The Innovation Imperative:

How To Make Strategic Innovation Happen

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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 or long forgotten experience for a good number of today's managing partners.

Meanwhile, signs of strategy decay were becoming painfully obvious as we ended the great boom of the 90's with declining margins and slowing growth rates in revenues-per-professional - signs visible only when you analyze the way in which many firms have been manipulating their profit-per-partner metrics.

Now firms are scrambling to cope. Everybody is focusing on costs. 'Downsizing' was the buzzword during the last recession and many managing partners can once again be counted upon 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. 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 chip at their neighbor's slice.

But cutting costs, and 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 once again show signs of life? Rather, this is a time to be bold, imaginative and decisive. Strange as it may sound, this is the most critical time to invest in your future. Recessions are hell, but they provide unique strategic opportunities. It may be hard to gain relative position in a boom: Everybody's paying attention; everybody's focused; everybody's adding talent; everybody's spending. Smart firms have demonstrated that it's drastically easier to improve relative position during a downturn.

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 recently sat in a partner's meeting and wondered how it is that 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 are not rooted in conventional strategic planning. They are driven by innovation. Although obviously needed when the economic chips are down, we're not talking here about a single innovation, but a conscious, built-in, continuous process of innovation. But what exactly is innovation, 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 – 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.

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SO WHAT IS INNOVATION?

There was a period when all your firm needed to do was focus on continuously improving, getting better at whatever you do, and you would be assured of success. Today, we must recognize that the advent of competitors expanding globally; firms being able to deliver professional services in new ways to remote clients via the Internet; and those who have decided to develop into more multi-disciplinary practices; have all conspired to change the rules.

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 study conducted by PriceWaterhouseCoopers 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**.

Now before you go thinking that I'm suggesting 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 essentially as a creativity-driven phenomenon. They think that something labeled innovation must naturally begin with creativity seminars, creativity pep talks and lateral-thinking exercises. 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.

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 two-fold. First 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 is looking for ways to differentiate yourself against the competition. It is about leveraging the ideas of your professionals 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, have a track-record of inspiring innovation, and are rewarded handsomely in the marketplace. Not just that one breakthrough idea, but a continuous stream of innovations; and yet many firms still struggle with innovation. In fact we've found that these firms unintentionally kill any prospect of their encouraging innovation amongst their people, without even understanding how or why.

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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, your responsibility for efficiently running your firm may actually conflict with your aspiration to spark innovation. You should also recognize that your firm's past success has a funny way of planting the seeds for future difficulties. A firm that becomes successful runs the risk of not continuing 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 want to be committed to a common direction. This dream of having every professional pulling together is held in high esteem.

For all of its positive merits it should also be recognized that any firm that actually does manage to formulate a unifying vision, also creates a culture that is so strongly committed to a specific direction that it will likely suppress anything, and reject anyone, that remotely suggests 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 only putting forward their very best effort at anything they take on. Not such a difficult firm to imagine, is it? And yet, isn't it also 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 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 that 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. But unfortunately, with strong, visionary firm leaders, their willingness and capacity to foster innovation throughout the firm 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 especially devoted to displaying the firm's best practices.

Some firms have even 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 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. Best practices are by and large about efficiency, not innovation.

Further, if you are 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 are just 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 probably 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.

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 statements that was posed 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. No surprise in that 92% of them identified this as an important attribute to their future success.

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

As we explored this further in a number of 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 of these questions continue to receive a resounding "No" by anywhere from 71.1to 93.4% of most partners.

What we have learned is 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 any innovative ideas that exist will have some chance of getting a receptive hearing.

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HOW TO MAKE INNOVATION HAPPEN

We need a culture where innovation occurs because of the culture, not in spite of that culture. So what might help your firm become more innovative? Here are ten initiatives, that from our experience, need to be taken; with a few examples of some firms taking action we believe worthy of attention:

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

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 do you have presented to you during the course of the average year? Probably one, or two at the very most, if you are like the typical managing partner we talk with. 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 the firm's budget targets and ensure that all partners are billing to their maximum potential.

Look at the issues that are currently consuming your time. We often ask of managing partners a couple of questions that painfully illuminates where they spend their time. First: What proportion of your 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 about 80% on solving problems and 20% on exploring opportunities.

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

So why does this happen? Well, 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. There is a powerful gravitational pull that unconsciously moves 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, while however noble, simply restores the prior performance or condition, which 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 we then pose. Of the time you spend on exploring opportunities, (remember it was reported to be 20% 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, new services or new technologies (the future)?

Again, if we were generous in reporting what we have learned, the average managing partner spends about 60% of their time exploring present opportunities and 40% on future opportunities. That drives a point worth scrutiny: What kind of a future is likely to be created by a firm leader spending about 8% of his or her total management time and energy focused on that future? And this is in firms that have a managing partner who spends all of their available time on management matters. Those managing partners spending 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. So if you 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. Where a managing partner spends their time 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% of the time to listening to ideas for improving systems, generating new revenues or developing new services. Also, the things 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 your precious time and waste resources looking backward. This is a time for action, not introspection.

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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 find yourself confronted by some form of change that allows 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 while others relish the transformation. The following represent a listing of the top ten change events, prioritized by their relative order of magnitude and likely impact on your firm:

TOP TEN CHANGE EVENTS

- Merger (of some significant size)
- Economic Contraction – Recession
- Downsizing (including loss of major practice group, death of a super-star, etc.)
- Significant Client Loss / Client Merger (where client represents 20%+ 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 – moves into the market
- Results from Client / Market Survey

This listing 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, but (unfortunately) a client's feedback may only adversely affect that individual partner whose performance is found to be below standards.

(When one is looking for examples of innovation, there is no better example 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 seems to have 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 that they are now focused on bringing more of the kind of work that I was doing, in-house")

We submit that each of these change events present a window of opportunity for commencing innovation initiatives.

Consider the example of Pillsbury Winthrop, who recently initiated a deliberate program to identify and eliminate "sacred cows." As part of this firm's efforts to break from their past following their merger, the firm capitalized on that change event to establish 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 that offices used to bill clients and collect overdue payments. Over the objections of several senior partners, the task force developed and implemented a simpler more centralized system for doing these routine tasks. 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% - 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% increase in Pillsbury's profits-per-partner, the fourth largest percentage increase among firms in the survey.

(And 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?

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3. Reach Out For New Voices

There are a number of areas in any firm where you can hear from new voices. 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 in the world 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.

Perhaps the tallest hurdle your firm must clear in pursuing innovation is to abandon the tightly controlled cliques that dominate most strategic thinking that purportedly 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 do bring to the table a thorough understanding of the marketplace, our competition, and they have been the individuals that are pretty much responsible for what has made us successful to this point in time."*

This preoccupation with historic success behaviors, which are subjective at best, assures that your firm will be unwilling to engage in behaviors that will provide for innovation.

We can also immediately begin to see a couple of shortcomings inherent in the choice of individuals selected to be on most firm's typical "strategy committee". Not the least of which is that all of their views have already been well articulated. In some richly paneled inner-sanctum, you can just envision a picture of senior partners huddled together, quietly discussing the future strategy for the firm. These people already know each other so well that they can usually and often do, finish each other's sentences, unprompted. One can safely wager that any forthcoming scheme will incorporate conservative, traditional action plans steeped in "best practices" and capable of posing little threat to altering the behavioral patterns of the most senior and staid professionals. No wonder most strategy conclaves produce tepid ideas that are too little, too late.

At the time, we all recognize instinctively that individual professionals only support, believe in, and show commitment to a firm direction which they themselves have 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 who believes that you should create an internal competition for ideas and involve 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.

• And Younger Voices

You need to 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 80's they told us about how the average age in their firm was in the mid-30's. Then in the mid 90's we were constantly guaranteed that theirs was a young firm with the average age of partners being in the early 40's. Today, we are still being assured of how young this particular firm is since all of the partners are in their mid-40's.

As any firm matures and achieves some measure of success, it unfortunately 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 from PriceWaterhouseCoopers poses these questions: How old was Einstein when he revolutionised 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? What about 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, Bill Gates when he co-founded Microsoft, 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!

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 the creation of your firm's strategy? And, how likely is it that your firm possess at least one Picasso, Roderick, or Gates?

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

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

Most all of us have in our closets an old pair of jeans, khakis or a worn t-shirt that should have been discarded years ago. But, we choose to favor that particular item of clothing the way a young child clings to their security blanket. Those khakis may be tattered but when we've had one of those particularly hard days at the office putting out client fires, we console ourselves by coming home and wrapping ourselves in something tranquil. We know that we should throw those khakis out and break in a new pair, but we still fight strenuously any notion to discard the comfortable and familiar. In fact, in most cases, it actually takes an act of spousal intervention for you to finally throw them out.

We need to recognize that many of our more senior partners may have habits and mind-sets that resemble these time-worn khakis. These partners often seem to be unwilling to let go of past practices approaches and mental models. It is important to understand that their focus is upon the present, which has already occurred, which is now in effect, the past. But all competition takes place in the future.

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• And The Voices Of New Hires.

Some of the very best ideas can come from your newest professionals. One firm has a specific program called “Fresh Eyes” to tap into that insight. With this program the 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 is called into a meeting 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?”

What you need is 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. Then you need to create the 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 be concerned with how many years of experience they have. Instead, determine if they bringing learning from a wide 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 and questioning of why things are done in certain ways. So 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 — to even call upon 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. didn't come from any of the accounting firm's professionals. It was actually inspired by the firm's advisory board composed of outside business people charged with providing a fresh perspective to helping the firm target its service offerings more effectively. The firm maintains a 12-member advisory board that 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 actually 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" wherein win or lose, his 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% of the Fortune 1000 would recommend their primary law firm. When 44% plan to reduce the number of law firms they use and 63% 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 before now. 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 advocating and using online deal rooms well in advance of the most progressive professional firm. And 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 are not going to be considered for the big ticket transactions without having an online deal room!

Meanwhile, Clifford Chance's London, Moscow and New York offices were all 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 the client to have access to worldwide advise.

These kinds of innovations are not just the domain of the largest firms. In a time when clients are trying to minimize uncertainty in their legal bills, 20-lawyer London technology and corporate boutique Kemp Little 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 can then access their 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 obviously many opportunities to innovate and leapfrog competitors by simply collaborating with and being sensitive to the (unspoken) needs of your clients.

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5. Steal The Best Ideas From Other Professions

One of the principles that we have learned about innovation is that it 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!

Thus, if you want to enhance innovation within your firm, one way is to initiate an internal committee of interested professionals to monitor all new developments and trends going on 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.

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.

Those who look outside their profession to observe what is happening in other professions would see examples of all sorts of new attempts at innovation. There's regional accounting powerhouse BDO Seidman launching, in June 2001, 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. American Management Systems, a massive IT consulting firm teaming up with Barclays Bank and others to form a new venture aimed at improving banks' processing of financial transactions. Or executive recruiters Korn / Ferry launching 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 actually need 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 are using an average of 22.8 different professional services firms of all types (lawyers, accountants, actuarial advisors, consultants, public relations strategists, financial analysts, investment bankers, etc.) The significance of that is that you likely think that clients are comparing you against some other firm in your profession – wrong! Survey Says: Your firm is being measured against all kinds of other professional firms with respect to the value-added, delivery and client servicing 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 any ideas on what we could do in either of these areas?" You will likely get a pleasant surprise. From our experience, in most cases somewhere between 14 to 22% of your partners have a potentially viable idea in this regard that they have been pondering.

Now, is it likely that any of the ideas that these partners have in mind, are of any 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 in the past 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?

I contrast this situation with how the non-lawyer arm of Littler Mendelson is rapidly becoming the firm's largest revenue source by far. Employment Law Training Inc. (ELT), is a half-owned subsidiary founded in 1998, which uses firm lawyers to give office seminars on employment law. Indeed, Littler has become a virtual multi-media publishing house and seminar sponsor that produces books, CD-ROMs and video training seminars.

And 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 then offer clients, allowing the client to do their own internal training, and providing Littler with a fairly handsome return for their packaging efforts.

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

"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.**"**

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7. Champion Your Internal Entrepreneurs

We should 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. Tredennick was deciding whether to continue practicing law, after 20 years as a trial lawyer or do something else. He was tired of practicing law. For Tredennick the tension was between practicing law or making the practice of law more efficient.

He 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. John now expects to bring in about $10 million in new revenues from the first year's operation of CaseShare in 2001.

That is where the interesting part of our story starts, not where it ends. In a meeting with Ed Flitton, the managing partner of Holland & Hart back in July, I asked whether he thought that there may 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 Ed respond that indeed there may well be a half-dozen or more other professionals in his firm who were sitting on some idea of significant commercial value. But what I was rather surprised to glean from Ed's answer to my question was, that in spite of Tredennick's success, there seemed to have been no subsequent 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% on audits and an average 30% on tax engagements. They report that 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.

Now please do note something very interesting and highly relevant about both of these examples and indeed about most all of the examples that have been 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 largely 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 definitely need to 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, the innovative ideas exist. What is missing is the internal champions.

It is also the reason that we have long advocated to managing partners that you must view your practice groups as your basic 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 these opportunities emerge.

8. Rethink Some Of The Assumptions About How You Operate.

Every partner carries around in his or her head 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 or another, prisoners of our past experiences. Nowhere is that more pronounced than in our professional's individual quests to maximize billable production.

In countless sessions that we have conducted with the members of various practice groups in various firms around the country, we have often had the occasion to pose to partners a question for them to brainstorm answers for. We have asked of 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, that with the type of work, deals and transactions that we do, is there a bit of this that's could in fact be done at a lower cost to us.

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

Unfortunately the very worst reaction is the one that we so often see. After going through this discussion and even after having identified some very viable options for doing some part of the transaction at a lower cost, a number of the partners will immediately conclude that there is absolutely no incentive for any of them to take action. "Why would we want to do that?" they'll say. "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 themselves 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 of the 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 of doing the more lucrative work that hospitals generate. Lathams also knows that having a resource like Compliancenet allows them to enter other geographic markets.

While Latham's competitors were saying, "why would we want to invest non-billable hours developing a resource that then only serves to decrease our billable hours?" And asking, "who's going to compensate me for the lost hours that I spend developing this resource?" Daniel Settelmayer, the Lathams attorney 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."

To explore innovation we need to get on the path of asking questions that challenge the way in which we have been operating - 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 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 raising overall 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, and selecting one site or program to experiment with are all ways to facilitate the innovation process.

> “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.”

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10. Help Your People Get Comfortable With Innovation.

One of the very natural responses that you may hear from your partners if you should suggest that your firm should focus a bit more time and attention to experimenting and being a bit more entrepreneurial 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.

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 re-shape their own organizations through innovative means. Have them speak to your partners about what specifically they are doing; 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 great fanfare (the worst thing that you can do is announce some new program) and make it totally voluntary for partners to attend. "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."

What you should see after only a couple of luncheons, is some growing interest in why these companies are pursuing innovation, a greater comfort with the concept and the methodologies, and a degree of enthusiasm coming from some of your partners for perhaps trying out some new ideas in your own firm.

After some initial success with the monthly partner's luncheons you might then consider turning your partner's eyes to new horizons with a "strategic forum" event designed to formally evoke some discussions of 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 (4:00 to 8:00 p.m. over beer and pizzas) debating the various trends, how they might affect your firm, and what ideas your people might have (not to react to the trend), but to get out in front of the trend so as to capitalize on the opportunities?

"Research shows that, independent of other factors, the more often people are exposed to something (like innovation), the more positive they feel about it.**"**

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.

• Strategic Innovation isn't merely a set of tools or techniques; it's 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; it's 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; it's 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. Few things capture people's excitement 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 highly competitive times, there is little room for firms that simply follow.

Pick up the firm brochure or visit the web site of most any professional firm and you will see 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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