

## Chapter 2: Building a culture of innovation in legal services

*By Adam Billing, partner, and Abigail Hunt, associate, at Møller PSF Group*

### The innovation imperative

The trends that are driving change in the legal sector are well known: clients demanding more for less, the billable hour under fire, shifting workforce demographics, the growing need for global reach. These trends are all exacerbated by new technologies that enable, among other things, greater legal process outsourcing, e-discovery, and virtual working. All of these factors, combined with new client needs and regulatory changes, create an environment ripe for disruption in terms of how legal services are delivered, what those services might include, as well as who is delivering them.

At the present time, the greatest impetus for change in legal services is coming from in-house legal teams. These teams are under pressure to deliver both more and different strategic value to their own changing businesses.

Des Woods, chairman and a founding partner of the Møller PSF Group at Cambridge University, said 'Clients complain constantly that their legal suppliers are behind the game in terms of innovating around service delivery and pricing. Their view is that most innovation is in the in-house lawyer community, as they face direct budget pressure from their boards. Having said that, the market has definitely woken up and many, but not all, firm leaders are gearing up for major change.'

How long will it take to reach a tipping

point when some law firms will be forced to change their model? And how long before innovation is at the top of the agenda for more than just the most forward-looking firms?

Greg Bott, head of the Client Development Centre for Addleshaw Goddard LLP, commented: 'The improving economy might have been detrimental to the rise of innovation – hiding some of the issues and cracks. A slight cooling may help unearth those things that need to be addressed.'

Exactly how the legal services landscape will evolve over the coming years is far from certain. What is definite, however, is that innovation will play a central role in this evolution.

### A culture of innovation

With some notable exceptions, much of the innovation that has taken place in the legal sector has been what can be described as 'spot innovation'. These are innovations that occur in response to a particular client

#### Legal sector innovation

Over the last few years, legal sector innovation has received increasing attention in the media and from a growing number of awards bodies. New service, product, strategy, and process innovations have in many cases been driven by advances in technology that are transforming the way work is managed and delivered, both externally and internally.

request, regulatory change, or internal business challenge – not the result of a strategic and coordinated effort to drive growth and profitability through innovation.

While these successes should not be undervalued, innovation in legal services is still rarely taking place at the level required to take full advantage of the opportunities ahead and to cope with the magnitude of change and uncertainty building within the sector. This requires a more systemic and intentional approach than currently exists in most firms today. It requires a ‘culture of innovation’.

In recent years, ‘creating a culture of innovation’ has become a frequently cited strategic objective for businesses of all kinds. But what does that really mean? We define a culture of innovation as the collective practices, mindsets, policies, and norms that enable an organisation to make innovation part of business as usual. In this type of culture, innovation is a core, constant activity of the organisation – as opposed to something that is done in addition to the ‘real’ work of the firm.

When a culture of innovation is in place, the firm is inherently better able to identify new opportunities as they emerge,

#### **Legal sector innovation in action:**

##### **External strategies**

Externally focused innovations include new legal strategies, such as Simmons & Simmons’ creation of a cost and time saving strategy to redirect PPI litigation away from the courts, and instead into its clients’ internal complaint-handling functions. Or novel service offerings, such as Hogan Lovells’ creation of the Privacy Innovation Assessment, a tool that helps clients assess the privacy implications of new business developments and recommends practical steps to address them.

#### **Legal sector innovation in action:**

##### **Alternative service providers**

AdventBalance, a young Australian firm offering fixed rates, lawyer pools, and a unique staffing arrangement, whereby top-tier experienced lawyers work directly in client businesses on a secondment basis, has enjoyed double and even triple digit growth rates in the last five years. Schillings reorganised itself entirely when it moved to ABS status and repositioned itself as a multi-disciplinary firm offering a comprehensive reputation defence package made up of consultancy services, cyber security services, and legal assistance. Since the change, the firm’s revenue has climbed by 30 per cent.

think creatively about how to respond, and mobilise resources to rapidly develop and implement solutions. Specifically, this results in:

- Greater agility and responsiveness to change;
- Improved collaboration across the firm, with clients and other parties;
- Profitable new revenue streams and internal cost savings;
- Improved employee engagement and productivity; and
- Increased growth potential and competitive advantage.

How this manifests will vary widely from firm to firm. There is no one-size-fits-all solution – nor are there transferrable templates to follow. Organisational strategy, structure, history, and innovation objectives all have a profound effect on the shape a firm’s culture of innovation needs to take to be effective.

However, from our experience of working in the professional services and corporate sectors, a number of lessons learned and key success factors have emerged that can help

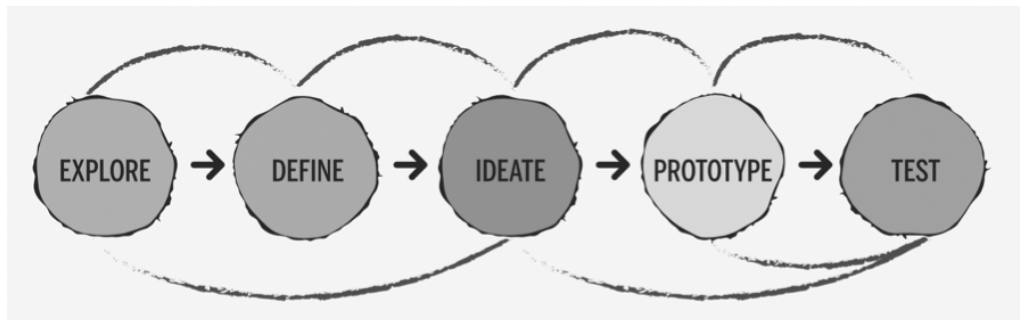


Figure 1: Design thinking – An innovation framework

law firms create an innovation culture that produces the desired results, while avoiding some of the most common pitfalls.

### Create the foundation – Building skills and awareness

The bedrock of a strong innovation culture is a shared understanding of how innovation works and the business case for doing it. This requires a common framework that everyone can easily grasp, apply, and practise – forming the basis for a common language and approach for how innovation happens in the firm.

#### Legal sector innovation in action: Internal strategies

In the realm of internal innovation, there is a move towards more flexible time arrangements, as well as the provision of more structured training in areas beyond law, such as wider commercial skills for junior associates. Allen & Overy made the move to flexible working in 2010 and Linklaters allows lawyers to work from home one day per week as of this year. Simmons & Simmons has been recognised for its internal innovations, including the launch of its own MBA course in partnership with BPP business school, designed to prepare a new generation of lawyers with a range of legal and business skills.

Creating this foundation requires an investment in developing people from across the firm – not just fee earners or senior leaders.

### Design thinking – A unifying framework for innovation

In recent years, a growing number of law schools and firms have looked to 'design thinking' to equip lawyers and law students with the process, tools, and mindsets required to successfully innovate for their clients and within their firms.

Design thinking, an innovation framework used by some of the world's most consistently cutting edge companies, gives people a straightforward, practical approach to creative problem solving that can be applied to virtually any challenge (see Figure 1).

It starts by seeking to deeply understand what people (e.g. clients or internal customers) really value, need, and care about, and it applies a creative process and toolset to arrive at more innovative solutions for the challenges they face. Individuals trained in this approach learn how to use techniques such as effective questioning and empathy building, opportunity framing, brainstorming, and lateral thinking, as well as rapid prototyping and experimentation.

With these core skills and mindsets instilled, every individual in the firm can be part of the innovation process. They become 'listening posts' for opportunities to innovate

both for clients and internal stakeholders. They also become more confident in suggesting new ideas, secure in the knowledge that others understand the importance of deferring judgment and building on the ideas of others. Meetings tend to become more focused on action and rapid iteration, rather than endless updates, and discussion and collaboration between disciplines become more fluid due to a shared toolset and approach to problem solving.

For many organisations, the most immediate benefits of equipping people with an innovative framework and toolkit like design thinking come from the way these techniques are applied in day-to-day work. Small changes to the way individuals and teams organise and manage themselves can have a profound effect on the quality of work and the speed at which it is accomplished.

### **Making innovation skills development count**

Leadership development and structured training can be powerful tools in building a culture of innovation, but there are several common pitfalls to avoid.

#### *1. Don't just develop senior people.*

What often happens is that a small cohort of senior leaders will go away for a day or so of innovation training and return to an organisation that is not only oblivious to the concepts that they have learned, but in some cases geared to stamp them out. This makes applying and disseminating any of these new ideas very difficult, and despite best intentions, organisational inertia takes over and the status quo prevails.

Another problem with rolling these skills out to only a small group of senior leaders is that while their buy-in is required to establish a culture of innovation, it is not enough. The real work of innovation takes place on the front lines. These individuals also need to be engaged and on board before any real progress can be expected.

### **Legal sector innovation in action: IT-driven innovation**

In terms of IT-driven innovation, firms have used technology not only to reduce time and costs through automation, but also to enhance communication and facilitate collaboration, especially across offices. For example, Berwin Leighton Paisner has been able to assume responsibility for all the legal needs of some of its clients under multi-year, fixed-price agreements because it has built a multi-sourcing platform that supports BLP onsite teams. Technological innovations are also helping firms to provide longer term, more predictable fee estimates. Paul Hastings was recognised this year for its development and deployment of a matter management system that improves efficiency and helps to give predictable fee estimates to clients.

#### *2. Don't just develop a small group of front-line innovators.*

For many organisations, there is a temptation to invest heavily in developing the innovative capabilities of just a small group who will be tasked with driving innovation in the firm. These are frequently those people who are deemed to be 'the innovative ones'— and could be partners or associates who have been flagged as future leaders or high potentials.

These groups are often tasked with projects, which when launched have strong top leadership support. But as projects continue, team members often face pressure from direct line managers to spend more time on their 'real jobs' and are pulled away, resulting in stalled projects and disheartened would-be innovators.

Another danger of only developing small cohorts is that the way they will be working often won't make sense to their colleagues, and will therefore be rejected. Worse still,

they may seek to involve senior people who haven't bought in to the value of seemingly counter-intuitive concepts like fast failure and rapid prototyping, and so end up getting criticised or 'marked down' as a result.

Development initiatives are absolutely key to building a culture of innovation, but making them count takes real commitment. Not everyone in the firm needs to become an 'innovation expert', but virtually everyone needs to possess basic awareness of a shared framework, understand how innovation aligns with the business strategy, and be ready to support and encourage others.

#### What kind of innovation do you want?

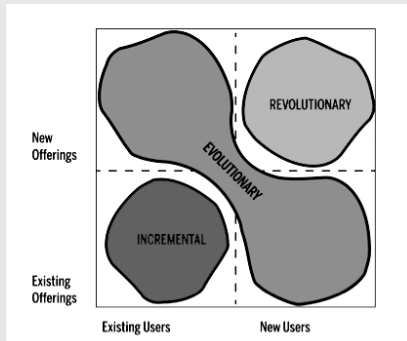


Figure 2: Categorising innovation – Incremental, evolutionary, or revolutionary?

Knowing what kind of innovation will be most important for your firm can help inform the type of culture you need to achieve it, and the practical steps you need to take to build and sustain it. One simple way to look at different types of innovation is to divide them in to incremental, evolutionary, and revolutionary (see Figure 2).

Incremental innovations involve making changes to an existing service that is being delivered to an existing client. Examples of this might be a change in the way a service is priced

or an added feature on an existing product. These innovations tend to be relatively low risk, and with little disruptive potential.

Evolutionary innovations involve diving into a new market or new product or service type. The firm might be entering adjacent markets, combining elements where the firm has existing expertise or relationships with others that are entirely new to it. Here, the risks as well as the potential for rewards are increased. Examples from the legal sector include Bird & Bird's Baseline and DLA Piper's Noble Street, where the firms offer non-legal advisory services in familiar markets.

Finally, there is the top right quadrant: revolutionary innovation. Here, the firm might be making a radical move into an entirely new service sector where the firm has no real experience. Innovations of this type are extremely high risk (often associated with greater than 90 per cent failure rates), but have the highest potential for market disruption if they are successful.

Depending on your strategy and risk appetite, your firm may tend towards one end of this spectrum more than another.

#### Provide the right time, space, and funding

David Halliwell, director of knowledge, risk, and legal services for Pinsent Masons LLP, commented: 'Partners get out of bed to solve clients' problems, and those go beyond the specific transaction or need for advice in front of them. Where partners have time and space to think – and a client-led incentive to deliver – then innovation flies.'

Without making time to innovate, innovation is not likely to happen – at least not in any deliberate, reliable way. But what

is the best way to do this in the time-starved environments of most law firms? Strategies such as allowing a certain percentage of time per week to innovate have gained popularity, following examples from companies like Google and others of that ilk. However, our experience working with organisations that have implemented similar policies tells us that this approach often fails because:

- a) It is never fully implemented;
- b) Top leadership support isn't sustained;
- c) People lack the skills and tools to use the time in a useful way; or
- d) It is slowly eroded away by other projects that inevitably take higher priority.

Allowing time to innovate means allowing time to reflect – which in turn means removing high-priority tasks from the already overflowing plates of most fee earners and support staff. Perhaps, one day, time spent on innovation will carry the same weight as meeting ambitious billing targets and deadlines for urgent client work. Until this happens, most law firms, and most corporates for that matter, are going to need to find other ways to make innovation happen.

#### **Making innovation teams work**

From our experience, even in organisations where innovation is widely encouraged at the individual level, there is no substitute for dedicated innovation teams when it comes to delivering on the full promise of innovation.

Innovation teams might be formed of members drawn from across the firm on a rotation basis. The innovation project might, but does not need to be, the sole priority of members for a period of several weeks to multiple months. At the most basic level, successful innovation teams require:

1. **A clear brief** – A well-framed opportunity and definition of what is in scope, what is not, and under what conditions the project should be extended or dropped.

2. **Sufficient funding** – There is also no better way to demonstrate the firm's commitment to innovation than to visibly put real resources behind it. At the outset, make a budget available that is commensurate with the potential upside of the project, but encourage teams to develop the project through frequent low cost experiments that lead to more developed pilots as learning is incorporated in each iteration.
3. **Diverse membership** – The best teams are comprised of a people with wide and varied skill sets from across practices, sectors, and offices – and not just lawyers. They might include business services people, administrators and managers, as well as clients and other contacts from outside the firm.
4. **A process to guide them** – Innovation teams will struggle to make real progress using their traditional ways of working. Having a structured process to guide their thinking and working will improve outcomes and the ability for diverse teams to quickly and fluidly collaborate.
5. **A dedicated space for the project to live** – Even if it is a space as humble as a single conference room or the corner of an office space, innovation projects tend to be more successful when teams have a fixed physical space to go to where they can be immersed in the project.
6. **A hands-off management approach** – Innovation teams need to be managed and rewarded differently than teams focused on the core business of the firm. This requires a good deal of trust, empowerment, and permission to fail as long as the learning from that failure is captured and applied to ensuring the next iteration is closer to success.
7. **Measurement that fits the task** – A team working on a 'revolutionary' innovation project (see Figure 2) shouldn't be measured in the same way as a team working on an incremental innovation,

which has a far higher chance of success and is much closer to the firm's core business. Teams on high-risk projects could be rewarded, for example, not only for the success achieved, but also for the valuable lessons captured and shared with teams working on less risky projects.

Perhaps most importantly, successful innovation teams require the rest of the firm, especially senior leadership, to be on board with the team's purpose and the process they are using. This is the best way to ensure that the required time will be made available and respected in spite of competing priorities. Broad awareness and buy-in can also greatly reduce the risk of teams' interim work products and methods being evaluated by traditional measures and potentially getting quashed before they get off the ground.

### **Recognise common barriers to innovation**

Innovation is not easy for anyone. It can create a fear of change and a resulting pulling up of the drawbridge. Actively or passively resisting change is, for some people, much more comfortable than managing the uncertainty that comes with something new.

Innovation can be especially hard for law firms with their business model still largely based on partner ownership, the billable hour, often strict hierarchies, and a long history of practising law and running their business in a certain way. While there are no easy fixes, and change in most of these areas will be slow at best, it is vital to actively anticipate these roadblocks to innovation and use levers such as incentives, performance measurement systems, remuneration policy, and inspiring leadership to address them over time.

### **The billable hour**

Innovation requires an 'outside-in' mentality where the client is at the heart of the firm's

strategy and service delivery model. The billable hour model is an example of 'inside-out' thinking that is driven by what the firm is providing to the client as opposed to what they are creating for them or helping them achieve.

Andrew Giverin, sales director at Radiant Law, commented: 'From the client's point of view the legal sector is crying out for innovation. Everything pegged to billable hours encourages inefficiency. The billable hour is based on input not output or the value of what is generated. This makes it difficult to generate innovative ideas.'

From this perspective, as well as in terms of measuring and rewarding innovation activities, the billable hour model presents significant challenges. A fee-earner's performance is primarily measured by billing levels, and innovation work is most often non-billable. In a delivery-focused culture, this creates a major hurdle for securing the time, resources, and support required to make innovation happen.

### **Hierarchies and power pockets**

As well as the pressure of billable hours on lawyers, there is almost always an entrenched hierarchy in place, based on title, expertise, billing power, and years of post-qualification experience. Sometimes, as is the case within many groups of people, alliances and pockets of power can be partly hidden. For example, close colleagues who have moved en masse from other firms, friendships based on decades of working together, and cliques cemented by, say, godchildren or golf.

Innovation requires, if not a flat structure, a flat mentality that sets aside rank, role, and history. With partners at the top of decision-making tree, it may take real effort to create an environment, even if just a temporary one, where the ideas of a junior lawyer or business services manager have equal weight to those of a senior partner. It is, after all, not always the most senior people in the firm that will have the most revealing insights into emerging client needs or where internal

process or cost efficiencies might be found.

### **Short-termism**

Law firm leaders have to balance partner pressure for maximum short-term profit share against longer-term investment in innovation. Convincing partners exactly why they should care about and invest in innovation requires a compelling vision and strategy for success in both the short and long term.

Client feedback, client requests, and a changing share of the client purse add weight here. In addition, regular competitive analysis, working to stay attuned to likely future market shifts, and monitoring trends in other sectors that might impact on longer-term service demand can help to reinforce the link between current innovation initiatives and future competitive advantage.

### **Bias for precision**

Almost everything about the training and professional standing of lawyers encourages 'getting things right', a fear of failure, and an aversion to making mistakes. Innovation requires most lawyers to change their mind-set or, metaphorically, to put on a different hat. Being able to flex between cautious, detail-oriented legal thinking and more risk-friendly and 'bigger picture', innovation-related thinking requires self-awareness, sustained effort, and encouragement. Failure, when it inevitably happens, must not be seen as an 'end', but rather a necessary step in an iterative process, and it must be recognised as a means of ultimately achieving success sooner.

### **Organisational structure**

Here, structure is not only the central partnership model but also the systems and levers that make the business work – the groups, the hierarchy, reporting structure, information and decision making channels, reward and promotion systems.

Innovation requires collaboration – and

lots of it. Collaboration can be especially powerful when teams are drawn from diverse backgrounds, allowing for fresh perspectives and solutions to emerge. Not all firms are structured in a way that enables great collaboration. In fact, some seem to be set up to almost deliberately encourage silos and internal competition, and collaborating across practice area or offices is often both difficult and frustrating. Such barriers may exist due to implicit norms around sharing of information, cross-practice tension, cultural differences, a by-product of the reward system, or the 'not invented here' mentality.

However, structure can also play to a firm's advantage. Cross-disciplinary collaboration is one of the benefits that can come from taking a sector-based approach – something claimed by many firms yet achieved by just a few.

Christian Bartsch, Partner at Bird & Bird LLP, said: 'The culture at Bird & Bird is underpinned by a shared sense of natural curiosity. Our deep sector focus means that our lawyers are truly passionate about their sectors, sector-based budgeting encourages strong collaboration and our clients tend to be highly innovative themselves.'

### **Lead by example and others will follow**

Without leadership support, any effort to build a robust culture of innovation is very likely to fail. Influencing something as hard to pin down and measure as law firm culture requires committed and consistent leadership action in deeds as well as declarations. It takes a willingness to empower people across all levels of the firm, take risks, and accept and even embrace the ambiguity that comes with venturing into uncharted territory.

While there are many attributes that a strong leader of innovation needs to possess, in our experience, there is none more powerful, or indispensable, than being



a clear and visible role model. Creating and maintaining a culture of innovation requires unequivocal leadership modelling by law firm leadership and management teams on a day-to-day basis. This is a universe away from well-intentioned lip service and an annual innovation awards event. Innovation has to become a visible and integral part of business as usual from the top down.

Being a role model for innovation involves sharing regular and credible evidence of your commitment to promoting the best thinking of your people, to support them when they try in earnest and sometimes fail, and to publically recognise them when their efforts bear fruit as learning or progress in whatever form.

Without trust that their innovation-related mindsets and behaviours will be welcomed rather than penalised, your talented workforce will likely:

- Continue to sit on potentially valuable ideas;
- Hold back their strong views and insights;
- Feel under-confident about discussing innovation with clients (leaving space for competitors to do so);
- Become frustrated and weaker ambassadors for your brand; and
- Be less inclined to collaborate internally and with clients towards creative and more innovative solutions.

This all adds up to a significant loss of competitive advantage. By showing, through body language, words, and deeds, and on a day-to-day basis, exactly how vital innovation is to the business, senior leaders can model the message a thousand times more effectively than any number of board papers, emails, or glossy brochures ever could.

Successful innovation necessitates a 'do as I do', not a 'do as I say' leadership style.

### **Conclusion: Building a culture of innovation**

If you and your firm are already building a culture of innovation, be sure to do it well. This is no subject for a shiny veneer or superficial commitment. Culture change is never fast or painless. However, creating an environment where innovation happens in a continuous, strategically aligned way can have a profound impact on a firm's long-term profitability and growth potential – especially in times of accelerating change.

From our experience, this requires funding and actively supporting *both* firm-wide development initiatives *and* dedicated team-based innovation projects simultaneously. Omitting one dramatically limits the effectiveness of the other. When done together, they are mutually reinforcing. It also compels firms to take a close and honest look at those aspects of their existing culture, structure, and leadership style that might help or hinder a culture of innovation – and take meaningful steps to address them. Finally, law firms need to be open to learning from other sectors, and willing to adopt and adapt the right practices and frameworks in a way that is compatible with their uniquely delivery-focused and standards-driven environments.

David Halliwell, director of knowledge, risk and legal services for Pinsent Masons LLP, said '... law firms are the last businesses in the supply chain to be transformed. But being last is not such a bad thing. Law firms can learn quickly from other sectors and bring mainstream concepts newly to law to make business-changing progress quickly.'

The time is now. Don't procrastinate. Take small steps right now and fast – the advantages are enormous.

### **The ripple effect: Broader implications of an innovation culture**

Innovation is relevant to every aspect of the business – not just to the development of new products and services or IT systems. As a culture of innovation grows within a firm, many of the practices and norms that we take for granted are likely to evolve along the way. Changes you might expect include, but are not limited to:

- The way you inspire, develop, empower, and reward your people;
- Greater likelihood of involving colleagues and clients in the very early stages of designing new products and services;
- The way people in the firm ask questions, actively listen and observe, and provide feedback;
- Communicating value, scope, and pricing options clearly and in a way that meets agreed rather than assumed client needs;
- Your style of leadership and management approach;
- Greater attention paid to the innovations of competitors, including new entrants who have based their entire model on technology, client service, and innovation;
- The way you collaborate internally and externally, including investing time in building diverse networks and listening to different perspectives;
- The way you encourage ideas, manage expectations about how they will be used, develop prototypes, and respond to 'failure';
- Greater appetite to learn from other sectors about trends and different ways of doing things;
- Overcoming the tendency to hold on to work that can, over time, be

more profitably and efficiently done elsewhere or in a different way;

- Having greater leadership support or authority to move at speed to capitalise on small-window opportunities to meet client needs ahead of competitors; and
- Ensuring that everyone in the firm understands their part in the bigger picture – the link between their work and the specific client benefit.

What changes might you expect to see in your firm?

### **About the authors**

Adam Billing is a partner in Møller PSF Group Cambridge ([www.mollerpsfgcambridge.com](http://www.mollerpsfgcambridge.com)) and founder of innovation consultancy TreeHouse ([www.treehouseinnovation.com](http://www.treehouseinnovation.com)). Abigail Hunt is an associate in Møller PSF Group Cambridge and a senior associate in TreeHouse. Both work with leading corporate and professional service organisations, helping them to develop new products, services, and strategy, and to build their own internal innovative capacity. With thanks to colleagues Garth Olcese and Duncan Brannan.