THE BUSINESS OF CONSULTING PSYCHOLOGY: LESSONS FROM THE FIELD

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This article presents a capstone review of this special issue of Consulting Psychology Journal: Practice and Research, concerning the business application of consulting psychology. Summarized are key points made by the authors of 5 articles. Topics include the essential business issues to address when starting a consulting business, managing a sole-practitioner business, creating and operating both an international consultancy and a domestic boutique firm, and the creation and operation of a large-scale product-based enterprise in the test-publishing and assessment domain. This review discusses the various articles in the context of the management-consulting industry as well as entrepreneurial theory and research. Conclusions regarding the parallels and differences between the different consulting models presented by the authors are discussed.

What’s It Mean? Implications for Consulting Psychology

Launching a consulting business is an aspirational pursuit for many entrepreneurial-oriented psychologists. In today’s increasingly competitive marketplace, the challenges and risks that accompany a new business venture are significant. This article provides guidance based on the experience of psychologist-entrepreneurs who have overcome the obstacles and today operate successful firms or sole-proprietorships.

Keywords: management consulting, consulting psychology, entrepreneurship

Launching a consulting business holds great appeal to many psychologists. Whether one’s motive is driven by personal freedom, the satisfaction of building a sustainable and profitable enterprise, wealth accumulation, the desire to innovate, or career satisfaction, the reality is that the pursuit of entrepreneurialism is the thing of dreams. In this special issue, the authors of the five articles presented have offered us their stories, in essence, their dreams.

Each author has presented their view and experience along this journey, and, quite interestingly, the experiences described are both common and unique. Meghan Norris and Bonnie O’Toole (2020) wrote about making the employment transition from academia to the private or public sector and discussed many of the practical and structural decisions required at the beginning of launching a business. Robert Hogan (2020) provided an enlightening account of how he and others created Hogan Assessment systems and detailed 17 key lessons learned along the way. Alison Eyring

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(2020), the one author located internationally, presented the realities of creating and running a global business. Marc Sokol (2020) discussed the nature of a sole-practitioner model with its many advantages as well as limitations. And Sandra Davis (2020) talked about the evolution and phases she and others experienced in nearly 38 years of growing and running a company in the consulting industry. Each has been and continues to be successful at their pursuit, however large or small. Their stories are as educational as they are inspirational. What can we learn about the ingredients that lead to both accomplishment and the avoidance of disappointment from these stories?

I have four objectives for this capstone article. First, I will review some of the features of the management-consulting industry as it exists today, especially those that might impact consulting psychology. Second, I will discuss several observations from the literature about the process phases, challenges, and choices facing entrepreneurs as they conceptualize and launch an idea, many of which are validated through the experience of the authors in this issue. Third, the decisions required to both start and run a business as a going concern are made under conditions of uncertainty. Robert Hogan (2020) made this point quite clear when he suggested that “to run a business, one must make many decisions every day—usually without enough data or time—and its success is the sum of those decisions.” This naturally leads to a discussion of what it takes personally to create a profitable enterprise. I will also discuss the interaction between these individual-level and firm-level variables and briefly review the relevant literature. Last, I will summarize the common themes that can be seen in the articles, whether they are about a sole-practitionership, a boutique firm, or a sizable nine-figure enterprise, and I will extract a few learnings based on the experiences of our authors.

The Management-Consulting Industry

As an industry, management consulting is an amalgamation of diverse disciplines including consulting on strategic management, marketing management, information and technology (IT), operations and supply-chain management, financial management, environmental management, and human-resources (HR) management (which involves change management, talent management, organization development, and HR systems and practices, among many other subareas; U.S. Census Bureau, 2019). Consulting psychologists, to varying degrees, are employed in virtually all of these practice disciplines. Social psychologists, for example, occasionally work in marketing, industrial-organizational psychologists work across this spectrum, and psychologists from almost all specialties can, and do, work in areas related to HR broadly defined, which is arguably the most closely related area to the work of consulting psychologists (Sahir & Brutus, 2018).

Available from the U.S. Census Bureau are industry reports detailing various demographic and statistical insights that describe the status of virtually all U.S. industries, management consulting being one of them. Table 1 shows the U.S. industry’s revenue trend from 2013 through 2018, which has enjoyed a 26% increase over these years. And covering most of the 2010 decade (2010 to 2018), industry revenues have more than doubled (U.S. Census Bureau, 2019). However, this trend is showing signs of slowing. One measure of this is the industry’s compound annual growth rate (CAGR) decrease from 5.19% between the years 2013 and 2015 to 3.73% between the years 2016

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<td>Revenue (billions)</td>
<td>$227.4</td>
<td>$216.9</td>
<td>$211.3</td>
<td>$199.8</td>
<td>$193.2</td>
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<td>Average CAGR from 2013 to 2015 and from 2016 to 2018</td>
<td>3.73%</td>
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Note. Revenue data from the U.S. Census Bureau, NAICS Code = 54161. The year 2018 is the most recent data available. CAGR = compound annual growth rate.
and 2018, and this rate is projected to drop to 2.2% on average from 2017 to 2023, leading to about $248bn in revenues by the year 2023 (Statista, 2019). Even with this decline, the industry is projected to remain healthy, and I suspect that psychology-oriented businesses will follow this trend as well.

However, psychology businesses are not without emerging threats. One indication is the disruptive change that traditional management-consulting firms have been experiencing over the previous 10 to 12 years. By one metric, the percent of conventional strategy-consulting work performed by large firms (e.g., McKinsey, Bain, BCG) has decreased from 60% to 70% in the 1990s to about 20% today (Christensen, Wang, & van Bever, 2013). In an apparent hedge against this disruption, McKinsey, for example, in a significant departure from its traditional business model, created its McKinsey Solutions unit. Here a client can avail itself of an array of proprietary and technology-enabled tools geared to intervene at the organization, team, and individual levels. Offered here are products and services in areas such as talent assessment and selection, organizational and team-level assessment, organizational design, and learning and development. At an increasing pace across the large-consultancy spectrum, the scope of services is clearly expanding beyond narrow strategy and large-scale organizational consulting.

However, according to Christensen et al. (2013), also emerging is the rise of business models described as “modular providers”—smaller firms that offer specialized service or product offerings delivered through cost-effective freelance consultant networks. Such models are referred to as modular because specialized teams of experienced consultants are assembled for deployment to client projects. Although these models are not necessarily new, they seem to have reached a level of maturity to warrant acceptance in the marketplace. A good example is the firm Business Talent Group (BTG). While BTG offers services in a diverse array of functions (e.g., finance, HR, IT, operations, and procurement, among others), it also overlaps with services offered by many consulting-psychology firms and could be viewed as a competitor. And, closer to home, the acquisition of small to midsized psychology-oriented niche companies by other larger firms has been underway for several years. Of course, a well-known example is Korn Ferry’s acquisition of the consulting-psychology stalwart PDI Ninth House.

All of this is to suggest that the business landscape for entrepreneurial-minded consulting psychologists is changing. Business services that were once mainly under the purview of consulting psychologists (e.g., assessment, coaching, leadership development) seem to be open-sourced and delivered by management consultants, and even HR professionals, of any number of ilks. And if you layer onto this big data and technology-driven application, the competitive environment is vastly different from that of yesteryear.

From a purely business perspective, I think this represents a good-news, bad-news environment for consulting psychology. On the positive side, increasing market demand for services offered by consulting psychologists does appear to be on the increase. As mentioned above, many of the large consulting shops now offer expanded services in addition to their traditional practice domains, and this is a good indication of a growth environment. In addition, the “modularization” concept suggested by Christensen et al. (2013) presents an opportunity to either develop or procure intellectual-property-based products under partnership arrangements. Many of these firms have neither the expertise nor the appetite for creating products that satisfy the standards to which psychologists hold themselves accountable, yet their business models are built on having quality products to supplement consulting services. And finally, the variety of employment domains has increased. The “big three”—academe, internal corporate roles, and external consulting—are still there, but the consulting arena has expanded for those willing to entertain nontraditional settings (e.g., networked consulting and partnerships with large firms or even sole- proprietorships).

For independent practitioners and small boutique firms, this is clearly a downside. With technology emerging as possibly the most significant and disruptive force facing them, they are competing with big data, artificial intelligence, and analytics applications developed and marketed by much better funded entities. In addition, although indeed not a novel idea, brand image matters and, somewhat paradoxically, so does premium pricing. Well-known brands are perceived as superior, they benefit from social proof, and they can leverage this advantage in their pricing models.
(e.g., “If everybody knows them, and they are expensive, they must be good”). Even though criteria that do matter—credentials, experience, professionalism, knowledge, skill—may be superior in smaller firms, brand image is overwhelmingly powerful. In other words, many small players are out-funded, underbranded, and operate at a huge market disadvantage because of it. Mostly, the majors and other emerging well-funded firms have dominated the market (Burke, 2018), and there’s no indication that this will change. That said, many small firms do survive and prosper, and their owners and employees enjoy richly satisfying careers and the impact they have on clients. Marc Sokol, one of the authors in this issue, is an excellent example. Marc is the only one of our authors in independent practice. He continues to have success in an increasingly competitive environment. And Sandra Davis, Alison Eyring, and Robert Hogan all started small and now have ongoing and successful businesses of various sizes. How they did it is presented well in their own words, and I will not summarize them here. However, at the core of their stories is a flair for entrepreneurialism, a discipline for execution, and the ability to, as Hogan (2020) has suggested, “put maximum distance between you and your competitors while highlighting your unique strengths.”

Entrepreneurial Action

Launching a business start-up is an intentional pursuit (Krueger, 2009). It usually starts with the basic notion that turning one’s conceptual idea into a commercial enterprise might work. And from there, whether driven by vision, insight, or opportunity, the intention to create a new venture is born.

From Intention to Start-Up

For decades, social psychologists have researched the relationship between a person’s attitudes and corresponding behaviors; essentially, the question asked is: “Do attitudes predict behavior?” (Ajzen & Fishbein, 1977, 1980). Building on this basic question, Ajzen (1991) developed the well-known model: the theory of planned behavior. The model posits that the attitude-behavior relationship is mediated by intentions to perform the behavior and that by understanding a person’s behavioral intentions, predictions of actual behavior are improved. If intentions to accomplish a goal (referred to as goal intention; Delanoë-Gueguen & Fayolle, 2019; Gollwitzer & Sheeran, 2006) are added to this, then researchers have created a model to help understand the likelihood that an entrepreneur will move from intentions to actual start-up actions—in other words will a person go from “I intend to turn this idea into a commercial enterprise” to “I just resigned my corporate job, hired a lawyer to form an LLC, and invested $100,000 in my new business.” The research literature conceptualizes the first statement as an entrepreneurial intention and the second as a behavioral action. The stronger the entrepreneurial intention, the more likely that start-up actions will follow (Delanoë-Gueguen & Fayolle, 2019). In goal-intention terms, the actual creation (i.e., behavior) of a new business is the goal.

In an interesting longitudinal study, Delanoë-Gueguen and Fayolle (2019) combined Brandstätter, Himbeck, Malzacher, and Frese’s (2003) Rubicon model of entrepreneurial action with the concept of entrepreneurial intentions and found that it is possible to predict when an entrepreneur will cross the threshold from intention to behavior, from merely thinking about forming a business to actually creating one. Delanoë-Gueguen and Fayolle’s (2019) have described the situation as involving “a state of mind [that] resembles Julius Caesar’s crossing of the Rubicon—the act that committed him to march on Rome” (p. 1046). They found that by exploring the type of needs expressed at various stages of the intention-behavior process, prediction of the launch of a start-up can be assessed reliably. People early in the process (pre-Rubicon) tend to have general, exploratory, and informational needs and engage in limited gestational actions. As these needs become more specific, refined, and precise, concurrent with an increased frequency of gestational actions, a tipping point is reached. When these conditions start to occur, the research suggests that the probability of a business launch has increased markedly.

This has a practical application. As Hogan (2020) mentions, some 90% of new business ventures fail. Why? Although the reasons are assuredly quite varied, one explanation is that people receive insufficient or unsound information early or become blinded by a flawed idea yet have
committed themselves to the point of no return. The risk is that these people continue from entrepreneurial intentions to action when a prudent strategy calls for the abandonment of the idea well before concrete, and possibly irreversible, actions are launched (e.g., a significant financial investment, leasing office space). And, indeed, the opposite is just as important—good ideas should be thought through early and facilitated by honest feedback and counsel from informed others. As practitioners and colleagues, we should encourage good advice early in the process.

How might this play out in practice is illustrated explicitly in Sandra Davis’ (2020) article. She presents Table 1 titled “The Evolution of a Professional-Practices Business,” which shows seven stages that define the journey from start-up to a final transition (presumably an exit). The model just discussed fits well with her first stage (Deciding!). She cites a crucial point: “There was a point in time when I was weighing all of the pros and cons of starting my own business: by talking with friends and family and by thinking about dreams and risks.” In other words, she received considerable support early, before crossing the entrepreneurial Rubicon, and she certainly made the final decision better informed and more secure in her choices because of it. Of course, entrepreneurs always face risk but at least with sound counsel, discussion, feedback, and reality-checks, going into business as informed as possible can make sense. It is also likely that each of the other authors experienced something similar. And in the Norris and O’Toole (2020) article, they refer to a similar set of actions in their section “Getting Started.”

**Enabling New Business Success**

Each author in this issue presents many of the ingredients that facilitate success (more on this below). Not surprisingly, however, the lack of them can lead to poor performance or outright failure and are discussed in a body of literature that specifically addresses these conditions. In a review and subsequent study by Franco and Haase (2010), the following factors were cited as contributors to poor performance or failure in small to medium-sized businesses. The reader will notice the parallels between these items and many of the points raised by the authors in this issue.

- Survival can strongly depend on a firm’s ability to acquire capabilities that differentiate it from the competition—that is, innovation.
- The availability of technology solutions to support the application of innovative ideas can be crucial.
- Financial capital constraints (e.g., debt, insufficient financing) inhibit investment, cash flow, and the ability to acquire resources (equipment, talent, intellectual property).
- Brand, marketing, sales, and industry contacts when lacking or performing poorly inhibit performance.
- Human resources (i.e., talent); the wrong skill sets, poor fits, and toxic work environments can not only be costly but disruptive. Interestingly, even in sole-proprietorship models, where independent contractors are sometimes needed, poor selection decisions can be catastrophic.
- The multiplicity of roles required to be performed by owner-managers creates a distraction from key decision-making responsibilities and takes away from attention to what matters most for the early health of the business.
- Lack of entrepreneurial orientation or other educational or experience qualifications to run a business contributes to poor performance or failure.
- Sometimes, external environmental constraints create barriers (e.g., restrictive contract requirements for some industries such as government, poor market conditions, and an unexpected competitor).

Franco and Haase (2010) further concluded that simply knowing these factors is insufficient to mitigate their effects. At issue is whether the owner-manager is aware of them and willing to accept responsibility and take appropriate actions.

Studies have suggested that when looked at through the lens of attribution theory, self-serving attributions can pose a significant risk to the success of business leaders (e.g., Bettman & Weitz, 1983). In other words, some leaders attribute failure to factors outside the control of the organization and success to internal and controllable factors. The value of a support network, professional and
personal contacts, feedback, and the willingness to use these as enabling resources and sources for reality checks is another reason to seek early advice and counsel.

Further, Palmer, Niemand, Stockmann, Kraus, and Kailer (2019) expand on the relationship between small and medium-sized firm performance, entrepreneurial orientation at the firm level, and psychological traits of the entrepreneur. Palmer et al. (2019) found that a firm’s entrepreneurial orientation (defined as its degree of innovativeness, risk-taking, and proactiveness) interacts with the level of self-efficacy and dominance of the leader-entrepreneur and it impacts business performance as measured by sales, profit, and market share. The interesting finding from this research is that firm performance can vary according to the presence or absence of various combinations of individual and organizational variables.

In one such configuration, a firm that is not particularly innovative yet is proactive (e.g., creates customer solutions before the customer voices a need), can have high performance if the CEO has high self-efficacy (e.g., comfortable solving complex challenges, confident in abilities). When these conditions are present, CEO dominance (e.g., having authority, makes demands) can be either high or low. Conversely, a firm that is innovative (e.g., is usually first to market with products or services) but not especially proactive, can have high performance if the CEO shows high dominance. Here, the self-efficacy of the CEO can be either high or low. And in yet a third configuration, firms that are culturally risk-tolerant (e.g., encourage people to take risks), innovative, and not especially proactive, have been shown to perform better if the CEO shows more dominance. The CEO’s level of self-efficacy can be either high or low.

These effects were more pronounced in small firms where the leader has broad visibility and impact across the enterprise than in large companies with large staffs and deep management layers. Here, these configurations were yet again variable and supported the general finding that as firms grow, those who launch them are not necessarily those who can operate them.

What might we conclude from this abbreviated and admittedly incomplete literature review? One conclusion is that the interaction between a firm’s entrepreneurial orientation and the leader’s characteristics is not linear and straightforward. High performance can be achieved as a function of the contextual conditions in play. Potentially, this creates an advantage because various routes to success are available, and knowing them can be factored into shaping performance enablers such as strategy development, deployment, and talent management.

Second, and this is the sweet spot of many consulting psychologists, self-awareness of the entrepreneur-manager is essential in order to optimize these interactions; hence, here is another justification for high-quality assessment and coaching.

Lessons From the Field

Embedded in the stories presented by our authors are the lessons of experience. In Table 2 I’ve captured many of the themes and lessons that overlap between at least two, and sometimes all five, of the articles. Each author has told their story as it has unfolded for them along their journey. The data (if I can use that term) are presented in different forms, narrated in different ways, and are emphasized more or less emphatically based on personal experience and its significance to the business.

Given that, after applying a loose version of content-analysis methodology, I arrived at the material presented in Table 2. Although hardly the rigorous methodologist’s dream analysis, I do believe that I’ve captured the essence of the material. It also seemed to make sense that the data be separated into subtopics. I refer to these as business structural elements and people and cultural elements.

After reading the articles as a collection, the reader will understand the deeper meaning behind what is in these tables as it has been lived in practice, which I believe is the real value of this special issue. Nonetheless, they are a small sample of experiences represented in the domain of consulting psychology and do not necessarily capture all that’s in play. For example, some entrepreneurs build...
Table 2
Themes and Lessons From the Authors’ Experiences

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<td><strong>Business structural elements</strong></td>
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| **Business model** | 1. Three organizational designs represented:  
   a. Sole practitioner  
   b. Boutique—domestic and international, service and product  
   c. Large product-based  
2. Each model is effective but evolves fluidly over time and is driven by market changes, crisis, or strategy shifts |
| **Strategy** | 1. Define what business you are in, including services or products offered  
2. Understand how the business will generate revenue  
3. Look for a gap in the market and fill it—be innovative or disruptive  
4. Understand the revenue realities:  
   a. Fee-based businesses create revenue ceilings  
   b. Product businesses create revenue leverage  
5. Use portfolio thinking to compartmentalize client mix and how and where to spend time productively |
| **Operations** | 1. Understand the business inside and out, top to bottom  
2. Know what it takes to be profitable  
3. Avoid debt  
4. Address the technology challenge, especially if product-based |
| **Customer focus** | 1. Decide what clients aren’t worth having  
2. Define your perfect client  
3. Build a customer-value proposition—“What’s in it for the customer?”  
4. Service clients only when you can meet their needs (i.e., deliver your proposition reliably and consistently)  
5. Balance the dilemma of revenue needs via undesirable work with a focus on finding work you enjoy |
| **Business development, marketing, sales** | 1. Decide on a marketing strategy and build your storyline and positioning  
2. Common strategies, usually employed in combination, include:  
   a. Networking and referrals involving both other firms and individuals  
   b. Presentations to potential buyers (conferences, trade groups, news media)  
   c. Publishing (academic, trade, white papers, etc.)  
   d. Cold calls |
| **People and cultural elements** | |
| **Hiring** | 1. Hire the right people given the needs of the business  
2. Use contractors to staff the peaks  
3. Be thoughtful about when to hire (before revenue commitment or after the work has landed) |
| **Culture** | 1. Pay attention to and build employee morale  
2. Use your expertise in leadership and apply it locally |
| **Personal attributes of the founder** | 1. Self-awareness is essential (e.g., understand what derails you)  
2. Balance your liabilities with the skills of trusted others  
3. Intelligent restraint—know yourself and your impact on others  
4. Learn how to sell  
5. Be willing to work hard |
| **Misfortunes** | 1. Expect a crisis of any kind—client, employee, business, legal, other  
2. Understand that bad decisions will happen, just recognize and fix them |
a business for the sole purpose of selling it after it reaches some level of size or profitability. And some owners intend to transfer the company to others (e.g., employees) as a healthy going concern. And still others have no idea what an exit looks like. Such a discussion was only addressed in Sandra Davis’ article and presented as a chapter yet to be written. I believe it’s rare that psychologist entrepreneurs from the outset intentionally create a firm to be spun-off or sold. I do know of one case where that was precisely the strategy, however.

I was also a little surprised to see a lack of discussion of market segmentation. Some practitioners, segment around a specific industry, service, product, or any combination. I know of one sole practitioner, for example, who only does coaching in health care, segmenting around both a service and an industry. This might be a difficult decision to make given that what consulting psychologists do applies broadly. Applying restrictive criteria to one’s business seems like imposing an unnecessary limitation.

Conclusion

In many respects, the thrill of building a business, innovating, running the show, and creating bespoke solutions that clients appreciate is the trade-off for being small and independent. Consulting-psychology delivery models of yesteryear are feeling competitive pressure given the trends mentioned above. Large firms can out-leaseverage smaller ones with deep pockets and popular brand names (Burke, 2018). Although this market reality is not necessarily recent, it seems to be intensifying. I do believe, however, that the future of small entities, such as the sole practitioner and the boutique firms, have more years in front of them than behind them. Both remain viable models. The authors in this issue, I believe, have validated that conclusion. Nonetheless, future prosperity will likely include rethinking go-to-market strategies (e.g., selling to growth firms with less sophisticated talent and organizational practices, marketing to nontraditional or emerging industries—cannabis, for example). And of course, small firms have advantages that should be acknowledged: competitive pricing models, bespoke solutions, personalized service, and flexibility (Leonard, 2002).

The issue of whether one should attempt an entrepreneurial pursuit is also of significance. As cited, it’s profoundly easy to get caught up in the excitement of creating a business. Instead, budding entrepreneurs might be well-served by taking advantage of professional networks, fellow entrepreneurs, friends, family, and trusted others for advice and reality tests before crossing the entrepreneurial Rubicon. And for those in established firms or sole-proprietorships, the motivation to continuously improve is ever-present. As the practice grows, markets change, or the competition intensifies, interaction between environmental contexts and the practice’s strategy, operations, culture, and talent (including that of the leader-owner) deserves a thoughtful review and update, perhaps annually. Although I do not have a reliable reference for this, I feel reasonably comfortable concluding that most consulting psychologists intuitively understand the importance of continuous improvement and change, no matter the size or stage of their enterprise.

References


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