has designed a wide range of handsets particularly for emerging markets, offering not only voice communication but also mobile Internet service.[5] In 2008, Nokia's net sales in China, India, Indonesia, and Russia each surpassed its sales in the United States.[6]

Despite the advantages enjoyed by developed market-based multinationals—scale, brand recognition, superior technology, demonstrated success based on existing organization, and access to developed markets for talent, finance, and other inputs—their track record in emerging markets has been mixed. These companies face two overarching challenges in emerging markets: the prevalence of institutional voids and the new class of nimble, ambitious competitors that are developing world-class capabilities.

Multinationals can succeed in emerging markets only by adapting to or shaping the institutional voids in the markets they enter, particularly given that they must compete against local companies having an inherent advantage in navigating the business contexts of their home markets. Chapters 1 and 2 explain the uniqueness of emerging markets in terms of institutional context. This chapter examines what this unique institutional context means for multinationals looking to tap in to the growth of these markets as they confront and respond to institutional voids.

Facing Institutional Voids

The opportunities for developed market-based multinationals in emerging markets are fairly clear, but what does it mean for these companies to operate amid institutional voids? We introduce the concept of institutional voids in chapter 1 with the example of an independent foreign traveler touring an emerging market. The traveler would miss the institutions that facilitate travel in his home market.

Now consider the plight of a foreign entrepreneur or multinational setting up a business in an emerging market. Like travelers, foreign businesses rely on a range of institutions to facilitate transactions and manage operations in their home markets and often are forced to internalize the added costs of their absence in emerging markets. Consider a consumer goods company. Products designed for developed markets often need to be modified to suit local needs, tastes, and price points in emerging markets—a difficult task in the absence of market information intermediaries. Reaching a significant share of the large consumer markets that attract many multinationals to emerging economies, meanwhile, is not as simple as contracting with retail chains or enlisting third-party logistics providers, because often these entities are not as well established or widespread in emerging markets. Any company operating in a foreign market faces challenges not encountered at home, but when a U.S.-based multinational, for example, sells its products in other developed markets—say, Europe or Japan—its market expertise may not be as deep, but it can still draw on deep networks of local market intermediaries for research, marketing, and distribution. These capabilities are not as widely available or as well developed in emerging markets.

Developed market-based multinationals have built businesses on foundations of strong market infrastructure. Often, these institutions are noticed only when they are missing, and they cannot be taken for granted in emerging markets. Soft infrastructure—market institutions, in contrast to hard infrastructure, such as roads and ports—plays a critical role in the ability of developed market-based multinationals to execute their standard business models in emerging markets, and it should not be overlooked.

Emerging markets can be exploited as consumer markets, regional or global production platforms, innovation and product development hubs, sources of talent, raw materials, or other inputs, and untapped opportunities to develop market infrastructure. Multinationals will confront institutional voids while pursuing any of these opportunities, so firms need to be clear about how they want to engage any emerging market in relation to the market's institutional context.

Initially mesmerized by the size of these markets, many early-mover multinationals quickly discover that selling in emerging markets is a complicated exercise, requiring deep knowledge of customer needs, distribution