

Expert analysis 1: The innovation advantage

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THIS ARTICLE is concerned with the ways in which innovative approaches have already changed the nature of law firm practice, and how they will continue to do so at an accelerating pace in the future. In particular it will consider service innovation and how firms might develop processes to improve their creation of innovation opportunities and the execution of those which they choose to pursue.

Before looking in detail at this specific area it is helpful to take a wider perspective on the many forms that innovation may take. These can be broadly segmented into a number of discrete but inter-related categories, for example:

- Client service delivery and relationship management;
- Operational strategy and different ways of working;
- The changing nature of the employer-employee relationship;
- Business models, performance management, and remuneration; and
- Brand development, marketing, and communications.

Taken independently each area has had a significant impact on the competitive structure of the legal industry and the nature of the practice of law. Taken together the effect has been profound. Faced with ever

rising competitive intensity, the need for law firms to innovate has never been greater or more urgent.

The relative advantages that successful innovation can bring law firms are significant, and they need to be grasped if firms are to avoid entering the downwards spiral defined by the terminal combination of an inability to articulate an offer which is valuable to clients, and to deliver legal services in ways which are economically viable in the longer term.

What do we mean by 'innovation' in the context of the legal sector?

Coming to a common understanding of the nature of innovation can be challenging. At its most simplistic, a dictionary would support a proposition that innovation is simply introducing something new; nothing more, nothing less. In this sense it need not be complex or costly. Indeed effective innovation can require little more than a well thought through strategy, a determined commitment, and the ability to change behaviours or historic working practices. Although, it is fair to say, finding all of these ingredients in one firm is rare indeed.

However, lawyers are cautious souls and anything 'new' is likely to face opposition and have difficulty in gaining traction. We should not forget the cultural context; a risk averse inclination and a precedent-based belief that the future is governed by the past have served the profession well for centuries. Add to this mix the historic protection

afforded by a very favourable regulatory environment, restrictive bar rules, and the cosy quasi-competitive world which this created. Finally, consider the psychological impact of an approach to pricing services which, through its focus on time expended rather than value created, mitigated against any desire to search for efficiency improvements or alternative approaches.

It was therefore no surprise that the word innovation was rarely heard in the context of running a law firm; innovation was limited to the practice, rather than the business, of law.

Taking the client's perspective: Developing a service innovation approach

The legal sector is experiencing a wave of service innovation, with firms adopting strategies that seek to create distinct and valuable client propositions. Recognising that differentiation on the core technical legal discipline is very difficult, the focus is on creating advantage through the 'service wrapper'.

Many of these 'new ideas' emulate approaches and techniques that can be seen in other industries (as is explored further in the article in this report on CRM and cross selling). It is about the transfer of ideas and best practices which are proven to deliver results in analogous situations. This is not to say that such transfers do not have the potential to be transformational within the legal industry to which they are introduced. A further benefit to many law firms of adopting ideas rather than inventing new ones is that the perception of risk lowered – making acceptance and implementation so much easier.

Looking to the process by which service innovations are generated by the firm itself, an interesting question to consider is the extent to which such innovation is defined by 'light-bulb moments', or if a process can

be applied to create, test, and implement service innovations. In other words, can we produce innovation by applying management techniques or will we always be reliant on the 'out of the box' thinkers? While there will always be a role for the lateral thinker, the evidence is clear that innovation can be treated as a process.

One way of addressing innovation shortfalls is through service blueprinting. This is a concept that was first explored by Lynne Shostack in *Designing Services that Deliver*,¹ and subsequently developed further by others, for example in *Service Blueprinting: A Practical Technique for Service Innovation*² and *Services Marketing: Integrating Customers Focus Across the Firm*.³ Service blueprinting provides a framework to allow any service process to be segmented, analysed, and opportunities for improvement and innovation to be evaluated.

The blueprint comprises five components, illustrated in Figure 1, which may be thought of in a law firm context as comprising the following:

1. Firstly there is the business infrastructure and systems which are central to the delivery of the service. The innovative use of information technology to support the delivery of legal services has been a feature of many firms seen to be mould-breaking. Such approaches can deliver improved quality of client experience and the reduction of recurring costs, the holy grail of service innovation. What also seems clear is that law firms in the future will have fewer people and more computers. This is not to say that human interactions will not remain a crucial part of many legal service transactions, but rather that non-client-facing or process rich elements will be increasingly delivered by machines rather than individuals.

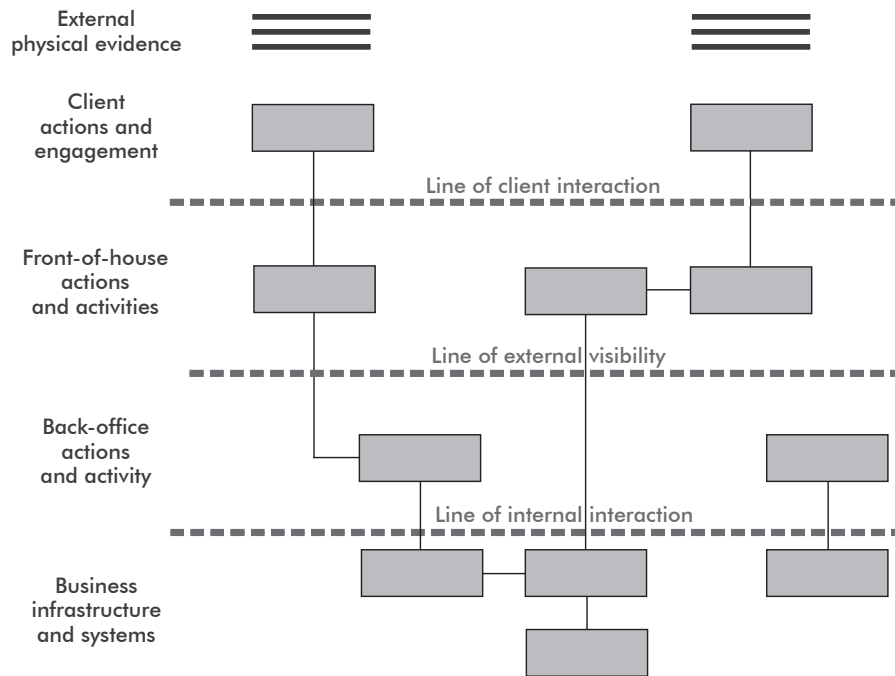


Figure 1: Service blueprinting concept organogram

2. Actions of back-office staff (both business support and legal service delivery) who do not normally have face-to-face client interactions. Nonetheless they have a significant role in shaping the current service experience as well as providing opportunities for future service innovation.
3. The activity and actions of staff who have face-to-face client interactions as part of their normal routine is a further layer of the blueprint. For the avoidance of doubt, in addition to client-facing lawyers this might include, amongst others, secretaries, IT staff, receptionists, catering personnel, and others who directly shape the client experience.
4. The fourth aspect of the blueprint is concerned with the actions required of the client in order to engage with the firm. It is a universal truism that businesses which do well tend to be

those which are easy to do business with. It can be remarkably hard to interact with many law firms when viewed through the lens of a busy client. There are significant service innovation opportunities to be had in this component of the blueprint.

5. Finally there are the physical evidence elements of service which need to be considered. These include, for example, the firm’s marketing, premises, accessibility, and market positioning. Relentlessly finding new ways of reaching out to prospective clients and engaging more fully with existing ones will be a feature of successful law firms in the future.

Each component will present innovation opportunities. Furthermore, the relationship and interaction between components provides a further dimension for those seeking opportunities for competitive

advantage. Indeed, it may often be through creating service strategies which cross the component boundaries that innovations are produced which are difficult for competitors to imitate quickly or closely.

Operating model innovation

A strong inter-relationship exists between a service innovation framework such as that described above and a law firm's operating model. Given the relatively archaic nature of the business practices employed by many firms, the potential for realising significant commercial and competitive benefits from changes to their operating models are both far-reaching and profound. Importantly, it appears certain that a gap will open between the masses and those relatively few firms able to effect change and to afford the investment necessary.

Commentators have for many years discussed the need to ensure that work is carried out at the lowest possible level of competency within a firm, and they have spoken of the need to disaggregate the legal process and to employ better project management techniques together with the impact of advances in IT and knowledge management systems. We have reached a tipping point, and the journey to this point has been accelerated by recent economic pressures that have now made changes, which were previously unpalatable, a business necessity.

Understanding where the value lies to make better investment decisions

One of the most pressing challenges facing law firms in the current economic climate (and which is unlikely to abate in a post-recession era) is how to overcome the apparent tension between client demands in what is now, and will remain for the foreseeable future, a buyers' market for

simultaneously improved service levels and lower costs. A 'me too' approach to service strategy leads to resources being expended in ways which are sub-optimal from a client's perspective and which also increase the firm's costs, and in doing so erode its profits. For many firms there is a vicious circle as increased service expectations become the norm – this leads to increased costs in order to remain a viable option for increasingly discerning clients but without any gain of competitive advantage.

Firms are also constrained in their strategic freedom by assumptions about what aspects of their service are valued by clients (and in what priority and with what weight). They operate with a paucity of knowledge when it comes to understanding the world from the clients' perspective and, in almost every case, invest far too little in improving their understanding. A lack of knowledge means that their approach to innovation is more akin to the spin of a roulette wheel than to the precise aim of a marksman. Firms need to address this as a matter of urgency if they are to break away from the status quo. A radically improved understanding of the world as seen by the client (and how this world will change going forward) is fundamental to providing the insights that will inform trade-offs and to show where innovation investment should be focused.

Affording innovation – Making choices to fund the future

Innovation does not necessarily carry with it any implication of on-going increased costs; indeed innovation may benefit the firm through ultimate cost-reduction. However, this is not always the case and, regardless, additional cost may well be involved during the research, development, and implementation stages of innovations

which will ultimately result in lower recurring costs. Consequently, decisions need to be made on issues of resource allocation and prioritisation.

An interesting insight is provided by W. Chan Kim and Renée Mauborgne in *Blue Ocean Strategy*⁴ in which it is suggested that far more conscious choices should be made about investment (and dis-investment) priorities in order to reshape a business and to identify, and commercially capitalise on, new areas of service innovation. The quadrants proposed in their Reduce–Eliminate–Raise–Create grid (see Figure 2) provide a framework against which such decisions can be made. The grid highlights the core issues which the strategy team must consider. Three focus on the current service mix and how this may be re-shaped, together with a focus on innovation to create new value. Faced with ever-tightening purse strings, law firm strategists need to fund innovation by demonstrating how savings elsewhere, no matter how unpalatable they may seem initially, can be used to ‘balance the books’.

Raise

Which elements of our current approach need further investment since they represent untapped opportunity, a competitive barrier or a key competency in which we need to perform better? For example, does the firm need to prioritise areas which are known to drive client satisfaction and loyalty as well as those which increase internal efficiencies? These are not innovations which are new to the market (although they may well be new to the firm in question) but rather those which are being employed by the leading group of firms and imitated by followers.

Reduce

Conversely, which are the areas in which we can reduce our investment because they are not perceived as being of a high order of importance in the eyes of the client, or to meet other client demands, or forge opportunities for differentiation elsewhere? For example, a trade-off may be required if a client desires lowered costs alongside increased added-value. This can

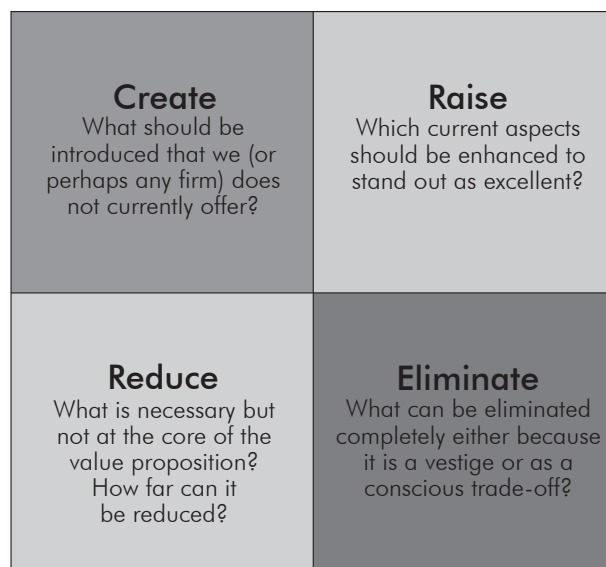


Figure 2: The Reduce–Eliminate–Raise–Create grid

be achieved, at least in part, by identifying areas in which some aspects of service can be accepted at a lower level (or even not at all) because they are 'table stakes' rather than value adding.

Within many law firms, the thought of selectively reducing service levels is wholly unpalatable. This is understandable. However, without a commercial approach, the consequence of not making these trade-offs will be increased costs to the business at a time of immense downwards pressure on pricing – further eroding margin. This is not sustainable in the long term. Faced with issues of this magnitude, the management team must be prepared to adopt an approach which involves reaping as well as sowing. In a bull market, law firms were able to avoid confronting such issues. There was enough work, providing sufficient levels of profit, to make such difficult decisions avoidable – the service mix simply expanded year-on-year. In today's business environment such side-stepping of the need to reshape rather than just increase is more difficult.

Other areas that might be considered for reduced investment are 'hygiene factors' in which a benchmark level of competence is required but where further investment creates diminishing commercial returns. A key feature is that such factors do not deliver competitive advantage per se, but rise to being of very high importance if performed badly. A (perhaps contentious) example would be the technical competence required to pre-qualify the firm for consideration by a client but which will not, in itself, win the business. It is necessary but not sufficient. However, a firm which fails to maintain its technical ability at an appropriate level will find itself quickly excluded from the competitive set. In this respect, there may be an opportunity to

reduce the level of investment being made in such areas but appropriate competencies will need to be maintained.

Eliminate

The most difficulties for many firms lie in identifying those areas which should be eliminated. This is difficult because the starting assumption in such considerations is that the obvious areas for cost savings or the elimination of antiquated working practices have already been dealt with. We are looking deeper here at areas which are still held to be valuable or historically important within the business, but where external evidence indicates the contrary.

Such decisions will often be politically loaded and emotionally charged. Yet they must be taken if the firm is to free-up the resources that it will need to pursue its investment priorities elsewhere, whilst maintaining overall profit performance.

Create

The fourth quadrant is that concerned most strongly with innovation and new approaches. By creating service elements which break the mould, the firm has an opportunity to add value in ways which others find impossible to emulate. However, it can be seen that for this to be affordable, trade-offs will be needed elsewhere.

Armed with the client insights outlined earlier, it is then possible to evaluate both the current and proposed service mix on the four dimensions that are suggested by the *Blue Ocean* approach, encouraging both rigorous analysis of the current mix as well as creative thinking to brainstorm new opportunities.

Creating the innovation recipe for success

To be successful, firms must simultaneously take both external and internal perspectives

to find innovative ways to meet the challenges that they face, to create compelling client propositions, and to re-engineer their businesses for the future. Those able to address one of these areas, but not both, may survive but will not prosper in relative terms. Firms unable to rise to either challenge will see their positions erode, their brands decline, and will eventually succumb to takeover or closure.

The firms that can combine a compelling and unique client proposition with a robust and efficient internal operating model will be the ones which build sustainable futures. Those firms able to shape both their businesses and people to work in a different way in order to deliver client service innovations which are distinctive, compelling, and economic, will emerge and dominate over the next five years.

References

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