

Institutional voids cannot be mandated away through deregulation and liberalization; it takes both significant time and substantial expertise to eliminate these voids. Indeed, the most predictable feature of an emerging market is the persistence of institutional gaps over the short and medium term. Thus, scanning emerging markets for institutional voids provides an anchor for business analysis, opportunity assessment, and strategic decision making in these markets.

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Spotting and Responding to Institutional Voids

THIS CHAPTER BUILDS ON OUR structural definition of emerging markets to equip managers with toolkits to spot and respond to institutional voids.¹ Emerging markets are hardly uniform in the nature and extent of their institutional voids. The development of business strategy in any economy is driven by three primary markets—product, labor, and capital—and institutional voids can be found in any, or all, of these markets in developing countries.

The advantage of an institutional approach to considering emerging markets is that it specifies the particular combination of features that prevents efficient exchange in each market. Some countries might lack specialized intermediaries in the labor market but have them in abundance in the capital markets. Others may have effective labor markets but distorted capital markets. Product and factor markets within developing countries often develop at different rates.

Chile is lauded for its capital market efficiency, whereas Korea's financial markets remain constrained by the entanglement between banks and its *chaebol* business groups (see figure 2-1). At the same time, Korea has undergone spectacular development in its product markets, as evidenced by its world-leading broadband penetration, while Chile's communications