

A Study on the Effects of Small Enterprises' Motivations to Request Consulting from the Perspective of Transaction Cost Economics and Sociological Neoinstitutionalism

SungHee Yoon and YenYoo You*

Department of Knowledge Service & Consulting, Hansung University, Korea;
coolyshkr@naver.com, threey0818@hansung.ac.kr

Abstract

Although there are many motivations to request consulting, this study approaches them within the theoretical frameworks of transaction cost economics and sociological neoinstitutionalism. According to neoinstitutionalism, enterprises do not request consulting for economic efficiency. Instead, they think of it as an institution, and they decide to participate in consulting based on that notion rather than on economic criteria such as rationalization of management decision-making, legitimization of organizations, and diffusion of management concepts and innovations. Drawing on the theory of neoinstitutionalism, we identify three factors that influence the decision-making to participate in consulting: "solicitations of enterprises experienced with consulting," "competitors' consulting requests," and "consultants' solicitations and publicities." Using the frameworks of transaction cost economics and neoinstitutionalism theory, we study small enterprises' motivations to request consulting, the outcomes they experience, and their satisfaction with those outcomes. It is confirmed that factors drawn from transaction cost economics have significant effects on all three.

Keywords: Consulting Outcomes, Consulting Requests, Neoinstitutionalism, Transaction Cost Economics

1. Introduction

When an enterprise faces issues related to itself and to its business environment, it must first decide whether to request the assistance of external experts or to rely instead on internal human resources. Consulting external resources requires a significant transaction cost to manage the uncertainty that occurs in trading processes, such as gathering information, negotiation, finalizing contracts, interpreting contract clauses, enforcing contractual conditions, monitoring, and conflict solving. Securing internal resources requires the economic consideration of asset specificity and frequency.

In small enterprise consulting, both efficiency and effectiveness should be pursued together because small businesses lack scale and funds. To achieve this goal, it is necessary to examine what types of motivations bring about better outcomes and to think about ways of supporting small enterprises through consulting.

2. Main Text

Transaction cost economics (Coase, 1937) is helpful for theorizing about the cases in which an internal solution is useful. In this theory, the issue of cost is at the center of economic behavior; however, it is more closely related

*Author for correspondence

to the characteristics of direct trade than it is to signaling theory. For transaction cost theorists, rationality, calculation, and opportunistic behavior--albeit incomplete--are the basis of models of economic behavior in business relationships. This modeling begins with the hypothesis that the cost of the enterprise is of two kinds: production cost and transaction cost. While production cost is directly related to production capacity (e.g. manufacturing or logistics), transaction cost consists of expenses that occur after the completion of trading (e.g. gathering information, negotiation, finalizing contracts, interpreting contract clauses, enforcing contractual conditions, or contract adjustment costs). Decisions on whether a particular task or service should be done internally or externally are made through a comparison of the total cost of production and transaction¹.

Since transaction cost economics considers details related to the make-or-buy decision, it is useful in summarizing the decision of an enterprise to request external consulting, i.e. when that decision should be made.

What it suggests is that the higher the uncertainty, frequency, and asset specificity of a specific trade, the more efficient an internal solution. This is because the trading cost to sign and execute a contract with an external supplier is higher than the cost to monitor internal human resources. On the other hand, if the cost of uncertainty, frequency, and asset specificity is low, outsourcing is more reasonable. Whether internal execution is a better management approach than outsourcing (or vice versa) is an empirical question that can be addressed using the tools of transaction cost²⁻⁶.

To derive variables, it is necessary to examine the views of small enterprises that intend to request consulting from the perspective of transaction cost economics. An enterprise is considered small if it has less than 10 regular employees (in the case of manufacturing, construction, or transportation) or less than 5 regular employees in other cases.

Even from the perspective of asset specificity, which is critically treated in transaction cost economics, the cost to obtain and maintain new knowledge and technology is much higher than the cost to outsource the same knowledge and technology. There are other cases, however. For instance, if certain knowledge, technology, or know-how will be used frequently, developing it internally through hiring or job training could be more beneficial than outsourcing it.

From the perspective of transaction cost economics, it can be seen that small enterprises have motivations to outsource through consulting because they have a "lack of business knowledge or technology" or they are "unable to hire employees to solve problems."

Interests in and studies of institutions were an important part of social studies before the development of behavioral science. Before this development, laws and historical studies, (in addition to institutional studies) were also considered important. Since its introduction in the field of psychology in the 1920s, behavioral science dominated the social sciences until the 1970s⁷.

The theory of institutionalism that prevailed before the introduction of behavioral science is different from present day institutionalism theory, which is now called "neoinstitutionalism"⁸.

Like previous institutionalism theory, neoinstitutionalism, which is discussed in social science disciplines such as politics, economics, organization theory, and sociology, emphasizes that institutions are an important factor that influence human behavior and human social behavior is explained not through atomic individuals, but through institutional arrangement and social processes. For instance, the neoinstitutionalism theory of organization explains institutions in the frameworks of phenomenology, ethnography, and cognitive psychology. As Scott points out, the institutionalization theory of organization has been developed in various forms. In general, the theory is classified into two sub-theories: old and new⁹.

Sociological neoinstitutionalism has, in fact, a degree of functionalist elements. For instance, a consultant, as a feasibility trader, provides consulting service to her client even when her solution is similar to other consultants' solutions because she considers her client's company and other companies equal. In addition, by making his advice feasible, the consultant's pure otherness plays an important role in providing consulting and in having his ability recognized¹⁰. An organization-set model sees the relationships of a particular organization with others only from a political perspective (e.g. resource dependence) and does not pay attention to the bigger social system that includes it and those other organizations¹¹.

Similarly, a population ecology model emphasizes competition between organizations and does not pay attention to collaboration. Therefore, a population ecology model focuses on the ways a specific organization

shows its intention and strategic behavior in the context of political and competitive relationships¹².

Drawing on transaction cost economics and sociological neoinstitutionalism, this study examines how small enterprises' motivations to request consulting are related to their preparation for consulting, their satisfaction with consulting outcomes, and their practices of the outcomes. It also explores how the motivations ultimately influence their "overall satisfaction" with consulting.

Motivations to request consulting were our independent variables. Drawing from the perspective of transaction cost economics, "shortage of business knowledge and technology" and "difficulty hiring employees for problem-solving" were set as factors. Drawing from neoinstitutionalism theory, "public institutions' solicitations or publicities," "consultants' solicitations or publicities," "solicitations of enterprises experienced with consulting," "competitors' consulting requests," "recognition of consulting effects through lectures/seminars/education" also

were set as factors. The seven sub-factors of the "motivations to request consulting" were measured as categorical variables and then transformed into dummy variables. We used "shortage of business knowledge and technology" as a reference and considered the other six variables as events.

This study analyzes how each factor of "motivations to request consulting" influences the dependent variable: first "practices of consulting outcomes," then "satisfaction with consulting outcomes," and finally "overall satisfaction."

To measure the client's active participation in consulting, the mediator effect of "a client's preparation" was also analyzed.

In this study, first, the effects of the independent variable, "motivations to request consulting" on the dependent variables, "satisfaction with consulting outcomes" and "practices of consulting outcomes," as well as the mediator effect of a client's preparation were analyzed. Next, the

Table 1. Independent variables: motivations to request consulting

Independent variable	Factor	Theory
Motivations to request consulting	1) Shortage of business knowledge and technology	Transaction cost
	2) Difficulty hiring employees for problem-solving	
	3) Public institutions' solicitation or publicities	Neoinstitutionalism
	4) Consultants' solicitation or publicities	
	5) Solicitations of enterprises experienced with consulting	
	6) Competitors' consulting requests	
	7) Recognition of consulting effects through lectures/seminars/education	

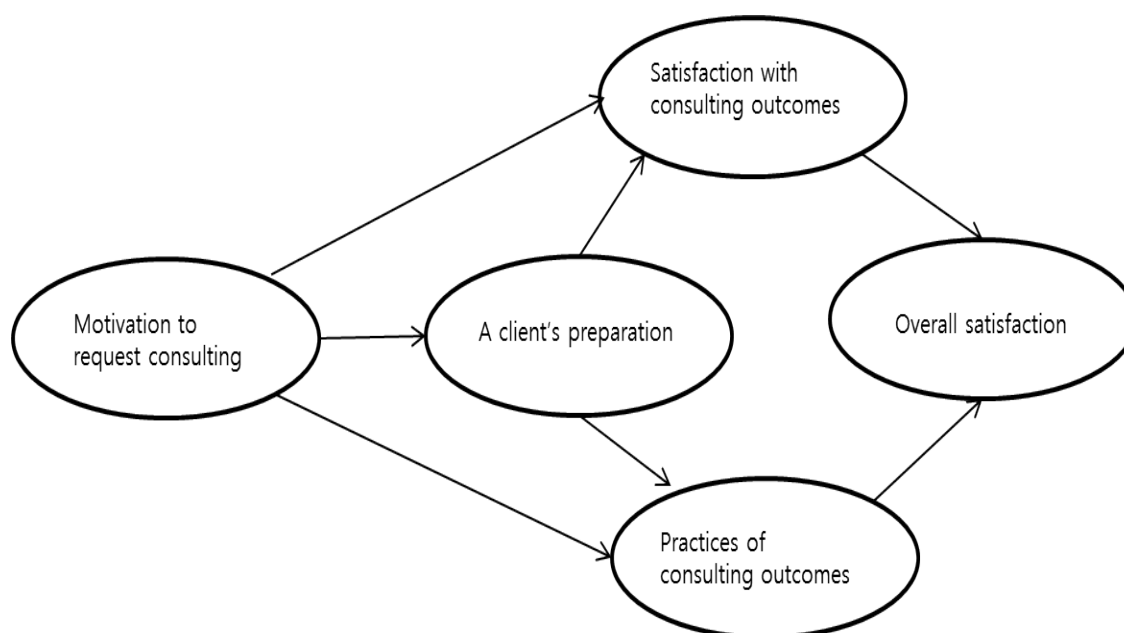


Figure 1. Study model.

effects of “satisfaction with consulting outcomes” and “the practices of consulting outcomes” on the “overall satisfaction” were analyzed.

As for understanding motivations to request consulting, this study assumes that transaction cost economics and sociological neoinstitutionalism theory present different perspectives on active participation in consulting. To address business problems, transaction cost economics emphasizes a choice between internal delivery and outsourcing, whereas neoinstitutionalism approaches the aspect of diffusing business concepts or securing legitimacy in decision-making. The seven factors that constitute the independent variable “motivations to request consulting” were drawn from both transaction cost economics and neoinstitutionalism theory. These two theories were assumed to be useful in explaining different clients’ behavior before and after consulting.

Hypothesis 1) Motivations to request consulting have a significant effect on satisfaction with consulting outcomes.

Hypothesis 2) Motivations to request consulting have a significant effect on practices of consulting outcomes.

Hypothesis 3) A client’s preparations have a significant effect on satisfaction with consulting outcomes.

Hypothesis 4) A client’s preparations have a significant effect on practices of consulting outcomes.

Hypothesis 5) A client’s preparations have a significant mediator effect in controlling the effects of motivations of request consulting on satisfaction with consulting outcomes.

Hypothesis 6) Preparation would have a significant mediator effect in controlling the effect of motivations to request consulting on practices of consulting outcomes.

Hypothesis 7) Satisfaction with consulting outcomes has a significant effect on overall satisfaction with consulting.

Hypothesis 8) Practices of consulting outcomes have a significant effect on overall satisfaction with consulting.

To analyze the effects of the independent variable, “motivations to request consulting,” on “satisfaction with consulting outcomes” and “practices of consulting outcomes,” a mediation regression analysis was conducted. The independent variable, which is a categorical variable, was converted and treated as a dummy variable, and the mediator effect of preparation for consulting was examined.

The analysis consisted of three parts. First, the effect of “motivations to request consulting” on “satisfaction with consulting outcomes” as well as the mediator effects of client preparation was analyzed.

Before the regression analysis was conducted, the autocorrelation of the dependent variable and multicollinearities between the independent variables were

investigated. The results show that the Durbin-Watson index of the dependent variable was 2.011 ($du=1.86003 < d < 4-du=2.13997$), which indicates that it is independent with zero autocorrelation. The VIF indices were all between 1.007 and 1.169 - less than 10, which indicates that there is no multicollinearity between the independent variables. Hence, a verification of mediator effects was carried out.

In the first step of this verification, it was indicated that the independent variable, "motivations to request consulting" ($p < 0.001$) has a significant effect on the degree of preparation. Among the factors that were converted to dummy variables, "shortage of business knowledge and technology" influences "a client's preparation" more than the following three factors, "public institutions' solicitations," "consultants' solicitations," and "difficulty hiring employees for problem-solving". The other factors have no significant effect on "a client's preparation." The explanatory power of "motivations to request consulting" to explain the degree of preparation is 10.7%.

In the second step, it was indicated that the independent variable, "motivations to request consulting" ($p < 0.001$) has a significant effect on the degree of "satisfaction with consulting outcomes." Among the factors of the independent variable, "shortage of business knowledge and technology" influences "satisfaction with consulting outcomes" more than the "solicitations of enterprises experienced with consulting" and "recognition of consulting effects through seminars." The other factors have no significant effect. The explanatory power of the independent variable is 9.7%.

In the third step, "a client's preparation" ($p < 0.001$) has a mediator effect, as it has a significant effect on the dependent variable, "satisfaction with consulting outcomes." "Motivations to request consulting" ($p < 0.001$) has a significant effect on the dependent variable, which indicates that "a client's preparation," as a mediator variable, mediates, in part, the effect of "motivations to request consulting" on "satisfaction with consulting outcomes." In addition, it was indicated that references influence the dependent variables more than do the factors of the independent variable, such as "public institutions' solicitations," "solicitations of enterprises experienced with consulting" and "recognition of consulting effects through seminars." The other factors have no significant effect. The explanatory power of the dependent variable to explain "satisfaction with consulting outcomes" is 14.3%.

Based on the results shown in Table 2, (Hypothesis1), (Hypothesis3) and (Hypothesis5) were accepted.

Second, the effect of "motivations to request consulting" on "practices of consulting outcomes," as well as the mediator effects of preparation was analyzed.

Before regression analysis was conducted, the autocorrelation of the dependent variable and the multicollinearities between the independent variables were investigated. The results show that the Durbin-Watson index of the dependent variable was 2.057 ($du=1.86003 < d < 4-du=2.13997$), which indicates that it is independent with zero autocorrelation. The VIF indices were all between 1.007 and 1.169--less than 10, which indicates that there is no multicollinearity between the independent variables. Hence, a verification of the mediator effects was carried out.

The results of the first step to verify the mediator effects are the same as those of the first analysis. In the second step, the independent variable, "motivations to request consulting" ($p < .001$), has a significant effect on "practices of consulting outcomes." Among the factors, "shortage of business knowledge and technology" influences the dependent variable more than "consultants' solicitations," "the solicitations of enterprises experienced with consulting," and "competitors' consulting requests." The other factors have no significant effect. The explanatory power of the independent variable is 10.4%.

In the third step of the analysis, "preparation" ($p < 0.01$) has a mediator effect, as it has a significant effect on the dependent variable, "practices of consulting outcomes." "Motivations to request consulting" ($p < 0.001$) has a significant effect on the dependent variable, which indicates that "a client's preparation," as a mediator variable, mediates, in part, the effect of "motivations to request consulting" on "satisfaction with consulting outcomes." In addition, it was indicated that references influence the dependent variables more than do "consultants' solicitations," "the solicitations of enterprises experienced with consulting," and "competitors' consulting requests." The other sub-factors were not significant. The explanatory power of the dependent variable to explain "satisfaction with consulting outcomes" is 12.7%.

Based on the results shown in Table 3, (Hypothesis2), (Hypothesis4) and (Hypothesis6) were accepted.

Lastly, a multiple regression analysis was conducted in order to analyze the effects of "satisfactions with consulting outcomes" and "practices of consulting outcomes" on

Table 2. The effect of motivations to request consulting on satisfaction with consulting outcomes

		Step 1	Step 2	Step 3
		Preparation	Satisfaction with consulting outcomes	Satisfaction with consulting outcomes
Constant		3.082***	3.884***	3.115***
Motivations to request consulting	Public institutions' solicitations or publicities	-0.443***	0.201	0.311*
	Consultants' solicitations or publicities	-0.707***	-0.322	-0.145
	Solicitation of an enterprise experienced with consulting	0.000	-0.458***	-0.458***
	Competitors' consulting requests	-0.199	-0.061	-0.011
	Difficulty hiring employees	-1.582**	0.616	1.010
	Recognition of consulting effects through seminars	0.036	-0.649**	-0.658**
Preparation				.250***
R ²		0.107***	0.097***	0.143***
F		5.980***	5.396***	7.103***
* p<0.05 ** p<0.01 *** p<0.001				
Durbin Watson: 2.011 (d _u = 1.86003, 4-d _u = 2.13997)				

Table 3. The effects of “motivations to request consulting” on “practices of consulting outcomes”

		Step 1	Step 2	Step 3
		Preparation	Practices of consulting outcomes	Practices of consulting outcomes
Constant		3.082***	3.061***	2.651***
Motivations to request consulting	Public institutions' solicitations or publicities	-0.443***	-0.231*	-0.172
	Consultants' solicitations or publicities	-0.707***	-0.624***	-0.530**
	Solicitation of an enterprise experienced with consulting	0.000	-0.356***	-0.356***
	Competitors' consulting requests	-0.199	-0.414**	-0.388**
	Difficulty hiring employees	-1.582**	-0.061	0.149
	Recognition of consulting effects through seminars	0.036	0.056	0.052
Preparation				0.133**
R ²		0.107***	0.104***	0.127***
F		5.980***	5.775***	6.239***
* p<0.05 ** p<0.01 *** p<0.001				
Durbin Watson: 2.057 (d _u = 1.86003, 4-d _u = 2.13997)				

the dependent variable, “overall satisfaction with consulting.”

Before the regression analysis was conducted, the autocorrelation of the dependent variable and the multicollinearities between the independent variables were investigated. The results show that the Durbin-Watson index of the dependent variable was 1.863 ($du=1.82672 < d < 4-du=2.17328$), which indicates that it is independent zero autocorrelation. Each VIF index was 1.160--less than 10, which indicates that there is no multicollinearity between the independent variables. This set of data is adequate for a regression analysis.

The results of the multi-regression analysis indicate that the higher are “satisfactions with consulting outcomes” ($B=.301$, $p<.001$) and “practices of consulting outcomes” ($B=0.617$, $p<0.001$) the higher are “overall satisfactions with consulting.” The explanatory power of the independent variables to explain the dependent variables is 34.9%. Among the independent variables, “practices of consulting outcomes” ($\beta=0.424$) influences the dependent variable, “overall satisfaction with consulting,” more than “satisfactions with consulting outcomes” ($\beta=0.283$).

Based on the results shown in Table 4, Hypothesis7 and Hypothesis8 were accepted. Therefore, Hypotheses 1 through 8 presented in the study model were all accepted.

Table 4. The effects of “satisfaction with consulting outcomes” and “practices of consulting outcomes” on “overall satisfaction with consulting”

		B	B	R ²	F
Constant		1.138		0.349***	81.525***
Satisfaction with consulting outcomes		0.301	0.283***		
Practices of consulting outcomes		0.617	0.424***		
*** p<.001 dependent variable : overall satisfaction with consulting					
Durbin Watson: 1.863 ($d_u = 1.82672$, $4-d_u = 2.17328$)					

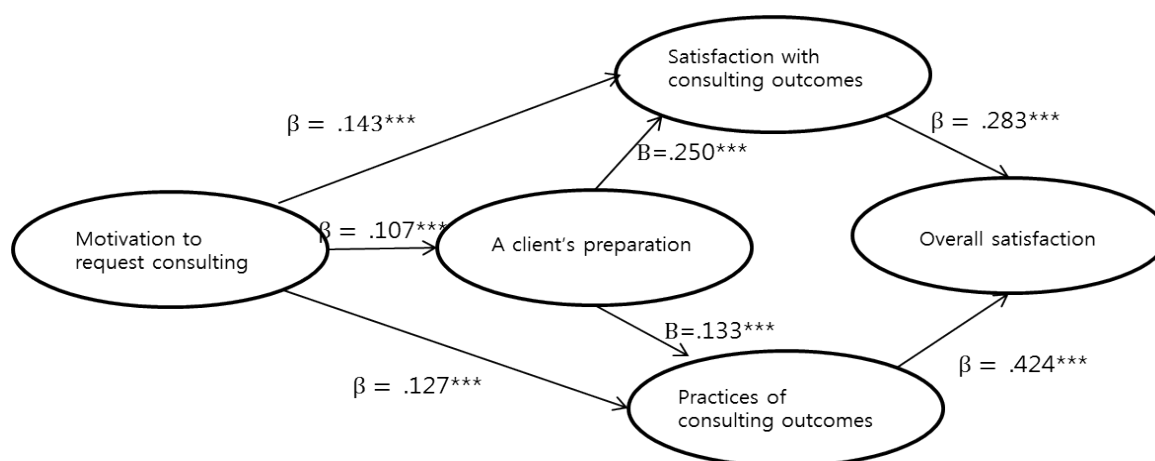


Figure 2. Study results.

The study results based on the study model are shown in Figure 2.

3. Acknowledgement

This research financially supported by Hansung University

4. References

1. Coase RH. The nature of the firm. Reprinted in Coase RH. The firm, the market and the law. Chicago University of Chicago Press; 1983. p. 33–55.
2. Williamson OE. Markets and hierarchies: analysis and antitrust implications. New York: The Free Press; 1975. p. 106–11.
3. Williamson. The economics of organization: the transaction cost approach. *Am J Sociol.* 1981; 87(3):548–77.
4. Williamson. Economic institutions of capitalism. New York: Free Press; 1985.
5. Williamson. The logic of economic organization. In: Williamson, Winters, editors. *The Nature of Governance*. New York: Oxford University Press; 1993.
6. Williamson. The mechanism of governance. New York: Oxford University Press; 1996.
7. Watson JB. Behaviorism. New York: The Norton Library Norton & Company; 1924. p. 14–20.
8. DiMaggio P, Powell WW. Introduction. In: DiMaggio P, Powell WW, editors. *The new institutionalism in organizational analysis*. Chicago: The University of Chicago Press; 1991. p. 1–38.
9. Scott WR. The adolescence of institutional theory. *Admin Sci Q.* 1987; 32:493–511.
10. Meyer JW, Rowan B. Institutionalized organizations: formal structure as myth and ceremony. *Am J Sociol.* 1977; 83:340–63.
11. Pfeffer J, Salancik G. The external control of organizations: a resource dependence perspective. New York: Harper & Row; 1978. p. 212–6.
12. Hannan MT, Freeman JH. The population ecology of organizations. *Am J Sociol.* 1977; 82:89–115.