Many observers of emerging markets are quick to recognize that, for them to be fully developed, it is important to create physical infrastructure—roads, bridges, telecommunication networks, water and sanitation facilities, and power plants. Without adequate physical infrastructure, it is hard for participants in product, labor, and capital markets to function effectively. However, less recognized is the importance of institutional development that underpins the functioning of mature markets.

The most important feature of any market is the ease with which buyers and sellers can come together to do business. In developed markets, a range of specialized intermediaries provides the requisite information and contract enforcement needed to consummate transactions. Most developing markets fall short on this count. Investors and companies quickly realize that these regions do not have the infrastructure, both physical and institutional, needed for the smooth functioning of markets. It is difficult for buyers and sellers to access information to find each other and to evaluate the quality of products and services. When disputes arise, there are limited contractual or other means, such as arbitration mechanisms, to resolve these issues. Because of a tremendous backlog of cases, resolving disputes in Indian courts, for example, can take five to fifteen years.[3] Some joke that "if you litigate here, your sons and daughters will inherit your dispute."[4] Anticipation of these transactional difficulties also hinders contracting. We use the term *institutional voids* to refer to the lacunae created by the absence of such market intermediaries.[5]

To understand institutional voids in more concrete terms, consider the plight of an independent traveler from the United States visiting an emerging market on vacation. Beyond the challenges of operating in an environment having a different language, culture, and currency, the traveler also must navigate a different way of doing business, even as a tourist. Accustomed to booking flights through Expedia, Orbitz, or Travelocity, choosing hotels based on easily accessible and reliable reviews, obtaining travel-planning assistance from the AAA, paying for goods and services with a credit card in virtually any location, purchasing goods that meet enforced regulatory standards and possess enforceable warranties, paying taxi drivers according to standardized rates, receiving flight status updates by

mobile phone text message, and finding restaurant phone numbers by simply dialing 4-1-1, the traveler must adapt to a different environment in the emerging market.

Although they might come in different forms, most other developed markets, such as European countries or Japan, have a comparable tourism market infrastructure to that of the United States. The institutional arrangement of an emerging market's travel and hospitality marketplace, however, differs in fundamental ways. Internet-based airline ticket vendors, published travel reviewers, telephone directory assistance providers, credit card payment systems, and other such intermediaries are businesses, but they are also part of the U.S. market infrastructure. They help bring together buyers and sellers of travel services. (Nonprofit organizations, such as AAA, can also serve as market intermediaries, and governments provide many intermediary functions through regulatory bodies and civic services.)

In developed economies, companies can rely on a variety of similar outside institutions to minimize sources of market failure. Emerging markets have developed some of these institutions, but missing intermediaries are a frequent source of market failures. Informal institutions have developed in many emerging markets to serve intermediary roles. To reach rural consumers in India, for example, many brands rely on traveling salespeople to promote products in villages that have limited television, radio, and newspaper penetration. Salespeople stage live, infomercial-like performances out of the backs of trucks, explaining products while entertaining crowds with skits and banter. One such salesman, profiled in the *Wall Street Journal*, traveled more than five thousand miles per month, moving from village to village pitching products as wide ranging as tooth powder and mobile phones.[6]

Although some informal institutions may look like functional substitutes for the intermediaries found in developed markets, they often exist on an uneven playing field—accessible only to certain local players. A local loan provider might seem like a substitute for a venture capital industry, but only if the loan provider evaluates applicants on their merits or business plan. Seldom are informal market intermediaries truly open to all market participants.