Getting ahead

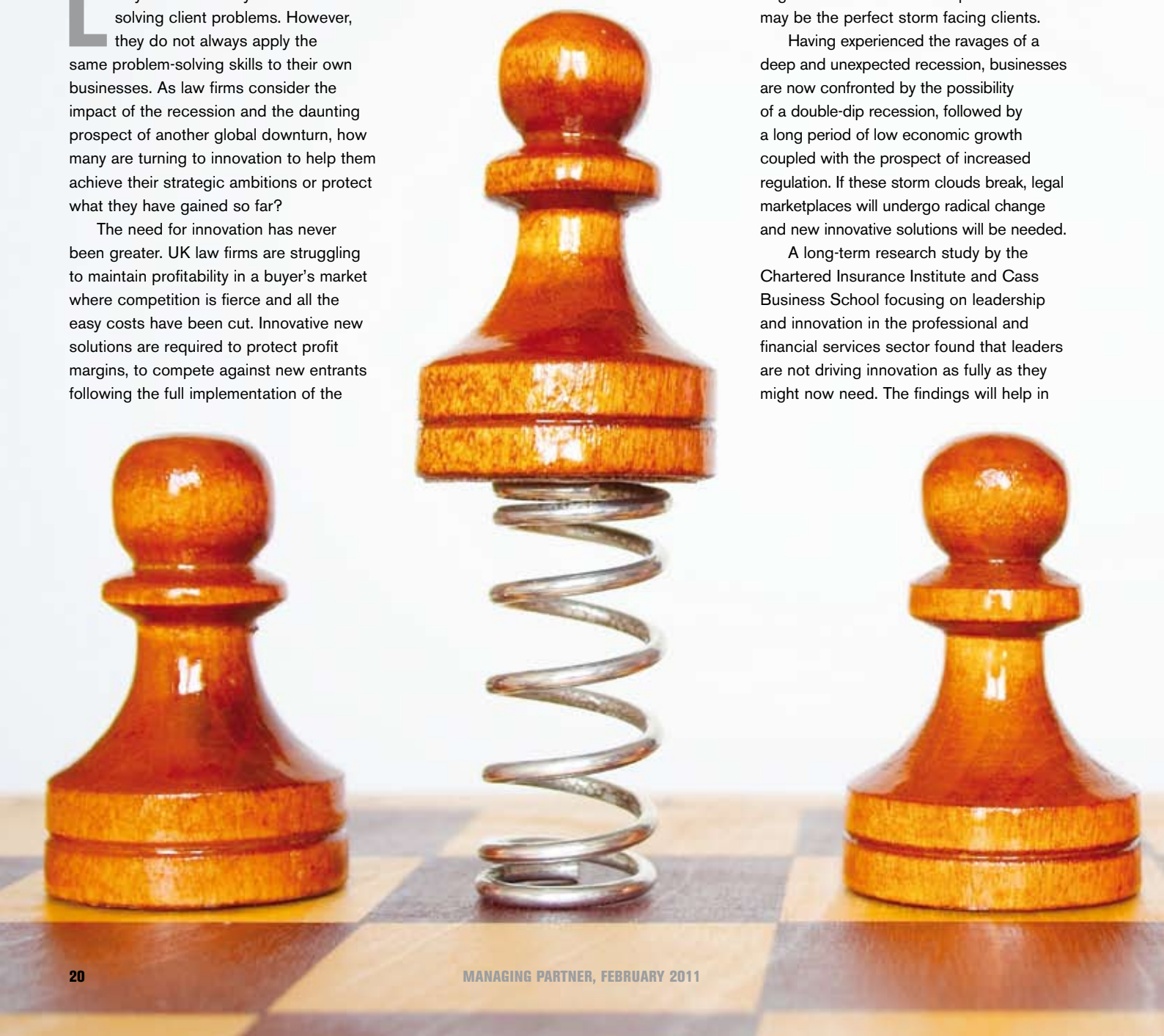
Managing partners talk about innovation, but how many are really doing it? Sally Sanderson, Dr Robert Davies and Nick Marson reveal their findings

Lawyers can be very innovative in solving client problems. However, they do not always apply the same problem-solving skills to their own businesses. As law firms consider the impact of the recession and the daunting prospect of another global downturn, how many are turning to innovation to help them achieve their strategic ambitions or protect what they have gained so far?

The need for innovation has never been greater. UK law firms are struggling to maintain profitability in a buyer's market where competition is fierce and all the easy costs have been cut. Innovative new solutions are required to protect profit margins, to compete against new entrants following the full implementation of the Legal Service Act and to cope with what may be the perfect storm facing clients.

Having experienced the ravages of a deep and unexpected recession, businesses are now confronted by the possibility of a double-dip recession, followed by a long period of low economic growth coupled with the prospect of increased regulation. If these storm clouds break, legal marketplaces will undergo radical change and new innovative solutions will be needed.

A long-term research study by the Chartered Insurance Institute and Cass Business School focusing on leadership and innovation in the professional and financial services sector found that leaders are not driving innovation as fully as they might now need. The findings will help in



thinking about how to use innovation when developing business strategy at a law firm.

Pointers for managing partners

1. Consider future competitiveness

Consider what the future competitive landscape could look like. This will help to create a powerful message explaining why innovation is important.

Interviewees from professional services firms focused on the need to create profit by competing for market share. One managing partner noted that differentiation was a driver for his law firm to be innovative. "The strategic challenge for us was about looking at the market in a different way so that we differentiate ourselves. How do we carve a position in it when others are already successful?" Another said that innovation was "not a choice for us – we were competing with larger, better-resourced firms".

Across all sectors, only 40 per cent of interviewees could identify three or more market-centred reasons why their businesses should innovate, while 30 per cent identified either only one external driver or none at all. Techniques such as scenario planning can help firms to identify the innovation demands of different future landscapes.

2. Plan for broader innovation

Are managing partners thinking widely enough about innovation – the opportunities and threats they represent to the firm? Many of the leaders interviewed were too limited in how they looked to innovate, focusing on just one or two areas of innovation. There are in fact six types of innovation (see box: Innovation palette)

As one leader pointed out: "There is always so much to do to improve an organisation but always too little time, especially when you are a producer/manager. Therefore, you need to focus effort where there is a real need to improve". Unfortunately, this could be making law firms too reactive and narrow in their focus.

Figure 1 provides a classification of all the innovation types mentioned by interviewees. Two innovation types predominate: offerings and process, as they are arguably two of the most established innovation types within the palette.

Some leaders did take a balanced approach to innovation – looking at what they delivered in their markets as well as how to innovate internally. But there were others who focused exclusively either on internal innovation or innovative offerings.

Law firms need to take time when developing their business strategy to explore the full innovation palette. Managing partners should educate their partners about the wide range of innovation types available and where they could be used to meet strategic goals.

Client experience (the way in which clients interact with the firm) and management innovation – especially in terms of the relationship between the firm and staff – are likely to be highly important in the changed landscape, yet were mentioned by less than 25 per cent of law firm interviewees.

INNOVATION PALETTE

The innovation palette consists of:

1. **Offerings:** New products and/or services by the organisation.
2. **Markets:** Building customer markets not served before.
3. **Processes:** Improving efficiency and effectiveness of existing processes, and implementing new structures to provide better client focus.
4. **Distribution:** New distribution routes or ways of reaching out to customers.
5. **Customer experience:** Innovation in the way customers or clients interact with the organisation.
6. **Management:** Finding new ways of managing, especially in terms of the relationship between an organisation and its staff.

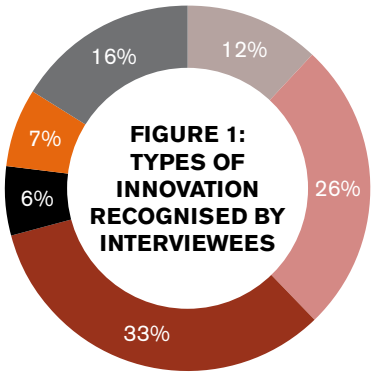


FIGURE 1: TYPES OF INNOVATION RECOGNISED BY INTERVIEWEES

- Management
- Process
- Offerings
- Distribution
- Market
- Customer/client experience

3. Link strategy and innovation

Many leaders were not making an explicit link between long-term strategic objectives and the innovation capabilities needed to achieve them.

To make this critical linkage, the business planning process must deliver a clear and precise definition of:

1. the types of innovation that underpin the firm's goals;
2. the blockages that stand in the way; and
3. the high-level actions needed to deliver the innovation types that are critical to the future success of the firm.

Law firms now recognise the importance of talking to all firm members about their strategy so that they can align efforts. In the same way, they need to define the innovation capability they need to build: motivation comes from the top and innovation comes from the bottom, especially when solving client problems. Business planning processes must be up to the challenge of delivering a clear message across the firm about the need for innovation and how to build that capability.

4. Build capacity to innovate

Outside the legal sector, too many leaders are heavily focused on building innovation through formal teams and stage-by-stage product development processes. Even though they have identified cultural issues as the key barrier, they have mismatched the solution to the barrier.

Those who have avoided the trap have tried to build innovation by giving client-facing teams the capability to develop radically new ideas, research and test them and then bring them to the board for final sign-off.

Law firms need to avoid formalising the innovation process and create an environment for controlled experimentation and learning. As one law firm leader told us: "[We] must give a framework that is not restrictive".

5. Get partners on board

How do managing partners get the partnership on board for firmwide innovation? As one managing partner noted, this is the biggest challenge for law firms. "The real innovation for a business is to get lessons learned by discrete businesses appreciated by others and replicated throughout [the firm]."

In law firms, the leader may see the need for change and innovation but have to convince the partners it is necessary. The balance is in favour of evolution rather than revolution; evolution is easier to sell and easier to control. This can make it difficult for managing partners to drive though the big changes that will help them achieve their strategic goals.

As one battle-weary managing partner noted: "Strategic level innovation in a law firm is difficult because big changes need big decisions… Innovation requires a sufficient body of decision makers, for a long enough period of time". He had found the solution was to identify small decisions to make "so that the big decision is made incrementally as if it were a small decision".

Other interviewees talked about the importance of the dynamic between the managing partner and the senior partner or board. "He would challenge me on my ideas for change with a razor sharp brain. Once persuaded he supported me 100 per cent. He wanted to see the business case, the anticipated outcomes," one interviewee noted.

A clear message

It is essential to ensure that the business planning process can deliver a clear innovation message – defining the types of innovation that are necessary for the firm to achieve its long and short-term goals.

The leader's role is to be clear about the need for innovation and to articulate that in a compelling way to get the partners on board. The managing partner needs to create just enough anxiety – a constructive tension in the business – by asking questions such as "what if…".

A very good starting point, in the currently uncertain world, is to consider the different futures that the firm could face. From this, develop an underlying strategy and, importantly, the innovation types, which will enable success in a broad range of possible future environments. As one interviewee put it: "If you don't change – innovate – you will go backwards". mp

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Endnote

1. For further information, see: *www.cii.co.uk/pages/research/researchandsurveys.aspx*

RESEARCH PROCESS

The research study was established to examine the role that business leaders played in developing their organisations' capacity to innovate. The research team explored two key areas:

1. how leaders saw innovation and the types of innovation that can help achieve long-term objectives; and
2. how leaders proposed to increase the capacity for innovation in their organisations.

Cognitive mapping was used to get inside the minds of the leaders interviewed. This is a graphical way of linking an individual's thoughts, thought processes and attitudes to innovation and avoids bias in the interview process. By charting what they said, it was possible to later code and analyse comments to identify trends and contrasts around the drivers, barriers and enablers of innovation.

A range of 20 corporate leaders were interviewed. Professional services firms represented 30 per cent of the organisations analysed, while insurance firms accounted for 40 per cent, banks for 20 per cent and other sectors for 10 per cent.