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"Practice Diversification and Financial Performance in Management Consultancies"

Executive Summary

Findings are consistent with the financial literature: a focused firm with fewer practices exhibits better returns and higher valuation than a firm with a broader scope. This was confirmed through observation of returns and valuation over time, and with an event study of diversification transactions. Going forward, consultancies should commit to a practice mix that emphasizes focused capabilities, largely driven by complementary practices and relationship opportunities. Firms should give preferentiality to alliances to leverage capabilities, unless bridging a gap through acquisition is complementary. Widely diversified firms should organize as conglomerates where complementary practices operate together as independent firms. Follow up research by the industry could attempt correlating private and public firm performance to enable studies with greater samples. Several controls, e.g. revenue strength, bias, client diversity, and failure/acquisition causes could be helpful in determining practice models.

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Preface

Management Consultancies offer talent (expertise or resource augmentation) and intellectual capabilities (sector research or proven methodologies) to clients. These service offerings are often organized in practices and reflect competencies such as organization effectiveness or strategy. Practices may also align with industry sectors such as transportation or chemicals and occasionally overlap: information technology (IT), for example, is a competency area and an industry sector. As a result, practices may serve clients jointly, when the scope of the engagement demands diverse skills and knowledge.

The initial hypothesis for this study was that practice diversification influences the firm's profitability. No hypothesis had been formed whether less or more diversification does that. Three papers are useful in reference. A study of growth strategies in law firms¹ found that partner-level hiring, diverse practices, and the client's benefit derived from a practice shape profitability. A study of audit firms² found that mergers among firms increased practice diversity, and that non-audit revenue opportunities did not influence their diversity. Lastly, a paper on equity-based executive compensation³ aligns with the financial literature, confirming that "single-segment firms have higher valuation than multi-segment firms."

This study of management consultancies is not a study of sector profitability. Rather, it assesses capabilities, since capabilities are delivered to sectors.⁴ It attempts to determine how broader scope vs. specialization affect the firm's productivity, returns, and value. Three questions guided the research and empirical work.⁵ First, do Operating Ratios align with financial performance indicators, such as returns and value? Second, how do the findings compare to industry benchmark data? Third, is more or less practice diversity profitable?

The results indicate that Operating Ratios (OR) align with returns and value. ORs measure productivity and efficiency and should not be used as sole indicators of performance. An industry comparison, however, remains inconclusive. The average OR of firms in this study is 0.85, yet a more recent analysis of U.S. Federal statistics by AnythingResearch⁶ exhibits an OR of 0.61.⁷ Inquiries were sent to Kennedy Information and the Association of Management Consulting Firms to obtain industry data, but both organizations stated that historical figures are not available for academic use. Tables 1 to 3 in the next section provide an overview of the empirical results of this study. These show that firms with fewer practices exhibit better financial results. Firms also fared better with diversification transactions that maintained or focused their capabilities (as opposed to broadening them).

¹ Ellen S. Weisbord, "Growth strategy in corporate law firms"

² George Deltas and Rajib Doogar, "Practice diversification by large audit firms"

³ Nam, Tang, Thornton Jr. and Wynne cite studies by Lang and Stulz, Berger and Ofek, and Lins and Servaes (in "The effect of agency costs on the value of single-segment and multi-segment firms")

⁴ Organizational Effectiveness consulting services, for example, may be of interest to clients in a multitude of industries

⁵ The empirical model is provided separately in an Excel file

⁶ "2010 Report on Management Consulting Services"

⁷ The population in the AnythingResearch analysis is larger than this study, and observations were made a different period

Findings

The results from the empirical analysis are consistent with the financial literature. Specialization, not diversification, results in "higher valuation" of the firm.⁸

Firms with Fewer Practices (Narrow or Specialized Scope)

Firm Name	Practices 1997-2006				Averages, 1997-2006								
	Min	Median	Average	Max	MktCap	TtlRev	OR	Ret [*]	StDevRet [*]	β	MV/BV	Dbt/A	ROE
Diamond Technology Partners	2	2.5	2.5	3	461.67	41.34	0.9855	0.0296	0.2301	2.1271	4.6458	21.14%	-5.53%
Franklin Covey	2	2	2.3	3	182.61	100.71	0.6875	0.0036	0.1985	1.4322	0.6875	32.94%	-0.54%
IMS Health	2	2.5	2.5	3	6515.83	357.12	0.6753	0.0038	0.0834	0.8078	21.8838	70.28%	35.16%
Robert Half International	1	2	2	3	4241.30	605.93	0.8938	0.0101	0.1073	1.0101	6.0438	24.76%	4.76%
			Averages		2850.35	276.28	0.8106	0.0118	0.1548	1.3443	8.3152	37.28%	8.46%
			Annualized					15.10%	0.5364				38.38%

DTPI: Operating Ratio >1.00 from 2001 to mid-2003

RX: High MV/BV in late 2006, 24 diversification transactions from 1998 to 2006

* Net of S&P 500 returns, based on monthly returns

Table 1: Firms with fewer practices

Firms with More Practices (Broader Scope)

Firm Name	Practices 1997-2006				Averages, 1997-2006								
	Min	Median	Average	Max	MktCap	TtlRev	OR	Ret ¹	StDevRet ¹	β	MV/BV	Dbt/A	ROE
Ceridian Corporation	2	2	2.5	4	3224.18	311.97	0.7985	0.0029	0.0864	0.9185	3.8694	69.75%	4.33%
FII Consulting	1	3	3	5	513.464	67.41	0.7840	0.0206	0.1558	-0.0963	2.1937	42.27%	3.14%
Navigant Consulting	3	4	4	5	731.023	88.60	0.8411	0.0091	0.1651	0.9613	4.6853	26.85%	-0.26%
Maximus Inc	9	9	9	9	624.237	119.26	0.8827	0.0052	0.1157	0.7332	2.8682	20.56%	3.10%
			Averages		1273.23	146.81	0.8266	0.0095	0.1307	0.6292	3.4042	39.86%	2.58%
			Annualized					11.96%	0.4528				10.73%

* Net of S&P 500 returns, based on monthly returns

Table 2: Firms with more practices

⁸ Nam, Tang, Thornton Jr. and Wynne, "The effect of agency costs on the value of single-segment and multi-segment firms"

Event Study Results	Net Returns ¹	Firm Value (MV/BV)
	<u>Δ -1d to +1d of announcement</u>	<u>Δ 1yr before to 1 yr after announcement</u>
Firms that pursued transactions that maintained or focused the capabilities of the firm n= 114	0.0017	1.432
Firms that completed transactions that broadened their capabilities n= 21	-0.0124	-3.169

¹ Net of S&P 500 returns, based on monthly returns

Table 3: Event study results

Discussion

Table 1 and 2⁹ show that the OR of firms with fewer practices is slightly more favorable (0.81), despite Diamond Technology Partners' high OR.¹⁰ Annualized returns (15.1%) and Return on Equity (ROE, 38.38%) are higher in these firms, too.¹¹ Betas (1.34) show that the firms with a focused scope "amplify"¹² effects of the market.¹³

IMS Health' value figure (illustrated by the Market Value to Book Value ratio) skews the average in Table 1. This company completed a series of acquisitions in the early 2000's, which were seemingly all debt financed.¹⁴ If IMS is removed from the average, the resulting figure (3.7924) is favorable, though nearly equal to the average in Table 2 (3.4042).

Table 3 shows that the market rewarded firms who announced diversification transactions that maintained or focused capabilities. Firms that completed such transactions also exhibited higher valuation one year later.

Some of these figures should be viewed with caution. IMS Health, for example, also skews average and annualized ROE in Table 1. Conclusions could improve if more public management consultancies could be included in the model.¹⁵

⁹ See the appendix for a definition of acronyms used in the tables

¹⁰ DTPI exhibited an OR of greater 1.00 in 11 quarters during the period studied

¹¹ Figures were calculated from total monthly returns and quarterly financial filings

¹² Brealey, Richard A., Myers, Stewart C., and Allen, Franklin, "Principles of Corporate Finance, 9th ed."

¹³ The figure of 0.6292 in Table 2 means that these firms generally follow the market

¹⁴ IMS exhibited an average market value to book value ratio of 21.88 during the period studies, likely a result of debt financing

¹⁵ See the sections on methodology and limitations for additional information

The Industry

Management consulting orchestrates change. The industry provides guidance, opinion, and support to for-profit companies, not-for-profit organizations, and governments. Consultants help clients formulate and implement matters of strategy, planning, policy, execution, performance management, and control.¹⁶ Common names associated with management consulting are private firms such as Bain, Booz Allan, and McKinsey.¹⁷ The industry is often broadly segmented into Human Resources (HR), Strategy, IT, and specialized consulting.¹⁸ Firms in this segment are also referred to as professional services firms. This broader categorization includes attorneys, auditors, and tax advisors. The empirical work completed for this study, however, studied contemporary management consultants.

Three internal factors influence the consultancies' sales process: personal relationships with prospective buyers, the firms' credibility, and the expertise and intellect of its employees.¹⁹ These factors can generate "repeat business" and determine the firm's ability to win new clients.²⁰ While providing specialized services is common (IT, for example), some management consultancies are diversified. Clients who obtain strategic analysis at the onset of an initiative to transform a company might prefer that the same consultancy implements its recommendations.²¹ The further the client is diversified, and the broader the engagements' scope is defined, the more likely it is that the consulting firm is expected to offer broad capabilities and deliver complete solutions. Firm capabilities and practices therefore sometimes mirror the divisions of a typical client.²² Three leading capability segments in which consultancies offer services are operations management and corporate and IT strategy.²³ The leading industry sectors serviced by the industry are financial services, other, consumer products, and manufacturing.²⁴

Analysts recently commented on the previously assumed inverse relationship between the economy and demand for consulting services. In contrast to the past, the economic downturn that began in 2008 did affect the industry.²⁵ Resulting personnel reductions in firms led to the creation of smaller consultancies and furthered the shift toward specialization.²⁶ Groups within prospective client companies that substitute for management consulting services add to the competitive pressure in the industry. These internal service providers are not a new concept, yet an increase of such groups was noted.²⁷ They are typically formed to ensure goal focus or

¹⁶ IBISWorld Industry Report, "Management Consulting in the US: 54161"

¹⁷ First Research, "Industry Profile Consulting Services"

¹⁸ Private conversation with John Furth, Association of Management Consulting Firms

¹⁹ First Research, "Industry Profile Consulting Services"

²⁰ Ibid

²¹ IBISWorld Industry Report, "Management Consulting in the US: 54161"

²² Ibid

²³ Ibid

²⁴ Ibid

²⁵ IBISWorld Industry Report, "Management Consulting in the US: 54161," "Datamonitor Industry Profile," Management & Marketing Consultancy in the United States"

²⁶ Ibid

²⁷ Ibid

maintain confidentiality,²⁸ but can lead to a suppression of outside views and objectivity. Blending internal and external consultants into such groups mitigates both issues.²⁹

The same analysts predicted a consolidation wave in the industry as the economy recovers, and suggested that specialized services will be in demand as clients adjust to the economic environment.³⁰ Four external factors therefore influence how the management consultancy determines its practice mix: competition from independent consultants, niche-firms providing specialized services, internal capabilities of prospective clients, and industry consolidation.

External vs. Internal Consultants

Consultancies are subject to competitive forces such as price, resource availability, resource appropriateness, reputation, and opportunity relationships. The competitive pressure created by internal management consulting groups warrants further exploration.

Geoffrey Bellman³¹ wrote that internal consultants should be results-oriented and exhibit the ability to integrate contributions from various parts of the organization. Their skills include maintaining an appropriate level of idealism, being able to translate vision into terms understood by managers, and facilitating transformational, yet pragmatic change that "[moves] the organization ahead." The key driver for using internal consultants, Bellman wrote, is "to make expert knowledge and services available economically throughout the organization."

Johri, Cooper, and Prokopenko³² characterized internal consulting groups as "change agents" and "specialized resources." Their role is to locate issues, and to propose and implement solutions. Most of the groups were founded "to enhance the productivity of functional or product divisions through the provision of common services."³³ The authors acknowledge the tactical nature of internal consulting, which allows the organization to temporarily commit resources to an area where there is need. This is fiscally prudent, as no external counsel is needed, and since no permanent staffing commitment has to be made.

A depressed economy in the 1980s and ineffective oversight led to a decline in the numbers of internal consulting groups.³⁴ Johri et al concluded that eight business principles can turn an internal group into a profit center: emphasized client focus, delineation between the group and host company, freedom to offer demand-driven services, financial and HR independence from the host, freedom of choice for buyers in the host, ability for the group to sell externally, and the ability of the group to leverage synergies afforded by "linkages with its ... host."

²⁸ IBISWorld Industry Report, "Management Consulting in the US: 54161"

²⁹ Jenni Jarventaus, "Catering to a More Sophisticated Clientele"

³⁰ IBISWorld Industry Report, "Management Consulting in the US: 54161"

³¹ Geoffrey M. Bellman, "What does an internal consultant actually do?" Management Review

³² Johri, Cooper, and Prokopenko, "Managing internal consulting organizations: a new paradigm," SAM Advanced Management Journal

³³ Ibid

³⁴ Ibid

More recently, Mick James³⁵ argued that financial prudence is a short-lived argument when favoring internal consulting groups to external service providers. Specialization and "high quality" drive today's decisions when clients acquire consulting services. Companies therefore should help employees build "consulting skills" since today's business environments increasingly require "influence, motivation, and negotiation" to ensure positive outcomes, along with "the ability to set up and manage short-term, cross-disciplinary teams." With the emergence of business process outsourcing, James noted, employee responsibilities in a company can shift from a transactional focus to advising management and transforming the organization.

In a follow up article,³⁶ James commented on the weight that is sometimes associated with external advice. Managers occasionally view external recommendations favorably although their own employees made the same suggestions before. This, James found, highlights a key issue: whether an organization has the ability to "effectively deploy ... [its] own resources." Internal consultants also can be subject to multiple "power flows," when the direct manager, upper management, and client are essentially the same. The solution to "the credibility and political dilemmas," James proposed, is a spin-off of the internal consulting group.

A survey was conducted for this study to better understand the views on external and internal management consulting service providers.³⁷ The key findings were:

1. The majority of respondents use external consultants (firms and independents)
2. 9% of respondents' firms use internal management consultants
3. Acquiring a skill is more commonplace than using consultants to add staff resources
4. Most companies need diverse capabilities of the external consultant, since the companies do not have the required capability

A report on 20 internal management consulting groups³⁸ provides additional insights. It assessed scope of services, relationships with and access to resources in the host company, and the scale and organization of the groups. Select observations from this report include:³⁹

1. The scope of these groups falls into three general categories: organizational behavior, development, and change; business strategy and ad-hoc initiatives; and financial optimization
2. Executive management predominantly requests and prioritizes the services provided
3. Small groups originate projects and larger groups support initiatives from beginning to end
4. External consulting firms are sometimes partners and sometimes competitors
5. Measuring the internal group's contribution is a necessary and non-trivial activity

None of the groups was classified as "specialized." They provide "a wide spectrum of services to meet business requirements, often including ad hoc projects."

³⁵ Mick James, "Inside story: Is there still a role for internal consultants?" Consulting Times

³⁶ Mick James, "Revisiting the role of the internal consultant," Consulting Times

³⁷ Detail results are provided in a separate document

³⁸ "Internal consulting service group study," Satori Consulting

³⁹ The report also illustrates operating models, methodologies, and staff composition, which are beyond the scope of this study

Empirical Study

The empirical results provide two views on firms included in this study: an alignment of returns and valuation with practice diversity, and an analysis of market reaction and firm valuation in context with acquisition and divestiture transactions.

Selection Criteria

Firms selected for this study are listed under SIC code 8742 "Services – Management Consulting Services" of the United States Securities and Exchange Commission,⁴⁰ are publicly traded, and financial data are available for the same period of 10 consecutive years. Daily and monthly returns were obtained from "The Center for Research in Security Prices (CRSP),"⁴¹ in addition to financial performance data from "Compustat from Standard & Poor's."⁴² An overlapping set of data was available for eight firms for the period 1997-2006. While not intentional, this led to the period 2007-2008 being excluded from the analysis, during which global markets were afflicted by the financial crisis.⁴³

Firms Selected for This Study

The selection criteria resulted in the following list of eight firms:

<u>Name</u>	<u>Ticker</u>	<u>Exchange</u>	<u>Headquartered</u>
Ceridian Corporation	CEN	NYS ⁴⁴	Minneapolis
Diamond Technology Partners	DTPI	NAS ⁴⁵	Chicago
Franklin Covey	FC	NYS	Salt Lake City
FTI Consulting	FCN	NYS	West Palm Beach
IMS Health	RX	NYS	Norwalk
Maximus Inc	MMS	NYS	Reston
Navigant Consulting	NCI	NYS	Chicago
Robert Half International	RHI	NYS	Menlo Park

Table 4: Firms selected for the empirical study

⁴⁰ <http://www.sec.gov/info/edgar/siccodes.htm>

⁴¹ <http://wrds-web.wharton.upenn.edu/wrds/ds/crsp/index.cfm>

⁴² <http://wrds-web.wharton.upenn.edu/wrds/ds/comp/index.cfm>

⁴³ <http://www.pbs.org/wgbh/pages/frontline/meltdown/>

⁴⁴ New York Stock Exchange, acronym is used in CRSP and CompuStat

⁴⁵ NASDAQ, acronym is used in CRSP and CompuStat

Excluded Firms

Management consultancies were not included when they operated as a public company for less than 10 years (e.g. Simon Worldwide and Huron Consulting), or when data were only available for a portion of the period studied (e.g. Brand Partners Group and GRC International⁴⁶). The Thomas Group was excluded since it restated its financials for 2002-2005⁴⁷ and no data were available from CRSP for this period. Industrial Services of America was excluded due to a suspected SIC code mismatch. No data were available from CRSP for Towers Watson.

This study exhibits a bias towards seemingly successful companies. For example, the Worldwide Exceed Group could not comply with NASDAQ's minimum bid-price requirement⁴⁸ and filed for chapter 11 protection in April 2001.⁴⁹ Research on the Secure Technologies Group's company history remained inconclusive, but the firm seems inactive. "Survivorship bias," described by Nicholas Taleb⁵⁰ and John Ioannidis,⁵¹ leads us to consider only successful objects in our analyses. Taleb used the example of a group of asset managers, from which some disappear because they go out of business. Potential customers of the remaining managers could conclude that the survivors ought to be successful. Ioannidis examined medicine and biology research. He characterized bias as a "major problem" and cited monetary incentives and personal motive as contributing causes. Ioannidis argued that bias indicators include the number of irrelevant ("non-true") relationships in the model, the claimed significance of findings, and the acceptance of a conclusion when other work on the same subject exists. Like Taleb, Ioannidis highlighted that observers often merely measure results within a given bias.

Taleb recommended to include complete populations when modeling performance, and to be mindful of the "size of the initial population" since "without knowing how many managers out there have tried and failed, we will not be able to assess the validity of the track record." Ioannidis cautioned that perfection is "unattainable," suggested the use of greater sample sizes that test general concepts (as opposed to "narrow and specific questions"), and the use of meta-studies that integrate related analyses.⁵²

There exist other biases in this study, which suggest opportunities for future research on management consultancies. For example:

1. Controlling for sector alignment and demand changes to interpret practice profitability
2. Considering revenue strength and diversity of the client base
3. Determining the most profitable practice mix (and possibly sector correlation within)
4. Controlling for failures/acquisitions, including operational issues that may have mattered

⁴⁶ GRC was in business from '74-'00 (AT&T acquired it) and does not provide a complete data set for the period studied

⁴⁷ <http://www.thomasgroup.com/getattachment/20f517c6-812f-4a25-b1a4-b323bf3be246/Thomas-Group-Extends-Time-to-File-Form-10-K-Annual.aspx>

⁴⁸ <http://www.nasdaq.com/about/FAQsContinued.stm>

⁴⁹ http://findarticles.com/p/articles/mi_m0EIN/is_2001_April_30/ai_73867658/

⁵⁰ "Fooled by Randomness, The Hidden Role of Chance in Life and in the Markets," W. W. Norton & Company

⁵¹ "Why Most Published Research Findings Are False" - Ioannidis does not use the same terms as Taleb, but similar arguments

⁵² The paper contains additional recommendations that were omitted here since they are specific to the scientific community

Consulting Practices

Practices were categorized to measure diversity across the eight companies. For example, MMS maintains two sector-aligned IT groups, which were counted as a single IT practice since the study is capabilities focused. Table 5 exhibits the categorization used:

<u>Practice Identifier</u> ⁵³	<u>Definition</u>	<u>Rationale/Comments</u>
HUMRES	Human Resources services, consulting, outsourcing, including payroll processing and tax filing	
TRANSPROC	All transactional processing, for example financial transactions (debit/credit cards) ; also asset management services	Asset Management was included as the category is the closest by nature
INFSVCS	Business/ market intelligence; pure information providers, analytical services, and research firms	
INFTECH	All information technology, from strategy to design development, implementation, operations and maintenance	
STRAT	Corporate business advisory, to articulate and implement strategy	Excludes Program and Execution management, Organizational Behavior, and Change Management
OPERATIONS	Analysis of operations processes, with respect to efficiency and effectiveness; includes audit and risk; excludes IT operations	Audit and risk for businesses was included as this was the closest category by nature
TRAINING	Includes seminars, training, education products, and related products that are components or elements in the service provided	
ORGBEHA	Change Management from an Organizational Behavior and Organization Effectiveness view; excludes day-to-day management (e.g. payroll and HR outsourcing)	
PRJPRGM	Execution management, project management, program management.	Is an enabler for providing services; category accounts for outsourced services

⁵³ As it appears in the empirical model

<u>Practice Identifier</u> ⁵³	<u>Definition</u>	<u>Rationale/Comments</u>
CORPFIN	Corporate finance, economic consulting, accounting, forensic financial services, restructuring, finance technology, bankruptcy	
COMMS	Corporate Communications, Media	
LITIGSVC	Support for attorneys and corporations in legal proceedings; incl. discover/investigative and scientific services	
STAFFING	Staffing, Recruiting services	

Table 5: Practice categorization overview

Control Views

A comparison of firm size by number of practices, employees, or countries serviced could be deceptive. Talent and intellectual property products are less tangible than measurable output of an industrial plant. Firms in the study therefore were grouped into two control views. One shows firms with a relatively low practice count, the second shows firms with a higher practice count. Each view then highlights ORs, returns and beta, market value to book value ratio, ROE, and earnings per share. Results have been discussed in the beginning of this paper.

Event Study

135 diversification transactions were included to assess their effects.⁵⁴ The announcement date of the acquisition or divestiture was recorded first. Then, each transaction was classified as maintaining or focusing capabilities, or broadening them. Two examples illustrate this approach:

1. Franklin Covey sold a printing business, which focused the firm's capabilities
2. Diamond Technology Partners began as an IT consulting firm and broadened capabilities since OmniTech specialized in organizational change management

For each transaction, risk-adjusted returns were compared from the day before to the day after the announcement. The firm's value was compared from one year before to one year after the announcement. Here too, two control views were built. One shows deals that maintained or focused capabilities, and a second shows deals that broadened them. Results (returns and value) have been discussed in the beginning of this paper.

⁵⁴ Sources were regulatory filings, the Mergent online database, company websites, and media reports.

Study Limitations

Few management consultancies are public. McKinsey and Bain would make attractive study targets but are privately owned. Other reputable firms were not in business long enough to provide sufficient data. Accenture, for example, went public in 2001. Earlier, this paper provided examples of inactive firms. The main limit is the low number of observations in the model.

Diamond Technology Partners and Maximus began reporting financials later in the year 1997, which affected some of their averages for that year. In some firms, consulting is one of the businesses, yet the financial results are reported for the entire firm (e.g. Ceridian and Franklin Covey). The study also did not distinguish consulting revenues and other revenues of the firm.

Conclusion

Empirical results and industry trends suggest that fewer practices and specialization have merit. The empirical analysis found that fewer practices result in higher returns and greater value. The market also rewarded diversification transactions that maintained or focused capabilities, and the firm was more valuable one year later. Internal consulting groups cause competitive pressure since they are specialized by nature of their alignment with the host company. Yet a survey found that only 9% of respondents' firms use internal consultants, and a study of 20 internal groups showed that they all offer broad services. What are the implications for the industry?

Because of competitive pressures from independent consultants, niche-firms providing specialty services, and internal capabilities of prospective clients, management consultancies should:

1. Commit to a practice mix that emphasizes focused yet related capabilities; the mix will largely be driven by complementary capabilities (e.g. corporate finance + litigation services or human resources management + corporate change management), but relationship opportunities and the existing client base will be influential in determining the mix, too
2. Give preferentiality to alliances with peer firms to leverage capabilities, unless bridging a capabilities gap through resource acquisition is of complementary nature
3. Organize diversified operations as conglomerates where complementary practices operate together as independent firms, and acquire shared services⁵⁵ from related or unrelated peers

Follow up research by industry associations could attempt correlating private firm and public firm performance indicators to enable studies with greater samples. Controlling for client/sector revenue strength, survivorship bias, diversity of the client base, and failure/acquisition causes (including contributing operational and management decision-making issues) could be helpful to member firms in determining their desirable practice models.

⁵⁵ Refers to non-core capabilities required to run the firm, e.g. back-office functions such as IT, recruiting, payroll etc

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Appendices

Company Descriptions

Information for this section was obtained from Mergent online, Business and Company Resource Center, and company websites.

Ceridian Corporation

Ceridian, still an active company today, delisted from the New York stock exchange in 2007 due to a buyout deal. The company's primary business is to provide outsourced human resources, payroll, employee benefit, and transaction processing services. Ceridian enables clients to achieve lower cost and operational effectiveness in providing employee-management functions while focusing their firm's core competencies.

Diamond Technology Partners

Diamond is traded on Nasdaq and provides strategy, business process, and information technology consulting services. The firm initially focused on information technology services, but now markets itself as a provider of end-to-end services for companies that require solutions from strategy articulation to performance management and strategy execution. Through acquisitions, Diamond enhanced its E-Commerce capabilities.

Franklin Covey

Franklin Covey began as manufacturer of day planners and provider of training and consulting services, for organizations, students, and individuals who desired to improve leadership skills and productivity. The company resulted from a merger between Franklin Quest and Covey Leadership Center (1997). At times, significant portions of Franklin Covey's revenues came from sales of its planning products. More recently (2008), the consumer products segment of Franklin Covey was sold. The company now focuses on corporate customers and provides training and consulting services.

FTI Consulting

FTI Consulting assists firms with managing corporate financial and accounting related matters, from finance and economic consulting to forensic analysis, litigation support, and crisis communications. Risk and regulatory compliance services are provided as well. The company completed a series of acquisitions to build its competencies mix. Clients hire FTI to enhance or protect their firm's value.

IMS Health

IMS mainly provides business and market intelligence to worldwide clients in the healthcare and pharmaceutical sectors. Until 1998, IMS was part of Cognizant (which Dun & Bradstreet owned until 1996). In February 2010, the firm agreed to be acquired by two private investment funds, delisted from NYSE, and became a subsidiary of Healthcare Technology Holdings (which is controlled by aforementioned funds). Since it was founded in 1954, the company completed many acquisitions to build today's capabilities.

Maximus Inc

Maximus primarily services government agencies in the U.S. and abroad. Services include transaction processing, consulting, and information systems implementation and management. The firm has a broad range of offerings for local, state, and federal agencies, from welfare programs management to process re-engineering and asset management.

Navigant Consulting

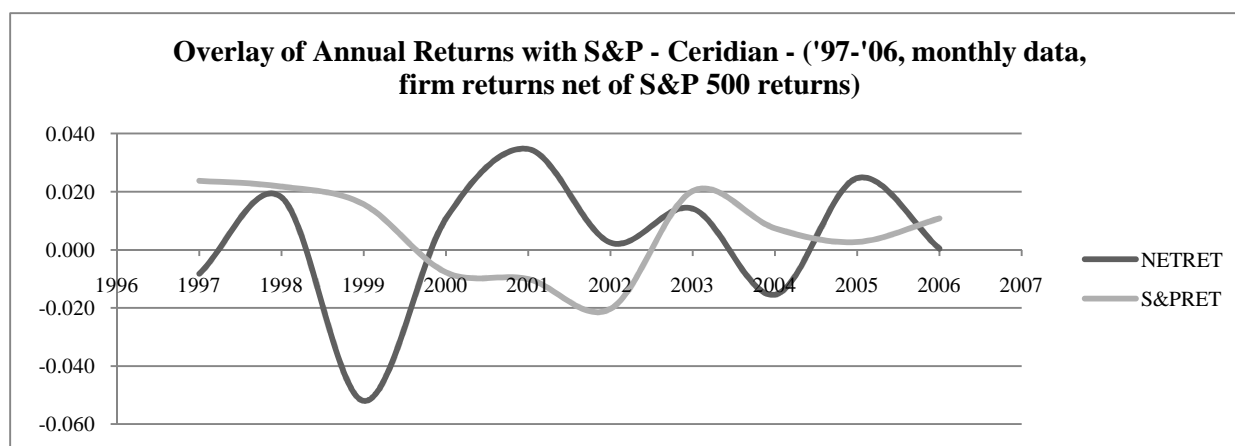
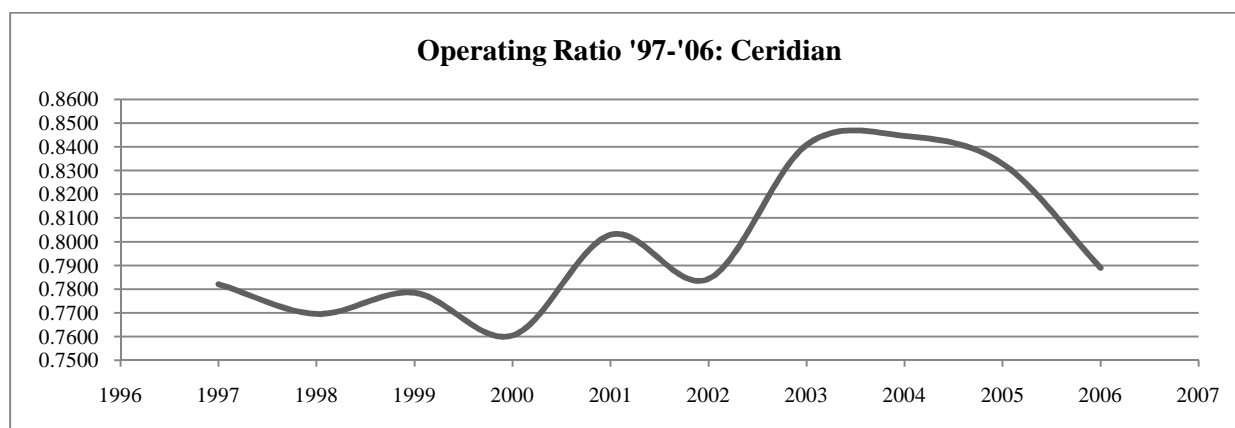
Navigant, formerly known as Metzler Group, provides litigation services, strategy and operational consulting, and financial & economic advisory services to businesses and public agencies. The company operates in North America, Europe, and Asia. The firm completed a series of acquisitions in the late 1990's, followed by a reorganization and divestiture of several businesses after a new management was brought on board. This new management team also finalized a number of acquisitions. The number of acquisition/sales transactions during the period studied is 45.

Robert Half International

Robert Half is a provider of temporary and permanent staffing solutions to a variety of industries. Professional segments in which resources are provided include accounting, information technology, legal support, and advertising & marketing. Through its subsidiary Protivity (formed when RHI absorbed a portion of Arthur Andersen's operations in 2002), the firm offers business and risk consulting services.

Individual Company Performance

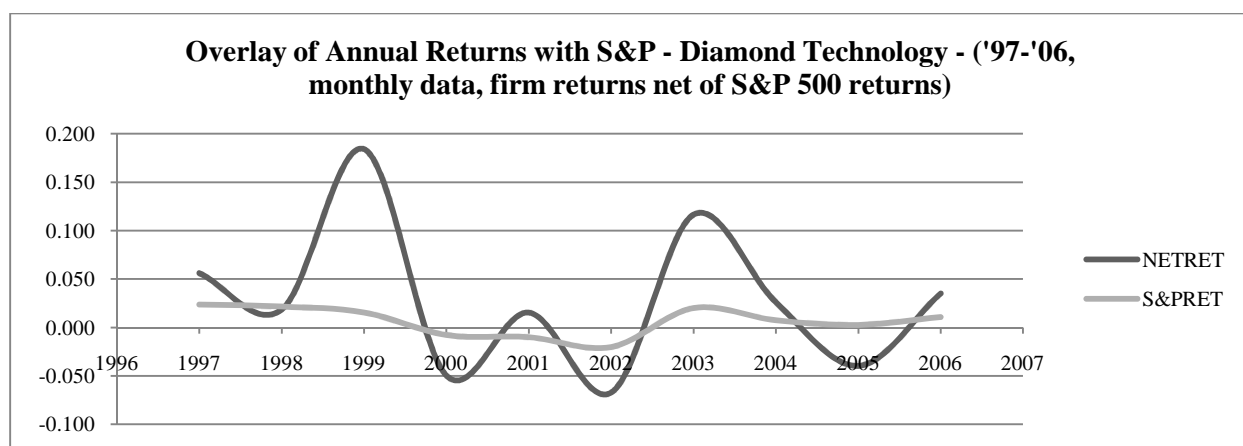
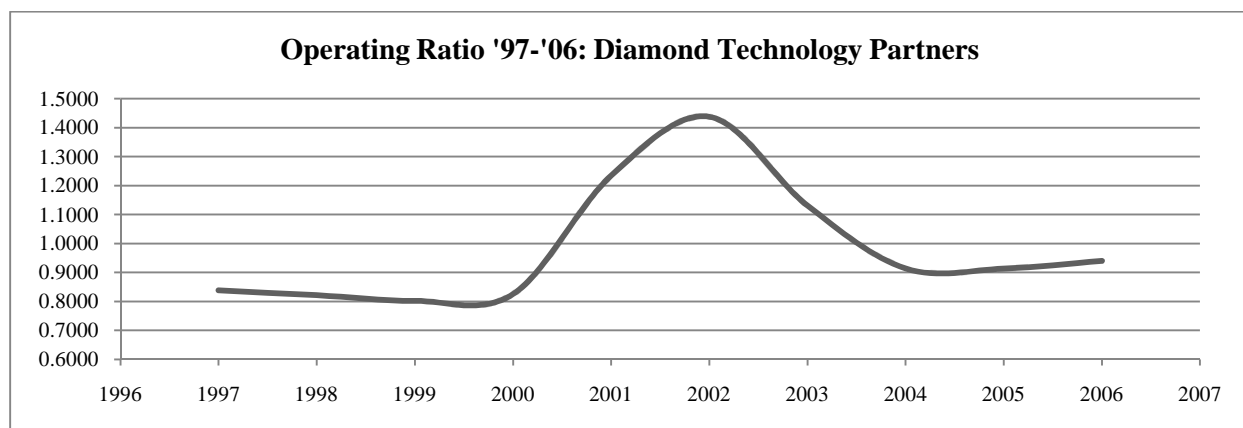
Ceridian Corporation



Revenues and Market Capitalization Overview

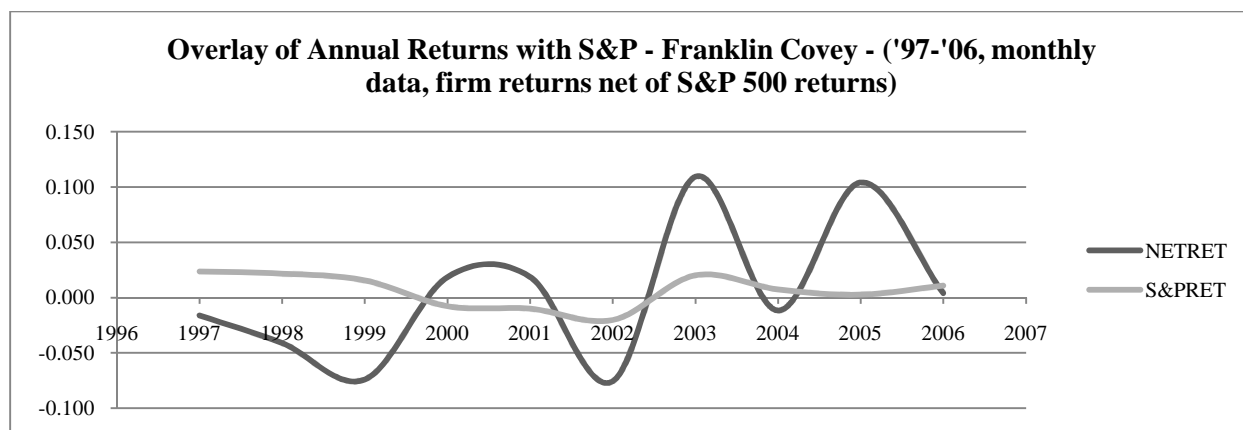
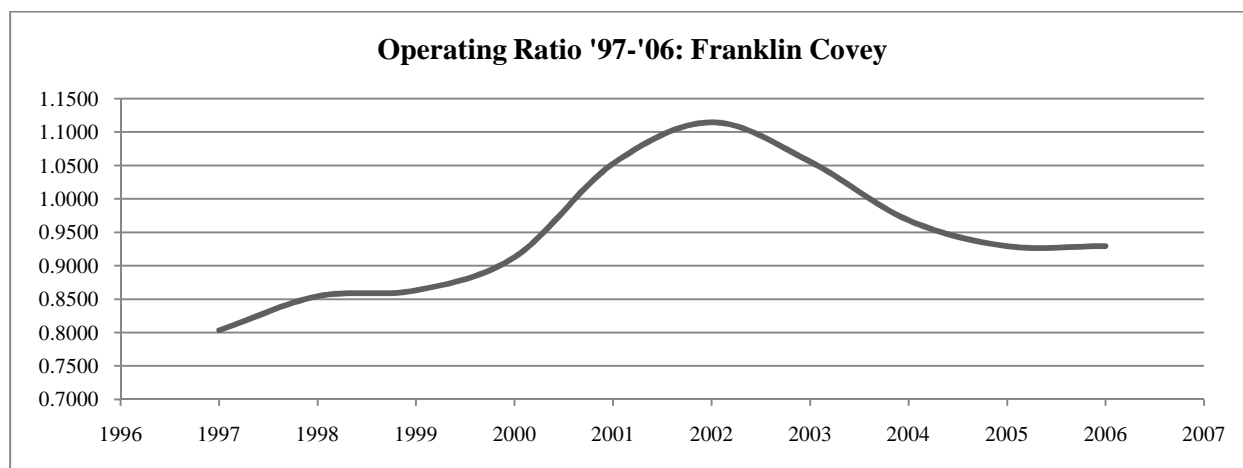
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	8,000	268.70	0.034	3140.93
1998	9,600	290.53	0.030	4327.21
1999	10,900	281.75	0.026	4181.47
2000	9,600	293.93	0.031	3316.61
2001	9,415	297.45	0.032	2591.18
2002	9,411	297.75	0.032	2582.72
2003	9,320	303.48	0.033	2624.13
2004	9,464	330.10	0.035	2936.29
2005	9,433	364.75	0.039	2998.79
2006	9,579	391.28	0.041	3542.50
Average	9,472	311.97	0.033	3224.18

Diamond Technology Partners**Revenues and Market Capitalization Overview**

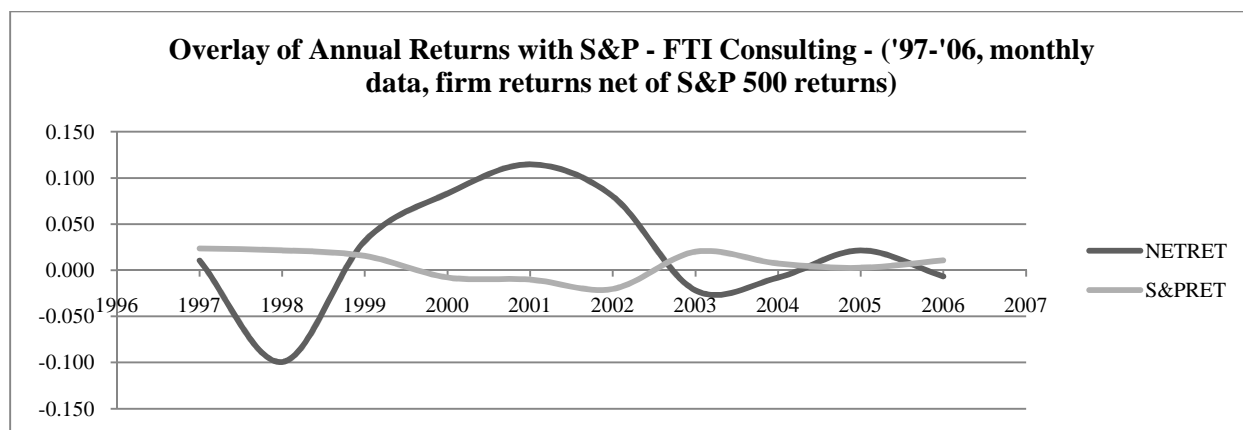
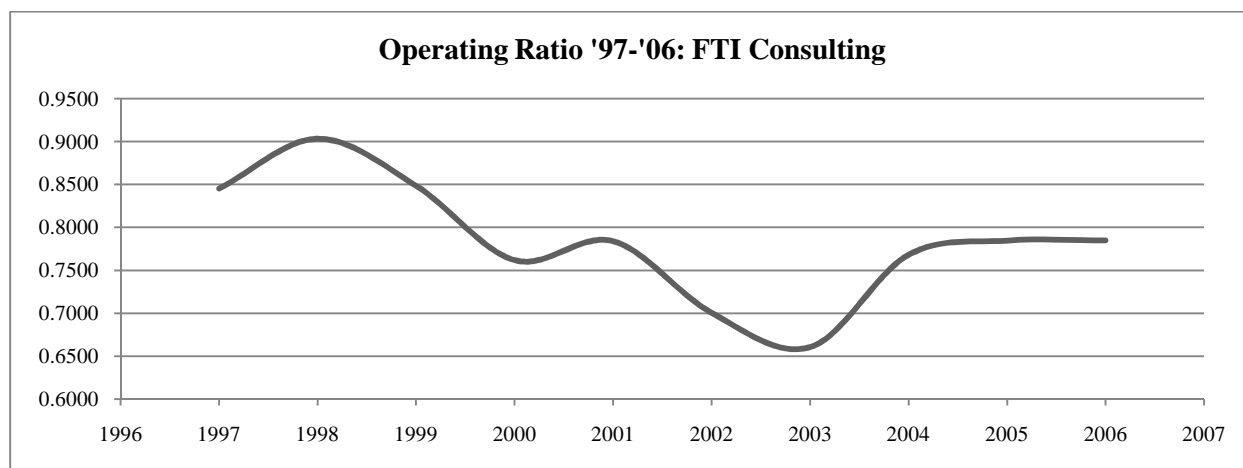
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	180	13.29	0.074	137.18
1998	223	19.06	0.085	301.43
1999	309	28.88	0.093	759.64
2000	576	66.16	0.115	1605.31
2001	1,478	62.26	0.042	340.78
2002	1,121	40.53	0.036	199.33
2003	735	39.42	0.054	186.79
2004	652	52.60	0.081	384.31
2005	751	44.70	0.060	361.33
2006	554	46.50	0.084	340.57
Average	658	41.34	0.072	461.67

Franklin Covey**Revenues and Market Capitalization Overview**

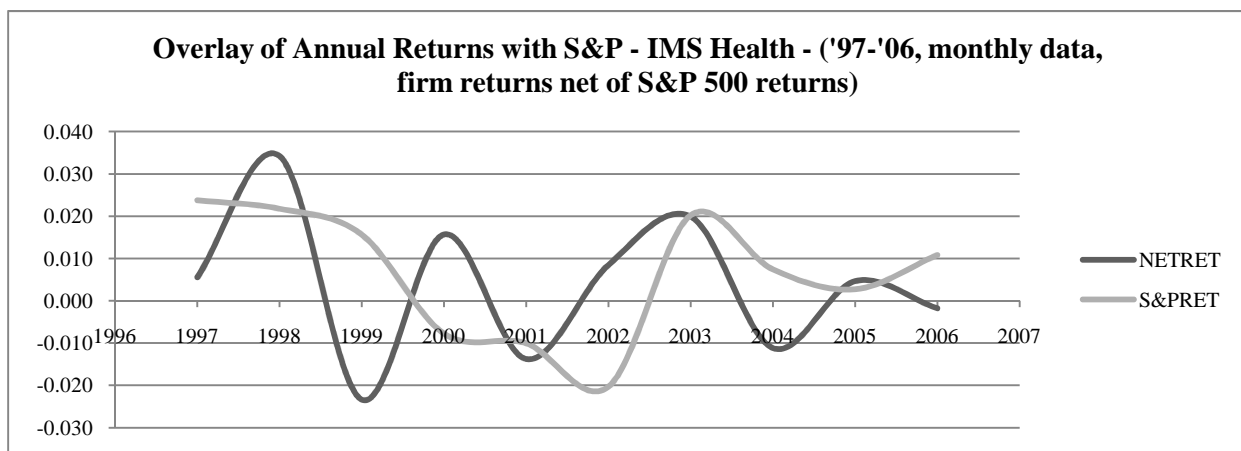
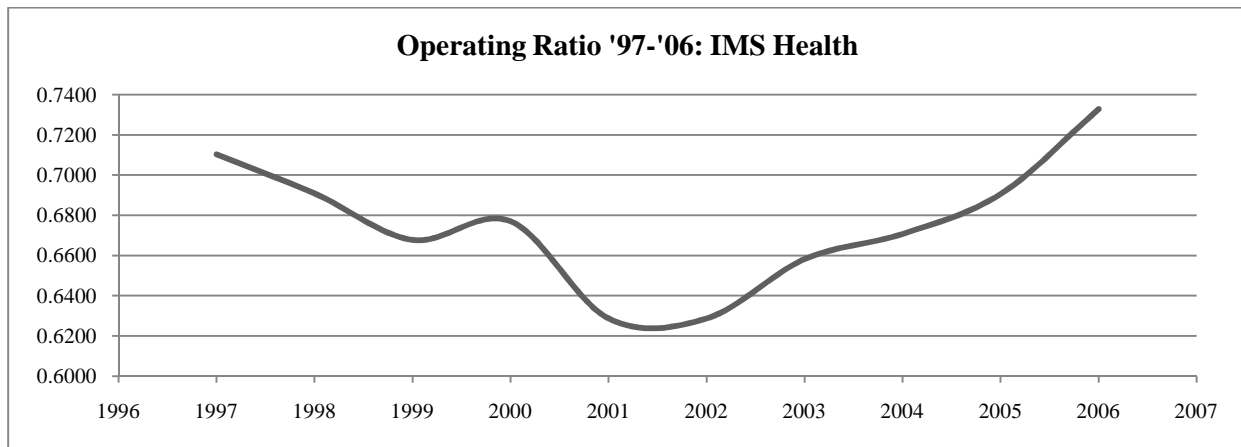
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	4,741	118.70	0.025	509.35
1998	4,247	135.76	0.032	471.94
1999	4,165	140.86	0.034	189.15
2000	3,988	144.93	0.036	156.37
2001	3,247	99.63	0.031	130.36
2002	2,081	83.43	0.040	46.13
2003	1,425	74.29	0.052	24.04
2004	1,349	67.38	0.050	44.79
2005	1,333	71.70	0.054	116.02
2006	1,237	70.45	0.057	137.91
Average	2,781	100.71	0.041	182.61

FTI Consulting**Revenues and Market Capitalization Overview**

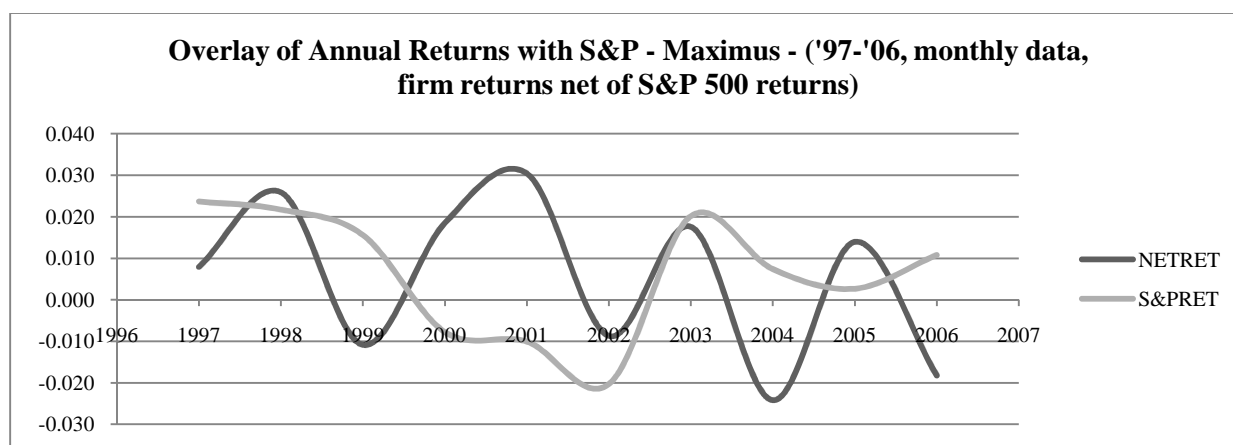
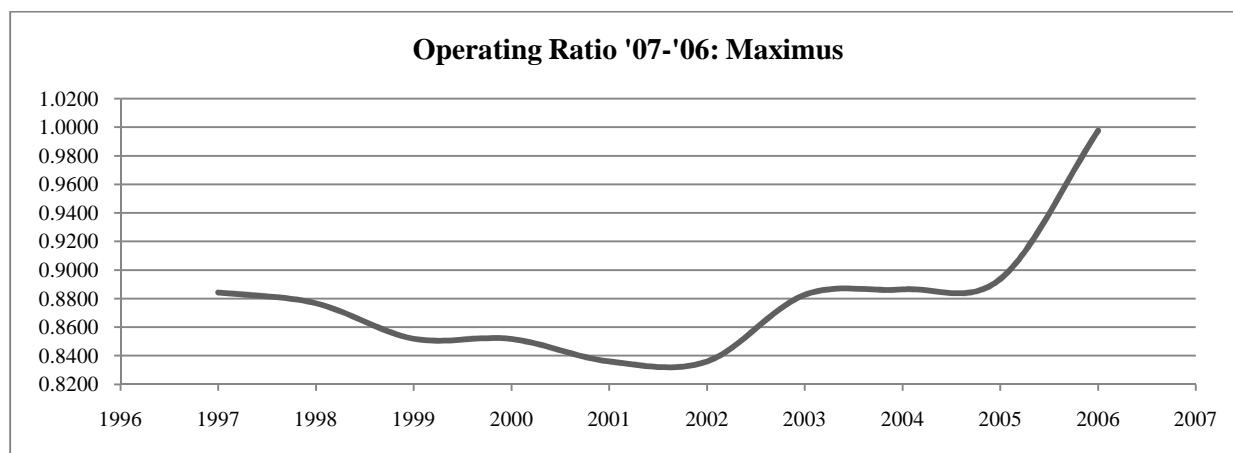
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	251	11.04	0.044	40.25
1998	416	14.65	0.035	47.95
1999	464	21.15	0.046	21.63
2000	555	33.69	0.061	67.70
2001	582	30.58	0.053	302.24
2002	769	56.03	0.073	811.18
2003	1,085	93.92	0.087	1006.19
2004	1,035	106.75	0.103	776.63
2005	1,338	129.26	0.097	965.02
2006	2,079	176.98	0.085	1095.82
Average	857	67.41	0.068	513.46

IMS Health**Revenues and Market Capitalization Overview**

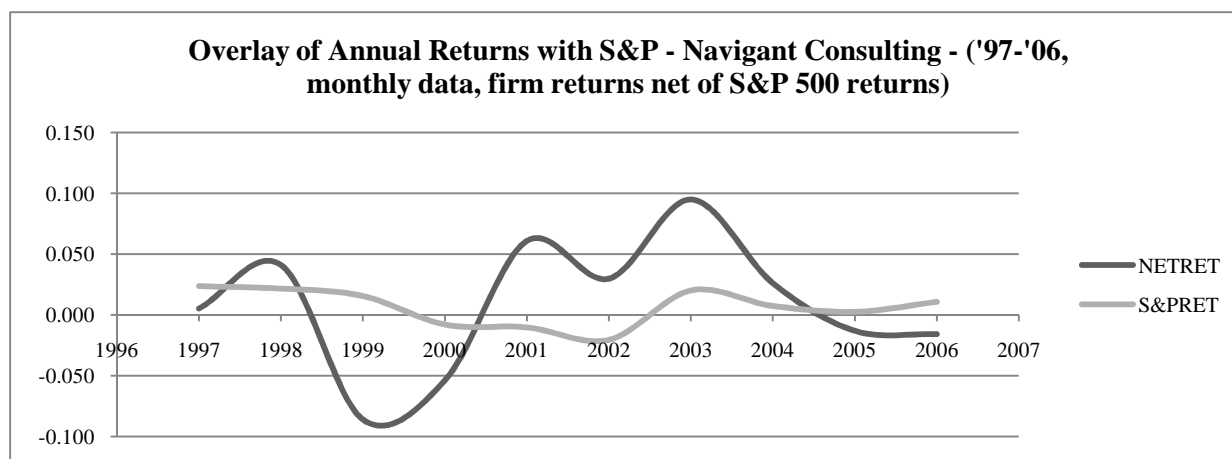
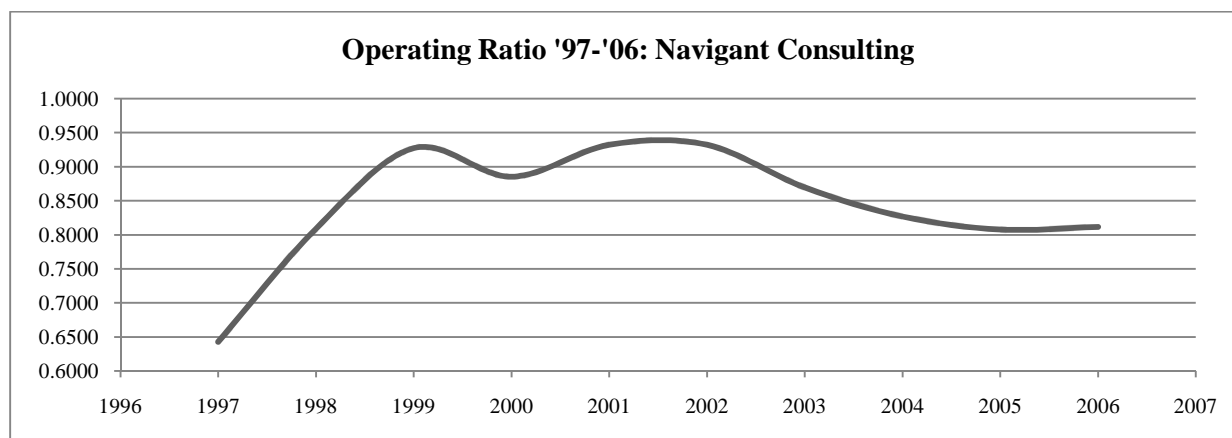
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	8,000	264.89	0.033	6342.11
1998	8,000	296.63	0.037	10302.76
1999	9,000	349.50	0.039	8877.24
2000	7,358	356.09	0.048	6085.79
2001	6,283	333.23	0.053	7241.70
2002	6,755	304.86	0.045	5083.68
2003	6,000	345.44	0.058	4774.27
2004	6,400	392.26	0.061	5453.43
2005	6,900	438.70	0.064	5657.93
2006	7,400	489.65	0.066	5339.42
Average	7,210	357.12	0.050	6515.83

Maximus Inc**Revenues and Market Capitalization Overview**

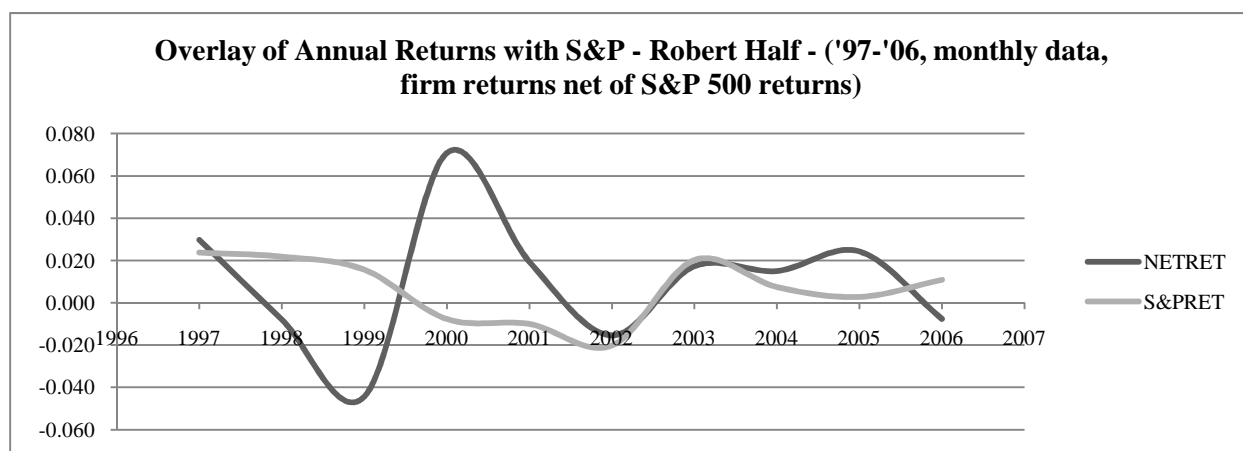
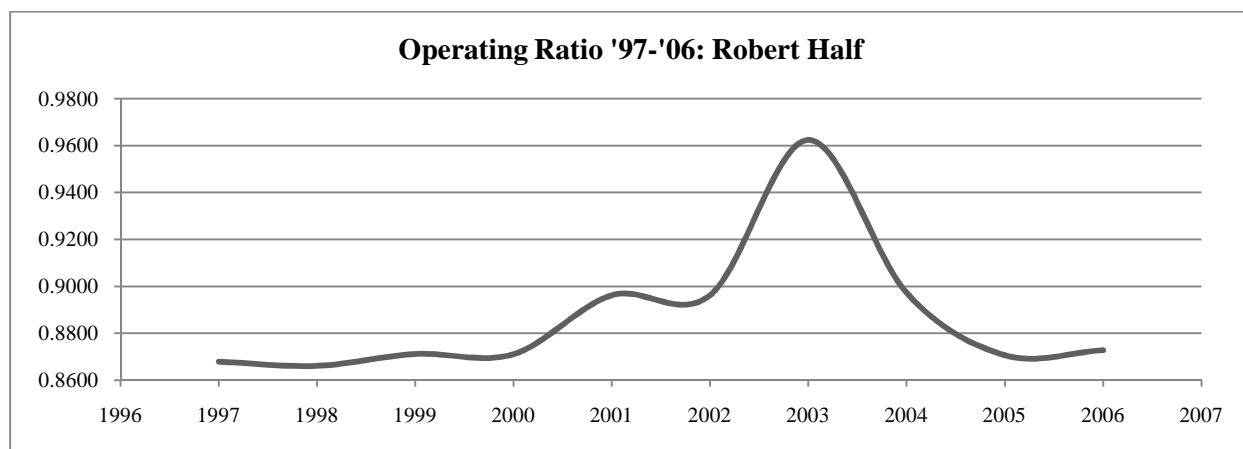
Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	1,577	45.12	0.029	262.51
1998	2,800	66.52	0.024	564.35
1999	3,485	84.22	0.024	638.36
2000	4,205	104.68	0.025	579.14
2001	4,825	126.90	0.026	855.22
2002	5,188	130.45	0.025	614.88
2003	5,193	141.12	0.027	649.26
2004	5,151	154.34	0.030	700.20
2005	5,227	164.44	0.031	754.52
2006	5,735	174.83	0.030	623.91
Average	4,339	119.26	0.027	624.24

Navigant Consulting**Revenues and Market Capitalization Overview**

Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK CAP</u>
1997	525	65.59	0.125	423.98
1998	1,500	66.72	0.044	1164.59
1999	2,200	54.87	0.025	1221.15
2000	1,200	61.16	0.051	228.30
2001	1,325	58.90	0.044	239.40
2002	1,368	64.51	0.047	255.13
2003	1,367	79.45	0.058	533.63
2004	2,060	120.53	0.059	1060.41
2005	2,276	143.87	0.063	1072.94
2006	2,475	170.44	0.069	1110.71
Average	1,630	88.60	0.059	731.02

Robert Half International**Revenues and Market Capitalization Overview**

Averages are calculated from quarterly data for the period 1997-2006

<u>YEAR</u>	<u>EMPL</u>	<u>REV</u>	<u>REV EMPL</u>	<u>MARK_CAP</u>
1997	4,300	325.72	0.076	3089.44
1998	5,200	448.26	0.086	4393.52
1999	6,300	520.33	0.083	2486.59
2000	8,300	674.83	0.081	5028.98
2001	6,300	613.21	0.097	4099.69
2002	6,900	476.24	0.069	3678.20
2003	7,300	493.75	0.068	3203.09
2004	9,200	668.92	0.073	4672.83
2005	11,000	834.61	0.076	5333.53
2006	13,400	1003.39	0.075	6427.13
Average	7,820	605.93	0.078	4241.30

Select Financials and Other Figures

This section provides additional perspectives on the firms studied.

Market Value/Book Value Ratios

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ceridian Corporation	CEN	8.0681	7.3849	5.4872	3.6222	2.3171	2.2894	2.2894	2.3364	2.3287	2.6777
Diamond Technology Partners	DTPI	6.2012	7.1901	11.3619	6.3518	0.8130	0.7106	0.7106	4.3961	3.4781	3.4725
Franklin Covey	FC	1.7127	1.3371	0.5411	0.4161	0.3926	0.1822	0.1822	0.2609	0.8121	1.0954
FTI Consulting	FCN	2.0343	1.9897	0.7470	1.2888	3.2479	4.5446	4.5446	1.6013	1.9881	2.1342
IMS Health	RX	7.3288	10.2100	12.0428	16.7645	19.3677	15.1227	15.1227	18.2609	14.6082	82.3012
Maximus Inc	MMS	3.8745	6.0234	3.7207	2.8156	3.0135	1.9695	1.9695	1.8822	1.8836	1.5378
Navigant Consulting	NCI	13.0805	11.1036	4.5307	1.2993	2.1376	1.9636	1.9636	4.1510	3.0309	2.4356
Robert Half International	RHI	8.1157	8.8529	4.3873	7.3613	5.3105	4.6185	4.6185	5.5119	5.7763	6.2767

Betas

Beta coefficients were calculated using monthly total returns (not risk adjusted), and the COVAR and VARP functions in Excel 2007. The results are as follows:

<u>S&P500</u>	<u>CEN</u>	<u>RHI</u>	<u>FC</u>	<u>FCN</u>	<u>RX</u>	<u>NCI</u>	<u>DTPI</u>	<u>MMS</u>
1.00	0.92	1.01	1.43	-0.10	0.81	0.96	2.13	0.73

Number of Practices

Number Practices During Period Studied

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	Trend
Ceridian Corporation	CEN	4	3	3	3	2	2	2	2	2	2	↘
Diamond Technology Partners	DTPI	2	2	2	2	2	3	3	3	3	3	↗
Franklin Covey	FC	2	2	2	2	3	3	3	2	2	2	↔
FTI Consulting	FCN	1	3	3	3	3	3	3	3	3	5	↗
IMS Health	RX	2	3	3	3	3	3	2	2	2	2	↔
Maximus Inc	MMS	9	9	9	9	9	9	9	9	9	9	↔
Navigant Consulting	NCI	3	4	5	4	4	4	4	4	4	4	↗
Robert Half International	RHI	1	1	1	1	1	3	3	3	3	3	↗

Operating Ratios

		1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ceridian Corporation	CEN	0.7821	0.7695	0.7784	0.7604	0.8030	0.7843	0.8408	0.8447	0.8329	0.7889
Diamond Technology Partners	DTPI	0.8383	0.8216	0.8021	0.8254	1.2338	1.4371	1.1304	0.9136	0.9133	0.9400
Franklin Covey	FC	0.8032	0.8543	0.8630	0.9128	1.0529	1.1148	1.0559	0.9680	0.9292	0.9294
FTI Consulting	FCN	0.8451	0.9031	0.8484	0.7617	0.7838	0.7004	0.6603	0.7679	0.7845	0.7847
IMS Health	RX	0.7103	0.6909	0.6678	0.6770	0.6288	0.6288	0.6582	0.6708	0.6906	0.7328
Maximus Inc	MMS	0.8844	0.8768	0.8520	0.8518	0.8361	0.8361	0.8827	0.8865	0.8938	0.9977
Navigant Consulting	NCI	0.6429	0.8089	0.9273	0.8854	0.9322	0.9322	0.8695	0.8269	0.8078	0.8117
Robert Half International	RHI	0.8679	0.8661	0.8712	0.8711	0.8962	0.8962	0.9623	0.8972	0.8706	0.8728

Acronyms

The following acronyms appear in Tables 1 and 2:

MrkCap	Market capitalization of the firm
TtlRev	Total revenue of the firm
OR	Operating Ratio
Ret	Risk adjusted total returns
StDevRet	Standard deviation of monthly total returns
β	Beta of the stock
MV/BV	Market value to book value ratio of the firm
Dbt/A	Debt to assets ratio of the firm
ROE	Return on Equity of the firm

The following acronyms appear in the event study summary (Table 3):

-1d	1 day before the event
+1d	1 day after the event
1yr	1 year before (after) the event
n	Number of observations
MV/BV	Market value to book value ratio

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