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Blueprint for Innovation

Our survey of 500 London-based firms reveals both the current barriers to innovation and the future keys for creating a sustainable innovative culture.

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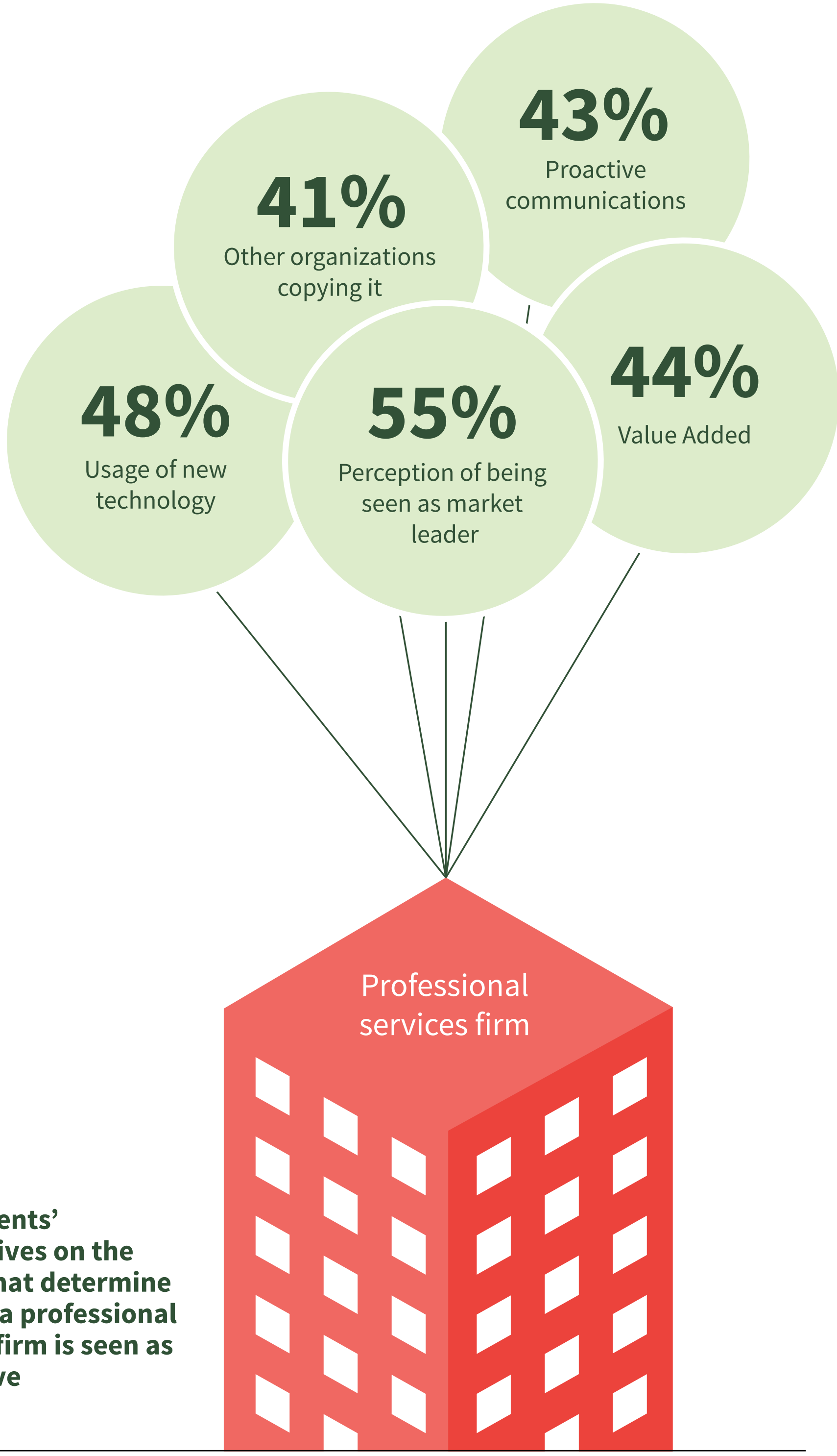
Where Did Our Innovation Go?

London is an innovation capital, drawing the world's top accounting, legal, creative, financial services and property specialists. Yet even companies that see themselves as pacesetters often have trouble keeping their edge.

That's what 500+ London-based business decision makers reveal in a study of the professional services industry by FTI Consulting and London First, an organization that strives to promote the city as a business capital and attract top talent. Nearly all our respondents — 94 percent — say innovation is critical to attracting and retaining clients and is essential to remaining competitive in any sector. But respondents also say it is difficult to encourage and measure innovation. They point to the absence of a standard way to measure innovation, as well as to track internal problems such as an aversion to risk and entrenched ways of doing business. Mentioned also are external problems such as business regulation and London's seeming indifference to investment in business development.

Our survey, which included a poll and in-depth interviews, suggests that even brand and market leaders struggle to innovate as the consequence of a lack of competition to motivate and inspire them, along with the entrenched bureaucracies and systems that have grown up along with the successes. But such barriers can be overcome, and professional services companies of all sizes can build a blueprint for innovation that can transform and improve how business is conducted.



Respondents' perspectives on the factors that determine whether a professional services firm is seen as innovative

Risk, Regulation and Reputation

While companies say innovation gives them a competitive advantage, they also acknowledge that risk generally is involved: Eighty-seven percent say some carefully calculated risks are necessary for continued innovation, and 90 percent say business must create a culture that allows for some mistakes. However, policymakers and the public have been arguing for increased regulation and more conservative and transparent business practices, especially in light of the economic crisis in late 2008. This can discourage risk taking.

Although the creative sector is the most open to risk-taking, 35 percent of financial services and 33 percent of property sector respondents say they are comfortable with it. Close to a third of the financial services respondents (a sector where perceived weakness can be dangerous for business) add that examining weaknesses is a critical factor in innovation. This suggests that in order to innovate, professional services firms must feel free to take careful risks and to learn from mistakes.

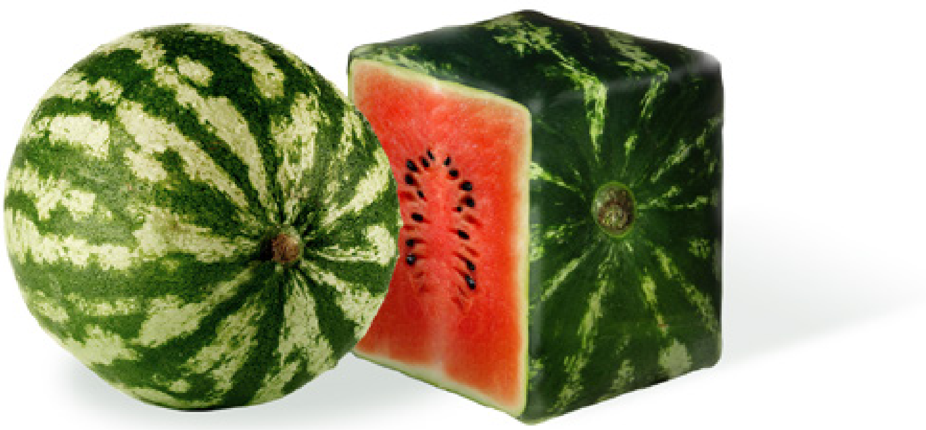
Nearly half of respondents, 49 percent, say regulation is a barrier to innovation. And while they praise London's many business and cultural advantages, 93 percent of our respondents say they want the city to do more to encourage innovation and entrepreneurship. Overall, 47 percent compare London unfavorably with other cities in offering incentives for business such as research and development (R&D) tax credits and in encouraging lending and alternative means of listing for small and medium-sized enterprises seeking funding.

Another problem is a mismatch of perceptions. Businesses often think if they are perceived as a brand or market leader, then they must be innovative. More than half (55 percent) say being seen as a market leader determines whether a firm is innovative. In reality, firms at the top of their market frequently become complacent or struggle with what to do next.

Similarly, brand leaders — the big names in each sector — can be overly conservative, content to rest on their laurels and slow to adapt to changing market conditions. Leaders' self-image as innovative often is based on the smoke and mirrors of their own marketing and advertising. The most venerable companies also are the most vulnerable when things go wrong, unprepared to respond to a toxic tweet or a critical story in the press that could cripple the business.

Finally, other roadblocks to innovation are long-established protocols and entrenched ways of doing business, especially in the conservative legal industry, which make it difficult to undertake the systemic changes needed to achieve breakthroughs.

While companies broadly agree on which qualities help make a company innovative, organizations often struggle with how to get there.



Profile of an Innovator

Professional services sectors have different ways of defining innovation, but a key factor emerged from our survey: understanding evolving client needs. This capability tops the list in the financial services, legal and property sectors and is one of the top five factors cited by the accountancy and creative sectors. These firms understand that innovation for its own sake is bootless unless it brings about an improvement that is vital to the customer.

Overall, the top five innovation criteria identified in our survey by respondents are:

- Understanding evolving client needs *(57 percent)*
- Adding value to service delivery *(48 percent)*
- Internally collaborating across diverse skill sets *(46 percent)*
- Challenging conventions *(44 percent)*
- Identifying and fostering talent *(43 percent)*

While companies broadly agree on which qualities help make a company innovative, organizations often struggle with how to get there. What they need is a comprehensive strategy for building innovation into the company's DNA, recognizing and sustaining that strategy, and communicating it effectively to potential clients. A key challenge is encouraging careful risks in cultures that typically discourage such activity.

Creating a Blueprint for Innovation

Innovation begins when companies combine the best people with a culture that endorses flexibility and creativity. Small-to-medium firms have an easier time with this than large organizations, as 77 percent of our respondents point out. But these companies account for only a fifth of respondents from the creative sector and just 6 percent of the financial services respondents.

Still, even large and well-established companies can inspire innovation by thinking like a start-up. To encourage your internal entrepreneurs, give them a fast track for developing promising new ideas and a nimble culture with minimally restrictive systems and checks. Be willing to test and try innovative approaches, technologies and services.

Here is how companies of any size can build innovation into their DNA:

Hire the right people

Employees who are on the front lines meeting with customers, tackling day-to-day challenges and operating in new markets, are the wellspring of breakthrough ideas. Not everyone is a born innovator (indeed, 73 percent of our respondents say innovation can't be taught), but to ensure a creative pool of talent, your workforce should encompass a diversity of cultures, specialties and personalities at all levels of management and staff. Include a few disruptive thinkers who tend to challenge the rules. That helps to spur change. Our research shows that the most highly regarded qualities for inventive employees are an extroverted personality (78 percent), expert knowledge (73 percent), capability of being a good planner (56 percent), strong intuition (52 percent) and common sense (48 percent).

"You have to be innovative in the way you recruit your people. You want them to have all sorts of skills — language, business development, an analytical mind and intelligence."

Lord Clement-Jones,
London Managing Partner, DLA Piper

Engage employees early and often

Innovation depends greatly on the organization's culture and its day-to-day practices. Our respondents agree that it is critical to create opportunities for employees to contribute. Finding the time to sit down and discuss ideas that lead to innovation can be difficult, involving people from different functions, locations and ranks. But regular dialog among management and staff, in a supportive and structured environment, will harness entrepreneurial energies and ensure buy-in once the ideas are implemented. Developing a more agile and mobile workforce also will help keep younger talent from hitting the boredom barrier.

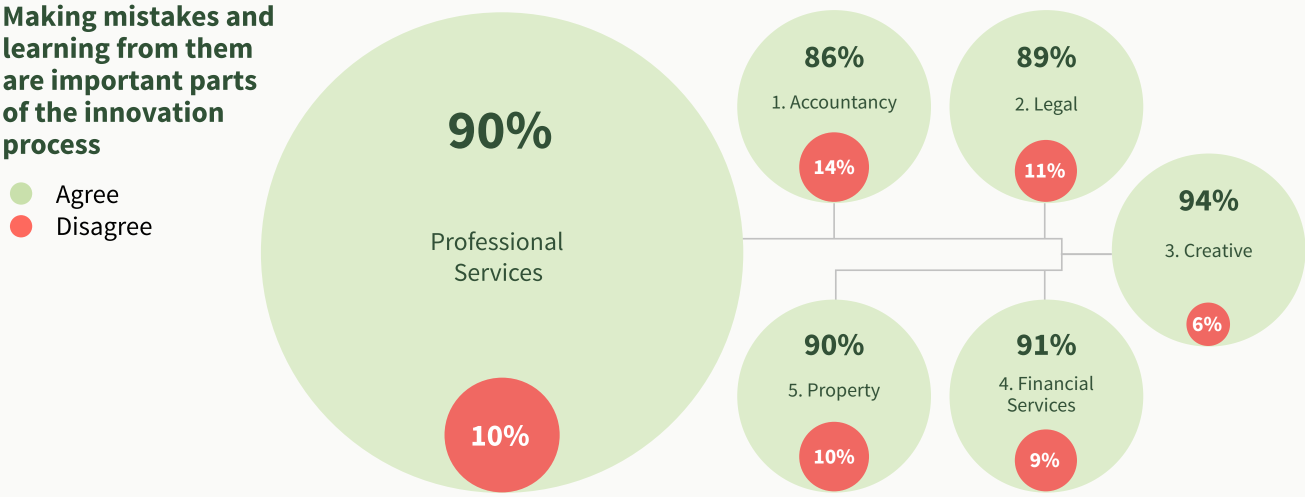
Think beyond size

No matter how large you are, clients still want to know you will adapt to their changing needs. No matter how small you are, clients expect best-in-class service and expertise. Firms of all sizes must continually adapt to meet the needs of their clients.

"The behaviors that underpin innovation are curiosity; boldness in challenging a client who asks you for X when you know Y would deliver a better result; and experimentation, which is very counter-cultural to the industry."

Heather Bewers,
Director of Innovation, KPMG LLP

Making mistakes and learning from them are important parts of the innovation process



Take calculated risks
More than a third (36 percent) of our respondents say aversion to risk is a main barrier to innovation. A workforce that includes the best thinkers and seasoned strategists helps a company take the right risks at the proper time and be brave without being reckless. Adopting a willingness-to-fail attitude encourages innovation rather than stifling it.

Learn from mistakes
According to 90 percent of our respondents (see chart below), making mistakes and learning from them are important parts of innovation. About 84 percent say evolution is more effective than revolution; that is, making a series of small changes — some of which will work while others will not — is more effective than betting on a few larger changes that might have disastrous results. And large businesses should not be too quick to label something a failure if a hurdle is encountered. At the same time, they should recognize when an initiative is definitively going wrong and pull the plug, even if they can afford to keep the momentum going. Achieving this balance can be difficult for large companies.

"Some of the most innovative outcomes aren't greatly different from the status quo; they just approach a challenge from a different perspective."

Earle Arney, Architect

Invest in innovation
More than 90 percent of our survey respondents — including 96 percent of the creative sector — say that continuous investment is needed to drive innovation and that technology is a key source of competitive advantage.

Recognize and reward innovation
Recognition can be both external and internal. It might include accolades that bring broad peer recognition within an industry or internal committees that acknowledge employees' efforts. These rewards could include financial incentives for ideas that are incorporated into the business.

Respect data
Like its creative and technology sectors, all professional services firms must develop a fascination for data: It is the innovative business' lifeblood. This means measuring by default from day one and feeding information back into the business. The culture of capital-intensive R&D looking for big wins that once ruled corporates is gone, and the start-up methodology of data-driven incremental improvement must replace it.

Learn from others
Bear in mind that the brand and market leaders among professional services firms can learn from their peers, even outside a respective sector. Firms can study what other companies are doing right, scrutinize one's own long-established practices and welcome new ideas. We suggest that companies — especially those at the top of their sector — be willing to look outside their industry for fresh ideas in order to spur innovation.

Fortunately, London is a city where it's possible to do that. A key strength, cited by 86 percent of our respondents (particularly technology firms), is the physical clustering of companies within a sector. This clustering has attracted talented professionals to London, providing a vibrant talent pool and allowing for a free flow of ideas and learning among companies and sectors.

Overcoming Barriers

Professional services firms face many barriers to innovation that are beyond their control or are hard to change. There are external hurdles such as regulation, economic cycles and lukewarm encouragement for business in the home city and internal obstacles such as strong functional specialization (leading to silos and turf wars) within large organizations and the consequent difficulty in getting data to measure results.

"Professional services firms are governed by restrictive rules that limit and stifle innovation."

Accountancy executive

Economic cycles
Recession can be seen as an enemy of innovation. However, constraints sometimes work to encourage creative ideas. Moreover, innovation can lead to productivity improvements that pay off during tough times by helping a company deliver better services at lower costs. Businesses, therefore, should strive to innovate regardless of what the economy is doing by replacing outdated practices, exploring untested business approaches and keeping tabs on competitors.

Potential immigration restrictions
While London is a magnet for international talent, the U.K.'s proposed immigration restrictions could prevent the best foreign-born professionals from coming to work in the city. As the United Kingdom and other countries struggle with immigration issues, it is important that any future laws include streamlined procedures for professionals who can help companies innovate. For example, the recent China visit initiative by George Osborne which was focused on easing Anglo-Asian market access.

Lack of support for business
Many respondents note that London does not do enough to spur businesses. We agree that the city must do more to maintain its perch as a mecca for talent and innovation. While Berlin and other major European cities don't have London's potent mix of finance, corporates and start-ups, London still can't afford to rest on its laurels. Its policies must encourage development and collaboration between its established businesses and the start-up scene.

Too big to succeed?

Small firms commonly are seen as more nimble and better able to innovate; larger firms have more bureaucracy and internal structures to reduce exposure to risk. Over three-quarters of our respondents, 77 percent, agree that small companies are more conducive to innovation in professional services. However, large companies can compensate for their complex structures by studying professional services firms of all sizes in every industry and identifying best practices that might work in a large environment.

"Of course, a small company is more nimble. If someone comes up with an idea and the boss thinks it's good, it happens. If it is to happen in a large company, the idea has to clear the various levels of management, which are increasingly cautious the higher they are. However, the financial commitment is proportionally easier for a larger company to take on than a smaller one."

Bob Rothenberg,
Senior Partner, Blick Rothenberg LLP

Inability to measure

Except for the nebulous goal of creating business value, no standardized benchmark exists for measuring innovation, perhaps because various sectors define business value differently. Only 5 percent of our respondents say they measure innovation successfully so, clearly, most businesses need to do better. While innovation itself can't be measured, businesses should measure what it helps them achieve — sales, positive client feedback, faster turnaround time or another measurable improvement. If your goal for innovation is to enhance the internal culture of the organization, consider finding ways to measure employee engagement.

Of the
81%
of those who do measure innovation, most find it challenging

80%
of survey respondents agree that measuring return on investment from innovation is important in their sector

72%
admit that their firm does not measure innovation

5%
of all respondents feel they measure innovation successfully

"Innovation in financial services is about providing banking services that make our clients more efficient, whether that's cost efficiency, financial efficiency or greater productivity. Innovation has to be driven by what the client wants."

Andrew Moorfield,
Head of Energy EMEA,
Origination, Scotiabank

Innovation

1 Accountancy

"**Helping a client to grow** his or her business"

"Finding **new ways to solve problems** and helping clients to cope with regulations and requirements".

2 Legal

"**Challenging old best practices** to advance"

"Continuing to **make best use of technology** and being **cost-effective**".

3 Creative

"Innovation is when we **reach completely new audiences**"

"Maximizing the **use of digital** (online/website) information in a post-print world."

4 Financial Services

"Designing **new products** in order to stay attractive to clients whose **requirements keep evolving**."

"Creating **new products** and being first with **information technology solutions.**"

5 Property

"Bringing new and **efficient ways of solving clients' problems** and challenges".

"**Thinking ahead**, predicting trends, offering an **original** and unique service."

How respondents envision innovation at work

The Time Is Now

In a world where policymakers and the public are encouraging more conservative business practices, companies, nonetheless, must have the courage to innovate. While external barriers such as increased regulation can be frustrating, they also can spur new approaches that can help a company and an industry transcend them.

Though it may appear counter-intuitive, the ideal time to innovate is during difficult economic times. While competitors resist change and struggle to make their existing products more profitable, innovators should be on the lookout for ideas that transform their industry and that reinvent internal processes to make profitability easier to achieve.

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