

## **International markets entry strategy determinants: an exploratory study in Peru**

Determinantes en la estrategia de entrada a mercados internacionales:  
Un estudio exploratorio en Perú

Determinants dans la stratégie d'entrée sur les marchés internationaux:  
Une étude exploratoire au Pérou

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### **Abstract**

Nowadays a progressively more dynamic and global economic environment causes a higher number of enterprises to pick an entry strategy to become international. The choice of a strategy of entry into foreign markets constitutes one of the most relevant decisions for a company, for it impacts on its performance and means it being ready to cooperate, to a greater or lesser extent, with global supply chains. The present article identifies the determining factors of the strategies of entry into international markets as implemented by Peruvian businessmen, which impact on the integration level into an international market. The companies that participated in this exploratory study have growing exportation levels within the non-traditional sector. The results allow to appreciate exporters employing entry strategies with low levels of integration, and predominantly prefer low-risk markets and high resemblance to the Peruvian market, with regards to cultural affinity and business behavior.

**Keywords:** Entry strategies, Determinant factors, Exportation, International market, Level of integration.

### **Resumen**

En la actualidad, el entorno económico progresivamente más dinámico y global, genera que un mayor número de empresas elija alguna estrategia de entrada para internacionalizarse. La elección de la estrategia de entrada a mercados extranjeros constituye una de las decisiones más relevantes para la empresa, en tanto impacta en el desempeño e implica que esté dispuesta a colaborar, en menor o mayor medida, con cadenas de abastecimiento globales. En el

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presente artículo se identifican los factores determinantes de las estrategias de entrada a mercados internacionales implementadas por empresarios peruanos, que impactan en el nivel de integración en el mercado internacional. Las empresas que participaron en el estudio exploratorio tienen crecientes niveles de exportación en el sector no tradicional. Los resultados permiten apreciar que los exportadores emplean estrategias de entrada con bajos niveles de integración, y predominantemente prefieren mercados de bajo riesgo y alta similitud al mercado peruano en cuanto a la afinidad cultural y al comportamiento en los negocios.

**Palabras clave:** Estrategias de entrada, Factores determinantes, Exportación, Mercado internacional, Nivel de integración.

### Résumé

Actuellement, l'environnement économique progressivement plus dynamique et mondial, produit qu'un grand nombre d'entreprises choisissent une stratégie d'entrée à l'internationalisation. Le choix de la stratégie d'entrée sur les marchés étrangers est l'une de décisions la plus importante pour l'entreprise, tandis que produit un impact sur les performances et des moyens qui sont prêts à collaborer, plus ou moins, avec des chaînes d'approvisionnement mondiales. Dans cet article, nous identifions les facteurs déterminants des stratégies d'entrée sur les marchés internationaux mis en œuvre par des entrepreneurs péruviens, ce qui influe sur le niveau d'intégration sur le marché international. Les entreprises qui ont participé dans l'étude exploratoire ont des niveaux d'exportation croissants dans le domaine non traditionnel. Les résultats montrent que les exportateurs utilisent des stratégies d'entrée avec de bas niveaux d'intégration et préfèrent des marchés à faible risque et une forte similitude avec le marché péruvien en termes d'affinité culturelle et de comportement commercial.

**Mots-clés:** Stratégies d'entrée, Facteurs déterminants, Exportation, Marché international, Niveau d'intégration.

## 1. Introduction

An important decision companies make at the moment of becoming international in order to reach greater growth and competitiveness is the choice of an entry strategy, for the choice they make and the way the strategy is implemented can determine the success or failure of their international enterprise. On one hand, a company might decide to become fully integrated and establish a subsidiary in a foreign market. On the other hand, a company might decide to hire independent distributors and be in charge of attracting new clients. In

each level of integration, the degree of risk and control varies as well the degree of collaboration; as such companies need to identify the balance of flexibility and control in their decisions of integration (Aulakh and Kotabe, 1997). In Peru, not enough information is handled about entry strategies; exporters still make empirical decisions, do not systematize experiences and there's evidence on the lack of knowledge shared in the sector about Good Practices.

The present article bears the purpose of identifying how internal and external factors impact on the election of a strategy of entry into international markets as implemented by Peruvian exporters of the non-traditional sector, considering the level of integration of said strategies (David, 2004; Akhter and Robles, 2006).

The relevance of adequately choosing a strategy of entry into international markets has been highlighted by several researchers and experts, deemed as a critical topic within international marketing due to its having a great impact on international operations, affecting decisions and future performance on foreign markets, and defining a scale of resources committed according to the chosen strategy which are difficult to transfer from one alternative to another; all of which transcends in the success and achievement of objectives (Zhao and Decker, 2004).

Studying strategies of entry into international markets, applied to Peruvian exporters' experience, contributes to reaching better knowledge and understanding of this field in order to strengthen decisions within the processes of choosing the best strategy for the company in a given context.

The first part presents theories and models about strategies of entry into international markets as well as the internal and external factors that determine its election, international markets entry barriers and level of integration. The second part describes the exportation of non-traditional products. The third part details the methodology employed in this study, and the fourth part shows the results and discussion; and finally the study's conclusions.

## 2. Literature review

### 2.1. International markets entry strategy election

According to Kärkkäinen (2005), the strategy of entry is a method used by companies to initiate businesses in foreign countries by means of an institutional commitment that makes possible the ingress of products, technology, human skills, administration and other resources. Root (1994) and Hitt, Li and Xu. (2016) sustain that electing a mode of entry is one of the most critical strategic decisions for companies.

The election of an entry strategy is carried out by identifying a level of integration in the entrance to international markets, which defines 3 aspects: the level of resources committed, the degree of control in international operations and the risk level taken on by the company (Anderson and Gatignon, 1986). Likewise, different theories are posed explaining the election of said entry strategies. Once the strategy is selected, these resources are difficult to transfer from one alternative to another one, thus impacting success and objectives achievement (Zhao and Decker, 2004).

Laufs and Schwens (2014) indicate that some strategies of entry require high commitment of resources from the company of origin, whereas in others there's a shared commitment between the company of origin and that of destination. Likewise, they state that the more economic resources the origin company invests, the higher the risk of losing them should market commitment fail. The strategy of entry also implies several varied levels of control, which is determined by the company's level of responsibility in operative and strategic decision-making in the foreign market.

Aulakh, Kotabe and Teegen (2000) explain an origin company has less control when appealing to an independent intermediary in the country of destination because it delegates marketing actions to an external agent. In intermediate control levels, with a joint venture mechanism, the origin company shares control of distribution tasks with its strategic partners in the country of destination.

Vertical integration in distribution provides the company of origin a high level of control and requires higher commitment of resources. Lastly, having facilities of its own in the country of destination implies high investment on specific assets (Vernon, 1983). That is, at a higher level of control there is a greater degree of committed resources.

Regarding theoretical perspectives that explain the decisions of entry into international markets, Laghzaoui (2011) and Ruzzier, Hisrich, and Antoncic (2006) point to the economic, that of stages, o networks and based on resources.

In the economic perspective, Akhter and Robles (2006) mention the transaction cost theory (Williamson, 1975; Teece, 1983), internalization theory (Buckley and Casson, 1976) and the eclectic paradigm (Dunning, 1988, 1993, 1995).

Transaction cost theory explains that a company's goal is to minimize transaction costs, wherefore it decides to internalize those activities it performs efficiently and outsource those performed at a lower cost by external suppliers. This theory identifies the protection of intrinsic advantages (a patent for instance) as the fundamental reason to outsource not; however, it doesn't contemplate markets' competitiveness and their uncertainty (Akhter and Robles, 2006).

The theory of internalization is an extension of transaction cost theory; yet it incorporates additional factors of decision-making such as culture, competitive strategy, location and market structure keeping as objective revenue maximization. This theory's inconvenient, as with the previous case, is that it's centered on multinational companies (Akhter and Robles, 2006).

In the eclectic paradigm of international businesses the strategy of entry may be explained by the advantages of the property, location and internalization of one company over others. While it is true that this perspective integrates different theories, it is a static model in which companies prefer to grow towards "psychologically-close" markets (Johanson and Valhne, 1990), and does not contemplate important characteristics from the market (Johanson and Mattson, 1988).

In the perspective of stages appears the Uppsala model (Johanson and Valhne, 1977; Andersen, 1993), which distinguishes a process whose objective is to administrate organizational learning in international markets. Said process explains that the greater the experience in processes of internationalization, companies commit a greater amount of resources and manage risks better (Johanson and Valhne, 1977). Therefore, it may be foretold that companies will initiate with an exportation strategy and will advance towards production strategies in the country of destination. Another contribution from the model is related to psychological distance (Laghzaoui, 2011) of the culture and language of the country of destination, and they influence decision-making in the international transaction. Johanson and Valhne (1977) explain that to the extent that international experience increases, psychological distance is reduced. The model bears limitations with regards to the utilization of a single explicative variable (Andersen, 1997; Johanson and Valhne, 1990) and ignores the complexity of the decision of entry.

The networks perspective has been developed from the Uppsala model. Johanson and Valhne (1990) re-defined internationalization in terms of connections developed with other countries through 3 stages (Johanson and Mattson, 1988): prolongation, penetration and integration; prolongation being the first step to connect the network, and is accompanied by new investments for the company; penetration refers to the company developing positions within the network; and integration is an advanced stage where the companies is connected with several national networks with which it must coordinate.

In the resources-based perspective researchers such as Ruzzier *et al.* (2006) have concerned themselves with the company's capacities and resources, focusing on the company's unique attributes as sources of sustainable competitive advantage necessary to enter foreign markets and on the dynamic capacity of organizational learning to develop new resources.

## 2.2. Type of strategies of entry into international markets

With regards to entry strategies to new markets, Islam and Fernandez (2008) signal

key-in-hand projects, licenses, franchises, joint ventures and fully-owned subsidiaries. Cateora and Graham (2002) mention in addition exportation and importation, partnerships and partially-owned subsidiaries.

Hill (2007) details each type of entry mentioning that key-in-hand projects are used by companies from specific sectors such as construction, metallurgy, chemical products and pharmaceuticals; these are useful when regulatory limitations for foreign investment exist in the country of destination. Licenses are short and long-term agreements adequate for companies that do not count with capital for foreign production. Franchises involve long-term agreements, and the origin company might get to worldwide presence shortly, with low costs and risks although quality control would be issue. Joint ventures are deemed as a quite viable business because the skills of each company are complimented and the company of origin benefits from the knowledge of its local partner on competitiveness, culture and/or language of the country of destination. Lastly, fully-owned subsidiaries, either by creating a new facility or acquiring an already-established company, provide strict control over the operations in the country of destination, whereby the risk of losing control is reduced and the cost of fixed assets increases.

## 2.3. Determining factors of the strategy of entry

According to Gomes-Casseres (1989) and Hamel and Prahalad (1990) the election of an entry mode is influenced by basic competences and vulnerability towards external changes in the country of destination.

According to Canals (1994) and Kärkkäinen (2005) internal and external factors exist, which determine the election of an entry strategy into international markets.

Table 1 shows the classification of internal and external factors as proposed by said authors.

From the theory developed by the authors Canals (1994) and Kärkkäinen (2005), Akhter and Robles (2006) are determined as internal factors unique resources and investment in assets, and as external factors uncertain-

**Table 1. Classification of internal and external factors**

Author	Internal Factors	External Factors
Canals, 1994	<ul style="list-style-type: none"> <li>• Characteristics of the product</li> <li>• Workers' capabilities to manage processes</li> <li>• Capacity to provide service to foreign clients</li> <li>• Adequate financial resources to approach the internationalization plan</li> <li>• Interdepartmental coordination</li> </ul>	<ul style="list-style-type: none"> <li>• Importance of the foreign market to the company</li> <li>• Market potential</li> <li>• Feasibility of hiring qualified personnel</li> <li>• Country's economic attractiveness</li> <li>• Clients' characteristics</li> <li>• Political factors</li> </ul>
Kärkkäinen, 2006	<ul style="list-style-type: none"> <li>• Resources and commitments (management, capital, technology, production skills and marketing skills)</li> <li>• Company size</li> <li>• Degree of commitment</li> <li>• International experience</li> <li>• Production factors (profits target, product differentiation)</li> </ul>	<p style="text-align: center;"><b>Country of origin</b></p> <ul style="list-style-type: none"> <li>• Domestic market size</li> <li>• Competitive domestic structure</li> <li>• Domestic costs of location and transportation</li> <li>• Domestic costs of production</li> <li>• Company's international strategy</li> </ul> <p style="text-align: center;"><b>Country of Destination</b></p> <ul style="list-style-type: none"> <li>• Host country's environmental factors</li> <li>• Market factors</li> <li>• Production factors</li> </ul>

Source: Author's own elaboration.

ty and similarity among businesses. Akhter and Robles (2006) hold the importance of taking advantage of internal competencies and managing environmental uncertainties, as these two considerations affect proneness to cooperate in international markets.

Unique resources refer to competitive advantages that the exporting company develops internally, which other exporters do not possess and cannot imitate. The decision to enter new markets implies seizing of the company's own competitive advantages. Authors such as Hamel and Prahalad (1990) reference basic competencies, whereas Teece and Pisano (1994) go further into competitive advantages.

Investment on assets is an internal factor that implies increasing transaction costs. As transaction costs increase the company's rather operate internally those activities related to the usage of these assets. Becoming immersed in international markets demands significant investments from exporting companies in order to be able to adequately understand its international customers. As example of investments there is: develop-

ping specialized processes, adapting equipment and tools of production, developing and adapting marketing systems, developing and adapting new products, developing processes of coordination between headquarters and international markets, developing a special logistics system, acquiring assets in the markets of entry and developing specialized human resources. The specificity of assets refers to the extent to which investments are required to support a transaction (Aulakh and Kotabe, 1997).

Uncertainty is a key external factor in exporters' decision of integration (Achrol and Stern, 1988) as it is assessed on the basis of different the different edges present within the market to entered, including the perception of environmental characteristics of the country of destination, uncertainty regarding the behavior of partners in said new markets and the feasibility of reversing the decision of investment, either by postponing the decision or recuperating the capital if the entering has taken place.

Business similarity is an external factor referring to the predictability of the macro-

economic, political, regulatory, competitive, market and environments; the supply of materials and distribution in the last country entered by the exported company. The assessment of similarity between the country being considered for entering and the Peruvian environment is carried out by firstly considering the perception of the last country of entering's general business environment and Peru's, with regards to trade, regulatory, political, economic, technological and cultural practices; and secondly, with regards to the manner of doing businesses in the country of destination.

#### 2.4. Entry barriers to international markets

Some of the foregoing factors might represent barriers of entry to foreign markets. In this regard, Madhok (1997) mentions "the lack of financial, physical or technological resources; the lack of opportunities and insufficiency of managerial skills might limit international activity".

The OECD studies barriers to access international markets. Among the main ones, according to the ranking, there are: 1. Lack of investment capital to finance exportations, 2. Identification of business opportunities abroad, 3. Limited information to analyze/localize markets, 4. Incapability to reach potential foreign clients, 5. Attainment of reliable foreign representatives, 6. Lack of management time to deal with internationalization, 7. Inadequate amount and personnel for internationalization, 8. Difficulty to equate with competitors' process, 9. Lack of assistance/incentives from the local government and 10. Excessive costs of transportation (OECD, 2009).

#### 2.5. Levels of integration in the entry to international markets

The level of integration refers to the depth of the entry strategy, which is defined level of risk, degree of control and degree of committed resources (Anderson and Gatignon, 1986; Zhao and Decker, 2004; Aulakh and Kotabe, 1997; Hill, Hwang and Kim (1990). The risk level regards the uncertainty of the destination with which businesses are inten-

ded to be carried out. The degree of control is inversely related with proneness to collaborate (Akhter and Robles, 2006), which implies utilizing strategies where the control of exportation processes is shared with other companies, both local and the country of destination, in order to make viable the entry to international markets; whereas internationalization (non-collaboration) is understood as the decision to exercise control over processes of exportation. Hence, the greater the extent of proneness to collaborate, the lesser the degree of control will be.

Regarding the decision on the strategy of entry, David (2004) proposes the level of integration model (David, 2004), which is complemented by the model of level of risk (Akhter and Robles, 2006).

The Mercadex- Desjardins level of integration model (David, 2004) classifies strategies of entry according to their degree of integration, by referring to the extent to which the origin company can commit to the country of destination; and the method of penetration, by referring to how the company of origin approaches the country of destination. The model was developed from a study carried out by Mercadex International Canada in collaboration with the *Desjardins del Quebec's Caisse central*, which permits the planning of internationalization strategies for small and medium-sized companies (after being analyzed it is deemed applicable to any company size). This approach holds that the creation of entry strategies for international markets implies considering the following perspectives: (a) the integration level perspective, which indicates the depth of the relationship between the company and the international market posing delegation, cooperation and control as possibilities of integration; and (b) the insertion into foreign markets perspective, which presents those means with which the company may enter an international market in particular defining the transactional, contractual and structural environment as insertion alternatives.

The degree of delegation implies a low level of integration, which generally constitutes one of companies' the first experiences in the international scenario, and it consists on working with domestic business partners (a foreign trade house, for instance) whom

shall act as buyers of the product and will take charge of all activities of exportation. The company may not be aware of the product's final destination, especially regarding industrial components. This level of integration allows the company to slowly begin its process of internationalization but with the certainty of obtaining an initial idea of the potential market for its products.

The degree of cooperation constitutes the medium level of integration, where the company sets deals with particularly important strategic partners in countries where the requirements of entry are generally larger than the company's resources. In this case the company is relatively familiarized with the foreign market (for instance: supply, demand, idiom, business culture), but does not possess the necessary business contacts to successfully trade its products in that market.

The degree of control sets a high level of integration, which enables the company to maintain the highest level of control over its product and distribution network (salesforce and margin of intermediation). It may occur when clients insist on shorter channels (limiting the number of intermediaries) thus requiring the company to be closer to the foreign market. In this case, the company must have an excellent knowledge on the foreign country, its business practices and idiom.

The transactional method refers to the conventional exchange of goods and services; direct or indirect importation or exportation, for instance. In this case, the bonds between partners are generally limited in terms of time and business deals, and allows the company to set a simple entry strategy.

The contractual method implies establishing legal agreements between parties. In this case the terms of the agreement include aspects regarding the partnership's duration, participation in resources and results. Some reasons to pick this method are the need to carry out personalization to the customer, regulatory control or considerable costs of transportation. This means permits to generate longer-lasting bonds than the transactional and less-lasting than the structural would, and it is preferable when selling services in a foreign country.

The structural method involves generating investment and the company's permanence in the foreign market, which might be convenient to offshore its production or to be closer to the target market.

The overlapping of these perspectives generates a matrix of integration levels that is shown in Table 2, with nine generic strategies of internationalization as well as examples for each one.

**Table 2. Mercadex-Desjardins level of integration model**

Means of insertion Level of integration	Transactional	Contractual	Structural
<b>Delegation</b>	<ul style="list-style-type: none"> <li>Foreign trade company</li> <li>Domestic exporter</li> </ul>	<ul style="list-style-type: none"> <li>Production license</li> <li>Trading license</li> </ul>	<ul style="list-style-type: none"> <li>Minority shared in foreign company</li> </ul>
<b>Cooperation</b>	<ul style="list-style-type: none"> <li>Distributor in the country of destination</li> <li>Agent</li> <li>Wholesaler</li> </ul>	<ul style="list-style-type: none"> <li>Crossed licenses</li> <li>Franchises</li> <li>Consortiums</li> </ul>	<ul style="list-style-type: none"> <li>Joint venture</li> <li>Reciprocal participation</li> </ul>
<b>Control</b>	<ul style="list-style-type: none"> <li>Direct sale to foreign customer</li> <li>Sales facility in the country of destination</li> </ul>	<ul style="list-style-type: none"> <li>Agreements of production</li> </ul>	<ul style="list-style-type: none"> <li>Acquisition</li> <li>Foreign direct investment</li> <li>Full investment (Greenfield)</li> </ul>

Source: Mercadex International INC (2002)

Drawing upon the previous table from the Mercadex-Desjardin model it may be deduced that strategies of collaboration would be all those corresponding to the delegation and cooperation levels of integration; whereas of non-collaboration ones would be those of control, regardless of the chosen means of penetration.

Regarding the presented model a diagonal movement from the left upper corner (delegation/transactional) to the lower right corner (control/structural) implies a movement from a lesser to a higher level of integration. In a level of low integration, as occurs with companies exporting raw materials, there's no participation from the company in the process of transformation of the final product. In a medium level of integration the company participates in several or all activities of transformation as collaborator or participating in controlling the companies making up the global chain. A high level of integration is not common and only large-sized global companies are capable of facing it, due to the considerable amount of financial and human resources required (Bello and Lothia, 1995).

Regarding levels of uncertainty Table 3 presents the interactions between market uncertainty and similarity in a specific context, where risk levels are key since to a larger extent of market uncertainty the larger the risk will be; likewise, the risk will be higher to lesser similarity.

**Table 3. Risk level in international markets model**

		Low Uncertainty	High Uncertainty
Market Similarity	High	Low risk Low-integration strategies	Medium risk Medium-integration strategies
	Low	Medium Risk Medium-integration strategies	High risk High-integration strategies

Source: Author's own elaboration.

This table reflects the relationship between the level of integration model and the level of risk model, as a low level of uncertainty and high market similarity correspond to a low-integration strategy; a low level of uncertainty and low market similarity co-

respond to a medium-integration strategy; a high level of uncertainty and high market similarity correspond to a medium-integration strategy; lastly, a high level of uncertainty and low market similarity correspond to a high-integration strategy.

The risk-minimizing logic is activated by thinking that an integration strategy is appropriate when both factors (uncertainty and similarity) are high; therefore the company seeks to control the risk by internalizing costs (transaction cost theory) and protecting its competitive advantages. This case is particularly important for exporting companies with high investments on assets and competitive advantages such as patents, unique processes and brand power.

Depending on the risk's origin the recommended strategies are different. When the risk stems from low market similarity the logic is to collaborate with local partners in order to adapt the strategy to local conditions. When stems from market uncertainty (pricing uncertainty, for instance) a strategy fitting strategy would be contractual or control/contractual cooperation. Market uncertainty might disappear, and the company should keep its options open in order to adjust to a new situation.

In low-risk situations there are no major benefits in integrating. Moreover, transaction cost theory suggests that companies may enter contractual relationships and minimize costs; production agreements, for instance. In medium-risk situations the decision's logic is to compensate risk with a certain level of control. This is achieved by medium-integration strategies.

### 3. Leading characteristics of the Peruvian exporting sector: non-traditional products

Non-traditional exportation refers to the exportation of new dynamic behavior products or the accelerated sales growth of an exportable product, which brings about a change on the importance of the respective economy and even modifies the country's structure of exportations. For presentation purposes the *Banco Central de Reserva del Peru (BCRP)* (2015) groups them into agri-



cultural, textile, fishing, woods and papers, chemical, metal-mechanics, iron and steel, jewelry, non-metallic mining and others.

### 3.1. Peruvian exportations evolution

Peruvian exportations held sustained growth from 1999 to 2008. Despite this important advancement, until 2003 the exporting activity had not reached the rates attained by other countries from the region, and found itself notably lagged behind Asian countries whose rates were similar to Peru's thirty years ago. Additionally in 2003 per capita exports were around USD\$332, quite below the worldwide average of USD \$1.140 (Ferrero, 2004), which signaled that there was still a lot to be done.

With a growing tendency during said period the significant sum of USD\$17.000 million FOB was surpassed during 2005, which meant a 34% growth of exportations regarding 2004 additionally obtaining one of the most important balances of trade up to said year (Prompex, 2006a; Prompex, 2006d).

In 2015, Peruvian exportations were characterized by being 68% from the traditional sector and the remaining 32% of the non-traditional kind (BCRP, 2015).

With regards to non-traditional exportations the most representative sectors are textile and confections (30%) and agricultural (24%). The significant growths of these sectors' exportations were due to an increased demand from the American market in regarding the textile sector, for that its main target market; and for the agricultural sector it was due to higher sales of artichoke (101.4% growth), paprika (89.1%), grapes (64.0%), evaporated milk (18.4%) and asparagus (11.1%) (Prompex, 2006a).

### 3.2. Destination countries of Peruvian exportations

Throughout 2005 Peruvian products were headed to 171 countries, with the United States being their main destination (place kept historically), thus making up for 30% of the exported volume by Peru that year, with a 39.5% grow with respect to 2004. The USA is followed in its importance by China (11%),

Chile (8%) and Canada (6%); the last country displaying an important 213% growth with respect to 2004 (Prompex 2006a).

Non-traditional exportations to the United States increased 20% with regards to 2004 being fresh asparagus, gold jewelry and adult T-shirts the most demanded products (Prompex, 2006c).

On the other hand, the growth experimented by exportations to China through 2005 was 23% due to non-traditional products. Within non-traditional products stand out unassembled parquet small boards and friezes, assorted confectionery; other mollusks and aquatic invertebrates, either prepared or preserved; and carded or combed fine alpaca o llama hair (Prompex, 2006c).

### 3.3. Amount of exporting companies

The year 2005 saw a 9.7% increment of exporting companies with respect to the previous year. Nevertheless, of these exporting companies the top 100 on volume of exportations (FOB values), which represent only 1.8% of the existing companies, accumulated 81% of the total volume exported that year, which highlights great asymmetry in the companies' performance; whereas the remaining 19% of the volume was done with considerable efforts by 98.2% of the exporting companies (Prompex, 2006a; Prompex, 2006b).

## 4. Methodology

### 4.1. Sample

The present exploratory study was carried out in the city of Lima, Peru, in the year 2015, and it used as sampling frame a database containing the 450 most important exporting companies from Peru on the basis of volume of exportation, according to the PromPeru ranking (through Trade Information Integrated System). Two hundred and fifty (250) companies were reached out of the 450 contained in the database; however information was obtained only from 45 of them, which made up 96% of Peru's total volume of exportations (free on board values- FOB), and borne exportation levels higher than 3.5 million dollars as a common trait. Finally, of the 45

companies were considered those constituting 76% of firms with non-traditional exportations, which had a 23% share in total (USD) Peruvian exportations values in 2007.

The sampling was non-probabilistic since companies reached were those with greater exporter activity from different exporting sectors and different kinds of exportations. Within each company it was sought to make contact Exportations Managers, Foreign Trade Managers, CEOs, among others.

With respect to the amount of workers, companies from the non-traditional sector count with 375 workers on average. Their time of operation is at least 2 years.

In the sample the most representative sectors are textile and clothing (28%), agricultural (24%), steel and metallurgy (14%) and chemical products (13%).

#### *4.2. Recollection, analysis and data processing*

The self-applied questionnaire technique was employed with an appropriate format so as to be applied by the interviewee himself.

The questionnaire's design included the amount of countries towards which the origin company exports, its years of experience in international markets, its first and last country of destination, the relevance of exportations within the company's total sales, the level of assets located at international markets, determining factors within its international strategy, among others.

Four exogenous constructs were posed: specificity of assets, competence, environmental uncertainty and environmental similarity.

Assets specificity was measured by inquiring respondents whether they had performed significant investments in the following eight areas in order to establish their presence in the last market where they last performed: development of specialized processes, adaptation of production equipment and tools, development and adaptation of marketing systems, development and adaptation of new products, development for coordination between headquarters and international markets, developments of a specialized sys-

tem of logistics, acquisition of assets in the markets of entry and development of specialized human resources. A 7-point Likert scale was used, 1 being fully disagree and 7 fully agree.

Competence was measured by regarding the analysis of the following competitive advantages to enter the last international market: unique specialized knowledge and the firm's intellectual property processes, unique and specialized skills, usage of specialized technological infrastructure, difficulty to transmit knowledge and processes of the company's ownership, difficulty to replicate knowledge and processes of the company's ownership, difficulty to imitate knowledge and techniques by competitors and brand recognition in the target market. The 7-point Likert scale was used, 1 being fully disagree and 7 fully agree.

Environmental uncertainty was measured based on different edges of the new market's environment and perception of environmental characteristics in the country of destination by assessing conditions for general investment, specific perception of the macroeconomic, political, regulatory, competitive and environment, the market, and supply and demand of materials and distribution (all of the above referring to the last entered international market); uncertainty regarding the behavior of partners at said new markets as well as the feasibility to revert investment decisions, either by postponing the decision or getting back the capital in case of having already entered. The 7-point Likert scale was used varying the description of 1 and 7 when appropriate.

The degree of investment reversibility in international markets has been appraised based on exporting companies' perception regarding the feasibility of getting capital or assets back; or the possibility of having been able to postpone the decision to enter the international market. In the appraisal regarding feasibility to get investments back a 7-point scale has also been used, where 7 means "non-recoverable" and 1 "fully recoverable".

Business environment similarity assesses the perceptions held by companies regarding the degree of likeness had by Peru and the last entered international market. This as-

assessment will be performed by considering, firstly, the general business environment's perception between both countries, and then by referring specific trading practices. It has been executed with the support of a 7-point scale, where 7 means "very similar" and 1 means "very different".

Additionally, an endogenous construct was posed which was the level of integration. Integration was measured by the entry mode used by companies in order to set their presence in the country of destination. The respondents were asked to indicate what strategies they used to enter the market according to the Mercadex-Desjardins model. The levels of integration based on the strategy of entry have been used in the empirical research (Aulakh and Kotabe, 1997).

Finally, a question about the level of achieved satisfaction with the last international market was included, and particularly with regards to the level of achievements obtained on the basis of exports sales expectations, sales growth after its entering, profit rates and achievement of objectives at said country. As possible answers were considered: satisfaction level above expected, satisfaction level as expected and satisfaction level below expected.

After designing the questionnaire, it was sent out to the participants whom filled it out (a series of instructions were specified to facilitate its understanding). Once completed the questionnaire was re-sent via electronic channel to those accountable for drawing up information for validation. The data as entered into a database and processed by the SPSS statistical package, where basic tabulations as well as statistical analysis and graphs were drawn up, with the purpose of generating the desired results.

## 5. Results and discussion

Regarding descriptive information half the companies operate in over 10 countries, 60% of companies have over 10 years of experience in international markets, the United States was the first country of destination in 45% of instances thus making evident a high risk concentration; the United States was the last country of destination in 20% of cases, displaying greater diversification of risk with

presence in other countries; other important destinations being the United Kingdom, Equator, Venezuela, South Africa, Spain, china, japan. France, Italy and the Netherlands. Seventy percent (70%) of companies receive over 50% of their income from exportations; hence their management capabilities in the international scope are highly relevant.

### 5.1. Results on determinant factors of the entry strategy

#### 5.2.1. Internal factors

According the literature's review, among the internal factors that determine the election of an entry strategy to international markets lay unique resources and investment on assets.

Regarding unique resources in the last entered country exporter companies have expressed that mainly their unique and specialized skills, the advantage of their products having high brand recognition and the fact that they counted with specialized technological structure have been useful, which indicates that in order to achieve a better entering into international markets counting on a solid operative basis is recommended, especially if its unique, and counting on a strong brand. The difficulty to transfer or replicate knowledge and processes of the company's ownership did not constitute a competitive advantage to enter new markets. This shows that a competitive advantage would not lay in the fact of counting on sophisticated nor difficult-to-replicate processes but on the "know-how"; a rather lesser replicable characteristic because it means that the knowledge curve would be evolved on further instances that the target market would take its time to reach.

Regarding investment of assets 26% of the sample declared to have 5% or more of its assets in international markets, some surpass having 50% of their assets abroad. The following kinds of investment is specific assets: (a) development of specialized processes, (b) adaptation of equipment and tools of production, (c) development and adaptation of marketing systems, (d) development and adaptation of new products, (e) development of processes for coordination between head-

quarters and international markets, (f) development of special logistics system, (g) acquisition of assets in markets of entrance and (h) development of specialized human resources.

The ranking shows that investment (b) occupies the first place since it is one of the categories with most input for exporter companies. The second place is occupied by investment (d) due to the specialized and sophisticated nature of non-traditional products. Afterwards come investment (a), with the companies who belong in the Top 100 being the ones to have invested the most on account of their foreign trade dimension and movement, and investment (e). The third place is occupied by investments (h), (c) and (f). There's consensus among exporters regarding the avoidance of investment (g), signaling a tendency towards not assuming greater risks through initial significant fixed costs, which coherent with what was already observed.

This sort of investments evidence the need to adapt, firstly, the company's operability so as to achieve process effectiveness in order to successfully introduce products into international markets; also becoming adapted to foreign customers' needs.

The analysis of results about internal factors allows us to conclude that Peruvian exporting companies acknowledge having important unique resources, yet a low level of specific assets in the countries of destination, although there have been significant investments on the development and adapting of marketing systems as well as on developing a special system of logistic, thus detecting notorious differences among companies. Strategies of entry into international markets from these companies were characterized by a lower level of integration than those of exporting companies in countries where these competitive advantages and investment on assets are high. It is worth noting that even though the time of experience is 18 years on average companies have yet to achieve consolidating their unique resources, just as the fact of being present in 13 countries does not imply a higher investment on specific assets in the countries of destination.

In this vein, the set of exporting companies has manifested that in the last market they entered, quite useful were their set of unique and special skills, the advantage of

their products having brand recognition, and the fact that they counted on specialized technological infrastructure.

These three leading competitive advantages of the companies, which have served them as platform to enter new markets, evidence that said advantages are mainly based on profound and specialized knowledge of internal processes (know-how) as well as on the brand's strength, which indicates that in order to successfully enter new markets counting on a solid operative basis is recommendable especially if it is unique, and counting on a strong brand.

### 5.2.2. External factors

According to literature's review, among the external factors that determine the election of an entry strategy into international markets lays uncertainty (about the environment, partners' behavior and feasibility of reverting investment decisions) and business similarity (regarding the general environment's perception and the manner of business-making in the country of destination).

Regarding uncertainty about the environment Peruvian exporting companies believe investment conditions to be lightly stable (Standard deviation= 1.90). With respect to the degree of complexity of investment condition the mean of companies set it at an intermediate level; namely, they do not deem it neither complex nor simple. It is worth pointing out that companies' perceptions regarding the degree of stability of investment conditions in the last international market they entered have been found to be directly correlated with their perception of complexity, so that as those conditions are perceived as volatile they will be considered more complex. With respect to the country of destination's environment's level of predictability, companies perceive a degree of predictability from medium to high mainly in the regulatory environment, and low with regards to the macroeconomic and political environment (with a high degree of discrepancy). It could be said that the environmental factors of the markets where Peruvian companies destined their exports are predictable, meaning that risk levels are low to medium.

Regarding uncertainty about partners'

behavior is perceived a light a tendency to believing that there is misuse of intellectual-property processes, but it wouldn't be a limitation in decision-making. Likewise, may be appreciated that, averagely, companies' opinions regarding costs and hardships when finding partners to collaborate with tend to present a neutral position with a light hint of it being costly and difficult, which also highlights that while it is an aspect to look after, it's not a limitation in decision-making. According to the foregoing, interviewees signal that while partnerships are not simple, they aren't problematic either.

As the last factor referring to the level of uncertainty, the degree of investment reversibility (sunk costs<sup>1</sup>) at international markets was rated as considerably high, thus evidencing that while a certain risk of not fully recovering investments is acknowledged, an important degree of trust regarding recovery is expressed, which has surely constituted a favorable factor when deciding to enter the ventured destination. Likewise, with regards to deciding to postpone entering the international market exporters within the sample expressed to be lightly in disagreement with the possibility of postponing investment decisions, a light degree of commitment from the company to enter the chosen market at the moment they were carried out.

As for general environment similarity perceptions the aspects deemed as most distant between Peru and the last entered country have been the political and economic environment (with notable differences between responses), which could be due to the clearly existing differences among countries around the world. With respect to distribution channels responses have been neutral. Companies believe Latin-American markets to be similar to Peru's in most aspects related to the business environment, and especially regarding the cultural, economic, political, technological and trading environments. Nevertheless, Peru is deemed as highly different from East Asia and the Pacific (China, Japan, Australia and New Zealand) technologically speaking; while culturally it is thought of as considerably different from several countries again from East Asia and the Pacific, aside from Western Europe and North America. Within

the economic and political environment the greatest differences regard North America (The United States and Canada).

Regarding similarity in business-making, averagely, exporting companies consider that there are differences in production processes, similarities in direct marketing (especially with companies having from 11 to 20 years of experience), likenesses on customer service and light differences in the handling of human resources (lightly similar within the Top 100 and lightly different within the non-Top 100). In general, the opinion could be said to be neutral (due to high existing variability among companies' opinions).

In synthesis, according to the results on external factors Peruvian exporters in the sample operate in markets characterized by low levels of environmental and partner behavior uncertainty. Investments performed at these markets are reversible; namely, operational and financial risk levels faced by Peruvian exporters are low. Finally, last-destination markets entered by Peruvian exporters are lightly similar or neutral regarding their environment and business-making manner (the amount of years exporting tends to homogenize these differences).

### *5.3. Results about levels of integration in the entry strategy*

With regards to the election of the entry strategy employed at the last entered country 23% of companies opted for exporting through direct sales to clients, 35% for exporting through a distributor at the country of destination, 27% for exporting through an agent at the country of destination, 10% for a trading company at the country of destination, 3% for a trading company at the country of origin and 2% opted for its own sales subsidiary.

When classifying entry strategies according to their level of integration these are mainly of transactional kind, meaning conventional exchange of goods and services where bonds between partners are generally limited to time specifications and business deals, which would enable a simpler access for Peruvian companies with less a risk.

<sup>1</sup> Refers to costs already assumed that cannot be recovered.

When classifying entry strategies according to them being of collaboration (distributor, agent, trading company and trading company at the country of origin) or non-collaboration (direct sales and owning sales subsidiaries) these entry strategies of low-medium integration reflect that 75% of Peruvian exporting companies opted for a collaboration strategy at the last country of entry; whereas those who opted for non-collaboration strategies (25% of remaining companies) basically employed direct sales to clients, thus preferring to have control.

Over half the companies (65%) would rather collaborate with a company at the country of destination should they adopt a strategy of collaboration. Seventeen percent (17%) would rather collaborate with a company from the country, and 9% would do it with a company in a third country.

It is worth pointing out that a direct relation between employed entry strategy type and the company's preference to collaborate at international markets, since both the companies that used collaboration strategies as those who used non-collaboration ones on average signaled similar levels of preference to collaborate, which would indicate that their preference to collaborate levels have no incidence on the actual decision on an entry strategy, depending in all respects on other variables probably closer to the desired entry destination's own characteristics.

About the level of risk, Peruvian businessmen locate themselves at the low-uncertainty and high-similarity quadrant as they'd rather perform operations at international markets similar Peru's, with regards to general environment and business behavior.

#### 5.4. Results regarding general satisfaction level

The general level of satisfaction with the effort carried out at the last entered country is directly related to the level of goals achieved at said country, and the rate of exportation sales that was obtained as well as (though to a lesser degree) with profit rates and growth of exportation sales after the entering, so that to the extent that achievements on each aspect improved so did the general level of satisfaction.

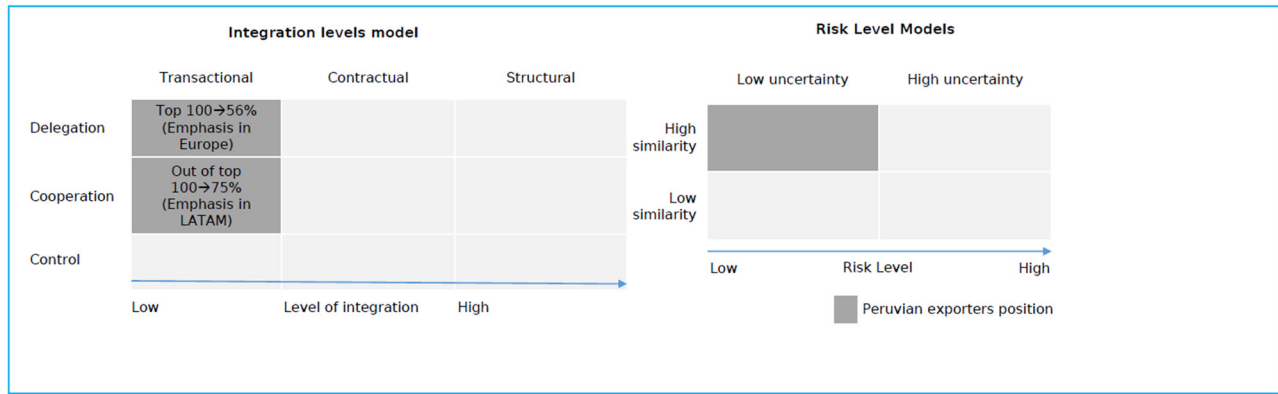
Thusly, results have been favorable on each of these variables since what was expected and beyond was achieved, especially regarding exportation sales levels since 87% has yielded favorable results, where 34% believes to have achieved beyond expectations. On the other hand, profit levels is the variable with relatively less achievements (also being quite favorable) since it's been signaled to a greater degree in other variables to have achieved less than expected (18%), and the proportion of companies having surpassed their expectations is relatively smaller (18%), which differs from what other variables expressed.

#### 5.5. Discussion

The results on internal factors as presented by Akhter and Robles (2006) in the literature's review permit to observe that the lack of unique-resources strengthening causes companies to enter international markets by low-integration strategies such as the transactional Mercadex-Desjardins model, when they should be capable of integrating through contractual or structural mechanisms reflecting a higher level of integration. An example on this factor's importance is the case of a Peruvian exporter who developed a code bar system in coordination with the customs houses at the countries where he operates, which identifies the information that enables his containers to speed up their passage through customs without human intervention. This system of his own reduces transit time compared to that of other exporters who do not possess it.

Likewise, results referring to investments on fixed assets match transaction cost, internalization and eclectic paradigm theories with regards to their statements about the company keeping management of its unique resources. However, they do not match the internationalization process perspective for it explains that when a company has more experience in processes of internationalization, it should commit a greater amount of resources and manage risk better; yet, in practice, Peruvian companies, even when averaging 18 years of experience in the market, are not willing to take on greater risks and commit greater resources. Hence, instead of moving forward towards an exporting strategy,

**Table 4. Relationship of integration models and risk level**



Source: Author's own elaboration.

towards a strategy of foreign direct investment they could remain static through time.

Moreover, the results evidence a relatively conservative behavior from Peruvian exporters with respect to uncertainty and business similarity, for although uncertainty on partners' behavior turned out to be low as well as business similarity. Even so, exporters of Peruvian non-traditional products present a low level of integration towards international markets.

Table 4 shows the relationship of integration models and risk level in the Peruvian exporter companies that were analyzed, which emerged from the location of low-level risk results (with which Peruvian exporters are willing to become integrated) on Table 2 and the delegation/transaction and cooperation/transaction entry strategies on Table 3.

The result lead us to an additional reflection with respect to proneness to collaborate, defined by Akhter and Robles (2006) as the co-participation taken on by an exporting company with others on diverse activities regarding exportation processes. On one hand, exporting companies could be using alternative strategies to those of their preference depending on the destination dealt with or other situational variables; or their perception on the probability of collaborating with other companies when deciding to enter new markets not being quite associated to the entry strategy's characteristics but to the intensity of the relationship established with the companies they associate with. Namely,

it could be that a company believes that if its attitude is one of working closely with the people involved in a non-collaboration strategy, it will qualify itself as collaborator, not for the type of strategy as much as for its attitude of openness.

With regards to satisfaction perceived by exporters, although with a low level of integration, 87% of them perceive their level of satisfaction with the chosen entry strategy to be as much or greater than that of the last entered international market, specifically with sales increasing after the entering, level of profits and achievement of objectives at said country. Gomes-Casseres (1989) mention that selecting an entry strategy is influenced by basic competencies, which are relatively low at Peruvian companies although their importance is acknowledged, as well as vulnerability to external changes in the country of destination, which hasn't turned out to be preoccupying to Peruvian exporters. The foregoing reflects that if basic competencies are sustainably developed, results would improve just like expectations.

It's important to highlight that this study bears the limitation of a small sample, for not all exporters invited to participate in the study answered the questionnaire. Therefore, broadening the sample is recommended for future studies. Likewise, the sample included exporters of traditional as well as non-traditional products, and taking into account that entry strategies differ for both segments the results have presented a considerable level of dispersion that could have

been avoided by working with a single group and more representative sectors. For future research performing a by-sector analysis is proposed for the most representative sectors, as well as going further into the application of other entry strategy models; broadening the study of competitive advantages as a mechanism to gain higher integration, and deepening on what collaborating with other companies means for exporting companies, their expectations and motivations in that regard.

## 6. Conclusions

The election of an entry strategy for a new international destination constitutes one of the most important decisions an exporting company must make in order to attain successful results, so that it will adequately contribute to the process of exportation.

The present research, while bearing an exploratory character given the sample's small size, has been able to set a sample with close characteristics to the reality of Peruvian exporting companies with exportation levels of over 3.5 million dollars, and it has enabled obtaining relevant information about decisions made when entering international markets.

In the matter of internal factors, companies value know-how; however, although counting on several years of experience within the market they present a limited level of unique resources, which could turn into a barrier of entry to certain countries. The foregoing, on top of low investment on specific assets, prompts integration capacity to be necessarily limited, and only reaching transactional instead of contractual or structural relationships with delegation and certain cooperation, but far from having full control over operations at international markets. Peruvian exporters' current position limits their relationship with potential business partners.

In the matter of external factors Peruvian exporters seek predictable environments, with low-risk behaviors from partners and leaving open the possibility to reverse investments. Taking the foregoing into account, most entry strategies in the sample are expected to be low-uncertainty and high-similarity, which could turn into a significant

barrier when selecting an entry strategy for international markets.

Peruvian exporters' behavior refers low integration and low risk tolerance for international markets entry strategies, as well as limited usage of strategies is concerning because it limits the development of capacities and competitive advantages that demand effectiveness within global markets and global supply chains.

Lastly, diversifying to markets different from Peru's and businesses bearing higher uncertainty could motivate exploring other kinds of strategies, as well as the need to develop further unique skills. These skills are key to efficiently participate in global chains and even increase satisfaction expectancies of exporters in terms of goal achieving, sales growth and earnings. Additionally, the need to perform further investments becomes relevant in order to fortify the local company's operability, regarding both equipment and production tools adapting as well as process improving so as to reach an appropriate level of competitiveness and quality at international markets.

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