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Institutional voids and their impact on entry decisions and strategy implementation.

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Abstract

Title: Institutional voids and their impact on entry decisions and strategy implementation.

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This research investigates the ways institutional voids affect the process of internationalization of a firm entering an emerging market in the energy sector. More precisely, the study presented aims to draw conclusions about the importance of institutional context for entry decisions and strategy implementation when expanding to an emerging market. To answer this research question, a case study on the internationalization process of EDP in Peru was conducted.

The results obtained suggest that companies become more and more aware of the importance of institutional voids for the future of the projects in emerging markets. Before the entry decision takes place, company analyzes deeply the institutional context. Entry mode changes accordingly to the perceived risk coming from the insufficient institutionalization. Overall strategy connected with different areas, for instance capital and labor markets and various stakeholders like government and society is adjusted accordingly to the characteristics of the market.

The final conclusion is that the overall strategy has to be tailored to the specific institutional context. Sometimes the difference between the home and host country is rather a matter of nuance and the art of addressing it, makes companies successful.

Abstrato

Título: Vazios institucionais e a sua influência sobre as decisões da entrada e a implementação da estratégia.

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Esta pesquisa investiga como os vazios institucionais afetam o processo de internacionalização duma empresa ao entrar num mercado emergente no sector da energia. Mais precisamente, o estudo apresentado tem como objetivo tirar as conclusões sobre a importância do contexto institucional para as decisões de entrada e implementação da estratégia ao expandir para um mercado emergente. Para responder a questão da pesquisa, foi realizado um estudo de caso do processo da internacionalização da EDP no Peru.

Os resultados obtidos sugerem que as empresas se tornam cada vez mais conscientes da importância dos vazios institucionais para o futuro dos projetos em mercados emergentes. Antes da decisão de entrada ocorre, empresa analisa profundamente o contexto institucional. Modo da entrada muda de acordo com a percepção do risco proveniente das instituições ineficientes. Estratégia global conectada com diferentes áreas, por exemplo os mercados capitais e laborais e as várias partes interessadas, como o governo e a sociedade, é ajustada de acordo com as características do mercado.

A conclusão final é que a estratégia global tem de ser adaptada ao contexto institucional específico. Às vezes, a diferença entre o país de origem e de acolhimento é sim uma questão da nuança e a arte de abordá-la, torna as empresas bem-sucedidas.

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I. Introduction

I. a Short presentation of the topic

In the globalized world, where borders between countries lost their old meaning, we can see more and more companies engaging in international operations. Especially firms from developed markets, which became saturated are incentivized to search for new places offering profitable business opportunities (London & Hart, 2004). Multinational corporations are starting new operations in emerging economies such as India, Indonesia, Brazil, China, and Mexico to take advantage of growth opportunities (London & Hart, 2004). Expanding to emerging countries with higher growth potential “through investment and sourcing opportunities” (Sakarya, Eckman & Hyllegard, 2007, p. 209) seems to be the ideal strategy. Before making any decisions companies are supposed to conduct an extensive research on the trade-off between benefits coming from growth opportunities and low institutionalization and the drawbacks that may be faced because of the same reasons.

However, the host country institutions may be non-existent or inefficient, which gives another light to the emerging countries utopia. It is crucial to remember that advantages arising from the emerging market opportunities have to be balanced with some drawbacks. Companies expanding to emerging countries have to cope with many risks like unexpected changes, „poorly developed communication and distribution systems, limited managerial resources and cultural differences” (Sakarya et al., 2007, p. 209). In emerging markets companies have to function in different institutional context. Institutions, as defined by Scott and Christensen (1995) „consist of cognitive, normative, and regulative structures and activities that provide stability and meaning to social behavior. Institutions are transported by various carriers culture, structures, and routines—and they operate at different levels of jurisdiction”. (Scott & Christensen, 1995, p. xiii)

According to North (1990) institutions vary accordingly to the country and can be divided into formal and informal. The ones included in the formal category are connected with laws, regulations etc. whereas informal institutions are more like a set of rules shared in the society, that constrains inappropriate behavior, not because of the legal penalties, but due to the social scrutiny (North, 1990).

In emerging markets formal institutions are very often inefficient, leading to the creation of institutional voids- “absence of specialized intermediaries, regulatory systems, and contract-

enforcing mechanisms in emerging markets” as defined by Khanna, Palepu and Sinha (2005, p. 4). When expanding to emerging markets companies very often make a mistake of „assuming that EM are at an earlier stage of the same development path followed by advanced countries” (Sakarya et al., 2007, p. 214).

Before expanding to an emerging market the company should identify institutional voids present there and understand if working around them is possible (Khanna et al., 2005). The complexity of the decision making process while expanding to new locations, meaning numerous factors that managers have to take into consideration in their analysis (resources, skills, institutional context) makes this choice of target market the crucial decision in international strategy (Andersen & Strandskov, 1998).

Markets, where the institutional context is at least uncertain require a different approach from the companies coming from developed countries. In the context of weak institutions, we should expect specific entry modes and strategy implemented. This thesis aims to address the following question -how institutional voids affect the internationalization process of firms entering an emerging market in the energy sector. In order to answer this question, it was divided in two sub-research questions: How do institutional voids influence the entry mode choice? And how do they influence the strategy implementation? This research focuses especially on the influence of institutional voids on the entry mode choice of the company, due to its high strategic importance. As stated by Zhao, Luo and Suh (2004, p. 524), “entry mode choice is a critical ingredient of international entry strategies, and has been voluminously examined in the field”. Authors emphasize the importance of entry mode choice for the company, which has long-lasting effect on the resource commitment, control over the operations and overall risk involved. The relationship between institutional voids and business decisions was addressed in literature very generally, there are no articles investigating the influence of the institutional context in a specific sector. The special interest of this study is given to the energy sector as it has not been researched in this context yet and due to the special importance of this sector as the “economy driver” (Wamukonya, 2003, p. 1279). Investigating which institutions trigger specific entry mode and strategy choices in case of this particular sector may contribute to the advancement in the literature dedicated to institutional voids.

Emerging markets are frequently researched in academic circles. However, the majority of articles on this topic is dedicated to the Asian countries. Latin America (excluding Brazil, which as a part of BRIC's, is frequently the topic of the research) seems to be still an undiscovered land when it comes to institutional voids. As Xu and Meyer (2013, p. 1325) state „in terms of geographic context, almost half the studies, 122 out of 260, focus on China. Other Asian economies are the subject of 68 studies,

followed by Central and Eastern Europe (CEE) with 37 studies, Latin America with 13 papers, and the Middle East and Africa with only 3 studies". It seems important to map the institutional context in those countries as they experience an increasing level of investment. This research focuses on one of the Latin American countries – Peru and aims to contribute to the knowledge about its institutional context.

This research will be developed in form of case study, using as the primary source of evidence the interviews conducted in chosen company. The choice of this specific company- EDP, was caused by the interest of the researcher in studying the relationship between institutional voids and strategic decisions of the company in the energy sector, as well as mapping the institutional context of one of the Latin American countries. The company belongs to the energy sector and its currently analyzing its entrance into one of the Latin American countries – Peru, which makes it the perfect fit for the researcher.

I. b Managerial and academic relevance

Although institutional voids and their implications are known, not too many executives base their internationalization decisions on institutional factors. In December 2004 McKinsey conducted a survey, asking 9750 senior managers about their priorities and concerns regarding emerging markets. 61% of them responded that the decisive factors to enter those markets were growth and size. 17% indicated political and economic stability as the reasons underlying the decision. Only 13% responded that institutional context was the most important factor while making the decision (Khanna et al., 2005).

The biggest mistakes in strategy that executives implement come from the fact that they take the existence and sophistication of the institutions for granted, whereas most of the times those are either non-existent or not efficient in emerging markets. "Successful companies work around institutional voids. Firms that understand the institutional differences between countries are likely to choose the best markets to enter, select optimal strategies and make the most out of operating in emerging markets" (Khanna et al., 2005, p. 5). The analysis of the industry structure should be the second step, after analyzing the institutional context (Khanna et al., 2005).

The preparation phase and the discovered level of risk may be the reason of "no entry" decision. If

the firm decides to expand, it will tailor its strategy according to specific institutional voids (Santangelo & Meyer, 2011). As far as the managerial relevance is concerned, this research may provide some insights for managers, currently considering the expansion to emerging markets. Executives seek ways to improve performance in “difficult” markets and understanding the influence of institutional voids on company's operations and the possible solutions in uncertain institutional context may contribute towards this goal. Further analysis of the actions taken by the company to address institutional voids and possible recommendations can help companies in their internationalization process.

Increasing level of investment in emerging countries in last years has stimulated the demand for an extensive investigation of the characteristics of those markets. This research focuses on the institutional context of an emerging country and aims to prove the relationship between institutional voids and strategic decisions of the company. As far as the academic relevance is concerned, this study focuses on institutional context of the market and the influence it may have on the internationalization strategy of the firm. As Meyer, Estrin, Bhaumik and Peng (2009) stated in their article, the major part of the literature provides the resource-based explanation for the internationalization decisions and the institutional explanation tends to be neglected. This research was inspired by work of many scholars investigating the relationship between institutional context and the strategy pursued by the company. Nevertheless, previous studies concentrated either on the theory itself or if they were developed in the form of empirical research, they just investigated one task of the decision making process, whereas this study deeply analyzes the whole process of strategical choices of the company in relation to institutional voids.

I. c Overview of the further layout

In the first chapter previous articles on institutional voids and their implications for entry decisions and strategy implementation will be presented. The following section will contain the methodology part. In the third chapter case study on the EDP entry process into emerging market will be described. In the following chapter the results and their analysis will be presented. The last chapter will contain final conclusions, limitations and recommendations for future research.

II. Literature review

II. a Emerging markets- what should be expected from a not yet developed economy?

Overview and institutional characteristics of emerging countries

Emerging markets as a topic of academic articles has been exposed to a rising popularity. Xu and Meyer (2013, p. 1325) have conducted a study about the trends in research on emerging countries that has been conducted so far. They concluded that the topic has faced a „substantial increase in the number of emerging economy studies in the eight top journals, demonstrating that the legitimacy of the field has been well established“.

What is exactly an emerging market, how can we determine it as one? Arnold and Quelch (1998) state in their article that there is no definition of emerging market commonly accepted, but there are three aspects in common that continuously appear in the definition. First of all, the average GDP per capita. “World Bank data categorize countries on the basis of GDP into low (for 1995, less than \$765; sixty-three countries), lower middle (\$765 to \$3,035; sixty-five countries), upper middle (\$3,036 to \$9,385; thirty countries), and high (more than \$9,386; fifty-one countries)” (Arnold & Quelch, 1998, p. 8). Some of the emerging economies fall into low category (e.g. India and China), but there are also emerging countries, which belong to the high GDP category (e.g. Hong Kong, Singapore), which makes the first criterion slightly unclear (Arnold & Quelch, 1998). The second aspect appearing usually in the emerging country definition is the GDP growth rate. On average an emerging economy will have growth equal to 5% or more or close to 10% in East Asia. Nevertheless, there are few countries considered as emerging that don't fulfill the second criterion (Arnold & Quelch, 1998). Finally, the third aspect in the definition of emerging economy is “the extent and stability of a free-market system; if the country is in the process of economic liberalization from a command economy” (Arnold & Quelch, 1998, p. 8). This third element is very hard to define, probably it can be assessed in the best way by looking at national investment risk indices (Arnold & Quelch, 1998). Companies can analyze various composite indices, for instance governance indicators (political stability, regulatory quality etc.) or corruption perception index ranking (Khanna et al., 2005). Khanna and Palepu (1997, p. 4) proposed to decide whether the market is emergent or not based on “how well does the economy help buyers and sellers to come together”. They highlight the fact that in those markets this information may be compromised by three factors, all

emerging from the lack of appropriate institutions: information problems, misguided regulations and inefficient judicial systems. Emerging economies are then characterized by growth and underdeveloped institutions that may lead to market failures. Like in the work of Khanna and Palepu (1997), Vassolo, De Castro and Gomez-Mejia (2011, p. 26) also highlight the differences between developed and emerging countries departing from institutional perspective. The factors differentiating those markets are: the presence of institutional voids, “the abrupt and arbitrary alteration of the rules of the game”, “privatization and liberalization” and informal economic activity.

It is important to remember that not every country in the development stage can be categorized as emergent. Only the country in development stage, that has “started an economic reform process aimed at alleviating problems, for example, of poverty, poor infrastructure, and overpopulation” and has „achieved a steady growth in gross national product (GNP) per capita” can be called “emergent” (Cavusgil et al. 2002, p. 4).

The case of Latin America as an emerging region.

Latin America is one of the emerging regions. Vassolo et al. (2011, p. 22) describe this continent as paradoxical and providing “unique conditions that make it one of the most attractive contexts worldwide for doing business”, while facing “serious challenges that severely underscore these opportunities”. Authors emphasize also that Latin America is, when it comes to economic situation, the second most important emerging region worldwide, following Southeast Asia. Vassolo et al. (2011) describe Latin America as a region that despite from recent development, still presents institutional problems, visible in inefficiently working markets. Institutional voids have a direct relationship with high levels of corruption and informal business activities. Due to the political and institutional problems, accessing natural resources may come together with some risks. Governments tend to maintain natural resources in their power, in many cases after privatizing, renationalizing took place and some of the companies were exposed to expropriation problems (Vassolo et al., 2011). Another problem of emerging countries in Latin American region is the scarcity of highly skilled labor, which is a significant concern in the area. “Roughly 8 percent of the region’s population over the age of 15 is illiterate” (CEPAL, 2011, p. 133). One of the factors that differentiates Latin America from developed regions, is the large proportion of informal economic activity. Gasparini and Tornarolli (2009) provide us with the percentage of informal firms in Chile and Bolivia, 19,8% and 67,1% respectively. World Bank (2008) says that over 50% of all employees

in Latin America are part of informal sector. The reason behind this informality lays in institutional context. To register and license a business in Latin America, the company would have to wait on average 67 days (compared to 14 days in OECD nations). Another factor leading to informality in economic activity is the cost of starting the business, which is quite high in Latin America. To get the required licenses to start the business it would cost on average 36.6% of the gross national income per person (compared to 5% in OECD nations) (World Bank 2008). This environment of business informality is characterized by limited enforcement of the rules (Vassolo et al., 2011). Mesquita and Lazzarini (2008) found that there is no or not sufficient legal protection for alliances and long term relationships. According to the authors, more than 98% of SME's relationships in Argentinian furniture business work according to the rules of informal network as the legal system is considered to be unreliable. Latin America as an emerging region differs also significantly from developed regions in terms of consumer profile. There is a significant number of consumers with lower income levels that are “pushing hard to move into the ranks of the middle class” (Vassolo et al., 2011, p. 32).

What are the benefits of expanding to Latin America taking into consideration the low institutionalization? One of the valid reasons that authors find is the abundance of natural resources in this region. “Most of the rapid growth of Chile, Peru, Brazil, and Argentina, for example, can be attributed in great measure to price increases for natural resources, both renewable (Brazil and Argentina) and nonrenewable (mining in Chile and Peru)” (Vassolo et al., 2011, p. 23). In order to work around institutional voids in Latin America the companies have to conduct an extensive research and come up with the strategies that will fit emerging markets. One of the methods to overcome institutional distance is to form “economic groups with fairly unrelated business portfolios” (Vassolo et al., 2011, p. 23). This strategy helps the companies to work around institutional voids and it provides more bargaining power when it comes to government. Companies operating in emerging markets, where the governments are known for arbitrary changes in institutional context, run the risk of expropriation. To deal with this kind of uncertainty the firms are prone to engage in lobbying activities (Vassolo et al., 2011). Recently there is a visible division between countries in Latin America, between those that are moving towards market openness and institutions, for instance Chile, Brazil and Peru and those promoting nationalistic policies, like Venezuela, Ecuador and Nicaragua (Vassolo et al., 2011).

II. b Institutional voids and their implications

Expanding to an emerging market is challenging for the companies as they have to apply strategies that fit the new and unknown context. „Scholars have responded by advancing theories that explicitly incorporate context into strategy decision making” (Xu & Meyer, 2013, p. 1335). One of those theories, namely the institutional theory incorporates directly the market context into the study, setting the attention on institutions and their implications (Xu & Meyer, 2013). Institutional theory contains not a single, but multiple theoretical arguments stating why and how are the institutions important for business decisions (Gelbuda, Meyer & Delios, 2008). Institutional theory sees the economy, politics, legal system and culture as the determinants of market entry strategies. Companies expanding to an emerging country should then focus not only on economic factors, but as well consider the institutional context and its implications.

In emerging markets, inefficient institutions and potential changes in institutional context create a sense of uncertainty (Xu & Meyer, 2013). Due to the changing rules, the ability to adapt at the fast pace, became a crucial skill for the companies (Santangelo & Meyer, 2011).

Emerging markets are without doubt, less efficient than developed markets. Asymmetry of information, high cost of monitoring and enforcement and the lack of transparency, those are the results of underdeveloped institutions. The high uncertainty and perception of risk comes from the volatility in economic, political and institutional fields. This is why “businesses find it harder to predict parameters they need for strategic decisions, including, for example, business cycles, government actions, and the outcome of legal proceedings” (Xu & Meyer, 2013, p. 1323)

Weak institutions in emerging markets require from the companies to adapt their strategies accordingly. The term “institutional voids” appeared for the first time in the article written by Khanna et al. for HBR review in 1997. They were defined by the same authors in 2005 as “absence of specialized intermediaries, regulatory systems, and contract-enforcing mechanisms in emerging markets” (Khanna et al., 2005, p. 4).

Products, markets

Institutional voids, being somehow the product of political and social system, may appear in many areas, one of them, identified by Khanna and Palepu (1997) is related to products and markets.

Underdeveloped communication infrastructure, independent consumer-information organizations-rare or non-existent, analysts lacking the same knowledge as the ones working in developed economies and “no redress mechanisms” (Khanna & Palepu, 1997, p. 4) for consumers, those are only some of the consequences of lacking or inefficient institutions.

Capital market

Another area where the institutional voids are present is capital markets. Problems with the flow of information due to underdeveloped financial reporting, less experienced community of analysts, less sophisticated financial press are just a top of the iceberg. Absence of VC companies and other institutional mechanisms that allow markets to work efficiently, compromises the functioning of capital markets and can lead to negative consequences for the companies willing to start their business in emerging countries. Due to the high asymmetry of information investors may be reluctant to provide money for development of new businesses (Khanna & Palepu, 1997).

Labor market

Labor markets may also be problematic in emerging countries. “Scarcity of well-trained people” (Khanna & Palepu, 1997, p. 5) and rigid laws able to prevent companies from laying off the workers are the factors to be considered by the companies before making any entry decisions. Misguided regulations, ineffective contract enforcement and possible government interventions are provoking the ambiance of uncertainty, which emphasizes even more the institutional distance between home and host country (Khanna & Palepu, 1997).

II. c The importance of addressing institutional voids.

Institutional voids affect the overall strategy of the company entering an emerging market. Many strategic elements like timing and mode of entry, business activities, products offered and human resources management need to be adjusted to the institutional context (Gelbuda et al., 2008). Despite of the fact that the company can modify its strategy to deal with institutional differences, sometimes the increase in the distance between the home and host country may prevent the

company from entering an emerging market.

As institutional void is not just an abstract concept, but the real phenomenon that may cost the company a lot of money, that is why every entry decision into emerging markets has to be backed up with extensive research. The company has to be well prepared and invest in capabilities to deal with the institutional distance. In this case “information gathering and assessment” is essential (Liesch & Knight, 1999, p. 384). To research institutional voids the companies may use public information provided by specialized organizations. However, to make the entry decision the preparation has to be more extensive and normally companies conduct their own investigation. Khanna et al. (2005) describe in their article the 5 context framework, useful for spotting and grouping institutional voids. There are questions to identify institutional voids in every area, which help to understand the institutional context of the country and find the adequate strategy to implement in each circumstances. The areas covered by the framework are: political and social system, openness, labor markets, capital markets and product markets.

Top managers of the corporations acknowledge that globalization brings critical challenges. Choosing the countries for future expansion and adequate internationalization strategies to implement is crucial and will be a decisive factor, determining the possible success or failure (Khanna et al., 2005). It seems that many companies didn't perform they research very well and stuck to the old strategies, standardized for all markets, which led to the complete failure in emerging markets (Khanna et al., 2005) Why the same strategies successful in home countries may be a complete mistake in host countries? In case of emerging regions the response lays in low institutionalization and poor regulations system. As the quality of infrastructure of every market is different, the strategy applied across various geographies has to change accordingly. Some of the companies understood the need to tailor the strategy respectively to the needs of the specific market. When Dell entered China, it changed its business model. In United States the company holds little or no inventory, the half of the orders is made via internet and the products are shipped usually directly to the buyer, without relying on any distributors. Due to the different preferences (online sales are not very popular) and the dependence on distributors and system integrators, imposed from the government, Dell had to adapt its strategy. In the beginning of the operations, the company offered only some of the products to keep the level of inventory low. With the increasing efficiency of the supply chain, Dell decided to offer the full range of products (Khanna et al., 2005).

II. d The relationship between institutional voids and strategic choices of the company.

Once the company has a clear view of institutional context and its implications, it can analyze the entry options and formulate the strategy. The analysis of the entry mode choice has been a popular topic in International Business literature. Researchers in the field of international management are unanimous when it comes to the fact that institutional context affects directly the entry mode of the company (Meyer et al., 2009; Rodriguez, Uhlenbruck & Eden., 2005; Tan & Meyer 2011; Slangen & Van Tulder, 2009). Firms can choose between joint venture, acquisition and greenfield entry (Meyer et al., 2009), deciding between full or partial ownership (wholly-owned subsidiary vs. joint venture) and between the lower or higher commitment of resources (acquisition vs. greenfield) (Holtbrügge & Baron, 2013; Rodriguez et al., 2005). When entering the market with weak and inefficient institutions, companies have to choose the entry mode that will mitigate the risks connected with the overall uncertainty (Holtbrügge & Baron, 2013) In order to do this they tend to enter emerging markets by investing less resources (Morschett, Schramm-Klein & Swoboda, 2010; Xu & Shenkar, 2002). With the entry mode decision, the company agrees on certain level of commitment, control, risk and profits (Rodriguez, et al., 2005). Fields with low level of institutionalization may be a big challenge for entrepreneurship. Starting the new business in presence of institutional voids assumes high levels of complexity and unpredictability (Peng, 2001). To lower the risks arising from the presence of institutional voids, the companies may decide on lower initial commitment and operations tailored in a flexible way that will enable to increase the commitment if institutional voids can be controlled (Hadjikhani & Johanson, 1996).

Joint venture vs. wholly-owned subsidiary

First of the important choices when it comes to the entry mode is connected with ownership. Companies may decide to start operations on their own, controlling 100% of the firm, hence creating a wholly-owned subsidiary or enter the market with partner. Wholly-owned subsidiary gives the company full control over the operations, but it can be more easily affected by the institutional uncertainty (Anderson & Gatignon, 1986; Hill et al., 1990). In order to reduce the risk, companies usually decide to form a partnership with the local company, establishing in this way its legitimacy in the market (Holtbrügge & Baron, 2013). Another reason in favor of the local partner is its connection with all kind of important stakeholders (suppliers, government, distributors) (Estrin, Baghdasaryan, & Meyer, 2009). The access to this network is crucial in emerging markets, where

the formal rules of the game are weak and inefficient (Estrin et al., 2009). Companies entering new markets in joint venture can learn from their local partners how to work around institutional voids and mitigate political risk (Tan & Meyer, 2011). What is more, joint venture is a more flexible entry mode, than the wholly-owned subsidiary, allowing the company to terminate its operations more easily- „partial commitment in the FDI facilitates the foreign investor disinvestment when unfavorable changes take place on the environment” (Lopez-Duarte & Vidal-Suarez, 2010, p. 577). Many authors confirmed the fact that companies are more prone to enter a new market in partnership than alone, when the institutional uncertainty is high (Brouthers, 2002; Gelbuda et al., 2008; Lopez-Duarte & Vidal-Suarez, 2010). We can conclude that the low institutionalization may in certain way “oblige” the company to search for the partner in order to enter an emerging market. “Local partners help attain legitimacy in the host context”, which is why in the environment of high uncertainty, companies tend to enter in partnership with local companies (Xu & Meyer, 2013, p. 1333).

	Joint venture (with local partner)	Wholly-owned subsidiary
High institutional uncertainty-advantages	<ul style="list-style-type: none"> - achieving legitimacy in the market - access to the network with important stakeholders (suppliers, government, distributors etc.) - opportunity to learn from local partners how to work around institutional voids and mitigate political risks - easier to terminate operations when the institutional context changes 	
High institutional uncertainty-drawbacks		<ul style="list-style-type: none"> - limited or more difficult access to the network of important stakeholders and to the local knowledge on how to operate in this specific institutional context
Low institutional uncertainty-advantages		<ul style="list-style-type: none"> - full control over the company's operations
Low institutional uncertainty-drawbacks	<ul style="list-style-type: none"> - lack of full control over company's operations 	

Table 1. Ownership structure choice.

Greenfield entry vs. Acquisition

Another important decision the company needs to make when it comes to the entry mode, is the choice between greenfield investment and acquisition (Holtbrügge & Baron, 2013). Acquisition has as its advantage the quick entry in the market and access to its institutions and knowledge (Meyer & Nguyen, 2005). Existing organizations have already existing, well- established structures and distribution channels, which is a big advantage in the uncertain environment (Holtbrügge & Baron, 2013). Nevertheless, the acquisition can be also risky, because of the cultural and organizational distance between the company from home and host country (Dikova & van Witteloostuijn, 2007). Moreover, inefficient capital markets with their lack of transparency and weak contract enforcement may be an obstacle in acquiring a local company (Meyer, Estrin Bhaumik, & Peng, 2009). Taking into consideration the drawbacks of acquisition in emerging markets, some of the scholars are supporters of the greenfield mode of entry. External pressures coming from formal institutions, may increase the probability that investors will opt for the greenfield entry (Estrin et al., 2009)

	Greenfield	Acquisition
High institutional uncertainty-advantages	<ul style="list-style-type: none"> - avoiding problems related with cultural distance between two organizations - avoiding problems related with inefficient capital markets (the firm doesn't need to perform the valuation of any other company) 	<ul style="list-style-type: none"> - quick entry in the market - access to local knowledge - usage of already existing, well-established structures and distribution channels
High institutional uncertainty-drawbacks	<ul style="list-style-type: none"> - huge commitment of resources that may be wasted if the project is unsuccessful (difficulties with licensing phase etc.) 	<ul style="list-style-type: none"> - cultural distance between the home and host country company's - inefficient capital markets can make the acquisition a difficult procedure (problems with valuation)
Low institutional uncertainty-advantages	<ul style="list-style-type: none"> - more profitable for the company than the acquisition 	<ul style="list-style-type: none"> - quick entry in the market
Low institutional uncertainty-drawbacks	<ul style="list-style-type: none"> - longer time to market 	<ul style="list-style-type: none"> - less profitable for the company than greenfield

Table 2. Resources commitment choice

Strategies to address institutional voids

Institutional brokering, spanning and bridging institutional voids.

Once the business is already established, companies may implement different strategies to deal with emerging country risks. One of them is institutional brokering “where entrepreneurs found ventures that reduce the institutional uncertainty faced by other actors in a particular organizational field” (Tracey & Phillips, 2011, p. 30). Another possibility is to span institutional voids, namely found ventures to address institutional voids where institutionalization is low. Finally the companies may engage in bridging institutional distance, “transferring and adapting solutions from other institutional contexts”(Tracey & Phillips, 2011, p. 33).

Relational, infrastructure-building and socio-cultural bridging strategies.

Marquis and Raynard (2015) indicate also three strategies to deal with institutional voids: relational strategies, infrastructure-building strategies and socio-cultural bridging strategies. Relational strategies are tailored to manage “important referent audiences, including political bodies and key stakeholder groups” (Marquis & Raynard, 2015, p. 317). The ultimate goal is to build informal networks that will substitute weak institutional structures (Marquis & Raynard, 2015). In the markets where legal institutions are weak firms are expected to “rely more on network and relationship-based strategies” in order to enforce contracts (Meyer et al., 2009, p. 65). Infrastructure-building strategies as the name suggests are the set of actions taken by the company (or the group of companies) in order to “construct” the social, technological and physical infrastructure, in other words, fill the institutional voids. Authors mention also the third strategy aimed to “address socio-cultural and demographic issues” (Marquis & Raynard, 2015, p. 317). In order to do this the authors suggest gaining a deep knowledge about the local conditions and society and managing its expectations, for instance by hiring local talent and “investing in field investigations” (Marquis & Raynard, 2015, p. 317).

Working around institutional voids may require changes in strategy throughout the operations. Santangelo and Meyer (2011) explore the deviations in intended strategy due to the several circumstances, among them institutional voids. This discrepancy between intentions and outcomes is especially probable in contexts that are unfamiliar, with presence of institutional voids and uncertainty. The adjustment is possible in two ways, either by the increase or by the decrease of

commitment.

II. e Energy sector overview

Trends in the energy sector

Currently the energy sector can be characterized by the transition towards clean and more efficient energy in order to address the environmental and sustainability issues (Sagar & Van der Zwaan, 2006).

In terms of financing trends, foreign companies tend to be main investors in the energy sector. Local private companies are not restricted from the investment, but they lack the capital to engage in energy generation projects (Wamukonya, 2003). Governments in order to attract the foreign investment, tend to offer long term PPA's and assume the inflation and exchange risks (Lefevre & Todoc, 2000). The trends existent in the energy sector are the result of the global tendency for privatization and globalization (Wamukonya, 2003).

In this research the energy sector is treated very generally (traditional and renewable energy together) and only the trends respective to this sector as a whole are mentioned. Description of different business strategies in the energy sector, would require the separate analysis of different segments and would provide material for another study. This research focuses only on the influence, the institutional voids have on strategical decisions of the company from the energy sector, seen as it was homogenous.

Energy sector in Peru

Ministry of energy and Mines estimates that investment in energy sector in Peru in 2014 was around \$4,034 million. Peru is one of the countries in Latin America with the highest energy reserves (Appendix 2.), which means the lower cost of extraction and the sustainability of the sources (EY, 2014). Investors are willing to invest in energy projects in Peru, attracted with long term power purchase agreements offered by the Peruvian government and the overall openness of the market. In 2013 two types of energy dominated the energy sector in Peru: hydro energy with 53% and gas with 40%. The trend for the future set by the National Energy Plan 2014-2025 assumes that 60% of the total generation of energy will come from renewable resources, including traditionally used hydro power (Alfonso Tejerina, Irina Negoita & Miguel Pérez-Solero, 2015)

III. Methodology

III. a Qualitative methods vs. Quantitative methods

In order to address my research question I will use a qualitative methodology. There are two important reasons behind this decision. First of all, the explanatory question- how, that will be addressed in this research is normally investigated using case studies, histories or experiments, because it deals “with operational links needing to be traced over time, rather than mere frequencies or incidence” (Yin, 2009, p. 9). The explanatory “how” question, that will be addressed, requires a qualitative approach as it would be difficult to explain some processes with cause and effect relationship using mainly the numerical way.

III. b The rationale in favor of case study. Single case study design

This research will be developed in a form of case study. The main rationale in favor of case study explains the choice of the case study over history and experiment. As Yin (2009, p. 11) writes in his article: “Assuming that “how” and “why” questions are to be the focus of study, a further distinction among history case study, and experiment is the extent of the investigator's control over and access to actual behavioral events. The case study is preferred in examining contemporary events, but when the relevant behaviors cannot be manipulated”. Taking into consideration that this research addresses an explanatory question, the researcher has no control over the events and the current company’s situation is being investigated, the choice of case study seems to be the most suitable.

In order to address my research question I decided to use single case study design. This decision was taken due to many reasons. The first rationale in favor of single case study is the representativeness of the situation. A case of the EDP – company from energy sector considering its entry into emerging market and analyzing its institutional context while formulating strategy can serve as an example and provide informative values. In case of this research the company was labeled as representative due to the fulfillment of criteria of representativeness chosen, dictated by the research question: ongoing analysis of the entrance to the new emerging market (decisions are made at this point of time) and the fact that the company belongs to the energy sector that is being analyzed. Moreover, the company’s decision making and strategy implementation will be studied at different points in

time, what makes the single case study design the most convenient (Yin, 2009).

III. c Choice of the company

EDP is a suitable company for the research question in cause, due to many reasons. First of all, it is currently planning on expanding its operations to one of the emerging countries – Peru. EDP in joint venture with China Three Gorges is currently analyzing the entry option and formulating the strategy. The whole expansion project is ongoing and the decisions are being made in present, which makes the interviews conducted more reliable for addressing the research question. Moreover, EDP is a big quoted company and the vast information about the firm is available for the public, which makes the triangulation of data possible for the researchers. Another rationale in favour of this firm is the fact that it gives the chance to the researcher to explore the institutional context of one of the Latin American countries that have not been given enough interest in previous articles.

III. d Research approach

There are many theories, which enable to look at strategical decisions of companies entering emerging markets from different angles. The most popular perspectives are institutional theory, transaction cost economics perspective and resource-based perspective (Hoskisson et al., 2000). Institutional theory is generally based on the assumption that institutional context shapes the decision making process of the company (Hoskisson et al., 2000). Transaction cost theory assumes that the firm makes its decision by analyzing all the costs embedded. Transaction costs of the market, in which the company operates, will affect its strategical decisions (Hoskisson et al., 2000). On the other hand, the resource-based perspective states that strategical decisions, made by the company, are based on the firm's sustainable competitive advantage (seen as a resource of the company) (Hoskisson et al., 2000).

This empirical research aims to investigate if theoretical propositions of previous studies in institutional theory, have their resemblance in reality. This study departs from the institutional theory perspective in analysis of the real case of the company expanding to emerging market, but opposite to the previous works, it focuses on the whole process of decision making that may be constantly influenced by institutional voids, not only on its part.

III. e Source of evidence

The results of this research are based on the interviews conducted within the Investment department of EDP Internacional in Lisbon, Portugal and the documents (corporate presentation of EDP, CTG and their joint venture - Hydro Global), that were made available by the company. Seven interviews took place over three month period of time (from 01.06. 2015 to 01.09. 2015). The interviewees- Gonçalo Castelo Branco (EDP Internacional, Investment Unit, function – Regional Head Business Development) Nuno Martins (EDP Internacional, Risk & Regulations & Markets Unit, function – head of the unit mentioned), Rui Brandão (EDP – Management of the energy production, International Project Development, function – Advisory Board Management) and Vasco Pena Monteiro (EDP Internacional, function – trainee) responded to the same questions (Appendix 1.) several times (Gonçalo Castelo Branco – two interviews, Nuno Martins – one interview, Rui Brandão – two interviews and Vasco Pena Monteiro – two interviews). The aim of repeated interviews was to observe the ongoing process of decision making, related to the expansion to Peru. The information obtained during the conversations with the Investment department members helped in mapping the institutional context of the country and gave an insight into decision making process of the company.

IV. Case study

In the afternoon of August 6, 2015, the executive board of EDP held the meeting to discuss some vital issues. Almost 13 000 km away in Chinese headquarters of CTG, the same issues have been addressed. The decision to expand to Peru was taken a long time ago, now the only remaining step was to choose which project was the most suitable for the company. Both EDP and CTG investment departments prepared some proposals, the last step remaining was to choose the best option.

IV. a EDP – Portuguese energy giant

EDP is as a global energy provider with international presence in thirteen countries located on four continents: Europe, Americas and Africa. The company has operations in both developed and emerging countries. Energias de Portugal is a leading EU developer with 60 years of experience and operating as a generator and distributor in different energy sectors: gas, wind, water and solar energy.

IV. b CTG- hydro power global leader from China

China Three Gorges is an energy group, owned by People's Republic of China. It is the largest Chinese clean energy group, focused on renewable energy. The company gives a special emphasis to the hydro energy, it also possesses a huge capacity of it (42,4 GW of installed capacity). China Three Gorges is present in Asia and Africa. The group is financially sound, with access to long term capital. In May 2012 the company became EDP's largest shareholder with 21,35% of stake.

IV. c When Portuguese energy giant meets a Chinese global leader- a short story about Hydro Global

Strategic partnership between two companies started in December 2011. Two billions of credit were provided to EDP by China Development Bank. This investment was a part of the CTG's strategy to invest in minority stakes in renewable capacity in 2012-15. The 50-50 joint venture between EDP and CTG was called Hydro global Investment Limited, which was supposed to be a leading hydro platform in the world and a „company vehicle” of two partners. Both companies together form a

very strong joint venture due to many factors. First of all, both firms have an experienced development teams and together they own 50 GW of installed hydro capacity. EDP and CTG are financially sound, with access to long term funding, which makes the expansion plan viable. Both partners have an international presence and experience in „difficult” markets and solid experience in managing partnerships across different geographies. They possess a solid hydro-technical background and extensive expertise.

Hydro Global is planning on investing in small to medium sized hydro generation potential (20-300MW) in emerging markets. Their regions of focus are Africa, Latin America and Southeast Asia. The company decided to target majority stake ownership of projects by forming a joint venture with local companies. The first location on Hydro Global list is the Latin American country- Peru. The first thought of expanding to this country appeared in 2012 and since then the company has taken various steps to prepare for the coming investment. In the second trimester of 2015 Portuguese and Chinese partners opened an office in Peru and sent there Paulo Miraldo- administrator of the Hydro Global office from EDP and Antonio Mexia- EDP group president to coordinate the Peruvian investment. Shortly after there were 3 delegated representatives from EDP and the same number was sent from CTG. Hydro Global started an intensive cooperation with local consulting companies in order to understand the market and to analyze the possible projects.

IV. d Peru's overview

Peru is located in the center of the west coast of South America. It occupies 1,285,215.60 km² and after Brazil and Argentina it is the third largest country on the continent. As far as the population is concerned, there are 30,9 M of people living on Peruvian lands. The fact that Peru is a mountainous country was an incentive for the Hydro Global to consider it as a future market.

Over the past ten years, Peru's economy has enjoyed a GDP growth CAGR of 6.1%, placing it among the fastest growing economies in the world. The finance ministry is forecasting a 4.2% growth for 2015. Inflation is expected to remain low and within the government's 1%-3% target. Peru has been given an investment grade rating by S&P, Fitch and Moody's.

Peru made a huge progress in last years. Increasing GDP, stable currency rates and a very low inflation, this all makes this country an attractive target for FDI. International Monetary Fund calls Peru „a rising star” and one of the leading emerging economies. Due to its solid policies and

„prudent macroeconomic approach” (EY, 2014, p. 14). Peru is seen as a country with sustainable growth and lower risk. What exactly convinces the public opinion about the reduced uncertainty in Peru? There are many factors to be taken into consideration. Product and labor markets becoming more and more liberal, various international trade agreements, guaranteeing the openness of the market, increasing FDI, all those indicate that Peru while being an emerging country, still represents a bearable risk for investors.

In 2014 World Bank released a report called „Doing Business 2014”. One of the more important information for Hydro Global while conducting the market research was the Ease of doing business in Peru. The country ranks 42nd out of 189 countries in terms of ease of doing business, and ranks 2nd in Latin America. Peru is especially notable for: Investor Protection (16th), Real Estate Registry (22nd) and Access to Credit (28th).

IV. e Capital market

Capital market in Peru is characterized by moderate development and stability. The official currency of Peru the Nuevo Sol has a free-floating exchange rate, with some interventions from the government in order to stabilize the currency.

The Lima Stock Exchange (BVL) together with the Santiago Stock Exchange (BCS) and the Colombia Stock Exchange (BVC) try to improve their equity market and increase its attractiveness. The integration of those stock exchanges provides investors with broad range of securities and gives them bigger possibility of fund raising.

One of the vital market factors for Hydro Global is the existence of financial institutions that will support money for the project (bank-ability of the project). Hydro Global after entering into contact with local and foreign banks confirmed the willingness of both to provide the company with the loan needed to develop the project. The currency of those credit lines will be the same as the one in which PPA's will be offered. Hydro Global doesn't predict any problems connected with capital markets.

IV. f Labor market

As far as the literacy rate is concerned, it is estimated that in 2015 there should be 94,3% of population over age 15 that is able to read and write.(CEPAL). The labor market is still not very developed and the lack of talented workforce may be problematic due to the legislation limiting the

number of foreign workers (only 20% of the company's workforce may be from foreign countries). Hydro Global states that labor will not be a problem. Although the company still has not tackled this issue, it believes that like in other locations it can give formation to local workers, who will eventually become skilled and adequate for Hydro Global needs.

IV. g Political and social system

Peru as a constitutional democratic republic has a multiparty system. The government is elected by voting among all citizens. Currently the role of president belongs to Ollanta Humala Tasso, who was elected in 2011. The social and political scheme can impact Hydro Global operations in Peru and to mitigate those risks, a profound country assessment was made that gives executives confidence that Peru is suitable for the investment. Country's political system is rather stable, which lowers the risk for the investors and makes the market more attractive. Nevertheless, capital intensive projects are long- term projects that exceed the short political cycles. In order to decide if the political system may create some problems for the investor, Hydro Global was analyzing the overall historical trends in Peru. The important factor was to understand not if the current government is stable, but if in general the same political pattern existed. The company wanted to confirm if in general politics is pro-investment and if historically the laws were obeyed and contracts respected. All the research was backed up by meetings with ministry and regulatory bodies, which were the mean to draw some conclusions about the institutional context. Although EDP admits that it is hard to predict the future politics, the electricity generation, due to its strategic importance to the country and as an already liberalized activity, is carefully regulated in order to promote the private initiative and to give investors the comfort to promote capital intensive investments that can be in operation for more than 30 years. Investment in the energy and mining sectors should continue at a steady, high pace through the 2016 national elections, supporting economic growth. For the power generation investments, due to their political and strategic importance, rules are very clear and hydro generation assets in particular, have a period of operation that is written with government contracts, which are to be disputed in international courts in case of litigation. The stable and transparent regulation, political stability, friendly investor environment, strong legal framework and high electricity demand create the conditions to attract large foreign players. The Peruvian government guarantees legal stability to foreign investors with regards to the legislation governing income tax and distribution of dividends. Foreign investors with the right to obtain legal and tax stability are those willing to invest in Peru for a period of no less than two years and a minimum of

US\$5mm, or those who acquire more than 50% of the shares in a company in the process of privatization. Laws, regulations, and practices do not discriminate between domestic and foreign companies. There are no restrictions on repatriation of profits, international transfers of capital, or foreign exchange practices. The remittance of interest and royalties is also not restricted in any way. Government gives a lot of freedom to the companies while choosing the entry mode, no local partner is required.

IV. h Openness

Peru is a highly open and internationally integrated economy. It maintains over 40 international investment agreements. Peru is open for the foreign investment and by establishing a „consistent investment policy” (EY, 2014, p. 45) it attracts companies from other countries. Laws and regulations are supposed to guarantee the equality between local and foreign investors. That is why the repatriation of profits, the usage of foreign currency in product and financial markets and guarantee of no expropriation, are those factors attesting the openness of the Peruvian market. Trade agreements provide an incentive to the processes of convergence of international standards. Peru has reciprocal investment promotion and protection agreements with 53 countries, with 40 agreements currently in force. Available projects are exposed to an open competition for local and foreign companies, which shows the openness of the market and which was one of the factors convincing Hydro Global to proceed with the investment in Peru.

IV. i Products, markets

Due to the nature of the product (energy is universal, free of local preferences) and the type of the client (government, big companies), Hydro Global doesn't expect any negative issues connected to the product itself. Suppliers and construction companies represent very good level in Peru (many foreign companies). Hydro Global didn't predict any problems with logistics either, as the energy sector is not influenced by the transportation issues.

IV. j Investment in Peru

Peru, due to its mountainous geographical features is a perfect location to develop a hydro energy

project. EDP in partnership with China Three Gorges wants to generate energy basing the business model on long term PPA's. Power purchase agreements mentioned before are sold to government or industrial clients (especially mining companies) for the long periods of 10,15 or 20 years. PPA instead of direct sale to the market brings the credibility and guarantees that the energy will be sold, hence mitigates the risks. Peru offers long term PPA's (20 years), which is one of the reasons why this market was chosen as the next investment location (EDP requires PPA's, which are part of the group's strategy, PPA's are then obligatory for the strategic fit and essential part of the attractiveness of the market).

The company conducted an extensive research about the country's institutional context in order to understand the rules of the game. Hydro Global understands the risks, which are bearable for the company.

Hydro Global is currently analyzing how to enter the market. Both companies understand that the local partner with its knowledge of the market and regulations would be very helpful for their operations. Portuguese and Chinese partners are looking for the project that has already passed through licensing phase, so the time to market is lower and the risk of failure is almost nonexistent. Due to the fact that many risks were already mitigated (the company has been already established in Peru and has been operating for some time, local workforce was contracted), Hydro Global is ready to engage in riskier projects that are in the initial phase. The other decision pending is about the ownership of the project. Hydro Global may acquire 100% of the project or enter in partnership with other company.

Project in initial phase

A typical Hydro Power Plant (HPP) Project, from the moment it has the approval to perform Hydro Studies to the moment it has the Construction Permit may last 3 or more years. The downside of these kind of projects is that there are many licenses that a HPP project must comply with. The licensing phase is time consuming and prone to more risks. However, investing in the project in initial phase would be more profitable for Hydro Global.

Project in advanced phase

Investing in the project, that has already overcome the licensing phase is less risky and shortens the time to market. Nevertheless, it is less profitable for the company.

In order to have access to a strong executable asset base and to mitigate the market entry challenges, it may be necessary to accommodate flexible partnerships deal structures with local experienced companies. A holistic approach covering all the project development stages would maximize EDP reach, allowing a controlled market entrance coupled with long-term option creation.

Property rights

Property rights are treated during the licensing phase to avoid further problems. The problem with property rights arises from the fact that those rights are not always well defined in Latin America. Some of the fields belong to the community or it is not clear who the owner is. This can create problems and seriously harm the investment. Another issue of with the property rights is connected to social involvement. Because of the fact that the company will have a negative impact on the environment and the society (flooding some of the territories) the communication with all the important stakeholders has to be established in advance. Social disapproval and means of pressure used by the community can exercise a very bad influence on the project, even lead to the end of the investment. To mitigate this risk, special environmental study is conducted by the company to identify the parts potentially affected. The results of the study are released to the public and left for an open discussion. Seeking for approval of the community is based on the strategy of inclusion that should result in a positive attitude of all affected stakeholders towards the project.

Final dilemma

Hydro Global has to decide whether to invest in the project in initial or more advanced stage. Both options have valid advantages and disadvantages and the trade-off is being analyzed at this moment.

Another crucial decision is to choose between the acquisition and the partnership. Again, both options represent some pros and cons for the company. It may be that the best solution is to enter with local partner, but slowly build the portfolio of own projects. As far as the phase of the project

is concerned the company targets opportunities in advanced development stage, under construction or in operation, but it is also considering projects in initial phase. It is high time for the final decisions and Hydro Global knows it perfectly that now is the perfect time to make the next step.

V. Results and Analysis

V. a Preparation for the entry. The extensive research of the market institutional context.

Hydro Global- the joint venture composed by Portuguese energy provider EDP and a Chinese hydro energy leader, decided to enter Peruvian market in 2012. In order to expand to the emerging country, the company has already taken numerous steps, which were the part of a long-term preparation (three years already) . To start with, an extensive research has been conducted and the institutional context has been mapped. The company has outsourced the information search and additionally it was conducting its own investigation at the same time. It shows the importance of the preparation phase, when entering an emerging market and is aligned with the theory in academic literature. Scholars acknowledge the fact that the company has to be well prepared and invest in capabilities to deal with the institutional distance. Liesch and Knight (1999) emphasize the importance of “information gathering and assessment” (p. 384). To research institutional voids the company may use specialized organizations that will conduct the investigation. Nevertheless, the market entry decision, being a crucial part of the overall strategy requires an extensive research. This is why the company apart from using the information gathered by specialized organizations, will also investigate the market on its own (Khanna et al., 2005).

V. b Strategies implemented in emerging countries. Working around institutional voids.

As Gelbuda et al. (2008) stated in their article, institutional voids affect the overall strategy of the company entering an emerging market. Many strategic elements like timing and mode of entry, business activities, products offered and human resources management need to be adjusted to the institutional context. In case of Peru, as long as the society is concerned, some issues connected with property rights may appear (the regulation is not very clear, some of the territories belong to the community) and in case of investments that harm environment and other stakeholders, social scrutiny may negatively affect the project. Hydro Global decided to address this problem by including the affected stakeholders in discussion about the project. This strategy described by Marquis and Raynard (2015) is called a relational strategy. Relational strategies are tailored to manage “important referent audiences, including political bodies and key stakeholder groups” (p.

317). The ultimate goal is to build informal networks that will substitute weak institutional structures (Marquis & Raynard, 2015). In this way Hydro global can “substitute” the institutions governing the property rights by clearly defining the rules with possible owners and therefore mitigating the risks of future expropriation. Moreover, by including the interested stakeholders into discussion, the company builds informal networks, which may be essential in the market with weak institutions. Another institutional void that needs to be addressed by the company is related to the labor market. Lack of skilled workforce is provoked by the weakness of the education infrastructure. Hydro Global has to tailor its strategy in order to guarantee appropriate workforce for its operations and not exceed the allowed 20% of the foreigners working for the company. In this case Hydro Global came with the solution to train the local workers so they can become skilled for the operations of the company. The strategy, that the company wants to pursue in this case, seems to be aligned with one of the strategies proposed by Marquis and Raynard (2015), namely the infrastructure-building strategy seen as a set of actions taken by the company in order to “construct” the social, technological and physical infrastructure in order to fill the institutional voids. Hydro Global metaphorically “constructs” the education infrastructure by offering the formation. The adjustments done in the Hydro Global strategy are aligned with the theory in academic literature stating that firms expanding to emerging markets will tailor their strategy according to specific institutional voids (Santangelo & Meyer, 2011).

V. c The ownership of the project. Wholly-owned subsidiary vs. joint venture in emerging countries

Hydro Global has to decide whether it should have a full ownership of the project or enter the market in joint venture with local partner. The company sees the advantages of entering with wholly-owned subsidiary, which would give Hydro Global full control over the operations, but the company is also aware that this mode of entry would be more risky, because of institutional uncertainty (Anderson & Gatignon, 1986; Hill et al., 1990). The company acknowledges the fact that local partner would be very beneficial for the operations as it has knowledge about the institutional environment and experience in dealing with institutional voids. As Tan and Meyer (2011) stated, companies entering new markets in joint venture can learn from their local partners how to work around institutional voids and mitigate political risk. Hydro Global sees the networking advantages coming from joint venture with local partner, which has already relationships with key stakeholders. As Estrin et al. (2009) stated, the connection with all kind of important stakeholders (suppliers,

government, distributors) is crucial in emerging markets, where the formal rules of the game are either nonexistent or inefficient. The company is rather focused on finding a local partner, which would confirm the theory, whether companies are more prone to enter a new market in partnership than alone, when the institutional uncertainty exists (Brouthers, 2002; Gelbuda et al., 2008; Lopez-Duarte & Vidal-Suarez, 2010; Xu, Pan & Beamish, 2004). However, more recently, the company doesn't exclude the idea of the wholly-owned subsidiary. This changing attitude is connected with the perception of the company that many risks, coming from the institutional distance, has been already mitigated (e.g. company already operating in Peru), which has decreased the overall uncertainty.

V. d Commitment of resources. Greenfield entry vs. acquisition

Another crucial choice that is currently discussed among the company's executives, is the stage of the project in which the company should invest. The choice between greenfield investment and acquisition is crucial in company's strategy when entering emerging markets (Holtbrügge & Baron, 2013). The company sees benefits in the acquisition of the project in late stage of development, which would shorten the time to market and reduce the risks connected to institutional uncertainty. As stated by Meyer and Nguyen (2005), acquisition has as its advantage the quick entry in the market and access to its institutions and knowledge. What is very important for Hydro Global, the acquisition would mitigate the risks connected with licensing phase (in which the project can still fail) and enable the company to use the existing structures that have already legitimacy in the uncertain market. This reasoning is aligned with academic literature, in particular we can read in Holtbrügge and Baron (2013) article, that existing organizations with already well-established structures and distribution channels, are a big advantage in the uncertain environment, which leads the companies to the choice of the acquisition mode of entry. Hydro Global doesn't see any drawbacks in acquisition mode connected to institutional environment, which goes in opposition to some of the propositions from previous studies. The disadvantage that is emphasized by the company is related to the level of profits, that is lower than the one coming from the greenfield investment. In this particular case the company doesn't mention that acquiring the project developed by local company may be risky because of the cultural and organizational distance between the company from home and host country (Dikova & van Witteloostuijn, 2007). Hydro Global is not concerned with inefficient capital markets either, which because of their lack of transparency and weak contract enforcement may be an obstacle in acquiring a local company

(Meyer, Estrin Bhaumik, & Peng, 2009). This may lead to the conclusion that the institutional context of every emerging country is different and the specific, customized approach is needed while entering an emerging market. In this case, Peru has acceptable level of risk (stable politics, openness of the market etc.) and the institutional context is not very distant from the home country market. Moreover, the capital market is quite developed, which eliminates the problem connected with valuation of the potential acquiree. Although the company focuses its attention on the projects in development stage, it is also open for developing the project from the scratch, as the greenfield entry would be more profitable. This more flexible approach is related to the fact that many risks have been already mitigated (established company in Peru, negotiations with government and other key stakeholders etc.) and as the company stated, the level of the comfort the company feels, has increased. At this moment Hydro Global wants to invest first in the projects already developed and at the same time research the possibilities to create its own portfolio of the projects with time.

V. e Overall commitment of the company can decrease or increase with time accordingly to the changing level of uncertainty

As we can observe in Hydro Global case the level of commitment of the company in emerging market increases and decreases accordingly to the changing level of uncertainty. Scholars agree on the fact that in the beginning of the operations, companies tend to invest less resources (Morschett et al., 2010; Xu & Shenkar, 2002). To lower the risks arising from the presence of institutional voids, the companies may decide on lower initial commitment and operations tailored in a flexible way, that will enable to increase the commitment if institutional voids can be controlled (Hadjikhani & Johanson, 1996) We can see this in case of Hydro Global that plans on entering with lower level of commitment, leaving itself an option of future development of portfolio. In the beginning of its expansion plan, the company was focused on developed projects that would be pursued in partnership with local companies. At this moment, Hydro Global acknowledges that some of the risks coming from the uncertain institutional context has been mitigated, which made the company open to committing more resources. The idea that intended strategy can differ from the outcomes is present in the literature. Santangelo and Meyer (2011) explore the deviations in intended strategy due to the several circumstances, among them institutional voids. This discrepancy between intentions and outcomes is especially probable in contexts that are unfamiliar, with presence of institutional voids and uncertainty. The adjustment is possible in two ways, either by the increase or by the decrease of commitment. Hydro Global will make the final decision about the entry mode,

tailoring its strategy in the way that will enable the flexibility of adjustment to the changing level of uncertainty and capturing the profitable opportunities.

VI. Conclusions and limitations

VI. a Conclusions

Researchers in the field of international management are unanimous when it comes to the fact that institutional context affects directly the entry mode of the company (Holtbrügge & Baron, 2013; Meyer et al., 2009; Rodriguez et al., 2005; Tan & Meyer 2011; Slangen & Van Tulder, 2009). The result of this research shows that institutional voids indeed affect entry decisions and strategy implementation when entering an emerging country in the energy sector. Institutional voids play a very important role in the whole internationalization process. Companies invest their time and resources into the extensive investigation of the market and its institutions. Once the clear map of the institutional context is obtained, the company starts tailoring its strategy in order to address institutional voids. It may work around institutional voids by creating for example its own informal networks guaranteeing some form of stability or it can fill the institutional voids, for example “substituting” the inefficient education infrastructure by providing the formation to unskilled employees, which confirms the application in real life of two strategies proposed by Marquis and Raynard (2015), namely the relational and the infrastructure-building strategy. The entry decision is also affected by the institutional context. First of all, the high level of uncertainty may prevent the company from entering at all. If the entry decision is taken though, still the institutional voids will affect the entry mode choice. Joint venture or wholly-owned subsidiary, greenfield or acquisition, those dilemmas are only solved after an extensive analysis of the institutional uncertainty. The case of Hydro Global in Peru confirms the proposal from previous studies, stating that institutional uncertainty increases the probability of choosing the joint venture as the entry mode (Brouthers, 2002; Gelbuda et al., 2008; Lopez-Duarte & Vidal-Suarez, 2010; Xu, Pan & Beamish, 2004). By observing Hydro Global analysis of entry modes, we can also confirm that weak institutions make the acquisition mode very favorable for the company (Meyer & Nguyen , 2005; Holtbrügge & Baron, 2013). Drawbacks of the same mode, proposed by Dikova and van Witteloostuijn (2007) and Meyer et al. (2009) cannot be confirmed analyzing Hydro Global case in Peru. However, this may be due to the fact that institutional context is not highly uncertain.

As it was seen on the example of Hydro Global in Peru, there are some institutional voids, which can negatively affect the operations of the company. The conclusion is that, those voids emerge,

because of the specific inefficient institutions, which ones are to be considered the most important for the strategical decisions of the company.

First of all, institutions regulating property rights (and more specifically the law regulating the property rights) are a very important factor in the institutional context for the company from the energy sector. The ownership of territories, where companies exploit the energy is not very clear. The law regulating the property rights is not well defined, which may signify the risk of expropriation for foreign companies. The uncertainty produced by the lack or inefficiency of institutions regulating the property rights, creates an obligation for the company to mitigate this risk and address it with the proper strategy.

Another key factor influencing strategical decisions of the company in energy sector is the political system and more specifically the government. Institutions, which are the politicians accountable to, may play a crucial role in attracting foreign investment. In case of Hydro Global, the company investigated the patterns in government behavior over long period of time to decide if the level of risk was bearable. Government interference in business in Argentina and Colombia was the factor of “no entry” decision in those countries. Another issue related to the government that was the obligatory condition to be fulfilled in order to make the entry decision, was the existence of long term PPA's. Without long term purchase agreements guaranteed by the government, the company wouldn't enter the Peruvian market.

Institutions, that build efficient capital market, are crucial for the companies in energy sector. Investments held by those firms are capital intensive, which makes the access to credit lines one of the crucial factors for the company's operations. Before deciding about the expansion to Peru, Hydro Global analyzed the willingness of local and foreign banks operating in Peruvian market to support the money for the project. This availability of funds was the condition for the entry decision. Institutions being part of the education infrastructure are important for the companies operating in the energy sector. The type of work that needs to be performed, requires skilled workforce. Hence, companies have to implement appropriate strategies to address the possible institutional voids in the labor market.

Institutional voids continue on affecting the company's strategy even after entering the market. As the institutional reality and the perception of uncertainty changes, the adjustments in strategy have to be done, usually by increasing or decreasing the commitment of the company. As this research clearly shows, institutional voids have influence on entry decisions and strategy implementation when entering an emerging market in the energy sector, which is why institutions are vital in decision making process and need to be addressed accordingly. Managers should deeply investigate

the institutional context of the market by analyzing its various fields, but they should put the special emphasis in identifying the institutional voids essential for their operations. There are many strategies that may be used by the company in order to address institutional voids. As we have seen previously, managers may apply relational or infrastructure-building strategies, they may mitigate the risks by investing less resources (acquisition) or using the knowledge and network of local partners (joint venture). However, it is important for the companies to remember that being successful in emerging markets means finding the appropriate strategy for the specific context, where the choice between entry modes and possible strategies is not very clear and requires from managers to pursue a very nuanced approach.

VI. b Limitations

There are some limitations arising from the methodology choices. First of all as Van de Ven (1992) implies in his article it is very difficult to conduct a “real-time study”: “(...) it implies significant researcher commitment and organizational access, which few researchers have achieved to date. As a consequence, very few developmental studies of strategy formulation and implementation have been conducted. One reason why gaining organizational access has been problematic is because researchers seldom place themselves into the manager's frame of reference to conduct their studies”. Time and access limitations make it impossible to conduct a fully correct “real-time study”. Secondly, it is difficult to make any conclusions about the applicability of the theory after analyzing only one company. In this case the sample is too small and the bias may exist. The conclusion about the representativeness of the company may be risky. However, due to the limitations of time multiple case study is not an option. The limitation of this study, regarding the research approach is connected to the difficulty of separating the theories in practice. Decision making process of the company is very complex and many times, certain strategical choice is a matter of different factors, for instance resources, institutions and transaction costs. Hence it is always risky to assign the company's decision to one specific theory. This is why this research acknowledges the influence of institutions on strategical choices of the company, but doesn't exclude the simultaneity of other theoretical explanations. Finally, some limitations are related to the source of evidence used, in this case interviews. As the sample is small and it's difficult to control for the subjectivity of the information provided, some bias may be existent. Moreover, some of the information regarding the possible investment is confidential and the company was unwilling to reveal all the facts, which may distort the conclusions drawn.

VI. c Future research

Although this study gives a response to the research question – how do institutional voids affect entry decisions and strategy implementation when entering emerging markets in the energy sector, the conclusions drawn are based only on the analysis of one company.

It would be interesting to observe the decision making of other firms expanding to emerging countries. Furthermore, the bigger sample of companies could be divided into different categories (e.g. size, stage, industry etc.) in order to control for those variables and see if the influence of institutional voids on company's decisions changes.

The comparative research between several emerging countries could be done. Analyzing if for instance the entry mode decisions are different for low GDP and high GDP emerging countries, could be a good contribution to the academic literature on emerging markets and institutional voids.

As stated by North (1990), economic actors exercise the influence over institutions and tend to shape them if the interactions last sufficiently long. It seems interesting to investigate how the institutional context in emerging markets is affected by the companies coming from developed markets (Xu & Meyer 2013).

VII. References

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VIII. Appendix

Appendix 1. Questions used during the interviews

1. Overview of the company and its operations.
2. Which were the factors in favor of Peru as a future location? How was the research on Peruvian market performed?
3. What are the disadvantages related to the expansion to Peru?
4. What are the differences in business model between the home country and Peru? Did you have to adapt the strategy? If yes, in which sense? And why?
5. Can political and social system in Peru exercise a negative influence over the company's operations? Which exactly? How did the company overcome this problem?
6. Is it possible that the government will interfere in company's operations? If yes, in which sense? How will the company tackle this problem?
7. Is there any potential problem with property rights? If yes, how will the company address this problem?
8. Is the bureaucracy a big problem in Peru? Will it exercise a negative influence on the project? How can the company tackle it?
9. How much time is needed to start the project in Peru? Is the process easy?
8. Are there any foreign intermediaries present in Peru? (market research companies, banks, VC, media)
10. Did the government put any restrictions on the company? If yes, which ones? How will the company address this problem?
11. How is the company planning on entering the market? Joint venture, acquisition, greenfield? Could you explain the specific choice?
12. Is the corruption a big problem in Peru?
13. Is Peru an open market for foreign companies? Is the government receptive? And clients?
14. Is the government interfering in exchange rates? If yes, how will EDP tackle this?
15. Does the company have an easy access to good quality materials and products?
16. Is there any restriction on the % of foreign workers hired by the company? If yes how is the company planning on overcoming the unskilled local workforce problem?
17. Are the laws of the country rigid when it comes to restructuring the company or closing it?
18. Does EDP have an access to credit in Peru? Are the financial institutions efficient? How will you

approach the financing part? Using local or foreign banks?

19. Who will make final decisions about the investment? How is the situation looking right now?

20. When did the first thought about the expansion to Peru appear?

21. When did the company open the subsidiary in Peru?

22. Is there any competition triggered by the government of Peru? Are there other companies competing with EDP?

23. Is the government of Peru obliging EDP to enter with a local partner?

24. PPA's (power purchase agreements) were guaranteed by the government of Peru. Were those contracts one of the factor in favor of Peru?

25. Is PPA required in every EDP's location?

26. Could you provide any documents, photos, graphs etc.?

Appendix 2. Energy reserves in Peru

Energy Type	Total Power (MW)	Country's Installed Capacity (MW)	Total Power / Capacity (Times)
Hydraulic	58,937	2,954	20
Wind	22,000	142	155
Solar	Indefinite	80	-
Biomass	Indefinite	27.4	-
Geothermal	3,000	0	To be exploited

Sources: Ministry of Energy and Mines (MINEM) / Produced by EY