Managing innovation in law firms

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Introduction

Innovation is becoming an important differentiator for law firms. The pandemic has been an accelerant, propelling all law firms forward in the areas of legal tech and innovation. What was once inconceivable or impossible, developments such as remote working and virtual court sessions are imperatives that have become part of the regular practice of law. The ability to make these changes has given law firms the urgency and confidence to embrace innovation.

Most firms engaged in innovation activities before the pandemic. What has changed is the frequency and volume at which innovation efforts are taking place. The increase in innovation activity raises the stakes. For every $1000 invested in innovation, most law firms need to generate at least $3500 in new revenues to cover the associated costs. While substantial investments can yield larger returns, there is no guarantee that each investment will have a comparable or even adequate return. Innovation management is the process to ensure that the firm's portfolio of innovation investments and activities delivers the best possible outcomes on multiple levels.

In this report, we provide an overview of innovation management in law firms. For this research, we interviewed 35 respondents, receiving in-depth insights on innovation management in 22 law firms.

Gartner defines innovation management as a business discipline that aims to drive a repeatable, sustainable innovation process or culture within an organization. It is the structured process of generating, validating, prioritizing, developing, and implementing ideas and alternative solutions that would, otherwise, not have emerged through normal processes.

From the interviews, two observations stood out most:

1. Firms exhibit a preference for investing in low-risk, copycat types of innovation projects – replicating what other firms have already done. However, without exception, the most successful projects identified were pioneering projects that provided the firm the ability to demonstrate its leadership.

2. There is a misalignment in the criteria that are used to select projects (impact, clients involved, return on investment, resources needed) and the factors that are known to lead to successful outcomes (the active involvement and commitment of practicing lawyers).

Both observations illustrate the importance of innovation management. Having a structured approach to innovation provides the data needed to identify the (unintended) selection bias for

one type of innovation effort over another and the misalignment between selection and success criteria. If project teams are not set up for success, it is impossible to generate a positive financial return from the innovation investments.

We found a few common challenges faced by all firms, such as getting and keeping lawyers involved in an innovation project, since billable matters are always given higher priority.

We identified challenges that depend on the level of innovation management maturity. For this purpose, we created an innovation management maturity index that highlights the strengths, challenges, and best practices, with increasing levels of maturity.

We are grateful for the support we received from the Virginia Commonwealth Research Commercialization Fund (CRCF) for our research project titled 'Using Team-Learning and Teamwork-Quality Indicators as Objective Performance Assessments to Vet Early-Stage Innovation Teams.' This report is the result of the customer discovery interviews into the current practices to vet and manage innovation teams in law firms.

Input for this report

The findings in this report are based on the input from 35 respondents and detailed insights of 22 firms. Some of the respondents gave us general information about their experience with innovation management in law firms. Three respondents gave us detailed input on the firm they had recently left, in addition to the firm at which they currently work. For three firms, we had multiple respondents within the same firm. The shortest interview lasted 30 minutes, while the longest interview was 120 minutes (over 2 sessions).

About half of our interviewees had 'innovation' in their job description, and 94% of them went to law school.

The median law firm size consisted of 463 lawyers. The volume of innovation projects initiated varied from 1 project/year to 400 projects/year. The average was 33 innovation projects/year and the median 8 projects/year.

Innovation management in 2020

Innovation is "the introduction of something new", according to Merriam Webster.

Introducing something new follows a sequence of events, classifying innovation as a value chain, wherein the least productive step determines the overall performance of the process. Innovation management helps to optimize the innovation process, identify bottlenecks, and increase the productivity of innovation investments and resources.

This section follows the innovation process, starting with idea generation, conversion, and diffusion. Next, we will address the issues related to the innovation process as a whole, including project selection, innovation budgets, open innovation, and portfolio management.

Idea generation

Idea generation is the process of collecting, capturing, and bringing ideas to the attention of management (source).

In most cases, new technologies are the main source of ideas; however, innovation projects that start with a clear client need are more likely to result in successful outcomes. It is challenging for lawyers to open up to their clients and ask what they need. COVID-19 is making this easier. Lawyers who had been reluctant to bother their clients with questions discovered that clients are happy when engaged for this purpose. "It shows that the attorney has empathy with the client's problems."

At Orrick, Herrington & Sutcliffe LLP, hackathons have been a popular and useful practice to collect ideas throughout the organization and fill the innovation pipeline.

Many law firms aspire to collaborate with startups and accelerator programs to complement and fill the pipeline with external ideas, but the law firm's terms and conditions, as well as security requirements often stand in the way of making it happen.

Conversion

Conversion is the process of selecting ideas and executing upon them, i.e., turning them into new solutions and offerings.

Selecting ideas

Common selection criteria for investing in a project are:

- The size or significance of the problem;
- The pool of lawyers who would benefit;
- The potential for revenue generation;
- The resource requirement;
- The number of key clients the idea would impact; and
- The strategic fit.

Law firms execute different processes for types of projects such as knowledge management and IT. There are more stringent criteria for (capital spent) technology projects than for non-technical projects. Andrew Lewis, Business Technology Manager from Bennet Jones LLP said, "For technology projects, which require large capital spent, we normally require a full vetting process.

For non-technical projects that do not require large capital support, they go through a light vetting process and are managed by the Knowledge Management team."

An increase in the number of projects in the pipeline and increased maturity in the innovation leads to a more formalized selection process, and the selection criteria become more stringent. According to Kate Orr, Senior Innovation Counsel at Orrick, Herrington & Sutcliffe LLP, "We started with saying yes to every idea, and that was unsustainable; now, we prioritize the projects based on the firm's strategy and practice."

Resource limitations mean that not all projects can be executed. "IT prioritizes our work," one respondent mentioned. "Only projects with a very high priority from the IT department get executed."

The issues mentioned above appear to result in the selection of projects with less successful outcomes. Specifically, firms select low-risk projects for which resources are available. Comparing these characteristics with those of the most successful innovation initiatives, it becomes clear that these may not be the best projects to go after. Unanimously, the respondents said that successful initiatives had the following characteristics: (1) They concerned an unaddressed need or problem of a group of (new) clients; (2) A partner or other lawyer in a senior position championed the initiative and was actively involved. If these are the key characteristics of the most successful initiatives, then, from the outset, law firms are failing to select their best opportunities for value creation.

Execution

Execution is the translation of the idea into a practical solution and the development of the solution.

One respondent shared that IT projects involve work on a prototype first: "We use design thinking, lean and agile, and if that does not go well, then we need to change the direction." The teams themselves make the decision to change direction. Projects spearheaded by the knowledge management department generally follow Lean Six Sigma or project management - Project Management Institute (PMI) approaches to guide their actions.

Lewis mentioned that they prefer PMI project management approaches on longer duration projects since, "We need to have the confidence in the project's timeline and also to make sure it is really needed, so there will not be surprises later."

Agile, Discovery-Driven Planning, and Lean Startup approaches that have grown in popularity in other industries are not (yet) commonly used for innovation projects by the law firms we interviewed.

Diffusion

Diffusion spreads and scales successful new services and products.

Law firms excel at sharing their success stories with external parties, using them in client pitches and celebrating them in the media. Competitions like the FT innovative lawyer have gained a lot of weight. Conferences such as ILTACON and Legaltech Week provide law firms with the opportunity to show their latest innovation efforts.

However, firms have less success sharing best practices and new technologies internally. Getting firm-wide adoption is challenging, even for things like e-discovery tools. Scaling successful solutions to the needs of the entire firm also presents a barrier. Peter Bilyk, Chief Innovation Officer at Juscutum shared that his biggest challenge is "how to make a project scale so that more people use it."

"Because many practice groups work in solo," according to Orr, "many practice-specific tools are not known beyond one practice group, even if the solution could be useful, for example, for all litigation lawyers of the firm." Meanwhile, the IT and KM departments struggle to justify and support all these duplicative efforts and new tools.

The number of new tools easily grows out of hand, as illustrated by one respondent who shared that they have about 500 online research tools, yet most are pretty customized and cannot be scaled.

The innovation process

Only a few firms we interviewed had a clearly-articulated innovation process. Those that did, had different starting points for internal and externally-focused innovation projects, as well as for technical and non-technical projects, mainly because the approval processes of these projects differ.

With one or two notable exceptions, few firms formalized methods to track the ongoing projects. Orr noted, "We track projects either with a dedicated project manager or by checking with the project team every 4-6 weeks." Most firms shared that they did not really have a structured approach for the projects, metrics to track progress, or long-term support for ongoing initiatives. "There is no set formula for how often we review; it is more an ongoing process."

In the 2020 ILTACON session on innovating on a shoestring budget, participants rated their innovation project success rate at 90%. Our respondents mentioned similar success rates, while expressing that success is difficult to define and measure. "What makes an innovation project a success? Is it the adoption rate, the return on investment, the reputation impact, or all of these? How would you track these metrics for each project?"

The perceived 90% success rate sounds unrealistically high. The most experienced angel and venture capital investors experience success rates closer to 10% and the New Product Development Association reported in 1990 that it took 11.0 ideas for one success. That number has improved over the years but was still required up to 8.7 ideas for one success in 2012.

Since law firms have informal processes for approving projects, they don't track their failures, i.e., the 40% to 60% of initiatives that never launch or the 30-40% of projects that fade from the radar screen during development . As one respondent explained, "We start with 40 projects, and at the end of the year, we have about 12 in the portfolio. Ten never even got off the ground, because they did not meet the requirements, it turned out we already had tools for them, they were not needed in the end, or did not fit in our strategy."

The numbers above equate to a 25% success rate, which would still be a laudable achievement. However, without proper innovation management tracking all initiatives, it is impossible to quantify a firm's success rate. To improve the overall outcomes of the innovation process, a firm will need to analyze both its successes and failures.

The following anecdote explains why it is important to look at success and failure. During World War II, the RAF lost a lot of planes to German anti-aircraft fire. So, they decided to armor them up, but where to put the armor? The obvious answer was to look at planes that returned from missions, count up all the bullet holes in various places and then put extra armor in the areas that attracted the most fire.

Obvious, but wrong. As Hungarian-born mathematician Abraham Wald explained at the time, if a plane makes it back safely even though it has, say, a bunch of bullet holes in its wings, it means that bullet holes in the wings aren't very dangerous. What you really want to do is armor up the areas that, on average, *don't* have any bullet holes.

Credit: Cameron Moll

Why? Because planes with bullet holes in those places never made it back. That's why you don't see any bullet holes there on the ones that do return.

The same holds for your innovation process. To improve the process, you need to analyze your failures to understand which parts need to be enforced.

Innovation budgets

In the innovation management literature, there is an assumption that there is a central budget for innovation and that the innovation manager has control over this budget.

That is not what we found in law firms. In firms with very few projects, they are funded on an *ad hoc* basis. In firms with a pipeline of projects, the support functions like IT and knowledge management have a budget to support approved initiatives through the early development stages.

"It is essential to have support from the top to make innovation happen and to cultivate it throughout management at all levels of the firm." However, such support for innovation does not seem to equate to funding for the actual execution of innovation projects.

In most cases, projects start without any funding and have to scrape budgets together from the practice groups for the development and implementation. "A lot of projects don't have a budget. Unless it is directly for a client – there is no budget." Orrick, Herrington & Sutcliffe LLP is a notable exception. As Orr mentioned, "We set up 50 hours credit for associates to work on ideas."

The absence of an innovation budget does not preclude a firm from spending money on innovation. However, a lack of budget means that the firm's soft expenditures– the unbillable hours spent on innovation projects – are not accounted for. Given that the man-hour costs of a simple innovation project easily run in the ten-thousands of dollars, this can lead to a significant under-reporting of the innovation costs.

Who does the work?

Making time for innovation is a known challenge.

Not having time to innovate is a great concern, especially given that all interviewees mentioned that the key attribute of successful innovation projects is the time commitment made by practicing lawyers, rainmakers, partners, etc. Their active engagement is critical to the success of any innovation efforts and defines the innovation reputation of the firm. As Kate Simpson, National Director of Knowledge & Practice Innovation at Bennett Jones LLP told us: "The engagement from the partners is critical to the success of their projects."

There is an interesting paradox at play. "The lawyers who say that they are too busy for knowledge management and innovation need it the most!" Orr mentioned that, "There are many lawyers with ideas on what needs to be done, but the challenge is finding time to do the work."

"Pens down" is a common order, when an innovation project is put on hold. These projects are not put on hold because of the performance of the project team, but because the involved lawyers are prioritizing billable work. Simpson shared, "The work of lawyers comes with peaks

and valleys. We lose them when times get busy, but such projects might show up again depending on lawyers' availability."

Only two law firms with whom we spoke had dedicated teams to execute innovation projects. They had project managers and developers on payroll to act upon ideas and develop apps.

Open innovation.

Open innovation is the process of inviting third parties into your innovation process to help you execute your project faster, or to help them act upon Intellectual property that you don't plan to pursue. "We do not do any internal projects. We only do the start and then partner with external startups; we can have more impact by supporting external ventures," one respondent shared.

Vendors are eager to participate in the innovation process of law firms. However, complex contractual agreements, tight privacy regulations, and a very slow decision-making process make the legal industry a challenging sector to enter. The best option is finding a willing partner. These kinds of one-off efforts, however, do not equate to open innovation.

Some firms vet vendor projects like vetting startups. Since these projects are core to their pipeline, they also make sure there is an internal champion who will commit and create awareness internally.

With more at stake and more risks involved in the case of open innovation, it is even more important to have a partner or other senior person in the organization champion the project.

From other industries, it is known that you need to have a strong innovation culture and a well-structured process internally before you can add external parties to the mix.

Portfolio management

Portfolio management is the process of optimizing the overall portfolio of innovation activities for risks and strategic outcomes (source). The goal of portfolio management is to ensure that the sum of innovation activities is more than its parts. It addresses whether:

- The right projects are executed to accomplish the firm's strategic goals;
- The firm invests sufficiently in the long term to sustain itself and remain profitable; and
- The overall outcome is the best the firm can do given the available resources.

Even in the most sophisticated law firm, management of the portfolio of innovation projects seems to be absent.

The absence of portfolio management is clearly a missed opportunity. It is not something new either. Already in 1992, Wheelwright and Clark Nagji demonstrated the value of innovation portfolio management. The benefits are clear because the choice of resource allocation strategy

affects innovation performance (source). Nevertheless, firms struggle with applying portfolio management because it requires careful consideration of talent, integration, funding, pipeline management, and metrics (source).

Since innovation portfolio management is seen as a key tool in other industries, why has it not found adoption in law firms?

One impediment is that most law firms optimize their budget for annual cycles and typically don't have long-term time investment horizons to optimize their innovation activities.

Another challenge is the overall economic structure of most law firms where each practice group has its own profit and loss responsibilities. Firm-wide investments are being made, but only in case they benefit the entire firm. What seems to be missing is a high-level strategic alignment between where the firm wants to go, what innovation efforts would be required to get there, clear performance criteria, and a diligent and deliberate execution of this strategy across practice groups.

Portfolio management will be inevitable for law firms planning to deliver more product-based services, the kind of law firm Richard Suskind envisions. Maintaining a lead position with a productized offering requires a long-term approach and concerted efforts across the business units of a firm.

Maturity matrix

From our interviews, it is clear that not all firms have the same level of innovation management maturity.

We identified 4 maturity levels:

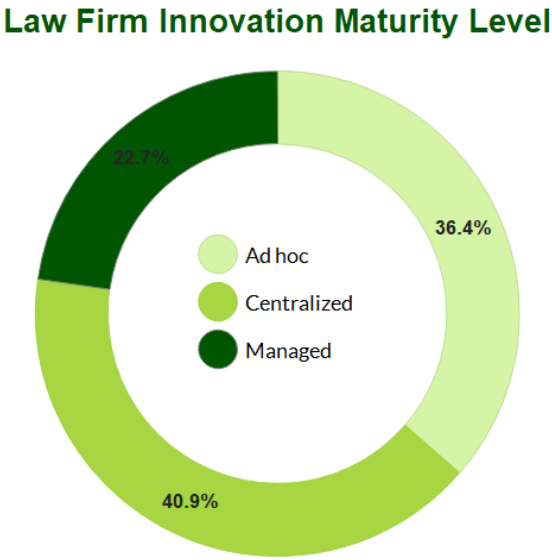
Ad hoc - Aspiring individuals take charge when an opportunity to innovate arises. Whether or not the project will be executed depends on who the initiative taker can convince to invest.
Centralized - There is an innovation function responsible for creating a culture for innovation. The majority of innovation efforts take place within the setting of a particular practice group, business unit, or industry group. Prioritization happens based on available budgets and within existing budget structures.
Managed – Innovation activities are orchestrated across the firm. There is a process in place to track progress and a budget to help advance early-stage projects.
Optimized - Innovation has become a firm-wide collaborative effort that supersedes the hierarchy of practice or industry groups. The pipeline of innovation initiatives is aligned with the firm's strategic goals; the portfolio is optimized firm-wide and the innovation function has become a reliable source of new revenue.

Below we elaborate on each of these levels. The characteristics we used to differentiate between the levels were predominantly around coordination and prioritization between efforts, the presence of an innovation process, and how budgets were allocated.

As it turned out, there are strong correlations between the innovation management maturity level and the volume of innovation projects in addition to correlation between the innovation management maturity level and the number of lawyers per innovation project. There does not seem to be a correlation between firm size and maturity level.

Maturity level	Number of firms in our sample	Number of innovation projects/year	Number of lawyers/project
Ad hoc	8	1.8	204.4
Centralized	9	16.8	58.3
Managed	5	123.5	23.7
Optimized	0	n/a	n/a

In our sample, we identified eight firms as 'Ad hoc', nine as 'Centralized', five as Managed, and zero as 'Optimized'.



Ad hoc

Level	Volume	Process	Commitment	Budget	Coordination	Key Challenge
Ad hoc	1-10 projects per year	None	Low	On a project per project basis	None	Keep favoritism in check; the personal burden makes it unattractive for young talent to engage in innovation activities

The talented individuals firms have hired will see and act upon opportunities. These innovators in the various departments and practice groups will take charge when an opportunity to innovate arises. “Take for example litigation software. We have vendors turn out then we have the partners run with that.”

Because there is no infrastructure, these individuals are on their own. “Most happens within the practice groups. That is where the decision would be made. We need to consider each project case by case. There is not a one size fits all model.” It takes a herculean effort for these innovators to succeed, but a few will, and they will move their career and the firm forward.

COVID has helped in this regard, because it created opportunities for innovators to act upon the opportunities they saw and show the benefit of doing things in different or novel ways.

The challenge with this approach is that it puts the burden to innovate on the shoulders of a few individuals in the firm. Innovators personally take on the innovation risks when pushing their projects forward. As a result, these talented innovators may burn out and leave the firm, to seek more fertile grounds elsewhere.

Best practices:

- Have a clear strategy, so that your talent knows in which direction the firm plans to grow
- Create resources innovators can tap into, in the form of reference guides, toolkits, training support, and coaches
- Enable collaboration among your innovators, so they can support each other, share best practices, and feel less isolated

In name only

'In name only' is not really a maturity level. However, given that 4 of our respondents felt the need to explain to us in detail how disheartening it was to innovate at their previous firm, we thought it would be important to add it here.

Giving a person an innovation title without any serious commitment to innovation, is a move in the wrong direction. Providing lip service to innovation is counterproductive. It is frustrating for talented lawyers who strive for change and like to take action. Words without action do not win over new clients either.

"The biggest pain point in this previous firm was that IT was spread so thin and spread in so many directions that there was no budget for anything. So much pressure on the finances and budget. Everything else was on hold – and it would only be fixed if it was broken."

Centralized overview

Level	Volume	Process	Commitment	Budget	Coordination	Key Challenge
Centralized	5-25 projects per year	Centralized intake of tech and other innovation projects	Medium	Innovation committee makes recommendations; approval decisions are made by existing budget holders	The support groups coordinate the innovation efforts	Obtaining support and budget for larger initiatives that go beyond the needs of one practice group is difficult

After a few successful innovation initiatives have drawn the attention of the firm's management and its client base, there develops a need to leverage these successes more effectively.

The support functions – Knowledge management, IT, and business development – are driving the need to create a more centralized overview of the activities, because their budgets are being used to support the ad-hoc innovation initiatives. They have seen teams shop around for funding. A centralized overview is put in place, so that the various practices groups, business units, and industry groups at least know what is going on.

At this maturity level, it often is one of the support functions that takes on the role of coordinator. The support functions benefit from better coordination among the innovation projects, which is why they take the lead. "We have to create the business case for our own projects. Take for example our enterprise search and replacement initiative. I proposed it, did the

legwork, looked for vendors, made a recommendation, did the dog and pony shows, gave presentations for the implementation, etc.," one respondent mentioned.

The goal of a centralized innovation structure is to ensure that the resource allocation and project prioritization are coordinated among the support functions. These coordinators make recommendations to leadership. They don't have any budget authority. Approval decisions are being made by the existing budget holders. "A lot of projects don't have a budget, unless the costs can directly be billed to a client. Like the platform we build for the class action lawsuit. There was no budget. In the end, we squeezed marketing out of budget," one respondent shared.

Typically, one single person is assigned to oversee and orchestrate the innovation activities. The role is generally defined as an administrative role - just keeping track. However, there is a lot more to this role as facilitating innovation manager. Teams come with questions. The innovation manager starts to recognize patterns in the challenges teams face, but without funds to administer the process, there is little an innovation manager can do. Burn out of the innovation manager is a real danger.

Innovation projects are still carried by individuals and most innovation efforts take place within a particular practice group, business unit, or industry group because that is the origin of project funding. "You will succeed only if it has the attention of our clients or partners. If you want change, go to the litigation group and the corporate team. They are typically driving things." Because change is driven by the practice groups, it is nearly impossible to execute upon opportunities that span multiple practice groups or industry sectors.

On the bright side, the centralized, increasing awareness of all the great innovative activities strengthens the culture for innovation. Firms at this maturity level see that more practice groups, locations, and lawyers are getting engaged in the innovation process. A few success stories show what is possible and leadership starts to recognize the importance of innovation.

Best practices:

- Create an overview of all ongoing initiatives that everyone can access. Such an overview helps to showcase all that is going on, attracts potential collaborators, and avoids duplications
- Move away from annual budgeting cycles to a combination of multi-year and quarterly investment cycles, so there is more flexibility to support innovative ideas that span multiple years, for ideas that come in later in the year, and for teams that need to pivot

Managed

Level	Volume	Process	Commitment	Budget	Coordination	Key Challenge
Managed	15- 200 projects per year	Orchestrated innovation process	High	Innovation committee has the budget to support early-stage development and the progress of all innovation initiatives gets tracked	Firm-wide concerted effort to optimize resources and prioritize projects	Innovation costs become clear, and without clear expectations, it can lead to a downward spiral with too much focus on short-term gains

At the Managed maturity level, innovation is becoming a prominent feature of the firm. It has been demonstrated that the innovation efforts have a role in establishing a loyal client-base, creating new revenue streams, reaching new clients, and winning requests for proposals.

These successes create a willingness to allocate a budget to support the innovation efforts. Programs are created in which associates can bill innovation hours. Projects can get help from the support functions if they take part in the process. “That is also how the idea of the innovation incubator came about. The innovation incubator lets you submit your idea and pitch it – for billable hour credit. It was established to push ideas.”

Individuals in the firm are starting actively to seek out innovation opportunities. An innovation process is in place to formalize project intake and budget approvals. “They fill out a form that states what sort of project it is, whether it is internal or client-facing, the expected costs, the departments involved, and add any associated documentation. Then it comes completed back at the PMO. When project info is complete – our CTO reviews the budget, checks whether it fits the strategic direction and when he is happy, only then a project manager gets assigned to plan out and scope the project.”

Depending on the firm culture and strategic intent, projects from support groups and practice groups are handled differently, as well as projects driven by internal or external parties. For the latter, see also the insert on open innovation below.

Providing a budget to early-stage innovation teams provides an incentive for projects to follow the process, “Even now, there are undoubtedly still projects going on that we don’t know about”.

It is important to track all innovation projects, to recognize the scope of work to bring an idea to practice. “When the innovation efforts were more small scale, the support functions put in a lot

of invisible work to make these projects work. Now, because of the sheer volume and because the processes are getting more formalized, they are no longer able to help out for free."

With a formalized process, the costs of innovation become clear as well. It is expensive to support many early-stage teams and it is even more costly to support teams through the development and implementation phases.

Having dedicated innovation resources, for example within the IT and business development group to provide support to the innovation efforts, increases overhead costs. "We have different methods for internal and external projects. Technologists involved means we need to build something. We need to allocate resources, so we have to be more rigorous."

The advantage of dedicated innovation resources is that the responsible parties can quickly test and try things out, work on firm-wide initiatives, and explore options before deciding the best direction. Projects supported by the practice groups are often far less flexible, because of the annual budget cycles and because they are tied to the needs of one practice group.

Nevertheless, these "elite" innovation teams are not a panacea. As mentioned above, they are expensive resources that will have to prove their worth. It may lead to innovation efforts that lose touch with the business. "We have tried to champion projects as outsiders, but that does not work. Locally, you got to have at least one local person." From our own research, we know that the successes created by these specialized teams are often more difficult to leverage across the firm.

Because there is a formalized process and because practice groups are adhering to the innovation process – as otherwise, their initiatives won't receive a budget - the firm is able to pick up signals that things are not working as they should. As a result, the innovation process gets better, teams learn faster, and more and more innovation results follow.

Best practices:

- Provide incentives for teams to sign up and participate in the innovation process - such as hours for early-stage teams

- Track progress and obtain deep insights into what innovation teams do, learn, and deliver, to keep track of the costs and benefits. Example metrics:
    - Hard metrics: hours spent on each project, budget spent on contractors, number of RFPs that feature and highlight the innovation efforts, number of these RFPs won, customer discovery interviews executed, and number of white papers published
    - Soft metrics: reputation of the firm, personal growth, new skills developed, job satisfaction, and talent retention

- Invest per milestone, taking all costs into account including the hours of lawyers and staff, and using the affordable loss principle

Open innovation

A well-oiled innovation machine makes it possible and attractive for outsiders to reach out and seek opportunities to collaborate with the innovators in the firm.

Open innovation requires an innovation process that is transparent, and that allows third parties to participate in the process. In this model, risks are shared with outside parties in the course of testing new technologies and going after new opportunities. The firm can leverage its innovation capabilities and address the not-invented-here syndrome.

The participation of third parties means that the innovation portfolio can be leveraged beyond the firm, making it possible to invest in even bigger and bolder initiatives. However, the downside of collaborating with external parties, is that some control will be lost as well. It means that management has less control over the direction of some of the bigger initiatives. Moreover, some initiatives may have to be spun out, because they no longer fit with the overall strategy of the firm.

Optimized

Level	Volume	Process	Commitment	Budget	Coordination	Key Challenge
Optimized	100+ projects per year	Optimized innovation process	Very High	The innovation activities are revenue generating and the innovation function is self-sustaining	Collaboration between and prioritization across practice groups create outcomes that benefit the firm as a whole	Innovation investments may benefit some practice groups, while putting others at a (temporary) disadvantage, potentially causing an internal backlash

Due to the sheer volume of initiatives, the innovation process is further formalized with clear phases and governance to guide projects through the innovation process. The process is managed as a funnel of opportunities.

Innovation investments are evaluated and optimized over the whole portfolio of innovation activities. The effectiveness of the portfolio becomes more important than the needs or priorities of individual practice groups, support functions, or industry groups. On the plus side, this means that the firm can take on bolder and bigger initiatives. On the downside, some innovation investments will benefit the firm as a whole but may hurt a particular practice group – which may cause a backlash in support for the firm's innovation efforts.

At this portfolio maturity level, support functions are proficient in handling exceptions, running quick experiments, setting temporary integrations, etc. With data becoming available, the organization learns which innovation projects have a higher chance to succeed and where opportunities are being missed.

In addition, the volume and frequency of innovation activities become high enough and the process reliable enough, that the innovation activities can become self-sustaining and revenue-generating.

Best practices (from other industries):

- Use a similar process as used for other firm-wide investments to fund large innovation initiatives, recognizing that the business case for an innovation project can be opaque without data to extrapolate
- Review the portfolio of ongoing innovation projects on an ongoing basis
- Have successful teams repay, so the innovation activities can sustain themselves

Conclusion

With an increasing volume of innovation activities, firms must manage the pipeline of innovation projects to keep the costs under control and maximize returns. There is no one best way to manage innovation activities and the innovation process. What model fits best depends on the volume of innovation projects and experience with innovation.

However, no matter the level of maturity, a process is needed to bring ideas to practice. The active involvement of partners and practicing lawyers in this process is critical to the success of innovation projects. Since time is scarce, there is real benefit to assuring that engaged, innovating lawyers optimize the time spent on innovation projects.

From the many success stories shared in the course of the research, it was apparent that the more novel and pioneering innovation efforts were perceived as the most successful initiatives. Projects in which the firm was the first to bring a new solution or offering on the market stood out.

Unfortunately, such ideas do not appear to have a very high chance of making it through the vetting process. In nearly all firms, the vetting process has a built-in selection bias for copycat projects of limited size, i.e., safe bets with limited potential to make a significant impact.

The lack of tracking innovation projects from start to finish, prevented law firms from measuring the effectiveness and efficiency of their innovation process. This leads to a waste of the significant time and resources often spent on the portfolio of innovation activities.

As such, it is time to take innovation management more seriously and ensure that the investments made in innovation pay off. In this report, we have offered a few suggestions of how firms can advance their innovation management maturity.

Undoubtedly, there are also other factors at play, such as the type of practice group, whether the firm is a general practice or a more specialized firm etc.. However, these nuances were not readily apparent in the relatively small sample group.

More about this research project

We are very grateful for the generosity of all the interviewees who shared their time and contributed their stories for this research. From the interviews, we learned that there is a pressing need for innovation management tools that can track and support innovation teams. In response, we have shifted our research focus to develop predictive analytics that can identify when an innovation team needs help and tell which areas a team needs to improve on.

We are seeking innovation teams interested in participating in the second part of the research – the development of these predictive analytics. The goal is to test whether better support can significantly improve the speed of development and success rate of innovation teams, and to develop the predictive analytics to provide such better support. Participating teams will get access to online tailored training and guidance from an experienced trainer for up to four months. Contact us or visit our website if you like to participate or would like more information.

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Level	Model	Volume	Process	Leadership Commitment	Budget	Coordination	Key Challenge
0	**Ad Hoc**	1-10 projects/year	None	Low	On a project per project basis	None	Keep favoritism in check; the personal burden makes it unattractive for young talent to engage in innovation activities
1	**Centralized**	5-25 projects/year	Centralized intake of tech and other innovation projects	Medium	Innovation committee makes recommendations; approval decisions are made by existing budget holders	The support groups coordinate the innovation efforts	Obtaining support and budget for larger initiatives that go beyond the needs of one practice group is difficult
2	**Managed**	15-200 projects/year	Orchestrated innovation process	High	Innovation committee has the budget to support early-stage development and the progress of all innovation initiatives gets tracked	Firm-wide concerted effort to optimize resources and prioritize projects	Innovation costs become clear, and without clear expectations, it can lead to a downward spiral with too much focus on short-term gains
3	**Optimized**	100+ projects/year	Optimized innovation process	Very high	The innovation activities are revenue generating and the innovation function is self-sustaining	Collaboration between and prioritization across practice groups create outcomes that benefit the firm as a whole	Innovation investments may benefit some practice groups, while putting others at a (temporary) disadvantage, potentially causing an internal backlash

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