

networks, and a broadly supportive institutional framework. Low-cost labor makes emerging markets attractive as sourcing and production venues for multinationals. Through sourcing and local production, multinationals gain market entry and also infuse capital into the economy, improve the quality and processing standards of domestic industry, and share technology, management, and other expertise—an attractive proposition for governments in emerging markets. An incoming global company can build relationships and market know-how through sourcing deals to fuel future business and growth in target markets even while waiting to tackle the local consumer market.

Institutional context is a critical determinant of the ways multinationals choose to exploit factor markets. Using an emerging market as a hub for innovation and product development, for example, depends on the market's intellectual property rights regime and the technical capabilities of its workforce.

Understanding the institutional context can help multinationals determine whether to sell or source in the emerging market; whether to engage the market through greenfield entry, acquisitions, joint ventures, or another form of collaboration with local players; and whether to focus on B2B or B2C initiatives. If the government exhibits a lack of openness, for example, joint ventures may be the most effective way to enter a market. If transportation and logistics networks are poor, a B2B strategy might be a better strategy than a B2C approach to get products into the market. Thus, companies create value by matching their strategies to the contexts in which they operate.<sup>7</sup>

As a first step, firms need a clear understanding of the existing voids. Firms that scan the institutional context and develop a clear and realistic understanding of intermediation gaps or other market voids and the ways they align with their own core competencies and value propositions are more likely to choose the best markets to enter, select optimal strategies, and extract the most value from operating in emerging markets. By being able and willing to experiment, multinationals can navigate emerging market contexts and even exploit some institutional voids for competitive advantage.

## Responding to Institutional Voids

Multinationals face a series of strategic choices as they confront institutional voids in emerging markets (see table 4-1). These choices are faced by multinational firms that exploit their global brands and reputation to sell into product markets in emerging markets and those that exploit local factor markets to produce and source in emerging markets. These choices are closely tied to the various market segments within emerging markets. As described in chapter 2, emerging markets—both output markets and input markets—can be segmented into four tiers: global, emerging middle class, local, and bottom of the market. Different strategies in response to institutional voids position multinationals to reach different market segments, as we discuss next.

### Replicate or Adapt?

Equipped with business models developed for markets having deep networks of market intermediaries, multinationals need to decide the extent to which they can replicate those models in emerging markets having institutional voids. By virtue of their global brands, credibility, know-how,

TABLE 4-1

### Responding to institutional voids in emerging markets

Strategic choice	Options for multinationals from developed markets
Replicate or adapt?	<ul style="list-style-type: none"> <li>• Replicate business model, exploiting relative advantage of global brand, credibility, know-how, talent, finance, and other factor inputs.</li> <li>• Adapt business models, products, or organizations to institutional voids.</li> </ul>
Compete alone or collaborate?	<ul style="list-style-type: none"> <li>• Compete alone.</li> <li>• Acquire capabilities to navigate institutional voids through local partnerships or JVs.</li> </ul>
Accept or attempt to change market context?	<ul style="list-style-type: none"> <li>• Take market context as given.</li> <li>• Fill institutional voids in service of own business.</li> </ul>
Enter, wait, or exit?	<ul style="list-style-type: none"> <li>• Enter or stay in market in spite of institutional voids.</li> <li>• Emphasize opportunities elsewhere.</li> </ul>