How small consultancies grow: challenging problem-based theorising

Abstract

This paper explores the adequacy of problem-based theorising in explaining the growth of small management consultancies. Literature on professional service firm growth tends to skip over the entrepreneurial stage, assuming 'crises' of governance during growth periods. Using interviews with 42 founders who grew their firms, the paper identifies challenges and potential solutions that impacted success. The paper argues that challenges were generally pre-empted by founders though the deployment of expertise that was acquired during experience, education or the use of software. The paper finds no evidence for the assumptions of 'problem based' theories of growth, and argues that changes in technology, experience and education may have rendered the theory useless – at least for understanding the growth of small consulting firms.

Introduction: success in small consulting firms

The growth of SMEs is fundamental to a healthy, vibrant economy. Indeed, as Albaz et al. (2020:5) argue 'better understanding and improving the SME ecosystem [by] enabling the growth of SMEs' is a central part of solving the productivity gap in many countries. Small management consultancies, which represent 97% of Western Europe's consulting market (IBIS 2020), are a crucial part of this ecosystem and the growth of small consultancies is around 20% per cent per annum - four times the rate of the largest consultancies and their numbers are growing at around 10 per cent a year (compared to negative growth of large consultancies (MCA 2019). In terms of market size, employment and impact, small (0-50 employees) management consultancies (SMCs) are a growing driver of economic activity.

Understanding the success potential and barriers of SMCs, therefore, is of central importance not just to owners and investors, but also to government policy makers interested in productivity. However, the vast majority of research on consultancies focuses on the multi-national end of the market: the Big four, strategy consultancies, and large system integrators (e.g. O'Mahoney 2013; O'Mahoney & Sturdy 2016). Even within the research on small consultancies, studies on the conditions of success for firms tends to fall between personal monographs or single-case-studies (interesting, but ungeneralizable) and sector-level or institutional studies (useful for government policy-makers but not for owners or investors). However, despite the importance of growing smaller consulting firms to the wider economy, there are few evidenced-based studies of the *growth* of small consulting firms. Given that 45 per cent of small management consulting firms fail within their first five years of operations 'it is surprising how little empirical research has been conducted in this field' (Reihlen & Werr 2015:22). This paper seeks to begin addressing this absence.

Academic studies that *have* examined the growth trajectories of Professional Service Firms (Greiner & Malernee, 2005; Masurel & Van Montfort 2006; Witmeur & Fayolle, 2011; Empson, 2012) tend to follow Greiner (1972) in identifying a multi-stage growth model which identifies a number of key

stages in a firm's development and highlights the periodic 'crises' which prompt movement to the next stage (for example, Empson 2012). However, 'problem-based' approaches have traditionally been criticised for being deterministic, teleological and generalised (Geroski, 2002; Rutherford *et al.* 2003; Phelps et al. 2007). Moreover, many of these studies are now dated and potentially miss out on the potential for digital technology to address the challenges that firms face or indeed the significant growth in consulting experience that is a feature of the 21st century (Sahlin-Andersson & Engwall 2002). This paper concurs with critiques of many multi-stage growth models that they can miss out on the micro-level challenges and adaptations that many small firms face, especially those that are highly successful (i.e. generate significant, sustainable, long-term profits for their owners). Achieving this is rare for the new solo or independent practitioner and achieving this and usually requires some form of growth into a firm that has value beyond its founder (Maister 2012).

To this end, the paper examines firms that began as solo practices, have grown and then been sold (usually to larger firms or to private equity)[1]. Specifically, we seek to identify the common challenges and solutions that founders experience in creating a 'saleable' company. Using in-depth interviews with 42 founders that sold their companies, this paper makes two contributions. First, empirically, using in-depth interviews with 42 founders who grew and sold their consultancies, the paper identifies five common barriers to growth and how these were overcome. These are: cash-flow; client acquisition; recruitment; the complexity of operations; and governance strategy. In each case, the challenges are outlined, and the tactics deployed by the consultancies to overcome these are detailed. These represent the empirical contributions which will be most relevant to management consultants.

Second, theoretically, which will be of more interest to academics, is that the paper finds no evidence to support the 'problem-based' theory of growth for small professional service firms (Empson 2012) Instead, the paper finds that most interviewees actually anticipated crises and made necessary changes in advance to their governance, structure and policies to avoid unnecessary disruption. The paper argues that the cause of the failure of 'problem based' theories for small consulting growth is threefold: first, it is based on inadequate evidence. Second, it does not take into account the proliferation of consulting experience and education over the last twenty years which has created more experienced founders. Finally, it does not consider the significant enabler of digital technology to consulting growth, especially in the form of software called Professional Service Automation. It is argued that this minimises some of the problems which earlier analyses argued causes crises for PSFs.

The paper progresses as follows. First, we examine the literature on the successful growth of SMCs highlighting the limited amount of work and potential themes of interest. Specifically, the paper highlights concerns with the dominant 'problem-based' theory of growth. After detailing the methodology, the findings first provide some narrative on the typical lifecycle of such firms, and then identifies five challenges that were common across SMCs that were sold, and the various strategies taken in overcoming these. In the analysis, these challenges are contextualised within the current literature and it is argued that problem-based theorising needs to be amended. Finally, potential

---

[1] Growth, sale and exit is not a perfect proxy for success as some successful firms choose not to sell or incorporate in their own right (Greenwood and Empson 2003). However, such firms generally require a similar growth trajectory to those that are sold, and experience similar challenges. More generally, 'success' might rightfully be framed in different ways (the ability to work on what you enjoy or spend more time with the family). However, we argue later that the firm that is ready to be bought is also a firm that allows the owner to achieve these goals, whether or not they sell.

research opportunities for improving on problem-based theory are detailed as are opportunities for better understanding the growth challenges of small consultancies.

Literature review: The lifecycle of SMC growth: criticisms and opportunities

This risks and rewards of small consulting firms are highly polarized. 45 per cent of small management consulting firms fail within their first five years of operations (Knaup 2005), yet the market growth of the sector is around 20 per cent and their numbers are growing at around 10 per cent a year (compared to negative growth of large consultancies due to consolidation) (MCA 2019). Most consultancies that survive the first five years period pursue a 'business as usual' strategy, remaining very small or taking on one or two people, whilst a minority seek to grow, often with a view of selling the firm in the future (SBA 2006). The end-goal of selling the firm is often ignored in studies of PSF growth, which is an odd absence, as the requirement of the buyer very much influence the strategies and practices of the firms that wish to be built. Indeed, there is a small industry that has grown over the last decade specifically advising growing consulting firms that wish to be bought (see for example, Equiteq).

There are few credible academic studies[2] concerning what makes a difference to the growth of small consultancies. A review in 2014 concludes that 'it is surprising how little empirical research has been conducted in this field' (Reihlen & Werr 2015). Most studies examine success factors in large consultancies (e.g. Bettencourt et al. 2002) or focus on interesting academic themes which are not specifically linked to growth, such as controlling high-trust creative employees (Winch and Schneider, 1993; Zucker 1991), the ambiguity of the consultant-client relationship (Ram 1999), or knowledge management (Løwendahl et al. 2001). Where growth (or 'lifecycle') *is* studied, work tends to follow variations of Greiner's (1972) classic model of the stages of organizational growth, which emphasises different stages of growth punctuated by associated crises which prompt new organisational forms. Greiner argues not only that specific solutions to the challenges of a phase cease to be appropriate as the firm grows, but also that leaders are generally slow to recognise the need for change until the challenges turn into acute problems. There has been significant critique of the lifecycle model of growth generally (Becker et al., 2015; Delmar and Wiklund, 2008) as overplaying the biological model, being teleological, and often lacking substantial evidence for each stage of the argument: ; Levie and Lichtenstein (2010:317) show that there is 'no consensus on basic constructs of the approach, nor is there any empirical confirmations of stages theory'.

In the context of PSFs, adapting Greiner's theory, Empson (2012) follows his general arguments concerning crises and founder resistance to change. She constructs a multi-stage model for firm governance in which the first crisis occurs for founders who have recruited senior professionals who eventually 'expect an increasing involvement in the firm's decision-making processes and share of the profits' (p.15). The resolution to this crisis is a 'collegial' form of governance whereby founders surrender both control and equity to satisfy the demands of senior managers. The next crisis is prompted by the growing complexity in the firm that strains the efficiency of collegial decision-making (i.e. several partners co-operating through consensus) and results in disorganisation. The solution is

---

[2] There are many texts, often written by consultants, about what makes a great consultant, but often this is based on only their experience, and evidence is not presented. With few exceptions, little has changed since 1999 when Ram (1999: 887) wrote 'management of smaller, knowledge-based organizations in the service sector has attracted comparatively little attention'.

found in governance through committees, until the next phase of growth, which leads to a crisis of frustration, and so on. The subsequent stages Empson (2012) identifies are not that relevant to this paper as it is focused on the first stage only. Yet although Empson (2012) suggests that the process of evolution is more complex than Greiner suggests, she represents the sequences as necessary to avoid failure (at least in her sample). The subsequent model is teleological. To this end, one of the cases presented ('BoutiqueCo') is presented as a failure ('organisational death') for not achieving the Collegial phase, *despite* later being sold to a larger consultancy - presumably based on sustainable future profits. Moreover, whilst this model makes several assumptions about small consultancies, Empson included only one small consultancy, which employed 30 people (*personal communication with author, 2020*).

One limitation of this model (and others) is that it represents the governance, structure and decision-making of the firm primarily as a function of its size (and therefore its complexity). Moreover, it makes three related assumptions (again, following Greiner) that perhaps are rooted in a period when entrepreneurialism and, indeed, small PSF experience (and perhaps management education more generally), was not so common: first that founders are generally ignorant of and surprised by the challenges of growth; second that founders are jealous of their power and authority. Third, that time spent on management administration (controls and co-ordination) represents a serious challenge to the success of consultancies. There is good reason to question these assumptions. Concerning the first, it is now commonly argued in the consulting literature that management knowledge, and more specifically, consulting expertise, is no longer a rare commodity (Sahlin-Andersson & Engwall 2002*;* Sturdy and O'Mahoney 2018), and thus with the proliferation of consultancies, consultancies for consultancies, business schools, and consulting experience, it might be argued that 'crises' are more predictable and manageable by founders than they were twenty years ago. This insight links with the observation by Phelps et. al (2007:11) that it is desirable to study 'sets of problems not linked by sequence, and [also study] the organizational capabilities to absorb and utilize new knowledge to address these problems'. In short, Empson may have identified a problem that no longer exists for many founders.

Concerning the second point, there is little to no evidence that founders jealously guard their equity or power, especially in the face of having a slightly smaller stake in a much larger pie. Indeed, more widely, Phelps et al. (2002:7) argue, 'support for a clearly identified set of problems that pertain at different stages of an organization's life…is limited' (Phelps et al. 2007: 7). Concerning the third point, developments in digital technology, especially concerning ERP systems, process automation, and management information systems now offer small firms the ability to cut time spend on management tasks. For example, SPI (2019) found the use of Professional Services Automation (PSA) – integrative software to manage administrative processes for firms, increased revenue per project by 50%, primarily due to the time freed up for additional billing. Whilst PSA was available in 2012, when Empson was writing, it was highly expensive and only used by larger firms.

In summary, there is good reason to question the lifecycle and problem-based approaches to growth both generally, but also specifically in the context of professional service firms. There is also a need for detailed empirical evidence about the specific challenges encountered by firms *at specific stages of their growth.* To this end, the paper seeks to understand the challenges of growth in the first stage of growth and explores *'what crises small consulting firms face when growing and how these impact growth'*.

Methodology

Exploring the relationship between the crises of growth and their impact upon firms is an exploratory and explanatory research challenge. The research undertake therefore was exploratory, qualitative and assumes a loosely critical realist metatheory - using induction and abduction to move from data to analysis (O'Mahoney and Vincent 2014).

The methodology identified 42 small consulting firms that had started in the last fifteen years that had grown from founder(s) to a minimum of 19 people (max 173). Firms were selected which still had the founder as CEO so that a continuous overview could be narrative of the firm to date. Firms were eliminated if they were more than fifteen years old because the founder may not have remembered challenges from much further back. Over 150 firms were contacted, and 42 interviews were granted. We held semi-structured exploratory interviews with the founders of all firms, for an average of 66 minutes. Interviews covered questions such as:

- The growth of the firm in terms of finance and staff
- The drivers of growth internally and externally
- Periods of stagnation
- Any challenges or crises that occurred
- The impact of these challenges and crises on growth
- The response of the firm to the challenges or crises

As interviews progressed, common themes were identified a prompted additional questions around specific topics which are identified in the findings. These interviews were transcribed and coded, and data was inducted into themes and abducted in reference to the literature in order to identify (i) the challenges and (partial) solutions to these challenges, and (ii) how these related to growth.

In addition, 3 interviews were held with Directors at Professional Service Automation companies as these appeared to be important in the growth of SMCs and the author wished to gain a deeper understanding of how they worked.

Findings

The findings in our sample suggest that expertise available to the Partners of growing firms, either of founders, consultants, mentors or IT systems, meant that they did not experience 'crises'. To a great extent, impending crises were overcome *before* they happened through strategic decision-making which translated into specific actions that anticipated strains on the firm. This is not to suggest that the governance, structures, processes and systems of the firms did not alter as they grew but that these were adopted proactively rather than reactively in response to problems.

We first identify five common challenges that the consultancies experienced when they grow, and the ways in which our sample overcame these. We then move on to explore specifically the question of whether these challenges caused crises which changed the firm.

Cashflow

A common challenge faced by 29 of the consultancies was the challenge of growth vs. cash-flow. In the words on one founder *'you're in a Catch-22: you can't employ people until you land large projects, and you can't land large projects until you've employed people'* [F1]. At its heart, this is a challenge of capital. Assuming no holidays, a newish solo consultant has around 250 working days, up to 50% will be spent on business development, administration, and company set-up. Even if all those 125 days are billed to a client at £800/day, the solo consultant is left with revenue of £100k. Whilst this sounds far from the breadline, after tax, operational costs, insurance, pension contributions etc. this will often leave the consultant with around £50k, which is rarely enough to employ another consultant. The challenge is made more challenging by the cashflow situation in most small firms: *'most clients will pay a small amount up front, but the remainder of the payment will be up to three months after the end of the project…. Then you get the odd client that just doesn't pay'* [F12]. In short, significant growth from cash-flow is a real challenge for small consultants.

The challenge of capital for growth was overcome by successful consultancies in a variety of ways. Note that none of these points are not exclusive and most consultancies did more than one. First, all but two of the consultancies either started as joint partnerships or took on partners within the first two years of operations. These partners were generally people they had worked with previously or had studied (typically an MBA) with. In two cases, it the partners were spouses. This helped solve the cash-flow issue as there are economies of scope and scale when working as a partnership, and joint profits can more easily fund additional resources. Second, ten of the consultancies gained start-up funding, either from a larger consultancy that was interested in purchasing them later, or through private equity that took a stake in the company. In all cases, the founders were experienced, successful and highly networked consultants, and in half of these cases the founders had been involved with starting and selling consultancies before. Third, several (13) consultancies *did* grow from cash-flow outsourcing their administrative tasks to free-up billable days. Their first hire was usually an administrative assistant, sometimes using an outsourced service, but more commonly by hiring someone for an increasing number of days as the business grew. As assistants grew more familiar with the business, they frequently undertook more complex and business critical tasks. In the words of one founder, 'an additional day or two billing a week might add up to £80k in revenue'. Finally, several consultancies mentioned using early tactics to improve increase revenues and improve cash-flow by charging a greater percentage of the project up-front, raising their prices, saying no to problem clients, and value-pricing.

Clients

Consulting is a demand-driven industry, and there is no growth without a corresponding increase in sales. Virtually all the interviewees reported that they began with 'clients in hand', that is, they took clients with them from their previous employment, had a significant network 'friendly' to business development advances, or had even won a project before starting-up. Although such a business is useful for starting up, it cannot be relied upon to generate growth. Indeed, small new consultancies face significant challenges *'not only in time investing in business development when [they] really need to be billing the client'* [F6], but also *'having to displace incumbents that already have a presence in clients'* [F8].

The primary method of achieving client growth was delivering high quality work and then publicising this in the form of testimonials and case-studies. Whilst it is not surprising that consultancies claim to be delivering high quality work, most had an explicit strategy early on of *'going beyond contract'* [F13] in order to generate levels of satisfaction that would lead to repeat business and useful referrals. This was often supported by various awards (for example from the Management Consulting Association) for successful projects which acted as both signals to the market, but also as benchmarking for say, innovation, workplace quality, or project quality. More strategically, as they grew, many consultancies focused on *'expanding the matrix'* [F20]. That is moving into adjacent industry segments or service lines that would allow cross-selling. One consultant (unsurprisingly) drew a 2x2 matrix with 'services' on one side and 'industries' on the other. He intimated that as the company grew, so too the matrix grew into a 4x4 matrix, with the advice that *'for some consultancies, it makes more sense to stay in the same industry – say, the health service – and focus on expanding services, whilst with others, it makes more sense to focus on specialist services, but replicate them in several different industries'.*

Other less innovative approaches to boosting client numbers included networking, using thought leadership (especially LinkedIn), and *'never refusing an opportunity to talk'* [F19]. It should also be stressed that a number of interviewees pointed to the role of luck. For example, several pointed to fortuitous conversations or contacts that led to sizeable contracts often at crucial junctures (for example the 2008 recession). Interestingly, there were three points of contrast with most 'popular' advice to small consultancies. The first concerns fees. Most advice to small consultancies by self-styled 'gurus' (see for example, Sam Ovens, Taki Moore or Russ Ruffino) is to raise prices, ideally by negotiating project fees by value ('value-based pricing') rather than day rates. Yet among our sample, value-based pricing was relatively rare because *'there is only limited appetite for this* [] *among clients…'* [F9] and it *'only suits certain types of projects and certain types of buyers'.* Project-based pricing was much more common. Moreover, most of those interviewed estimated that their day rates were average or lower than average, at least for the first few years of their operations. Even once established, most interviewees chose to use their stronger position to turn down work that didn't align with their strategy rather than raise their prices significantly.

Employment

With small firms especially, when methods or products are rarely significant assets, people are (for once) a firm's greatest asset and its best guarantor of quality. Yet, why would good consultants want to work for an unknown firm when the likes of McKinsey & Co. might beckon? Moreover, why should a good consultant stay if they are not being promoted or given equity?

By far, the most common theme that firms reported helping their people strategy was around culture, values and narratives. A common culture and values were held as central in ensuring smooth growth in the firm, defined by one founder [F22] as *'what is done when the boss isn't looking'.* Many echoed the sentiment of F9, that *'your first few hires are absolutely crucial in setting the culture of the company…. The one time I recruited the outstanding person who didn't fit our values, it came back to bite me'.* Another added *'Even before the company started, [the co-founder and I] had a list of things we would do, and a longer list of things we wouldn't do'.* What the values were seemed less important than the fact that they were embedded in the recruitment, promotion, evaluation, training and communication efforts of each firm, and that people who didn't adhere to these were often managed out. This said, a commonly mentioned value was openness. Many founders concurred with F8 that *'because you're dealing with bright, ambitious people who easily find jobs elsewhere, you must keep them involved, and not do deals behind their backs'.*

The narrative of the firm generally concerned its story: *'it's about why we do what we do, how we do it, and what our ambitions are'* [F3]. One founder said that their narrative and culture allowed them to compete with the big names when it came to recruitment, as they could promise *'challenges, growth and people development, based on a one-to-one relationship between partners and recruits'*. In this case, the narrative they created around their size became an advantage in recruiting exceptional IT talent straight out of Universities.

At a senior level (which firms tended to recruit first), consultants tended to either be known to the firm – often, but not always, acting as associates before they are taken on. A few (6) consultancies merged with other consultancies, but all did so in a very gradual way. A typical story was F10: *'we became aware of an aligned consultancy that we often passed work to, and vice versa…. Eventually, we ended up sharing some office space and* [then] *working on projects together, before creating a joint venture that eventually became the new company'*. This *'slow courting'* as F30 put it was crucial in finding companies that were not just aligned in the market, but also in terms of values.

Processes

Most firms reported a 'tipping point' at between 15-20 employees when levels of complexity meant that they needed to systematise their operational processes. This not only included reporting but also (in fewer cases) methods and services that became more 'commodified' or 'productised'. Several interviewees commented that this point was the most important in their company's growth, with one founder summarising the sentiment that *'once you have these processes in place, it is really a matter of scaling them…'* [F18]. Another commented that *'In terms of growth, nothing is as difficult as the period when you need to move from using several spreadsheets and apps to an integrated system'*.

To take reporting first, all firms reporting implementing some form of Professional Services Automation (PSA) software, such as Kimble or SherpaDesk. These applications provide integrated systems for reporting and workflow management for project management, people management, marketing, pipe-line management and billing. Interestingly, it is only in the last ten years that PSAs have been affordable for smaller consultancies, and their impact on these firms has not been studied in any depth by organisation and management scholars. Yet, a significant impact is what they had for two reasons. First because they take much of the operational growing pain away by providing a single and integrated workflow management and reporting where, for example, pipeline requirements related to business development were linked to recruitment decisions. Secondly, PSAs are developed from the feedback from thousands of PSFs, and thus provide 'best practice' guidance for founders concerning workflow, key performance indicators and project management. Two quotes illustrate this:

> *'[The PSA] is great – it does everything, but you don't need to use everything. You use more of it as you grow. Like, we now measure around fifteen performance metrics, but this will grow as we get bigger'* [F30]

> *'it's like having a ready-made operational infrastructure that's been tested in hundreds of other sites. Because that expertise is built into the system, you're not reinventing the wheel'*.

Concerning the commodification of methods and services, this is something that all the consultancies did to a greater or lesser extent, primarily driven by the requirements of future buyers. As one founder intimated, *'buyers want intellectual property when they buy because it is less likely to up sticks and leave when the buy-out period is over'* [F15]. Certainly, compared to consultancies that were not sold,

commodified services and methods were much more common. Many founders felt that these services would provide the basis for sustainable returns after the first few years:

> *'working like hell will make you profits over the short term because you can provide much higher value than anyone else – of course the client will be delighted because they're getting twice the work for half the price. But over the long term that is unsustainable, first because you'll have a nervous breakdown, but second because it's hard to convince employees without equity to work as hard as you used to'* [F6].

On that note, many founders felt that the ability of employees to feed into improvements in processes, methods and services (either internal or customer facing) helped provide them with more autonomy and the recognition that the firm was listening to them. The exceptions to the introduction of commodified services were firms where the value of the firm was very much in highly skilled, sought-after consultants, for example concerning big data analysis, or artificial intelligence. Here, buyers were generally keen on getting hold of the scarce resource rather than buying in specialist methods.

Strategy and governance

A challenge for all ambitious management consulting firms is knowing how to grow. Growing too fast can risk cash-flow and cultural cohesion, whilst too slow can lead to disgruntled ambitious employees keen on promotion. Moreover, appearing attractive to a potential buyer, as one founder suggested *'is not necessarily the same thing as being a good consultancy'* and thus expertise in branding, digital media, and PR is also necessary. Yet, many of those interviewed had either started small consultancies before (n=11), had access to a mentor who had started the company before (n=16) or used a consultancy to advise their growth (n=23). In addition, with reference to the previous section, many (n=10) also said that they received advice from their PSA company, or at least that the use of the software provided them with insights as to what they 'should' be measuring.

Contrary to the literature, less than a fifth of interviewees reported non-partners demanding equity or decision-making. Some said that they provided senior consultants with equity to encourage them to join the firm, but none reported that this resulted in those employees requiring input into governance. Several (n=7) pointed out that a growing firm can help satisfy the demands for promotion from ambitious consultants, and also provides an exciting challenge which helped lower churn. Only three firms reported significant differences of opinion between partners prior to sale, and two of these resulted in one partner leaving the firm.

Avoiding Crises

None of those interviewed described the challenges detailed above as crises or even problems that changed the form of the company. When asked specifically about crises, founders generally spoke about circumstantial, external issues such as the 2008 recession (or more recently, COVID), ill health, or family pressures. Changes in company form, structure and governance for these firms were generally *not* forced by challenges but were instead pre-empted by founders based upon their previous experiences.

A typical answer when asked about the business outgrowing the current systems and structures is provided by Sarah:

'We didn't ever attempt to run the business on spreadsheet. …We've been on a time sheet system time management system….I have in my previous life, got involved in some depth with all of the different systems that were then available on the market and so we made a decision fairly early on about which one we were going to go with, and, and we also made an investment fairly soon. I think the benefit of going into a business that you've done before, is that you know what you're going to need, and we didn't even try to do it without it.

Sarah had not only been a CEO of a larger consultancy in the same segment, but had detailed previous experience of the software and systems that the consultancy would need later. Others mentioned education, such as Mark:

'I knew what was coming over the hill, so changed things to anticipate it….In the MBA we did a growth module where a speaker emphasised the difficulty of balancing delivery with keeping the pipeline full and recommended partnering early….. That's exactly what I did, and it paid off for lots of reasons'.

Others still pointed to the sheer amount of information available on the internet which helped them avoid crises. When asked about what informed his strategic decisions about the company, Martin replied:

'there's just so much information available out there. PSA providers provide cases studies and videos, and there's independent sites which allow you to review their quality….There's also a lot of people that have done this before that you can contact through LinkedIn or other networks…. I had a non-executive board who had all been there and done that before, and I found most of them through online networks'.

When asked specifically about changes to governance typical replies included:

'I knew from previous experience that a smaller percentage of a much bigger cake would be the only way to achieve growth… it's impossible to do otherwise' (Claire)

'Even though there were 8 partners, we agreed upfront the one of us would be the CEO and some, but not all, of the others would take on specific roles, so that all important processes has someone responsible for them' (John)

'We followed the advice of You're the Boss [Aseervatham 2016] *that the non-executive directors would act as arbitrators if there was any conflict. I think this saved the partnership more than once'* (Melanie).

What is evident here is not only that governance crises were generally avoided, and did not lead to changes in the firm, but also that founders had access to a diverse set of expertise that enabled them to anticipate change before it was needed. What one founder described as *'getting ahead of the curve'.*

Discussion

The findings cast doubt that current problem-based theorising (Empson 2012; Geroski, 2002; Rutherford *et al.* 2003; Phelps et al. 2007) at least as it applies to the growth of small management consulting firms. First, there is little evidence among interviewees that changes to growing firms are prompted primarily by a crisis of governance (i.e. the sharing of power by founders). Instead, most of them changed the structure, strategy and governance of the firm proactively in order to anticipate

crises. In order to avoid crises of partnership governance founders shared equity, used non-executive directors or implemented new systems.

The challenges which *were* more present for the interviewees were those detailed in the findings: cashflow, clients, employees, processes and governance, but as we have seen, these did not lead to crises which caused changes in the firm, but were generally anticipated and proactively managed: cash-flow challenges were ameliorated by merging, creating a Partnership, accepting venture capital or freeing up billable hours; limited client prospects were overcome by providing outstanding work, seeking referrals, 'expanding the matrix', and using LinkedIn more effectively; limitations to resource were overcome by emphasising unique (or rare) values and culture, providing a narrative that was more engaging than the larger competitors, growing the firm to provide promotion prospects and excitement, and merging with similar firms; Operational complexity was overcome through the use of PSA. It should be noted that this administration, prior to the invention of PSA, was a challenge to many firms. Indeed, Empson (1997) tells of a small consultancy (30 employees) whose failure was partially due to 'time spent on management tasks…[and] lack of management controls' (p. 8); The challenge of strategic knowledge was overcome through their own experience, the use of mentors and consultants, and the solutions provided by PSA software.

It should be stressed here that many of the 'solutions' to these challenges are perhaps relatively new: online networks such as LinkedIn, the use of PSA software, the proliferation and growth of the consulting industry, the ubiquity of the MBA and the availability of expertise on the internet were certainly non-existent when Greiner (1972) penned his seminal paper, and have accelerated significantly since Empson (2012) was written. The literature on PSF growth should be updated to include the advances both is information technology and the proliferation of expertise on firm growth among founders and their networks.

Conclusions

The paper sought to shine a light into the under-examined challenges and solutions to growth for small consulting firms by interviewing founders that had successfully grown and sold their companies. It identified five challenges and potential solutions to these which shaped the nature of these firms and argues that 'problem-based' theories of growth need amending, at least in relation to small management consultancies, and perhaps PSFs more generally. More generally, it appears that ambitious small consultancies with exposure to expertise and PSA software can create a scalable infrastructure that potentially overcomes the organisational and strategic challenges that impacted firms twenty years ago and more.

References

Becker A, Knyphausen-Aufseß DZ and Brem A (2015) Beyond traditional developmental models: A fresh perspective on entrepreneurial new venture creation. *International Journal of Entrepreneurial Venturing* 7(2): 152–172.

Bettencourt, L. A., Ostrom, A. L., Brown, S. W., & Roundtree, R. I. (2002). Client co-production in knowledge-intensive business services. *California management review*, *44*(4), 100-128.

Empson, L. (2007). Kinsley Lord: Growth and change in a professional services firm. Teaching note. *Teaching Case.* Case Centre: London Business School.

Empson, L. (2012). Beyond dichotomies: A multi-stage model of governance in professional service firms. In: M. Reihlen & A. Werr (Eds.), Handbook of Research on Entrepreneurship in Professional Services. (pp. 274-294). Cheltenham, UK: Edward Elgar.

Equiteq (2019) The Management Consulting Global M&A Report. [Access https://www.equiteq.com/insights-news/publications/equiteq-management-consulting-global-ma-report-2019/]

Geroski, P. A. (2002). The growth of firms in theory and in practice. *Competence, Governance, and Entrepreneurship-Advances in Economic Strategy Research*, 168-176.

Greiner, L.E. (1972). Evolution and revolution as organizations grow. *Harvard Business Review,* 50, 4, 37-46.

Greiner, L., & Malernee, J. (2005). Managing growth stages in consulting firms. In L. Greiner, & F. Poulfelt (Eds.), *Management consulting today and tomorrow: Perspectives and advice from 27 leading world experts* (1st ed., pp. 456–491). Routledge.

Groen, B. A., van de Belt, M., & Wilderom, C. P. (2012). Enabling performance measurement in a small professional service firm. *International Journal of Productivity and Performance Management*.

IBISWORLD (2019) Global Management Consultants Industry - Market Research Report. IBIS, London.

Knaup, A. (2005). Survival and longevity in the business employment dynamics data.

Monthly Labour Review, [online] 128(5), pp.50-56.

Levie J. and Lichtenstein B. (2010) A terminal assessment of stages theory: Introducing a dynamic states approach to entrepreneurship. *Entrepreneurship Theory and Practice* 34(2): 317–350.

Løwendahl, B. R., Revang, Ø., & Fosstenløkken, S. M. (2001). Knowledge and value creation in professional service firms: A framework for analysis. *Human relations*, *54*(7), 911-931.

Maister, D. H. (2012). *Managing the professional service firm*. Simon and Schuster.

Masurel, E., & Van Montfort, K. (2006). Life cycle characteristics of small professional service firms. *Journal of small business management*, *44*(3), 461-473.

MCA (2019) UK Management Consulting Industry Report. Management Consultancies Association: London.

O'Mahoney, J., Heusinkveld, S. and Wright, C. 2013. Commodifying the commodifiers: the impact of procurement on management knowledge. Journal of Management Studies 50(2), pp. 204-235.

Vincent, S. and O'Mahoney, J. 2014. Critical realism as an empirical project: a beginner's guide. In: Edwards, P., O'Mahoney, J. and Vincent, S. eds. Putting Critical Realism into Practice: A Guide to Research Methods in Organization Studies. Oxford: Oxford University Press

O'Mahoney, J., & Sturdy, A. (2016). Power and the diffusion of management ideas: The case of McKinsey & Co. *Management Learning*, *47*(3), 247-265.

Phelps, R., Adams, R., & Bessant, J. (2007). Life cycles of growing organizations: A review with implications for knowledge and learning. *International journal of management reviews*, *9*(1), 1-30.

Ram, M. (1999). Managing consultants in a small firm: A case study. *Journal of Management Studies*, *36*(6), 875-897.

Reihlen, M., & Werr, A. (2015) Entrepreneurship and professional service firms: A literature review. In Joseph Broschak, Daniel Muzio, Laura Empson (Eds), *Oxford Handbook of Professional Service Firms*. Oxford University Press: Oxford.

Rutherford, M.W., Buller, P.F. and Mcmullen, P.R. (2003). Human resource management problems over the life cycle of small to medium-sized firms. *Human Resource Management*, 42, 321–335.

Sahlin-Andersson, K., & Engwall, L. (2002). *The expansion of management knowledge: Carriers, flows, and sources*. Stanford University Press.

SBA (2006). *The Small Business Economy for Data Year 2005.* Report prepared by the U.S. Small Business Administration. Washington, D.C.: U.S. Government Printing Office.

Scott, M. C. (1998). *The intellect industry: Profiting and learning from professional services firms*. New York: J. Wiley & Sons.

Sturdy, A., & O'Mahoney, J. (2018). Explaining national variation in the use of management consulting knowledge: A framework. *Management Learning*, *49*(5), 537-558.

Winch, G. and Schneider, E. (1993). `Managing the knowledge-based organization: the case of architectural practice'. Journal of Management Studies, 30, 6, 923-37.

Witmeur, O., & Fayolle, A. (2011). Developing and testing a typology of growth strategies of entrepreneurial IT service firms. *Entrepreneurship, Growth and Economic Development,*, 30-68.

Zucker, U. (1991). `Markets for bureaucratic authority and control: conformation quality in professions and services'. Research in the Sociology of Organizations, 8, 157-90.