



## Successful Innovation

This is the third of our series of Insights focusing on Innovation. In the first, [Making the Business Case for Innovation](#), we argue that innovation is an imperative that cannot be ignored by law firms. In the second, [Creating a Culture of Innovation](#), we discuss the critical role of leadership and explore a number of the challenges that stand in the way at many firms including the fear of change, the communication of values and the lack of diversity. In this Insight we explore three types of innovation - Process, Service and Business Model – and identify some of the key factors that contribute to successful innovation in law firms.

At its core, innovation is about developing or taking ideas and translating them into services that create value and which clients are willing to pay for. It is the commercialization of ideas that is the central point - innovation must create value.

Our work with law firms has identified three broad types of innovation. While there is a degree of overlap between these, we believe that they provide a useful, practical framework when considering innovation and in particular in deciding where to concentrate effort and resources.

First, there is **Process Innovation** which is primarily concerned with improving efficiency. Undoubtedly some firms have been very effective at this and have not only driven down 'unit cost' but at the same time improved both quality and client service. Based on this, and coupled with a willingness to invest in growth, such firms have won increased volume and market share and in some cases substantially so.

Certainly there has been the most coverage of innovation around more routine work – largely process innovation concerned with improving efficiency - not least because price is important on such work. It is where enhanced use of IT; out-sourcing; process improvement; standardization, changes in staffing models; etc. play a major role. And without doubt competitive forces, including the entrance of new competitors, has been a major spur.

Second, there is **Service Innovation** which is concerned with introducing new services and/or ways of delivering existing services. Such innovation focuses on meeting actual or latent client needs and expectations. Innovation here is about finding novel or even unique approaches to challenges. One of the highest profile is the Poison Pill response to hostile take-overs, but many others in terms of new services and different ways of delivering existing services are regularly being introduced. Establishing exactly how much such innovation is occurring is difficult to assess - not least because law firms are understandably guarded in publicizing such innovations, except confidentially to potential clients and referrers.

There is, nevertheless, a sense that the majority of firms have been rather less active in this respect. Certainly there are examples of service innovation in the market and also in particular in harnessing technology to improve service delivery – although in terms of the latter not to the extent that other business sectors have done so.

Third, there is **Business Model Innovation** which is concerned with more fundamental changes in how services are created and delivered. It includes innovations in areas such as: client relationship management; moving away from approaches where all a firm's lawyers are permanent employees; providing - either overtly or covertly – certain services through third parties; offering clients a contract lawyer service; etc.

We would include as examples of this type of innovation the transfer of lower added value (and business support) services to lower cost locations by an increasing number of firms.

It is worth noting that process innovation tends to be somewhat less important at the top end of the market. Of course clients here want work undertaken efficiently but price is often a lesser consideration with a greater focus on adding value. Hence service innovation – improving existing services or developing new services – tends to be more important here. Innovation in

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this respect is often far less visible and certainly less in the public eye. Ironically, therefore, the firms whose legal work is more focused on adding value (and potentially arguably the most creative) can appear less innovative while those whose work is more routine can seem more innovative.

So what are the steps that law firms can take to support successful innovation?

As we outlined in the second Insight in this series, developing the right culture is critical – leadership that actively supports innovation, overcoming the inherent resistance to change prevalent in many professions, and ensuring diversity. In practical terms we have observed five key characteristics prevalent in law firms that appear more successful in terms of innovation.

1. They are closer to their clients and the market overall than other firms. They have achieved a true step change here compared to the past. Understanding the actual and latent demands and challenges of clients is the starting point for success and all their interactions with both their clients and the market in general is strongly focused on this.
2. They focus strongly on stimulating fresh thinking. They recognize the relatively homogeneous nature of their partners in terms of how they tend to work. They complement and stimulate their thinking by bringing to the table: non-lawyers from within the firm; input from outsiders from other sectors, academics and other external advisors; non-executive directors (a topic we shall focus on in a forthcoming Insight); younger lawyers with a differing perspective; etc. They also tend to include their more maverick, ‘awkward’ people – those who tend to think outside the normal line of thinking – recognizing that they are often the people who come up with new ideas.
3. There is a willingness to accept failure, recognizing it as an inherent feature of innovation. And to take risk. As in R&D in other sectors (and counter to the deep-seated lawyer mind-set) there is an acceptance that many more ideas will prove of limited or no value compared to the few nuggets that really do fly. They recognize that in trying to do something different there are going to be more failures than successes. And they ensure that this does not represent a risk to individual careers.
4. The innovation process is sensitively managed. There is a recognition that it is something of ‘a numbers game’ - at the initial stages relatively large numbers of ideas are encouraged. The less promising are, however, weeded-out and the more promising strongly supported. There is also recognition that much innovation is a ‘coal-face’ activity – not necessarily best centrally managed but developed closest to the market in the practice groups.
5. Many have also discovered that using language such as innovation can bring an air of exclusivity to the process, and so to encourage widespread involvement – part of everybody’s responsibility - they use everyday language of ‘solving’ or ‘fixing’ problems. And while some firms do have an Innovation Partner or Officer they are careful to ensure that this is primarily an enabling role and does not take responsibility for innovation away from others.

And what are the origins of the innovations in the more successful firms? Often they are a response to a well understood client challenge or recognized shortcoming in the way they currently provide services: ‘fixing a problem’. Alternatively, their origins are taking ideas from outside the law and ‘translating’ them to a legal context - seeing ideas in other places (often although by no means always technology enabled) and with suitable adaptation, improving existing services, creating new services or changing approaches to delivery.

While great innovations can emerge from any number of sources, based on our experience it seems that the most successful law firms in terms of innovation have both developed an appropriate culture and recognize that innovation needs to be an appropriately, albeit often lightly, managed process.

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