

Institutionalism and Economic Development in Peru: A Senior Executive's View from the Application of Augmented Fuzzy Cognitive Maps

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ABSTRACT

This article analyzes key factors that have contributed to the growth and economic development of Peru during the last fifteen years. An augmented fuzzy cognitive map (FCM) methodology has been applied to a sample of senior executives from top Peruvian companies. The results revealed a series of key aspects that explain the development achieved in the country and were compared with those of previous studies examining institutional influence over competitiveness.

KEYWORDS:

Augmented Fuzzy Cognitive Maps, Peru, Emerging Market, Strategy Research, Economic Development.

INTRODUCTION

Peru—with 31.4 million inhabitants at the end of 2014 and 1,285,000 square kilometers (which has a low population density of 24 inhabitants per km²)—came to be described as a failed state until the beginning of the 1990s. The decades of the 1970s and especially the 1980s were lost in the country due to harmful economic policies. Terrorism from the MRTA and Sendero Luminoso in the 1980s and early 1990s aggravated the situation in Peru. In those two decades, corporate, state and family assets were destroyed through processes of enormous hyperinflation, an unstable exchange rate, high fiscal deficits, and a shortage of products and services such as electricity. These two decades of great deterioration and very high uncertainty were a period in which part of the educated and well-prepared population emigrated. However, since the early 1990s, the situation changed, and Peru developed enormously.

Today, the political environment of Peru is characterized by wide participation of candidates in each electoral process because the lack of consolidation of political parties precipitates the emergence of proposals without a clear ideological foundation. In this regard, it should be noted that, according to the Peruvian political organizations registry (ROP, 2016), there are 25 political organizations registered, 3 in the process of registration, 31 with canceled registration and 31 that have ended the process without registration. These data reveal, on one hand, a great dynamism in the emergence of political initiatives and, on the other hand, a lack of political maturity and party stability, which causes parties in government to disappear from the political sphere after having completed their mandate. This is the case, for example, of the Peruvian nationalist party of former president Ollanta Humala Tasso, whose party has not obtained parliamentary representation since the 2016 presidential election.

In part, such party projects have not developed because of excessive personalization in the figure of a prominent leader. This situation has led to the creation of parties whose acronyms are even based on the initials of the names of their candidates or to the fact that the candidates are former members of other parties or held positions of relevance in as executives in parties with other political acronyms.

Either way, elections in Peru are situated in a process with multiple political options plagued by regionalist proposals and lists of members suspected of belonging to criminal groups or even criminals (Belaunde, 2014). The result of this situation of institutional fragility is a lack of continuity in proposals and political instability

Despite this situation, Peru has developed continuous economic growth since the 1990s and shows sure signs of stability, standing out in a region that suffers from convulsive economic seasonality.

Given the environment described above, this study investigates the factors that have determined the growth and economic development of Peru based on an analysis of their key factors (Daniel, 1961; Hofer & Schendel 1977, Rockart 1979, Hardaker & Ward, 1987). To do this, the methodology of augmented fuzzy cognitive maps (FCM) has been applied to a sample

of senior executives of top corporations in Peru to obtain a mental representation of these executives.

As indicated by Author (2010: 481), —The mental representations that top managers develop about their organisation and its environment are instrumental in defining the organisation's strategic agenda.‖ Other authors have considered the relevance of mental models based on participants' perceptions of the causes, effects and outcomes (Woodside, 2010; Barr, Stimpert, & Huff, 1992; Weick, 1989); the structure (Carroll and Olson, 1988); or the concepts and implicated relations (Weick & Bougon, 1986) of the studied phenomenon. Chen and Liang (2014) used mental models for mapping the evolution of strategies and Martignoni, Menon and Siggelkow (2016) found that mental models can be underspecified or contain missing, overspecified or nonexistent interdependencies. The results of Gary and Wood's (2011) study showed that more accurate mental models lead to better decision rules and higher performance. These authors also found that decision-makers do not need accurate knowledge of an entire business environment. In our study, we combine the mental models of top managers to obtain a more accurate analysis of the determinant causes of Peru's growth and economic development and the relative importance of these mental models and a more precise and complete knowledge of the business environment.

LITERATURE REVIEW

Peng, Wang and Jiang (2008) considered the Institutional Theory (North, 1991; Williamson, 1975, 1985; DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 1987, 2001, 2008) as the third pillar of strategic management when used together with the industry-based view (Porter, 1980) and the resource-based view (Barney, 1991), the combination of which gives greater attention to context.

The prior lack of attention to context had been criticized in previous studies (Narayanan & Fahey, 2005; Bamberger, 2008). These three approaches are what Peng et al. (2009) termed the Strategy Tripod. According to Garrido, Gomez, Maicas and Orcos (2014: 83), —This new paradigm is extremely young in the Strategic Management discipline and one of its challenges in the next few years is to demonstrate the importance of institutional factors for our understanding of competitive advantage,‖ and in response they introduced a path to measure it.

Previously, North (1991: 97) had defined institutions as —the humanly devised constraints that structure political, economic and social interaction‖ and states formed by informal constraints and formal rules. North found that these formal and informal institutions create order and reduce uncertainty in exchange, and —together with the standard constraints of economics they define the choice set and therefore determine transaction and production costs and hence the profitability and feasibility of engaging in economic activity.‖

Later, Williamson (1998) found that in addition to —institutions of principal‖ that make up —the institutional environment or rules of game‖ (North, 1991), there are other —institutions of governance‖, which determine rules of interaction (i.e., policy, judiciary, laws of contract and

property). Peng, Sun, Pinkham and Chen (2009) establish a relationship between institutions' behaviors and the possibilities of companies' actions. More recently, Zhao, Lounsbury and Miller (2016) provided systematic analysis of the incorporation of institutional theory into the strategic management literature. In Peru, there are a formal and informal institutions, with informal institutions very present in economic and social life in the absence of the clear presence of formal institutions. In our study, we observe if both are perceived, and to what degree, by a group of senior executives from Lima.

Regarding growth and economic development, there is no doubt that such growth should be translated in terms of business creation and development, since business strategy is based in part by institutional conditions and transitions, as indicated by Peng et al. (2009). This is a fundamental element to take into account, since political decisions will mark the course of events and not only the industry-based competition and firm-specific resources and capabilities. Therefore, Peng et al. (2009) consider the strategies that determine that performance depends on Industry-based competition, the firm-specific resources and capabilities, and institutional conditions and transitions.

In analyzing these aspects of Peru, Porter (2009, 2010) studied the competitive situation and the determinants of competitiveness by establishing indications. In his study, Porter noted the importance of commodities in boosting foreign direct investment and exports; the implementation of sound macroeconomic policies for weathering global crises, pointing to dependence on export of commodities (the potential of which is limited regarding contributing to employment growth and economic diversification); and the need for an economic and social strategy to increase business competitiveness in Peru that will lead to the creation of wealth and employment. Porter notes that —Competitiveness depends on the productivity with which a nation uses its human, capital, and natural resources‖ and related this to Céspedes, Lavado and Ramírez's (2016) notion that increases in productivity and quality of education are determining factors for Peru's future.

Additionally, Porter (2009) established guidelines for increasing Peru's competitiveness based on actions priorities in Peru's Business Environment, Cluster Development, Regional political decentralization and coordination, neighborhood economic integration and interaction and establishing an agenda of actions. Porter indicated the need for economic diversification using a cluster-based approach and an economic strategy coupled with improved policy (institutional context). Regarding this, it is important to highlight the progress made in the integration process that the so-called Alliance of the Pacific assumes.

In his second report, Porter (2010) added sound macroeconomic policies about opening trade and a supportive international economic environment as reasons for Peru's economic growth in comparison to its historical record and to its peers, although he highlighted an increased social and regional growth imbalance and re-emphasized the need for improved competitiveness. Porter considered —the need to build a broad consensus on its strengths across society,‖ suggesting the need to construct governance. To reach these results, he developed a study in 2010 of senior executives. However, a question remains about how top

executives now perceive the situation in Peru and the degree to which their perceptions maintain Porter's previous analysis.

METHODOLOGY

Data analysis was performed through the application of cognitive mapping (Axelrod, 1976). Its application to the field of strategy can be found in the studies of Diffenbach (1982) and Ramaprasad and Poon (1985). Chaney and Marshall (2013) used cognitive mapping techniques to uncover the role of consumers in the representations of strategists.

To achieve a greater degree of accuracy in the results, a combination of the mental models of the top executives interviewed for the study was performed using augmented (FCM) (Salmeron 2009, Ortigueira-Gómez-Selemenewa, 2012; Glykas, 2012). This additive method allows for the integration of the mental models of each expert and does not require a consensus among experts, so it does not produce an inclination or tendency to change opinions to associate with the majority.

Fifteen semi-structured interviews were codified from senior executives of Peruvian companies. The companies came from diverse sectors of the economy and actively participate in the same. The interviews included presidents of industrial, financial services, manufacturing, consultancy and commodity corporations, and were recorded for later coding. For coding, we analyzed audio fragments looking for the concepts and relations present in the same (Axelrod, 1976; Chaney & Marshall, 2013).

In the application of augmented FCM, isolation allows for the combination of mental representations of senior executives to determine the relevance (weight) of each argument from the coincidence in these representations instead of arriving at a position by agreement between participants (shared position/opinion). This coincidence will show the existence of such mental representation for the participants and their relevance.

RESULTS

In the model, five concepts were introduced representing dimensions (resources and capabilities, political aspects of the process, economic aspects, cultural/social aspects, and business management). Around these concepts, nodes were classified. Figures 1 to 5 represent the percentage of experts in whose mental model the indicated concept is present and whose mental model referred to these 5 dimensions. Several closer concepts were mixed.

Figure 6 shows the augmented (FCM) modeled from the augmented matrix.

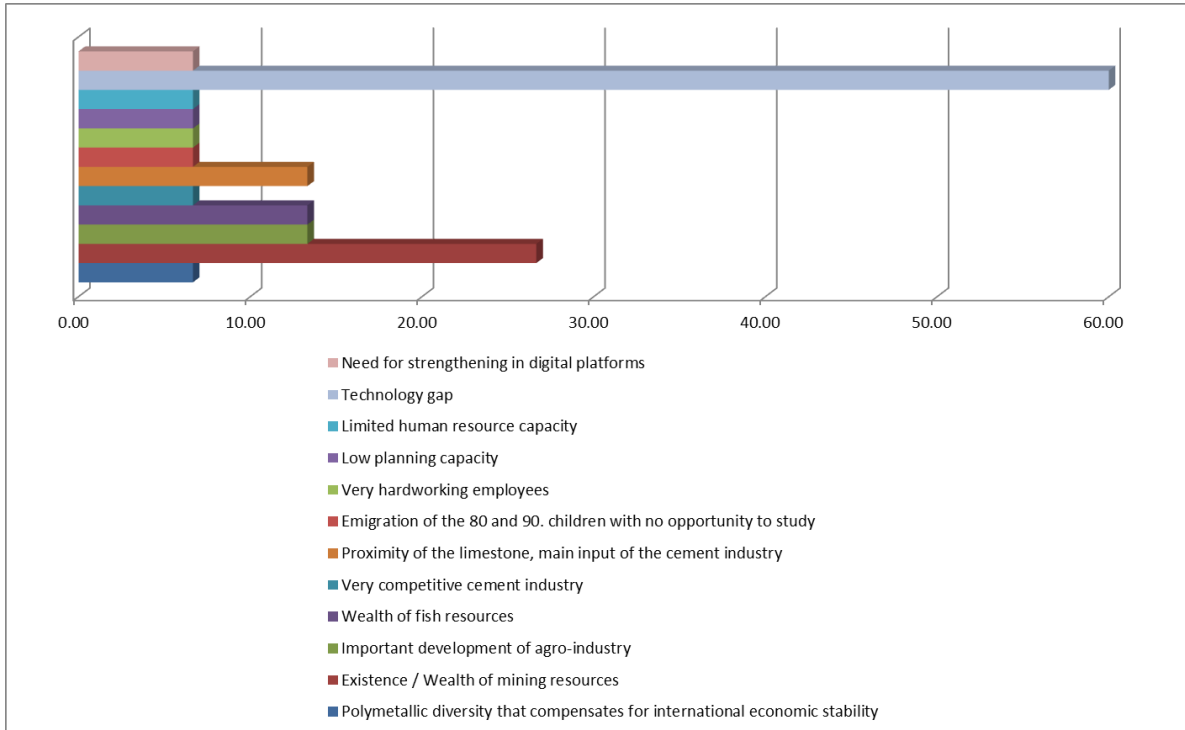


Figure 1. Resources and capacities: Percentage of experts in whose mental model the concept is present

In table 1, an analysis of the emitted and received influence is shown that reveals more influential and influenced concepts (relations >4). The analysis of centrality reveals the concepts that are central to the model, including stability and continuity in macroeconomic policy and Central Bank Management (Peruvian Central Bank of Reserve) (score 24), institutional fragility and deterioration of the political system (score 19), and open trade/unregulated open economy (score 17).

The disappearance of terrorism (rank 20, centrality score 6) is reflected as a result of the analysis and its positive relationship with political stability (relation weight 0.26) remains latent in the minds of top executives.

The terrible undercover civil war (in which almost 70,000 were killed between 1980 and 2000) that represented the terrorism of MRTA and Sendero Luminoso was eliminated during Fujimori's tenure in the 1990s (1990-2000). Sendero Luminoso's leader, Abimael Guzmán, was arrested on September 12, 1992, and from that moment the group was easily disbanded.

Table 1: Explanations and consequences

Rank/10	Emitted influence	Score
1	Stability and continuity in macroeconomic policy and direction of the Peruvian Central Bank of Reserve	20
2	Institutional fragility and deterioration of the political system	14
3	Free trade agreements	10
4	Trade Openness / open economy, deregulated	9
5	Precarious educational system	8
6	Foreign investment	8
7	International conjuncture generates a mega-price of commodities	7
8	Strong growth of the middle class	6
9	Disappearance of terrorism	6
10	Disappearance of hyperinflation	5
Rank/10	Received influence	Score
1	Underdeveloped or deficient areas of the state	11
2	Trade Openness / open economy, deregulated	8
3	Reactivation of domestic consumption	8
4	Informality / culture of tax evasion	6
5	Solid Financial System	6
6	Limited human resource capacity	6
7	Increase of business projects and internal investment	5
8	Increase in exports	5
9	Institutional fragility and deterioration of the political system	5
10	Low level of effectiveness and efficiency of the state when providing services	5
Rank	Centrality	Scores
1	Stability and continuity in macroeconomic policy and direction of the Peruvian Central Bank of Reserve	24
2	Institutional fragility and deterioration of the political system	19
3	Trade Openness / open economy, deregulated	17
4	Underdeveloped or deficient areas of the state	13
5	Foreign investments	12
6	Free trade agreements	10
7	Reactivation of domestic consumption	9
8	Informality / culture of tax evasion	9
9	Disappearance of hyperinflation	8
10	Increase in exports	8
11	Precarious educational system	8
12	Greater political stability	7
13	Reactivation of the construction sector and the real estate market	7
14	International conjuncture generates a mega-price of commodities	7
15	Solid Financial System	7
16	Strong growth of the middle class	7
17	Disruption of business activity by public administrators ... Poor quality of public services	7
18	Limited human resource capacity	7
19	Increase of business projects and internal investment	6
20	Disappearance of terrorism	6
21	Abolition of a market dominated by producers	6
22	Low level of effectiveness and efficiency of the state when providing services	6
23	Increased predictability / Possibility / ability to perform forecasting / Possibility of having a planning horizon	5
24	Greater stability / predictability in the exchange rate	5
25	Low fiscal deficit/disappearance of the fiscal deficit	5
26	Technology gap	5
27	Development of new non-existing products	5
28	Infiltration of crime in politics (Informality, Illegal mining, Drug trafficking, corruption)	5
29	Very competitive cement industry	5
30	Entrepreneurial culture	5
31	Internationalization	5

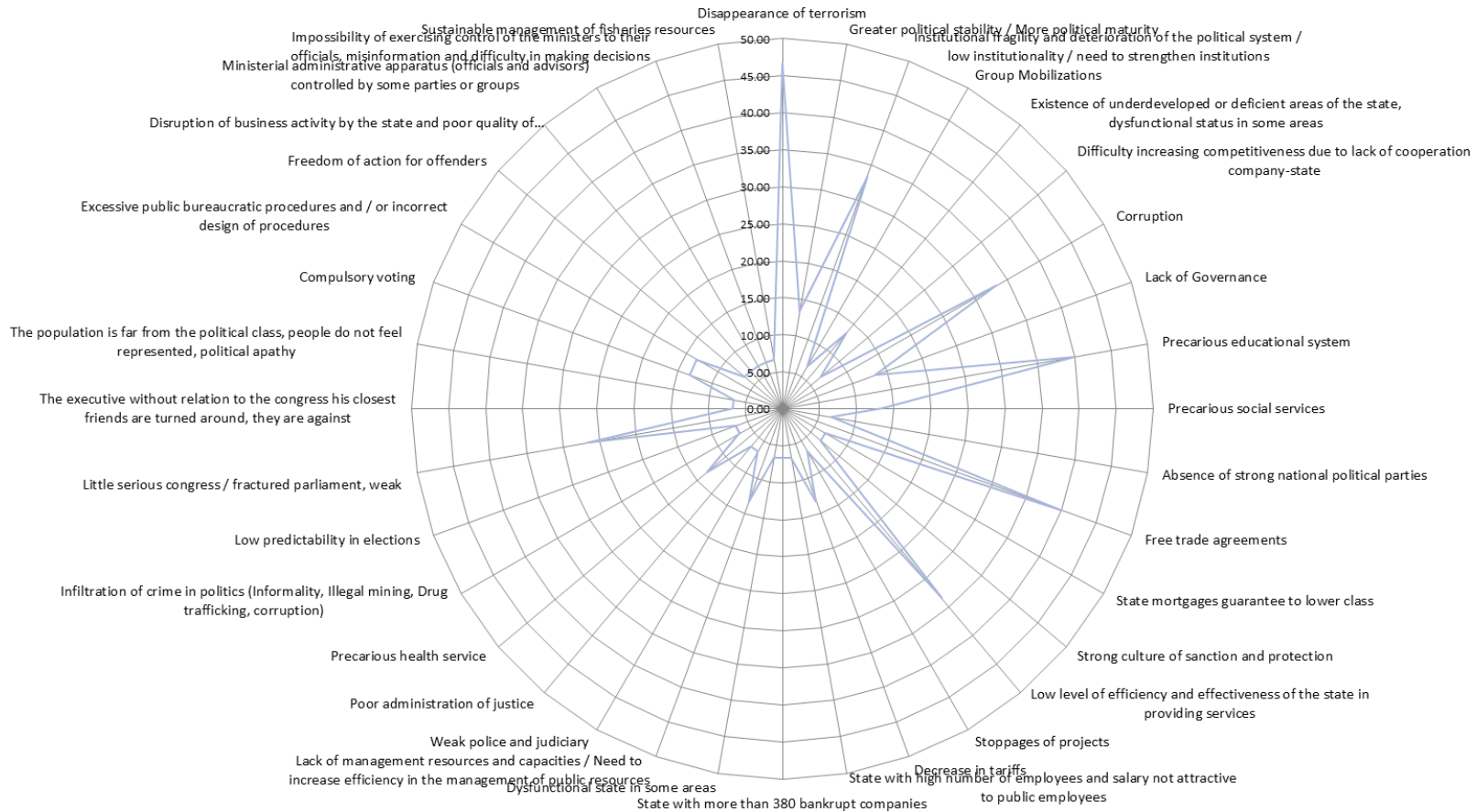


Figure 2. Political aspects of the process: Percentage of experts in whose mental model the concept is present

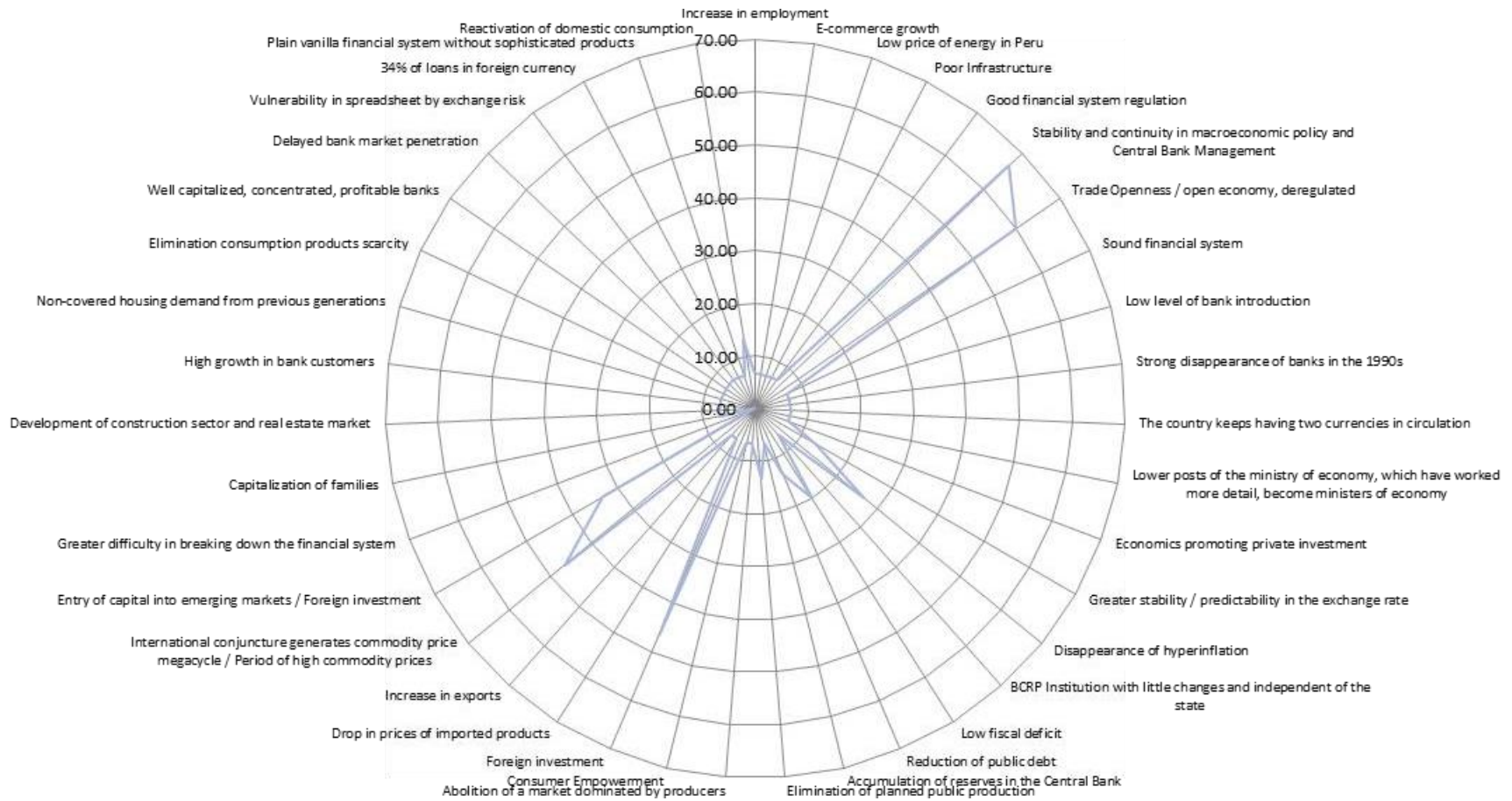


Figure 3. Economic aspects: Percentage of experts in whose mental model the concept is present

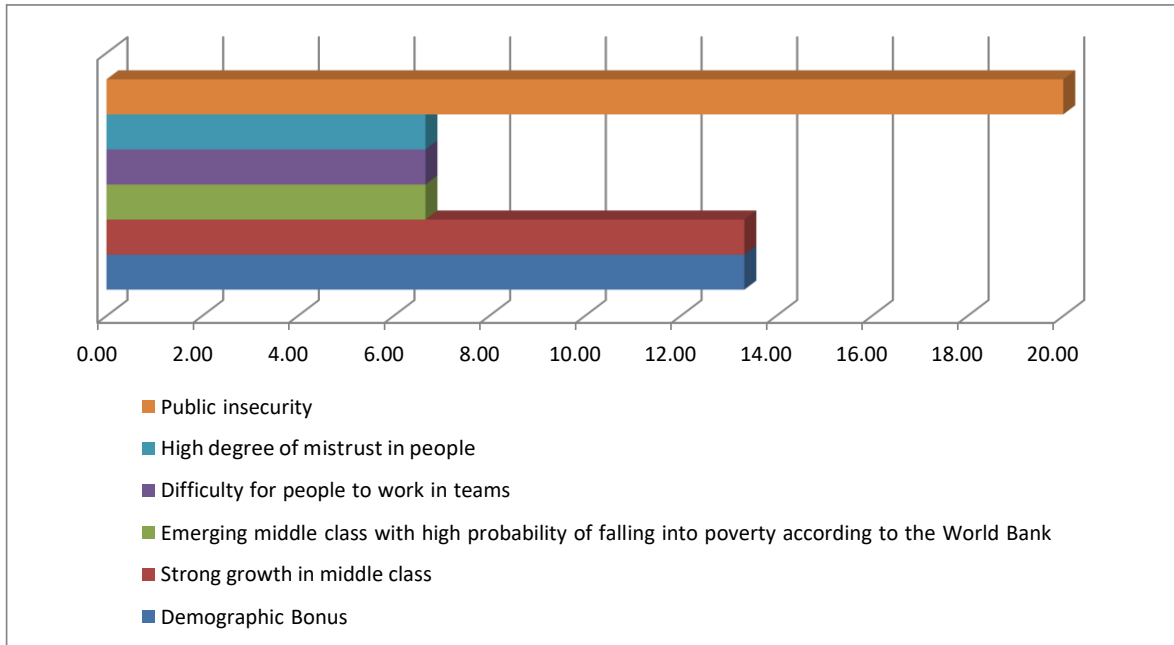


Figure 4. Cultural / social aspects: Percentage of experts in whose mental model the concept is present

The final collapse of the MRTA occurred after the recovery of the Japanese embassy in April 1997, which had been held by that group for four months with 72 hostages. The elimination of terrorism excluded some of the great limiters of the country's development.

There was also a sudden and very positive change in economic policy. The economy was opened and deregulated (rank 3, centrality score 17) and exorbitant inflation ended (rank 9, centrality score 8), stabilizing prices.

Conditions began to improve, and it was possible to trust the future (rank 23, centrality score 5), which was an important factor for entrepreneurs who want to develop projects, since this allows them to trust that results can happen. Consequently, investment can begin to flow (rank 19, centrality score 6). In short, businesspeople and families began to believe in the future (reactivation of domestic consumption – rank 7, centrality score 9).

For 25 years, decision-makers persevered in these sound economic policies (rank 1, centrality score 24). The last four democratic governments have followed a line of monetary and fiscal orthodoxy, of worldwide openness (rank 3, centrality score 17), of market economy and very technocratic management of the main institutions. These policies allowed families to capitalize and companies to strengthen their assets and invest according to market evolution vs. state indications. The state itself also allowed it to increase tax revenues (rank 25, centrality score 5). From 2000 to today, Peru has grown 38%, taking advantage on commodities prices (rank 14, centrality score 7) and cyclical and anti-cyclical measures.

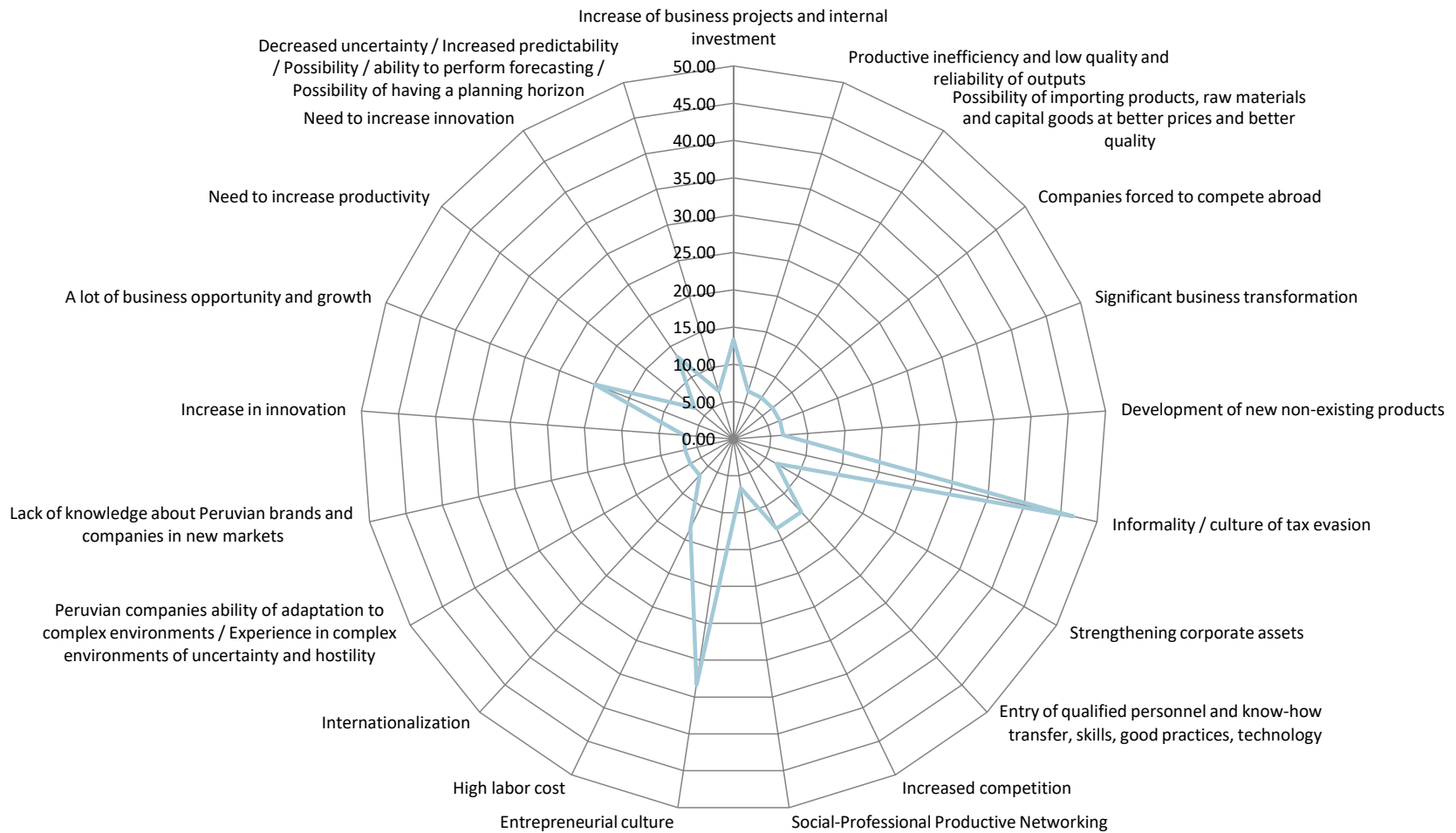


Figure 5. Business management: Percentage of experts in whose mental model the concept is present

The Central Reserve Bank of Peru—a laureate bank and the best central bank in 2015, independent of the state (the central bank cannot lend money to the government, for example)—is the main protagonist of these successful policies. It should also be taken into consideration that Peru is one of the few countries that uses two currencies, since in addition to the Nuevo Sol (the local Peruvian currency) the dollarization of its economy is notorious. Since the dollar has the most stable and predictable exchange rate, this becomes a relevant aspect (rank 24, centrality score 5).

The Ministry of Economy and Finance is the other main player in this very positive economic evolution. The last four governments have come from different parties; nevertheless, the ministers of economy finance and the directors of the central bank could have been interchangeable, because in each government the same line of successors was followed. This may be due to the extreme situation to which the country was subjected.

Peru lived through times of almost total economic autarky; companies and citizens were forced to buy domestic products of low quality. Beginning in the 1990s, imports were allowed, which brought in cheap and higher-quality products. The consumer gained power (Abolition of a market dominated by producers - rank 21, centrality score 6). The producer, in turn, could import inputs and products of higher quality and lower prices. In 2005, after thirteen rounds of negotiations, Peru signed a free-trade agreement with the US that went well beyond the exchange of goods and services, since it included chapters on investment security, patent validity and environmental safeguards.

Today, Peru's imports include capital goods and technology. The reduction of tariffs was highly beneficial for Peruvian companies that developed products that were new to the market (e.g., asparagus and blueberries). Subsequently, other trade agreements (rank 6, centrality score 10) with other countries were carried out, always with clauses of defense of the investment so that there could no longer be nationalization of the companies on behalf of the signatory countries. This gave important security to the companies that invested in them.

From this opening of trade, the Pacific Alliance was created in April 2011 because the four countries in the alliance—Mexico, Colombia, Peru and Chile—had clearly distanced themselves from their neighboring countries. These countries have had the greatest hope of growth and interest in the region and were clearly different from the rest, especially in the case of Argentina, Brazil, Ecuador, Venezuela or Central America, which are much less attractive for investment and have delicate economic situations, in some cases. Of the four countries of the Pacific Alliance, Colombia and Peru are the ones that generate the highest expectations. It should be noted that this alliance was the first among countries that were not in the same geographic region but had common objectives (political, economic and commercial integration). They are countries that are not similar but want to follow the same route. It was the first attempt to create a regional bloc that was born not of politics but of the private sector.

The countries of the Pacific Alliance are also aware of the need for globalization and openness to the world perhaps because they are ahead of the world's future (specifically, regarding China

and other Asian countries). In contrast, the Latin American countries near the Atlantic, especially Argentina, Brazil and Venezuela, tend to be more closed, interventionist economies, and that has slowed their development.

Peru now has free-trade agreements with 55 countries in the world that together account for about two-thirds of world GDP. This generates great opportunities, since it makes a vast market available. It accedes through these treaties to 4,000 million people, and 96% of its exports are to countries with which it has signed treaties. Peru is also the country with the lowest tariffs in the world.

This associationist spirit in Peru goes partially against the little bloc worldview in Latin America that favors nationalism. There have been many blocs in the region (e.g., the Andean Pact, Mercosur, and the Pacific Pact), but few have worked. The case of Peru is a case of success in this regard.

The latest free-trade agreement that Peru signed with other countries in the Pacific in October 2015 (i.e., the Transpacific Agreement or Trans-Pacific Economic Partnership Agreement, also known as the TPP) involved the US, Japan, Australia, Brunei Darussalam, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, countries that account for 40% of the world's economy.

The macroeconomic stability and trade liberalization described here have generated investor confidence in Peru, attracting many foreign companies to the country and making it possible for Peruvian companies to exit the country. The opening to foreign investment brought great advantages to Peru in the forms of know-how, greater competition, best practices and the latest technologies and innovations. The record level investment of Telefonica in 1995 marks a milestone in this sense, and with it the process of emigration that existed until that moment began to reverse.

Linked to this factor were the banks of Peru, which are well-capitalized (unlike the European banks that are being capitalized now or the banks of the US that have exaggerated capitalization). Peruvian financial institutions are solid; they are concentrated and profitable banks that do not have sophisticated products, since the regulation of the Peruvian financial system is especially good.

As the foreign economic engine started, so did the internal market: jobs increased, the middle class grew, poverty declined, the demand for products increased, and the demand for housing grew. This allowed balance between the external and the internal.

One of the main assets of the country has been the extraordinary growth of the middle class in recent years. In 2005, the middle class comprised 11.9% of the population (3.2 million people) to 50.6% in 2014 (15.8 million), according to the Interamerican Development Bank (IDB). That is, it increased by approximately fivefold in a decade. One of the sectors that benefited from this was the banking sector. For the past five years, banks have had half a million new

clients every year, doubling their size in the last three years thanks to this effect. Universities also benefited from this effect—combined with changes to demography—along with many other sectors.

The main concern about this increase of the Peruvian middle class, which is important to the economy, is the high probability that it will fall back into poverty if the economy slows. Those who become ill, for example, become poor again because there is no public health service. Those who lose their jobs may also become poor again because there is no social protection. The middle class is a treasure that the country must care for, and with a growth rate of 2 or 3%, as expected in 2016, is too limited because it will not capture all the young people leaving universities (250,000 per year). A growth rate closer to at least 4% is needed. The "demographic bonus," coupled with the country's infrastructure gap, could provide room for strong growth if appropriate policies are implemented.

Traditionally, Peru's economy has been based on the exploitation, processing and export of natural resources, especially mining, agriculture and fishing. However, unlike Chile, which has unimetal mining (copper), in Peru there is polymetallic diversity. If the world economy grows, copper, iron, and zinc are sold; when the world economy worsens, gold and silver appreciate. From 2003 to 2015, the high prices of these raw materials favored Peru.

The country also has excellent fishing ground on its coasts, so the fishing adds to the natural resources that the country has along with agriculture. The area influenced by the current of Humboldt has the best fishing ground, with species for both human consumption and the manufacture of fish meal and oil. The geographical location of Peru provides unparalleled comparative advantages, allowing for the storage of various species, especially anchovy, which are sustainable because the sea generates micro-planktons. The established fishing quotas also help, in this sense.

Peru is also a competitive producer of cement (because limestone abounds, which is ideal for making cement), having costs much lower than other cement-producing countries.

The development of Peru between the years 2000 and 2015 was not only limited to natural resources such as mining, fishing, agriculture or cement. Other industries such as the agroindustry were developed that increased the number and quality of the products to be cultivated, resulting in the export of value-added products such as asparagus, blueberries, mangoes, avocados, and grapes with innovation that allowed for the production of new varieties to cultivated in diverse territories of the country.

Construction was developed in an important way (e.g., in the era of hyperinflation, it was impossible to grant mortgages). Likewise, chemical, explosives and metalworking industries developed in relation to fishing and mining. Tourism and gastronomy have emerged significantly in recent years (as they are linked to agroindustry), having the advantage that they are two sectors immune to the disadvantage in technology that may have affected other sectors in Peru.

DISCUSSION

As the map developed for this study reveals, Peru suffers from a problem of low institutionality. This circumstance has conditioned the mode of entry into Peru's domestic marketplace used by foreign companies. In Peru, the largest foreign investments have focused on acquiring existing companies, rather than creating new companies as a way of acquiring access to key resources. This is the case, for example, the largest fishing company in Peru, Copeinca, is held by a Chinese company, China Fishery. This supports the conclusions of Estrin et al. (2009), Meyer et al. (2009) and Santangelo and Meyer (2011) on the preference for acquisition as a mode of entry when formal institutions are not highly developed.

For its part, Flores and Aguilera (2007), Quer et al. (2012) and Kang and Jiang (2012) concluded that multinational companies prefer entering countries with less institutional distance from their own country. In the case of Peru, the high number of Peruvian citizens of Chinese origin affects the perception that there is low institutional distance between Peru and China. The Asian giant has its sights set on increasing its investments in the country, as proven by the recent visit of the President of the Republic of Peru, Pedro Pablo Kuczynski, to China; the Chinese President's visit to Peru is scheduled to occur in fewer than two months, which marks a milestone in China's foreign relations. Some of the presentations of the recent —II International Symposium on Relations between Latin America and Asia-Pacific, held at the University of the Pacific in Lima in October 2016, have revealed this circumstance. In turn, as the map indicates, the large number of free-trade agreements have positively influenced. They are due in part to Peru's intention to convert the country into the great hub for trade with Asia Pacific. Likewise, Flores and Aguilera (2007), Quer et al. (2012) and Kang and Jiang (2012) suggest that the presence of companies from the same country of origin reduce this perceived distance, favoring the entry of multinationals from that country, which would explain why multinationals are currently concentrated in a group of countries.

On the other hand, although Peng and Delios (2006), Wan (2005) and Wan and Hoskisson (2003) considered the importance of product diversification in situations of institutional weakness; if we analyze the Peruvian economy, we do not find a high degree of productive diversification because of its sectors associated with the fishing, textile, agroindustry and mining industries, especially. As mentioned, Porter (2009, 2010) pointed to the current limited potential to contribute to economic diversification that is produced by dependence on commodity exports.

The identified problems of a lack of productivity and low levels of innovation could be explained by institutional weakness and low educational levels, whose relationship was studied by Galang (2012), Zhu et al. (2012), Ahn and York (2011) and Schneider et al. (2010). However, the degree of entrepreneurship and informality would be explained by Lee et al. (2011), Stephan and Uhlander (2010) and Peng et al. (2010) when they suggest that a high degree of informal institutional and formal institutions with entrepreneur-friendly legislation in situations of bankruptcy legislation favor entrepreneurship.

CONCLUSIONS

Although the macroeconomy has worked very well in the past two decades, the institutions have not, with the exception, as mentioned, of the Central Reserve Bank and the Ministry of Economy and Finance. The good work of these two institutions has not permeated the other ministries, since almost all have great deficiencies.

In fact, the lower functionality of the state produces a clear divorce between the state and the living forces of the country, which hinders growth. Entrepreneurs complain bitterly about the obstacles that the administration places on its projects that sometimes making them impossible, and denounce their inability to make decisions or understand the importance of some sectors and/or promote them. The country is very fragile, institutionally. Infrastructure and transport are bad, and education, health, justice and security are also inadequate. According to a survey by Ipsos Peru in September 2015, 84% of the population does not trust the Congress of the Republic, while distrust of political parties reaches 82%, the judiciary 79% and the executive 73%, all of which are devastating percentages.

However, what has been done so far in macroeconomic policy built great consensus and could work with a more or less reduced technocratic team, independent of the current government. However, the next stage is much more complex, as it involves increasing productivity, improving education and health, increasing innovation, improving institutions (for example, the judicial system). With a fragile political system full of conflicts, it will be much more difficult to realize this new stage of development for the following decades. The state had, by the end of 2015, 1.2 million employees and more than 380 broken companies that are still in force.

The situation of politicians and parties is closely linked to this described situation: today, there is a political vacuum in the country. There are no political parties that deserve to be referred to as —political parties. There is no political career in Peru. The profession of politics is discredited. Citizens are not interested in politics, as they do not feel represented by politicians. Forty percent of the population decides which party to vote in the last week of the election, half of them (20% of the total) decide his candidate on the same day of the election. Surveys, therefore, are of little value in Peru. The fact that voting is mandatory has an obvious influence on these data, because they focus on people who have no interest in voting and who are largely uninformed. Peru is the country of Latin America where elections are most unpredictable.

The deterioration of the policy affects macroeconomic stability, although this remains strong. That 2016 is an election year paralyzes the economy: the entrepreneur observes the evolution of events to make investments.

The disastrous situation of the country in the decades of the 1970s and 1980s caused a great number of the most capable human resources to emigrate; many of them have not returned to Peru. Sustainable growth needs a prepared population.

The education system is very poor (PISA report 2016, position 64 in the region) . Citizens are clamorous about educational precariousness in Peru. Many people do not write well, do not understand writing (position 63) or have no basic knowledge of mathematics (position 62). The complicated geography of Peru indicates that the people living in the jungle and the mountain range have not just been incorporated into the development of the country. For them to be incorporated, it is highly necessary that infrastructure be built to facilitate education and health, etc. Therefore, these three growth limiters are related.

By the end of 2015, only 25% of the population were formally employed. The cost of labor is high, and therefore formal contracting is avoided when it is possible. The population does not expect the state to help, and in return they do not want their economic activities to be controlled, which produces great informality.

It is also true that this informality has allowed the country to advance: if there is unemployment insurance, citizens should seek life in informality. That Peruvians expect little of the state does not generate structural unemployment. In times of crisis, Peruvians seek any occupation. In Lima, there are many fewer beggars than in any other city in the world: people manage to work in whatever job they can. The values shared by Peruvians include a high work ethic and entrepreneurship, and that culture has been generated in times of crisis.

In addition, part of the population does not want to comply with state rules and defies such rules (traffic is a good example). The existence of many microenterprises, a consequence of Peruvian entrepreneurship, exacerbates the lack of compliance with the rules. There is a very large tax-evasion culture that is reinforced by the existence of very rigid labor standards, since there is very little labor flexibility with very high costs. For an informal company, becoming formal is a difficult decision, and even for a formal company it is a difficult decision to hire more people formally because of the high cost, which reinforces that sense of informality.

What most worried the population at the end of 2015 is citizen insecurity and corruption. According to the Barometer of the Americas, Peru had the highest rate of victimization in the region at the end of 2014 (30.6%). It was, in turn, one of the countries where insecurity is the most important concern of the population, far above other problems such as poverty or unemployment. According to the United Nations, the perception of insecurity is at 50%, the highest in Latin America.

Corruption is another of Peruvians' most serious concerns. According to Ipsos Peru, in 2010, it was one of the country's top three problems for 47% of citizens. The percentage rose to 52% in 2015. The feeling that the germ of corruption can be found behind tender, licenses, bureaucratic procedures, private concessions and public officials is increasingly widespread. It is not entirely unjustified: by the end of 2014, 92% of the country's mayors (nearly 1,700 in 1841) were being investigated for alleged acts of corruption. The persistence of the phenomenon indicates that part of the population no longer has qualms about voting for corrupt politicians, following a reflection of the phrase "steals but makes a deal" (roba pero

hace obra), an expression that became popular in Peru during the government of General Odría.

Peru has an exchange risk vulnerability that is not found in other Latin American countries, such as Chile, Colombia or Mexico: 34% of the country's loans are denominated in foreign currency, specifically US dollars. It is normal to find the prices of sales or rentals of apartments or cars in dollars.

Peru is a highly fragmented country. The National Institute for the Development of the Andean, Amazonian and Afro-Peruvian Peoples of Peru (INDEPA), in its 2010 ethnolinguistic proposal, recognizes the existence of 77 ethnic groups in the country in addition to the existence of 68 languages. Approximately 47% of the population is mestizo, 32% indigenous, 18.5% white, 2% black and 0.5% eastern. In each of these groups, there are different and differentiated components, but there are also differences between the populations of each region (i.e., coastal, mountainous, or jungle) and between urban and rural populations. The urban population is not uniform either, since each city (Lima, Arequipa, etc.) is different, and logically there are also divergences according to the socioeconomic level (i.e., extremely poor, poor, emerging middle class, upper-middle class or upper class). The combination of these many factors leads to a tremendous fragmentation of the country.

This notably high fragmentation, moreover, is coupled with little integration. Local cultures do not dialogue, and it is difficult to increase integration, which generates strong inequality between Peruvians and notorious exclusion in broad segments of the population, given the limited success in the decentralization of their development. It is only necessary to analyze such indicators as extreme poverty, malnutrition, education or population density to find very different values in the various geographical areas or ethnic groups, in addition to the obvious socioeconomic levels.

An important and positive characteristic of Peruvians is that they are hardworking and enterprising. As explained above, this is the positive part of the culture of informality, which leads Peruvians to expect nothing from the state and therefore take initiative. Peruvians are also committed to the companies in which they work, although the negative side of this factor might be that Peruvians tend to be overly submissive, not considering the reasons why they are to perform something instead of simply carrying out orders from their immediate superiors.

In business, people work intensively: Peruvians are selfless and solid. Perhaps they need to be more assertive and see the shortest path, as they usually discover it over time. It is more implementation than planning, building in the short-term and lacking vision for the long-term, perhaps because of the history of low potential that planning that has suffered in the country in the past. While there may be many Peruvians in the world in management positions, few are the top leaders of organizations.

Peru, historically, is a country with negative resilience: the population withstands until everything explodes and a messiah who is accepted by the population comes to restore order.

Logically, this is not a very positive feature. Peruvians are not direct, either: euphemisms and diminutives are used often. They are surprised when they interact with people from more direct cultures, such as the Spanish or Argentinians.

Compared to other countries, including those in Latin America, Peruvians are more suspicious, which is reflected in their politics and state regulation. Culturally, they tend to favor restriction and sanctions than prizes and incentives. This mistrust is seen in the exterior and in interior of a company; In the interior, people try to protect their reserves of power, and there is difficulty working as a team.

Although insecurity has previously been highlighted as a negative aspect of Peru. it is also true that in the country, and in Latin America in general, there is a very important advantage over other parts of the world: there are no fanatical ideological or religious beliefs, which protects it (at least for now) from the influence of terrorist groups and highly negative effects present in other places of the planet.

Moreover, unlike Europe, it is far from being a geographical area influenced by extremist groups such as Islamists or, unlike the US, is not a priority target region for such groups. This is not to say that there is no great religious fervor in an important part of the population, as demonstrated by the procession of the "Señor de los Milagros" of great tradition in Peru, which is considered the largest regular Catholic religious manifestations in the world. In contrast to this terrorist non-fanaticism, there are more common crime and gangs (although not as many as in Mexico) than in other parts of the world, and security remains a serious problem in the country.

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