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10 TEN MYTHS ABOUT INNOVATIONS IN PRO

"Innovation" is one of the most used and abused buzzwords in 21st Century management vocabularies. For some, it conjures up visions of enthusiastic groups clustered around flipcharts, eagerly brainstorming ideas. For others, inventors poring over workbenches, thinking up brilliant new ideas. The truth is more complex. Innovation is more a process than a product of brilliant insight. It is a skill that can be learnt and taught. In many highly profitable firms, it is woven deeply into the culture of the business. It is a fundamental building block of business strategy.

In innovation, we find the solution to changing markets and more effective competition. In it lies the key to client satisfaction. It is the path to the "holy grail" of strategy, namely to drive competitive advantage by changing the competitive landscape in your market in ways that competitors cannot replicate. Often, though, it is less dramatic. It can drive incremental advantage in small steps that, over time, slowly build up the gap with the competition. At the Olympic Games, innovation would be a marathon more frequently than a sprint.

FESSIONAL SERVICE FIRMS

This article explores ten myths that are often held about innovation, and how it applies to professional service firms. It describes how new knowledge can be generated, developed and implemented. It provides guidance on how firms can acquire the skills needed to use innovation to drive their competitive advantage.

MYTH
1. INNOVATION IS ONLY ABOUT RADICAL CHANGE

Radical, disruptive innovation that fundamentally changes the competitive landscape in the market is best known. Examples include Masons, a British multinational law firm that developed a hugely successful 5000 page internet site called Out-Law, targeting those involved in IT and e-commerce. The Out-Law brand includes a print magazine with readership of 27,000; an extranet-supported retainer arrangement for businesses too small to have in-house legal counsel; and Out-Law Compliance, a comprehensive legal review of web sites. This fundamentally altered the position of competitors that target the same market but deliver legal services in the conventional way.

Likewise Blank Rome LLP, of Philadelphia. With over 450 lawyers in 11 offices, the firm implemented an interpretive educational programming methodology to approach professional development in a fun way. These included Connections, a formal mentoring program to support working relationships; learning aids such as "Find It," a hand-held library research tool; a "Tip-Bit" Program that consists of technology information printed on candy bars; and a board game called "Anatomy of a Matter."

Disruptive innovation is high risk territory. By definition, one is working with ideas whose time has not yet really come. Investing 'ahead of the curve' reduces short term profitability and is a gamble. Where it succeeds, rewards are huge. But the failure rate is well over 90%.

Firms have to be extremely rigorous about evaluating disruptive innovation opportunities, so that precious resources are not wasted on dead ends. Otherwise, "betting the firm" can result, at the extreme, in losing the firm. For many, a safer strategy is to keep a close eye on competitors at the "cutting edge." Then, when a potentially disruptive innovation emerges, the firm can copy it (if it can) before market position is lost. This approach is not without its own risks, though.

On the other hand, incremental change is not about major changes in direction. It is about generating good, new ideas to support existing services, service delivery or internal processes. Individually, the impacts of such innovative changes are far smaller than disruptive innovations. Cumulatively over time, they can generate huge competitive advantage for the firm, so long as the market remains stable. The small wins that the firm does achieve over time also better equip it to deal with opportunities for disruptive innovation that do emerge.

Wragge and Co in Birmingham, England presents a good example of incremental innovation with a remarkable fee prediction and transaction management system. The system costs a legal matter scientifically, calculates staffing needs, predicts the number of hours and the seniority of lawyers required, and helps manage the transaction process. Likewise, The Law Chambers of Nicholas Critelli, p.c. of Des Moines, IA. This firm is a boutique with lawyers practicing as both US litigators and UK barristers. In a departure from traditional law offices, Critelli has designed a high-tech setting without individual lawyer offices. They worked with their architect to conceive a studio setting in which each of seven "studios" is wired with an internal video cable network. Each room represents one of the seven general tasks inherent to any litigation practice.

MYTH
2. INNOVATION IS ONLY ABOUT NEW INVENTIONS & ORIGINAL THOUGHT

Thomas Edison did not invent the incandescent light bulb. It was invented some 30 years before. Likewise, Henry Ford did not invent the production line. The concept was already in use in several industries. What both Edison and Ford did do was take existing ideas, adapt them and develop them to their own requirements, and apply them in ways that were attractive to the market.

Edison's idea came from a laboratory established for the very purpose of inventing things (a 19th Century engineering R&D facility) in Menlo Park, New Jersey. Over a period of six years, this laboratory generated over 400 patents in a wide variety of fields. Many of them proved ultimately to be of no commercial value. A few of them were brilliant innovations that persist to this day.

The secret to Edison's genius lay in his ability to collect, collate and reorganize data from networks of ideas, people, objects and knowledge, to essentially create new knowledge. His inventions were products of the network of people and knowledge that he developed around his laboratory in Menlo Park. It was a messy process. Most of the useful ideas that emerged were nothing more than incremental improvements on what already existed. A very few were radical innovations that fundamentally changed the networks and the markets in which they operated.

The key is that the innovation did not consist of "virgin" knowledge or original inventions. A firm's success at innovating is a result not so much of the brilliance of its innovative thinking, as:

- **the quality of its knowledge networks and the ability to examine existing knowledge from new perspectives;**
- **its ability to identify and articulate areas that, if improved, could yield a source of competitive advantage and to scan the whole market (even sources far from the firm's usual terms of reference) for how others have addressed similar issues;**
- **its ability to quickly sift through the clutter of ideas and knowledge that bombards the firm on a daily basis, to extract those that have potential relevance and value;**
- **the rigorous discipline and courage to actually follow through the innovation process, with ideas that really do have merit, sifting out those that fail selection further down the line and translating those that prevail to the end of the process, into different and better business.**

MYTH

3. ONE NEEDS BRILLIANT PEOPLE , FOR INNOVATION TO "HAPPEN"

Many of the great life-changing inventions were discovered by people with everyday educational backgrounds or even intellects. The key to innovation in a firm is not in the initial generation of ideas. In today's era of the internet, bright new ideas for how the practice could be improved can be found in about 20 minutes on-line. The key is to inculcate a process in the firm where these bright ideas are discussed and evaluated, informally at first, to determine whether they hold potential merit. If they perhaps do, the key to them surviving further is a mechanism whereby the idea is communicated further, bringing more perspectives and intellects to bear, evaluating the idea's relevance and merit in the firm. If the idea survives this stage, the next is to allocate resources so that it can be fully investigated and, if warranted, implemented.

Basic problem solving skills are far more valuable than brilliant intellects, for uncovering opportunities for innovation at all levels of the firm. Money spent on developing these skills at all levels of the firm, in both professional and support functions, is seldom wasted. Then to have an environment where people are encouraged to pick up the gems that they pass on an everyday basis, evaluate them and talk to others about them

MYTH

4. INNOVATION INITIATIVES NEED TO BE HIGHLY ORGANIZED

Many of Lockheed's innovative ideas in the 1980s came from "skunkworks" (small, decentralized, informal bands of free thinking innovators) that were established almost illicitly, on the fringes of the company. How does one incorporate skunkworks thinking into a professional service firm?

The most effective mechanisms are deliberately informal and unstructured. Getting people to simply share ideas is probably the most important single factor generating new knowledge and fostering innovation in a firm. All firms have more or less the same access to these kinds of people and to public domain knowledge. It is only by harnessing that collective brainpower to develop unique, proprietary knowledge and the innovative business practices and services, that one really develops competitive advantage.

The problem is, the way most firms are organized actively mitigates against the informal knowledge networking needed. Knowledge about clients, services, competitors, the market and emerging trends are contained in a multitude of heads of very busy professionals that are focused on writing fees and practicing their professions, rather than discussing these with their colleagues. In multi-office firms, this is compounded by communication problems between offices, sometimes in different countries.

Knowledge sharing generally consists of storing documents in knowledge management systems and other repositories, in the hope that people will actually wade through to find what they need. This kind of knowledge sharing is also not usually aimed at innovation, but at improved efficiency. Innovative thinking is something that is kept for the odd brainstorming session or the annual retreat.

Good ideas do not wait for brainstorming sessions or annual retreats to emerge. More often than not, they emerge at a time when it would be highly inconvenient to quickly convene a discussion. Standard Bank in South Africa ran a really cool series of advertisements recently showing a person sketching out ideas for high powered finance structures on beach sand, tennis courts and even the misted up side of a shower! So often, the person that thinks of the idea loses it before it can be shared, enriched with further insights and more fully formed.

MYTH

5. LISTENING TO CLIENTS IS KEY TO SUCCESSFUL INNOVATION

Input from clients is one of the key ingredients for incremental innovation. With disruptive innovation, the situation is dramatically different. When disruptive innovation revolutionizes a market, good firms can go out of business, precisely because they are well managed and listen to their clients.

The reason is that while clients usually have a very good idea of how they can be better served right now, they have a far less perfect picture of what services they will need in the future. In fact, clients often see completely no value now, in services and delivery systems that they may demand and expect as commonplace, in the future. Think long playing records and CDs. Until CD players became widely available and inexpensive, CDs were of interest only to techno-freaks.

The innovator who is working on how to align the firm's services to emerging trends in client markets and in new products and services that may be developing, may well be working in directions that are inconsistent with what the client wants. In firms that are too heavily focused on what the client tells them to the exclusion of other 'blips' on the radar, the danger of more innovative firms gaining first mover advantage and stealing clients when the market changes is very real.

This is both an opportunity and a threat. Because disruptive innovations rarely make sense during the early stages of their development, when investment in them is most critical, conventional managerial wisdom in established firms constitutes a barrier to both entry and mobility that smaller, more innovative firms can bank on. But larger, established firms that recognize this dilemma and who proactively foster innovation have more resources to avoid this trap and align their own innovations to the trajectory that the market is on, capturing far more competitive advantage when the two meet.

MYTH

6. INNOVATION NEEDS TO BE UNRESTRICTED BY BOUNDARIES

While firms do occasionally stumble on innovations that yield extreme competitive advantage, either disruptively or incrementally, the success rate is higher when people are proactively searching for solutions to problems. Proactive innovation as a process is something that should be woven into the culture of the firm. The steps in the process are outlined in figure 1.

Proactive innovation starts with defining the problem or the opportunity that needs to be developed. Information is gathered, sometime from highly divergent sources that are completely removed from the firm's business, and the desired outcome defined. The second, highly creative step is to "play" with this information, to generate new ideas. The creative process needs time to simmer. As we have already discussed, insights can come at any time (even in the shower!) Only once a potentially promising list of alternatives emerges, does one move on to evaluation. This involves assessing the suitability, viability and risk involved, to decide which ideas to fund for further development. Innovations that do not receive adequate funding obviously remain only ideas. Once the innovation is fully formed and its value proven, the process moves to implementation.

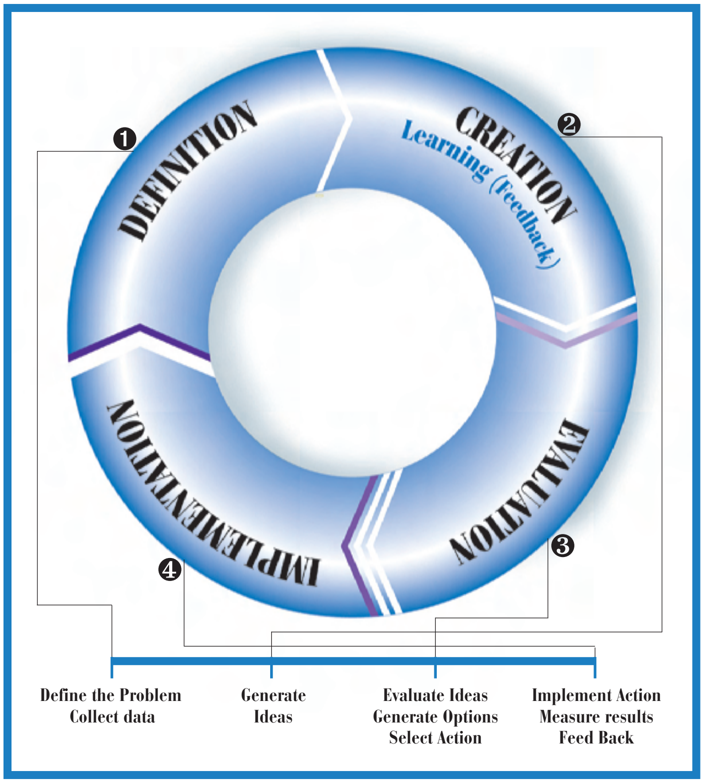

Figure 1: The Innovation Cycle

Woven into the firm's culture and values, this innovation cycle becomes a permanent feature of how knowledge is managed to create new knowledge.

Just a few of the key questions that can focus innovation within useful boundaries in the firm include:

- **What can we learn from entirely different organizations, about improving client satisfaction?**

- **In process driven firms, what can we learn from supermarkets and other commodity based businesses, to drive down the cost of service delivery?**

- What service needs will evolve over the next few years, that don't exist now, given research and development that our clients or their suppliers or customers are undertaking now?

- How better can we go about sharing knowledge and generating new knowledge in our firm?

Without being unnecessarily restrictive, innovation can (and should) be 'herded' towards ideas that could yield the most value for the firm.

MYTH
7. INNOVATION IS MOSTLY ABOUT TECHNOLOGY

The major strides usually associated with disruptive innovation, have been technology driven. The telegraph, the telephone, the internal combustion engine, commercial flight, affordable computers and the Internet all fundamentally impacted upon our lives.

From a professional firm's perspective, however, innovation is far more an organizational issue than a technological issue. While technology is an important driver, the challenge in the firm is getting the process of innovation entrenched through the firm. Like a spider's web, the network on which the exchange of ideas relies requires constant maintenance, reinforcement and expansion. All of the law firm innovations described in Myth 1, for instance, were more driven by technology rather than being, in themselves, technological innovations.

Innovation can be used to find new ways to serve clients, dramatically improving their levels of delight. It can be used to find time to mentor junior professionals. It can be a source of ideas on how to balance the requirements of the practice of one's profession with the demands of management. In short, it can be applied to any arena where the focus is on finding new ways to do things.

MYTH
8. FAILURE IN INNOVATION CANNOT BE TOLERATED

Of course, there are mistakes and there are mistakes. Some 'bet the firm' mistakes can be lethal and such bets should only be taken when based on odds that are very close to certainty and the advantage to be gained substantial. Other mistakes are negligent or careless, which is also different. Many mistakes, on the other hand, are vital to the process of learning by which the firm generates and regenerates knowledge. What we are talking about here are mistakes made in good faith, in the pursuit of innovation. The quickest way to kill off innovation and the emergence of new knowledge is to punish innovators when their experiments do not work out as expected.

Many ideas that went on to be brilliant successes appeared to be failures to begin with. The Beatles, 3M Note pads, the personal computer and manned flight. Many others remained failures. Innovation is a messy process and the most brilliant innovations are often blindingly obvious once they have been implemented. When a brilliant idea does emerge and is implemented in the firm, the tendency is to think: "That is so simple and working it out could have been done with far less hassle. Let's get more organized about how we think up these things in future." The only trouble is that trying to instill order into the unpredictable and highly creative process of innovation, is the surest way to kill it off.

MYTH
9. TO SUCCEED, INNOVATION NEEDS TO BE DIRECTLY REWARDED

Knowledge creation is not generally rewarded in firms. One has only to look to the firm's performance evaluation and compensation systems to see that this is so. People do as they are rewarded, not as they are told. So professionals will not devote time and resources to innovation and knowledge creation, if there is no value in this for them.

Intuitively, therefore, simply rewarding people for successful innovations should be the best way to encourage innovation. In highly incentivized firms, this has an element of truth. In firms with lockstep compensation systems, it is more difficult. In either, the key is to ensure that one is rewarding the behaviour that one wants to encourage. Does one measure and reward participation in innovation related activities; or only innovations that actually add value? The latter would seem intuitively the better option. However, focusing on results only means that very little of the innovation effort will be rewarded. In a culture where everybody pitches in and helps, it may also be difficult to identify who, specifically, should be rewarded. At the extreme, rewarding only the person who actually produces the result at the end can lead to people keeping promising ideas to themselves, rather than sharing them and so exposing them to a wider variety of insights. Invariably, this hinders rather than helps the process.

Clearly, how innovation is measured and rewarded is inextricably linked to how the firm measures and rewards other less tangible performance drivers like mentoring, management, developing client relationships and knowledge sharing. In all cases, though, in order to thrive, innovative thinking needs to be built into the underlying values of the firm. There is no better way to foster this than to publicly acknowledge and reward good ideas as often as possible. Ideas like a "best new idea of the week" award can ensure that the focus stays on keeping innovation as a process going. It doesn't matter that the award be of insignificant monetary value. The associated peer recognition is immensely valuable and sought after. The value that the innovators derive from peer recognition often overrides monetary concerns, and successful innovation leads to greater profitability so everybody benefits, anyway.

MYTH
10. INNOVATION LEADS TO IMMEDIATE PERFORMANCE IMPROVEMENT

This is seldom true. Usually, the innovation requires a departure, incremental or radical, from "the ways things are done." This means that it moves into areas where the members of the firm have less skill or experience. Until competencies have been developed, this means that the new will be done less well, than the old. It is exactly here that one can often find the reasons for resistance to change in professional firms, especially where accuracy and performance are highly valued.

This is illustrated in figure 2. Changes in the market have caused a situation, service or behaviour in the firm that was previously desirable (the "right thing, done well,") to become the "wrong thing, done well" The situation, service or behaviour has become misaligned with market needs. Innovation is used as the tool to find the new "right thing." The firm then moves to implement this. Because new skills have to be learnt and new knowledge needs to be assimilated, it is usually impossible to make the transition back to "right thing, done well" directly. The firm has to migrate first to the "right thing, done badly" and then drive up its performance in the new area to get back into the highly competitive "right thing, done well" quadrant.

Ironically, therefore, innovation can often lead to a decrease in the firm's levels of performance in the short term.

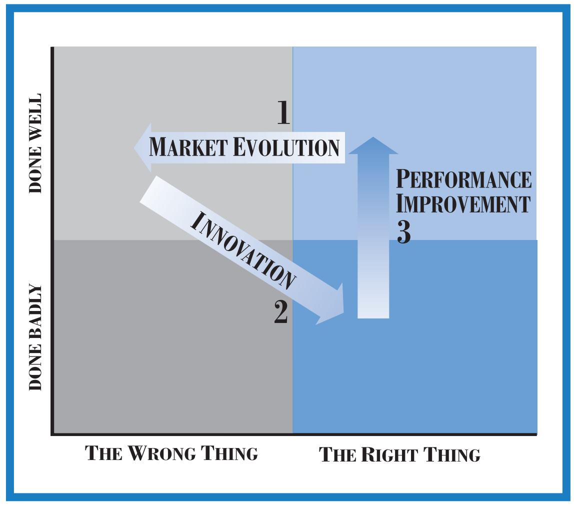

Figure 2:
What happens if the "right thing" becomes the "wrong thing"

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