

new directions:

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new directions: is edited by
Alastair Ross

Welcome to new directions: 12

Welcome to our latest edition of **new directions**: our journal for business leaders, innovators and change agents. Our focus is on the business activity that is key for today's organizations: **innovation**. In this edition we cover business innovation in two different business sectors: **Manufacturing** and **Professional Services**. We have a focus on step-change innovation through Re-engineering and also on incremental innovation through Continuous Improvement in factories. We also provide an update of business use – and our own experience – in the virtual world of Second Life.

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"An effective low cost paradigm arriving in a market tends to become the dominant force in that market."

Re-engineering Professional Services

Professional Services are an increasingly important part of all western economies, generating value through the expertise of their people and the intellectual capital that the firm can build from their aggregated expertise. Some leading professional services firms are starting to look at the lessons and practices they can learn from industry to improve their businesses. One key area is that of process management and re-engineering, where forward-thinking firms are seeking to improve their business processes to enable competitive differentiation. For example some leading financial services firms are applying Lean Manufacturing techniques to take waste out of their internal operations; consulting organisations are looking at the effectiveness of their processes for innovation; leading law firms are applying re-engineering techniques to take out cost and improve service. However, for many professional service firms process thinking is weak at best. A study in 2006 by Codexx and Imperial College London of 16 major UK law firms found typically weak process improvement. Leading firms recognise that this is no longer adequate, faced by the challenges of deregulation, new entrants, the Internet, increasingly sophisticated clients and now the 'credit crunch'.

Case Study: Law Firms

The Legal Sector is one such sector where there is a need for major change to deal with these challenges. A study by the American Bar Association in 2001 concluded: *"The practice of law and the administration of justice are at the brink of change of an unprecedented and exponential kind and magnitude... We must be willing and able to discard old paradigms and engender and embrace manifest change."* The drivers for change include increasingly demanding clients, the impact of the internet, the potential for outsourcing to low cost, but skilled, countries like India and (in the UK) imminent deregulation enabling new competitors and new business structures. In response firms will need to implement new customer-centric processes and products, cut costs and improve service through the application of IT and business process re-engineering and put in place systems and a culture for ongoing innovation.

The impact of the Legal Services bill in the UK will initially affect private client services such as Personal Injury, Conveyancing and Wills by enabling new market entrants such as accountants and possibly major supermarkets. In addition, a combination of IT and the internet has helped move many repetitive legal processes, such as wills and leasing, to commoditisation. Governmental drive for value in the public sector is resulting in new approaches including increased outsourcing by local authorities. Clients are increasingly expecting on-line and more cost-effective services and also demanding innovation. However, this will only be the tip of the iceberg. An effective low cost paradigm arriving in a market tends to become the dominant force in that market. Witness the triumph of low-cost airlines against premium airlines over the last decade. Therefore Commercial Legal Services will also be affected and can also benefit from process re-engineering.

Services Re-engineering – the opportunity

Process thinking is absent in many services firms, their operational focus is primarily on client projects and professional competencies. But processes are the means by which these competencies are delivered to clients and so are critical to firms. A lack of process management creates inefficiency and inconsistency in delivery, resulting in waste, quality and compliance issues.

Organisations re-engineer in response to competitive challenges – forward-looking organisations start early when they see negative trends, but many only do so when the threats are very real – 'the wolves are already at the door', which can result in panic measures.

In our innovation work with Law Firms, we have worked on a number of successful re-engineering projects and have typically found the following to be true. Many of these are equally applicable to other professional services sectors:

- 1. There is often little process thinking in firms** – so firms have little understanding of current process performance and cost and the business benefits of good process management.
- 2. The process often depends on who is performing the job** – each Partner/Fee Earner will perform the matter differently depending on their office or team, meaning that the service provided and the cost of providing it will be inconsistent and there is no guarantee that specific tasks have been performed or performed as required (which has compliance and risk implications).

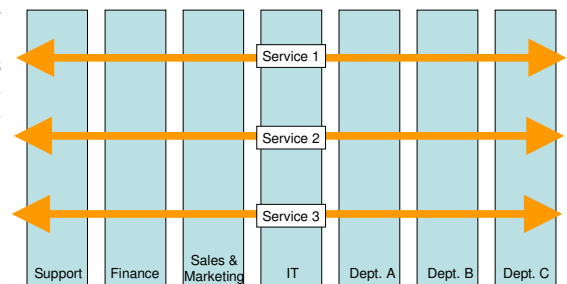


Figure 1: Services are processes running through functions

Case Study

Codexx worked with a major UK law firm to re-engineer their Probate process which was challenged by competition from lower cost firms and the difficulty in recruiting new Private Client lawyers. A Probate core team was established and the current process mapped to show the problem areas. A TO-BE Probate process and organisation was developed, by challenging current thinking, developing a Standard Operating Procedure, process cycle time reduction, a new team based organisation, applying Lean thinking and utilising lower cost paralegals. The benefits of the new process are in improved responsiveness and quality at a significantly lower cost. The firm has since embarked on similar projects in Due Diligence and Conveyancing.

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3. Processes have been defined as 'this is how we do this job' and have often been unchanged for years, even if they have been automated by Case Management systems – this means that a lot of waste will typically be present in the process (e.g. rework, duplication of effort, over-skilled personnel performing tasks).

4. Major IT investments – such as case/workflow management – have not been implemented in tandem with re-engineering – this means that the full benefits of the IT investment are not realised.

5. Re-engineering projects can be difficult to resource as key processes will require cross-functional working to re-engineer and so do not naturally fit into a firm's departmental and Finance/IT/Marketing/HR resource silos – this creates an 'inertia barrier' to tackling them.

Approaching Re-engineering

Process re-engineering tackles the problem of poor or uncompetitive performance by examining key business processes in a systematic and challenging way, determining client requirements, analysing the way the process is performed today and then designing a significantly better way of performing the process that is closer to the optimum and finally defining a plan to move from the current to the future process.

Key elements of re-engineering include:

- **Really** understanding what the client or customer values
- Mapping and quantifying how the process is **actually performed** today – the 'AS-IS'
- **Challenging** the current way of doing things
- Seeking **best practices** elsewhere – and not just in other law firms
- Defining a **bold improved process** – the 'TO-BE'
- Creating a TO-BE that **dramatically** reduces waste and provides improved service
- Making a **Case for Change** for resourcing to move from the AS-IS to the TO-BE
- Building a **Core Team** of partners and associates who will champion the new process
- Being **persistent** in working to achieve the TO-BE

Benefits from re-engineering

We've seen clear benefits for professional services re-engineering from our projects:

- **Significant cost reduction** – through waste elimination using Lean techniques and 'right skilling' of the process through appropriate use of skills. This can be more than 40% (and even more if off-shored)
- **Improved client service** – through focus on improving the client 'experience'
- **More repeatable process** – using a defined and documented 'Standard Operating Procedure' for repetitive activities – enabling more consistency
- **Fixing supply constraints** on solicitors by making more use of automation and paralegals

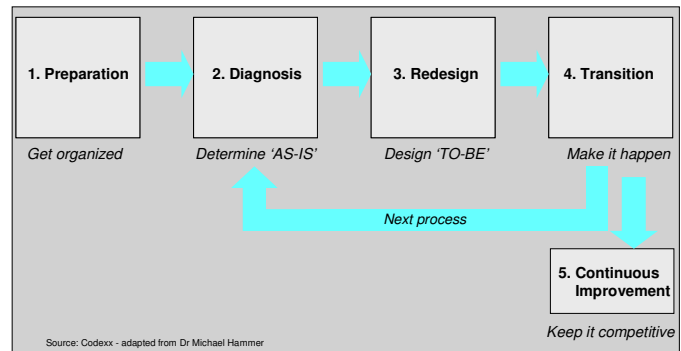


Figure 2: Re-engineering approach

Typically, success in the pilot re-engineering project has spawned interest in other parts of the firm for re-engineering and helped spread the experience across the firm's partners and associates.

Re-engineering in practice

If you have read this far, then you can probably see the potential for re-engineering in your own firm and so the question in your mind is 'How do we do it?'. Successful re-engineering requires the following critical success factors to be in place:

- A champion for change
- Buy-in from department/firm management (as appropriate)
- A structured approach to re-engineering
- Sufficient resources
- 'Stickability' to complete the project
- Ideally a remit to 'think the unthinkable'

You do not need to hire an external consultant to re-engineer, though it can be more effective to do so, as the consultant can bring a proven approach, knowledge of best practices and the ability to challenge. We use a five-phase approach for re-engineering, which is outlined diagrammatically in Figure 2. The **AS-IS** phase is important in sharing today's process and all its shortcomings. This will help in building a mandate for change. The **TO-BE** phase is all about designing the future process. Realising the TO-BE is down to a realistic **Transition Plan** that is well executed.

Final Thoughts

If your firm has not performed any serious, sustained re-engineering of its major business processes, then there is substantial cost being expended day-by-day, hour-by-hour, on client work and administration that could be converted to margin and also provide an improved client service. So what are you waiting for?

Continuous Improvement – why is it so rarely *continuous*?

Business innovation – make it systematic

How do you make your business one that is highly innovative over the long term? A Google, a Dyson or an Apple? An organisation where innovation is not simply the occasional 'flash in the pan', but where it is commonplace? Innovation is something that can be a paradox for many businesses. On the one hand, everyone knows what innovation looks like when an organisation is doing it well – a Harrier Jump Jet, a Dyson Vacuum Cleaner, Google Earth or even the online tax form... On the other hand few companies know how to make their business a place where innovation happens regularly. Or to put it another way – how to make innovation systematic and sustainable? Academic studies have shown that businesses that are repeatedly innovative share a common set of good practices, covering aspects such as Culture, Processes and Strategy – in other words an innovation *system* (Figure 3).

Case Study

As part of a benchmarking assessment of a major global manufacturer of engineered products, Codexx assessed the effectiveness of the Continuous Improvement effectiveness across 8 of their factories. Whilst overall this company exhibited world class practices, its CI system was not fully at Level 2 in Maturity (see Figure 4). The factories had developed very effective self-managing production teams over a number of years, which had great benefits in production ownership and responsiveness - but this autonomous team culture was not balanced by standardisation in working methods. This resulted in variation in working methods and ineffective Standard Operating Procedures in some areas and made it more difficult to 'lock in' improvements. In addition, the improvement goals of production teams were not well aligned with factory goals, so limiting the effectiveness of improvement efforts. Whilst participation in CI was generally high and being measured, it was clear that the results of CI activity could be greatly improved by a more systematic approach. The company is now improving its CI system by applying improved processes, better alignment of CI goals and improved standardisation of common working methods.

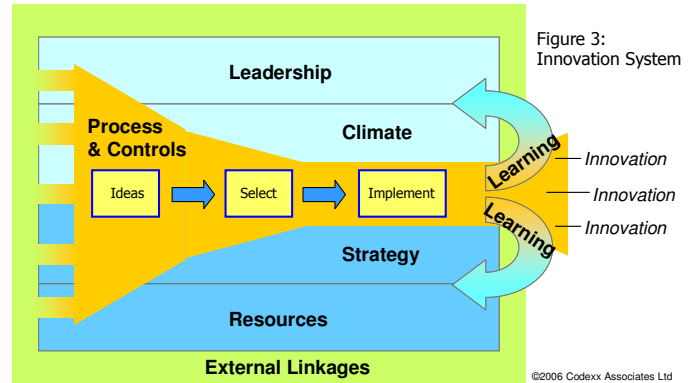


Figure 3: Innovation System

One effective approach to improving a firm's innovation effectiveness is to assess the state of their innovation system. To help organisations do this, Codexx developed the 'Foundations for Innovation' (F4i) assessment solution, working with Professor John Bessant at Imperial College, London. F4i scores an organisation's innovation system across 57 critical practice and performance areas.

"Many manufacturing companies in the UK and Europe operate CI at around Level 1.5 – they have a CI programme but it is not well established or effective."

Continuous Improvement

One key dimension of business innovation is Process Innovation, of which Continuous Improvement (CI) is an example. Toyota is an excellent example of a company that has focused on CI, epitomised by their Toyota Production System which drives CI or *kaizen* across their business. Their CI activities started after the Second World War when their desperate lack of resources forced them to develop innovative approaches to their production processes to best use their equipment and people and drive out waste. CI is now a critical practice for manufacturers world-wide as companies seek to maintain their competitiveness. CI is also being applied to services organisations as well, although this is much less commonplace.

Many businesses will claim to have CI in place and yet few truly do it well and achieve the potential benefits. Why is this? If we look at those companies that do indeed do CI well – such as Toyota - they have managed to embed CI in the culture of the business, supported it with effective methods and tools and directed it to address the key goals of the business. Companies who are able to do this are operating at a Level 4-5 in the CI Maturity Model shown in Figure 4. Yet, in our experience, many manufacturing companies in the UK and Europe operate CI at around Level 1.5 – they have a CI programme but it is not well established or effective. Professional services firms typically operate at a Level 1 – no CI system is in place at all. CI, as used to describe organized incremental improvement, has been going on in industry for about 50 years. Indeed the foundations of structured work analysis and design go back to Taylorism in the early 20th Century. But systematic CI was developed by Japanese manufacturers in the 1950s and 60s and first impacted Western manufacturers in the 1970s with approaches such as 'Quality Circles' and 'Kaizen'.

Figure 4: Continuous Improvement maturity

CI Maturity Model		
CI Level	Description	Key behaviour patterns
Level 1 Pre-CI	Interest in the concept has been triggered, but implementation is on an ad hoc basis	Random problem solving No formal improvement methods No understanding of CI as a process
Level 2 Structured CI	There is formal commitment to building a system which will develop CI across the organisation	Formal improvement initiative in place Use of structured problem solving Structured idea-management system Time provided for CI Good participation
Level 3 Goal Oriented CI	There is a commitment to linking CI behaviour, established at 'local' level to the wider strategic concerns of the organisation	All the above plus: CI focused on defined strategic goals CI is part of main business activities
Level 4 Proactive CI	There is an attempt to devolve autonomy and to empower individuals and groups to manage and direct their own processes	All the above plus: CI devolved to problem solving unit High levels of experimentation
Level 5 Full CI Capability	Approximates to a model 'learning organisation'	All the above plus: Widespread learning & experimentation Autonomous problem solving teams

So the benefits, methods and approach for CI are well documented. The barrier to effective CI is one of *diffusion*: embedding the known practices for CI in businesses. Referring to the Innovation System model in Figure 3, we find that the **key challenges** to achieving effective CI are typically in three key areas:

Climate

CI will not flourish without a supporting climate within the business (see "Creating a climate of innovation" in New Directions 10). This means that the work culture demands CI as part of normal working and provides support and recognition for it; there is a high level of employee participation in CI, effective team-working and openness to new ideas. Few European manufacturers can claim to have such a supportive climate. In most factories, CI is seen as an optional or occasional activity.

"The barrier to effective CI is primarily one of diffusion - of the known best practices for CI becoming embedded in businesses."



"Management at all levels has a key role to play in establishing a supportive climate for CI."

"So what's the problem? Put simply, it's that old chestnut: execution."

"There are now 14.9m registered users of SL, up 65% from mid 2007."

There is also the issue that the workforce might consider CI as a threat to their jobs. This is in contract to many Japanese companies. Toyota claims to have an average of 10 improvement ideas per employee implemented each year. In contrast, few UK firms would claim to have 1. However, there is a balance to be found between CI output and worker stress (Figure 5) – the death of one employee in Toyota Japan in 2002 was ruled as due to excessive overtime on improvement activities. The gulf in workforce culture with the west is illustrated by the fact that in Japan, there is actually a word for death from overwork — *karoshi*.

Leadership

Management at all levels has a key role to play in establishing a supportive climate for CI. They must demonstrate that CI is key in their day-to-day working: giving attention and recognition to CI activities, ensuring CI continues even when things

are busy. Supervisors and team leaders must address barriers to CI that exist, such as training, process variability, machine and parts issues - effective CI needs to have a good level of production stability. Leadership behaviour is key to sending the right signal to the organization that CI is important. Unfortunately, in too many organizations, management behaviour will signal that CI is 'flavour of the month' or not that important.

Direction & Strategy

Time for CI is always limited, so the business must ensure that CI activities are focused on the most important areas and that the projects selected will have the best combination of benefits and feasibility. This demands the effective communication and cascade of business, factory and production area goals down to the teams, so they know where they need to focus their improvement activities. Japanese companies are excellent at doing this using *Hoshin Kanri* otherwise known as 'Policy or Goal Deployment' – but this is rarely done with conviction in Western companies.

Making CI happen

Continuous Improvement can deliver major ongoing benefits to a business – the last twenty years has shown that. The required practices are well defined and known. So what's the problem? Put simply, it's that old chestnut: execution.

Second Life update

After all the hooah of last year when Second Life seemed to be in the press almost every week, 2008 has been very different with many commentators now questioning whether the virtual worlds phase is over. Codexx established its Second Life office in July 2007, so what has been our experience? Well, Second Life is proving to be a slow burn – just like the internet was in its early days (think 1994). We've had the classic media frenzy when something new comes along and is suddenly 'going to change the world' to an all-too-quick hangover the morning after, when cynicism replaces the initial over-enthusiasm. Second Life was massively over-hyped in 2006 and 2007 and many companies feeling the rush, jumped in with their own store/park/island. So what's happened since then? Well things have been moving on in SL and other virtual worlds – just more slowly than was initially expected. There are now 14.9m registered users of SL, up 65% from mid 2007. However many of those registered make little use of SL and a more relevant statistic is how many have been online in the last 60 days, which is typically about 1.5m or about 10% of the users. The overall feel of SL is one of a fascinating and beautiful but predominantly empty world, dotted with points of intense activity.

Recent Developments

Linden Labs, the organization which developed and host Second Life, launched The Second Life Grid last year. The Grid is a software platform to enable an organization to create a public or private space using the virtual world technology behind Second Life. This provides a virtual world solution akin to the extranet in the internet world – a place that uses the same technology but provides a private space. IBM created its own internal virtual world, 'Metaverse', for corporate meetings and collaboration in late 2007. On the 8th July 2008 IBM and Linden Lab announced that research teams from the two companies successfully teleported avatars from Second Life into another virtual world, marking the first time an avatar has moved from one virtual world to another. This was a critical achievement as it shows that interoperability between virtual worlds can be achieved. So what? Well, take yourself back to internet and imagine that you could not move between websites. Right? Another player to enter the fray was Google, who announced their 'Lively' virtual world in July 2008. This provides additional critical mass to the technology supporters for virtual worlds – which should hopefully bring additional functionality that will benefit all users.

Continuous Improvement and the stretch zone

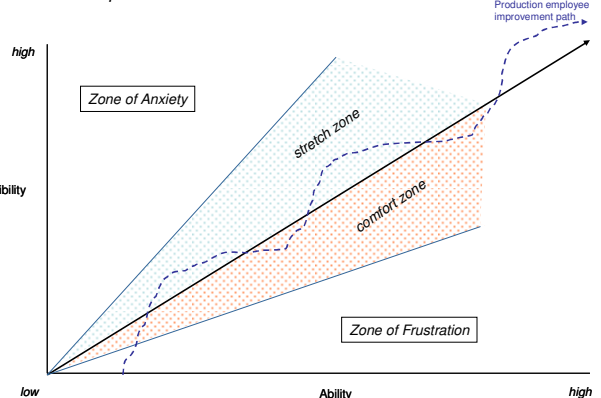


Figure 5: Developing personnel in CI Source: Mihaly Csikszentmihalyi, Cardiff Business School



Figure 6: Codexx Second Life seminar



Figure 7: Second Life meeting



Case Study

Field Fisher Waterhouse became the first major law firm to establish an office in Second Life in April 2007. David Naylor, the partner leading Second Life activities for the firm, said: "Second Life has been a positive experience for us. We generally have 10-15 visitors a day to our office. Our involvement in SL has generated enquiries regarding SL legal issues and contacts with other lawyers interested in establishing an SL presence. We have also had benefits in recruitment with potential hires seeing our SL activity as an indication of our firm's innovative approach." Naylor is president of the SL Bar Association, which has over 100 members and meets monthly in SL. The association has established professionally accredited education events running in SL, with typically 30-40 attendees. Naylor considers that SL has benefitted FFW's reputation. They have yet to utilise SL for regular in-house meetings. In his experience, there are some key challenges to getting more businesses into virtual worlds such as SL: 1. Some older people will struggle to understand what SL can offer over and above a telephone conference call or a webex - this is not the case with net-savvy younger people. 2. Many corporate firewalls currently block access to sites like SL. 3. SL's 'onboarding' experience - having to download the (free) software and then becoming familiar with the avatar - is not intuitive for all.

Our own experience

In our Codexx Second Life office we have hosted 10 seminars on business innovation, typically with 4-5 attendees. It has been a learning experience but has provided a useful opportunity for developing materials, learning from attendees and marketing. We have also run a number of consultations for companies – both 'Real Life' businesses and 'Second Life only' businesses. In our view, working in SL has three main benefits:

- 1. The ability to set-up and hold a meeting** involving people round the world, quickly and at no cost in an environment that can 'feel' like a normal workplace.
- 2. The ability to easily visualise objects, information, buildings or layouts** in an environment that others can view, walk through and try out without needing a CAD system or physical mock-up.
- 3. The ability to do 1 and 2 without leaving your desk.**

However, Second Life is not all rosy. The graphics are not up to the standard of the latest computer games; whilst you can hear and see other people (or at least their avatars), you don't get any facial feedback; and finally it does take time for new users to get familiar with the environment and controlling their avatar. New avatars distinguish themselves by walking into a lot of walls.... So SL is no substitute for face-to-face meeting, but neither is the phone and we have been using that for business for over a century. Despite these issues, the potential of virtual worlds for business is still major – particularly if we focus on just two elements: reducing travel costs and improving collaboration. With travel costs and time increasing and with businesses now looking to reduce their carbon footprint the opportunity to meet remotely is compelling. A meeting in Second Life provides voice communication, documents can be reviewed and equally importantly there is a feeling of 'presence' – of actually being in a meeting room with colleagues.

When you later think back to the meeting, you will recall the room, your colleagues and where they sat. This contextual information is critical in helping make the meeting experience more valuable. Maggie Blayney, Director of IBM's Global Web Strategy, said: "We do feel the beginning of a major transformation on how people are going to interact on the Web - going from a flat to an immersive experience."

We remain convinced that virtual worlds will be an important new platform on which businesses will operate. The consultants McKinsey & Company, said: "Our clients are telling us that they're not able to reach out to the video-game generation the way they have to newspaper audiences, say, and that they want to distinguish themselves in the digital space." (Source: Times Online 23-4-08).

So what's the message? Well, put away your preconceptions, then go and try.



Figure 8: Innovation meeting in Codexx SL office

News

Codexx certified for innovation training course

We are pleased to announce that Codexx has been certified to deliver the 'Innovation Skills' course developed by Dr Dave Francis at the Centre for Research in Innovation Management (CENTRIM) at the University of Brighton. This course provides participants with experience in applying a best practice approach to innovation, from idea generation, through developing, selection and implementing of new ideas for product, process and strategic innovation.

New study on Innovation in major UK law firms

Codexx has launched the 2008 study on 'Innovation Practices in major UK law firms' together with Professor John Bessant, head of Innovation Management at Tanaka Business School, Imperial College, London. This will build on the study run in 2006 with 16 of the top 75 UK law firms, with a more detailed examination of practices and challenges. Assessments are now being run with firms and the study will complete in early 2009. The results of the study will help inform law firms and other professional services firms as to best practice approaches for enabling effective innovation within their organisations.

Innovation drop-in clinics – in Second Life

If you would like an initial discussion on your innovation or improvement challenges, why not drop into our Second Life office for a chat? There's no charge and no need to leave your desk either. You also get the opportunity to try out the potential of Second Life for business. You'll need a Second Life account – go to www.secondlife.com. Our office is open for drop-in most Fridays from 10am-12pm at *Depo Business Park 160.190.36* or simply Search for Codexx and teleport.

Connect to Codexx

We hope you have found **new directions**: to be stimulating. Any feedback you would like to provide is welcome. If you would like further information on any of the topics discussed in this edition, email us at innovation@codexx.com



Codexx Associates Ltd

www.codexx.com

Tel: +44-(0)1794-324167

Codexx Second Life office:

Depo Business Park 160.190.36

3-4 Eastwood Court, Broadwater Road, Romsey, Hampshire, SO51 8JJ, United Kingdom

Company Reg. No. 04481932