INTERNATIONALIZATION OF EMERGING MARKET FIRMS: THE ROLE OF DOMESTIC AGGLOMERATIONS IN REDUCING LIABILITY OF ORIGIN

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Abstract

The extant literature in institutional theory has found liabilities of origin (LOR) costs such as (i) capability based and (ii) legitimacy based costs as the major cost disadvantages faced by emerging market multinationals (EMNEs) while undertaking internationalization. Studies have pointed out that the treatment of institutions in International business (IB) have considered institutions at a national level, ignoring the role of sub-national institutions. This is particularly important for EMNEs as the institutional development in their home countries are highly uneven. Further, the recent studies in economic geography have also criticized the treatment of location in extant IB literature. They have also argued that location in extant IB literature is treated synonymously with a country or a nation state, expunging the nuanced examination or differentiation of locational features. Hence we observe that the role of sub-national institutions such as domestic agglomerations in the internationalization of EMNEs is under-reported in the extant literature. In this paper, we explain the role of sub-national institutions such as domestic agglomerations in reducing LOR cost disadvantages (capability and legitimacy based cost disadvantages) and facilitating the outward internationalization of EMNEs.
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ABSTRACT
The extant literature in institutional theory has found liabilities of origin (LOR) costs such as (i) capability based and (ii) legitimacy based costs as the major cost disadvantages faced by emerging market multinationals (EMNEs) while undertaking internationalization. Studies have pointed out that the treatment of institutions in International business (IB) have considered institutions at a national level, ignoring the role of sub-national institutions. This is particularly important for EMNEs as the institutional development in their home countries are highly uneven. Further, the recent studies in economic geography have also criticized the treatment of location in extant IB literature. They have also argued that location in extant IB literature is treated synonymously with a country or a nation state, expunging the nuanced examination or differentiation of locational features. Hence we observe that the role of sub-national institutions such as domestic agglomerations in the internationalization of EMNEs is under-reported in the extant literature. In this paper we explain the role of sub-national institutions such as domestic agglomerations in reducing LOR cost disadvantages (capability and legitimacy based cost disadvantages) and facilitating the outward internationalization of EMNEs.

Keywords: Internationalization, Agglomerations, Sub-national institutions.
INTRODUCTION

Internationalization of emerging market firms: A regional perspective

Despite the rapid growth in internationalisation activity undertaken by the emerging market firms (UNCTAD, 2016), the theoretical explanation of the phenomenon is far from conclusive (Guillén & García-Canal, 2009; Hennart, 2012). The incongruence between theoretical assumptions and predictions of OLI with empirical evidence has inspired a variety of theoretical perspective explaining the internalization by emerging market firms (EMNEs). Most of the extant theoretical works (Hennart, 2012; Luo & Tung, 2007; Mathews, 2006) couldn’t explain the inherent weakness of emerging market firms such as weak country of origin, the liability of foreignness and institutional voids. Recently, Ramachandran & Pant (2010) argued that the various cost disadvantages faced by EMNEs are inadequately represented in the extant international business literature as the existing discussions are skewed towards reducing the LoF costs experienced by the EMNEs. They argued that the extant literature should be complemented with origin based disadvantage such as liabilities of Origin (LOR), which arise due to EMNEs’ unique institutional environment and institutional voids. They argued that LOR costs are difficult to tackle than LoF costs, as for firms the later declines over time with increase in their experience in the host country, access to local information networks and legitimacy in the host country. Ramachandran & Pant (2010) noted that underlying mechanisms of LoF and LOR costs are very different, and the sources of LOR lies in the three distinctive spaces of ongoing MNE activity such as host country, home country institutions and MNEs organizational contexts. They argued that LOR creates two kinds of costs disadvantages such as (i) capability based disadvantages caused by the absence of efficient and comprehensive capital market and lack of access to quality talent pool (ii) legitimacy
based disadvantages created by discrimination by the host country governments and
customers, lack of credibility within the organization for foreign expansion.

However recent studies reported a severe flaw in the treatment of location in the
extant IB literature, as many of them ignored the role of subnational institutions,
expunging the nuanced examination or differential of locational features (Meyer &
Nguyen, 2005; You, 2017). Extant studies have focussed on role of national boundaries in
defining the organizational environment and institutions, ignoring the role of sub-
national institutions in shaping and facilitating the internationalization strategy of MNEs
(Jindra, Hassan, & Cantner, 2016; Ma, Ding, & Yuan, 2016; Ma, Tong, & Fitza, 2013).
Stressing the importance of regional or sub-national level of study, Ma et al. (2016)
argued that sub-national level institutions play a crucial role in EMNEs’
internationalization as the level of institutional development in these countries are
uneven, and the extant literature has not reported it adequately. The extant literature in
the economic geography also teaches us that spatial concentration of production, called
as agglomeration or clusters, and the related agglomeration economies (such as
Localization and Urbanization externalities) are essential in understanding the spatial
Recent writings by economic geographers urged for more theoretical development in
understanding the role of sub-national regions on the internationalization of emerging
market firms (Beugelsdijk, McCann, & Mudambi, 2010; Beugelsdijk & Mudambi, 2013;
Mehlsen & Wernicke, 2016). Hence we discusses the role of sub-national institutions such
as domestic agglomerations or clusters in reducing the LOR cost disadvantages and
facilitating the internationalization of emerging market firms.

THE ROLE OF AGGLOMERATIONS IN INTERNATIONALIZATION OF EMNES
**LOR and the role of agglomerations**

Ramachandran & Pant (2010) argued that LOR costs are difficult to tackle than LoF costs and consists of two broad category of costs disadvantages such as (i) capability based disadvantages caused by the absence of efficient capital market (i.e. lack of financial resources) and lack of access to quality talent pool (ii) legitimacy based disadvantages created by discrimination by the host country governments and customers, lack of credibility within the organization for foreign expansion. According to them the sources of LOR costs are lies in the three distinctive spaces of ongoing MNE activity such as host country, home country institutions and MNEs organizational contexts.

*The capability based LOR costs and Institutional voids*

As noted earlier the source of capability based LOR costs are the home country context of EMNEs, and it consists of two types of cost disadvantages arising from lack of efficient capital market and lack of access to quality talent pool. According to Ramachandran & Pant (2010), EMNEs’ home country context are characterised by underdeveloped institutional intermediaries which drives up the transaction cost for the firms. This is also echoed by Hitt, Dacin, Levitas, Arregle, & Borza (2000) as they noted that EMNEs face a competitive disadvantage compared to developed country firms, as EMNEs home country is characterised by underdeveloped institutional and economic infrastructure. Aulakh, Rotate, & Teegen (2000) noted that the underdeveloped financial system in respective home countries of EMNEs limits the ability in finding the necessary capital for international investment and growth. It is also well understood from literature that EMNEs home countries are suffering from ‘institutional voids’ (Khanna & Palepu, 2000), which is defined as lacks and insufficiencies in the institutional environment results from the absence of specialised intermediaries (Khanna & Palepu, 2002; Ricart, Enright,
Ghemawat, Hart, & Khanna, 2004). Ricart et al. (2004) defined intermediaries as “economic entities that insert themselves between a potential buyer and potential seller in an attempt to bring them together by reducing the potential transaction costs”, stressing the vital role played by them. The extant literature also identified various roles played by intermediaries such as (i) providing specialized information (ii) ease the search for trading partners (iii) providing specialised information (Ricart et al., 2004) and (iv) provision of financing option and capital (v) providing access to talents (Khanna & Palepu, 2002). Hence if the home countries are characterised by institutional voids (which is common in the home countries of EMNEs), they lack these intermediaries which causes opportunism and drives up the transaction costs. Another important element of the capability based cost disadvantages are the lack of access to quality talent pool. The EMNEs firms have low level of international engagement with international markets due to their hitherto insulated home markets, protectionist and inward looking economic regimes, resulting in managerial talents with low level of international engagement and have lack of experience with the complexities of international operations. This constraints the available pool of managerial talents equipped with necessary skills to carry of cross-national operations or to work in mature economies (Aulakh et al., 2000; Barnard, 2010). This problem is further compounded by the lack of a skill development system or institutions in the respective home countries to produce global managerial talents as it drives up the cost of internationalizing for EMNEs also have additional implications such as inability to transfer firm specific advantages to foreign subsidiaries (Peng, 2012; Ramachandran & Pant, 2010; Ready, Hill, & Conger, 2008). Further, according to Patibandla (2006) the overprotection and institutional rigidities in the labour markets dampen the ability of EMNEs to reshape their managerial talents to meet
the challenges and opportunities posed by the international expansion. Hence all these factors will contribute to the capability based cost disadvantages elements of LOR.

**Agglomeration economies and capability based LOR costs**

The extant economic geography literature defined clusters as “*geographical concentrations of interconnected companies, specialised suppliers, service providers, firms in related industries, associated institutions (say, universities, standard agencies and trade associations) in particular fields that compete but also co-operate*” (Porter, 2000, p. 15).

The three key elements of clusters are proximities, inter-firm networks and inter-organizational and institutional networks (Rocha & Sternberg, 2005). Firms benefit from clusters due to Marshallian externalities (Marshall, 1898, 1920) such as access to specialised labour, interconnected firms and institutions such as specialised suppliers, universities, specialised angel investors or venture capitalists, inter-organizational learning through knowledge spillovers (Jones, 2017; Porter, 2000), and also due to urbanization economies of diversity (Jacobs, 1969) which contributes to the innovativeness of the clusters by facilitating the fertilization of ideas across various industries (B. T. McCann & Folta, 2008).

Recently, international business scholars have probed the role of subnational institutions in internationalization of emerging market firms. In a study about Chinese entrepreneurial firms Ma et al. (2016) argued that some sub-national regions in China is remarkable due to abundance of economic institutions and lack of institutional voids. They have found out sub-national regions helps to reduce the cost disadvantages of Chinese entrepreneurial firms by providing access to (i) economic institutions in sub-national regions (ii) government policy at sub-national regions (iii) presence of foreign firms in sub-national institutions such as agglomerations (iv) social institutions at sub-
national or regional level. The openness in social values towards going global and defiance of bureaucratic control shown by social institutions in certain sub-national regions has resulted in capability building for the local firms aspiring to take internationalization programme (Ma et al., 2016). Similarly, Sheng (2007) also acknowledged the role of certain regional governments in China, to promote openness in social value towards going global and facilitated the necessary commercial and cultural links. In a recent study, Amankwah-Amoah & Debrah (2017) noted that the abundance of economic institutions in the sub-national regions, compared to other regions suffering from institutional voids (Khanna & Palepu, 2000), has following benefits such as access to reliable and quality information on consumers, creditors and investors, quality talents from the regional markets, product quality and features.

Intermediary functions played by clusters

Recently many authors discussed the intermediary role played by the clusters by providing certain cluster service and hence bridging the institutional voids (Schrammel, 2013, 2014). Lublinski (2003) identified three services rendered by clusters which grants competitive advantage to the member firms, namely (i) Marshallian externalities such as access to pooled labour, access to intermediate goods and access to tacit knowledge spillover, (ii) Porterian market benefits such as sophisticated and demanding customers, rivalry and complementarities, (iii) reduction in transportation and transaction cost due to proximities and trust respectively. Fromhold-Eisebith & Eisebith (2005) argued that an important service that clusters render to its member firms is the linking them to universities and R&D institutions. This arrangement act as a surrogate R&D department for those firms which don’t have the resource to own one in-house. Scheer & Zallinger (2007) identified access to capital as an important service rendered by clusters. Similarly,
Jungwirth, Grundgreif, & Müller (2011) also provided a detail list of goods rendered by cluster managers and classified into public goods, private goods and club goods which improves the productivity of firms within a cluster. Schrammel (2013, 2014) compared various services rendered by clusters to many of the functions of an intermediary identified by Khanna & Palepu (2002) and Ricart et al. (2004) and argued that cluster act as a mechanism to bridge institutional voids. According to Schrammel (2013, 2014), clusters render various intermediary function such as access to information, provision of specialised human capital, provision of financing and capital and ensuring contracts and property rights. Similar conclusion was also made by Lehmann & Benner's (2015) case study on Serbian and Tunisian clusters, as they noted that clusters managers in bottom-up clusters (which are formed without the active involvement of government) created many cluster initiatives to cater to the need of member firms which acted as a mechanism to bridge the institutional voids in those countries. Hence we argued that clusters can bring down the LOR cost disadvantage associated the absence of efficient capital market or lack of financial resources as it provides easy access to such institutions through their inter-organization networks. Also, the Marshallian externalities of access to specialised labour will bring down the cost disadvantages associated with lack of access to the quality talent pool.

**Proposition 1:** The cluster membership in a domestic agglomeration exerts a positive effect on EMNEs' degree of internationalization as it reduces LOR costs based on capability based disadvantages such as lack of financial resources and lack of access to quality talent pool faced by the EMNEs.

The legitimacy based LOR costs
As noted earlier the sources of legitimacy based LOR costs are host country context and organizational context of EMNEs. According to Ramachandran & Pant (2010) legitimacy based cost disadvantages arise from discrimination faced by EMNEs by host country governments and customers and also due to lack of credibility and motivation within EMNE organization for foreign expansion.

Let’s examine the first element in the legitimacy based LOR costs disadvantage, the discrimination faced by EMNEs due to host country stakeholders. According to Morgan, Kristensen, & Whitley (2001, p. 1) “multinational firms are social constructions....... they are built out of specific national and institutional contexts that shape how they internationalize”. Similarly according to Bartlett & Ghoshal (1989) MNEs is identity is shaped by the country it belongs to, and this retains even after it internationalize. The host country stake holders attach identities to MNEs to their country of origin, and it costs them when the country of origin is weak (Ramachandran & Pant, 2010). They argued that in the case of EMNEs unfavourable institutional attribution by the host country stakeholders create a cost disadvantage for them. Similarly, in the extant LoF literature, Kostova & Zaheer (1999) argued that the additional cost experience by MNEs in a foreign market is due to the unfamiliarity, relational and discriminatory hazards. However, the difference between the LoF and LOR costs experienced by the EMNEs is that the latter is the cost disadvantages based on the discrimination faced by EMNEs because of their country of origin and the former is due to discrimination for being “not local” (Ramachandran & Pant, 2010). Ghemawat (2001, 2007) writings also echo the same as he argued that distances still matters, and so does the country of origins. Citing the example of Indian software industry, where the capital investment from the US helped Indian companies to overcome the political and geographical barriers, Ghemawat (2007) argued that country of origin matters even in the case of capital, which is generally
considered to be stateless. In the international marketing literature, Klein, Ettenson, & Morris (1998) discussed ‘customers’ animosity’, the negative feelings in the mind of consumers, which can force them to abstain from purchasing goods and services that belongs to a specific country as a cost disadvantage associated with the country of origin of firms. These consumer biases can originate from multitudes of reasons such as political ideology, negative country images and negative product country images (Klein et al., 1998), and hence these can drive up the legitimacy based LOR costs. They cite the example of animosity of Australian customers towards French cosmetic firm L’Oreal, when France, the country of origin of L’Oreal was engaged in the nuclear testing in south pacific. Similarly, several studies in the international marketing literature also noted that firms from weak country of origin entering developed countries suffer from consumer biases such as negative country images and negative product-country images, which constitute the competitive disadvantages, especially when the firm lacks a reputational capital (Hong & Wyer Jr, 1989; Maheswaran, Yi Chen, & He, 2013; Roth & Romeo, 1992). According to Goldstein (2007), when the host country governments has misgivings towards a particular country, based on ideological and strategic reasons, it increases the discriminatory LOR costs for the firms based out of that country. In summary, since many of the EMNEs’ home countries are considered to be weak country of origin, these biases of host country stakeholders, increase the discriminatory LOR cost faced by them.

*Clusters and reputational capital (in reducing the discriminatory LOR cost)*

As we have already noted, the negative beliefs, perceptions, stereotypes and unfavourable product image and product country image that the host country stakeholders have can be attributed to the unfamiliarity and lack of reputational capital (Zyglidopoulos, DeMartino, & Reid, 2006) that EMNEs have (Roth & Romeo, 1992).
Taking cue from the extant research on cluster reputation (Molina-Morales & Martínez-Fernández, 2003; Xiaobo Wu, Shuai Geng, Jun Li, & Wei Zhang, 2010), we believe that cluster reputation is common cluster resources which provides competitive superiority to cluster members by providing information about quality of products and expected future behaviour of member firms. Cluster reputation can create a strong identity for member firms and give a differentiation signal for external stakeholders and can reduce the discriminatory LOR cost disadvantages of EMNEs. Xiaobo Wu et al. (2010) argued that positive reputation capital can result in positive branding, eliminate negative biases in the minds of stakeholders. Further they argued that, positive reputational capital not only helps cluster firms to attract skilled labour but also create opportunities for collaborations for new product, process and organizational innovations by reducing the information asymmetry in the minds of stakeholders. According to Colovic & Lamotte (2014) firms in a cluster can use the reputation capital of clusters as a way to achieve legitimacy before host country stakeholders. The host country stakeholders are more inclined to know the cluster than the individual firm, hence the cluster reputation is a crucial enabling mechanism for internationalization by granting legitimacy in the host country (Colovic & Lamotte, 2014). Porter (2000) argued that cluster reputation is an agglomeration externality, which is a public good and accessible to all the member firms and can be put to differently use by different organization. Similarly, in a study of Brazilian wine cluster, Zen, Fensterseifer, & Prévit (2011) reported that cluster sub-regions’ reputation, culture and lifestyle has a great role in moulding the reputational capital of the individual firms and facilitate internationalization by reducing the discriminatory costs arising from weak country of origin. They argued that region’s culture and reputation helped the wine firms’ internationalization, as it created a
favourable association in the product category (Roth & Romeo, 1992) such as pleasurable moments, vacation and quality of life and gave an edge in consumers mind.

In a study about Indian ICT clusters (located in cities such as Bangalore), Grondeau (2007) noted the similarities between Indian and advanced market clusters (e.g. silicon valley), such that both benefits from urban agglomeration externalities of strong ties between academic institutes and public research companies, pleasant living conditions for executives, access to highly qualified labour market, quality of infrastructure and support of military and spatial research. Similarly, Basant & Chandra (2007) argued that firms in domestic city clusters (like Bangalore and Pune) enjoy access to quality talent, access to specialized services like training, availability of good quality R&D services and facilities and act as vibrant economic centres of the country. These urban agglomerations can also be related to Sassen’s (2001, 2010) conceptualization of global cities, which are distinctive production spaces of key inputs that the complex organizations need for their global operation and characterised by specialization and agglomerations of advanced producer services. According to Sassen (2010) the key attributes that characterise the global cities are its high degree of interconnectedness, a cosmopolitan environment and high level advanced producer services. Hence we argue that, though these cities are in a weak country of origin, the urban externalities of quality talent base, good quality R&D services and facilities, presence of advanced production services, high degree of interconnectedness and cosmopolitan environment improves reputation capital of these urban agglomerations. Since these urban agglomeration externalities such as reputational capital are public goods, it spillover to member firms, reducing the discriminatory costs faced by them due to unfavourable perception and beliefs of host country stakeholders. In summary, agglomeration provides externalities such reputation
capital for EMNEs, which helps them to reduce discriminatory costs of biases and stereotyping by the host country stakeholders due to EMNEs’ weak country of origin

**LOR costs due organisational context of EMNEs**

The second element of liability based LOR are cost disadvantages is the lack of credibility and motivation within EMNE organization for foreign expansion and it originated from the organizational context of EMNEs. In the organizational context of EMNEs, the liabilities lie in the processes, routines and structures of EMNEs, as these are moulded by the home country institutions and may lead to cognitive maladjustments in the host markets (Ramachandran & Pant, 2010). The managerial talents in the EMNEs lack the experience to compete in a developed market, as their respective home countries were insulated from international competition, due to hitherto protectionist and inward looking economic regimes (Barnard, 2010; Gaur, Kumar, & Sarathy, 2011). According to Porter (1980) the strategic orientation and performance of firms in an industry is influenced by the level of competition. Hence these lack of managerial experience and lack of exposure to a competitive environment can severally affect EMNEs’ strategic orientation and performance, which will act a severe handicap in the extremely competitive foreign markets (Barnard, 2010). Barnard (2010) termed it as ‘dual LOF’ as the EMNEs suffer from dual cost disadvantages for “not being local” and also because of having pre-existing capabilities, which is moulded from the protected home country institutional environment of EMNEs, which are inappropriate or weak in the developed host countries. For Bartlett & Ghoshal (1989, 2000), lack of exposure to the dangers and opportunities in competing abroad credibility deficit among the EMNE manager leading to ill-conceived notion of internationalization programme. In a similar vein, Hitt, Dacin, Tyler, & Park (1997) argued that insulated home market, with low level of competition
affect managers’ strategic orientation and may create context based cognitive frames which proves inadequate to compete in a developed market. In summary, the lack of credibility and motivation within EMNEs organizations add to legitimacy based LOR costs experienced by the EMNEs.

*Clusters and LOR costs due organisational context of EMNEs*

As noted earlier, EMNEs’ organizational context is a source of LOR cost disadvantages, as their organizational processes, routines and structures are moulded by the less competitive and protected home country institutional environment. Another important factor contributing to the LOR costs are the underdeveloped organizational learning, as these firms are not exposed to rapidly changing international market and heightened competition (cf. Eriksson, Johanson, Majkgard, & Sharma, 1997). However, Lamin & Livanis (2013) noted that the home bases of EMNEs is no longer insulated from foreign competition as many countries have undergone structural and policy changes such as market liberalization and deregulation in the last decade. These changes have forced EMNEs to re-orient their organizational practices/routines, processes, technologies, system and structures to cope with increased competition by domestic and foreign competitors (Kumaraswamy, Mudambi, Saranga, & Tripathy, 2012).

The economic geography teaches us that locating in a cluster grant firms, two broad categories of benefits known as agglomeration economies such as Marshallian and Urbanisation externalities (B. T. McCann & Folta, 2008; P. McCann, 2008). Marshallian economies are also known as localization economies, and provides two important benefits to firms such as supply of necessary resources and increasing demands for product or services. Supply side benefits accrued to firm are access to specialised labour, specialised non-tradable inputs, technology spillovers. Demand side benefits are accrue
when agglomeration reduces the search costs for the buyers hence increase the demand for agglomerated firms (B. T. McCann & Folta, 2008). Agglomeration economies which result from overall economic activity in a given geographical proximity are called urbanization economies, and it arise from clusters of wide array of diverse firms, treating clusters as assemblage of different knowledge pools (Rigby & Brown, 2015). According to Eberts & McMillen (1999) some of the other more tangible benefits of urban agglomerations are public infrastructure such as highways, water treatment facilities, communication systems which ensures efficient conduct of business in urban agglomerations and improves the quality of life and productivity of workers. According to Lamin & Livanis (2013) both foreign firms and local firms will be attracted to regional clusters, motivated by a variety of reasons such as catch-up, access to local information etc. They found that local firms are more motivated than foreign firms in co-locating as it caters to their catch-up motives with the spillover effects, and also helps them to upgrade their routines, organisational processes and structures. Hence these agglomeration externalities can reduce the cost disadvantages of EMNEs due to their organizational contexts.

Many studies have also noted that clusters can improve the innovation performance of the firms by facilitating exchange and recombination of various shared resources at a lower costs than spatially distant firms (Porter, 2000; Xiaobo Wu et al., 2010). Knowledge spillover inside a cluster enable the firms to better understand the changing market conditions by exchanging individual firms’ perception and interpretation of marketing intelligence (Xiaobo Wu et al., 2010). They argued that agglomerations provide suitable environment to upgrade innovation capability of firms as they provide a channel for exchange and communication of knowledge among firms, and also facilitate the exchange of tangible (physical, financial and human capital) and
intangible resources (knowledge, skills and talent) among firms. Porter (2000) argued that the knowledge is a public good and flows freely inside a market such that knowledge created by a local firm is easily accessible by another firms without incurring any market interaction or financial compensation (Huber, 2012; Porter, 2000). The local rivalry, and agglomeration economies creates a motivation for firms to improve their competitive advantage (Porter, 2000). Similarly, in a recent empirical study of Polish clusters, Jankowska & Götz (2017) found that the propensity to internationalize for firms evolves with as the cluster matures and the intensity of internationalization is positively related to denser clusters. In short, domestic agglomerations improve the competitive advantages of the member firms by three broad ways such as (i) increasing the productivity of the member firms (ii) increasing the innovation performance of the member firms (iii) by promoting new business formation and entrepreneurship (Porter, 2000), and reduce the LOR costs arise due to weak and incompetent organizational context of EMNEs.

Hence we argued that clusters can bring down the legitimacy based LOR cost disadvantage arise due to discrimination by host country stakeholders and also due to weak and incompetent organizational context of EMNEs. The discriminatory LOR costs can be reduced by tapping on to the reputational capital of the clusters and the agglomeration economies compensate for weak or incompetent organizational environment, a cater to the catch-up motivations of EMNEs.

**Proposition 2:** The cluster membership in a domestic agglomeration exerts a positive effect on EMNEs’ degree of internationalization as it reduces LOR costs based on legitimacy based disadvantages such as (i) discrimination by the host country governments and customers and (ii) weak and incompetent organizational context of EMNEs.
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