

Innovation in Practice: Why It's So Hard

Law firms that embrace change and implement new ideas that create value are more likely to succeed in an increasingly competitive legal marketplace.

BY ERIC MANKIN

Babson's Research Center on Innovation and Corporate Entrepreneurship



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At Babson's Research Center on Innovation and Corporate Entrepreneurship, we define innovation using these six words: "implementing new ideas that create value." When discussing innovations in law firms, though, it's useful to further distinguish based on whether the innovation creates new services for clients or whether it changes the way in which the practice operates.

In generating new approaches to meet clients' needs, the legal profession innovates all the time. For example, law firms introduce new legal services and products on an ongoing basis as part of their work with sophisticated clients in industries such as entertainment and financial services. These types of externally focused, service-based innovations can be lucrative. Indeed, pioneers in these areas can expect positive differences in terms of reputation, growth and profitability.

However, when it comes to internally focused innovation in firms – generally, changes in the way a law practice is managed – it is quite another story.

Internally focused, institutional innovation is something that may not be new to the world, but is new in your organization. For example, should you implement a knowledge management system, move to fixed-fee billing, or adopt a flex-time approach to legal careers? It requires change, of course, and it should deliver value.

is reduced because of barriers that are particular to law firms. But I also believe that each of these barriers can be overcome.

THREE BARRIERS TO INNOVATION

During my research, I found that people had surprisingly similar reasons for why law firm innovation is so slow and difficult. Time and again, they cited barriers of structure, conduct, and performance.

1. **Structure.** The structure of the law hinders innovation because the law is based on precedent – and, quite naturally, this concern for precedent transfers to the management of law practices. Thus, the most common question a would-be firm innovator faces is, "Who is already doing this?" If similar firms have not adopted a new approach, then the law firm will not want to try it. As Marilyn Minot, the Founder and Chief Executive of Disbursement Management Associates, told me, "No

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Apparently, it is a given that law firms are slow to adopt institutional innovations. As one law firm operating officer said, "They'll try little things that are new, and they usually don't succeed because they don't have the infrastructure or support."

Given this, some of my colleagues wondered whether innovation was financially valuable to law firms. Their logic was sound, if somewhat circular: If it was valuable to law firms, then you would expect to see more of it. Rather, I think the value of potential new innovations at law firms

one wants to be first. I have 20 firms that want to be second." Of course, if everyone behaves this way, there's no progress at all.

2. **Conduct.** The current conduct of the law hinders innovation in several ways, but the billable-hour system is one of the biggest barriers. After all, if you are implementing some kind of change in your practice, chances are that you not billing that time to a client. One of the axioms of modern economics is that people

respond to incentives. Faced with a choice between billable hours and puttering around with a new approach to practice management, billable activities will win almost every time.

3. **Performance.** The current performance of the legal sector hinders innovation not because it's so bad, but because it's so good. The profession has the best combination of high pay and large numbers of any major economic sector in the United States. Of course, some professions pay more, but not as many jobs are available in those sectors. The average compensation of a lawyer in May 2005, according to the U.S. Bureau of Labor Statistics (BLS), was \$111,000, and there were 529,000 lawyers in practice. Anesthesiologists may get paid more than lawyers (\$174,000 per year, in case you wondered), but there aren't very many of them –

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fewer than 30,000 in May 2005. Lawyers have been prospering for quite a while – at least the past 10 years, according to BLS data – and lack of strong economic motivation tends to dampen enthusiasm for change.

For all of these reasons, it's no wonder that innovating within a law firm structure is so difficult. Yet the lessons of innovation from other industries apply to law firms as well. The right innovations can improve quality and productivity and, thus, increase profits, which is especially true for firms that adopt innovations early. Early movers on new technologies, for example, are already reaping substantial benefits in efficiency, productivity, and profitability, while the late adopters are just trying to catch up to maintain their current ground.

KEYS TO LAW FIRM INNOVATION

There is good news for those who, despite the barriers, have an interest in innovation. Research during the past several decades has generated “dos and don'ts” for increasing innovation success that you can adopt in your firm.

1. **Have a clear “path to value.”** Sometimes this is called a business case, but it needn't be that formal. You simply have to make sure that the changes you envision, if successful, would have a clear, direct, and positive relationship to firm performance. A significant number of innovations during the past decade have not delivered the value that was envisioned because their path to value was unclear or complex.
2. **Experiment.** Successful innovators expect that their approaches will evolve as they come closer to success, and they design their initiatives to include structured experimentation as well as some trial and error. In fact, it's quite unusual for a new approach to succeed in its initial formulation. Frequently, the basic idea embodied



in a new product or service needs to be modified based on the experiences of some of its early users. Less successful innovators tend to see new approaches as changes from one static method to another and, thus, are reluctant to experiment or to learn from their early attempts. To succeed, you must persevere, but expect some setbacks.

3. **Ask your customers.** In areas like practice management innovation, your customers are your colleagues and associates. Ask them what you could do to make them more productive and happier in their jobs. Chances are that most people won't be able to give you a good answer. A few, however, will prove eager to change if it will help them do their jobs better. These kinds of people are your "early adopters," and they are extraordinarily valuable in designing and implementing successful innovations. Work with them. They'll help you succeed.
4. **Exercise your change muscles.** Even if you can't find any early adopters among your colleagues, you can develop your firm's "change muscles" and help people become more comfortable with innovation. Just as your body's muscles get stronger with use and atrophy when they are unused, innovation capabilities can be developed or discouraged. Creativity can be learned, and people can develop a capacity for change. You can turn to consultants for help, and many exercises and resources are available to help both individuals and organizations.

THE SECRET TO SUCCESS

It's not easy to succeed at innovation in any industry. In the legal profession, it's even more difficult. Yet new technologies and market forces always continue to drive change, and law firms are not immune from this pull. Be assured, the firms that successfully adopt these changes will outperform their peers. ♦

about the author

Eric Mankin is the Executive Director of Babson's Research Center on Innovation and Corporate Entrepreneurship. In 2006, the College of Law Practice Management asked Mankin to research the subject of innovation in law firms, and this article summarizes his key findings. Learn more at www.colpm.org or contact Mankin at emankin@babson.edu.

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