THE Innovation IMPERATIVE:

HOW TO MAKE STRATEGIC INNOVATION HAPPEN

BY PATRICK J. MCKENNA
EDGE INTERNATIONAL

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In a climate like this one, the most important step you can take is to re-energize your thinking. That's what strategic innovation is all about—finding new ways to look at your practice to extract value and reveal opportunities, hone your understanding of the real risks and rewards of your current strategy—and come to grips with the cost of standing still. How can you make innovation happen? Here are 10 initiatives.

Recession. Slowdown. Correction. Disaster. Whatever kind of economist-speak you prefer, there's no getting around the fact that now is a scary time to be the managing partner of a professional service firm. A down market is a new experience—or long forgotten one—for a good number of today's managing partners.

IS IT TIME TO CIRCLE THE WAGONS?

Signs of strategy decay were becoming painfully obvious as we ended the great boom of the 1990s with declining margins and slowing growth rates in revenues-per-professional—signs that are visible only when you analyze the way that many firms have been manipulating their profit-per-partner metrics. Now firms are scrambling to cope and everybody is focusing on costs. "Downsizing" was the buzz word during the last recession and, once again, managing partners at many firms can be counted on to reach into their standard arsenal of defense: Cut associates, cut compensation and exact fixed cuts across the firm. Certain spending, of course, may need to be reined in. For example,

> **"This is a time to be bold, imaginative and decisive. Recessions are hell, but they provide unique strategic opportunities. Strange as it may sound, this is the most critical time to invest in your future.**

Expensive branding campaigns and expansive mergers may seem attractive, but have little effect in down markets. Partnerships often turn sour as the pie gets smaller and all parties begin to chip at their neighbor's slice.

But cutting the wrong costs—those that adversely affect client service, for example—can only serve to squander value during tough times. Nothing could be more shortsighted than relying on this defensive "circle-the-wagons and-fire-inward" approach. Your business is being affected by what happens outside, not inside; on your ability to increase revenues, not decrease costs. To ignore this situation or pretend that the choices you face are not nearly so urgent is to ignore your future.

Does a downturn mean that it's time to hibernate until the leading economic indicators show signs of life? Absolutely not. This is a time to be bold, imaginative and decisive. Smart firms have demonstrated that it's drastically easier to improve relative position during a downturn. It may be harder to gain relative position in a boom. Everybody's paying attention; everybody's focused; everybody's adding talent; everybody's spending. Recessions are hell, but they provide unique strategic opportunities. Strange as it may sound, this is the most critical time to invest in your future.

But, are you frustrated at your firm's inability to move more quickly on initiatives that are critical to your firm's future profitability? Have you sat in a partner's meeting and wondered why some firms can effect change while you continue to muse that not enough progress is being made on critical strategic issues?

Your range of possible options is not rooted in conventional strategic planning. They are driven by innovation. And we're not talking about a single innovation, but a conscious, built-in, continuous *process* of innovation.

SO WHAT IS INNOVATION?

What is innovation, exactly? And how do you stimulate an entrepreneurial environment and innovation within a professional service firm?

We believe such questions have received far too little attention. This is not because managing partners are not working harder than ever; but because managing partners have not been cognizant of where to focus their attention to create tomorrow's revenue.

There was a period when all your firm needed to do to ensure success was to focus on continuously improving, on getting better at whatever you did. Today, we must recognize that events have conspired to change the rules: competitors are expanding globally; firms are able to deliver professional services in new ways to remote clients via the Internet; and some firms have decided to develop into more multidisciplinary practices.

According to a recent *Harvard Business Review* article, "what's likely to kill your business is not somebody doing something better, it's somebody doing something different." From the latest PriceWaterhouseCoopers' study to the most insightful tome from the pen of management guru Peter Drucker, the new imperative, and the one business competence needed for the future, is ***innovation.***

You are probably thinking that I'm about to suggest you expend critical resources on training programs that would see your partners gather at off-site retreats to play with brightly colored blocks and develop their inherent creativity. Let me immediately assuage you of any such notion. Most professionals wrongly see innovation as a creativity-driven phenomenon. They think that something labeled "innovation" must naturally begin with creativity seminars, creativity pep talks and lateral-thinking exercises. We believe that any attempts to boost innovation solely by pumping up your people's creative efforts are likely to fail.

Let's understand what innovation, and what we call ***strategic innovation,*** is really all about.

First, the commonly held view that innovation is about creativity, is only one side of the coin. If your partners have lots of off-the-wall ideas, they may be creative, but innovation only happens when and if you can convert those ideas into something of value. The challenge then is twofold. There is the question of how to go about getting the good ideas out of your professional's heads, out of those casual and brief corridor discussions, such that they might actually see the light of day. Then there is the issue of recognizing that a great idea is just a great idea without excellence in execution. So, as a managing partner, you have a need for both creative ideas and effective execution.

But there is also a strategic *imperative.* A great idea executed effectively is only worthwhile if that idea represents something of value to your clients and offers a means of creating new wealth for your firm. Getting an idea for how to build a better mousetrap may be creative. Building that better mousetrap may be an example of excellence in execution. But strategic innovation lies in developing a whole new way to get rid of mice. It is not about marginal improvement on a marginal product. To be competitive, and strategically significant, it has to be a serious leap forward.

Strategic innovation means looking for ways to *differentiate yourself against the competition.* It is about leveraging your professionals' ideas and their substantive knowledge. The total dimension of innovation involves getting people and the firm to think differently, to be willing to take some small measured risks, to be willing to change, to challenge conventional modes of practice and the traditional way business is approached—and then to act.

A few firms can innovate successfully. These firms have a track record of inspiring innovation—not just that one breakthrough idea, but a continuous stream of innovations—and they are rewarded handsomely in the marketplace. Yet many firms still struggle with innovation. In fact, we've found that many firms unintentionally kill any prospect of encouraging innovation amongst their people, without understanding how or why.

THE WAYS WE SUPPRESS INNOVATION

Innovation, by definition, is not about business as usual. It is always about doing different things and doing the usual in a very different way. But looking after the normal business is the responsibility that managing partners are charged with. Thus, responsibility for efficiently running your firm may conflict with your aspiration to spark innovation. Also, your firm's past success can have a funny way of planting the seeds for future difficulties. A firm that becomes successful runs the risk of ceasing to challenge itself and of failing to innovate.

1. The Drive for an Inspiring Vision

It is the rare professional service firm that actually has a strong sense of where it is going. It is also the quest of every firm leader to develop some inspiring vision, a unity of purpose, that will incite everyone to commit to a common direction. This dream of having every professional pulling together is held in high esteem. Yet for all of the positive merits, any firm that actually manages to formulate a unifying vision, also creates a culture so strongly committed to a specific direction that it will likely suppress anything, and reject anyone, remotely suggesting a different direction or way of getting there.

Imagine the professional firm where high quality and doing things perfectly is valued as the unifying goal. A firm that is strongly committed to putting forward only its very best effort at *anything* it takes on. Not so difficult to imagine, is it? And yet, isn't it possible that in a first-to-market competitive race, waiting until you get it "just perfect" is likely to leave you disadvantaged?

Discouraging divergent views might be effective as long as the current goal is viable. But what happens once that goal is either achieved or becomes irrelevant as a result of market changes? A culture that suppresses dissident ideas will have no one around to point this out.

The strength of a visionary firm is the strength of the firm leader. But the leader had better be right. Because right or wrong, that leaders ideas are going to be implemented by committed professionals enthusiastically embracing the direction set forth. Unfortunately, a strong, visionary firm leader's willingness and capacity to foster innovation is purposefully limited. These leaders suffer the weakness of their strength.

2. The Myth of Best Practices

"Best practices" has become a fairly common phrase among professional firms. In most of those firms it connotes a fairly sterile and systematic process. Professionals are encouraged to record and share what they have learned and what has proven to be successful. They may even be exhorted to append their learning to a firm intranet that is devoted to displaying the firm's best practices. Some firms have made the use of best practices compulsory. After all, if there really is one best way, why not require everyone to use it? It cuts out all kinds of wheel spinning, messing around and arguing about what to do.

However, messing around and arguing are needed in an innovative organization. If you always do what you've always done, you'll always get what you've always gotten!

Thus, best practices do present a significant shortcoming: They may actually suppress innovation. Best practices are really about efficiency and improvement, not innovation. Innovation is a whole new take on something; while improvement is about making the status quo better. While both have value, a system aimed at one will not get you the other.

Further, if you're just going to emulate what is best practice within your profession, you are not going to be innovative. You are not going to get ahead, you're going to maintain parity. Being innovative requires setting aside any notion that you know best and requires that you truly listen to your clients. You cannot innovate without being interactive with the client.

Best practices can be useful, but their utility is more limited than we might wish. Certainly, it makes sense to encourage professionals to explore best practices within their practice groups. We should encourage these professionals to share the relevant ones with one another. But don't make their use compulsory. And certainly don't discourage those who think they may have a better way.

"Innovation becomes much harder to stimulate when you are swimming upstream against the currents of firm processes that don't exactly encourage it. Structures and processes do make a difference."

TEN INITIATIVES TO SPUR INNOVATION

1. **Invest a portion of your management time living in the future.**
2. **Take advantage of specific change events (innovation "triggers").**
3. **Reach out for new voices — and younger voices—and the voices of new hires.**
4. **Take your cue from your clients.**
5. **Steal the best ideas from other professions.**
6. **Consider packaging your intellectual knowledge.**
7. **Champion your internal entrepreneurs.**
8. **Rethink some of the assumptions about how you operate.**
9. **Begin with limited-risk experiments.**
10. **Help your people get comfortable with innovation.**

3. The Lack of an Established Methodology

At a meeting with a large group of European partners we posed a number of statements for the congregation to both express their views and vote upon. One of the more telling of these statements was:

> *"We are good at identifying new areas of client demand and establishing entirely new areas of practice and specialized skill in advance of competing firms."*

We then asked the assembled partners to identify, by virtue of electronic voting machines (secret vote), the relevant importance to their firm of being able to establish new areas of practice in advance of competitors. Not surprisingly, 92 percent identified this as an important attribute to their future success.

When we inquired as to their feelings about whether they were better than or worse than their competitors at establishing new areas of practice, 81.6 percent scored themselves as "worse than competitors."

As we explored this further in subsequent meetings with various groups of partners from various professions, we have asked the question:

"Is there an established procedure or protocol within your firm to encourage new ideas or promote the development of entirely new areas of practice?"

We then asked:

"Is there any formal mechanism available to advance new ideas or compensate those who might invest what would otherwise be billable time in developing new practices?"

Both questions continue to receive a resounding "No" by anywhere from 71.1to 93.4 percent of most partners.

We have learned that innovation becomes much harder to stimulate when you are swimming upstream, against the currents of firm processes that don't exactly encourage it. Structures and processes do make a difference. They may not make innovation happen, but they prepare the ground so that innovative ideas that exist will have a chance of getting a receptive hearing.

HOW TO MAKE INNOVATION HAPPEN: 10 INITIATIVES

We need a culture where innovation occurs *because* of the culture, not *despite* that culture. What might help your firm become more innovative? Here are 10 initiatives, along with examples of firms that have taken actions worthy of your attention.

1. Invest a Portion of Your Management Time Living in the Future

All too often, we find that far too many managing partners are driving toward the future with eyes fixed firmly on their rear-view mirrors.

Consider: How many entirely new business ideas are presented to you in an average year? Probably one, or two at the very most, if you are like the typical managing partner. But then, the typical managing partner usually does not view his or her role as the locust of new business creation. They most often see their role as the guardian of running the firm's existing practices to meet budget targets and to ensure that all partners are billing to maximum potential.

We often ask managing partners a couple of questions that painfully illuminate where they spend their time. First, we ask:

What proportion of management time is spent solving problems versus what proportion is spent on exploring new opportunities?

After a rather awkward reflection period, the answer we will usually elicit is that about 80 percent is spent on solving problems, and 20 percent on exploring opportunities.

We suspect that it is more like 95 percent on problems and 5 percent on opportunities, but let's analyze what this division of time infers. It means that as the firm leader you are spending 80 percent of your time and energy looking backward and fixing things, while only 20 percent of your time looking forward and creating things. Firms that operate in this mode will never lead in their marketplace.

Why does this happen? It should be obvious that most professionals are veteran problem solvers. We are trained to resolve the issues, put out the fires, correct the underperformance and generally "fix" the problem. A powerful gravitational force pulls us toward fixing things instead of innovating, toward restoring instead of increasing and toward reacting rather than being proactive.

We need to understand that fixing things, however noble an act, simply restores the prior performance or condition. This is comfortable, but limits value. However, if your focus is on improving the condition, on inspiring entrepreneurial endeavors, on being innovative; then your intent is not on restoring the status quo, but on developing a level of performance that exceeds any previous standards.

There is a follow-up question:

Of the time you spend on exploring opportunities (remember it was reported to be 20 percent of the total), how much of that time is directed toward pursuing billable production, winning the next big transaction or responding to a competitor (the present), versus pursuing the development of entirely new skills, services or technologies (the future)?

Again, if we were generous in reporting what we have learned, the average managing partner spends about 60 percent of his or her time exploring present opportunities and 40 percent on future opportunities. That drives a point worth scrutiny: What kind of a future is likely to be created when a firm leader spends 8 percent of total management time and energy focused on that future?

Remember that these percentages apply in firms with managing partners who spend all of their available time on management matters. Those managing partners who spend less than full-time usually have next to no time for the future—except of course, during that one-day, off-site annual planning retreat. (Is it any wonder why so many of these retreat-generated strategic plans are dead on arrival!)?

Attention is your most powerful management tool. If you truly want your professionals to focus on innovation, nothing speaks louder about what is of bedrock importance than where and how you choose to spend your time. This is not a matter of chance. Choices are made daily about what to do and with whom.

Every firm holds numerous meetings, and every meeting has an agenda, whether written or unwritten. The cumulative content of those agendas clearly signals executive priorities and concerns. The conscious management of your agenda, and your input into meeting agendas, is a powerful signaling device. Most meetings are status reports on the present. If you are serious about promoting innovation, make sure that each meeting devotes 25 percent of the time to listening to ideas for improving systems, generating new revenues or developing new services. Also, items that get your swift and detailed follow-up will always be perceived by your people to be of the highest importance.

Don't burn up precious time and waste resources looking backward. This is a time for action, not introspection

2. Take Advantage of Specific Change Events (Innovation "Triggers")

"Steady as she goes" is the watchword for many of us in our day-to-day dealings. There are many times, however, when you are confronted by some form of change. Large or small, these changes allow for an upheaval to the firm's normal operating procedures. The order of magnitude may be dramatic or moderate. Buffeted by this change event, some may feel a loss of control. Others will welcome change and relish the transformation.

The following list represents the top 10 change events, prioritized by their relative order of magnitude and likely impact on your firm.

TOP 10 CHANGE EVENTS

- Merger (of some significant size).
- Economic contraction or recession.
- Downsizing (including loss of major practice group, death of a super-star and so on).
- Significant client loss or client merger (where the client represents more than 20 percent of revenues).
- Partners retreat (culminating with specific action plans and implementation).
- New managing partner (depending on extent of individual's authority).
- Office move to new quarters.
- Merger of two significant competitors (where at least one was local).
- New competitor in the market.
- Results from client or market survey.

This list has been largely developed with the input of clients. *Magnitude* is a reflection of the degree that the change may affect individual partner behavior. You will note that a merger and recession are at the top of the list while a client's feedback is at the bottom. That is because a merger or recession can dramatically effect the comfort and behavior of every partner in your firm as people struggle through coping with the change. Unfortunately, a client's feedback may only impact the individual partner whose performance is found to be below standards. (There is perhaps no better example of innovation than the partner who has knowingly, and quietly, lost a client. Innovation abounds as this partner attempts to rationalize and justify why the amount of billable work from that particular client has decreased. You've heard it many times: "Their previous billings simply represented a spike in commercial activity that we are not likely to see repeated for the next few years." Or, "I believe they are now focused on bringing more of the type of work that I was doing, in-house.")

We submit that each of these change events presents opportunity for commencing innovation initiatives.

Consider the example of Pillsbury Winthrop, which recently initiated a program to identify and eliminate "sacred cows." As part of an effort to break from the past following their merger, the firm's leaders chose to capitalize on that change event. They established a special task force charged with unearthing and eliminating ingrained habits that were slowing down the firm's ability to change and wasting money. Task force members brainstormed issues, generated new ideas, viewed old problems in new ways and identified over 100 sacred cows. Specific attorneys and administrative professionals were then assigned responsibility for eliminating them and reporting progress by specific deadline dates.

In one instance, some sacred cows were discovered within the processes used to bill clients and collect overdue payments. Over the objections of several senior partners, the task force implemented a simpler more centralized system. The new system decreased the average time that clients paid their bills from 4.5 to 3.2 months and reduced labor costs by over 25 percent—adding several million dollars to the firm's bottom line. As a direct result of dozens of incremental changes, the AmLaw's 1999 rankings of the top 100 law firms indicated a 44.2 percent increase in Pillsbury's profits-per-partner, the fourth largest percentage increase among firms in the survey. (Should anyone suspect that the firm's profits-per-partner numbers were manipulated, it is irrelevant. Pillsbury is also one of only 18 firms that managed an above-average growth in their revenues-per-lawyer numbers over the past four years.)

What was unthinkable yesterday is routine today. Proactive leaders will often pull the fire alarm when they spot critical changing conditions and fan trends into a looming crisis. Everyone is urged into immediate action. What change events are you experiencing that should be causing you to pull the fire alarm and issue a call for action within your firm?

3. Reach Out For New Voices

You can find new voices in a number of areas in any firm. There is the younger practitioner who has grown up in a different time with different skills and seemingly different values. There is the newer hire (partner or associate) that comes to your firm with questions about why you do certain things the way you do. There is the partner residing in a remote or smaller office, or practicing in a fringe specialty area who sees the entire profession somewhat differently from your typical partner. And there is the occasionally disruptive partner who just sees the world from a different mind-set. All are capable of making a valuable contribution to your firm's quest for innovation—if you care to reach out to them.

"If you are serious about promoting innovation, make sure that each meeting devotes 25 percent of the time to listening to ideas for improving systems, generating new revenues or developing new services."

Out with the clique. Perhaps the tallest hurdle your firm must clear in pursuing innovation is to abandon the tightly controlled cliques that dominate the strategic thinking that takes place on behalf of the firm. A typical comment we often hear is:

> *"If we can't manage to convince these partners of what directions this firm should be taking, we will never convince the other partners. They bring to the table a thorough understanding of the marketplace and our competition. They are the ones who are pretty much responsible for what has made us successful to this point in time."*

This preoccupation with historic success behaviors assures that your firm will be unwilling to engage in behaviors that will provide for innovation.

Consider the obvious shortcomings in the choice of individuals who sit on the typical law firm "strategy committee"—not the least of which is that all of their views have already been well articulated. Can you envision the richly paneled inner-sanctum, with the senior partners huddle together, quietly discussing the future strategy for the firm? These people already know each other so well that they can —and often do—finish each other's sentences. It is a safe wager that any forthcoming scheme will incorporate conservative, traditional action plans steeped in best practices and posing little threat to the behavioral patterns of the most senior and staid professionals. It's no wonder that most strategy conclaves produce tepid ideas that are too little, too late.

We all recognize instinctively that individual professionals only support, believe in and show commitment to a firm direction that they personally had some active part in formulating. Planning together and having people make their own decisions increases the likelihood of commitment to implementation. If you want to successfully set your firm's future direction there is an overwhelming need to find ways to involve all of the partners—at least initially, and then again at the practice group level.

Consider the approach taken by Deloittes Consulting, which believes in creating an internal competition for ideas and involves the collective brain of the entire firm. Deloittes sponsors contests among all of their professionals for the wildest innovations. They propose: Why not offer a cash incentive and allow your people to eagerly compete for a chance to have their personal vision impact the firm's future? Their most recent event was reported to have stimulated over 176 ideas competing for a $10,000 cash prize.

Younger voices. You must also recognize that organizational aging encumbers innovation. Your firm's response to embracing innovation changes both as the firm ages and as your senior power partners age.

It is always fascinating to hear firms talk about how young they are. In the late 1980s, partners told us the average age in their firm was the mid-thirties. In the mid 1990s firms would constantly insist that theirs was a young firm, with an average partner age in the early forties. Today, we are still being assured of how young a particular firm is, since all of the partners are in their mid-forties.

As any firm matures and achieves some measure of success, it loses much of its appetite for being entrepreneurial; able to quickly respond to market opportunities, pioneer new service offerings or initiate change.

Jeff Popova-Clark of PriceWaterhouseCoopers poses these questions: How old was Einstein when he revolutionized physics with his special theory of relativity? How old was Isaac Newton when he developed calculus? Darwin, when he conceived of evolution? Picasso, when he added a whole new dimension to the visual arts through cubism? Shakespeare when he penned Romeo and Juliet? Karl Marx, when he released his Communist Manifesto? Mozart, when he composed Don Giovanni? Maxwell, when he deduced the relationship between electricity and magnetism?

Slightly more timely, how old was Henry Ford by the time he built and sold his first car, or Bill Gates when he co-founded Microsoft, or Anita Roddick when she set up The Body Shop, or Jeff Bezos by the time he launched amazon.com?

No one on these lists were older than 33!

"As a firm matures and achieves some measure of success, it loses much of its appetite for being entrepreneurial; able to quickly respond to market opportunities, pioneer new service offerings or initiate change."

Jeff's proposition, which deserves some serious attention, is how surprisingly hard it is to find any disruptive ideas and creations originating from people older than 35, and how some of the most original, icon-smashing and valuable ideas have and are being developed by individuals still in their twenties and early thirties

So, how many professionals between the ages of 25 to 35 have been asked to formally participate in creating your firm's strategy? And, how likely is it that your firm possesses at least one Picasso, Roderick or Gates?

Irvin Hankins, the managing partner at Parker Poe in Charlotte understands the importance of hearing from younger voices. In a recent discussion he told us about his "2010-30/45 project."

In an effort to encourage foresight, Hankins initiated an endeavor that called on all of the lawyers in the firm between the ages of 30 and 45 years of age. He asked them if, on his behalf, they would agree to be divided into three separate task forces, but each tackle the same project. The project? To "formulate a written scenario of what the legal profession might look like by the year 2010" and then collectively examine the various scenarios and the implications they might present for proactive actions that the firm should take to get out ahead of the future.

New hires. Some of the best ideas can come from your newest professionals. One firm has a created a program called "Fresh Eyes" to tap into that insight. A new hire gets to give the firm a formal performance review following the first 30 days of his or her tenure. While impressions remain fresh, the professional meets with the managing partner to provide a candid review of their initial experiences and ask the hard questions like, "why haven't you done it this way?"

New (and uncomfortable) thinking. Most of us have an old pair of jeans or khakis that we should have discarded years ago. But we choose to favor that particular item of clothing the way a young child clings to a security blanket. Those khakis may be tattered, but when we've had a particularly hard day at the office, we console ourselves by coming home and wrapping ourselves in tranquility. Sure, we should throw out those khakis and break in a new pair. But we fight any attempt to discard the familiar. Many of our more senior partners have habits and mind-sets that resemble those timeworn khakis. Often, they seem unwilling to let go of past practices approaches and mental models. It is important to understand that their focus is on the present, which has already occurred, which is now, in effect, the past. But all competition takes place in the future.

You need to add some new thinking to your strategy discussions—some new thinking and ideas that can turn the status quo inside out!

First, when developing innovation, ensure that you include a healthy representation of younger, newer and less-experienced professionals in the process. Create an environment in which these people will feel comfortable expressing and developing their ideas. Placing a token younger professional in a room full of senior partners will not, by itself, ensure that a fresh perspective has been injected into discussions.

Second, when considering how an individual can add value, do not focus on years of experience. Instead, ask if they bring learning from a variety of backgrounds, industries and perspectives. You are not necessarily going to benefit from having a carbon copy of your current management team.

Reinventing any industry (or profession) is rarely achieved by someone who has many years' experience within that industry. Experience can result in less flexibility, greater investment in and protection of established ways of doing things, and less reflection on why things are done in certain ways. Why then, do we fill our strategy committees only with highly experienced professionals? There is no denying that experience adds value. But should it be the only prerequisite for entry into the ranks of those chosen to develop your firm's entrepreneurial directions?

The lesson?Fight the urge to work on your strategy innovation solely with an inner circle of senior professionals.

4. Take Your Cue from Your Clients

Firms truly devoted to innovation must reach far outside the inner sanctum of their management committees—and sometimes the firm. They may even call on clients for their fresh insights.

The impetus for the development of one of the fastest growing new practices at Exton, Pennsylvania's Croft Drozd & Co. did not come from the accounting firm's professionals. It was inspired by the firm's advisory board, composed of outside business people charged with providing a fresh perspective to help the firm target its service offerings more effectively. The 12-member advisory board meets every two months. It includes four clients, four referral sources and four non-clients. According to managing director Carl Croft, "We want to put our resources into developing one or two new products each year that clients really want, and the advisory panel has proved ideal both as an idea-generator and focus group."

How many firms have advisory boards or some formal mechanism for directly involving clients in helping them conceptualize and develop new services that the client might value? All too often, we forgo ever bothering to actually involve clients, or to even pay attention to what their evolving needs might be.

Take the case of an interview in the July 30, 2001, issue of *The National Law Journal,* with Lawrence O'Donnell, executive vice-president and general counsel of Houston-based Waste Management, Inc. He reports that when a litigation file is ended outside counsel love to close the file and walk away. Not O'Donnell. Instead he has begun a tactic he calls his "legal autopsy." In a legal autopsy, win or lose, O'Donnell's department analyzes the case to see what can be learned. He then shares the results with the operations personnel affected by the lesson. "This might have been an expensive lesson so let's at least learn from it so we don't make the same mistake somewhere else in the company," reports O'Donnell.

At a time when legal journals are reporting the results of a study indicating that only 24.7 percent of the Fortune 1000 would recommend their primary law firm, when 44 percent plan to reduce the number of law firms they use and 63 percent reported poor service as the primary reason for a breakdown in their relationship with outside counsel, it is staggering to consider that firms have not thought of O'Donnell's "legal autopsy" innovation.

Perhaps the real recession is a recession in creativity—the creativity necessary to innovative to satisfy clients.

It is also curious to note that the International Banking sector was using online deal rooms well in advance of the most progressive professional firm. Yet, how long did it take before a handful of firms finally initiated this innovation, and how many firms today still don't get it? You will not be considered for the big ticket transactions if you do not have an online deal room!

Meanwhile, Clifford Chance's London, Moscow and New York offices were involved in the $310 million issue of exchangeable bonds completed in July 2001 for Russia's second largest oil company, Yukos. The entire transaction was completed using Clifford Chance's online dealroom, called CliffordChanceConnect. It allowed partners in the three offices to post offer documents and transaction documents for the whole team and gave the client access to worldwide advice.

These kinds of innovations are not the domain of the largest firms. In a time when clients are trying to minimize uncertainty in their legal bills, Kemp Little, a 20-lawyer London technology and corporate boutique, has launched a work-in-progress service that enables clients to view their current unbilled time details on-screen. Kemp Little's system publishes a daily snapshot of time recording data onto a secure extranet site. Clients access data using a password. According to managing partner Richard Kemp, "Visibility of what's on the clock at any given time is the thing that clients told us they wanted the most, so we've put the system there to reassure clients that we're spending their money wisely."

There are many opportunities to innovate and leapfrog competitors by simply collaborating with and being sensitive to the (unspoken) needs of your clients.

5. Steal the Best Ideas from Other Professions

One principle we have learned is that innovation is often the product of someone spotting an old idea that can be used in new places, in new ways and in new combinations. Taking an idea that is commonplace in one business or profession and moving it into a context that isn't common can spark entirely new approaches—if you are paying attention!

"You must view your practice groups as the building blocks for constructing your firm's innovation strategy. It is only when you begin to explore 'hidden assets' at the practice group level that opportunities emerge."

One way to enhance innovation within your firm is to initiate an internal committee of interested professionals to monitor all new developments and trends throughout the *other* professions. Or, have your administration staff monitor the industry and news media and provide a summary of clippings that highlight the business activities, emerging issues, and new innovations being promoted by firms in related professions.

Those who do look outside of their profession will see examples of all sorts of new attempts at innovation.

- Regional accounting powerhouse BDO Seidman has launched a national alliance of law firms whose members will work with BDO's accounting and consulting firm alliance members to handle client requirements in local and overseas markets.

- At Cap Gemini Ernst & Young, they hold brainstorming meetings with academics, clients and researchers to identify important issues and opportunities three to five years before they appear on the radar screen of most everybody else.

- American Management Systems, a massive IT consulting firm, is teaming with Barclays Bank and others to form a new venture aimed at improving banks' processing of financial transactions.

- The executive recruitment firm Korn/Ferry has launched Futurestep, an Internet search business in partnership with the *Wall Street Journal.*

If a systematic emphasis on growth and innovation offers any meaningful payoff, why don't more firms try it? The overarching challenge in most firms is that no one is clearly responsible for innovation leadership. It is unlikely that any firm can initiate and maintain an innovation strategy without dedicated, well-positioned leadership. Some firms may need to appoint an innovation czar with the authority to shoo off complainers and obstructionists who pick breakthrough projects to death. Towers Perrin has taken just such a step. This international human resources powerhouse reports just appointing their first "national director of innovation."

One further consideration. In a separate study involving extensive interviews with the Fortune 1000, it was discovered that these companies use an average of 22.8 different professional services firms of all types (lawyers, accountants, actuarial advisors, consultants, public relations strategists, financial analysts, investment bankers). The significance? If you think that clients are comparing you to other firms in your profession, you are wrong! Survey says: Your firm is being measured against all kinds of other professional firms with respect to the value-added, delivery and client service aspects of what you provide.

6. Consider Packaging Your Intellectual Knowledge

Pose to your partners this question: "Some firms have packaged their intellectual knowledge into a viable commercial product, while others have created subsidiary operations to provide and market services ancillary to their basic legal services. Do you have ideas about what we could do in either of these areas?" You will likely get a pleasant surprise. From our experience, in most cases between 14 to 22 percent of your partners have been pondering potentially viable ideas.

Is it likely that any of the ideas are of commercial significance, with the slightest potential for being revenue generating and of value to clients? *Absolutely.*

Have any of these partners been among those chosen to sit on your firm's core strategy committee? *Not usually.*

Have any of these ideas been mentioned to you as the managing partner, or indeed to anyone on the management committee for serious consideration? *Not likely.*

Does anyone see a problem with this picture?

Contrast this situation with how the nonlawyer arm of Littler Mendelson is rapidly becoming that firm's largest revenue source. Employment Law Training, Inc., a half-owned subsidiary founded in 1998, uses firm lawyers to give office seminars on employment law. Indeed, Littler has become a virtual multimedia publishing house and seminar sponsor that produces books, CD-ROMs and video training seminars.

How did this little entrepreneurial initiative come about? Largely from a group within the firm exploring how they might package some of what they do into more of a tangible product that they could offer clients, allowing clients to do their own internal training, and providing Littler with a handsome return for their packaging efforts.

Do opportunities exist in your firm for professionals to package what they do for clients, thereby developing an entirely different and profitable redefinition of leverage?

7. Champion Your Internal Entrepreneurs

Let's examine the second half of that earlier question that you might pose to your partners. "Do you have any ideas for how we might create a subsidiary operation to provide and market services ancillary to our basic legal services?"

Take the case of John Tredennick, Jr., at Denver's Holland & Hart. After 20 years as a trial lawyer, Tredennick was deciding whether to continue practicing law or do something else. He was tired of practicing law. For him, the tension was between practicing law or making the practice of law more efficient.

Tredennick approached the firm about spinning off the firm's Web and litigation support activities. After "much internal debate about exposures, conflicts, and all the other things that lawyers are trained to worry about," the partnership approved the spin-off in May 2000 to create CaseShare. CaseShare expects to bring in about $10 million in new revenues from the first year's operation in 2001.

That is where the interesting part of our story *starts,* however, not where it ends. In a meeting with Ed Flitton, the managing partner of Holland & Hart back in July 2001, I asked whether there might very well be a few other partners who had equally innovative ideas. Given the hundreds of professionals in over 10 offices across the country, I was not surprised in the least to hear him respond that, indeed, there may well be a half-dozen or more other professionals in his firm who were sitting on an idea of significant commercial value. What I was surprised to glean from Ed's answer to my question, however, was that despite Tredennick's success, there seemed to have been no effort to identify further pockets of innovation.

Not to be outdone by the legal profession, Atlanta's Habif Arogeti & Wynne is believed to be the first paperless Top 100 accounting firm in the nation. Spearheaded by Dan Sims, the technology partner, the firm eliminated paper files in 1998, driving down labor expenses by 18 to 45 percent on audits and an average 30 percent on tax engagements. They also realized savings of $40,000 annually in paper and supplies, $70,000 annually in salaries (from shrinking their seven-person word processing department to just two people), and are expecting a $120,000 annual savings with the elimination of in-house file storage. New revenue streams of $350,000 for FY2000 are now being realized from Dan's group training other firm's professionals on how to use software that assists with paperless audits.

Please do note something very interesting and highly relevant about both of these examples, and indeed about most of the examples identified thus far. These innovations did not come about because of any direction, intervention or incentive provided by the management committees of the firms in question. They came about from, as Peter Drucker first expressed, "having a mono-maniac with a mission!"

There is an incredibly valuable lesson here. If you want to have rule-breaking, wealth-creating new ideas come to the forefront in your firm, then you must identify, nurture and champion those professionals chomping at the bit to try new ways of doing things.

We are absolutely convinced that the maniacs exist and the innovative ideas exist. What is missing is the internal champions.

You must view your practice groups as your basic building blocks for constructing your firm's innovation strategy. Only when you begin to explore hidden assets at the practice group level do these opportunities emerge.

8. Rethink Some of the Assumptions About How You Operate

Every partner carries around a set of built-in assumptions, biases and presuppositions about what clients want or don't want, who the competition is or isn't, and what services we should offer or not, and how he or she should conduct their individual practice. We are all, to some degree, prisoners of our past experiences. Nowhere is this more pronounced than in our individual quests to maximize billable production.

> **"Many of the systems that support innovation may provoke discomfort. Research shows that, independent of other factors, the more often people are exposed to something, the more positive they feel about it."**

In countless sessions with various practice groups in various firms around the country, we have often had the occasion to pose this brainstorming question to partners: "How do we find ways of doing our kind of work that would incur less cost to us?"

Now, notice we are separating this from how you bill your client. That is not the issue. The issue is whether the work could in fact be done at a lower cost to the firm.

The reason for posing this question should be fairly obvious. If you do something at a lower cost to you, you can either pass the savings on to clients and get hired more often, or you can use the money to increase partner profits.

Unfortunately the very worst reaction is the one that we so often see. Even after identifying some very viable options for reducing costs, a number of partners will quickly conclude that there is absolutely no incentive to take action. They say, "Why would we want to do that? That's just going to reduce the number of hours that I'll be able to bill the client." We tend not to explore "the cheaper ways of getting any particular task done" because we tend to think only of today. Ultimately, this mind set is going to bite you in the rear-end.

Look at what Latham & Watkins has done to portray itself as the premier health care compliance group in the country. With the launch of Compliancenet, hospital clients have a resource to help them do more compliance work for themselves, even though it means lower legal fees for Latham. This firm recognized that hospitals don't relish having a pricey firm review their contracts, and that the firm that lands compliance assignments has a better chance at the more lucrative work hospitals generate. Latham also knows that having a resource like Compliancenet allows them to enter other geographic markets.

Daniel Settelmayer, the lawyer who spearheaded the development of Compliancenet, says, "This is a simple idea that anyone else could have just as easily developed. But we did it first." Latham's competitors were too busy asking why their firm would want to invest non-billable hours to develop a resource that only serves to decrease billable hours—and wondering who was going to compensate them for the lost hours spent developing the resource.

To explore innovation we need to get on the path of asking questions that challenge the way we operate. We need to do so regularly, as part of the way we run our business.

9. Begin With Limited-Risk Experiments

In grade school they teach you that the word *experiment* and the word *experience* are derived from the same Latin verb, *experiri* —to try. You try out your ideas in the hope of success, and whether they succeed or not, what happens next creates your experience.

Your best hope of success lies in having numerous projects percolating all at once. This ups the odds of one of them boiling over. As Linus Pauling, the Nobel winning chemist once said, "The way to have lots of good ideas is to have lots of ideas and throw away the bad ones."

Early successes breed optimism, the enthusiasm to do more and the commitment to try again.

Set up small, relatively inexpensive, minimal-risk and short-term experiments. Anything beyond six months takes you into the realm of pipe dreaming. Too many things can go wrong. If you have an action plan pushing beyond the six-month limit, break it down into smaller tasks that fit into shorter time frames. This way your firm is continuously knocking down fresh goals and objectives, experiencing success, staying on track, moving quickly and increasing the motivation to continue.

Small wins breed success and compel us down the path. Field tests. Pilot projects. Trial balloons. Trying something new in a contained environment. Selecting to experiment with one site or program. All of these are ways to facilitate the innovation process.

10. Help Your People Get Comfortable with Innovation

One of the very natural responses you may hear from your partners once you suggest that your firm should be a bit more entrepreneurial and focus a bit more time and attention on experimenting, is some variation on: "We're not comfortable with something we don't truly understand."

Many of the systems that support innovation may provoke discomfort. The unfamiliar often provokes a negative reaction at first. Research shows that, independent of other factors, the more often people are exposed to something, the more positive they feel about it. So to a large extent we instruct our clients that they must first seek to educate, before they seek to change.

Here are a couple of things that you can begin to do almost immediately.

- **Ideas for lunch.** Bring in a regular menu of outside speakers (predominantly from other professions, academic thought leaders and business entrepreneurs) to attend a monthly partners luncheon. Focus your efforts on individuals in your community who are actually taking action to reshape their own organizations through innovative means. Have them speak to your partners about what they are doing, specifically; and equally important, *why* they are bothering to invest the time in initiating new directions and what success they are having.
- **Begin your efforts without fanfare and make it voluntary for partners to attend.** (The worst thing you can do is announce some new program). Put your invitation in terms such as this: "I happened to be talking recently with this individual and was particularly struck by what she is doing in her firm. So I asked her to join us for lunch. I think you will find it interesting and perhaps of some value to you in your dealing with your own clients." After only a couple of luncheons, you should see some growing interest in why these companies are pursuing innovation and a greater comfort with the concept and the methodologies. You may even find a degree of enthusiasm from some of your partners for trying out new ideas in your own firm.
- **Segue to a simple strategic forum.** After some initial success with the monthly partner's luncheons you might consider turning your partners' eyes to new horizons with a "strategic forum" event designed to formally evoke some discussions on the future issues facing your profession.

Here is your agenda: "What are the forces already at work in our profession that have the potential to profoundly transform the way we may be practicing in five years?" Now, could you sustain a four-hour discussion some Thursday evening—perhaps from 4 to 8 p.m., over beer and pizza—debating the various trends and how they might affect your firm? Can you imagine discussing the ideas people might have about how to get out in front of these trends—not merely react to them—and capitalize on the opportunities?

WHY STRATEGIC INNOVATION? (AND WHY NOW?)

Why, you may ask, are we inviting you to think about innovation at a time when budgets are being cut, the economic forecast is shaky and many firms—perhaps yours—are focused on maximizing today's revenue stream? It's simple. This is all about your future.

The downturn in the global economy has imposed a radical change initiative on all of us. The world around you has changed. You'll need to find new ways to extract value. New ways to build markets. New ways to organize and execute. You have to be smarter. More agile. More inventive.

That's what strategic innovation is all about. You need to see your practice in ways that can reveal new opportunities. You need to uncover the hidden costs of standing still. You need to hone your understanding of the real risks and rewards of your current strategy. In a climate like this one, the most important step you can take to ensure your prosperity is to reenergize your thinking. Consider:

- Strategic innovation isn't merely a set of tools or techniques. Strategic innovation is about creating a firm-wide mindset. As managing partner, you need to become a "venture catalyst."

- Strategic innovation isn't about putting out fires or fixing yesterday's shortcomings. Strategic innovation is about blazing new trails and preparing for a new tomorrow. Albert Einstein once noted, "You cannot solve the problem with the same kind of thinking that created the problem."

- Strategic innovation isn't about developing detailed and inflexible planning documents. Strategic innovation is about creating a compelling challenge capable of inspiring people. Most plans are a little bit too much like quicksand, eliciting a degree of rigidity that impedes a firm's ability to explore an ever-changing world. But few things excite people more than being part of a vibrant entity and exploring new possibilities.

- Strategic innovation isn't about improving incrementally, it's about breakthroughs. In a competitive marketplace where there are no time-outs and no commercial breaks, if you are content with being a follower, you will always be eating someone else's dust. The pace of change will suck the air right out of your lungs. The classic saying "lead, follow or get out of the way" is being replaced with the reality that you either lead or get *blown* out of the way. In these competitive times, there is little room for firms that simply follow.

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YOUR CHALLENGE

Pick up the firm brochure or visit the Web site of most any professional firm and you will read something like this, somewhere in the content: "We are acknowledged for our ability to find new, creative, and *innovative* solutions to solving our client's problems." And in most firms that statement is neither puffery, nor a crass exaggeration.

Your challenge now becomes one of redirecting some of the innovation that your professionals display in solving their clients problems, to innovation in practicing their profession and running the business. We have come to believe that it has everything to do with organization and attitude, and very little to do with creativity or capability.

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