Journal of International Management 20 (2014) 390–405

Contents lists available at ScienceDirect

Journal of International Management

Fox School of Business
TEMPLE UNIVERSITY®

Innovation in Emerging Markets: The Role of Management Consulting Firms[☆]

Yujin Back[a,1], K. Praveen Parboteeah[b,2], Dae-il Nam[a,*]

[a] Korea University Business School, Anam-Dong, Seongbuk-Gu, Seoul 136–701, Korea
[b] Management Department, University of Wisconsin, Whitewater, Whitewater, WI 53190, USA

ARTICLE INFO

Article history:
Received 11 May 2013
Received in revised form 9 July 2014
Accepted 10 July 2014
Available online 25 July 2014

Keywords:
Emerging economy
Institutional void
Management consulting firm
Innovation input/output

ABSTRACT

Firms in emerging markets are often reluctant to invest in innovation because of the institutional voids endemic to such markets. Addressing the gap in the literature concerning the role of consultancy firms in emerging markets, we argue that management consultancy firms can fill institutional voids and thus help firms implement innovation initiatives. We buttress our main argument by combining strands of institutional theory with the resource-based view. Acknowledging the tensions inherent in the use of consultancy firms, we also examine two contextual variables that may mitigate their positive effects. We explore the critical aspects of the firms' internal and external environments and posit that well-functioning national institutions and a high level of firm competency attenuate the positive roles of management consulting firms because there are few voids that management consultancy can effectively address under such conditions. To test our hypotheses, we examine the effects of management consultancy on both the input and output aspects of innovation. We use a sample of 1330 establishments operating in nine emerging markets. Our findings support all main and moderating effects on innovation inputs but not on innovation outputs. We discuss the theoretical implications of our findings and provide suggestions for future research.

1. Introduction

Interest in innovation has been strong and sustained (Nam et al., 2014; Stock and Zacharias, 2011). This interest is not surprising given that innovation remains the primary source of competitive advantage and business success (Hult et al., 2004). Innovation is also a cornerstone of sustainable growth (Doz et al., 2001). However, a review of the extant literature suggests that most innovation studies have focused on firms in developed economies (Hult et al., 2004). This is surprising given that world-class emerging multinationals such as Tata Consulting Services in India and Samsung in South Korea are innovation leaders. The rapid development of emerging economies requires scholars to pay attention to innovation in those markets (Kothari et al., 2013). It is therefore very important to understand the source of innovation in emerging economies.

☆ This research is partially supported by the SK Research Fund at Korea University Business School.
* Corresponding author. Tel.: +82 2 3290 2800; fax: +82 2 922 7220.
E-mail addresses: applejin04@korea.ac.kr (Y. Back), parbotek@uww.edu (K. Praveen Parboteeah), namdaeil@korea.ac.kr (D. Nam).
[1] Tel.: +82 2 3290 2800; fax: +82 2 922 7220.
[2] Tel.: +1 262 472 3971; fax: +1 262 472 4863.

http://dx.doi.org/10.1016/j.intman.2014.07.001
1075-4253/

Emerging economies, both developing and post-communist transition countries, have higher growth rates and more business opportunities than the rest of the world (Fu et al., 2011; Kothari et al., 2013). Emerging economies also account for more than half of the world's population. The growing importance of emerging economies has resulted in increased scholarly attention (Bianchi, 2014). To better understand firms in such markets, we examine the use of consultancy. We believe that the work of consulting firms increases both R&D expenditure (innovation inputs) and the sales portion of newly developed products/services (outputs). Management consulting firms can provide not only necessary information and knowledge but also legitimacy to innovation decisions through their support and confirmation. Given the resource acquisition and legitimacy advantages they offer, firms in emerging economies that hire them may reduce risk and uncertainty.

Interestingly, even though using consultancy may help firms innovate more effectively (Hoecht and Trott, 2006; Love and Roper, 2005; Walker and Weber, 1984), some scholars argue that management outsourcing, such as in the use of consultancy, may not always have positive effects. For example, research shows that it frequently fails to enhance performance because it is difficult to manage the contracts. Decision-making speed may be slower, and quality control may be more difficult (e.g., Stanko and Calantone, 2011). Innovation outsourcing also has the problem of information leakage (Hoecht and Trott, 2006). Moreover, too much dependence on outsourcing may erode the internal capabilities firms need to recognize and exploit new opportunities on their own (Hoecht and Trott, 2006).

In addition to the disadvantages of consulting that occur because of its outsourced nature, some have argued that consulting also implies direct negative problems. Consulting firms have been accused of telling companies what they want to hear. They are also often criticized for providing “predefined solutions to unique problems” and for being “rigid in a rapidly moving environment” (Czerniawska, 2004: 47). Wright and Kitay (2002) argue that consulting can sometimes be used by companies to justify decisions that have already been made. Ejenãs and Werr (2011) suggest that, though firms may need to accept consulting firms' control, they are often reluctant to submit to such control and tend to abide by the values of their own professions. Finally, Gibson (1998) argues that consulting applied to an international environment is fraught with difficulties: consultants may not be well versed in the cultures in which they are operating and may proceed according to the inherently ethnocentric assumption that the techniques or interventions that worked at home will also work in other cultures.

While consultancy may have some inconsistent effects on innovation, we argue that the support of management consulting firms still helps firms in emerging economies drive innovation because their role in substituting for missing institutions is significant in those countries. Specifically, institutional theory has shown that firms are more likely to perform efficiently if they receive adequate institutional support (e.g., Henisz and Levitt, 2010; Scott, 2008; Xin and Pearce, 1996). In the face of institutional voids, firms operating in emerging economies face higher transaction costs and operating challenges (Khanna and Palepu, 2010). In fact, recent research shows that firms in emerging markets often face institutional disadvantages that prevent them from acquiring firms in more developed economies (De Beule et al., 2014). In addition to the inherent uncertainty in emerging economies, innovation itself is highly uncertain. Thus, innovation decision-making in emerging economies may require additional support to avoid uncertainty and gain legitimacy.

Firms in emerging markets can receive help from external management consulting firms to address institutional deficiencies and complement necessary resources. Consulting firms can provide valuable resources in the form of knowledge or legitimacy based on their expertise and experience (e.g., Bessant and Rush, 1995; Miles, 2005). When firms lack necessary information, knowledge, or a protection regime for innovation, the substitutive role of consulting firms can be very effective in driving innovation. We argue that assistance from management consulting firms is important because they generally deal with activities directly related to innovation. While several recent studies have examined professional service firms in emerging markets (e.g., Freeman and Sandwell, 2008), to our knowledge no study has directly investigated the link between management consultancy use and innovation in emerging markets. We therefore address this gap.

In addition to understanding the role of consulting firms in emerging markets, we also consider two contextual variables in order to explore the moderators for the relationship between consultancy use and innovation. Specifically, we consider the institutional development at the country level and the level of products/services non-substitutability at the firm level. We believe these two variables have impacts on the effectiveness of consulting firms in emerging markets. If a country has relatively well-functioning institutions and if a firm has sufficient competencies relative to competitors, there is little for management consulting firms to improve.

Thus, this paper provides several important contributions to the literature. First, at a theoretical level, we combine institutional theory with the resource-based view and argue that management consulting firms complement necessary but lacking resources given institutional deficiencies. Second, amid the dearth of research on innovation in emerging economies and on management consultancy's direct effect on firm strategy and performance, we shed some light on innovation and management consultancy in the context of emerging markets. Third, our paper responds to the claims of numerous scholars that “research is required into *specific* professional service sectors to better analyze how firms act within these sectors” (Coviello and Martin, 1999; Freeman and Sandwell, 2008: 199). Finally, we provide a fine-grained examination of the innovation process by considering innovation inputs and outputs separately. Thus, we are able to observe the effect of using consultancy on both R&D spending and new product/service development.

The rest of this paper is organized as follows. First, we briefly explain the research background by describing the nature of innovation in emerging economies. Then, we present our theoretical foundations and propose hypotheses. Next, we test the hypotheses with a relatively large multi-country dataset. We use the Management, Organization, and Innovation (MOI) survey provided by the *World Bank* and test 1330 firms operating in nine emerging markets across seven Eastern European countries, one Central Asian nation, and one Southern Asian country. Finally, we discuss the study's results, contributions, and implications for future research.