



MANAGEMENT CONSULTING IN THE IT REVOLUTION —
THE RISE OF 3RD GENERATION MANAGEMENT CONSULTANTS

IT revolution has changed the way businesses work. That has been said for a decade but is really taking off now. The landscape of consulting services is seriously affected by this revolution and the pressure on the consulting market due to the economic recession has made this all too clear. The very term 'consultant' has seen serious inflation. Clients are now wondering what that one special quality is that consultants bring to the table.

This calls for a reflection on the position of management consultancy (MC) and their consultants in particular. Twice in the past, the consulting profession has achieved the position of a trusted advisor at board room level. This achievement is realised over time in so called waves. These waves have gained ground thanks to an eruptive period. Such periods mark the starting point of a new wave. It is interesting to learn from the past of the consulting industry to foresee the implications for the next generation.

Now the IT revolution is already halfway there. It is entering first maturity levels by adopting whatever is churned out by the newer technologies. Quite possibly, another disruptive period is taking place. This has great implications for the MC profession. And this provides great opportunities.

The authors present the new face of consulting. It is emerging as a 3rd generation of the management consulting profession. The IT revolution gives the fuel for new businesses and enterprises to emerge and for existing businesses to adapt. They are the clientele for the new 3rd generation management consultants (3GMC). With an iterative approach and technology savvyness they operate from board room to shop floor to co-create new services that will change the business.

Cost-cutting and restructuring is the call of the day, it seems. The worldwide recession has led companies to focus on these means as the usual safe havens during crises. Our global economy is very volatile, with a lot of cross-sector interdependencies.

Shareholder value has lost some of its ground. Companies, especially financial companies, seem less in control of their own destiny. Factors such as trust, international dependence of the economic system, environmental challenges, increased regulation and integrity have become important as well. As the safe ground of many companies has disintegrated, entrepreneurship has also silenced. Most businesses have retreated to their core and are trying to hang in, until the recession is over.

Much of the advice that executives have received in the current economic downturn is remarkably similar to what they heard during previous recessions. The preferred antidotes seem to be standard ones. Focus on your core, reduce costs, evaluate your risks, develop contingency plans, and so on. However, this may not serve companies well today. The scenario is different now. Deregulation, environmental challenges, lowering of trade barriers, rapid technological advances, demographic shifts and greater urbanization are just a few of the changes.

Traditional consultancies fall short of adapting to these new perspectives. Which is logical, given their past. This requires some elaboration in the next chapter.



UNDERSTANDING THE RISE OF A 3RD GENERATION OF CONSULTANCIES: A HISTORICAL PERSPECTIVE



After World War II the consulting industry started to take off. A lot of consulting organizations, such as Arthur D Little, Booz Allen & Hamilton, McKinsey and AT Kearney started early in the previous millennium. But their real upswing happened during the 50s. The economy was prospering, and so did they.

Management theory by the likes of Ansoff, Chandler and Sloan changed business thinking. It also opened up the field for consultants. The focus of the existing consultants was on strategy and the organization of clients operations. As consultants were relatively new, CEOs were receptive for the new perspectives on strategy they provided. We call this period the 1st wave of management consulting.

Strategy consulting has grown to become an important market and the strategy consultants have proven their value. And still continue to do so. Despite the fact that the business itself has passed its rapid growth period. For one thing, the limitations of strategy consulting were recognized as one of its core foundations at the start, 'linear thinking', is not effective in today's changing markets. Long term planning and strategies are effective in well defined markets where demand and supply can be modelled more or less accurately. However in today's dynamic and internationalized markets, the traditional strategy approach showed its limitations.

And a new point of view came to life. Market growth was not the key driver for business growth anymore. Companies needed to exploit their resources more efficiently to realise significant profit growth. Moreover mergers and acquisitions were all around, to realise synergy benefits. The way businesses were run changed, and it also required a new focus on performance management Hence, the entrance of the 2nd wave of management consultants to guide their customers through these changed times.



During the 2nd wave, consultants experienced significant growth with focus on finance and operations. For example, KPMG, predecessors of PWC and Ernst & Young. The strategists maintained their position (by adapting somewhat) and some of their work like business planning became a commodity in many enterprises. By 1970-80, globalization had started to set in. Consolidation of businesses were considered important for company growth. And were often inspired by financial performance indicators only. The boardroom members of the involved parties were increasingly looking for outside assistance. Therefore, the financial driven consultancies that supported this development became more powerful. They were at par with the members of the board. Resources were scarce and cost control was important. Hence, HR, business process reengineering and quality management slowly gained ground as the companies were expected to become more efficient.

When the 1st wave attained maturity, a substantial part of the advisory services became commoditized. In the 2nd wave, the maturity phase had similar effect on clients financial operation and its administrative organization. Consultancies that provide these commodity services are driven by volume and efficiency. These services are industrialized.

Their colleagues that focus on topics that were (and are) perceived as creating business value: mergers & acquisition, private equity and fiscal advisory, are in a different world. Their focus is on added value, unique propositions and tailor-made consultancy. Commodity and customization are that way two faces of consulting. They may seem very different from each other, but it is now considered crucial to combine both these aspects to achieve a business that is sizeable and profitable.

The rise of the 2nd wave of consultancies may also be the result of the increased importance of shareholder value. Every company feels the heat of shareholders who demand results in short term (and long term). The financial and performance management of many companies have become tight and dominant. But in the new millennium, limitations of this value system have recently surfaced.

THE RISE OF IT BRINGS A FRESH PERSPECTIVE

In the 80s, IT entered the business arena with a bang. As the importance of IT grew and the internet came to life, existing 2nd wave consultancies extended their territories towards IT. Or they took over specialist IT-advisors and added them to their advisory portfolio. Because IT was so new, clients depended heavily on consultants.

But more important than this extension of existing 2nd wave of consultancies, was the start of new businesses that focused exclusively on pure IT. All the major software and IT-services companies started or grew heavily around this period. They were considered gurus in this new domain. Initial focus of these so called IT-consultants was on automation of existing processes and standardization. This strong focus on standardization also covered the way the IT experts themselves operated. Structured design methods, standard business process models, application architectures and software engineering were the clear results.

These developments were important for maturing the role of IT in businesses. However, the technocratic approaches were not (and are not now) appealing to the business community. Business, after all, is a matter of people, not technology.

LIMITATIONS OF 2ND WAVE AND INTRO TO THE INFORMATION ECONOMY.

At the end of the nineties it became clear that we were entering a new age. Human expression, thought, communication, and even human life had been infiltrated by high technology. As each realm is overtaken by complex techniques, the usual order is inverted, and new rules established.

The new economy that surfaced, is a far more turbulent reordering than mere digital hardware has produced. We call this new order the information economy. It has three distinguishing characteristics: It is global. It favors intangible things—ideas, information, and relationships. And it is intensely interlinked. These three attributes produce a new type of marketplace and society, one that is rooted in ubiquitous electronic networks¹.

The information economy is now entering the maturity stage of its development. This means that IT is commoditized. Further, the role of the IT consultant is changing rapidly. This has resulted in the outsourcing of non-core processes and functions. And also in the rise of (enterprise or service oriented) architecture that standardize the way that support processes in the organization can be modelled to make best use of outsourcing.

As a result of the commoditization, clients and IT consultants operate on a more equal basis these days. Previously, consultants had an edge in knowledge or capabilities, making a lot of clients depend on them. But these hey days are over. Nowadays clients have as much knowledge as their IT advisors. So they expect more from them. They want to be challenged and inspired as well as helped with materializing all the changes.

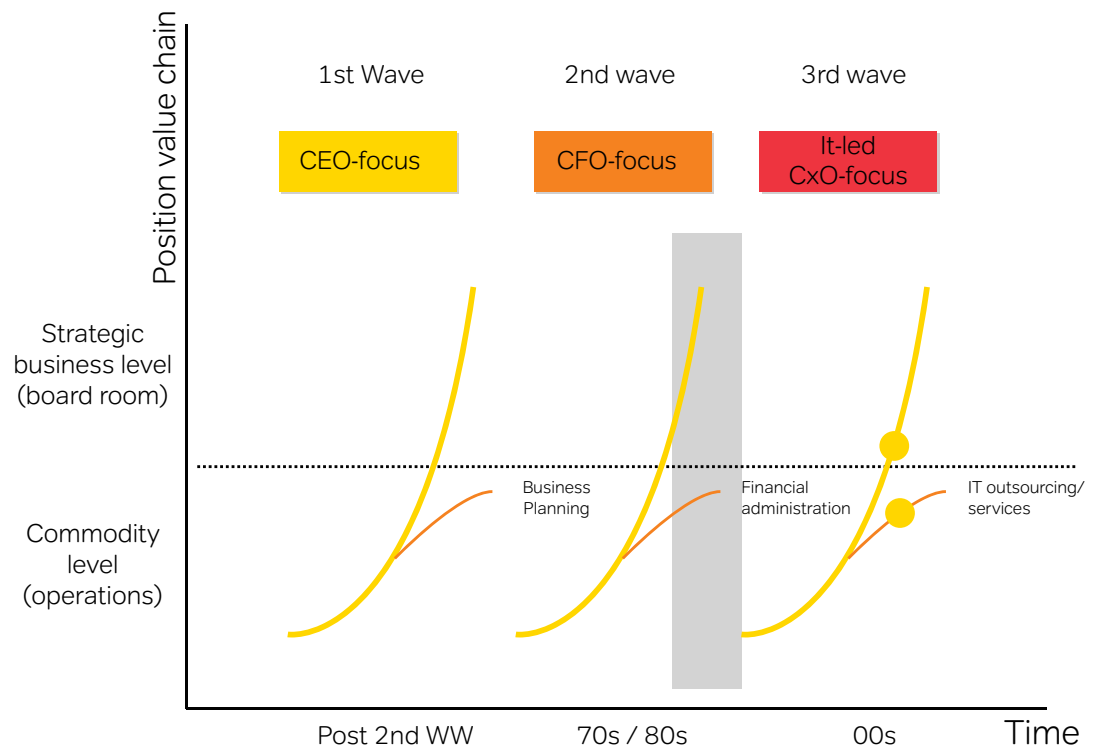


¹ Kelly, New Rules for the New Economy, 1998



After the first few years of booming internet business, and huge IT operations, there was a growing need for fresh new ideas. The markets were becoming global. There was more competition from emerging economies. Consequently, there was a growing demand for innovative perspectives. New start-ups, new services and other innovations were being introduced. In this world of growing complexity, the traditional approaches to management as advocated in the 1st and 2nd wave of consultancies are no longer sufficient to run modern organizations ².

Fuelled by the need of the business community a new management consulting market is surfacing that takes technology as an inspiration source. We call this 3rd generation management consultancy (3GMC). It is not based on the knowledge foundations of the 1st or 2nd wave of consultancies, but instead is growing out of the vast body of knowledge that the IT consultants business has produced. In the remainder of this paper we work out the characteristics of this new wave that is expected to grow rapidly in the business domain.



² The consulting industry has experienced significant growth (more specifically in the past couple of decennia), to a global market value of € 181 billion in 2007. It is expected that the consulting industry will still grow, but on a very limited scale (max. 3% per year)

The challenge for consultants is to prove their value once again. Taking into consideration the changing economy and its impact on the business. The 3rd generation consulting need to consider the following:

1. THE INFORMATION ECONOMY

Technology advancement and the internet have made information transparent and available in real time. Much has changed after that. Research³ has proved that competition (in US industries) rose substantially beginning in the middle of the 1990s. This coincided with the rise of important new technologies like the Internet and commercial enterprise software. High performing companies pulled farther away from low performers in measures like profit margin.

An interesting pattern emerged. All of these changes have been more pronounced in industries that spend more on IT. In both the manufacturing and service sector the trend is clear: greater technology spending is associated with more intense competition at the industry level.

The research data cannot 'prove' that IT is responsible for the changes in competition. But it is believed that IT is in fact increasing the pace of business competition. It is doing so in two broad ways. First, tools for analytics, open innovation, crowd-sourcing, and so on are increasing the number of good business ideas. Second, communication and workflow technologies are enablers of many of these ideas. Thanks to IT, innovations that were formerly local can now be spread globally throughout a company.

In the Netherlands, research at the Central Bureau of Statistics (CBS) reveals a strong correlation between ICT and innovation. And this in turn, is strongly correlated to productivity growth.

Consultants are at the base of this new age. They analyze, sense, see or develop new opportunities that didn't exist earlier. Or they are technical wizards who know what is needed to make certain applications. They thereby act like a radar in identifying the innovations.

2. KNOWLEDGE AND TECHNOLOGY DRIVEN

Information and competitive advantage are not sustainable. Western economies are moving towards becoming service economies. The crucial production factor has become knowledge. Natural resources, labour and capital are sufficiently available; especially on a global scale. Valuable knowledge to drive business success is becoming scarce. The challenge is to develop and maintain crucial knowledge. Companies want to be more than the sum of their individual staff knowledge. But it doesn't always happen like that. Because knowledge is not fluently shared, managed, or created within companies.

With the rise of IT on the corporate ladder, its business value is recognized. Most of the focus is still on the infrastructure part. However, more and more IT is also seen in a different perspective. Technology is not just limited to IT, software and hardware. Biotechnology, nanotechnology and other applications of technology are also gaining ground. IT has helped them to mature their expertise areas and now they in turn are offering their fresh knowledge to the business community.

It will be safe to say that consultants should have a sound understanding of knowledge creation and technology and its application in businesses. We call this type of consultants the 'T-bones'. They have a broad business perspective and at the same time deep-technology knowledge.



³ McAfee and Brynjolfsson, 2009

Today, many consultants are 'I-bones' or at best 'L-bones'. But as complexities increase, so will be the need for T-bones.

3. REINFORCE COLLABORATION / CO-CREATION

Open markets and deregulation are partly responsible for increased cooperation of companies. It is now even more challenging to achieve business success. Executives know the power of collaboration. Innovation, which results from working together with clients or vendors, makes up for more and quicker success. Renowned R&D departments are opening their doors for other players to join hands with them and create an innovative solution.

Consultants should also take this approach and encourage collaboration. They can reinforce collaboration, because they are by nature active in several markets and for many clients. It calls for an open mind and an atmosphere of trust and sound entrepreneurship. Not exactly common practice in the traditional domains of the 1st and 2nd generation consultancies where big firms' reputation dominate the market and collaboration out of free will is exceptional.



To meet the challenges at hand, and reclaim a prominent position in the business domain, consultancy must be based on three cornerstones. They form the framework of knowledge and skills for the 3GMC. Similar to what the theories of Porter, Ansoff and the business case analytics have done for the 1st and 2nd wave.

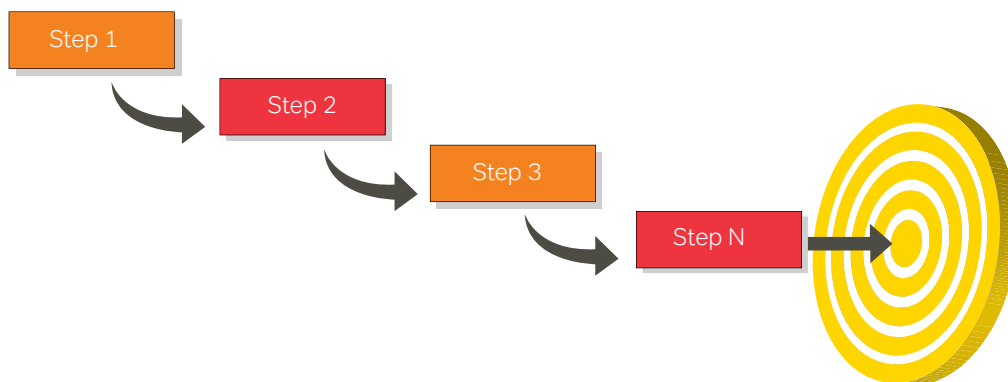
The three cornerstones are:

1. Applying an Iterative Approach to solution development and analysis
2. Taking a Comprehensive Service Model as baseline for the consultancy results
3. Working from a foundation of mature and inspirational Technology Savvyness



1. APPLYING AN ITERATIVE APPROACH TO SYSTEMS DEVELOPMENT AND ANALYSIS

The standard 'waterfall' model in engineering and change has reached its limit of effectiveness. That is because user involvement is only present at the very start and at the end. Complex or large projects that for instance are commissioned by the public sector demonstrate this effect clearly. Even with elaborate user requirements elicitation stages and techniques, these projects at some time enter a closed-door phase. Here the best of engineering techniques and methods is applied to deliver a solution that fulfils the requirements. At the end of this phase the results are validated against the requirements. And although there may be a good match with these original requirements, a general sense of dissatisfaction is present. Not because the contract has not been fulfilled to the detail. But because the delivered solution does not meet the current expectations of today's users. In other words, their user experience is not great. Therefore the overall appreciation of the delivered systems is low or even negative.

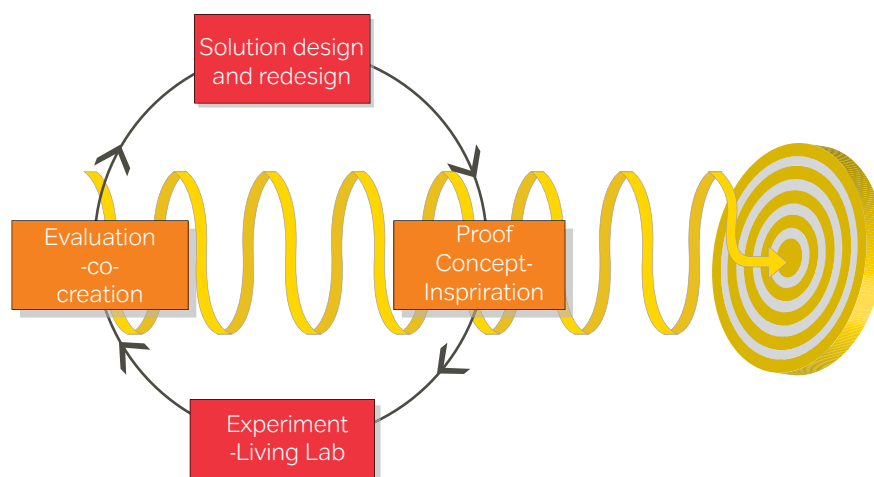


This does not mean that the waterfall approach lacks in merits and has not delivered great results. All engineering triumphs of the past half century are for the most part based on the rigorous application of structured engineering and phase-based working. The airplane, chemical processing for new materials and new medicines demonstrate this. In all these cases, however, the user only plays a side role.

The information economy requires a different perspective. The user is at the centre. And it is the user's appreciation of the services, tools and products that matter. They are techno-savvy, are used to unlimited connectivity and will immediately change providers or start using another producer's goods if they are not happy with what they get. We need methods and tools that help to create

products and services that place the user at the center. We need to make sure that the creativity of our engineers, consultants and business people is focused to create the maximum possible user experience after our new solutions have been delivered and maintain that user experience during the life time of the systems.

There is help at hand. Design thinking, an iterative process that ensures user involvement in every experiment step, is the new way to go. This process is successfully applied in the designing industry, film and media production industry, architecture and the interactive media. A typical 3GMC approach is to apply this experience and scale it to fit the challenges of our present day society at large.



The iterative process goes through a number of cycles, each consisting of four steps.

- In the first step, initial solutions and scripts are designed. This is where creativity is applied. In each step of the iteration good evaluated ideas are kept and bad ones are discarded.
- Second step is implementing the design results of the first step. It will be a partial implementation focused on providing inspiration to the user group. In later stages of the iterative process, the implementations are made out of the half products of earlier design cycles.
- In the third step, the user community is brought at the centre of attention. Through experimentation in laboratory and in real-life settings, the effectiveness and user acceptance of the implementations and proof-of-concepts is validated.
- Fourth and last step deals with the evaluation and selection of the results of the validation work in the third step. New objectives for the next iterative cycle are set and guidelines are established. In this phase the users are co-creators.

In a mature iterative cycle, clients or consumers act as co-creators. Notably in the experiment phase, the clients or consumers become producers (hence the term prosumers) when they give input and direct the form and shape of the final outcome. There is a growing body of knowledge on this process of co-creation under the terminology of 'living lab's'.

The iteration process is well suited to master the complexity of challenges where the focus is on user involvement. Each cycle is used to address a set of questions like interface design, user scenarios,

costing, technology, special user groups. In each cycle, a number of realization scenarios are co-created and tested. Best results are kept and taken forward into the next cycle.

Within each step of the iterative cycle, systems may have to be developed in a tight project-like manner. This is where the existing experience of applying a waterfall model still applies and should be used.

In a 3GMC, the concepts and techniques of design thinking must be taken as baseline for the way projects are structured and carried out. But also the proper application of waterfall thinking must be used where possible and needed. It is the successful interlink between these approaches and the fulfilment of the enabling conditions that are crucial for the success of a 3rd generation consultancy.



2. TAKING A COMPREHENSIVE SERVICE MODEL AS BASELINE FOR THE CONSULTANCY RESULTS

Service innovation is instrumental for economic growth in the coming years. The western economy, as we know it today, thrives on services (70% to 80% - depending on the scope of the statistics). So the success of most businesses depends upon service innovation. The growth of the service economy is pushed by the changes in capability. Thanks to the information age. This has led to new customer demands and expectations. Customers are becoming the main reference point for strategy. Not the direct competition.



It is now crucial to go beyond traditional innovation methods and mindsets. To reallocate resources from pure science-based technology innovations and include more social research. This will help understand user contexts and motivations. More design thinking and design methods that have proven to deliver valuable solutions in many other fields are needed. It would make sense to invest in change management as part of every service development program. That is because unlike in manufacturing businesses, the collection of people, processes, and systems make up the 'factory' in service organizations.

For consultants to guide clients through this new period, they need to bring a comprehensive perspective to the table. This perspective consists of:





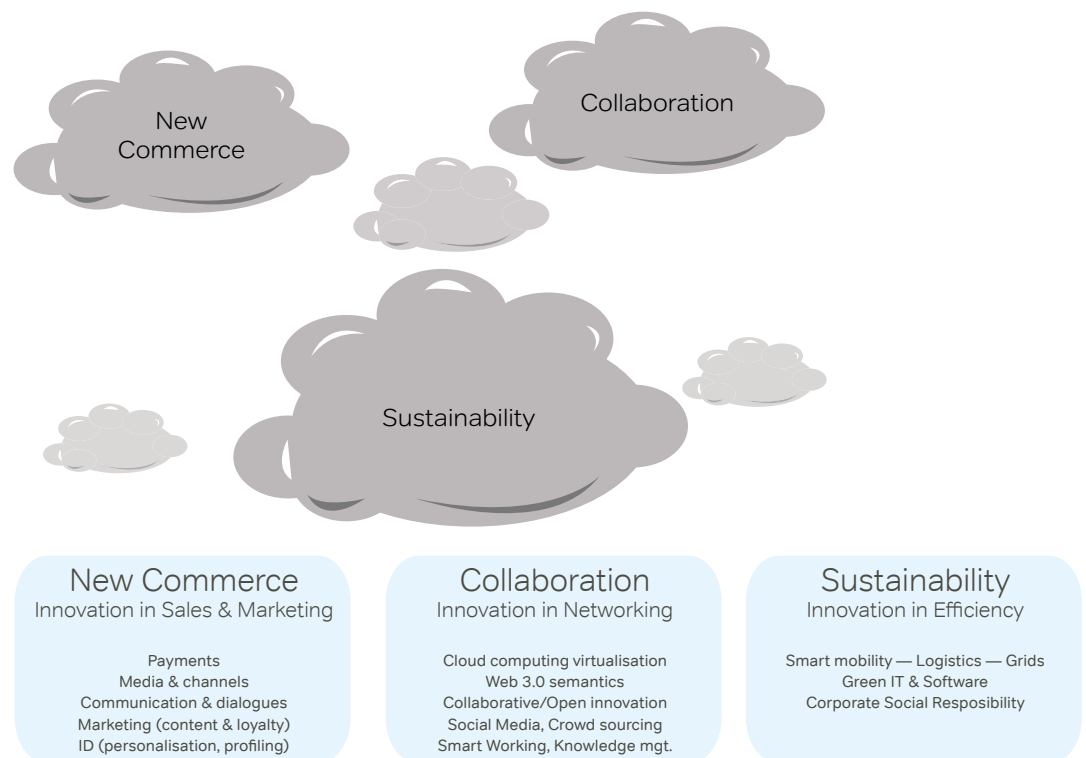
3. WORKING FROM A FOUNDATION OF MATURE AND INSPIRATIONAL TECHNOLOGY SAVVYNESS

Change is a part of our everyday life. Applications that were considered futuristic in the mid 90s are now seen everywhere. The 1st phase of the digital revolution is all about digital technologies taking over most of the business processes. Roger's marketing theory⁴ agrees that ICT is reaching its plateau of productivity of the adoption cycle.

This trend has further been emphasized by Nicolas Carr in his article "IT Doesn't Matter"⁵. It sparked the discussion on the real purpose behind ICT. He correctly observed that those players and providers that fuel the first phase of the digital revolution are now entering a commodity market. In this market price and volume are key drivers.

We are now entering the 2nd phase. This is where new businesses are created and the very fabric of society is reinvented. As argued earlier, the hierarchical business pyramid is inverted, putting the user in the top instead of putting the corporate up there. The new business powerhouses are pure digital players. Businesses like Google, eBay, TomTom have taken technology as 'natural resource' for new business ideas. The traditional businesses are either adopting the new trend or are going out of business altogether.

Consultancies need to be fully aware of the digital technologies that are at the core of this revolution. This means that they should be able to interpret the maturity and applicability of technology. And should be able to understand the way these technologies further develop.



⁴Rogers, Everett M., Diffusion of Innovations, Free Press 2003

⁵Carr, Nicholas G., IT Doesn't Matter, Harvard Business Review May 2003

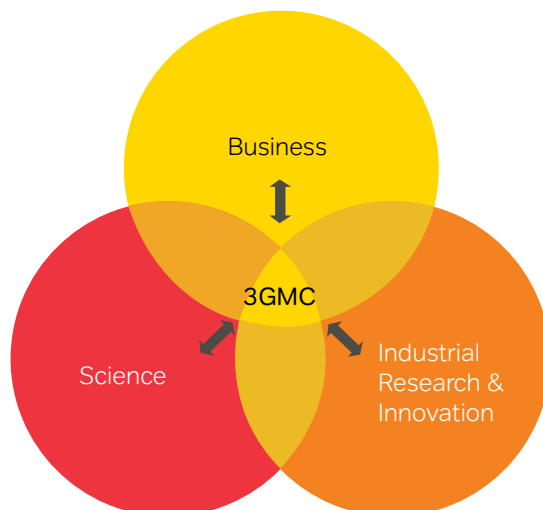
Key technology drivers

This technology savviness spans both the digital technologies themselves as the organisational, socio-economic and legal implications and drivers.

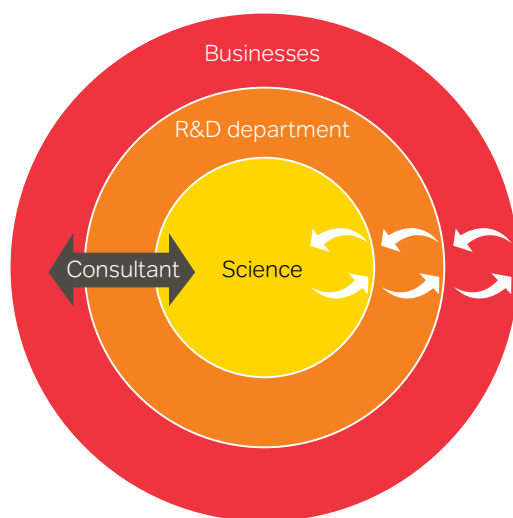
Just like maintaining a sound understanding of financials and accountancy is key to 2nd generation consultancies, maintaining a solid understanding of digital technologies is a key-asset of a 3rd Generation consultancy. Those actors that have the R&D capabilities, the innovation laboratories and the right mix of human capital in place will be leading the pack.



What does all this mean for current consultancies?



They should start thinking differently. Collaboration and cooperation is the way to go forward. A network or eco-system has the potential for technology innovations, social innovations and business improvements. This network can include anyone from clients and partner organizations in the business domain to R&D and innovation units. Innovation and renewal are often driven from science and technology advancement. When made applicable to specific businesses, they become relevant for the whole society. The 3rd generation consultancies play an important role in the innovation system by stimulating this process of exchange in the eco-systems. Experience with two decades of innovation programmes in national and international scope has proven this point and delivered useful models to implement such a role⁶.



3G Management Consultants acting in an innovation eco-system

⁶ Meijer, G.R., D. van Gasteren, Experiences with embedded innovation in the services sector, in: Innovation and the Knowledge Economy: Issues, Applications, Case Studies, pp 1299 P. Cunningham and M. Cunningham (Eds.), IOS Press, 2005

In conclusion, the 3GMCs should take charge. By expanding their network and encouraging initiatives, all the while providing guidance to succeed. They can do this, because they understand clients and their eco-system. They operate in them and are flexible and adaptable by nature.

Even from an entrepreneurial point of view, there is real chance for consultancies to benefit from this arrangement. They can invest in the R&D and earn tangible benefits. With an equal stake in new businesses a 3GMC is taken seriously and becomes a business partner in the eco-system with its clients and supply partners.

Finally, 3GMCs are smarter, more aware and more adaptable to change than their predecessors. They are aware of the rules of the new generations, the internet- world, and the emerging new business environments that is taking a different view on our business value systems. Because if anything the current economic climate makes clear is that shareholder value is really not the only objective. Clients, employees and shareholders are equal players and the management of their perception, risk and trust is top priority.

Logica Business Consulting is a 3GMC that has embraced the concepts and ways of working to address these new business challenges. And it has the track record to demonstrate its success.



Copyright statement

Copyright © 2010 Logica

All rights reserved. This document is protected by international copyright law and may not be reprinted, reproduced, copied or utilised in whole or in part by any means including electronic, mechanical, or other means without the prior written consent of Logica.

Whilst reasonable care has been taken by Logica to ensure the information contained herein is reasonably accurate, Logica shall not, under any circumstances be liable for any loss or damage (direct or consequential) suffered by any party as a result of the contents of this publication or the reliance of any party thereon or any inaccuracy or omission therein. The information in this document is therefore provided on an "as is" basis without warranty and is subject to change without further notice and cannot be construed as a commitment by Logica.

Logica is a business and technology service company, employing 39,000 people. It provides business consulting, systems integration and outsourcing to clients around the world, including many of Europe's largest businesses. Logica creates value for clients by successfully integrating people, business and technology. It is committed to long term collaboration, applying insight to create innovative answers to clients' business needs. Logica is listed on both the London Stock Exchange and Euronext (Amsterdam) (LSE: LOG; Euronext: LOG). More information is available at www.logica.com

.....

AUSTRALIA / BELGIUM / BRAZIL / CANADA / CZECH REPUBLIC / DENMARK / EGYPT / ESTONIA / FINLAND / FRANCE
GERMANY / HONG KONG / HUNGARY / INDIA / INDONESIA / KUWAIT / LUXEMBOURG / MALAYSIA / MOROCCO
NETHERLANDS / NORWAY / PHILIPPINES / POLAND / PORTUGAL / RUSSIA / SAUDI ARABIA / SINGAPORE / SLOVAKIA
SPAIN / SWEDEN / SWITZERLAND / TAIWAN / UKRAINE / UNITED ARAB EMIRATES / UK / USA

Logica
Prof. W.H. Keesomlaan 14
1183 DJ Amstelveen
Netherlands
T: +31 (0)20 5033 000
info.nl@logica.com

www.logica.nl

CODE BC/W/0510/ENG/043
CODE 1245 0510