stakeholders in similar regulatory settings converge in interpreting MNEs' CSR signals. Thus, the formal institutional distance between two countries can reduce the reliability of the CSR signals from foreign firms. More specifically, a downward distance may hinder the interpretation of a CSR signal to enhance subsidiary reputation due to two critical challenges. First, CSR practices shaped by stricter home-country regulations often emphasize compliance with advanced legal standards, such as corporate governance, emissions controls, or labor protections, which may not align with the priorities of stakeholders in less-regulated host countries. In these settings, stakeholders may perceive such initiatives as irrelevant to pressing institutional voids, such as the absence of effective public services or infrastructure, which are more salient to local development (Marquis and Qian 2014; Meyer and Thein 2014). Second, the weak institutional environment in the host country—characterized by insufficient regulatory enforcement, inconsistent legal frameworks, or fragmented labor systems—can limit the visibility, recognition, or perceived impact of CSR efforts (Jackson and Deeg 2008; Doh et al. 2010). For example, suppose an MNE implements rigorous environmental reporting or supply chain monitoring practices mandated by home-country regulations. These efforts may go unnoticed or unappreciated in host countries where such mechanisms are not actively monitored or incentivized. This disconnection between home-country CSR standards and the host-country institutional context weakens the translation of CSR activities into reputational gains as stakeholders struggle to perceive their relevance or tangible benefits. Consequently, the effect of CSR signals on MNEs' reputation in the host country may dilute as the downward formal institutional distance between home and host countries increases.

As a result of this discussion, we propose the following hypothesis on the moderating role of the formal institutional distance on the effect that headquarters CSR signals exercise on the subsidiary's reputation:

Hypothesis 1. *A formal downward institutional distance between the MNE home and host countries weakens the effect of the parent CSR signals on the subsidiary's reputation.*

2.4 | Informal Institutional Distance and Subsidiary Reputation for Parent CSR

Informal institutions refer to unwritten, yet widely recognized norms and practices that guide social behavior (Casson et al. 2010; North 1991; Scott 1987). They embed cultural differences in social norms, values, religion, language, ethnicity, customs, traditions, and codes of conduct (Shenkar 2001; Tihanyi et al. 2005; Umoru, Ogundana, et al. 2025). These include tacit knowledge, moral and ethical behavioral norms (North 1991), and socio-cultural structures such as gender roles, caste systems, and social capital (Casson et al. 2010). These non-state institutions shape and express individual and collective identity (Harriss-White 2010) and are particularly salient in developing countries, where formal institutions tend to be weak, underdeveloped, or absent (Umoru, Ogundana, et al. 2025). Corporate behavior (i.e., CSR) following local values may bring social connectedness and legitimacy to the host country (Gifford et al. 2010; Reimann et al. 2012).

Cultural ties between countries favor the perception of similarity, potentiating an empathetic response, i.e., an empathetic perception of CSR by host stakeholders. Similarly, host country stakeholders may show a less sympathetic perception of CSR efforts from MNEs in more culturally distant countries. Besides, as CSR is a social construct (Dahlsrud 2008), its assessment is rooted in social values. Stakeholders may not value the same CSR initiatives as the MNE's home stakeholders, or the MNE may not fully understand the cultural context. Thus, cultural differences may deter MNEs from engaging in CSR actions that fit stakeholders' demands and satisfy their expectations. In other words, institutional distance can yield a misalignment between firms' CSR and stakeholder needs according to their habits, traditions, and culture.

Literature on the effect of cultural distance on MNEs' decisions shows conflicting results due to the "illusion of linearity" (Shenkar 2001), which contends that variations in cultural distances do not exert linear impacts on MNEs' social or economic performance. Widening cultural differences may disproportionately pressure MNEs' CSR conversion into local reputation. A plausible explanation can rely on the different understandings across regions of what CSR should be (Gugler and Shi 2009). This means stakeholders in distant countries will struggle to judge and attach value to specific CSR initiatives that do not correspond with their normative set of values. Particularly, stakeholders in developing economies with limited CSR experiences are less familiar with and receptive to CSR. This lack of experience hinders stakeholders' understanding of CSR efforts, which in turn hinders their conversion into an improved reputation. For example, Brammer et al. (2012, 13) contend that "implicit forms of CSR may remain undetected in developing nations and could easily be mistaken for an absence of responsibility." Moreover, formal institutions embed common regulations at national levels, whereas cultural differences may also arise within countries, emanating from different ethnic groups or local languages. These conditions may exacerbate cultural distances, further hampering local stakeholders' identification with CSR policies and their conversion into enhanced reputation.

In addition, stakeholders' assessments of the value of signals will prioritize those signals with a lower level of noise (Gardberg et al. 2019; Gomulya and Mishina 2017). Because home-host distant informal environments entail a discord in the "set of assumptions and values, usually implicit, about how to interpret organizational reality" (Thornton and Ocasio 1999,

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804), informal institutional conflicts and higher noise arise. A growing signal noise may disproportionately hamper stakeholders' assessments, as they apply their informal institutional tradition lens to these signals. Under an increasing lack of correspondence between the CSR signal and stakeholders' beliefs, the signal will likely be ignored (Colombo 2021), hampering its effectiveness. Thus, an increasing disharmony between stakeholders' expectations based on their customs and norms and effective CSR may heighten stakeholders' assessments of the CSR signal. Informal distance weakens the CSR signal and its conversion to host reputation. However, the negative effect is more potent when this distance is more significant due to signal noise.

Cultural differences fundamentally constrain the shared cognitive frameworks necessary for stakeholders to decode CSR signals as intended by the MNE (Gaur and Lu 2007; Shenkar 2001). When informal institutions align closely, stakeholders possess the contextual familiarity to accurately interpret the values, priorities, and social commitments embedded in headquarters-driven CSR initiatives. This mutual understanding enhances signal reliability by reducing noise and attributional ambiguity (Connelly et al. 2011). Conversely, greater institutional distance creates hermeneutic gaps where stakeholders lack the cultural referents to map CSR signals onto local expectations (Brammer et al. 2012; Rathert 2016a). Thus, distance weakens the CSR-reputation linkage not merely through preference misalignment, but more critically by impairing the intersubjective understanding required for stakeholders to ascribe meaning and legitimacy to foreign-originating CSR signals.

As a result, the informal institutional distance may influence stakeholders' perceptions about CSR and its conversion into reputation. CSR from a country with a similar culture may better fit the host country stakeholders' preferences and necessities. Cultural similarities may be rewarded with an improved stakeholder perception of CSR and, thus, an enhanced firm reputation in the host country. Therefore, we expect that informal institutional distance weakens MNEs' CSR effect on the host reputation:

Hypothesis 2. *The informal institutional distance between the MNE home and host countries weakens the effect of the parent CSR signals on the subsidiary's reputation.*

3 | Data and Methods

3.1 | Sample

To test our hypotheses, we build a non-balanced panel of 914 observations from 92 listed MNEs from developed countries operating in eight Latin American countries—Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Mexico, and Peru—from 2011 to 2019. Each MNE can operate in more than one country, and each combination of MNE-host country is an observation in our sample, which renders 212 subsidiaries. The World Bank classifies these countries as upper-middle or lower-middle-income (Table 1).

3.2 | Measures

Our variable of interest ($Subsidiary\ Rep_{ijt}$) depicts the reputation of firm i in host country j over the period t using the MERCO reputation index (Borda et al. 2017; Cegarra-Navarro and Martinez-Martinez 2009; Sanchez and Sotorrio 2007; Sanchez et al. 2012; Odriozola and Baraibar-Diez 2017). The MERCO index captures the multifaceted nature of MNEs' reputation by surveying the opinion of several stakeholders: top executives of the largest companies operating in the country, expert groups (financial analysts, not-for-profit organizations, consumer organizations, unions, economic journalists, business management professors), and the general population. The MERCO methodology is available at www.merco.info. This index was born in Spain in 2001, and several Latin-American

TABLE 1 | Sample distribution per MNEs' home and host country (observations).

Home country/Host country	Argentina	Bolivia	Brazil	Chile	Colombia	Ecuador	Mexico	Peru	Total
France	19	2	7	4	0	0	2	1	35
Germany	35	2	14	12	7	12	9	2	93
Italy	0	0	0	2	0	0	0	0	2
Japan	15	0	13	12	0	8	19	9	76
Korea, Rep.	7	5	5	7	6	6	5	1	42
Netherlands	7	0	0	0	0	0	0	0	7
Spain	27	0	9	19	15	12	24	17	123
Sweden	0	0	3	0	0	0	0	1	4
Switzerland	22	6	7	7	7	17	11	8	85
United Kingdom	0	0	0	15	2	0	6	0	23
United States of America	77	13	63	55	62	41	73	40	424
Total	209	28	121	133	99	96	149	79	914

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countries followed from 2008 onwards: Colombia in 2008, Argentina and Chile in 2010, Ecuador in 2011, Peru in 2012, Bolivia, Brazil, and Mexico in 2013. It ranks the 100 most reputable companies for each market yearly, and KPMG externally audits it. This index suits our research goals since it assesses MNEs' local reputation instead of alternative approaches focusing on global MNEs' reputation. The MERCO's reputation index ranges from 100 for most reputed companies to a zero score for the worst. The score results from rescaling the weighted sum of the scores given by each stakeholder group.

To measure MNEs' CSR (CSR_{iht}), we rely on Environmental, Social, and Governance (ESG) scores from the Thomson Reuters Eikon database (Eccles et al. 2014; Ioannou and Serafeim 2012; Weber et al. 2008). ESG ratings emanate from an external third-party evaluation (Thomson Reuters Eikon) to avoid biases from using exclusively self-reported information (Mervelskemper and Streit 2017). This approach offers a more precise and comprehensive picture of CSR than other available proxies, such as membership in sustainability indexes, which derive from a dichotomous variable. The ESG scores provide a continuous measure of CSR, updated annually, calculated relative to the universe covered, and normalized between 0 and 100 from more than 750 data points of the three pillars of sustainability to reflect the multidimensionality of the CSR construct (Dahlsrud 2008). CSR ratings from the Thomson Reuters Eikon database embed all CSR activities conducted by MNEs, including their subsidiaries in Latin America. Considering that MNEs' CSR's impact on their reputation in host countries is not immediate, we lag the CSR variable for one period (Bear et al. 2010; Dell'Atti et al. 2017; Jo and Harjoto 2012).

The formal distance ($Form.Dist_{jht}$) between the home country h and the host country j at the moment t is measured using the World Bank's governance indicators: voice and accountability, political stability, absence of violence, government effectiveness, regulatory quality, the rule of law, and control of corruption (Kaufmann et al. 2006). We calculate the informal distance ($Inf.Dist_{jht}$) between the home country h and the host country j at time t. This measure follows Berry et al. (2010) that relies on Hofstede's culture sub-dimensions: individualism–collectivism, masculinity-femininity, uncertainty avoidance, and power distance, gathered from the World Values Survey. The World Values Survey, which is conducted worldwide every 3 or 4 years, allows us to capture such changes. We have interpolated the data for the years between survey waves. We use the Mahalanobis approach to measure the formal and informal distances between countries each year (Berry et al. 2010). We measure formal and informal distances as continuous, rather than categorical variables, in line with established practice in the literature (i.e., Dau et al. 2022).

We include control variables at different levels of analysis. At a country level, we control the economic environment of the host country j by incorporating GDP per capita $(GDP.pc_{jt})$ GDP growth $(Growth_{jt})$, trade between host and home countries as a proportion of the host's GDP $(Trade_{jht})$, and Foreign Direct Investment inflows $(FDI.gdp_{jt})$, sourced from the World Bank database. These variables are positively associated with CSR and reputation in emerging countries. As wealth rises, local stakeholders' pressure on non-economic social issues (Li et al. 2010). In turn, FDI and trade relationships typically relate positively to MNEs' reputation in host countries (García-García et al. 2019; Kelley et al. 2019). We also control for the geographic distance ($Geo.Dist_{jh}$) between the country-of-origin h and destination country j using latitudes through the haversine distance (Aybar and Ficici 2009). Due to the formation of asymmetric distance perceptions (Håkanson et al. 2016), geographic distance may exert a non-linear effect on reputation; thereby, we introduce $Geo.Dist_{jh}$ and $Geo.Dist^2_{jh}$.

In the same way, disparities in wealth induce different consumer behavior, tastes, and lifestyle between origin and destination countries (Hewett et al. 2003), which affect the CSR assessments by local stakeholders. Thus, we include the economic distance ($Eco.Dist_{jht}$) by computing the absolute value of the difference in the gross domestic product per capita between the home country h, and the host country j, using the following transformation, as in Campbell et al. (2012): $\log\left(1+\left|GDP_{pc\ home}-GDP_{pc\ host}\right|\right)$. In turn, the home country's institutional quality (IQ_{iht}) is measured based on the national reputation ranking from the Reputation Institute (Fombrun 2007; Fombrun et al. 2015) gathered from the Knoema Data Hub. Asymmetric information between MNEs and stakeholders that generate uncertainty for the latter may lead to stereotypical judgments based on the typology to which MNEs are perceived to belong, such as the home country's institutional quality (Kostova and Zaheer 1999; Newburry 2012).

At the corporate level, we control for intrinsic characteristics of the parent company that may influence reputation, sourced from the Thomson Reuters database. Controls include payout ($Payout_{iht}$), the proportion of dividend payment over the annual results, and stakeholder engagement ($Stake_{iht}$), as the bidirectional communication process between the firm and its various stakeholders. Regarding the MNE's size, we consider the log of the number of employees $\left(\ln(Empl)_{iht}\right)$. We incorporate the number of countries in which the MERCO index is calculated for each MNE ($N\_Countries_{\text{iht}}$). Finally, we control for specific traits at the MNE-host country level. We include the local MNE visibility in social networks through the variable $Facebook_{ijt}=ln\left(\frac{np_{ijt}}{tnp_{jt}}\right)$, where np_{ijt} is the number of news articles that mention the name of the subsidiary i in destination country j, during the period t in Facebook; tnp_{jt} is the total number of news publications from the sampled companies in country j during the period t (Shaheer and Li 2020). We build this variable by defining different queries per company and brand name. We use a third-party application (Valueserp) to scrap the number of search results from Facebook. Using the same methodology, we calculated the number of news items published in Google News, news websites, LinkedIn, and Twitter (now, X). However, only Facebook posts show a significant impact on the reputation of the subsidiary.

Besides, we consider the degree of a subsidiary's strategic relevance to the parent company (Benito et al. 2003) through the variable $Scope_{ij}=\sum_{k=1}^{6}a_k$, that counts the different activities performed by the company locally, each of them represented by a_k (i.e., if the company produces its sustainability report locally, it has a local website in the host country, it manufactures or services directly to the public in the host country, it offers

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local brands, it engages in R&D in the host country, or it is listed on local financial markets), valued one if a particular trait is present, and zero otherwise. Values for *Scope* range from zero to six. Data is sourced from companies' websites. Since sector specificity may condition the activities developed by a company, we estimate the interaction of the variable *Scope* with the sector dummies. Table 2 shows the descriptive statistics for the variables mentioned above.

3.3 | Model Specification

We use a hierarchical model (or mixed model) to incorporate variables from two levels of analysis: firm-level and country-level (Rabe-Hesketh and Skrondal 2008). This structure captures the nested nature of our data, where firms are grouped within countries, allowing us to account for both within-country and between-country variance. Linear mixed models offer greater flexibility than fixed effects models in this context, as they allow for the inclusion of time-invariant country-level variables that are theoretically relevant to our study. In contrast, fixed effects would remove all between-country variation and prevent estimation of such variables. Furthermore, given the moderate imbalance in our panel and the presence of clustering at the country level, mixed models provide a more appropriate framework for estimating group-level effects.

$$\begin{aligned} Subsidiary.Rep_{ijt} &= \alpha + \beta_1 CSR_{iht-1} + \beta_2 Form.Dist_{jht} + \beta_3 CSR_{iht-1} \\ &\times Form.Dist\,(res)_{jht} + \beta_4 Inf.Dist_{jht} + \beta_5 CSR_{iht-1} \\ &\times Inf.Dist(res)_{jht} + \gamma_1 X_{ijht} + s + t + u_{jt} + v_{it} + \epsilon_{ijt} \end{aligned} \quad (1)$$

We estimate Equation (1) by the maximum likelihood of linear random-intercept or linear mixed model with robust standard errors clustered by MNE-host country. To analyse the moderation effect of formal distance on the host country's reputation, we use the interaction $CSR_{iht-1} \times Form.Dist_{jht}$. The coefficient β_3 must be negative to support Hypothesis 1. To examine the moderation effect of informal distance, we include the interaction $CSR_{iht-1} \times Inf.Dist_{jht}$. The coefficient β_5 must be negative to support Hypothesis 2. We introduce the control variables (X_{ijht}), the fixed effects associated with sector (s) and time (t). We use the economic sector level of the Thomson Reuters Business Classification (TRBC). This is a market-based classification system, like GICS and ICB systems. The random intercept splits into country-specific error (u_{jt}) and MNE-host country-specific error (v_{it}), whereas ϵ_{ijt} is the error term.

Multicollinearity between distances and their interactions may affect the standard errors of coefficients (McClelland et al. 2017). Therefore, we use the cross-product residual-centring approach that Lance (1988) proposed. In the first stage, we perform a regression in which the dependent variable is the interaction, and the independent variables are incorporated into this interaction. We include the previously standardized residuals (res) in the full equation regression in the second step $(CSR_{iht-1} \times Inf.Dist(res)_{jht}; CSR_{iht-1} \times Form.Dist\,(res)_{jht})$.

A reverse causality between the subsidiary reputation and MNE's CSR (Fatemi et al. 2018; Perez-Cornejo et al. 2019) and omitted variables may cause endogeneity. To address this problem, we use a control function (Wooldridge 2015). We estimate the first-stage reduced forms for the endogenous regressor (MNE's CSR) using two instrumental variables obtained from the Thomson Reuters Eikon database: the existence of a CSR committee and shareholder concentration.

The first instrument is a dummy variable valued at one if the company has a CSR committee and zero otherwise. The relevance of this instrument is supported by prior literature demonstrating that CSR committees significantly influence CSR commitment and disclosure practices (Cosma et al. 2022; Eberhardt-Toth 2017; Helfaya and Moussa 2017; Martínez-Ferrero et al. 2021; Michelon 2011), thus improving the CSR signals (Baraibar-Diez and Odriozola 2019; Radu and Smaili 2022). In our first-stage regression, the CSR committee variable is positively and significantly associated with the MNE's CSR score, confirming its relevance. Regarding exogeneity, while one could argue that the presence of a CSR committee might also affect a company's reputation, we find no empirical evidence to support this link in our setting. Specifically, the coefficient for the CSR committee is statistically insignificant when directly regressed on subsidiary reputation (Model 1), suggesting it does not directly affect the dependent variables and supports its validity as an exogenous instrument.

The second instrument is the level of shareholder concentration. Prior studies indicate that high ownership concentration tends to reduce CSR engagement (Jo and Harjoto 2011; Dam and Scholtens 2013), though the relationship is complex (Crifo et al. 2016). In our sample, shareholder concentration is significantly related to MNE's CSR performance in the reduced-form regression, establishing relevance. In terms of exogeneity, the correlation between shareholder concentration and subsidiary reputation is negligible (0.0013), and we do not find significant direct effects in auxiliary regressions. These results suggest that shareholder concentration affects reputation only indirectly through its impact on CSR, satisfying the exclusion restriction assumption. Finally, we compute robust standard errors using 1000 bootstrap replications to ensure the stability of our estimates.

4 | Results

Table 3 depicts Models 1 and 2, specified linear mixed models (Equation 1). Model 1 includes all variables except the interaction terms. β_1 is positive and significant, showing that CSR enhances the subsidiary reputation. β_2 The result is positive and significant, indicating that formal distance positively impacts subsidiary reputation. In contrast, the informal distance is not significant, suggesting that it does not affect subsidiary reputation under a linear specification. Model 2 includes two interactions. β_3 is negative and significant, which confirms that $Form.Dist_{jht}$ negatively moderates the influence of CSR_{iht-1} on $Subsidiary.Rep_{ijt}$ as suggested by Hypothesis 1. However, β_5 is non-significant again under a linear specification, which impedes Hypothesis 2 verification.

The non-significance of β_5 may be attributed to methodological challenges arising from the particularities of our sample. The

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TABLE 2 | Descriptive statistics.

Variable	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
1. $Subsidiary.Rep_{ijt}$	69.725	21.147	1.000															
2. CSR_{iht}	76.775	12.930	0.016	1.000														
3. $Inf.Dist_{jht}$	3.665	0.612	0.003	0.044	1.000													
4. $Form.Dist_{jht}$	10.434	4.872	0.194	−0.066	−0.215	1.000												
5. $Eco.Dist_{jht}$	4.578	0.141	0.155	−0.100	0.046	0.274	1.000											
6. $Geo.Dist_{jh}$	9076.884	3624.314	0.105	0.243	−0.023	−0.228	−0.393	1.000										
7. IQ_{iht}	62.897	8.436	−0.047	0.342	0.028	−0.067	0.101	0.435	1.000									
8. $GDPpc_{jt}$	9499.085	3014.439	−0.061	0.042	0.119	−0.590	−0.297	0.279	0.044	1.000								
9. $Growth_{jt}$	0.623	2.421	−0.043	−0.097	0.126	0.079	−0.022	−0.098	−0.065	−0.181	1.000							
10. $Trade_{jt}$	1.443	3.710	−0.011	0.046	−0.009	−0.010	0.021	−0.134	−0.098	−0.021	−0.013	1.000						
11. FDI_{jt}	3.219	2.074	−0.127	0.002	0.183	−0.475	−0.178	0.055	−0.067	0.415	0.311	−0.002	1.000					
12. $\ln(Empl)_{ht}$	0.677	2.131	−0.085	0.075	−0.006	−0.021	0.026	−0.074	0.034	−0.034	−0.030	0.054	−0.010	1.000				
13. $Payout_{ht}$	11.775	0.913	0.106	0.235	−0.003	0.020	0.038	0.143	−0.010	0.005	−0.054	−0.093	−0.006	−0.060	1.000			
14. $Stake_{ht}$	67.913	30.612	−0.095	0.188	−0.015	0.075	0.158	−0.158	−0.168	−0.038	0.024	0.090	0.036	0.094	0.152	1.000		
15. $\ln(Facebook)_{ijt}$	−8.745	1.817	0.283	0.057	0.021	0.009	−0.023	0.097	−0.076	−0.208	0.160	−0.036	0.128	−0.005	0.213	0.037	1.000	
16. $N\_Countries_{ht}$	5.454	2.122	0.239	0.182	−0.003	0.024	0.071	0.036	−0.139	−0.125	0.071	−0.022	0.026	−0.034	0.273	0.250	0.291	1.000
17. $Scope_{ih}$	2.332	1.393	−0.105	0.206	−0.020	−0.056	−0.104	0.047	0.248	0.114	−0.028	−0.047	0.046	0.110	0.159	0.105	0.107	0.080

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TABLE 3 | Linear mixed models (linear relations).

	Model 1	Model 2
	$Subsidiary.Rep_{ijt}$	$Subsidiary.Rep_{ijt}$
$CSR_{iht-1}(\beta_1)$	0.142 (0.063)**	0.146 (0.075)*
$Form.Dist_{jht}(\beta_2)$	0.543(0.216)	0.653 (0.225)
$CSR_{iht-1} \times Form.Dist\ (\text{res})_{jht}(\beta_3)$		−0.023 (0.011)**
$Inf.Dist_{jht}(\beta_4)$	−1.042 (1.279)	−1.164 (1.359)
$CSR_{iht-1} \times Inf.Dist\ (\text{res})_{jht}\ (\beta_5)$		0.024 (0.109)
$Eco.Dist_{jht}$	44.040 (6.040)****	46.370**** (6.085)****
$Geo.Dist_{jh}$	−0.002** (0.001)***	−0.002 (0.001)****
$Geo.Dist_{jh}^2$	1.55×10^{-7} (2.74×10^{-8})***	1.51×10^{-7}**** (2.80×10^{-8})****
IQ_{iht}	−0.121 (0.114)	−0.152 (0.113)
$GDP.pc_{jt}$	0.002 (0.000)****	0.002 (0.000)****
$Growth_{jt}$	0.155 (0.290)	0.175 (0.283)
$Trade_{jt}$	0.100 (0.164)	0.086 (0.170)
$FDI.gdp_{jt}$	−1.197 (0.376)***	−1.157 (0.377)***
$Payout_{ht}$	−0.227 (0.667)	−0.219 (0.668)
$\ln(Empl)_{ht}$	−2.134 (0.702)***	−2.349 (0.738)***
$Stake_{ht}$	−0.117 (0.0323)***	−0.119 (0.033)****
$\ln(Facebook)_{ijt}$	2.351 (0.450)****	2.356 (0.455)****
$N\_Countries_{ht}$	1.105 (0.364)***	1.039 (0.375)***
$Scope_{ih}$	−0.019 (0.531)	−0.070 (0.544)
$\hat{u}_{ijt}$	0.006 (0.115)	−0.012 (0.120)
Constant	−103.900 (28.29)***	−112.008 (28.750)****
Number of observations	914	914
Subsidiaries	212	212
R^2	0.342	0.341
Temporal dummies	Yes	Yes
Sectoral dummies	Yes	Yes

Note: The interaction is modeled with residual centering (res). The variances of coefficients are based on 1000 bootstrap replications.
****$p<0.001$.
***$p<0.01$.
**$p<0.05$.
*$p<0.1$.

limited representation of multinational enterprises (MNEs) from only 11 countries targeting 8 Latin American economies generates an imbalance in the data panel, further exacerbated by the strong concentration of MNEs from the USA and Spain, constituting 46% and 13% of the sample, respectively. Additionally, informal distance involves intricate and intangible cultural values that may not adhere to simple linear relationships (Shenkar 2001; Patel and Salih 2018). The constructs used to capture informal distance might inadvertently introduce an "illusion of linearity," obscuring the true complexities of cultural nuances. Given these limitations and peculiarities in the data, it seems more appropriate to propose a non-linear moderation. In this sense, threshold regression (Hansen 2000) emerges as a proper analytical approach, allowing us to effectively address the sample's challenges and identify distinct clusters of informal distance. This approach enables a nuanced analysis of the moderating effect and provides valuable insights into the relationship between MNE's CSR and subsidiary reputation within different levels of informal distance. We identify two critical thresholds ($\lambda_1=2.899$, $\lambda_2=4.227$) that define three distinct clusters of informal distances (see Table 4): "low" if the informal distance is equal to or lower than the first threshold, "medium" if the informal distance is greater than the first threshold but lower than or

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TABLE 4 | Identification of informal distance thresholds between home and host countries.

	Threshold estimate $\lambda_{Cult.Dist}$	LM-test
$Inf.Dist_{jht}$	2.989	36.540****
$Inf.Dist_{jht}$	4.227	15.920*

Note: Number of bootstrap replications: 400. Trimming percentage: 0.15.
****$p < 0.001$.
***$p < 0.01$.
**$p < 0.05$.
*$p < 0.1$.

equal to the second threshold, and "high" if the informal distance exceeds the second threshold. Defining these clusters of informal distances allows us to incorporate non-linear effects to our estimations.

We include thresholds in the following model specification:

$$\begin{aligned} &Subsidiary.Rep_{ijt} = \alpha + \beta_1 CSR_{iht-1} + \beta_2 Form.Dist_{jht} \\ &+ \beta_3 CSR_{iht-1} \times Form.Dist\,(res)_{jht} + \beta_4 Inf.Dist_{jht} \\ &+ \beta_5 CSR_{iht-1} \times I\left(\lambda_1 < Inf.Dist_{jht} \leq \lambda_2\right) + \beta_6 CSR_{iht-1} \\ &\times I\left(Inf.Dist_{jht} > \lambda_2\right) + \gamma_1 X_{ijht} + s + t + u_{jt} + v_{it} + \epsilon_{ijt} \end{aligned} \quad (2)$$

This model specification allows for estimating the moderating effect of informal distance for the three clusters of distance previously identified. The indicator variable $I\left(\lambda_1 < Inf.Dist_{jht} \leq \lambda_2\right)$ takes value one if the informal distance is greater than the first threshold (λ_1) and lower than or equal to the second threshold (λ_2); this identifies the cluster of MNE-host country combinations with a medium informal distance. Similarly, $I\left(Inf.Dist_{jht} > \lambda_2\right)$ takes value one if the informal distance is greater than the second threshold (λ_2); this identifies the cluster of MNE-host country combinations with a high informal distance. Coefficient β_1 measures the effect of the MNE CSR on its local reputation, which must be $\beta_1 > 0$. However, as informal distance increases, we expect this effect to diminish. Consequently, when the informal distance falls within the interval $\left(\lambda_1 < Inf.Dist_{jht} \leq \lambda_2\right)$, the effect of the CSR_{iht-1} on $Subsidiary.Rep_{ijt}$ is determined by $\beta_1 + \beta_5$. A reduction of the effect will only occur if $\beta_5 < 0$. Likewise, when the informal distance exceeds λ_2, the effect of the CSR_{iht-1} on $Subsidiary.Rep_{ijt}$ is determined by $\beta_1 + \beta_6$. For the effect to be reduced with increasing distance, the following conditions should be met: $\beta_6 < 0$ and $\beta_6 < \beta_5$. This would verify Hypothesis 2.

Model 3 in Table 5 includes only the first threshold $I\left(Inf.Dist_{jht} > 2.989\right)$. β_1 is positive and significant, and β_5 is negative and significant; also $\beta_1 > \beta_5$. Thus, CSR_{iht-1} positively influences the host's reputation, and its impact narrows when the informal distance exceeds the threshold of 2.989. These findings are in line with Hypothesis 2.

Model 4 includes both thresholds. β_1, the coefficient of CSR_{iht-1}, is positive and significant. β'_5 is negative and significant. β'_6 is negative and significant. Also, the following conditions are met $\beta_1 > |\beta'_5|, \beta_1 > |\beta'_6|$, and $\beta'_5 > \beta'_6$. Therefore, the effect of MNE's CSR on the subsidiary's reputation is positive and decreases as the informal distance increases, thus confirming Hypothesis 2.

Figure 1 shows the non-linear effect of CSR on the subsidiary's reputation across different clusters of informal distance. These findings suggest varying degrees of intensity in the conversion of CSR into subsidiary reputation, with all effects remaining significant.

Extending the explanation, we observe that the moderation effect of informal institutional distance occurs in stages. When the informal institutional distance between the MNE's home country and the subsidiary's country is low, there is a direct and positive effect ($\beta_1 = 0.241$, according to Model 4): the greater the MNE's CSR investment, the higher the subsidiary's reputation. This relationship is depicted by the solid blue line in Figure 1, whose slope corresponds to β_1. This pattern applies to subsidiaries located in countries with an informal institutional distance below 2.989. The Mahalanobis distance follows a chi-squared distribution with degrees of freedom equal to the number of dimensions included in its calculation (four in this case). Based on this, approximately 44% of cases (those with lower informal institutional distance) exhibit no significant moderation effect of institutional distance on the CSR–reputation relationship.

Beyond this threshold, two additional groups emerge. The first group includes subsidiaries located in countries with an intermediate level of informal institutional distance from the MNE's home country. This group represents 18.35% of the subsidiaries (since distances of 2.989 and 4.227 correspond to the 44.03% and 62.38% percentiles, respectively). Here, moderation occurs through a reduction in the slope of the relationship shown by the dotted orange line in Figure 1, which decreases to 0.144 (calculated as $\beta_1 + \beta'_5$).

The second group includes subsidiaries in countries with the highest levels of informal institutional distance from the MNE's home country (above 4.227), representing 37.62% of the observations. In this case, the moderation effect further reduces the slope to 0.084 ($\beta_1 + \beta'_6$), indicating a second stage of attenuation (grey dashed line). Although the relationship between CSR and reputation remains positive, it is significantly weakened by the greater informal institutional distance.

This non-linear behavior clearly explains the lack of significance of the interaction term between CSR and informal institutional distance in Model 2 (β_5), as nearly half of the sample are cases with a low informal distance between the home country and the subsidiary's country. The conclusion is that informal institutional distance becomes relevant only beyond a certain threshold, at which point it weakens the impact of CSR on the subsidiary's reputation. This effect is even more pronounced for subsidiaries located in countries with the highest informal institutional distance from their headquarters.

Regarding the control variables, the coefficient related to the economic distance $Eco.Dist_{jht}$ is positive and significant; therefore, the economic distance between the MNE's home country and the subsidiary country enhances the reputation of the MNE in the host country. In this case, although the economic distance is calculated in absolute values, all the home countries have a higher GDP_{pc} coefficient than the host countries. This implies that the reputation of the subsidiary tends to be

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TABLE 5 | Linear mixed models (non-linear).

	Model 3	Model 4
	$Subsidiary.Rep_{ijt}$	$Subsidiary.Rep_{ijt}$
$CSR_{iht-1}(\beta_1)$	0.208 (0.071)***	0.241 (0.072)***
$Form.Dist_{jht}(\beta_2)$	0.677 (0.225)***	0.674 (0.224)****
$CSR_{iht-1} \times Form.Dist\ (\text{res})_{jht}(\beta_3)$	−0.024 (0.010)**	−0.027 (0.010)****
$Inf.Dist_{jht}(\beta_4)$	1.491 (1.956)	3.983 (2.033)*
$CSR_{iht-1} \times I(Inf.Dist_{jht} > 2.989)(\beta_5)$	−0.066 (0.033)**	
$CSR_{iht-1} \times I(2.989 < Inf.Dist_{jht} \leq 4.227)(\beta'_5)$		−0.097 (0.035)***
$CSR_{iht-1} \times I(Inf.Dist_{jht} > 4.227)(\beta'_6)$		−0.157 (0.053)***
$Eco.Dist_{jht}$	46.961 (6.069)****	46.172 (6.052)****
$Geo.Dist_{jh}$	−0.003 (0.001)****	−0.003 (0.001)****
$Geo.Dist^2_{jh}$	1.7×10^{-7} (3.17×10^{-8})****	1.80×10^{-7} (3.12×10^{-8})****
IQ_{iht}	−0.106 (0.114)	−0.086 (0.117)
$GDP.pc_{jt}$	0.002 (0.000)****	0.002 (0.000)****
$Growth_{jt}$	0.205 (0.286)	0.219 (0.290)
$Trade_{jt}$	0.096 (0.167)	0.089 (0.162)
$FDI.gdp_{jt}$	−1.011 (0.396)**	−0.967 (0.389)**
$Payout_{ht}$	−0.229 (0.668)	−0.244 (0.682)
$\ln(Empl)_{ht}$	−2.402 (0.719)***	−2.274 (0.730)****
$Stake_{ht}$	−0.118 (0.032)***	−0.122 (0.032)***
$\ln(Facebook)_{ijt}$	2.326 (0.445)***	2.289 (0.453)****
$N\_Countries_{ht}$	1.070 (0.360)***	1.100 (0.363)***
$Scope_{ih}$	−0.028 (0.521)	−0.099 (0.532)
$\hat{u}_{ijt}$	−0.027 (0.121)	−0.045 (0.122)
Constant	−125.821 (29.018)****	−132.900 (29.07)****
Number of observations	914	914
Subsidiaries	212	212
R^2	0.348	0.354
Temporal dummies	Yes	Yes
Sectoral dummies	Yes	Yes

Note: The interaction is modeled with residual centering (res). The variances of coefficients are based on 1000 bootstrap replications.
****$p < 0.001$.
***$p < 0.01$.
**$p < 0.05$.
*$p < 0.1$.

greater when it is owned by a multinational headquartered in a country that is relatively wealthier than the subsidiary's host country. The coefficients associated with the geographical distance are significant, negative for $Geo.Dist_{jh}$ and positive for $Geo.Dist^2_{jh}$. These findings confirm a U-shaped effect of geographical distance on host country reputation. However, the coefficient of the home country institutional quality IQ_{iht} is not significant. We neither find a significant effect of the commercial relationship between the home and host countries $(Trade_{jt})$ on $Subsidiary.Rep_{ijt}$. The variables related to the economic status of the host country have a stable effect across all models. GDP per capita $(GDP.pc_{jt})$ is not significant, FDI inflows $(FDI.gdp_{jt})$ in the host country are negative and significant, and GDP growth $(Growth_{jt})$ is not significant. Within the firm level, the MNE size $(\ln(Empl)_{ht})$, the stakeholder engagement $(Stake_{ht})$, the presence in a social network $(\ln(Facebook)_{ijt})$, the number of countries in which the MERCO index is calculated for each MNE $(N\_Countries_{ht})$, and the relevance of the host

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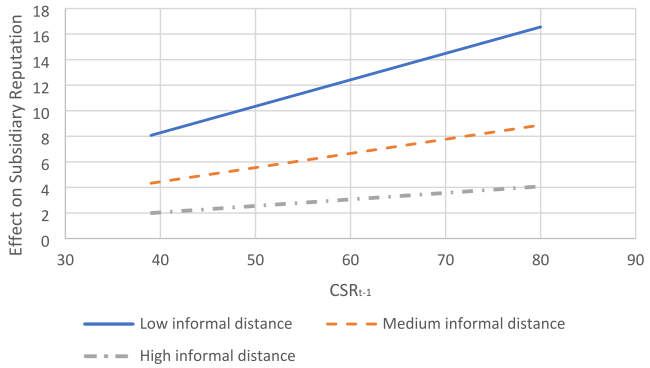

FIGURE 1 | The effect of CSR on subsidiary reputation across informal distance country clusters (full sample). Low, medium and high informal distance clusters identified using thresholds (Table 4). [Colour figure can be viewed at wileyonlinelibrary.com]

country for the MNE (since sector specificity may condition the activities to be carried out by a subsidiary, we have estimated the interaction of the variable with the sector dummies) $\left(Scope^{\dagger}_{ih}\right)$, exert significant effects on $Subsidiary.Rep_{ijt}$. However, the variable dividends ($Payout_{ht}$) is not significant.

To verify the robustness of our models, we apply different estimation procedures. The Breusch and Pagan (1980) and Hausman (1978) tests suggest using a random-effects model. We follow Wooldridge (2002) to estimate a robust version of the Hausman test. These tests indicated that the random-effects estimator is consistent and efficient, supporting its use over the fixed-effects model. Notably, the random-effects specification allows us to retain time-invariant variables—particularly country-level institutional factors—which are theoretically relevant to our study but would be excluded under a fixed-effects approach. Moreover, the Wooldridge (1992) test confirms autocorrelation, while the LR-test indicates the presence of heteroskedasticity. Finally, Pesaran (2004) and Frees (1995) tests show serial correlation. Thus, we estimate our models using feasible generalized least squares (FGLS), controlling for group-wise heteroskedasticity and serial correlation (Moundigbaye et al. 2018; Parks 1967; Reed and Ye 2011). Beck and Katz (1995) concluded that the Parks estimation technique produces optimistic standard errors for long panels; they proposed an alternative procedure (panel-corrected standard errors) and showed that it is more accurate for this data structure. We also considered the Tobit procedure because of the censored character of the dependent variable. However, the tests performed with this approach revealed that the censored nature was limited. Table 6 shows the results from the FGLS specification (models 5–8), which are analogous to those obtained using linear mixed models, confirming the robustness of our findings.

We perform an additional robustness test to offer further evidence for verifying our hypotheses. We estimate Equation (1) for a sample restricted to multinationals with headquarters in the USA (which accounts for 452 of 914 observations in our sample). In this way, the variations in the institutional distances only depend on the heterogeneity in the institutional environment in the host countries. In Model 9 (Table 7), β_1 is positive and significant, β_5 is negative and significant, which confirms Hypothesis 1. β_3 is negative and significant, which confirms Hypothesis 2. These findings evidence that the non-linearity found when verifying Hypothesis 2 in Model 2 (using the whole sample) obeys the impact of the sample structure in modeling the moderating role of such a complex variable as informal distance (Table 1).

These findings highlight a fundamental distinction between the moderating roles of formal and informal institutional distance. While both forms of institutional distance weaken the effectiveness of parent CSR in shaping subsidiary reputation, the mechanisms and patterns of moderation differ substantially. Informal institutions—such as cultural norms, cognitive frames, and societal expectations—govern how local stakeholders interpret and assign meaning to CSR signals. As institutional theory suggests, when informal institutional distance becomes too pronounced, it can lead to misinterpretation, skepticism, or even rejection of CSR actions initiated by the parent firm (Kostova and Zaheer 1999; Xu and Shenkar 2002). This interpretive breakdown is not linear but occurs beyond a threshold of cultural dissonance. Our empirical results confirm this: a statistically significant threshold effect emerges for informal distance, indicating that the positive influence of parent CSR on subsidiary reputation weakens sharply once informal distance exceeds a certain level.

In contrast, formal institutions—reflected in legal systems, regulatory quality, and governance standards—are codified and relatively transparent. These institutions are easier for firms to analyze and comply with, and stakeholder expectations in these domains are typically more predictable. Consequently, the moderating effect of formal institutional distance appears linear and gradual, with no statistical evidence of a threshold effect. This suggests that while greater formal distance incrementally reduces the credibility or resonance of CSR signals, it does not cause a sudden collapse in their perceived legitimacy.

This divergence supports the dual embeddedness framework (Meyer et al. 2011), which emphasizes that subsidiaries must navigate both formal and informal institutional environments. However, our findings suggest that informal institutional compatibility is more critical when it comes to the transmission and interpretation of symbolic initiatives like CSR. This reinforces the importance of considering the non-linear, culturally contingent dynamics that shape CSR effectiveness in international contexts.

5 | Discussion and Conclusions

5.1 | Results Discussion

Empirical results from a sample of 212 developed countries' MNEs' subsidiaries operating in eight Latin American countries show that MNEs' CSR improves the subsidiary's reputation. However, this effect depends on the institutional distance between home and host countries. Our sample offers evidence of formal and informal distances. Formal and informal distances weaken the conversion of the CSR signal into the reputation of the subsidiary. Our findings confirm that institutional settings matter when MNEs design and adapt their CSR strategies to

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TABLE 6 | Linear FGLS-Estimated linear models.

	Model 5	Model 6	Model 7	Model 8
	$Subsidiary.Rep_{ijt}$	$Subsidiary.Rep_{ijt}$	$Subsidiary.Rep_{ijt}$	$Subsidiary.Rep_{ijt}$
CSR_{iht-1}	0.121 (0.064)*	0.127 (0.078)	0.195 (0.071)***	0.228 (0.074)***
$Form.Dist_{jht}$	0.499 (0.225)**	0.608 (0.232)***	0.642 (0.225)***	0.641 (0.223)***
$CSR_{iht-1} \times Form.Dist\ (\text{res})_{jht}$		−0.023 (0.012)**	−0.024 (0.010)**	−0.027 (0.010)***
$Inf.Dist_{jht}$	−1.410 (1.344)	−1.55 (1.375)	1.306 (1.930)	3.885 (2.096)*
$CSR_{iht-1} \times Inf.Dist\ (\text{res})_{jht}$		0.025 (0.113)		
$CSR_{iht-1} \times I\left(Inf.Dist_{jht} > 2.989\right)$			−0.071 (0.032)**	
$CSR_{iht-1} \times I\left(2.989 < Inf.Dist_{jht} \leq 4.227\right)$				−0.101 (0.035)***
$CSR_{iht-1} \times I\left(Inf.Dist_{jht} > 4.227\right)$				−0.162*** (0.052)
$Eco.Dist_{jht}$	44.569 (6.006)****	46.993**** (6.231)	47.673**** (6.242)****	46.688 (6.237)****
$Geo.Dist_{jh}$	−0.002 (0.000)****	−0.002 (0.001)****	−0.002 (0.001)****	−0.003 (0.001)****
$Geo.Dist_{jh}^2$	1.53×10^{-7} (2.76×10^{-8})****	1.49×10^{-7} (2.89×10^{-8})****	1.77×10^{-7} (3.08×10^{-8})****	1.79×10^{-7} (3.04×10^{-8})****
IQ_{iht}	−0.101 (0.110)	−0.133 (0.120)	−0.088 (0.119)	−0.070 (0.119)
$GDP.pc_{jt}$	0.001 (0.000)****	0.002 (0.000)****	0.002 (0.000)****	0.001 (0.000)****
$Growth_{jt}$	0.196 (0.287)	0.217	0.245	0.255
		(0.289)	(0.290)	(0.286)
$Trade_{jt}$	0.098 (0.168)	0.083	0.094	0.088
		(0.159)	(0.155)	(0.173)
$FDI.gdp_{jt}$	−1.135 (0.401)****	−1.090 (0.388)****	−0.940 (0.388)**	−0.906 (0.391)**
$Payout_{ht}$	−0.157 (0.691)	−0.149 (0.650)	−0.164 (0.690)	−0.186 (0.668)
$\ln(Empl)_{ht}$	−2.115 (0.724)****	−2.343 (0.730)****	−2.411 (0.741)***	−2.264 (0.746)****
$Stake_{ht}$	−0.106 (0.033)***	−0.107 (0.032)***	−0.107 (0.033)***	−0.112 (0.032)***
$\ln(Facebook)_{ijt}$	2.309 (0.447)****	2.312 (0.459)****	2.276 (0.457)****	2.251 (0.455)****
$N\_Countries_{ht}$	1.091 (0.378)**	1.022 (0.373)***	1.054 (0.360)***	1.086 (0.367)***
$Scope_{ih}$	0.039 (0.540)	−0.010 (0.546)	0.034 (0.535)	−0.047 (0.549)
$\hat{u}_{ijt}$	−0.018 (0.113)	−0.034 (0.118)	−0.0492 (0.116)	−0.066 (0.118)

(Continues)

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TABLE 6 | (Continued)

	Model 5	Model 6	Model 7	Model 8
	Subsidiary. Rep$_{ijt}$	***Subsidiary. Rep$_{ijt}$***	***Subsidiary. Rep$_{ijt}$***	***Subsidiary. Rep$_{ijt}$***
Constant	−106.077 (28.291)****	−114.618 (29.237)****	−129.597 (29.389)***	−135.952 (29.800)****
Number of observations	914	914	914	914
Subsidiaries	212	212	212	212
R^2	Yes	Yes	Yes	Yes
Temporal Dummies	Yes	Yes	Yes	Yes
Sectoral Dummies	Yes	Yes	Yes	Yes

Note: The interaction is modeled with residual centering (res). The variances of coefficients are based on 1000 bootstrap replications.
****$p < 0.001$.
***$p < 0.01$.
**$p < 0.05$.
*$p < 0.1$.

TABLE 7 | Linear mixed models for US MNEs.

	Model 9
	Subsidiary. Rep$_{ijt}$
$CSR_{iht-1}(\beta_1)$	0.236 (0.091)***
$Form.\,Dist_{jht}(\beta_2)$	0.088 (0.422)
$CSR_{iht-1} \times Form.\,Dist\,(\text{res})_{jht}(\beta_3)$	−0.045 (0.018)**
$Inf.\,Dist_{jht}(\beta_4)$	−9.269 (3.116)***
$CSR_{iht-1} \times Inf.\,Dist\,(\text{res})_{jht}(\beta_5)$	−0.242 (0.145)*
$Eco.\,Dist_{jht}$	−115.261 (570.5)****
$Geo.\,Dist_{jh}$	0.005 (0.003)***
$Geo.\,Dist^2_{jh}$	-6.44×10^{-7} (2.70×10^{-8})**
IQ_{iht}	−7.939 (33.158)
$GDP.\,pc_{jt}$	0.000 (0.005)****
$Growth_{jt}$	−0.172 (0.471)
$Trade_{jt}$	0.137 (0.188)
$FDI.\,gdp_{jt}$	−1.099 (0.696)
$Payout_{ht}$	−0.268 (1.575)
$\ln(Empl)_{ht}$	−4.454 (0.816)****
$Stake_{ht}$	−0.155 (0.037)****
$\ln(Facebook)_{ijt}$	2.641 (0.655)****
$N\_Countries_{ht}$	0.530 (0.586)
$Scope_{ih}$	−1.625 (1.636)
$\hat{u}_{ijt}$	0.066 (0.179)
Constant	1132.612 (4570.663)
Number of observations	452
Subsidiaries	108
R^2	0.172
Temporal Dummies	Yes
Sectoral Dummies	Yes

Note: The interaction is modeled with residual centring (res). The variances of coefficients are based on 1000 bootstrap replications.
****$p < 0.001$.
***$p < 0.01$.
**$p < 0.05$.
*$p < 0.1$.

emerging host countries (Su et al. 2016), not just because the contextual conditions are distant but also due to differing stakeholders' frames used to evaluate CSR and reciprocate the firm.

Institutional proximity enhances the reliability of the CSR signal, thereby providing a more significant local reputation payoff. Conversely, a distant institutional setting makes it difficult for local stakeholders to evaluate specific corporate actions such as CSR, obstructing its conversion into a subsidiary reputation. Several factors act as signal noise that hampers local stakeholders' assessments of CSR in the presence of institutional distance.

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Formal and downward institutional distance may act as a barrier to transforming MNE's CSR into a subsidiary reputation due to different understandings of what CSR is or to a weak formal institutional environment, which may be non-conducive to MNEs' CSR strategies. Another reason could be that the existing formal regulatory system may be less stringent regarding sustainability, which renders stakeholders less familiar with CSR and, hence, less receptive. In turn, the informal distance may produce a misalignment between local CSR needs and the MNE's CSR efforts, or because stakeholders may value different CSR initiatives than the MNE's home stakeholders do, since they use various cultural and social norms lens. These factors act as noise, distorting the signal and interfering with the stakeholder reciprocation process.

The findings indicate that the intensity of the effect of CSR on subsidiary reputation is moderated by informal institutional distance in a non-linear pattern. In contexts with lower informal distance, institutional similarities reduce information asymmetry, allowing CSR signals to effectively fill the remaining informational gaps without weakening their impact on subsidiary reputation. However, as the informal distance grows, the institutional and cultural differences create a larger information asymmetry, creating deeper interpretive gaps that CSR signals alone cannot fully bridge. Thus, while CSR signals remain significant across all levels of informal distance, their ability to compensate for higher levels of information asymmetry diminishes in contexts with greater institutional divergence. Given that approximately 50% of the firms in the sample fall into the scenario where informal institutional distance has no moderating effect, the linear model is expected to fail to detect significant effects in the relationship between CSR and subsidiary reputation.

5.2 | Theoretical Contributions

This paper contributes to the IB literature by examining how institutional distance weakens the performance of MNEs' subsidiaries in emerging countries (Shirodkar and Konara 2017). In these countries, MNEs need to interact with a more diverse set of stakeholders (Luo 2007; Meyer and Nguyen 2005). For these reasons, MNEs, as institutional distance increases, adopt higher levels of local isomorphism (Salomon and Wu 2012). We delved into one of the possible reasons behind this lower performance: the company's reputation positively influences the firm's performance. Institutional distance makes those efforts to build subsidiaries' reputations from headquarters less effective. Thus, attempting to fill institutional voids using signaling strategies from headquarters loses sense when the company originates from distant institutional environments.

We also contribute to the literature on corporate reputation by highlighting the importance of considering the differences in host countries' institutional conditions in MNEs' reputation-building abroad. These conditions influence not only MNEs' market strategies, as have been extensively covered by the internationalization literature (Johanson and Vahlne 2009; Zhou and Guillen 2016), but also non-market strategies such as CSR, an effect that has been less explored (Dorobantu et al. 2017). More specifically, we contribute to the literature by deepening the analysis of non-market strategies for MNEs expanding into developing countries, where institutional voids prompt liability of foreignness or disadvantages versus local firms (El Ghoul et al. 2017; Zaheer 1995).

We extend the signaling theory (Connelly et al. 2011) by providing a theoretical rationale for the institutional factors that shape the conversion of CSR into the subsidiaries' reputation. We assess the subsidiary reputation drawn from CSR instead of most studies that focus on *corporate*-level reputation and overlook *local* reputation (Aguilera-Caracuel et al. 2017; Swoboda et al. 2017; Vidaver-Cohen and Brønn 2015). This perspective enriches our knowledge because it considers the stakeholders' views in the countries where MNEs operate. We have empirically tested the effect of CSR signals using a multi-stakeholder measure of reputation, not limited to one stakeholder group, as is common in a large body of literature (i.e., Vidaver-Cohen and Brønn 2015). This approach to subsidiary reputation offers a complete view of the impact of CSR strategies on reputational capital in host countries. In this manner, our results highlight the strategic relevance of considering a wide range of local stakeholders' needs, demands, values, and expectations. This study extends Borda et al.'s (2017) findings on the importance of acting on stakeholders' viewpoints in the Latin American context. Among our control variables, we incorporate one capturing the social network visibility of the MNEs locally, particularly Facebook. Presence in social networks constitutes a powerful driver of reputation, especially for customers (Gamboa and Gonçalves 2014). Using big data to build this variable suggests an enormous avenue for empirical research (George et al. 2016), combining traditional databases with data generated using big data.

Our results reveal some insights on the attenuating effect of institutional distance on CSR signaling that further extend IB literature in some ways. First, the non-linear moderating effect of informal distance challenges the prevailing assumption of linear deterioration (e.g., Dau 2016; Campbell et al. 2012; Zerbini 2017): we observe no significant weakening effect at low to moderate levels of cultural distance. This suggests that MNEs operating in culturally proximate emerging markets (e.g., Spanish firms in Argentina) can leverage standardized CSR strategies without reputational penalty—contrary to adaptation imperatives often overstated in IB literature (Shenkar 2001; Yildiz and Fey 2012; Verbeke and Yuan 2021). Second, the resilience of CSR signals is noteworthy: even at high informal distance, parent CSR retains a positive (albeit diminished) effect on subsidiary reputation. This implies that stakeholders in institutionally distant contexts still attribute some value to foreign CSR practices—possibly as symbolic commitments to global norms—even when local fit is suboptimal (Rathert 2016b; Scherer et al. 2013; Doh, Husted, and Matten 2016; Doh, Husted, and Yang 2016). Third, the dominance of informal over formal distance in distorting signal interpretation reveals that cultural-cognitive barriers (e.g., divergent ethical schemas) outweigh regulatory mismatches in obstructing stakeholder reciprocation. This aligns with institutional theory's emphasis on normative-cognitive pillars as foundational for legitimacy (North 1991; Kostova 1999; Husted 2000a, 2000b), particularly in emerging economies where informal institutions compensate for weak formal frameworks (Peng 2003; Umoru, Ogundana, et al. 2025).

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5.3 | Limitations and Future Lines

Our sample can be biased towards large companies because our measures of CSR and reputation—ESG and MERCO—tend to overweight large firms. ESG ratings score CSR out of listed companies, usually larger than non-listed or family firms. Concerning the MERCO index, its reputation assessments emerge from stakeholders' opinions, which tend to pick notorious, typically large, well-known companies. This limitation is common to virtually every reputation measure (Borda et al. 2017). Additionally, our sample is restricted to a series of developing host countries and developed home countries. This database configuration restricts the analysis to a downward formal institutional distance. Consequently, the study cannot explore the potential effects of upward formal institutional distance, limiting the comprehensive understanding of the CSR–host reputation link in different institutional contexts. Our sample does not allow testing whether this relationship relies on the direction of the formal distance (upward or downward) between home and host, as suggested by recent studies (Hernández and Nieto 2015; Konara and Shirodkar 2018). A final limitation is that institutional factor measurements are aggregated, which prevents the analysis of their individual effects.

Some cross—country studies have shown that the positive signaling value of CSR is higher for companies headquartered in countries with weak institutions (e.g., Su et al. 2016), as these MNEs use CSR to signal responsiveness to the institutional norms of more developed contexts (Doh, Husted, and Matten 2016; Doh, Husted, and Yang 2016). In our sample, composed of MNEs from developed countries, the signaling effect may be relatively weak compared to MNEs headquartered in emerging countries. Thus, extending this research to emerging MNEs operating in host countries with strong institutions will be a compelling avenue for future research. In these cases, MNEs could benefit from the signaling effect of CSR, but the intensity of the negative effect of institutional distance would still play a significant role.

5.4 | Managerial Implications

Our study yields some relevant managerial implications for reputation building overseas. Since international business is, in essence, the management of distance (Kostova et al. 2020), we offer a guide on how MNEs can leverage their strategic CSR across contexts by identifying which types of institutional distances are at play. Our results help minimize the potential weakening effects of non-market strategies such as CSR when MNEs expand to countries with different institutional settings. This finding can assist managers in diverting CSR resources towards host countries with narrow informal distance, adapting their CSR to the host country's institutional context, or articulating a communication strategy that clearly explains their CSR to the host country's relevant stakeholders. For example, CSR standards differ between developed and developing countries, and these differences need a clear explanation to the local stakeholders. In other cases, CSR initiatives obey different sensitivities due to differences in cultural values and traditions. In those cases, MNEs' efforts to offer CSR initiatives at the host that meet these local values can be more successful than a transversal, one-size-fits-all strategy. Also, MNEs entering developed economies may favor CSR actions that improve employment conditions, provided that national states cover basic needs.

In contrast, entering developing economies requires a quasi-administrative role by MNEs. Therefore, the findings may guide and assist MNEs in improving their subsidiary reputation. MNEs are powerful players in the diffusion of CSR practices. In doing so, they can build a corporate reputation as an essential asset when operating abroad. This study advances our understanding of the institutional factors that shape reputation building overseas, suggesting that institutional distance dilutes the effect of CSR on subsidiary reputation in a "so good but so far away" mode.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

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