

THE IMPACT OF LOCAL RESPONSIVENESS ON THE PROCESS OF INTERNATIONALIZATION

THE CASE OF JERÓNIMO MARTINS IN COLOMBIA

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Abstract

Title: The impact of Local Responsiveness on the process of internationalization. The case of Jerónimo Martins in Colombia.

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The case study under examination focuses on the internalization strategy held by a major Portuguese retail company that decided to expand its business to Colombia by starting a successful local supermarket chain named "*Ara*".

The objective of the research is to provide an important insight regarding the relationship between the dilemma of standardization/adaptation, the Local Responsiveness ("LR") impact and sustainability for the retail food industry. This dissertation endeavours to recognize the factors hidden LR as saw by administrators of Multinational Enterprises ("MNE") inside an element rising environment. This project purpose is to analyse three crucial areas that can definitely impact the success of such strategy: environment, structure and organization.

The results that surfaced from this research attest the difficulty in understanding a given company's international strategy, namely because although the internationalisation process can be easily assessed the underlying strategy suffers profound structural changes along the process.

The final finding is that, to some extent, when the internationalization strategy considers LR as core goal, it supports sustainable growth and contributes to the success of the project.

My goal is that the conclusions drawn from this study can make an important commitment to the current hypotheses with respect to the subject, and also helping organizations in characterizing and executing their internationalization methodologies.

Resumo

Título: O impacto da capacidade de resposta local no processo de internacionalização. O caso da Jerónimo Martins na Colômbia

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O caso de estudo apresentado, foca o processo de internacionalização de uma grande empresa de retalho portuguesa, Jerónimo Martins, que decidiu expandir o seu negócio na Colômbia através de uma nova cadeia de supermercados – a “Ara”.

O objetivo desta tese é obter uma melhor compreensão entre o dilema da relação de conceitos como a sustentabilidade/adaptação, o impacto da resposta local na estratégia e a sustentabilidade do sector do retalho alimentar. Identificando os fatores subjacentes ao conceito de *Local Responsiveness* percebidas pela gestão das subsidiárias de multinacionais, enquadrada na dinâmica de países emergentes. Propõe-se validar três níveis de fatores: ambientais, estruturais e organizacionais.

Os resultados obtidos demonstram que a estratégia internacional de uma empresa nem sempre é facilmente compreendida quando analisada. Como exemplo, o momento em que se decide enveredar pela globalização pode determinar o processo de internacionalização, mas a estratégia pode mudar ao longo do tempo.

Como conclusões finais, demonstra-se que, quando uma empresa inclui na sua estratégia a capacidade de resposta local e acredita que esse fator é crucial para o sucesso, tal decisão ajuda a suportar e manter o crescimento do projeto.

Espera-se que as conclusões deste estudo possam vir a contribuir positivamente para as teorias existentes sobre esta matéria e para o sucesso da estratégia de crescimento e internacionalização de qualquer empresa.

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List of acronyms and abbreviations

CAGR	Compound Annual Growth Rate
CAPEX	Capital Expenditure
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortization
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GI	Global Integration
GS	Global Standardization
JM	Jerónimo Martins
LA	Local Adaptation
LOF	Liability of Foreignness
LR	Local Responsiveness
MNE	Multinational Enterprise

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1. Introduction

“Given the increasing globalization of the competitive environment, local responsiveness is becoming more critical than before for the survival and growth of MNE’s”

(Source: Bartlett & Ghoshal, *Managing across borders*, 1989, p. 301)

Many industries, like food retail, are facing enormous cost pressure and the threat posed by the emergence of global competitors which in turn leads to the demand for Global Integration (“GI”). On the other side, the disparity in consumer incomes and tastes, as well as the remaining trade barriers, lead to the need to adapt activities and products to the local markets – local adaptation (“LA”). This study provides references for managers preferred international strategies articulated with the need of LA.

Over the last decades, the concept of Local Responsiveness (“LR”) has been the subject of study of a few researchers (Nedopil, Streger, & Amann, 2010; Bartlett & Ghoshal, 1989; Prahalad & Doz, 1987). Some of the latest papers on the subject (Lu & Beamish, 2001; Miao & Barbaroux, 2006) have actually considered that the considerable increase in LR, has been one of the most durable and persistent drivers of successful internationalizations.

The objective of this dissertation is to analyse the impact of the use of LR on the internationalization process. Specifically, the extent of LR practices in each phase of the internationalization process and its contribution to its success. This study provides an important insight for managers of a particular example regarding the relationship between international strategy and LR.

The answer of the main research question: *“The impact of local responsiveness on the process of internationalization”*, was carried out through the analysis of two sub-research questions: “How did LR affect the stages of internationalization?” and “How

did the different determinants of LR affect the internationalization process of the company??".

The methodology employed was the case study, which includes step-by-step examination and causal relationships between events. The study was focused on the internationalization process of Jerónimo Martins ("JM"), with a particular focus on the its internationalization into Colombia.

As far as the structure of the dissertation is concerned, it begins with the revision of the related literature according to three major issues (the dilemma between global standardization and local adaptation; the desired impact of LR and the current situation of the food retail market). The existing models and perspectives of international management strategies will be explored in order to define which matrixes and frameworks will be used to present and discuss the results. This will be followed by the conjugation of the different theoretical backgrounds provided by authors who studied the rise of food retail industry in emerging countries, as well as the inputs provided by managers who work for JM. At this point the thesis will focus on the emergence of LR when a MNE chooses to adapt its activities and products to new markets. Emphasis will be placed on the food retail industry and emergence countries.

After the literature review and methodology, the thesis will present one case study – *Ara* (JM's supermarket chain in Colombia). The case study will expose *Ara's* path from its inception up to present time, as well as focus on the group's internationalization processes. The analysis will also provide insight on how JM structures its operations abroad in terms of LR, what are their determinants, the impact in the internationalization, and, finally, what is the contribution of LR strategy to their success in emerging countries (step by step).

After presenting the case study, the following chapter focuses on the discussion and presentation of results. Here, the conclusions that arose from a set of interviews and the analysis of documentation will be presented schematically in accordance with the matrixes and frameworks scrutinised during the literature review. Simultaneously, it

will relate those results with the LR phenomenon, which hamper the internationalization process of MNE food industry companies.

Lastly, in the concluding part of the dissertation, the main conclusions will be emphasized, and relevant ideas about importance formal theory about LR will be shared.

2. Literature review

Recent Multinational Enterprises (“MNE”) theories have approached internationalization as a process in which firms increase their involvement in international operations adapting their strategies, resources and structure to new investments (Meyer & Estrin, 2007). As a result of increasing globalization of the competitive environment, two options have been highlighted: Global Integration (GI) and Local Responsiveness (LR). When companies expand internationally it raises the question of whether to adapt to local markets and to what degree. According to Luo (2001), LR is crucial for continuous growth and survival of MNE. In fact, much of the research on international strategies concerns the dilemma between local adaptation and global standardization.

The empirical research on the international strategy of MNE subsidiary distinguishes between two opposing approaches: implementation of GI as a means of dissemination of management strategies from headquarters and; implementation of LR as a means of customizing management strategies to respond to the needs of the local environment.

This chapter is based on extensive analysis of literature categorized as international business research. As a result, several definitions and models will be addressed, comprising specific features of internationalization. It will also introduce a review on different types of internationalization strategies and the concept of LR specifically applied to the case of emerging countries. The findings provided by the several authors under examination are complementary to one another and are able to introduce a more integrated and complete overview on how to successfully implement a LR approach when going abroad.

2.1 The dilemma between global standardization and local adaptation

Every company which formulates an international strategy faces the dilemma between Local Adaptation (adjusting its subsidiary practices to the local context), Global Standardization (adjusting its subsidiary practices to the parent company's).

To explain the differences between the types of international strategies (Exhibit 1), Porter (1996) established a single diagram differentiating types of international strategy according to the coordination of activities (high or low), as well as the geographical configuration (dispersion or concentration). Porter starts by defining a purely country-centred strategy where a firm serves the market while operating out of a single country. The opposing quadrant of the framework is the multi-domestic strategy where the firm maintains low coordination between countries while being geographical dispersed, in this strategy the competitive advantage varies in each of the geographical markets according to the modifications and adaptations taken by the local subsidiary (local adaptation). The simple export strategy maintains the low coordination but has a concentrated geographical footprint, which takes advantage of local decision making to establish pricing and distribution ((local adaptation for marketing such as pricing and distribution). Lastly the global strategy also recognized as a mature form of international strategy, where geographical location is determined according to the locational advantage, with particular countries assuring particular activities (such as product development, manufacturing and marketing) for the entire group according to their locational advantage.

However, there is no universally optimal internationalization strategy and literature suggests that there is a number of factors which impact the suitability of distinct strategies (Banalieva & Dhanaraj, 2013). In fact, the most adequate internationalization strategy changes from industry to industry, as particular strategies promote integration and others promote responsiveness (Porter, 1996).

Bartlett and Ghoshal (1989) have developed the thought of Porter (1986) by considering the responsibilities and autonomy of subsidiaries through the correlation of the importance given to LR and the level of GI.

Given the economic globalization, there is a long-standing discussion about whether MNE should choose global standardization or adaptation. For instance, among a scope of undertakings, for example, item strategy, publicizing, estimating, dispersion, advancement, and client bolster the choice may tend to incline for incorporation because of the need of keeping up consistency around the world (GS) and different capacities may oblige LA to bolster nearby clients (Rosenzweig, 2006; Venaik et al., 2004). This discussion is at the core of international marketing strategy as it poses the inquiry of how far, if by any stretch of the imagination, is it suitable to outline, advertise and convey standard items and administrations crosswise over national limits, or the degree to which adjustment to nearby markets necessity is compulsory (Segal-Horn & Faulkner, 2010). In fact, the issue of standardization/adaptation is the basis for one of the most powerful international strategy frameworks: the integration-responsiveness grid (Bartlett and Ghoshal, 1989), which will be discussed later on.

Finally, experts in cultural management have highlighted that culture affects the management processes (Hofstede, *Management Scientists are Human*, 1994, p.23-33) thus impacting both opposing strategies: adaptation and standardization. Hofstede (1994) proposed 4 dimensions to measure cultural distance between two countries: uncertainty avoidance, individuality, power distance and masculinity-femininity between two countries (Exhibit 3). According to Hofstede, the need for consensus is deemed critical in collectivistic cultures and, reversely, has a relatively low priority in individualistic cultures (Hofstede, *Cultures and Organizations: Software of the Mind*, 2010, p.16). With this in mind, unless the differences in both cultures are explicitly addressed, the cohesiveness of the group is likely to suffer and impede effectiveness.

Therefore, dimensions of culture are an important aspect of international business. According to the Hofstede's methodology it is possible to identify differences in responses to management styles, organizational preferences and motivation patterns. Knowing how cultures view different aspects of business can help a manager navigate

through the international business market. In order to avoid that problem and to develop effective international management teams it is necessary to create an environment, which both acknowledges and values cultural diversity a thus developing individuals cultural awareness and sensitivity (Malcolm Higgs, 1996).

2.1.1 Arguments in favour of global standardization

The arguments in favour of global standardization, as initially stated by Levit (1983), contained three assumptions:

1. That customer's needs and interests are becoming increasingly homogeneous worldwide, increasing the single coherent global image.
2. That individuals around the world are willing to sacrifice preferences for such things as product features, functions and design, for high quality at low prices.
3. The use of economies of scale in production can be achieved through supplying global markets.

However, some authors (Segal-Horn & Faulkner, 2010) defend that there is a lack of evidence of homogenization and significant differences still exist between consumers across national market boundaries so that the differences both within and across nations are still far greater than any similarities. Which leads to the fact that few global strategies are pure standardization strategies. International markets are more complex, requiring global, regional and LA simultaneously.

2.1.2 Arguments in favour of adaptation

Many authors have defended the adaptation of international marketing strategies, such as (Luo, 2002; Venaik, Midgley & Devinney, 2004; Miao & Barbaroux, 2006; Hill, 2012). Adaptation occurs whereby corporate actors attempt to adapt subsidiary system as much as possible to the local context.

The arguments that pressures for adaptation include (Hill,2012):

1. The difference in consumer tastes and preferences, customers likes to keep their landmark and feel noticed.

2. The need for respecting local specifications and expectations, because there are differences in infrastructure and traditional business practices.
3. The promotion of excellent local image and then respects host government demand.

In companies that concern about adaptation, managers adjust the firm's exercises to suit distinctive conditions in each market. Responding to pressures to be locally responsive demands that a company differentiate its product offering and marketing strategy from country to country in an attempt to adjust the diverse demands that arise from national differences (Hill, 2012).

Nevertheless, the key is that the locally responsive firm try to distribute work as much as possible, thus enabling close contact with customers and/or suppliers and the ability to anticipate and respond to their needs (Brock & Siscovick, 2007).

2.1.3 The integration-responsiveness framework

The discussion about the pressures on the firm to achieve the dual objectives of GI and LR has become known as the integration-responsiveness framework to help managers better understand the trade-offs between integration-responsiveness (Banalieva & Dhanaraj, 2013). A significant amount of research regarding MNE management has analysed the level of GI or LR in backup administration hones by evaluating whether a specific practice looks like nearby traditions or rather the guardian company's practices.

Since the concepts of GI and LR were introduced by Lawrence and Lorsch (1969), many researchers (Bartlett & Ghoshal, 1989; Laroche, Kirpalani, Pons, & Zhou, 2001) in global business thinks about have used the structure in different approaches to investigate universal administration techniques and practices of MNE's.

Bartlett and Ghoshal (1989) argue that the firm doesn't have to choose between GS and LA and can obtain both at the same time. First, they consider global efficiency, multinational flexibility and the capability of learning at a worldwide level as imperative in obtaining competitive advantage in international business. They focus on building a strong local presence through worldwide diffusion and adaptation. Bartlett and Ghoshal (1989) identify four generic worldwide strategies: the multi-

domestic, international, global and transnational strategies (Exhibit 2). The multi-domestic strategy points out the product differentiation in order to answer the national differences, promoting local innovation and the autonomy of subsidiaries. The international strategy is characterized by the separation of management and ownership as the parent company is the basic reference and their innovations are replicated internationally. The global strategy sees the world and the only unit of analysis, with the main goal being obtaining global efficiency through product standardization. Lastly, the transnational strategy balances integration and local adaptation within all activities in order to meet customer's demands in the best possible way (Bartlett & Ghoshal, 1989). As the transnational strategy works as an integrated network, by connecting capabilities and sharing knowledge, taking advantage of affiliates' geographical spread, and offering an open minded perspective of international management.

At first, the idea of GI was created as a consolidated idea of key coordination and operational incorporation at the worldwide level (Prahalad & Doz, 1987). More recently, the concept refers to the management of the firm's value-chain activities across nations to achieve worldwide efficiency in order to take maximum advantage of similarities between countries (Brock & Siscovick, 2007).

LR alludes to the adjustment of a MNE's operations to neighbourhood conditions. In companies that are locally responsive, managers adjust the firm's practices to suit distinctive conditions in each market. They adjust to client needs, to the focused environment, and to the nearby appropriation structure (Prahalad & Doz, 1987).

MNEs, as aggregate substances of auxiliary associations working in fluctuated nearby conditions, must be sufficiently separated to adapt to neighbourhood requests to go up against nearby opponents and all the while coordinate their scattered abroad operations to misuse the advantages of scale and full extension. With a specific end goal to react to the test, it is realized that vast associations use a scope of joining systems all the while applying the reconciliation separation structure to MNE setting. Thus the framework explains step-by-step instructions to coordinate subunits while permitting them essential adaptability to react to their extraordinary circumstances, is a key test for pioneers of huge associations.

As a result, companies that compete in the global marketplace typically face two types of competitive pressure (Hill & Jones, 1998). They face pressures to both reduce costs and to be locally responsive. Reacting to cost reduction pressures requires a firm to minimize its unit costs. Attaining such a goal may imply that a MNE bases its production activities at the most favourable low-cost location, wherever in the world that might be. It may also imply that every business unit offers a standardized product to the global marketplace to ride down the experience curve as quickly as possible (Hill, 2012).

2.2. The choice of Local Responsiveness

“To compete around the world, a company needs three strategic capabilities: global-scale efficiency, the ability to leverage learning worldwide, and local responsiveness”
(Bartlett & Ghoshal, 1992)

In this subsection, I will focus on the LR approach, starting with the definition of the concept followed by the pressures and closing with the major determinants of the strategy.

2.2.1 The concept of Local Responsiveness

Typically, businesses with no meaningful economies of scale or proprietary technologies (e.g. processed foods) fall into this category. The need for significant LA of products or differences in distribution across national markets can be satisfied with LR.

The model of LR has been a relevant study subject over the last decades (Bartlett and Ghoshal, 2002; Chung, 2015; Luo, 2001; Gilbert and Heinecke, 2014; Qu and Zhang, 2015; Maruyama and Wu, 2015; Miao and Barbaroux, 2006; Quinn and Houdsen, 2008). Throughout the literature on subject we can find several authors who consider LR as one of the most consistent drivers in the completion of successful internationalizations (Miao and Barbaroux, 2006; Boumphrey and Bevis, 2014; Brock and Siscovick, 2007).

LR alludes to the adjustment of a MNE's operation to nearby conditions. It is fundamentally determined by the situational conditions at the backup level as every auxiliary could confront one of a kind needs from neighbourhood clients, distinctive supplier systems, nearby contenders and administrative directions (Prahalad & Doz, 1987).

Bartlett and Ghoshal (1989) give the following definition of LR: “Local responsiveness, also known as localization, is the willingness of firms to make adjustments to their products, services, and ways of conducting business at the local level, taking into consideration local culture and needs.”

In fact, location-specific focal points are accessible through abusing contrasts in variable, capital, and item markets or government arrangements among nations. To upgrade monetary effectiveness from location advantages, variable gifts; request opportunities and LR is essential. At the point when both item separation and client responsiveness are expected to pick up a neighbourhood upper hand, LR turns out to be a piece of a MNE's associations framework for empowering business achievement.

Maintaining necessary LR helps maximize subsidiary initiative in a way steady with the MNE's key objectives (Luo, 2001). Thus, this motivates foreign subsidiaries' managers establish sustained, solid relationships with indigenous customers, suppliers, distributors, competitors, and government authorities, resulting more competitive opportunities for the backup and additionally its guardian firm.

High LR is then important if a MNE endeavours to keep up a solid and maintainable focused position in a host nation.

2.2.2 Pressures for using Local Responsiveness

Once a subsidiary is operating in an environment where the needs of local consumers are differ significantly from those of consumers in other markets, that is, an environment characterized by a high level of LR pressure, the market sensing and customer linking capabilities would possibly become the most relevant and important

capabilities that could provide the subsidiary with a competitive edge (Banalieva & Dhanaraj, 2013).

In this case, although a strategy of LA may result in higher costs compared to a strategy of standardization, it may be more successful with local audiences. LR may be the key to success within the strategy.

According to Hill (2012), there are four dimensions that constitute the need for LR. The first dimension is the differences in customer taste and preferences, which arise from historical and cultural reasons. Therefore, the product or service needs to be customized to attract the foreign patrons, which in turn means that the parent company has to assign the production to the local subsidiary. The second dimension is infrastructure, in this case the responsiveness relates to the differences within the infrastructure and traditional practices forcing customization in order for the product or service to adjust the local infrastructure and practices, which in turn means that the parent company has to assign trading capabilities to the local subsidiary. The third dimension regards differences in the distribution channels which dictates that the parent firm needs to adapt its distribution channel to the new market and to adapt its marketing to the country's tradition. The last dimension concerns the specific requirements of the host government's financial and political demands. These demands could involve nationalism, protectionism and local content requests (Hill, 2012; Miao & Barbaroux, 2006).

Corporate managers face three major strides in managing the scattering of obligations and, in this manner differentiating subsidiaries' tasks (Bartlett & Ghoshal, 1989):

1. Setting the key goal for the organization by distinguishing its main goal and its business targets;
2. Building a separated association, by disseminating parts and assignments as well as by enabling the chiefs;
3. Directing the procedure to guarantee part coordination additionally to compose and control the dispersed obligations.

In line with the above mentioned authors, those steps will lead to internationalization success. Nevertheless, success also requires managers with an enormous capacity to learn and adapt, who are willing to embrace different cultural perspectives, and a high

tolerance to frustration and uncertainty. Consequently, the requirement for LA may differ as per particular connection (Prahalad & Doz, 1987).

Prahalad and Doz (1987: pp. 20-21) add different pressures for LR, which will guide the dispersion of responsibilities and, thus differentiating subsidiaries' task (Bartlett & Ghoshal, 1989; Lu & Beamish, 2001):

1. When conducting business, the firm must be concerned with the unique natural endowments available to the firm;
2. The diversity of local customer needs, such as food, require significant adaptation to local customer needs;
3. The differences in distribution channels may be taken into consideration, especially because these vary considerably from market to market and may increase the need for LR;
4. The local competition when entering a new market, as centrally controlled MNE's will have difficulty gaining market share when competing against numerous local rivals;
5. Differences in culture, as cultural idiosyncrasies influence consumer-buying decisions in which case local managers require considerable freedom from headquarters to adapt their product and marketing practices;
6. Concerning host government requirements and regulations, such as trade barriers and complex business regulations are imposed. The MNE may establish a local subsidiary with substantial decision-making autonomy to minimize the effects of protectionism.

Setting that, outside subunits must be sufficiently separated to effectively go up against societies, markets, and business hones that balance obviously with those of the household nation (Luo, 2001).

Notwithstanding, observations may contrast between backup chiefs abroad and parental supervisors in a head office. (Miao and Barbaroux, 2006). Therefore, it is more basic to recognize what components decide this responsiveness.

2.2.3 Determinants of Local Responsiveness

Luo (2001) propose three groups of factors determining the degree of responsiveness MNE subsidiary will be responsive namely: the organizational factors, the environment factors and the structural factors.

The organizational factors

The organizational factors, for example, global experience and market introduction, can clarify contrasts in the level of LR (Hill, 2012). Truth be told, aggregated experience and set up business system may influence flexibility in a developing business sector (Luo, 2001).

MNEs targeting a host market require increased responsiveness to pre-empt emerging opportunities and mitigate competitive threats. When operating in an emerging market, previous experiences in the host country determine the MNEs capacity to profit by LR. Without this capacity, LR is prone to waste firm assets, lose market opportunities, and bear pointless financial dangers. Subsequently, the level of LR must be arranged with the association's system (market orientation) and ability (experience and network) (Luo, 2001):

1. Market guidance approach (market orientation): can be divided between local and export market. When manipulating market orientation, a MNE can better supervise foreign operations and maintain organizational control over subunits within an integrated network. By adopting a decentralized form of coordination, the multi-domestic company boosts the ability of its subsidiary to respond quickly to changes which may help to expand the market share. Such freedom and greater market knowledge allow the subsidiary to export part of its production, which reduces the need for LR (Luo, 2001).

Closing, a MNE auxiliary's LR is decidedly connected with a neighbourhood market introduction and contrarily connected with a fare market introduction (Luo, 2001).

2. Previous experience: the foundation experience on the host nation is a basic compel that mitigates the LOF and enhances outside operations. The nature with the external

environment is frequently connected with expanded execution. The Uppsala process model defended by Johanson and Vahlne (1977), the absence of such experience as a vital deterrent to the advancement of worldwide operations and recommends that past information about the nation, its practices and setting helps firms by expanding their underlying responsibility and by diminishing operational instability.

Finishing up, a MNE subsidiary's LR is decidedly connected with its past involvement in this environment (Luo, 2001).

3. Established network: nurturing and maintaining managerial ties with local managers and government authorities prove to be key factors to gain competitive advantage. Without such ties, LR won't have the capacity to make any supported advantages from developing open doors, in light of the fact that such a system infers significant past responsibilities to nearby partners. Case in point, set up ties with nearby authorities empower LR as the firm advantages from particular treatment by the administration, for example, access to constrained assets, directed commercial enterprises and state-claimed circulations channels.

Closing, a MNE subsidiary's LR is decidedly connected with set up ties with administrators at different business and with government authorities (Luo, 2001).

The environmental factors

When moving to emerging markets, firms often face various environmental complexities and business practices. This contingency reinforces the LOF and requires additional adaptation if a foreign business seeks long-term growth (Luo, 2001).

As with the organizational determinant so does the environmental determinant depends on three factors:

1. Environmental complexity: this not only refers to the number of individual components in a given environment but also to the extent of the organization's knowledge and awareness regarding such components (Devinney, Midgley, & Venaik, 2000). With this in mind, Luo identifies different variables that measure

environmental complexity, in particular the extent of monetary arrangements, expansiveness of administrative powers, portions of purchasers. A high degree adaptability improves the ability to learn dynamically and ensures the progressive development of sustainable advantages, hence reducing the LOF and transaction costs.

Finishing up, a MNE subsidiary's LR is decidedly connected with environmental multifaceted nature (Luo, 2001).

2. Business practice specificity: at the point when seeing all the business flow of a host business sector is nation particular learning that can decrease a MNE's LOF and in this manner advancing its monetary proficiency and aggressive position. Along these lines, when working in a new business connection, a firm backup must be versatile and responsive. This will encourage the obtaining of particular information about the host nation and encourage the operation at this area. Without such learning, high responsiveness will prompt operational dangers. Thus, working in a dynamic business sector with an unconventional business and business hone requires high obligation (Luo, 2001).

Finishing up, a MNE subsidiary's LR is decidedly partnered with business hone specificity (Luo, 2001).

3. Cultural distance: implies contrasts in administrative qualities, mentalities, methods for deduction and guidelines (Luo, 2001). In spite of the fact that organizations may carry on to be more receptive to the business sector where there is more social separation. The nearness of boundaries emerging from social separation is liable to greater affect the real level of LR in a mind boggling and instable environment, (for example, developing markets). In any case it turns out to be more mind boggling exchange information and items for this host nation, which requires more noteworthy interest in learning securing (Johanson & Vahlne, 2011).

Finishing up, a MNE subsidiary's LR is contrarily connected with social separation from the host nation.

The structural factors

According to Luo, the basic elements influencing responsiveness in a consolidating business sector are: interest heterogeneity (how much the business sector interest and buyer conduct fluctuates crosswise over business sector portions) and industrial localization requirements by a host government. These characteristics influence LR since a foreign subsidiary needs more resources and autonomy to quickly respond to different groups of local consumers.

As is the case with the previous determinants so do the structural factors depend on three factors:

1. Competition intensity: when the degree of competition in a host country is high, foreign firms tend to be more responsive to customer needs developing more adequate products and services (Porter, 1989). Firms should consistently keep up great associations with purchasers, suppliers, merchants, contenders, and governments. Subsequently, LR may accordingly be an expanding capacity of the level of rivalry (Luo, 2001).

Closing, a MNE subsidiary's LR is emphatically connected with rivalry force (Luo, 2001).

2. Heterogeneity of demand: happens when buyer interest and conduct are liable to change as indicated by locale, salary, gender, training, and other demographic characteristics (Luo, 2001). The distinctive conduct of customers around the globe expands weight on remote backups to act in a locally responsive mode (Bartlett and Ghoshal, 1992). Accordingly, when heterogeneity expands it will be more troublesome and in addition less productive for a MNE to internationally convey creating assets and screen scattered operation.

Finishing up, a MNE subsidiary's LR is emphatically connected with business sector request heterogeneity (Luo, 2001).

3. Location: at the point when seen as an institutional power this necessity builds the weight on organizations to be all the more locally responsive. At whatever point topographical limitations are directed by the host government, area goes about as a

pertinent basic power influencing responsiveness as it enhances the dealing force of suppliers, impacts focused open doors and dangers and influences rate of profitability (Root, 1988). Thus, limitation arrangements specifically and emphatically drive up MNE's LR (Luo, 2001).

Finishing up, a MNE subsidiary's LR is decidedly connected with government initiated segment confinement.

2.3. Food Retail Market on Emerging Countries

Many developed markets have confronted long stretches of stagnation and, at times, even decay (Reardon, Timmer, Barrett, & Berdegué, 2003). This has forced retailers from such economies to reassess their plans for domestic expansion in favour of new growth opportunities in emerging markets to continuously sustain their own growth (Exhibit 5).

During the past decade, established international retailers have started a new wave of international expansion. This has led to an increase in the number of multinational retailers. For this reason, the biggest drivers for internationalization in this industry are the saturation of the domestic market and the high potential for growth in emerging markets (Lahousnia, 2010).

2.3.1 Food Retail in emerging countries

The ascent of rising economies has been maybe the characterizing highlight of the worldwide economy in this century (Luo, 2001). In 2000, emerging markets as a whole accounted for just 37% of global Gross Domestic Product (GDP); in 2014 this figure is estimated to have reach 50% (Boumphrey & Bevis, 2014). Indeed, even as developed countries recuperate from late decrease, and developing markets enter a time of slower development; worldwide monetary development will keep on being unequivocally impacted by developing markets (Lahousnia, 2010).

The dissemination of Food Retail in developing regions can be explained by the increase in demand for modern supermarkets. Based on research of Reardon et al., (2003), a new perspective was developed on the factors that have hampered the growth of modern trade in emerging markets. Each retailing ecosystem is shaped by country-specific factors that affect both the demand side (what customers want from retailers) and the supply side (the means with which the retailers can satisfy the customers' needs). Together, these factors produce a wide range of variability in the sophistication of modern-trade throughout the world.

On the demand side, emerging-market consumers tend to prepare their own meals and cook more than their peers in developed markets, moreover they are accustomed to shop in open-air market stands that offer a familiar selection of fresh food and household staples (Reardon et al., 2003).

On the supply side, emerging markets are known for the informality of traditional trade: as many small family-owned retailers rely on unpaid labor from members of the family and friends, own their own storefronts exempting them from rent payments and often fail to pay corporate taxes.

However, fewer grocery retailers choose to pursue foreign markets as the logistic challenges associated with operating at a multinational level in this industry prove to be too hard to grasp for these smaller players (Lahousnia, 2010). In addition, other challenges are equally difficult to overcome, for instance a very common issue when expanding abroad is the ability to understand fundamental differences on the consumer's eating habits, brand preferences and store layout.

Alternately, some Multinational Enterprise (MNE) have entry to venture assets to adapt to their own particular liquidity needs and access to worldwide credit which is much less expensive than the options given to their household rivals. MNEs additionally have entry to best practices in retail and in logistics innovation, some of which they created as restrictive developments (Reardon et al., 2003).

2.3.2 Market Analysis

The global Food Retail Market has shown healthy growth rates over the last five years (see exhibit 5 and 6). The industry is expected to continue in that pattern and to maintain strong growth rates up to 2018 (“Global Food Retail,” 2015, p.8) (Exhibit 7 and 8) The industry is expected to grow at a Compound Annual Growth Rate (CAGR) of 5.3% for the five-year period 2014 - 2018, to a global value of \$7,215.1bn by the end of 2018 (see exhibit 7 and 8).

The global food retail industry presented aggregated revenues of 4,358.8€bn in 2014, and grew at a CAGR of 4.8% from 2009 to 2014 (Exhibit 5 and 6). Over the same period, the European and Americas markets grew with CAGRs of 33.4% and 28.1% respectively (Exhibit 9 and 10), to \$1,858.4bn and \$1,563.8bn (Exhibit 9). As a result, these figures point to a potential rising market on South America.

2.3.3 Five forces

The food retail market can be promptly analysed using Porter’s five forces. The players are generally considered to be supermarkets, hypermarkets and specialist retailers (“Global Food Retail,” 2015, pp.6-11). The key buyers are, of course, the end consumers, and food manufacturers, farmers, agricultural co-operatives are identified as the key suppliers. Despite the healthy growth rate (Exhibit 11), the degree of rivalry between players is fierce due to the limited product differentiation, negligible switching costs to the customer and the unstable industry environment.

A lack of switching costs and the limitations in product differentiation lead to buyer mobility, which in turn causes larger retailers to maintain attractive pricing patterns. There is a rising force exerted upon players to adapt to the fast shifting consumer needs with the winner being the player who can firstly position the desired product at an adequate price for the customers.

Potential new entrants may tussle to compete with the aggressive marketing and pricing policies of existing players. Nonetheless, there are reasonably low entry and exit costs, and the emergence of new trends in health and ethical niches which isolate specialized entrants from direct mainstream competition in addition to the

aforementioned solid historical growth which offers an attractive opportunity (“Global Food Retail”, 2015, pp.14-21).

2.3.4 Internationalization to emerging countries

Sustained and meaningful growth in a new market requires a combination of local knowledge, suitable retail premises and a proven business model (Reardon et al., 2003). For many ambitious retailers seeking to expand abroad, only the latter is ever considered, which ultimately leads to a costly and embarrassing market exit or a strategic rethink (Che Senik, Scott-Ladd, Entrekina, & Adham, 2011).

For the vast majority of successful international retailers, adjustments to the business model substantiate the fundamental starting point in entering a new market. Consumers around the world are radically different, so it is illogical to assume they all want to purchase exactly the same thing in exactly the same way (Lahousnia, 2010).

The degree of adjustment, however, varies greatly from channel to channel and from retailer to retailer. For grocery retailers, internationalising is a complex and high-risk venture (Johanson & Vahlne, 2011). Consumers’ eating habits, even within a market, tend to be diverse and therefore product range and brand preferences are crucial components of international expansion strategy.

Internationalization of grocery retail requires the understanding of the fundamental differences on consumer’s eating habits, brand preferences and even store layouts (Chetty & Holm, 2000).

In the retail sustenance industry, the most well-known types of passage in outside business sectors are franchising/permitting, joint ventures and completely possessed backups, every one of them speaking to various levels of proprietorship, responsibility and commitment to universal auxiliaries.

2.3.5 Food Retail industries and Roadblocks

As retailers move into unfamiliar and unpredictable territory, many have faced serious obstacles, failing to successfully meet the unique challenges posed by different economic, political, and cultural environments. Proper due diligence on both the obstacles and the opportunities may assist retailers in setting and achieving realistic sales and profitability goals as they tap into new growth markets.

For this reason, there are six key aspects to globalization that can create roadblocks for retailers contemplating international expansion (Quinn & Houlden, 2012). The first two deal with risk assessment, by both setting the organization's risk threshold and determining risk posed by the increasing power of local competitors. The next two issues – the need for strategic localization and an assessment of market entry methods and market attractiveness – are critical for strategy development. The last two subjects address people and power issues through human resource development and enterprise governance.

However, there are not only the pitfalls when going abroad, but also the promise of globalization. The case for globalization is absorbing. While there are no easy answers, for many retailers, going global denotes the best path to long-term growth and, eventually, profitability as well.

Despite the potential of emerging markets, retailers may misjudge their own individual market prospects by focusing too much on macroeconomic factors while underestimating the operational difficulties of doing business in these markets. In order to assess a market's overall attractiveness, market potential must be balanced against possible pitfalls. At the end, retailers may need to understand clearly the liability of foreignness when going abroad, especially when moving to emerging countries.

3. Methodology

Following the literature review and presentation frameworks from several authors to support the research topic, the next step is to design the methodological research method.

3.1 The general methodological approach: the case study

The picked research technique to direct this paper proposal is the contextual analysis. It is the most suitable technique keeping in mind the end goal to contribute with results and learning yields in regards to the drivers and the determinants for LR, being the exploration strategy for this specific kind of subject upheld by Yin (2008; 2013).

In first place, it is the most suitable method to describe and explain a business phenomenon, as it provides a clearer view into the real-life aspects of the subject by proposing a blend between an explanatory and descriptive case study. The first refers to the finding of rational and recurrent links in the way the concept of LR is planned keeping in mind the end goal to augment the worth created from a particular internationalization, to be specific as far as the effect in accordance with the procedure actualized. The later covers the spellbinding procedure of the operation, more detailed in evaluating the diverse determinants that emerge amid the procedure of LR.

Secondly, according to Yin (2008; 2013), since the experimental premise for this examination is given by an inside and out contextual analysis, there is positively no influence over the occasions under investigation. A contextual investigation is an observational examination that is sufficient while researching a contemporary event inside its genuine setting, when the limits amongst it and the connection are not unmistakably clear and in which various wellsprings of confirmation can be utilized.

Since the goal is not to test existing models or theories, but to implement a more explanatory approach. The sub-research questions appeared afterwards between theory and data. In order to better answer my main research question: *“The impact of*

local responsiveness on the process of internationalization”, I split it into two sub-research questions :

- How did LR affect the stages of internationalization?
- How did the different determinants of LR affect the internationalization process of the company?

The case study used both content and process approach. When using a content approach, there is more focus on the different determinants affecting the LR in internationalization process in emerging countries.

JM was an appropriate enterprise to answer this exploration question for a few reasons: The first reason relied on the fact food retailing is experiencing an enormous cost pressure and the emergence of global competitors, leading to the need for global integration. At the same time, disparate consumer incomes and tastes, as well as remaining trade barriers lead to the necessity to adapt activities to the local markets. JM is trying to address the concept of LR since the beginning because they believe it is a way to respond to specific local demands caused mainly by cultural differences in tastes, different environmental conditions, or different income levels, among many other factors. Secondly, this choice is based on fact that LR is considered a core capability of JM and the main reason for the group success until now.

3.2 The concrete methodology approach

Exhibit 12 uncovers the itemized database of data assembled and utilized amid this contextual analysis report. Regarding the data collection process, four main sources of evidence have been used: interviews, archival records, direct observation, and internal/external documentation. The dissected documentation was given by JM's supervisors, and included composed reports of occasions, yearly reports, corporate presentations and other important composed wellsprings of information that showed the decisions made all through the worldwide procedure in Colombia.

I collected primary data through interviews with Jerónimo Martins subsidiaries' managers. The interviews were conducted face-to-face, with one person at a time,

with the objective of deeply understanding the steps towards each expansion phase and the adjustments that had to be made.

My direct observation in Colombia during January 2016 allowed me to confirm and internalize all the information gathered at JM and what I have learned during my research time. There were three relevant observations during that visit: Colombia's macroeconomic context; the food retail industry specificities (proliferation of traditional markets); and the observation of specific needs of Colombians as customers.

4. Case study

In this chapter a chronological description of the internationalization process of JM is presented, with a focus on Colombia. The first section aims to give an overview of the company, from the early years up until now. Then a brief description of the company's first internationalization venture which occurred in Poland and the less fortunate experience in Brazil. Finally, the focus will shift to the internationalization process into Colombia. I'll start with an explanation of the country selection process and then how the group created and implemented the operations.

4.1 The group overview

Jerónimo Martins (JM) was established in 1792 in Portugal, and began as a little shop in Lisbon offering just about everything. The shop got to be a standout amongst the most famous stores in the city. At that point, in 1938, another era of proprietors started to put resources into new regions of business, for example, producing. One of the greatest strides toward the organization's prosperity was taken in 1949, when the organization united its position in the nation by building up a joint venture with Unilever which was the summit of an adult association was the gatherings had as of now set up various item understandings for a few years. With this partnership, the group began massive distribution and production of a greater range of products and brands (Jerónimo Martins Goup, 2015, p.2-6).

In 1978, the group changed its strategy by investing heavily in the food retail market with the dispatch of the *Pingo Doce* supermarket chain, followed by the acquisition of *Recheio* cash & carry in 1988, what's more, the securing of the *Feira Nova* hypermarket chain in 1993 (Jerónimo Martins Goup, 2015, p.7). The group then started to expand abroad with the internationalization to Poland in 1995, followed by an incursion into Brazil¹ in 1999.

In Portugal, JM Group enjoys a leading position in food distribution, and in 2014

¹ By and by, because of a few difficulties, the gathering chose to offer the Brazilian supermarket chain (Jerónimo Martins Group, 2015, p.6)

obtained an aggregate turnover of 4.0 billion of Euros (Exhibition 15). The group currently operates under two brands: *Pingo Doce* (380 supermarkets) and *Recheio* (37 cash & carries and food platforms service), being the business sector pioneer in both markets. JM has also invested, through the *Pingo Doce* brand in the development of additional projects related the retail food business and as a result of its partnership with Unilever, the group created Unilever JM which is likewise the biggest modern gathering of buyer merchandise in Portugal, covering sustenance, individual consideration, home care and out of home items. (Jerónimo Martins Group, 2014, pp.20-28).

Today, the group employs a sum of 86.563 representatives (across all business areas) and operated 3435 stores by the end of 2014 (Jerónimo Martins Group, 2014, p.23) after opening 307 new venues in 2014 (an expansion in 6.1 % contrasted with 2013). The number of discount and convenience stores has developed by 266 stores, markets expanded by 37 stores and the organization opened four new hypermarket stores (Exhibit 13 and 14). Not to mention, the venture that has been made as of late in the hard markdown position in areas where the entrance of expansive retail chains have generally been lower (Jerónimo Martins Group, 2014, p.38).

According to Reuters, JM holds a market value of 8,143.05 million Euros, as of today (at 24th February of 2016). JM is registered in the NYSE Euronext Lisbon and on the PSI-20 Index, which list the main twenty organizations on the Lisbon stock trade (Reuters, 2016). According to the Annual Report of 2014, the Group's net debt decreased since the previous year reaching 273 million of Euros by the closing of 2014. At the same time, the EBITDA generated by JM amounted to 733 million Euros (Exhibit 12), down 5.6% over the previous year, contrary to net sales which grew 7.2% to 12.7 million of Euros.

4.2 First Internationalization: Poland

Poland was a key vital business sector for JM as both Portugal and Poland were EU individuals, encouraging the trading of items, workforce and capital exchanges. This empowered JM to profit by all present exchange assertions and, as an outcome,

expanded the gathering execution. Besides, culture had an essential impact on the utilization of obtained skills for JM, so it looked for a nation with a society that would add to potentiate existing qualities and abilities. This methodology permitted not just for a speedier section in the business sector by creating and adjusting to shopper needs in another geographical range however it additionally lessened cost and increment operational effectiveness. A totally new culture would require the advancement of new capabilities balanced particularly to the truth of the new nation, which would get to be costly, tedious and less profitable.

From the beginning, JM applied a different strategy in Poland from the one it did in Portugal. Mr Nuno Abrantes, Member of Management Board, when defining the new enter strategy for Poland, stated “*we have to act local and be local*”. JM did not copy any previous model, they already comfortable with the concept of local responsiveness, where there is no place for standardization.

Poland rapidly turned into a successful market for JM, thanks largely to the initial strategy. The efficient market response was to respond to consumer price sensitivity, to adapt to rational consumer decisions and finally to understand and respect a different culture with different tastes (Jerónimo Martins Group, 2015, p.7)

4.3 Second Internationalization: Brazil

In 2001, Brazil was a rising nation with awesome potential, however to contend and succeed in the Brazilian nourishment retail industry, an uncommon measure of venture was required. At the time, market progression was forceful, set apart by the nearness of extensive multinational nourishment retail organizations which lead the Brazilian business sector. Despite the fact that there was a lot of space to develop, the business sector pioneers were resolved to succeed in that business sector. Amongst the business sector pioneers in Brazil, there was Walmart, the main retail organization on the planet, Carrefour, the greatest hypermarket organization on the planet, and Casino, the French sustenance retail mammoth. All of this slimmed the chances of successfully entering the Brazilian market (Jerónimo Martins, 2011, p.19).

The Group's experience in Brazil did not have a happy ending due to a number of problems² and in 2001 the gathering chose to offer the Brazilian Sé Supermercados grocery store chain. Continuous investment in these three countries at the same time did not presented attractive returns.

4.4 The internationalization process of JM to Colombia

As an aftereffect of the financial circumstance in 2003³, Mr Pedro Soares dos Santos, CEO of JM chosen it was the ideal opportunity for another universal development. Mr Nuno Abrantes, Member of Management Board, explained, "the Portuguese operations guaranteed financing to the internationalization to Poland and thusly the income created by the shine operations would bolster the following worldwide extension. This is an idealistic circle in which each new land zone is upheld by the income of the past ones."

Why Colombia?

A decision was made to target Colombia. Colombia is situated in the northwestern district of South America and has an aggregate surface region of 1.14 million km². In the last decade Colombia turned into a sprouting nation with endeavouring financial advancement (Gagan & Buendia, 2012). In spite of the fact that it was a pained nation all through the majority of the twentieth century, having experienced common wars to the ascent of medication exchanging and medication cartels, Colombia at last alleviated for the most part because of a steady government kept running by the 2002 chose president Alvaro Uribe⁴, an autonomous applicant who could keep an agreement between the two chief gatherings.

Colombia is currently the 4th largest economy in Latin America enabling it to dispute foreign investment with the biggest economies in the sub-continent (Brazil, Mexico

² Brazil demonstrated a lower likelihood and required higher venture than the past development (Jerónimo Martins, 2002).

³ JM's Group finished the primary portion of 2003 with a net benefit of Euro 17.1 million and with most monetary and money related pointers positively.

⁴ Alvaro Uribe Vezéz is a Colombian legislator who served as the 31st President of Colombia from 2002 to 2010.

and Chile) (Gagan & Buendia, 2012). According to the National Administrative Department of Statistics of Colombia, GDP grew 4.3% in 2014, mirroring a positive and maintained improvement of all segments of action. Colombian GDP saw one of the most astounding development rates around the world, and the most elevated among the significant Latin American nations (Depart Administrativo Nacional de Estadística Colombia [DANE], 2015). Accordingly, retail deals in Colombia expanded by 8.6%, the vast majority of which recorded in the general store division, particularly in the accommodation and markdown groups (DANE, 2015).

With a specific end goal to pull in remote speculation, Colombia's administration has raised a few tax breaks on benefits and capital. Outside organizations began to be treated with the same guidelines of national organizations, to be specific in regards to legitimate insurance and rivalry rights. Colombia positioned as one of the world's top monetary freest nations as per the 2010 Wall Street Journal Economic Freedom Index and has always enhanced its general score because of changes in business, financial, work and exchange opportunity.

According to internationalization decisions criteria pointed out by JM when choosing a new market, Colombia met all decisions criteria. To be sure, the Group defended this choice by clarifying how the nation fitted the choice procedure (Jerónimo Martins, 2011, pp.7-14):

- *Democracy and rule of law*: Colombia had a popularity based procedure that had been working without interference for as far back as 60 years. It was named a decent nation to create business.
- *Demographic*: the nation met the base level of populace rule; Colombia had 46 million individuals and was relied upon to keep on growing.
- *Stable and Robust Economy*: the nation has had consistent positive developing rates in the course of the most recent decades. Solid national development bolstered by exportations and FDI inflows (World Economic Forum, 2015).
- *Market opportunity in food retail*: solid nearness of conventional retail chains and free stores. A business sector where some current retail organizations were yet to be produced.

As Mr Nuno Abrantes states, *"So as to secure long haul development for the gathering, and by exploiting our solid income era, we stepped in the Group's internationalization procedure by picking another development column: extension for Colombia."*

The international strategy followed in Colombia

In 2013, the first team of JM's strategic managers was on the ground in Colombia. After a while, JM opened the first stores in Colombia, (Jerónimo Martins Group, 2015, p.9) where the Group still operates today.

The closest quadrant to define JM's entry strategy in Colombia is the Multi-domestic strategy: The group allowed its products to be adapted to Colombian preferences and tastes. The item components are custom-made to the neighbourhood local environment, checking diverse sustenance inclinations, religious traditions and different qualities that characterize the nearby environment. JM tail this methodology on the grounds that their items would be better gotten by neighbourhood clients, as opposed to seen as something remote and unordinary. JM executed its expansion as planned, opening a new Greenfield operation called *Ara Tiendas* (*Ara Supermarket*) (Jerónimo Martins, 2014, p.11). An official choice to make a completely claimed auxiliary was bolstered by the accompanying contentions: Colombia was a changed business sector that permits outside interest in practically every business sector segment and a lawful system that gives remote organizations the same status as national ones which permitted JM to enter the business sector without partnering with an obligatory national shareholder and to work unreservedly in the business sector, which is in accordance with the gathering's technique.

There were three trials when defining the international strategy followed in Colombia. First, JM initial priorities were designed to match the value and local approach demands: adapting stores format; assortment and pricing; overwhelming knowledge of local consumers and local suppliers; and developing from the start a low cost structure (Pereira, 2015). Thus, setting the strategic aim for *Ara's Supermarket* by distinguishing its main goal and its business destinations: *"Be the main proximity*

store for Colombian consumers, based on an efficient operation, offering products for your daily needs at the best prices.” (Ara Colombia, 2016, p.7).

Second, they built a differentiated organization for *Ara* by giving the managers different roles and assignments and by empowering them (increasing the subsidiary’s autonomy). Third and last, directing the procedure to guarantee that the few parts are facilitated and that the circulated duties are controlled. Therefore, *Ara*’s managers started to “develop long-term partnership with suppliers aiming for continuous improvements, both in quality and production effectiveness, in order to develop the best value for money private brands range in Colombia driven by satisfying consumer expectations” (Ara Colombia, 2016, p.9).

5. Findings and Discussion

The materials that have been presented in previous chapters are going to be analysed and then evaluated in order to propose a valuable answer for the sub-research question. This section is going to be the most speculative part of the paper.

According to Bartlett and Ghoshal (1989) the success within a foreign project requires corporate leaders with an enormous capacity to learn and adapt, the willingness to embrace different cultural perspectives, and a high tolerance to frustration and uncertainty. For that reason, JM's corporate managers have to face diverse difficulties in managing the scattering of duties and, in this manner separating Ara's auxiliaries' undertakings.

Companies attempt to achieve dominance in a market by focusing on their core capabilities and all interviewed JM's managers agreed that LR is a JM's core capability.

5.1 How did LR affect the stages of internationalization?

We can divide the process of internationalization into 4 steps: prospection, selection, preparation, and implementation. In order to enter in the market, *Ara* chose a Multi-domestic strategy which could be characterized by:

- LR maximization by giving decentralized basic leadership power to neighbourhood specialty units in every nation with the goal that they can make items and administrations streamlined to their nearby markets.
- Focus on competition within each country.
- Acknowledgment that the business sectors contrast and, in this way, is portioned by nation limits. At the end of the day, buyer needs and wishes, industry conditions (e.g. the number and sort of contenders), political and lawful structures, and social standards changed by nation.

Using a Multi-domestic strategy, *Ara's* managers were able to tweak their items to meet the particular inclinations and necessities of Colombians. Thus, JM can contend

all the more successfully in every nearby market and expand its neighbourhood piece of the pie. *Ara* wants to be perceived as a local company.

The concern of local awareness starts early in the prospection phase. Thus, LR starts when the strategy is being defined, when the need to adapt to local context is considered vital to the organization success. JM is trying to address the concept of LR since the beginning of the international expansion because they believe it is an attempt to respond to specific local demands brought about essentially by social contrasts in tastes, distinctive natural conditions, or diverse salary levels, among numerous different components.

According to Sandra Brito Pereira, Head of Global Learning at JM, “*the international expansion for JM is a four-phased process: prospection, selection, preparation, and implementation*” (Exhibit 16).

During the prospection phase, before entering the Colombian market, JM defined all indicators to characterize the market. An overall detailed research, gathering micro and macro indicators about the Colombian retail market was fundamental throughout this phase. During this stage, a vast group of JM’s managers took a guided tour to the future installations in order to get a fair perception of the local environment. This preliminary study would be the first major contribution to help to understand the impact of LR during the process of internationalization to Colombia.

Mrs Sandra Brito Pereira states that “*the right evaluation of the impact of LR taking into consideration the micro and macro condition of Colombia’s food retail market was the fundamental condition for JM’s choice about asset dispersal, key control, objective setting, and power designation for a key abroad.*”

In the selection phase, JM analysed all possible scenarios, searched for all future risks and implications of entering the Colombian market. This was the phase where the CAPEX started alongside with the visits to the country. Regulatory and local entities such as government, academia and local population were the main stakeholders at this stage. *Ara*’s managers respected political networks and social responsibility.

In the preparation phase, the design of the value proposition was accomplished and the local recruitment was started. During this phase, the selection of the local suppliers as well as the design of the supply chain, the quality control and the IT support were completed. Facing suppliers as the main stakeholders, *Ara's* Managers took into consideration the production process (or vertical integration), the efficiency of the supply chain and competitiveness. Taking all that into consideration, the company addressed LR concept.

Finally, at the implementation phase, the local recruitment, communication and operations topics were completed. At this stage JM's managers increased their knowledge about competitors and reflected it adapting LR (feedback loop). Employees were the main stakeholders at this stage.

According to *Ara's* management report of 2014, the four strategic pillars were: low costs; value adaptability to react to nearby rivalry; special activities with a forceful enthusiastic attach to the customers; and a solid interest in the brand. In the meantime, 2014 was a year of fortifying the organization with nearby suppliers who strengthened their dedication to the organization, once the extension arrangement had been satisfied and the development open doors stayed in place. These are strong evidences of a continuous commitment to LR.

5.2 How did the different determinants of LR affect internationalization process of the company?

This sub-research question refers directly to the study directed by Luo (2001), where she proposes three levels of determinants affecting responsiveness: the **organizational, environmental and structural factors** (Exhibit 16).

Firstly, according to the **organizational dimension**, there are three factors: **market orientation, previous experience and established network** (Exhibit 17):

- **Market orientation:** the final decision taken by JM when entering in the market was creating a “fully owned greenfield subsidiary” (allowing JM to enter the market without a national partner, with a high investment but operating freely

with high control). JM's subsidiary *Ara*, seeking after a neighbourhood market position had solid communications with the nearby business group and host government powers, which requested more LR.

- **Previous experience:** as stated by Mr Nuno Abrantes, Member of the Management Board, "it was the first time that JM was on the ground (Colombia) so the only previous successful international experience was the Polish market". According to *Ara's* Marketing Plan (2015), one of the challenges was the need to gather more data and deeper knowledge about local communities. Using the lessons learned from Poland's experience, such as getting a better knowledge of consumer's tastes and preferences before initiating the operations, JM's managers had a higher level of expertise when dealing with the expansion to Colombia.
- **Established network:** JM set up associations with nearby suppliers, wholesalers, purchasers, and contenders to encourage LR. As in Poland, *Ara* is conferred in nearby sourcing, creation, advertising, and administration.

Environmental determinant within Colombia, including **environmental complexity** and **commercial practice specificity** are found to drive up LR, though **cultural distance** amongst Portugal and Colombia is contrarily connected with LR (Exhibit 18).

- The **environmental complexity** in Colombia is low, because of "*the low level of government inclusion in the nourishment retail industry*". Without complexity, subsidiaries have more control and high adaptability; therefore LR stimulated a dynamic learning capability in JM's subsidiary.
- The **business practice specificity** in Colombia was learned and analysed by JM. "*The traditional retail market and the trend of the industry were addressed when defining the business strategy of Ara*". Understanding the specific business practices of the Colombian business sector (e.g., the one of a kind terms of instalment) heightens JM's dynamic capability, leading to operational stabilities in a dynamic setting.
- **Cultural distance** concerns the distinctions in instability evasion, singularity, power separation, and manliness gentility between the two nations (Hofstede, 1980). The lower the cultural distance, the lower the need for LR. Mr Nuno Abrantes, Member of the Management Board, states, "*The contrast in*

administrative qualities, mentalities and standards were addressed by JM and complied with all local commercial standards in Ara's perspectives". The level of cultural distance between Portugal and Colombia was considered medium/low.

Last but not the least, the **structural determinant** affecting the responsiveness include **competition intensity, demand heterogeneity** and **type of localization** (Exhibit 19). Colombia as rising economy, is liable to end up "numerous developing markets" in light of the fact that financial advancement and wage levels extraordinarily contrast by districts while utilization capacities and business sector interest are heterogeneous among buyers in various portions (Naughton, 1995).

- Competition in Colombia was predominantly constituted by conventional retail and national retail chains and by less created organizations, and none of which had the essential size, level of experience and conditions to accomplish an authority position in the business sector. Because there was a low level of competition in Colombia, *"Ara's strategy was mainly directed to increase the emotional link with consumers and use regionalization as strategy of adaptability. Besides, Ara's Managers respect the modern and traditional retailing, the pricing strategy and the positioning and differentiation strategy"*. Although the level of competition in Colombia didn't stimulate LR, JM's adaptation determined Ara's market power, upper hand, and corporate picture as saw by Colombia's organizations and buyers.
- Colombia has a heterogeneous market demand across the geography. At the point when heterogeneity expands, it is harder to proficiently screen operations and accordingly LR must be higher. In order to solve that concern *"Ara is committed to deal with consumers with an increasing heterogeneity that will require extra effort to serve all their clients"*. This builds weight on Ara to be locally responsive for they are looking for firm development.
- Content or component localization controlled by a host government is an apropos auxiliary power influencing responsiveness as it institutionally upgrades the dealing force of suppliers; impacts focused open doors or dangers, and influences quantifiable profit (Root, 1988). Colombia has a proficient legal framework and a very much created court structure, with some debasement issues at low-level

courts furthermore with equivalent lawful treatment given to national and outside organizations. There are no limitation strategies influencing *Ara's* business approach.

The coordination of the 3 determinants has to be followed by a structure that will give top level input to corporate execution. Therefore, LR helps maximize *Ara's* drive and the proactive quest for new business open doors in a way steady with the JM's vital objectives.(Pereira, 2015)

In 2015, other than the proceeded with extension in the district, with the introduction of another dissemination focus and the opening of new stores as from the second 50% of 2015, the organization will keep on being centred around: expanding its mindfulness and brand engaging quality, guaranteeing the college of the idea; expanding the quantity of classifications that incorporate private brand items and their weight inside the aggregate deals; enhancing the business' benefit; and creating HR, inside a setting of fast development, as to selecting and preparing new workers.

6. Main Conclusion, Limitation and Future Research

This dissertation was set out to explore the correlation of LR with successful MNE's internationalization strategies in the consumer products and food industry. The dissertation has also sought to understand the impact of LR along the phases of the internationalization process.

In order to obtain a structured answer to the main research question: "*The impact of local responsiveness on the process of internationalization*", the dissertation sought to answer two sub-research questions:

- 1- How did LR affect the stages of internationalization?
- 2- How did the different determinants of LR affect the internationalization process of the company?

This area of the conclusion will blend the experimental discoveries to answer the study's two sub-research questions.

- 1- How did LR affect the stages of internationalization?
 - a. Pressures for using LR were felt along all the phases of the internationalization process.
 - b. LR revealed to be a fundamental capability to adjust the strategy to market reality.
 - c. In order to achieve success, LR should be a core capability in a MNE in the consumer products and food industry.
- 2- How did the different determinants of LR affect the internationalization process of the company?
 - a. The company leveraged previous international experience (Poland), adopting a decentralized form of coordination (multi-domestic), setting up associations with neighborhood suppliers, wholesalers, purchasers, and contenders to encourage LR.
 - b. The company enhanced its learning capability to deal with environmental complexity and business practice specificity.

- c. Colombia's heterogeneous market demand across the geography stimulated Company's effort to serve all their clients.

To achieve dominance in a market, companies must focus on their core capabilities. MNEs in consumer products and food industry need to be perceived as local companies which leads to a multi-domestic strategy where the autonomy of subsidiaries is the answer to the need of national differences. Therefore, in order to be successful, LR should be a core capability of MNEs in the consumer products and food industry.

JM's managers agreed that LR is a JM's core capability, embedded in the organization's culture, and also agreed that it was used along all the stages of internationalization.

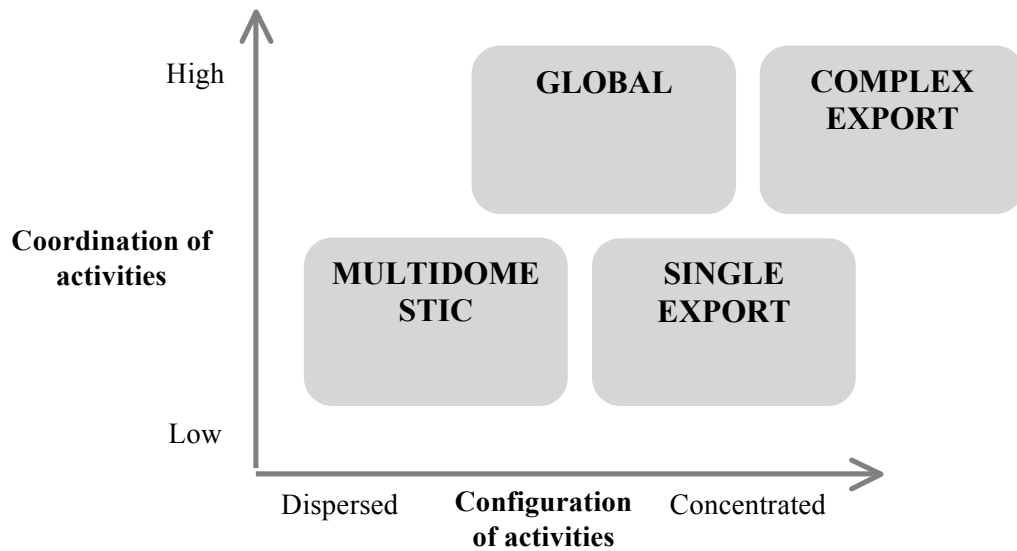
Despite the fact that this research has achieved its objectives, there were some unavoidable constraints. First, the research question was limited to the most recognized authors and the most authoritative publications in this field. Second, there was a limited the number of interviews, and the majority of data was collected by conferences and JM's reports.

In spite of the fact that this research endeavoured to give a more coordinated diagram about the idea of LR that could emerge amid an internationalization procedure, further examination is still vital.

It is fascinating to create measurements to assess the LR made by various firms in various enterprises. An itemized examination containing the genuine effect of the LR when choosing the global technique, expelling the impact of the financial patterns, in this way surveying the level of freedom or between reliance of both local and outside operations.

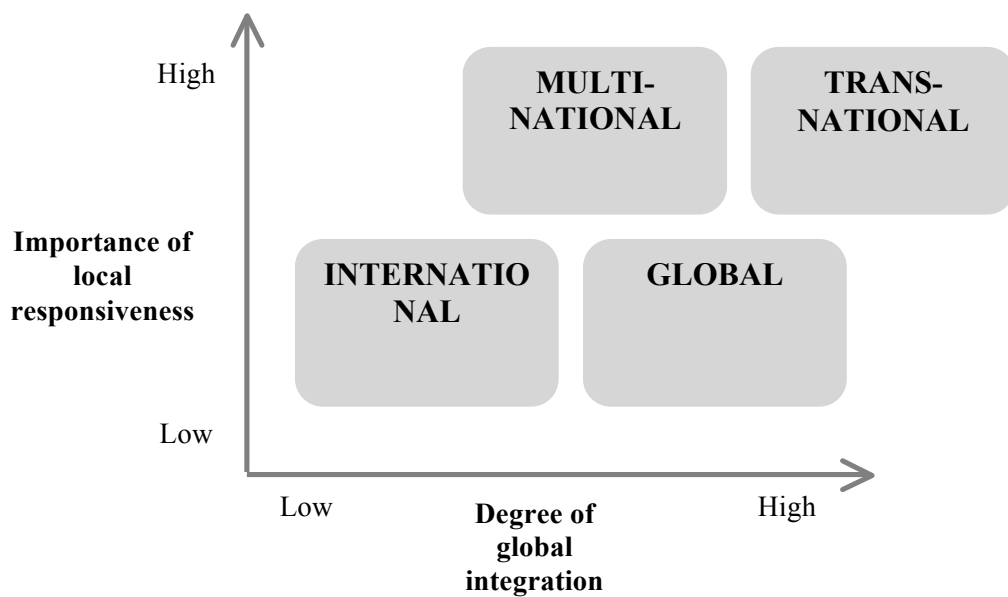
7. Exhibits

EXHIBIT 1 – Types of International Strategies



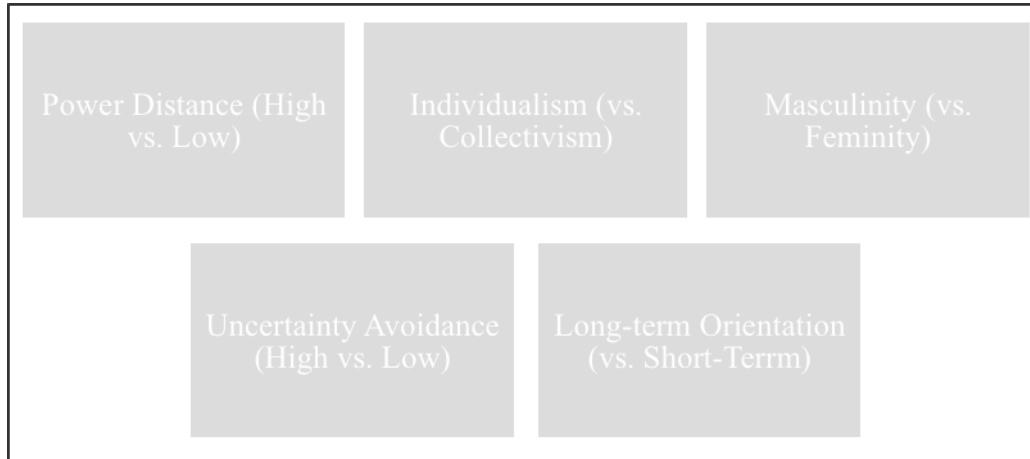
Source: Porter, M. E. (1996). What Is Strategy? Harvard Business Review, 74(6), 61–78.

EXHIBIT 2 - International Strategies (GI-LR)



Source: Bartlett, C., & Ghoshal, S. (1989). *Managing across borders*. Boston: Harvard Business School Press.

EXHIBIT 3 - Hofstede's Cultural Dimension Theory



Source: Hofstede, G. (1994). *Management Scientists are Human*. *Management Science*, 4-13.

EXHIBIT 4 - Yadong Luo's LR factors and signal impact

FACTORS	CATEGORIES	IMPACT (on the subsidiary's LR)
Organizational (Firm-specific)	Market orientation (local market)	<i>Positively</i>
	Previous experience	<i>Positively</i>
	Established network	<i>Positively</i>
Environmental	Environment complexity	<i>Positively</i>
	Business practice specificity	<i>Positively</i>
	Cultural distance	<i>Negatively</i>
Industrial	Competition intensity	<i>Positively</i>
	Demand heterogeneity	<i>Positively</i>
	Component localization	<i>Positively</i>

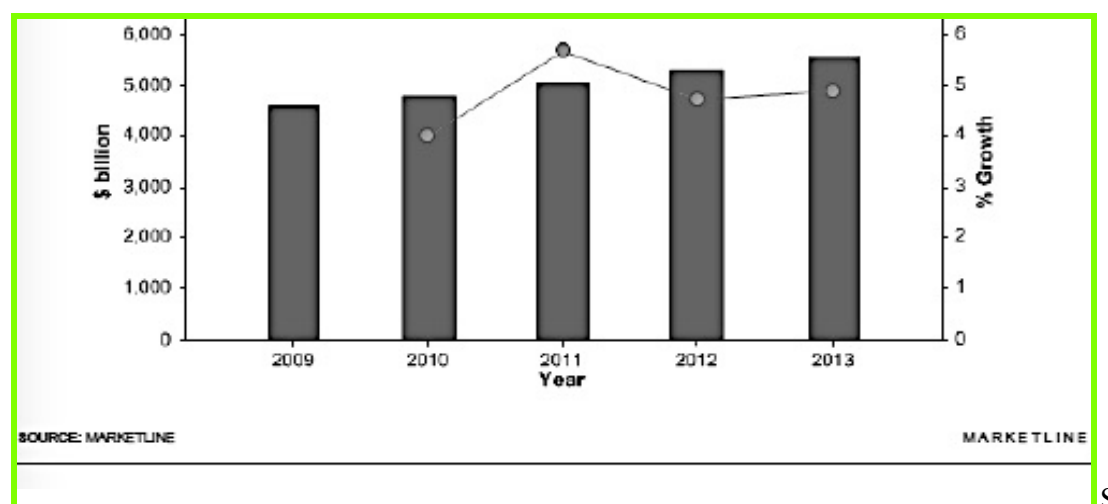
Source: Document produced by the author

EXHIBIT 5 - Global food retail industry value: € billion, 2009 - 14

Year	€ billion	% Growth
2010	3,469.3	-
2011	3,608.5	4.0%
2012	3,813.5	5.7%
2013	3,993.9	4.7%
2014	4,189.7	4.9%
CAGR: 2010-2014		4.8%

Source: Global Food Retail. (2015). *Food Retail Industry Profile: Global*, 1–34.

EXHIBIT 6 - Global food retail industry value: € billion, 2009 - 13



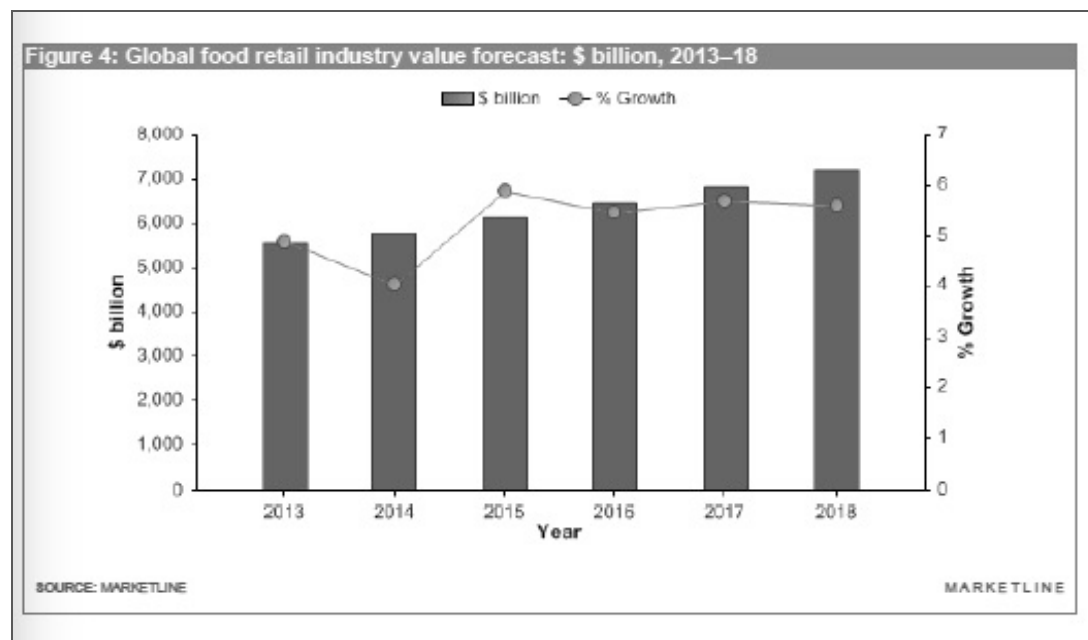
Source: Global Food Retail. (2015). *Food Retail Industry Profile: Global*, 1–34.

EXHIBIT 7 - Global food retail industry forecast: €billion, 2013 - 18

Year	€ billion	% Growth
2013	4,189.7	4.9%
2014	4,358.8	4.0%
2015	4,615.1	5.9%
2016	4,867.1	5.5%
2017	5,144.4	5.7%
2018	5,432.7	5.6%
CAGR: 2013-2018		5.3%

Source: Global Food Retail. (2015). *Food Retail Industry Profile: Global*, 1–34

EXHIBIT 8 - Global food retail industry value: € billion, 2013 - 18



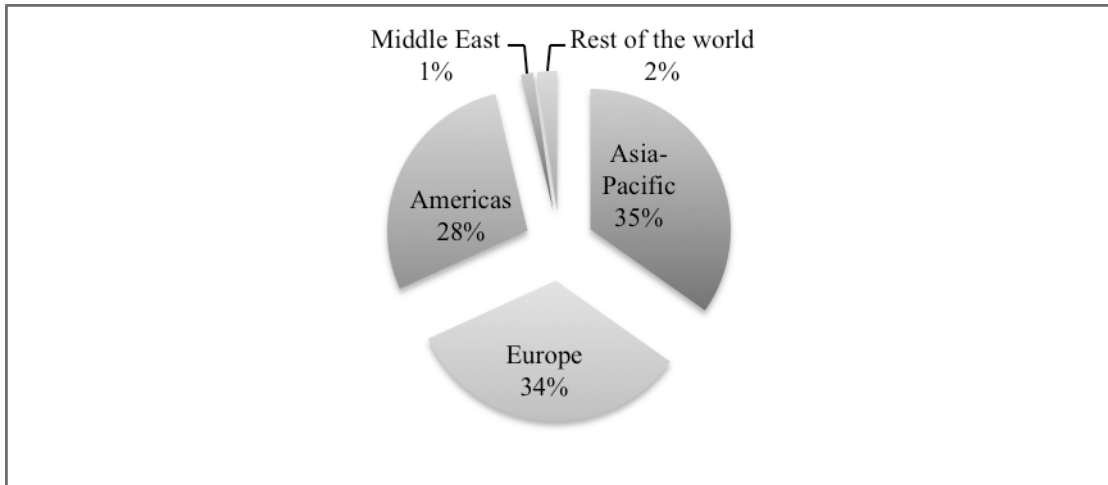
Source: Global Food Retail. (2015). Food Retail Industry Profile: Global, 1-34

EXHIBIT 9 - Global food retail industry geography segments: € billion, 2014

Geography	2014	%
Asia-Pacific	1,938.4	34.8
Europe	1,858.4	33.4
Americas	1,563.8	28.1
Middle East	78.0	1.4
Rest of the world	125.6	2.3
Total	5,564.2	100%

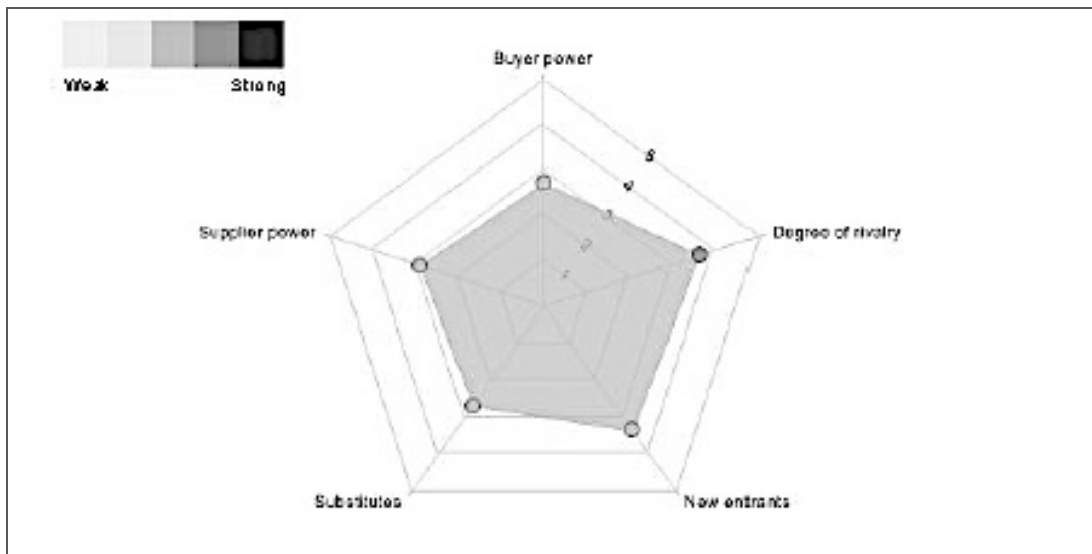
Source: Global Food Retail. (2015). Food Retail Industry Profile: Global, 1-34

EXHIBIT 10 - Global food retail industry geography segmentation: % share, by value, 2014



Source: Global Food Retail. (2015). Food Retail Industry Profile: Global, 1–34

EXHIBIT 11 - Forces driving competition in the global food retail industry, 2013



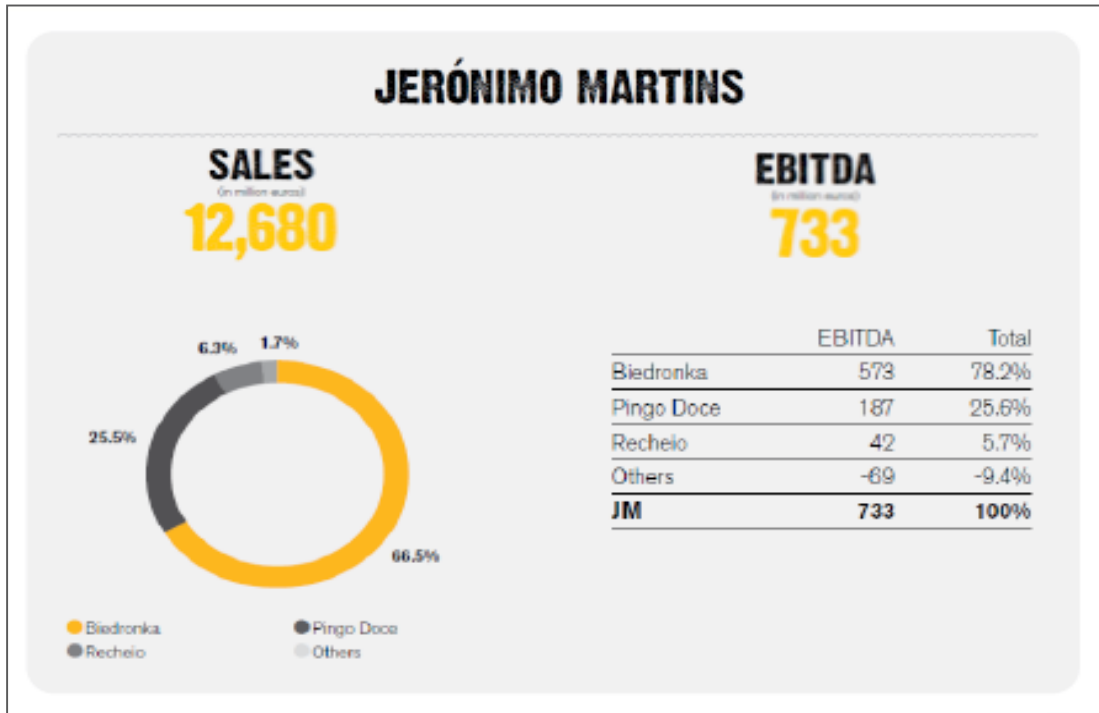
Source: Global Food Retail. (2015). Food Retail Industry Profile: Global, 1–34

EXHIBIT 12 - Information database for the case study report

Nature of the evidence	Type of source	Data of the evidence	Brief description
Interviews	Mr Nuno Abrantes (JM's member of the Management Board, Director of Strategy and International Expansion)	November 4 th 2015 & November 20 th 2015	Two interviews about the internationalization process of JM to Poland and to Colombia.
	Mr Jorge Correia (Partner of GEO Ground Engineering Operations)	December 3 th 2015 December 12 th 2015	Two interviews about the concept of LR.
	Mrs Sandra Brito Pereira (Head of Global Learning of JM)	November 25 th 2015 December 11 th 2015	Two interviews about the LR core capability process design in JM.
Archival Records	<i>Jerónimo Martins's Annual Report</i>	2011, 2013, 2014	Available on paper (2011 and 2013) and online (2014).
	<i>The world of Jerónimo Martins 2014</i>	2014	Detailed resume about the strategic vision along the period of 2014 (available on paper).
Internal Documentation	<i>Biedronka: Strong Leadership</i>	2010	Biedronka values and description (available on paper)
	<i>JM's Corporate Presentations</i>	April 2010 – December 2015	Eight internal presentations with the overview of the strategy and process during the times (available on paper).
	<i>Ara: Strategic Management Program</i>	2014, 2015	Two internal presentations defining the strategy, risk and future observations (available on paper).
External Documentation	Corporate Websites (Company)	2015, 2016	Access to JM websites to gather information and historical data.
Direct Observation	Visit to Colombia and Ara's Supermarkets	January 2016	Three weeks in Colombia and two visits to Ara's Supermarkets in Cartagena.

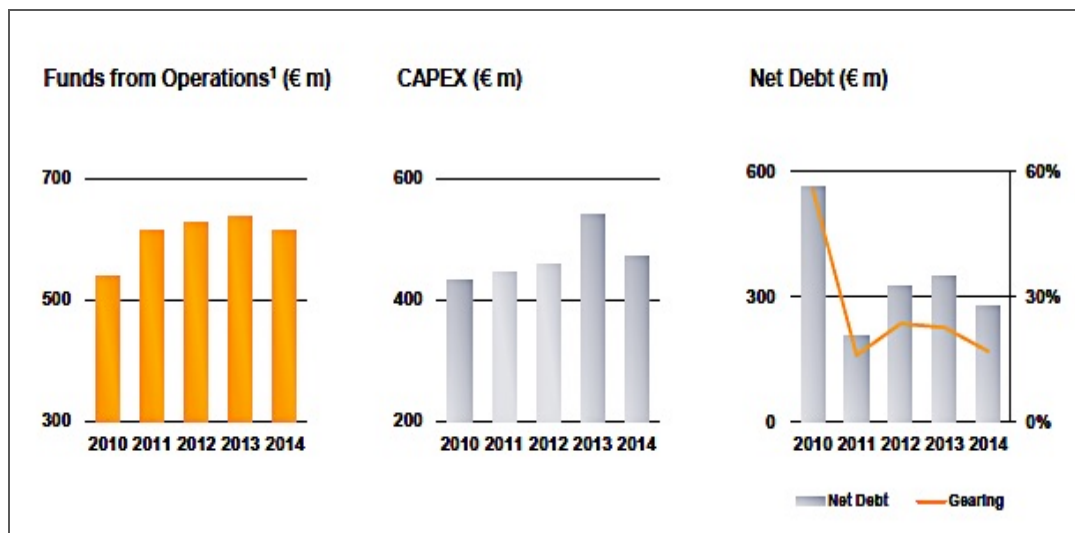
Source: Document produced by the author

EXHIBIT 13 - Jerónimo Martins Group Sales 2014



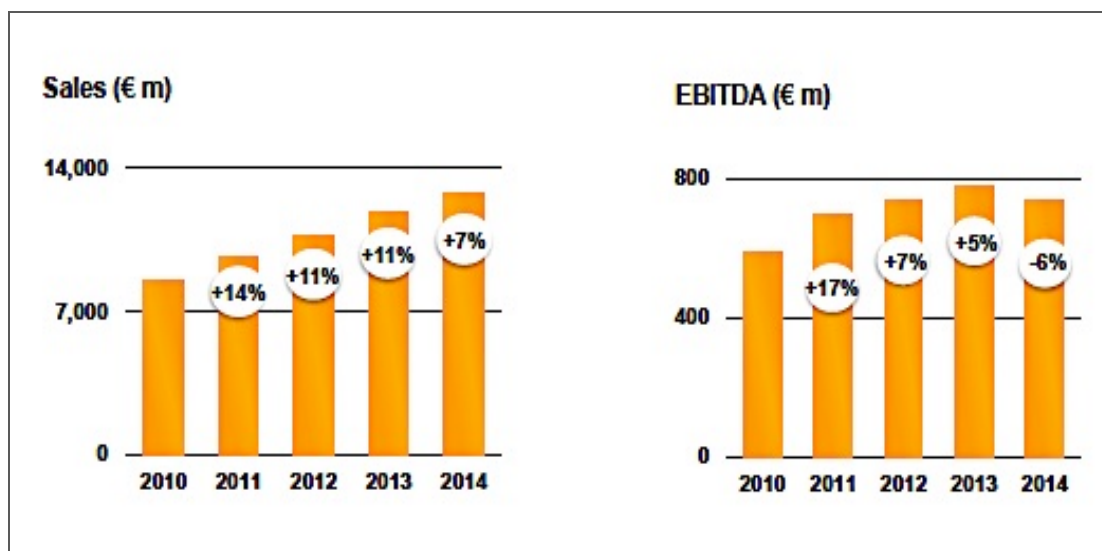
Source: Jerónimo Martins 2014 Annual Report, 13

EXHIBIT 14 - Funds from Operations, CAPEX, Net Debt in 2014



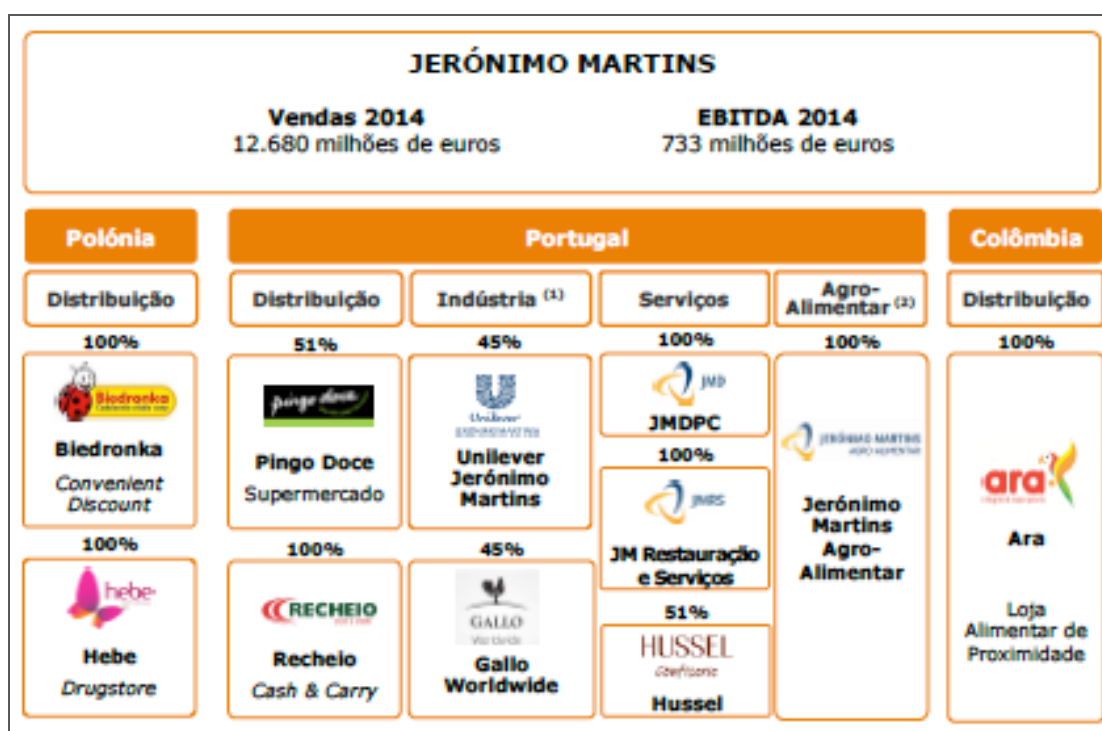
Source: Jerónimo Martins 2014 Annual Report

EXHIBIT 15 - Jerónimo Martins Group Sales and EBITDA



Source: Jerónimo Martins 2014 Annual Report

EXHIBIT 16 - Jerónimo Martins Country Information 2014



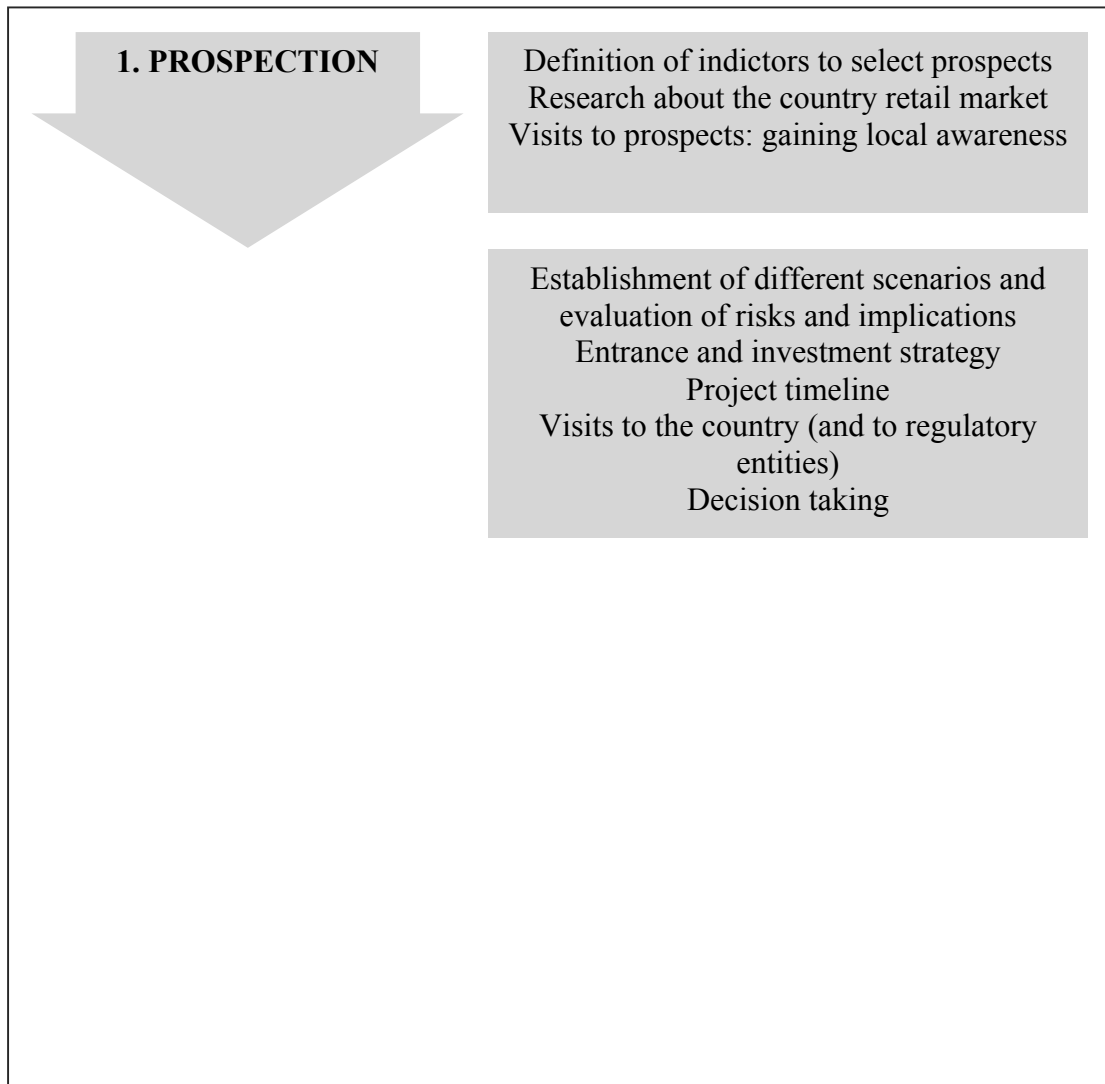
Source: Jerónimo Martins 2014 Annual Report

EXHIBIT 17 – Factors of LR addressed on *Ara* Supermarkets

Factor	Main Stakeholders	Macro Contents	Micro Contents
Difference in customer needs	Clients	Consumer behaviour and market trends	Store layout and buying experience; assortment; pricing strategy; communication and multichannel strategy;
Market Structure	Employees	Employee Engagement	Local recruitment versus expatriate; Skills; Motivators; Workload; Learning and training
Availability of substitutes	Competition	Dynamics of competition	Modern and traditional retailing; Pricing strategy; Positioning and differentiation strategy
Differences in distribution channels	Suppliers	Production process and supply chain	Production process / vertical integration; Efficiency in the supply chain; Competitiveness
Local regulations	Regulatory and Local entities	Local networking	Political networks (and bureaucracy); Investment and funding; Social responsibility (local development)

Source: Document produced by the author

EXHIBIT 18 - Steps for Internationalization in Colombia



Source: Document produced by the author

EXHIBIT 19 - Yadong Luo's determinants for LR

DETERMINANTS	FACTORS	IMPACT (on the subsidiary's LR)
Organizational (Firm-specific)	Market orientation (local market)	<i>Positively</i>
	Previous experience	<i>Positively</i>
	Established network	<i>Positively</i>
Environmental	Environment complexity	<i>Positively</i>
	Business practice specificity	<i>Positively</i>
	Cultural distance	<i>Negatively</i>
Structural	Competition intensity	<i>Positively</i>
	Demand heterogeneity	<i>Positively</i>
	Component localization	<i>Positively</i>

Source: Document produced by the author

EXHIBIT 20 - Organizational determinant addressed in Colombia (Luo, 2001)

ORGANIZATIONAL DETERMINANT		
FACTORS	CHARACTERISTICS	IMPACT (on the subsidiary's LR)
Market Orientation	Local Market Fully owned subsidiary	Have more interactions with the local business community and host government authorities, which demands more LR.
Previous Experience	Only in Polish market	Subsidiary with more experience is more likely commit resources, knowledge, and investment to local operations.
Established Network	Same supply chain approach for national providers	Establishment ties with local managers stimulate local responsiveness because the firm can benefit from preferential treatment by the government.

Source: Document produced by the author

EXHIBIT 21 - Environmental determinant addressed in Colombia (Luo, 2001)

ENVIRONMENTAL DETERMINANT		
FACTORS	CHARACTERISTICS	IMPACT (on the subsidiary's LR)
Environmental complexity	Low level of government involvement in the food retail industry. Low level of uncertainty and risk.	Without complexity, JM has more control and high adaptability. LR stimulates a subsidiary's dynamic learning capability.
Business practise specificity	There were made several studies about the current market and the future trend of the retail food industry.	This learning heightens JM's dynamic capability and using this knowledge LR will lead to operational stabilities in a dynamic setting.
Cultural distance	The difference in managerial values, mind-sets and norms were addressed by JM and comply all local commercial standards in <i>Ara's</i> perspectives	Portugal investor's cultural distance from Colombia should be along with the understanding of local cultural. Therefore, the lower the cultural distance, the lower the need for LR

Source: Document produced by the author

EXHIBIT 22 – Structural determinant addressed in Colombia (Luo, 2001)

STRUCTURAL DETERMINANT		
FACTORS	CHARACTERISTICS	IMPACT (on the subsidiary's LR)
Competition intensity	Constituted by traditional retail and national retail chains and by less developed companies.	Low level of competition in Colombia, the level of LR was only to ensure the necessary market power, competitive advantage and corporate image.
Demand heterogeneity	Colombia has an heterogeneous market demand across the geography	When heterogeneity increases, it is more difficult to efficiently monitor operations and thus LR must be higher.
Component localization	Colombia has an efficient judicial system and a well-developed court structure, with some corruption issues at low-level courts and also with equal legal treatment given to national and foreign companies	A localization policy by the government does not affect the business approach in <i>Ara</i> .

Source: Document produced by the author

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