

CRANFIELD UNIVERSITY

MARIA ANDREA DE VILLA

DEVELOPING ADAPTIVE POLITICAL CAPABILITIES FOR HIGH
POLITICAL UNCERTAINTY CONTEXTS: A STUDY OF STRATEGIC
RESPONSES IN THE INTERNATIONAL OPERATIONS OF FOOD
FIRMS IN LATIN AMERICA

SCHOOL OF MANAGEMENT

PhD THESIS

Academic Year: 2013 -2014

Supervisors: Tazeeb Rajwani and Thomas Lawton
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ABSTRACT

The corporate political activity field has focused on the study of political capabilities that allow firms to influence governments and regulators. Building on previous studies, this thesis examines a set of capabilities that allow host firms to adapt to rather than influence political environments. Specifically, this set of adaptive political capabilities can be used by firms to confront host country political contexts in emerging economies that share two characteristics: authoritarian regimes and weak institutions. The findings of this thesis show that host firms can develop and use adaptive political capabilities rather than political capabilities to start and sustain their operations in this type of political contexts. This entails attuning firm processes, structures, and practices to local norms and political behaviors, rather than attempting to shape the host country political environment in its own likeness. Our results suggest host firms can develop adaptive political capabilities to enhance their strategic repertoire when starting or sustaining operations in emerging economies with such characteristics. Our contribution is that by using mixed methods, we provide and test several exploratory propositions that support the conceptualization of a framework to guide the development of adaptive political capabilities by host firms and we make explicit a taxonomy of corporate adaptive political strategies that can enable firms to envision how they can adapt to host political contexts.

Keywords:

non-market strategy, resource-based view, dynamic capabilities, political capabilities, corporate political activities, political strategies, internationalization, food industry

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LIST OF ABBREVIATIONS

ADIPRONIC	Association of Distributors of Mass Consumption Products in Nicaragua
CADA	Retail chain in Venezuela that belonged to the Casino Group
CADIVI	Commission of Foreign Currency Administration in Venezuela
CAN	Andean Community of Nations
CEO	Chief Executive Officer
CPA	Corporate Political Activity
COMEXI	International Commerce and Investment Council in Ecuador
COP	Colombian Pesos
DANE	National Administrative Department of Statistics in Colombia
ECS	Ecuadorian Sucres
ELN	National Liberation Army of Colombia
FAO	Food and Agriculture Organization of the United Nations
FARC	Armed Revolutionary Forces of Colombia
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
IMF	International Monetary Fund
IR	Interquartile Range
ISD	Tax to Currency Exit in Ecuador
IT	Information Technology
OAS	Organization of American States
PROEXPORT	Entity that promotes international tourism, foreign investment, and non-traditional exports in Colombia
RBV	Resource-based view
R&D	Research and Development
SD	Standard Deviation
SITME	System of Transactions of Foreign Exchange Titles in Venezuela
SMJ	Strategic Management Journal
UN	United Nations
UNASUR	Union of the Nations of the South
US	United States
USD	United States Dollars
VP	Vice President

1 INTRODUCTION

1.1 Prologue

Within strategic management, dynamic capabilities research is a rapidly expanding area of theory that has emerged from the resource-based view to explain the competitive advantage of firms (Blyer and Coff, 2003; Eisenhardt and Martin, 2000; Helfat and Peteraf, 2003; Helfat and Raubitschek, 2000; Teece, Pisano, and Shuen, 1997; Zott, 2003). Dynamic capabilities refer to the ability of firms to integrate, build, and reconfigure resources to create or sustain competitive advantage in rapidly changing environments (Teece *et al.*, 1997). Empirical research on dynamic capabilities has focused on the study of specific firm capabilities suggesting that there is not an all-purpose dynamic capability that can provide firms with competitive advantage in all contexts (Ethiraj *et al.*, 2005). Among some of the specific capabilities that have been studied are: project management capabilities, client-specific capabilities (Ethiraj *et al.*, 2005), pricing capabilities (Dutta, Zbaracki, and Bergen, 2003), and product development capabilities (Salvato, 2009). Whilst these and many other capabilities have focused on how firms can create or sustain competitive advantage in the market environment (Barney, 1991; Baron, 1995; Helfat and Peteraf, 2003; Wernerfelt, 1984), more recently the non-market environment has received increasing attention by the study of capabilities that address this context (Doh, Lawton, and Rajwani, 2012). Among some of the most studied capabilities within the non-market environment are: “political capabilities” that enable firms to assess policy risk and manage the policy making process (Holburn and Zelner, 2010) and “lobbying capabilities” that enable firms to influence the political environment (Lawton and Rajwani, 2011; Lawton, Rajwani, and Doh, 2013).¹

The study of political capabilities is of particular interest to the corporate political context in the non-market environment (Baysinger, 1984; Hillman, Keim, and Schuler, 2004). Within the corporate political context, governments have long been

¹ Despite political capabilities and lobbying capabilities have been both used to refer to capabilities that aim to manage or influence the political environment, we found that political capabilities have been more commonly used and even thought of as encapsulating lobbying capabilities. In other words, lobbying capabilities have been conceptualized as a subset of political capabilities. Consequently, we will refer to political capabilities throughout our inquiry.

viewed as sources of uncertainty for firms since they exert control over critical resources that shape firms' competitive environments, especially when firms enter new markets (Boddeyn, 1988; Jacobson, Lenway, and Ring, 1993; Hillman and Hitt, 1999). Over time, the political context has become increasingly relevant for firms as their competitive landscape has changed to progressively involve more challenges arising from political affairs, many of them related to growing internationalization efforts (Bettis and Hitt, 1995; Hitt, Keats, and DeMarie, 1998; Lawton, McGuire, and Rajwani, 2013). Through their political capabilities, firms have traditionally used corporate political activities, in an attempt to shape government policy in ways favorable to their shareholders (Baysinger, 1984; Hillman *et al.*, 2004).

Despite the growing number of studies about political capabilities, there is still a call for "research into firm resources and capabilities that aid political activities" (Hillman *et al.*, 2004: 851) since "resources and capabilities are one of the three dominant research areas that need further exploration in CPA" (Lawton *et al.*, 2013: 13). Our criticism to current resources and capabilities studies in CPA, is that they have focused on the study of capabilities that can only enable firms to *influence* political environments, not paying attention to other capabilities that can enable firms to respond differently to political affairs. The underlying assumption of the many studies of political capabilities is that influencing political affairs is the only strategic response for firms to all political contexts.

However, the acceleration of firms' internationalization processes has confronted firms with different political contexts (i.e. different degrees of institutional and regulatory interference), which condition and impact firms' activities (Brouthers, Brouthers, and Werner, 2008). We argue that the particular characteristics of these different political contexts have set a challenge for firms to develop diverse capabilities that can enable them with a repertoire of strategic responses to be more competitive in a variety of political contexts. Therefore, the competitiveness of firms' international operations should not only rely on their development of political capabilities to influence governments in all host markets. Firms also deal with host markets where influencing governments through information exchange or political contributions are not the only or most adequate responses. Therefore, our study will aim to meet these

shortfalls by addressing the development of a set of capabilities by firms that will enable them to deal with host political contexts having particular characteristics where influencing political affairs through political capabilities is not the only or most adequate strategic response. We found that through the development of this different set of capabilities, firms can adapt to political challenges by using their experience and knowledge to integrate, build, and reconfigure their resources to create or sustain their competitive advantage.

1.2 Research rationale

Our interest in the study of a set of capabilities that enables firms to adapt to political contexts stemmed from the acceleration of firms' internationalization processes, especially in Latin America (Brenes and Carneiro, 2013; Casanova, 2009). Specifically, studies have shown how political uncertainties in emerging markets have significantly affected the operations of international firms (Henisz and Zelner, 2010). Simultaneously, through a series of exploratory interviews we observed top executives claimed that emerging markets have become strategic markets for their firms which they cannot simply decide to exit in the face of high political uncertainty. Furthermore, many described these host markets as sharing the characteristics of having authoritarian regimes and weak institutions. As these top executives argued that rather than attempting to influence these emerging markets' governments, their firms needed to deal with and adapt to their political challenges to sustain their international operations, we identified this challenge as not being extensively investigated in the corporate political activity field. However, we found this research problem resonates with Lawton, McGuire, and Rajwani's (2013) claim that "an up-and-coming challenge for corporate political activity (CPA) scholars is to understand non-market activity in emerging economies" (p. 14).

To address this problem we reviewed the existing literature domains of internationalization, uncertainty, the resource-based view (RBV), dynamic capabilities, and corporate political activity. Our review indicated that while the corporate political activity field has concentrated on the study of how firms influence political contexts, little research has directed towards the study of other different strategic responses firms use to deal with their political contexts. We found that firms can deal with high

political uncertainty contexts in host markets characterized by authoritarian regimes and weak institutions through flexible responses (i.e. by modifying firms' organizational structures and processes to comply with the law) which allow them to adapt to political challenges. We argue these flexible responses can be enabled by firms' adaptive political capabilities (later on defined in section 1.3). Therefore, the challenge of our research focused on further exploring the question of "how" and "why" does a firm develop adaptive political capabilities to confront high political uncertainty contexts in emerging economies during its internationalization processes. We believe that the better the knowledge gained regarding the way firms deal with their political contexts, the more enhanced will be our understanding of how firms can manage to operate in politically challenging markets.

1.3 Definition of adaptive political capabilities

The term "adaptive political capabilities" is derived from the term "adaptive capabilities" that has been used to address the market environment and less so the non-market environment. In the market environment, adaptive capabilities have been defined as the ability of a firm to enable product adaptation to market demands. For example, Cavusgil and others (1993) referred to adaptive capabilities as the ability of a firm to adapt its product upon and after market entry and to adapt its promotion approach, packaging/labeling or product positioning. While, Oktemgil and Greenley (1997) referred to adaptive capabilities as the ability of a firm to respond to product-market opportunities, conduct marketing activities for responding to these opportunities, and speedily responding to pursue these opportunities. More recently, Lu and others (2010) defined adaptive capabilities as the ability of a firm to coordinate, recombine, and allocate resources to meet the different requirements of foreign markets. They operationalized adaptive capabilities by measuring a firm's ability to meet the requirements of foreign customer demands in terms of product and service specifications, ability to tailor products/services according to foreign customer requests, and ability to respond quickly to the demand for a product price change from a foreign customer.

While "adaptive capabilities" are used by firms to address the market environment, we find from our data that "adaptive political capabilities" are used by

firms to address the non-market environment through non-market strategy to start and sustain their international operations in the high political contexts of some emerging markets.

Therefore, building on the work in market strategy by Cavusgil and others (1993), Oktemgil and Greenley (1997), and Lu and others (2010); and on the work in the strategic management field by Zollo and Winter (2002), Gibson and Birkinshaw (2004), and March (1991) (discussed in more detail in Chapter 3), we view adaptive political capabilities as a specific set of capabilities that can allow the adaptation of a firm to host political contexts to start and sustain its operations despite high political uncertainty. Consequently, we define adaptive political capabilities as:

A firm's ability to collectively, systematically, and simultaneously accumulate experience and articulate and codify knowledge from political uncertainties confronted in host markets, to enable through a learned pattern the reconfiguration of resources and processes to adapt to political uncertainties.²

1.4 Setting

Most non-market strategy research has tended to concentrate on multinationals operating in richly institutionalized markets such as the United States (McGuire, Lindeque, and Suder, 2012). In contrast, our research is set in highly uncertain political contexts characterized by authoritarian regimes and weak institutions. These contexts have become strategic markets for firms which they cannot simply decide to exit in the face of political uncertainty. They are mainly found in emerging economies throughout the world such as those in Africa, the Middle East, and Latin America.

Among these various emergent regions around the world, we selected Latin America to set the scene for our research. This region has been categorized as the second most important emergent region in the world after Southeast Asia, with an aggregated gross domestic product (GDP) roughly that of China's and three times larger than India's (World Bank, 2008). More important, Latin America has presented interesting political changes during the last 50 years. It has become polarized insofar as

² More details of the conceptualization of adaptive political capabilities can be found in Chapter 3.

some countries are clearly democratic whereas others have long-lived populist and dictatorial practices (Brenes and Carneiro, 2013). The region has also been characterized by a weak institutional context where the “rules of the game” are frequently changed arbitrarily by governments. According to Transparency International (2009), Latin American countries have among the lowest levels of trust in the judiciary, and many countries lack effective enforcement of the rule of law. Additionally, firms in Latin America have had to cope over decades with guerrilla, war, infrastructure limitations, and corruption. These conditions have forced firms in this region to learn how to operate in a highly volatile environment with hostile characteristics. Therefore, given the environmental conditions that firms have regularly faced in Latin America, it is interesting to examine how firms in that region cope with political uncertainty. Paradoxically, although much can be learned from Latin America, we found scarce research had addressed this region. From 1963–2009, only 206 articles in 17 academic management journals were found to discuss Latin America (Nicholls-Nixon *et al.*, 2011). Moreover, Latin American researchers publish little (Pérez-Batres, Pisani, and Doh, 2010).

Within Latin America, we selected Venezuela, Ecuador, and Nicaragua as the host political contexts to conduct our research, since these countries have suffered the highest political uncertainty in the region over the last decade (IHS Global Insight, 2012) and have been characterized by authoritarian regimes and weak institutions (Vassolo, De Castro, and Gomez-Mejia, 2011). Although Cuba and Haiti have also been categorized with the highest political uncertainty in Latin America, we excluded them from our research due to their limited international commercial relations and FDI.

That said, our research focused on firms from the processed food industry since this industry was impacted by extreme political uncertainties in the three countries of our study during our research timeframe (1999 to 2011). According to our data, the processed food industry faced the imposition of quotas and safeguards, delays in required registrations, logistic obstacles, policy changes, and price controls stemming from political decisions. Additionally, we found no empirical study investigating capabilities in the processed food industry within the strategic management arena. (Our research setting is discussed in more detail in Chapter 2).

1.5 Importance of this research

Our research interest was chosen based on the paucity of studies that examine the resource based-view in relation to corporate politics (Getz, 2002; Hillman *et al.*, 2004). In particular, it was surprising to have found that among these studies most describe ways in which firms can influence political environments using information exchange, political networking or political contributions (Aplin and Hegarty, 1980; Baysinger, 1984; Boddewyn and Brewer, 1994; Bonardi, Hillman, and Keim, 2005; Hillman, 2003; Hillman and Hitt, 1999; Hillman *et al.*, 2004), but few scholars examine political behaviors to manage political environments such as firms' adaption of their structures and processes to comply with the law. The growing internationalization of firms has confronted them with the challenge of sustaining operations in emerging economies with authoritarian regimes and weak institutions in their need to find markets where their participation and sales can grow. Given that this is an inescapable reality for many firms and a pending assignment for academic research, we believe it is important for corporate political activity research to develop further understanding about "how" and "why" firms decide to adapt instead of influencing political issues in their host markets. This broader understanding can extend our knowledge about the strategic repertoire available to firms to deal with the non-market environment, specifically the corporate political contexts of their diverse host markets. It will also allow a better understanding of the foundations and themes that play a role in the development of adaptive political capabilities and their interactions to create competitive benefits.

1.6 Research contributions

The contributions to knowledge of this thesis are set within the strategic management field, specifically dynamic capabilities research emerging from the resource based-view theory, and the corporate political activity field. The first of our theoretical contributions is the conceptualization of adaptive political capabilities as a set of capabilities that can allow firms to adapt to high political uncertainty contexts in host markets. Political capabilities have been amply discussed as capabilities that enable firms to influence their political environment (Holburn and Zelner, 2010; Lawton and Rajwani, 2011). However, by for example adapting their structures and

processes to comply with the law, many firms are being able to manage their political contexts. Therefore, our central contribution lies in the conceptualization of a set of capabilities that enable firms to adapt to their uncertain political environments.

Our second contribution is achieved through our first study - a case study. Its empirical findings allowed us to contribute to reactive corporate political activity research within the corporate political activity field, by suggesting a taxonomy of corporate adaptive political strategies that explains what strategies firms can use to adapt to political contexts.

Our third contribution to knowledge is broadening our understanding of how and why adaptive political capabilities develop by uncovering their foundations and the resources involved in their development process. We suggest, test, and discuss several exploratory propositions that support a framework to guide their development by firms to sustain their operations in foreign high political uncertainty contexts.

Additionally to these theoretical contributions, our research also produced two contextual contributions related to the setting where it was conducted and a modest methodological contribution. We do not anticipate these contextual and methodological contributions in this introduction but leave them to be discovered in Chapter 9: Conclusion, in section 9.1.: Contributions to knowledge.

1.7 Methodology

Our inquiry followed a hybrid or mixed methods and sequential contributions (qualitative to quantitative) research design that involved first the collection of qualitative data that was analyzed qualitatively during study 1, and subsequently the collection of quantitative data that was analyzed quantitatively during study 2 (Morgan, 2014; Saunders, Lewis, and Thornhill, 2009). Our research integrated a qualitative method as the core method, and a follow-up supplementary quantitative method to contribute additional strengths to enhance the effectiveness of the core method (Morgan, 2014). The goal of this sequential contributions design was to use the different strengths of different methods for different purposes with one method contributing to the other in a pre-planned fashion. This research design had the objective of first understanding an unexplored phenomenon through qualitative methods, and secondly,

understanding the broader applicability of small-sample qualitative findings through quantitative methods (Huff, 2009). The qualitative method used as the core method was the case study method and the follow-up supplementary quantitative method was a survey. Easterby-Smith, Thorpe, and Jackson (2012) have described this type of research design as compensatory since it combines qualitative and quantitative studies to make up for the weaknesses of the other.

Despite an increasing number of published empirical articles using hybrid or mixed methods, our research design was not the result of a methodological fad but a question of methodological fit (Edmondson and McManus, 2007). To achieve methodological fit, the research questions, design, and contribution of any inquiry in any field should be influenced by the stage of development of the current literature at the time of the inquiry. The state of prior research on dynamic capabilities within the resource-based view and corporate political activity research was found to be at an intermediate theoretical developmental stage at the time of our inquiry. This state signifies that these streams of research generally present provisional explanations of phenomena, often introducing a new construct and proposing relationships between it and established constructs. In some cases, research questions even allow the development of testable propositions. This intermediate state of prior research on dynamic capabilities and corporate political activity, offered the possibility of a new study to simultaneously allow openness to new or unexplored insights from qualitative data and to test several propositions (Edmondson and McManus, 2007). Consequently, the research design of our inquiry addressed an unexplored phenomenon through qualitative data to develop several exploratory propositions that were subsequently tested through a quantitative approach. The value of our design lies in that, despite the overall intermediate state of prior research, many of the studies on specific dynamic capabilities conclude by drawing findings or propositions from a single case such as Salvato (2009) and Ethiraj and others (2005), while our research design aimed to further address through a second study the extent of generalizability of our exploratory propositions - at least within their specific context. In this sense, we believe mixed methods allowed us to advance from one stage to another in the development of knowledge about our phenomenon of interest.

1.8 Structure of thesis

This thesis is structured chronologically and systematically in nine chapters. Chapter 1: Introduction, Chapter 2: Setting the Scene, Chapter 3: Theoretical Positioning, Chapter 4: Methodology, Chapter 5: Results of Study 1 Case Study, Chapter 6: Discussion of Study 1 Case Study, Chapter 7: Results of Study 2 Survey, Chapter 8: Discussion of Study 2 Survey, and Chapter 9: Conclusion.

Chapter 2: Setting the Scene, explains that our research interest focuses on political contexts that are highly uncertain and characterized by authoritarian regimes and weak institutions. We exposit in which region and economies we found these political contexts and explicate what industry we chose for the purpose of our research.

Chapter 3: Theoretical Positioning, discusses through a systematic review (Tranfield, Denyer, and Smart, 2003) the literature domains of internationalization, uncertainty, the resource-based view (RBV), dynamic capabilities, and corporate political activity (CPA), which shed light on our phenomenon of interest.

Chapter 4: Methodology, explains the research problem that we investigated, the research questions we used to address such problem, and the research design and approach we followed throughout our inquiry. Our research design involved two sequential field studies. Therefore, this methodology chapter is divided into two main sections: study one case study and study two survey.

Chapter 5: Results of Study 1 Case Study, presents our empirical findings about “how” and “why” a Latin American processed food firm developed adaptive political capabilities to confront high political uncertainty contexts in the emerging economies of Venezuela, Ecuador, and Nicaragua (1999–2011). Our analysis uncovers the foundations and themes that played a role in the development of adaptive political capabilities and their interactions to create competitive benefits.

Chapter 6: Discussion of Study 1 Case Study, discusses how the empirical findings in chapter 5 relate to the theoretical foundations examined previously in chapter 3. We develop a taxonomy of corporate adaptive political strategies that makes explicit the flexible responses that were used by the firm through its adaptive political capabilities to adapt to the political contexts of Venezuela, Ecuador, and Nicaragua. We

also suggest some exploratory propositions that support the conceptualization of a framework to guide the development of adaptive political capabilities by firms.

Chapter 7: Results of Study 2 Survey, presents the results of a survey that was administered to other processed food firms that had operations in Venezuela, Ecuador or Nicaragua between 1999-2011. The objective of this study was to test the generalizability of the exploratory propositions resulting from our first study.

Chapter 8: Discussion of Study 2 Survey, discusses the relation between the empirical findings of our survey and the generalizability of the exploratory propositions resulting from our first study.

Chapter 9: Conclusion, explains the contributions to knowledge of our inquiry and their implications for practice. We also explicate the generalizability of our results and the limitations of our research. We conclude by highlighting future research avenues.

1.9 Concluding remarks

Adaptive political capabilities allow firms to adapt to the political contexts they encounter in their host markets during their internationalization processes. However, the strategic management and corporate political activity fields have dedicated scarce efforts to understanding how and why firms develop these capabilities to adapt to instead of influencing some of their host political contexts. Therefore, the main objective of our research is to examine “how” and “why” a firm developed adaptive political capabilities to sustain its operations in host political markets and to explore to what extent the findings of this case study are generalizable.

In the next chapter we start the presentation of our research by explaining the setting of the scene where it was conducted.

2 SETTING THE SCENE

This chapter sets the scene for our research. We explain that our research interest focuses on political contexts that are highly uncertain and characterized by authoritarian regimes and weak institutions. We exposit in which region and economies we found these political contexts and explicate what industry we chose for the purpose of our research.

2.1 Political contexts, authoritarian regimes, and weak institutions

Firms have traditionally based their internationalization strategies on different antecedents and moderators that have frequently excluded the analysis of the political contexts of their host markets (Delios and Henisz, 2003; Henisz and Zelner, 2010; Holburn and Zelner, 2010; Kobrin *et al.*, 1980; Ring, Lenway, and Govekar, 1990). Paradoxically, since 1969 the political context was identified by Fayerweather (1969), Boddewyn (1988), and Hillman and Hitt (1999) as an important factor in internationalization strategies, whilst firms underestimated its potential impact on foreign operations.

Particularly, recent political uncertainties in emerging economies have proven to dramatically affect firms with operations in these markets and have consequently increased firms' awareness of political contexts. Moreover, many of the markets where these recent political uncertainties have developed have been characterized by diverse firms as their natural, most profitable or largest strategic markets; obligating firms to assess and confront these markets' political uncertainties. As a CEO who participated in our investigation claimed:

We have experienced the effects of political events which have threatened the sustainability of our operations in natural markets such as Venezuela and Ecuador. In the face of these events, we cannot just simply decide to exit these

traditional markets; instead we are forced to come up with strategies to maintain our operations through difficult times. [I001]³

Furthermore, firms have described the markets where these political uncertainties have developed as sharing the characteristics of having authoritarian regimes and weak institutions. As two VPs involved in our research highlighted:

We need to study these markets with caution because they have various characteristics in common: authoritarian polarization and fast changing policies which affect businesses. [I003]

The institutional frameworks of these types of countries are not very solid and the firm needs to find ways to protect it-self as much as possible. [I004]

In these markets firms sense that trying to exert influence over their governments or negotiating the “rules of the game” is not a very good strategy. They find that the lack of strong institutions and the orientations of these governments are conditions which they must somehow deal with rather than try to change. As a CEO explained:

Consciously we decided that we should avoid lobbying because of several reasons. One aspect we discussed at that time was that lobbying in these contexts would take us to scenes where we would be asked to incur in acts of corruption. Another aspect was that lobbying could make us “more visible” and visibility would increase our chances of suffering hostile measures of different nature. [I001]

If this is the scene that firms are confronting in many of their strategic markets, then further research in strategic management and corporate political activity should address themes that can improve firms’ competitive positions in political contexts of high uncertainty characterized by authoritarian regimes and weak institutions.

³ This code indicates the interviewee that is quoted. A list of the code references of interviewees can be found in Appendix 2.

Therefore, to start our inquiry we ask: what are authoritarian regimes and weak institutions?

Authoritarian regimes permit competitive elections, yet manipulate the process to ensure their political survival. As a result they become “hybrid regimes” (Karl, 1995), which combine democratic procedures with autocratic practices. This type of regimes has emerged as the most widespread political system in the world at the beginning of the twenty-first century (Howard and Roessler, 2006). A growing body of literature has recognized the prevalence of hybrid regimes, with scholars using new descriptive labels, such as “competitive authoritarianism” (Levitsky and Way, 2002), “electoral authoritarianism” (Diamond, 2002; Schedler, 2002), and “semi-authoritarianism” (Ottaway, 2003), to conceptualize and study them. Not only are these regimes viewed as neither completely authoritarian nor democratic, they are most likely not “in transition” from one to the other (Carothers, 2002). Rather, they constitute a “gray zone” (Carothers, 2002: 9) or a “foggy zone” (Schedler, 2002: 37).

Regarding weak institutions, according to Meyer and others (2009) these are institutions that fail to ensure effective markets or even undermine markets (as in the case of corrupt business practices). Conversely, strong institutions are those that support the voluntary exchange underpinning an effective market mechanism. Where institutions are strong in developed economies, their role, though critical, may be almost invisible. In contrast, when markets malfunction, as in some emerging economies, the absence of market-supporting institutions is conspicuous (MacMillan, 2007).

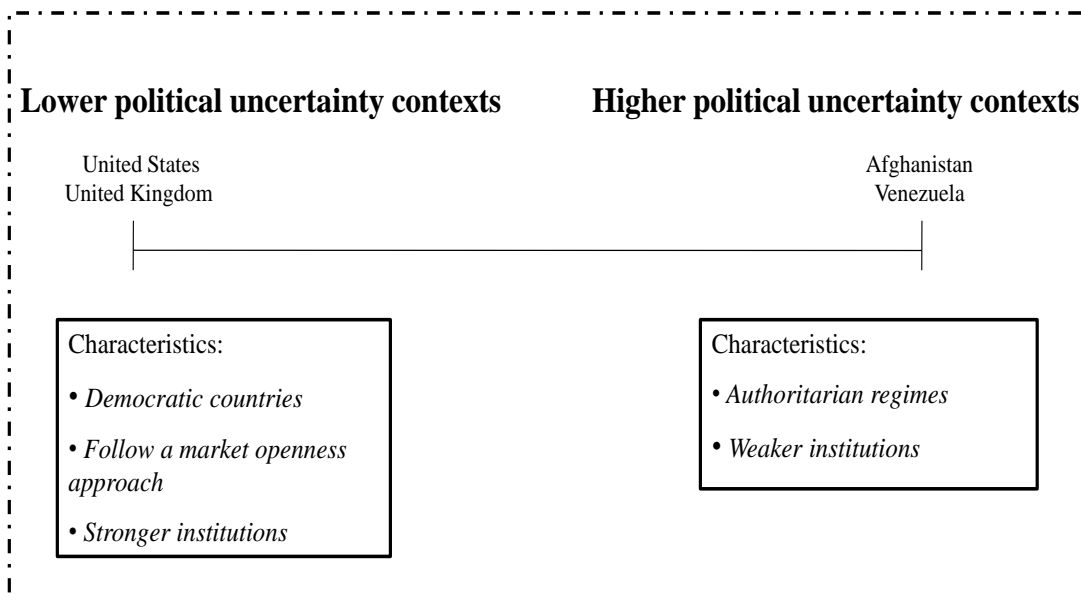
2.2 “Polar types” of political contexts

After defining authoritarian regimes and weak institutions, in our study of political contexts we found there are two different “polar types” (Pettigrew, 1992) that can be distinguished. A first type of political context is that characterized by relatively lower uncertainty. This political context is commonly found in democratic countries with strong institutions that follow a market openness approach. In a lower political uncertainty context, legal regulations are clear and systematically enforced opportunities may be provided by a stable business environment and legal protection for property and proprietary know-how (Brouthers *et al.*, 2008). In this type of context, political

uncertainty is generated by events such as the terrorist attacks in 9/11 in the United States or the European airlines industry deregulation in 1987. When events like these occur, firms traditionally react through lobbying because the political context sets an adequate institutional scene for lobbying to be an effective strategy (Lawton and Rajwani, 2011). Differently, a second type of political context is that characterized by relatively higher uncertainty. This higher political uncertainty context is commonly found in countries with authoritarian regimes and weak institutions. Through our research, we question if in higher political uncertainty contexts lobbying can be as an effective strategy to confront political uncertainties as in lower political uncertainty contexts.

From a global perspective, the United States and the United Kingdom are representative examples of the first type of lower political uncertainty contexts which are mainly found in democratic countries with strong institutions which follow a market openness approach. While, Afghanistan and Venezuela are representative examples of higher political uncertainty contexts, which are mainly found in countries with authoritarian regimes and weak institutions. Below, Figure 1 shows in a continuum the various “polar type” political contexts and their characteristics.

Figure 1: “Polar types” of political contexts from a global perspective



Source: Elaborated by author

2.3 Emerging economies

High political uncertainty is typically found in countries characterized by authoritarian regimes and weak institutions. Thus, this specific political context was chosen as the ideal scenario to set the scene for our research in order to explore our phenomenon (Pettigrew, 1992). Consequently, we will refer from now onwards and throughout our research to this type of contexts as *high political uncertainty contexts*, for the practicality of using a specific term, instead of otherwise, fully describing its characteristics when being referred to.

These contexts are mainly found in emerging economies throughout the world such as those in Africa, the Middle East, and Latin America. Emerging economies in general are characterized by weak institutional environments and fast changing regulatory and policy frameworks. In these countries, governments (and government policies) are critical sources of uncertainty for firms because of their ability to exert control over critical resources which shape a firm's competitive advantage (Hillman and Hitt, 1999; Shaffer, 1995). The term "emerging markets" (used interchangeably with emerging economies) was first coined by World Bank economist Antoine W. van Agtmael in 1981 in reference to nations undergoing rapid economic growth and industrialization (van Agtmael, 2007). In the Emerging Economy Report of 2008, the Center for Knowledge Societies defined emerging economies as those regions of the world which are experiencing rapid informalization under conditions of limited or partial industrialization.

We found the 2010 list of emerging economies published by the International Monetary Fund (IMF) to be by far the most extensive among all the lists created, by including a total of 150 countries. It encompasses countries such as China, India, and Russia, who could potentially become the three largest economies in the world, poorer nations such as Haiti, and war-torn countries such as Afghanistan and Iraq.⁴ Other lists

⁴ We are aware of the variation that exists among countries in listings of emerging economies such as the IMF 2010 listing. Among the countries in this listing, we can find newly industrialized countries that have more advanced economies than those in the developing world, but not yet with the full signs of a developed country, such as China, Mexico, and India. Countries with an inconsistent record of development such as Laos and countries with long-term civil war or large-scale breakdown of the rule of law or non-development-oriented dictatorships such as Afghanistan, Haiti, and Iraq.

of emergent economies are published by the FTSE Group, MSCI Barra, the Economist, and Standard and Poors. Within these emerging economies, there are certainly countries with authoritarian regimes and that have weak institutions - which set the high political uncertainty context of interest to our research.

Table 1: The IMF's 2010 list of countries characterized as "emerging economies"

Initials	Countries
A	Afghanistan, Albania, Algeria, Angola, Antigua and Barbuda, Argentina, Armenia, Azerbaijan
B	Bahamas, Bahrain, Bangladesh, Belarus, Belize, Benin, Bhutan, Bolivia, Botswana, Bosnia and Herzegovina, Brazil, Bulgaria, Burkina Faso, Burundi
C	Cameroon, Cape Verde, Central African Republic, Chad, Chile, China, Colombia, Comoros, Democratic Republic of the Congo, Republic of the Congo, Costa Rica, Côte d'Ivoire, Croatia
D	Djibouti, Dominica, Dominican Republic
E	Ecuador, Egypt, El Salvador, Equatorial Guinea, Eritrea, Estonia, Ethiopia
F	Fiji
G	Gabon, Gambia, Georgia, Ghana, Grenada, Guatemala, Guinea, Guinea-Bissau, Guyana
H	Haiti, Honduras, Hungary
I	Indonesia, India, Iran, Iraq
J	Jamaica, Jordan
K	Kazakhstan, Kenya, Kiribati, Kuwait, Kyrgyzstan
L	Laos, Latvia, Lebanon, Lesotho, Liberia, Libya, Lithuania
M	Macedonia, Madagascar, Malawi, Malaysia, Maldives, Mali, Marshall Islands, Mauritania, Mauritius, Mexico, Federated States of Micronesia, Moldova, Mongolia, Montenegro, Morocco, Mozambique, Myanmar
N	Namibia, Nauru, Nepal, Nicaragua, Niger, Nigeria
O	Oman
P	Palau, Panama, Papua New Guinea, Paraguay, Peru, Philippines, Poland
Q	Qatar
R	Romania, Russia, Rwanda
S	Saudi Arabia, Samoa, São Tomé and Príncipe, Senegal, Serbia, Seychelles, Sierra Leone, Solomon Islands, South Africa, Somalia, Sri Lanka, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Sudan, Suriname, Swaziland, Syria
T	Tajikistan, Tanzania, Thailand, Timor-Leste, Togo, Tonga, Trinidad and Tobago, Tunisia, Turkey, Turkmenistan, Tuvalu
U	Uganda, Ukraine, United Arab Emirates, Uruguay, Uzbekistan
V	Vanuatu, Venezuela, Vietnam
Y	Yemen
Z	Zambia, Zimbabwe

Source: International Monetary Fund (2010)

2.4 High political uncertainty contexts in the emergent region of Latin America

Among the different countries which were characterized as emerging economies by the IMF (2010), those located in Latin America caught our attention due to the fact

that this region is the second most important emergent region in the world after Southeast Asia, with an aggregated gross domestic product (GDP) roughly that of China's and three times larger than India's (World Bank, 2008). More important, this region has presented interesting political changes during the last 50 years. It has become polarized insofar as some countries are clearly democratic whereas others have long-lived populist and dictatorial practices (Brenes and Carneiro, 2013). The region has also been characterized by a weak institutional context where the "rules of the game" are frequently changed arbitrarily by governments. According to Transparency International (2009), Latin American countries have among the lowest levels of trust in the judiciary, and many countries lack effective enforcement of the rule of law. Additionally, firms in Latin America have had to cope over decades with guerrilla, war, infrastructure limitations, and corruption. These conditions have forced Latin American firms to learn how to operate in a highly volatile environment with hostile characteristics. Therefore, given the environmental conditions that firms have regularly faced in Latin America, it is interesting to examine how firms in that region cope with political uncertainty. Paradoxically, although much can be learned from Latin America, we found scarce research had addressed this region. From 1963–2009, only 206 articles in 17 academic management journals were found to discuss Latin America (Nicholls-Nixon *et al.*, 2011).

Consequently, we chose Latin America to set the scene for our research due to:

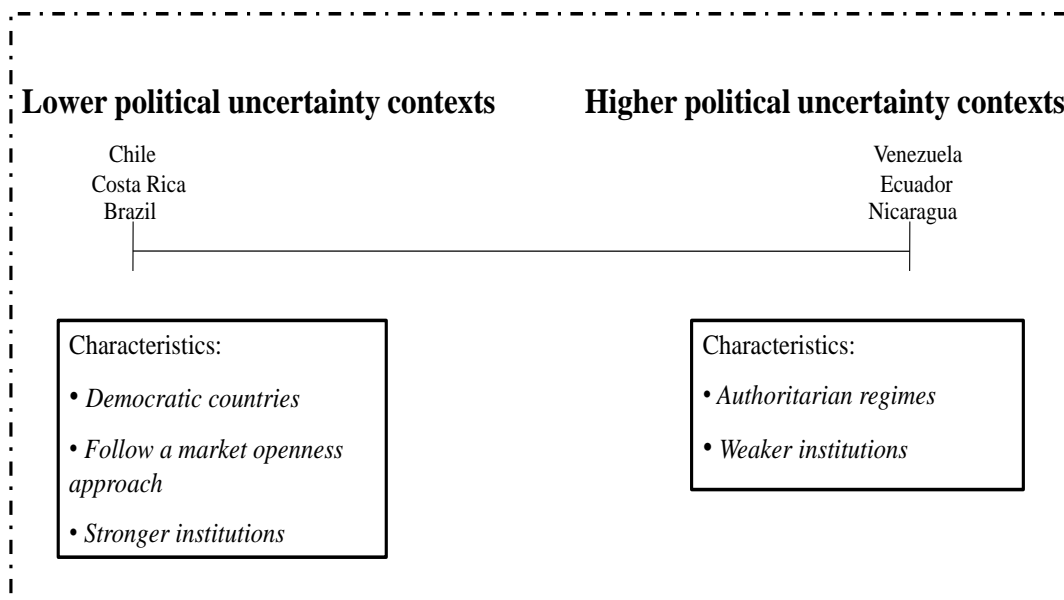
- its economic importance as an emergent region
- its characterization as a politically polarized region
- and the lack of research addressing this region

Another important common factor across Latin America is the strong influence of the United States. This influence was formalized at the beginning of the 19th century by the Monroe Doctrine, which signalled to European nations that any further colonization in the Americas would be seen as an act of aggression resulting in American intervention. Frequent U.S. military interventions and involvement with right-wing governments evolved into a love/hate relationship with the United States that still exists today. Left-wing governments as those in countries such as Venezuela, Cuba, and Nicaragua have exploited over the years feelings of hatred towards the

United States to justify their authoritarian behavior as a fight against “*the Yankee imperialism*” (Vassolo *et al.*, 2011). According to the Latinobarómetro Poll (2010), which tracks changes in attitudes in 18 Latin American countries (excluding Cuba and Haiti), support for democracy declined in half of the countries between 1996 and 2010, although the majority of Latin Americans still believe democracy is preferable to any other form of government. Similarly, Vassolo and others (2011) found that although most countries in Latin America are following the market openness and trade liberalization approach, there is a strong threat of the installation of authoritarian regimes.

Through a detailed examination of Latin American countries, we identified that in recent years, the evolution of Latin America has split countries between those pushing for market openness and institutions (Chile, Costa Rica, and Brazil) and those having authoritarian regimes and suffering weak institutions (Venezuela, Ecuador, and Nicaragua). These two groups of Latin American countries can be related to the “polar types” of political contexts that we previously described from a global perspective (see Figure 2).

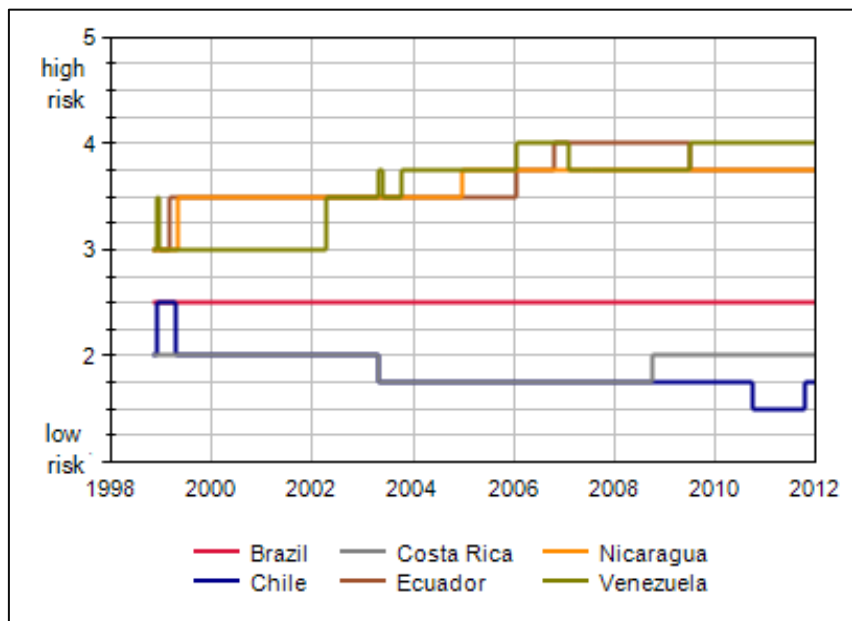
Figure 2: “Polar types” of political contexts in Latin America



Source: Elaborated by author

We found that particularly the political changes that have taken place in Venezuela, Ecuador, and Nicaragua from 1999 to 2011 have generated high political uncertainty in these emerging economies while countries like Chile, Costa Rica, and Brazil have increased their political stability and strengthened their institutional contexts. Consequently, we selected 1999 to 2011 to set the timeframe for our research. Below, Figure 3 contrasts the evolution from 1999 to 2011 of the political uncertainty ratings of Venezuela, Ecuador, Nicaragua, Chile, Costa Rica, and Brazil.

Figure 3: Evolution of political uncertainty ratings from 1999-2011 of Venezuela, Ecuador, Nicaragua, Chile, Costa Rica, and Brazil



Source: IHS Global Insight (2012)

These political uncertainty ratings are published by IHS Global Insight and are calculated upon the following criteria:

Table 2: Evaluation criteria of IHS Global Insight for political uncertainty ratings

Criteria	Description
Institutional permanence	An assessment of how mature and well established the political system is. It is also an assessment of how far political opposition operates within the system or attempts to undermine it from outside. A country with high institutional permanence would unquestionably survive the death or removal from power of the current leadership. A mature political system will conventionally have a clearly established relationship between the executive, legislative, and judicial branches of government.
Representativeness	How well the population and organized interests can make their voices heard in the political system. Provided representation is handled fairly and effectively, it will ensure greater stability and better designed policies.
Internal political consensus	Whether the country is driven by major social and political divides, and how far these are exploited by nationalist or extremist leaders. Serious divisions will frequently spill over into violence and major political instability.
External political consensus	The degree to which the country is seen as a menace to, or is menaced by, third countries. Poor external political consensus is generally a cause for longer term, but intense risk. Strongly antagonistic foreign states may well sponsor destabilizing domestic opposition movements.

Source: IHS Global Insight (2012)

According to these factors, one would expect a country with the following political uncertainty ratings to match the next characteristics:

Table 3: Characteristics of political uncertainty ratings by IHS Global Insight

Risk Rating	Characteristics
1	This country will have a strong, well-developed and effective democracy. Broad political and public consensus should ensure a very high level of political stability. Changes of government will be infrequent and any transitions should involve minimal disruption. In the event of a change of government, broad policy continuity is assured.
2	This country will also have a mature political system, which is probably a democracy. Political and commercial institutions will be strong, and political parties will largely be free to operate as they please. More extreme opposition will generally be contained within the political system in the form of pressure groups or in isolated regions. Any changes of government are likely to take place through constitutional means. The political system will be secure enough to withstand occasional internal unrest. The business environment should remain largely unaffected by the political system.
3	This country will have a less mature democratic system or a stable authoritarian system. Major tests are likely to lie ahead, but there will be general stability in the medium term. There will also be little orchestrated political violence. However, political stability cannot be guaranteed in the longer term because political and state institutions lack authority or are evolving. Political transition is likely to be destabilising and liable to result in major policy changes. Uncertainty in the political system will tend to make business time-consuming for investors and they will need to be aware of substantial longer-term risks to their investments.
4	This country will have a repressive and/or highly unstable political regime. It is likely to face considerable opposition, which will often be violent. Individuals can expect little protection from the constitution or state. Any election results are likely to be dubious and the contests surrounded by violence and repression. Government changes are likely to be traumatic and unconstitutional. Political, economic, and legal institutions will be highly vulnerable and may periodically cease to function effectively. The state may have to rely on international peacekeepers to operate at all. Business can only continue with the active support and assistance of the state.
5	This country may be in the grip of a civil or international war. Alternatively, the country is facing a major insurgency and law and order has broken down. The political situation will have effectively destroyed the business environment.

Source: IHS Global Insight (2012)

Below, Table 4 shows the political uncertainty ratings by IHS Global Insight for all Latin American countries during March 2012. These ratings indicate that in Latin America, Chile, Costa Rica, and Brazil are the biggest emerging economies among the 20 countries with the lowest political uncertainty ratings while Ecuador, Nicaragua, and Venezuela are among the five countries (along with Cuba and Haiti) with the highest political uncertainty ratings.

Table 4: Political uncertainty ratings for Latin American countries (March, 2012)

Country	Political Uncertainty Ratings
US Virgin Islands	1.25
Aruba	1.50
Bahamas	1.50
Barbados	1.50
Cayman Islands	1.50
Anguilla	1.75
Bermuda	1.75
Chile	1.75
St. Kitts and Nevis	1.75
St. Lucia	1.75
Antigua and Barbuda	2.00
Belize	2.00
Costa Rica	2.00
Martinique	2.00
St. Vincent and the Grenadines	2.00
Uruguay	2.00
Dominica	2.25
French Guiana	2.25
Brazil	2.50
Netherlands Antilles	2.50
Panama	2.50
Puerto Rico	2.50
Trinidad and Tobago	2.50
Colombia	2.75
Grenada	2.75
Mexico	2.75
Argentina	3.00
Dominican Republic	3.00
El Salvador	3.00
Jamaica	3.00
Bolivia	3.50
Guatemala	3.50
Guyana	3.50
Honduras	3.50
Paraguay	3.50
Peru	3.50
Suriname	3.50
Ecuador	3.75
Nicaragua	3.75
Cuba	4.00
Venezuela	4.00
Haiti	4.50

Source: IHS Global Insight (March, 2012)

Clearly, Venezuela, Ecuador, and Nicaragua have increased their political uncertainty ratings from 1999 to 2011 from a score of 3 to 4. This increase along with their current governments shows how gradually over the last decade these emerging economies have become politically uncertain contexts with authoritarian regimes and weak institutions. During 2013, Brenes and Carneiro claimed these three countries tend to show economic protectionism and political populism. While on the other hand, other countries in the same region like Chile, Costa Rica, and Brazil have either sustained or decreased their political uncertainty ratings, showing stability or even an improvement in their political contexts during the same timeframe. Consequently, within Latin America we chose Venezuela, Ecuador, and Nicaragua to set the contextual scene for our research because these countries evidently have suffered high political uncertainty that has intensified over the last decade and have been characterized by authoritarian regimes and weak institutions. Each of these countries has the high political uncertainty context that is of interest to set the scene for our research. Although Cuba and Haiti have also been categorized among the highest political uncertainty countries in Latin America, we excluded them from our research due to their limited international commercial relations and FDI.

2.5 The food industry

As Venezuela, Ecuador, and Nicaragua were chosen to set the scene for our research, we reviewed what industries in these countries had been the most affected by the political uncertainty they experienced from 1999 to 2011 (see Table 5).

Table 5: Most affected industries by the political contexts in Venezuela, Ecuador, and Nicaragua from 1999-2011 ⁵

Venezuela	Ecuador	Nicaragua
Petroleum industry	Automotive industry	Food industry
Construction industry	Garments industry	Tourism industry
Food industry	Food industry	
	Pharmaceutical industry	

Source: Elaborated by author

We found that the food industry was one of the most affected industries by political uncertainties in all three countries between 1999 and 2011. Data from our inquiry showed firms in this industry faced the imposition of quotas and safeguards, delays in required registrations, logistic obstacles, policy changes, and price controls stemming from political decisions.

Within the food industry, we decided to concentrate our inquiry on processed food firms that produce high value added products such as: fruit or nut snacks, candies, chocolates, cookies, cold-meat cuts, canned vegetables, roasted coffee, sugar, juices, refreshment drinks, cereals, bread, ice cream, other dairy products, ready to cook dinners, and other products (FAO, 1999; World Bank, 2011). Brenes, Montoya and Ciravegna (2013) defined high value added processed food firms as those that have managed to climb the value ladder, so that they do not focus solely on basic agricultural production, but also on additional activities such as washing, cleaning, processing, packaging, and distribution. These activities increase the final value of the product by enhancing some of its intrinsic features, such as nutritional value and transportability (Austin, 1992; FAO, 1999; World Bank, 2011). On the other hand, low value added products mainly refer to basic agricultural products or fresh food that has not been processed such as: bananas, pineapples, mangos, melons, avocados, corns, beans, rice, among others (FAO, 1999; World Bank, 2011). Our focus on processed food firms that

⁵ These industries were identified by: Felipe Benites, Director of the Venezuelan Observatory of Property; Adriana Gutierrez, Director of Proexport Ecuador; and Nelly Soto, General Manager of ADIPRONIC (Association of distributors of mass consumption products in Nicaragua) in 2011.

produce high value added products responds to our aim of supporting the internationalization efforts of these firms since recent trends show there is a rapid increase of opportunities for high value added food products relative to basic agricultural products (FLO, 2007). Moreover, most governments in Latin American countries have been trying for long to promote added value food products because of their market potential (Da Silva *et al.*, 2009).

Additionally, we found that up to 2011 no empirical research in the management field regarding capabilities had included the processed food industry. Below in Table 6, we synthesize the capabilities and industries that have been studied up to 2011 using the work of Ambrosini, Bowman, and Collier (2009) and our own further research.

Table 6: Researched capabilities and industries

Industry	Capability
Automobile and computer	Integration ability (Iansiti and Clark, 1994).
Banking	Acquirers who codify integration processes to increase return on assets (Zollo, 1998).
Designer home furnishings	Product development capability (Salvato, 2009).
Entertainment (movies)	New organizational forms (Lampel and Shamsie, 2003).
High tech	Product innovation (Danneels, 2002).
Machinery	Pricing capability (Dutta <i>et al.</i> , 2003)
Manufacturing	Strategy formation (Slater, Olson, and Hult, 2006),
Medical	Acquisitions process (Karim and Mitchell, 2000), organizational structures reconfiguration (Karim, 2006)
Petroleum	R&D (Helfat, 1997), managerial capabilities (Adner and Helfat, 2003).
Pharmaceutical	Architectural competence or ability to integrate knowledge from external resources (Henderson and Cockburn, 1994).
Professional baseball franchises	Resource divestment (Moliterno and Wiersema, 2007).
Software	Project management capabilities and client-specific capabilities (Ethiraj <i>et al.</i> , 2005)
Various industries	Absorptive capacity (Zahra and George, 2002), knowledge articulation and codification to explain high success rates of joint ventures (Kale, 1999), marketing capabilities (Morgan, Vorhies, and Mason, 2009)

Source: Elaborated by author based on data extracted from referenced authors

Consequently, we chose the processed food industry to set the scene of our research due to its classification as one of the most affected industries by the high political uncertainty contexts during 1999–2011 in Venezuela, Ecuador, and Nicaragua and the absence of empirical research on capabilities in that industry. Moreover, from a

philanthropic perspective, if the food industry is an industry in which nutrition and food security are political issues of world interest (FAO, 2012), we wanted to conduct research that in particular enables processed food firms to improve their competitive positions in the high political uncertainty contexts of emerging economies to contribute to the assurance of worldwide processed food distribution and availability.

3 THEORETICAL POSITIONING

In this chapter, through a systematic review we discuss the literature domains of internationalization, uncertainty, the resource-based view (RBV) - dynamic capabilities, and corporate political activity (CPA) which shed light on our phenomenon of interest. We explain in detail how these literature streams inform our inquiry while we highlight a series of uncovered gaps in research. These gaps subsequently inspire the research questions that guide our investigation and which are presented in section 4.2. of the following methodology chapter. It is important to note, that the specific methodology we followed to conduct this systematic literature review followed guidelines provided by Tranfield, Denyer, and Smart (2003) and is described in Appendix 1.

3.1 Internationalization processes and political uncertainty assessment

Exploring internationalization and uncertainty literatures, we found firms have confronted multiple types of uncertainty during their internationalization processes. Nonetheless, political uncertainty was one of the main types of uncertainties that firms stated to have confronted since the initial stage of their foreign operations (Fayerweather, 1969; Mascarenhas, 1982; Miller, 1992; Milliken, 1987). Furthermore, government policy was found to affect the competitive position of firms and their performance (Shaffer, 1995). However, despite these findings, firms have traditionally based their internationalization strategies on different antecedents and moderators that have frequently excluded the analysis of the political environment (Delios and Henisz, 2003; Henisz and Zelner, 2010; Holburn and Zelner, 2010; Kobrin *et al.*, 1980; Ring *et al.*, 1990). Paradoxically, the recent political uncertainties in emerging regions have proven to dramatically affect firms with operations in these markets, and have consequently, increased firms' awareness about political environments and their potential impact.

The issue we identified in current research is that although firms are increasing their awareness about the necessity of assessing the political environment, there is an absence of satisfactory political uncertainty assessment tools to help firms understand the degree of their real exposure (Boddewyn and Brewer, 1994; Kobrin, 1982).

According to Kobrin (1982), to assess political uncertainty, be this materialized through expropriation or policy changes, the most pertinent challenges affecting a firm stem not from the general country environment (the macro level), but from specific policies and actions that have differential effects across industries, firms, and projects (the micro level). Consequently, discussions about the political environment of a country are no longer that useful since contingencies arise from the interaction of political factors affecting directly the strategy and structure of firms or their projects. Moreover, prior research showed that those political assessment tools which consider the effect of political uncertainty within a country (the macro level) rather than its effect on a firm (the micro level), entitle the danger of possibly leading firms to significantly different responses (Erol, 1985).

Research indicated that to assess political uncertainty, firms have mainly evaluated reports from their banks and from multiple organizations which produce risk indexes (Kobrin, 1979). Some firms have even decided to contract external political assessment organizations (Baker and Hashmi, 1988). All of these have provided macro level assessments that precisely fail to identify industry or firm-specific micro-political contingencies. Kobrin (1981) claimed that the best political assessment tool is not provided by banks, indexes or tailored made reports, it can only be developed within the firm through its own understanding of the nature of the political uncertainties it confronts and their relationship to firm characteristics and political events. Building on the work of Kobrin (1979, 1981), we acknowledge the challenge lies in that firms have not realized that they have the most valuable information to assess the political uncertainties they confront. Firms still consider that the sophistication of the methodologies of some political risk indexes or reports assures them a complete political assessment while they only provide a country or macro level assessment - lacking the most important micro level assessment.

For a firm to develop its own political assessment tool, Kobrin (1981) indicated that one of the barriers is an improved understanding of the relationship between the political environment and firm contingencies due to the insufficiency of historical data. With the exception of expropriation, impacts of political uncertainty on firms have rarely been documented. Building on the work of Kobrin (1981), we suggest that

perhaps the most important step most international firms can take in improving the quality of their political assessment is to build a political assessment tool through which they review past history and firm experience to facilitate their future judgments. Such a strategic examination can help to determine the actual contingencies that have been faced and the environmental conditions that have produced them. This management review process should be conducted across countries and within the same country across time since comparability facilitates the improvement of the assessment process itself (Kobrin, 1981). It allows the comparison of assessments with outcomes, it facilitates organizational learning through the compilation of a body of experience, and it provides an increased understanding of the relationship between the environment and the firm (Kobrin, 1981).

For the construction and use of this type of political assessment tool, past, present, and future political uncertainties must be analyzed (Kobrin, 1981). Through our systematic review we found various levels of analysis of political uncertainties that were proposed by multiple authors. We suggest that during the construction and use of a political assessment tool, a firm should integrally analyze these different levels for its political uncertainties to achieve a better understanding of the uncertainties it has already confronted or will confront. Table 7 shows our suggested levels of analysis for the understanding of political uncertainties.

Table 7: Levels of analysis for political uncertainties

Political Uncertainty		
The possibility of occurrence of changes in the cash flows resulting from political events (Kobrin, 1979; Henisz and Zelner, 2010).		
Levels of Analysis		Description
Concept related	Expropriation Uncertainty	Expropriation uncertainty refers to the possibility of a host government seizing foreign owned assets; affecting ownership structures (Kobrin, 1980, 1981, 1984; Henisz and Zelner, 2010).
	Policy Uncertainty	Policy uncertainty refers to the possibility of a government discriminatorily changing the laws, regulations or contracts governing an investment, or failing to enforce them, in a way that reduces an investor's financial return; affecting organizational operations (Kobrin, 1981; Henisz and Zelner, 2010).
Effect related	Macro	Country level political uncertainty (Kobrin, 1981).
	Micro	Industry, organization, and project specific levels political uncertainty (Kobrin, 1981).
Chronologically related	Ex ante	Uncertainty about the political conditions that can be established or negotiated to enter a market (Delios and Henisz, 2003).
	Ex post	Uncertainty about the possibility of having the terms of investment altered by the host country government in an obsolescing, bargaining scenario (Delios and Henisz, 2003).
Typology related	State uncertainty	Not understanding how components of the political environment might change (Milliken, 1987).
	Effect uncertainty	The inability to predict what the nature of the impact of a future state of the political environment or political change would be on the organization (Milliken, 1987).
	Response uncertainty	Lack of knowledge of response options and/or an inability to predict the likely consequence of a response choice (Milliken, 1987).

Source: Elaborated by author based on data extracted from referenced authors

3.2 Firms' strategic responses to political uncertainties

After firms assess political uncertainties (through any methodology) they make decisions regarding how these will be managed. To deal with political uncertainties we found firms can decide to follow different strategic responses enabled by different capabilities (Hillman and Hitt, 1999; Holburn and Zelner, 2010; Miller, 1992; Oliver and Holzinger, 2008). Firms can *avoid* political uncertainty by not entering or even exiting a politically uncertain market. They can also decide to use lobbying to *control* political uncertainty, or they can *cooperate* through multilateral agreements with competitors to form alliances or associations to achieve a shared political objective.

Firms can also *imitate* the political behavior of their competitors, or they can decide to use *flexible* responses through which they can adapt to substantial, uncertain, and fast-occurring political changes (Miller, 1992).

Control and *cooperative* responses to political uncertainty involve firms' attempts to influence or shape governments in favorable ways towards their own particular interests. These attempts constitute what Baysinger defined in 1984 as a firm's corporate political activity (CPA). However, Meznar and Nigh (1995), Hillman and Hitt (1999), and Blumentritt (2003), later clarified that a firm's corporate political activity can be either proactive or reactive. Proactive corporate political activity aims to exert influence or shape government policy by the participation of the firm in government affairs through *control* or *cooperative* responses. While, reactive corporate political activity aims to allow the firm to respond to government actions but does not involve its participation in government affairs. Rather, reactive corporate political activity is achieved by the firm, through *flexible* responses that allow its adaption to political changes.

Control or *cooperative* responses, that are enabled by a firm's proactive corporate political activity, have been referred to as "political buffering" (Blumentritt, 2003; Meznar and Nigh, 1995), "public policy shaping responses" (Wiedenbaum, 1980), and "bargaining behavior" (Boddeyn and Brewer, 1994). Examples are, informing government decision makers about the impact of possible legislation, working alone or in trade associations to make campaign contributions, lobbying, or otherwise influencing governments (Hillman *et al.*, 2004). On the other hand, *flexible* responses that are enabled by a firm's reactive corporate political activity, have been described as "political bridging" (Blumentritt, 2003; Meznar and Nigh, 1995), "passive reaction responses", "positive anticipation responses" (Wiedenbaum, 1980), and "non-bargaining behavior" (Boddeyn and Brewer, 1994). An example is monitoring the development of legislation for a firm to be able to comply with its guidelines (Hillman *et al.*, 2004).

Overall, many scholars (Bettis and Hitt, 1995; Hillman and Hitt, 1999; Hitt *et al.*, 1998; Oliver and Holzinger, 2008) have described proactive and reactive corporate political activity (involving *control*, *cooperative*, or *flexible* responses) as essential for

firms in their competitive landscape, while *avoidance* or *imitation* responses towards the political environment, have been considered as poor ways of handling government relations (Boddewyn, 1993; Keim, 1981).

We found corporate political activity (CPA) scholars have mainly focused their research efforts on proactive corporate political activity that enables *control* or *cooperative* responses that aim to influence the political environment (Hillman and Hitt, 1999; Hillman *et al.*, 2004; Lawton *et al.*, 2013; Shaffer, 1995). Hillman and Hitt (1999) argued that their interest on proactive corporate political activity was explained by the fact that a firm that followed a reactive stance towards corporate political activity could be sure that other interest groups were proactively working to shape government policies in a direction that benefited their own interests - which could or not coincide with those of the firm. Similarly, Oliver and Holzinger (2008) argued that firms that used corporate political strategies were more likely to strengthen their competitive advantage than firms that were passive or politically inactive.

3.3 Taxonomy of corporate political strategies for proactive corporate political activity

A significant contribution to proactive corporate political activity research has been Hillman and Hitt's (1999) taxonomy of corporate political strategies. This taxonomy makes explicit the choices available to firms to influence government affairs. When compared to the wealth of research on "generic" strategies for the market environment (Miles and Snow, 1978; Porter, 1980) there are few similar efforts for political strategies that address the non-market environment.

Hillman and Hitt's (1999) taxonomy of corporate political strategies followed traditional strategic management literature that claims "strategies" are more long term and involve a substantial amount of resources and commitment. While "tactics" are short term activities designed to fine tune strategy, and they involve a smaller commitment of resources. This taxonomy presents three theoretically distinct strategies, each comprising of a variety of tactics. The tactics describe the *control* or *cooperative* responses that a firm can use to influence the political environment (see Table 8).

Table 8: Taxonomy of corporate political strategies

Strategy	Tactics	Characteristics
Information strategy	<ul style="list-style-type: none">• Lobbying• Commissioning research projects and reporting research results• Testifying as expert witnesses• Supplying position papers or technical reports	Targets political decision makers by providing information
Financial incentive strategy	<ul style="list-style-type: none">• Contributions to politicians or party• Honoraria for speaking• Paid travel• Personal service (hiring people with political experience, relatives of political decision makers or having a firm member run for office)	Targets political decision makers by providing financial incentives
Constituency-building strategy	<ul style="list-style-type: none">• Grassroots mobilization of employees, suppliers, customers, etc.• Advocacy advertising• Public relations• Press conferences• Political education programs	Targets political decision makers indirectly through constituent support

Source: Hillman and Hitt (1999)

Hillman and Hitt (1999) explained that through the information strategy, firms seek to affect public policy by providing policy makers specific information about preferences for policy or policy positions and may involve providing information on the costs and benefits of different issue outcomes (Aplin and Hegarty, 1980). This strategy targets political decision makers by providing them information. It includes tactics such as lobbying, commissioning research projects and providing their results, testifying as an expert witness in hearings or before other government bodies, and supplying decision makers with position papers or technical reports. The second strategy in the taxonomy is the financial incentive strategy. This strategy attempts to influence public policy by directly aligning the incentives of the policy makers with the interests of the principals through financial inducements. The financial incentive strategy targets political decision makers by providing them financial incentives. It includes tactics such as providing financial support through direct contributions to politicians or political parties, honoraria for speaking, paid travel expenses, and personal service (hiring people with political experience, relatives of political decision makers or having a firm member

run for office). The last strategy is the constituency-building strategy. This strategy attempts to influence public policy by gaining support of individual voters and citizens, who in turn, express their political preferences to political decision makers (Baysinger, Keim, and Zeithaml, 1985). This strategy targets political decision makers indirectly by working through individual constituents and voters via public exposure/appeal and constituent contact. It includes tactics such as grassroots mobilizations of employees, customers, suppliers, retirees, or other individuals linked to the firm; advocacy advertising, wherein a particular policy position is advertised to the public (Sethi, 1982); public image or public relations advertising; press conferences on public policy issues; and economic or political education (Hillman and Hitt, 1999).

To facilitate the understanding of this taxonomy, Hillman and Hitt (1999) explained that tactics are classified within one of the three corporate political strategies. However, the use of one political strategy or tactic within, does not, preclude the use of another strategy or tactic. Therefore, a firm may use any combination of strategies (and tactics) in an attempt to shape its competitive environment by influencing government affairs. Contrary to the case of proactive CPA research, we found reactive CPA research had not yet developed a similar taxonomy of strategies that included the tactics or *flexible* responses firms can use to enable their adaption to the political environment.

3.4 Firms' strategic responses to political uncertainties and capabilities

Regardless of the type of corporate political activity a firm engages with, proactive or reactive, it needs to develop and use capabilities that enable the type of strategic responses that are intended by the firm towards the political environment. Following this line of thought, Baron's (1995) seminal work claimed business strategy must be congruent with the capabilities of a firm. Hillman and others (2004) also proposed a CPA research agenda that called for further research to focus on firm resources and capabilities that aid political activities. Similarly, Lawton and others (2013) claimed resources and capabilities are one of the three dominant research areas that need further exploration in CPA.

Through an exploration of the relation between capabilities and the strategic responses firms can have towards the political environment, we found that in the case of *avoidance* responses, firms must conduct a complete assessment of the political

uncertainties they are confronting, rather than using capabilities to manage the political environment. *Imitative* responses involve scanning competitors' behavior and may eventually require different capabilities - in accordance to which competitor's behavior the firm decides to imitate. *Control or cooperative* responses towards political uncertainty require "political capabilities" that enable firms to assess policy risk and manage the policy making process (Holburn and Zelner, 2010) or "lobbying capabilities" that enable firms to influence the political environment (Holburn and Vanden Bergh, 2002; Lawton and Rajwani, 2011). However, in the case of *flexible* responses, these involve *substantial organizational adaption* to the political environment rather than efforts to influence government affairs. We found that the development of a specific set of capabilities to enable this type of responses to political environments should be further explored in capabilities research (Aaker and Mascarenhas, 1984; Oliver and Holzinger, 2008). Consequently, if *flexible* responses cannot be enabled by political capabilities that intend to influence the political environment, we question what set of capabilities can create *adaption* instead of influence towards political contexts.

Previous research has indicated that allowing firms to create *flexible* responses is important, since as Mascarenhas (1982) claimed, sometimes firms face uncertain political contexts with specific characteristics where lobbying or influencing the environment are not response options, or at least not the best ones. Some studies have even found that lobbying or a firms' political embeddedness in host countries can have a declining or negative value for the firm (Sun, Mellahi, and Thun, 2010) or that building strong ties to political regimes does not necessarily enhance firm performance even if they are stable political regimes (Henisz and Delios, 2004). What is missing in current research is that some political contexts may require, unlike traditional *control* and *cooperative* responses (which attempt to predict environmental contingencies), *flexible* responses that increase internal responsiveness (through for example structural reconfiguration), while leaving the predictability of external factors unchanged. The difficulty lies in that firms typically have developed political capabilities to confront political uncertainty through *control* or *cooperative* responses, especially in developed countries, while they have not equally deliberately developed a specific set of capabilities that can enable them to confront particular political uncertainties through

flexible responses. Therefore, the central contribution of our review suggests that the deliberate development and deployment of a specific set of capabilities that can allow adaption will enable firms with the ability to respond to particular political uncertainties through endogenous strategic and structural adaptation - when political capabilities do not enable the best responses.

3.5 Capabilities that enable flexible responses

In their research, Oliver and Holzinger (2008) explored the important relation between capabilities and strategies. They studied the relation between reactive and proactive corporate political strategies and firm specific capabilities. They claimed proactive corporate political strategies used “capabilities in appropriating and utilizing political social capital” and “institutional influence capabilities”. Capabilities in appropriating and utilizing social capital refer to the ability to cultivate and utilize relations to government and/or indirect ties or networks to those who influence policy makers for purposes of protecting the organization’s interests. Institutional influence capabilities refer to the ability to define or shape the norms, standards and beliefs of an industry or to reframe public perceptions about the social acceptability of one’s practices. These capabilities relate to what other scholars have denominated as “political capabilities” and “lobbying capabilities”. Political capabilities refer to the ability to assess policy risk and manage the policy making process (Holburn and Zelner, 2010). Lobbying capabilities refer to the ability to influence the political environment (Holburn and Vanden Bergh, 2002; Lawton and Rajwani, 2011). Overall, all of these capabilities intend to allow a firm to influence the political environment through *control* and *cooperative* responses.

Likewise, Oliver and Holzinger (2008) claimed reactive corporate political strategies used “structural and process reconfiguration capabilities” and “scanning and predictive capabilities”. Structural and process reconfiguration capabilities refer to the ability of aligning internal processes efficiently and effectively with public policy demands. Scanning and predictive capabilities refer to the ability that gives firms early knowledge of impending or potential legislative or public policy changes, and the ability to respond appropriately before those changes are implemented.

Although we agree with Oliver and Holzinger (2008) in that “structural and process reconfiguration capabilities” and “scanning and predictive capabilities” are necessary to allow firms to adapt to the political environment, we question if *adaption* to the political environment cannot be better explained by “adaptive political capabilities” that enable *flexible* responses.

To elaborate our argument, we build on Baron’s (1995, 2001) conceptualization of the environment as having market and non-market components. According to Baron (1995), the market environment includes those interactions between the firm and other parties which are intermediated by markets or private agreements. Interactions in the market environment are typically voluntary and involve economic transactions, as when a firm designs and sells products to customers with specific demands. The non-market environment includes those interactions which are intermediated by the public, stakeholders, government, the media, and public institutions. These interactions may be voluntary, as when a firm decides to develop relations with policy decision makers, or involuntary, as when the government regulates an activity that impacts a firm.

Similarly to this distinction between two components in the environment, Baron (1995) differentiated between market strategy that addressed the market environment and non-market strategy targeted to the non-market environment. He explained market strategy is a concerted pattern of actions taken in the market environment to create value by improving economic performance, as when a firm decides to enter a foreign market or makes product pricing decisions. Differently, non-market strategy is a concerted pattern of actions taken in the non-market environment to create value by improving *overall* performance, as in the case when a firm lobbies to impede the creation of legislation that increases tariff barriers.

We build on Baron’s (1995) conceptualization of market and non-market environment and strategy, to explain that the term “adaptive capabilities” has been used to address the market environment through market strategy. In this context, adaptive capabilities are the ability of a firm to enable product adaption to market demands. For example, Cavusgil and others (1993) referred to adaptive capabilities as the ability of a firm to adapt its product upon and after market entry and to adapt its promotion approach, packaging/labeling or product positioning. Oktemgil and Greenley (1997)

referred to adaptive capabilities as the ability of a firm to respond to product-market opportunities, conduct marketing activities for responding to these opportunities, and speedily responding to the pursuing of these opportunities. More recently, Lu and others (2010) defined adaptive capabilities as the ability of a firm to coordinate, recombine, and allocate resources to meet the different requirements of foreign markets. They operationalized adaptive capabilities by measuring a firm's ability to meet the requirements of foreign customer demands in terms of product and service specifications, ability to tailor products/services according to foreign customer requests, and ability to respond quickly to the demand for a product price change from a foreign customer.

We argue that if adaptive capabilities are used to address the market environment through market strategy to explain firms' ability to enable product adaption to market demands, we see value in using the term "adaptive political capabilities" to address the non-market environment through non-market strategy to explain firms' adaption to political contexts.

Therefore, building on the work in market strategy by Cavusgil and others (1993), Oktemgil and Greenley (1997), and Lu and others (2010); and on the work in the strategic management field by Zollo and Winter (2002), Gibson and Birkinshaw (2004), and March (1991) (discussed in section 3.6), we view adaptive political capabilities as a specific set of capabilities that can allow the adaption of a firm to host political contexts where this set of capabilities can improve a firm's competitive position by allowing it to sustain its operations through high political uncertainty. Consequently, we define adaptive political capabilities as:

A firm's ability to collectively, systematically, and simultaneously accumulate experience and articulate and codify knowledge from political uncertainties confronted in foreign markets, to enable through a learned pattern the reconfiguration of resources and processes to adapt to political uncertainties.

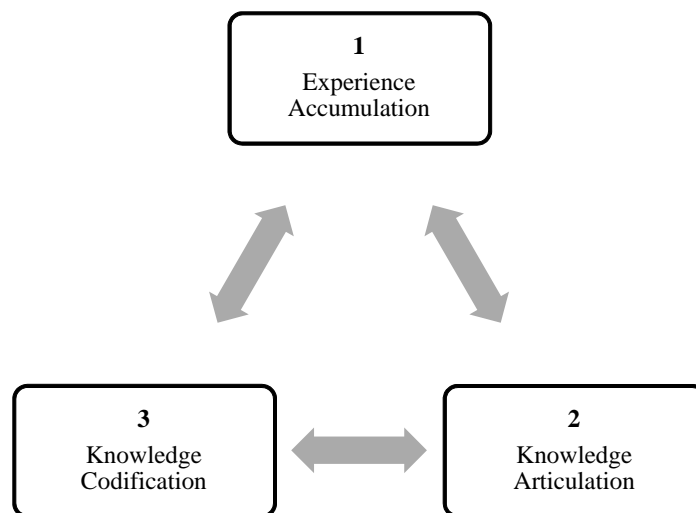
3.6 Adaptive political capabilities and their foundations

To comprehend this definition, the nature of adaptive political capabilities, and to start their development process, firms must first understand what their foundations

are. Through our review we identified experience and knowledge as the foundations of adaptive political capabilities. We found that since 1998, Teece proposed that the ability to create, integrate, transfer, and use *knowledge* on an ongoing basis underpins a firm’s capabilities and competitive advantage. Later, Eisenhardt and Martin (2000) referred to the nature and evolution of capabilities in terms of *knowledge*. Following, the work of other scholars focused on empirically investigating how capabilities are facilitated by *experience* and *knowledge* management (Cepeda and Vera, 2005; Gold, Malhotra, and Segars, 2001; Haas and Hansen, 2005; Sher and Lee, 2004).

Within this stream of research, the development and evolution of dynamic capabilities is claimed to be based on the co-evolution of three learning mechanisms involving experience and knowledge. These learning mechanisms are: (1) *experience accumulation*, (2) *knowledge articulation*, and (3) *knowledge codification* (see Figure 4). The ultimate objective of capabilities is reconfiguring resources and processes through these three learning mechanisms (Zollo and Winter, 2002).

Figure 4: Learning mechanisms



Source: Elaborated by author

Experience accumulation refers to the most important learning mechanism by which processes have traditionally been thought to develop – following a “learning by doing” approach. Throughout time, individuals gradually acquire experience that they

eventually accumulate. Experience accumulation is related to the exploration of knowledge (Zollo and Winter, 2002).

Knowledge articulation is the process through which experience and implicit knowledge is articulated by individuals through collective discussions, debriefing sessions, and outcomes evaluation processes. By sharing individual experiences and comparing their opinions with those of their colleagues, firm members can achieve an improved level of understanding of the casual mechanisms intervening between the actions required to execute a certain task and the outcomes produced. While potentially requiring significant efforts and commitment on the part of firm members, such articulation efforts can produce an improved understanding of the new and changing action-outcomes links, and therefore result in adaptive adjustments to the existing sets of processes or in enhanced recognition of the need for change (Zollo and Winter, 2002).

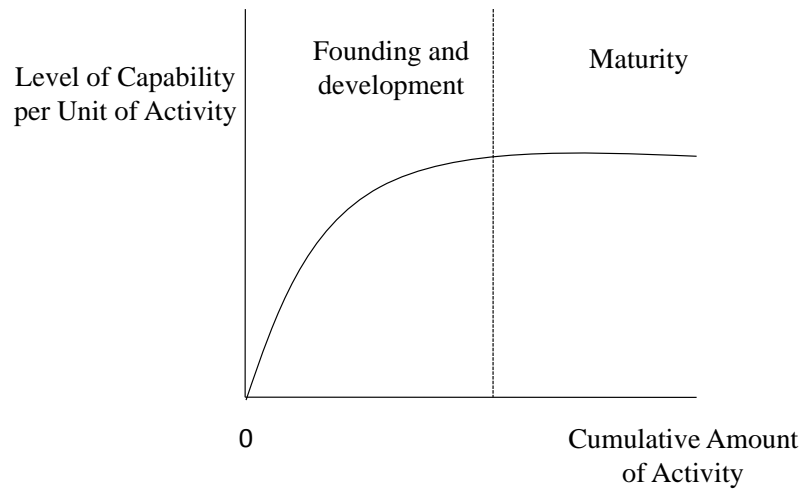
Knowledge codification involves an even higher level of cognitive effort when individuals codify their understandings of the outcome implications of internal processes in written tools, such as frameworks, manuals, spreadsheets, decision support systems, etc. Knowledge codification is a step beyond knowledge articulation. The process through which these tools are created and updated implies an effort to understand the casual links between the responses to be taken and the outcomes to be expected. The individuals involved in this process will most likely reach a significantly higher degree of understanding of what makes a certain process succeed or fail. Knowledge codification is, therefore, a crucial element of capability development. This exercise will facilitate the learning of individuals about casual relationships and a clearer definition of what works, what doesn't work, and why (Zollo and Winter, 2002). It can facilitate the identification of opportunities or new proposals through a deliberate retrospective sense-making with respect to outcome implications of a given set of responses (Weick, 1979, 1995). This process is related to knowledge exploitation and intends to be capable of producing "enabling" rather than "coercive" firms (Adler and Borys, 1996) by increasing their ability to re-use existing resources and processes in response to varying contexts.

For these three learning mechanisms to effectively work in the development of adaptive political capabilities, to enable adaption to political contexts, firms must simultaneously adapt and align (Gibson and Birkinshaw, 2004) by codifying knowledge from past experiences and using it in their confrontation of current political uncertainties (exploitation) while continuously accumulating experience (exploration) (March, 1991).

3.7 The lifecycle of capabilities

To approach the development process of adaptive political capabilities, we must also understand that the creation and development processes of all capabilities follow various evolution stages over time. Helfat and Peteraf (2003) explained that all capabilities start with a founding stage when a group of individuals organizes around an objective requiring or centrally involving the creation of capabilities. The founding stage has two general requirements: (1) an organized group or team, having some type of leadership and capable of joint action, and (2) a central objective, the achievement of which entails the creation of new capabilities. The second stage in the lifecycle of capabilities is the development stage that begins after the team has organized itself around the objective of developing particular capabilities (Helfat and Peteraf, 2003). During this stage, capabilities develop through search by the team of viable alternatives for capabilities' development, combined with accumulation of experience over time. In this context, an alternative is a way of attempting to accomplish the end result at which capabilities aim (Winter, 2000). The development of capabilities entails learning by doing of individuals and of the team as a whole, problem-solving, and investment over time. Moreover, the development of new capabilities involves trying out alternatives while searching for additional ones, as the team reflects on what it has learned (Winter, 2000). At some point, the development of capabilities ceases and these enter the maturity stage of their lifecycle (Helfat and Peteraf, 2003). The maturity stage entails capabilities' maintenance. This involves exercising the capabilities to refresh organizational memory. Below, Figure 5 shows these different stages of the lifecycle of capabilities.

Figure 5: Stages of the lifecycle of capabilities



Source: Helfat and Peteraf (2003)

3.8 The use, reconfiguration, and acquisition of resources

Through the development stage and deployment of all capabilities, firms develop responses that rely on the use, reconfiguration, and acquisition of resources to align firms with their changing environment and create or sustain competitive advantage (Eisenhardt and Martin, 2000). The RBV of the firm (Peteraf, 1993; Wernerfelt, 1984) examines precisely the link between the internal characteristics of the firm (its resources) and firm performance (Barney, 1991). It describes the firm as a bundle of resources (Amit and Schoemaker, 1993; Penrose, 1959; Rumelt, 1984) that can be categorized as physical capital, human capital, and organizational capital. Physical capital resources include the physical technology used in a firm, a firm's plant and equipment, its geographic location, and its access to raw materials. Human capital resources include the training, experience, judgment, intelligence, relationships, and insight of individual managers and workers in the firm. Organizational capital resources include a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment (Barney, 1991).

It is those firm's physical, human, and organizational resources that enable it to conceive and implement strategies and responses, that improve its efficiency and effectiveness by creating value and competitive benefits (Barney, 1991). However,

Barney (1986), Castanias and Helfat (1991), and Wernerfelt (1989) made a distinction between resources by arguing that human capital resources constituted a firm's sources of above normal returns, not physical capital resources. Similarly, Bowman and Ambrosini (2000) claimed that the source of value of a firm is the combination and deployment of human capital with other resources.

It is important to note, that research has recognized that the environment has an effect on the configuration of a firm's resources (Hannan and Freeman, 1984; Karim, 2006; Mintzberg, 1979). For example, Miller (1986) described that the configuration of the organizational structure of a firm is linked to its strategy and also to its environment. Miller and Shamsie (1996) also found that property-based resources are more valuable in stable environments while knowledge-based resources are more valuable in uncertain environments. We suggest that since firms operate in diverse environments, an analysis of the effect of environmental contingencies on resource configurations allows us to better understand the "fit" between the firm and the environments in which it may operate.

3.9 The development process of adaptive political capabilities

We found research suggested the following key themes to guide the development process of adaptive political capabilities: (1) managerial commitment, (2) knowledge management, and (3) learning mechanisms.

Managerial commitment. Existing research found that capability development is determined in first instance by managers' reaction to change, their personal flexibility and resistance, their preparedness to influence or adapt, and their commitment to learning through learning investments (McLarney and Dastrala, 2001; Zollo and Winter, 2002). Therefore, the managerial decision to deliberately invest in developing capabilities and furthermore, over time commitment to this decision, are vital conditions for their development and especially renewal. What is known today is that if managerial commitment exists a firm can start to deliberately develop capabilities. We suggest future research addressing the initiation of the development of capabilities can focus on assessing the impact of managerial commitment on capabilities' development. Perhaps it can concentrate on the identification of particular aspects that can trigger or impede capabilities' development.

Knowledge management. To develop capabilities, prior research also suggested that a firm must count with or create a knowledge management function within its structure that enables the necessary learning processes that underpin capability development. A knowledge management function focuses on providing solutions to firms regarding the creation, retention, transfer, and utilization of experience and knowledge to help them compete (Alavi and Leidner, 2001; Cepeda and Vera, 2005). This knowledge management function must facilitate the sense-making of individuals and count with adequate information systems that can support the management of knowledge (Easterby-Smith and Prieto, 2008). A critical aspect that influences the impact of knowledge management in the capabilities development process is whether or not employees are willing to contribute to and use organizational knowledge (Tenkasi and Boland, 1996). Furthermore, a common erroneous belief about knowledge management is that its role has been thought of as managing knowledge that is easily handled, and not knowledge that is harder to codify yet potentially more significant for the development of capabilities and competitive advantage. For example, in the case of banks, knowledge management is believed to lead to the codification of the knowledge involved in daily operations, such as the opening of an account, rather than the codification and management of the knowledge involved in more challenging and competitive operations, such as acquiring other banks. An interesting avenue to increase our understanding about the role of the knowledge management function within capabilities development, can address how this function should effectively interact with the rest of the firm to guide and sustain over time deliberate efforts aimed at the development of capabilities.

Learning mechanisms. Previous research indicated learning mechanisms constitute the firm's systematic methods for reconfiguring resources and processes (Easterby-Smith and Prieto, 2008). Firms learn systematic ways to shape their resources and processes by learning how to articulate and codify knowledge, while at the same time they facilitate the accumulation and absorption of experience. Learning can be defined as knowledge creation, retention, and application (Vera and Crossan, 2003). Crossan, Lane, and White (1999) defined learning as a dynamic process of strategic renewal, involving creating new knowledge (exploration) and using existing knowledge (exploitation). The degree of success of firms lies in their potential to

conduct both exploration and exploitation activities simultaneously (Levinthal and March, 1993; March, 1991). Capabilities are effectively developed when a firm simultaneously explores and exploits its knowledge and competences (Easterby-Smith and Prieto, 2008). This combination is reflected in the concept of ambidexterity introduced by Gibson and Birkinshaw (2004). It involves two dimensions (adaptability and alignment) that give rise to capabilities. Learning mechanisms mediate between knowledge management and the capabilities developed, and contribute to the evolution of both. According to Zollo and Winter (2002), exploration and exploitation are both critical learning mechanisms. Exploration is important because it involves moving outside the boundaries of current practice. Exploitation also has a role, provided there are sufficient conditions in place to ensure that the consequences of exploitative actions are fed back as a way of reviewing the processes that underpin them. We suggest research addressing how firms can work on improving their ability to simultaneously explore and exploit knowledge can provide highly relevant insights to increment the effectiveness of the development of capabilities.

After having identified the key themes that prior research suggested to guide the development of adaptive political capabilities, we question these theoretical findings by asking: (1) Does a firm follow these themes to guide its adaption to host high political uncertainty contexts through the development of adaptive political capabilities? (2) How does a firm develop adaptive political capabilities?

4 METHODOLOGY

The previous chapters explained the contextual setting of our research and the bodies of literature informing our phenomenon of interest. This chapter explains the research problem that we investigated, the research questions we used to address such problem, and the research design and approach we followed throughout our inquiry. Our research design involved two sequential field studies. Therefore, this methodology chapter is divided into two main sections: study one case study and study two survey.

4.1 Research problem

Following Blaikie's (2010) first step in the major choices of social inquiry, we started our investigation by identifying the research problem. Our research problem stemmed from the accelerated internationalization processes that have confronted firms with different institutional frameworks which condition their activities and plans (Brouthers *et al.*, 2008). Specifically, recent political events showed that particularly the high political uncertainty contexts of emerging economies significantly affected firms' operations (Henisz and Zelner, 2010). Simultaneously, these markets had become strategic markets that firms could not simply decide to exit in the face of high political uncertainty. Furthermore, they were categorized by firms as sharing the characteristics of having authoritarian regimes and weak institutions. Consequently, as firms claimed that rather than attempting to influence these emerging markets' governments, they needed to deal with and adapt to their political challenges to sustain their operations, we identified this challenge as a non-market strategy research problem in the corporate political activity field. This research problem resonates with Lawton, McGuire and Rajwani's (2013) claim that "an up-and-coming challenge for CPA scholars is to understand non-market activity in emerging economies" (p. 14).

To address this research problem through our review of the existing literature domains of internationalization, uncertainty, the resource-based view (RBV), dynamic capabilities, and corporate political activity (CPA), we found that firms can confront high political uncertainty contexts through flexible responses that allow them to adapt to political challenges. We argue these flexible responses can be enabled by firms'

adaptive political capabilities. Therefore, the challenge of our research focused on further exploring the questions of “how” and “why” does a firm develop adaptive political capabilities to confront high political uncertainty contexts in emerging economies during its internationalization processes.

4.2 Research questions and design

To address our research problem, we developed several research questions which inspired a research design involving two sequential field studies. In our research design, we followed Bouchard’s (1976) suggestion of rather than choosing a method to guide our research inquiry, “asking the right question(s) and picking the most powerful method(s) for answering particular question(s)” (p. 402).

In our inquiry, we addressed the following research questions:

- *How does a firm develop adaptive political capabilities to confront high political uncertainty contexts in emerging economies during its internationalization process (1999-2011)?*
- *And, why does a firm develop adaptive political capabilities to deal with high political uncertainty contexts during its internationalization process (1999-2011)?*

* The timeframe from 1999-2011 was selected to position these research questions because it is important to set boundary conditions to better understand the development process of adaptive political capabilities and because it frames more than a decade of increasing high political uncertainty in Venezuela, Ecuador, and Nicaragua (IHS Global Insight, 2012).

To address these research questions, study 1 followed a case study approach that allowed us to better understand the unexplored phenomenon of adaptive political capabilities mainly through qualitative data as suggested by Barley (1990), Bouchard (1976), and Eisenhardt (1989). As a result of this study, we extended the RBV theory and dynamic capabilities by contributing to our understanding of a specific set of capabilities (adaptive political capabilities) and their development, through the suggestion of several exploratory propositions that support a framework to guide the

development of these capabilities by firms. And, we extended reactive corporate political activity research by suggesting a taxonomy of corporate adaptive political strategies that makes explicit the choices of flexible responses available to firms to adapt to host political contexts.

After finalizing this first study, we presented its results to the CEO and the top executive team of the firm on the 16th of January of 2013 and to the International Operations Directors of the firm on the 21st of February of 2013. Both audiences validated our results by stating to “view themselves and the firm”⁶ in our findings. After this validation, we decided to take a step further in our inquiry by conducting a second study through which we administered a survey to other firms in the processed food industry to test the generalizability of the exploratory propositions that resulted from our first study.

Our inquiry followed a hybrid or mixed methods and sequential contributions (qualitative to quantitative) research design that involved first the collection of qualitative data that was analyzed qualitatively during study 1, and then, the subsequent collection of quantitative data that was analyzed quantitatively during study 2 (Morgan, 2014; Saunders *et al.*, 2009). Both, the qualitative and quantitative data were collected in real organizations (Edmondson and McManus, 2007). Our research integrated a qualitative method as the core method, and a follow-up supplementary quantitative method to contribute additional strengths to enhance the effectiveness of the core method (Morgan, 2014). The goal of this sequential contributions design was to use the different strengths of different methods for different purposes with one method contributing to the other in a pre-planned fashion. This research design had the objective of first understanding an unexplored phenomenon through qualitative methods and secondly, understanding the broader applicability of small-sample qualitative findings through quantitative methods (Huff, 2009). The qualitative method used as the core method was the case study method and the follow-up supplementary quantitative method was a survey. Easterby-Smith, Thorpe, and Jackson (2012) have described this type of research design as compensatory since it combines qualitative and quantitative

⁶ I001, I008, I003, I017 and I025. These codes indicate the interviewees from whom this quote comes from.

studies to make up for the weaknesses of the other. Typically, qualitative studies are seen as weak on generalization and quantitative studies are weak at explaining why the observed results have been obtained.

This type of hybrid or mixed research design has been increasing in management studies (Bryman, 2009). Hummerinta-Peltomäki and Nummela (2006) examined four journals in the international business field and found that 17% of all empirical articles derived from mixed methods research. Cameron and Molina-Azorin (2009) also found that 15% of all empirical articles published in the *Strategic Management Journal* (SMJ) from 1997-2006 were based on a mixed methods approach. According to Molina-Azorin (2012), the empirical articles published by *SMJ* between 1980-2006 that particularly follow a qualitative to quantitative developmental sequence, where the qualitative method is used to inform the quantitative method, are: Shrivastava (1987); Nutt (1987); Marcus (1988); Reid (1989); Walsh (1989); Reger and Huff (1993); Calori, Johnson, and Sarnin, (1994); Pisano (1994); Sharma and Vredenburg (1998); Kale, Dyer, and Singh (2002); Matusik (2002); Thomke and Kuemmerle (2002); Uzzi and Gillespie (2002); King and Zeithaml (2003); and McEvily and Marcus (2005).

Despite an increasing number of published empirical articles using hybrid or mixed methods, our research design was not the result of a methodological fad but a question of methodological fit (Edmondson and McManus, 2007). To achieve methodological fit, the research questions, design, and contribution of any inquiry in any field should be influenced by the stage of development of the current literature at the time of the inquiry. The state of prior research on dynamic capabilities within the resource-based view and corporate political activity research was found to be at an intermediate theoretical developmental stage at the time of our inquiry. This state signifies that these streams of research generally present provisional explanations of phenomena, often introducing a new construct and proposing relationships between it and established constructs. In some cases, research questions even allow the development of testable propositions. This intermediate state of prior research on dynamic capabilities and corporate political activity, offered the possibility of a new study to simultaneously allow openness to new or unexplored insights from qualitative

data and to test several propositions (Edmondson and McManus, 2007). Consequently, the research design of our inquiry addressed an unexplored phenomenon through qualitative data to develop several exploratory propositions that were subsequently tested through a quantitative approach. The value of our design lies in that, despite the overall intermediate state of prior research, many of the studies on specific capabilities conclude by drawing findings or exploratory propositions from a single case such as Salvato (2009) and Ethiraj and others (2005), while our research design aimed to further address through a second study the extent of generalizability of our exploratory propositions - at least within their specific context. In this sense, we believe mixed methods allowed us to advance from one stage to another in the development of knowledge about our phenomenon of interest.

4.3 Research approach

Before describing our research methodology for each study, which involves the steps and techniques we used to generate and analyze data to explain our phenomenon of interest, we explain the research approach we adopted towards our inquiry. Social inquiry design is concerned with both, the logics used to develop knowledge – which steps and techniques this involves, frequently referred to as research methodology – and the approach to research that involves philosophical assumptions (Blaikie, 2010).

To uncover our research approach we start by addressing the *incompatibility thesis* (Howe, 1988). This thesis posits that qualitative and quantitative methods cannot and should not be mixed. Indeed, these two research approaches have resulted in two research cultures “one professing the superiority of deep, rich observational data and the other the virtues of hard, generalizable data” (Sieber, 1973, p. 1335). We hope social scientists move beyond these qualitative versus quantitative research arguments to recognize mixed methods as another research design alternative. The goal of mixed methods research is not to replace either of these approaches but rather to draw from the strengths and minimize the weaknesses of both in a single study (Johnson and Onwuegbuzie, 2004). Taking a *compatibilist position*, allows researchers to create mixed methods research designs that offer the best chance of answering their research problem.

In our inquiry we decided to follow this compatibilist position that allowed us to employ a mixed methods research design under a pragmatist approach. Tashakkori and Teddlie (1998) suggested that pragmatism can be employed as the philosophical underpinning for using mixed methods. Similarly, Greene (2008) also identified pragmatism as the leading philosophical approach to mixed methods. This view focuses on the problem to be researched and the consequences of the research (Brewer and Hunter, 1989, p. 74; Creswell and Plano Clark, 2007, p. 26; Miller, 2006; Tashakkori and Teddlie, 1998, pp. 29-30).

According to the philosopher John Dewey (1986) the key question that guides research under a pragmatist approach is what difference it would make to conduct a research one way rather than another. Similarly, Johnson and Onwuegbuzie (2004) recommended a “contingency theory” approach to research design, which accepts that quantitative, qualitative, and mixed research are all superior under different circumstances and it is the researcher’s task to examine the specific contingencies and make the decision about which research approach should be used in a specific inquiry.

From a pragmatist point of view, research is a form of action to meet goals which are framed in terms of a research problem or question(s). For Dewey (1986), inquiry begins with a problematic situation that needs to be addressed through action. The process of addressing a problem requires careful reflection on both the nature of the problem and the range of possible solutions. Pragmatic inquiry centers on the question, what difference would it make to act one way rather than another? This decision-making process leads to action and consequences, which need to be evaluated in terms of how well they address the original problem. Our inquiry followed this pragmatist approach since we started by identifying our research problem and then searched for the research design and methods that best addressed such problem.

Pragmatism sidesteps the contentious issues of truth and reality, accepts, philosophically, that there are singular and multiple realities that are open to empirical inquiry and orients itself toward solving practical problems in the “real world” (Creswell and Plano Clark, 2007, pp. 20-28; Dewey, 1925; Rorty, 1999). In that sense, mixed methods research uses quantitative methods to measure some aspects of the phenomenon in question and qualitative methods for others. Ultimately, pragmatism

brushes aside the quantitative/qualitative divide and ends the paradigm war by suggesting that the most important question is whether the research has helped “to find out what [the researcher] want[s] to know” (Feilzer, 2010; Hanson, 2008: 109). In other words, mixed-methods research is a research approach, where the research design is determined by what the researcher wants to find out rather than by any predetermined epistemological position.

4.4 Study 1: Case study

4.4.1 Research methodology

Given that the development of adaptive political capabilities by firms to sustain their operations in high political uncertainty contexts had not been previously researched and the nature of the phenomena, we initiated our inquiry by employing the case study method, to understand the foundations and themes that guide the development process of these capabilities. This in-depth case study research approach followed guidelines for case study research design provided by Yin (2009) and for the process of building theory from case studies provided by Eisenhardt (1989, 1991). We also used visual analysis techniques suggested by Miles and Huberman (1994), and suggestions on narrative analysis provided by Langley (1999) through which quotes from data are used to reflect participants’ reality.

To answer our “how” and “why” research questions we adopted an inductive logic. We started with the collection of data, followed by data analysis, and then derived generalizations (Blaikie, 2007). Our aim was to understand the development process of adaptive political capabilities from a bottom up approach that initiated with data collection and finalized with the suggestion of a taxonomy of corporate adaptive political strategies and a framework to guide the development of adaptive political capabilities.

4.4.1.1 A Latin American food firm

We selected a firm within the Latin American processed food industry to be the focus of our in-depth study (Yin, 2009). Salvato (2009) used a similar approach in his study of the evolution of the product development capability in “Alessi”, an Italian designer home furnishings firm. Ethiraj and others (2005) also studied the case of a

single Indian firm in the software industry to understand client-specific and project management capabilities. Our approach involved identifying and investigating the retrospective and longitudinal case of a “representative” (Yin, 2009) firm in the Latin American processed food industry that met the following criteria: (1) had a Latin American origin, (2) had managed to sustain operations for more than 10 years in Venezuela, Ecuador, and Nicaragua, and (3) had been categorized among the largest processed food firms in the Latin American region. Since Latin American firms have traditionally confronted uncertainty (IHS Global Insight, 2012), we were interested in conducting our in-depth research in a Latin American origin processed food firm that had managed to sustain operations in Venezuela, Ecuador, and Nicaragua, which were the Latin American countries that we found to relate to the high political uncertainty contexts of our interest. We defined that the processed food firm had to present sustained operations for at least 10 years in Venezuela, Ecuador, and Nicaragua since this assured that it had confronted political challenges to which it could have probably adapted. We also determined that the “size or amount of resources” of the processed food firm were key because they assured that the selected firm counted with sufficient resources to allow its adaptation to political challenges rather than its immediate exit in the face of political uncertainty.

We found a large and representative Latin America processed food firm that met these criteria and provided us with the required access to conduct our research. We use the pseudonym of “Latam” to protect its identity and that of the interviewees’ who allowed us to explore and understand our phenomena of interest. Table 9 shows some of the characteristics of Latam.

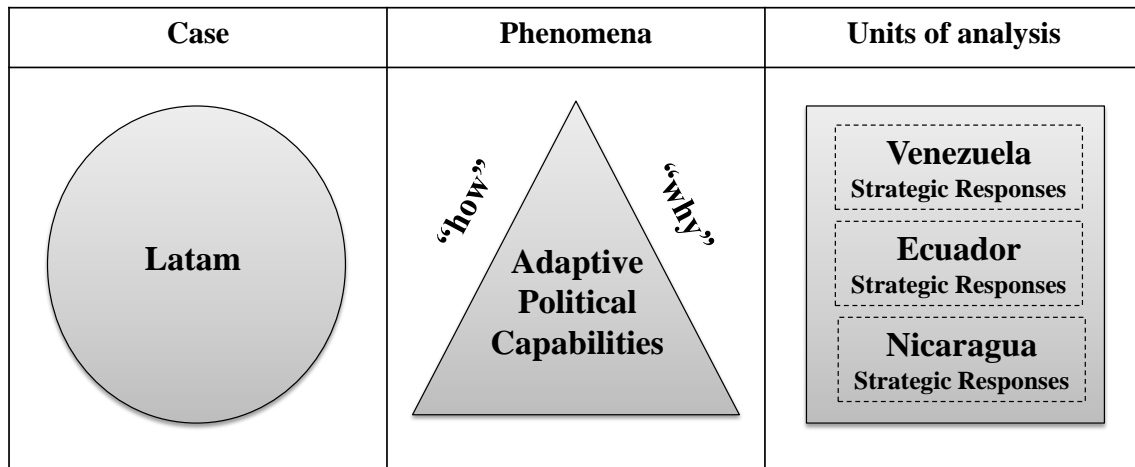
Table 9: Characteristics of Latam

Profit from international sales 2010	644 million USD
Number of employees	29,000 employees
International presence	71 countries

Source: Elaborated by author based on firm data

Within this “representative” Latin American processed food firm, we investigated Venezuela, Ecuador, and Nicaragua as the three different contexts in which Latam had probably adapted to political challenges. Our case was a longitudinal case that focused on the timeframe from 1999-2011 to understand capability development during the highest political uncertainty timeframe that these three countries and the firm had confronted in the last 50 years. We explored our “how” and “why” questions inside Latam through its operations in these three contexts by concentrating on adaptive political capabilities as our phenomena of interest. To understand how adaptive political capabilities were developed by Latam, we analyzed its strategic responses to political uncertainties in Venezuela, Ecuador, and Nicaragua. Therefore, our units of analysis were first, the three different contexts (Venezuela, Ecuador, and Nicaragua) and secondly, Latam’s strategic responses to the political uncertainties it encountered in each context. We described and analyzed Latam’s strategic responses in Venezuela, Ecuador, and Nicaragua to find a total of 36 flexible responses and 0 control or cooperative responses had been adopted by the firm to start and sustain its operations in these markets. To identify and describe each of the flexible responses, we triangulated multiple sources of data observing how Latam had responded to the various political uncertainties. Since we were interested in understanding which had been Latam’s strategic responses to political uncertainties, the firm was our case (see Figure 6). In other words, we followed a single-embedded case design that involved researching multiple units of analysis (first, the three contexts and secondly, Latam’s strategic responses in each context) within a single firm (Yin, 2009).

Figure 6: The case, phenomena of interest, and units of analysis



Source: Elaborated by author

It is important to note, that our study focused on the *legal* strategic responses that Latam used to start and sustain its operations in Venezuela, Ecuador, and Nicaragua. Our focus was determined by two main reasons. Firstly, the selected firm’s policies explicitly prohibit any acts of corruption and state that any employee who incurs into an act of corruption will be immediately expelled. Throughout our inquiry, we validated that this policy had become a shared value among the employees and found examples of situations where although an employee from Latam had been asked to incur into an act of corruption, he or she had not done so. We found that in fact Latam had enforced this behaviour by designing ways to tackle these situations. For example, in one host country a manager with a foreign nationality was requested to provide local authorities with a bribe in order to avoid their request of additional documentation as evidence of Latam’s compliance with a specific regulation. Instead of providing these local authorities with a bribe, this manager informed his supervisor within Latam and the firm responded by asking other employees, who had the local nationality, to communicate with the local authorities to provide them with all of the additional documentation required to prove Latam’s compliance with the law. Consequently, if our research interest included the study of the development of illegal strategic responses, the selected firm would not have been an appropriate case for our inquiry. Lastly, our inquiry intends to provide a “walking stick” (Hafsi and Howard, 2005) for firms that face the challenge of sustaining their operations in high political uncertainty

markets through legal activities. In this sense, despite worldwide increasing corruption indexes (Transparency International, 2012), our aim is to inform and promote legal corporate practices in the managerial world. We intend to guide firms on their development of adaptive political capabilities that enhance their opportunities of legally sustaining international operations rather than increasing their risks through acts of corruption as means of adaption. Therefore, we have excluded the study of corruption or illegal activities from our inquiry.

4.4.1.2 The three foreign high political uncertainty contexts: Venezuela, Ecuador, and Nicaragua

We analyzed “how” and “why” Latam had adapted to political challenges in Venezuela, Ecuador, and Nicaragua because initially these contexts were identified as high political uncertainty contexts in Latin America (Vassolo *et al.*, 2011; IHS Global Insight, 2012). Secondly, because Latam also identified these three same contexts as strategic markets in which it had confronted it’s most challenging political uncertainties. Below, Table 10 shows a list of the 20 most important strategic markets for Latam following a descendent order starting with the country rated as having the highest political uncertainty context and ending with the country rated as having the lowest political uncertainty context. To calculate these average ratings, we asked Latam’s CEO and its two Internationalization VPs to individually define which were the top strategic markets for Latam. Then, we presented them with a list that aggregated all of the most strategic markets they had identified and we asked them to rate the degree of political uncertainty they perceived that Latam’s operations had confronted in each country between 1999-2011. Participants were given a scale from 1-10 to guide their ratings in which 1 was low political uncertainty, 5 was medium political uncertainty, and 10 was high political uncertainty.

Table 10: Ratings of political uncertainty for Latam’s most strategic markets

Market	Average ratings
Venezuela	10
Ecuador	8,7
Nicaragua	7
Honduras	7
Africa	6,3
Russia	6
Peru	5,7
Guatemala	5,7
El Salvador	5
China	5
Mexico	3,7
Colombia	3,7
Dominican Republic	3,3
Spain	3,3
USA	3
Southeast Asian countries	3
Brazil	3
Panama	3
Costa Rica	2
Chile	2

Source: Elaborated by author based on firm data

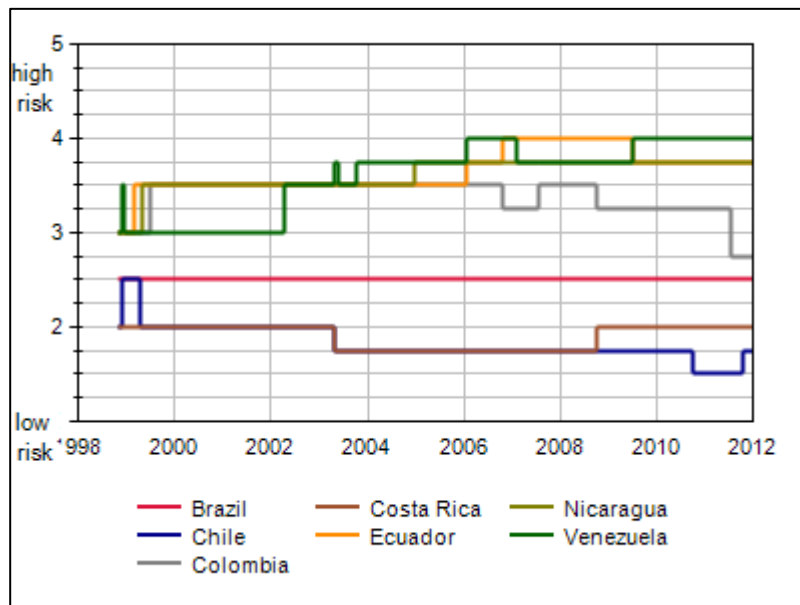
As it is shown Venezuela, Ecuador, and Nicaragua were found to be the countries in which Latam had confronted the highest political uncertainty contexts. From top to bottom, Nicaragua occupied the third place followed by Honduras which both scored an average rating of 7. Honduras was not included in the research because through conversations with the CEO and the Internationalization VPs, they emphasized that the lessons they had learnt on how to confront high political uncertainty contexts came from their experience in the first three countries.

4.4.1.3 The location of Latam’s corporate office

It is important to note that Latam has its corporate office located in the Latin American country of Colombia. Colombia, as many other Latin American countries, follows a democratic regime and a market openness approach. According to IHS Global Insight (2012), it has significantly improved its political stability during the last half decade (see Figure 7). Political risks in Colombia are relatively low and despite the

persistence of civil conflict, the country has one of the most robust democracies in Latin America (IHS Global Insight, 2012).

Figure 7: Evolution of political uncertainty ratings from 1999-2011 of Colombia vs. other Latin American countries



Source: IHS Global Insight (2012)

Being the corporate office of Latam located in Colombia, it is important to understand this country's political relations with Venezuela, Ecuador, and Nicaragua and their implications for our research. Colombia's political relations with Ecuador and Venezuela have suffered frictions during the last decade due to their differing political stances towards their understandings of democracy and security. However, Colombian President Juan Manuel Santos who was elected in 2010 has strongly improved relations with Ecuador and Venezuela. Nonetheless, spill over effects from drug trafficking and the activities of illegal armed groups remain potential sources of friction in Colombia's relations with these two neighbouring countries (IHS Global Insight, 2012). With Nicaragua, Colombia faces a territorial dispute over San Andres, Providencia, Santa Catalina, and other territories, that has for decades affected their political relation. Since 1803, Spain declared these islands as Colombian territory. Later, during the 24th of March of 1928, the Esguerra-Barcenas treaty was signed between Colombia and Nicaragua. This treaty recognized that San Andres, Providencia, Santa Catalina, and other territories were Colombian. The meridian 82 was determined as the limit between

both countries. During 2001, Nicaragua declared the Esguerra – Barcenas as “null” and presented a lawsuit against Colombia in the International Court of Justice claiming as Nicaraguan the territories to the east of the 82 meridian. During the 13th of December of 2007, the International Court of Justice recognized the sovereignty of Colombia over San Andres, Providencia, and Santa Catalina but it left open the consideration of border limits by the 82 meridian and the sovereignty of some small islands like Serranilla, Quitasueño, Serrana, Roncador, and Bajo Nuevos. This territorial dispute between Colombia and Nicaragua continues to affect the political relation between the two countries. Another notable challenge to the political relations between Colombia, Venezuela, Ecuador, and Nicaragua stems from their political stance towards the U.S. While Colombia has traditionally been recognized as an ally of the United States in the Latin American region, opposingly Venezuela, Ecuador, and Nicaragua have developed over the last decade an increasingly stronger discourse against “*the Yankee imperialism*” (Vassolo *et al.*, 2011).

These characteristics of the political relations of Colombia, as Latam’s location of its corporate office, with Venezuela, Ecuador, and Nicaragua set the ideal scene for our research. In chapter 2, Figure 3 showed the increasing evolution of the political uncertainty country ratings of Venezuela, Ecuador, and Nicaragua (IHS Global Insight, 2012). Besides these political uncertainty country ratings, which evidence that the political contexts of these countries have become more uncertain during the last decade, it is also evident that the political relations between Colombia and these countries have had and still sustain difficult tension points. Consequently, not only have the national political contexts of Venezuela, Ecuador, and Nicaragua been rated as increasingly uncertain but similarly the international political relations of these countries with Colombia have also placed a challenge for firms located in Colombia and having international operations in these three markets. Unsurprisingly, Latam, rated Venezuela, Ecuador, and Nicaragua as the most challenging international markets in terms of their political contexts. This demonstrates that not only have Venezuela, Ecuador, and Nicaragua been increasing their country level political uncertainty during the last decade (IHS Global Insight, 2012) but also have their international relations with Colombia not made it “easier” for firms with headquarters in Colombia to sustain their international operations in these three markets. Consequently, both, the national

political contexts of Venezuela, Ecuador, and Nicaragua and their international political relations with Colombia, provide the ideal setting for us to explore how a firm with a Latin American origin that is based in a Latin American emerging economy manages to sustain its international operations in foreign high political uncertainty contexts in other emerging economies – being those political contexts uncertain at the country level and in their international relations with the country of origin of the host firm.

4.4.1.4 Data sources and collection

Data gathering spanned over 8 months, from July of 2011 to February of 2012 during which 58 company or office visits were carried out to conduct the interviews and 3 company visits involved the revision of case study drafts by key informants to enhance validity. Our collected data implied a mix of primary and secondary data. Specifically, our data came from interviews, documents, and archival data which were triangulated during the analysis stage to enhance validity and reliability through the use of multiple sources of information (Yin, 2009). However, given the need to carefully trace political events, the uncertainties generated for Latam due to these events, the strategic responses of Latam and their outcomes, the main source of evidence came from interviews.

4.4.1.4.1 Primary data: Interviews

We interviewed 60 key informants who are identified in Appendix 2. These included board members of Latam, the CEO, presidents of the business lines, managers located in Venezuela, Ecuador, and Nicaragua and in charge of the operations in these countries, international business directors, logistic managers, marketing directors, coordinators of centralized services such as treasury, auditing, legal assessment, human resources, risk management, and IT. Informants' collaboration with Latam ranged from 2 to 33 years with an average of 14 years, hence providing an extensive coverage of the focal 13 years period (1999–2011). We also interviewed industry or trade experts such as an ex-CEO of a retail chain in Venezuela, the President of a trade association, and an ex-Ambassador of Colombia in Venezuela, to enhance construct validity. Our interviews were face to face, in-depth, semi-structured interviews ranging from 30 to 150 minutes. These were conducted following Huber and Power's (1985) and Miller, Cardinal, and Glick's (1997) guidelines for increasing accuracy in retrospective

research by identifying multiple knowledgeable informants for our research interest, including informants from different perspectives, and using pre-tested questions and follow-up probes. We asked informants about concrete events and motivated their responses by assuring confidentiality and explaining the usefulness of the research. Through the interview process we built our interviewee list by using the organizational chart and by continuously extending the number of participants by including those that were referred by others. We finalized our interviews when saturation was achieved and when we simultaneously validated our interviewee list with 5 key informants to assure that the total population that had been exposed to decisions regarding operations in these three countries had been interviewed. Our interviewees came from different areas and levels within Latam because all of them were called upon adapting to the various political challenges. This allowed a broad perspective of Latam's adaption process from its executive team to its operating level. All interviews were conducted, recorded, transcribed, and analyzed in Spanish. The final results and the quotes extracted from the interviews were translated to English. All translations were validated by a third-party.

To conduct our interviews, we designed a presentation letter and an interview protocol which we previously tested during two pilot interviews with two CEOs of other different Latin American processed food firms. In Appendix 3, we include the English version of the presentation letter and the interview protocol that we followed to conduct our interviews. Throughout this appendix we point out the changes we made to their original versions according to the feedback we received during the pilot interviews. Comments starting with P1 explain the changes resulting from the first pilot interview and comments starting with P2 explain the changes resulting from the second pilot interview. Appendix 4, presents the Spanish version of the presentation letter and interview protocol previously presented in Appendix 3.

4.4.1.4.2 Secondary data: Documents and archival data

Several hundred pages were available in documents about Latam and about the tools it developed to guide its operations in high political uncertainty contexts. About Latam, we found of particular interest the various annual reports from 2004-2011 and the sales and employees reports from 1999-2011 which allowed us to longitudinally and

retrospectively reconstruct the evolution of sales and the number of employees in Venezuela, Ecuador, and Nicaragua. We also used Latam's organizational chart to validate that our interviewees made up the total population exposed to decision-making about these three markets from 1999-2011.

Moreover, we found several tools that Latam developed to guide its distribution and production operations specifically in Venezuela. These tools evidenced that Latam had started codifying part of the knowledge it had developed in order to improve its competitive position to confront future political uncertainties, particularly in Venezuela. Below, Table 11 shows a description of the documents we found.

Table 11: Documents

Source	Document	Description
Firm	Annual Reports 2004-2011	These documents provided general information about Latam.
	Organizational Structure	
	Sales and employees report 1999-2011	
Distribution operations in Venezuela	Strategic checklist	<p>Identified strategic topics, the people responsible for each topic and the actions that have, are or will be implemented regarding these strategic topics.</p> <p>The strategic topics included: Property structure, protection of IT systems and information, protection of brands, relations with associations, communications, monitoring of legal affairs, corporate social responsibility initiatives, human resources, and expatriates.</p>
	Operative checklist	<p>Identified by area all of the operative activities or reports that had to be up dated to assure that governmental inspections were passed. The people responsible and the dates or periodicities of each report or activity were specified.</p> <p>It also included the requirements that the logistics operator had to meet and their periodicity.</p> <p>The areas responsible for the operative activities or reports were: General management, administrative direction, accounting, taxing, treasury, human resources, regional sales, and logistics.</p>
	Directory of legal advice services in Venezuela	Provided a directory listed by topic or process that indicated which company or companies in Venezuela could provide specialized legal advice to Latam.
	Corporate support	Indicated who was responsible within Latam of what process and who supported this process within the corporate services centre. It also included comments about how each process was being improved.
	Calendar for payment of taxes	Detailed what taxes had to be payed, who within Latam was responsible, and the dates in which they had to be payed.
	Legal status of brands and sanitary registries	<p>Identified the brands directed to the Venezuelan market along with an explanation of their current legal status.</p> <p>Identified the products directed to the Venezuelan market along with the status of their sanitary registries.</p>
	Protocol to manage governmental inspections	Instructed employees within Latam on how to manage any type of governmental inspection that could take place at any distribution site in Venezuela.

Source	Document	Description
Production operations in Venezuela	Protocols System	Instructed employees within the production operations on how to manage governmental inspections that could take place at the plant or distribution agencies in Venezuela.
	Training Guide Special Support Team for Protocols System	Provided information required for the training of the employees that conformed the special support team for the protocols system. Its first section provided information about the regulatory system that allowed governmental inspections. The second section provided instructions on how to respond to possible governmental inspections.
	Training Guide Employees in Agencies for Protocols System	Provided information required for the training of the employees in the distribution agencies regarding governmental inspections.
	11 Topic Specific Protocols	Instructed employees within production operations on how to manage the details of the different specific types of governmental inspections that could take place at the plant in Venezuela.
	Power map	Identified the different interest groups that surrounded the production platform and analyzed their potential impact on Latam's operations. This map allowed Latam to design ways to interact with these interest groups.
	Analytical Matrixes (2009, 2010, 2011)	Identified and evaluated the main themes that affected production operations. These matrixes supported the development of strategies and indicators that allowed production operations to be sustained in Venezuela.
	Ready Project	Prepared production operations for an expropriation. This was a confidential project.
Total documents	37	

Source: Elaborated by author based on firm data

In addition to these documents, we revised several media articles that described the political events that took place in Venezuela, Ecuador, and Nicaragua to validate the chronology of events from 1999-2011 in each country. We also found three articles that discussed some of Latam's strategic responses to political uncertainties in Venezuela. Although Latam always tried to maintain a low and politically neutral profile, the media managed to publish articles about some of its strategic responses. Below, Table 12 describes our archival data.

Table 12: Archival data

Source	Document	Description
Media	Articles about Venezuela, Ecuador, and Nicaragua (60)	These articles came from different sources of information to assure the inclusion of the most relevant events in the chronologies built for each country.
	Articles about Latam (3)	These articles described the strategic responses of Latam towards the high political uncertainty confronted in Venezuela.
Total archival data	63	

Source: Elaborated by author

We created a case study database that categorized all interview recordings and transcripts, documents, and archival data so that they were readily available for subsequent reinterpretation. This database also enabled the tracing of a chain of evidence from the research questions to the conclusions (Yin, 2009).

4.4.1.5 Data analysis

We followed three steps to analyze our data. *The first step* consisted in building three individual chronologies of the critical political events that Latam confronted in Venezuela, Ecuador, and Nicaragua from 1999-2011. These chronologies ranged from 10-53 pages and included descriptions of the political events that took place, the uncertainties these events generated for Latam, the strategic responses of Latam towards these uncertainties, and the outcomes of these strategic responses. Moreover, each chronology described the adaptive political capabilities development process, focusing on the flexible responses of Latam towards the different political challenges it faced. These chronologies were built upon the triangulation of interviewees, documents, and archival data which allowed us to retrospectively reconstruct each timeline. Our aim was to develop a longitudinal factual account of the most important events in each context following Miles and Huberman's (1994) suggestion of conducting within case analysis through data time-ordered displays of critical incidents. Through these visual displays we presented information systematically to understand the sequence, location, and connection of events. We intended to clarify and add detail to an accurate and reliable description of accounts that showed how Latam developed adaptive political capabilities. More important, building on the work of Kobrin (1979, 1981), through

these chronologies we created the basis of a political assessment tool for Latam by codifying its past political uncertainties, strategic responses, and outcomes. To complement these chronologies, we created graphs from the data found in the documents provided by Latam to illustrate the evolution of sales and number of employees from 1999-2011 for each country. Once the three chronologies were built, we cross-checked each one individually across key informants to enhance their validity and reliability (Yin, 2009).

In the *second data analysis step*, we compared the three chronologies and graphs in terms of similarities and differences. The visual displays of the chronologies and graphs were very useful at this stage but they were complemented with a coding exercise of the 60 interviews that was supported by the NVivo 9® software (sponsored by Cranfield University). Our analysis drew attention to the visual displays of the chronologies and graphs “making sense of them”, knitting them together with the themes arising from the interviews. Our analysis focused on the themes we found to guide the development process of adaptive political capabilities in the case of Latam. We used quotes from the interviews to support our explanation of these different themes.

The *third and final step* consisted in comparing the themes the firm followed to develop adaptive political capabilities with the literature. Through multiple comparisons between data and theory (Eisenhardt, 1989), we developed exploratory propositions that supported our suggestion of a framework to guide the development of adaptive political capabilities. During this stage, through our understanding of the development process of adaptive political capabilities, we also suggested a taxonomy of corporate adaptive political strategies that makes explicit the flexible responses that were used by Latam to adapt to its political contexts. This process lasted three months and involved a constant iteration between theory and data to sharpen the validity of results. Since the result of this final stage was our suggestion of a framework to develop adaptive political capabilities and a taxonomy of corporate adaptive political strategies, we describe our first study as a one that extended theory since it extended the RBV theory and dynamic capabilities by contributing to our understanding of a specific set of capabilities (adaptive political capabilities) and their development (Lee, Mitchell,

and Sablynski, 1999). And, it also extended reactive corporate political activity research through the suggestion of a taxonomy of corporate adaptive political strategies that can be used by firms to understand their choices to adapt to host political contexts.

After concluding our first study, we decided to conduct a second study to further advance our inquiry. Through this second study, we utilized a survey to test the exploratory propositions that resulted from our first study.

4.5 Study 2: Survey

4.5.1 Research methodology

Since the results of our first study allowed us to suggest several exploratory propositions that support a framework to guide the development of adaptive political capabilities by firms, the objective of our second study focused on testing through an exploratory quantitative study the generalizability of these exploratory propositions – at least within their specific context.

Consequently, in our second study we adopted a deductive logic that allowed us to test our exploratory propositions by collecting appropriate data (Blaikie, 2007). Our aim was to test our exploratory propositions by matching them with data from a cross-sectional survey that followed guidelines provided by Fink (2013). This involved understanding the development process of adaptive political capabilities from a top down approach that initiated with the testing of our exploratory propositions through the collection of relevant data and finalized with the use of statistical techniques to reject or provisionally accept each exploratory proposition. (Accepting an exploratory proposition is always provisional since new data may emerge that rejects it later on).

4.5.1.1 Unit of analysis

Our first study focused on the case of Latam, a Latin American origin processed food firm with a corporate office in Colombia that sustained operations in Venezuela, Ecuador, and Nicaragua between 1999 and 2011. Since we wanted to test the generalizability of the exploratory propositions that resulted from this first case study, we decided to conduct a survey to other processed food firms that had operations in any of the three emerging markets of our inquiry (Venezuela, Ecuador or Nicaragua)

between 1999 and 2011. Hence, we describe our unit of analysis as processed food firms that had operations in Venezuela, Ecuador or Nicaragua between 1999-2011.

4.5.1.2 Population

To estimate our population of study, we first investigated publicly available secondary data to try to identify which processed food firms had operations in Venezuela, Ecuador or Nicaragua between 1999 and 2011. However, our research efforts were not fruitful. The public data we found available was very limited and did not allow us to find or deduce in any way such information. Consequently, we acknowledged we required primary data to identify the population of processed food firms that had operations in Venezuela, Ecuador or Nicaragua between 1999 and 2011. The difficulty in accessing primary data in Venezuela, Ecuador, and Nicaragua lied in that researchers in the CPA field currently run high risks of being persecuted in these three countries, therefore we were not allowed by our research sponsors to travel to these countries or to even contact processed food firms in these countries through phone calls. We found that the best way to safely proceed with our study was to contact all processed food firms located in a different country from Venezuela, Ecuador or Nicaragua, to identify which had operations in Venezuela, Ecuador or Nicaragua between 1999 and 2011. Since Latam, the firm that constituted our case study, had its corporate office located in Colombia, we decided to investigate all of the processed food firms operating in Colombia to identify which had operations in Venezuela, Ecuador or Nicaragua between 1999 and 2011.

Through the Chambers of Commerce in Colombia we were able to access the contact information of the processed food firms operating in Colombia's largest cities. According to these official records, there are 1219 processed food firms in Colombia's largest cities. Below, Table 13 shows for each city the number of processed food firms that were identified.

Table 13: Processed food firms in Colombia

Cities	Processed food firms that were identified	Processed food firms that complied with criteria	Processed food firms that answered the survey	
Medellin	351	7	7	100%
Bogota	84	14	8	57%
Cali	262	16	11	69%
Barranquilla	108	2	2	100%
Cartagena	102	0	0	0%
Pereira	311	1	1	100%
Manizales	1	1	1	100%
Total	1219	41	30	73%

Source: Elaborated by author

We contacted by phone each processed food firm that was identified in every city to ask its International Manager/Director/Coordinator or General Manager if the firm had operations in Venezuela, Ecuador or Nicaragua between 1999 and 2011. To guarantee a truthful response on behalf of each firm, we previously developed a phone call protocol that was followed during all phone calls. This protocol can be found in Appendix 5. About this phone call protocol, we want to highlight two points. Maria De Villa (PhD candidate presenting this thesis) works as an Assistant Professor at EAFIT University in Colombia. Therefore, it was very important to introduce ourselves to all firms as a group of researchers from EAFIT University and Cranfield University, taking advantage of the fact that EAFIT University has a very strong brand in Colombia and firms trust its School of Management. This gave confidence to the contacted firms. Secondly, we offered the contacted firms the possibility to participate in a contest to win an executive education course offered by EAFIT University if they met the criteria to participate in our study. This statement was also very important because it quickly allowed the contacted firms to perceive the seriousness of the study due to its institutional support.

We found that from the total 1219 processed food firms that were contacted, only 41 met with the criteria of having had operations in Venezuela, Ecuador or Nicaragua between 1999-2011. It is important to note, that from those 41 processed food firms that constituted our population, 90% (37) of them are located in Bogota, Medellin, and Cali. This was not surprising since these three cities are Colombia's

largest cities and 71.5% of the employment provided by the industry is concentrated in firms located in Bogota (40.1%), Medellin (19.8%), and Cali (11.6%) (DANE, 2010).

4.5.1.3 Sample

Since a small number of firms constituted our population (41 processed food firms), we invited all of them to participate in our study. In response, 30 processed food firms (73%) accepted our invitation and completed the survey throughout the second semester of 2013. These 30 firms answered the survey appropriately and completely so no surveys had to be discarded, all were usable. Thus, our final response rate was 73%.

We describe our sample as a non-probabilistic convenience sample since we invited all of the firms in our small population to answer the survey and conveniently used the responses of the firms that eventually accepted to participate by appropriately and completely answering the survey.

4.5.1.4 Respondents

Once we identified our population of firms and invited all of them to participate, given that we defined our unit of analysis as processed food firms that had operations in Venezuela, Ecuador or Nicaragua between 1999-2011, the issue then became what level of response from a particular firm was necessary to be considered a reliable representation of the firm? The use of single respondent data has been found to introduce potential error, as an individual's response may not be a fully accurate reflection of the firm (Norburn, 1974). Consequently, we decided to incorporate in our study two respondents per firm. Respondents were firm employees whose position was either International Managers/Directors/Coordinators or General Managers.

From the 30 firms that responded the survey, 24 firms had two of their employees conjunctly respond (completing one survey per firm) while 6 firms had two of their employees respond separately (completing two surveys per firm). For the 6 firms in which the two employees responded separately, we calculated the Spearman's rank correlation coefficient to assess the level of agreement between the two individual respondents upon the two most important variables in our study: "control or cooperative responses" and "flexible responses". For the variable "control or cooperative responses" we found SPSS could not calculate the Spearman's rank correlation

coefficient because the responses of the two respondents per firm were exactly the same in the six cases. For the variable “flexible responses”, the average correlation coefficient was 0.8, which suggests very strong inter-rater agreement between the two respondents in the 6 firms.

Two important methodological implications followed from the high levels of consistency found between the two separate respondents for the 6 firms. First, this confirmed that a reliable representation of a firm can be derived by averaging the two individual responses from a firm. This procedure was followed to provide a single firm level response for each of the 6 firms in the sample for which there were two respondents. Second, the high levels of reliability (agreement) between individual respondents from the same firm also implied that two respondents who simultaneously answered a single survey for one firm were likely to be reliable of the perception held by the firm. In other words, our results provide justification for the inclusion in this study of those surveys that were responded by two separate individuals constituting two separate surveys per firm and of those surveys that were responded by two individuals simultaneously constituting only one survey per firm.

4.5.1.5 Survey design

The design of the survey we utilized to collect our data started by listing our exploratory propositions and identifying their variables. Below,

Table 14 encompasses our exploratory propositions from study one and identifies the variables of each proposition.

Table 14: Propositions and variables

Propositions	Variables from propositions
<i>P1: Host firms depend more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in foreign high political uncertainty contexts.</i>	<ul style="list-style-type: none"> • Flexible responses • Control or cooperative responses
<i>P2a: Host firms that own a production operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront potential expropriation than on developing flexible responses to confront policy changes, to sustain their production operation.</i>	<ul style="list-style-type: none"> • Flexible responses to confront potential expropriation • Flexible responses to confront policy changes

Propositions	Variables from propositions
<p><i>P2b: Host firms that own a distribution operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront policy changes than on developing flexible responses to confront potential expropriation, to sustain their distribution operation.</i></p>	<ul style="list-style-type: none"> • Flexible responses to confront policy changes • Flexible responses to confront potential expropriation
<p><i>P2c: Host firms that own a distribution and a production operation simultaneously in a foreign high political uncertainty context, depend on developing both, flexible responses to policy changes and flexible responses to potential expropriation, to sustain their distribution and production operations.</i></p>	<ul style="list-style-type: none"> • Flexible responses to confront policy changes • Flexible responses to confront potential expropriation
<p><i>P3: Host firms rely more on their human capital resources than on their organizational and physical resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.</i></p>	<ul style="list-style-type: none"> • Human capital resources • Organizational resources • Physical resources
<p><i>P4: The higher the level of political uncertainty perceived by host firms in a foreign context, the more they rely on the contextual knowledge of their internal and external human resources to develop adaptive political capabilities to sustain their operations.</i></p>	<ul style="list-style-type: none"> • Level of political uncertainty perceived • Contextual knowledge of internal and external human resources
<p><i>P5: The higher the level of political uncertainty perceived by host firms in a foreign context, the more they reconfigure their organizational structure and processes to sustain their operations.</i></p>	<ul style="list-style-type: none"> • Level of political uncertainty perceived • Reconfigurations of organizational structure and processes
<p><i>P6: Most host firms are obliged to invest in physical resources to develop flexible responses in contexts with political uncertainty, despite the level of political uncertainty they perceive in these contexts.</i></p>	<ul style="list-style-type: none"> • Investments in physical resources • Level of political uncertainty perceived
<p><i>P7: Host firms with lower managerial commitment to knowledge articulation and codification perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts.</i></p>	<ul style="list-style-type: none"> • Managerial commitment to knowledge articulation and codification • Lose the knowledge developed

Source: Elaborated by author

Following this first step, we proceeded to carefully study the conceptual meaning and dimensions or items that make up the definition of each of the variables in our propositions. Then, we revised the existing literature to identify the measurement instruments that had already been used to operationalize these variables. We only found measurement instruments had been developed in the literature for the variables “level of

political uncertainty perceived” and “control or cooperative responses”. We decided to adopt the measurement instruments of these two variables in our survey taking steps to ensure these were appropriate for our sample firms and context. However, the lack of measurement instruments for our other variables meant that for their operationalization or the definition of their measures, we had to use their definitions and dimensions or items available in the literature and in some cases resulting from our research. Only in the case of the variables “flexible responses”, “flexible responses to confront policy changes”, and “flexible responses to confront a potential expropriation”, due to an absence in the literature of a robust definition of these concepts and their dimensions or items, we used the results of our first study (the taxonomy of corporate adaptive political strategies) to develop their measures. It was not surprising to note an absence in the literature of these last three variables since from the start and throughout our inquiry we observed that these variables have not been very much addressed in CPA research.

After having defined the operationalization of the variables in our propositions, we defined several control variables that included size, country of origin of the firm, experience in high political uncertainty contexts, amongst four more control variables to test their influence on our propositions. Then, we coded all dimensions or items for all variables by assigning a numeric value to every possible answer for each. For a detail account of this process to which we refer to as the “back-bone” or construction process of our survey, please refer to Appendix 6.

After having constructed our survey’s “back-bone”, we proceeded to elaborate its first draft and presented it to three experts in the CPA field in Colombia (Juan David Escobar, Jose Ignacio López, Jorge Ignacio Paz). This was a very important step to validate with experts that the design, content, and language of the survey would “make sense” to its target respondents. These experts made two interesting suggestions. First, that in the items where we used the term “lobbying” we should include its definition to make sure respondents had the same interpretation of the term. Therefore, we proceeded to include a definition of “lobbying” in the survey. We defined the act of “lobbying” as communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government

towards the firm's own interests. Second, that after completing the survey we asked respondents if their firm had used any other tactic that was not included in the survey to deal with the high political uncertainty contexts of Venezuela, Ecuador or Nicaragua. We followed this suggestion and found that in neither the pilot nor the final survey was any additional tactic suggested by respondents.

After the validation of the survey by these experts, we conducted a pilot study within Latam. We had 7 respondents answer our survey which was in the form of a printed Microsoft Word document. We presented our survey in the form of a printed Microsoft Word document to the participants in this first pilot study because at that time we thought we were going to gain access to a food industry association meeting where many managers were going to be present and no computers were going to be available for them to complete a digital survey. From this first pilot study, respondents' feedback allowed us to note three important ways in which we could improve our survey. First, despite we explained respondents the reason why we presented to them a Microsoft Word document version of our survey, they suggested we should definitely change it to a digital version which could be friendlier to respondents by using filters to their answers to only show the questions that were applicable to their case instead of showing all questions. This would make the survey shorter and easier to answer. Second, re-ordering questions could also improve the presentation of the survey by starting with the obligatory questions for all respondents and then proceeding with the filtered questions according to the previous answers of each respondent. Third, respondents suggested we should be present and available to future respondents as they answered the survey in case they had any questions. They highlighted that the nature of their suggestion was not based "on a bad survey design" but on the fact that as respondents they had never answered before a survey about this topic or any related topic and they felt it was probably going to be the same for most respondents. In such case, they thought that being able to ask for any help gave them confidence about their answers.

In response to this feedback we developed an improved digital version of the survey using Qualtrics® software (sponsored by Cranfield University) and decided to be available to respondents during their completion of the survey. Thereafter, we conducted a second pilot study in which 6 different respondents from Latam answered

our digital survey. This time, respondents manifested they found the survey to be clear and easy to answer. As researchers, we found our presence during respondents' completion of the survey enabled them to answer it without any difficulties. Due to this positive feedback, we decided to initiate data collection in September 2013 using this last digital version of our survey.

4.5.1.6 Variables and measures

In this section, we explain the variables that informed our survey and the operationalization of their measures.

Variables from propositions

Level of political uncertainty perceived. Level of political uncertainty perceived refers to the perception of firms about the level of political uncertainty. We measured this variable for Venezuela, Ecuador, and Nicaragua between 1999 and 2011. We used the “government/political policies” instrument that is part of the “Perceived Environmental Uncertainty 2” instrument used by Brouthers and others (2002) to assess Perceived Environmental Uncertainty. This instrument was developed and tested by Werner and others (1996), based on the work of Miller (1993). The “Perceived Environmental Uncertainty 2” instrument consists of 28 items aggregated to measure the perception of a country's government policies, macroeconomics, materials, product market, and competition. We only used its government/political policies instrument (composed of 10 items) since our objective was to only measure the level of perceived political uncertainty by firms in the three countries of our study. This instrument was included in our survey through one question composed of 10 items that measured the level of political uncertainty perceived by each firm in Venezuela, Ecuador or Nicaragua through a scale from 1 (being very unpredictable) to 5 (being very predictable). To find the score for the level of political uncertainty perceived by each firm in each country, the median of the 10 items was calculated. (This instrument can be found in question number 10 in the digital version of the survey.)

Control or cooperative responses. Control and cooperative responses to political uncertainty involve firms' attempts to influence or shape governments in favourable ways towards their own particular interests (Baysinger, 1984; Miller, 1992). Hillman

and Hitt's (1999) taxonomy of corporate political strategies, presents three theoretically distinct strategies, each comprising of a variety of tactics that describe the control or cooperative responses that a firm can use to influence the political environment. In 2003, Hillman used these control or cooperative responses in a survey she conducted to US multinationals. Since the labels of the three strategies in Hillman and Hitt's (1999) taxonomy (information, financial incentive, and constituency building) would not hold meaning for our respondents, instead 14 items about the specific tactics or control or cooperative responses that make up these strategies were used. Respondents were asked to rate to what extent they used each control or cooperative response from a scale of 1 (being none) to 5 (being a lot) for each of the four possible types of operations they could have had in Venezuela, Ecuador or Nicaragua between 1999 to 2011 (exported directly to its clients or third parties not to its own distribution, owned production and distribution operations simultaneously in one country, only owned distribution operations did not owned production operations, or owned production operations did not owned distribution operations). To find the score for the use of control or cooperative responses by each firm, the median of the total number of items rated according to the types of operations of each firm was calculated. For example, if a firm only had two types of operations, it would therefore rate a total of 28 items from which the median would be calculated to find the firm's score for control or cooperative responses. (The items that constitute this variable can be found as the first 14 items in questions 16 through 19 in the digital version of the survey).

Flexible responses. Flexible responses are those responses through which firms can adapt to substantial, uncertain, and fast-occurring political changes (Miller, 1992). Due to an absence in the literature of a robust definition of this concept and its dimensions or items, we used the taxonomy of corporate adaptive political strategies that resulted from our first study to describe the flexible responses that a firm can use to adapt to the political environment. In our taxonomy, flexible responses are grouped into four distinct strategies (neutrality, compliance, reconfiguration, anticipatory). Since these labels would not hold meaning for our respondents, instead 29 items about the specific flexible responses that make up these strategies were used. Respondents were asked to rate to what extent they used each flexible response from a scale of 1 (being none) to 5 (being a lot) for each of the four possible types of operations they could have had in

Venezuela, Ecuador or Nicaragua between 1999 to 2011. To find the score for the use of flexible responses by each firm, the median of the total number of items rated according to the types of operations of each firm was calculated. (The items that constitute this variable can be found after the first 14 items in questions 16 through 19 in the digital version of the survey. However, the last item in questions 16 through 19 belongs to another variable).

Flexible responses to confront potential expropriation. The variable “flexible responses” encompasses the variables “flexible responses to confront potential expropriation” and “flexible responses to confront policy changes”. From the 29 flexible responses in our taxonomy, 12 were categorized as flexible responses to confront both potential expropriation and policy changes simultaneously. Only 7 flexible responses were found to be used exclusively to confront potential expropriation. Consequently, to find the score for the use of flexible responses to confront potential expropriation by each firm, the median of the total number of items rated according to the types of operations of each firm was calculated. The type of operation, “exported directly to its clients or third parties not to its own distribution” did not include the 7 items that constitute this variable since firms that export directly to their clients or third parties do not have assets in Venezuela, Ecuador or Nicaragua which can confront potential expropriation. (The items that constitute this variable can be found as the 7 items before the last item in questions 17 through 19 in the digital version of the survey).

Flexible responses to confront policy changes. From the 29 flexible responses in our taxonomy, only 10 flexible responses were found to be used exclusively to confront policy changes. Consequently, to find the score for the use of flexible responses to confront policy changes by each firm, the median of the total number of items rated according to the types of operations of each firm was calculated. (The items that constitute this variable can be found as the 10 items prior to the 7 items that constitute the variable “flexible responses to confront potential expropriation” in questions 17 through 19 and the 10 items previous to the last item in question 16 in the digital version of the survey).

Human capital resources. According to Barney (1991), human capital resources include the training, experience, judgement, intelligence, and insight of individual managers and workers in a firm. Following this same line, our first study found experience and knowledge were the foundations of capabilities and that these resided in a firm's human capital. Therefore, taking into account Barney's (1991) definition and our findings, we measured human capital resources through three items: previous experience of the firm's employees, knowledge of internal employees about the context of a specific country, and knowledge of external organizations or people to the firm about the context of a specific country. Respondents were asked to rate to what extent they used each item from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of human capital resources by each firm, the median of the total number of items rated for the countries in which it had operations was calculated. For example, if a firm only had operations in two countries, it would therefore rate a total of 6 items from which the median would be calculated to find the firm's score for human capital resources. (The items that constitute this variable can be found as the third, fourth, and fifth items in question 11 in the digital version of the survey).

Organizational resources. According to Barney (1991), organizational resources include a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment. Through our first study, we found that interviewees mainly referred to the firm's organizational structure and organizational processes to describe its organizational resources. Consequently, we measured the use of organizational resources through these two items. Respondents were asked to rate to what extent they used or reconfigured each from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of organizational resources by each firm, the median of the total number of items rated for the countries in which it had operations was calculated. (The items that constitute this variable can be found as the first and second items in question 11 in the digital version of the survey).

Physical resources. According to Barney (1991), physical resources include the physical technology used by a firm, a firm's plant and equipment, its geographic location, and its access to raw materials. We used these four items to measure physical resources. Respondents were asked to rate to what extent they used each item from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of physical resources by each firm, the median of the total number of items rated for the countries in which it had operations was calculated. (The items that constitute this variable can be found as the sixth, seventh, eighth, and ninth items in question 11 in the digital version of the survey).

Contextual knowledge of internal and external human resources. Contextual knowledge of internal and external human resources refers to knowledge about the particularities of a specific context that internal or external people to the firm have (Eisenhardt and Martin, 2000). We used two items to measure this variable: knowledge of internal employees about the context of a specific country and knowledge of external organizations or people to the firm about the context of a specific country. Respondents were asked to rate to what extent they used each item from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of contextual knowledge of internal and external human resources by each firm in each country, the median of these two items was calculated. (The items that constitute this variable can be found as the fourth and fifth items in question 11 in the digital version of the survey).

Reconfigurations of organizational structure and processes. Reconfigurations of organizational structure and processes are defined as the redesign of certain elements or components of an organization's structure (Karim, 2006). We used 2 items to measure this variable: reconfigurations in organizational structure and reconfigurations in organizational processes. Respondents were asked to rate to what extent they used each item from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of reconfigurations of organizational structure and

processes by each firm in each country, the median of these 2 items was calculated. (The items that constitute this variable can be found as the first and second items in question 11 in the digital version of the survey).

Investments in physical resources. According to Barney's (1991) definition of physical resources, we defined the following items as measures for the variable investments in physical resources: investments in technological infrastructure, investments in machinery and equipment, investments in access to raw material, and investments in a new geographical location for the firm. Respondents were asked to rate to what extent they used each item from a scale of 1 (being none) to 5 (being a lot) in Venezuela, Ecuador or Nicaragua to confront the high political uncertainty that they perceived in each country. To find the score for the use of investments in physical resources by each firm in each country, the median of these 4 items was calculated. (The items that constitute this variable can be found as the sixth, seventh, eighth, and ninth items in question 11 in the digital version of the survey).

Managerial commitment to knowledge articulation and codification. Managerial commitment to knowledge articulation and codification refers to commitment to learning (McLarney and Dastrala, 2001) or to investments in learning (Zollo and Winter, 2002) that assure knowledge articulation and codification efforts take place in the firm and support the development process of capabilities. Knowledge articulation is the process through which experience and implicit knowledge is articulated by individuals through collective discussions, debriefing sessions, and outcomes evaluation processes (Zollo and Winter, 2002). Knowledge codification takes place when individuals codify their understandings of the outcome implications of internal processes in written tools, such as frameworks, manuals, spread sheets, decision support systems, etc (Zollo and Winter, 2002). In accordance to these definitions, we used the following 4 items to operationalize the variable managerial commitment to knowledge articulation and codification: sessions of collective discussions about what was learned through operations, interviews to the key employees involved, formal evaluation of the strategies implemented and their outcomes, and creation of written tools such as manuals, protocols, frameworks, systems or others to support decision making. Respondents were asked to rate to what extent they conducted the activities described

by each item from a scale of 1 (being none) to 5 (being a lot) to preserve the knowledge they had developed about how to sustain operations in foreign high political uncertainty markets through their experience in Venezuela, Ecuador or Nicaragua between 1999-2011. To find the score for managerial commitment to knowledge articulation and codification by each firm, the median of these 4 items was calculated. (The items that constitute this variable can be found in question 8 in the digital version of the survey).

Lose the knowledge developed. The variable lose the knowledge developed refers to the perception firms have about the risk they run of losing the knowledge they have developed about how to sustain their operations in high political uncertainty contexts. In our first study, we found Latam felt it could risk losing its knowledge when the following situations occur: people forget what they have learned, the people who possess the knowledge retire or leave the firm, and a disaster takes place and affects the firm (fire, flood, robbery, computer break down, viruses). We used these 3 items to measure the variable lose the knowledge developed. Respondents were asked to rate from a scale of 1 (being none) to 5 (being a lot) their perception of the possibility of the firm losing the knowledge it had developed about how to sustain operations in high political uncertainty contexts, when the situations described by each item occurred. To find the score for the variable lose the knowledge developed by each firm, the median of these 3 items was calculated. (The items that constitute this variable can be found in question 9 in the digital version of the survey).

Control variables

We used 7 control variables to test their influence on our propositions. Below, we explain these control variables.

Country of origin of the firm. Foreign versus domestic ownership or country of origin has been identified as an important antecedent of firms' corporate political activities (Hansen and Mitchell, 2000; Hansen and Mitchell, 2001; Hillman *et al.*, 2004; Getz, 1996). We asked respondents to indicate the country of origin of their firm. We then classified firms as those having a Latin American origin versus those having a different origin from that of Latin America. Since we found Latin American firms are used to dealing with uncertain political environments (IHS Global Insight, 2012), we wanted to see if there was a significant difference throughout our propositions between the

behaviors of Latin American and non-Latin American country of origin firms. (This variable is addressed by question 3 in the digital version of the survey).

Size. A firm variable often connected to corporate political activities is size (Boddeyn and Brewer, 1994; Hillman *et al.*, 2004; Keim and Baysinger, 1988; Schuler, Rehbein, and Cramer, 2002). We asked respondents to indicate the size of their firm according to the criteria established by the Colombian law 905 of 2004. This law classifies firms as micro, small, medium or large according to their assets and number of employees (details of this classification can be found in question 4 in the digital version of the survey). We then classified firms as micro and small versus medium and large. We wanted to explore if there was a significant difference throughout our propositions between firms according to their size. (This variable is addressed by question 4 in the digital version of the survey).

Experience in foreign high political uncertainty contexts. Firms' experience has also been linked to the success and choice of corporate political activities (Hillman, 2003; Hillman and Hitt, 1999; Hillman *et al.*, 2004). We asked respondents to indicate the number of years from 0 to 13 that their firm had operations in Venezuela, Ecuador, and Nicaragua between 1999 and 2011. We then selected the highest number of years of experience among the three countries for each firm and classified firms into two groups: those having between 0 and 6 years of experience (as low experience in foreign high political uncertainty contexts) and those having between 7 and 13 years of experience (as high experience in foreign high political uncertainty contexts). We wanted to explore if the level of experience in foreign high political uncertainty contexts had any influence throughout our propositions. (This variable is addressed by question 6 in the digital version of the survey).

Country scope. Tallman and Li (1996) defined and measured country scope as the number of foreign countries where a firm operates. Previous research has found that the more internationally diversified a firm is, the more it is dependent on multiple sources of sovereignty (Sundaram and Black, 1992), and the more likely it is to engage in political strategies (Hillman, 2003). We asked respondents to indicate the number of countries excluding Colombia, where their firms operated at the time of our survey despite the type of their operations. We then classified firms into two groups: those

having presence from 1 up to 50 countries (as low country scope) and those having presence in more than 50 countries (as high country scope). We wanted to study the influence of firms' country scope on our propositions. (This variable is addressed by question 5 in the digital version of the survey).

Status of operations in high political uncertainty contexts. Several prior studies have focused on the relation between corporate political activities and firms' performance (Banker, Das, and Ou, 1997; Bowman, Navissi, and Burgess, 2000; Hillman, Zardkoohi, and Bierman, 1999; Marsh, 1998; Shaffer, Quasney, and Grimm., 2000). These studies have measured firms' performance as market value or returns. Differently, in our study we were interested in comparing the performance of firms in high political uncertainty contexts not by their market value or returns but by the status of their operations. This means, we were interested in contrasting the behavior of firms that had managed to sustain their operations in these contexts versus firms that had closed their operations. We asked respondents to select the statement that best described their firm's operations between 1999-2011 in Venezuela, Ecuador, and Nicaragua. Respondents indicated if their firm had: sustained operations, closed operations or had no operations in each of the three countries. We classified firms as having sustained operations in high political uncertainty contexts if they had done so in any of the three markets. We also classified firms as having closed operations in high political uncertainty markets if they had not sustained operations in at least one market and they had closed operations in at least one market. All firms were classified in either one of these two groups which also allowed us to explore if there was any significant difference throughout our propositions among firms that sustained operations in these high political uncertainty contexts versus those firms that closed operations. (This variable is addressed by question 7 in the digital version of the survey).

Type of operations in high political uncertainty contexts. We found no prior research had studied the relation between the type of operations of firms and their corporate political activities. Our research wanted to explore if the type of operations of firms in high political uncertainty contexts had any relation with their corporate political activities. Therefore, we asked respondents to indicate what types of operations their firm had in the high political uncertainty contexts of Venezuela, Ecuador or Nicaragua.

There were four types of operations: exported directly to its clients or third parties not to its own distribution, owned production and distribution operations simultaneously in one country, only owned distribution operations did not owned production operations, and owned production operations did not owned distribution operations. We classified firms into two groups: firms having only exported versus firms having exported and/or having any other type of operation (owned production and distribution operations simultaneously in one country, only owned distribution operations did not owned production operations or owned production operations did not owned distribution operation). We wanted to explore if there was any significant difference throughout our propositions among the behaviour of firms that had only exported and those that had exported and/or had any other type of operation. In other words, we wanted to find if there was any significant difference throughout our propositions between firms that had only selected a market entry mode which involved no or low commitments on foreign assets, such as exporting, and firms that had selected other market entry modes which involved higher commitments on foreign assets, such as distribution and/or production. (This variable is addressed by questions 12 through 15 in the digital version of the survey).

Level of headquarters control. We found previous research had not addressed the relation between the level of headquarters control and firms' corporate political activities. However, our research was interested in exploring this relation. Therefore, we asked respondents to rate to what extent their firm's counterparts had been involved, for the different types of operations in Venezuela, Ecuador or Nicaragua, in the decisions of the firm regarding how to confront these foreign political contexts. A scale of 1 (being none) to 5 (being a lot) was used. To find the score for the variable level of headquarters control by each firm, the median of the responses by each firm was calculated. Then, we categorized firms as having a low level of headquarters control if their score was between 1 and 3 or as having a high level of headquarters control if their score was between 3.1 and 5. We were interested in investigating if the level of headquarters control had any influence on our propositions. (The items that constitute this variable can be found as the last items in questions 16 through 19 in the digital version of the survey).

It is important to note, that for all variables we decided to use the median to calculate their scores since this measure is not affected by extreme values.

4.5.1.7 Data collection

Data collection in emerging markets requires energy, especially in Latin America. Initially, we had gained access and agreement to a food industry association, but later this access was denied by a new incoming contact. After facing this quandary, we had to maximize potential responses to our survey by using various other strategies, which supported our data collection efforts. First, we motivated the participation of firms by inviting them to be part of a contest when completing the survey. Through this contest they could win an executive education course offered by EAFIT University between 2013-2014. The winner firm was able to select the executive education course of its preference from the portfolio of executive courses of EAFIT University and benefit by training one employee of its choice. We believe this was a good strategy since throughout our data collection several firms suggested “it is great that we have the chance of winning a course to train our employees”, “this must be a very serious study to include the contest of a course offered by a university such as EAFIT”. We also motivated firms to complete the survey by offering them access to an executive summary of the survey findings which was sent exclusively to the participating firms upon the conclusion of the study. We also claimed firm responses would be anonymous, confidential, and exclusively used for academic purposes, granting firms with the trust they needed to decide to participate in our study.

To facilitate and assure the appropriate completion of the survey on behalf of the firms that stated to meet the criteria and accepted to respond, we organized a travelling schedule. This schedule allowed us to visit the different cities around Colombia where these firms were located and have face to face meetings with each of our respondents at the site of each firm. The 24 firms that had two respondents answer the survey simultaneously were visited only once, while the 6 firms that had two respondents answer the survey separately were visited twice for this purpose. All of the firm visits involving these meetings took place throughout the second semester of 2013. In order to have effective meetings with our respondents we used a presentation letter to refresh and inform them about the objective and context of our survey.

We believe this data collection strategy proved to be successful due to the Latin American culture of our respondents. What we mean is that travelling and having meetings with respondents was necessary to ensure responses to our survey. Previously we had sent the survey through email links to potential respondents and this was not effective (we received 0 responses). Our perception is that relations and trust play a crucial role in Latin America to get firms or individuals to participate in research projects. Consequently, having face to face meetings was the best way to ensure responses to our survey - which dealt with a very sensible topic such as corporate political activities. As Fowler (2009: 69) claims, “the choice of data collection mode is related directly to the research topic, characteristics of the sample, and available staff and facilities; it has implications for response rates and question form”.

A Microsoft Word English version of the presentation letter and our survey can be found in Appendix 7. A Microsoft Word Spanish version of the presentation letter and our survey can be found in Appendix 8. And, the final digital Spanish version of the survey in Qualtrics® software (which was the version of the survey that was actually used) can be found by accessing the link provided in Appendix 9. It is important to note, that the content of three versions was updated to be the same; the only difference that exists among them besides language, is that the design and order of the digital version is friendlier and more efficient for its administration due to its incorporation of filters. The pilot studies and the final survey were conducted in Spanish and then their results were translated to English. All translations were validated by a third party.

4.5.1.8 Data analysis

The choice of the statistical tests we used to analyse our quantitative data was in line with the purpose of our second study which was to test the exploratory propositions resulting from our first study. Since the sample from which our quantitative data came from was a non-probabilistic convenience sample, we used non-parametric tests to test our exploratory propositions. Other mixed methods studies published in SMJ that have used non-parametric test to analyze their data are Walsh (1989) and King and Zeithaml (2002). Below, Table 15 shows which non-parametric tests we used to test each exploratory proposition and the effect of our control variables.

Table 15: Non-parametric tests and propositions

Non-parametric tests	Propositions
Mann-Whitney U	P1, P2a, P2b, P7
Spearman's rank	P4, P5
Kruskal Wallis	P3
Chi square	P6

Source: Elaborated by author

To run these non-parametric tests we used SPSS 20® software (sponsored by Cranfield University).

Mann-Whitney U. The Mann–Whitney U test (also called the Mann–Whitney–Wilcoxon (MWW), Wilcoxon rank-sum test, or Wilcoxon–Mann–Whitney test) is a non-parametric test of the null hypothesis that two populations have equal medians against an alternative hypothesis that two populations have medians which are not equal. In most cases, the alternative hypothesis intends to show that a particular population tends to have larger values than the other. When as a result of this test, the p value is less than $\alpha = 0.05$, then the null hypothesis is rejected and the alternative hypothesis is accepted. We used this test for P1, P2a, P2b, and P7 since we wanted to find if the values of one variable were statistically significantly different to the values of another variable.

Spearman's rank correlation coefficient. The Spearman's rank correlation coefficient or Spearman's rho is a non-parametric measure of correlation, using ranks to calculate the correlation. It examines the direction and magnitude of the correlation between two variables. This correlation is examined through a correlation test where the null hypothesis is that there is no correlation between two variables and the alternative hypothesis is that there is correlation between the two variables. If the correlation coefficient is equal to 0, this means there is no correlation. If Spearman's rho is between 0 and 1 there is a positive correlation or if it is between 0 and -1 there is a negative correlation. If the p value is less than $\alpha = 0.05$, the correlation is statistically significant. We used this correlation test P4 and P5 since we wanted to find if there was a statistically significant correlation between the two variables in each proposition.

Kruskal Wallis. The Kruskal–Wallis one-way analysis of variance by ranks is a non-parametric method for testing whether samples originate from the same distribution. It is used for comparing more than two samples that are independent, or not related. The parametric equivalent of the Kruskal-Wallis test is the one-way analysis of variance (ANOVA). When the Kruskal-Wallis test leads to significant results, then at least one of the samples is different from the other samples. It is an extension of the Mann–Whitney U test to 3 or more groups. The null hypothesis for this test is that samples originate from populations with equal medians and the alternative hypothesis is that at least one of the medians of a group differs from that of another. When as a result of this test, the p value is less than $\alpha = 0.05$, then the null hypothesis is rejected and the alternative hypothesis is accepted. We used this test for P3 since we wanted to find if there were statistically significant differences among 3 groups.

Chi square. The chi-square test for independence, also called Pearson’s chi-square test or the chi-square test of association, is a non-parametric test used to discover if there is a relationship between two categorical variables. This test contrasts the null hypothesis that there is no association between two variables and the alternative hypothesis that there is association between them. When as a result of this test, the p value is less than $\alpha = 0.05$, then the null hypothesis is rejected and the alternative hypothesis is accepted. We used this test for P6 since we wanted to analyze the association between two variables.

5 RESULTS OF STUDY 1: CASE STUDY

This chapter presents our empirical findings about “how” and “why”, Latam, a Latin American food firm, developed adaptive political capabilities to confront high political uncertainty contexts in the emerging economies of Venezuela, Ecuador, and Nicaragua (1999–2011). We introduce this chapter by first describing the organization of Latam’s operations in these markets. Then, we analyze the political uncertainties Latam confronted and discuss its overall strategic response to sustain and start operations in these contexts. We analyze the role of the knowledge management function, the state of learning mechanisms, and managerial commitment within Latam. We also explain “why” Latam developed adaptive political capabilities. Finally, we provide an analytical overview of the chronologies of accounts that took place from 1999-2011 in Venezuela, Ecuador, and Nicaragua through a detailed longitudinal examination of the foundations and themes that guided the development of adaptive political capabilities by Latam. We investigate “how” Latam developed adaptive political capabilities with particular focus on the strategic responses it adopted towards the political uncertainties it confronted in these three markets. We show through our inductive study, that a range of strategic responses were adopted by Latam to simultaneously adapt and align with its political environments. Our analysis uncovers the foundations and themes that played a role in the development of adaptive political capabilities and their interactions to create competitive benefits.

5.1 Latam’s operations⁷

Latam initiated its distribution operations in Venezuela and Ecuador during 1995 and later in Nicaragua during 2004. It also owns a production platform in Venezuela that was acquired during 1996 and does not own production platforms in Nicaragua and Ecuador. Our research focused on the timeframe of 1999-2011 since the first political uncertainties that affected Latam’s operations in these three markets took place during 1999 or later. Nevertheless, our record of events for each country starts during 1999 or

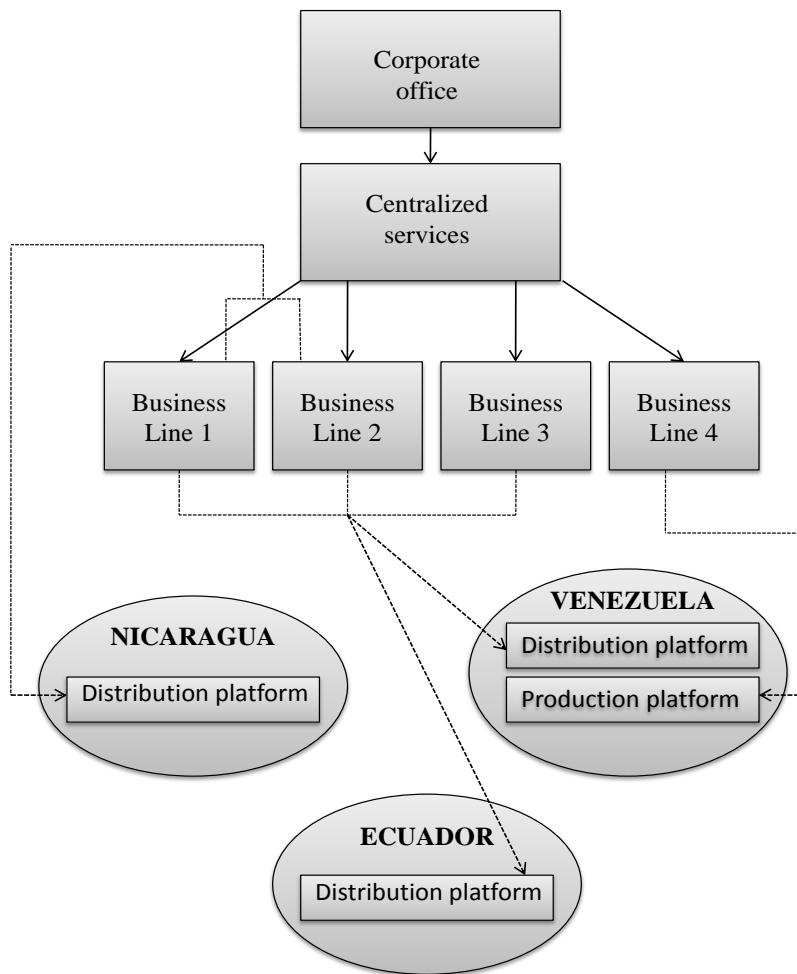
⁷ This section is based on the firm’s organizational structure and interviewees I001, I003, I005, I007, I008, I017, I031, I045, and I058.

in some cases several years before, in order to take into account historical events that are relevant to understand either the history of Latam's operations or the political environment of the different countries (see Appendixes 10, 11, and 12).

The products Latam offers in Venezuela, Ecuador, and Nicaragua belong to four different business lines which we refer to as 1, 2, 3, and 4. Latam's operations in these three countries involve distribution platforms in Venezuela and Ecuador which sell and distribute products from business lines 1, 2, and 3, a distribution platform in Nicaragua which sells and distributes products from business lines 1 and 2, and a production platform in Venezuela which manufactures products from business line 4. Every business line has a VP that focuses on developing each business. Similarly, each distribution or production platform has a general manager in charge of the operation. It is important to note, that the VP of business line 1 is in charge of supervising all of Latam's operations in the north region which includes Nicaragua. Also, the VP of business line 2 is in charge of supervising all of Latam's operations in the south region which includes Venezuela and Ecuador. These VPs' "corporate roles" intend to strengthen team work and assure a unified vision at the corporate level.

Latam's business lines focus on six core functions which are business level strategic planning, manufacturing, R&D, marketing, logistics, and human resources. All of the business lines are supported by centralized services which include: legal advice, internal audit, procurement, communications, accounting, human resources, taxes, financial planning, IT, treasury, administrative services, risks, and insurance. The philosophy behind this organizational structure is that the business lines concentrate on the development, manufacturing, and promotion of their products while centralized services provide a "back office" support. At the top of this structure is a corporate office that leads corporate planning and finance. This corporate office guides and supervises the business units and all operations. Below, Figure 8 shows the organization of Latam's operations in Venezuela, Ecuador, and Nicaragua.

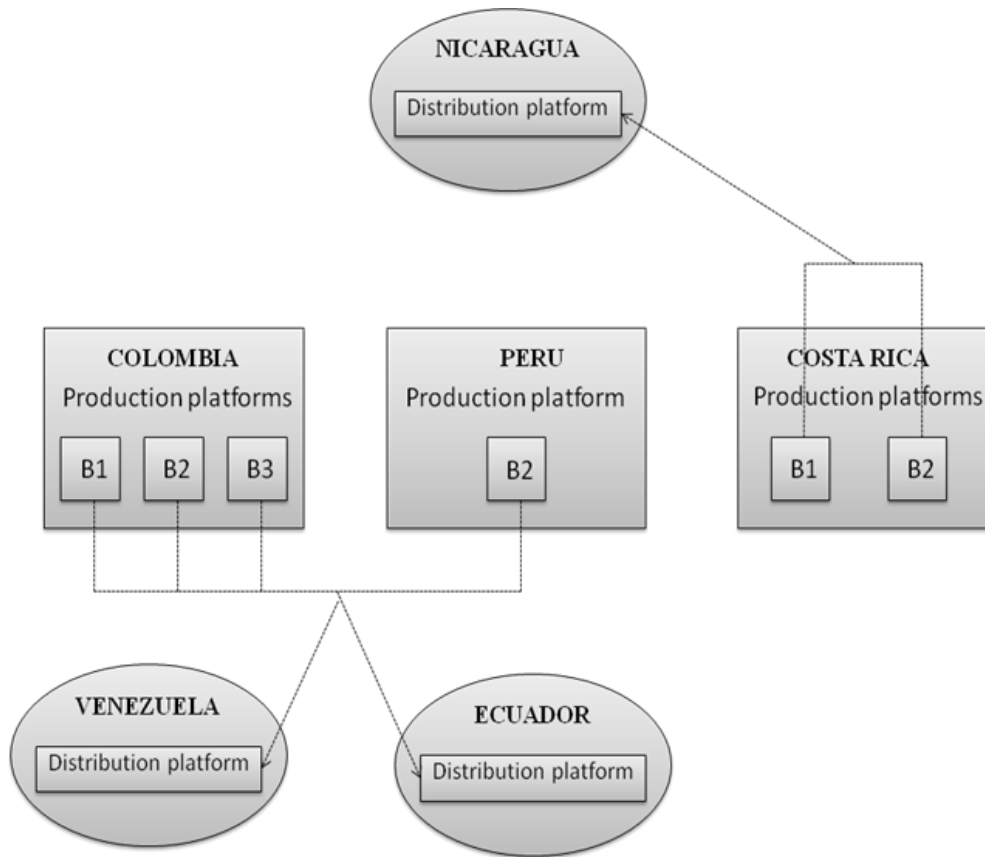
Figure 8: Organization of Latam’s operations in Venezuela, Ecuador, and Nicaragua



Source: Elaborated by author based on firm data

The distribution platforms located in Venezuela, Ecuador, and Nicaragua import Latam’s products from production platforms located in varied countries. Each production platform belongs to a specific business line. Similarly, the production platform for business line 4 in Venezuela has bought not finished products but raw materials from Colombia, and later from within Venezuela, in order to manufacture its products. Below, Figure 9 shows the countries of origin from where the business lines’ production platforms provide exports to the distribution platforms in Venezuela, Ecuador, and Nicaragua.

Figure 9: Countries of origin from where the business lines' production platforms provide exports to the distribution platforms in Venezuela, Ecuador, and Nicaragua



Source: Elaborated by author based on firm data

After understanding how Latam has organized its operations in Venezuela, Ecuador, and Nicaragua, in the following section, we analyze the political uncertainties it has confronted in these markets.

5.2 Political uncertainties

We found that the operating experience of Latam in Latin America agreed with the evolution of the political ratings of the countries in the region by identifying Venezuela, Ecuador, and Nicaragua as the most politically uncertain countries.⁸ Latam confronted a total of 36 political uncertainties in these countries: 23 in Venezuela, 12 in

⁸ I001, I008, and I017. These codes indicate the interviewees from whom this information comes from.

Ecuador, and one in Nicaragua. Despite the fact that Latam only confronted one political uncertainty in Nicaragua before entering this market, this context is relevant to our study because this political uncertainty imposed a major obstacle for Latam in entering the market and consequently required significant firm resources to do so. As the CEO of Latam stated:

Across time we have experienced uncertainty in Venezuela due to its political environment. We have also confronted challenges stemming from the political environment in less degree in Ecuador, and then in Nicaragua. These are the markets where we have found the political context to affect our operations. [I001]

Latam also perceived that although each country had confronted its operations with different political uncertainties, the three countries shared having authoritarian regimes and weak institutions.⁹ As two VPs highlighted:

We need to study Venezuela, Ecuador, and Nicaragua with caution because they have various characteristics in common: political left-wing polarization and fast changing policies which affect businesses. [I003]

The institutional frameworks of these types of countries are not very solid and the firm needs to find ways to protect it-self as much as possible. [I004]

Within the political contexts of Venezuela, Ecuador, and Nicaragua, we found Latam had confronted different types of political uncertainties. In Venezuela, Latam had confronted both policy and expropriation uncertainties, while in Ecuador and Nicaragua, it had only confronted policy uncertainties.¹⁰

The production platform in Venezuela was affected by expropriation uncertainty due to its high capital investment. This meant that if this operation was expropriated, Latam could suffer a significant loss. The distribution platform in Venezuela also faced expropriation uncertainty but its capital investment was much less since it only owned the inventory it distributed, making it a less risky operation for Latam in terms of a

⁹ I001, I003, and I004.

¹⁰ I001, I002, I003, I004, I005, I007, I008, I017, I031, I045, and I058.

potential loss due to an expropriation.¹¹ As the managers of the production and distribution platforms in Venezuela said:

In our production platform in Venezuela we had to make sure we complied with every single law and requirement installed by the government since any non-compliance could be used as a reason for expropriation and the firm's investment in this platform had been significant. This operation counts with a big production plant that could be taken over affecting the firm financially. [I031]

In the case of an expropriation of our distribution operation in Venezuela, what the firm would lose is the inventory that can be available at the site. This loss would be important for the firm but not as much as that in the case of an expropriation of the production platform. [I007]

Building on the work of Kobrin (1981), we also categorized the effect of the expropriation and policy uncertainties that Latam confronted in Venezuela, Ecuador, and Nicaragua, as *macro* when they had an impact at the country level or as *micro* when they had an impact at the industry, firm or project levels. We found that the political uncertainties confronted by Latam had in their majority a micro effect by impacting the industry or the firm directly, while political uncertainties with a macro effect or that had a country level impact were less. Specifically, out of 36 uncertainties, 25 had a micro effect while 11 had a macro effect. Our findings agree with Kobrin's (1982), claim that the most pertinent challenges affecting a firm stem not from the general country environment (the macro level), but from specific policies and actions that have differential effects across industries, firms, and projects (the micro level).

What all political uncertainties in Venezuela and Ecuador had in common was that they occurred after Latam had invested in operations in these countries.¹² These uncertainties modified the established "rules of the game" for Latam as ex-post investment uncertainties. We found that only in the case of Nicaragua a policy change in the political environment took place before Latam decided to start operations in this

¹¹ I004, I007, I014, and I031.

¹² I001, I004, and I015.

market.¹³ Therefore, before entering the Nicaraguan market, Latam faced uncertainty about the political conditions that could be established or negotiated for its entrance. As one VP stated:

Before investing in Nicaragua, we were aware of the sovereignty tax that was imposed to Colombian imports. We were uncertain about how we could enter the market but we knew that most probably to sell our products in Nicaragua we would not be able to import these from our production platforms in Colombia because they would not be competitive due to this sovereignty tax. [I008]

In the case of most political uncertainties, we found these generated response or state uncertainty for Latam. Response uncertainty refers to a lack of knowledge about response options or the inability to predict the likely consequence of a response choice. State uncertainty refers to not understanding how the components of the political environment might change (Milliken, 1987). In fewer cases, political uncertainties generated effect uncertainty for Latam. Effect uncertainty is the inability to predict what the impact of a future state of the political environment or change would be on the firm (Milliken, 1987). We found Latam worked hard on quickly understanding the impact of the political environment on its operations. This explained why political uncertainties mostly generated Latam, response and state uncertainties, rather than effect uncertainties. Below, Table 16 synthesizes our analysis of the political uncertainties that Latam confronted in Venezuela, Ecuador, and Nicaragua.

¹³ I001 and I008.

Table 16: Analysis of political uncertainties confronted by Latam¹⁴

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Venezuela</i>				
The installation of a left-wing government in Venezuela created operational uncertainty for Latam	Policy uncertainty Expropriation uncertainty	Micro	Ex-post	State uncertainty
Anti-foreign operations feelings, fuelled by the Venezuelan government, confronted Latam with uncertainty surrounding how to prevent this sentiment from impacting on its operations	Policy uncertainty	Micro	Ex-post	Effect uncertainty
The closure of the Venezuelan borders confronted Latam with the uncertainty of not knowing when it could continue exporting products to its distribution operation	Policy uncertainty	Micro	Ex-post	State uncertainty
Political tensions translated into delays in the renovations of the sanitary registrations of products. Latam faced the uncertainty of not knowing when it would receive the renovations of the sanitary registrations of those products which at that moment were in the process of having their registrations renewed	Policy uncertainty	Micro	Ex-post	State uncertainty
The deterioration of diplomatic relations challenged Latam with the uncertainty of how to manage its relations with both the host and home country governments	Policy uncertainty Expropriation uncertainty	Macro	Ex-post	Response uncertainty
As the Commission of Foreign Currency Administration in Venezuela (CADIVI) stopped working efficiently, Latam faced the uncertainty of how and when it would recover its pending payments from CADIVI	Policy uncertainty	Micro	Ex-post	State uncertainty

¹⁴ This table was elaborated triangulating all of the interviews conducted.

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Venezuela</i>				
CADIVI restricted the authorization of certificates of non-production and Latam's business lines faced the uncertainty of when they would receive these certificates which authorized the import of their products through the distribution operation in Venezuela	Policy uncertainty	Micro	Ex-post	State uncertainty
The overall evolution of Venezuela's political context confronted Latam with a generalized increase in political uncertainty	Policy uncertainty Expropriation uncertainty	Macro	Ex-post	State uncertainty
Frequent expropriations in Venezuela challenged Latam with the uncertainty of a potential expropriation of its operations. The investment in the distribution operation was much less, and therefore, the uncertainty of a potential expropriation was less for the distribution operation than for the production operation	Expropriation uncertainty	Micro	Ex-post	State uncertainty
Chavez expanded his government model in Venezuela and Latam faced the uncertainty of the impact that the different interest groups could have on its production operation	Expropriation uncertainty	Micro	Ex-post	Effect uncertainty
The growing instability in the diplomatic relations generated uncertainty among the local employees about the stability and continuity of the distribution and production operations in Venezuela	Policy uncertainty Expropriation uncertainty	Micro	Ex-post	Effect uncertainty
Increasing political uncertainty ensured that the production operation had to deal with the uncertainty of how to manage the different themes that could potentially affect its operations: compliance with laws, governmental inspections, and community and labor relations	Policy uncertainty Expropriation uncertainty	Micro	Ex-post	Response uncertainty

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Venezuela</i>				
CADIVI stopped its payments and Latam faced the uncertainty of how to continue operations in the Venezuelan market despite this suspension and the uncertainty of when it would receive its pending payments	Policy uncertainty	Micro	Ex-post	Response uncertainty State uncertainty
The government instigated energy cuts which meant that the production operation in Venezuela faced the uncertainty of disruption of energy supply	Policy uncertainty	Macro	Ex-post	Response uncertainty
Due to reiterative expropriations, Latam faced the uncertainty of not knowing if it would be able to access information about its operations in Venezuela if the Venezuelan government decided to take over its sites	Expropriation uncertainty	Micro	Ex-post	Effect uncertainty
Law no. 39.658 in the defense of the people for their access to goods and services obliged the distribution and production operations in Venezuela to deal with the uncertainty of new policy changes	Policy uncertainty	Micro	Ex-post	Effect uncertainty
The Venezuelan government prohibited the selling of dollars by closing the free market through law no. 5.975. Latam faced the uncertainty of how to access dollars to sustain its operations in Venezuela	Policy uncertainty	Micro	Ex-post	Response uncertainty
The Venezuelan government created the System of Transactions of Foreign Exchange Titles in Venezuela (SITME) through law no. 39.439 which confronted Latam with the uncertainty of sustaining operations in Venezuela since through SITME Latam now had restricted access to 350,000 USD per month to pay for the imports of its distribution operation	Policy uncertainty	Micro	Ex-post	Response uncertainty

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Venezuela</i>				
The Venezuelan government had installed the conduction of inspections in firms and the distribution operation received an inspection that resulted in a sanction because of a non-compliance. Latam faced the uncertainty of finding a way to ensure its distribution operation would not be again disrupted due to sanctions arising from governmental inspections	Policy uncertainty Expropriation uncertainty	Micro	Ex-post	Response uncertainty
The Venezuelan government committed to the payment of the debt of CADIVI to firms. Nevertheless, Latam faced the uncertainty of which markets would help the recovery of the sales it lost in Venezuela due to currency restrictions	Policy uncertainty	Micro	Ex-post	Response uncertainty
Law no. 8.331 about just costs and prices, gave power to the Venezuelan government to determine the profit margins of firms and sanction those that did not follow such margins. Latam confronted the uncertainty of not knowing if its operations would be affected by this law	Policy uncertainty	Micro	Ex-post	Effect uncertainty
Law no. 39.741 about sports, physical activity, and education installed an annual 1% tax to firms' net utilities. Latam faced the uncertainty of been able to sustain its distribution operation in Venezuela with increasing operational costs	Policy uncertainty	Micro	Ex-post	Response uncertainty
The stabilization of diplomatic relations confronted Latam with the uncertainty of whether or not to invest more resources in its already existing operations in Venezuela	Policy uncertainty Expropriation uncertainty	Macro	Ex-post	State uncertainty

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Ecuador</i>				
The declaration of a “bank holiday” or the freezing of accounts confronted Latam with the uncertainty of cash flow availability to continue its operations due to governmental policies	Policy uncertainty	Macro	Ex-post	Response uncertainty
The dollarization and devaluation exposed Latam to the uncertainty of fast-changing prices for negotiations and accounts receivables	Policy uncertainty	Macro	Ex-post	Effect uncertainty
A coup d'état and the dismissing of Presidents by the Congress brought overall political uncertainty in Ecuador for firms	Policy uncertainty	Macro	Ex-post	State uncertainty
The prohibition of outsourcing confronted Latam with the uncertainty of being able to sustain operations due to the higher costs that were involved in the direct recruitment of additional employees who were previously contracted through outsourcing	Policy uncertainty	Macro	Ex-post	Response uncertainty
Anti-foreign operations feelings fuelled by the Ecuadorian government confronted Latam with uncertainty surrounding how to prevent this sentiment from impacting on its operations	Policy uncertainty	Micro	Ex-post	Effect uncertainty
The breaking of diplomatic relations made Latam experience the uncertainty of potential frontier closures or the imposition of restrictive measures	Policy uncertainty	Micro	Ex-post	State uncertainty
Indications that the Ecuadorian President could be willing to increase taxes confronted Latam with policy uncertainty	Policy uncertainty	Macro	Ex-post	State uncertainty
The introduction of quotas and tariffs to imports confronted Latam with the uncertainty of determining how these safeguards threatened its exports to Ecuador	Policy uncertainty	Micro	Ex-post	Effect uncertainty
A ratification of quotas and tariffs to imports confronted Latam with the uncertainty of being able to sustain its operations over time	Policy uncertainty	Micro	Ex-post	Response uncertainty

Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Ecuador</i>				
A regulation that determined the amounts of fat, saturated fat, sugar, and salt that can be sold in food products to under age students, confronted Latam with the uncertainty of how to respond to the requirements of this legislation	Policy uncertainty	Micro	Ex-post	Response uncertainty
The increase in tax to currency exit from 2% to 5% confronted Latam with the uncertainty of how to respond to this governmental policy	Policy uncertainty	Macro	Ex-post	Response uncertainty
An upcoming communication law confronted Latam with the uncertainty of not knowing if the law would be approved and if approved how it should best respond to its requirements	Policy uncertainty	Macro	Ex-post	State uncertainty
Political uncertainties	Levels of analysis			
	Concept related	Effect related	Chronology related	Typology related
<i>Nicaragua</i>				
The imposition of a tax to imports confronted Latam with the uncertainty of how could it compete in the Nicaraguan market	Policy uncertainty	Micro	Ex-ante	Response uncertainty

Source: Elaborated by author

5.3 Latam's decision to sustain and start operations

We must clarify that the term “sustain operations” was used by most of our interviewees, and therefore it will be used throughout this research. The term “sustain operations” means that Latam maintained operations, no matter if sales decreased.

Despite all of the political uncertainties faced by Latam in Venezuela and Ecuador, its generalized strategic response was to sustain its operations in these markets by adapting to their political environments.¹⁵ As one VP claimed:

Venezuela and Ecuador are natural markets for the firm regardless of their political situations. We need to sustain our operations during difficult times in these countries in order to maintain the presence of our products and brands. To do so, we must manage the uncertainties that challenge our operations in these markets. [I017]

In the case of Nicaragua, Latam's response involved finding a way to start and also sustain operations in this market by adapting to its political environment.¹⁶ As one VP stated:

Nicaragua is a Central American market where we want to have presence. If political decisions affect the competitiveness of the products we produce in the production platforms of a particular country (that is Colombia), then we had to find a way to overcome this limitation and offer our products competitively in Nicaragua. [I008]

5.4 Latam's flexible responses to political uncertainties¹⁷

Latam described its strategic responses to the political uncertainties it confronted in Venezuela, Ecuador, and Nicaragua as adopting a politically neutral stance and a low profile to start and sustain its operations. Latam explained that to respond to the uncertainty of a potential expropriation it managed low inventories, payed just prices to suppliers, priced its products moderately, complied strictly with local regulations, and

¹⁵ I001, I003, I005, I007, I008, I017, I026, I031, and I045.

¹⁶ I001 and I008.

¹⁷ This section was elaborated triangulating all interviewee's observations.

never incurred in acts of corruption. Latam pointed out that it also avoided the media and sustained constant, clear, and coherent internal communications about the state of its operations. It devoted efforts on building good community relations and keeping a healthy working environment. Where anti-Colombian feelings emerged, it made sure locals led all negotiations with clients and interactions with local governments. As the CEO explained:

The message we conveyed was that we are neutral, that we are socially responsible, and that we play a positive role in the country where we operate. More importantly, we not only state this message but our day to day behavior is coherent with it. We are not dedicated to promoting any political stance; our only interest is promoting our business operations. [I001]

In the face of commercial restrictions stemming from the political contexts, Latam explained that it searched for options to supply restricted markets through the most competitive alternatives it could design. Specifically, Latam exported products to these markets from alternative production platforms from which restrictions could be overcome, it acquired production platforms in a strategic location to supply the Caribbean region and Nicaragua, it identified within its portfolio the most competitive products which could be sold under restrictive conditions, and it made different logistic arrangements to assure the supply of restricted markets. Latam invested in developing healthier products to comply with legal requirements and also changed the origin of its raw materials from imported to local, keeping in mind the idea of being perceived as a local value-adding company to protect itself from a potential expropriation. To confront deteriorating operational conditions in Venezuela, Latam acquired two energy plants to have access to energy when the government started to interrupt electricity services. In the face of financial restrictions, Latam provided cash flow to the different affected operations by reconfiguring its financial procedures, negotiating government bonds and bank certificates or transferring funds. Latam even searched for more distributors who could import its products to overcome cash restrictions per importer in the financially restricted Venezuelan market. It also searched for ways to reduce operational costs. A VP described one of the Latam's strategic responses to commercial restrictions by saying:

When we could not continuously supply the Venezuelan distribution platform through the production platforms located in Colombia due to commercial restrictions imposed as a result of the political tension between both countries, we invested efforts in developing products in the production platform of Peru, from where we could competitively supply products to Venezuela. [I017]

Furthermore, to diminish the potential loss caused by an expropriation of its production platform in Venezuela, Latam explained it modified its legal investment structure by changing the origin of this investment from Colombian to Costa Rican since Costa Rica has an expropriation agreement with Venezuela. Although this agreement does not prevent expropriation, it does guarantee that the World Bank assures that a just price is paid back to the investor in case of an expropriation. Latam also designed replication systems that allowed an up-dated access to all of the information about its operations in Venezuela through computer servers located outside of that country – which guaranteed a “safe second copy” in case of an expropriation. Particularly, the managers of the distribution and production platforms in Venezuela also designed some tools to guide their operations in compliance with the law and to enable responses towards governmental visits or in the case of a potential expropriation. The production platform also developed a map of its interest groups and analytical matrixes to better understand and deal with the Venezuelan political context. As one Venezuelan manager explained:

I started to develop a checklist to guide our operations in Venezuela after the distribution platform was sanctioned by the Venezuelan government with the temporary closure of the site for 3 days because of a minor non-compliance. After this event, I had to design a tool that would guarantee that the occurrence of a non-compliance would never interrupt operations again. [I007]

To avoid increasing its exposure to political uncertainties, Latam did not incur into further investments in Venezuela and Ecuador but focused on sustaining or adequating its existing investments through outsourcing, direct hiring or cuts. Finally, Latam highlighted that in general it concentrated on monitoring and interpreting these contexts while adapting to comply with their legislation by supporting the local managers and creating fast-response interdisciplinary teams to assess the challenges in

each country. In all cases, Latam also used local human capital to better interpret and interact in each context. During this process, Latam emphasized it used its corporate values as guidelines to direct decisions and operations. As two VPs highlighted:

The managers in the local operations, the corporate office, centralized services and the VPs of the business lines we all had to work together to be able to sustain or start our operations in these countries. We also used external lawyers, accounting firms, and political analysts in this process. [I017]

We had to become more agile in interpreting the political context and responding to its challenges. We have learned a lot from our experience in these markets but we need to continue to develop this capability. [I002]

Overall, through a detailed analysis of Latam's varied strategic responses, we found that it essentially adapted to the political contexts it experienced in Venezuela, Ecuador, and Nicaragua. Latam never tried to directly influence these political contexts. Latam declared that in these political contexts it had never considered lobbying or other influence tactics to be an adequate strategic response. In fact, it claimed to have deliberately avoided influencing any government or entity because this could only increase its visibility. Being visible could motivate the implementation of hostile policies, corruption requests or its chances of been expropriated. As the CEO explained:

Consciously we decided that we should avoid lobbying because of several reasons. One aspect we discussed at that time was that lobbying in these contexts would take us to scenes where we would be asked to incur in acts of corruption. Another aspect was that lobbying could make us "more visible" and visibility would increase our chances of suffering hostile measures of different nature. [I001]

It is important to note, that we explain in detail the specific strategic responses of Latam to each of the political uncertainties it confronted in Venezuela, Ecuador, and Nicaragua in Appendixes 10, 11, and 12, the later sections about each context, and in the discussion in chapter 0.

5.5 The knowledge management function

We found the knowledge management function within Latam was coordinated by one employee in the IT Department of centralized services with a part-time dedication. Business line 1 had hired one full-time employee dedicated since 2008 to the development of knowledge management within that business line.¹⁸ Differently, the other business lines had included the function of knowledge management as a part-time task of the Innovation Director or R&D Manager. The knowledge management function was rather at an embryonic stage in Latam. It had just recently conducted a diagnosis about its stage of development through which it had found that although some knowledge management activities did take place, Latam had only codified mostly operational routines. As a consequence of this diagnosis, Latam had just recently started the process of codifying its acquisition experiences and critical knowledge from “about to retire” employees. To support this knowledge codification effort, the knowledge management function designed one information processing system to manage the knowledge about acquisition experiences.¹⁹ As one interviewee stated:

The knowledge management diagnosis rated our development in this topic with a 2 on a scale from 1-5. This means we are at an exploratory stage. When we reach the rating of 5 this will mean that we are effectively using knowledge management within the firm’s processes and innovation. [I028]

5.6 Learning mechanisms

We found that the knowledge Latam had developed particularly through its operations in the high political uncertainty markets of Venezuela, Ecuador, and Nicaragua, was in the experiences accumulated by the individuals who had participated in such operations. This means, that Latam’s experiential knowledge about operating in high uncertainty political markets resided in individuals’ heads.²⁰ As a VP expressed:

¹⁸ I002.

¹⁹ I027 and I028.

²⁰ All interviewee’s observations.

At the moment, the knowledge gained through our operations in Venezuela, Ecuador, and Nicaragua belongs to individuals. It should be captured and made corporate knowledge. [I002]

Previous to our research, Latam had not conducted or planned meetings or activities through which this experiential knowledge could be articulated by individuals.²¹ Some interviewees even commented that the exercise of being interviewed for the purpose of our research made them aware of the many lessons they before had not acknowledged with such precision. During our interviews two VPs stated:

I had never before been asked to share my insights on this topic. This interview has been a great exercise for me to define with precision the events which took place and the process we followed to respond to political challenges. Making the effort of explaining such events brings into perspective an integral picture. [I003]

As an input from our conversation, I think we should include the political context as a variable that is part of our internationalization model. [I008]

All interviewees agreed they had been able to identify that the lessons they had learnt in one market benefited their ability to confront political uncertainties in another. They recognized that although the contexts and the political uncertainties were different, they sensed a generalized improved ability to confront new challenges stemming from political environments.²² As the CEO described:

It has been a process of permanent learning using the experience acquired in one country in others in future cases. Nicaragua's restriction was imposed during the same year that Chavez modified the Venezuelan Constitution and some of the most difficult challenges in Venezuela took place previously to the most critical moments in Ecuador. So what we learned in Nicaragua and especially in Venezuela, indeed was useful to build the corporate philosophy and corporate stands in these situations, and of course was useful in Ecuador. [I001]

²¹ I001, I002, I027, and I028.

²² I001, I002, I003, I004, I014, I015, I018, I019, I020, I021, I022, I023, I026, and I031.

Many members of Latam even expressed their fear that over time this experiential knowledge that had been acquired by the individuals involved in such operations could be lost as they left Latam. They insisted that this experiential knowledge had improved “their way of responding” to high political uncertainty markets and that it had costed them tremendous efforts which they wanted Latam to continue benefiting from instead of losing over time.²³ As a VP recognized:

An advantage for the firm is that the individuals who have confronted political uncertainties in these countries work in the firm today. What I fear is that when these individuals are no longer in the firm, it will lose a lot of valuable experiential knowledge. [I004]

A manager stated:

We have learned so much about how to respond to this type of challenges, it will cost the firm a great loss to over time see the individuals who have experienced these challenges forget how the firm managed these situations or retire taking with them this valuable asset. [I009]

5.7 Managerial commitment

To start and pursue Latam’s adaption to the political contexts of Venezuela, Ecuador, and Nicaragua, Latam relied on the commitment of its CEO and top management team to leading such process by participating in committees, meetings, and allowing Latam to be flexible and adapt.²⁴ On the other hand, although a knowledge management function had been created within Latam, it had not supported the development of adaptive political capabilities.²⁵ As the knowledge management director stated:

Hearing the CEO speak about knowledge management is delightful. We are just starting to develop this topic and what we feel we need to work on is making the VPs and everyone in the firm more aware of how knowledge management can aggregate value to their business lines and the firm.

²³ I004, I009, I026, and I031.

²⁴ I002, I003, I004, I007, I008, and I017.

²⁵ All interviewee’s observations.

We have not worked on capturing the firm's knowledge about operating in high political uncertainty contexts. [I028]

Before further understanding in more detail “how” Latam developed adaptive political capabilities, our next section explains “why” we found Latam had developed adaptive political capabilities to confront political uncertainties in Venezuela, Ecuador, and Nicaragua.

5.8 “Why” Latam developed adaptive political capabilities

As Latam confronted political uncertainties in Venezuela, Ecuador, and Nicaragua, it decided to re-evaluate and accelerate its internationalization strategy by both, further penetrating other existing markets and diversifying its international markets.²⁶ Despite the intention of accelerating Latam’s international expansion, Venezuela and Ecuador were definitely natural markets for Latam which it could not just simply exit. Nicaragua was a Central American market that, although small, was part of a strategic region where Latam’s products were demanded. In the case of the three countries, exiting or not entering would have been the “easiest” decision for Latam. But it was aware that, although not operating in these markets would mean avoiding political uncertainties, Latam’s vision called upon a long-term perspective that suggested it to create and sustain operations in these markets despite political challenges.²⁷ Consequently, in order to create and sustain operations in these countries, Latam found that it had to adapt and align to their political environments since exerting influence did not seem to be the best alternative – this is “why” it had to develop adaptive political capabilities.²⁸

In the next sections, we focus on “how” Latam developed adaptive political capabilities through its experience in the political contexts of Venezuela, Ecuador, and Nicaragua. We examine in detail the foundations and themes that guided their development.

²⁶ I001, I008, I012, I017, I025, and I039.

²⁷ I001, I003, I008, I017, and I037.

²⁸ I001.

5.9 Context One: Venezuela

Venezuela was a traditional and natural market for Latam since this country's underdeveloped industry relies on imports to attend its internal demand.²⁹ For long, Venezuela was the most important international market for Latam in terms of size (it represented an average of 43.4% of Latam's international sales from 2002-2009) and profitability³⁰. In Venezuela, Latam's distribution operation was its biggest and most profitable international operation and its production operation was its first international acquisition.³¹ Before the Venezuelan government started to control prices, these could be raised by companies and they would keep on selling, even a lot better than in other Latin American countries.³² Such was the case, that at some point Latam even faced internal debates about whether it should increase or not the amount of products it sold in the profitable Venezuelan market by decreasing the amounts it sold to other markets.³³ However, this "ideal" market started to change as a left-wing Venezuelan government "changed the rules of the game" for businesses and initiated the expropriation of firms. The political environment soon deteriorated the business environment and very rapidly firms' operations in Venezuela became exposed to higher risks with lesser profits.³⁴

Despite this political context, Latam decided it needed to work hard to sustain its operations in Venezuela. It believed that those firms which sustained their brands through politically uncertain times would surely receive benefits after the political environment stabilized.³⁵ In the next section, we analyze the strategic responses Latam developed to achieve the objective of sustaining its operations in Venezuela.

5.9.1 Types of strategic responses

The Venezuelan political context triggered not control or cooperative responses but flexible responses by Latam to sustain its distribution and production operations in

²⁹ I047, I048, and I052.

³⁰ I014.

³¹ I001, I005, I007, I008, I017, and I031.

³² I001, I039, and I043.

³³ I039

³⁴ I007, I026, and I031.

³⁵ I001 and I017.

this market. The different types of operations made Latam implement different flexible responses. As one VP said:

Our production platform in Venezuela has made the firm search for ways to minimize the impact of its potential expropriation while our distribution platform has made us search for ways to sustain operations despite the government's multiple measures to control currency exit. Although the distribution platform may also face expropriation, for its case, our main concern has been managing policy changes. [I017]

Below, we synthesize in Table 17 the flexible responses Latam adopted towards political uncertainties in Venezuela.

Table 17: Flexible responses adopted by Latam towards the Venezuelan market

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
<p>The installation of a left-wing government in Venezuela created operational uncertainty for Latam</p>	<p>Latam decided to sustain both of its operations in the Venezuelan market by adopting a long term view. Consequently, it had to concentrate on developing ways to sustain its operations in this market. However, it simultaneously planed an international strategy that could decrease its “dependency” on Venezuela by further penetrating and diversifying its markets. It decided to keep a low profile in Venezuela and never incur in acts of corruption as stated by the its values</p>	<p>During 2002 the Venezuelan market accounted for 44% of the international sales of Latam. By 2010 it accounted for 26% of its international sales because it had successfully decreased its dependency on the Venezuelan market by further penetrating and diversifying its markets</p>	<p><i>We have been working hard to decrease our dependency on the Venezuelan market but we still want to remain in this market because surely commercial conditions will change at some point in the future [I008]</i></p> <p><i>A specialized study allowed us to detail how to move forward our internationalization strategy [I001]</i></p> <p><i>Be politically neutral and have a low profile since hostile host governments are scanning to identify “against to the regime” firms to apply hostile measures against them or even expropriate them [I001]</i></p> <p><i>We follow our values and never risk our operation through corruptive activities [I015]</i></p>
<p>Anti-foreign operations feelings, fuelled by the Venezuelan government, confronted Latam with uncertainty surrounding how to prevent this sentiment from impacting on its operations</p>	<p>To avoid the interference of anti-foreign operations feelings in the distribution and production operations in Venezuela, all interactions with the government and customers were led by Venezuelans within these operations. Latam also adopted a low profile</p>	<p>The political neutrality of Latam avoided these anti-foreign operations feelings to affect its operations in Venezuela. Venezuelans ranned all negotiations for Latam because they were better received by the context and all negotiations progressed</p>	<p><i>Venezuelans always receive governmental inspections [I007]</i></p> <p><i>When we presented the firm to ask for certificates of non-production or in our meetings with clients, Venezuelans always took the lead [I026]</i></p>
<p>The closure of the Venezuelan borders confronted Latam with the uncertainty of not knowing when it could continue exporting products to its distribution operation</p>	<p>Latam sustained its operations and changed the way it coordinated logistics to assure that its products had the best chances of arriving to their destination once the frontier re-opened and despite future logistic difficulties due to political decisions</p>	<p>During frontier closures, all product movements were definitely frozen but during all other times Latam was always able to deliver its products through different logistic plans</p>	<p><i>We operated at new schedules, developed various alternatives to transfer products from origin to destination, improved relations with intermediaries in the logistic chain, and included security measures during product movements [I050]</i></p>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
Political tensions translated into delays in the renovations of the sanitary registrations of products. Latam faced the uncertainty of not knowing when it would receive the renovations of the sanitary registrations of those products which at that moment were in the process of having their registrations renewed	Latam requested sanitary registrations for products with a Peruvian origin and invested in adequating its production plant in Peru to produce such products. Latam intensified its search for other markets that could demand products from B2 which would be produced in Colombia to fill in the recent production expansion that had been made based on expectations of increasing sales in Venezuela	Latam received the approval of the sanitary registrations it requested and it started exporting these products while other firms in the industry which insisted in getting renewed their old registrations failed to do so	<i>We could competitively sell in Venezuela products coming from our plant in the new origin.</i> <i>We had to sell in other markets which could occupy our already installed production capacity [I017]</i>
The deterioration of diplomatic relations challenged Latam with the uncertainty of how to manage its relations with both the host and home country governments	Latam deliberately avoided lobbying any government or entity because this could only increase its visibility. Being visible could motivate the implementation of hostile policies, corruption requests, or its chances of being expropriated	Latam continued operating while other firms that became visible were expropriated like Polar or Exito, among others	<i>Consciously we decided that we should avoid lobbying the Venezuelan or country of origin governments [I001]</i>
As the Commission of Foreign Currency Administration in Venezuela (CADIVI) stopped working efficiently, Latam faced the uncertainty of how and when it would recover its pending payments from CADIVI	Latam continued to sell its products in Venezuela through CADIVI expecting to receive its accumulated payments. It constantly monitored the developments in CADIVI while it sold the amounts of products that the certificates of non-production authorized	Latam recognized it should have reacted sooner than it did to this situation by earlier stopping its accumulation of pending payments in CADIVI. Some firms from the industry decided to abort the Venezuelan market because of CADIVI, however Latam continued operating searching for alternatives	<i>We continued selling through CADIVI and although we monitored CADIVI, perhaps we should have stopped accumulating pending payments through CADIVI sooner than we did [I017]</i>
CADIVI restricted the authorization of certificates of non-production and Latam's business lines faced the uncertainty of when they would receive these certificates that authorized the import of their products through the distribution operation in Venezuela	The distribution operation focused on becoming very agile in the process of requesting the certificates of non-production. It hired one person to be in charge of these certificates	Other firms in the industry did not have one person fully in charge of this process; this gave an advantage to Latam	<i>One person focused on requesting the certificates of non-production, monitoring their approval, and informing the distribution operation and the business lines once these were authorized [I026]</i>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
<p>The overall evolution of Venezuela's political context confronted Latam with a generalized increase in political uncertainty</p>	<p>As political uncertainty increased in Venezuela, Latam integrated one committee for both operations and used the knowledge of human capital about the Venezuelan context to understand, anticipate, and react</p>	<p>The result of the consolidation of this committee was that decisions about Latam's operations were made in conjunction assuring a corporate stance towards its operations in Venezuela</p>	<p><i>It was important that we shared a corporate stance towards Venezuela so we integrated one committee [I001]</i></p>
<p>Frequent expropriations in Venezuela challenged Latam with the uncertainty of a potential expropriation of its operations. The investment in the distribution operation was much less, and therefore, the uncertainty of a potential expropriation was less for the distribution operation than for the production operation</p>	<p>Latam changed the production platform's investment origin from Colombian to Costa Rican. As a preventive measure, Latam also provisioned the value of the production platform in its financial statements. Latam kept a politically neutral stance and avoided the media. The production platform started to develop the READY Project which was a confidential project to prepare Latam to respond to a potential expropriation. It also started to buy the materials it previously imported from Colombia to local suppliers in Venezuela. It made sure it paid just prices to its suppliers</p>	<p>The costs of a potential expropriation were significantly reduced by Latam while other firms in the industry maintained their levels of exposure</p>	<p><i>We modified the legal proprietary structure of the production operation in Venezuela to a different origin. [I004]</i></p> <p><i>We provisioned the value of our production operation in Venezuela [I001]</i></p> <p><i>We kept a politically neutral stance and avoided any communications to the media that could be considered against the host government [I001]</i></p> <p><i>We started to work on a project to be prepared in case of an expropriation. It was very important to have a plan we can activate if we eventually confront this situation [I031]</i></p> <p><i>We bought a raw material from local suppliers in Venezuela because we could no longer import it and because it made us appear as a firm adding value to Venezuela [I031]</i></p>
<p>Chavez expanded his government model in Venezuela and Latam faced the uncertainty of the impact that the different interest groups could have on its production operation</p>	<p>Latam created a "power map" that identified the different interest groups that surrounded the production operation and analyzed their potential impact</p>	<p>This allowed Latam to design structured plans to interact with these interest groups to diminish their potential impact on operations while most foreign firms in its industry lacked this type of plans</p>	<p><i>Our power map allowed us to better understand and relate to different groups which influence our business [I031]</i></p>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
The growing instability in the diplomatic relations generated uncertainty among the local employees about the stability and continuity of the distribution and production operations in Venezuela	Internal communications within Latam became very important. Latam focused on transmitting a corporate message that was clear and diminished employees' uncertainty about the continuity of their jobs and ratified Latam's neutral political stance	While the rotation of employees was high in the industry due to uncertainty, the clarity of Latam gave a sense of tranquility to its employees making its rotation rate much lower	<i>Being clear in our communications and keeping these active was very important. Not communicating with our employees would only increase uncertainty [I034]</i>
Increasing political uncertainty ensured that the production operation had to deal with the uncertainty of how to manage the different themes that could potentially affect its operations: compliance with laws, governmental inspections, and community and labor relations	The production operation created an analytical matrix that was revised on an annual basis through which it identified and evaluated the main themes that could potentially affect its operations. It also developed a protocols system that instructed employees on how to manage governmental inspections	These tools were innovative for the industry and unique to Latam. They allowed Latam to sustain its operations in compliance with the law and through good community and labor relations	<i>Our matrixes allow us to keep track of our work to assure the continuity of operations. The protocols improve our preparation to receive governmental inspections[I031]</i>
CADIVI stopped its payments and Latam faced the uncertainty of how to continue operations in the Venezuelan market despite this suspension and the uncertainty of when it would receive its pending payments	Latam decided to sell in the Venezuelan market only what could be collected immediately due to the suspension of payments from CADIVI. To do so, it changed its financial and marketing processes. It focused on identifying which where the most profitable and strategic products to sustain in Venezuela	The modification of Latam's processes allowed it to stop accumulating pending payments in CADIVI and to receive much faster the dollars corresponding to its exports to Venezuela while other firms in the industry just stopped selling in this market. A renewed marketing strategy allowed it to focus on promoting the most profitable products	<i>We changed our financial processes completely by determining that to export products to Venezuela, we first, had to buy dollars in the free market and then, after having assured their availability to pay the business lines, these proceeded to export their products [I014] Instead of focusing on a long term marketing strategy, we had to identify which products we should aim to sustain in Venezuela because of their brand trajectory and profitability. Marketing became short term and focused on profitability [I053]</i>
The government instigated energy cuts which meant that the production operation in Venezuela faced the uncertainty of disruption of energy supply	The production operation invested resources in acquiring two energy plants that provided the site with energy during the cuts installed by the government	Production operations were not disrupted for Latam while other firms that lacked these plants could not produce at cuts	<i>We had to invest in energy plants because we could not stop producing [I031]</i>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
Due to reiterative expropriations, Latam faced the uncertainty of not knowing if it would be able to access information about its operations in Venezuela if the Venezuelan government decided to take over its sites	Latam implemented a replica of the its information about operations in Venezuela in an external country from Venezuela, creating a necessary back up	Latam could access its information without restrictions even if expropriated while many firms that had been expropriated had lost access to their operations' information	<i>We designed a system through which we can access all of our information about Venezuela without being in Venezuela [1036]</i>
Law no. 39.658 in the defense of the people for their access to goods and services obliged the distribution and production operations in Venezuela to deal with the uncertainty of new policy changes	The distribution and production operations decided to adequate their activities to assure their compliance with the requirements of this new law by keeping low inventories and pricing their products moderately	Latam complied with this law while other firms throughout various industries were sanctioned	<i>We kept our inventories low and our prices followed those leading the market to make sure we could not be accused of price speculation [1007]</i>
The Venezuelan government prohibited the selling of dollars by closing the free market through law no. 5.975. Latam faced the uncertainty of how to access dollars to sustain its operations in Venezuela	Latam monitored the context to identify opportunities that would allow it to have access to dollars in Venezuela	Latam started to work on rapidly identifying alternatives to access dollars while other firms in its industry could not view other alternatives	<i>When the free market was closed we spent time searching for a way the context could eventually allow us to access dollars [1007]</i>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
<p>The Venezuelan government created the System of Transactions of Foreign Exchange Titles in Venezuela (SITME) through law no. 39.439 which confronted Latam with the uncertainty of sustaining operations in Venezuela since through SITME Latam now had restricted access to 350,000 USD per month to pay for the imports of its distribution operation</p>	<p>Latam decided to start using SITME and learned the process of requesting dollars through this new system. It also learned about and participated in the emission of bonds through which it could acquire additional dollars to amplify its sales in Venezuela.</p> <p>The distribution operation gradually contracted to adapt its costs to decreasing sales in order to continue being sustainable. In the process, the distribution operation changed from having its entire staff contracted as direct employees who attended all types of clients to having less staff who only attended directly retail chains and contracting external distributors who attended wholesalers and stores. All logistic operations were also outsourced. Consequently, the approach towards human capital within the distribution operation changed to encouraging teamwork rather than pushing for sales. Latam searched for other importers who could sell its products</p>	<p>Latam had access to the monthly 350.000 USD granted by Venezuela's Central Bank. It also managed to buy some bonds and amplified this way its available dollars to pay for exports to Venezuela's distribution platform. Other firms in its industry did not catch sight of the alternative of buying bonds to increase their available dollars</p>	<p><i>We learned how to access dollars through SITME and how to participate in the emission of bonds in order to access as many dollars as we could for our operations in Venezuela [I014]</i></p> <p><i>We had to reduce costs by reducing our staff, developing distributors, and outsourcing [I007]</i></p> <p><i>We have to motivate our people to work better as a team in order to be able to sustain operations despite selling less [I017]</i></p> <p><i>We have developed 13 distributors who can access 350.000 USD each through SITME to import and sell our products in Venezuela [I017]</i></p>
<p>The Venezuelan government had installed the conduction of inspections in firms and the distribution operation received an inspection that resulted in a sanction because of a non-compliance. Latam faced the uncertainty of finding a way to ensure its distribution operation would not be again disrupted due to sanctions arising from governmental inspections</p>	<p>The manager of the distribution operation created several tools to make sure that Latam complied with all of the requirements that were identified and managed governmental inspections in the best possible way. These tools were: strategic checklist, operative checklist, directory of legal advice services in Venezuela, corporate support, calendar for payment of taxes, legal status of brands and sanitary registries, and protocol to manage governmental inspections</p>	<p>These tools helped the manager of the distribution platform and his team make sure they took the necessary measures to prevent future sanctions or the disruption of operations. They were unique to Latam improving its ability to comply with Venezuelan laws</p>	<p><i>The firm had to be sure it would never face the disruption of its operations due to non-compliances [I007]</i></p>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
The Venezuelan government committed to the payment of the debt of CADIVI to firms. Nevertheless, Latam faced the uncertainty of which markets would help the recovery of the sales it lost in Venezuela due to currency restrictions	Latam acquired a U.S. production platform for B1 in order to compensate the sales lost in the Venezuelan market. Other new markets where Latam was able to create sales through distributors were Africa, the Middle East, and Southeast Asia	The international sales of Latam grew from 2002 to 2010 by 330% well above industry average growth	<i>We should have done this acquisition years ago. However, it only happened when we were forced to look at how to compensate the business that was lost in Venezuela [I001]</i> <i>We have entered new international markets with a lot of growth potential [I001]</i>
Law no. 8.331 about just costs and prices, gave power to the Venezuelan government to determine the profit margins of firms and sanction those that did not follow such margins. Latam confronted the uncertainty of not knowing if its operations would be affected by this law	Latam investigated which firms or products had to follow this law. It found that only 19 products had been affected by the determination of specific profit margins. Latam recognized it had to keep on monitoring the possible extension of this law to other products	Latam continued to monitor this law while other firms were sanctioned for not complying with the prices and margins that were stated for specific products	<i>None of our products have yet been affected by this law. We have to keep on monitoring its potential extension to cover more products [I007]</i>
Law no. 39.741 about sports, physical activity, and education installed an annual 1% tax to firms' net utilities. Latam faced the uncertainty of being able to sustain its distribution operation in Venezuela with increasing operational costs	Latam decided to pay this annual tax and to continue monitoring its operational costs in order to determine improvement opportunities	Paying this tax was the correct response to continue complying with governmental policies, firms that didn't were sanctioned	<i>This law increased our operational costs. This is no good news in an already highly restricted market [I007]</i>
The stabilization of diplomatic relations confronted Latam with the uncertainty of whether or not to invest more resources in its already existing operations in Venezuela	Latam decided not to grow its infrastructure since although diplomatic relations had improved, this could be temporary. The decision was to preserve current operations	Latam kept its investments at the same level, other firms in its industry left Venezuela, while none invested further in the country	<i>Our challenge is not to invest more in Venezuela but to do so in other countries [I001]</i>

Source: Elaborated by author

For a detailed account of events, see Appendix 10 that describes a chronology about the impact of Venezuela's political environment on Latam's operations. This chronology shows the political events that took place, the political uncertainties these events generated for Latam, the strategic responses Latam adopted towards these uncertainties, and the outcomes of these strategic responses.

5.9.2 Resources and adaptive political capabilities

In the case of Venezuela, interviewees acknowledged Latam's resources played a central role in the development of adaptive political capabilities by enabling Latam to produce flexible responses to adapt to the political context. Specifically, the managers of the distribution and production operations in Venezuela recognized that the foundation of Latam's adaptive political capabilities initiated from its resources. Latam introduced new resources and used existing ones to create flexible responses that could adapt and align it with the political context of Venezuela.

The interviewees who were involved in operations in Venezuela defined the resources that had enabled the development of adaptive political capabilities as human (experience and knowledge), organizational (structure and coordinating systems), and physical (technological infrastructure and systems). They stated that these resources had been reconfigured and deployed by Latam to create adaption. We categorized the emergent themes we found to describe these three resources in Table 18.

Table 18: Resources involved in the development of adaptive political capabilities for the Venezuelan political context³⁶

Resources	Illustrative quotes
Human	“The experience and knowledge of our people”, “we hired the services of lawyers, firms specialized in accounting and tax consulting, and firms that assessed the Venezuelan political context, their knowledge was used by the firm”
Organizational	“Our organizational structure”, “the legal structure of our production platform”, “a committee about Venezuela”, “planning and coordinating systems”
Physical	“Our technological infrastructure and systems”, “we acquired two power plants”, “we changed from importing our raw materials from Colombia to buying them in Venezuela”

Source: Elaborated by author based on firm data

5.9.3 The development process of adaptive political capabilities³⁷

The top management team of Latam played a vital role in the development of adaptive political capabilities to confront the Venezuelan political context. When management sensed that the political environment in Venezuela could potentially affect its operations, it started to accelerate its international expansion strategy, but it also decided to organize around the objective of evaluating how to manage its distribution and production operations in Venezuela. Latam created a committee that was constituted by the CEO, the VP of Corporate Finance, the General Secretary, the VP of Centralized Services, the VP of business line 2 and in charge of the south region that included Venezuela, the VPs of business lines 1, 3, and 4, the manager of the distribution platform, and the manager of the production platform of business line 4 in Venezuela. This committee was led by the CEO and was capable of joint action. The role of the managers of the distribution and production platforms in Venezuela was crucial for Latam’s monitoring and interpretation of the environment. Sometimes this

³⁶ I001, I002, I004, I005, I007, I014, I015, I017, I031, and I036.

³⁷ I001, I002, I003, I004, I005, I007, I008, I017, and I031.

committee called upon other individuals within Latam or individuals outside of Latam to participate or give advice to such committee.

The intention of this committee was that decisions about Latam's operations were made in conjunction assuring a corporate stance towards its operations in Venezuela. The central objective of this committee was to create and lead Latam's adaption to the Venezuelan political context that generated different types of uncertainties and challenges towards which Latam had to take action. As the Venezuelan political context became more hostile, Latam increased the frequency of the meetings of the committee and the interactions between committee members. As the CEO explained:

When the context became hostile we formed a committee to lead the decisions of the firm towards Venezuela, it integrated the distribution and production operations. We met with more frequency and in face to face meetings as the context became more challenging. [I001]

An executive of Latam described the committee by stating:

The committee reflected a complete articulation of the firm. The different business lines were not making individual decisions. The CEO and top management team worked together to confront the challenges in Venezuela. [I043]

The experience and knowledge of the members of the committee played a key role in the development of adaptive political capabilities. Their positions within Latam and cognition defined the assessments they made about what could be the impact of the Venezuelan political environment on Latam's operations and which should be Latam's strategic responses to the challenges derived from this environment. The members of the committee already had worked together as a team during daily operations so these previous experiences and their knowledge about Latam's operations set routines for their interactions. As two VPs described:

In the committee meetings we had discussions in which the members expressed their different views, which not always coincided. We had to discuss these different perspectives to come to a consensus. This was a very interesting

learning process. All of the members always participated and we came to consensual decisions. Our CEO was involved throughout this process. [I002]

Another VP highlighted:

We all had our own concerns, I shared with the VP of business line 3 his preoccupation around complying with the law so that no reason would be given to the governmental authorities to take measures against the firm while the VP of business line 1 was concerned about being able to sell seasonal products which were of great interest for business line 1. [I017]

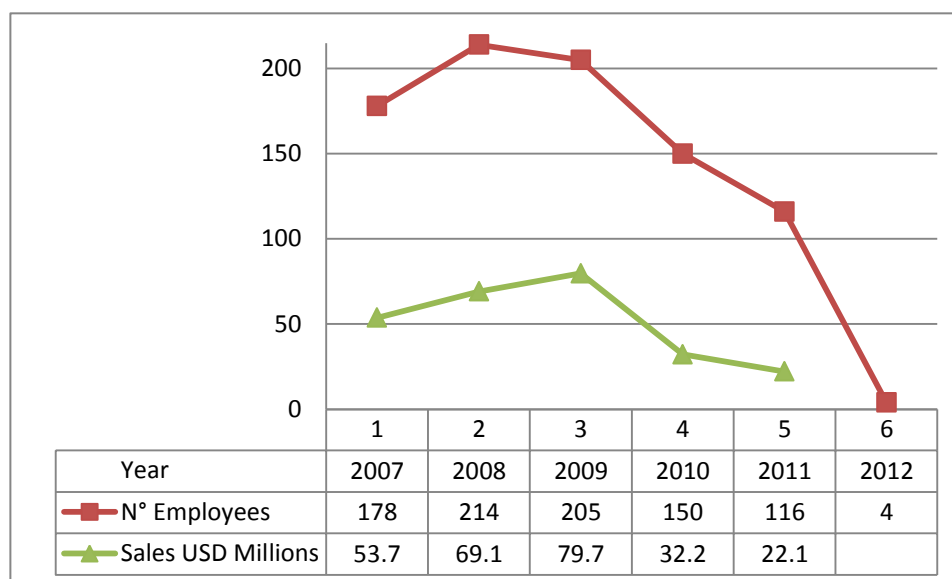
The development of adaptive political capabilities initiated after the committee was organized around the objective of evaluating how to manage its distribution and production operations in Venezuela despite the country's high political uncertainty context. The committee searched for viable alternatives to achieve its objective. The alternatives Latam chose to pursue implied using diverse types of resources, differed in their combination, and the nature of the tasks required. Over time, Latam learned by doing and accumulated experience on how to adapt to Venezuela's high political uncertainty context. As one executive explained:

Our learning process has come to a point where today our experience on how to deal with uncertainty lets us understand more easily situations that before seemed far more difficult. [I014]

5.9.4 Reconfigurations of organizational structure and processes

One of the ways adaptive political capabilities were developed by Latam was through the reconfiguration of its structure. The distribution platform gradually contracted the size of its structure to adapt its costs to decreasing sales in order to continue being sustainable (see Figure 10). In the process, the distribution platform changed from having its entire staff contracted as direct employees who attended all types of clients, to having less staff who only attended directly retail chains and contracting external distributors who attended wholesalers and stores. All logistic operations were also outsourced.

Figure 10: Evolution of sales and number of direct employees in the Venezuelan distribution operation



Source: Elaborated by author based on firm data

Latam also associated its development of adaptive political capabilities to modifying its structure through the development of exports to Venezuela's distribution platform from another production platform besides that in Colombia. This structural reconfiguration was achieved by Latam to assure the supply of the Venezuelan market despite political tensions between Colombia and Venezuela. Specifically, Latam developed additional imports from Peru to overcome the political obstacles that affected Colombian imports in Venezuela.

Latam also developed adaptive political capabilities by modifying its structure through the involvement of additional importers who could import its products in Venezuela (apart from its own distribution platform). This structural modification allowed Latam to overcome the monthly financial restriction that the Venezuelan government imposed to all importers by only allowing each to import at the most a total value of USD 350.000. Although these importers faced a lot of difficulties to access dollars, Latam eventually exported more products to Venezuela through a couple of these importers.³⁸

³⁸ I001, I007, I017, and I026.

Finally, Latam associated developing adaptive political capabilities with changing the legal investment structure of the production platform in Venezuela. It changed the legal origin of this investment from Colombian to Costa Rican since Costa Rica has an expropriation agreement with Venezuela that can protect Latam's investment in case of a potential expropriation.³⁹

Furthermore, within the organizational structure of Latam, three processes reconfigured the way it coordinated tasks and the nature of the tasks coordinated. The first was the financial process that guaranteed that exports to Venezuela were payed back to the different business lines. Initially, the business lines exported and the distribution platform received approval of the payment of these imports through Venezuela's Commission of Foreign Currency Administration (CADIVI) which meant that this Venezuelan entity would pay the business lines. As CADIVI stopped working effectively and the business lines did not receive timely payments for their exports, Latam changed its financial process. The new process involved the distribution platform to first secure the availability of dollars to pay back the business lines, and then upon confirmation of payment, the business lines would export their products. Additionally, Latam modified its accounting practices and taxing procedures to adequate to the changing financial policies of the Venezuelan government.⁴⁰

The second process that Latam modified was its logistics process. Latam changed the way it coordinated logistic operations to assure that its products had the best chances of arriving to their destination. This translated into operating at new schedules, developing various alternatives to transfer products from origin to destination, improving relations with intermediaries in the logistics chain, and including security measures during product movements.⁴¹ Latam also changed its inventory policy to comply with the law by reducing its inventory levels.⁴²

The last process that Latam modified was marketing. Latam had to change its marketing activities from regular promotion activities to what one Marketing Director

³⁹ I001, I004, I005, I006, and I031.

⁴⁰ I002, I004, I009, and I014.

⁴¹ I013, I049, I050, and I051.

⁴² I007.

referred to “*as not doing traditional marketing*”. Instead, Latam’s marketing process focused on identifying which where its most profitable and strategic products to sustain in Venezuela. This involved leaving aside traditional marketing activities and exclusively analyzing the profitability and brand positioning of products.⁴³

5.9.5 Human capital contributions

Human capital resources were seen as central in the development of adaptive political capabilities. The experience and knowledge of the top management team and also of the individuals who were involved in the different levels of the distribution and production operations in Venezuela were very much valued. Especially the knowledge and insights of the local managers in Venezuela and their teams were of great importance for Latam’s understanding of that context. The support of Centralized Services in the interpretation of regulations and exploration of alternatives was also critical. The committee or any of its members would also call upon individuals who they knew could provide useful insights into the search of alternatives. Individuals were crucial in the implementation stage of the alternatives decided to be followed. Their ability to understand the Venezuelan context, to coordinate, and deliver the tasks that were required was very important in materializing adaptive political capabilities into flexible responses.⁴⁴

Furthermore, the coordination of human capital also contributed to the development of adaptive political capabilities. The setting of Venezuelans instead of Colombians in the face of Latam’s interactions with the Venezuelan government and customers played a key role in adapting to Venezuela’s political environment.⁴⁵

Also bringing in the advice of externals was associated by Latam with the development of adaptive political capabilities.⁴⁶ Specifically, Latam consulted external lawyers who could help interpret the impact of the laws published by the Venezuelan government on its operations.⁴⁷ Latam also relied on external firms that provided

⁴³ I042, I043, I053, and I060.

⁴⁴ I001, I004, I005, I007, I017, and I031.

⁴⁵ I001, I007, I017, and I026.

⁴⁶ I001, I017, and I002.

⁴⁷ I001, I002, and I015.

financial advice related to accounting and taxing issues derived from governmental policies.⁴⁸ And, it also used the knowledge of local political analysts to understand the political environment - its development and impact.⁴⁹

5.9.6 Physical capital investments

Latam recognized that by acquiring the services of new technological platforms it enhanced the development of its adaptive political capabilities. In the face of potential expropriation, counting with a replica of its operations in Venezuela, in an external country from Venezuela, was critical in creating a necessary back up. This involved a considerable investment in physical capital to assure that the replica of information about Latam's operations in Venezuela was activated and continued working over time.⁵⁰

Through the development of its adaptive political capabilities, Latam also acquired two power plants that supplied electricity during the disruptions the government installed to this service. These plants allowed operations to continue despite energy cuts. Latam also changed the origin of its raw materials by buying them in Venezuela instead of importing them from Colombia to avoid import restrictions and present itself as a local player creating local value.⁵¹

5.10 Context Two: Ecuador

Ecuador had been a strategic natural market for Latam. Nevertheless, the Ecuadorian market used to be a smaller market than that of Venezuela. Paradoxically, this quickly changed as the Venezuelan market decreased in size due to its political context while the Ecuadorian market grew becoming bigger than Venezuela (see Figure 11). Ecuador's market growth made it become the most important international distribution operation for Latam.⁵²

⁴⁸ I002, I004, and I014.

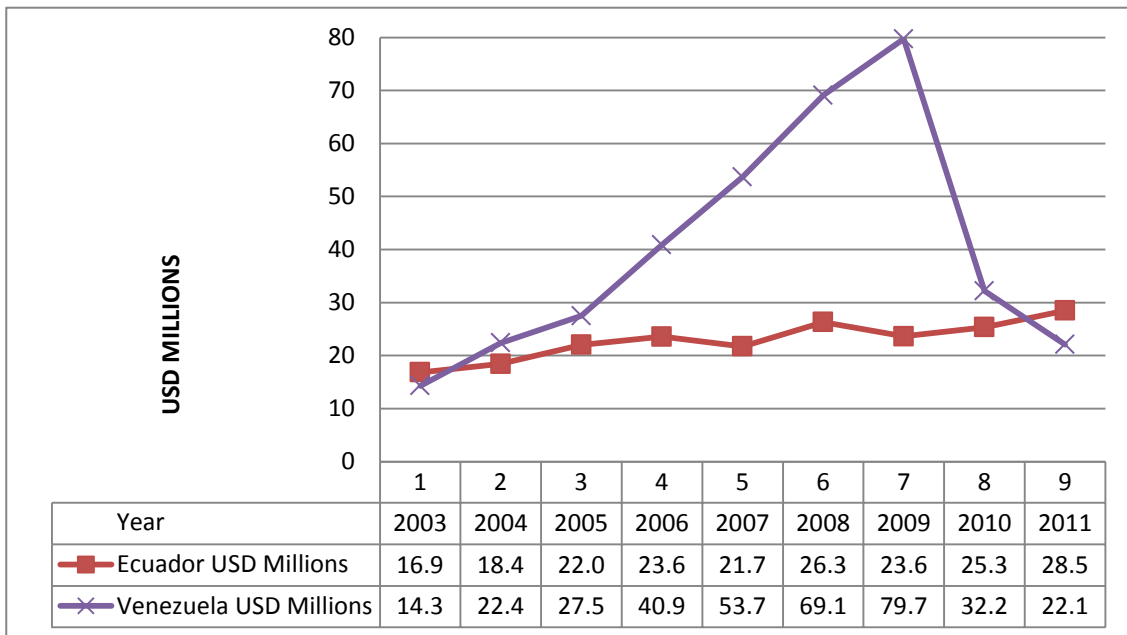
⁴⁹ I007, I017, and I031.

⁵⁰ I007, I031, and I036.

⁵¹ I031.

⁵² I001, I007, I008, and I045.

Figure 11: Comparison between sales of the distribution platforms in Ecuador and Venezuela



Source: Elaborated by author based on firm data

Despite market growth, Ecuador had also challenged Latam by confronting it with various political uncertainties. The following section, analyzes the strategic responses Latam implemented to confront political uncertainties in Ecuador.

5.10.1 Types of strategic responses

In Ecuador, Latam adopted various not control or cooperative but flexible responses to adapt and align with its political environment. The CEO described these challenges and flexible responses by stating:

In Ecuador, we did not confront expropriation uncertainty but we were confronted with difficult situations which involved trade restrictions and also anti-Colombian feelings. We responded to these uncertainties by keeping a long term vision and staying in the country, we assured our employees we were going to continue our operations and we did as much business as we would be allowed by quotas and tariffs. We were politically neutral. [I008]

Below, we synthesize in Table 19 the flexible responses Latam adopted towards each political uncertainty in Ecuador.

Table 19: Flexible responses adopted by Latam towards the Ecuadorian market

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
<p>The declaration of a “bank holiday” or the freezing of accounts confronted Latam with the uncertainty of cash flow availability to continue its operations due to governmental policies</p>	<p>Latam kept a team working together to make decisions about the Ecuadorian market and permanently used the knowledge of human capital about the Ecuadorian context to understand, anticipate, and react.</p> <p>To make cash available, Latam used and sold bank certificates, it sent cash from Colombia to Ecuador, and it increased the distribution operation’s capital to avoid its legal dissolution</p>	<p>The distribution platform’s timely and successful negotiation of bank certificates allowed it to avoid the loss of approximately USD120,000. Several firms in the industry had to delay many of their operations while Latam managed to continue operating</p>	<p><i>The agility of the firm to decide and sell bank certificates resulted in preventing a significant loss for the firm. Also the cash injected to the operation allowed us to continue selling [I055]</i></p>
<p>The dollarization and devaluation exposed Latam to the uncertainty of fast-changing prices for negotiations and accounts receivables</p>	<p>Latam changed price lists while permanently revising its competitiveness.</p> <p>Latam converted its accounts receivable from sucres to dollars and amortized during the following 5 years (since 2000) the losses generated by the differential currency exchange</p>	<p>The distribution platform’s sales decreased by 6% from 1999 to 2000. The products that were found to be more competitive after the dollarization were the products in which Latam offered a higher aggregate value because these were not as price sensitive. Latam concentrated on selling more of this type of products than before</p>	<p><i>We permanently monitored prices every week and then every day. [I056]</i></p> <p><i>We adjusted our accounting with the legal requirements the government obliged firms to follow [I055]</i></p> <p><i>We found we more competitive in our higher aggregate value products and therefore we had to focus on promoting the sales of these products [I056]</i></p>
<p>A coup d’état and the dismissing of Presidents by the Congress brought overall political uncertainty in Ecuador for firms</p>	<p>Latam adopted a long term perspective that enabled it to sustain operations despite political instability.</p> <p>Latam acquired a production platform for business line 2 in Peru. Through this new production platform it could provide products to the distribution platform in Ecuador despite political tensions between Colombia and Ecuador</p>	<p>Latam acquired a production operation in a new origin. Through this new production operation it could more easily provide products to the distribution operation in Ecuador despite political tensions</p>	<p><i>Brand awareness and positioning is very important and had already been set in Ecuador so we had to keep on as our long term view indicated [I001]</i></p> <p><i>Our new production operation gave us the security of having a second origin of exports through which we could provide products to Ecuador. [I017]</i></p>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
The prohibition of outsourcing confronted Latam with the uncertainty of being able to sustain operations due to the higher costs that were involved in the direct recruitment of additional employees who were previously contracted through outsourcing	Latam directly hired 150 employees who before were contracted through outsourcing. Latam introduced austerity plans to reduce operational costs	Operational costs augmented by 1%. To compensate the increase of operational costs, the distribution platform in Ecuador introduced an austerity plan and worked on increasing sales	<i>We hired our outsourced employees directly to comply with the law [I045]</i>
Anti-foreign operations feelings fuelled by the Ecuadorian government confronted Latam with uncertainty surrounding how to prevent this sentiment from impacting on its operations	Latam was politically neutral and all negotiations with retail chains were led by Ecuadorians within the distribution operation, not by Colombians	Ecuadorians were better received in negotiations and these ranned smoothly	<i>We adopted a politically neutral stance, not in favour of any government or party [I001]</i> <i>Our negotiations with retail chains were managed by Ecuadorians [I045]</i>
The breaking of diplomatic relations made Latam experience the uncertainty of potential frontier closures or the imposition of restrictive measures	Taking into account that the frontier could be closed at any point in time, the distribution operation in Ecuador increased its inventory stock from 25 to 45 days	This measure was a preventive response that guaranteed the availability of products in case of a border closure due to any political conflict	<i>This measure was a preventive response that intended to guarantee the availability of products in case of a border closure due to any political conflict [I057]</i>
Indications that the Ecuadorian President could be willing to increase taxes confronted Latam with policy uncertainty	As a result of these expectations, Latam permanently monitored the development of tax legislation in Ecuador. These expectations also made Latam evaluate if sustaining a distribution operation was more profitable and less risky than initiating production operations	The distribution platform's awareness about possible changes in tax regulations allowed it to quickly assess the impact of any new taxes or changes on current tax legislation	<i>We monitored the development of tax legislation through the media [I054]</i> <i>Expectations of increments made the firm evaluate if sustaining distribution was more profitable and less risky than initiating production operations in Ecuador [I045]</i>
The introduction of quotas and tariffs to imports confronted Latam, with the uncertainty of determining how these safeguards threatened its exports to Ecuador	Latam identified what products were affected by the quotas and tariffs. It sold what the quotas allowed and the products that could maintain a competitive position despite the increase in prices due to tariffs	Latam learned that it could not depend on products that were sold at low fractions of coins. It should rely more on higher profit margin products with higher aggregate value	<i>The installment of safeguards upon imports affected our sales. We lost market participation [I017]</i> <i>We understood we had to sell more higher aggregate value products that had higher margins [I056]</i>

Political uncertainties	Flexible responses	Outcomes	Illustrative quotes
A ratification of quotas and tariffs to imports confronted Latam with the uncertainty of being able to sustain its operations over time	Latam transmitted a clear message of political neutrality and assured employees the continuity of operations	Employees' commitment to Latam did not decrease	<i>We had to keep "up" the moral of our employees because there were doubts about the continuity of doing business in Ecuador, there were even doubts that we would close our operations. We communicated we were going to continue operations always with a sense of political neutrality [I001]</i>
A regulation that determined the amounts of fat, saturated fat, sugar, and salt that can be sold in food products to under age students, confronted Latam with the uncertainty of how to respond to the requirements of this legislation	Latam has initiated a revision of its portfolio and raw materials. It has oriented its research and development investment towards developing products that comply with this legislation	Latam has invested resources to comply with this law, aware that this law can become a future trade restriction in the case that any government decides to ban the products that do not comply	<i>The firm has committed R&D resources to this big challenge. We believe that this is happening today in Ecuador and other countries, and it will become a future global market demand [I017]</i>
The increase in tax to currency exit from 2% to 5% confronted Latam with the uncertainty of how to respond to this governmental policy	Latam reduced its operational costs by 2% and started a savings plan of 1%. Additionally, it revised the prices of products in order to increase profit to partially cover this tax without losing competitiveness	The imposition of the tax was overcome and operations continue with a close monitoring of costs, prices, sales, and market participation	<i>The firm decided to continue distribution operations despite this tax and is constantly looking for ways to improve efficiency and decrease costs [I045]</i>
An upcoming communication law confronted Latam with the uncertainty of not knowing if the law would be approved and if approved how it should best respond to its requirements	Latam is anticipating possible strategies to comply with the potential requirements of this law	Anticipating alternatives to comply with this law is what Latam is focusing on	<i>We must anticipate to the approval of this law by visualizing possible ways to comply with its requirements at the minimum costs [I045]</i>

Source: Elaborated by author

For a detailed account of events, see Appendix 11 that describes a chronology about the impact of Ecuador’s political environment on Latam’s operations.

5.10.2 Resources and adaptive political capabilities

All of the interviewees agreed on the fact that resources were very important in developing adaptive political capabilities to confront political uncertainties in Ecuador. The VP who supervised the south strategic region and the manager of the distribution operation in Ecuador, emphasized that the development of adaptive political capabilities would start from Latam’s resources. Latam introduced new resources and used existing ones to create flexible responses that would adapt and align it with the political context of Ecuador.

The interviewees who participated in the operations regarding Ecuador defined the resources that had enabled the development of adaptive political capabilities as human (experience and knowledge), organizational (structure and coordinating systems), and physical (investments in R&D). These resources had been reconfigured and deployed to create adaption. We categorized the emergent themes we found to describe these three resources in Table 20.

Table 20: Resources involved in the development of adaptive political capabilities for the Ecuadorian political context⁵³

Resources	Illustrative quotes
Human	“Experience specially from operations in Venezuela”, “knowledge about the Ecuadorian market”
Organizational	“Formal organizational structure”, “planning and coordinating systems”
Physical	“Investments in R&D”, “new raw materials”

Source: Elaborated by author based on firm data

⁵³ I001, I017, I045, I054, I055, I056, and I057.

5.10.3 The development process of adaptive political capabilities⁵⁴

In Ecuador, the top management team of Latam also played a vital role in the development of adaptive political capabilities. When Latam started to experience challenges stemming from the Ecuadorian political environment that could potentially affect its operations, it decided to organize around the objective of evaluating how to manage its distribution operations in Ecuador. Latam already had a committee that supervised operations in Ecuador that was constituted by the CEO, the VP of Corporate Finance, the VP of business line 2 and in charge of the south region that included Ecuador, the VPs of business lines 1 and 3, and the manager of the distribution platform in Ecuador. This committee was led by the CEO and was capable of joint action. The role of the manager of the distribution platform in Ecuador focused on monitoring and interpreting the environment and was key in searching for alternatives to adapt to Ecuador's political challenges.

According to the types of uncertainties that were confronted, individuals from specific areas would be approached to request their participation or Latam would search for external advice. The intention of this committee was that decisions about Latam's operations were made in conjunction between the three business lines having their products sold in Ecuador to assure that Latam adopted a corporate stance towards its operations. The central objective of this committee was to create and lead Latam's adaption to the Ecuadorian political context that generated different types of uncertainties and challenges towards which Latam had to take action. Latam had formal committee meetings during four times a year but sustained a permanent interaction between its members and called upon additional meetings when the circumstances required. As the distribution manager explained:

The way we organized to manage the political uncertainties in Ecuador was very similar to the way the firm organized to manage the political uncertainties which presented in Venezuela. We had committee meetings and we permanently communicated to monitor the evolution of operations. [I045]

⁵⁴ I001, I003, I008, I017, I045, I054, I055, I056, and I057.

The experience and knowledge of the members of the committee was central in the development of adaptive political capabilities. The positions and cognition of the members defined the assessments they made about what could be the impact of the Ecuadorian political environment on Latam's operations and which should be Latam's strategic responses to the challenges derived from this environment. The members of the committee already had worked as a team during daily operations and in the case of Venezuela, so these previous experiences and their knowledge about Latam's operations set routines for their interactions. As one VP explained:

When safeguards were installed in Ecuador, we saw similar uncertainties to those we had faced in Venezuela were approaching. Therefore, we quickly understood that we had to apply the same elements of understanding the environment and its impact and making fast decisions. [I017]

The development of adaptive political capabilities initiated after the committee was organized around the objective of evaluating how to manage its distribution operation in Ecuador under a high political uncertainty context. The committee searched for viable alternatives to achieve its objective. The alternatives Latam chose to pursue implied using diverse types of resources, differed in their combination, and the nature of the tasks required. Over time Latam learned by doing and accumulated experience on how to adapt to the high political uncertainty context of Ecuador. Particularly, when the safeguards were installed to Colombian imports in Ecuador, Latam had already accumulated experience dealing with similar political challenges in Venezuela, which helped it confront this situation. As the distribution manager explained:

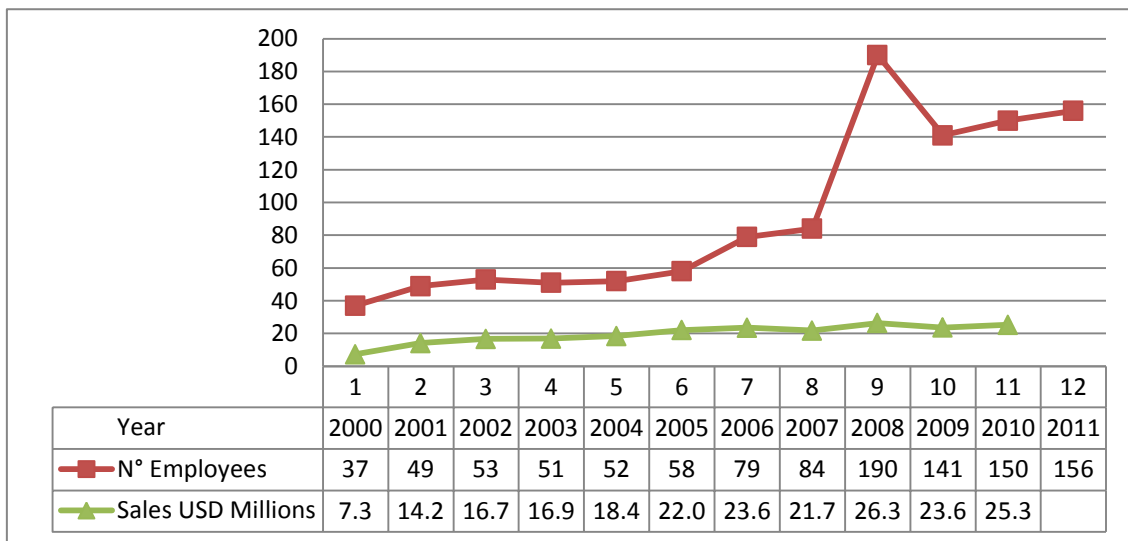
What we learned in Venezuela about confronting challenges stemming from the political environment helped us in a very important way to confront the installment of safeguards in Ecuador. [I045]

5.10.4 Reconfigurations of organizational structure and processes

Latam related the modification of the structure of its distribution platform in Ecuador with the development of adaptive political capabilities. Latam modified its structure by directly hiring 106 employees, who before 2007, were contracted through

outsourcing. This modification only intended to comply with the law that prohibited outsourcing in Ecuador; it was not related to increasing sales (see Figure 12).⁵⁵ Latam also developed exports to Ecuador through a production platform of business line 2 in Peru, through which it sustained the supply of products in Ecuador despite political tensions between Colombia and Ecuador.⁵⁶

Figure 12: Evolution of sales and number of direct employees in the Ecuadorian distribution operation



Source: Elaborated by author based on firm data

Latam reconfigured three processes due to Ecuador’s political uncertainty. Latam’s financial process changed by adapting to the new accounting policies and tax legislation, increasing the monitoring of prices, and designing new ways to guarantee cash flow.⁵⁷ Secondly, the logistics process installed preventive inventory measures to assure the supply of products during potential frontier closures related to political tensions between Ecuador and Colombia.⁵⁸ Finally, marketing had to reconfigure its traditional activities due to the imposition of safeguards by focusing on identifying

⁵⁵ I045.

⁵⁶ I017.

⁵⁷ I045, I054, and I055.

⁵⁸ I045, I050, I051, and I057.

which products were the most competitive in Ecuador in terms of profit and brand positioning.⁵⁹

5.10.5 Human capital contributions

As in the case of Venezuela, human capital resources were key to the development of adaptive political capabilities to confront the uncertainties of the Ecuadorian market. Again, the experience and knowledge of the top management team, the local manager and team, and the individuals who were involved in the different levels of the distribution operation were critical. The support of Centralized Services in the interpretation of regulations and exploration of alternatives was also important. To search for alternatives, the committee or any of its members called upon individuals who they knew could provide useful insights. Individual's ability to understand the Ecuadorian context and coordinate and deliver the tasks that were required was also fundamental in materializing flexible responses.

Also bringing in the advice of externals was associated by Latam as central to the development of adaptive political capabilities. Especially, Latam referred to externals who provided financial advice related to accounting and taxing issues derived from governmental policies. Lastly, Latam also used the knowledge of local political analysts to understand the political environment.

The coordination of human capital also contributed to the development of adaptive political capabilities by setting Ecuadorians instead of Colombians in the face of Latam's negotiations.⁶⁰

5.10.6 Physical capital investments

Latam identified its investments in R&D and its commitment to the development of new raw materials as having an important role in the development of adaptive political capabilities. Latam currently expects these investments to enable its production of healthier products that can comply with developing regulations in Ecuador. Furthermore, Latam intends these healthier products to also go to other

⁵⁹ I042, I043, I045, I053, and I060.

⁶⁰ I001, I017, and I045.

markets where nutrition requirements or standards are expected to be imposed by future laws or market demands.⁶¹

5.11 Context Three: Nicaragua

For Latam, Nicaragua was a small Central American market described as a “price market”. However, having presence in this market was important for Latam as part of its expansion strategy in the Central American region. As one VP explained:

We are present in many Central American countries. Our experience has been that when the Nicaraguan market has lower than average results, then other markets in the region increase average results and vice versa. [I008]

Latam sells in Nicaragua products from business lines 1 and 2 that are produced in production platforms in Costa Rica. The distribution platform in Nicaragua does not sell products from business line 3 because these are not competitive since they are only produced by production platforms in Colombia and consequently are affected by a sovereignty tax imposed by Nicaragua to Colombian imports.⁶²

In the next section, we analyze how Latam responded to the restriction it encountered in Nicaragua to start its operations.

5.11.1 Types of strategic responses

In Nicaragua, Latam confronted a commercial restriction that stemmed from political decisions. As a VP stated:

A territorial dispute between Colombia and Nicaragua has generated the imposition of a tax to Colombian imports by the Nicaraguan government. We found that the way to operate in this market was through the acquisition of a production platform in Costa Rica and the creation of a distribution platform in Nicaragua that imported products with a Costa Rican origin into Nicaragua. Costa Rican origin products are not sanctioned with a sovereignty tax and can therefore be competitive in the Nicaraguan market. [I008]

⁶¹ I045.

⁶² I001 and I008.

Below, we synthesize in Table 21 the strategic responses Latam adopted towards political uncertainty in Nicaragua. All of these, were flexible responses.

Table 21: Flexible responses adopted by Latam towards the Nicaraguan market

Political uncertainty	Flexible responses	Outcomes	Illustrative quotes
<p>The imposition of a tax to imports confronted Latam with the uncertainty of how could it compete in the Nicaraguan market</p>	<p>Latam knew that while the sovereignty tax to Colombian imports existed, it would not be able to compete in the Nicaraguan market with products produced in Colombian production platforms</p> <p>Consequently, Latam organized a team to evaluate potential acquisitions in the Central American region that could efficiently supply Nicaragua and other Central American markets with competitive products</p> <p>Latam decided to aim for acquisitions in Costa Rica that offered a strategic position to supply Nicaragua and other Central American markets. Through the acquisition of the two production platforms in Costa Rica, the distribution platform that was founded in Nicaragua was in a competitive position to import products from business lines 1 and 2 from Costa Rica since these products were not charged with a sovereignty tax</p> <p>Latam used the knowledge of human capital about the Costa Rican and Nicaraguan contexts to understand, anticipate, and react</p>	<p>Latam was able to design a way to offer products in the Nicaraguan market while competitors were still investigating how to do so</p>	<p><i>We bought production operations in a new origin to improve our participation in the Central American market. Through these acquisitions we found production operations from which to competitively supply the Nicaraguan market. [I001]</i></p>

Source: Elaborated by author

For a detailed account of events, see Appendix 12 that describes a chronology about the impact of Nicaragua's political environment on Latam's operations.

5.11.2 Resources and adaptive political capabilities

The interviewees involved in operations in Nicaragua highlighted that Latam's resources were key in the development of adaptive political capabilities. The manager of the distribution operation in Nicaragua and the VP in charge of the operations of the north strategic region argued that Latam's resources allowed its adaption to the commercial restrictions in the Nicaraguan market. Latam introduced new resources and used existing ones to create flexible responses that would adapt and align it with the political context of Nicaragua.

The interviewees that made part of Latam's operations in Nicaragua defined the resources which had enabled the development of adaptive political capabilities as human (experience and knowledge), organizational (structure and coordinating systems), and physical (geographical location). They stated that these resources had been reconfigured and deployed by Latam to create adaption. We categorized the emergent themes we found to describe these three resources in Table 22.

Table 22: Resources involved in the development of adaptive political capabilities for the Nicaraguan political context⁶³

Resources	Illustrative quotes
Human	“We used the experience of an inter-disciplinary team to create alternatives to have presence in the Nicaraguan market”, “knowledge about the context”, “human capital from Costa Rica and Nicaragua”
Organizational	“Our organizational structure developed to allow our presence in Nicaragua”, “planning”, “coordination systems”
Physical	“The new geographical location of our production platforms”, “the equipment and technology of the production platforms”, “the distribution site”

Source: Elaborated by author based on firm data

5.11.3 The development process of adaptive political capabilities⁶⁴

To start operations in Nicaragua despite political challenges, the top management team had to design a way to competitively approach the market. As Latam recognized the sovereignty tax imposed to Colombian imports in Nicaragua, it decided to organize around the objective of evaluating how to competitively enter the Nicaraguan market. Latam organized a team to evaluate potential acquisitions in the Central American region. The central objective of this team was to create and lead Latam’s expansion in the Central American region, including Nicaragua.

The experience and knowledge of the team members was central in the development of adaptive political capabilities. The development of adaptive political capabilities initiated after the team was organized around the objective of evaluating the best potential acquisitions that could enable its presence in the Central American region, including Nicaragua. The team searched for viable potential acquisitions to achieve its objective. The acquisitions Latam chose to pursue implied using and acquiring diverse types of resources, their combination, and the definition of the nature of the tasks required.

⁶³ I001, I008, I034, I058, and I059.

⁶⁴ I001 and I008.

5.11.4 Reconfigurations of organizational structure and processes

The modification of the structure of Latam was related to the development of adaptive political capabilities to allow its operation in the Nicaraguan market. Latam acquired two production platforms in Costa Rica to amplify and adequate its structure to be able to competitively offer products in Nicaragua. Then, having the opportunity to supply the Nicaraguan market through these production platforms, Latam created a distribution platform in Nicaragua that imported its products from Costa Rica. Latam only modified its daily organizational processes to include attending the Nicaraguan market.⁶⁵

5.11.5 Human capital contributions

Human capital played an important role in the development of adaptive political capabilities towards the Nicaraguan market. The knowledge of the inter-disciplinary team that was conformed to evaluate alternatives to expand in Central America and enter Nicaragua was appreciated due to the diversity of its participants and their previous experience in other acquisitions made by Latam.

Through the acquisitions of the production platforms in Costa Rica, Latam acquired Costa Rican human capital whose knowledge about producing and commercializing in Central America was determinant for the development of adaptive political capabilities that allowed Latam's presence in Nicaragua. Similarly, Latam's creation of a distribution platform in Nicaragua involved Nicaraguan human capital, who contributed to its operations through first-hand knowledge about the Nicaraguan market and its political context.⁶⁶

5.11.6 Physical capital investments

Latam described the "new" geographical location of its production platforms in Costa Rica as a physical investment that allowed it to develop adaptive political capabilities by entering the Nicaraguan market through the benefits of a geographical location with a better political relation with Nicaragua. Through its production

⁶⁵ I001 and I008.

⁶⁶ I001, I008, and I058.

platforms in Costa Rica, Latam overcame the commercial restrictions stemming from political tensions between Colombia and Nicaragua.

The investment in these production platforms was also associated with the development of adaptive political capabilities by providing Latam with equipment and technology which allowed it to manufacture products that could be competitive in the Nicaraguan market. The investment in Latam's distribution site in Nicaragua also granted the necessary infrastructure to sell its products in this market.⁶⁷

5.12 Concluding remarks

In summary, we found that despite the challenges in the political contexts of Venezuela, Ecuador, and Nicaragua, Latam decided to sustain and even start operations in these markets by developing adaptive political capabilities through flexible responses rather than by exerting influence on political actors. Latam explained that its decision to adapt rather than influence was based on its perception that exerting influence could easily lead these governments to install policies to disrupt its business or even expropriate its sites.

We also found that although each political context had particular characteristics that confronted Latam with different types of political uncertainties, it eventually used the same three types of resources (organizational, human, and physical) to develop its adaptive political capabilities.

We identified that the development of adaptive political capabilities by Latam pursued a similar goal (to sustain operations) in the contexts of Venezuela and Ecuador, while in Nicaragua it pursued a different goal (to start operations). The difference between the goals that triggered the development of adaptive political capabilities is explained by the fact that in Venezuela and Ecuador Latam already had established operations that it aimed to sustain, while in Nicaragua, it aimed to find a way to enter the market despite political uncertainties.

We also identified that the development of adaptive political capabilities by Latam involved the accumulation of experience. This experience was related to

⁶⁷ I001 and I008.

confronting political uncertainties in various contexts (despite the differences between them) or to previous acquisitions made by Latam. Specifically, the experience Latam had accumulated about the political uncertainties it had confronted in Venezuela helped it confront similar challenges in Ecuador. Similarly, the experience Latam had developed in previous acquisitions helped it acquire the production plants in Costa Rica that were necessary to enter the Nicaraguan market.

Finally, we also found that the experience Latam had accumulated about operating in the high political uncertainty contexts of Venezuela, Ecuador, and Nicaragua resided in individuals. Latam had made no deliberate efforts to involve individuals in the articulation and codification of their experiences. The knowledge management function was at an embryonic stage and had not yet played a role in the development of adaptive political capabilities. Particularly, the distribution and production managers in Venezuela had been the only individuals who had codified part of the knowledge they had acquired into tools that they used with their local teams. Latam's experiential knowledge was found to be at a state of development in which it should be articulated and codified to assure its transfer from the individual to the firm. Many interviewees agreed that they feared Latam would lose the benefits derived from its experiences as time passed and either the memory of individuals faded or they left Latam. Table 23 synthesizes our comparison of Latam's development of adaptive political capabilities in Venezuela, Ecuador, and Nicaragua.

Table 23: Comparison of Latam’s development of adaptive political capabilities in Venezuela, Ecuador, and Nicaragua

	Venezuela	Ecuador	Nicaragua
Goal	To sustain operations	To sustain operations	To start operations
Aim of responses	To adapt rather than influence	To adapt rather than influence	To adapt rather than influence
Political uncertainties confronted by Latam	<p>Total: 23</p> <p><i>Concept related</i> Policy uncertainty: 20 Expropriation uncertainty: 10</p> <p><i>Effect related</i> Micro: 19 Macro: 4</p> <p>Chronology related Ex-post: 23 Ex-ante: 0</p> <p><i>Typology related</i> State uncertainty: 9 Effect uncertainty: 6 Response uncertainty: 9</p>	<p>Total: 12</p> <p><i>Concept related</i> Policy uncertainty: 12 Expropriation uncertainty: 0</p> <p><i>Effect related</i> Micro: 5 Macro: 7</p> <p>Chronology related Ex-post: 12 Ex-ante: 0</p> <p><i>Typology related</i> State uncertainty: 4 Effect uncertainty: 3 Response uncertainty: 5</p>	<p>Total: 1</p> <p><i>Concept related</i> Policy uncertainty: 1 Expropriation uncertainty: 0</p> <p><i>Effect related</i> Micro: 1 Macro: 0</p> <p>Chronology related Ex-post: 0 Ex-ante: 1</p> <p><i>Typology related</i> State uncertainty: 0 Effect uncertainty: 0 Response uncertainty: 1</p>
Resources used by Latam to develop adaptive political capabilities	Organizational Human Physical	Organizational Human Physical	Organizational Human Physical
Experience accumulated that supported the development of adaptive political capabilities	The general and previous experience accumulated by each member of the committee and by the committee as a team	The experience accumulated by each individual and by the committee about the political uncertainties Latam had confronted in Venezuela	The experience accumulated by each individual and by the team about previous acquisitions made by Latam
Location within Latam of accumulated experience about operating in high uncertainty political contexts	Individuals	Individuals	Individuals

	Venezuela	Ecuador	Nicaragua
Efforts of the knowledge management function to support the development of adaptive political capabilities	<p>None</p> <p>Efforts were made by the distribution and production operations managers who codified part of the knowledge they had acquired into tools wich they used with their local teams</p>	None	None
State of knowledge within Latam about operating in high uncertainty political contexts	Highly experiential, although some codification efforts were found	Experiential	Experiential

Source: Elaborated by author

6 DISCUSSION OF STUDY 1: CASE STUDY

This chapter discusses how our empirical findings relate to the theoretical foundations examined previously in chapter 3. We develop a taxonomy of corporate adaptive political strategies that makes explicit the flexible responses that were used by Latam through its adaptive political capabilities to manage the political contexts of Venezuela, Ecuador, and Nicaragua. We also suggest some exploratory propositions that support the conceptualization of a framework to guide the development of adaptive political capabilities by firms. Finally, we explain how our analysis contributes to the extension of the RBV theory by amplifying our understanding of dynamic capabilities through our investigation of adaptive political capabilities and their development. And, to the extension of CPA research, by suggesting a taxonomy of corporate adaptive political strategies, that can be used by firms to adapt to political contexts.

6.1 Internationalization process and political uncertainty assessment

We found that Latam had included a general geopolitical analysis in the design of its internationalization strategy. Nevertheless, this analysis excluded a detailed assessment of political contexts. Only over time, had Latam become aware of the significant impact that the political environment could have on its operations, as it started confronting challenges stemming from political factors. Research has found that firms have traditionally based their internationalization strategies on different factors which have frequently excluded the detailed analysis of the political environment (Delios and Henisz, 2003; Henisz and Zelner, 2010; Holburn and Zelner, 2010; Kobrin *et al.*, 1980; Ring *et al.*, 1990).

However, although Latam had not developed a formal political assessment tool, it had invested a lot of the time of its human capital in understanding and adapting to the political contingencies it found in particularly three of its strategic markets. Latam did not only evaluate bank reports or risk indexes. Rather, it spent time and resources understanding the contingencies that would arise from political factors affecting directly its operations, strategy, and structure and designing alternatives to respond to such contingencies. In other words, Latam invested resources in developing adaptive

political capabilities to respond to the challenges it faced in its foreign political contexts. The issue that Latam confronted was that it had not equally invested resources in building a body of knowledge through which it could assure the continuous and future exploitation of the experience it had accumulated through its operations in high political uncertainty contexts. As a result, Latam was facing the possibility of over time losing the experience it had accumulated as the memory of the individuals who possessed this experience faded or they left the firm.

6.2 Strategic responses to political uncertainties and capabilities

We found that Latam decided it should respond to political uncertainties in Venezuela, Ecuador, and Nicaragua by avoiding directly influencing the governments of these political environments. This decision was based on the fact that Latam described these political contexts as sharing authoritarian regimes and weak institutions, which it believed required less control or cooperative responses, but more flexible responses, in order to sustain its operations in the most efficient possible way. This meant Latam did not develop political capabilities to enable control or cooperative responses. Rather, Latam decided to adapt to these environments through flexible responses that had to be enabled through its development of adaptive political capabilities. Latam explained that in the case of these three markets, it had decided to adapt through flexible responses since influencing the environment could further open requests, which could involve corruption and increase its visibility by motivating host governments to install hostile measures or even expropriate its sites impacting its cost structure.

Miller (1992) and Holburn and Zelner (2010) found that to confront political uncertainty, firms followed different types of strategic responses that were enabled by different capabilities. Latam's decision to adapt rather than influence, agreed with Mascarenhas's (1982) argument that sometimes firms face uncertain political contexts with specific characteristics where influencing the environment is not the best response. Some studies have even found that firms' political embeddedness in host countries can have a declining or negative value for firms (Sun, Mellahi, and Thun, 2010) or that building strong ties to political regimes does not necessarily enhance firm performance even if they are stable political regimes (Henisz and Delios, 2004). However, Latam's decision to adapt rather than influence, challenges the traditional view of corporate

political activities research which has focused on studying how firms can influence the political environment (Hillman and Hitt, 1999; Hillman *et al.*, 2004; Holburn and Vanden Berg, 2002; Lawton and Rajwani, 2011; Oliver and Holzinger, 2008). Since firms have traditionally developed political capabilities or lobbying capabilities to confront political uncertainties (Holburn and Vanden Bergh, 2002; Holburn and Zelner, 2010; Lawton and Rawjani, 2011), our research adds value by providing firms with a framework to guide their development of adaptive political capabilities, in case they confront high political uncertainty contexts in which they find that exerting influence is not the best response.

The following exploratory proposition synthesizes the nature of the strategic responses that our research findings suggest host firms depend more on developing to sustain their operations in foreign high political uncertainty contexts characterized by authoritarian regimes and weak institutions:

Proposition 1. Host firms depend more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in foreign high political uncertainty contexts.

This means that in foreign high political uncertainty contexts characterized by authoritarian regimes and weak institutions, developing adaptive capabilities that enable adaption to political uncertainties rather than political capabilities that enable influencing host governments can be more important for host firms to sustain their international operations.

6.3 Taxonomy of corporate adaptive political strategies for reactive corporate political activity

We found that in Venezuela, Latam confronted the potential expropriation of its production operation while all of its operations in the three countries confronted policy changes. Using data about seizures of foreign assets by host country governments in emerging economies and a study by Minor (1994), Henisz and Zelner (2010) found that in emerging markets policy changes had increased while expropriations had fallen from 1962-2008. Their finding was consistent with Kobrin's *et al.* 1980 and 1984 forecasts which indicated that the rate of expropriations would continue to be low. This seemed

to be the case for Latam since it confronted policy changes that affected all of its operations in the three countries while expropriation uncertainty only affected one of its operations in a single country.

Since Latam confronted policy changes and potential expropriation in the political contexts that were analyzed to understand the development of adaptive political capabilities, our research findings indicate that the flexible responses enabled by Latam's adaptive political capabilities to confront political uncertainties, can be categorized as either flexible responses to policy changes or flexible responses to potential expropriation. Below, Table 24 shows all of the flexible responses enabled by Latam's adaptive political capabilities. This table has two main columns, one identifying the flexible responses to policy changes and the other identifying the flexible responses to potential expropriation. Each of these two main columns is subsequently divided by other two, one providing a short description of each flexible response and a second synthesizing each flexible response as a tactic. We synthesized each flexible response to build a summarized list of Latam's flexible responses to which we refer to as the tactics towards policy changes or tactics towards potential expropriation that Latam used to adapt to three high political uncertainty contexts. Similarly, Hillman and Hitt (1999) included in their taxonomy of corporate political strategies a summarized list of control and cooperative responses used by firms to influence political contexts which they called tactics. As Hillman and Hitt (1999), we view "tactics" as short term activities designed to fine tune strategy.

Table 24: Flexible responses enabled by adaptive political capabilities

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
<p>Latam decided to sustain both of its operations in the Venezuelan market by adopting a long term view. Consequently, it had to concentrate on developing ways to sustain its operations in this market. However, it simultaneously planed an international strategy that could decrease its “dependency” on Venezuela by further penetrating and diversifying its markets. It decided to keep a low profile in Venezuela and never incur in acts of corruption as stated by its values</p>	<ul style="list-style-type: none"> - Further penetrating existing markets - Diversifying markets - Not incurring in acts of corruption 	<p>Latam decided to sustain both of its operations in the Venezuelan market by adopting a long term view. Consequently, it had to concentrate on developing ways to sustain its operations in this market. However, it simultaneously planed an international strategy that could decrease its “dependency” on Venezuela by further penetrating and diversifying its markets. It decided to keep a low profile in Venezuela and never incur in acts of corruption as stated by the its values</p>	<ul style="list-style-type: none"> - Further penetrating existing markets - Diversifying markets - Adopting a low public profile - Not incurring in acts of corruption
<p>To avoid the interference of anti-foreign operations feelings in the distribution and production operations in Venezuela, all interactions with the government and customers were led by Venezuelans within these operations. Latam also adopted a low profile</p>	<ul style="list-style-type: none"> - Representing the firm through locals before host governments and local customers - Adopting a low public profile 	<p>Latam changed the production platform’s investment origin from Colombian to Costa Rican. As a preventive measure, Latam also provisioned the value of the production platform in its financial statements. It kept a politically neutral stance and avoided the media. The production platform started to develop the READY Project that was a confidential project to prepare Latam to respond to a potential expropriation. It also started to buy the materials it previously imported from Colombia to local suppliers in Venezuela. It made sure it payed just prices to its suppliers</p>	<ul style="list-style-type: none"> - Changing the country of origin in the legal structure of an investment - Provisioning in financial statements the value of the investments that face potential expropriation in a host market - Adopting a politically neutral stance - Avoiding the media - Creating plans to manage a potential expropriation - Substituting imports by local production to appear as local value- adding firm - Payment of just prices to suppliers

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
Latam sustained its operations and changed the way it coordinated logistics to assure that its products had the best chances of arriving to their destination once the frontier re-opened and despite future logistic difficulties due to political decisions	- Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations more competitively. For example, by modifying its logistic processes to assure the arrival of products to their final destination despite political tensions	Latam created a "power map" that identified the different interest groups who surrounded the production platform and analyzed their potential impact on its operations	- Mapping and analyzing the potential impact of interest groups in the firm's operations
Latam requested sanitary registrations for products with a Peruvian origin and invested in adequating its production plant in Peru to produce such products. Latam intensified its search for other markets that could demand products from B2 which would be produced in Colombia to fill in the recent production expansion that had been made based on expectations of increasing sales in Venezuela	- Developing ways to supply a restricted market (Venezuela). For example, through the development of an alternative production origin in Peru, a country with lesser restrictions - Further penetrating existing markets and diversifying markets	Latam implemented a replica of the information about its operations in Venezuela in an external country from Venezuela, creating a necessary back up	- Acquiring physical resources to overcome political challenges. For example, technological infrastructure and software to guarantee access to the information about the firm's operations in Venezuela in case a hostile expropriation by the host government takes place
Latam deliberately avoided lobbying any government or entity because this could only increase its visibility. Being visible could motivate the implementation of hostile policies, corruption requests, or its chances of being expropriated	- Avoiding corporate political activities that aim to influence the host or country of origin governments	Latam deliberately avoided lobbying any government or entity because this could only increase its visibility. Being visible could motivate the implementation of hostile policies, corruption requests, or its chances of being expropriated	- Avoiding corporate political activities that aim to influence the host or country of origin governments
As political uncertainty increased in Venezuela, Latam integrated one committee for both operations and used the knowledge of human capital about the Venezuelan context to understand, anticipate, and react	- Modifying the firm's organizational structure not to comply with the law but to help it sustain its operations competitively. For example, modifying the organizational structure of the firm to include a committee that studies and makes decisions about a restricted market such as Venezuela - Using human capital with knowledge about the host context to understand, anticipate, and react	As political uncertainty increased in Venezuela, Latam integrated one committee for both operations and used the knowledge of human capital about the Venezuelan context to understand, anticipate, and react	- Modifying the firm's organizational structure not to comply with the law but to help it sustain its operations competitively For example, modifying the organizational structure of the firm to include a committee that studies and makes decisions about a specific market such as Venezuela - Using human capital with knowledge about the host context to understand, anticipate, and react

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
Internal communications within Latam became very important. Latam focused on transmitting a corporate message that was clear and diminished employees' uncertainty about the continuity of their jobs and ratified its neutral political stance	- Sustaining permanent clear internal communications focused on the firm's operations rather than on assuming a political stance	Internal communications within Latam became very important. Latam focused on transmitting a corporate message that was clear and diminished employees' uncertainty about the continuity of their jobs and ratified its neutral political stance	- Sustaining permanent clear internal communications focused on the firm's operations rather than on assuming a political stance
The production operation created an analytical matrix that was revised on an annual basis through which it identified and evaluated the main themes that could potentially affect its operations. It also developed a protocols system that instructed employees on how to manage governmental inspections	- Developing tools to assure the firm's compliance with laws and adequate management of governmental inspections	The production operation created an analytical matrix that was revised on an annual basis through which it identified and evaluated the main themes that could potentially affect its operations. It also developed a protocols system that instructed employees on how to manage governmental inspections	- Developing tools to assure the firm's compliance with laws, adequate management of governmental inspections, and maintenance of positive community and labor relations
The manager of the distribution operation created several tools to make sure that Latam complied with all of the requirements that were identified and managed governmental inspections in the best possible way. These tools were: strategic checklist, operative checklist, directory of legal advice services in Venezuela, corporate support, calendar for payment of taxes, legal status of brands and sanitary registries, and protocol to manage governmental inspections	- Developing tools to assure the firm's compliance with laws and its adequate management of governmental inspections	The manager of the distribution operation created several tools to make sure that Latam complied with all of the requirements that were identified and managed governmental inspections in the best possible way. These tools were: strategic checklist, operative checklist, directory of legal advice services in Venezuela, corporate support, calendar for payment of taxes, legal status of brands and sanitary registries, and protocol to manage governmental inspections	- Developing tools to assure the firm's compliance with laws and its adequate management of governmental inspections
Latam decided not to grow its infrastructure since although diplomatic relations had improved, this could be temporary. The decision was to preserve current operations	- Carefully evaluating future investments	Latam decided not to grow its infrastructure since although diplomatic relations had improved, this could be temporary. The decision was to preserve current operations	- Carefully evaluating future investments

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
Latam continued to sell its products in Venezuela through CADIVI expecting to receive its accumulated payments. It constantly monitored the developments in CADIVI while it sold the amounts of products that the certificates of non-production authorized	- Monitoring of context		
The distribution operation focused on becoming very agile in the process of requesting the certificates of non-production. It hired one person to be in charge of these certificates	- Modifying the firm's organizational structure not to comply with the law but to help it sustain its operations competitively. For example, modifying the organizational structure of the firm to increase its agility in requesting the host government documented authorization for the import of its products		
Latam decided to sell in the Venezuelan market only what could be collected immediately due to the suspension of payments from CADIVI. To do so, it changed its financial and marketing processes. It focused on identifying which where the most profitable and strategic products for it to sustain in Venezuela	- Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations competitively. For example, modifying the financial processes to assure the immediate collection of payments from sales in a specific market; modifying accounting practices and taxing procedures to adequate to the changing financial policies of the Venezuelan government; modifying marketing processes to focus on identifying the most profitable and strategic products to sustain in a specific market		
The production platform invested resources in acquiring two energy plants that provided the site with energy during the cuts installed by the government	- Acquiring physical resources to overcome political challenges. For example, energy plants to overcome energy cuts installed by a host government		

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
The distribution and production platforms decided to adequate their activities to assure their compliance with the requirements of this new law by keeping low inventories and pricing their products moderately	- Adequating the firm's activities and products to ensure their compliance with the law. For example, by keeping low inventories, pricing their products moderately, and modifying their labels		
Latam monitored the context to identify opportunities that would allow it to have access to dollars in Venezuela	- Monitoring of context		
<p>Latam decided to start using SITME and learned the process of requesting dollars through this new system. It also learned about and participated in the emission of bonds through which it could acquire additional dollars to amplify its sales in Venezuela.</p> <p>The distribution operation gradually contracted to adapt its costs to decreasing sales in order to continue being sustainable. In the process, the distribution operation changed from having its entire staff contracted as direct employees who attended all types of clients to having less staff who only attended directly retail chains and contracting external distributors who attended wholesalers and stores. All logistic operations were also outsourced. Consequently, the approach towards human capital within the distribution operation changed to encouraging teamwork rather than pushing for sales. Latam searched for other importers who could sell its products</p>	<p>- Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations competitively. For example, by learning and implementing new financial processes to assure the access to dollars to support operations</p> <p>- Modifying the firm's organizational structure not to comply with the law but to help it sustain its operations competitively. For example, modifying the firm's organizational structure to match decreasing sales</p> <p>- Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations competitively. For example, modifying its approach towards human capital from "pushing for sales" to "encouraging teamwork"</p> <p>- Developing ways to supply a restricted market. For example, through the development of new distributors to amplify the firm's sales in Venezuela</p>		

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
Latam acquired a U.S. production platform for B1 in order to compensate the sales lost in the Venezuelan market. Other new markets where Latam was able to create sales through distributors were Africa, the Middle East, and Southeast Asia	- Diversifying markets		
Latam investigated which firms or products had to follow this law. It found that only 19 products had been affected by the determination of specific profit margins. Latam recognized it had to keep on monitoring the possible extension of this law to other products	- Monitoring of context		
Latam decided to pay this annual tax and to continue monitoring its operational costs in order to determine improvement opportunities	- Reducing operational costs to overcome increasing operational expenses related to governmental policies		
Latam kept a team working together to make decisions about the Ecuadorian market and permanently used the knowledge of human capital about the Ecuadorian context to understand, anticipate, and react To make cash available, Latam used and sold bank certificates, it sent cash from Colombia to Ecuador, and it increased the distribution operation's capital to avoid its legal dissolution	- Using human capital with knowledge about the host context to understand, anticipate, and react - Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations competitively. For example, developing alternatives to provide cash flow to overcome policy restrictions that limit cash availability for operations in restricted markets		

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
<p>Latam changed price lists while permanently revising its competitiveness.</p> <p>Latam converted its accounts receivable from sucres to dollars and amortized during the following 5 years (since 2000) the losses generated by the differential currency exchange</p>	<p>- Modifying the firm's organizational processes to comply with the law. For example, modifying the currency in financial statements and price lists to comply with the dollarization of the economy</p>		
<p>Latam adopted a long term perspective that enabled it to sustain operations despite political instability.</p> <p>Latam acquired a production platform for business line 2 in Peru. Through this new production platform it could provide products to the distribution platform in Ecuador despite political tensions between Colombia and Ecuador</p>	<p>- Developing ways to supply a restricted market (Ecuador). For example, through the development of an alternative production origin in Peru, a country with lesser restrictions</p>		
<p>Latam directly hired 150 employees who before were contracted through outsourcing. Latam introduced austerity plans to reduce operational costs</p>	<p>- Modifying the firm's organizational structure to comply with the law that prohibited outsourcing</p> <p>- Reducing operational costs to overcome increasing operational expenses related to governmental policies</p>		
<p>Latam was politically neutral and all negotiations with retail chains were led by Ecuadorians within the distribution platform, not by Colombians</p>	<p>- Adopting a politically neutral stance</p> <p>- Representing the firm through locals before local customers</p>		
<p>Taking into account that the frontier could be closed at any point in time, the distribution operation in Ecuador increased its inventory stock from 25 to 45 days</p>	<p>- Modifying the firm's organizational processes not to comply with the law but to help it sustain its operations competitively. For example, modifying inventory arrangements to assure the availability of products</p>		

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
As a result of these expectations, Latam permanently monitored the development of tax legislation in Ecuador. These expectations also made Latam evaluate if sustaining a distribution platform was more profitable and less risky than initiating production operations	<ul style="list-style-type: none"> - Monitoring of context - Carefully evaluating future investments in a restricted market 		
Latam identified what products were affected by the quotas and tariffs. It sold what the quotas allowed and the products that could maintain a competitive position despite the increase in prices due to tariffs	<ul style="list-style-type: none"> - Identifying products which can competitively and profitably be supplied to a restricted market 		
Latam trasmitted a clear message of political neutrality and assured employees the continuity of operations	<ul style="list-style-type: none"> - Adopting a politically neutral stance - Sustaining permanent clear internal communications focused on the firm's operations rather than on assuming a political stance 		
Latam has initiated a revision of its portfolio and raw materials. It has oriented its research and development investment towards developing products that comply with this legislation	<ul style="list-style-type: none"> - Revising products in the light of upcoming policies demanding "healthier products" - Investing in initiatives to sustain and improve the competitive position of the firm. For example, by investing in developing "healthier" raw materials to manufacture products that comply with upcoming policies demanding "healthier products" in Ecuador. 		

Flexible responses to policy changes		Flexible responses to potential expropriation	
Description	Tactics	Description	Tactics
Latam reduced its operational costs by 2% and started a savings plan of 1%. Additionally, it revised the prices of products in order to increase profit to partially cover this tax without losing competitiveness	<ul style="list-style-type: none"> - Reducing operational costs to overcome increasing operational expenses related to governmental policies - Revising prices to maintain competitiveness and assure the best possible profit 		
Latam is anticipating possible strategies to comply with the potential requirements of this law	<ul style="list-style-type: none"> - Anticipating possibilities to comply with potential upcoming policies 		
Latam knew that while the sovereignty tax to Colombian imports existed, it would not be able to compete in the Nicaraguan market with products produced in Colombian production platforms. Consequently, Latam organized a team to evaluate potential acquisitions in the Central American region that could efficiently supply Nicaragua and other Central American markets with competitive products. Latam decided to aim for acquisitions in Costa Rica that offered a strategic position to supply Nicaragua and other Central American markets. Through the acquisition of the two production platforms in Costa Rica, the distribution platform that was founded in Nicaragua was in a competitive position to import products from business lines 1 and 2 from Costa Rica since these products were not charged with a sovereignty tax. Latam used the knowledge of human capital about the Costa Rican and Nicaraguan contexts to understand, anticipate, and react	<ul style="list-style-type: none"> - Modifying the firm's organizational structure not to comply with the law but to help it start its operations competitively. For example, modifying the organizational structure of the firm to include a team that evaluates potential acquisitions in the Central American region - Developing ways to supply a restricted market (Nicaragua). For example, through the development of an alternative production origin in Costa Rica, a country with lesser restrictions and a distribution platform in a restricted market such as Nicaragua - Acquiring physical resources to overcome political challenges. For example, a new geographical location (in Costa Rica), machinery, equipment, and infrastructure to supply a restricted market such as Nicaragua - Using human capital with knowledge about the host context to understand, anticipate, and react 		

Source: Elaborated by author based on firm data

All of these flexible responses or tactics can be grouped into 4 distinct strategies that were followed by Latam to adapt and sustain its operations in high political uncertainty contexts. Below, we describe these four strategies that can be useful for other firms to adapt to their political contexts. Each one of the four strategies can be used by a firm to confront policy changes, potential expropriation or both. Consequently, each strategy includes two lists of tactics, one of tactics towards policy changes and other of tactics towards potential expropriation. In some cases, within a strategy the same tactic can be used towards policy changes and towards potential expropriation, while in other cases, tactics towards policy changes and potential expropriation are different. It is important to note, that the use of one adaptive political strategy or tactic within, does not, preclude the use of another strategy or tactic. Firms can use all sorts of combinations of strategies and tactics to adapt to their political contexts (see Table 25).

Table 25: Taxonomy of corporate adaptive political strategies

Strategy	Tactics towards policy changes	Tactics towards potential expropriation
Neutrality Strategy	<ul style="list-style-type: none"> • Avoiding corporate political activities that aim to influence the host or country of origin governments • Adopting a low public profile • Adopting a politically neutral stance • Representing the firm through locals before host governments and local customers • Sustaining permanent clear internal communications focused on the firm's operations 	<ul style="list-style-type: none"> • Avoiding corporate political activities that aim to influence the host or country of origin governments • Adopting a low public profile • Adopting a politically neutral stance • Representing the firm through locals before host governments and local customers • Sustaining permanent clear internal communications focused on the firm's operations • Avoiding the media
Compliance Strategy	<ul style="list-style-type: none"> • Not incurring in acts of corruption • Developing tools to assure the firm's compliance with laws and adequate management of governmental inspections • Adequating the firm's products to ensure their compliance with the law • Modifying the firm's organizational structure and processes to comply with the law 	<ul style="list-style-type: none"> • Not incurring in acts of corruption • Developing tools to assure the firm's compliance with laws, adequate management of governmental inspections, and maintenance of positive community and labor relations • Paying just prices to suppliers
Reconfiguration Strategy	<ul style="list-style-type: none"> • Modifying the firm's organizational structure and processes not to comply with the law but to help it sustain its operations competitively • Developing ways to supply a restricted market • Acquiring physical resources to overcome political challenges 	<ul style="list-style-type: none"> • Changing the country of origin in the legal structure of an investment • Acquiring physical resources to overcome political challenges • Substituting imports by local production to appear as local value-adding firm
Anticipatory Strategy	<ul style="list-style-type: none"> • Further penetrating existing markets • Diversifying markets • Monitoring the context • Reducing operational costs to overcome increasing operational expenses related to governmental policies • Revising prices to maintain competitiveness and assure the best possible profit • Using human capital with knowledge about the host context to understand, anticipate, and react • Carefully evaluating future investments • Identifying products that can competitively and profitably be supplied in accordance to changing policies • Anticipating possibilities to comply with potential upcoming policies • Investing in initiatives to sustain and improve the competitive position of the firm 	<ul style="list-style-type: none"> • Further penetrating existing markets • Diversifying markets • Provisioning in financial statements the value of the investments that face potential expropriation in a host market • Creating plans to manage a potential expropriation • Mapping and analyzing the potential impact of interest groups in the firm's operations • Using human capital with knowledge about the host context to understand, anticipate, and react • Carefully evaluating future investments

Source: Elaborated by author

The first in our taxonomy is the neutrality strategy. It involves non-participation in politics or public affairs, allowing firms to minimize their visibility and reduce the likelihood of being the target of adverse policies or expropriation. This strategy targets government, the firm's employees, customers, and the media. It includes tactics towards policy changes and potential expropriation such as avoiding CPA intended to influence host or country of origin governments, adopting a low public profile, pursuing a politically neutral stance, deploying locals to represent the firm when interacting with host governments or customers to be perceived as a local value-adding firm, sustaining internal communications to let employees know that the firm is focused on its business operations rather than on assuming a political stance despite political tensions, and, towards a potential expropriation, avoiding media attention and interaction, to make sure that any of the firm's statements are not manipulated or thought of as related to any political stance.

The second is the compliance strategy. This strategy attempts to ensure that firms comply with government regulations rapidly and completely, so as to avoid sanctions, closure or even expropriation. This strategy is targeted at any institution or entity that verifies and polices corporate regulatory compliance. Its tactics must be implemented by the firm's employees to ensure the firm's compliance with all regulations. These include tactics to deal with policy changes and potential expropriation such as not engaging in acts of corruption that can lead governments to sanction, close or expropriate the firm and developing tools to ensure the firm's compliance with laws and the management of governmental inspections. To deal with potential expropriation, tactics include developing tools to ensure the maintenance of positive community and labor relations and paying just prices to suppliers to show fairness in commercial operations. This strategy also includes tactics for dealing with policy changes such as ensuring the firm's products comply fully with the law. For instance, as when Latam modified its product labels in Venezuela to comply with law no. 39.658. Another tactic is modifying the firm's organizational structure and processes to comply with the law. For example, when Latam directly hired employees to comply with the Constitutional Mandate no. 8 that prohibited outsourcing in Ecuador

or when it modified its accounting practices and taxing procedures to meet the changing financial policies of the Venezuelan government.

The third is the reconfiguration strategy that aims to align and adapt the structure and processes of firms to operate competitively in challenging political contexts. It differs from the compliance strategy in that although one of its most important tactics is the same - modifying the firm's organizational structure and processes - the aims of this tactic differ within each strategy. In the compliance strategy, modifying the firm's organizational structure and processes is intended to ensure the firm's compliance with regulations; while in reconfiguration strategy, the aim is to help the firm to competitively sustain its operations. This strategy targets the non-market environment to which the firm wants to align and adapt and must be implemented by the firm's employees, who must lead and be responsible for reconfiguring the firm's structure and processes. It includes tactics for dealing with policy changes, such as modifying the firm's organizational structure and processes. This is done, not to comply with the law, but to help the firm to competitively sustain its operations. As for instance, when Latam created a committee that studied and made decisions about the Venezuelan market or when it modified its logistic processes to ensure the arrival of products at their destination despite political tensions. Other tactics involve finding ways to supply a restricted market (as when Latam developed alternative production origins in countries from which products could be imported with competitive conditions to restricted markets or when it developed new distributors to increase sales) and acquiring physical resources to overcome political challenges (as the acquisition of energy plants to overcome energy cuts installed by a host government, the acquisition of a new geographical location to supply Nicaragua, or the acquisition of machinery, equipment and infrastructure to supply this same market). It also includes some tactics for dealing with potential expropriation, such as changing the country of origin in the legal structure of an investment. Also, acquiring physical resources to overcome political challenges (such as when Latam acquired technological infrastructure and software to guarantee access to information about its operations in Venezuela in case a hostile expropriation by the host government takes place), and substituting imports for local production to appear as a local value-adding firm.

The last is the anticipatory strategy that aims to gain firms a first mover advantage by anticipating future public policy. It targets the non-market environment and relies on employees who are called upon to engage in anticipatory activities and decision-making. It includes tactics for managing policy changes and potential expropriation such as deciding to further penetrate existing markets, diversifying markets, using human capital with knowledge about the host context to understand, anticipate, and react, as when Latam hired political analysts, lawyers, and consultants; and carefully evaluating future investments to avoid an unexpected increase in resource commitment in high political uncertainty markets. Other tactics towards policy changes include constantly monitoring the context; reducing operational costs to overcome increasing operational expenses related to governmental policies; identifying products that can competitively and profitably be supplied in accordance with changing policies (as when Latam identified the products it could sell according to policy changes in Venezuela, Ecuador, and Nicaragua); anticipating possibilities to comply with potential upcoming policies (as when Latam started to design alternatives to comply with an upcoming communication law in Ecuador); and investing in initiatives to sustain and improve the competitive position of the firm (as when Latam decided to invest in developing healthier raw materials to manufacture products that comply with upcoming nutrition policies demanding healthier products in Ecuador). A few other tactics towards potential expropriation include provisioning in financial statements the value of the investments that face potential expropriation in a host market, creating plans to manage a potential expropriation, and mapping and analyzing the potential impact of interest groups in the firm's operations.

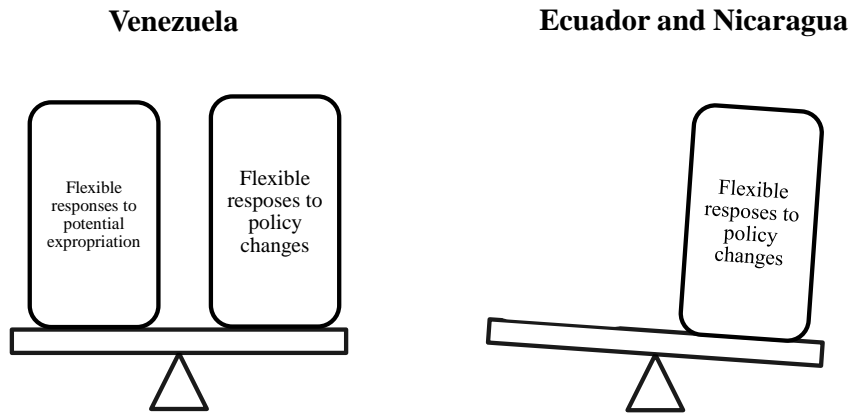
As Hillman and Hitt (1999) contributed to proactive CPA research by building a taxonomy of corporate political strategies that firms use to influence the political context, we claim that this taxonomy of corporate adaptive political strategies contributes to reactive corporate political activity research and can be used by firms to adapt to political contexts.

6.4 Adaptive political capabilities, flexible responses, and types of operations

As Latam developed adaptive political capabilities, it used the four corporate adaptive political strategies in each political context. Through these corporate adaptive political strategies Latam used, reconfigured, or acquired different types of resources to enable the flexible responses (tactics) that adapted it to its political contexts (Eisenhardt and Martin, 2000). Barney (1991) conceptualized resources as human, organizational, and physical. We found Latam used all of these three types of resources to develop adaptive political capabilities to adapt to the political contexts of Venezuela, Ecuador, and Nicaragua. What differentiated the development of adaptive political capabilities by Latam in each context, were not the combinations of corporate adaptive political strategies but the combinations of flexible responses to policy changes and flexible responses to potential expropriation that were enabled by its resources. This explains that the development of adaptive political capabilities by Latam was idiosyncratic in its details within each context, although it also shared commonalities across the different contexts (Eisenhardt and Martin, 2000).

According to our interviewees, the combination of Latam's flexible responses in Venezuela was equally inclined towards deploying resources that enabled responses to policy changes and responses to potential expropriation. Differently, in Ecuador and Nicaragua, Latam's flexible responses inclined towards deploying resources that enabled only responses to policy changes (see Figure 13).

Figure 13: Combinations of flexible responses



Source: Elaborated by author based on firm data

In Venezuela, we found that Latam developed adaptive political capabilities that enabled flexible responses to potential expropriation to mainly protect its production operation. These flexible responses assured the production operation adapted to avoid or diminish the impact of a potential expropriation. Although the production operation also had to adapt to policy changes, it invested more efforts on developing flexible responses to potential expropriation due to the higher financial consequences an expropriation could have. If the production operation was expropriated it simply could not continue operating while it could more easily overcome policy challenges. Therefore in Venezuela, Latam mainly addressed the development of adaptive political capabilities to enable flexible responses to policy changes, to allowing its distribution operation to continue business. For Venezuela's distribution operation, the effect of policy changes had higher financial consequences than potential expropriation. If expropriated, the distribution operation would just lose its inventory while if Latam did not adapt to policy changes it would not be able to sustain any distribution operations in the Venezuelan market. The financial cost of closing its distribution operations due to policy changes was higher than that of the inventory on the site that could be overtaken in a potential expropriation.

Similarly to the distribution operation in Venezuela, in the case of Ecuador and Nicaragua, these distribution operations required Latam to invest all of its efforts in developing adaptive political capabilities that enabled flexible responses to policy changes. For these distribution operations, not adapting to policy changes would also imply not sustaining distribution operations in the Ecuadorian and Nicaraguan markets. For the distribution operations in Ecuador and Nicaragua, potential expropriation was not a concern.

The following exploratory propositions summarize the nature of the flexible responses our research findings indicate that host firms depend on to sustain different types of operations in foreign high political uncertainty contexts:

Proposition 2a. Host firms that own a production operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront potential expropriation than on developing flexible responses to confront policy changes, to sustain their production operation.

Proposition 2b. Host firms that own a distribution operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront policy changes than on developing flexible responses to confront potential expropriation, to sustain their distribution operation.

Proposition 2c. Host firms that own a distribution and a production operation simultaneously in a foreign high political uncertainty context, depend on developing both, flexible responses to policy changes and flexible responses to potential expropriation, to sustain their distribution and production operations.

6.5 The foundations of adaptive political capabilities and resources

We found the main resource Latam relied on to develop and deploy adaptive political capabilities was actually its human capital – specifically, its experience and knowledge. We found Latam’s organizational and physical resources were used, reconfigured, and acquired through the experience and knowledge of its human capital. In Venezuela, Ecuador, and Nicaragua, Latam claimed to have used the experience and knowledge of its “own internal people” and of “people external to the firm who had relevant knowledge about the different foreign contexts”. Consequently, we point at

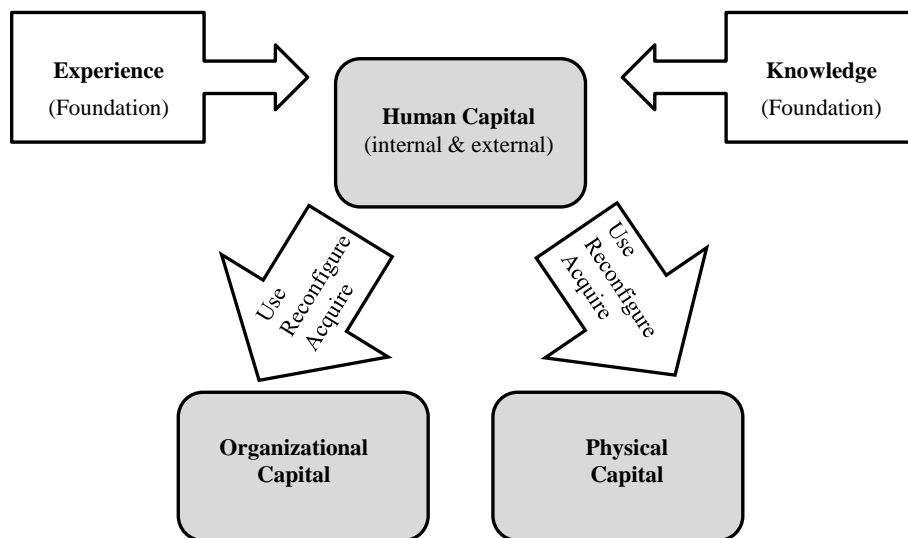
experience and knowledge as the foundations of adaptive political capabilities and highlight that these are embedded in a firm's internal and external human capital resource. It is important to note, that according to Zollo and Winter (2002) experience refers to a trial and error learning process through which individuals accumulate information. While knowledge is generated upon experience through deliberate efforts that allow individuals or groups to figure out what works and what does not (Zollo and Winter, 2002).

Our findings relate to Teece's (1998) argument that the ability to create, integrate, transfer, and use *knowledge* on an on-going basis underpins a firm's capabilities. Similarly, Eisenhardt and Martin (2000) referred to the nature and evolution of capabilities in terms of *knowledge*. Other scholars have even referred to *experience and knowledge* management as facilitators of capabilities (Cepeda and Vera, 2005; Gold, Malhotra, and Segars, 2001; Haas and Hansen, 2005; Sher and Lee, 2004; Zollo and Winter, 2002).

Furthermore, we acknowledge that although Latam described human, organizational, and physical resources as resources involved in the development of adaptive political capabilities and capable of creating value, our findings show that human capital resources had a protagonist role in Latam's development of adaptive political capabilities. This means Latam relied more on its human capital resource than on its organizational and physical resources to develop adaptive political capabilities. Human capital resources actually were the ones to determine the use, reconfiguration, and acquisition of organizational and physical resources in Latam's development of adaptive political capabilities. Furthermore, it was the experience and knowledge of Latam's internal and external human capital the foundations that guided the development of adaptive political capabilities. Our findings resonate with Bowman and Ambrosini's (2000) claim that the source of value of a firm is in the combination and deployment of human capital with other resources. Barney (1986), Castanias and Helfat (1991), and Wernerfelt (1989) also made a distinction between resources by arguing that human capital resources constituted a firm's resources of above normal returns, not physical resources. Our findings also indicate that the experience and knowledge of Latam's internal and external human capital became increasingly important resources as

it faced high political uncertainty. Similarly, Miller and Shamsie (1996) found that knowledge-based resources are more valuable in uncertain environments. Below, Figure 14 shows the foundations of adaptive political capabilities and the interactions between human, organizational, and physical resources that support the development of adaptive political capabilities by a firm to sustain its operations in high political uncertainty contexts.

Figure 14: Foundations of adaptive political capabilities and interactions between resources



Source: Elaborated by author

The following exploratory proposition summarizes the nature of the interactions that our research indicates take place between human, organizational, and physical resources in the development of adaptive political capabilities by host firms to sustain their operations in foreign high political uncertainty contexts:

Proposition 3. Host firms rely more on their human capital resources than on their organizational and physical resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.

6.6 Human capital contributions in the development of adaptive political capabilities

Our findings indicate that Latam highly valued its human capital as a resource that enabled its development of adaptive political capabilities. This resonates with Barney’s (1991) description of human capital as a resource capable of creating value for

the firm. We found that in the development of adaptive political capabilities, Latam used similar combinations of human capital to adapt to the political contexts of Venezuela, Ecuador, and Nicaragua. These human capital combinations involved internal human capital from various origins within Latam (belonging to different business functions) and internal and external human capital that was located in either one of the foreign contexts and/or had knowledge about either one of the foreign contexts. The human capital with various origins within Latam was selected because of its knowledge about the different business lines or internal processes (as marketing, finance, and logistics). While the internal and external human capital that was located in either one of the foreign contexts and/or had knowledge about either one of the foreign contexts, was selected precisely because of its contextual knowledge about the specificities of Venezuela, Ecuador or Nicaragua.

In Venezuela and Ecuador, Latam found the contextual knowledge of its internal managers and their teams whom where located in these countries was critical. Furthermore, Latam recognized that additionally to the contextual knowledge of its internal human capital it had to acquire the specialized contextual knowledge of external human capital. The external human capital who had contextual knowledge included lawyers, finance firms, and political analysts.

In the case of Nicaragua, internal human capital from different origins within Latam was crucial for the acquisition of production operations in Costa Rica. The knowledge of this human capital about Latam and its previous acquisitions was of great value. But once the production operations were acquired, the contextual knowledge of the human capital located in these production platforms became very important for manufacturing and commercialization. Similarly, the distribution operation that was started in Nicaragua heavily relied on the contextual knowledge about the market of its own human capital.

Therefore, we argue that to sustain operations in foreign high political uncertainty contexts, the contextual knowledge of internal and external human capital was crucial for Latam. Furthermore, we claim that in the case of Venezuela, Latam intensively used human capital with contextual knowledge to understand and respond to this context. We found that this intense use of human capital to address Venezuela was

related to the perception Latam had of this market as its most uncertain foreign political context. In Ecuador and Nicaragua, Latam also relied on the contextual knowledge of its human capital, but in a lesser degree in each case, in accordance again to the level of political uncertainty it had rated to perceive in each host context.

The following exploratory proposition summarizes the nature of the relation between host firms' perceived level of political uncertainty in a host market and the human contributions that we found to be involved in the development process of adaptive political capabilities for firms to sustain their operations in foreign high political uncertainty contexts:

Proposition 4. The higher the level of political uncertainty perceived by host firms in a foreign context, the more they rely on the contextual knowledge of their internal and external human resources to develop adaptive political capabilities to sustain their operations.

6.7 Reconfigurations of organizational structure and processes in the development of adaptive political capabilities

Our findings indicate Latam radically modified its organizational structure and processes to fit or match its foreign high political uncertainty environments. These findings resonate with Miller's (1986) claim that the configuration of an organizational structure is linked to its strategy and environment. Since 1961, Burns and Stalker stated that if an organization is to achieve enhanced performance then its structure must "fit" or match its environment. We found that although there is extensive research on the configurations of organizational structures and processes (Hannan and Freeman, 1984; Karim, 2006; Mintzberg, 1979), scholars have not addressed the relation between foreign high political uncertainty contexts and the configurations of organizational structures and processes to adapt to political uncertainties.

Our research shows that in Venezuela, when confronting policy changes, Latam radically contracted the size of its distribution operation while it simultaneously expanded its organizational structure by involving additional importers or distributors and creating a new production with origin in Peru from which it could import products to Venezuela. Differently, in the face of potential expropriation, Latam did not expand

or contract its organizational structure. Rather, it shifted the legal constitution of its organizational structure by changing the origin of its investment in the production operation in Venezuela from Colombian to Costa Rican. Latam also modified its financial, logistics, and marketing processes to adapt to policy changes and to assure that the compliance with local regulations prevented or diminished its possibilities of a potential expropriation.

In Ecuador, Latam expanded the structure of its distribution operation by directly hiring employees who before operated through outsourcing and by creating a new production with origin in Peru from which it could import products to Ecuador. Latam also modified its financial, logistics, and marketing processes to adapt to policy changes. In Nicaragua, Latam expanded its structure, in this case, by acquiring production operations in Costa Rica and creating a distribution operation in Nicaragua. Latam also modified its day to day processes to include the operation of the Nicaraguan market.

Latam had rated Venezuela as its highest politically uncertain market, then Ecuador as its second, and lastly Nicaragua. Through our research we found that the higher Latam had rated its perceived political uncertainty in each of these markets, the more reconfigurations it had made to its organizational structure and processes to adapt to that specific market's political uncertainties.

Consequently, the following exploratory proposition summarizes our findings about the nature of the relation between host firms' perceived level of political uncertainty in a host market and their organizational structure and processes reconfigurations to sustain international operations:

Proposition 5. The higher the level of political uncertainty perceived by host firms in a foreign context, the more they reconfigure their organizational structure and processes to sustain their operations.

6.8 Physical capital investments in the development of adaptive political capabilities

We found that in Venezuela Latam had invested in new technological platforms to assure information replicas, power plants to supply energy, and had developed the

provision of raw materials locally to overcome import restrictions and create local value. Latam's experience in Ecuador triggered significant investments in R&D to develop new products to fit legal requirements. For Nicaragua, Latam acquired a new geographical location to supply this restricted market, it obtained equipment and technology to support the manufacturing process of products oriented to Nicaragua, and it acquired infrastructure to distribute its products in this new market. Latam had rated Venezuela as the country with the highest political uncertainty, followed by Ecuador, and then Nicaragua. Despite the level of political uncertainty it perceived in each of the three countries, it invested in physical resources in the three markets to materialize its flexible responses. Latam indicated that without these investments it would have not adapted as efficiently to the challenges of these political contexts. Similarly Barney (1991) explained that physical capital could create value for a firm.

These findings challenge the widespread assumption that when firms perceive political uncertainty they must stop and/or divest their investments. Our data shows that some investments may be necessary for host firms to manage to adapt to contexts presenting political uncertainties, despite these host firms' own perception of the level of political uncertainty in these contexts.

The following exploratory proposition summarizes the nature of the physical capital investments our findings suggest to be involved in the development process of adaptive political capabilities:

Proposition 6. Most host firms are obliged to invest in physical resources to develop flexible responses in contexts with political uncertainty, despite the level of political uncertainty they perceive in these contexts.

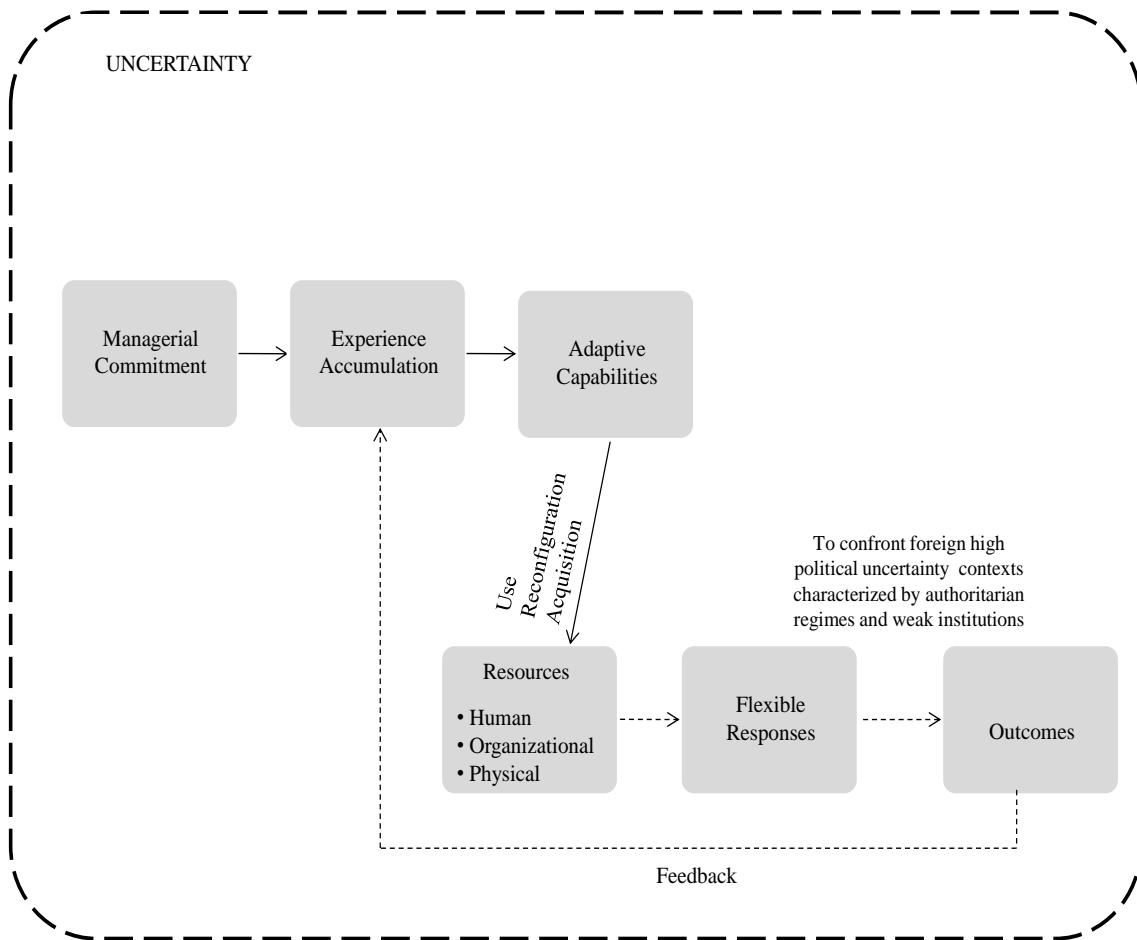
6.9 The development process of adaptive political capabilities

After understanding the nature of the strategic responses Latam adopted towards the political uncertainties it confronted, building a taxonomy of corporate adaptive political strategies, analyzing the relation between Latam's flexible responses and its types of operations, and examining the resources involved in the development of adaptive political capabilities, we now focus on the process that ties all of these themes together: the development of adaptive political capabilities.

We found Latam was able to start the development process of adaptive political capabilities because there was managerial commitment towards allowing it to adapt and towards leading its adaption process. The CEO of Latam allowed it to be flexible and was ready to lead and participate in its process of adapting to the political uncertainties in the contexts of Venezuela, Ecuador, and Nicaragua. The top management team was also oriented to developing alternatives to cope with the political uncertainties in these contexts. Consequently, in the presence of managerial commitment to adapt, Latam proceeded to start the foundation stage of adaptive political capabilities - which is the first stage of the lifecycle of a set of capabilities (Helfat and Peteraf, 2003). During this initial stage, Latam effectively organized teams capable of joint action and which had some type of leadership. These teams focused on the objective of adapting Latam to its uncertain political contexts.

We found that after organizing the teams, Latam entered the second stage in the lifecycle of a set of capabilities by searching for viable flexible responses to create its adaption (Helfat and Peteraf, 2003; Winter, 2000). This stage involved the learning by doing of individuals and of the teams as a whole. During this stage both, the individuals and the teams, accumulated experience about the political uncertainties faced by Latam, the political events that triggered these uncertainties, Latam's strategic responses to these uncertainties, and the outcomes of its responses. In other words, Latam exercised the learning mechanism of experience accumulation (Zollo and Winter, 2002). It was during this stage that flexible responses to policy changes and potential expropriation were developed through the use, reconfiguration, and acquisition of human, organizational, and physical resources (Barney, 1991; Miller, 1992). As flexible responses were developed and deployed, individuals and their teams accumulated experience about the outcomes of these strategic responses. Nevertheless, these outcomes were not codified as feedback to inform Latam and allow its over time evolution of adaptive political capabilities. The outcomes of flexible responses were only captured and accumulated by individuals and their teams but not codified by Latam. In other words, only the learning mechanism of experience accumulation was exercised. Below, Figure 15 synthesizes this development process of adaptive political capabilities followed by Latam.

Figure 15: The development process of adaptive political capabilities followed by Latam



Source: Elaborated by author

We found that although Latam had been successful in adapting to its foreign high political uncertainty contexts, the development process of its adaptive political capabilities faced important challenges. In other words, the development stage of its adaptive political capabilities could be disrupted. Despite the CEO and the top management team had committed to initiating the founding stage of adaptive political capabilities by organizing to adapt, they had only supported the learning mechanism of experience accumulation. Latam had not invested efforts in articulating and codifying the knowledge that the individuals or teams had developed through the experience they had accumulated. The outcomes of flexible responses had only amplified the experience accumulated by individuals or teams but had not contributed codified feedback to Latam on how it could evolve its adaptive political capabilities over time. Although the local managers in Venezuela had developed some specific tools to support

their operations, further efforts in knowledge codification were required to facilitate the learning of individuals about causal relationships and the definition of what works, what doesn't work, and why. This could facilitate Latam's identification of opportunities or new proposals through a deliberate retrospective sense-making with respect to the outcome implications of flexible responses (Weick, 1979, 1995). Most importantly, it could capture the knowledge of individuals or teams converting it into organizational knowledge.

Consequently, although there was managerial commitment to start the development of adaptive political capabilities, we identified a generalized lack of understanding about the role that the learning mechanisms of knowledge articulation and codification played in the development stage of adaptive political capabilities. Research has found that for the development process of adaptive political capabilities to start and evolve, managerial commitment has to exist and is determined by managers' preparedness to adapt and attitude towards investing in learning (Helfat and Peteraf, 2003; McLarney and Dastrala, 2001; Zollo and Winter, 2002). Evidently, Latam had been prepared to adapt but its attitude towards learning had not enabled the articulation and codification of knowledge to such an extent that it could support the development of adaptive political capabilities over time. This situation restricted Latam's ability to create new knowledge (from the exploration of its environment) and use existing knowledge (exploitation) (Crossan *et al.*, 1999; Gibson and Birkinshaw, 2004; Levinthal and March, 1993; March, 1991) to sustain its operations in foreign high political uncertainty contexts. Consequently, the development stage of adaptive political capabilities could be disrupted by the absence of managerial commitment towards investing in enabling the learning mechanisms of knowledge articulation and codification which assured the creation, retention, transfer, and use of knowledge over time.

Furthermore, although Latam had created a knowledge management function, this area had not enabled the learning mechanisms that underpin capability development (Zollo and Winter, 2002). This function was not creating, retaining, transferring or using the experience and knowledge of Latam about sustaining operations in foreign high political uncertainty contexts to help it create value and competitive benefits (Alavi

and Leidner, 2001; Cepeda and Vera, 2005; Eaterby-Smith and Prieto, 2008). We found that the embryonic stage of the knowledge management function within Latam and the lack of understanding about how knowledge articulation and codification support the development of adaptive political capabilities had translated into the absence of these efforts. Therefore, Latam faced the threat of losing over time the knowledge it had accumulated to sustain its operations in foreign high political uncertainty contexts as the memory of individuals faded or they retired from Latam.

Although the CEO and top management team were available to conduct knowledge articulation activities, meaning interviews for this research, the knowledge management function sensed that it had to work a long way on making the VPs and everyone in Latam better aware of how knowledge management could aggregate value to their business lines and the organization as a whole. We acknowledged that the future role of the knowledge management function as an enabler of learning mechanisms that developed adaptive political capabilities depended on the level of understanding and commitment to learning that the CEO, board of directors, and VPs of Latam developed in the short term. As Tensaki and Boland (1996) claimed, the role of a knowledge management function (in the development process of adaptive political capabilities) is determined by the willingness of employees to contribute to and use organizational knowledge.

The following exploratory proposition summarizes the nature of the relation that was suggested by the findings of our research between managerial commitment to knowledge articulation and codification and the perception host firms may have of losing over time the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts:

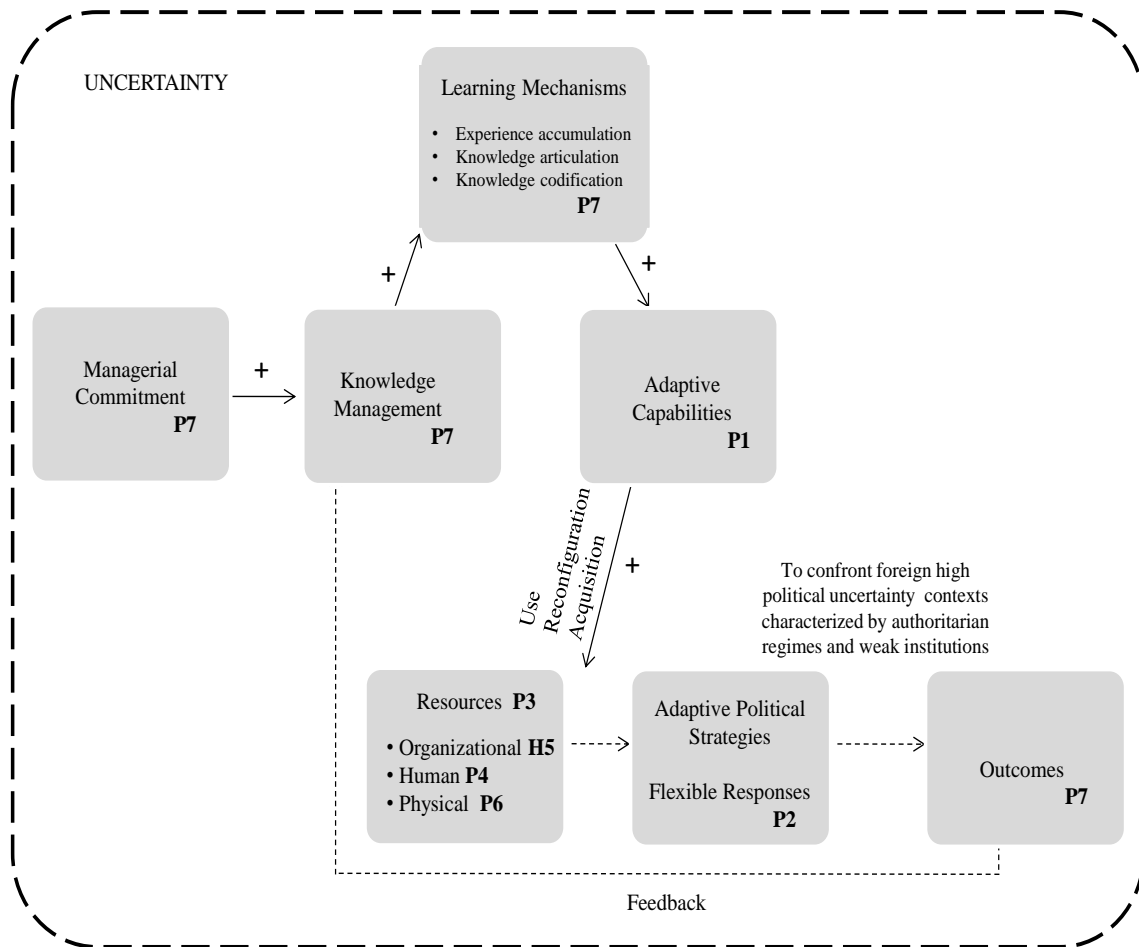
Proposition 7. Host firms with lower managerial commitment to knowledge articulation and codification perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts.

6.10 Conceptualization of a framework to guide the development of adaptive political capabilities

Dynamic capabilities have been discussed since 1997 by various authors (Helfat and Peteraf, 2003; Helfat *et al.*, 2007; Eisenhardt and Martin; 2000; Teece, 1997; Zollo and Winter, 2002). However, attention to specific capabilities and empirical studies addressing specific capabilities and their development have been less. Our study showed how Latam developed adaptive political capabilities to confront political uncertainties in three emerging economies. We reviewed research on internationalization, uncertainty, the RBV, dynamic capabilities, and corporate political activity to examine the insights of Latam's case. One of the results of our analysis is the suggestion of a framework to guide the development of adaptive political capabilities by host firms to address the high political uncertainty contexts of their foreign emerging markets which are characterized by authoritarian regimes and weak institutions. Our framework is the result of a detailed and iterative examination of Latam's exploratory case and existing research. Our aim is for firms to view this framework as a walking stick (Hafsi and Howard, 2005) to guide their own development of adaptive political capabilities for their adaption to foreign high political uncertainty contexts with such characteristics.

To explain our framework, we use a visual display found below in Figure 16. During our discussion, we present its themes in *italics* and we identify each exploratory proposition that relates to each theme as P1, P2, P3, etc.

Figure 16: Framework to guide firms in their development of adaptive political capabilities to confront foreign high political uncertainty contexts



Source: Elaborated by author

Our framework builds on our suggestion that adapting to political uncertainties rather than influencing host or country of origin governments can be more important for host firms to sustain their operations in foreign high political uncertainty contexts characterized by authoritarian regimes and weak institutions (P1). We argue that adapting to political uncertainties can be achieved through host firms' development of their own *adaptive political capabilities*.

We suggest that to start and evolve the development process of adaptive political capabilities, first, *managerial commitment* within host firms is required to organize teams to search for alternatives and to enable the existence of a *knowledge management* function. This knowledge management function must support the interaction of the three *learning mechanisms* of: *experience accumulation*, *knowledge articulation*, and

knowledge codification, to guarantee that host firms do not over time lose the knowledge they develop about how to sustain their operations in foreign high political uncertainty contexts. The learning mechanism of experience accumulation by its own will not be enough to guarantee host firms' fruitful over time development of their adaptive political capabilities. The three learning mechanisms must be present to assure that host firms are able to codify and capture the knowledge they acquire, and further on exploit it, when confronting new political challenges. Only through the existence of the three learning mechanisms, we believe host firms will be able to over time manage and benefit from their own development of adaptive political capabilities. Accordingly, we suggest that, host firms that have a low managerial commitment to the learning mechanisms of knowledge articulation and codification should perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts (P7).

We claim experience and knowledge are the foundations of adaptive political capabilities. These reside in host firms' human capital resources and in the knowledge host firms should codify over time through their knowledge management function. We argue that through adaptive political capabilities (experience and knowledge), host firms can *use, reconfigure, and acquire organizational, human, and physical resources* to develop *flexible responses* through *corporate adaptive political strategies* to confront their foreign high political uncertainty contexts. (For a detailed account of the corporate adaptive political strategies and the flexible responses -listed as tactics towards policy changes and tactics towards potential expropriation- which can be used by host firms, please refer to Table 25).

Since human capital resources encapsulate the foundations of experience and knowledge, we suggest that they might have a protagonist role in host firms' development of adaptive political capabilities (P3). This means host firms might rely more on their human capital resources than on their organizational and physical resources; hence, human capital resources are the resources that determine the use, reconfiguration, and acquisition of organizational and physical resources in the development process of adaptive political capabilities. Furthermore, we suggest there might be a relation between the level of political uncertainty perceived by host firms

and their use of human and organizational resources. Drawing on Latam's case, we predict that the higher the level of political uncertainty perceived by host firms in their foreign high political uncertainty contexts, the more they will use the contextual knowledge of their internal and external human resources about that specific market (P4) and the more reconfigurations they will make to their organizational structure and processes (P5) in their development of adaptive political capabilities to sustain their host operations. Differently, in the case of physical resources, there is a widespread tenet that when host firms perceive political uncertainty they must stop and/or divest their investments. Contrarily, we suggest that in high political uncertainty contexts most host firms might find they are obliged to invest to materialize their responses, even regardless of their own perception of the level of political uncertainty in these contexts (P6).

We suggest that host firms' corporate adaptive political strategies will allow them to develop both, flexible responses towards policy changes and flexible responses towards potential expropriation. We believe the types of flexible responses host firms develop might be related to the type of operations they have in these foreign high political uncertainty contexts. Meaning that, host firms that own a production operation will depend more on developing flexible responses towards a potential expropriation (P2a). Host firms that own a distribution operation will depend more on developing flexible responses towards policy changes (P2b). And, host firms that own a production and a distribution operation simultaneously in one foreign high political uncertainty context, will depend on developing in some degree both types of flexible responses to sustain their operations (P2c).

Finally, we suggest that for host firms to be able to over time continue the development of their adaptive political capabilities, the *outcomes* of both types of their flexible responses must be incorporated as codified feedback into their knowledge management function. For these outcomes to become codified *feedback* they must be captured by host firms as codified knowledge that will assure the over time evolution of adaptive political capabilities through the exploration (development) and exploitation (use) of knowledge.

Lastly, as managerial commitment is firstly required to start the development process of adaptive political capabilities, it is also required to allow over time the continuous development and evolution of adaptive political capabilities. As our framework illustrates, managerial commitment supports both the start and evolution of these capabilities by enabling the existence of a knowledge management function and the interaction of the three learning mechanisms.

By following this framework and its discussion, we believe host firms may find a walking stick (Hafsi and Howard, 2005) that can guide them in their understanding of the development process of adaptive political capabilities for foreign high political uncertainty contexts. With our conceptualization of this framework, we conclude the discussion of the results of our first study. The following chapters will present the results and discussion of our second study, and then finally, our last chapter will uncover the conclusion of our inquiry.

7 RESULTS STUDY 2: SURVEY

In our second study, we tested the generalizability of the exploratory propositions resulting from our first study by using a survey that was administered to host processed food firms which had operations in Venezuela, Ecuador or Nicaragua between 1999-2011. To present the results of our second study, this chapter is divided into three sections. In the first section, we focus on the presentation of the descriptive statistics that characterize our sample firms. Then, we show the results of the tests we conducted to our propositions. Finally, in our last section we present the results of the influence of our control variables on our propositions.

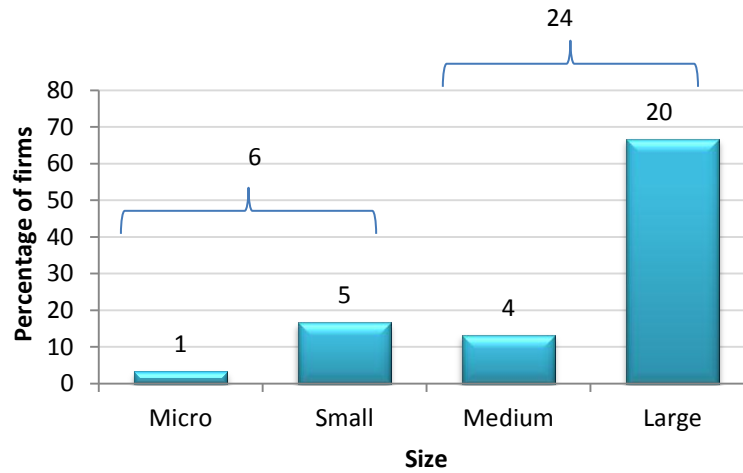
7.1 Descriptive statistics

Our sample firms were 30 host processed food firms that had operations in Venezuela, Ecuador or Nicaragua between 1999-2011. Throughout this section, we describe the characterization of our sample firms through an analysis of the control variables in our study.

Country of origin of the firm. Our sample firms had predominantly a Latin American origin (25), originating 24 from Colombia, 1 from Mexico, 3 from the United States, 1 from Italy, and 1 from Switzerland.

Size. According to the Colombian law 905 of 2004, the majority of firms in our sample were classified as medium or large (24), while the rest were classified as small or micro (6) (see Figure 17).

Figure 17: Size of firms



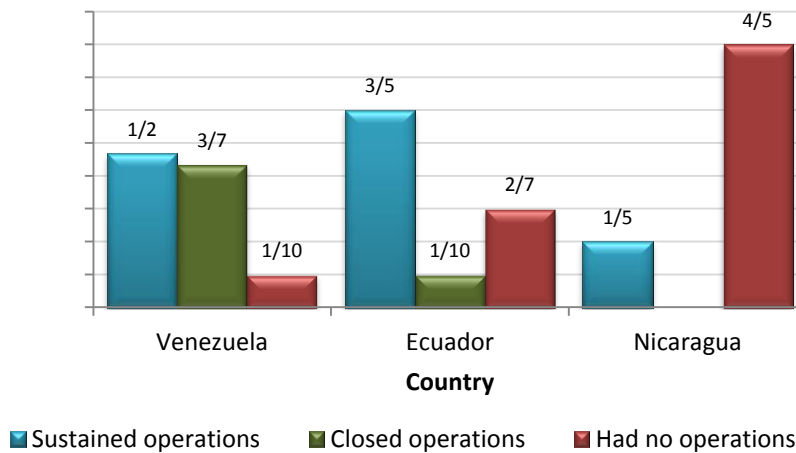
Source: Elaborated by author

Experience in foreign high political uncertainty contexts. Regarding the number of years of experience that our sample firms had in the three contexts of our study between 1999-2011, we found that firms that had operations in Venezuela had an average of 7.7 years of experience ($SD=4.1$ years) in this market. Firms that had operations in Ecuador had an average of 8.1 years of experience ($SD=4.6$ years) in this market. And, firms that had operations in Nicaragua had an average of 9.8 years of experience in this market ($SD=5.2$ years). We categorized sample firms into two groups: those having less than 7 years of experience (as low experience) and those having 7 or more years of experience (as high experience). We found that 19 of our sample firms were classified as being highly experienced firms in dealing with high political uncertainty.

Country scope. The country scope of our sample firms was analyzed by the number of countries (besides Colombia) where firms operated at the time of our survey despite the type of their operations. It is important to note, that there were firms that operated in only one more country besides Colombia while others operated in up to 198 countries. We found 1/2 of our sample firms operated in 10 countries or less ($Median=10$ countries, $Interquartile\ Range=17$ countries). However, we categorized firms into two groups: those operating in from 1 up to 50 countries (as low country scope) and those operating in more than 50 countries (as high country scope). We found 4/5 (24) of our sample firms sold their products in less than 50 countries, having a low country scope.

Status of operations in high political uncertainty contexts. As it can be observed below in Figure 18, between 1999 and 2011 the country in which the highest number of our sample firms managed to sustain their operations was Ecuador, followed by Venezuela, and then Nicaragua. Venezuela was the country in which the highest number of firms closed their operations, while in Nicaragua no firms closed their operations and the highest number of firms had no operations during this time period.

Figure 18: Status of operations



Source: Elaborated by author

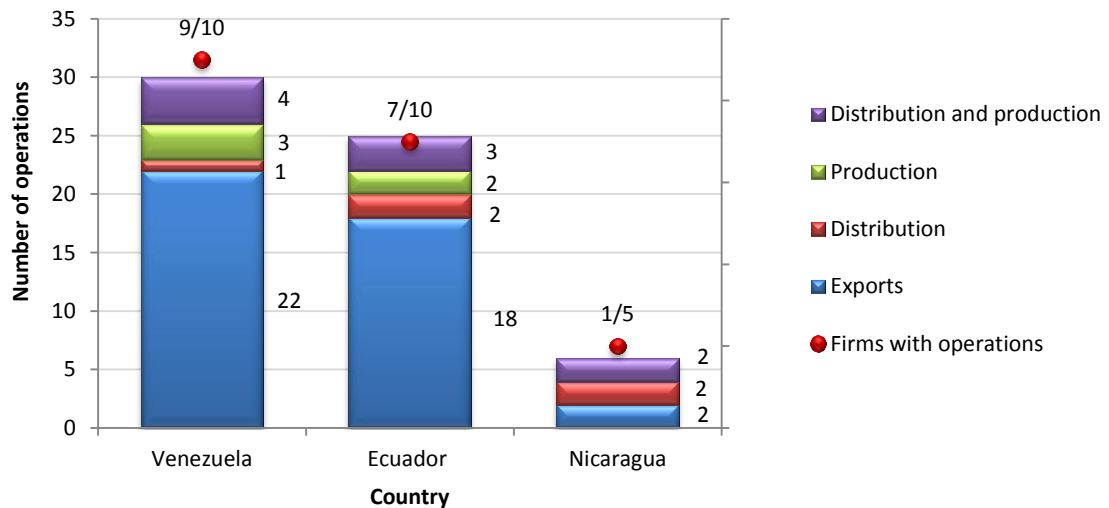
We found that among our sample firms, 23 sustained their operations in at least one of the three countries until 2011, while the remaining 7 closed or had no operations in Venezuela, Ecuador or Nicaragua.

Type of operations in high political uncertainty contexts. Below, Figure 19 shows that 27 of our sample firms had operations in Venezuela, 22 in Ecuador, and 6 in Nicaragua. Sample firms classified their operations in Venezuela, Ecuador, and Nicaragua as: exports, distribution, production, and production and distribution simultaneously in one country. A firm could have no operations, one type or various types of operations in each of the three markets of our study. When we analyzed the type of operations of our sample firms, we observed 27 had exports, 4 had distribution operations, 4 had distribution and production operations simultaneously in one country, and 3 had production operations. Furthermore, we observed 22 of firms only exported to at least one of the three markets. Regarding the remaining 8, 5 firms exported and had at least

one other type of operation, while only 3 firms did not export but had at least one other type of operation (distribution, production or distribution and production operations simultaneously in one country).

Venezuela was the destination for most exports and the country where the greatest number of production operations and distribution and production operations simultaneously in one country were found. Ecuador and Nicaragua were the countries where the highest numbers of distribution operations were found. In Venezuela and Ecuador, the 4 types of operations took place, while in Nicaragua no production operations were found among our sample firms (see Figure 19).

Figure 19: Type of operations



Source: Elaborated by author

Level of headquarters control. We asked firms to rate the involvement of their counterparts in the different types of operations in Venezuela, Ecuador or Nicaragua, in the decisions of the firm regarding how to confront these foreign political contexts from a scale of 1 (none) to 5 (much). We then categorized firms into two groups: those having a low level of headquarters control (between 1 and 3) and those having a high level of headquarters control (between 3.1 and 5). We found 19 firms had a high level of headquarters control.

7.2 Exploring our propositions

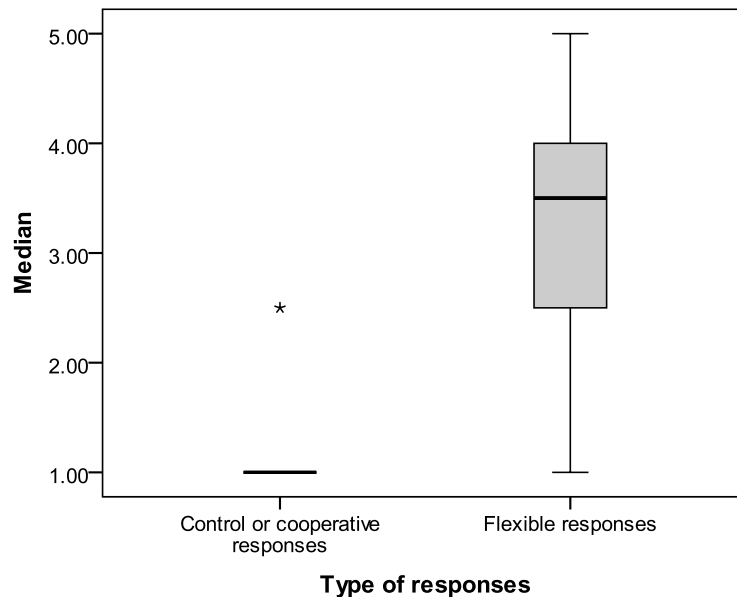
Throughout this section, we present the results of the tests we conducted to each of our propositions.

In terms of our first proposition:

Proposition 1. Host firms depend more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in foreign high political uncertainty contexts.

On a scale from 1 to 5 (1 being none and 5 being a lot), we found that 1/2 of host firms scored 3.5 (*Interquartile range* = 1.5) for their use of flexible responses and 1/2 of host firms scored 1 (*Interquartile range* = 0) for their use of control or cooperative responses to sustain their operations in foreign high political uncertainty contexts. For flexible responses, host firms scored their use between 1 and 5 while for control or cooperative responses, host firms scored their use between 1 and 2.5 (see Figure 20).

Figure 20: Box-plot for flexible and control or cooperative responses



Source: Elaborated by author

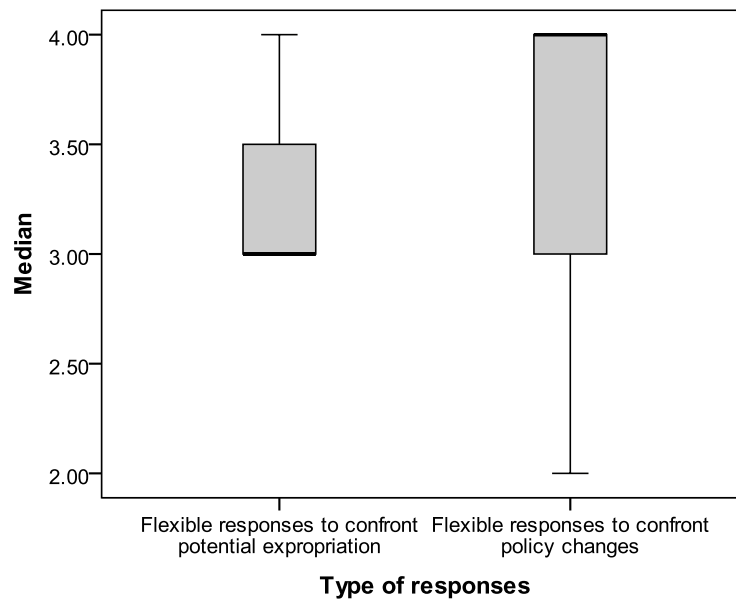
To test P1 we used the Mann-Whitney U test to compare the medians of flexible responses and control or cooperative responses. We found a statistically significant difference between the use of these two types of responses by host firms. Host firms depended more on using flexible responses than control or cooperative responses to sustain their operations in foreign high political uncertainty contexts (*Mann-Whitney* $U = 50.5; p = 0.000$).

When looking at proposition 2a:

Proposition 2a. Host firms that own a production operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront potential expropriation than on developing flexible responses to confront policy changes, to sustain their production operation.

We found from our sample firms that only 3 owned a production operation in a foreign high political uncertainty context. On a scale from 1 to 5 (1 being none and 5 being a lot), we found that 1/2 of host firms scored 3 for their use of flexible responses to confront potential expropriation and 1/2 of host firms scored 4 for their use of flexible responses to confront policy changes to sustain their production operation. For flexible responses to confront potential expropriation, host firms scored their use between 3 and 4 while for flexible responses to confront policy changes, host firms scored their use between 2 and 4 (see Figure 21).

Figure 21: Box-plot for flexible responses to confront potential expropriation and policy changes related to a production operation



Source: Elaborated by author

To test P2a we used the Mann-Whitney U test to compare the medians of flexible responses to confront potential expropriation and flexible responses to confront policy changes among host firms with a production operation in a foreign high political uncertainty context. We found no statistically significant difference between the use of flexible responses to confront potential expropriation and flexible responses to confront policy changes among these host firms (*Mann-Whitney U=4.00; p=1.000*).

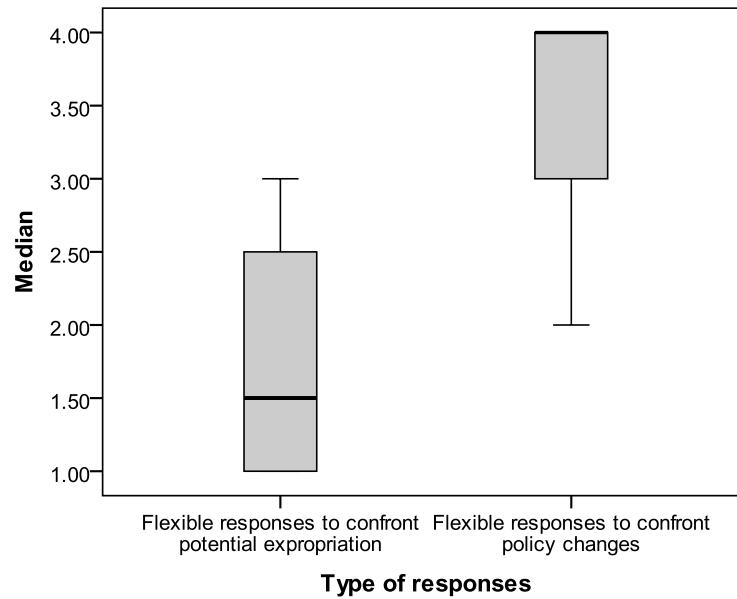
Regarding proposition 2b:

Proposition 2b. Host firms that own a distribution operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront policy changes than on developing flexible responses to confront potential expropriation, to sustain their distribution operation.

We found from our sample firms that only 4 owned a distribution operation in a foreign high political uncertainty context. On a scale from 1 to 5 (1 being none and 5 being a lot), we found that 1/2 of host firms scored 4 (*Interquartile range = 1.5*) for their use of flexible responses to confront policy changes and 1/2 of host firms scored 1.5 (*Interquartile range = 1.75*) for their use of flexible responses to confront potential

expropriation to sustain their distribution operation. For flexible responses to confront policy changes, host firms scored their use between 2 and 4 while for flexible responses to confront potential expropriation, host firms scored their use between 1 and 3 (see Figure 22).

Figure 22: Box-plot for flexible responses to confront policy changes and potential expropriation related to a distribution operation



Source: Elaborated by author

To test P2b we used the Mann-Whitney U test to compare the medians of flexible responses to confront policy changes and flexible responses to confront potential expropriation among host firms with a distribution operation in a foreign high political uncertainty context. We found no statistically significant difference between the use of flexible responses to confront policy changes and flexible responses to confront potential expropriation among these host firms (*Mann-Whitney U=1.5; p=0.057*).

About proposition 2c:

Proposition 2c. Host firms that own a distribution and a production operation simultaneously in a foreign high political uncertainty context, depend on developing both, flexible responses to policy changes and flexible responses to potential expropriation, to sustain their distribution and production operations.

When analyzing if host firms that owned a distribution and production operation simultaneously in a foreign high political uncertainty context used both, flexible responses to policy changes and flexible responses to potential expropriation, we found that the median of each of both of these responses for all host firms with this type of operation was not equal to 1 on a scale from 1 to 5 (1 being none and 5 being a lot). This means that all host firms that owned a distribution and production operation simultaneously in a foreign high political uncertainty context, used in some degree both of these types of responses (see Table 26).

Table 26: Scores of flexible responses to confront potential expropriation and policy changes by host firms that own a distribution and production operation simultaneously in a foreign high political uncertainty context

Host firms' scores	Flexible responses to confront potential expropriation		Flexible responses to confront policy changes	
	n	Fraction	n	Fraction
1 (None)	0	0	0	0
2	2	1/2	0	0
3 (Some)	2	1/2	0	0
4	0	0	2	1/2
5 (A lot)	0	0	2	1/2

Source: Elaborated by author

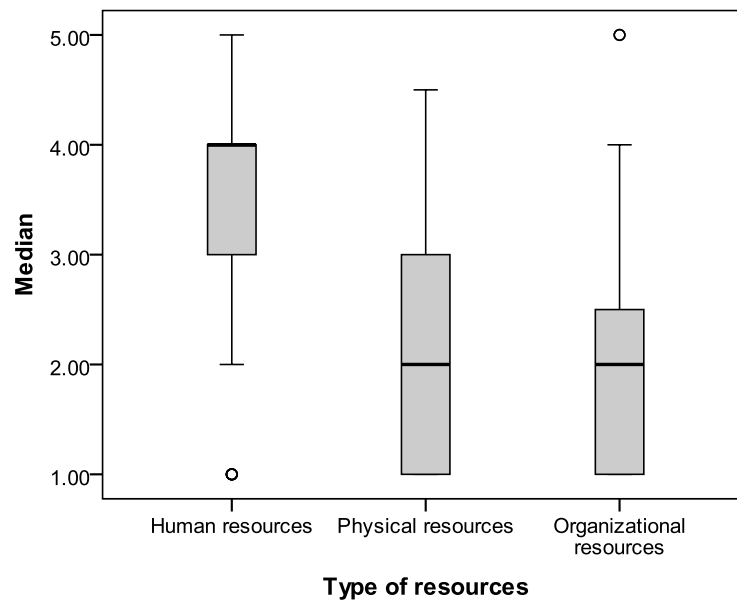
We found only 4 host firms had distribution and production operations simultaneously in a foreign high political uncertainty context. Since these 4 host firms claimed to use in some degree both, flexible responses to confront potential expropriation and flexible responses to confront policy changes, we could not use statistical tests to evaluate this proposition. However, it is important to note that our data shows hosts firms with this type of operation used both responses in some degree, as our proposition suggests.

Regarding proposition 3:

*Proposition 3. Host firms rely more on their **human capital resources** than on their **organizational** and **physical resources** in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.*

On a scale from 1 to 5 (being 1 none and 5 a lot), we found that 1/2 of host firms scored 4 (*Interquartile range* = 1.13) for their use of human capital resources, 1/2 of host firms scored 2 (*Interquartile range* = 2) for their use of physical resources, and 1/2 of host firms scored 2 (*Interquartile range* = 1.5) for their use of organizational resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts. For human capital resources host firms scored their use between 1 and 5, for physical resources host firms scored their use between 1 and 4.5, and for organizational resources host firms scored their use between 1 and 5 (see Figure 23).

Figure 23: Box-plot for the use of human capital, physical, and organizational resources



Source: Elaborated by author

To test P3 we used Kruskal Wallis. We found there were statistically significant differences among the use of human capital resources, organizational resources, and physical resources by host firms in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts (*Kruskal Wallis; p=0.000*), which means that at least one of these resources was used more than the

others by host firms. Above, Figure 23 shows that human capital resources obtained higher usage scores by host firms than organizational and physical resources.

In terms of proposition 4:

Proposition 4. The higher the level of political uncertainty perceived by host firms in a foreign context, the more they rely on the contextual knowledge of their internal and external human resources to develop adaptive political capabilities to sustain their operations.

We analyzed the level of political uncertainty perceived by host firms in each of the three countries in our study using a scale from 1 to 5 (being 1 very unpredictable and 5 very predictable, in other words, the lowest the score the highest the level of political uncertainty perceived by host firms). As Figure 24 shows, the median of the level of political uncertainty perceived by host firms was statistically significantly different among the three countries (Kruskal Wallis, $p=0.000$) being it lower for Venezuela. In other words, this means that Venezuela was the country where host firms perceived the highest levels of political uncertainty.

We also analyzed the use of host firms of the contextual knowledge of their internal and external human resources in each of the three countries in our study using a scale from 1 to 5 (being 1 none and 5 a lot). As Figure 25 shows, the medians for this variable among the three countries are not statistically significantly different (Kruskal Wallis, $p=0.237$).

Figure 24: Box-plot for the level of political uncertainty perceived

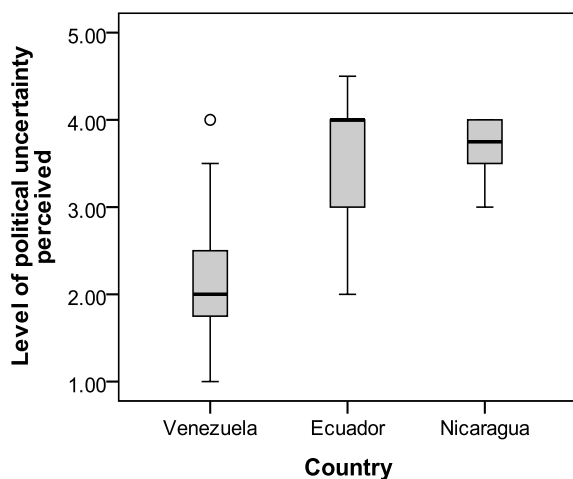
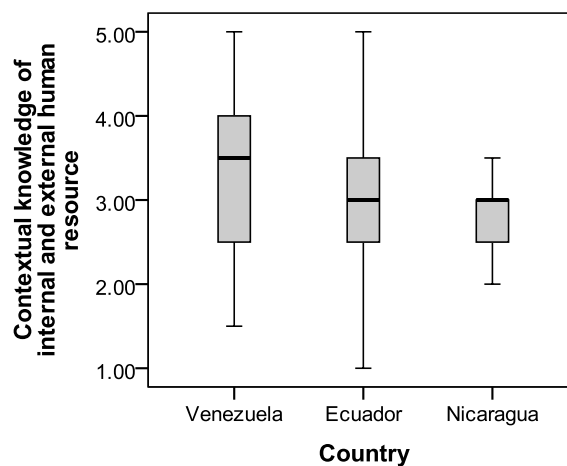


Figure 25: Box-plot for the use of host firms of the contextual knowledge of their internal and external human resources



Source: Elaborated by author

Below, Table 27 shows the measures of position for both variables in each of the three countries.

Table 27: Measures of position for the level of political uncertainty perceived and the use of host firms of the contextual knowledge of their internal and external human resources:

Venezuela, Ecuador, and Nicaragua

Country	Level of political uncertainty perceived			Use of the contextual knowledge of their internal and external human resources		
	Median	IR*	Min-Max	Median	IR	Min-Max
Venezuela	2.0	1.0	1.0-4.0	3.5	1.5	1.5-5.0
Ecuador	4.0	1.0	2.0-4.5	3.0	1.3	1.0-5.0
Nicaragua	3.8	0.6	3.0-4.0	3.0	0.8	2.0-3.5

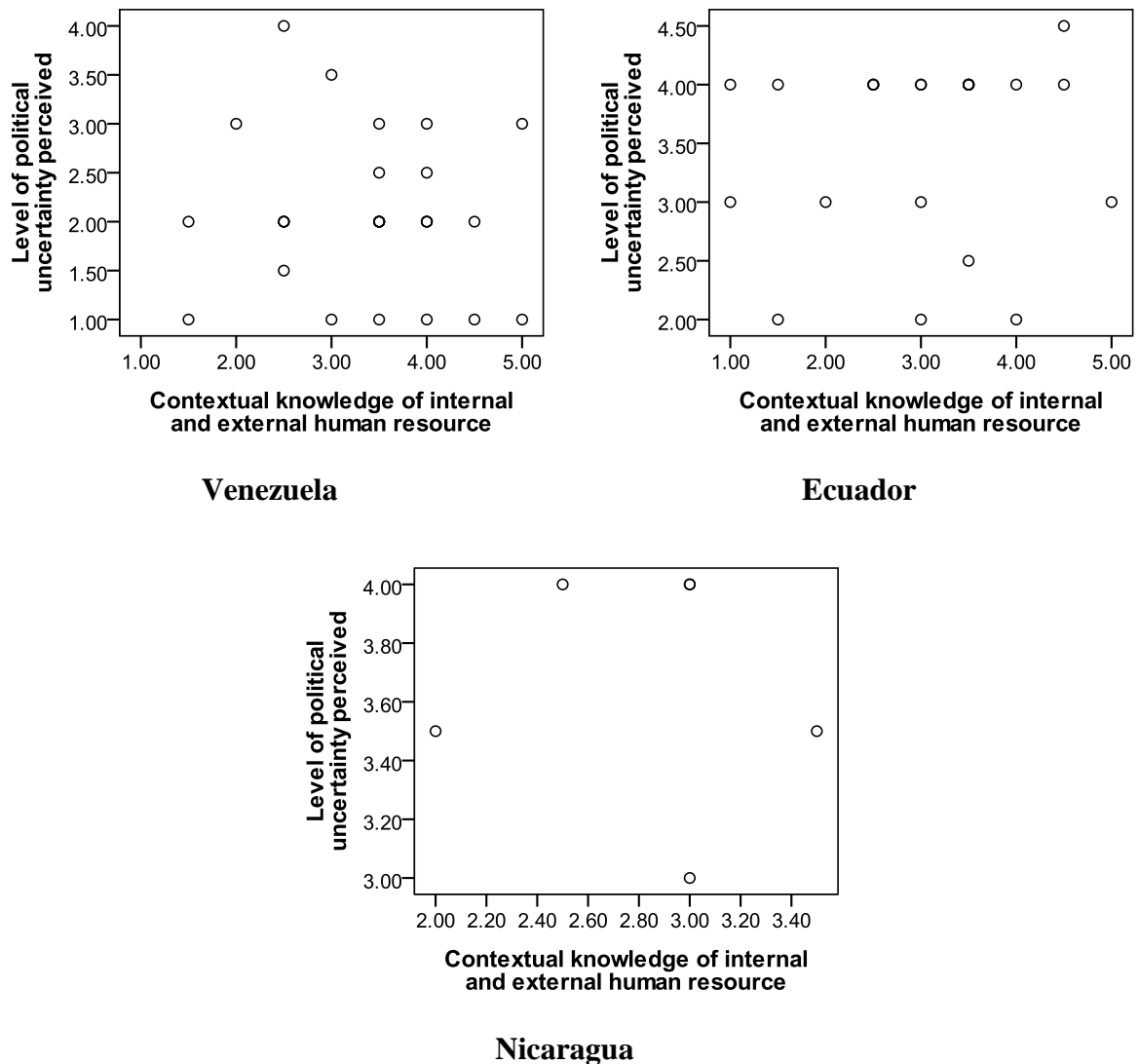
* IR= Interquartile range

Source: Elaborated by author

To test P4 we used Spearman's rank correlation coefficient to find if there was a correlation between both of the variables for each of the three countries in our study. We also found the corresponding levels of significance (p value) to prove if the correlations of these variables for each country were statistically significant. When we

evaluated the behaviour of both variables, level of political uncertainty perceived and the use of contextual knowledge of their internal and external human resources, in the case of Venezuela, Ecuador, and Nicaragua, we found there was no statistically significant relationship between the two variables (*Spearman's rank correlation coefficient, Venezuela= -0.730, p=0.716; Ecuador=0.142; p=0.530; Nicaragua=0.075; p=0.692*). Below, Figure 26 shows the dispersion graphs for both variables in each of the three countries.

Figure 26: Dispersion graphs for the level of political uncertainty perceived and the use of host firms of the contextual knowledge of their internal and external human resources: Venezuela, Ecuador, and Nicaragua



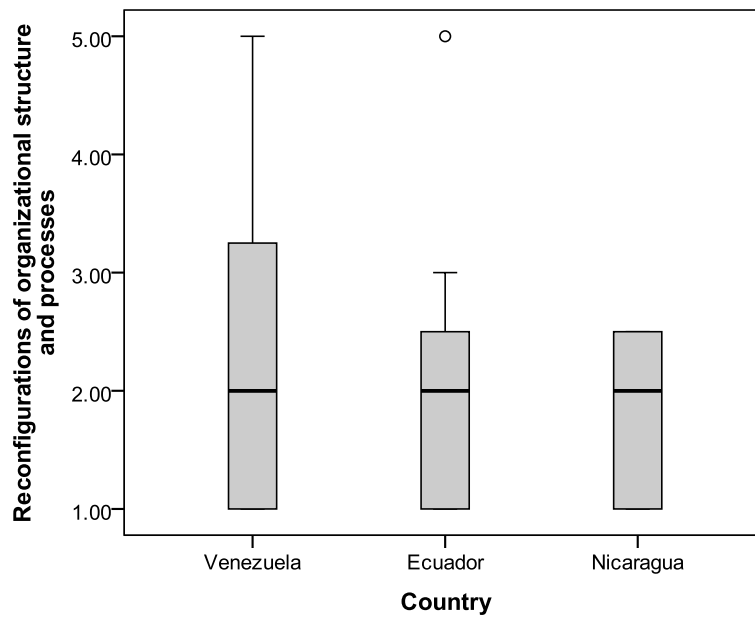
Source: Elaborated by author

About proposition 5:

*Proposition 5. The higher the **level of political uncertainty perceived** by host firms in a foreign context, the more they **reconfigure their organizational structure and processes** to sustain their operations.*

For P5, we used the analysis of the variable level of political uncertainty perceived that was conducted for P4. We also analyzed the use of reconfigurations of host firms' organizational structure and processes in each of the three countries in our study using a scale from 1 to 5 (being 1 none and 5 a lot). As Figure 27 shows, the medians for this variable among the three countries are not statistically significantly different (Kruskal Wallis, $p=0.500$).

Figure 27: Box-plot for host firms' reconfigurations of organizational structure and processes



Source: Elaborated by author

Below, Table 28 shows the measures of position for the variable reconfigurations of organizational structure and processes in each of the three countries.

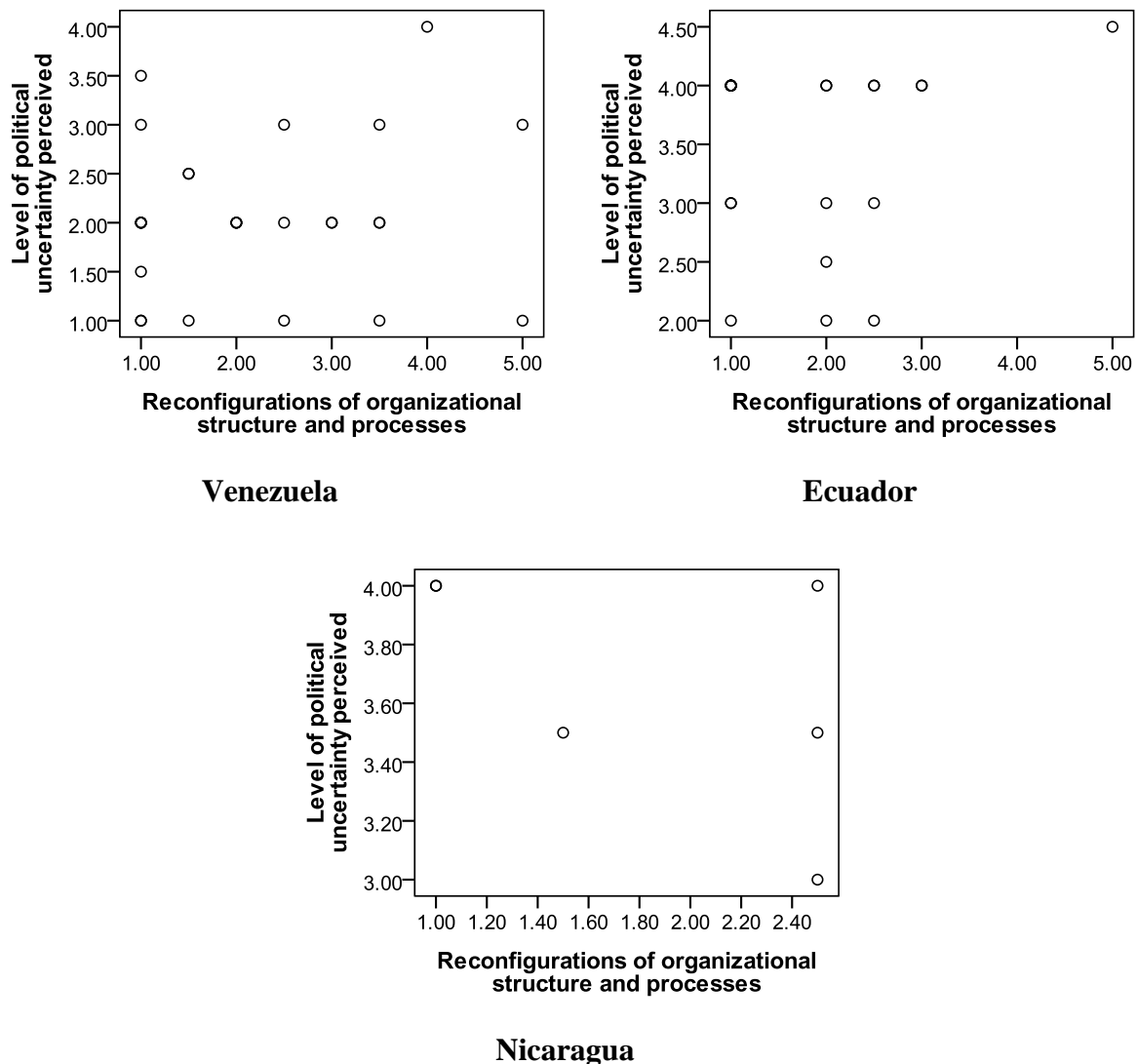
Table 28: Measures of position for the reconfigurations of organizational structure and processes: Venezuela, Ecuador, and Nicaragua

Country	Reconfigurations of organizational structure and processes		
	Median	IR	Min-Max
Venezuela	2.0	2.5	1.0-5.0
Ecuador	2.0	1.5	1.0-5.0
Nicaragua	2.0	1.5	1.0-2.5

Source: Elaborated by author

To test P5 we used Spearman's rank correlation coefficient to find if there was a correlation between both variables for each of the three countries in our study. We also found the corresponding levels of significance (p value) to prove if the correlations of these variables for each country were statistically significant. When we evaluated the behaviour of both variables, level of political uncertainty perceived and the reconfigurations of organizational structure and processes, in the case of Venezuela, Ecuador, and Nicaragua, we found there was no statistically significant relationship between the two variables (*Spearman's rank correlation coefficient, Venezuela= 0.114, $p=0.573$; Ecuador=102; $p=0.651$; Nicaragua =-0.567; $p=0.241$*). Below, Figure 28 shows the dispersion graphs for both variables in each of the three countries.

Figure 28: Dispersion graphs for the level of political uncertainty perceived and the reconfigurations of organizational structure and processes: Venezuela, Ecuador, and Nicaragua



Source: Elaborated by author

Regarding proposition 6:

Proposition 6. Most host firms are obliged to invest in physical resources to develop flexible responses in contexts with political uncertainty, despite the level of political uncertainty they perceive in these contexts.

We recategorized the level of political uncertainty perceived by host firms as high (scores below 3), medium (scores between 3 and below 4), and low (scores between 4 and 5). To test P6 we used the chi-square test of independence to find if the

level of political uncertainty perceived by host firms in contexts with political uncertainty was associated to their decision to invest in physical resources. We found there is no association between both variables (*Chi square, p=0.799*). We observed that host firms that perceived a high level of political uncertainty had invested in physical resources (YES, 3/5) and that host firms that perceived a low level of political uncertainty had equally decided to invest (YES, 1/2) and not to invest (NO, 1/2) in physical resources (see Table 29).

Table 29: Investments in physical resources by the level of political uncertainty perceived by host firms

Level of political uncertainty perceived	Host firms that invested in physical resources		Total
	YES	NO	
	N	n	
High	15	10	25
Medium	7	5	12
Low	9	9	18
Total	31	24	55 ⁶⁸

Source: Elaborated by author

Regarding proposition 7:

Proposition 7. Host firms with lower managerial commitment to knowledge articulation and codification perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts.

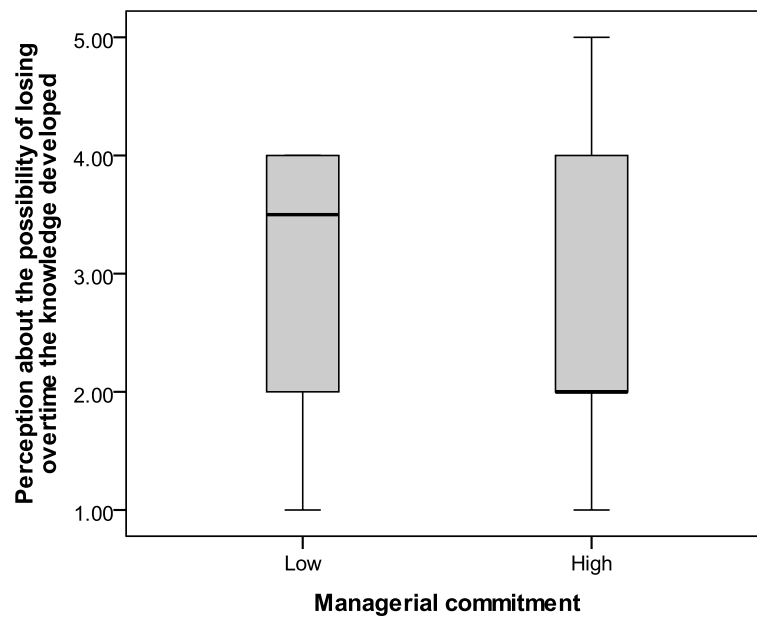
To test P7, we reclassified host firms according to their level of managerial commitment to knowledge articulation and codification. Host firms with a score between 1 and 2 for this variable were referred to as having low managerial commitment. Host firms with a score above 2 and up to 5 for this variable were referred to as having high managerial commitment. 4/5 of host firms were found to have a high

⁶⁸ Since a firm can have operations in one, two or three of the countries in our study, this number is greater than 30 which is the number of surveyed firms.

managerial commitment. Subsequently, we analyzed host firms' scores for their perception of losing over time the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts from a scale of 1 to 5 (being 1 none and 5 much). Half of the surveyed host firms scored 2.5 or less for their perception of losing their knowledge (*Interquartile range=2*). Some host firms scored 1 while others scored 5.

To test P7 we used the Mann-Whitney U test to compare the medians of the perception of losing their knowledge between host firms having a low and a high managerial commitment. We found there was no statistically significant difference between host firms with a low and a high managerial commitment to knowledge articulation and codification in their perception about the possibility of losing over time the knowledge they have developed (*Mann-Whitney U=60.0; p=0.520*).

Figure 29: Box-plot for the perception about the possibility of losing over time the knowledge developed and managerial commitment



Source: Elaborated by author

As can be observed in Figure 29, although no statistically significant differences were found between host firms with low and high managerial commitment, the median for the perception about the possibility of over time losing the knowledge developed

was lower for host firms with high managerial commitment to knowledge articulation and codification (*Medians* 3.5 versus 2.0).

7.3 Influence of control variables

Finally, in our last section we present a series of tables that show the results of the influence of our control variables on each proposition.

For proposition 1:

Proposition 1. Host firms depend more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in foreign high political uncertainty contexts.

Below, Table 30 shows none of our control variables influence the results of P1.

Table 30: Influence of control variables on P1

Control variables		n	Flexible responses		Control or cooperative responses		p *	Influence
			Median	IR	Median	IR		
Country of origin	Latin American origin	25	3.50	1.75	1.00	0.00	0.000	No
	Non-Latin American origin	5	4.00	1.00	1.00	0.00		
Size	Micro and small	6	3.25	2.38	1.00	0.38	0.026	No
	Medium and large	24	3.75	1.38	1.00	0.00	0.000	
Experience	0 to 6 years	11	4.00	2.00	1.00	0.00	0.000	No
	7 to 13 years	19	3.50	1.50	1.00	0.00	0.000	
Country scope	1 to 50 countries	24	3.25	1.63	1.00	0.00	0.000	No
	More than 50 countries	6	4.00	0.75	1.00	0.00	0.029	
Status of operations	Sustained operations	23	4.00	1.00	1.00	0.00	0.000	No
	Closed operations	7	3.00	2.00	1.00	0.00	0.001	
Type of operations	Only exported	22	3.50	1.00	1.00	0.00	0.000	No
	Exported and/or had any other type of operation	8	3.25	2.75	1.00	0.00	0.001	
Level of headquarters control	Low	11	3.00	2.50	1.00	0.00	0.002	No
	High	19	4.00	1.50	1.00	0.00	0.000	

Source: Elaborated by author

Regarding propositions 2a, 2b, and 2c:

Proposition 2a. Host firms that own a production operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront potential expropriation than on developing flexible responses to confront policy changes, to sustain their production operation.

Proposition 2b. Host firms that own a distribution operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront policy changes than on developing flexible responses to confront potential expropriation, to sustain their distribution operation.

Proposition 2c. Host firms that own a distribution and a production operation simultaneously in a foreign high political uncertainty context, depend on developing both, flexible responses to policy changes and flexible responses to potential expropriation, to sustain their distribution and production operations.

Due to the low number of firms in our sample that own production, distribution, and distribution and production operations simultaneously in a foreign high political uncertainty context, we were not able to test the influence of our control variables on the previous propositions (P2a, P2b, and P2c).

About proposition 3:

Proposition 3. Firms rely more on their human capital resources than on their organizational and physical resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.

Below, Table 31 shows some of our control variables influence the results of P3. The variables that have some influence are: size (micro and small firms), experience (0 to 6 years), country scope (more than 50 countries), and status of operations (closed operations).

Table 31: Influence of control variables on P3

Control variables		n	Human resources		Physical resources		Organizational resources		p **	Influence
			Median	IR	Median	IR	Median	IR		
Country of origin	Latin American origin	25	3.50	1.75	1.00	2.25	1.50	1.25	0.003	No
	Non-Latin American ori	5	4.00	0.75	2.00	1.00	2.50	1.50	0.022	
Size	Micro and small	6	3.25	3.13	1.00	3.75	1.75	1.13	0.442	Yes
	Medium and large	24	4.00	1.00	2.00	2.00	2.00	1.88	0.001	
Experience	0 to 6 years	11	4.00	1.50	3.00	2.50	2.00	1.00	0.133	Yes
	7 to 13 years	19	3.50	1.00	2.50	1.50	2.00	1.50	0.002	
Country scope	1 to 50 countries	24	3.25	1.63	1.50	2.13	1.75	1.50	0.002	Yes
	More than 50 countries	6	4.00	0.38	2.25	1.25	2.75	2.00	0.051	
Status of operations	Sustained operations	23	4.00	1.00	2.00	2.00	2.00	1.50	0.001	Yes
	Closed operations	7	3.00	3.00	2.00	2.00	1.50	1.00	0.430	
Type of operations	Only exported	22	3.75	2.25	1.00	2.13	1.75	1.13	0.009	No
	Exported and/or had any other type of operation	8	4.00	1.00	2.00	1.25	2.50	2.00	0.016	
Level of headquarters control	Low	11	3.00	2.00	1.00	1.00	1.00	1.00	0.005	No
	High	19	4.00	1.00	2.50	2.50	2.00	2.00	0.024	

Source: Elaborated by author

Regarding proposition 4:

Proposition 4. The higher the level of political uncertainty perceived by firms in a foreign context, the more they rely on the contextual knowledge of their internal and external human resources to develop adaptive political capabilities to sustain their operations.

Below, Table 32 shows none of our control variables influence the results of P4.

Table 32: Influence of control variables on P4

Control variables		n	Level of political uncertainty perceived		Contextual knowledge of internal and external human resource		Spearman's rho	p **	Influence
			Median	IR	Median	IR			
Country of origin	Latin American origin	25	3.00	1.75	3.50	1.50	-0.069	0.745	No
	Non-Latin American ori	5	4.00	1.50	4.00	1.00	0.312	0.574	
Size	Micro and small	6	2.75	1.25	3.00	1.25	-0.455	0.365	No
	Medium and large	24	3.00	2.00	3.50	1.38	0.124	0.562	
Experience	0 to 6 years	11	2.50	1.00	3.50	1.50	-0.378	0.251	No
	7 to 13 years	19	3.00	0.00	3.50	0.00	0.411	0.081	
Country scope	1 to 50 countries	24	3.00	2.00	3.50	1.40	-0.060	0.772	No
	More than 50 countries	6	3.50	1.75	4.00	1.13	0.833	0.167	
Status of operations	Sustained operations	23	3.00	2.00	3.50	1.00	0.060	0.784	No
	Closed operations	7	2.50	1.00	2.50	2.00	-0.038	0.935	
Type of operations	Only exported	22	3.00	1.63	3.50	1.63	-0.005	0.981	No
	Exported and/or had any other type of operation	8	3.50	1.00	3.50	0.88	0.276	0.509	
Level of headquarters control	Low	11	3.00	2.00	3.50	1.50	-0.315	0.346	No
	High	19	3.00	2.00	3.50	1.50	0.260	0.283	

Source: Elaborated by author

In terms of proposition 5:

Proposition 5. The higher the level of political uncertainty perceived by firms in a foreign context, the more they reconfigure their organizational structure and processes to sustain their operations.

Below, Table 33 shows none of our control variables influence the results of P5.

Table 33: Influence of control variables on P5

Control variables		n	Level of political uncertainty perceived		Reconfigurations of organizational structure and processes		Spearman's rho	p **	Influence
			Median	IR	Median	IR			
Country of origin	Latin American origin	25	3.00	1.75	1.50	1.25	-0.078	0.709	No
	Non-Latin American ori	5	4.00	1.50	2.50	1.50	0.625	0.260	
Size	Micro and small	6	2.75	1.25	1.75	1.13	-0.500	0.312	No
	Medium and large	24	3.00	2.00	2.00	1.88	0.190	0.375	
Experience	0 to 6 years	11	2.50	1.00	2.00	1.00	-0.050	0.884	No
	7 to 13 years	19	3.00	0.00	2.00	1.50	0.071	0.773	
Country scope	1 to 50 countries	24	3.00	2.00	1.75	1.50	-0.010	0.960	No
	More than 50 countries	6	3.50	1.75	2.75	2.00	0.889	0.111	
Status of operations	Sustained operations	23	3.00	2.00	2.00	1.50	-0.050	0.821	No
	Closed operations	7	2.50	1.00	1.50	1.00	0.520	0.232	
Type of operations	Only exported	22	3.00	1.63	1.75	1.13	-0.020	0.928	No
	Exported and/or had any other type of operation	8	3.50	1.00	2.50	2.00	0.691	0.691	
Level of headquarters control	Low	11	3.00	2.00	1.00	1.00	-0.062	0.857	No
	High	19	3.00	2.00	2.00	2.00	0.269	0.265	

Source: Elaborated by author

For proposition 6:

Proposition 6. Most host firms are obliged to invest in physical resources to develop flexible responses in contexts with political uncertainty, despite the level of political uncertainty they perceive in these contexts.

Below, Table 34 shows none of our control variables influence the results of P6.

Table 34: Influence of control variables on P6

Control variables		Level of political uncertainty perceived	Firms that invested in physical resources		<i>p</i> **	Influence
			YES	NO		
			n	n		
Country of origin	Latin American origin	High	4	3	0.676	No
		Medium	6	3		
		Low	7	2		
	Non-Latin American origin	High	2	0	-- ***	No
		Medium	1	0		
		Low	2	0		
Size	Micro and small	High	1	1	0.687	No
		Medium	0	1		
		Low	1	2		
	Medium and large	High	5	2	0.284	No
		Medium	7	2		
		Low	8	0		
Experience	0 to 6 years	High	2	2	0.757	No
		Medium	3	1		
		Low	2	1		
	7 to 13 years	High	4	1	0.638	No
		Medium	4	2		
		Low	7	1		
Country scope	1 to 50 countries	High	4	3	0.676	No
		Medium	6	3		
		Low	8	2		
	More than 50 countries	High	2	0	-- ***	No
		Medium	2	0		
		Low	2	0		
Status of operations	Sustained operations	High	5	2	0.208	No
		Medium	3	3		
		Low	9	1		
	Closed operations	High	1	1	0.103	No
		Medium	4	0		
		Low	0	1		
Type of operations	Only exported	High	6	5	0.422	No
		Medium	3	3		
		Low	1	4		
	Exported and/or had any other type of operation	High	1	0	0.386	No
		Medium	2	1		
		Low	4	0		
Level of headquarters control	Low	High	1	1	0.572	No
		Medium	2	3		
		Low	3	1		
	High	High	5	2	0.405	No
		Medium	5	0		
		Low	6	1		

Source: Elaborated by author

About proposition 7:

Proposition 7. Firms with lower managerial commitment to knowledge articulation and codification perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts.

Below, Table 35 shows none of our control variables influence the results of P7.

Table 35: Influence of control variables on P7

Control variables		n	Managerial commitment to knowledge articulation and codification		Perception of losing overtime the knowledge developed		p **	Influence
			Low	High	Median	IR		
Country of origin	Latin American origin	25	5	20	3.00	2.00	0.247	No
	Non-Latin American origin	5	1	4	2.00	2.00	0.264	
Size	Micro and small	6	0	6	3.00	3.25	--	No
	Medium and large	24	6	18	2.50	2.00	0.332	
Experience	0 to 6 years	11	2	9	2.00	3.00	0.381	No
	7 to 13 years	19	4	15	3.00	2.00	0.796	
Country scope	1 to 50 countries	24	5	21	3.00	2.00	0.297	No
	More than 50 countries	6	1	3	1.50	1.00	0.317	
Status of operations	Sustained operations	23	5	18	3.00	2.00	0.939	No
	Closed operations	7	1	6	2.00	2.00	0.19	
Type of operations	Only exported	22	4	18	3.00	2.00	0.592	No
	Exported and/or had any other type of operation	8	2	6	2.00	2.00	0.857	
Level of headquarters control	Low	11	3	8	2.00	2.00	0.579	No
	High	19	3	16	3.00	3.00	0.645	

Source: Elaborated by author

8 DISCUSSION STUDY 2: SURVEY

This chapter discusses the relation between the empirical findings of our survey and the generalizability of the exploratory propositions resulting from our first study. This chapter is divided into three sections. In the first section, we discuss the results of the tests we conducted to our exploratory propositions. In the second section, we discuss the influence of our control variables on our exploratory propositions. And, in our last section, we present some concluding remarks about this second study.

8.1 Exploring our propositions

The results of the tests we conducted to the exploratory propositions from our first study provide interesting insights about their generalizability to other firms in the processed food industry in Colombia that have had operations between 1999 and 2011 in Venezuela, Ecuador or Nicaragua.

Our first proposition states: “*Host firms depend more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in foreign high political uncertainty contexts.*” Prior research in the corporate political activity field has mainly focused on proactive corporate political activities that enable firms to produce control or cooperative responses which aim to influence the political environment (Hillman and Hitt, 1999; Hillman *et al.*, 2004; Shaffer, 1995). Differently, reactive corporate political activities enable firms to produce flexible responses which aim to adapt firms to the political environment without trying to exert any influence on government affairs. Hillman and Hitt (1999) argued that as researchers in the CPA field, their interest on proactive corporate political activity was explained by the fact that a firm that followed a reactive stance towards corporate political activity could be sure that other interest groups were proactively working to shape government policies in a direction that benefited their own interests - which could or not coincide with those of the firm. Similarly, Oliver and Holzinger (2008) argued that firms that used corporate political strategies were more likely to strengthen their competitive advantage than firms that were passive or politically inactive.

Our quantitative data shows there is a statistically significant difference among our sample firms between their dependence on flexible responses and control or cooperative responses to sustain their operations in foreign high political uncertainty contexts (*Mann-Whitney U* = 50.5; *p* = 0.000). We found our sample firms depended more on using flexible responses than control or cooperative responses to sustain their operations in these contexts (Flexible responses *Median* = 3.5; *IR* = 1.5; Control or cooperative responses *Median* = 1; *IR* = 0.). In other words, our sample firms depended more on developing reactive than proactive corporate political activities to sustain their operations in foreign high political uncertainty contexts.

We view this finding as perhaps one of the most important in our thesis, since it suggests that despite the traditional view of CPA research has focused on proactive corporate political activities (Hillman and Hitt, 1999; Hillman *et al.*, 2004; Holburn and Vanden Berg, 2002; Lawton and Rajwani, 2011; Oliver and Holzinger, 2008), developing the reactive corporate political activities research stream can be fruitful to broadening our understanding of firms' political behavior. Evidently, at least in the case of foreign high political uncertainty contexts, reactive corporate political activities enabled host firms to produce flexible responses that were used more to strengthen their competitive advantage than control or cooperative responses as Oliver and Holzinger (2008) had suggested. This means that despite in foreign high political uncertainty contexts, other interest groups can proactively work to shape government policies in a direction that benefits their own interests - which can or not coincide with those of hosts firms (Hillman and Hitt, 1999), host firms depend more on adapting to these political contexts than on influencing their governments to sustain their foreign operations.

Finding evidence in our quantitative data that supports this proposition is extremely interesting because counter intuitively to the traditional focus of CPA research on its proactive stream, our data indicates that in high political uncertainty contexts, host firms depend more on reactive corporate political activities, that enable them to produce flexible responses, than on proactive corporate political activities that enable them to produce control or cooperative responses. We believe that perhaps the focus of prior CPA research on proactive corporate political activities can be explained by the fact that this field has mainly developed through studies that address political

contexts in developed economies, while studies that address political contexts in emerging economies are more recent. In developed economies, characterized by democratic regimes and stronger institutions, influencing governments through corporate political strategies can strengthen the competitive advantage of firms (Oliver and Holzinger, 2008). However, our quantitative data shows that in foreign high political uncertainty contexts in emerging economies characterized by authoritarian regimes and weak institutions, host firms depend more on adapting to these political contexts than on influencing their governments.

Our proposition 2a states: “*Host firms that own a production operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront potential expropriation than on developing flexible responses to confront policy changes, to sustain their production operation*” and our proposition 2b suggests: “*Host firms that own a distribution operation in a foreign high political uncertainty context, depend more on developing flexible responses to confront policy changes than on developing flexible responses to confront potential expropriation, to sustain their distribution operation.*” We could not find prior research that studied the relation between the types of operations of firms and their corporate political activities.

For proposition 2a, our quantitative data indicates there is no statistically significant difference between the use of flexible responses to confront potential expropriation and flexible responses to confront policy changes among host firms with a production operation in a foreign high political uncertainty context (*Mann-Whitney $U=4.00$; $p=1.000$*). Similarly, for proposition 2b, our quantitative data indicates there is no statistically significant difference between the use of flexible responses to confront policy changes and flexible responses to confront potential expropriation among host firms with a distribution operation in a foreign high political uncertainty context (*Mann-Whitney $U=1.5$; $p=0.057$*).

For proposition 2a, our data shows 1/2 of host firms scored 3 for their use of flexible responses to confront potential expropriation and 1/2 of host firms scored 4 for their use of flexible responses to confront policy changes to sustain their production operation. This may suggest that despite we found there is no statistically significant

difference among the use of both types of responses, host firms with production operations might be concentrating more efforts on developing flexible responses to confront policy changes than to confront a potential expropriation, despite expropriation is a high risk for production operations in foreign high political uncertainty contexts. For proposition 2b, our data shows 1/2 of host firms scored 4 (*Interquartile range* = 1.5) for their use of flexible responses to confront policy changes and 1/2 of host firms scored 1.5 (*Interquartile range* = 1.75) for their use of flexible responses to confront potential expropriation to sustain their distribution operation. This shows that despite we found there is no statistically significant difference among the use of both types of responses, host firms with a distribution operation in a foreign high political uncertainty context used more flexible responses to confront policy changes, as it was suggested by our proposition.

However, we must highlight that the results of propositions 2a and 2b can be affected by the type II error, related to small samples (Fink, 2013). In our sample firms, we found only 3 host firms had a production operation and only 4 host firms had a distribution operation. This means that having such a small number of host firms within our sample that meet with the types of operations fitting the criteria to test these propositions can cause the results of our tests to suffer from this error. In hypotheses testing, this error accepts the null hypothesis, although the alternative hypothesis is the true state of nature. It concludes there are no differences, where there actually are. Therefore, we could be claiming there are no statistically significant differences between both types of responses among firms with a production operation or a distribution operation when there are. Consequently, to further develop the discussion of these two exploratory propositions, we suggest that to be able to find reliable results, a sufficient sample including more host firms that meet their criteria should be sought.

Our proposition 2c states: *“Host firms that own a distribution and a production operation simultaneously in a foreign high political uncertainty context, depend on developing both, flexible responses to policy changes and flexible responses to potential expropriation, to sustain their distribution and production operations.”* As for propositions 2a and 2b, in the case of this proposition we found no prior research has

studied the relation between the types of operations of firms and their corporate political activities. Since from our sample firms only 4 had distribution and production operations simultaneously in a foreign high political uncertainty context and all of these 4 host firms claimed to have used in some degree both, flexible responses to confront potential expropriation and flexible responses to confront policy changes, we could not use statistical tests to evaluate this proposition. However, it is important to note that our data shows host firms with this type of operation used both types of responses in some degree, as our exploratory proposition suggests. Nevertheless, as for the cases of exploratory propositions 2a and 2b, we suggest that to be able to find reliable results for this proposition, a sufficient sample including more host firms that meet its criteria should be sought. Therefore, undoubtedly exploratory propositions 2a, 2b, and 2c provide interesting avenues for further research.

Our proposition 3 states: “*Host firms rely more on their **human capital resources** than on their **organizational** and **physical resources** in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.*” Bowman and Ambrosini (2000) claimed that the source of value of a firm is in the combination and deployment of human capital with other resources. Barney (1986), Castanias and Helfat (1991), and Wernerfelt (1989) also made a distinction between resources by arguing that human capital resources constituted a firm’s resources of above normal returns, not physical resources. Similarly, Miller and Shamsie (1996) found that knowledge-based resources are more valuable in uncertain environments.

Our quantitative data shows there are statistically significant differences among the use of human capital resources, organizational resources, and physical resources by host firms in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts (*Kruskal Wallis; $p=0.000$*), which means that at least one of these resources was used more than the others by host firms. Our data indicates 1/2 of host firms scored 4 (*Interquartile range = 1.13*) for their use of human capital resources, 1/2 of host firms scored 2 (*Interquartile range = 2*) for their use of physical resources, and 1/2 of host firms scored 2 (*Interquartile range = 1.5*) for their

use of organizational resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts. This means that host firms relied more on human capital resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts.

Our findings support the idea that the source of value of a firm is in the combination and deployment of human capital with other resources (Bowman and Ambrosini, 2000). Through study one, we found knowledge and experience were the foundations of adaptive political capabilities and that these resided in a firm's human capital resource. Thus, if the foundations of adaptive political capabilities reside in its human capital resource, we should expect human capital resources to lead the development of adaptive political capabilities by host firms - as our data shows. Moreover, Miller and Shamsie (1996) found that knowledge-based resources are more valuable in uncertain environments. Our findings also support this claim since host firms are relying more on human capital resources in their development of adaptive political capabilities in foreign high political uncertainty contexts where the knowledge of human resources is of high value.

Our proposition 4 states “*The higher the level of political uncertainty perceived by host firms in a foreign context, the more they rely on the contextual knowledge of their internal and external human resources to develop adaptive political capabilities to sustain their operations.*” Prior research has described the knowledge of human capital as a resource capable of creating value for the firm (Barney, 1991). However, the relationship between the level of political uncertainty perceived by firms and their use of internal and external human resources' contextual knowledge has not been explored.

Despite in the case of Latam, our data suggested that the higher the level of political uncertainty perceived by the host firm in the three contexts of our study, the more it relied on the contextual knowledge of its internal and external human resources, our quantitative data indicates that these two variables have no statistically significant relationship among our sample firms (*Spearman's rank correlation coefficient, Venezuela= -0.730, p=0.716; Ecuador=0.142; p=0.530; Nicaragua=0.075; p=0.692*). This means that despite the case of Latam, the level of political uncertainty perceived by

host firms in a foreign context is not related to the extent to which these host firms rely on the contextual knowledge of their internal and external human resources about that specific context.

Our proposition 5 states: “*The higher the level of political uncertainty perceived by host firms in a foreign context, the more they reconfigure their organizational structure and processes to sustain their operations.*” Miller (1986) claimed that the configuration of an organizational structure is linked to its strategy and environment. Since 1961, Burns and Stalker stated that if an organization is to achieve enhanced performance then its structure must “fit” or match its environment. However, we found that although there is extensive research on the configurations of organizational structures and processes (Hannan and Freeman, 1984; Karim, 2006; Mintzberg, 1979), scholars have not addressed the relation between the level of political uncertainty perceived by firms in a foreign context and their configurations of organizational structures and processes.

In the case of Latam, our data showed that the higher the level of political uncertainty perceived by the host firm in each of the three contexts of our study, the more reconfigurations it made to its organizational structure and processes to sustain its operations. Differently, our quantitative data indicates that the level of political uncertainty perceived and the reconfigurations of organizational structure and processes, in the case of Venezuela, Ecuador, and Nicaragua, have no statistically significant relationship among our sample firms (*Spearman's rank correlation coefficient, Venezuela= 0.114, p=0.573; Ecuador=102; p=0.651; Nicaragua =-0.567; p=0.241*). In other words, despite Latam increased the reconfigurations it made to its organizational structure and processes in relation to the level of political uncertainty it perceived in each of the three contexts in our study, our sample firms do not follow this behavior.

Our proposition 6 states: “*Most host firms are obliged to invest in physical resources to develop flexible responses in contexts with political uncertainty, despite the*

level of political uncertainty they perceive in these contexts.” Prior research has explained that physical capital can create value for a firm (Barney, 1991). Nevertheless, there is a generally accepted tenet that when firms perceive political uncertainty they must stop and/or divest their investments. In the case of Latam, our data showed that some investments were necessary for the host firm to manage to adapt to contexts presenting political uncertainties, regardless of Latam’s own perception of the level of political uncertainty in these contexts.

Our quantitative data shows there is no association between investments on physical resources and the level of political uncertainty perceived by host firms among our sample (*Chi square, p=0.799*). We observed that host firms that perceived a high level of political uncertainty had invested in physical resources (YES, 3/5) and that host firms that perceived a low level of political uncertainty had equally decided to invest (YES, 1/2) and not to invest (NO, 1/2) in physical resources. We highlight that despite Venezuela, Ecuador, and Nicaragua are countries rated as having high levels of political uncertainty by worldwide rankings (IHS Global insight, 2012), we found that more than half of the firms invested in physical resources in at least one of these markets to materialize their flexible responses. Our data therefore rejects the widespread tenet that, when firms perceive political uncertainty they must stop and/or divest their investments by showing that in high political uncertainty contexts most host firms invest to materialize their responses even regardless of their own perception of the level of political uncertainty in these contexts.

Our proposition 7 states: “*Host firms with lower managerial commitment to knowledge articulation and codification perceive they are more likely over time to lose the knowledge they have developed to sustain their operations in foreign high political uncertainty contexts.*” Prior research has found that for the development process of capabilities to start and evolve, managerial commitment has to exist and is determined by managers’ attitude towards investing in knowledge articulation and codification efforts (Helfat and Peteraf, 2003; McLarney and Dastrala, 2001; Zollo and Winter, 2002). Knowledge articulation and codification are learning mechanisms that underpin capability development (Zollo and Winter, 2002). Lacking an understanding of how

knowledge articulation and codification efforts support the development of capabilities can translate into the absence of these efforts which threatens firms with over time losing the knowledge they have developed. In our first study, we found Latam had not invested efforts in articulating and codifying the knowledge that the individuals or teams had developed through the experience they had accumulated. Latam felt it was highly likely that it could lose its knowledge about how to sustain its operations in foreign high political uncertainty contexts, especially when the following situations occur: people forget what they have learned and the people who possess the knowledge retire or leave the firm. In other words, Latam had a low managerial commitment to knowledge articulation and codification which made it perceive it was more likely to over time lose the knowledge it had developed about how to sustain its operations in high political uncertainty contexts.

Through P7 we wanted to test if other host firms in the process food industry with low managerial commitment to knowledge articulation and codification shared this perception. To test this proposition, we reclassified our sample firms according to their level of managerial commitment to knowledge articulation and codification. Host firms with a score between 1 and 2 for this variable were referred to as having low managerial commitment. Host firms with a score above 2 and up to 5 for this variable were referred to as having high managerial commitment. We found there was no statistically significant difference between host firms with a low and a high managerial commitment to knowledge articulation and codification in their perception about the possibility of losing over time the knowledge they have developed (*Mann-Whitney* $U=60.0$; $p=0.520$). Although no statistically significant differences were found between host firms with low and high managerial commitment, the median for the perception about the possibility of over time losing the knowledge developed was lower for host firms with high managerial commitment to knowledge articulation and codification (*Medians* 3.5 versus 2.0).

Finding no statistically significant difference among host firms with low and high managerial commitment may suggest that despite host firms with a low managerial commitment had a higher median for their perception about the possibility of losing over time the knowledge developed, our sample firms in general are still not that aware

of the benefits or threats involved in investing or not in knowledge articulation and codification efforts. We suggest that more than an issue of host firms having or not enough resources to invest in these efforts, it is the lack of a thorough understanding of these learning mechanisms and the role they play in the capability development process what explains our results.

8.2 Influence of control variables

We analyzed the influence of 7 control variables on our exploratory propositions. As our results in section 7.3 show, only P3 was influenced by the following control variables: size (micro and small firms), experience (0 to 6 years), country scope (more than 50 countries), and status of operations (closed operations). However, below we discuss each of the control variables in our study.

Country of origin of the firms. Foreign versus domestic ownership or country of origin has been identified as an important antecedent of firms' corporate political activities (Hillman *et al.*, 2004; Getz, 1996). Specifically, foreign firms have been found to behave differently to domestic firms in their corporate political activities (Hansen and Mitchell, 2000; Hansen and Mitchell, 2001). Since our research focused exclusively on the study of foreign ownership or host country of origin firms which had operations in Venezuela, Ecuador, and Nicaragua between 1999-2011, we decided to contrast host firms that had a regional ownership or country of origin, in other words a Latin American country of origin versus host firms that had a non-Latin American country of origin.

Since Latin American firms have for long concentrated their internationalization efforts in other Latin American countries (Chudnovsky and Lopez, 2000), it was not surprising to find our sample firms had predominantly a Latin American country of origin (25). However, host firms with a non-Latin American country of origin were also surveyed. This composition of our sample firms allowed us to compare the behavior of host Latin American country of origin and host non-Latin American country of origin firms. We found there were no statistically significant differences throughout our exploratory propositions between these two groups of host firms. This means that despite many Latin American country of origin firms may for long have been used to operating in the high political uncertainty contexts of some Latin American countries

(IHS Global Insight, 2012), our results suggest their origin does not make them behave differently in regards to our exploratory propositions from host non-Latin American country of origin firms.

Size. A firm variable often connected to corporate political activities is size (Boddeyn and Brewer, 1994; Keim and Baysinger, 1988; Schuler, Rehbein, and Cramer, 2002). Firms' size has been considered a proxy for resources that provides some indication about firms' ability to become politically engaged (Hillman *et al.*, 2004; Schuler and Rehbein, 1997;). Boddeyn and Brewer (1994), Keim and Baysinger (1988), and Masters and Keim (1985) all argue that larger firms are more politically active. However, Cook and Fox (2000) show somewhat surprisingly that small firms were the most politically active in their study. According to the Colombian law 905 of 2004, the majority of host firms in our sample were classified as medium or large (24), while the rest were classified as small or micro (6). Finding medium or large and small or micro host firms in our sample, allowed us to explore if there were significant differences throughout our exploratory propositions between host firms according to their size.

Our results show the only exploratory proposition that is influenced by size (micro and small) is P3. Despite micro and small host firms' median for the use of human capital resources is higher than the other two medians for the use of physical and organizational resources; this was not a statistically significant difference. This implies that in micro and small host firms, their amount of resources explain that they do not significantly rely more on human capital resources than on physical and organizational resources in their development of adaptive political capabilities.

Experience in foreign high political uncertainty contexts. Firms' experience has also been linked to the success and choice of corporate political activities (Hillman, 2003; Hillman and Hitt, 1999; Hillman *et al.*, 2004). Years of experience signal the commitment of firms' to their host country operations (Luo, 2001). Regarding the number of years of experience that our sample firms had in the three contexts of our study between 1999-2011, we categorized our sample firms into two groups: those having less than 7 years of experience (as low experience) and those having 7 or more years of experience (as high experience). We found that 19 of our sample firms were classified as having high experience in foreign high political uncertainty contexts.

Having a majority of host firms classified as highly experienced, evidenced that many of our sample firms had managed to sustain for a significant period of time their operations in these countries. This provided us with the opportunity of exploring if the level of experience of host firms in foreign high political uncertainty contexts had any influence throughout our exploratory propositions.

Our results show the only exploratory proposition that is influenced by experience (0 to 6 years) is P3. For low experience host firms, the median for their use of human capital resources was higher than the other two medians for their use of physical and organizational resources; nevertheless this was not a statistically significant difference. This means that for host firms with low experience, their level of experience explains that they do not rely significantly more on their human capital resources than on their physical and organizational resources in their development of adaptive political capabilities.

Country scope. Previous research has found that the more internationally diversified a firm is, the more it is dependent on multiple sources of sovereignty (Sundaram and Black, 1992), and the more likely it is to engage in political strategies (Hillman, 2003). Tallman and Li (1996) defined and measured country scope as the number of foreign countries where a firm operates. We classified our sample firms into two groups: those having presence from 1 up to 50 countries (as low country scope) and those having presence in more than 50 countries (as high country scope). We found 24 of our sample firms operated in less than 50 countries, having a low country scope. We expected to find most firms in our sample had a low country scope since the majority had a Latin American origin and Latin American firms are still in the process of broadening the scope of their internationalizing efforts. However, other host firms in our sample presented a high country scope which allowed us to analyze the influence of the country scope of our sample firms on our exploratory propositions.

Our results show the only exploratory proposition that is influenced by country scope (more than 50 countries) is P3. Despite host firms with a high country scope had a median for their use of human capital resources that was higher than the other two medians for their use of physical and organizational resources; this was not a statistically significant difference. This implies that for firms with a high country scope,

the high number of countries in which they operate explains that they do not significantly rely more on human capital resources than on physical and organizational resources in their development of adaptive political capabilities.

Status of operations in high political uncertainty contexts. Several prior studies have focused on the relation between corporate political activities and firms' performance (Banker, Das, and Ou, 1997; Bowman, Navissi, and Burgess, 2000; Hillman, Zardkoohi, and Bierman, 1999; Marsh, 1998; Shaffer, Quasney, and Grimm., 2000). These studies have measured firms' performance as market value or returns. Differently, in our study we were interested in comparing the performance of host firms in foreign high political uncertainty contexts not by their market value or returns but by the status of their operations. This means, we were interested in contrasting the behavior of host firms that managed to sustain their operations in these contexts versus host firms that closed their operations in these contexts between 1999 and 2011. We found that among our sample firms, 23 had sustained their operations in at least one of the three countries until 2011, while the remaining 7 had closed operations in Venezuela, Ecuador or Nicaragua. It was interesting to find that a majority of host firms had sustained their operations. This meant these host firms had been successful to some extent in these foreign high political uncertainty contexts. Consequently, it was important to explore if there was any significant difference throughout our exploratory propositions among the host firms that sustained their operations versus the host firms that closed their operations.

Our results show the only exploratory proposition that is influenced by the status of operations (closed operations) is P3. For host firms that closed their operations, the median for their use of human capital resources was higher than the other two medians for their use of physical and organizational resources; nevertheless this was not a statistically significant difference. This means that for host firms that closed their operations, the status of their operations explains that they do not rely significantly more on their human capital resources than on their physical and organizational resources in their development of adaptive political capabilities.

Type of operations in high political uncertainty contexts. We found no prior research had studied the relation between the type of operations of firms and their corporate

political activities. Our research wanted to explore if the type of operations of host firms in foreign high political uncertainty contexts had any relation with their corporate political activities. When we analyzed the type of operations of our sample firms, we observed 27 had exports, 4 had distribution operations, 4 had distribution and production operations simultaneously in one country, and 3 had production operations. Furthermore, we observed 22 of host firms only exported to at least one of the three markets. Regarding the remaining 8, 5 host firms exported and had at least one other type of operation, while only 3 host firms did not export but had at least one other type of operation (distribution, production or distribution and production operations simultaneously in one country). These numbers reflect that in foreign high political uncertainty markets, more host firms had operations that required fewer investments on assets while fewer host firms had operations that demanded higher investments. Perhaps this can be explained by the high uncertainty that characterizes these markets which makes a potential expropriation a highly possible risk for host firms (especially those having production operations). Consequently, it is possible that host firms prefer to operate in these markets through exports or distribution operations which regularly involve fewer investments on assets. However, the composition of the type of operations of our sample firms allowed us to explore if there was any significant difference throughout our exploratory propositions among the behaviour of host firms that had only exported and those that had exported and/or had any other type of operation that involved higher investments on assets.

Our data indicated there were no statistically significant differences among these two groups of host firms throughout our exploratory propositions. This means, that host firms that selected market entry modes which involved no or low commitments on foreign assets (such as exporting) behaved similarly to host firms that selected market entry modes which involved higher commitments on foreign assets (such as production or distribution).

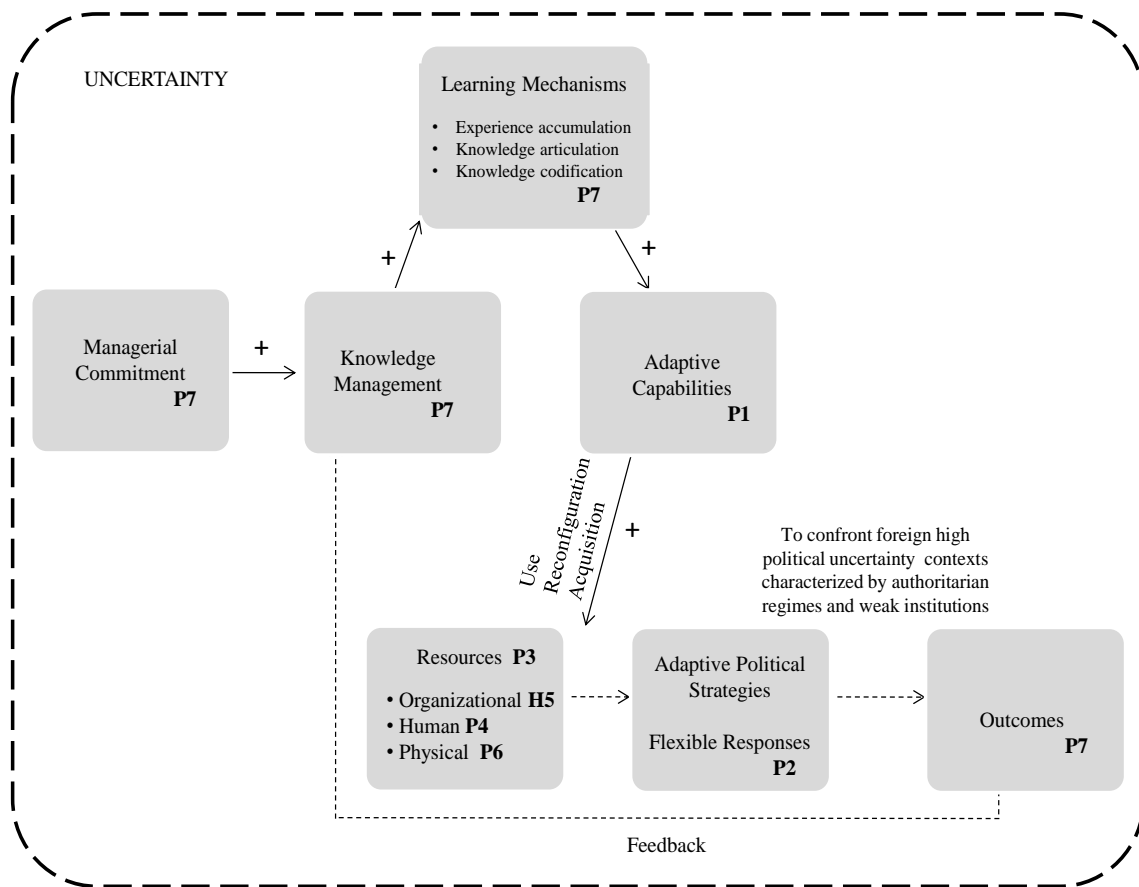
Level of headquarters control. We found previous research had not addressed the relation between the level of headquarters control and firms' corporate political activities. Our research was interested in exploring this relation. To do so, we categorized host firms into two groups: those having a low level of headquarters control

(between 1 and 3) and those having a high level of headquarters control (between 3.1 and 5). We found 19 of our sample firms had a high level of headquarters control. This meant that the majority of host firms in our sample worked closely with their corporate office or their counterparts to decide upon their operations in these three countries. However, the composition of our sample firms allowed us to investigate if firms' level of headquarters control had any influence on our exploratory propositions. Our data showed there were no statistically significant differences throughout our exploratory propositions among host firms with a high and a low level of headquarters control.

8.3 Concluding remarks

Upon the results of this second study, we make some concluding remarks that intend to contribute to the discussion of the framework that was suggested as one of the results from our first study. To recall our framework to guide host firms in their development of adaptive political capabilities to confront foreign high political uncertainty contexts in emerging markets characterized by authoritarian regimes and weak institutions, we present it below in Figure 30.

Figure 30: Framework to guide firms in their development of adaptive political capabilities to confront foreign high political uncertainty contexts



Source: Elaborated by author

This framework was developed as a result of our first study, based on our suggestion that adapting to political uncertainties rather than influencing host or country of origin governments can be more important for host firms to sustain their operations in foreign high political uncertainty contexts and that this can be achieved through their development of *adaptive political capabilities*. In our second study, our data showed that other host processed food firms which had operations between 1999 and 2011 in Venezuela, Ecuador or Nicaragua, similarly to Latam, had depended more on adapting through flexible responses than on influencing governments through control or cooperative responses to sustain their operations in these foreign high political uncertainty contexts (P1). Both of these findings, allow us to conclude that our suggestion of a framework to guide host firms in their development of adaptive political capabilities is a useful contribution, since not only Latam but other host processed food

firms, have worked more on adapting than on influencing governments in their foreign high political uncertainty contexts. Therefore, probably many other host firms are adopting or searching for ways to adopt this political behaviour, making our framework a walking stick (Hafsi and Howard, 2005) from which they might benefit by broadening their understanding of how to initiate and manage their adaption to foreign high political uncertainty contexts.

Through our first study we suggest that to start and evolve the development of adaptive political capabilities, *managerial commitment* is required to organize teams to search for alternatives and to enable the existence of a *knowledge management* function. This knowledge management function must support the interaction of the three *learning mechanisms* of: *experience accumulation*, *knowledge articulation*, and *knowledge codification*, to guarantee that host firms do not over time lose the knowledge they develop about how to sustain their operations in foreign high political uncertainty contexts. In our first study, we found Latam had not invested efforts in developing the learning mechanisms of knowledge articulation and codification, despite the host firm had a knowledge management function. Latam felt it was highly likely that it could lose its knowledge about how to sustain its operations in foreign high political uncertainty contexts. In other words, Latam had a low managerial commitment towards knowledge articulation and codification that made it perceive it was more likely to over time lose the knowledge it had developed about how to sustain its operations in foreign high political uncertainty contexts. Although this was the case for Latam, through our second study, we found that there was no statistically significant difference among other host processed food firms with low and high managerial commitment in their perception about the possibility of over time losing the knowledge they had developed about how to sustain their operations in foreign high political uncertainty contexts (P7). We believe this finding can be explained by the notion that firms in general are still not that aware of the benefits or threats involved in investing or not in knowledge articulation and codification efforts. Furthermore, we suggest that more than an issue of firms having or not enough resources to invest in these efforts, it is the lack of a thorough understanding of these learning mechanisms and the role they play in the capability development process what explains these findings. Our first study suggested that the learning mechanism of experience accumulation by its own will not be enough to

guarantee host firms' fruitful over time development of their adaptive political capabilities. The three learning mechanisms must be present to ensure that host firms are able to codify and capture the knowledge they acquire, and further on exploit it, when confronting new political challenges. Only through the existence of the three learning mechanisms, we believe host firms will be able to over time manage and benefit from their own development of adaptive political capabilities.

Our first study also allowed us to claim that experience and knowledge are the foundations of adaptive political capabilities. These reside in host firms' human capital resources and in the knowledge host firms should codify over time through their knowledge management function. We argue that through adaptive political capabilities (experience and knowledge), host firms can *use, reconfigure, and acquire* organizational, human, and physical resources to develop *flexible responses* through *corporate adaptive political strategies* to confront their foreign high political uncertainty contexts. (For a detailed account of the corporate adaptive political strategies and the flexible responses -listed as tactics towards policy changes and tactics towards potential expropriation- which can be used by host firms, please refer to Table 25).

In our first study, we suggest that human capital resources might have a protagonist role in host firms' development of adaptive political capabilities since these resources encapsulate their foundations (experience and knowledge). This means host firms might rely more on their human capital resources than on their organizational and physical resources; hence, human capital resources are the resources that determine the use, reconfiguration, and acquisition of organizational and physical resources in the development process of adaptive political capabilities. Through our second study, we found that not only Latam, but most of the other host processed food firms, relied more on their human capital resources than on their organizational and physical resources in their development of adaptive political capabilities to sustain operations in foreign high political uncertainty contexts (P3). We found that only for some host processed food firms this was not the case. These host firms were characterized by a micro or small size, 0 to 6 years of experience in high political uncertainty contexts, a high country scope that signifies operations in more than 50 countries, or by having closed any of

their operations in Venezuela, Ecuador or Nicaragua between 1999-2011. These variables explained that they did not statistically significantly relied more on human capital resources than on physical and organizational resources in their development of adaptive political capabilities. However, the medians for the use of human resources were higher for these host firms too. Nevertheless, this suggests that host firms' size, experience in high political uncertainty contexts, country scope, and status of their operations, shaped the degree in which they relied on each of the three resources in their development of adaptive political capabilities.

Our first study suggests there could be a relation between the level of political uncertainty perceived by host firms and their use of human and organizational resources. Upon Latam's case, we predicted that the higher the level of political uncertainty perceived by host firms in their foreign high political uncertainty contexts, the more they used the contextual knowledge of their internal and external human resources about that specific market (P4) and the more reconfigurations they made to their organizational structure and processes (P5) in their development of adaptive political capabilities to sustain their host operations. However, our second study shows that despite Latam's case, there is no statistically significant relationship between the level of political uncertainty perceived by other host firms and their use of the contextual knowledge of their internal and external human resources about a specific market and the reconfigurations these host firms make to their organizational structures and processes. These are interesting findings since they allow us to conclude that most other host firms use the contextual knowledge of their internal and external human resources and reconfigure their organizational structure and processes to sustain their operations in disregards to their perception of the level of political uncertainty in foreign high political uncertainty contexts.

In the case of physical resources, there is a widespread tenet that when host firms perceive political uncertainty they must stop and/or divest their investments. Contrarily, in our first study we suggest that in high political uncertainty contexts most host firms might find they must invest to materialize their responses, even regardless of their own perception of the level of political uncertainty in these contexts (P6). In the case of Latam, this host firm invested in all of the three markets in our study, despite the

level of political uncertainty it perceived in each market. Accordingly, our second study quantitative data rejects the widespread tenet about stopping or divesting investments by showing that, as in the case of Latam, in high political uncertainty contexts most other host firms were obliged to invest to materialize their responses even regardless of their own perception of the level of political uncertainty in these contexts.

Our first study also suggests that host firms' corporate adaptive political strategies will allow them to develop both, flexible responses towards policy changes and flexible responses towards potential expropriation. We suggested that the types of flexible responses host firms develop might be related to the type of operations they have in these foreign high political uncertainty contexts, as in the case of Latam. Meaning that, host firms that own a production operation will depend more on developing flexible responses towards a potential expropriation (P2a). Host firms that own a distribution operation will depend more on developing flexible responses towards policy changes (P2b). And, host firms that own a production and a distribution operation simultaneously in a foreign high political uncertainty context, will depend on developing in some degree both types of flexible responses to sustain their operations (P2c). Through our quantitative study, we found there is no statistically significant difference between the use of both types of responses by other host firms that have a production or a distribution operation in a foreign high political uncertainty context (P2a, P2b). Nevertheless, our quantitative data suggested that the results we obtained for propositions 2a and 2b could suffer the type II error related to small samples. Therefore, we suggest that to further develop the discussion of these two exploratory propositions, to be able to find reliable results a sufficient sample including more host firms that meet their criteria should be sought. For proposition 2c, we could not use statistical tests. However, our data shows other host firms with this type of operation used both types of responses in some degree, as our exploratory proposition suggests. Nevertheless, as for the cases of propositions 2a and 2b, we suggest that to be able to find reliable results for this exploratory proposition, again a sufficient sample including more host firms that meet its criteria should be sought. Therefore, undoubtedly exploratory propositions 2a, 2b, and 2c provide interesting avenues to be explored by further research.

Finally, we suggest that for host firms to be able to over time continue the development of their adaptive political capabilities, the *outcomes* of both types of their flexible responses must be incorporated as codified feedback into their knowledge management function. For these outcomes to become codified *feedback* they must be captured by host firms as codified knowledge that will assure the evolution over time of adaptive political capabilities through the exploration (development) and exploitation (use) of knowledge.

Lastly, as managerial commitment is firstly required to start the development process of adaptive political capabilities, it is also required to allow over time the continuous development and evolution of adaptive political capabilities. As our framework illustrates, managerial commitment supports both the start and evolution of these capabilities by enabling the existence of a knowledge management function and the interaction of the three learning mechanisms.

9 CONCLUSION

This chapter explains the positioning of our research and its results, its contributions to knowledge, and their implications for practice. We also explicate the generalizability of our results and the limitations of our research. We conclude by highlighting future research avenues.

Firms have traditionally addressed their strategies towards the market environment, but for many firms the non-market environment has increasingly gained importance. This is specially the case for firms with markets that are highly impacted by their governments (Baron, 1995). Therefore, despite firms spend considerable effort in crafting appropriate market strategies; they should treat non-market strategy in the same way (Viney and Baines, 2012). In support of this line of thought, this thesis was positioned to address the non-market environment and strategy.

9.1 Contributions to knowledge

The contributions to knowledge of this thesis are therefore set within the strategic management field, specifically dynamic capabilities research emerging from the resource based-view theory, and the corporate political activity field. The first of our contributions is the conceptualization of adaptive political capabilities as a set of capabilities that can allow firms to adapt to high political uncertainty contexts in host markets. Political capabilities have been amply discussed as capabilities that enable firms to influence their political environment (Holburn and Zelner, 2010; Lawton and Rajwani, 2011). However, adapting to political environments is a response many host firms are also adopting. Therefore, our central contribution lies in the conceptualization of a set of capabilities that enable firms to adapt to their political context. This contribution responds to the call for “research into firm resources and capabilities that aid political activities” (Hillman *et al.*, 2004: 851). However, its uniqueness lies in that it focuses on a set of capabilities that aid activities that enable firms’ adaption instead of influence towards their political environment. Specifically, adaptive political capabilities are particularly pertinent for host firms to address emerging economies’

political contexts characterized by high uncertainty and where there are authoritarian regimes and weak institutions.

Our second contribution was achieved through Latam's case study. Its empirical findings allowed us to contribute to reactive corporate political activity research within the corporate political activity field, by suggesting a taxonomy of corporate adaptive political strategies. This taxonomy explains what strategies firms can use to adapt to political contexts. Our taxonomy complements Hillman and Hitt's (1999) taxonomy of corporate political strategies which relates to proactive corporate political activity research within the corporate political activity field. Hillman and Hitt's (1999) taxonomy presents the corporate political strategies firms can use to influence political contexts. We argue that, through both of these taxonomies, firms and researchers can access a broader perspective in the corporate political activity field of the different strategies (influential and adaptive) firms can use to manage their political environment. We claim our suggestion of a taxonomy of corporate adaptive political strategies extends the corporate political activity field since at the time of this research, although Boddewyn and Brewer (1994) had presented strategies such as compliance, avoidance, and circumvention, this field had not yet developed a robust taxonomy of strategies that enable firms to adapt to their political contexts. Furthermore, we see methodological value in our contribution of a taxonomy of corporate adaptive political strategies since Hillman and Hitt's taxonomy of corporate political strategies was theoretically developed while our taxonomy was inductively developed from empirical research.

Our third contribution to knowledge is broadening our understanding of how adaptive political capabilities are developed by suggesting and testing several propositions that support a framework to guide their development by host firms. Although there is interesting research on the development processes of capabilities (Helfat and Peteraf, 2003; Lawton and Rajwani, 2011), our findings provide insights on how the specific set of adaptive political capabilities are developed to enable host firms' adaption to political environments. Hence, our contribution extends research on capability development within dynamic capabilities. Moreover, it provides the corporate political activity field with knowledge about how a set of capabilities that

enable host firms' adaption to political contexts can be developed by host firms that decide upon adapting to their political context.

Additionally to these three theoretical contributions to knowledge, we highlight two contextual contributions from this thesis which are related to its research setting. First, our research was conducted in emerging economies found in Latin America. This setting addresses Lawton, McGuire, and Rajwani's (2013) claim that "an up-and-coming challenge for corporate political activity scholars is to understand non-market activity in emerging economies" (p. 14). From 1963–2009, only 206 articles in 17 academic management journals were found to discuss Latin America (Nicholls-Nixon *et al.*, 2011). Therefore, we argue our research contributes to our understanding of Latin America as an emergent region, and furthermore, to strategic management and corporate political activity in this setting. Second, our research was more specifically set in the processed food industry. This industry has not yet been addressed in capabilities research. Hence, our research expands the types of industries where capabilities studies have been conducted.

Finally, the design of this thesis enables us to claim a modest methodological contribution. Cameron and Molina-Azorin (2009) found that only 15% of all empirical articles published in the *Strategic Management Journal* (SMJ) from 1997-2006 were based on a mixed methods approach. This thesis followed a mixed methods qualitative to quantitative developmental sequence design by building a taxonomy and several exploratory propositions from a case study and subsequently testing the generalizability of these exploratory propositions through a survey. Despite some empirical articles published in SMJ follow a mixed methods qualitative to quantitative developmental sequence design, only a few (Kale, Dyer and Singh, 2002; McEvily and Marcus, 2005; Sharma and Vredenburg, 1998) involve capabilities research.

9.2 Implications for practice

We must clarify that all of the above contributions to knowledge resulting from this thesis, do not suggest that host firms should exclusively use adaptive political capabilities to address political contexts in emerging economies with authoritarian regimes and weak institutions. Whether host firms decide to influence or adapt to governments is a managerial decision that we leave to the host firm. Our principal

contributions are that we conceptualize adaptive political capabilities, make explicit a taxonomy of corporate adaptive political strategies, and suggest and test a set of exploratory propositions that support a framework to guide the development of adaptive political capabilities by host firms. These contributions intend to enable host firms to envision how, if appropriate, they can adapt to political contexts, in case they decide that adapting is an adequate strategic approach. Thus, our research has important implications for managerial practice.

Emerging economies are either already existing or becoming potential markets for many transnational firms or groups. The findings of this thesis allow managers to become aware of and reflect upon a set of capabilities that their firms can develop to allow them to start and sustain operations in emerging economies that pursue authoritarian regimes and have weak institutions. In this sense, our conceptualization of adaptive political capabilities provides managers with a different set of capabilities from political capabilities, which have for long been discussed as the capabilities firms should use to address their political contexts. Having knowledge about and access to understanding adaptive political capabilities can drive and facilitate firms' internationalization processes in emerging economies with such characteristics. We want to note, that throughout our inquiry several managers who approached us with the purpose of getting to know our research, manifested they were really interested in having access to its results since some of their firms' markets were in emerging economies with authoritarian regimes and weak institutions. They explained that they perceived value in learning how their firms could perhaps better approach the political contexts of these markets through adaption.

Besides the concept of adaptive political capabilities, this thesis also offers managers through its taxonomy of corporate adaptive political strategies and the exploratory propositions that support a framework to guide the development of adaptive political capabilities by host firms, what Hafsi and Howard (2005) referred to as "walking sticks". In their view, "walking sticks" are the results of strategy research that can provide guidance to managers and their firms. Specifically, our taxonomy of corporate adaptive political strategies provides managers with an explicit description of the strategies their firms can use to adapt to political contexts. Through the use of this

“walking stick” firms can enhance their strategic repertoire with an alternative to traditional corporate political strategies which aim to influence governments. Having knowledge about corporate adaptive political strategies can help host firms enable their adaptation to political contexts. A second “walking stick” that our research offers are the exploratory propositions that support a framework to guide the development of adaptive political capabilities by host firms. Through the discussion of these exploratory propositions and framework, host firms can find some guidance on how they can design and approach their own development process of adaptive political capabilities.

Our research findings can be therefore interesting not only to researchers in the strategic management and corporate political activity fields but to managers and firms internationalizing into emerging economies with authoritarian regimes and weak institutions. Moreover, within firms we believe not only managers, CEOs, management teams, and board members can find value in our results. Also international directors, knowledge management directors, teams in host countries, and consulting firms can visualize how they play a critical role in supporting the adaptation of firms to their host political contexts.

Furthermore, this thesis informs governments and policymakers about the different capabilities and strategies host firms are using or can use in their intent to start and sustain operations in political contexts in emerging economies with authoritarian regimes and weak institutions. In other words, our findings show that host firms’ responses to political contexts are challenging the traditional view that firms have the only option of influencing governments in their interactions with political environments.

9.3 Generalizability of results

Regarding the generalizability of our results, we must annotate that the findings of our first study aimed only at explaining “how” and “why” a host firm developed adaptive political capabilities. Differently, the results of our second quantitative follow-up study aimed at testing the generalizability of the exploratory propositions that resulted from our first study. Therefore, only the results of our second study are generalizable. They are generalizable to the population of firms in the processed food industry in Colombia that have had operations between 1999 and 2011 in Venezuela, Ecuador or Nicaragua.

9.4 Limitations

To explain the limitations of our research, we adopt two different perspectives of the meaning of “limitations”. Our first perspective, views limitations as the limits set to our findings as a result of our research design choices. A second perspective, views limitations as the limits, restrictions or difficulties we encountered throughout our research journey which unintentionally shaped our research. To address our first perspective of limitations, we start by briefly describing the choices we made in our research design and the limitations which inevitably emerged in our research from such choices. Lastly, to address our second perspective of limitations, we specifically discuss two limitations we encountered during our inquiry which are related to our research topic and process.

Our research design choices were significantly determined by the state of knowledge and research regarding our phenomena of interest at the time we decided to initiate our inquiry. As we highlighted in the introduction of this thesis, strategic management and corporate political activities research have focused on the study of political capabilities that firms use to influence their political contexts. Indeed, little research has directed towards the study of other capabilities that can enable firms with different strategic responses towards their political contexts. Consequently, to better understand the unexplored phenomenon of adaptive political capabilities, we decided to initiate our research by using the case study method as suggested by Barley (1990), Boucharad (1976), and Eisenhardt (1989). Subsequently, to test the generalizability of several exploratory propositions that emerged from our case study, we administered a survey to other host firms.

To start our research, we decided to concentrate in the in-depth study of the case of a single firm in a single industry for various reasons. We determined our research would gain more insights from the in-depth study of the case of a single firm than from a less profound study of several cases, because due to limited resources, several cases would not have been conducted in the same depth as a single case. Our purpose of delving into one case responded to the little available research that explained how firms adapted to their host political contexts. We sensed we had the need to submerge in the

case of a single firm to really uncover its adaption to high uncertainty host political contexts.

The single firm we selected as our case belonged to the processed food industry since we found this industry was upon the most affected by the political contexts of the three countries in our study. As we decided to subsequently conduct a second study that involved the administration of a survey to test the generalizability of the exploratory propositions that emerged from our case study, we determined that the firms we would target to respond our survey had to originate from the processed food industry as our case study firm. Since we wanted to test the generalizability of our exploratory propositions, conducting the survey within firms from the same industry limited our findings to that specific industry but also allowed us to deeply understand the behavior of firms towards their host political contexts within that industry through the exclusion of industry effects.

Despite the above reasons underlying the choices involved in our research design, we realize all research designs inevitably entail several limitations. Evidently, through the selection of our own research design, our findings were constrained to a specific industry: the processed food industry. Furthermore, our findings were also contextualized in a specific setting, that of emerging economies with authoritarian regimes and weak institutions in Latin America. This raises the question of whether host firms in other industries or contextual settings can show evidence of the development of adaptive political capabilities. Furthermore, if adaptive political capabilities are mostly developed by host firms in less developed economies or if they are also utilized by host firms when interacting with governments in developed economies.

It is also important to note, that besides the limitations that rose from our research design choices, we found other limitations rose from our research topic and process. Broadly speaking, we found our research topic by its own implied a limitation. We encountered it was difficult to gain access to and the credibility of firms to engage in research about their corporate political activities. In fact, many firms revealed that they had accepted to participate in our research only after knowing we were sponsored by EAFIT University (a high credibility University in the region). This means that to

conduct research about adaptive political capabilities, paradoxically, we had to develop and use lobbying capabilities to gain firms' trust and participation.

Similarly, another limitation in our research emerged during our research process from the high risks we ran as researchers in the CPA field of being persecuted in the three countries of our study. We were not allowed by our research sponsors to travel to these countries or to even contact host processed food firms in these countries through phone calls. This made our second study quite difficult by limiting our ways of accessing firms to respond to our survey. Having such a restriction and limited resources, we decided to search for firms in the processed food industry in Colombia which had operations in Venezuela, Ecuador or Nicaragua between 1999-2011. Our population of firms meeting this criteria was a small population composed of 41 firms. Despite the response rate to our survey was very high (73%), it would have been ideal to be able to access a larger population of firms.

Nonetheless, despite these limitations, we believe the contributions of our research add value to future theoretical and empirical studies that will now have the opportunity of acknowledging adaptive political capabilities, a framework that guides their development by host firms, and a taxonomy of corporate adaptive political strategies.

9.5 Future research

Our results definitely set the scene for further research to continue exploring firms' adaption to host political contexts at the crossroads between strategic management and corporate political activity. Our results have responded to "how" and "why" research questions which we find can lead initial inquiries of a broader research agenda that we suggest to include the further exploration of "when" and "what" research questions regarding the underexplored phenomena of adaptive political capabilities.

To start unbundling this research agenda, let's address the context where this thesis was set. Our inquiry focused in the emergent region of Latin America, specifically in countries within this region that have authoritarian regimes and weak institutions. To expand our inquiry we see value in that further research addresses for

example, what are the similarities or differences to our findings in the development of adaptive political capabilities by host firms in other emergent regions of the world? This research avenue raises another related potential research question: when are adaptive political capabilities mostly developed by host firms? When only operating in less developed economies or are they also utilized by host firms when interacting with governments in developed economies? In other words, how does the level of economic and institutional development of a country influence the type of capabilities developed by host firms to address their political context?

Following a similar line of thought, we suggest there is scope for future research to also investigate the development process of adaptive political capabilities by host firms in different industries since our research focused exclusively on the processed food industry. This approach can provide further insights on whether the development process of this set of capabilities has significant differences or similarities between various industries. For example, what differences or similarities exist in the development of adaptive political capabilities between host firms in the automotive industry, the oil industry, the construction industry, and processed food industry? And more interestingly we should investigate: what differences or similarities exist in the development of adaptive political capabilities between host firms in highly politicized and low politicized industries?

Another line of inquiry that we propose to be part of this broader research agenda can address country of origin effects on institutional diversity. Our research involved host processed food firms having diverse countries of origin which entailed institutional diversity. The majority came from Latin America (25), originating 24 from Colombia, 1 from Mexico, 3 from the United States, 1 from Italy, and 1 from Switzerland. We have observed that the level of compatibility or disagreement between the governments of a firm's country of origin and its host market affects the orientation and intensity of its corporate political activities. Hence, it can be fruitful to explore if host firms from a country of origin that shares the values that guide the political regime in its host market develop the same capabilities to manage this host political context as host firms having a country of origin whose government is not in line with its host market's political regime. For example, what capabilities do processed food firms from

Argentina develop or use to address Venezuela's political environment?, Do they use adaptive political capabilities at all or do they develop political capabilities?, With what intensity?, Are these capabilities similar to those developed or used by processed food firms from Colombia to address Venezuela's political environment? Further expanding this intriguing research avenue, it can also be interesting to explore if the development of capabilities to address a political context is significantly different between host firms and local firms in a single country. For example, what capabilities do Venezuelan firms develop to address their local political environment? Are these capabilities different to those that host firms in Venezuela develop to manage Venezuela's political context?

Overall, these are just a few of the diverse research avenues that can be pursued on behalf of the findings of this thesis. These research avenues offer creative opportunities to extend our knowledge about the non-market environment and strategy. The toughest challenge we predict we will confront as scholars at the crossroads between strategic management and corporate political activity, will be gaining access to and the trust of firms to participate in research discussing their corporate political activities. On the other hand, we believe that our determination in creating valuable research and knowledge for these fields and managerial practice can potentially assist our future research efforts by outreaching this challenge.

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APPENDICES

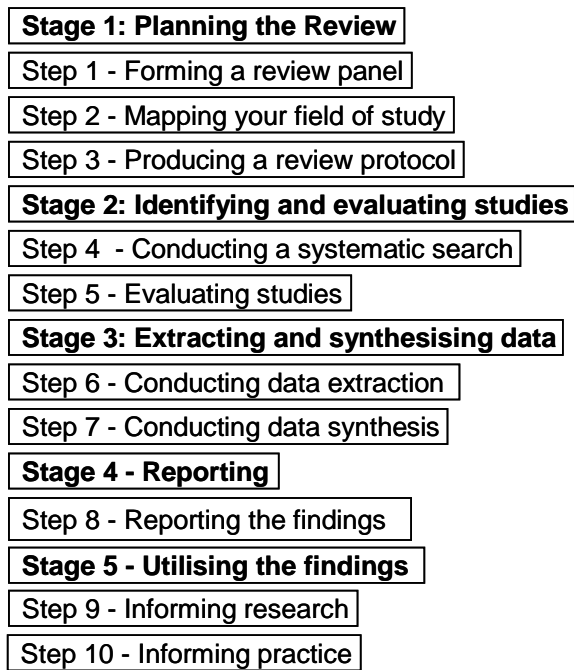
APPENDIX 1

SYSTEMATIC LITERATURE REVIEW METHODOLOGY

According to Tranfield *et al.* (2003), the aim of a systematic literature review is to provide insights through theoretical synthesis into fields and sub-fields. For academics, this reviewing process increases methodological rigour. For practitioners, a systematic literature review develops a reliable knowledge base by accumulating knowledge from a range of studies.

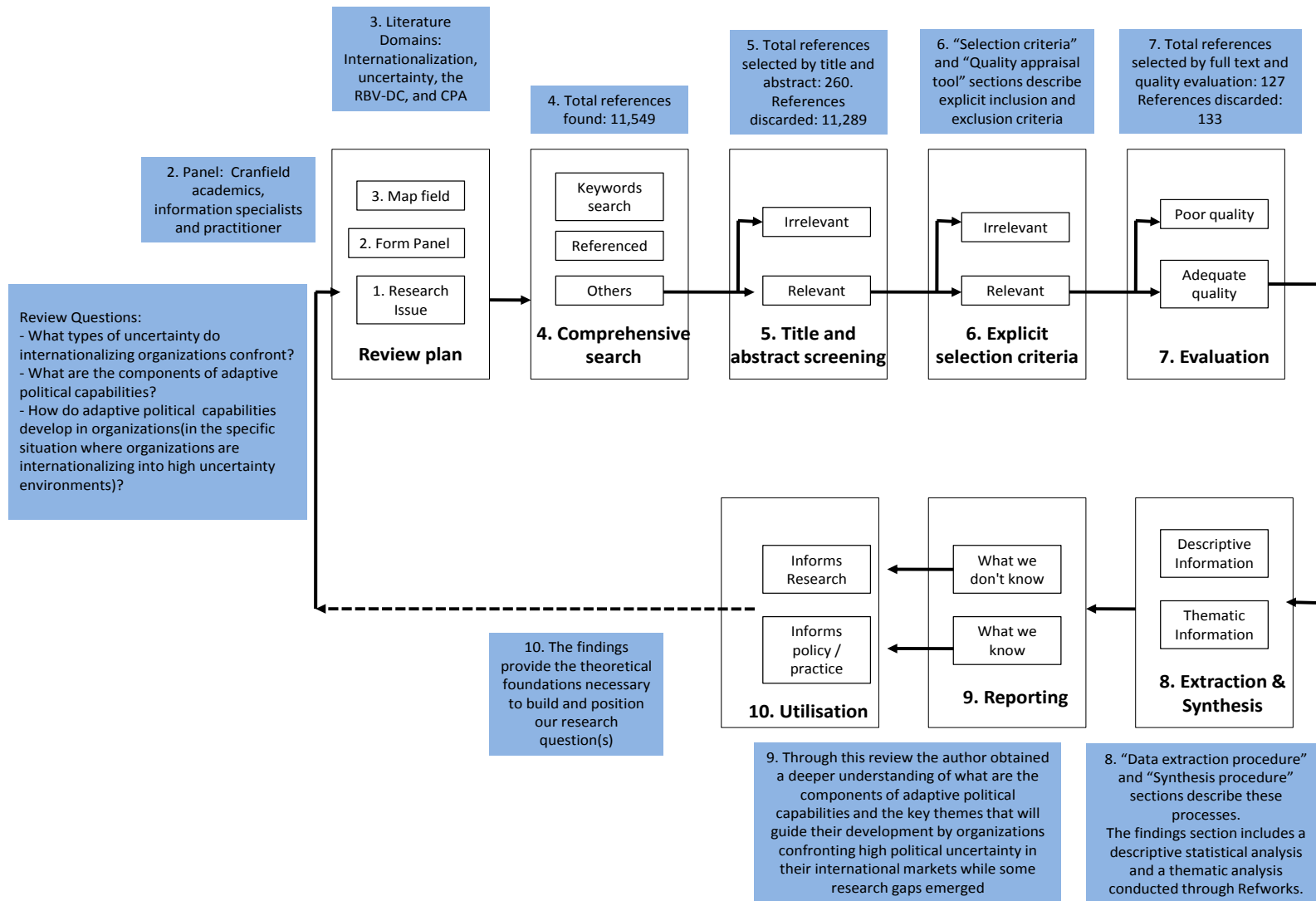
The objective of the systematic literature review that was conducted to build the theoretical positioning chapter of this thesis was to provide a deeper understanding of our phenomena of interest to help us build and position our research question(s). To obtain this output, this systematic review focused on reviewing the literature of four related domains: internationalization, uncertainty, the resource-based view (RBV) - dynamic capabilities, and corporate political activity (CPA). By this means, this review increases the methodological rigour of our overall research programme through the development of a critical and reliable knowledge base that further informed subsequent studies. To do so, this review followed the systematic review process in Figure 1, described by Tranfield *et al.* (2003).

Figure 1: Systematic Review Process



Following this systematic review process, the process architecture presented in Figure 2 was extracted from David Denyer's 2009 class and was further complemented with numbered blue boxes that orderly summarize a description of the specific steps that this systematic review followed.

Figure 2: Systematic Review Process Architecture



1.1 Consultation Panel

A consultation panel composed of several academics, two information specialists from Cranfield University, and a senior practitioner were involved in the design and development of this systematic literature review to ensure that it was correctly and comprehensively undertaken. This panel worked with Maria De Villa individually as the review progressed through sessions at Cranfield, email, Skype, and face to face meetings. They all provided guidance and comments during all stages of this systematic review.

As a supervisor, Tazeeb Rajwani guided this work through his permanent feedback. He also challenged the articulation of the overall research. Thomas Lawton as an expert in strategy, internationalization and politics also provided enlightening insights to the whole process. Along, all panel members were very helpful on advising how to focus the review according to the phenomena of interest. They all provided different perspectives, enriching this process: Carlos Mena, the Panel Chair, as the Maria De Villa's cohort leader and an expert in the food industry and Heather Skipworth as the systematic review specialist. David Denyer, Colin Pilbeam, and Emma Parry guided the methodological process of this systematic review, assuring quality standards. Heather Woodfield and Anita Beal patiently supported the access to database searches and other sources of information. Finally, to add a practitioner's perspective to the process, a CEO of a food firm provided his insights as an entrepreneur expert in the industry.

Table 1: Members of Consultation Panel

Person	Organization	Involvement
Tazeeb Rajwani, PhD	Senior Lecturer in Strategic Management, Cranfield University	Supervisor
Thomas Lawton, PhD	Professor of Strategy and International Business, Open University	Supervisor
Carlos Mena, PhD	Senior Research Fellow and Doctoral Cohort Director 2009 - 2013, Cranfield University	Panel Chair
Heather Skipworth, PhD	Senior Research Fellow, Cranfield University	Panel Member
David Denyer, PhD	Director of Research, Cranfield University	Systematic Review Process
Colin Pilbeam, PhD	Senior Research Fellow, Cranfield University	Systematic Review Process
Emma Parry, PhD	Principal Research Fellow Organization Studies, Cranfield University	Systematic Review Process
Heather Woodfield	Social Sciences Information Specialist, Cranfield University	Search strategies, online information sources
Anita Beal	Students off-site Liason, Cranfield University	Access to information sources
CEO	CEO of a firm in the food industry	Practitioner's perspective

1.2 Review Questions

In order to guide this systematic review, the following questions were used to address three lines of inquiry:

1. What types of uncertainty do internationalizing organizations confront?
2. What are the components of adaptive political capabilities?
3. How do adaptive political capabilities develop in organizations?
 - a) How do adaptive political capabilities develop in the specific situation where organizations are internationalizing into high uncertainty environments?

1.3 Search Strategy

The search required for this systematic review had the purpose of identifying a comprehensive list of primary sources, both published and unpublished, which informed the review questions and the phenomena of interest. To initiate this search, a list of potential sources of information was elaborated. Then, according to each review question, a list of keywords that could be used to create the search strings was defined to address the search related to answering each question. Afterwards, these key words were carefully crafted into search strings and tried out on ABI Inform (Proquest) and EBSCO Business Source Complete. These two databases were selected due to their recognition as the most relevant databases in management. Lastly, the results obtained through both the direct searches within these two databases and the recommendations from the consultation panel were documented.

Furthermore, this search strategy was refined by explicit selection criteria that was designed and utilized to determine the inclusion or exclusion of references through the evaluation of their titles and abstracts, and subsequently of their full texts. Alongside these selection criteria, a quality appraisal tool was also designed and applied to complement the selection of references by including an evaluation of their quality along with that of their relevance.

A more detailed description of the search strategy process is orderly presented in the following sections.

1.3.1 Potential Sources of Information by Category

The sources of information included by default in this systematic review were peer-reviewed academic journals. Other potential sources of information that were included were:

- **Conference proceedings, working or unpublished papers from the last 6 years:** These papers presented recent different views or new perspectives that contributed to the research. They were searched for through the databases and by following recommendations from the consultation panel.
- **Books:** Written by scholars or practitioners from all times and any place, and which informed any of the review questions. These books were consulted in the King's Norton Library or bought through the Café Book Shop or Amazon.
- **Consulting reports, industry and company documents:** These reports provided useful information about the industry and its companies. Many were provided by CEO included in the panel.

1.3.2 Keywords

According to the review questions, a list of keywords was developed which was then utilized to create the search strings that guided the search of references throughout the different databases. The list of these keywords is presented in Table 2.

Table 2: List of Keywords

List of Keywords	
<i>1. What types of uncertainty do internationalizing organizations confront?</i>	
<i>Referring to the context that enables and requires adaptive capabilities</i>	Uncertainty Unpredictability Risks
<i>Referring to the unit of analysis</i>	Internationalizing Organizations/Organisations International Organizations/ Organisations
<i>2. What are the components of adaptive political capabilities?</i>	
<i>Different possible terms referring to the phenomenon of interest</i>	Adaptive political capabilities Adaptative political capabilities Adaption Reconfiguration Aggregative political capabilities
<i>Characteristics or components of adaptive political capabilities</i>	Characteristics Components Elements
<i>Possible components of adaptive political capabilities</i>	Modes of entry Market entry modes Structure

List of Keywords	
<i>3. How do adaptive political capabilities develop in organizations?</i>	
<i>a) How do adaptive political capabilities develop in the specific situation where organizations are internationalizing into high uncertainty environments?</i>	
<i>Referring to the phenomenon of interest</i>	Adaptive political capabilities Adaptative political capabilities Adaption Reconfiguration Aggregative political capabilities
<i>Referring to development of the phenomenon of interest</i>	Development Develop Creation Generation
<i>Referring to the context that enables and requires adaptive political capabilities</i>	Uncertainty Unpredictability Risks
<i>Referring to the unit of analysis</i>	Internationalizing Organizations/Organisations International Organizations/Organisations

1.3.3 Search Strings

From the previous keywords, the following search strings presented in Table 3 were developed.

Table 3: List of Search Strings

List of Search Strings	
<i>1. What types of uncertainty do internationalizing organizations confront?</i>	
<i>This search string is about organizations and uncertainty.</i>	international* AND (organization* OR organisation*) AND (uncertain* OR unpredictab* OR risk*)
<i>2. What are the components of adaptive political capabilities?</i>	
<i>Then, the possible characteristics or components of adaptive political capabilities will be included in the search.</i>	(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (characteristic* OR component* OR element*)
	(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (modes OR entry OR market)
	(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND structure
<i>3. How do adaptive political capabilities develop in organizations?</i>	
<i>This search string is about adaptive political capabilities and their development.</i>	(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (develop* OR generat* OR creat*)
<i>a) How do adaptive political capabilities develop in the specific situation where organizations are internationalizing into high uncertainty environments?</i>	
<i>This search string is about the development of adaptive political capabilities and the types of uncertainty confronted by internationalizing organizations.</i>	(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat * AND political AND capabilit*) AND (develop* OR generat* OR creat*) AND (uncertain* OR unpredictab* OR risk*) AND international* AND (organization* OR organisation*)

1.3.4 Search Results

To start the search, the search strings were used in ABI Inform (Proquest) and EBSCO Business Source Complete. For ABI Inform Proquest, the strings were searched for in citations and abstracts. Within EBSCO, the following databases were included in the search criteria: Business Source Complete, E-Journals and British Library Document Supply Centre Inside Serials & Conference Proceedings. For EBSCO, the strings were searched for in titles or abstracts. In both databases, the search was narrowed to scholarly peer reviewed results, and alerts for new references were set in order to keep track of any sources of information that could inform this review throughout the development of the research programme. The results found are presented in Table 4.

Table 4: Search Results

	ABI Inform (Proquest)	EBSCO Business Source Complete
<i>1. What types of uncertainty do internationalizing organizations confront?</i>		
Search Strings	Total references found	Total references found
international* AND (organization* OR organisation*) AND (uncertain* OR unpredictab* OR risk*)	2,714	807
<i>2. What are the components of adaptive capabilities?</i>		
Search Strings	Total references found	Total references found
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (characteristic* OR component* OR element*)	560	4,579 (includes search strings for Q2, Q3 & Q3a)
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (modes OR entry OR market)	637	
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND structure	484	
<i>3. How do adaptive capabilities develop in organizations?</i>		
Search Strings	Total references found	Total references found
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (develop* OR generat* OR creat*)	1606	4,579 (includes search strings for Q2, Q3 & Q3a)

	ABI Inform (Proquest)	EBSCO Business Source Complete
<i>3 a. How do adaptive capabilities develop in the specific situation where organizations are internationalizing into high uncertainty environments?</i>		
Search Strings	Total references found	Total references found
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (develop* OR generat* OR creat*) AND (uncertain* OR unpredictab* OR risk*) AND international* AND (organization* OR organisation*)	9	4,579 (includes search strings for Q2, Q3 & Q3a)
Ambidexterity	71	76
Total references per database	6,081	5,462

Total References Found Through ABI & EBSCO
11,543

Several of the references that were recommended by the consultation panel were also traced by these search strings. In addition to these search results, 6 books were included for evaluation, which were either recommended by the consultation group or identified through some strategy sessions attended at EAFIT.

Total References Found Through ABI & EBSCO	Additional Recommended References	Total References Found
11,543	6	11,549

1.4 Selection Criteria

After finding numerous references, they were all studied to determine, through the following criteria, which would be relevant for the research and which would be excluded. All of the selection criteria had an equal weight in the evaluation of both the references reviewed initially by title and abstract and then as full papers. All sources of information were also evaluated with the same criteria.

The broad selection criteria used for initially studying titles and abstracts is presented in Table 5.

Table 5: Criteria for Evaluating Titles and Abstracts

<i>Inclusion Criteria</i>	<i>Rationale</i>
(a) Ability to inform the phenomenon of interest or context	For Q1 references should inform uncertainty and internationalization. For Q2 and Q3 references should inform the adaptive political capabilities concept. For Q3a references should inform uncertainty, internationalization and the adaptive political capabilities concept.
(b) All times	There will be no time frame limit for the selection of references.
(c) All countries	References can present research conducted at any country in the world.
(d) All industries	References can present research conducted in any industry.

<i>Exclusion Criteria</i>	<i>Rationale</i>
(a) Are found not to inform the phenomenon of interest or context	References are found not to inform the review questions as indicated in the inclusion criteria.

In addition to the criteria used for selecting references by titles and abstracts, the criteria presented in Table 6 were included for the evaluation and selection of the full references.

Table 6: Criteria for Evaluating Full References

<i>Inclusion Criteria</i>	<i>Rationale</i>
<p>(a) Books, conference proceedings, unpublished papers, consulting, industry or company reports, literature reviews, conceptual or empirical papers that present a methodology and/or contribution which can be useful for the research.</p>	<p>Books that are a compilation of academic work, refer to academic work or are written by practitioners informing any of the lines of inquiry. Their contribution must be recognized or they must be representative readings in a line of thought.</p> <p>Conference proceedings or working or unpublished papers within the last three years that present recent work that may inform the review. They should provide a different view, perspective or new insight.</p> <p>Consulting, industry or company reports that must include an analysis of the internationalization process of the industry or its main companies.</p> <p>Literature reviews that present a review of the available literature in a complete and critical manner.</p> <p>Conceptual papers that contribute to the conceptual development or critical discussion.</p> <p>Empirical papers that use a qualitative or quantitative methodology. They must have a clear description of the methodology, sample, findings, and contribution to knowledge. There is a special interest in papers that consider case studies.</p>

<i>Exclusion Criteria</i>	<i>Rationale</i>
<p>(b) Books, conference proceedings, unpublished papers, consulting, industry or company reports, literature reviews, conceptual or empirical papers that present a methodology and/or contribution which are not useful for the research.</p>	<p>Books that do not offer a recognized contribution or are not representative in a line of thought.</p> <p>Conference proceedings that do not provide a different view, perspective or new insight.</p> <p>Consulting, industry or company reports that do not inform about an industry and its companies, or especially about their internationalization process.</p> <p>Literature reviews that are found to be incomplete or uncritical.</p> <p>Conceptual papers that neglect to contribute to the conceptual development or critical discussion.</p> <p>Empirical papers that use a qualitative or quantitative methodology but lack a clear description of the methodology, sample, findings, and/or contribution to knowledge.</p>

1.5 Quality Appraisal Tool

The quality appraisal of the sources of information selected was conducted following the advice provided by David Denyer during the systematic review 2009 sessions, which allowed the design of a quality appraisal tool that could facilitate a deeper analysis than that of journal rankings to assess quality. The quality appraisal tool presented in Table 7 guided this task.

Table 7: Quality Appraisal Tool

Elements to consider	Level				
	0 - Absence	1 – Low	2 – Medium	3 – High	Not Applicable
Contribution	The reference does not provide enough information to assess this criteria	The reference adds little to the body of knowledge in this area.	The reference adds a contribution of limited importance to the body of knowledge.	The reference adds a highly significant contribution to the body of knowledge.	This element is not applicable to this reference
Theory	The reference does not provide enough information to assess this criteria	Literature review is inadequate.	Literature review is acceptable.	Excellent literature review. In domain of theory.	This element is not applicable to this reference
Methodology (Design, sample, data collection)	The reference does not provide enough information to assess this criteria	Not fully explained, difficult to replicate.	Acceptable explanation and replicability of methodology.	Clear explanation of methodology and excellent records for audit trail.	This element is not applicable to this reference
Analysis	The reference does not provide enough information to assess this criteria	Data sample is insufficient. Weak connection between data and story.	Appropriate data sample. Adequate analysis but weak explanation.	Adequate data sample, results support theoretical arguments. Good explanations.	This element is not applicable to this reference

References that scored an average of 2 or above were included; those that obtained average scores under 2 were excluded. It is important to note that all of the elements of evaluation included in this quality appraisal tool had an equal weight on the final scoring of all types of references.

1.6 Final Evaluation Process and Selected References

After having identified the initial references obtained through the search of the databases and the recommendations from the consultation panel or through the strategy sessions at EAFIT, a careful evaluation-selection process started. This process consisted initially of an evaluation of titles and abstracts. Then, the references that passed this evaluation were evaluated again according to their full texts and quality. This rigorous evaluation-selection process resulted in the final definition of the references that were included in this systematic review. The number of selected references by the initial evaluation of titles and abstract, and then by full texts and quality, can be observed in Table 8.

The references that were discarded by the evaluation of their titles and abstracts were mainly excluded because they were not relevant. Most of them referred to other fields such as technology, engineering or biology. These fields tend to use terms like adaption, adaptability or adaptation, and therefore appeared in the initial results. Other references were closer to the lines of inquiry but were not informing the review questions according to the inclusion criteria.

The references that were discarded by the evaluation of their full texts were excluded by irrelevancy or poor quality. When reading full texts, some references were found to deviate from the review questions and not inform them as effectively as others. Also, other references that had been expected to contribute to the review were evaluated as having poor quality when using the quality appraisal tool, and therefore were excluded.

Table 8: Selected References

	ABI Inform (Proquest)			EBSCO Business Source Complete		
<i>1. What types of uncertainty do internationalizing organizations confront?</i>						
Search Strings	Total references found	Selected by title and abstract	Selected by full text and quality	Total references found	Selected by title and abstract (excluding ABI replicates)	Selected by full text and quality
international* AND (organization* OR organisation*) AND (uncertain* OR unpredictab* OR risk*)	2,714	91	40	807	25	13
<i>2. What are the components of adaptive capabilities?</i>						
Search Strings	Total references found	Selected by title and abstract	Selected by full text and quality	Total references found	Selected by title and abstract (excluding ABI replicates)	Selected by full text and quality
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (characteristic* OR component* OR element*)	560	21	11	4,579 (includes search strings for Q2, Q3 & Q3a)	1	1
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (modes OR entry	637	21	7		0	0

OR market)						
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND structure	484	28	19		3	1
<i>3. How do adaptive capabilities develop in organizations?</i>						
Search Strings	Total references found	Selected by title and abstract	Selected by full text and quality	Total references found	Selected by title and abstract (excluding ABI replicates)	Selected by full text and quality
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (develop* OR generat* OR creat*)	1606	30	23	4,579 (includes search strings for Q2, Q3 & Q3a)	23	9
<i>3 a. How do adaptive capabilities develop in the specific situation where organizations are internationalizing into high uncertainty environments?</i>						
Search Strings	Total references found	Selected by title and abstract	Selected by full text and quality	Total references found	Selected by title and abstract (excluding ABI replicates)	Selected by full text and quality
(adapt* AND political AND capabilit*) OR adaption OR reconfigur* OR (aggregat* AND political AND capabilit*) AND (develop* OR	9	Relevant references already included in previous searches	Relevant references already included in previous searches	4,579 (includes search strings for Q2, Q3 & Q3a)	Relevant references already included in previous searches	Relevant references already included in previous searches

generat* OR creat*) AND (uncertain* OR unpredictab* OR risk*) AND international* AND (organization* OR organisation*)						
Ambidexterity	71	17	2	76	1	1
Total references per database	6,081	208	102	5,462	52	25

TOTAL REFERENCES				
Total references found	Selected by title and abstract	Discarded by title and abstract	Selected by full text and quality	Discarded by full text and quality
11,549	260	11,289	127	133

1.7 Data Extraction Procedure

Refworks was used to keep track of the data extracted from each reference. To do so, eight folders were created first, each corresponding to a database and review question. As the review progressed, another folder was created for “ambidexterity”, since this concept was incorporated throughout the review as a keyword related to the phenomena of interest which could provide interesting insights. The names of these folders can be observed in Table 9.

Table 9: Folders Created in Refworks to Keep Track of References

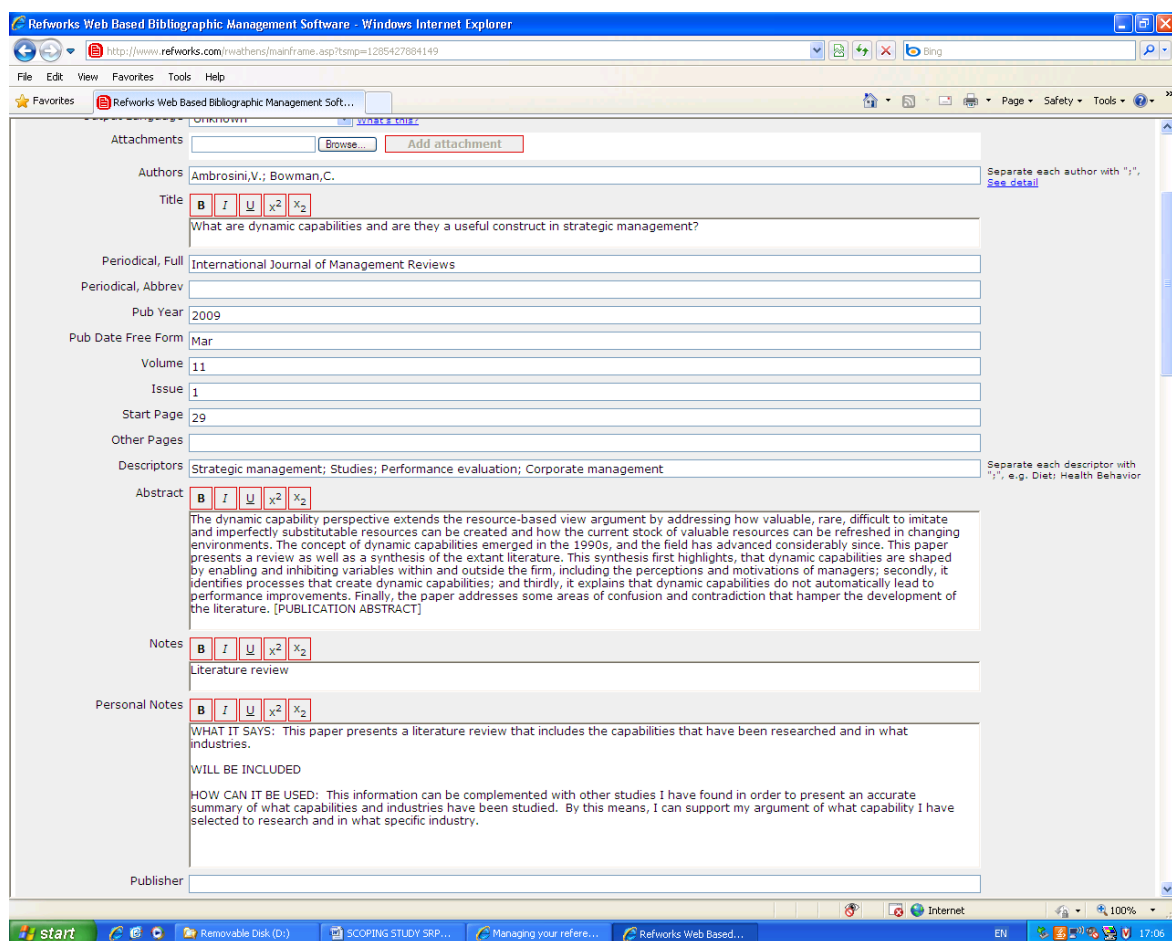
No.	Folder name
1	ABI Q1
2	ABI Q2
3	ABI Q3
4	ABI Q3a
5	EBSCO Q1
6	EBSCO Q2
7	EBSCO Q3
8	EBSCO Q3a
9	AMBIDEXTERITY

Initially, all of the references found were evaluated by their titles and abstracts. Those references that according to the selection criteria were selected for inclusion were saved in Refworks in their corresponding folder. Later on, the full text of each initially selected reference was evaluated according to the selection criteria and quality appraisal tool, to determine its final inclusion or exclusion from this review. After this evaluation, the references that were found to be excluded from the review were transferred from their original folder to a new folder that had EXCLUDED added to the original folder name. For example, the references which corresponded to the folder ABI Q1 and which were excluded from this review, were transferred to the folder ABI Q1 EXCLUDED.

Through Refworks, each reference was easily traced, cited and consulted individually. By default, Refworks most of the time included the following data for each reference in its information sheet: name of journal or source of information, author, title, year, volume, issue and descriptors or keywords. When evaluating the full text and quality of the references initially selected by title and abstract, the following information was extracted from each reference and included in its information sheet: (1) abstract, (2) paper classification (as a: book / conference proceedings / unpublished work / consulting, industry or company reports / literature review / conceptual paper / empirical paper following qualitative or quantitative or mixed methods), (3) a synthesis

of what the reference was about and (4) a final appraisal informing if it was included or excluded from the review. If it was decided to include the reference, then (5) a brief explanation of how it could be used in the review was incorporated. Below, Figure 3 illustrates a screen shot of a reference information sheet in Refworks which includes all of the previously described data.

Figure 3: Reference Information Sheet in Refworks



Along with this thematic data extraction procedure, a descriptive data extraction procedure which consisted of a brief statistical analysis was conducted. This descriptive analysis supported the construction of the following tables and graphs included at the start of section 4 which refers to findings:

1. Number of sources found and selected for each type of information source.
2. Top three journals contributing to the review.
3. Number of overall sources of information reviewed per year of publication.

1.8 Synthesizing Information Procedure

The synthesizing procedure followed in this review consisted first of extracting key ideas, theories, concepts, arguments, and methodological assumptions from the selected references. Secondly, this information was synthesized by making connections between the different parts identified through its analysis. This stage was all about recasting the information found into a new or different arrangement that showed connections and patterns that had not been previously produced, to inform the research question(s) and subsequent studies of the overall research programme as a result.

2 FINDINGS

This section presents the descriptive analysis of the findings of this systematic literature review process. The thematic findings produced are discussed in the main body of this thesis in Chapter 3 Theoretical Positioning.

2.1 Descriptive Analysis of Findings

This section presents a brief statistical descriptive analysis of the references found and included in this systematic review.

Figure 4: Number of References Found for Each Type of Information Source

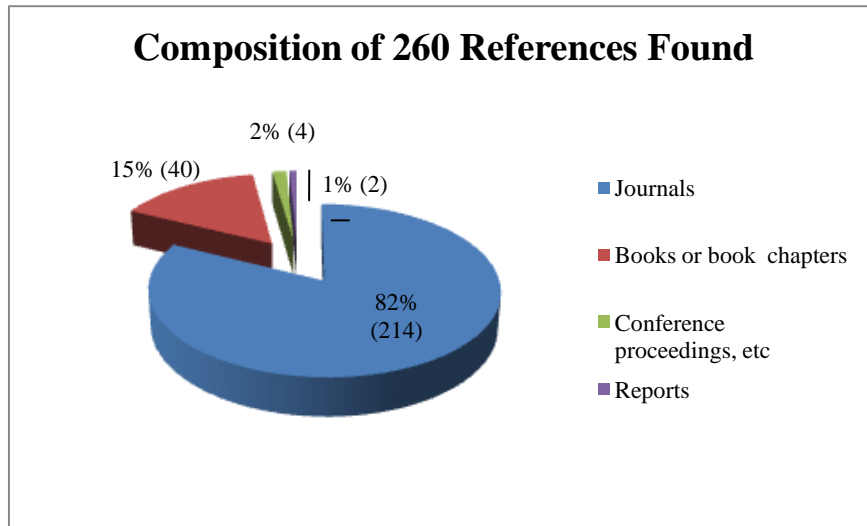
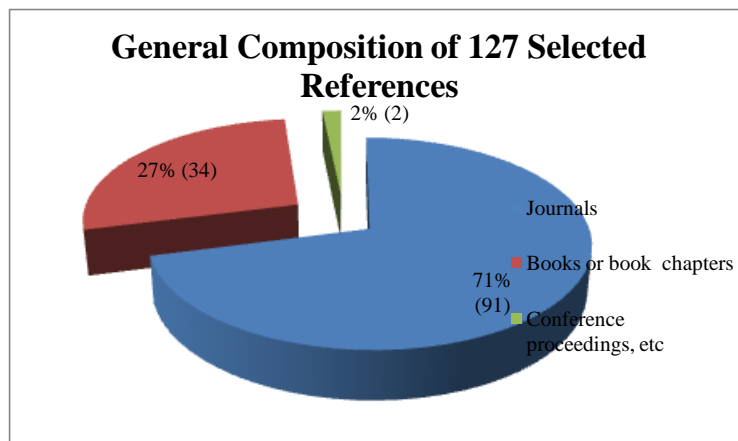
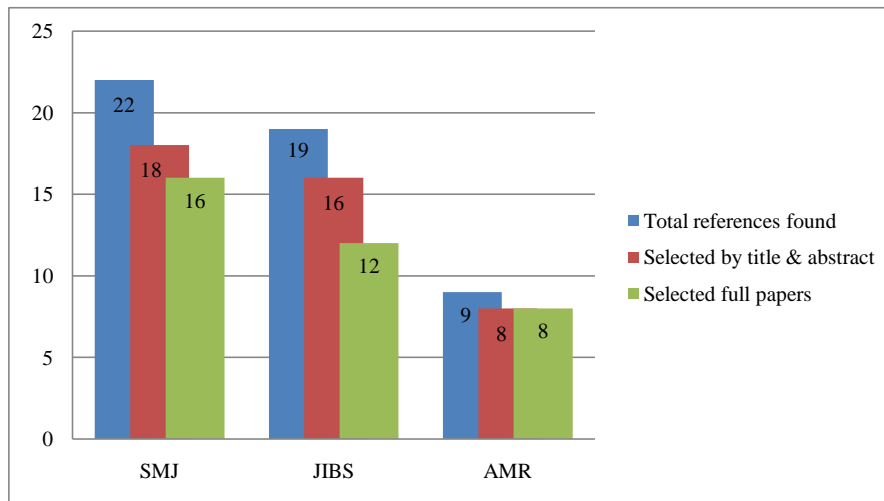


Figure 5: Number of References Selected for Each Type of Information Source



The main number of references found and selected for this review were academic journals. Books and book chapters were the second type of sources of information to contribute while conference proceedings, working or unpublished papers from the last 6 years had a reduced contribution. Even the selected references excluded reports.

Figure 3: Top Three Journals Contributing to the Review



Within academic journals, the Strategic Management Journal (SMJ) provided the highest number of references included in this review. The Journal of International Business Studies (JIBS) was the second most relevant journal followed by the Academy of Management Review (AMR). These results fit with the orientation of the research programme and of this systematic review by evidently focusing on the strategic management field and the internationalization process.

Figure 4: Number of Overall Sources of Information Included per Year of Publication

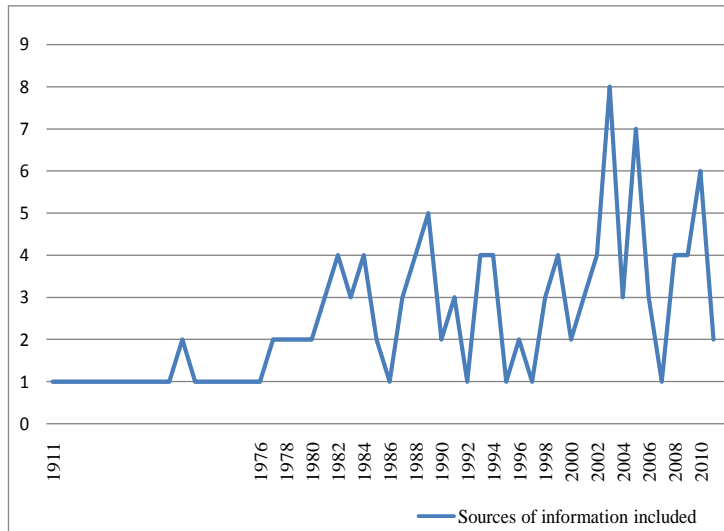


Table 10: Number of Overall Sources of Information Included per Year of Publication

Year	No. of Papers	Year	No. of Papers
1911	1	1986	1
1937	1	1987	3
1938	1	1988	4
1947	1	1989	5

Year	No. of Papers	Year	No. of Papers
1949	1	1990	2
1957	1	1991	3
1958	1	1992	1
1959	1	1993	4
1962	1	1994	4
1963	1	1995	1
1967	2	1996	2
1969	1	1997	1
1971	1	1998	3
1972	1	1999	4
1973	1	2000	2
1975	1	2001	3
1976	1	2002	4
1977	2	2003	8
1978	2	2004	3
1979	2	2005	7
1980	2	2006	3
1981	3	2007	1
1982	4	2008	4

Year	No. of Papers	Year	No. of Papers
1983	3	2009	4
1984	4	2010	6
1985	2	2011	2

Figure 7 and Table 10 evidence how the number of references included in this systematic review augments more significantly along recent years. However, the interesting dispersion over one hundred years of the selected references is explained by the deliberate effort of tracing the evolution of knowledge within the selected literature domains.

3 CONCLUSIONS

As a result of this systematic literature review, a deeper understanding of (1) the uncertainties internationalizing organizations confront, (2) the significance of political uncertainty and (3) the components of adaptive political capabilities was achieved along with (4) the identification of the key themes that can guide their deliberate development by organizations. Although this deeper understanding of our phenomena of interest allowed us to build and position our research questions, it also uncovered many research gaps. Through this review it was evidenced that the deliberate development of adaptive political capabilities can improve a firm's competitive position, what was still unknown was how firms could best address the deliberate development of adaptive political capabilities.

Below, we include the list of references that were identified through this systematic literature review process and included in our initial theoretical positioning of this research. However, it is important to note, that since research involves and necessarily is an iterative process between theory and data, we must highlight that throughout our inquiry we included further references in the theoretical positioning chapter of this thesis as we gained a broader understanding of our phenomena of interest. To identify

the references that were finally included in this thesis, please refer to the references section of its main body which is presented previously to the appendices.

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APPENDIX 2

SUMMARY OF INTERVIEWS

Code	Date	Position	Approx Time
Pilot interviews			
P001	August 19 th 2011	CEO of Pastry Firm	1hr
P002	August 27 th 2011	CEO of Ice Cream Firm	1hr
Interviews			
I001	August 28 th - 29 ^h 2011	CEO	5 hrs
I002	August 30 th 2011	VP of Centralized Services	2.5 hrs
I003	September 5 th 2011	VP Business Line 3 (B3)	2 hrs
I004	September 8 th 2011	VP of Corporate Finance	1 hr
I005	September 9 th 2011	VP Business Line 4 (B4)	1 hr
I006	September 9 th 2011	Planning Manager B4	45 mins
I007	September 9 th 2011	Manager Distribution - Venezuela	2.5 hrs
I008	September 13 th 2011	VP Business Line 1 (B1)	2 hrs
I009	September 13 th 2011	Treasury Manager	1hr
I010	September 13 th 2011	International Manager B3	1hr
I011	September 15 th 2011	Auditing Manager	1 hr
I012	September 15 th 2011	International Director B3	1hr
I013	September 16 th 2011	International Documentation Coordinator B3	1hr
I014	September 16 th 2011	Director of Corporate Finance	1hr
I015	September 20 th 2011	General Secretary	1hrs
I016	September 21 st 2011	Administrative & Financial Manager B3	40 mins
I017	September 21 st 2011	VP Business Line 2 (B2)	2 hrs
I018	September 22 nd 2011	National Sales Manager - Venezuela	30 mins
I019	September 22 nd 2011	Administrative & Sales Coordinator - Ven	30 mins
I020	September 22 nd 2011	Human Resources Coordinator - Venezuela	30 mins
I021	September 22 nd 2011	Performance Control Coordinator - Ven	30 mins
I022	September 22 nd 2011	Logistics Director - Venezuela	30 mins
I023	September 22 nd 2011	Administrative Director- Venezuela	30 mins
I024	September 26 th 2011	Innovation Manager	1 hr
I025	September 27 th 2011	International Manager B1	45 mins
I026	September 28 th 2011	Ex-Manager Distribution - Venezuela	2 hrs
I027	September 29 th 2011	Knowledge Management Coordinator B1	2 hrs
I028	September 29 th 2011	Knowledge Management Director	2 hrs
I029	September 29 th 2011	Compensation to Collaborators Director	1 hr
I030	October 3 rd 2011	International Business Executive B2	45 mins

I031	October 5 th 2011	Ex-Manager Production B4 - Venezuela	2 hrs
I032	October 10 th 2011	VP Marketing, Innovation & Nutrition	45 mins
I033	October 19 th 2011	Operations Manager B2	1 hr
I034	December 15 th 2011	Ex-Human Resources Manager	1 hr
I035	December 15 th 2011	Marketing Manager B4	40 mins
I036	December 16 th 2011	IT Solutions Director	50 mins
I037	December 19 th 2011	Ex-Board Member	40 mins
I038	December 20 th 2011	Risk, Insurance and Security Director	2 hrs
I039	December 20 th 2011	International Director B2	1 hr
I040	December 21 st 2011	Ex General VP	1 hr
I041	December 23 rd 2011	Technical Director B4	1 hr
I042	December 29 th 2011	Marketing Manager B3	50 mins
I043	January 4 th 2012	Marketing Manager B2	45 mins
I044	January 5 th 2012	International Brand Manager B2	1.5 hrs
I045	January 5 th 2012	Manager Distribution - Ecuador	2 hrs
I046	January 11 th 2012	Board Member	1 hr
I047	January 11 th 2012	President Analdex (Association of Exporters)	45 mins
I048	January 12 th 2012	Ex-CEO of CADA (Retail chain in Venezuela)	1 hr
I049	January 16 th 2012	Logistics Manager B1	1 hr
I050	January 17 th 2012	Logistics Manager B2	1 hr
I051	January 17 th 2012	International Logistics Coordinator B2	1 hr
I052	January 18 th 2012	Ambassador of Colombia in Ven. 2006-09	30 mins
I053	February 16 th 2012	DDBO Colombia Manager	40 mins
I054	February 24 th 2012	Administrative Manager - Ecuador	30 mins
I055	February 24 th 2012	Accountant - Ecuador	30 mins
I056	February 24 th 2012	IT Manager - Ecuador	30 mins
I057	February 24 th 2012	Logistics Manager - Ecuador	30 mins
I058	February 28 th 2012	Manager Distribution - Nicaragua	40 mins
I059	February 28 th 2012	Accounts Receivable Manager - Nicaragua	40 mins
I060	March 27 th 2012	Marketing Manager B1	45 mins

B1: Business Line 1

B2: Business Line 2

B3: Business Line 3

B4: Business Line 4

APPENDIX 3

PRESENTATION LETTER

Dear,

NAME OF INTERVIEWEE

As you may be aware, recent political events in some countries in the Middle East, Africa and Latin America have created uncertainty for firms with operations in these markets. A common characteristic these markets share is that firms are obliged to deal with their political uncertainty in the need to sustain their operations. Presently, firms are increasingly dealing with difficult political environments in many of their markets. Consequently, practitioners and academics are trying to understand better how to confront this managerial challenge.

Particularly, Latin American companies have been obliged to confront political uncertainty. Through this interview our objective is to understand specifically how Latam has confronted political uncertainty in Venezuela, Ecuador and Nicaragua between 1999-2011.

Before conducting this interview, we want to let you know that the overall objective of this research is helping firms improve their ability to confront the challenge of operating in high uncertainty political contexts. This is a doctoral research project supported by EAFIT University and a panel of experts from Cranfield University. We are currently collecting data and we estimate to finish the research by September 2013. Hopefully its results will help Latam develop a more competitive position to confront future political uncertainties.

We wish you enjoy discussing this challenge with us on the (day) of (month) at (time). Thank you for your time!

Kind regards,

Maria Andrea De Villa
Strategy Researcher
mdevilla@eafit.edu.co

INTERVIEW PROTOCOL

I. Before the interview

I want to let you know that the information you will provide during this interview will be treated as confidential and will only be used with the approval of the firm. As an individual, you can decide not to answer any of the questions I will ask or decide to withdraw at any time. I want to ask for your consent to record this interview for the purpose of facilitating data analysis. Will you allow me to do so? Are there any aspects you would like to address before we start?

Let's start with some DEMOGRAPHIC INFORMATION:

- Name
- Area you work for within Latam
- Let us know the title of your position and please give us a brief description of your functions
- How long have you worked for Latam?
- Have you held your current position in Latam during all of these years or what other positions have you held and for how long?
- What is your nationality?
- What is your highest academic degree and from which university is it?

Note: Gender will be recorded as part of the data collected from the interview for the purpose of including this variable in our analysis.

II. The interview

Now, let me ask you:

1. A. Which products are sold by the firm generally speaking and which ones has it sold in Venezuela, Ecuador and Nicaragua?

B. Which areas of service support operations in Venezuela, Ecuador and Nicaragua?

(REGARDING RESPONSES)

2. What were the most critical political events that the firm confronted in Venezuela, Ecuador and Nicaragua and how did the firm responded to these events?

(REGARDING RECONFIGURATION)

3. What internal changes took place or how did the firm reorganized its resources to enable each of these responses?

(REGARDING THE PROCESS FOLLOWED TO CONFRONT POLITICAL UNCERTAINTY)

4. When political uncertainties were confronted, what process was followed by the firm to decide how to respond to the challenges stemming from these uncertainties?
5. Who triggered or initiated this process? ; Who led this process?
6. Who participated in the process of deciding what to do?
7. What were the views of the participants on the main issues, how were they similar or different?
8. Who took the final decision about what responses were going to be taken?
9. Who implemented these response decisions?

(REGARDING LEARNING MECHANISMS: KNOWLEDGE EXPLORATION AND EXPLOITATION)

10. Were these decisions “new responses” or had similar decisions been made before to confront other political uncertainties?
11. Can you specifically point out what sources of information were taken into account to decide how to respond to political uncertainties?
12. Was this decision process or its results documented in any form such as memos or meeting reports?
13. Where any tools developed from the experiences of coping with these events to guide the firm when confronting future political uncertainties?

(REGARDING OUTCOMES)

14. After the response decisions were taken and actions were implemented, what were the outcomes?

(REGARDING FEEDBACK)

15. What aspects of the decision making process do you think had a positive impact and must be repeated when confronting future political uncertainties?
16. What aspects of the decision making process would you change or what different aspects would you consider?
17. Did you hold any meetings after your responses were implemented to review their outcomes?
18. Were you requested to provide any feedback upon this process?, If so to whom and how?

(REGARDING LEARNING MECHANISMS: EXPERIENCE ACCUMULATION)

19. What did you personally learn from these experiences?

20. Do you recall any previous experiences that you might consider influenced your individual responses towards political uncertainties in Venezuela, Ecuador and Nicaragua?

21. Can you identify any external influence (from a friend, another organization) that influenced your individual responses towards political uncertainties in Venezuela, Ecuador and Nicaragua?

22. Can you trace the influence of any specific belief or value in your individual responses towards political uncertainty in Venezuela, Ecuador and Nicaragua?

23. What do you think your area within the firm learned?

24. What did the firm learn?

25. Where do the lessons of your area and the firm reside?

P1 - These questions were included aiming to provide information about what experiences, external influences, beliefs, and values might have affected individual responses to political uncertainties. It is important to be aware of this within our research interest.

(REGARDING LEARNING MECHANISMS: KNOWLEDGE EXPOLITATION)

26. Have you personally used these lessons when coping with later political uncertainties?

27. Do you think your area or the firm have used what they learned when coping with other political uncertainties? Or are the lessons kept at an individual level?

(REGARDING KNOWLEDGE MANAGEMENT)

28. Has the firm collected and communicated within the firm the knowledge obtained by dealing with political uncertainties in Venezuela, Ecuador and Nicaragua?

29. If you wanted to recall what was learnt from this experience by other means than your own memory, whom would you approach or to what area within the firm would you go to?

P2 - This question was re worded to facilitate its understanding.

P2 - The word "refer" was changed for "go".

(REGARDING CORPORATE AND BUSINESS UNIT LEVELS)

30. To what extent were the responses to these political uncertainties decisions made by the business as an individual unit or decisions made at the corporate level?

(REGARDING STRUCTURE)

31. Referring to the firm's organizational structure and processes, how do you think these worked to support the challenge of confronting political uncertainties?
32. Were they agile and flexible enough?
33. Could the firm's organizational structure and processes be improved in any way to enable faster and more informed decisions about how to deal with future political uncertainties?

(REGARDING ORGANIZATIONAL CULTURE)

34. Do the firm's employees commonly share information about the lessons they learn from their individual experience?
35. If so how do they do this? If not, to what extent do you think they would be willing and like to participate in activities to develop knowledge that can improve the firm's position to cope with future political uncertainties?
36. What obstacles, if any, do you visualize could be encountered in such efforts?

(REGARDING MANAGERIAL DECISION)

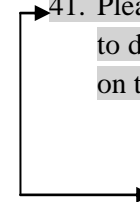
37. How much do you think political uncertainty can affect the firm's operations in its strategic markets during the next 10 – 20 years?
38. Is political uncertainty an environmental challenge the firm would like to be in a more competitive position to deal with?
39. How much time and resources would the firm be willing to invest in a project to improve its position to cope with future political uncertainties?
40. Please describe yourself professionally in one or a few words...



P1 – This question was included to analyze how managers describe themselves professionally. This information is interesting to enable our understanding of their role within the firm in relation to our phenomena of interest.

TO IDENTIFY FUTURE INTERVIEWEES

41. Please let me know the name and position of anybody within the firm who was exposed to dealing with decisions about Venezuela, Ecuador or Nicaragua and who might not be on this interviewee list and you think should be included.

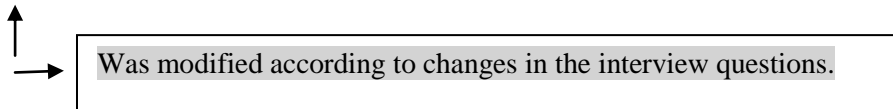


P1 - This request was explicitly included in the protocol in order to remind myself to collect this information from all of the interviewees.

III. After the interview

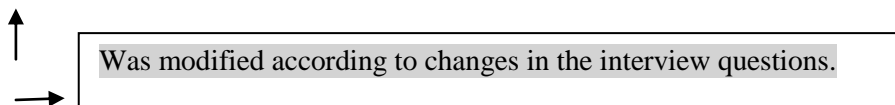
- Take note of any other information or documents that were mentioned through the interview and that must be further on collected or requested.
- Take note of people that must be contacted as a result of the interview.
- Record my own comments about the interview, other impressions.

IV. Relation between factors and questions



Factors	Questions
Responses	2
Reconfiguration	3
Process followed to confront political uncertainty	4, 5, 6, 7, 8, 9
Learning mechanisms: knowledge exploration and exploitation	10, 11, 12, 13
Outcomes	14
Feedback	15, 16, 17, 18
Learning mechanisms: experience accumulation	19, 20, 21, 22, 23, 24, 25
Learning mechanisms: knowledge exploitation	26, 27
Knowledge management	28, 29
Corporate and business unit levels	30
Structure	31, 32, 33
Organizational culture	34, 35, 36
Managerial decision	37, 38, 39, 40

V. Most relevant questions that must be answered



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APPENDIX 4

CARTA DE PRESENTACIÓN

Apreciado,

NOMBRE DEL ENTREVISTADO

Como seguramente lo ha observado, las recientes crisis políticas en el Medio Oriente, África y América Latina han generado incertidumbre política para las empresas con operaciones en estos mercados. Una característica que estos mercados comparten, es que las empresas se ven obligadas a “confrontar” su incertidumbre política debido a la necesidad de mantener sus operaciones. En la actualidad, las empresas están incrementalmente confrontando difíciles entornos políticos en muchos de sus mercados. Consecuentemente, los gerentes y académicos están intentando comprender mejor como confrontar este reto gerencial.

Particularmente, las empresas latinoamericanas se han visto obligadas a confrontar alta incertidumbre política. A través de esta entrevista nuestro objetivo es entender específicamente como Latam ha enfrentado la incertidumbre política en Venezuela, Ecuador y Nicaragua entre 1999-2011.

Antes de comenzar esta entrevista, queremos informarle que el objetivo general de nuestra investigación es apoyar a las empresas en el mejoramiento de su habilidad para enfrentar el reto de operar en entornos de alta incertidumbre política. Esta es una investigación doctoral apoyada por la Universidad EAFIT y un panel de expertos de Cranfield University. Actualmente nos encontramos en la etapa de recolección de datos y estimamos terminar la investigación durante Septiembre de 2013. Deseamos que sus resultados ayuden Latam a desarrollar una posición más competitiva para afrontar futuras incertidumbres políticas.

Esperamos que disfrute discutir con nosotros sobre este reto el (día) de (mes) a las (hora).
¡Gracias por su tiempo!

Cordial saludo,

Maria Andrea De Villa
Investigadora de Estrategia
mdevilla@eafit.edu.co

PROTOCOLO DE ENTREVISTA

I. Antes de la entrevista

Quiero dejarle saber que la información que usted nos brindará durante esta entrevista será tratada como confidencial y solo será utilizada con la aprobación de la empresa. Como individuo, usted puede decidir no contestar a cualquiera de las preguntas que le haga o retirarse de la investigación en cualquier momento. Quiero solicitar su consentimiento para grabar el audio de esta entrevista con el propósito de facilitar el análisis de la información recolectada. ¿Me permite usted hacerlo?, ¿Quisiera discutir cualquier inquietud que tenga antes de comenzar?

Empecemos con alguna INFORMACIÓN DEMOGRÁFICA:

- Nombre
- Área para la cual trabaja dentro de Latam
- Por favor permítanos conocer el título de su cargo junto con una breve descripción de sus funciones
- ¿Hace cuánto tiempo trabaja para Latam?
- ¿Ha ocupado usted su cargo actual en Latam durante todos estos años o cuáles otros cargos ha ocupado y por cuánto tiempo?
- ¿Cuál es su nacionalidad?
- ¿Cuál es su más alto grado académico y cuál Universidad se lo otorgó?

Nota: El género se tendrá en cuenta como parte de los datos recolectados a través de la entrevista con el objetivo de incluir esta variable en nuestro análisis.

II. La entrevista

Ahora, déjeme preguntarle:

1. A. ¿Cuáles productos vende la empresa en términos generales y cuales ha vendido en Venezuela, Ecuador y Nicaragua?
- B. ¿Cuáles áreas de servicio apoyan las operaciones en Venezuela, Ecuador y Nicaragua?

(Sobre respuestas - RESPONSES)

2. ¿Cuáles fueron los eventos políticos más críticos que la empresa confrontó en Venezuela, Ecuador y Nicaragua y como respondió la empresa ante estos eventos?

(Sobre reconfiguración - RECONFIGURATION)

3. ¿Cuáles cambios a nivel interno realizó la empresa o como reorganizó sus recursos para facilitar cada una de estas respuestas?

(Sobre el proceso seguido para confrontar la incertidumbre política - THE PROCESS FOLLOWED TO CONFRONT POLITICAL UNCERTAINTY)

4. Cuando se confrontaron incertidumbres políticas, ¿Qué proceso siguió la empresa para decidir cómo responder a los retos provenientes de estas incertidumbres?
5. ¿Quién inicio este proceso? y, ¿Quién lo lidero?
6. ¿Quiénes participaron en el proceso de decidir qué hacer?
7. ¿Cuáles fueron sus puntos de vista de los participantes? y, ¿Cómo fueron similares o diferentes?
8. ¿Quién tomo la decisión final sobre qué respuestas se iban a tener?
9. ¿Quién implementó estas respuestas?

(Sobre mecanismos de aprendizaje: exploración y explotación del conocimiento - LEARNING MECHANISMS: KNOWLEDGE EXPLORATION AND EXPLOITATION)

10. ¿Fueron estas decisiones unas “nuevas respuestas” o se habían tomado antes decisiones similares para confrontar otras incertidumbres políticas?
11. ¿Puede usted identificar específicamente cuáles fuentes de información se tuvieron en cuenta para decidir cómo responder ante las incertidumbres políticas?
12. ¿Se documentó el proceso de decisión o sus resultados en cualquier medio como actas de reuniones o memos?
13. ¿Se desarrolló alguna herramienta a partir de la experiencia de confrontar esta situación para guiar a la empresa en la confrontación de futuras incertidumbres políticas?

(Sobre resultados - OUTCOMES)

14. Después de que se decidieron y se implementaron las respuestas, ¿Cuáles fueron sus resultados?

(Sobre retroalimentación - FEEDBACK)

15. ¿Cuáles aspectos del proceso de decisión cree usted que tuvieron un impacto positivo y deben repetirse cuando se confronten futuras incertidumbres políticas?
16. ¿Cuáles aspectos del proceso de decisión cambiaria o cuáles otros aspectos diferentes consideraría?
17. ¿Se realizaron reuniones después de la implementación de las respuestas para evaluar sus resultados?
18. ¿Le fue solicitada alguna retroalimentación sobre este proceso?, De ser así, ¿quién le solicitó retroalimentación y cómo la realizó?

(Sobre mecanismos de aprendizaje: acumulación de experiencia - LEARNING MECHANISMS: EXPERIENCE ACCUMULATION)

19. ¿Qué aprendió a nivel personal de estas experiencias?

20. ¿Puede usted recordar alguna experiencia previa que haya vivido la cual crea haya influenciado sus respuestas individuales ante las incertidumbres políticas en Venezuela, Ecuador y Nicaragua?
21. ¿Puede usted identificar cualquier influencia externa (de un amigo, otra empresa u organización) que haya influenciado sus respuestas individuales ante las incertidumbres políticas en Venezuela, Ecuador y Nicaragua?
22. ¿Puede usted identificar la influencia de alguna de sus creencias o valores en sus respuestas individuales ante las incertidumbres políticas en Venezuela, Ecuador y Nicaragua?
23. ¿Qué cree usted que su área al interior de la empresa aprendió?
24. ¿Qué aprendió la empresa?
25. ¿Dónde se encuentran las lecciones aprendidas por su área y la empresa?

P1 – Estas preguntas fueron incluidas con el objetivo de proveer información sobre cuales experiencias, influencias externas, creencias y valores podrían haber afectado las respuestas individuales ante las incertidumbres políticas. Es importante el estar atento a este punto dentro de nuestro interés investigativo.

(Sobre mecanismos de aprendizaje: explotación del conocimiento - LEARNING MECHANISMS: KNOWLEDGE EXPOLITATION)

26. ¿A usted personalmente utilizado estas lecciones al confrontar futuras incertidumbres políticas?
27. ¿Cree usted que su área o la empresa han utilizado sus aprendizajes al confrontar siguientes incertidumbres políticas?, ¿O se han quedado estos aprendizajes a nivel individual?

(Sobre gestión del conocimiento - KNOWLEDGE MANAGEMENT)

28. ¿La empresa ha recolectado y comunicado a su interior el conocimiento que ha obtenido al confrontar incertidumbres políticas en Venezuela, Ecuador y Nicaragua?
29. Si usted quisiera recordar lo que se aprendió de esta experiencia por otros medios además de su propia memoria, ¿A quién recurriría o a cual área dentro de la empresa se dirigiría?

P2 – Se modificó la redacción de esta pregunta para facilitar su comprensión.

P2 – La palabra “referiría” se cambió por “dirigiría”.

(Sobre los niveles corporativo y de unidad de negocios - CORPORATE AND BUSINESS UNIT LEVELS)

30. ¿En qué medida las respuestas a estas incertidumbres políticas fueron decisiones realizadas por la empresa a nivel individual o decisiones realizadas a nivel corporativo?

(Sobre estructura - STRUCTURE)

31. Si nos referimos a la estructura organizacional y los procesos de la empresa, ¿Cómo cree usted que estos apoyaron el reto de enfrentar incertidumbres políticas?
32. ¿Fueron lo suficientemente ágiles y flexibles?
33. ¿Podrían mejorarse la estructura organizacional y los procesos de la empresa para facilitar decisiones más informadas y rápidas al confrontar futuras incertidumbres políticas?

(Sobre cultura organizacional - ORGANIZATIONAL CULTURE)

34. ¿Es común que los empleados de la empresa compartan información sobre las lecciones que aprenden a través de su experiencia individual?
35. Si es así, ¿Como lo hacen? Si no es así, ¿Hasta qué punto cree usted que estarían dispuestos y les gustaría participar en actividades para desarrollar conocimientos que mejoren la posición de la empresa para confrontar futuras incertidumbres políticas?
36. ¿Cuáles obstáculos visualiza usted podrían ser encontrados durante estos esfuerzos?

(Sobre decisión gerencial - MANAGERIAL DECISION)

37. ¿Qué tanto cree usted que durante los próximos 10 a 20 años las operaciones de la empresa en sus mercados estratégicos podrían verse afectadas por incertidumbre política?
38. ¿Es la incertidumbre política un reto en el entorno el cual la empresa quisiera confrontar desde una posición más competitiva?
39. ¿Cuánto tiempo y recursos estaría la empresa dispuesta a invertir en un proyecto para mejorar su posición para confrontar futuras incertidumbres políticas?

40. Por favor describase usted mismo en términos profesionales en una o pocas palabras...

P1 – Esta pregunta se incluyó para analizar cómo se describen los entrevistados profesionalmente. Esta información es interesante para facilitar nuestra comprensión sobre su rol dentro de la empresa en relación con nuestro fenómeno de interés.

PARA IDENTIFICAR FUTURAS PERSONAS A ENTREVISTAR

41. Por favor permítanos conocer los nombres y cargos de los empleados de la empresa que hayan estado expuestos a las decisiones sobre Venezuela, Ecuador o Nicaragua y quienes no estén en nuestra lista de entrevistados y deban de ser incluidos.

P1 – Esta solicitud se incluyó de manera explícita en el protocolo para recordarme a mí misma el recolectar esta información de parte de todos los entrevistados.

III. Después de la entrevista

- Tomar nota sobre cualquier otra información o documentos que hayan sido mencionados durante la entrevista y que deben ser recolectados o solicitados.
- Tomar nota de las personas que deben ser contactadas como resultado de la entrevista.
- Anotar mis propios comentarios e impresiones sobre la entrevista.

IV. Relación entre factores y preguntas



Se modificó de acuerdo a los cambios realizados a las preguntas de la entrevista.

Factores	Preguntas
Respuestas - RESPONSES	2
Reconfiguración - RECONFIGURATION	3
Proceso seguido para confrontar la incertidumbre política - PROCESS FOLLOWED TO CONFRONT POLITICAL UNCERTAINTY	4, 5, 6, 7, 8, 9
Mecanismos de aprendizaje: exploración y explotación del conocimiento - LEARNING MECHANISMS: KNOWLEDGE EXPLORATION AND EXPLOITATION	10, 11, 12, 13
Resultados - OUTCOMES	14
Retroalimentación - FEEDBACK	15, 16, 17, 18
Mecanismos de aprendizaje: acumulación de experiencia - LEARNING MECHANISMS: EXPERIENCE ACCUMULATION	19, 20, 21, 22, 23, 24, 25
Mecanismos de aprendizaje: explotación del conocimiento - LEARNING MECHANISMS: KNOWLEDGE EXPLOITATION	26, 27
Gestión del conocimiento - KNOWLEDGE MANAGEMENT	28, 29
Niveles corporativo y de unidad de negocio - CORPORATE AND BUSINESS UNIT LEVELS	30
Estructura - STRUCTURE	31, 32, 33
Cultura organizacional - ORGANIZATIONAL CULTURE	34, 35, 36
Decisión gerencial - MANAGERIAL DECISION	37, 38, 39, 40

V. Las preguntas más relevantes que deben responderse



Se modificó de acuerdo a los cambios realizados a las preguntas de la entrevista.

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APPENDIX 5

PHONE CALL PROTOCOL

We are a group of researchers from EAFIT University (Colombia) and Cranfield University (United Kingdom) which are studying how firms in the Colombian processed food sector which have exported, distributed or produced their products in Venezuela, Ecuador or Nicaragua between 1999-2011, have managed to sustain their operations in these foreign markets despite their high political uncertainty.

We want to invite the firm that you work to be part of this study and to participate in a contest to win an executive education course offered by EAFIT University. To evaluate if the firm meets with the criteria required to participate in this study, we need to ask you if the firm had operations in Venezuela, Ecuador or Nicaragua between 1999-2011?

IF THE ANSWER OF THE FIRM IS YES:

Since your firm meets with the criteria required to participate in this study, let's schedule a meeting at the firm during which we will discuss with you the details of this study and allow you to participate through the completion of a survey.

IF THE ANSWER OF THE FIRM IS NO:

Since your firm does not meet with the criteria required it cannot participate in this study. Thank you for your time and kind information.

APPENDIX 6

BACK-BONE OF SURVEY

Variables from hypotheses	Literature Review	Findings in my research	Dimensions	Type of variables	Measurement scales	Coding
Level of political uncertainty perceived	<p>Perceived Environmental Uncertainty was assessed by Bouthers <i>et al.</i> in 2000 by using the PEU2 instrument developed and tested by Werner <i>et al.</i> (1996), based on the work of Miller (1993). PEU2 consists of 28 items aggregated to measure the perception of a country's government policies, macroeconomics, materials, product market, and competition. We use its government/political policies instrument to measure the level of perceived political uncertainty:</p> <p>Government/political policies (Cronbach alpha = 0.86)</p> <p>(a) Ability of the party in power to maintain control of the government (b) Threat of armed conflict (c) Tax policies (d) Monetary policy (e) Prices controlled by the government (f) National laws affecting international business (g) Legal regulations affecting the business sector (h) Tariffs on imported goods (i) Enforcement of existing laws (j) Public service provision</p> <p>How certain can you be about each variable in the future? Indicate your answer by circling a number from 1 (very unpredictable) to 5 (very predictable)</p>		Ability of the party in power to maintain control of the government	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			Threat of armed conflict	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			Tax policies	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			Monetary policy	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			Prices controlled by the government	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			National laws affecting international business	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5
			Legal regulations affecting the business sector	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5

			Tariffs on imported goods	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5								
			Enforcement of existing laws	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5								
			Public service provision	interval	(1) Very unpredictable (2) (3) (4) (5) Very predictable	1 2 3 4 5								
Control or cooperative responses	Control and cooperative responses to political uncertainty involve firms' attempts to influence or shape governments in favorable ways towards their own particular interests (Baysinger, 1984; Miller, 1992). Hillman and Hitt's (1999) taxonomy of corporate political strategies, presents three theoretically distinct strategies, each comprising of a variety of tactics. The tactics describe the control or cooperative responses that a firm can use to influence the political environment. In 2003, Hillman used these control or cooperative responses in a survey she conducted to US multinationals. Below, is this taxonomy:		Lobbying the Colombian government (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government towards the firm's own interests)	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5								
	<table border="1"> <thead> <tr> <th>Strategy</th> <th>Tactics</th> </tr> </thead> <tbody> <tr> <td>Information strategy</td> <td> <ul style="list-style-type: none"> Lobbying Commissioning research projects and reporting research results Testifying as expert witnesses Supplying position papers or technical reports </td> </tr> <tr> <td>Financial incentive strategy</td> <td> <ul style="list-style-type: none"> Contributions to politicians or party Honoraria for speaking Paid travel Personal service (hiring people with political experience, relatives of political decision makers or having a firm member run for office) </td> </tr> <tr> <td>Constituency-building strategy</td> <td> <ul style="list-style-type: none"> Grassroots mobilization of employees, suppliers, customers, etc. Advocacy advertising Public relations Press conferences Political education programs </td> </tr> </tbody> </table>	Strategy	Tactics	Information strategy	<ul style="list-style-type: none"> Lobbying Commissioning research projects and reporting research results Testifying as expert witnesses Supplying position papers or technical reports 	Financial incentive strategy	<ul style="list-style-type: none"> Contributions to politicians or party Honoraria for speaking Paid travel Personal service (hiring people with political experience, relatives of political decision makers or having a firm member run for office) 	Constituency-building strategy	<ul style="list-style-type: none"> Grassroots mobilization of employees, suppliers, customers, etc. Advocacy advertising Public relations Press conferences Political education programs 		Lobbying the governments of Venezuela, Ecuador or Nicaragua (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence any of these governments towards the firm's own interests)	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Strategy	Tactics													
Information strategy	<ul style="list-style-type: none"> Lobbying Commissioning research projects and reporting research results Testifying as expert witnesses Supplying position papers or technical reports 													
Financial incentive strategy	<ul style="list-style-type: none"> Contributions to politicians or party Honoraria for speaking Paid travel Personal service (hiring people with political experience, relatives of political decision makers or having a firm member run for office) 													
Constituency-building strategy	<ul style="list-style-type: none"> Grassroots mobilization of employees, suppliers, customers, etc. Advocacy advertising Public relations Press conferences Political education programs 													
		Information strategy												

			Commissioning research projects and reporting research results to inform and influence the governments of Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Offering presentations as an “expert” firm about a given subject to influence the governments of Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Using position papers or technical reports to influence the governments of Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
		Financial incentive strategy	Making financial contributions to politicians, political parties or causes in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Paying honoraria to politicians in Venezuela, Ecuador or Nicaragua for public speaking	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Paying travel expenses of government officers in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

				Hiring relatives of politicians or having a firm member run for office or participate in government affairs in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Constituency building strategy	Inviting employees, suppliers, and customers to mobilize in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
				Supporting advertisement of a political cause or message in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
				Using public relations in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
				Offering thought leadership events or press conferences to support a politician, political party or cause in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

			Leading or participating in political education programs in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Flexible responses	Flexible responses are those responses through which firms can adapt to substantial, uncertain, and fast-occurring political changes (Miller, 1992).	The variable "flexible responses" encompasses flexible responses to confront a potential expropriation and flexible responses to confront policy changes.	Avoiding influencing the host government	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Adopting a low profile	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Adopting a politically neutral stance	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Representing the firm through locals before host governments and local customers	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Sustaining permanent clear internal communication	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Not incurring in acts of corruption	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Developing tools to assure the firm's compliance with laws, adequate management of governmental inspections, and maintenance of positive community and labor relations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Acquiring physical resources to overcome political challenges	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

Further penetrating the firm's existing markets	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Diversifying the firm's markets	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Using human capital with knowledge about the host context to understand, anticipate and react	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Carefully evaluating future investments	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Avoding the media	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Paying just prices to suppliers	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Changing the country of origin in the legal structure of an investment	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Substituting imports by local production to appear as a local value-adding firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Provisioning in financial statements the value of the investments that face potential expropriation in a host market	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Creating plans to manage a potential expropriation	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

Mapping and analyzing the potential impact of interest groups in the firm's operations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Adequating the firm's products to ensure their compliance with the law	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Modifying the firm's organizational structure and processes to comply with the law	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Modifying the firm's organizational structure and processes not to comply with the law but to help it sustain its operations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Developing ways to supply a restricted market	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Monitoring the context	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Reducing operational costs to overcome increasing operational expenses related to governmental policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Revising prices to maintain competitiveness and assure the best possible profit	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Identifying products that can competitively and profitably be supplied in accordance to changing policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Anticipating possibilities to comply with potential upcoming policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

			Investing in initiatives to sustain and improve the competitive position of the firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Flexible responses to confront potential expropriation		Since Latam confronted policy changes and potential expropriation in the political contexts that were analyzed to understand the development of adaptive political capabilities, our research findings indicate that the flexible responses enabled by Latam's adaptive political capabilities to confront political uncertainties, can be categorized as either flexible responses to policy changes or flexible responses to potential expropriation.	Avoding the media	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Paying just prices to suppliers	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Changing the country of origin in the legal structure of an investment	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Substituting imports by local production to appear as a local value-adding firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Provisioning in financial statements the value of the investments that face potential expropriation in a host market	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Creating plans to manage a potential expropriation	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Mapping and analyzing the potential impact of interest groups in the firm's operations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Flexible responses to confront policy changes		Since Latam confronted policy changes and potential expropriation in the political contexts that were analyzed to understand the development of adaptive political capabilities, our research findings indicate that the flexible responses enabled by Latam's adaptive political capabilities to confront political uncertainties, can be categorized as either flexible responses to policy changes or flexible responses to potential expropriation.	Adequating the firm's products to ensure their compliance with the law	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Modifying the firm's organizational structure and processes to comply with the law	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

			Modifying the firm's organizational structure and processes not to comply with the law but to help it sustain its operations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Developing ways to supply a restricted market	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Monitoring the context	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Reducing operational costs to overcome increasing operational expenses related to governmental policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Revising prices to maintain competitiveness and assure the best possible profit	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Identifying products that can competitively and profitably be supplied in accordance to changing policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Anticipating possibilities to comply with potential upcoming policies	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Investing in initiatives to sustain and improve the competitive position of the firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Human capital resources	According to Barney (1991), human capital resources include the training, experience, judgement, intelligence, and insight of individual managers and workers in a firm.	Experience and knowledge (people internal and external to the firm)	Previous experience of the firm's employees	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Knowledge of internal employees about the context of a specific country	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

			Knowledge of external organizations or people to the firm about the context of a specific country	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Organizational resources	According to Barney (1991), organizational capital resources include a firm's formal reporting structure, its formal and informal planning, controlling, and coordinating systems, as well as informal relations among groups within a firm and between a firm and those in its environment.	Organizational structure and processes	Organizational processes	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Organizational structure	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Physical resources	According to Barney (1991), physical capital resources include the physical technology used in a firm, a firm's plant and equipment, its geographic location, and its access to raw materials.		New geographical location for the firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Access to raw materials	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Machinery and equipment	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Technological infrastructure	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Contextual knowledge of internal and external human resources	Knowledge about a specific context that internal or external people to the firm have (Eisenhardt & Martin, 2000).	Knowledge about a specific context that internal employees or external people and organizations to the firm have	Knowledge of internal employees about the context of a specific country	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Knowledge of external organizations or people to the firm about the context of a specific country	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Reconfigurations of organizational structure and processes	Are the redesign of certain elements or components of an organization's structure (Karim, 2006).	Reconfiguration of its organizational structure	Reconfiguration of its organizational structure	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

		Reconfiguration of its organizational processes	Reconfiguration of its organizational processes	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Investments in physical resources	Investments in physical capital resources refer to the act of investing in outsourcing, acquiring, or developing physical capital resources which include the physical technology used in a firm, a firm's plant and equipment, its geographic location, and its access to raw materials (Barney, 1991).		Investments in technological infrastructure	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Investments in machinery and equipment	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Investments in access to raw materials	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Investments in a new geographical location for the firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Managerial commitment to knowledge articulation	Means commitment to learning (McLarney & Dastrala, 2001) or to investments in learning (Zollo & Winter, 2002) which refers to assuring that knowledge articulation efforts take place in the firm and support the development process of capabilities. Knowledge articulation is the process through which experience and implicit knowledge is articulated by individuals through collective discussions, debriefing sessions, and outcomes evaluation processes (Zollo & Winter, 2002).		Sessions of collective discussions about what was learned through operations	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Interviews to the key employees involved	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			Formal evaluation of the strategies implemented and their outcomes	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

Managerial commitment to knowledge codification	Means commitment to learning (McLarney & Dastrala, 2001) or to investments in learning (Zollo & Winter, 2002) which refers to assuring that knowledge codification efforts take place in the firm and support the development process of capabilities. Knowledge codification takes place when individuals codify their understandings of the outcome implications of internal processes in written tools, such as frameworks, manuals, spreadsheets, decision support systems, etc (Zollo & Winter, 2002).		Creation of written tools such as manuals, protocols, frameworks, systems or others to support decision making	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
Lose the knowledge developed	A disaster takes place and affects the firm (fire, flood, robbery, computer break down, viruses)	The memory of the people who posses the knowledge fails, The people who posses the knowledge retire or leave the firm	People forget what they have learned	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			The people who possess the knowledge retire or leave the firm	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5
			A disaster takes place and affects the firm (fire, flood, robbery, computer break down, viruses)	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

Control variables	Literature Review	Findings in my research	Dimensions	Type of variables	Measurement scales	Coding
Country of origin of the firm			List of 198 countries in the world	nominal	(43) Colombia	43
					(136) Mexico	136
					(62) United States	62
					(105) Italy	105
					(191) Switzerland	191
Size			Micro firm	nominal	(1) Microfirm	1
			Small firm		(2) Small firm	2
			Medium firm		(3) Medium firm	3
			Large firm		(4) Large firm	4
Experience in foreign high political uncertainty contexts			Years	ratio	number of years between 0-13	0-13
Country scope			Number of countries	interval	Number of countries where firm operates 1-198	1-198
Status of operations in high political uncertainty contexts			The firm sustained its operations	nominal	(1) The firm sustained its operations	1
			The firm closed its operations		(2) The firm closed its operations	2
			The firm had no operations		(3) The firm had no operations	3
Type of operations in high political uncertainty contexts			The firm exported directly to its clients or third parties (not to its own distribution) in Venezuela, Ecuador, and Nicaragua	nominal	(1) YES	1
					(2) NO	2
			The firm owned production and distribution operations simultaneously in one country in Venezuela, Ecuador, and Nicaragua		(1) YES	1
					(2) NO	2
			The firm only owned distribution operations (did not owned production operations) in Venezuela, Ecuador, and Nicaragua	nominal	(1) YES	1
					(2) NO	2
			The firm owned production operations (did not owned distribution operations) in Venezuela, Ecuador, and Nicaragua		(1) YES	1
					(2) NO	2
Level of headquarters control			Involvement of counterparts in Venezuela, Ecuador or Nicaragua in the decisions of the firm regarding how to confront these foreign political contexts	interval	(1) None (2) (3) Some (4) (5) A lot	1 2 3 4 5

APPENDIX 7

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Cranfield
UNIVERSITY
School of Management

The development of political strategies for foreign high political uncertainty markets

Research overview and consent:

EAFIT University (Colombia) and Cranfield University (United Kingdom) are studying how firms in the Colombian processed food sector which have exported, distributed or produced their products in Venezuela, Ecuador or Nicaragua between 1999-2011, have managed to sustain their operations in these foreign markets despite their high political uncertainty. High political uncertainty in foreign markets occurs when it is likely that a firm's operations are affected by discriminatory changes in policies by a host government, or when the proprietary structure of a firm is threatened by a potential expropriation on behalf of a host government.

Your participation in this survey is of great importance since the firm that you work for is part of our population of study and it will allow the firm to be part of a contest to win an executive education course offered by EAFIT University between 2013-2014. The winner firm will be able to select the executive education course of its preference from the portfolio of executive courses of EAFIT University and benefitate by training one employee of its choice.

We ask you to please respond the attached survey which should take less than 15 minutes. Your participation is voluntary, you may retire at any time, and your responses will be anonymous, confidential and exclusively used for academic purposes. By returning this survey you are providing consent to participate. An executive summary of the survey findings will be sent to the interested firms upon completion of the study.

If you have any questions you may contact us at the following email:
mdevilla@eafit.edu.co

Sincerely,

Maria Andrea De Villa
Doctoral Researcher
Universidad EAFIT - Cranfield University

Tazeeb Rajwani, PhD
Supervisor
Cranfield University

SURVEY

No.

SECTION 1. GENERAL INFORMATION:

1) What is your job title? _____

2) How many years have you worked for the firm? _____

3) What is the firm's country of origin? _____

4) Mark with an "X" the classification of the firm according to the Colombian law 905 of 2004 (select only one answer that matches the highest classification of the firm by either its employees or assets):

- Micro firm*: No more than 10 employees. Total assets up to 500 current legal minimum monthly salaries in Colombian pesos (COP).
- Small firm*: Between 11 and 50 employees. Total assets between 501 and 5.000 current legal minimum monthly salaries in COP.
- Medium firm*: Between 51 and 200 employees. Total assets between 5.001 and 30.000 current legal minimum monthly salaries in COP.
- Large firm*: More than 200 employees. Total assets more than 30.000 current legal minimum monthly salaries in COP.

5) In how many countries, excluding Colombia, are the firm's products sold regardless of if they are exported to or produced in these countries? _____

6) Mark with an "X" the approximate number of years between 1999-2011 that the firm had operations in:

6.1. Venezuela: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

6.2. Ecuador: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

6.3. Nicaragua: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

7) Mark with an "X" the statement that best describes the firm's operations between 1999-2011 in the following markets. (The term *sustained* means the firm maintained operations, no matter if sales decreased.)

7.1. Venezuela:

- The firm sustained its operations
- The firm closed its operations
- The firm had no operations

7.2. Ecuador:

- The firm sustained its operations
- The firm closed its operations
- The firm had no operations

7.3. Nicaragua:

- The firm sustained its operations
- The firm closed its operations
- The firm had no operations

SECTION 2. KNOWLEDGE

8) Rate with an “X” *to what extent has the firm conducted the following activities to preserve the knowledge that it has developed about how to sustain operations in foreign high political uncertainty markets through its experience in Venezuela, Ecuador or Nicaragua between 1999-2011:*

	None	Some	A lot
8.1. Sessions of collective discussions about what was learned through operations	1	2	3 4 5
8.2. Interviews with the key employees involved	1	2	3 4 5
8.3. Formal evaluation of the strategies implemented and their outcomes	1	2	3 4 5
8.4. Creation of written tools such as a historical memory, manuals, protocols, frameworks, systems or others to support decision making	1	2	3 4 5

9) Rate with an “X” *the possibility of the firm losing the knowledge it has developed about how to sustain operations in high political uncertainty market, when the following situations occur:*

	None	Some	A lot
9.1. People forget what they have learned	1	2	3 4 5
9.2. People who possess the knowledge retire or leave the firm	1	2	3 4 5
9.3. A disaster takes place and affects the firm (e.i. fire, flood, robbery, computer break down, viruses)	1	2	3 4 5

SECTION 3. PERCEIVED POLITICAL UNCERTAINTY

10) Rate with an “X” *the certainty that the firm has had of each of the variables of the political context between 1999-2011:*

Variables of the political context	Very unpredictable	Very predictable	Very unpredictable	Very predictable	Very unpredictable	Very predictable
	<i>Venezuela</i>		<i>Ecuador</i>		<i>Nicaragua</i>	
10.1. Ability of the party in power to maintain control of the government	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.2. Threat of armed conflict	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.3. Tax policies	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.4. Monetary policy	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.5. Prices controlled by the government	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.6. National laws affecting international business	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.7. Legal regulations affecting the food sector	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.8. Tariffs on imported goods	1	2 3 4 5	1	2 3 4 5	1	2 3 4 5
10.9. Enforcement of existing laws	1	2 3 4	1	2 3 4	1	2 3 4
10.10. Public service provision (e.i. energy, gas, water, transport, communications)	1	2 3 4	1	2 3 4	1	2 3 4

11) Only respond the columns of the markets in which the firm has had sales between 1999-2011, by rating with an “X” to what extent has the firm used each of the following strategies to confront the high political uncertainty that it has perceived:

	None	Some	A lot	None	Some	A lot	None	Some	A lot						
	<u>Venezuela</u>			<u>Ecuador</u>			<u>Nicaragua</u>								
11.1. Reconfiguring its organizational structure	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.2. Reconfiguring its organizational processes	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.3. Using the previous experience of its employees	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.4. Using the knowledge of internal employees about the context of this specific market	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.5. Using the knowledge of external organizations or people about the context of this specific market	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.6. Investing in machinery and equipment to operate in this market (i.e. investing in energy plants to overcome energy cuts installed by a host government)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.7. Investing in access to raw materials (i.e. investing in developing raw materials to offer healthier products)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.8. Investing in technological infrastructure (i.e. investing in creating a backup in servers outside of a market to enable the access of information about an operation despite an expropriation from a host government)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.9. Investing in a new geographical location for the firm (i.e. investing in a new geographical location to supply a restricted market)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

SECTION 4. OPERATIONS AND STRATEGIES

12a) Mark with an “X” the countries to which the firm exported directly to its clients or third parties (not to its own distribution) between 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- None of the above (if this is your answer please go to question 13a)

12b) If the firm exported directly to its clients or third parties (not to its own distribution) in Venezuela, Ecuador or Nicaragua between 1999-2011, rate with an “X” to what extent it used each of the following strategies to confront the high political uncertainty in these markets and sustain its exports:

	None	Some	Alot		
12.1. Lobbying the Colombian government (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government towards the firm’s own interests)	1	2	3	4	5
12.2. Lobbying the host governments of Venezuela, Ecuador or Nicaragua (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence any of these governments towards the firm’s own interests)	1	2	3	4	5
12.3. Commissioning research projects and reporting research results to inform and influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.4. Using position papers or technical reports to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.5. Paying honoraria to politicians in Venezuela, Ecuador or Nicaragua for public speaking	1	2	3	4	5

12.6. Offering presentations as an “expert” firm about a given subject to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.7. Making financial contributions to politicians, political parties or causes in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.8. Paying travel expenses of government officers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.9. Inviting employees, suppliers, and customers to mobilize in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.10. Hiring relatives of politicians or having a firm member run for office or participate in government affairs in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.11. Using public relations in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.12. Supporting advertisement of a political cause or message in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.13. Offering thought leadership events or press conferences to support a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.14. Leading or participating in political education programmes in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.15. Diversifying the firm’s markets	1	2	3	4	5
12.16. Further penetrating the firm’s existing markets	1	2	3	4	5
12.17. Avoiding influencing the host governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.18. Adopting a low profile in Venezuela, Ecuador or Nicaragua (e.i. not being a market leader)	1	2	3	4	5
12.19. Adopting a neutral political stance	1	2	3	4	5
12.20. Representing the firm through locals before the host governments and local customers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.21. Not incurring in acts of corruption	1	2	3	4	5
12.22. Using human capital with knowledge about the host contexts of Venezuela, Ecuador or Nicaragua to understand, anticipate, and react to their political challenges	1	2	3	4	5
12.23. Carefully evaluating future investments in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.24. Investing in physical resources to overcome political challenges in Venezuela, Ecuador or Nicaragua (e.i. investing in energy plants to overcome energy cuts installed by a host government or investing in a new geographical location to supply a restricted market)	1	2	3	4	5
12.25. Sustaining permanent clear internal communications evidencing the firm’s focus on its operations and not on a political stance	1	2	3	4	5
12.26. Developing tools to assure the firm’s compliance with laws, its adequate management of governmental inspections or its maintenance of positive community and labor relations in Venezuela, Ecuador or Nicaragua (e.i. guidelines to guarantee the compliance of laws or to manage inspections)	1	2	3	4	5
12.27. Adequating the firm’s products to ensure their compliance with the laws of Venezuela, Ecuador or Nicaragua (e.i. changing the content of product labels to match the requirements of a new law)	1	2	3	4	5
12.28. Modifying the firm’s organizational structure or processes to comply with the laws of Venezuela, Ecuador or Nicaragua (e.i. modifying financial processes to meet with new accounting and taxing laws)	1	2	3	4	5
12.29. Modifying the firm’s organizational structure or processes not to comply with the laws of Venezuela, Ecuador or Nicaragua but to help it sustain its operations competitively in these markets (e.i. decreasing the number of employees in an operation to match decreasing sales)	1	2	3	4	5
12.30. Developing ways to supply the markets of Venezuela, Ecuador or Nicaragua despite their restrictions (e.i. through new distributors, a new geographical location, among others)	1	2	3	4	5
12.31. Monitoring the host contexts of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.32. Reducing operational costs to overcome increasing operational expenses related to governmental policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.33. Revising prices to maintain competitiveness and assure the best possible profit in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.34. Identifying products that can competitively and profitably be supplied in accordance to changing policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
12.35. Anticipating possibilities to comply with potential upcoming policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5

12.36. Investing in initiatives to sustain and improve the competitive position of the firm in Venezuela, Ecuador or Nicaragua (e.i. investing in developing healthier products)	1	2	3	4	5
12.44. Involving the export counterparts (agents, representatives, distributors) in Venezuela, Ecuador or Nicaragua in the decisions of the firm regarding how to confront these foreign political contexts	1	2	3	4	5

13a) Mark with an “X” the countries in which the firm owned production and distribution operations simultaneously in one country between 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- None of the above (*if this is your answer please go to question 14a*)

13b) If the firm owned production and distribution operations simultaneously in one country in Venezuela, Ecuador or Nicaragua between 1999-2011, rate with an “X” to what extent it used each of the following strategies to confront the high political uncertainty in these markets and sustain its own production and distribution:

	None	Some	A lot		
13.1. Lobbying the Colombian government (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government towards the firm’s own interests)	1	2	3	4	5
13.2. Lobbying the host governments of Venezuela, Ecuador or Nicaragua (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence any of these governments towards the firm’s own interests)	1	2	3	4	5
13.3. Commissioning research projects and reporting research results to inform and influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.4. Using position papers or technical reports to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.5. Paying honoraria to politicians in Venezuela, Ecuador or Nicaragua for public speaking	1	2	3	4	5
13.6. Offering presentations as an “expert” firm about a given subject to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.7. Making financial contributions to politicians, political parties or causes in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.8. Paying travel expenses of government officers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.9. Inviting employees, suppliers, and customers to mobilize in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.10. Hiring relatives of politicians or having a firm member run for office or participate in government affairs in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.11. Using public relations in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.12. Supporting advertisement of a political cause or message in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.13. Offering thought leadership events or press conferences to support a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.14. Leading or participating in political education programmes in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.15. Diversifying the firm’s markets	1	2	3	4	5
13.16. Further penetrating the firm’s existing markets	1	2	3	4	5
13.17. Avoiding influencing the host governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.18. Adopting a low profile in Venezuela, Ecuador or Nicaragua (e.i. not being a market leader)	1	2	3	4	5
13.19. Adopting a neutral political stance	1	2	3	4	5
13.20. Representing the firm through locals before the host governments and local customers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.21. Not incurring in acts of corruption	1	2	3	4	5
13.22. Using human capital with knowledge about the host contexts of Venezuela, Ecuador or Nicaragua	1	2	3	4	5

to understand, anticipate, and react to their political challenges					
13.23. Carefully evaluating future investments in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.24. Investing in physical resources to overcome political challenges in Venezuela, Ecuador or Nicaragua (e.i. investing in energy plants to overcome energy cuts installed by a host government or investing in a new geographical location to supply a restricted market)	1	2	3	4	5
13.25. Sustaining permanent clear internal communications evidencing the firm's focus on its operations and not on a political stance	1	2	3	4	5
13.26. Developing tools to assure the firm's compliance with laws, its adequate management of governmental inspections or its maintenance of positive community and labor relations in Venezuela, Ecuador or Nicaragua (e.i. guidelines to guarantee the compliance of laws or to manage inspections)	1	2	3	4	5
13.27. Adequating the firm's products to ensure their compliance with the laws of Venezuela, Ecuador or Nicaragua (e.i. changing the content of product labels to match the requirements of a new law)	1	2	3	4	5
13.28. Modifying the firm's organizational structure or processes to comply with the laws of Venezuela, Ecuador or Nicaragua (e.i. modifying financial processes to meet with new accounting and taxing laws)	1	2	3	4	5
13.29. Modifying the firm's organizational structure or processes not to comply with the laws of Venezuela, Ecuador or Nicaragua but to help it sustain its operations competitively in these markets (e.i. decreasing the number of employees in an operation to match decreasing sales)	1	2	3	4	5
13.30. Developing ways to supply the markets of Venezuela, Ecuador or Nicaragua despite their restrictions (e.i. through new distributors, a new geographical location, among others)	1	2	3	4	5
13.31. Monitoring the host contexts of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.32. Reducing operational costs to overcome increasing operational expenses related to governmental policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.33. Revising prices to maintain competitiveness and assure the best possible profit in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.34. Identifying products that can competitively and profitably be supplied in accordance to changing policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.35. Anticipating possibilities to comply with potential upcoming policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.36. Investing in initiatives to sustain and improve the competitive position of the firm in Venezuela, Ecuador or Nicaragua (e.i. investing in developing healthier products)	1	2	3	4	5
13.37. Avoiding the media so that statements made by the firm cannot be used or manipulated in favor or against a political stance	1	2	3	4	5
13.38. Paying just prices to suppliers to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.39. Changing the country of origin in the legal structure of an investment in Venezuela, Ecuador or Nicaragua to protect it against a potential expropriation	1	2	3	4	5
13.40. Substituting imports by local production to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.41. Provisioning in financial statements the value of the investments that face potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.42. Creating plans to manage a potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.43. Mapping and analyzing the potential impact of interest groups on the firm's operations in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
13.44. Involving the production and distribution operations in Venezuela, Ecuador or Nicaragua in the decisions of the firm regarding how to confront these foreign political contexts	1	2	3	4	5

14a) Mark with an "X" the countries in which the firm only owned distribution operations (did not owned production operations) between 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- None of the above (if this is your answer please go to question 15a)

14b) If the firm *only owned distribution operations (did not owned production operations)* in Venezuela, Ecuador or Nicaragua between 1999-2011, rate with an “X” to what extent it used each of the following strategies to confront the high political uncertainty in these markets and sustain its own distribution:

	None	Some	A lot		
14.1. Lobbying the Colombian government (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government towards the firm’s own interests)	1	2	3	4	5
14.2. Lobbying the host governments of Venezuela, Ecuador or Nicaragua (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence any of these governments towards the firm’s own interests)	1	2	3	4	5
14.3. Commissioning research projects and reporting research results to inform and influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.4. Using position papers or technical reports to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.5. Paying honoraria to politicians in Venezuela, Ecuador or Nicaragua for public speaking	1	2	3	4	5
14.6. Offering presentations as an “expert” firm about a given subject to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.7. Making financial contributions to politicians, political parties or causes in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.8. Paying travel expenses of government officers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.9. Inviting employees, suppliers, and customers to mobilize in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.10. Hiring relatives of politicians or having a firm member run for office or participate in government affairs in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.11. Using public relations in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.12. Supporting advertisement of a political cause or message in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.13. Offering thought leadership events or press conferences to support a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.14. Leading or participating in political education programmes in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.15. Diversifying the firm’s markets	1	2	3	4	5
14.16. Further penetrating the firm’s existing markets	1	2	3	4	5
14.17. Avoiding influencing the host governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.18. Adopting a low profile in Venezuela, Ecuador or Nicaragua (e.i. not being a market leader)	1	2	3	4	5
14.19. Adopting a neutral political stance	1	2	3	4	5
14.20. Representing the firm through locals before the host governments and local customers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.21. Not incurring in acts of corruption	1	2	3	4	5
14.22. Using human capital with knowledge about the host contexts of Venezuela, Ecuador or Nicaragua to understand, anticipate, and react to their political challenges	1	2	3	4	5
14.23. Carefully evaluating future investments in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.24. Investing in physical resources to overcome political challenges in Venezuela, Ecuador or Nicaragua (e.i. investing in energy plants to overcome energy cuts installed by a host government or investing in a new geographical location to supply a restricted market)	1	2	3	4	5
14.25. Sustaining permanent clear internal communications evidencing the firm’s focus on its operations and not on a political stance	1	2	3	4	5
14.26. Developing tools to assure the firm’s compliance with laws, its adequate management of governmental inspections or its maintenance of positive community and labor relations in Venezuela, Ecuador or Nicaragua (e.i. guidelines to guarantee the compliance of laws or to manage inspections)	1	2	3	4	5
14.27. Adequating the firm’s products to ensure their compliance with the laws of Venezuela, Ecuador or Nicaragua (e.i. changing the content of product labels to match the requirements of a new law)	1	2	3	4	5
14.28. Modifying the firm’s organizational structure or processes to comply with the laws of Venezuela, Ecuador or Nicaragua (e.i. modifying financial processes to meet with new accounting and taxing laws)	1	2	3	4	5

14.29. Modifying the firm's organizational structure or processes not to comply with the laws of Venezuela, Ecuador or Nicaragua but to help it sustain its operations competitively in these markets (e.i. decreasing the number of employees in an operation to match decreasing sales)	1	2	3	4	5
14.30. Developing ways to supply the markets of Venezuela, Ecuador or Nicaragua despite their restrictions (e.i. through new distributors, a new geographical location, among others)	1	2	3	4	5
14.31. Monitoring the host contexts of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.32. Reducing operational costs to overcome increasing operational expenses related to governmental policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.33. Revising prices to maintain competitiveness and assure the best possible profit in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.34. Identifying products that can competitively and profitably be supplied in accordance to changing policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.35. Anticipating possibilities to comply with potential upcoming policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.36. Investing in initiatives to sustain and improve the competitive position of the firm in Venezuela, Ecuador or Nicaragua (e.i. investing in developing healthier products)	1	2	3	4	5
14.37. Avoiding the media so that statements made by the firm cannot be used or manipulated in favor or against a political stance	1	2	3	4	5
14.38. Paying just prices to suppliers to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.39. Changing the country of origin in the legal structure of an investment in Venezuela, Ecuador or Nicaragua to protect it against a potential expropriation	1	2	3	4	5
14.40. Substituting imports by local production to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.41. Provisioning in financial statements the value of the investments that face potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.42. Creating plans to manage a potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.43. Mapping and analyzing the potential impact of interest groups on the firm's operations in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
14.44. Involving the distribution operation in Venezuela, Ecuador or Nicaragua in the decisions of the firm regarding how to confront these foreign political contexts	1	2	3	4	5

15a) Mark with an "X" the countries in which the firm owned production operations (did not owned distribution operations) between 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- None of the above (*if this is your answer please go to question 16*)

15b) If the firm owned production operations (did not owned distribution operations) in Venezuela, Ecuador or Nicaragua between 1999-2011, rate with an "X" to what extent it used each of the following strategies to confront the high political uncertainty in these markets and sustain its own production:

	None	Some	A lot		
15.1. Lobbying the Colombian government (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence the government towards the firm's own interests)	1	2	3	4	5
15.2. Lobbying the host governments of Venezuela, Ecuador or Nicaragua (e.i. by communicating opinions or information to policy makers through informal meetings, formal settings or social settings to influence any of these governments towards the firm's own interests)	1	2	3	4	5
15.3. Commissioning research projects and reporting research results to inform and influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.4. Using position papers or technical reports to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5

15.5. Paying honoraria to politicians in Venezuela, Ecuador or Nicaragua for public speaking	1	2	3	4	5
15.6. Offering presentations as an “expert” firm about a given subject to influence the governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.7. Making financial contributions to politicians, political parties or causes in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.8. Paying travel expenses of government officers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.9. Inviting employees, suppliers, and customers to mobilize in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.10. Hiring relatives of politicians or having a firm member run for office or participate in government affairs in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.11. Using public relations in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.12. Supporting advertisement of a political cause or message in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.13. Offering thought leadership events or press conferences to support a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.14. Leading or participating in political education programmes in favor of a politician, political party or cause in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.15. Diversifying the firm’s markets	1	2	3	4	5
15.16. Further penetrating the firm’s existing markets	1	2	3	4	5
15.17. Avoiding influencing the host governments of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.18. Adopting a low profile in Venezuela, Ecuador or Nicaragua (e.i. not being a market leader)	1	2	3	4	5
15.19. Adopting a neutral political stance	1	2	3	4	5
15.20. Representing the firm through locals before the host governments and local customers in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.21. Not incurring in acts of corruption	1	2	3	4	5
15.22. Using human capital with knowledge about the host contexts of Venezuela, Ecuador or Nicaragua to understand, anticipate, and react to their political challenges	1	2	3	4	5
15.23. Carefully evaluating future investments in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.24. Investing in physical resources to overcome political challenges in Venezuela, Ecuador or Nicaragua (e.i. investing in energy plants to overcome energy cuts installed by a host government or investing in a new geographical location to supply a restricted market)	1	2	3	4	5
15.25. Sustaining permanent clear internal communications evidencing the firm’s focus on its operations and not on a political stance	1	2	3	4	5
15.26. Developing tools to assure the firm’s compliance with laws, its adequate management of governmental inspections or its maintenance of positive community and labor relations in Venezuela, Ecuador or Nicaragua (e.i. guidelines to guarantee the compliance of laws or to manage inspections)	1	2	3	4	5
15.27. Adequating the firm’s products to ensure their compliance with the laws of Venezuela, Ecuador or Nicaragua (e.i. changing the content of product labels to match the requirements of a new law)	1	2	3	4	5
15.28. Modifying the firm’s organizational structure or processes to comply with the laws of Venezuela, Ecuador or Nicaragua (e.i. modifying financial processes to meet with new accounting and taxing laws)	1	2	3	4	5
15.29. Modifying the firm’s organizational structure or processes not to comply with the laws of Venezuela, Ecuador or Nicaragua but to help it sustain its operations competitively in these markets (e.i. decreasing the number of employees in an operation to match decreasing sales)	1	2	3	4	5
15.30. Developing ways to supply the markets of Venezuela, Ecuador or Nicaragua despite their restrictions (e.i. through new distributors, a new geographical location, among others)	1	2	3	4	5
15.31. Monitoring the host contexts of Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.32. Reducing operational costs to overcome increasing operational expenses related to governmental policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.33. Revising prices to maintain competitiveness and assure the best possible profit in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.34. Identifying products that can competitively and profitably be supplied in accordance to changing policies in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.35. Anticipating possibilities to comply with potential upcoming policies in Venezuela, Ecuador or	1	2	3	4	5

Nicaragua					
15.36. Investing in initiatives to sustain and improve the competitive position of the firm in Venezuela, Ecuador or Nicaragua (e.i. investing in developing healthier products)	1	2	3	4	5
15.37. Avoiding the media so that statements made by the firm cannot be used or manipulated in favor or against a political stance	1	2	3	4	5
15.38. Paying just prices to suppliers to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.39. Changing the country of origin in the legal structure of an investment in Venezuela, Ecuador or Nicaragua to protect it against a potential expropriation	1	2	3	4	5
15.40. Substituting imports by local production to appear as a local value-adding firm in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.41. Provisioning in financial statements the value of the investments that face potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.42. Creating plans to manage a potential expropriation in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.43. Mapping and analyzing the potential impact of interest groups on the firm's operations in Venezuela, Ecuador or Nicaragua	1	2	3	4	5
15.44. Involving the production operation in Venezuela, Ecuador or Nicaragua in the decisions of the firm regarding how to confront these foreign political contexts	1	2	3	4	5

16) Please provide an email through which you can be contacted in case the firm wins the executive extension course offered by EAFIT University: _____

17) Please tick the box indicating if you wish to receive an executive summary of the survey findings through the previous email: YES NO

18) Please provide the name of the firm to allow us to contact one more employee to complete this survey: _____

19) Please suggest the name and/or position of one other employee within the firm who can be contacted to respond this survey: _____

THANK YOU FOR YOUR TIME!

APPENDIX 8

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Investigación sobre el desarrollo de estrategias políticas para mercados foráneos de alta incertidumbre política

Generalidades de la investigación y consentimiento:

La Universidad EAFIT (Colombia) y Cranfield University (Reino Unido) se encuentran investigando como las empresas en el sector de alimentos procesados en Colombia, que hayan tenido exportaciones, distribución propia y/o producción propia en Venezuela, Ecuador o Nicaragua entre 1999-2011, lograron sostener sus operaciones en estos mercados foráneos a pesar de su alta incertidumbre política. La alta incertidumbre política en mercados foráneos se da cuando es muy probable que las operaciones de una empresa sean afectadas por cambios discriminatorios en las políticas de un gobierno foráneo, o cuando la estructura de propiedad de una empresa se ve amenazada por una potencial expropiación por parte de un gobierno foráneo.

Su participación en esta investigación es muy importante debido a que la empresa para la cual usted trabaja hace parte de la población de estudio y le permitirá concursar por un diplomado abierto al público ofrecido por la Universidad EAFIT durante el 2013-2014. La empresa ganadora podrá seleccionar el diplomado abierto al público de su preferencia dentro del portafolio de diplomados de la Universidad EAFIT y se beneficiará capacitando a un empleado de su selección.

Le solicitamos el favor de responder la encuesta adjunta, la cual no debe tomarle más de 15 minutos. Su participación es voluntaria, puede retirarse en cualquier momento y sus respuestas serán anónimas, confidenciales y utilizadas exclusivamente para fines académicos. Al devolver la encuesta usted da su consentimiento para hacer parte de esta investigación. Un resumen ejecutivo de los resultados será enviado a las empresas que lo deseen al ser concluido el estudio.

Si tiene alguna pregunta puede contactarnos enviado un email a: mdevilla@eafit.edu.co

Agradecemos su atención,

Maria Andrea De Villa
Investigadora Doctoral
Universidad EAFIT - Cranfield University

Tazeeb Rajwani, PhD
Profesor Investigador
Cranfield University

ENCUESTA

No.

SECCIÓN 1. INFORMACIÓN GENERAL:

1) ¿Cuál es su cargo en la empresa? _____

2) ¿Cuántos años ha trabajado en la empresa? _____

3) ¿Cual es el país de origen de la empresa? _____

4) Seleccione con una “X” la clasificación de la ley 905 de 2004 que representa a la empresa (seleccione solo una respuesta que esté acorde con la clasificación más alta de la empresa, ya sea a través de sus empleados o activos):

- Microempresa*: Personal no superior a 10 trabajadores. Activos totales hasta 500 salarios mínimos mensuales legales vigentes.
- Pequeña empresa*: Personal entre 11 y 50 trabajadores. Activos totales entre 501 y 5.000 salarios mínimos mensuales legales vigentes.
- Mediana empresa*: Personal entre 51 y 200 trabajadores. Activos totales entre 5.001 y 30.000 salarios mínimos mensuales legales vigentes.
- Gran empresa*: Personal superior a 200 trabajadores. Activos totales superiores a 30.000 salarios mínimos mensuales legales vigentes.

5) ¿En cuantos países, excluyendo Colombia, se venden los productos de la empresa sin importar si son exportados hacia o producidos en esos países? _____

6) Seleccione con una “X” el número aproximado de años entre 1999-2011 durante los cuales la empresa tuvo operaciones en:

6.1. Venezuela: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

6.2. Ecuador: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

6.3. Nicaragua: 0 1 2 3 4 5 6 7 8 9 10 11 12 13

7) Seleccione con una “X” el enunciado que mejor describe las operaciones de la empresa entre 1999-2011 en Venezuela, Ecuador o Nicaragua. (El término “sostuvo” significa que la empresa mantuvo sus operaciones, sin importar si sus ventas disminuyeron.)

7.1. Venezuela:

- La empresa sostuvo sus operaciones
- La empresa cerró sus operaciones
- La empresa no tuvo operaciones

7.2. Ecuador:

- La empresa sostuvo sus operaciones
- La empresa cerró sus operaciones
- La empresa no tuvo operaciones

7.3. Nicaragua:

- La empresa sostuvo sus operaciones
- La empresa cerró sus operaciones

- La empresa no tuvo operaciones

SECCIÓN 2. CONOCIMIENTO

8) Califique con una "X" que tanto la empresa ha realizado las siguientes actividades para conservar el conocimiento que ha desarrollado sobre como sostener sus operaciones en entornos foráneos de alta incertidumbre política a partir de su experiencia en Venezuela, Ecuador o Nicaragua entre 1999-2011:

	Nada	Algo	Mucho		
8.1. Sesiones de discusiones colectivas sobre lo aprendido a través de las operaciones	1	2	3	4	5
8.2. Entrevistas al personal clave involucrado	1	2	3	4	5
8.3. Evaluación formal de las estrategias implementadas y sus resultados	1	2	3	4	5
8.4. Creación de herramientas escritas como memorias históricas, manuales, protocolos, modelos, o sistemas para apoyar la toma de decisiones	1	2	3	4	5

9) Califique con una "X" la posibilidad que tiene la empresa de perder el conocimiento que ha desarrollado sobre como sostener sus operaciones en entornos foráneos de alta incertidumbre política, cuando se presenten las siguientes situaciones:

	Ninguna	Alguna	Mucha		
9.1. Las personas olviden lo que lo aprendieron	1	2	3	4	5
9.2. Las personas que tienen este conocimiento se jubilen o se marchen de la empresa	1	2	3	4	5
9.3. Ocurra un siniestro en la empresa (e.j. incendio, inundación, robo, daño de computadores, virus)	1	2	3	4	5

SECCIÓN 3. INCERTIDUMRE POLÍTICA PERCIBIDA

10) Califique con una "X" que tanta certeza ha tenido la empresa sobre cada una de las siguientes variables del entorno político entre 1999-2011:

Variables del entorno político	Muy impredecible	Muy predecible	Muy impredecible	Muy predecible	Muy impredecible	Muy predecible				
	<u>Venezuela</u>		<u>Ecuador</u>		<u>Nicaragua</u>					
10.1. Habilidad del partido en el poder de mantener control del gobierno	1	2	3	4	5	1	2	3	4	5
10.2. Amenaza de un conflicto armado	1	2	3	4	5	1	2	3	4	5
10.3. Políticas de impuestos	1	2	3	4	5	1	2	3	4	5
10.4. Política monetaria	1	2	3	4	5	1	2	3	4	5
10.5. Precios controlados por el gobierno	1	2	3	4	5	1	2	3	4	5
10.6. Leyes nacionales que afectan a los negocios internacionales	1	2	3	4	5	1	2	3	4	5
10.7. Regulaciones legales que afectan al sector de alimentos	1	2	3	4	5	1	2	3	4	5
10.8. Tarifas a bienes importados	1	2	3	4	5	1	2	3	4	5
10.9. Aplicación de las leyes existentes	1	2	3	4	5	1	2	3	4	5
10.10. Provisión de servicios públicos (e.j. energía, gas, agua, transporte, comunicaciones)	1	2	3	4	5	1	2	3	4	5

11) Solo para los mercados en los cuales la empresa tuvo ventas entre 1999-2011, califique con una "X"

que tanto la empresa utilizó cada una de las siguientes estrategias para confrontar la alta incertidumbre política que ha percibido:

Estrategias	Nada	Algo	Mucho	Nada	Algo	Mucho	Nada	Algo	Mucho						
	<u>Venezuela</u>			<u>Ecuador</u>			<u>Nicaragua</u>								
11.1. Modificar su estructura organizacional	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.2. Modificar sus procesos organizacionales	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.3. Utilizar la experiencia previa de sus empleados	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.4. Utilizar el conocimiento de sus empleados internos sobre el contexto de ese mercado específico	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.5. Utilizar el conocimiento de personas u organizaciones externas a la empresa sobre el contexto de ese mercado específico	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.6. Invertir en maquinaria y equipos para lograr atender ese mercado (e.j. invertir en plantas de energía para sobreponerse a cortes en la energía instalados por un gobierno foráneo)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.7. Invertir en el acceso a materias primas para lograr atender ese mercado (e.j. invertir en el desarrollo de materias primas para lograr productos más saludables exigidos por la ley)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.8. Invertir en infraestructura tecnológica (e.j. invertir en un back-up en servidores por fuera del mercado para poder acceder a la información de un operación en caso de una expropiación por parte del gobierno foráneo)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5
11.9. Invertir en la ubicación geográfica de parte de la estructura organizacional de la empresa para lograr atender ese mercado (e.j. invertir en una nueva ubicación geográfica para proveer a un mercado restringido)	1	2	3	4	5	1	2	3	4	5	1	2	3	4	5

SECCIÓN 4. OPERACIONES Y ESTRATEGIAS

12a) Seleccione con una "X" los países hacia los cuales la empresa exportó directamente a clientes o terceros (no a su distribución propia) entre 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- Ninguno de los anteriores (*si esta es su respuesta por favor pase la pregunta 13a*)

12b) Si la empresa exportó directamente a clientes o terceros (no a su distribución propia) en Venezuela, Ecuador o Nicaragua entre 1999-2011, califique con una "X" que tanto utilizó cada una de las siguientes estrategias para confrontar la alta incertidumbre política en cualquiera de estos mercados y lograr sostener sus exportaciones:

	Nada	Algo	Mucho		
	1	2	3	4	5
12.1. Lobby al gobierno Colombiano (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar al gobierno hacia los intereses particulares de la empresa)	1	2	3	4	5

12.2. Lobby a cualquiera de los gobiernos foráneos de Venezuela, Ecuador o Nicaragua (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar a cualquiera de estos gobiernos hacia los intereses particulares de la empresa)	1	2	3	4	5
12.3. Realizar o apoyar investigaciones para informar sus resultados e influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.4. Usar reportes técnicos para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.5. Pagar a políticos en Venezuela, Ecuador o Nicaragua por su realización de discursos públicos	1	2	3	4	5
12.6. Elaborar presentaciones como empresa “experta” sobre algún tema para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.7. Hacer contribuciones financieras a políticos, partidos o causas políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.8. Pagar gastos de viaje a funcionarios de los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.9. Invitar a empleados, proveedores o clientes a movilizarse a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.10. Contratar a familiares de políticos o lograr que alguien de la empresa postule una candidatura o participe en los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.11. Usar relaciones públicas a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.12. Apoyar la publicidad de una causa o mensaje político en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.13. Realizar eventos sobre pensamientos de liderazgo o conferencias de prensa para apoyar a un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.14. Realizar programas de educación política a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.15. Diversificar los mercados de la empresa	1	2	3	4	5
12.16. Penetrar los mercados existentes de la empresa	1	2	3	4	5
12.17. Evitar influenciar a los gobiernos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.18. Adoptar un perfil bajo en Venezuela, Ecuador o Nicaragua (e.j. no siendo el líder del mercado)	1	2	3	4	5
12.19. Adoptar una postura política neutral	1	2	3	4	5
12.20. Representar a la empresa a través de locales ante los gobiernos foráneos y los clientes locales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.21. No incurrir en actos de corrupción	1	2	3	4	5
12.22. Utilizar capital humano con conocimiento sobre los contextos foráneos de Venezuela, Ecuador o Nicaragua para entender, anticiparse y reaccionar ante los retos políticos de estos mercados	1	2	3	4	5
12.23. Evaluar cuidadosamente futuras inversiones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.24. Invertir en recursos físicos para enfrentar retos políticos en Venezuela, Ecuador o Nicaragua (e.j. invertir en plantas de energía para sobreponerse a cortes en la energía instalados por un gobierno foráneo o invertir en una nueva ubicación geográfica para proveer a un mercado restringido)	1	2	3	4	5
12.25. Sustener permanentemente comunicaciones internas claras evidenciando el enfoque de la empresa en sus operaciones y no en una postura política	1	2	3	4	5
12.26. Desarrollar herramientas para asegurar el cumplimiento de las leyes, el buen manejo de inspecciones gubernamentales o el mantenimiento de buenas relaciones laborales y comunitarias en Venezuela, Ecuador o Nicaragua (e.j. guías para garantizar el cumplimiento de las leyes, guías para atender inspecciones)	1	2	3	4	5
12.27. Adecuar los productos de la empresa para asegurar su cumplimiento con las leyes de Venezuela, Ecuador o Nicaragua (e.j. cambiar el contenido de las etiquetas de los productos de acuerdo a los requerimientos de una nueva ley)	1	2	3	4	5
12.28. Modificar la estructura y los procesos de la empresa para cumplir con las leyes de Venezuela, Ecuador o Nicaragua (e.j. modificar los procesos financieros para cumplir con nuevas leyes contables y de impuestos)	1	2	3	4	5
12.29. Modificar la estructura y los procesos de la empresa no para cumplir con las leyes de Venezuela, Ecuador o Nicaragua sino para mantener sus operaciones de manera competitiva en estos mercados (e.j. disminuir el número de empleados en una operación para equipar una disminución en las ventas)	1	2	3	4	5
12.30. Desarrollar alternativas para proveer a los mercados de Venezuela, Ecuador o Nicaragua a pesar de	1	2	3	4	5

sus restricciones (e.j. a través de nuevos distribuidores, una nueva ubicación geográfica, entre otros)					
12.31. Monitorear los contextos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.32. Reducir costos para sobreponerse a aumentos en gastos operacionales relacionados con políticas gubernamentales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.33. Revisar precios para mantener la competitividad y asegurar el mejor margen posible en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.34. Identificar productos que puedan proveerse de manera competitiva y rentable de acuerdo a las cambiantes políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.35. Anticipar alternativas para cumplir con potenciales políticas a futuro en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
12.36. Invertir en iniciativas para mantener la posición competitiva de la empresa en Venezuela, Ecuador o Nicaragua (e.j. invertir en desarrollar productos más saludables)	1	2	3	4	5
12.44. Involucrar a la contraparte del proceso de exportación (agente, representante, distribuidor, etc) en Venezuela, Ecuador o Nicaragua en las decisiones de la empresa sobre como confrontar estos contextos políticos foráneos	1	2	3	4	5

13a) Seleccione con una “X” los países en los cuales la empresa tuvo distribución y producción propias simultáneamente en un país entre 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- Ninguno de los anteriores (*si esta es su respuesta por favor pase la pregunta 14a*)

13b) Si la empresa tuvo operaciones de distribución y producción propias simultáneamente en un país en Venezuela, Ecuador o Nicaragua entre 1999-2011, califique con una “X” que tanto utilizó cada una de las siguientes estrategias para confrontar la alta incertidumbre política en cualquiera de estos mercados y lograr sostener su distribución y producción propias:

	Nada	Algo	Mucho		
13.1. Lobby al gobierno Colombiano (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar al gobierno hacia los intereses particulares de la empresa)	1	2	3	4	5
13.2. Lobby a cualquiera de los gobiernos foráneos de Venezuela, Ecuador o Nicaragua (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar a cualquiera de estos gobiernos hacia los intereses particulares de la empresa)	1	2	3	4	5
13.3. Realizar o apoyar investigaciones para informar sus resultados e influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.4. Usar reportes técnicos para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.5. Pagar a políticos en Venezuela, Ecuador o Nicaragua por su realización de discursos públicos	1	2	3	4	5
13.6. Elaborar presentaciones como empresa “experta” sobre algún tema para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.7. Hacer contribuciones financieras a políticos, partidos o causas políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.8. Pagar gastos de viaje a funcionarios de los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.9. Invitar a empleados, proveedores o clientes a movilizarse a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.10. Contratar a familiares de políticos o lograr que alguien de la empresa postule una candidatura o participe en los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.11. Usar relaciones públicas a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.12. Apoyar la publicidad de una causa o mensaje político en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.13. Realizar eventos sobre pensamientos de liderazgo o conferencias de prensa para apoyar a un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5

13.14. Realizar programas de educación política a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.15. Diversificar los mercados de la empresa	1	2	3	4	5
13.16. Penetrar los mercados existentes de la empresa	1	2	3	4	5
13.17. Evitar influenciar a los gobiernos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.18. Adoptar un perfil bajo en Venezuela, Ecuador o Nicaragua (e.j. no siendo el líder del mercado)	1	2	3	4	5
13.19. Adoptar una postura política neutral	1	2	3	4	5
13.20. Representar a la empresa a través de locales ante los gobiernos foráneos y los clientes locales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.21. No incurrir en actos de corrupción	1	2	3	4	5
13.22. Utilizar capital humano con conocimiento sobre los contextos foráneos de Venezuela, Ecuador o Nicaragua para entender, anticiparse y reaccionar ante los retos políticos de estos mercados	1	2	3	4	5
13.23. Evaluar cuidadosamente futuras inversiones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.24. Invertir en recursos físicos para enfrentar retos políticos en Venezuela, Ecuador o Nicaragua (e.j. invertir en plantas de energía para sobreponerse a cortes en la energía instalados por un gobierno foráneo o invertir en una nueva ubicación geográfica para proveer a un mercado restringido)	1	2	3	4	5
13.25. Sostener permanentemente comunicaciones internas claras evidenciando el enfoque de la empresa en sus operaciones y no en una postura política	1	2	3	4	5
13.26. Desarrollar herramientas para asegurar el cumplimiento de las leyes, el buen manejo de inspecciones gubernamentales o el mantenimiento de buenas relaciones laborales y comunitarias en Venezuela, Ecuador o Nicaragua (e.j. guías para garantizar el cumplimiento de las leyes, guías para atender inspecciones)	1	2	3	4	5
13.27. Adecuar los productos de la empresa para asegurar su cumplimiento con las leyes de Venezuela, Ecuador o Nicaragua (e.j. cambiar el contenido de las etiquetas de los productos de acuerdo a los requerimientos de una nueva ley)	1	2	3	4	5
13.28. Modificar la estructura y los procesos de la empresa para cumplir con las leyes de Venezuela, Ecuador o Nicaragua (e.j. modificar los procesos financieros para cumplir con nuevas leyes contables y de impuestos)	1	2	3	4	5
13.29. Modificar la estructura y los procesos de la empresa no para cumplir con las leyes de Venezuela, Ecuador o Nicaragua sino para mantener sus operaciones de manera competitiva en estos mercados (e.j. disminuir el número de empleados en una operación para equipar una disminución en las ventas)	1	2	3	4	5
13.30. Desarrollar alternativas para proveer a los mercados de Venezuela, Ecuador o Nicaragua a pesar de sus restricciones (e.j. a través de nuevos distribuidores, una nueva ubicación geográfica, entre otros)	1	2	3	4	5
13.31. Monitorear los contextos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.32. Reducir costos para sobreponerse a aumentos en gastos operacionales relacionados con políticas gubernamentales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.33. Revisar precios para mantener la competitividad y asegurar el mejor margen posible en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.34. Identificar productos que puedan proveerse de manera competitiva y rentable de acuerdo a las cambiantes políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.35. Anticipar alternativas para cumplir con potenciales políticas a futuro en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.36. Invertir en iniciativas para mantener la posición competitiva de la empresa en Venezuela, Ecuador o Nicaragua (e.j. invertir en desarrollar productos más saludables)	1	2	3	4	5
13.37. Evadir a los medios para que las declaraciones de la empresa no se puedan utilizar o manipular a favor o en contra de una postura política	1	2	3	4	5
13.38. Pagar precios justos a los proveedores para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.39. Modificar el país de origen de la estructura legal de una inversión en Venezuela, Ecuador o Nicaragua para protegerla ante una potencial expropiación	1	2	3	4	5
13.40. Substituir importaciones por producción local para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5

13.41. Provisionar en los estados financieros el valor de las inversiones que enfrenten una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.42. Crear planes para afrontar una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.43. Identificar y analizar el potencial impacto de grupos de interés en las operaciones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
13.44. Involucrar a las operaciones de producción y distribución en Venezuela, Ecuador o Nicaragua en las decisiones de la empresa sobre como confrontar estos contextos políticos foráneos	1	2	3	4	5

14a) Seleccione con una “X” los países en los cuales la empresa tuvo distribución propia (sin producción propia) entre 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- Ninguno de los anteriores (*si esta es su respuesta por favor pase la pregunta 15a*)

14b) Si la empresa tuvo una operación de distribución propia (sin producción propia) en Venezuela, Ecuador o Nicaragua entre 1999-2011, califique con una “X” que tanto utilizó cada una de las siguientes estrategias para confrontar la alta incertidumbre política en cualquiera de estos mercados y lograr sostener su distribución propia:

	Nada	Algo	Mucho		
14.1. Lobby al gobierno Colombiano (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar al gobierno hacia los intereses particulares de la empresa)	1	2	3	4	5
14.2. Lobby a cualquiera de los gobiernos foráneos de Venezuela, Ecuador o Nicaragua (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar a cualquiera de estos gobiernos hacia los intereses particulares de la empresa)	1	2	3	4	5
14.3. Realizar o apoyar investigaciones para informar sus resultados e influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.4. Usar reportes técnicos para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.5. Pagar a políticos en Venezuela, Ecuador o Nicaragua por su realización de discursos públicos	1	2	3	4	5
14.6. Elaborar presentaciones como empresa “experta” sobre algún tema para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.7. Hacer contribuciones financieras a políticos, partidos o causas políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.8. Pagar gastos de viaje a funcionarios de los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.9. Invitar a empleados, proveedores o clientes a movilizarse a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.10. Contratar a familiares de políticos o lograr que alguien de la empresa postule una candidatura o participe en los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.11. Usar relaciones públicas a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.12. Apoyar la publicidad de una causa o mensaje político en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.13. Realizar eventos sobre pensamientos de liderazgo o conferencias de prensa para apoyar a un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.14. Realizar programas de educación política a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.15. Diversificar los mercados de la empresa	1	2	3	4	5
14.16. Penetrar los mercados existentes de la empresa	1	2	3	4	5
14.17. Evitar influenciar a los gobiernos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.18. Adoptar un perfil bajo en Venezuela, Ecuador o Nicaragua (e.j. no siendo el líder del mercado)	1	2	3	4	5
14.19. Adoptar una postura política neutral	1	2	3	4	5
14.20. Representar a la empresa a través de locales ante los gobiernos foráneos y los clientes locales en	1	2	3	4	5

Venezuela, Ecuador o Nicaragua					
14.21. No incurrir en actos de corrupción	1	2	3	4	5
14.22. Utilizar capital humano con conocimiento sobre los contextos foráneos de Venezuela, Ecuador o Nicaragua para entender, anticiparse y reaccionar ante los retos políticos de estos mercados	1	2	3	4	5
14.23. Evaluar cuidadosamente futuras inversiones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.24. Invertir en recursos físicos para enfrentar retos políticos en Venezuela, Ecuador o Nicaragua (e.j. invertir en plantas de energía para sobreponerse a cortes en la energía instalados por un gobierno foráneo o invertir en una nueva ubicación geográfica para proveer a un mercado restringido)	1	2	3	4	5
14.25. Sustener permanentemente comunicaciones internas claras evidenciando el enfoque de la empresa en sus operaciones y no en una postura política	1	2	3	4	5
14.26. Desarrollar herramientas para asegurar el cumplimiento de las leyes, el buen manejo de inspecciones gubernamentales o el mantenimiento de buenas relaciones laborales y comunitarias en Venezuela, Ecuador o Nicaragua (e.j. guías para garantizar el cumplimiento de las leyes, guías para atender inspecciones)	1	2	3	4	5
14.27. Adecuar los productos de la empresa para asegurar su cumplimiento con las leyes de Venezuela, Ecuador o Nicaragua (e.j. cambiar el contenido de las etiquetas de los productos de acuerdo a los requerimientos de un nueva ley)	1	2	3	4	5
14.28. Modificar la estructura y los procesos de la empresa para cumplir con las leyes de Venezuela, Ecuador o Nicaragua (e.j. modificar los procesos financieros para cumplir con nuevas leyes contables y de impuestos)	1	2	3	4	5
14.29. Modificar la estructura y los procesos de la empresa no para cumplir con las leyes de Venezuela, Ecuador o Nicaragua sino para mantener sus operaciones de manera competitiva en estos mercados (e.j. disminuir el número de empleados en una operación para equipar una disminución en las ventas)	1	2	3	4	5
14.30. Desarrollar alternativas para proveer a los mercados de Venezuela, Ecuador o Nicaragua a pesar de sus restricciones (e.j. a través de nuevos distribuidores, una nueva ubicación geográfica, entre otros)	1	2	3	4	5
14.31. Monitorear los contextos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.32. Reducir costos para sobreponerse a aumentos en gastos operacionales relacionados con políticas gubernamentales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.33. Revisar precios para mantener la competitividad y asegurar el mejor margen posible en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.34. Identificar productos que puedan proveerse de manera competitiva y rentable de acuerdo a las cambiantes políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.35. Anticipar alternativas para cumplir con potenciales políticas a futuro en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.36. Invertir en iniciativas para mantener la posición competitiva de la empresa en Venezuela, Ecuador o Nicaragua (e.j. invertir en desarrollar productos más saludables)	1	2	3	4	5
14.37. Evadir a los medios para que las declaraciones de la empresa no se puedan utilizar o manipular a favor o en contra de una postura política	1	2	3	4	5
14.38. Pagar precios justos a los proveedores para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.39. Modificar el país de origen de la estructura legal de una inversión en Venezuela, Ecuador o Nicaragua para protegerla ante una potencial expropiación	1	2	3	4	5
14.40. Substituir importaciones por producción local para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.41. Provisionar en los estados financieros el valor de las inversiones que enfrenten una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.42. Crear planes para afrontar una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.43. Identificar y analizar el potencial impacto de grupos de interés en las operaciones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
14.44. Involucrar a la operación de distribución en Venezuela, Ecuador o Nicaragua en las decisiones de la empresa sobre como confrontar estos contextos políticos foráneos	1	2	3	4	5

15a) Seleccione con una “X” los países en los cuales la empresa tuvo producción propia (sin distribución propia) entre 1999-2011:

- Venezuela
- Ecuador
- Nicaragua
- Ninguno de los anteriores (*si esta es su respuesta por favor pase la pregunta 16*)

15b) Si la empresa tuvo una operación de producción propia (sin distribución propia) en Venezuela, Ecuador o Nicaragua entre 1999-2011, califique con una “X” que tanto utilizó cada una de las siguientes estrategias para confrontar la alta incertidumbre política en cualquiera de estos mercados y lograr sostener su producción propia:

	Nada	Algo	Mucho
15.1. Lobby al gobierno Colombiano (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar al gobierno hacia los intereses particulares de la empresa)	1	2	3 4 5
15.2. Lobby a cualquiera de los gobiernos foráneos de Venezuela, Ecuador o Nicaragua (e.j. comunicando opiniones o información a los legisladores a través de reuniones informales, escenarios formales o sociales para influenciar a cualquiera de estos gobiernos hacia los intereses particulares de la empresa)	1	2	3 4 5
15.3. Realizar o apoyar investigaciones para informar sus resultados e influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.4. Usar reportes técnicos para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.5. Pagar a políticos en Venezuela, Ecuador o Nicaragua por su realización de discursos públicos	1	2	3 4 5
15.6. Elaborar presentaciones como empresa “experta” sobre algún tema para influenciar a los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.7. Hacer contribuciones financieras a políticos, partidos o causas políticas en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.8. Pagar gastos de viaje a funcionarios de los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.9. Invitar a empleados, proveedores o clientes a movilizarse a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.10. Contratar a familiares de políticos o lograr que alguien de la empresa postule una candidatura o participe en los gobiernos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.11. Usar relaciones públicas a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.12. Apoyar la publicidad de una causa o mensaje político en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.13. Realizar eventos sobre pensamientos de liderazgo o conferencias de prensa para apoyar a un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.14. Realizar programas de educación política a favor de un político, partido o causa política en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.15. Diversificar los mercados de la empresa	1	2	3 4 5
15.16. Penetrar los mercados existentes de la empresa	1	2	3 4 5
15.17. Evitar influenciar a los gobiernos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.18. Adoptar un perfil bajo en Venezuela, Ecuador o Nicaragua (e.j. no siendo el líder del mercado)	1	2	3 4 5
15.19. Adoptar una postura política neutral	1	2	3 4 5
15.20. Representar a la empresa a través de locales ante los gobiernos foráneos y los clientes locales en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.21. No incurrir en actos de corrupción	1	2	3 4 5
15.22. Utilizar capital humano con conocimiento sobre los contextos foráneos de Venezuela, Ecuador o Nicaragua para entender, anticiparse y reaccionar ante los retos políticos de estos mercados	1	2	3 4 5
15.23. Evaluar cuidadosamente futuras inversiones en Venezuela, Ecuador o Nicaragua	1	2	3 4 5
15.24. Invertir en recursos físicos para enfrentar retos políticos en Venezuela, Ecuador o Nicaragua (e.j. invertir en plantas de energía para sobreponerse a cortes en la energía instalados por un gobierno foráneo	1	2	3 4 5

o invertir en una nueva ubicación geográfica para proveer a un mercado restringido)					
15.25. Sustener permanentemente comunicaciones internas claras evidenciando el enfoque de la empresa en sus operaciones y no en una postura política	1	2	3	4	5
15.26. Desarrollar herramientas para asegurar el cumplimiento de las leyes, el buen manejo de inspecciones gubernamentales o el mantenimiento de buenas relaciones laborales y comunitarias en Venezuela, Ecuador o Nicaragua (e.j. guías para garantizar el cumplimiento de las leyes, guías para atender inspecciones)	1	2	3	4	5
15.27. Adecuar los productos de la empresa para asegurar su cumplimiento con las leyes de Venezuela, Ecuador o Nicaragua (e.j. cambiar el contenido de las etiquetas de los productos de acuerdo a los requerimientos de un nueva ley)	1	2	3	4	5
15.28. Modificar la estructura y los procesos de la empresa para cumplir con las leyes de Venezuela, Ecuador o Nicaragua (e.j. modificar los procesos financieros para cumplir con nuevas leyes contables y de impuestos)	1	2	3	4	5
15.29. Modificar la estructura y los procesos de la empresa no para cumplir con las leyes de Venezuela, Ecuador o Nicaragua sino para mantener sus operaciones de manera competitiva en estos mercados (e.j. disminuir el número de empleados en una operación para equipar una disminución en las ventas)	1	2	3	4	5
15.30. Desarrollar alternativas para proveer a los mercados de Venezuela, Ecuador o Nicaragua a pesar de sus restricciones (e.j. a través de nuevos distribuidores, una nueva ubicación geográfica, entre otros)	1	2	3	4	5
15.31. Monitorear los contextos foráneos de Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.32. Reducir costos para sobreponerse a aumentos en gastos operacionales relacionados con políticas gubernamentales en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.33. Revisar precios para mantener la competitividad y asegurar el mejor margen posible en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.34. Identificar productos que puedan proveerse de manera competitiva y rentable de acuerdo a las cambiantes políticas en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.35. Anticipar alternativas para cumplir con potenciales políticas a futuro en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.36. Invertir en iniciativas para mantener la posición competitiva de la empresa en Venezuela, Ecuador o Nicaragua (e.j. invertir en desarrollar productos más saludables)	1	2	3	4	5
15.37. Evadir a los medios para que las declaraciones de la empresa no se puedan utilizar o manipular a favor o en contra de una postura política	1	2	3	4	5
15.38. Pagar precios justos a los proveedores para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.39. Modificar el país de origen de la estructura legal de una inversión en Venezuela, Ecuador o Nicaragua para protegerla ante una potencial expropiación	1	2	3	4	5
15.40. Substituir importaciones por producción local para mostrarse como una empresa generadora de valor local en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.41. Provisionar en los estados financieros el valor de las inversiones que enfrenten una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.42. Crear planes para afrontar una potencial expropiación en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.43. Identificar y analizar el potencial impacto de grupos de interés en las operaciones en Venezuela, Ecuador o Nicaragua	1	2	3	4	5
15.44. Involucrar a la operación de producción en Venezuela, Ecuador o Nicaragua en las decisiones de la empresa sobre como confrontar estos contextos políticos foráneos	1	2	3	4	5

16) Por favor escriba un email en el cual pueda ser contactado en el caso de que la empresa resulte ser la ganadora del diplomado ofrecido por la Universidad EAFIT: _____

17) Por favor indique si desea recibir en el email anterior un resumen ejecutivo de los resultados de esta encuesta:

SI

NO

18) Por favor indique el nombre de la empresa con el objetivo de poder contactar a solo otro empleado para realizarle esta encuesta:

19) Por favor sugiéranos el nombre y/o cargo de otro empleado dentro de la empresa al cual podamos realizarle la encuesta:

¡MUCHAS GRACIAS POR SU TIEMPO!

APPENDIX 9

Link to digital survey designed in Qualtrics:

https://cranfieldsom.eu.qualtrics.com/SE/?SID=SV_cSa4MJRsFWeijTT

APPENDIX 10





CHRONOLOGY ABOUT THE IMPACT OF VENEZUELA'S POLITICAL ENVIRONMENT ON LATAM'S OPERATIONS (1999 – 2011)



A chronology of critical incidents (Miles and Huberman, 1994) is presented below to retrospectively describe the events which have framed the high uncertainty political environment in Venezuela that has had an impact on Latam's operations from 1999 up to 2011. Although the timeframe of our research is set from 1999 to 2011, this timeline starts in 1990 to describe Latam's initial operations in this market. Nevertheless, the first political events to affect Latam's operations in Venezuela occurred in 2002.

To develop the following chronology assuring the objective inclusion of the most relevant events, we triangulated the responses of the 60 interviewees that were interviewed with documents and media articles. All of the data presented throughout the timeline about Latam was provided directly by its employees during 2011 and 2012.


DATE	FIRM's HISTORY	POLITICAL EVENTS	UNCERTAINTIES GENERATED FOR THE FIRM BY POLITICAL EVENTS	FIRM's STRATEGIC RESPONSES TO POLITICAL UNCERTAINTIES	OUTCOMES
Early 1990's	A commercial alliance was made by Latam with a Venezuelan company in order for it to sell its products to the Venezuelan market.				
1995	Latam founded a distribution platform in Venezuela that started its operations by distributing only products from business line 1. Later on, the distribution platform in Venezuela incorporated products from business lines 2 and 3 into its portafolio.				
1996	A production platform for business line 4 was acquired in Venezuela by Latam. It was the first foreign acquisition made by Latam.				

	<p>This production platform was exclusively dedicated to the production of business line 4 products which were only sold inside the Venezuelan market. This production platform did not export, it was intended to attend local demand only.</p>				
1998		<p>Hugo Chavez was elected President of Venezuela through democratic elections.</p>  <p>President Hugo Chavez</p> <p>Source:http://www.telegraph.co.uk/news/worldnews/southamerica/venezuela/3184293/Venezuelas-murder-rates-surpass-Colombias-under-Hugo-Chavez.html</p>			
1999		<p>A new constitution was approved in Venezuela that modified the presidential</p>			

		term from five to six years and allowed the president's immediate and only reelection.			
2000	The financial capital that Latam had invested in acquiring the production platform for business line 4 in Venezuela was payed off by 2000 (four years after its acquisition took place).	<p>Hugo Chavez was reelected President of Venezuela under the new constitution.</p>  <p>Re-elected President Hugo Chavez</p> <p>Source:http://www.sampsoniaway.org/bi-monthly/2012/01/23/under-chavez-media-harassed-with-online-hacking-phone-tapping-and-censorship/</p>			
April 11 th 2002		A 48-hour coup d'état was launched against Chavez by opposition politicians and segments of the military from Venezuela. The coup d'état was overthrown after a popular protest and Chavez was reinstated.	<p>The left-wing political orientation of the Venezuelan government preoccupied the private sector and investors in general, both local and foreign.</p> <p>Latam faced the uncertainty of determining to what types</p>	Latam identified its operations could be exposed to policy changes and potential expropriation. Latam considered the risk of expropriation had a higher impact on its production platform than on its distribution platform because	Latam established a strategic plan through which its internationalization strategy was decided to advance from commercial alliances to setting up distribution platforms owned by Latam and deliberately


		 <p>Image of protest</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 10 2010.</p>	<p>of threats its distribution and production operations in Venezuela would be exposed to.</p>	<p>its production platform was by far a more expensive investment.</p> <p>Latam explored the possibility of selling the production platform in Venezuela but the political environment had already deteriorated to an extent that no potential investors were found.</p>	<p>establishing production platforms through acquisitions in different markets all over the world.</p> <p>A specialized study allowed Latam to define target markets and strategic locations to acquire production platforms.</p>
<p>May 2002</p>		<p>Chavez opposed the inclusion of the FARC guerrilla in the international list of terrorist organizations. He claimed they should be granted the belligerent status.</p>  <p>President Hugo Chavez</p> <p>Source: http://www.euronews.net/images_old/08/W300px_1201-mid-venezuela.jpg. Accessed August 11 2010.</p>	<p>The possibility of selling the distribution platform was never explored. Latam was not interested in selling it.</p> <p>Despite political uncertainties, Latam decided to sustain both of its operations in the Venezuelan market by adopting a long term view. It acknowledged Venezuela was a traditional, profitable, and “natural market” for its products. Consequently, it had to concentrate on developing ways to sustain its operations in this market.</p> <p>During 2002 the Venezuelan market had accounted for 44% of the international sales of</p>	<p>The strategic region identified by Latam included: Central America and the Caribbean, Mexico, the U.S., Venezuela, Peru, and Ecuador.</p> <p>This strategic region was identified through the evaluation of: price competitiveness, market potential, cultural similarity, consumer knowledge, manufacturing, and distribution opportunities.</p> <p>Although the Venezuelan political environment had triggered the conceptualization and initiation of this strategic</p>	


				<p>Latam, under the political left-wing scene that had consolidated in the country, Latam obliged itself to sustain operations in Venezuela while simultaneously planning an international strategy that could decrease its “dependency” on this market by further penetrating and diversifying markets. It decided to keep a low profile in Venezuela and never incur in acts of corruption as stated in its values.</p>	<p>plan, the political environment was not assessed as a factor that influenced the determination of Latam’s strategic region. Latam claimed its strategic region was defined based on “market” factors.</p> <p>During 2002 the Venezuelan market accounted for 44% of the international sales of Latam. By 2010 it accounted for 26% of its international sales since due to this strategic plan, Latam successfully decreased its dependency on the Venezuelan market by further penetrating and diversifying its markets.</p>
2004		Chavez survived a recall referendum called by its opposition in Venezuela.			
December 13 th 2004		Rodrigo Granda was known as an international spokesman of the FARC			



		<p>guerrilla. He was captured in Venezuela.</p> <p>Chavez referred to his capture as a kidnap and violation of Venezuela's sovereignty.</p> <p>This was the first rupture of political relations between Colombia and Venezuela from 1999-2011. Its solution took place 20 days later after an official statement from the Colombian government and Colombian President Uribe's visit to Miraflores Palace. This meeting was delayed by 15 days because Uribe had a temporary illness.</p> 			
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Source:<http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx>. Accessed August



		10 2010.			
2006		Chavez was re-elected President of Venezuela.			
2007		Chavez called for a referendum on a series of sweeping changes to the 1999 Venezuelan Constitution. He included unlimited re-election for the presidency. His initiative was not approved.			
August 31 st 2007		<p>Uribe designated Colombian Senator Piedad Cordoba as facilitator and Chavez as mediator in the process of a potential humanitarian agreement with the FARC guerrilla.</p> <p>The agreement was intended to free kidnapped civilians and around 500 members of the FARC guerilla that were in prison.</p> <p>The Colombian government established the 31st of December as the</p>			


		<p>maximum deadline to see the results of this mediation. This was perhaps the most promising time during the relation between presidents Uribe and Chavez.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 10 2010.</p>			
November 22 nd 2007		<p>Uribe terminated Chavez and Cordoba's mediation because of their unofficial and unauthorized contact with Colombian military forces.</p> <p>Chavez critiqued that he was not officially notified about this decision and threatened to freeze bilateral relations by</p>			


		<p>accusing the Colombian government of “conspiring against him by acting as a puppet of the North American empire.”</p>  <p>Source:http://4.bp.blogspot.com/_t-XoLtQ4nAA/R0YrAEKHnGI/AAAAAAAADD0/igwol0LD0ul/s400/uribe.jpg Accessed August 12 2010.</p>			
<p>November 25th 2007</p>		<p>Chavez announced the rupture of relations with Colombia.</p> <p>Uribe asked him to “not set the continent on fire” and accused Chavez of “leading an expansionist project which would have no entry in Colombia.”</p>			

		 <p>Source:http://marcosdiaz.psu.vg/wp-content/gallery/fotos_gobierno_bolivariano_de_merida/abn-28-11-2008-carneiro_vargas_juramenta_chavez_800.jpg . Accessed August 12 2010.</p>			
November 27 th 2007		<p>Chavez called his Ambassador in Bogotá Pavel Rondon back to Venezuela to evaluate relations with Colombia. He denied being leading and expansionist project.</p>  <p>Venezuelan Ambassador Pavel Rondon.</p> <p>Source:http://towelto.files.wordpress.com/2009/04/nelson-bocaranda.jpg. Accessed</p>			


		August 12 2010.			
January 11 th 2008		<p>Chavez requested the international community to recognize the guerrillas of FARC and ELN as belligerents and take them out of the international list of terrorist groups.</p> <p>This proposal was rejected by Colombia, the U.S., and the European Union.</p>  <p>Source:http://3.bp.blogspot.com/_UNk_6XhKms4/SLDqJhuqZI/AAAAAAAAADjY/djsbFmuAI3w/s400/CHAVEZ+DESESPERA DO.jpg. Accessed August 12 2010.</p>			
January 17 th 2008		<p>Venezuela's National Assembly approved a Project that recognized the FARC and ELN guerrillas as belligerent groups and stated that Uribe's</p>			

		<p>government was not committed to peace.</p>  <p>Source:http://www.venelogia.com/uploads/jose/1170257558_0.jpg. Accessed August 12 2010.</p>			
<p>January 25th 2008</p>		<p>Chavez accused Uribe of provoking a war and assured the U.S. was preparing a military aggression to Venezuela through Colombia.</p> 			

		Source: http://alimontoyaopinion.blogia.com/upload/20100122182253-hugo-chavez.jpg . Accessed August 11 2010.			
March 1 st 2008		<p>Colombia announced the death in Ecuadorian territory of Raul Reyes the “no. 2” leader and international spokesman of the FARC guerilla.</p> <p>Chavez stated that a military intrusion in Venezuela would cause a war.</p>  <p>Raul Reyes</p> <p>Source:http://www.reuters.com/resources/r/?m=02&d=20080301&t=2&i=3358428&w=300&fh=300&fw=&ll=&pl=&r=2008-03-01T233112Z_01_N01226245_RTRUKOP_0_PICTURE0. Accessed August 12 2010.</p>	<p>Chavez’s government had fueled anti-Colombian feelings since 2001 which intensified during this episode of the killing of Reyes in Ecuador.</p> <p>Anti-Colombian feelings became a threat to Latam’s operations in Venezuela by confronting it with the uncertainty of how to avoid the interference of these feelings in its operations since it offered products with a Colombian origin and had Colombian employees involved in operations in Venezuela.</p>	<p>Latam was politically neutral and adopted a low profile. It did not adopt any political stance.</p> <p>To avoid the interference of anti-Colombian feelings in the operations of the distribution and production platforms in Venezuela, all interactions with the government and customers were led by Venezuelans within these platforms, not by Colombians.</p>	<p>The political neutrality of Latam avoided these anti-Colombian feelings to affect its operations in Venezuela. This stance, diminished market tension.</p> <p>Venezuelans were better received than Colombians in negotiations and these ranned smoothly.</p>
March 2 nd 2008		Chavez requested through national television a minute of silence to honor Raul			

		<p>Reyes to whom he referred to as “the great revolutionary”.</p>  <p>Source:http://img.youtube.com/vi/3wo6xn1y1jE/0.jpg. Accessed August 24 2010.</p>			
March 3 rd 2008		<p>Chavez ordered the closing of the frontier between Colombia and Venezuela, the closing of the Venezuelan embassy in Colombia, and the immediate expulsion of the Colombian Ambassador in Caracas.</p> <p>He sent 10 military troops to settle in the frontier with Colombia.</p> <p>Chavez stated Uribe was a criminal and drug dealer that was manipulated by the North American empire.</p>	<p>Due the closure of the frontier, Latam faced the uncertainty of not knowing when it could continue exporting products to its distribution platform in Venezuela.</p>	<p>Latam decided to sustain its distribution platform in Venezuela despite the closure of the frontier.</p> <p>Latam also changed the way it coordinated logistic operations to assure that its products had the best chances of arriving to their destination once the frontier re-opened and despite future logistic difficulties due to political decisions. This translated into operating at new schedules, developing various alternatives to transfer products from origin to destination, improving</p>	<p>Latam adopted a long-term view towards the Venezuelan market by claiming the most adequate response was to sustain its distribution platform to assure the continuity of its operations in Venezuela once market conditions changed. Latam expected the closure to be temporary.</p> <p>Latam developed ways (plan a, b, c, d) to improve its logistics to assure the supply of products to the distribution platform in Venezuela despite future</p>

		 <p>Source:http://img.timeinc.net/time/daily/2008/0803/chavez_colombia_0303.jpg. Accessed August 12 2010.</p>		<p>relations with the intermediaries in the logistics chain, and including security measures during product movements.</p>	<p>political tensions. During frontier closures, all product movements were definitely frozen but during all other times Latam had to search for the best ways to deliver its products.</p>
<p>March 9th 2008</p>	<p>The political tension between Colombia and Venezuela decreased during the XX Meeting of the Group of Rio in Dominican Republic.</p> <p>On the 10th of March, the Colombian Ambassador returned to Venezuela and Venezuela re-opened operations in its frontier with Colombia.</p>  <p>Source:http://josuearbaje.com/wp-content/uploads/2008/03/uribe-chavez.jpg.</p>	<p>Although the frontier re-opened, Latam started to experience delays in the renovation of its sanitary registrations. It was speculated that sanitary registrations for products with a Colombian origin were delayed by the Venezuelan government due to the political tensions between Colombia and Venezuela.</p> <p>Latam faced the uncertainty of not knowing when it would receive the renovations of the sanitary registrations of those products which at that moment were in the process of having their registrations</p>	<p>Since products with a Colombian origin were presenting delays in the renovation of their sanitary registrations, Latam requested sanitary registrations for products with a Peruvian origin and invested in adequating its production plant in Peru to produce such products.</p> <p>The production plant of B2 in Colombia had been expanded to attend the before increasing sales of the Venezuelan market. As Venezuela restricted imports with a Colombian origin, Latam had to intensify its search for other markets that could demand the B2's Colombian production</p>	<p>Latam received the approval of the sanitary registrations it requested for products with a Peruvian origin and it started exporting these products to Venezuela's distribution platform.</p> <p>Amplifying the origin of products by including Peru besides Colombia, came to be a creative response that allowed Latam to sustain its supply to the Venezuelan market despite political tensions between Colombia and Venezuela.</p> <p>Latam intensified its search for and negotiations in other international markets</p>	

		Accessed August 12 2010.	renewed.	platform's products.	besides Venezuela. Other firms in the industry which insisted in getting renewed their old registrations failed to do so.
May 15 th 2008		<p>The international press published information extracted from Raul Reyes's computer compromising Chavez through evidence that demonstrated his economic support to the FARC guerrilla.</p> <p>Ronald Kenneth who was Director of Interpol assured the computer files containing this evidence were original and had not been manipulated.</p> 	<p>The deterioration of diplomatic relations between Colombia and Venezuela challenged Latam with the uncertainty of how to manage its relation with both governments. The option of actively lobbying these governments was discussed by companies in the food sector (and other sectors) as a possible response to confront political uncertainty in Venezuela. Latam had to decide whether lobbying either one or both governments might be an adequate response.</p>	<p>Latam decided to manage its operations in the Venezuelan market without lobbying the Venezuelan or Colombian governments. Latam decided to become invisible for both governments.</p> <p>Latam deliberately avoided lobbying any government or entity because this could only increase its visibility. Been visible could motivate the implementation of hostile policies, corruption requests or its chances of been expropriated.</p> <p>Latam concentrated on having a politically neutral stance and complying with the law. It presented itself as a food company whose role was to provide consumers with products at the best possible</p>	<p>Latam invested its resources in adapting to rather than influencing the political Venezuelan context.</p> <p>Latam continued operating while other firms that became visible were expropriated like Polar or Exito, among others.</p>



		Source: http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx . Accessed August 12 2010.		price and in the best possible way by making a reasonable profit while being socially responsible.	
May 2008		<p>During May of 2008, CADIVI stopped working efficiently.</p> <p>Traditionally business lines 1, 2, and 3 exported to Venezuela and the distribution platform in Venezuela received approval for the payment of its imports through CADIVI (Venezuela's Commission for Currency Administration). This approval meant that this Venezuelan entity would pay the business lines in dollars the value of their exports to Venezuela.</p> <p>From this date onwards the business lines did not receive timely payments for their exports and the distribution platform in Venezuela faced increasing difficulties to receive</p>	<p>Latam faced the uncertainty of how and when it would recover its pending payments from CADIVI.</p> <p>The business lines faced the uncertainty of when they would receive certificates of non-production that authorized the import of their products by the distribution platform in Venezuela. It was not possible for Latam to estimate how long it would take CADIVI to provide these certificates of non-production and what amount of products were going to be allowed to be imported through such certificates.</p>	<p>Latam continued to sell its products in Venezuela through CADIVI expecting to receive its accumulated payments. It constantly monitored the developments in CADIVI while it sold the amounts of products that the certificates of non-production authorized.</p> <p>The distribution platform focused on becoming very agile in the process of requesting the certificates of non-production. It hired one person to be in charge of these certificates. For B1, it was easier than for the other business lines to receive these certificates. For B2, it was complicated because an important foreign competitor which had local production in Venezuela sold a lot of products in this category. For B3, it was even more complicated, some of its</p>	<p>Pending payments for Latam started to accumulate in CADIVI. Latam monitored these pending payments.</p> <p>Overtime, the authorization of certificates of non-production became more difficult to obtain, affecting the amount of imports by the distribution platform in Venezuela.</p> <p>Other firms in the industry did not have one person fully in charge of the process of requesting certificates of non-production; this gave an advantage to Latam.</p> <p>However, Latam recognized it should have reacted sooner than it did to this situation by earlier stopping its accumulation</p>


		<p>certificates of non-production.</p> <p>The certificates of non-production stated that Venezuela did not produce a specific product and that therefore it authorized its import. These certificates also indicated the amount of each product that was authorized to be imported by a specific individual firm. The distribution platform had to request these certificates for all of its imports.</p>		<p>certificates took almost a year. The differences in the difficulties to obtain the certificates of non-production between the business lines were simply based on the market conditions of the different product categories.</p>	<p>of pending payments in CADIVI. Some firms from the industry decided to abort the Venezuelan market because of CADIVI, however Latam continued operating searching for alternatives.</p>
<p>June 18th 2008</p>		<p>After the announcements of the Interpol about the content found in Raul Reyes's computer, Chavez changed his discourse towards the FARC guerrilla. He now stated they were an armed guerrillian group and asked them to liberate the kidnapped civilians.</p>			


		 <p>Source:http://noticias.biboz.net/imagenes/2008/07/farc.jpg. Accessed August 12 2010.</p>			
July 11 th 2008		<p>Chavez and Uribe announced a “new stage” in the relation of the two countries after a meeting in Venezuela.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
2009		<p>Chavez presented another referendum just on the issue of re-election. He won and can now stand for the</p>	<p>Overall, the evolution of Venezuela’s political context increased uncertainty for businesses, both local and</p>	<p>Usually decisions about the distribution and production operations in Venezuela were analyzed and taken by</p>	<p>The result of the consolidation of this committee was that decisions about Latam’s</p>


		<p>presidency as many times as he likes.</p>	<p>foreign.</p>	<p>individual committees within Latam. As political uncertainty increased in Venezuela, Latam integrated one committee for both operations. It included the VPs of B1, B2, B3, and B4, the VP of Centralized Services, the local managers, the VP of Corporate Finance, the General Secretary, and the CEO. This committee met on immediate notice if it was necessary or at least one a week by video conference or telephone. Its members constantly interacted within meetings. This committee also used external human capital who had contextual knowledge about the Venezuelan market which included lawyers, financial firms, and political analysts.</p> <p>As the political environment became more hostile, it was advised not to talk over the phone or video conferences so committee meetings would be held face to face in Colombia or Venezuela.</p>	<p>operations were made in conjunction assuring a corporate stance towards its operations in Venezuela.</p> <p>The use of external and internal human capital with contextual knowledge was key to Latam’s understanding of the Venezuelan context.</p> <p>Local managers in Venezuela had to fly to Colombia for committee meetings.</p> <p>Latam controlled the “way” it communicated any topic regarding the Venezuelan market. Between face to face meetings, there always had to be communications between committee members so the “way” situations were described or referred to, was very carefully thought of to avoid “against the Venezuelan government” interpretations.</p>
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				<p>Later, during 2010 it was advised that the top management team should not be sent to Venezuela so meetings were held in Colombia every month.</p>	
<p>January 2009</p>		<p>Chavez and Uribe celebrated in Cartagena the recovery of trust in the bilateral relations and announced actions to promote commerce.</p> <p>Nevertheless, the business environment and the media had evidenced the expropriation of several companies and speculated that for long foreign and local investments in Venezuela would be facing the uncertainty of expropriation by the Venezuelan government. Colombian companies in Venezuela were not exempt from expropriation uncertainty.</p>	<p>Latam faced the uncertainty of a potential expropriation of its production platform in Venezuela. This investment had a Colombian origin which only increased the possibility of the Venezuelan government expropriating the operation due to its political disputes with Colombia.</p> <p>The investment in the distribution platform also faced the uncertainty of a potential expropriation but its capital investment was much less since it only owned the inventory it distributed, making it a less risky operation for Latam in terms of a potential loss due to an expropriation.</p>	<p>During January of 2009, Latam changed the production platform's investment origin from Colombian to Costa Rican. The production platform's new Costa Rican investment origin protected Latam from the potential losses of an expropriation because of an existing FDI protection agreement between Venezuela and Costa Rica. This agreement is supervised by the World Bank. Although this agreement does not prevent an expropriation, it does guarantee that the World Bank assures that a just price is paid back to the investor in case of an expropriation.</p> <p>As a preventive measure, Latam also provisioned the value of the production platform in its financial</p>	<p>The costs of a potential expropriation were significantly reduced by Latam while other firms in the industry maintained their levels of exposure.</p> <p>The distribution platform focused on adapting to policy changes to sustain its operations in Venezuela.</p>

		 <p>Source:http://media.miamiherald.com/smedia/2010/07/29/11/DV_To_Getty_4019503_0.embedded.prod.affiliate.56.JPG. Accessed August 12 2010.</p>		<p>statements.</p> <p>Latam kept a politically neutral stance and avoided the media.</p> <p>The production platform started to develop the READY Project which was a confidential project to prepare Latam to respond to a potential expropriation. It also started to buy the materials it previously imported from Colombia to local suppliers in Venezuela. It made sure it payed just prices to its suppliers.</p>	
March 13 th 2009		<p>The new Colombian Ambassador in Venezuela, María Luisa Chiappe, assumed her position while Chavez expanded his model in Venezuela.</p> 	<p>The production platform identified that Chavez was growing the influence of his socialism model in the local community where its plant was located. Latam faced the uncertainty of the impact that the different interest groups could have on its operations.</p>	<p>Latam created a “power map” that identified the different interest groups that surrounded the production platform and analyzed their potential impact on the firm’s operations.</p>	<p>This allowed Latam to design structured plans to interact with these interest groups to diminish their potential impact on operations while most foreign firms in its industry lacked this type of plans.</p>

		<p>Colombian Ambassador María Luisa Chiappe</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
May 15 th 2009		<p>Gustavo Marquez was appointed as the new Venezuelan Ambassador in Bogotá. This position was vacant since November 2007.</p>  <p>Venezuelan Ambassador Gustavo Marquez</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
July 21 st 2009		<p>Chavez announced he would revise diplomatic relations with Colombia because of this country's agreement with the U.S. to</p>	<p>Instability in the diplomatic relations between Colombia and Venezuela generated uncertainty among the local employees of the distribution</p>	<p>Internal communications within Latam became very important. Latam focused on transmitting a corporate message that was clear and</p>	<p>The coherence and consistency between Latam's message and behavior benefited good internal relations.</p>

		<p>promote cooperation through military bases in Colombia.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>	<p>and production platforms in Venezuela.</p>	<p>diminished employees' uncertainty about the continuity of their jobs and the ratified its neutral political stance.</p> <p>Local managers were politically neutral in their day to day behavior and in the messages that were transmitted. The overall message sent by the firm was that it was politically neutral and socially responsible. The firm assured it would strive to sustain its operations in Venezuela and centered its attention on finding ways to continue doing business.</p>	<p>The employees of the distribution platform understood that the commercial restrictions imposed by the Venezuelan government affected Latam and that it was working hard to keep its operations running despite these restrictions.</p> <p>The production platform developed a good relationship with its syndicate and created programmes to relate to and benefit its surrounding community while sustaining a low profile. It made sure the conditions at the site and its policies promoted a healthy working environment.</p> <p>While the rotation of employees was high in the industry due to uncertainty, the clarity of Latam gave a sense of tranquility to employees making its rotation rate much lower than that of the industry.</p>
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<p>July 23rd 2009</p>		<p>The Colombian government asked neighboring countries to respect the principle of non-involvement in other countries' internal affairs and defended its agreement with the U.S.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
<p>July 24th 2009</p>		<p>Chavez bought military tanks from the Russians and stated, "we are buying military tanks and other weapons to double our existing military capacity. I don't mind what the neighbors or the Yankees say".</p>			

		 <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
July 26 th 2009		<p>The Colombian government denounced the FARC guerrilla was using weapons that were sold by Sweden to Venezuela.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
July 28 th 2009		<p>The Swedish government</p>			

confirmed the weapons they produced and sold to Venezuela during the late 1980s were the ones found in hands of FARC guerrilla.






Source:<http://manual.americasarmy.com/images/b/ba/At4-400.jpg>
Accessed August 11 2010.


Despite the declarations of the Swedish government, Venezuelan government officials described as a “media show” the news published about the FARC guerilla using weapons that belonged to their military.



		<p>Venezuelan Chancellor Nicolas Maduro</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
July 29 th 2009		<p>Chavez requested the retirement of his Ambassador in Colombia, Gustavo Marquez, and broke commercial and diplomatic relations with Colombia.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
July 31 st 2009		<p>Commerce at the frontier between Colombia and Venezuela was “semiparalized” due to the incrementing controls that the Venezuelan authorities</p>			

		<p>imposed upon the goods and people traveling from Colombia to Venezuela.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
September 15 th 2009		<p>The Venezuelan government denounced Colombia was not transparent by not sharing the text of their agreement with the U.S. Venezuelan government officials sustained the threat they considered this agreement was for the region. Political tensions increased hostility measures in the business environment in Venezuela.</p>	<p>The production platform in Venezuela faced an increasingly hostile political environment. The production platform faced the uncertainty of how to manage the different themes that could potentially affect its operations. These were compliance with laws, governmental inspections, and community and labor relations.</p>	<p>The production platform created an analytical risks matrix that was revised on an annual basis through which it identified and evaluated these main themes which could potentially affect its operations.</p> <p>The production platform also developed a protocols system which instructed employees on how to manage governmental inspections that could take place at the plant or at any of the distribution agencies in Venezuela.</p>	<p>These matrixes supported the development of tasks and indicators that allowed the production platform to sustain its operations in compliance with the law and through good community and labor relations.</p> <p>The protocols system allowed the production platform to be prepared to receive governmental inspections in a structured way that improved its possibilities of not</p>

		 <p>Colombian Chancellor Jaime Bermudez</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			<p>receiving any type of sanctions or suffering a potential expropriation.</p>
		<p>The Spanish President Jose Luis Rodriguez Zapatero offered to mediate to resolve the conflict between Colombia and Venezuela due to the agreement of Colombia with the U.S.</p>  <p>Spanish President Jose Luis Rodriguez Zapatero</p>			

		<p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx Accessed August 11 2010.</p>			
<p>November 7th 2009</p>		<p>President Lula da Silva offered to mediate between Uribe and Chavez.</p>  <p>Brazilian President Lula da Silva</p> <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx Accessed August 11 2010.</p>			
<p>November 9th 2009</p>		<p>Chavez ordered the military to be prepared for a military confrontation with Colombia. He highlighted that the United States could try to provoke a war between the neighboring</p>			

		<p>countries.</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			
November 13 th 2009		<p>Colombia submitted to the OAS (Organization of American States) an official protest regarding Venezuela's constant war threats.</p>  <p>Source:http://www.hondudiario.com/l/sites/default/files/imagecache/Portada/alvaro_uribe.jpg. Accessed August 12 2010.</p>			
November					

18th 2009


The U.S. Ambassador in Caracas Patrick Duddy certified that the military agreement subscribed between Colombia and the U.S. had no “aggressive” objective and confirmed that the U.S. was willing to support a dialogue between both countries in order to overcome the crisis.


The Venezuelan Chancellor stated that the purpose of the offered mediation had the intention of deviating the responsibility of the U.S. in the crisis.




U.S. Ambassador in Caracas
Patrick Duddy

Source:<http://www.semana.com/noticias-nacion/cronologia-tesis-entre-colombia-venezuela/131583.aspx>. Accessed August 11 2010.


November 19 th 2009		<p>Jaime Bermudez the Colombian Chancellor was referred to as disgraceful by Chavez because he asked UNASUR (Union of the Nations of the South) to please pronounce itself against the war threats launched by Chavez.</p>  <p>Source:http://mises.org/Community/cfs-filesystemfile.ashx/_key/CommunityServer.Components.ImageFileViewer/CommunityServer.Blogs.Components.WeblogFiles.rodrigodiaz/6708.Foto-Chavez.jpg_2D00_150x150.jpg. Accessed August 12 2010.</p>			
November 20 th 2009		Colombia alerted militaries to be prepared to block any potential aggression.			

		 <p>Colombian Minister of Defense Gabriel Silva Lujan</p> <p>Source:http://www.radiosantafe.com/wp-content/uploads/2009/11/mindefensasilva.jpg. Accessed August 12 2010.</p>			
2009		<p>Since 2008 CADIVI had started to present delays.</p> <p>During 2009 it stopped its payments.</p> <p>The firm had accumulated 19 million USD in pending payments.</p>	<p>Latam faced the uncertainty of how to continue operations in the Venezuelan market despite the suspension of payments from CADIVI and faced the uncertainty of when these would be payed.</p>	<p>Latam decided to sell in the Venezuelan market only what could be collected immediately due to the suspension of payments from CADIVI.</p> <p>To do so, Latam started buying dollars in the free market to pay for the exports of its business lines to the distribution platform in Venezuela. Dollars in the free market were more expensive and exchange rates changed frequently.</p> <p>To define this “new” approach,</p>	<p>The modification of the financial processes allowed Latam to stop accumulating pending payments in CADIVI and to receive much faster the dollars corresponding to its exports to Venezuela while other firms in the industry just stopped selling in this market. Necessarily, the costs of operations in the Venezuelan market raised as the exchange rate for free market dollars was more expensive.</p>

				<p>Latam modified its financial processes by determining that to export products to Venezuela, first, it had to buy dollars in the free market and then, after having assured their availability to pay the business lines, the business lines could proceed to export their products been aware of the exchange rate at which the dollars were bought by Latam.</p> <p>Latam also modified its marketing processes. Latam had to change its marketing activities from traditional promotion activities to what one Marketing Director referred to “as not doing traditional marketing”. Instead, Latam’s marketing processes focused on identifying what were the most profitable and strategic products to sustain in Venezuela. This involved leaving aside traditional marketing activities and analyzing exclusively the profitability and brand positioning of products.</p>	<p>The change from CADIVI to free market dollars started to affect sales.</p> <p>The modification of marketing activites allowed Latam to focus its efforts on selling in Venezuela the most competitive and well positioned products of its portfolio (being its origin either Colombian or Peruvian).</p>
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<p>November 25th 2009</p>		<p>Venezuela submitted to Jose Miguel Insulza, General Secretary of OAS, an official document that classified the military agreement between the U.S. and Colombia as a “war threat”, insisting on provoking a war with Colombia.</p>  <p>Source:http://www.radiosantafe.com/wp-content/uploads/2009/10/consejo-de-seguridad-de-la-onu.jpg Accessed August 12 2010.</p>			
<p>December 2nd 2009</p>		<p>Uribe denounced the illegal embargo Venezuela had installed towards Colombia.</p>			

		 <p>Source http://www.7medios.com/wp-content/uploads/2009/12/alvaro-uribe-590x442.jpg. Accessed August 12 2010.</p>			
January 12 th 2010		Chavez announced local energy cuts as a saving plan to assure energy availability before the rainy season started.	The production platform in Venezuela faced the uncertainty of disruptions in the energy supply required to support its operations.	The production platform invested resources in acquiring two energy plants that provided the site with energy during the cuts installed by the government.	The production platform managed to overcome the disruption of its operations while other firms that lacked these plants could not produce at cuts.
February 21 st 2010		Chavez and Uribe had a strong discussion at the Meeting of the Rio Group in Cancun when Uribe talked about the commercial embargo of Venezuela towards Colombia and Chavez answered by stating that Colombia sent the paramilitary to kill him and threatened to leave the meeting.	On the face of reiterative political tensions between Colombia and Venezuela Latam had the uncertainty of not knowing if it would be able to access information about its operations in Venezuela if the Venezuelan government decided to take over its sites.	Latam implemented a replica of information of its operations in Venezuela in an external country from Venezuela, creating a necessary back up. This involved a considerable investment in physical capital to assure that the replica of information was activated and continued working overtime.	Latam counted with a secure back up information system that allowed it to access information about its operations in Venezuela despite any interventions of the Venezuelan government. This allowed Latam to access its information without restrictions even if expropriated while many

		<p>Diplomatic sources stated that Uribe claimed, “these topics are to be discussed in these meetings. Chavez is brave to talk about them in the distance but a coward to do so face to face.”</p>  <p>Source:http://www.semana.com/noticias-nacion/cronologia-crisis-entre-colombia-venezuela/131583.aspx. Accessed August 11 2010.</p>			<p>firms that had been expropriated had lost access to their operations’ information.</p>
<p>March 2010</p>		<p>The Venezuelan government published a law in the defense of the people for their access to goods and services.</p> <p>This law no 39.658 was accessed on April 13 2012 at: http://www.indepabis.gob.ve/publico/leyes/leydepabis.pdf</p>	<p>This law obliged the distribution and production platforms in Venezuela to face the uncertainty of new policy changes.</p>	<p>Latam analyzed the law and understood that the Venezuelan government had made official a number of conditions which the firm had to comply with in order to assure that it respected the individual and collective rights of people in the way its products were designed, manufactured, and sold.</p>	<p>The distribution and production platforms spent significant resources making sure they complied with all of the different requirements of this law.</p> <p>Latam complied with this law while other firms throughout various industries were sanctioned.</p>


				<p>The distribution and production platforms decided to adequate their activities to assure their compliance with the requirements of this new law. In synthesis, the platforms adequated their labels, ellaborated their publicity in Venezuela making sure that the information transmitted was very clear and explicit, their promotions were revised and authorized by governmental authorities, they kept low inventories that corresponded to no more than one month of required products so that they could not be accused of speculating, their prices were always kept below that of the leaders in their different product categories by being price followers, and they received all governmental or community visits that were interested in revising the compliance of their operations.</p>	
April 12 th 2010		Brazil signed a military agreement with the U.S. and no Latin American			


		<p>country protested. Quite different from the case of Colombia...</p>  <p>Source:http://www.eltiempo.com/mundo/euycanada/ARTICULO-WEB-PLANTILLA_NOTA_INTERIOR-7570627.html. Accessed August 24 2010.</p>			
<p>April 25th 2010</p>		<p>Chavez stated that if Santos was to be elected as President of Colombia this could “lead to a war” in the region.</p>  <p>Source:http://www.universia.net.co/images/stories/articulos_especiales/vigia_articulos/2010_01/2010_04_20_chavez_santos.png. Accessed August 12 2010.</p>			



<p>April 26th 2010</p>		<p>Colombia denounced as “inacceptable” Venezuela’s intervention in the country’s electoral campaign.</p>  <p>Source:http://4.bp.blogspot.com/_PkNU42hVjI4/Szoj9Zve7TI/AAAAAAAAAHA/2HCKdwt304g/s320/Uribe.bmp. Accessed August 12 2010.</p>			
<p>May 17th 2010</p>		<p>The Venezuelan government prohibited the selling of dollars in the free market by closing the free market through law no. 5.975.</p> <p>This law was accessed on April 10 2012 at: http://microjuris.com.ve/2010/05/20/ley-contra-los-ilicitos-cambiaros/</p>	<p>Latam faced the uncertainty of how to access dollars to sustain its operations in Venezuela.</p>	<p>Latam monitored the context to identify opportunities that would allow it to have access to dollars in Venezuela.</p>	<p>Latam continued supporting its distribution platform in Venezuela.</p> <p>Latam started to work on rapidly identifying alternatives to access dollars while other firms in its industry could not view other alternatives.</p>

<p>June 4th 2010</p>		<p>The Venezuelan government created the SITME (System of Transactions of Foreign Exchange Titles) through law no. 39.439. Through SITME the firm could only access at the most 350,000 dollars per month to finance its imports. SITME was directly controlled by the Venezuelan Central Bank.</p> <p>This law was accessed on April 10 2012 at: https://docs.google.com/viewer?a=v&pid=sites&srcid=ZGVmYXVsdGRvbWFpbmXnYWJlcHJ6fGd4OjJkMTI4YzE1NDVIMTc0ZWl</p>	<p>This measure confronted Latam with the uncertainty of sustaining operations in Venezuela since it now had restricted access to 350,000 USD per month for its distribution operations.</p>	<p>Latam decided to start using SITME and learned the process of requesting dollars through this new system.</p> <p>It also learned about and participated in the emission of bonds through which it could acquire additional dollars to amplify its sales in Venezuela.</p> <p>However, the free market dollars and SITME had limited Latam's access to dollars and decreased its sales. As a consequence of its sales reduction, Latam had to reduce the size of its distribution structure in Venezuela.</p> <p>The distribution platform gradually contracted to adapt its costs to decreasing sales in order to continue being sustainable. In the process, the distribution platform changed from having its entire staff contracted as direct employees who attended all types of clients to having less staff that only attended directly retail chains and contracting external</p>	<p>Latam had access to the monthly 350.000 USD granted by Venezuela's Central Bank. Some months it received less dollars because the bank reduced the amount of available dollars it had to distribute among its clients.</p> <p>Latam managed to buy some bonds and amplified this way its available dollars to pay for exports to Venezuela's distribution platform. Other firms in its industry did not catch sight of the alternative of buying bonds to increase their available dollars.</p> <p>Latam reduced the structure of its distribution platform while it searched for distributors to sell its products in Venezuela. The difficulty was that these distributors had to similarly request dollars to Venezuela's Central Bank and they did not receive any for a long time. Only</p>
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				<p>distributors that attended wholesalers and stores. All logistic operations were also outsourced.</p> <p>This process was done through 2010 and 2011 with a lot of clarity and respect. As a result, the distribution platform was not zued by any employee since Latam always sustained clear internal communications about the state of its operations. Employees knew Latam reduced its size because of commercial restrictions rather than “poor” management.</p> <p>Consequently, the approach towards human capital within the distribution platform changed to encouraging teamwork rather than pushing for sales.</p> <p>The table below shows the evolution of the number of employees and sales in USD millions from 2009-2012.</p>	<p>until March 2012, Latam managed to sell to two of its distributors in Venezuela a total of 287,000 USD, amplifying it sales in the Venezuelan market.</p> <p>The team of the distribution platform in Venezuela visited Latam’s central site as a recognition for their hard work in the Venezuelan market.</p>
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				<table border="1"> <thead> <tr> <th>Year</th> <th>N° Employees</th> <th>Sales USD Millions</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>205</td> <td>79,7</td> </tr> <tr> <td>2010</td> <td>150</td> <td>32,2</td> </tr> <tr> <td>2011</td> <td>116</td> <td>22,1</td> </tr> <tr> <td>2012</td> <td>4</td> <td></td> </tr> </tbody> </table> <p>As the SITME imposed a restriction of 350,000 USD per month per importer, Latam searched for other importers that could sell its products in Venezuela to potentially recover its sales.</p>	Year	N° Employees	Sales USD Millions	2009	205	79,7	2010	150	32,2	2011	116	22,1	2012	4		
Year	N° Employees	Sales USD Millions																		
2009	205	79,7																		
2010	150	32,2																		
2011	116	22,1																		
2012	4																			
June 20 th 2010		<p>Santos was elected President of Colombia. He obtained the highest number of votes in the electoral Colombian history.</p>  <p>Source: http://infolatam.com/wp-content/uploads/2010/06/santos-discurso-de-ganador-Colombia2.jpg. Accessed</p>	<p>Since Chavez had manifested a few months ago that if Santos became president of Colombia, he could eventually initiate a war, although the production platform had changed the legal origin of its investment from Colombian to Costa Rican, it still faced the uncertainty of confronting a potential expropriation.</p>	<p>The production platform started to develop the READY Project which was a confidential project to prepare Latam to respond to a potential expropriation.</p> <p>The production operation started to buy the materials it previously imported from Colombia to local suppliers in Venezuela. It made sure it payed just prices to its suppliers.</p>	<p>Latam was better prepared for a potential expropriation on behalf of the Venezuelan government.</p> <p>The production operation changed the origin of its raw materials and payed just prices to suppliers to evidence that it was a local company that created local value.</p>															

		August 11 2010.			
June 21 st 2010		<p>The elected president invited the governments of Ecuador and Venezuela to “open roads to future cooperation”. The Venezuelan government congratulated President Santos for his election.</p>  <p>Source:http://static.eluniversal.com/2010/06/06/g_3-col02_colombia-election-santos_0601_11.jpg.550.0.thumb. Accessed August 12 2010.</p>			
July 16 th 2010		<p>Venezuela called its Ambassador in Colombia back to the country while Colombia asked the OAS to call upon the Permanent Council for an extraordinary session to evaluate the presence of Colombian terrorists in</p>			

		<p>Venezuela's territory.</p>  <p>Source:http://www.7medios.com/index.php/tag/presencia/. Accessed August 12 2010.</p>			
<p>July 19th 2010</p>		<p>The General Secretary of the UN, Ban Ki-moon, reminded Colombia and Venezuela that the best tool to address any difference between neighbors was through dialogue. He offered all the technical support the UN could offer to resolve the bilateral crisis.</p>  <p>Source:http://www.7medios.com/wp-</p>			

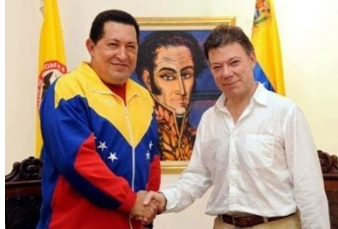
		content/uploads/2010/02/ban-ki-moon-590x443.jpg. Accessed August 12 2010.			
July 22 nd 2010		<p>In an extraordinary session of the OAS’s Permanent Council, Colombia denounced the “consolidated, active, and growing” presence of the guerilla in Venezuela. Colombia requested Venezuela to act upon this presence. The creation of an international commission that verified during the next 30 days the existence of military camps from FARC in Venezuela was requested on behalf of Colombia.</p> <p>As a response Chavez announced a rupture of diplomatic relations with Colombia and ordered “maximum alert” at the frontier due to the “severity of the events” that took place in the session at the OAS due to Colombia’s request.</p>			

		 <p>Source:http://3.bp.blogspot.com/_hwK956COKC0/TEm88odVvMI/AAAAAAAAO3Y/YXRAdOpi5U/s1600/ARCHIVO-7461950-0.jpg. Accessed August 12 2010.</p>			
July 2010		<p>The Venezuelan government conducted inspection visits to firms to demonstrate governmental control over the economy.</p> <p>These governmental visits intended to identify the non-compliance of any law or requirements by firms.</p> <p>Governmental visits generated overall uncertainty for firms because any non-compliance identified by the government could be sanctioned by a fee, a temporary closure, the imposition of a</p>	<p>Uncertainty was generated by the installation of these governmental visits because the regulatory framework was not very clear and it was hard for firms to make sure they complied with all requirements.</p> <p>The distribution platform in Venezuela received a governmental visit which identified that its accounting books were in the production platform's site. This led to a non-compliance since according to the law the accounting books had to be in the site of the distribution platform. Because of this</p>	<p>The manager of the distribution platform created several tools to make sure that Latam complied with all of the requirements that were identified and managed governmental inspections in the best possible way.</p> <p>These tools were:</p> <p>1. Strategic checklist Identified strategic topics, the people responsible for each topic, and the actions that have, are or will be implemented regarding these strategic topics.</p> <p>The strategic topics included:</p>	<p>These tools helped the manager of the distribution platform and his team, make sure they took the necessary measures to prevent future sanctions or the disruption of operations. The manager was responsible of updating these tools by incorporating any new requirements that had to be met or any new theme that had to be monitored or considered. These tools were unique to Latam improving its ability to comply with Venezuelan laws.</p>

		<p>governmental co-administration of the firm or expropriation.</p>	<p>non-compliance the distribution platform was sanctioned with a temporary 3 days closure.</p> <p>Latam faced the uncertainty of finding a way to assure its distribution operations would not be again disrupted due to sanctions arising from governmental inspections.</p>	<p>property structure, protection of IT systems and information, protection of brands, relations with associations, communications, monitoring of legal affairs, corporate social responsibility initiatives, human resources, and expatriates.</p> <p>2. Operative checklist Identified by area all of the operative activities or reports that had to be up dated to assure that governmental inspections were passed. The people responsible and the dates or periodicities of each report or activity were specified. It also included the requirements that the logistics operator had to meet and their periodicity.</p> <p>The areas responsible for the operative activities or reports were: general management, administrative direction, accounting, taxing, treasury, human resources, regional sales, and logistics.</p> <p>3. Directory of legal</p>	
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				<p style="text-align: center;"><i>advice services in Venezuela</i></p> <p>Provided a directory listed by topic or process that indicated which company or companies in Venezuela could provide specialized legal advice to Latam.</p> <p style="text-align: center;"><i>4. Corporate support</i></p> <p>Indicated who was responsible within Latam of what process and who supported this process within the corporate services centre. It also included comments about how each process was being improved.</p> <p style="text-align: center;"><i>5. Calendar for payment of taxes</i></p> <p>Detailed what taxes had to be payed, who within Latam was responsible, and the dates in which they had to be payed.</p> <p style="text-align: center;"><i>6. Legal status of brands and sanitary registries</i></p> <p>Identified the brands directed to the Venezuelan market along with an explanation of their current legal status.</p>	
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				<p>Identified the products directed to the Venezuelan market along with the status of their sanitary registries.</p> <p>7. Protocol to manage governmental inspections</p> <p>Instructed employees within Latam on how to manage any type of governmental inspection that could take place at any distribution site in Venezuela.</p>	
August 10 th 2010		<p>Santos and Chavez met in Cartagena and announced the reestablishment of relations between both countries.</p> <p>The payment of the Venezuelan debt of CADIVI to Colombian firms that corresponded to exports which added up to 800 million USD was promised to be payed. This debt was caused by the governmental blockade of official currency transactions to Colombia.</p>	<p>Latam faced the uncertainty of which markets would help the recovery of the sales it lost in Venezuela. In 2010, Latam's sales in Venezuela decreased.</p>	<p>In 2010, Latam acquired a U.S. production platform for B1 in order to compensate the sales lost in the Venezuelan market.</p> <p>Although the top management team stated this acquisition should have been done years ago, it only came true as a response to overcome the lost sales in Venezuela.</p> <p>Other new markets where Latam was able to create sales through distributors were Africa, the Middle East, and</p>	<p>Latam had effectively expanded its internationalization strategy and kept working on developing other markets.</p> <p>The international sales of Latam grew from 2002 to 2010 by 330% well above industry average growth.</p>

		<p>However, firms face the uncertainty of how to recover their lost sales in Venezuela due to currency restrictions.</p>  <p>Source:http://www.canalrenmsn.com/noticias. Accessed August 10 2010.</p>		Southeast Asia.	
April 22 nd 2011		<p>Venezuela was officially no longer part of the CAN (Andean Community of Nations) since it unilaterally decided to retire from this community. This meant that the trade agreements that benefited the firm's exports to Venezuela from other Andean countries would eventually expire, modifying trade conditions.</p>			

<p>July 14th 2011</p>		<p>The government published law no. 8.331 about just costs and prices.</p> <p>This law was accessed on April 10 2012 at: http://www.ciudadccs.info/wp-content/uploads/ley_de_costs_y_precios_justos20110719-0118.pdf</p>	<p>This law gave power to the Venezuelan government to determine the profit margins of firms and sanction those that did not follow such margins.</p> <p>Latam confronted the uncertainty of not knowing if their operations would be affected by this law.</p>	<p>Latam investigated which firms or products had to follow this law. It found that only 19 products had been affected by the determination of specific profit margins. The firm recognized it had to keep on monitoring the possible extension of this law to other products.</p>	<p>Latam continued to monitor this law while other firms were sanctioned for not complying with the prices and margins that were stated for specific products.</p>
<p>August 22nd 2011</p>		<p>The Venezuelan National Assembly published law no. 39.741 about sports, physical activity, and education through which it obliged companies to annually pay 1% of their net utilities for the promotion of sports, physical activity, and education.</p> <p>This law was accessed on April 10 2012 at: http://s3.amazonaws.com/ficheros-2011/08/25/Im_1_3_31372_2386_in1_archivo_2.pdf?AWSAccessKeyId=1V02D0</p>	<p>Latam faced the uncertainty of been able to sustain its distribution operations in Venezuela with increasing operational costs.</p>	<p>Latam decided to pay this annual tax and to continue monitoring its operational costs in order to determine improvement opportunities.</p>	<p>Latam continued distribution operations in Venezuela.</p> <p>Paying this tax was the correct response to continue complying with governmental policies, firms that didn't were sanctioned.</p>

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2011		Diplomatic relations between Colombia and Venezuela have improved.	Latam confronted the uncertainty of whether or not to invest more resources in its already existing operations in Venezuela.	Latam decided not to grow its infrastructure since although diplomatic relations had improved, this could be temporary. The decision was not to grow but to preserve current operations.	Latam kept its investments at the same level, other firms in its industry left Venezuela, while none invested further in the country. After experiencing political uncertainties especially in Venezuela, and in Ecuador and Nicaragua, Latam declared to be more aware of the potential impact of the political environment in its operations.


APPENDIX 11



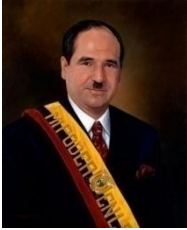
CHRONOLOGY ABOUT THE IMPACT OF ECUADOR'S POLITICAL ENVIRONMENT ON LATAM'S OPERATIONS (1999 – 2011)


A chronology of critical incidents (Miles and Huberman, 1994) is presented below to retrospectively describe the events which have framed the high uncertainty political environment in Ecuador that has had an impact on Latam's operations from 1999 up to 2011. Although the timeframe of our research is set from 1999 to 2011, this chronology starts in 1992 to describe the governmental instability that since then was visible in Ecuador. Nevertheless, the first political event to affect Latam's operations in Ecuador occurred in 1999.


To develop the following chronology assuring the objective inclusion of the most relevant events, we triangulated the responses of the 60 interviewees that were interviewed with documents and media articles. All of the data presented throughout the chronology about Latam was provided directly by its employees during 2011 and 2012.

DATE	FIRM's HISTORY	POLITICAL EVENTS	UNCERTAINTIES GENERATED FOR THE FIRM BY POLITICAL EVENTS	FIRM's STRATEGIC RESPONSES TO POLITICAL UNCERTAINTIES	OUTCOMES
August 10 th 1992		<p>Sixto Durán Ballén was elected President of Ecuador. His government lasted until the 10th of August of 1996 which was the expected presidential period.</p>  <p>President Sixto Durán Ballén</p> <p>Source: http://www.encyclopediadeecuador.com/temasOpt.php?Ind=724&Let=. Accessed February 2012.</p>			
February 1995	Latam founded a distribution platform in Ecuador during February of 1995				


	<p>that later started operations during the following month of June. This distribution platform was created through an alliance with an Ecuadorian company that lasted until 1998.</p> <p>Latam's distribution platform in Ecuador started by importing products from business lines 1 and 2 during June (1995) and later during September (1995) it also started importing products from business line 3, all from Colombia.</p>				
August 10 th 1996		Abdalá Bucaram became President of Ecuador. His government lasted until the 6 th of February of			


		<p>1997 when a social revolt requested his resignation. The Ecuadorian Congress responded by dismissing him from the position of Ecuadorian President arguing that he was “mentally incapable of governing”.</p>  <p>President Abdalá Bucaram</p> <p>Source:http://guayaquilcultura.com/museodeguayaquil.com/index.php?option=com_phocagallery&view=detail&catid=2:presidentes-del-ecuador&id=43:ab-abdala-bucaram-ortiz&tmpl=component&Itemid=317. Accessed February 2012.</p>			
<p>February 11th 1997</p>		<p>After Bucaram was dismissed from his position as President of Ecuador, the Ecuadorian Congress named Fabián Alarcón President of Ecuador. His government began on the 11th of</p>			

		<p>February of 1997 and lasted until the 10th of August of 1998.</p>  <p>President Fabián Alarcón</p> <p>Source:http://guayaquilcultura.com/museodeguayaquil.com/index.php?option=com_phocagallery&view=detail&catid=2:presidentes-del-ecuador&id=44:dr-fabian-alarcon-rivera&tmpl=component&Itemid=317. Accessed February 2012.</p>			
August 10 th 1998		<p>On the 10th of August of 1998, Jamil Mahaud was elected President of Ecuador.</p>			


		 <p>President Jamil Mahaud</p> <p>Source:http://proyectolatinoamerica.wikispaces.com/Ecuador-La+historia. Accessed February 2012.</p>			
March 11 th 1999		<p>Ecuadorian President Jamil Mahuad declared a “bank holiday” and froze the financial sector. The government argued this was a necessary measure since specialists estimated an annual inflation of 1000% that was not sustainable.</p>	<p>As a result of the “bank holiday” the distribution platform in Ecuador had its bank account “frozen”.</p> <p>Consequently, in exchange for the 300,000 USD that were in the account, the distribution platform received some bank certificates with which it could pay taxes.</p> <p>Latam confronted the uncertainty of cash flow availability to continue its operations due to governmental policies.</p>	<p>Latam kept a team working together to make decisions about the Ecuadorian market and permanently used the knowledge of human capital about the Ecuadorian context to understand, anticipate, and react.</p> <p>The distribution platform in Ecuador had more money represented in these bank certificates than it actually required to pay taxes. Therefore, after paying taxes, it sold the rest of these bank certificates through the stock</p>	<p>The distribution platform’s timely and successful negotiation of bank certificates allowed it to avoid the loss of approximately USD 120,000.</p> <p>Latam made cash available from Colombia to Ecuador as a way to increase the distribution platform’s cash flow in Ecuador. Latam also increased its capital investment in the distribution platform. This illustrates how the distribution platform in Ecuador counted with the support of Latam to pay its obligations and salaries</p>


				<p>exchange and received dollars that were used to pay its other obligations at an exchange rate of 17,300 sucres per dollar. Fifteen days later, the exchange rate changed to 29,000 sucres per dollar.</p> <p>To overcome the distribution platform's absence of cash, Latam made cash available to the distribution platform in Ecuador from Colombia so that the distribution platform could pay its obligations and salaries in Ecuador.</p> <p>Latam also decided to increase the distribution platform's capital investment from 1,050,000 million USD to 1,725,440 million USD.</p> <p>This decision had two objectives. The first was providing the distribution platform in Ecuador with additional cash flow for regular transactions. The second, was improving its investment capital so that the distribution platform in Ecuador would not incur into</p>	<p>whilst it suffered the effects of the "bank holiday". Several firms in the industry had to delay many of their operations while Latam managed to continue operating.</p>
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				a state where it would have to be dissolved according to the law (when losses reach more than 50% of capital).	
January 9 th 2000		<p>Ecuadorian President Jamil Mahuad announced his decision to dollarize the economy. USD 1 = ECS 25,000 (Ecuadorian Sucres)</p>  <p>President Jamil Mahuad</p> <p>Source:http://www.cidob.org/var/plain/storage/images/documentacion/biografias_lideres_politicos/america_del_sur/ecuador/jamil_mahuad_witt/18206-6-es-ES/jamil_mahuad_witt_ficha_biografia.jpg. Accessed February 2012.</p>	<p>The uncertainty experienced during 1999 and 2000 was generated by the fast devaluation of the sucre and then by the dollarization of the Ecuadorian economy.</p> <p>The dollarization of the Ecuadorian economy seriously threatened the distribution platform's sales in Ecuador. Due to the dollarization of the economy, the accounts receivable had to be changed from sucres to dollars and this involved a loss for the distribution platform in Ecuador.</p> <p>The dollarization and devaluation exposed Latam to the uncertainty of fast-changing prices for negotiations and accounts receivables to be collected.</p>	<p>Due to the dollarization process, the exchange rate between sucres and dollars was very volatile. As a consequence, the distribution platform in Ecuador changed its price lists every week and then every day during January of 2000. Therefore, the dollarization implied a day to day revision of the competitiveness of all of the products sold by the distribution platform in Ecuador. Especially, of the products sold by fractions of coins. These products had to be permanently monitored since they were the most sensitive to price changes.</p> <p>The distribution platform in Ecuador converted its accounts receivable from sucres to dollars in order to comply with the law. It also followed a governmental</p>	<p>Due to the uncertainty generated by the dollarization, the distribution platform's sales decreased by 6% from 1999 to 2000. The products that were found to be more competitive after the dollarization were the products in which Latam offered a higher aggregate value because these were not as price sensitive. Latam concentrated on selling more of this type of products than before.</p> <p>The distribution platform in Ecuador amortized from 2000 to 2005 approximately 101,000 USD every year as a loss generated by the differential of the currency exchange.</p> <p>Ecuador's dollarization brought stability to prices and to the national economy. The interest rate changed from 70% annual effective rate (when sucres were the official currency) to 14.5%</p>

				<p>resolution that allowed firms to amortize for the following 5 years (since 2000) the losses generated by the differential of the currency exchange.</p>	<p>annual effective rate when the dollarization took place. Inflation also decreased to averages below 5%. Therefore, although the dollarization had negative short term effects for firms with operations in Ecuador, it was a positive decision in the long term that enhanced the Ecuadorian economic stability and consequently benefited the economic environment for the operations of the distribution platform.</p>
<p>January 21st 2000</p>		<p>Military troops led by Lucio Gutierrez and indigenous groups demanded the resignation of Ecuadorian President Jamil Mahuad. There was a coup d'état.</p>  <p>New military and indigenous board in power</p>			

		Source: http://presidentespamela.blogspot.com/2010/04/jamil-mahuad-witt.html . Accessed February 2012.			
January 22 nd 2000		<p>Gustavo Noboa became the President of Ecuador after the collapse of Mahuad's government by receiving the power to rule from the military board. His government lasted up to 2002.</p>  <p>President Gustavo Noboa</p> <p>Source:http://www.noboafrenteunainfancia.com/modules/contenido/su_curriculum.php. Accessed February 2012.</p>			
November 24 th 2002		<p>During free elections in 2002, Lucio Gutierrez (who led President Mahuad's coup d'état) was elected as President of Ecuador.</p>			


		 <p>President Lucio Gutierrez</p> <p>Source:http://www.geneall.net/H/per_page.php?id=534851. Accessed February 2012.</p>			
April 20 th 2005		<p>Many middle class Ecuadorians came together since the 13th of April of 2005, with the support of different sectors, to protest against the government of President Lucio Gutierrez and search for the instalation of a new government. These protests were known as the "rebelión de los forajidos".</p> <p>In response to this protest, on the 20th of April of 2005, the Ecuadorian Congress decided to dismiss Lucio Gutierrez</p>			


		<p>as President of Ecuador on the basis of the constitutional law that allowed the Congress to dismiss the Ecuadorian President on the charge of “abandonment of duty”.</p>  <p>Lucio Gutierrez facing protesters</p> <p>Source:http://presidentespamela.blogspot.com. Accessed February 2012.</p>			
April 20 th 2005		<p>Vice president Alfredo Palacio became the President of Ecuador. Alfredo Palacio was the eight Ecuadorian President in less than a decade. His government lasted up to the 15th of January of 2007.</p>	<p>As it is evidenced, Ecuadorian Presidents changed frequently during the last decade and this instability generated overall political uncertainty in Ecuador. Political instability translated into political uncertainty that mainly</p>	<p>Latam adopted a long term perspective that enabled it to decide to sustain operations in Ecuador despite the instability of its governments during the last decade.</p> <p>Although there was political</p>	<p>Latam sustained its operations in Ecuador.</p>


		 <p>President Alfredo Palacio</p> <p>Source:http://www.geneall.net/H/per_page.php?id=533446. Accessed February 2012.</p>	involved policy uncertainty for businesses.	instability, the operations of Latam had not been directly affected by the frequent changes in government. Differently, the distribution platform's operations had been affected by policy decisions such as the bank holiday and the dollarization of the Ecuadorian economy.	
January 15 th 2007		<p>On the 15th of January of 2007, Rafael Correa became President of Ecuador.</p>  <p>President Rafael Correa</p> <p>Source:http://fotos-rafael-correa.seebyseeing.net/. Accessed February 2012.</p>			
2007	Latam acquired a			This acquisition allowed	Through its new production


	production platform for business line 2 in Peru.			Latam to develop exports from its production platform in Peru to its distribution platform in Ecuador.	platform in Peru Latam could provide products from business line 2 to the distribution platform in Ecuador despite political tensions between Colombia and Ecuador.
December of 2007		<p>The Constitutional Mandate no. 8 was released announcing the elimination and prohibition of outsourcing.</p> <p>This Constitutional Mandate was accessed on February 20 2012 at: http://www.captur.com/Docs/Mandato_Constituyente8.pdf</p> <p>The arguments supporting the announcement of Constitutional Mandate no. 8 were that Ecuadorian labor legislation allowed direct employees to participate in the distribution of 15% of the profit of the firm they worked for, according to the number</p>	<p>The distribution platform in Ecuador had 150 employees contracted through outsourcing and according to the Constitutional Mandate no. 8 it could no longer outsource the recruitment of these employees.</p> <p>The distribution platform in Ecuador faced the uncertainty of been able to sustain operations with the higher costs that involved the direct recruitment of additional employees that were before contracted through outsourcing. Until this date, outsourcing had translated into lower laboral costs and flexibility for the distribution platform in Ecuador.</p>	<p>The distribution platform in Ecuador had to directly hire 150 employees (before outsourced employees) in order to comply with the Consittutional Mandate no. 8.</p>	<p>The distribution platform's number of employees increased dramatically augmenting operational costs by 1%. To compensate the increase of operational costs, the distribution platform in Ecuador introduced an austerity plan for its expenses and worked on increasing sales.</p> <p>Due to Consittutional Mandate no. 8, unemployment increased in Ecuador. Firms had to lay off many outsourced employees since they could not afford increments in the number of their direct employees. Overall, unemployment in Ecuador rose from 7.3% in 2008 to 8.6% in 2009 (comparing the first trimesters).</p>

		<p>of members of their direct family. Direct employees also received compensations when their contracts finished.</p> <p>Differently, employees that were contracted through outsourcing were not allowed any participation in the profit of the firm they worked for and could be laid off without compensation.</p> <p>Consequently, through Mandate no. 8 the government claimed that equal labor conditions would be granted to all employees since it eliminated outsourcing obligating firms to directly hire all of their employees.</p>			
March 1 st of 2008		<p>The Colombian military pursued a mission in Angostura, Ecuador where they killed Reyes (leader of the Colombian FARC guerilla) without previously requesting</p>	<p>Correa's government fueled anti-Colombian feelings after the killing of Reyes in Ecuador.</p> <p>Anti-Colombian feelings became a threat to Latam's</p>	<p>Latam was politically neutral. It did not adopt any stance.</p> <p>To avoid the interference of anti-Colombian feelings in the operations of the</p>	<p>The political neutrality of Latam avoided anti-Colombian feelings to affect its operations in Ecuador. This stance, diminished market tensions.</p> <p>Ecuadorians were better received</p>

		<p>authorization to the Ecuadorian government.</p> <p>This event was considered an attack to the sovereignty of Ecuador by President Rafael Correa.</p>  <p>Ex-leader of FARC guerilla Rafael Reyes</p> <p>Source:http://nuestraeconomiaudea.blogspot.com/2008/04/el-conflicto-de-colombia-con-los-paises.html. Accessed February 2012.</p>	<p>operations in Ecuador by confronting it with the uncertainty of how to avoid the interference of these feelings in its operations since it offered products with a Colombian origin and had Colombian employees involved in operations in Ecuador.</p>	<p>distribution platform in Ecuador, all negotiations with retail chains were led by Ecuadorians within the distribution platform in Ecuador, not by Colombians.</p>	<p>than Colombians in negotiations and these ranned smoothly.</p>
<p>March 3rd 2008</p>		<p>As a consequence, of the Colombian military operation in Ecuador, President Rafael Correa broke diplomatic relations with Colombia.</p> <p>The Colombian</p>	<p>Latam experienced the uncertainty of expecting the frontier to be closed or restricting measures to be imposed on imports.</p> <p>Although there were several unrests at the frontier a</p>	<p>Latam continued operations in Ecuador. Taking into account that the frontier could be closed at any point in time, the distribution platform in Ecuador increased its inventory stock from 25 to 45 days. This</p>	<p>Although diplomatic relations broke, commercial relations kept trade developing.</p>


		<p>Ambassador in Ecuador was expelled and the Ecuadorian Ambassador in Colombia was called to return to Ecuador.</p> <p>Ecuadorian troops were sent to the border with Colombia but no confrontation took place.</p>  <p>President Rafael Correa</p> <p>Source:http://www.laprensa.com.ni/2011/11/08/poderes/80041. Accessed February 2012.</p>	<p>military confrontation did not take place.</p>	<p>measure was a preventive response that intended to guarantee the availability of products in case of a frontier closure due to any political conflict.</p>	
<p>April 26th of 2009</p>		<p>On the 26th of April of 2009, Correa was reelected as President.</p>	<p>Latam confronted the uncertainty of not knowing if Correa could be willing to increase taxes. Analysts stated Correa would do so.</p>	<p>As a result of these expectations, the distribution platform in Ecuador permanently monitored the development of tax legislation.</p> <p>These expectations also</p>	<p>The distribution platform's awareness about possible changes in tax regulations allowed it to quickly assess the impact of any new taxes or changes on current tax legislation.</p>


		 <p>Reelected President Rafael Correa</p> <p>Source:http://nuevageopolitica.blogspot.com/2009_08_05_archive.html. Accessed February 2012.</p>		<p>made Latam evaluate if sustaining a distribution platform was more profitable and less risky than initiating production operations.</p>	
July 10 th 2009		<p>The COMEXI (International Commerce and Investment Council) resolution no. 494 was published on the 10th of July of 2009 stating: “Safeguards will be applied during one year to correct the alteration of the normal conditions of competition to imports from Colombia. They will apply to products shipped since the 13th of July of 2009.”</p> <p>These safeguards include quotas and additional tariffs.</p>	<p>Quotas were imposed to Colombian imports in Ecuador.</p> <p>Latam confronted the uncertainty of determining how these quotas threatened its exports to Ecuador.</p>	<p>Latam studied which products were affected by the imposition of quotas in order to be able to comply with this safeguard.</p> <p>Latam found that the quotas imposed affected the product lines of barquillos and wafers.</p> <p>Latam decided to adopt a long term perspective and kept exports to Ecuador. Its decision was to sell what was allowed by the quotas.</p>	<p>Latam did not export barquillos to Ecuador so it was not impacted by the imposition of quotas to barquillos.</p> <p>The quotas that were imposed to wafers were initially thought to affect this product line but in practice these quotas had no effect on wafers. Instead, what affected wafers was the tariff that was imposed to this product. Because of the tariff, wafers changed their price from one fraction of a coin to another more expensive fraction of a coin. This change in price decreased the quantity of wafers sold and this quantity of wafers did not reach the quota</p>


		 <p>This measure will affect Colombian exports since Ecuador is one its most important export destinations</p> <p>Source:http://www.semana.com/economia/ecuador-restringe-importaciones-colombianas/126187-3.aspx. Accessed February 2012.</p>	<p>Additional tariffs on Colombian imports going into Ecuador reached up to 50%.</p> <p>Latam confronted the uncertainty of determining how these tariffs threatened its exports to Ecuador.</p>	<p>Latam identified which tariffs would be imposed on its products.</p> <p>Latam along with the distribution platform in Ecuador decided to sell the products which could maintain the best possible competitive positions despite the increase in prices due to the tariffs.</p> <p>The distribution platform in Ecuador continued operating. Business line 2 products originating from Peru were not imposed any safeguards and played an important role during this point in time in Ecuador.</p> <p>There was no visible expropriation risk.</p>	<p>restrictions.</p> <p>Due to the imposition of tariffs prices increased, products became less competitive and sales decreased deteriorating market participation. Nestle which was a foregin investment that had a local production platform in Ecuador, gained market share. Also, La Universal an Ecuadorian firm, increased its market share. Overall, Ecuadorian food firms gained market share whilst Latam lost market share.</p> <p>The tariffs mainly affected the products sold by fractions of coins. For example, Latam offered a product that was sold for 15 cents (USD) and saw an increase to 17 cents (USD), consequently it had to then be sold at 20 cents. At the price of 20 cents (USD), the consumer could choose from a different portfolio of products. This affected Latam because it lost the market for its business line 2 products during the time that the tariffs were present. Its participation in the category of</p>
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					<p>business line 2 dropped from 68% in 2007 to 6.8% in 2011.</p> <p>Similarly, in business line 1, Latam sold a product that was 5 cents (USD) and that then had to be sold at 10 cents (USD). As a result, this product went from selling 8,000 boxes to 1,000 boxes per month.</p> <p>The following table shows how the sales of the most impacted products decreased due to the imposition of tariffs:</p> <table border="1"> <thead> <tr> <th></th> <th>2007</th> <th>2008</th> <th>2009</th> <th>2010</th> </tr> </thead> <tbody> <tr> <td>PRODUCT B1</td> <td>1,097,885</td> <td>1,319,930</td> <td>571,500</td> <td>318,542</td> </tr> <tr> <td>GROWTH %</td> <td></td> <td>20%</td> <td>-57%</td> <td>-44%</td> </tr> <tr> <td>PRODUCT B2</td> <td>1,383,352</td> <td>802,520</td> <td>388,985</td> <td>172,586</td> </tr> <tr> <td>GROWTH %</td> <td></td> <td>-42%</td> <td>-52%</td> <td>-56%</td> </tr> <tr> <td>PRODUCT B2</td> <td>546,365</td> <td>634,536</td> <td>359,888</td> <td>288,886</td> </tr> <tr> <td>GROWTH %</td> <td></td> <td>16%</td> <td>-43%</td> <td>-20%</td> </tr> <tr> <td>PRODUCT B3</td> <td>826,860</td> <td>976,727</td> <td>737,337</td> <td>1,009,246</td> </tr> <tr> <td>GROWTH %</td> <td></td> <td>18%</td> <td>-25%</td> <td>37%</td> </tr> </tbody> </table> <p>As sales decreased, there was less money to invest in marketing.</p> <p>Latam learned that it could not depend on products that were sold at low fractions of coins. It</p>		2007	2008	2009	2010	PRODUCT B1	1,097,885	1,319,930	571,500	318,542	GROWTH %		20%	-57%	-44%	PRODUCT B2	1,383,352	802,520	388,985	172,586	GROWTH %		-42%	-52%	-56%	PRODUCT B2	546,365	634,536	359,888	288,886	GROWTH %		16%	-43%	-20%	PRODUCT B3	826,860	976,727	737,337	1,009,246	GROWTH %		18%	-25%	37%
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					<p>should rely on higher profit margin products with higher aggregate value. The reason is that the prices for these type of products are not as sensible as those of fractions of coins. Therefore, many of the products that are being launched in Ecuador are those with more aggregate value which are not as sensitive to price changes.</p>
<p>August 8th 2009</p>		<p>The CAN (Andean Community of Nations) determined during August 8th of 2009 through the resolution no. 1250 that the devaluation of the Colombian peso (COP) against the US dollar between June of 2008 and June of 2009, translated into the loss of competitiveness of Ecuadorian products in the face of Colombian products. The alteration of competitive conditions, allowed Ecuador to adopt safeguards against Colombian imports.</p>	<p>Latam understood safeguards were going to be present for some time with the support of this resolution published by the CAN. Latam faced the uncertainty of been able to sustain operations overtime despite these safeguards.</p> <p>Latam also confronted the challenge of employees doubting the continuity of operations in Ecuador and having low enthusiasm.</p>	<p>Latam trasmitted a clear message of political neutrality and assured employees the continuity of operations.</p>	<p>The clarity that characterized the communication with employees allowed these to understand that their special effort was required to sustain sales that could assure the continuity of operations. The perspective of Latam was to maintain operations as long as possible in Ecuador. Employees felt that if Latam had as a long term objective sustaining their operations in Ecuador, hopefully they would be able to sustain operations through the imposition of safeguards if they worked on reducing costs whilst maintaining sales.</p>

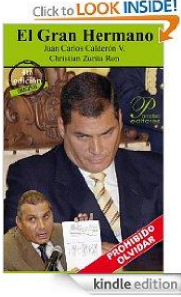
		 <p>Logo of CAN</p> <p>Source:http://www.comunidadandina.org/prensa/noticias/10-8-09.htm. Accessed February 2012.</p>			
February 3 rd 2010		<p>Ecuador informs the CAN about the COMEXI (International Commerce and Investment Council) resolutions it adopts on the 3rd of February of 2010.</p> <p>Resolution no. 548 states: “the application of safeguards to imports with a Colombian origin is terminated.”</p> <p>Resolution no. 549 states: “a schedule for the termination of the safeguards is as follows:</p> <p>10% since January of 2010 30% from the 23rd of March of 2010</p>		<p>The termination of safeguards allowed the distribution platform in Ecuador to recover sales and market participation.</p> <p>Latam recalculated prices without safeguards. Prices became more competitive.</p>	<p>Sales and market participation started to improve.</p>

		<p>30% from the 23rd of May of 2010 30% from the 23rd of July of 2010.”</p> <p>A total of 1.346 products had suffered the imposition of safeguards since July of 2009.</p> <p>The communication of the termination of safeguards finalized a difficult period for Colombian exports to Ecuador.</p>  <p>Source:http://portalgamarra.blogspot.com/2010/01/ecuador-desmontara-gradualmente.html. Accessed February 2012.</p>			
April 14 th 2010		The Ecuadorian government published the	This new legislation confronted Latam with the	During 2011 Latam is revising its portfolio and raw	During 2011 the distribution platform in Ecuador keeps selling


		<p>intra-ministries agreement no. 001-10 regarding school bars. Through this agreement the government regulated the amounts of fat, saturated fat, sugar, and salt that can be sold in food products to under age students.</p> <p>The intra-ministries agreement was accessed on the 20th of February 2012 in: http://issuu.com/poderesip/docs/acuerdo_interministerial_reglamento_bares_escolares</p>  <p>Ecuadorian students</p> <p>Source:http://www.elnuevoempresario.com/noticias_22640_socializaran-en-todo-el-ecuador-reglamento-que-regula-el-funcionamiento-de-bares-escolares.php. Accessed February 2012.</p>	<p>uncertainty of how to respond to these new requirements. This challenge implies an important decision: if Latam wants to sustain its sales in Ecuador, it will probably have to substantially change its products since currently (December 2011) none of them comply with this law.</p> <p>Latam found that this law imposed sanctions to the owners of the school bars but not to their suppliers. Until December 2011, the owners of school bars were found to still not be following the law because massive inspections had not been conducted. The owners of the school bars did follow some other points included in the law regarding hygiene and the physical layout of the bars but they were still regularly buying products from Latam which did not comply with this law.</p>	<p>materials. Serious research is advancing through Vidarium regarding how can products improve their nutrition value and reduce their contribution to obesity and other health issues.</p> <p>Although Ecuador is becoming very strict in nutrition, Latam is not only revising its portfolio of products for this country but in general for all markets. This seems to be a generalized future market trend.</p>	<p>to school bars but it is working on modifying its products worldwide to improve their nutrition value. This initiative involves important investments.</p> <p>Complying with these requirements is important for Latam not only because these have become a global market trend but because nutrition requirements can also become a trade restriction in the case that any government decides to ban the imports of products that do not comply.</p>
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November 26 th 2010		<p>Colombian President Juan Manuel Santos and Ecuadorian President Rafael Correa met during UNASUR (Union of the Nations of the South) in Georgetown, Guyana. The Colombian and Ecuadorian governments announced the reestablishment of diplomatic relations.</p>  <p>Ecuadorian President Rafael Correa and Colombian President Juan Manuel Santos at Unasur</p> <p>Source:http://www.elespectador.com/noticias/politica/articulo-237170-correa-dice-el-presidente-santos-tiene-gran-espiritu-integracionis. Accessed February 2012.</p>			
January & February 2011		Ambassadors came back to their offices.	Diplomatic relations improved and trade was fluent. Latam did not face threatening	Although Latam did not face threats stemming from political events or decisions	Latam claims that the decision to sustain operations in Ecuador through uncertain years was the

		<p>On the 14th of January the Ecuadorian Ambassador Raúl Vallejo initiated his work in Colombia.</p> <p>On the 3rd of February Colombian Ambassador Fernando Arboleda Ripoll started his work in Ecuador.</p>	<p>political uncertainties at this point in time.</p>	<p>it became more aware of the influence the political environment may have on its operations.</p>	<p>right one as the political environment becomes less of a threat to imports from Colombia.</p>
<p>November 24th 2011</p>		<p>The Ecuadorian government increased the tax to currency exit (Impuesto a la salida de divisas – ISD) from 2% to 5%.</p>  <p>Source: http://www.americaeconomia.com/economia-mercados/comercio/ecuador-anuncio-de-impuesto-la-salida-de-divisas-provoco-caida-de-la-inve. Accessed February 2012.</p>	<p>The increase of up to 5% of the tax to currency exit (Impuesto a la salida de divisas – ISD) increased the costs of Latam’s operations in Ecuador. Latam confronted the uncertainty of how to respond to this governmental policy.</p>	<p>The distribution platform in Ecuador reduced its operational costs by 2% and started a savings plan of 1%. Additionally, it revised the prices of its products in order to increase profit to partially cover this tax without losing competitiveness.</p>	<p>The imposition of the tax was overcome through these responses and operations continue with a close monitoring of costs, prices, sales, and market participation.</p>
<p>February 7th 2012</p>		<p>The reporters Juan Carlos Calderon and Christian</p>			

		<p>Zurita were sentenced to pay 2 million USD to President Rafael Correa for the moral damages that he assured to suffer due to their book about the polemic contracts his brother sustained with the government.</p>  <p>Source:http://www.amazon.com/HERM-ANO-OFICIO-CONTAR-Spanish-ebook/dp/B0055PONTE. Accessed February 2012.</p>			
February 16 th 2012		<p>President Rafael Correa won a lawsuit against the newspaper El Universo.</p> <p>The Ecuadorian maximum court condemned the three top</p>			

		<p>executives and one ex editor of the newspaper El Universo to three years in jail and the payment of 40 million USD. These executives requested political asylum in Panama.</p> <p>The dispute began in March of 2011 when Correa requested 80 million USD after editor Emilio Palacio published an article titled “No to lies” which addressed that during the 30th of September of 2010 Correa left the police hospital where he was retained during a revolt. A bloody military fight took place leaving behind several victims.</p> <p>The editorial warned “that in the future, perhaps a new president that may be an enemy of Correa could take him into trial for ordering fire in a hospital without previous notice and where innocent</p>			
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		<p>people were present.”</p> <p>Correa stated this was a great precedent against the private media which he declared as corrupt.</p>  <p>President Rafael Correa speaking to media after the court's announcement</p> <p>Source:http://www.elpais.cr/frontend/noticia_detalle/2/62548. Accessed February 2012.</p>			
February 2012		<p>The Ecuadorian government is currently (February 2012) debating the approval of a communication law. The final debate is estimated for 2012.</p> <p>This law will address the following points:</p> <p>Children may not appear</p>	<p>This new communication law threatens to affect Latam's marketing strategy because most of its products are directed to children and involve children in commercials. If this law is approved, marketing costs will also be increased since a "special" commercial will probably have to be created and produced in Ecuador to</p>		

		<p>in commercials.</p> <p>Statements that cannot be proved cannot be included. Example: “Chocolisto makes you grow”.</p> <p>TV commercials must be produced mainly in Ecuador.</p>	<p>comply with this law. Latam confronts the uncertainty of not knowing if the law will be approved and if approved how it should best respond to its requirements.</p>		
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APPENDIX 12




CHRONOLOGY ABOUT THE IMPACT OF NICARAGUA'S POLITICAL ENVIRONMENT ON LATAM'S OPERATIONS (1999 – 2011)

A chronology of critical incidents (Miles and Huberman, 1994) is presented below to retrospectively describe the events which have framed the high uncertainty political environment in Nicaragua that has had an impact on Latam's operations from 1999 up to 2011.

To develop the following chronology assuring the objective inclusion of the most relevant events, we triangulated the responses of the 60 interviewees that were interviewed with documents and media articles. All of the data presented throughout the timeline about Latam was provided directly by its employees during 2011 and 2012.

DATE	FIRM's HISTORY	POLITICAL EVENTS	UNCERTAINTIES GENERATED FOR THE FIRM BY POLITICAL EVENTS	FIRM's STRATEGIC RESPONSES TO POLITICAL UNCERTAINTIES	OUTCOMES
December 7 th 1999		<p>Colombia and Nicaragua have a territorial dispute over San Andres, Providencia, Santa Catalina, and other territories.</p> <p>Since 1803, Spain declared these islands as Colombian territory. Later, during the 24th of March of 1928, the Esguerra – Barcenas treaty was signed between Colombia and Nicaragua. This treaty recognized that San Andres, Providencia, Santa Catalina, and other territories were Colombian. The meridian 82 was determined as the limit between both countries.</p> <p>During 2001, Nicaragua declared the Esguerra – Barcenas as “null” and presented a lawsuit</p>	<p>The territorial dispute between Colombia and Nicaragua had not interfered with the business environment until the 7th of December of 1999 when the National Assembly of Nicaragua announced through law no. 325 the installment of a tax of 35% to imports of products with a Colombian or Honduran origin.</p> <p>The government announced that the funds collected through this tax were required to cover the expenses generated by the legal procedures that originated because of the territorial dispute between Nicaragua and Colombia.</p> <p>This law was accessed on the 28th of February of 2012 at:</p>	<p>Latam knew that while the sovereignty tax to Colombian imports existed, it would not be able to compete in the Nicaraguan market with products produced in Colombian production platforms.</p> <p>Consequently, Latam started to analyze where it could effectively acquire production platforms that could efficiently supply Nicaragua and other Central American markets with competitive products.</p>	<p>Latam decided to aim for acquisitions in Costa Rica which offered a strategic position to supply Nicaragua and other Central American markets.</p>

		<p>against Colombia in the International Court of Justice claiming as Nicaraguan the territories to the east of the 82 meridian.</p> <p>During the 13th of December of 2007, the International Court of Justice recognized the sovereignty of Colombia over San Andres, Providencia, and Santa Catalina. But it left open the consideration of border limits by the 82 meridian and the sovereignty of some small islands like Serranilla, Quitasueño, Serrana, Roncador, and Bajo Nuevos.</p> <p>This dispute has not yet been settled at the start of 2012.</p>	<p>http://www.mific.gob.ni/LinkClick.aspx?fileticket=G1LZWNR9WkI%3D&tabid=232&language=en-US</p> <p>Products with a Honduran origin also suffered the imposition of the sovereignty tax because Honduras had signed a treaty with Colombia during 1986 in which the maritime limits between both countries were established.</p> <p>Although this treaty had been signed since 1986, it was just until the 20th of December of 1999 that both countries exchanged ratifications of the treaty.</p> <p>This treaty was accessed on the 21st of May of 2012 at: http://www.sogeocol.edu.co/documentos/trat_col_honduras.pdf</p> <p>Since the 7th of December of 1999, imports with a</p>		
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		 <p>Source:http://campuscomunicativo.com/?p=471. Accessed February 2012.</p>	<p>Colombian origin were obliged to pay this tax in Nicaragua. This tax was named “impuesto por la soberania” or sovereignty tax.</p> <p>The sovereignty tax caused imports with a Colombian origin to lose their competitiveness in the Nicaraguan market. Latam faced the uncertainty of how could it compete in the Nicaraguan market having its products produced in production platforms located in Colombia.</p>		
March 11 th 2003		<p>The Nicaraguan government published law no.449 to announce that the sovereignty tax imposed on imports with a Honduran origin was terminated.</p> <p>This law was accessed on the 21th of March of 2012 at: http://legislacion.asamblea.gub.ni</p>	<p>The sovereignty tax imposed to imports with a Colombian origin continued. This sustained a restrictive condition for Latam’s products produced in production platforms located in Colombia.</p>		

		a.gob.ni/Normaweb.nsf/%28\$AII%29/44C19B3A675BC60C0625720D0057FEFD?OpenDocument			
		<p>Nicaragua argued that the decision to terminate the sovereignty tax imposed on imports with a Honduran origin was based on the intention of promoting Central America's economic integration.</p>			
2004	<p>Latam acquired two production platforms in Costa Rica: a production platform for business line 1 and a production platform for business line 2.</p> <p>These production platforms allowed Latam to supply products from these two business lines to the Nicaraguan market and other</p>				

	Central American markets.				
2004	<p>During 2004, Latam also founded a distribution platform in Nicaragua that started to supply this market.</p> <p>The distribution platform in Nicaragua distributed products from the two business lines which were imported from the production platforms located in Costa Rica.</p>			<p>Latam organized a team to evaluate potential acquisitions in the Central American region. Eventually, it acquired two production platforms and founded a distribution platform. Through the acquisition of the two production platforms in Costa Rica, the distribution platform that was founded in Nicaragua was in a competitive position to import products from business lines 1 and 2 from Costa Rica since these products were not charged with a sovereignty tax.</p> <p>Latam used the knowledge of human capital about the Costa Rican and Nicaraguan contexts to understand, anticipate, and react.</p> <p>There was no visible expropriation risk.</p>	<p>The distribution platform in Nicaragua was able to offer competitive products from business lines 1 and 2 in the Nicaraguan market.</p>

2006	Latam acquired a second production platform for business line 1 in Costa Rica.				
March 2007	<p>This second production platform (for business line 1) acquired in Costa Rica already owned a distribution platform located in Nicaragua.</p> <p>This distribution platform was found to be more efficient in costs and operations than the distribution platform that Latam had already founded during 2004.</p> <p>Consequently, it was decided that the distribution platform (originally</p>				

	<p>founded by the firm during 2004) was absorbed by the second distribution platform (owned by the second production platform for business line 1 acquired during 2006) to become Latam's only distribution platform in Nicaragua.</p> <p>This decision was based on the fact that running two distribution platforms in the same country was not efficient.</p> <p>Logically, the absorption decision focused on that the most efficient distribution platform absorbed the less efficient one.</p>				

2008	<p>In Costa Rica, the first production platform for business line 1 acquired during 2004 was also absorbed by the second production platform for business line 1 acquired in 2006.</p> <p>This absorption took place due to the high brand recognition that the second production platform for business line 1 enjoyed of in Central America.</p> <p>Both production platforms were integrated into one increasing productiveness and competitiveness.</p> <p>The administrative and commercial structures of the production and</p>				
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	<p>distribution platforms were integrated obtaining more effectiveness and coverage. The brands gained more “value” and sales increased.</p>				
2011		<p>The sovereignty tax still applies to imports with a Colombian origin in Nicaragua.</p>	<p>The sovereignty tax imposed to Colombian imports in Nicaragua signifies that the distribution platform in Nicaragua cannot yet competitively offer products with a Colombian origin to the Nicaraguan market.</p>	<p>During 2011, the distribution platform in Nicaragua is studying the possibility of also importing products from a production platform of business line 2 that Latam acquired in Mexico in order to amplify its product portfolio.</p>	<p>Latam manages to sustain operations in Nicaragua.</p> <p>Although it is a small market it is strategically important and presents future growth possibilities, especially if the sovereignty tax comes to an end.</p> <p>Latam was able to design a way to offer products in the Nicaraguan market while competitors were still investigating how to do so.</p>