The role of Innovation in the Professional Services Industry
Executive Summary

The professional services industry is a key component of the UK economy. London is the global home of professional services, but, in a constantly evolving environment, what may have earned this status initially is not necessarily enough to retain it.

The Innovation Index is a project undertaken by FTI Consulting in conjunction with London First to identify the role of innovation in the professional services industry, London’s role as a hub, and the attributes that are seen to drive and hinder innovation. The index delivers perceptions of the industry by the industry. It identifies the importance of innovation in ensuring professional services firms remain competitive on a global stage and explores the elements which threaten to destabilise London’s fragile innovation ecosystem.

For the purpose of this report we have undertaken a series of in-depth interviews with senior executives and conducted a poll of over 500 business decision-makers across five vertical sectors—property, legal, creative, financial services and accountancy—within the professional services industry.

At a time when popular opinion has swung in favour of increased regulation and a desire for a more conservative approach to risk taking in business, the study found that London needs to be brave and draw on its ability to evolve and innovate to ensure its survival as a hub for professional services. 95% of our respondents agree that innovation is crucial to remaining competitive in their sector. However, 49% identify regulation as a barrier to innovation. There is also a clear call for more government support (93%) in the form of initiatives that encourage investment in innovation and entrepreneurialism.

In spite of a growing culture of risk adversity, clients are still demanding innovation from their advisors, with 94% of respondents citing it as essential to attracting and retaining clients. 87% acknowledge that risk taking is necessary and 90% feel a culture that allows for mistakes is central to achieving innovation. However, there is a misconception that risk taking implies recklessness. Our study has found that calculated risk taking, executed in a controlled manner, can deliver fresh ideas without threatening the quality of service.

Truly innovative brands start with truly innovative people. According to our study, innovation is an inherent quality (93%) in an individual—you either have it or not. Innovation cannot be taught (73%). London’s ecosystem thrives on the diversity of its talent pool; 90% cite London as providing this talent. This is affected by 85% seeing the London lifestyle as an attraction for global talent. Despite these strengths, London cannot be complacent, nor can its professional services firms. Having a large talent pool is not enough; it is how you motivate and foster it (43% of respondents note this as key to innovation). London needs to be mindful of upsetting the chemistry that encourages global talent to locate here. This chemistry allows innovators to create great companies and in turn great brands.

There is no set formula for measuring innovation. Only 5% believe their organisation successfully measures it. The study also uncovers a mismatch between perception and reality, with some innovative firms not being seen as such and vice versa. 55% of professional services firms believe that being seen as a market leader determines whether a firm is seen as innovative. Classification of brands, be it market leader, brand leader or even challenger brand is perhaps an ineffective way to benchmark how innovative a firm is. Rather, they should strive to become aspirational brands that look beyond their own sectors to other industries for new ways of thinking and sources of innovation. In this sense an aspirational brand will always be ready to adapt to the needs of the evolving business environment and will never accept best practice as being enough.
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“Innovation is not the product of logical thought, although the result is tied to logical structure.”

Albert Einstein, Luminary
Introduction

The modern business environment is in a state of constant change. Client expectation for delivering “value add” services is higher than ever before against a backdrop of growing operating costs, risk adverse regulations and conservative cultural attitudes in business. All of which makes it harder for businesses to maintain their edge in an increasingly competitive market.

“Innovation is about anticipating clients’ needs, adopting new technologies and becoming the authority on an issue or doing business in a market. It is multi-dimensional.”

Lord Clement-Jones, London Managing Partner, DLA Piper LLP

Innovation is seen as a catalyst for growth and a differentiator for a business. The challenge this brings for knowledge-driven industries like professional services is how to retain the mobile asset of intellectual capital, whilst leveraging their expertise and market offering in new ways to ensure their survival and maintain a competitive advantage.

It is important for firms who see themselves as innovators to be recognised as such by their peers and clients in the sectors they operate. It is no longer enough just to be known within your sector. You need to be reaching the right audiences outside it.

In light of this, FTI Consulting embarked on this initiative in conjunction with London First, to identify the role innovation plays in the professional services industry, London’s role as a hub and the main drivers and barriers for innovation, as identified by the industry’s executives in their respective sectors.

This report explores why this is the case and the apparent mismatch between perception and reality, where often firms are seen as innovators because of the strength of their brands’ name rather than based on the credentials they have.

We have included insights from our poll of over 500 business decision-makers in the professional services industry across the five vertical sectors selected. We have also incorporated findings from in-depth interviews with senior executives in each of the vertical sectors we have examined.
The definition of innovation in professional services

**Innovation**

**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.”

**Property**

“Bringing new and efficient ways of solving clients’ problems and challenges.”

“Thinking ahead, predicting trends, offering an original and unique service.”

**Creative**

“Ignition is when we reach completely new audiences.”

“Maximising the use of digital (online / website) information in a post-print world.”

**Legal**

“Challenging old best practices to advance.”

“Continuing to make best use of technology and being cost-effective.”

**Financial services**

“Designing new products in order to stay attractive to clients whose requirements keep evolving.”

“Creating new products and being first with IT solutions.”
“It is fine to have a hierarchy structure, but you also have to instil some sort of camaraderie across the company and give people at all levels ownership to innovate. It is important to have a sense of community whether the company is small or large. People will always work better.”

Elizabeth Kanter,
Director Government Relations, BlackBerry
The Innovation Ecosystem

Innovation cannot be impressed upon a business. It must be integral to the organisation’s model; within its blueprint. Innovation is increasingly becoming a key ingredient for professional services firms to attract and retain clients, talent and intellectual property. However, innovating for innovation’s sake is not the way forward either. It needs to be the right type of innovation that helps bring about a change in thinking or improvement that is vital to your sector or clients’ needs.

The criteria for innovation are different depending on your clients and sector. Within the professional services industry, our index showed a varying focus on what is important to each sector in order to be innovative.

Sector-specific criteria of innovation

**Accountancy**

- Adding value to service delivery: 56%
- Understanding evolving client needs: 52%
- Streamlining internal processes: 41%
- Internal collaboration across diverse skill sets: 41%
- Identifying and fostering talent: 38%
- Examining weaknesses: 38%

**Creative**

- Identifying and fostering talent: 58%
- Challenging conventions: 57%
- Understanding evolving client needs: 54%
- Taking risks and learning from mistakes: 54%
- Internal collaboration across diverse skill sets: 53%
Financial services

Understanding evolving client needs 64%
Internal collaboration across diverse skill sets 56%
Adding value to service delivery 49%
Challenging conventions 46%
Speed of adopting new solutions 41%

Legal

Understanding evolving client needs 66%
Adding value to service delivery 66%
Identifying and fostering talent 57%
Streamlining internal processes 56%
Examining weaknesses 52%

Property

Understanding evolving client needs 51%
Adding value to service delivery 50%
Use of market research 48%
Challenging conventions 40%
Pricing (pressures on margins) 37%
The majority of respondents in the financial services, property and legal sectors all place understanding client needs as the most important factor required to innovate. Creative and accounting differ in the top criteria, ranking adding value to service delivery and identifying talent highest respectively.

Risk adversity varies between sectors. Although the creative sector is the most open to risk taking, it is also interesting to note how valuable risk taking is for sectors that it would ordinarily be perceived to be either unsuitable for or impossible to undertake. Property scores particularly high, with 33% of the sector seeing risk taking as an important element when trying to innovate. Equally, 35% of those in the financial services sector see risk taking as key for innovation. Against our current economic backdrop, where risk taking has been seen as one of the major causes of the crisis, these findings show that taking the right types of risk is both necessary and should be encouraged.

Almost an identical percentage of respondents (30%) in financial services see examining weaknesses as an important factor for innovation. This highlights the importance of not only learning from your own sector’s mistakes, but also seeing weaknesses as potential opportunities. Clearly, innovation needs to be undertaken in a transparent, controlled and calculated way, with an acceptance of trial and error as being part of standard business practices, in order to yield effective results.

Our survey shows that collaboration with other sectors and industries beyond your own was a key factor, but aside from the creative and property sectors, it did not rank in the top five. Only a percentage point separates where accountancy (25%), financial services (24%) and legal (23%) rank collaboration across sectors. There is clearly an opportunity to be had here, particularly between these three sectors that appear to have similar working environments and regulatory frameworks. Arguably, by opening the channels of knowledge-sharing on best practice and internal processes may help when refreshing traditional business practices and delivering “value add” for clients.

Overall, our respondents from the professional services industry identify the following top five innovation criteria for the industry as a whole.

1. Understanding evolving client needs
2. Adding value to service delivery
3. Internal collaboration across diverse skill sets
4. Challenging conventions
5. Identifying and fostering talent

“Innovation in financial services is about providing banking services that make our clients more efficient, whether that’s cost efficient, financially efficient or in terms of productivity. It has to be driven by what the client wants.”

Andrew Moorfield, Head of Energy EMEA - Origination, Scotiabank

Over half of all respondents (57%) think understanding evolving client needs and adding value to service delivery (48%) were the top two criteria the professional services industry must concentrate on in order to innovate effectively for their clients. Although these may seem obvious, they do highlight a less noticeable factor for a professional services firm which is that it needs to be adaptable in its approach.
An understanding of economic pressures and clients’ attitude to risk is only the first step to maintaining a competitive edge. As a knowledge-driven industry, professional services needs to go beyond the tried and tested solutions by leveraging their employees’ market expertise to anticipate the next dilemma or challenge their clients may face. This means not only understanding your market, but also that in which your client operates.

“We want to innovate, we want to be better at what we’re doing, we want to show to clients that we’ve thought of something new that no one else has thought of.”

Robbie Owen, Partner, Government & Infrastructure, Bircham Dyson Bell LLP

<table>
<thead>
<tr>
<th>Overall criteria of innovation</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Understanding evolving client needs</td>
<td>57%</td>
</tr>
<tr>
<td>Adding value to service delivery</td>
<td>48%</td>
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<tr>
<td>Internal collaboration across diverse skill sets</td>
<td>46%</td>
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<tr>
<td>Challenging conventions</td>
<td>44%</td>
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<tr>
<td>Identifying and fostering talent</td>
<td>43%</td>
</tr>
<tr>
<td>Speed of adopting new solutions</td>
<td>36%</td>
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<tr>
<td>Streamlining internal processes</td>
<td>34%</td>
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<tr>
<td>Taking risks and learning from mistakes</td>
<td>34%</td>
</tr>
<tr>
<td>Examining weaknesses</td>
<td>34%</td>
</tr>
<tr>
<td>Pricing (pressures on margins)</td>
<td>33%</td>
</tr>
</tbody>
</table>

Client  Talent attraction and retention  Business process
“Basel III should be driving innovation in our sector; it is driving us to be more resourceful. I think regulations, laws or any rules should always drive innovation.”

Alastair Lowe,
Director, Energy EMEA - Origination, Scotiabank
Top 5 drivers of innovation

**Accountancy**
1. Clear business strategy
2. Inquisitive minds
3. Collaboration across and within business teams
4. Regulations
5. Economic cycle

**Creative**
1. Inquisitive minds
2. Inherent culture / ethos
3. Collaboration across and within business teams
4. Clear business strategy
5. Dedicated time

**Financial services**
1. Clear business strategy
2. Investment
3. Inquisitive minds
4. Collaboration across and within business teams
5. Inherent culture / ethos

**Legal**
1. Inquisitive minds
2. Clear business strategy
3. Collaboration across and within business teams
4. Inherent culture / ethos
5. Economic cycle

**Property**
1. Inquisitive minds
2. Clear business strategy
3. Investment
4. Economic cycle
5. Inherent culture / ethos
Top 5 barriers to innovation

Accountancy
1. Regulations
2. Adversity to taking risks
3. Lack of time
4. Lack of funds
5. Balance of costs versus benefits

Creative
1. Lack of funds
2. Economic cycle
3. Lack of time
4. Adversity to taking risks
5. Balance of costs versus benefits

Financial services
1. Regulations
2. Internal processes
3. Adversity to taking risks
4. Economic cycle
5. Lack of time

Legal
1. Regulations
2. Adversity to taking risks
3. Lack of time
4. Inherent culture / ethos
5. Lack of funds

Property
1. Regulations
2. Lack of funds
3. Economic cycle
4. Adversity to taking risks
5. Lack of time
The drivers and barriers of innovation

When asked what the key drivers of innovation were for their sectors our industry experts all rank *inquisitive minds, clear business strategy* and *internal collaboration* across and between teams as important. The top barriers across all sectors are *regulation, adversity to taking risks and lack of time*. From our findings, it appears that a lack of flexibility in the professional services industry’s operating environment and the pressure of true delivery hinder the development of innovation. Respondents to our survey in the creative sector see the main challenge facing them as *lack of funds*, whereas in the financial services, accountancy, legal and property sectors it is *regulation*.

“*Basel III should be driving innovation in our sector; it is driving us to be more resourceful. I think regulations, laws or any rules should always drive innovation.*”

Alastair Lowe, Director, Energy EMEA - Origination, Scotiabank

The industry appears to be in a tug of war situation, with economic environments, a lack of time and limited funds posing a threat to even those companies who have innovation ingrained in their business models.

“*Most are looking just for profit and are not geared to change.*”

Legal

Perhaps it is also a cultural barrier, where the traditional environment in which these firms have to operate has resulted in a traditional approach, rather than an entrepreneurial approach that seeks to do things differently and improve upon the standard practices. The creative sector is arguably leading in this entrepreneurial approach. It holds a culture that encourages innovation at its core and an endless search to develop better, more efficient and insightful best practices.

“The biggest barrier in my sector is that lawyers are naturally very conservative and that combined with not being under massive pressure to innovate means that they don’t really innovate at all. But it is true that we have to live in quite a risk-averse world and that doesn’t help; it encourages people to play safe.”

Robbie Owen, Partner, Government & Infrastructure, Bircham Dyson Bell LLP

“Financial sector is per se rather conservative and not open to taking risks. Even more so in the current regulatory environment.”

Financial services
“London has been pretty innovative. London is all about servicing the world. It is the melting pot of ideas and talent here that also generates innovation.”

Andrew Moorfield, Head of Energy, EMEA - Origination, Scotiabank
How innovative are London’s professional services firms?

Overall, our index shows that professional services firms perceive themselves as forward-thinkers that seek to improve their processes and services when trying to differentiate from competitors. 85% rate professional services firms based in London as innovative. This proportion is particularly high amongst creative professionals as well as property professionals (98% and 91% respectively).

The legal sector is seen by the industry to be the least innovative of all sectors, which could be attributed to the conservative environment in which lawyers have to operate. In our in-depth interviews with legal sector business leaders, it was clear that the current risk adverse culture and the role of precedent in the system has resulted in a restrictive environment where innovation is stifled by the past protocols.

However, keeping to the tried and tested practices is a dangerous road when the external environment is rapidly changing. What made a market leader before may not suffice to retain the reputation tomorrow. In another survey conducted by FTI, 266 UK business decision makers involved in choosing a law firm for their company showed that clients place a lot of emphasis on efficient, fast turnaround services, good value for money and flexible approach. To address these client demands, law firms need to re-engineer their internal processes and standard business delivery. A key part of this re-engineering should be creating a sustainable platform for innovation that is clearly outlined in the business’ strategy.

The property sector arguably achieves this well. Despite facing some of the most complex planning laws internationally, it is still perceived by the professional services industry as one of the most innovative (91%) in London.

Interestingly, even within those sectors that are perceived to be the most innovative, such as the creative (98%), there are still disruptive thinkers that feel there is room for improvement against an ingrained culture of maintaining the status quo. It appears to be more about drawing out the talent to spur innovation and fresh thinking rather than to simply stick with one good idea because it has worked before. Challenging and questioning the status quo is necessary to carve out a niche for your business and to be heard above the noise.

“I think, when we look at a majority of our clients in the tech start-up space, the creative industry doesn’t necessarily seem as innovative or accustomed to rapid innovation and change. That’s not to say that there isn’t excellence in the industry or there isn’t world class talent or world class individuals, there’s definitely that, no question. There’s just a very ingrained mature culture which is fighting to maintain some of the status quo. So I think there are probably forces that are at odds with each other. I could think of other industries which are just generally more full of innovation.”

Bryce Keane, Founder & Director, Albion Drive
How would you rate your sector in London in terms of being innovative?

- Creative: 98% Good, 2% Poor
- Professional services overall: 85% Good, 15% Poor
- Financial services: 84% Good, 16% Poor
- Property: 91% Good, 9% Poor
- Legal: 69% Good, 31% Poor
- Accountancy: 77% Good, 23% Poor
“There is such a cluster of people who are doing different things in London and therefore the cross-fertilisation that one gets because of that and what comes out is absolutely vital.”

Bob Rothenberg, Senior Partner, Blick Rothenberg LLP
London as the innovation hub

London is home to some of the most reputable professional services firms in the world, who are contributing significantly to the UK’s output. And as the second largest exporter of business services after the US, the country can without any doubt be called a global hub for professional services. But what role does London play in attracting businesses from all over the world and what does it offer professional services firms?

According to our survey London performs better than other cities on a broad range of attributes including geo-logistical qualities such as language used globally (97% say London performs better than other cities), convenient time zone for conducting business (93%), ease of travel in the city (81%) and ease of travel internationally (80%).

Interestingly, our respondents rate London highly on the physical clustering that has developed across the capital. This is most evident in the technology sector, who have actively sought out their end-users, in order to physically locate themselves nearby or within those clusters e.g. Tech City or the growing number of financial technology companies around the financial services hub in Canary Wharf. Physical location remains as important today as it did previously, although technology has enabled more cross-sector clustering, which in turn has led to sectors following the creative sector in being closer to their end-users.
London’s performance compared to other cities internationally

How strongly do you agree or disagree that London provides the following to encourage innovation in your sector in comparison to other cities internationally.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Percentage</th>
<th>Agreement</th>
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<tbody>
<tr>
<td>Language used globally</td>
<td>97%</td>
<td>Better</td>
</tr>
<tr>
<td>Convenient time zone</td>
<td>93%</td>
<td>Better</td>
</tr>
<tr>
<td>Access to different sectors</td>
<td>93%</td>
<td>Better</td>
</tr>
<tr>
<td>Diverse talent pool</td>
<td>89%</td>
<td>Better</td>
</tr>
<tr>
<td>Competitive environment</td>
<td>88%</td>
<td>Better</td>
</tr>
<tr>
<td>Talented workforce</td>
<td>90%</td>
<td>Better</td>
</tr>
<tr>
<td>Lifestyle to attract global talent</td>
<td>84%</td>
<td>Better</td>
</tr>
<tr>
<td>Ease of travel in the city</td>
<td>81%</td>
<td>Better</td>
</tr>
<tr>
<td>Networking opportunities</td>
<td>90%</td>
<td>Better</td>
</tr>
<tr>
<td>Ease of travel internationally</td>
<td>80%</td>
<td>Better</td>
</tr>
<tr>
<td>Physical clustering of my sector</td>
<td>86%</td>
<td>Better</td>
</tr>
<tr>
<td>Active media</td>
<td>82%</td>
<td>Better</td>
</tr>
<tr>
<td>Motivating environment</td>
<td>77%</td>
<td>Better</td>
</tr>
<tr>
<td>IP protection and law</td>
<td>81%</td>
<td>Better</td>
</tr>
<tr>
<td>Government support</td>
<td>52%</td>
<td>Worse</td>
</tr>
</tbody>
</table>
This cross-sector clustering is a factor that should not be undervalued. The lessons businesses can learn from other sectors are infinite and those few organisations that have already adopted this approach, creative being a classic example, have excelled in both innovating and differentiating themselves as market leaders. 93% of respondents in our index agree that London offers better access to different sectors than other cities internationally. The capital is an ideal location to offer this new type of cross-sector clustering, which allows businesses to choose from a broader talent pool, network with other professional services firms and benefit from an infinite supply of specialised business services.

London also benefits from a varied intellectual capital with diversity not just being defined by age, cultural background and education, but also sector expertise, skills and personality. 90% of respondents say that London performs better than other global cities in terms of access to a talented workforce and 90% highlight that it performs better in terms of a diverse talent pool. This variety of experience, personalities and cultures offers the flexibility and creativity that is essential to innovation.

In an increasingly competitive business market, having a workforce of diverse CVs is a business’ strongest asset when looking to innovate. Each skill set when applied can bring a different perspective to the same business.

However, cultivating a diverse workforce is not enough to foster innovation on its own. Innovation has to be part of a firm’s DNA and encouraged at all levels in the business. It is not just a leadership style, it is a cultural mind set. Firms have to remember that innovation requires an inclusive work environment that supports freedom of thought, collaboration between teams, expanding knowledge and experience, recognition of innovation, inquisitiveness and investment in the ideas of employees.

“London harbours great talent in the professional service industries.”

Creative
Is government the enemy of innovation?

Our index shows a clear call for support by industry respondents, with only 11% saying London was much better than other countries in terms of government support through R&D tax credits and encouraging lending and alternative means of listing for SMEs seeking funding.

This also calls into question other government policies and in particular, recent proposals to reduce immigration by tens of thousands. Although popular opinion would say that immigration needs to be controlled, there must be a way of ensuring that worldwide talent that is keen to enter the UK workforce is not excluded. London must continue to attract and retain local and global talent to ensure it remains a hub for innovation.

Currently, London scores very low on government support relative to the other attributes, with 47% saying that other cities internationally perform better in this area. Respondents working in the creative and property sectors are particularly likely to feel disappointed by lack of government support for innovation with 55% and 54% respectively saying London performs worse than other cities in this area.

"Professional services are governed by restrictive rules which limit and stifle innovation."
Accountancy

It is essential that government does not inadvertently cut off the supply of talent to the UK through an unnecessarily tough immigration policy. The benefits of attracting diverse talent include not just the skills that employees bring with them, but that they also help expand the market for local firms through links to their regions or countries.
“We invite start-ups into our space and collaborate with them, even if they aren’t clients. We share knowledge, look at how they work and borrow best practice. We break all the norms on who should and shouldn’t work together. Collaboration, openness and transparency are the original attributes of innovation.”

Jason Goodman,
Chief Executive Officer, Albion London
Innovation and the business cycle

Is the recession an enemy of innovation or the prime environment for innovation to flourish? What is clear is that innovation plays an important role in business growth. It enhances productivity which in turn impacts economic performance. During the recession innovation can lead to a positive productivity shock and, by delivering a superior service offering or lower prices, it can become an alternative to salary cuts and staff layoffs.

The challenge for businesses is actually to maintain a continuous innovation loop in spite of the dips and rises of the economic cycle. To achieve this, a firm must instil a mind-set of renewal of out-dated practices, new business approaches, collaboration, continuous discussion of best practices and an awareness of competitors.

Which are the better innovators, small or large firms?

“Of course a small company is more nimble. If someone comes with an idea and the boss thinks it’s good, it happens. If it is to happen in a large company, it has to clear the various chains of management, which are more cautious the higher up it goes. 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

Small firms are often seen as more nimble and better able to innovate as a result. Larger firms have increased bureaucracy and internal risk structures. 77% of our respondents agree that small companies are more conducive to innovation in professional services. However, the proportion of respondents from the creative sector is SME-dominated when compared to financial services, which have a higher proportion of large players (94% vs. 81%).

Two common denominators that are important to all companies, irrespective of size, are their clients and their market reputation. No matter how large you are, a client will want to know you can deliver value for money and are agile to their changing needs. No matter how small you are, a client will want to know that you are delivering best-in-class expertise and are known in the markets where you operate.

Although aversion to risk is nothing new, with a third of respondents (36%) seeing it as one of the main barriers to innovation, 87% believe that risk-taking is necessary to achieve innovation (including the financial services sector, where 91% agree). This is not surprising, as ultimately real change in business performance will require some risk taking in the area of innovation.

Innovating does not necessarily mean expenditure and risk; it is about learning from others’ mistakes and taking the calculated risk that will deliver value to your business and strengthen your firm’s unique selling point.

87% agree that risk-taking is necessary to achieve innovation
Innovation and organisational structure

Our survey shows that examining weaknesses, streamlining internal processes and adopting new solutions quickly are amongst the key facilitators of innovation.

In the context of organisational structure and company culture, investment in innovation is vital to drive continuous improvement. Indeed, 91% of our survey respondents agree that continuous investment is needed to drive innovation in their sector. This score is even higher within the creative industry where 96% agree.

Most respondents (84%) agree that in professional services innovation is more about evolution than revolution. Making mistakes and learning from them is an important part of the innovation process according to 90% of respondents. And although embracing failure is not easy, learning from successes is not enough.

“Some of the most innovative outcomes aren’t greatly different to the status quo; they are just approaching a challenge from a different perspective.”

Earle Arney, Architect

Although finding the time to sit down and discuss ideas that lead to innovation can be difficult, involving people from different functions, locations and ranks, not only to harness their entrepreneurial energies, but also to ensure buy-in at the implementation stage is essential. It is also important that the exchange of ideas becomes a regular dialogue between senior managers and staff. Everyone should be allowed to voice an idea in a supportive and structured environment.

“’The behaviours that underpin innovation are curiosity, a boldness in being prepared to challenge a client who asks you for x when you know that y would deliver a better result and experimenting, which is very counter cultural to the industry.’”

Heather Bewers, Director of Innovation, KPMG

Over the past decades the development and deployment of new technology has been a key source of competitive advantage for the professional services industry and has become completely embedded in the industry, which is why most (90%) agree that innovation is driven by developments in technology.

Innovation depends largely on organisational culture and day-to-day practices. Our respondents agree that creating the space for employees to innovate is important.
Continuous investment is needed to drive innovation in my sector

Professional services: 91% Agree, 9% Disagree
Accountancy: 88% Agree, 12% Disagree
Creative: 96% Agree, 4% Disagree

Financial services: 94% Agree, 6% Disagree
Legal: 93% Agree, 7% Disagree
Property: 86% Agree, 14% Disagree

Innovation is more about evolution than revolution in my sector

Professional services: 84% Agree, 16% Disagree
Accountancy: 92% Agree, 8% Disagree
Creative: 77% Agree, 23% Disagree

Financial services: 83% Agree, 17% Disagree
Legal: 83% Agree, 17% Disagree
Property: 84% Agree, 16% Disagree
Making mistakes and learning from them is an important part of the innovation process

Professional services: 90% Agree, 10% Disagree
Accountancy: 86% Agree, 14% Disagree
Creative: 94% Agree, 6% Disagree

Financial services: 91% Agree, 9% Disagree
Legal: 89% Agree, 11% Disagree
Property: 90% Agree, 10% Disagree

Innovation is driven by developments in technology

Professional services: 90% Agree, 10% Disagree
Accountancy: 92% Agree, 8% Disagree
Creative: 87% Agree, 13% Disagree

Financial services: 87% Agree, 13% Disagree
Legal: 89% Agree, 11% Disagree
Property: 94% Agree, 6% Disagree
“Having someone who disrupts and challenges what you are doing is highly valuable.”

Earle Arney,
Architect
Most great ideas for improving efficiency, attracting new customers and ultimately enhancing corporate growth and profits aren’t developed by an isolated group of senior managers. They are generated by employees, who are at the coalface with clients, operating in new markets, fending off the competition or simply tackling the day-to-day challenges that are a result of company processes and procedures.

Companies that are able to harness the energies and ideas of staff by incorporating innovation into the organisational strategy have been successful. Obviously the way companies achieve excellence in innovation differs across sectors, markets and company sizes. However, one thing they all have in common is the right calibre of people.

So what makes an innovative thinker? Our research shows that innovative employees are seen to be all-round business professionals, with extrovert personality (78%), a tendency to rely more on intuition (52%) than common sense (48%) and are good planners (56%). Interestingly, both the creative and financial services respondents see intuition as a stronger criterion for an innovator in their sectors than any of the other three sectors, scoring it 67% and 66% respectively. Whereas, 61% of those employed in the legal profession believe that common sense is more important. This is not surprising taking into account that some sectors within professional services are much more regulated than others.

The property sector differed from all other sectors in believing that a balance between instinct (50%) and common sense (50%) was necessary for an innovator in their sector.

Overall, the professional services industry see expert knowledge of sector and organisation as key for innovation (73%), but only when this knowledge is used not to maintain status quo, but to challenge it and push the boundaries of standard practice.

Are you recruiting the right type of employee?

“You have to be innovative in the way you recruit your people. You want them to have all sorts of skills - language, business development, have an analytical mind and be bright at the same time.”

Lord Clement-Jones, London Managing Partner, DLA Piper LLP

The ability to take calculated risks is another important characteristic as 87% of respondents agree that this is necessary to achieve innovation. Having the attribute of expert knowledge is therefore crucial to ensure that the risks taken are informed and calculated. This means that risk-takers and disruptive thinkers should be seen as an asset and not a threat to a business. Although for every good innovative idea there are plenty of ideas that do not work out, companies should adopt a “willingness to fail” attitude, in order to ensure that innovation is encouraged, not stifled.

A firm’s ability to attract and retain top quality talent is central to maintaining and improving its ability to innovate. Whilst disruptive thinkers are necessary to achieve this, it is important to have a balance. An organisation with only this personality type will not succeed either. A harmony needs to be achieved between those that play by the rules and those that challenge them. Overall, 93% of respondents agree that innovation is an inherent quality in certain individuals and 73% agree that it cannot be taught. You either are an innovator or not and in either case it can be your strongest asset.
What makes an innovative employee?

- Emotional intelligence: 11%
- Intellect: 17%
- Personality: 15%
- Motivation: 18%
- Sector knowledge: 17%
- Social skills: 16%
“Even if you are the most talented and innovative firm in the world, you are not going to succeed in today’s environment, unless you have built a personal brand or profile.”

Earle Arney, Architect
Innovation in the global business environment is fast becoming a priority and can often determine whether a company succeeds or fails against the growing competition. It has become a key point of differentiation. Our findings support this, where 95% of our respondents agree that innovation is necessary for them to remain competitive and 94% agree that it is important to attract and retain clients. As a result, professional services firms have to constantly focus on understanding and exploring untapped client needs, whilst addressing them in an efficient manner.

Respondents to our survey believe that being seen as a market leader is the most important determinant of whether a professional services firm is perceived as innovative or not. This means that being an innovator in services offered, technology adopted, business processes and even management functions is only really creating value from a client’s perspective if clients and competitors recognise your brand as a leader in its sector. Respondents to our survey link being seen as market leader with a proactive corporate communication campaign that helps drive the brand’s market perception.

In our interviews with industry experts, they associated the following standard brand classifications as relevant to their industry:

1. Market leader
2. Brand leader
3. Challenger brand

A market leader is seen to make waves in new thinking and business approach. They are leading in their respective sectors. The challenge for market leaders is how they will retain this recognition and continue to innovate, if by definition they have no-one ahead to inspire and chase? The concept of a brand leader is therefore occasionally based more on perception than reality. A good communications campaign and a well integrated marketing and advertising strategy can effectively ensure that perception and reality match. Nevertheless, all brand leaders are seen by the professional services industry to rest on their past laurels without the same drive to adapt and change with the moving environment. Often brand leaders tend to be the slowest to innovate and adopt new ways of thinking, simply because they do not always feel the need to. A brand’s reputation is fragile and can be damaged with the smallest incident. No brand is safe, no matter how well known you are in your sector.

Finally, there is the challenger brand, often associated with mid-size companies looking to break into the top layer of firms. These are the most adaptable firms, most inclined to proactively innovate and arguably hold the greatest potential for changing the way in which a sector operates.

In all these respects and no matter how you classify a firm, perception and reality are often mismatched, but ensuring innovations are effectively communicated can mitigate against this. If you are an innovator, you need to show it and talk about it in a compelling way to reach the right audiences.

It is also worth questioning if these three brand classifications are useful in determining a true innovator, or whether in fact a firm must continuously aspire to achieve new heights, improve business practices and be seen in the company of those firms that are also thinking differently. If innovation is built into a firm’s ethos, it will never accept that best practice should go unchallenged. Therefore, earning the reputation of being a market leader or brand leader could be seen to block the innovation cycle or render it unnecessary as recognition has been achieved.
What determines whether a professional services firm is seen as innovative?

- **55%**: Being seen as a market leader
- **44%**: Providing value added
- **43%**: Proactive communication
- **41%**: Other organisations copying them
- **48%**: Usage of new technology
“Not everything that can be counted counts, and not everything that counts can be counted.”

Albert Einstein, Luminary
Measuring innovation

Measuring innovation can be just as much of a challenge as the process of innovating itself. There is no existing standardised benchmark of innovation, perhaps because it means different things to different sectors and can sometimes involve implementing the unknown. Measuring it is important in ensuring your firm is getting maximum return on investment (ROI).

There is no doubt that the final objective of innovation is to create business value. That value can take many forms, such as developing a new business lead, introducing new products and services or making incremental improvements to existing ones, reducing costs, improving efficiency of processes or changing thinking on an issue. This diversity in the form of something new appears to be one of the core obstacles when measuring innovation.

Furthermore, recognising innovation must be both external and internal. This can be in terms of external awards that bring peer recognition, internal committees that reward employees’ efforts or financial incentives for innovative ideas that are incorporated into the business. Acknowledging the innovations of employees is crucial in understanding how well your business innovates. The lack of a standardised benchmark does pose a difficulty for firms to compare innovators within sectors. Innovation has to be tailored to each sector’s and business’ objectives and needs. If it is integral to a firm’s business strategy, it will influence the end objective whether it is in terms of business development, peer recognition or delivering a sector and industry change or improvement.

80% of survey respondents agree that measuring ROI from innovation is important in their sector

72% admit that their firm does not measure it

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

5% of all respondents feel they measure innovation successfully
Does your firm measure innovation?

- **5%**: Yes, and we do it successfully
- **22%**: Yes, but it is a challenge
- **50%**: No, but we intend to
- **23%**: No, but we do not intend to
Conclusion

The globalisation of professional services has created a sophisticated and competitive environment. In order to be successful, companies need to continually improve their performance and deliver value to their clients beyond basic needs. Innovation provides a means to achieve this.

There are many barriers to innovation in professional firms, including regulation, lack of time, strong functional specialisation, working in silos and highly risk-averse cultures. However, with each barrier there is also an opportunity. Regulations for some may be a hindrance, but for others in the industry it could be a means to adapt, evolve and create a solution that could effect wider change.

In order to effectively address the challenges firms face in this industry, innovation must be embedded into corporate strategy, established in engaging innovation programmes to ensure a regular dialogue between senior managers and employees, established cross-team collaboration on projects, hiring and retaining top talent (including “disruptive thinkers”), instilling a culture and willingness to take calculated risks and, most importantly, an acceptance of learning from mistakes.

Firms seeking to maximise the benefits of innovation should develop communications programmes to highlight their vision across the organisation, to encourage employee involvement and establish strategic conversations with their clients.

We would suggest that firms in the professional services industry should not look to be market leaders, brand leaders or challenger brands, but rather strive to become aspirational brands that look beyond their own sector to other industries for new ways of thinking and sources of innovation. In this sense, an aspirational brand will remain as fluid as the concept of innovation; always adaptable and ready to meet the needs of the evolving business environment.
The definition of innovation in professional services

**Innovation**

- **Property**
  - “Get rid of the restrictive practices. Level the playing field.”
  - “Encourage cross-pollination of ideas.”
  - “Keep trying.”
  - “Look at other companies you admire across all industries and combine the best of these, especially their primary resources - the staff.”

- **Accountancy**
  - “Develop an inclusive culture where free thinking is encouraged.”
  - “Listen to ideas from staff not just management.”

- **Creative**
  - “Creating future brands.”
  - “Look to foreign markets for inspiration and see what they are doing; internet allows this with ease and for free.”
  - “Take calculated risks and be willing to learn.”

- **Legal**
  - “Creating a business that others aspire to be like.”
  - “Lead the way. Don’t wait for others to make the change.”
  - “Let employees work on projects they like outside their normal duties.”

- **Financial services**
  - “Looking for counter-cyclical opportunities and taking advantage of fall outs.”
  - “Make it part of the ethos of the company.”
About the research
Qualitative research was conducted by the Strategy Consulting and Research team at FTI Consulting in February and March 2013 with 15 senior executives in the professional services sector. In April 2013 a quantitative survey was conducted, with 500 respondents across the following five vertical sectors: accountancy, creative, financial services, property and legal. Respondents were drawn from an affiliate panel database comprising individuals from small, medium and large companies. Please note that the standard convention for rounding has been applied and consequently some totals do not add up to 100%.

About FTI Consulting
FTI Consulting, Inc. is a global business advisory firm dedicated to helping organisations protect and enhance enterprise value in an increasingly complex legal, regulatory and economic environment. With more than 3,915 employees located in 24 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate and overcome complex business challenges in areas such as investigations, litigation, mergers and acquisitions, regulatory issues, reputation management, strategic communications and restructuring. The company generated $1.58 billion in revenues during fiscal year 2012. More information can be found at www.fticonsulting.com.

About FTI Consulting Professional Services
FTI Consulting provides communications advice to many of the world’s leading professional services organisations, offering both specialised knowledge, close relationships with the media and other key stakeholders and trusted advisor support to the leadership of those firms. Our experience ranges from profile raising and brand building support through to reputation and crisis management. We work with firms and companies to communicate their corporate message. We also promote their technical expertise by positioning them on the issues which matter to their clients and prospects. During a period when change is being piled upon change and firms are continuously being challenged to protect and support their clients’ enterprise value, we pride ourselves on the ability to formulate ideas and initiatives which support their businesses.

About FTI Consulting Strategy and Research
Our strategy and research team design and execute programmes to help our clients address complex business problems. Working with colleagues who specialise in specific industry sectors, we analyse stakeholder perceptions and day-to-day operations, as well as the financial markets. We use the results to help our clients create communications and marketing plans, test business strategies and make better operational decisions.

For further information on FTI Consulting market research services: market.research@fticonsulting.com
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