

Lean Innovation for Lawyers: Creating and Delivering an Innovation Strategy



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Executive summary

*'Between the idea and reality,
Between the motion and the act,
Falls the Shadow'*

T.S. Eliot

This book advocates and explains the importance of developing an 'innovation agenda' within your firm and, just as importantly, how to implement it utilising so-called 'Lean innovation' methodologies. Lean innovation methodologies, most evident in 'start-up' environments, are increasingly being utilised to drive innovation in established firm and corporate cultures. They are now becoming influential in established organisations seeking to grow and differentiate their services through innovation.

The need to differentiate, intense competition, new business models, and a relaxed regulatory environment have therefore made these methodologies particularly relevant to the legal profession. To make the case for Lean innovation, the author draws on around 30 years of experience in the profession and some 15 years of consulting to firms seeking to conceive and launch innovative new services.

Lack of innovation spells doom for any business. As former GE boss Jack Welch was fond of saying, any company which is not changing as fast or faster than its clients will almost certainly fail; it is merely a question of when, not if. Who can doubt the applicability of those words to the law given the changing legal landscape, shifting client priorities, and the appearance of potentially disruptive influences in any number of industries and formerly stable business models?

A three-step approach

In three key steps, this book sets out a disciplined process which is designed to enable both the creation and delivery of an innovation

agenda. Importantly, such an agenda is designed not only to enable the creation of genuine value for clients, but also to enable the firm to capture some of that value to improve its competitive position and profitability.

Key processes are discussed in depth which can take a firm from merely talking about the desirability of developing an innovation agenda to actually conceiving, testing, and delivering a genuinely useful and profitable product or service. Close attention is paid to the need to foster and grow an innovation culture bearing in mind the prevailing lack of such culture, let alone processes and leadership experience in most firms, to support such initiatives.

Just as importantly, the approach suggested is designed to embed an appetite, together with supporting procedures, to enable the firm to continue to innovate, rather than viewing it as a 'one-off exercise'. In broad terms these steps are:

- **THINKING** – Preparing the ground, team formation, and composition; establishing common goals and values, and developing processes and guidelines to support innovation, as well as linking innovation to the firm's strategy. Developing the role and guidelines for the leadership team, innovation committee, and sponsors, and defining a 'stage-gate' approach to progressing innovation initiatives within the firm.
- **ANALYSIS** – Seeking and qualifying opportunities, researching client needs, understanding client business models and where those models may suggest areas for innovation; critically analysing the firm's own business model and capabilities. Considering wider political, economic, technological, social, and other trends which may impact client needs and reveal opportunities to innovate new services. Identifying key assumptions underlying any proposed innovation which need to be tested before becoming over-invested in any one initiative.
- **ACTION** – Developing and testing a 'minimum viable product' as a means of testing key assumptions with clients, discovering and converting clients, managing cash flow, milestones, and deliverables, developing market and pricing strategies, and incorporating client feedback into the firm's business model and strategy. 'Scaling' the opportunity, pivot considerations, funding options, and potential partnering and exit strategies.

All steps are covered in detail and illustrated with numerous examples taken from recognised innovations already undertaken by law firms in the UK, US, Europe, and Australia, as well as examples taken from outside the profession. A wide range of innovations, from the ‘disruptive’ through to important but incremental, are discussed.

The book adopts the perspective of a leadership team initially setting out to answer the question as to why innovation is important, through to launching innovation projects in the market which have been initiated, sponsored, and resourced utilising a Lean innovation approach.

Tools and templates discussed assist in the creation of ‘minimum viable products’, testing key assumptions, ascertaining what the critical ‘jobs to be done’ are for a client, and understanding where and how real value can be added. In addition, essential topics such as cash flow modelling, business model analysis, marketing plans, and pricing and client testing are also dealt with in depth.

Models and templates provided cover:

1. Visualising the firm’s own business model;
2. Understanding key opportunities revealed in a client’s business model;
3. Opportunity and needs analysis model;
4. Initial innovation proposal template;
5. Cash flow analysis and management spreadsheet;
6. Key assumption analysis template;
7. Minimum viable product characteristics template;
8. ‘Ideal client’ template;
9. Innovation committee charter and processes template;
10. Stage-gate flow chart;
11. Team creation and composition guidelines; and
12. Client discovery and conversion model.

In addition, around 30 different innovations from five different jurisdictions are analysed for their impact and key characteristics. The book is designed to provide a step-by-step guide to any leadership team. Its methodologies, templates, and examples provide a ready working model

to introduce, drive, and implement a sustainable innovation program within their firm. The examples, templates, and models provide a wealth of examples to convince the most reluctant partner. A wide range of videos, academic references, and commentaries from leaders and other leading authors will satisfy those seeking further reading.

The book's aims and structure

In writing this book I have described an approach that a managing partner, team leader, or 'leadership group' within a firm should take in attempting to introduce and drive an 'innovation agenda' within a firm. I explain how to build momentum for such an agenda, promote the need for innovation, select appropriate areas for innovative activity, and how to actually deliver on that agenda both within the firm and to the firm's clients.

I provide numerous examples of innovative activities by firms both within and outside the profession. While they are a useful guide as to what can be achieved, and often receive a good deal of publicity, there is often little attention given to the processes and disciplines which were required to develop them. The need to understand what lies 'under the hood' of those examples and the wider Silicon Valley innovation experience, has provided the incentive to write this book.

The approach and process I suggest is based on numerous interviews with the originators of such initiatives and those that I have seen in over 30 years of practising and consulting to law and other professional service firms. A considerable debt is acknowledged, however, to the so-called 'Lean innovation' approach to driving change and entrepreneurial activity not only in the 'start-up' environment, but also within established companies. I have attempted to integrate those learnings into my suggested approach. Those that have read my earlier book *The Strategic Law Firm*⁷ will also recognise the emphasis I give to 'business model analysis',² which I continue to believe is an important mechanism to both explain and implement innovation.

I start from the premise that a firm that rejects the need for innovation has in effect adopted the view that they have developed the perfect sustainable strategy and business model, tailored exactly to their clients' needs, and which they are confident will never change! What's more, if there are any changes required, they assume they will be given sufficient time to adapt and business will then continue as before. If you share that view, stop reading now!

‘Innovation’ is used to describe the creation of new services, new business models for the delivery of those services, ranging from incremental improvements to truly ‘disruptive’ new business models that may well transform your firm, your relationship with key clients or even the profession as a whole. It also includes the creation of what I have called ‘legal innovation’ by which I refer to new ways of applying technical legal expertise to provide innovative outcomes for clients.

The term ‘innovation agenda’ as I have used the term, requires three distinct processes be understood and undertaken to bring any innovation to market:

- Innovation *thinking* (preparing the ground);
- Innovation *analysis* (working out what and where to plant); and
- Innovation *action* (testing market responses, cultivating clients, and harvesting value).

In each of these steps I have borrowed extensively from the experiences and literature arising from the so called start-up or entrepreneurial culture. I take the view that law firm leadership should, broadly speaking, adopt the role of ‘venture capitalists’ who assess then ‘seed’ a range of initiatives, and then actively manage their investments. It is that culture and approach to innovation that has demonstrated so convincingly an ability to both create and capture enormous value for both its proponents and their customers alike. Unlike venture capitalists who are independent of their investment targets, at least in the pre-investment stage, law firm partners are an integral part of the culture from which such innovations must emerge. It is for that reason that I suggest early attention be given to preparing that ground, the process I describe as ‘innovation thinking’.

I believe that the ‘start-up’ culture and the systematic approach they have pioneered under the label ‘Lean innovation’ contains many valuable lessons for ‘legal entrepreneurs’, which I demonstrate can be directly applied to the law firm environment. The disciplines required of participants, however, in any innovation project must not be underestimated, and this is one of the key lessons emerging from the Silicon Valleys of this world. The so called ‘Lean innovation’ methodology which underpins much of the *analysis* and *action* steps I describe, very much reflects that approach; i.e. if any particular idea is to achieve success, it will more probably have done so because of the rigour and discipline with

which the project has been taken forward. Entrepreneurship may owe its popularity to a handful of highly publicised individuals, but this gives scant regard to the rigour of the culture and processes which brought such ideas to market, and the efforts and leadership of the teams that support such individuals.

I say all this, however, with one very important caveat. Law firms are not as a rule a hotbed of entrepreneurial activity, and they are not commonly managed or motivated in the same way as many start-ups are. Having spent all of my working life in and around law firms, I am acutely aware of the difficulties of introducing and driving such programs. It is for that reason that the initial chapters of this book concentrate on developing ‘innovation thinking’, a very necessary first step in most firms to raise the level of awareness and understanding about what innovation is, its value to the firm and its clients, and what it will take to create and execute such an agenda.

And it is not just about the level of understanding amongst the practitioners in the firm; it extends to support staff and, perhaps most importantly at least in the initial stages, to the firm’s leadership team.³ It should never be taken for granted that support for the time and expense of developing new services will be readily forthcoming – quite the contrary! Even more destructive is tacit approval accompanied by chronic under-funding and ‘benign neglect’. One lesson I learnt early as a managing partner is that one has a limited scope for such initiatives and confidence quickly evaporates if careful attention is not given to the whole process required to bring a specific initiative to fruition. This book is an attempt to describe that path, identify some milestones you should look out for on the way, as well as to highlight potential obstacles you may need to overcome.

Innovation thinking

Initially, a leadership team needs to understand what is encompassed by the term ‘innovation’, and what role it can play in the context of the firm’s overall strategy. Related questions also need clarification, such as: Why is it important? What problems does it assist the firm to address? How it might impact its staff and clients? And what objectives does the firm seek to achieve by promoting such an agenda? This is the ground that needs to be prepared, in my view, before any deeper *analysis* or *action* is undertaken, or a wider audience is engaged within or outside the firm to create and implement such an agenda.

Issues addressed in Chapter 1 include:

- Why do we need an innovation agenda?
- Where and how do we start?
- What are the common scenarios which drive innovation and what should determine our approach?
- What are the values, behaviours, and processes that provide the foundation for the leadership team to build upon to bring such an agenda forward?
- How is initial support and focus created?

Innovation analysis

Chapter 3 builds on the initial ground prepared in Chapter 2 and the introduction of ‘innovation thinking’ (i.e. the *why*), by describing the process of ‘innovation analysis’ (where best to innovate in light of client needs and your capabilities, i.e. the *where*). Innovation *analysis* is discussed in the context of the firm’s current strategy and business model as well as examining the strategies and business models of the firm’s current client base or clients it is seeking to attract. Topics covered include:

1. Understanding the firm’s current strategy and the business model that supports it;
2. Uncovering the assumptions that underlie the actual or ‘apparent’ strategy of the firm or its practice groups (if, in the latter case, the firm lacks a coherent view of its strategy);
3. Tools, models, and templates to assist in analysing the firm’s key clients using the ‘innovation target’,⁴ described in this chapter to identify key characteristics of those client’s current and future needs and their ‘jobs to be done’;⁵
4. How to construct as clear a picture as possible of your key clients’ business model and understanding where in that model you provide ‘value’ to them currently;
5. Using those client business models to understand where and how you can best focus your innovation agenda, bearing in mind your own strategy, business model, and its limits;
6. Considering wider political, economic, social technological, environmental, and legal trends (PESTEL) which might impact your

clients and their markets and how those may assist in focusing your agenda; and

7. Considering where changes in the law firm regulatory environment may enable innovation to be introduced into the firm's strategy or facilitate specific initiatives not previously possible or practical.

Innovation action

Chapter 3 and subsequent chapters introduce a process which will take the firm from the wider lens of 'thinking' and 'analysis' to the more focused activities and demands of 'innovation action' (i.e. the *how*). Having created the environment and considered internal processes that need to be introduced to develop and support innovation-based projects, how are those initiatives to be taken forward?

The following topics are discussed:

1. Creating processes which encourage and manage the development of innovative ideas, as well as processes for evaluating and progressing those ideas. Utilising a 'stage-gate' oversight and resourcing function, supported by the creation of an 'innovation committee';
2. Developing rigorous process to understand the key assumptions that underlie the proposed innovation, and devising appropriate tests and measures to quickly test those key assumptions in the market place with existing or potential clients; and
3. Creating roles and responsibilities within the firm to guide, support, and progress innovations to the point where they can be launched, modified, 'pivoted', or discarded.

It is in this key 'action phase' that much is to be learnt from the hot bed of entrepreneurial activity, most famously demonstrated in Silicon Valley. Far from considering that this represents a 'totally different environment' to that faced by the professions, the sheer breadth of those activities (in the range of industries and businesses affected), combined with the impact of digital technologies on the production and the delivery of legal services, suggests the critical relevance of their approach to law firms. By that I mean the approach adopted by such entrepreneurs to identify and exploit opportunities in incredibly diverse markets across the whole sphere of modern economic activity. It concerns how those initiatives are created, encapsulated into corporate strategies and business models, and grown, in some cases, to the most globalised and profitable companies the world has yet seen.

Technology may well be a great enabler for such innovations and currently its primary focus, but in seizing those opportunities, a whole new approach can be discerned in the way in which innovation *in any field* can be progressed. We tend to be entranced by the gadgets and how they can transform our lives, but give insufficient attention to the very human ambitions, values, rigorous processes, and sheer hard work which brought them into existence. The methods utilised for identifying those new business opportunities, the testing of those ideas, and the business models that have been built to exploit them, are every bit as critical to innovation as the technological breakthroughs they might enable or rely on.

Finally, the term ‘Lean innovation’ owes its heritage to the ‘Lean’ manufacturing processes developed in the later part of the 20th century and applied most successfully by Toyota. This was characterised by its emphasis on shared values in implementation, eliminating waste in the development of initiatives, and an emphasis on creating and testing value from the client’s perspective. As can be seen from the outline above, the three-step approach I advocate reflects the ‘Lean’ ethos, particularly in its emphasis on the creation of a shared view of the importance of innovation and the disciplines required to ensure that ‘value’ is created in the process for clients.

It is that never-ending quest to both genuinely create such value for the client, while at the same time capturing at least some of that value for the company, that underpins my approach in the chapters that follow. A bibliography of resources and references is included in Appendix 1.

References

1. Hart, D., *The Strategic Law Firm*, ARK Group, London 2010.
2. Osterwalder, A., and Pigneur, Y., *Business Model Generation: A Handbook for Visionaries, Game Changers, and Challengers*, Wiley, Hoboken, New Jersey, 2013.
3. This term is used to denote the final decision-making body of the firm or company and includes the board, managing partner, and executive team. It will usually not be the ‘innovation committee’, which term is used to denote a subset of that leadership team, e.g. a sub-committee of the board.
4. REF 4 IS MISSING!
5. Harvard Business School professor Clayton Christensen introduced the concept in a *Sloan Management Review* article (Spring 2007): ‘Most companies segment their markets by customer demographics or product characteristics and differentiate their offerings by adding features and functions. But the consumer has a different view of the marketplace. He simply has a job to be done and is seeking to “hire” the best product or service to do it.’