

Understanding the Combined Role of Internal and External Factors in New Service Development Process within the Professional Knowledge Intensive Business Service Firms

Ph.D. Dissertation

Presented by Lina Petraityte

Alma Mater Studiorum – Università di Bologna
Dottorato di Ricerca in
PhD in General Management
Ciclo XXVI

Settore Conconsuale di afferenza:
13/B2 Organizzazione Aziendale
Settore Scientifico disciplinare:
SECS-B/08

Advisory Board:

prof. Cristina Boari,

prof. Chiara Orsingher

prof. Federico Munari

Cordinatore Dottorato:

Salvatore Torrisi

Esame finale 2014

March 14, 2014

TABLE OF CONTENTS

Acknowledgements	5
CHAPTER I. Introduction	7
1. General overview of the topic	7
2. Empirical setting	9
3. Methodology	11
4. Selection of cases	12
5. Data collection	15
6. Output of the research	16
References	18
CHAPTER II. Innovative Professionals. Phenomenon Created by Change	21
I. Innovative Lawyer's Phenomenon	21
II. Organisational Context Characteristics. Professional Services Firms	24
1. Partnerships as a form of governance	25
2. Selling knowledge of professionals	27
3. Lower impact of technology	28
III. UK Law Firms as a Choice of Context	29
IV. Changes in the PSF Environment	31
1. Economic change	31
2. Regulatory change	34
3. Some history of regulation of legal sector in UK	36
V. Liberalization Towards Innovation	38
VI. Concluding Remarks. Why PSF Innovation Is Important?	40
References	42

CHAPTER III. Innwave: Enhancing Exploration through Exploitation in PKIBS Innovation Process	46
I. Introduction	46
II. Theoretical background	48
1. Reaction to changing environment	48
2. Exploring by exploiting	50
3. Service innovation process in PSF	52
III. Methods	54
1. Research context	55
2. Data collection	56
3. Data Analysis	58
IV. Findings	60
1. Internal Factors PKIBS Innovation process	61
1.1. Internal captures	61
1.2. Internal pressures	66
2. External Factors PKIBS Innovation process	69
2.1. External captures	69
2.2. External pressures	75
V. Discussion and Conclusion	78
VI. Contributions. Managerial and Policy Implications	80
VII. Limitations and Future Directions	82
References	84
CHAPTER IV. Reinventing Corporate Entrepreneurship in PKIBS. Evidence of New Service Development from Large Law Firms	92
I. Introduction	92
II. Theoretical background	95

1. Corporate entrepreneurship	96
2. Innovation in professional service firms	98
3. Corporate entrepreneurship in professional service firms	102
III. Research Method	104
1. Data collection	105
2. Data analysis	106
IV. Findings	108
1. Partnership Model	112
2. Top Management Model	115
3. Corporate Partnership Model	119
V. Discussion and Conclusion	123
VI. Limitations and Further Directions	126
References	128
CHAPTER V. General conclusions: Innovation in knowledge intensive services: study of global law firms	133
Annex 1. Data Table	137
Annex 2. Sample Interview Protocol	138
Annex 3. Internal and External Factors Analysis	141
Annex 4. Internal and external factor analysis in exploitation and exploration activities	170

Acknowledgements

This Doctoral Dissertation as it is presented today is a result of a lot of thinking process, working, writing and discussing with many people who were participating at different times and places along this way and without participation of whom, this study could have not be as is it.

First of all I have to give my greatest gratitude to the professors of my Advisory Board: I am grateful for the valuable comments and contributions of professor Cristina Boari, who was always available, devoted so much of her time and effort into my work, who always found a good word and story of encouragement to go on; professor Chiara Orsingher, who provided immense practical help in data collection and in working with data, who from the very beginning had believed in the value of this work and, most of all, for the clear and logic thinking and comments that helped to solve some tough situations. I also have to thank professor Federico Munari for his comments and time spent in this process.

Overall, I have to give gratitude to the University of Bologna for the opportunity to get a taste of this world of academia and a feeling of being a little part of it. Above it all, I have to say thanks to the great academic community of the Faculty of Management for the great spirit of academic freedom and free thought, value of idea and individuality, which is a great encouragement for starting scientists. I also thank to my Ph.D. colleagues here in Bologna University, especially Anna, Elisa, Paula, Clio, Azzurra, and Ruslan for being great friends.

In addition I have to give distinct gratitude to prof. Laura Empson, the Director of the Centre for Professional Service at Cass Business School, City University, London, for the opportunity to spent very valuable visiting period in Cass. I also thank her greatly for her support, valuable comments and help in data collection. I give my gratitude to prof. Faiz Gallouj for provided literature and comments; I thank prof. Vangelis Soutaris, Santi Furnari, Daniel Muzio, Andre Spicer, Marius Leudicke and Ph.D. colleagues in Cass for their comments and discussions. I also have to give great thanks to the teams of professors in AIDEA Summer School for their great advises, materials, discussions and comments on the methodological aspects of my work. A very special thanks to prof. Hugh Willmott, prof. Emma Bell, and prof. Gazi Islam.

I have to give a credit for this work to all the law firms and their professionals that agreed to participate in this study. Definitely, without their cooperation this research would have never be possible! Thank you for your time and availability!

Most of all I thank to my husband Pavel, without whom this path would have never started and would have never concluded. I thank for his every day love and patience, for believing in me and giving all the support. I also would like to thank my parents, M.D. Vida Petraitiene and M.D. Sigitas Petraitis, who shared their advises and experiences of writing a dissertation, but most of all for their love, understanding and help. I thank to my sister Ausra and her family for bringing laughter and joy, for critical life views and cynical jokes that only me and my sister share.

As to any mistakes and inadequacies that may remain in this Doctoral Dissertation, the responsibility is entirely mine.

CHAPTER I. Introduction

“To improve is to change; to be perfect is to change often”

Winston Churchill

1. General overview of the topic

This Doctoral Dissertation has a main objective to contribute to the literature of professional service firms' innovation by in depth and from different perspectives analysing their new service development process and main internal and external factors that influence these processes.

For a number of years, we witness innovation to be one of the most important drivers for the economic development. The paradoxes of the most successful innovators have been subject to many researchers since seminal work of Schumpeter (1934). Starting from the post World War II, more and more Western economies depended on their service sales (Gallouj F., 2002, Nijssen et al., 2006). Already in 2000, 75% of the US employees were working in the service sector (Drejer I., 2004); around 70% are employed in services in most European countries today (Eurostat Report of Labour force survey, 2012). The growth of service sector was observed higher than expected, this led economists and politicians to agree that services has to be developed together with manufacturing. In academy, studying services became a concern of research in 1950s and 1960s (e.g. Stigler, 1956; Fuchs, 1965). Still, the vast majority of innovation research focuses on technological innovation within manufacturing industries. First studies on service innovation only occurred after seminal work of Barras of 1986, where he suggested a specific way to look at service innovation by using what he named a 'reverse product cycle' and to look at service firms as innovators at all. Normann (1991) analysed management of services and suggested some initial debate on service innovations patterns. His work on service management systems included service innovation as one of indisputable functions of services firms.

As services posed a new challenge for economic theory (F. Gallouj, 2002), the stream of research tried to understand how and why it is different from manufacturing. Synthesis approach stream of research applied integral theoretical view on service innovation. This stream of research argues that service innovations are part of innovation study framework (Miles, 2000, Preissl, 2000, Amara et al., 2009). The literature here states services have particularities that have been neglected by traditional research on technological product and process innovation in manufacturing industry, although general Schumpeterian framework does include services as well (Drejer, 2004). These kinds of studies are building on the innovation theoretical background, however, trying not to ignore specificities of services. For instance, Andersen, Metcalfe, Tether are showing why it is not acceptable to separate services and non-services innovators as a different categories and that services are a part of manufacturing innovation systems (Andersen, Metcalfe, Tether, 2000).

Miles (1993) was among the first to emphasize the need and importance of studying knowledge based economy and knowledge intensive business services (KIBS). The sector of knowledge intensive business services was observed to grow faster than their clients' companies (Miles, 1993). Professional service firms (PSF) by participating in the most important commercial transactions in the world (Lowendahl, 2005, Suddaby, Greenwood, Widerom, 2008) gained very significant role in private as well as public affairs of the countries. However, the phenomenon of innovative lawyer is even more recent. Evidently, the amount of debate about innovation in knowledge intensive business firms is constantly growing. Current wave of innovation has affected market for legal services, as more and more law firms include innovation on the lists of the values and claim to provide innovative services. While product innovation related aspects are widely discussed and described, some questions concerning service innovation stay rather a blurry area for scholars and practitioners.

In this research we followed synthesis approach by using theories that were previously mostly developed in product and non-specifically KIBS related innovation studies to understand more about the professional knowledge intensive services. In this way, we want to provide answers to the following questions:

- i. How the characteristics of professionals service firms allow them to successfully innovate in exploiting through exploring by combining internal and external factors of innovation and how these ambidextrous organisations perceive these factors?
- ii. How do successful innovators in professional service firms use corporate entrepreneurship models in their new service development processes?

2. Empirical setting

Complexity and diversity of services makes it difficult to accomplish convincing generalisations. This is one of the reasons much of the research in services is oriented on particular type of service firms and particular type of service innovation. However, certain similarities are shared by service sector and deeper understanding of innovation process in one type of firms can help to evaluate what are the main concepts and mechanisms of service innovation. Therefore, even if research is done in a specific service field, the knowledge obtained does extend our overall academic and practical understanding of service sector and service providing organisations. It also helps to understand why some successful service innovations, that are unprotected by any intellectual property rights, are still very difficult to imitate in the same kind of service firms (van der Aa, Elfring, 2002).

PSF are knowledge intensive business services that were going under drastic growth and changes in their environments in the last years. PSF are defined by certain differences from other types of organizations: different forms of governance and ownership structures, selling expert knowledge of their highly educated and trained human capital (Maister, 1993). Traditionally, however, professional knowledge intensive business firms (PKIBS) were not considered as innovators. Therefore, academic literature was involved in the debate of what constitutes services innovation. By creating new combinations of knowledge and data, creating new information, coming up with new ways and new solutions for new situations, they became important part of their clients' innovation as well as were forced to innovate themselves (den Hertog, 2000).

Following Miles (1993, 2000, 2003), van der Aa and Elfring (2000), and Oke (2010), this work considers service innovation by PKIBS to be any new (not new to the whole global industry, but new to the particular market) combination of knowledge (not necessarily all knowledge has to be new, it can be blended in a new manner) that creates value to the client with or without client's intervention in innovation development as well as elimination of old type of practice by replacing it by new. In this study, the terms professional knowledge intensive business service firm (PKIBS) and professional service firms (PSF) are used interchangeably.

The sector of PKIBS recently has been influenced by at least two environmental factors that forced them to change: financial crisis that started in 2007-2008 and regulatory changes in some countries, like the UK. Even before the financial crisis of 2008 and regulatory changes in service regulation, PKIBS was undergoing mergers, globalizing its activities (Empson, 2000, 2007). It is worth mentioning that the whole sector of KIBS, not only law firms, for quite a while was successfully growing without a need to be efficient. As a number of these firms was growing, the competitive pressures were increasing. Eventually in the last 3-4 years, the market for business services has changed and PKIBS were forced to adapt to survive and find more efficient ways in order to grow.

Academic literature on new service development processes is rather limited. In particular, empirical studies provide very limited evidence on KIBS innovative processes under the changing environment. Performed empirical studies are based on rather small or in some other way limited sample. PSF activities and better understanding of PFS firms, organization of their internal work and processes are beneficial for the whole PSF sector. Although the level of expertise and knowledge varies between the different kinds of PSF, e.g. management consultants are considered as having 'weaker' expertise knowledge than lawyers, so they have to construct different selling relations in order to reassure expert's status (Suddaby, Greenwood, Widerom, 2008). However, there are many common factors that are paramount for all kinds of KIBS and even other types of organizations that are involved in knowledge management and selling some kind of intangible goods (e.g. Fostenlokken et al., 2003). Therefore, this study adds to understanding innovating possibilities of all other organisations that are involved in daily activities related to

selling 'professional expertise'. We believe that better understanding of innovating in PKIBS can be also valuable to some services are very directly related to their material product and have little to nothing in common to traditional PSF activities. Bearing all this purpose in mind, in this Doctoral Dissertation we tried to look deeper into the innovation process of professional KIBS.

As for better understanding the dynamics of the organizations, we cannot ignore the context it operates in. Taking into account space and time considerations are definite characters for mapping any process (Pettigrew, 1992, Langley, 1999). Overall, we additionally took into consideration sector leadership, geographical conditions, current changes in the environment (regulatory and after-crisis caused changes). In this way we have chosen the empirical setting: international commercial law firms providing business-to-business services in London, UK. This setting allowed us to locate the framework that would be helpful in answering the main research questions of this Doctoral Dissertation.

3. Methodology

Qualitative analysis was chosen as the most fitting method after evaluating some initial aspects related to the planned study. First of all it was considered that qualitative method was previously suggested and confirmed to be the best suited to analyse a new phenomenon (Walsh, Bartunek, 2011). After careful analysis of previous literature and practical aspects of conducting the study, empirical comparative multiple case study of 10 international large law firms was performed. Inductive comparative multiple case study was performed in few stages. Initially, the timing and space of the firms were chosen. Large market leading UK law firms facing the environmental changes have proven to be well-suited context to answer the posted research questions.

Thereafter, theoretical sampling of the firms was conducted in accordance to the procedure described below (Yin, 2003). Out of the 20 firms that were preselected based on prior to contacting firms established criteria. Some law firms, however, said they had no innovation process. Some firms dropped out or were excluded from the study, because of limited availability or too narrow data sharing. 6 agreed to

participate in the study. Additional 6 matching the criteria law firms were contacted and 4 of them agreed to participate in the study. Therefore, eventually 10 law firms were participating in a multiple case study. Each case was analysed separately and then the repeating patterns were searched for (Eisenhardt, Graebner, 2007). Iterative processes with literature and comparing between the cases, allowed looking in depth into the main factors influencing PKIBS innovation processes (Yin, 2003).

4. Selection of cases

Following the performed screening procedure professional knowledge intensive service firms, in particular large international law firms, operating in London, United Kingdom, has been selected. The screening procedure involved the following steps performed on the internet: firstly, the websites of solicitors in London was analysed (there were pre-selected law firms that have similar number of partners, the similar organizational structure, professionals and offices outside of the UK); secondly, the law firm directories (LexMundi, Find-a-lawyer, IBA) for commercial legal services providing law firms was used to cross-check information; and finally, following the Financial Times nomination of Innovative Lawyer 2011, the websites of preselected law firms, and other internet sources (like public media sites, e.g. Law Practice), UK law firms that were identified as innovative were chosen.

Last, but not least, the law firms were contacted to request their participation in the case studies by providing interviews and access to written documentation.

The key cases' selection criteria were the following:

- *Access to the documentation and key informants.* As the case study is based on the analysis of the data collected, the first condition for choosing the case is an access to the internal documents and possibilities to perform interviews with the persons – key informants - that are responsible or directly involved in innovation processes at the law firm.
- *Commercial legal services provision.* Commercial legal services are changing faster than, for instance, legal services in the fields of human rights or criminal cases. There are few reasons for that. First, business environments are more dynamic and clients act in competitive changing

markets that require lawyers to adapt to it. Also, national and international regulation of commercial activity changes depending on the economic changes. Therefore, lawyers, providing consultations to rapidly changing business environments are also forced to change, to offer something new and be able to attract innovative clients. Traditional small professional services firms tend to be less innovative or at least are not emphasizing innovation as their strategic differentiator or principle of activity. Traditional law firms are emphasizing 'years of activity, trust and traditions'. While large international law firms that intend to grow further and are competing for big multinational clients, place innovation as one of their main principles of activity.

- *Self-reported or/and announced by public media as innovative law firm.* The case study does not have a goal to present widely statistically generalisable results. Therefore, representative sample requirements were not applicable here (Yin, 2003). The main research questions are related to understanding the main factors, influencing the process of organizing for innovation, not answering if law firms are innovating. For this purpose, the firms that were contacted had claimed having innovative activity themselves or were recognized as being innovative by professional media sources. Therefore, one of the selection criteria allows self-reported innovative law firms, since innovation process are expected to be present in the law firms that declare to be innovative and agree to participate in the study.
- *Large international law firm.* Previously, most product and manufacturing related research as well as product related service innovation academic work had been conducted in small and medium enterprises (SMEs). However, in this particular sector of services – professional service firms, differently from technology based knowledge intensive services, innovative process is a continuous activity where the output is not granting any monopoly rights. Therefore, long-term continuous improvement strategy is required in order to be seen as innovative (Brown, Eisenhardt, 1997, Kandampully, 2002, Sundbo, 1997). Here, innovative capabilities are usually a 'privilege' of big service firms that are acting in different

markets and therefore have more possibilities to introduce new areas of practice and new service products across these different markets. Large PKIBS are also able to invest in the most talented personnel keeping it, as well as to hire outside experts and professional managers. Lowendahl (2007) differentiates between the three types of PSF: individually based firm; the 'professional bureaucracy'; and the expert firm delivering unique solutions to complex problems. Only one type of PSF, according to the latter study, is considered to have ability to innovate that is defined by its form of management, enhanced environment (by choosing clients and jobs, selecting specific kind of professionals). This firm with capability to innovate is either an expert firm or a mixture between the professional bureaucracy and expert firm. Therefore, it is more likely to be a large firm. 'Being large' is also relative since comparing it in overall organizational picture these firms are still rather small or medium, but they are large, when comparing to individually based firms. Size also matters when KIBS are within the centre of different knowledge flows (Amara et al. 2009) and can participate as knowledge-transferor on international level (Wood, 2006). Moreover, after getting more familiar with legal service market, it was revealed that large firms do have more conscious initiative to innovate; while small innovative law firms tend to be rather exception than a rule.

In addition, the necessary criteria was that firms would be interested to participate in the study. Some firms (even the big ones) replied that they had no new service development processes or in general were thinking that law firms aren't innovators. Many small and medium law firms that were contacted did not reply to the inquiries. Eventually one small law firm (that was known in the UK market, but was not a UK firm) was included in the study. We believe this was helpful to extend our findings and suggest that similar processes are going on in other countries and in some small law firms that see innovation as possibility to grow and compete more effectively. It also allows to open a new dialog for future research directions into the innovation process and capabilities of small KIBS.

5. Data collection

Data collection took more than 8 months in 2012 and 2013. Please see the data table in Annex 1. The main data collected entailed semi structured interviews with partners (16), business development and other titles managers (16) - 7 of them where trained and worked as lawyers before moving to management roles in the law firms, while others had no legal training: also different level associates (11), trainees (2) and lawyers consultants (3) were interviewed. The advantage of interviewing persons at the different levels of hierarchical structure of organization as one of the ways to mitigate informant bias was used (Eisenhardt, Graebner, 2007). Additionally, 2 interviews were performed with experts – people that do not work in law firms, but did law firm innovation consulting and/or evaluation. Overall 50 interviews in 10 law firms were performed. 29 of interviewers were males, 21 were females. Interviews took from 45 to 75 minutes. All the interviews were started by open-ended questions and then the follow-up questions asked by the interviewer (Walsh, Bartunek, 2011). Please see the Interview protocol in Annex 2. To identify the key informants, it was asked for interviews with people that are explicitly and formally involved in innovation process in the studied organisations (ibid.).

Six law firms provided with 375 pages of internal innovation-related documents. Mostly, the internal documents were indicated as being confidential. Therefore, they were read and analysed in the offices of the relevant law firm. Internal documents were very useful to understand the level of conscious effort in new service development, participants in the processes, and the processes of innovation. Internal documents also revealed a lot about firm's perception about innovation and its innovative initiatives and outputs.

Additionally over 800 pages of external - publicly available sources - data was collected and analysed as for the purpose of triangulation of the arguments. Media reports, professional organisations' press releases, internet sites of law firms' directories, clients' comments in the public sources, any other not by the studied law firm created documents were reviewed as external documents. Since the phenomenon analysed is very recent, new external documents were continuously appearing during the study.

6. Output of the research

The Doctoral Dissertation is composed of five chapters: the first chapter consists of this introductory explanations and remarks, the second part is devoted to present and explain rationale for this research project, chapters III and IV introduce two empirical papers, and the final part lays out the general conclusions.

Chapter II explains more in detail rationale for this research project. It lays out the economic and regulatory change that affected the market of the business-to-business legal services. It shows why innovative lawyer is a new and interesting phenomenon. In addition, in this chapter we describe more in detail how the empirical setting choice was made and why it is important for the research questions of this work. The title of the chapter presents the main idea of the main points why the qualitative study performed about international law firms: first, the innovation is a recent phenomenon that has become a strategy to stand-out and compete; law firms are looking for new ways to find clients, to meet the new demands of their old clients and adapt to the new and even more competitive environment. There were two main factors that are expected to influence change in law firms' behaviours – economic change and liberalisation of UK legal service market. We also provide a short overview of previous regulatory changes in the UK.

In chapter III, the empirical paper analyses how innovative law firms explore through exploitation. The paper is called *Innowave: Enhancing Exploration through Exploitation in PKIBS Innovation*. In order to draw the conclusions, 10 cases were studied each separately and then compared among them. The set of innovation influencing factors were predetermined by analysing previous service innovation literature. We added and specified internal and external factors through iteration with the literature. Then when analysing PSF innovation processes and how they are combining internal and external factors, we propose how these firms become ambidextrous in turbulent environment. By suggesting new type of ambidexterity we offer a new insights of ambidextrous organisations and innovation of PKIBS.

In chapter IV, another empirical paper is presented. This paper is called Reinventing Corporate Entrepreneurship in PKIBS. Evidence of New Service Development from Big Law Firms. In this paper by building on corporate entrepreneurship literature and new service development literature, we suggest a three step process of service innovation. By visually mapping 3 types of new service development in the law firms, we suggest how law firms can use corporate entrepreneurship to enhance innovation.

Finally, in the final chapter we conclude by the overview of all the study performed and present general conclusions and limitations of the entire research project; list some directions for the further research.

References:

Amara N. 2009. Landry R., Doloreux D., Patterns of Innovation in knowledge - intensive business services, *The Service Industries Journal*, 29:4, 407-430;

Andersen B., Metcalfe J.S., Tether B. 2000. Distributed Innovation Systems and Instituted Economies Processes in Innovation Systems, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I. (2000), Kluwer Academic Publisher;

van der Aa, Elfring T. 2002. Realizing Innovation in Services, *Scandinavian Journal of Management*, 18, 155-171;

Barras R. 1986. Toward a Theory of Innovation in Services, *Research Policy* 15, 161-173;

Brown S. L., Eisenhardt K. M. 1997. The Art of Continuous Change: Linking Complexity Theory and Time-Paced Evolution in Relentlessly Shifting Organizations, *Administrative Science Quarterly*, Vol. 42, No. 1, pp. 1-34;

Drejer I. 2004. Identifying Innovation in Surveys of Services: a Schumpeterian Perspective, *Research Policy* 33, 551-562;

Eisenhardt K. M., Graebner M. E. 2007. Theory Building from Cases: Opportunities and challenges, *The Academy of Management Journal*, vol. 50, no. 1, 25-32;

Empson L. 2000. Merging Professional Service Firms, *Business Strategy Review*, vol. 11-2, 39-46;

Empson L. 2007. *Managing the Modern Law Firm*, Oxford University Press, New York;

Empson L. 2010. Beyond Dichotomies: A multi-stage model of governance in professional service firms, Working paper;

Fostenlokken S. M., Lowendahl B. R., Revang O. 2003. Knowledge Development through Client Interaction: A Comparative Study; *Organisation Studies*, 24 (6), 859 - 879;

Gallouj F. 2002 Interaction Innovation: a Neoshumpeterian Model, in Sundbo J., Guglsang L., *Innovation as Strategy Reflexivity*, Routhledge, 29-56;

Den Hertog P. 2000. Knowledge-Intensive Business Services as Co-producers of Innovation, *International Journal of Innovation Management*, Vol. 4, No. 4, 491-528;

Kandampully J. 2002. Innovation as the Core Competency of a Service Organisation: the Role of Technology, Knowledge and Networks, *European Journal of Innovation Management*, vol. 5, No. 1, 18-26;

- Langley A. 1999. Strategies for Theorizing from Process Data; *Academy of Management Review*, Vol. 4, 691-710;
- Løwendahl B.R. 2007. The strategies and management of Professional Service Firms, *Service Forum*, Tampere, Finland;
- Maister D.H. 1993. *Managing the Professional Service Firms*, Free Press Paperbacks, New York;
- Miles I. 1993. Services in the new industrial economy, *Futures* Volume 25, Issue 6, Special Issue The Future of Industrialization, July–August: Pages 653–672;
- Miles I. 2000. Services Innovation: Coming of Age in the Knowledge-Based Economy, *International Journal of Innovation Management.*, Vol. 4, 371:
- Miles I. 2003. Services and the Knowledge Based Economy in Tidd J. and Hull F. M., *Service Innovation. Organisational Responses to Technological Opportunities and Market Imperatives*, Chapter 4;
- Nijssen E.J. 2006. Hillebrand B., Vermeulen P.A.M., Kemp R.G.M., Exploring Product and Service Innovation Similarities and Differences, *International Journal of Research in Marketing* 23, 241-251;
- Normann R. 1991. *Service Management: Strategy and Leadership in Service Business*, 2nd Ed., Chichester, Wiley & Sons;
- Oke A. 2001. Making it Happen: How to Improve Innovative Capability in a Service Company; *Journal of Change Management*, 2:3, 272-281;
- Pettigrew A. M. 1992. The character and significance of strategy process research. *Strategic management journal*, 13(S2), 5-16.
- Preissl B. 2000. Service Innovation: What Makes It Different? Empirical Evidence from Germany, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I., (2000) Kluwer Academic Publisher;
- Schumpeter J. 1934. *Capitalism, Socialism and Democracy*, Harper and Row; New York;
- Suddaby, R., Greenwood, R. and Wilderom, C. 2008, Introduction to the Journal of Organizational Behavior's special issue on professional service firms: where organization theory and organizational behavior might meet. *Journal of Organizational Behavior*, 29: 989–994. doi: 10.1002/job.552;
- Sundbo J. 1997. Management of Innovation in Services, *The Services Industries Journal*, Vol. 17, No. 3, July, pp. 432-455;
- Wood P., 2006. The Regional Significance of Knowledge-Intensive Services in Europe, *Innovation: The European Journal of Social Science Research*, 19:1, 51-66;
- Walsh I.J., Bartunek J.M. 2011. Cheating the fates: Organisational Foundings in the Wake of Demise, *Academy of Management*, vol. 54 no. 5, 1017-1044;

Yin R.K. 2003. Case Study Research Design and Methods, 3rd Edition, Sage, London, UK.

CHAPTER II. Innovative Professionals. Phenomenon Created by Change

I. Innovative Lawyer's Phenomenon

Law is one of the most traditional professions everywhere around the world. It is associated with black suits and long working hours and not with exciting creative brainstorming activity. Despite of this gloomy image, the number of students entering law schools is not decreasing (Empson, 2007). Quite contrary, the new programs for bringing new type of lawyers and making legal profession stronger are being established – like law and technology or leadership for lawyers. Demand for new generation of lawyers seems to be growing. Another signal that something has changed is that the websites of law firms start suggesting *innovative solutions*, *innovative thinking*, *offering clients new ways* as their main core capabilities as to previously preferred ‘tradition’, ‘reliable’, ‘experienced’. Although traditionally all professional service firms (PSF), like accountants, lawyers, investment bankers and management consultants were not considered to be equipped as a platform for innovation, google.com posts 3.940.000 results for keywords ‘*innovative solution law firm*’ and 38 millions results for ‘*innovative lawyer*’. In particular this labelling was attached to lawyers, as being very old and very tradition preserving profession. The recent phenomenon of ‘innovative lawyer’ received quite an attention in these last years. In 2013 it has been only 7 years since Financial Times have started Most Innovative Lawyers’ awards. Despite of possible critics of Financial Times applied methodology, it is the only innovativeness of lawyers evaluating entity. It seems that lawyers’ interests in becoming more innovative and to be seen as innovative is growing. In addition, the market for legal services has changed as well. As Financial Times’ editor Lione Barber in Innovative Lawyers issue of 2013 says:

‘This year, we received entries from 140 law firms, against an average of 100 over the past three years. The nature of the submissions reflects the pace of change in the profession. There is a greater understanding and awareness of innovation that is striking. Firms are increasingly willing to embrace change; in-house counsel have come of age, new players have entered the market and are here to stay.’

Law firms say they are following some sort of ‘Mexican wave’ (when one person does something and the next to him does the same – usually used to support sports team when one stands up and raise hands and the rest follow creating the ‘wave’). As the phenomenon is rather recent, timing dimension allowed to analyse and understand how the current changes – economic and legal - were perceived by the participants of legal services market and how it influences their decision to innovate using one or other procedure. Still, even the term innovating is not acceptable for some professionals. Being creative in their daily job is considered as part of the job and Professionals are expected to have ability to innovate as part of their training (Sundbo, 1997). Therefore, the term ‘law firm innovation’ the firms themselves mostly use for other than new legal service. The firms consider that legal innovation, as a new solution for client’s problem, was always present as a main legal service market differentiator and value for the client. On the other hand, the firms try harder now to communicate the legal innovations that they do.

Traditionally though, professions were not considered to be innovative. Even more, professionals themselves are expressing more ‘tradition preserving and traditional value protection’ as being opposite to being innovative. Some of the firms, however, are trying to sit on both chairs at the same time during this transitional period: i.e. use their reputation, but be innovative as well (Suddaby, 2008). In any case, much scepticism is being expressed by the public debate; e.g. see “Beware of Innovative Lawyer” author A. Aldridge is sharing his impressions of Innovative Lawyers’ Awards ceremony of 2011:

‘...it slowly dawned on me that most of the innovation I’d spent the last five hours being bombarded with wasn’t innovation at all, but simply lawyers doing their jobs. The “innovation in corporate law” award, for example, went to two law firms which acted on a merger, and the “innovation in dispute resolution” prize was given to a firm that won a case.’

Nevertheless, law firms communicate in different ways that they do innovate and they use innovation as one of their priority strategies to differentiate themselves in an increasingly competitive environment (Sundbo, 1997). On the other hand, there should be no surprise that comments that are considering law firm innovation ‘not new enough’ are occurring. Due to a very specific nature of professional service

innovation and its differences from product innovation, new services are not evident to people that are not involved in this type of business as service provider or as a client. We are more convinced by the tangible new products than are willing to accept a new type of transaction that was made for a particular client as a new type of service. Intangibility of the service and interactivity with the client are often named as main two features differentiating services product from product innovation (Miles, 2008).

Researchers agree that comparing new product development and new service development is not enough for understanding services (van der Aa, Efring, 2002). Comparing allows seeing differences but does not explain how new services are developed or what conditions allow enhancing new service development. Service innovation specific features revealed by previous literature are: respectively higher involvement of people and clients in the process of service provision, sustainable competence of service firms to continuously innovate (Kandampully, 2002), incremental rather than radical innovation (Sundbo, 1997), new combinations of different kinds of knowledge (Larsen, 2000, den Hertog, 2000), lower dependence on machinery and technology in certain fields of services (Miles, 1995). In addition, certain characteristics, like intangibility, often lack of technological dimension, and incremental nature makes it impossible to have any legal protection of intellectual property rights (Hipp, Grupp, 2005). It makes service innovation a continuous and even more competitive environment. The rent from the investment in service innovative activity has to be captured by other means than monopolist's pricing. Therefore, being able to charge higher price for the service or gaining reputation in the market by becoming more attractive to multinational clients can be main motivators for innovation (Wood, 2006).

This research project on PKIBS innovation offers a closer and deeper look at the new service development processes in the particular type of PSF – law firms. The context of the study was chosen quite accurately in order to fill in the gap in understanding innovative processes in professional organizations and to be able to suggest contributions for further development of this stream of research in PSF innovation, as well as to give insights for the partners, managers and professionals. Certainly, one of the challenges in studying processes is that they are not static. Processes are fluid and

are shaped by many historical developments and on-going environmental changes that influence organizations on multiple levels that add complexity to process analysis (Langley, 1999). Bearing in mind all these aspects and taking into account the fact that space and time considerations were emphasized also by the actors of the study, this Chapter is devoted to presentation and explanation of the main context-related considerations of this research. In the next part we describe some essential particularities of PSF that are important in explaining our findings; then we explain our choice of the empirical context for this study; after we go into discussing the main changes that affected PSF environment in our selected context; finally, we conclude by describing why we suggest this research has importance.

II. Organisational Context Characteristics - Professional Services Firms

Professional services firms (PFS) are type of organisations that are characterised by high-level human capital and specific forms of governance (Empson, 2010). In addition, professional service firms have lower dependency on technology; they are users of technology, not creators of technology (Miles, 2000; 2008). Professional service firms, depending on their size, which can vary from one professional to thousands of professionals working under one name in organization, vary a lot in their management cultures. Large PSF usually organize their activities working in the groups of practice areas (Anand et al., 2007). Each group could be viewed as a separate organisation within an organisation as it has its own management structure, field of activity, culture and teams of professionals.

Professions are mostly self-regulated by their own regulatory bodies. Self-disciplinary body supervise that the professional ethical standards are followed and is entitled to take action against individual or the whole firm in case they are not. Becoming a full member of certain group of professionals entails fulfilling certain educational and practice apprenticeship requirements. Traditionally, these measures allowed controlling the number of professionals and assure quality standards for their services. The ability to enter protected market where only certain professionals are considered as having a right to provide certain type of services could be seen as a trade-off for the requirements applied. On the one hand professionals manage themselves and are defined by quite high levels of autonomy and low hierarchies. On the other hand, professionals and in particular lawyers have gained reputation as being highly

opinionated and having high feeling of self-worth, therefore, difficult to work with and even harder to work for (Empson, 2007). It has been considered that certain type of personalities chose professional carrier paths: more risk averse, less entrepreneurial and preferring individualistic work, also routine-haters, seeking for new tasks and challenges even to neurotic levels (Maister, 1993).

Below, we introduce certain characteristics of PSF that are important in our empirical study: partnership as a form of governance, selling knowledge of professionals, and lower impact of technology in the daily activities.

1. Partnerships as a form of governance

Many of PSF are organized as partnerships. Even though number of partnerships was decreasing in some types of PSF, still, many law firms are organized as partnerships (Empson, 2007). It has been debated whether partnerships are the best form of organization for professionals. Depending on liability, right to profit and participation, there can be different types of partnership agreements. Lawyers are thought to look quite emotionally to partnerships and this particular form of governance allows decreasing certain tensions within the firms (ibid.). Most firms traditionally use 'partnership track' as motivational and carrier opportunities structure. Currently, becoming partner ladder is changing, as entrepreneurship is becoming a first on the list of the qualities required to make a carrier in PSF. Additionally, new carrier paths and incentive systems were reported in changing law firms (Smets et al., 2012).

However, the main structure and principles are grouped around partners-led teams of senior and junior professionals. Evidently, the level of emotional attachment of partners can be argued to be different in firms that have 400 partners, than in 5 partners' firms. Still, it is possible that certain emotional as well as practical aspects of partnerships make them work as the best possible governance structure for PSF (Empson, 2007). Each partner is responsible for a certain field of services and is leading a particular team (Anand et al., 2007). On the firm level, however, there is typically some form of board or managing committee or meeting of senior partners (depending on the type of partnership) that is responsible for firm management as one organisation and setting its main strategy. Mostly, partners are owners of the firms as well. Therefore, partners are wearing at least two, but usually

three hats: owner, manager, and a lawyer providing legal services (Maister, 1993). Some believe that partnerships are not shaped for any good management practices, as consultant Wade Robinson expresses his thoughts:

'Commitment to autonomy means lack of commitment to management decisions. Partners may join in formulating a strategy or making a decision, or they may sit at the meeting and say nothing. They may even vote in favour. But the implementation of the decision is usually in the hands of the partners, and if they have no real commitment to it, they will ignore it when they leave the room, or even actively undermine it.'

And it is true that three different hats potentially create tensions for partners at individual level, may cumbersome decision-making process at firm level and as a result could complicate law firm management. Therefore, as professional service firms become bigger, they also tend to hire teams of management and introduce a set of rules and procedures that the management has to implement (Empson, 2010). This is considered as becoming 'more like other business' or 'more corporate'. Conversely, latter governance model creates another tensions for PSF, i.e. between professionals and managers. For instance, it is argued that lawyers are arrogant enough to look down to any other type of manager who has no legal education and has not been practicing law before (Empson, 2007).

In addition to being rather traditional profession, the governance structure of law firm is not easy to change, as often by its nature it is not long-term strategy oriented. In most partnerships partners are not leaving their shares for their families in this business. It is over when it is over: you leave the firm; you are out of the business. In many occasions it can cause short term strategy prioritizing in partnerships. It could also be one of the reasons the change did not happen for quite a while; as partner might think that for his term it will work and what happens after, it is not their concern anymore.

Even though partnerships are still the main form of PSF, it has a tendency to change. While previously partnership was known as the only form of organization between the representatives of formally accredited professionals, today, professional services firms became large international organizations and some of them are moving away from pure partnerships and are becoming complex corporate governance structures (Empson, Chapman, 2006). Looking from a historical perspective, law firms were

more individual practices. Thereafter, they grew into big complicated international partnership structures and currently, after the new regulatory changes in a number of countries, they have also legal possibilities to become full or very close to full corporate structures. However, because of their sizes and high levels of internationalization, large firms are already more corporate structures with elements of partnerships than pure partnerships. This in its turn has increased difficulty of management of such firms as well as raised new challenges for their performance in a global and demanding competitive environment (Empson, 2000, 2010).

2. Selling knowledge of professionals

Constant internal pressures in PSF are created by managing activities of highly independent professionals and constantly increasing clients' demands (Maister, 1993). PSF are selling expertise knowledge, which is intangible and often it is tailored fit. Law firms in this study sell commercial legal advice and business transaction consultations that are often requested by the client before the service is provided. Currently, the phenomenon of innovative lawyer revealed that law firms try to be more proactive than reactive in their client search. However, for a client it is difficult to judge about the service; they have to rely on the general reputation of service provider or previous individual experience. For these reasons service providers are highly affected by asymmetric information in their commercial activity (following theories developed by Akerlof, 1970, Arrow, 1962). Therefore, legal service market is highly competitive. As communication of the quality of the services is difficult and sometimes legally restricted (i.e. restrictions to advertise, confidentiality of clients and their affairs), many factors need to be balanced to get right amount of client attention from the right clients. Current changes in environment introduced new players into the legal services market and in this way created even more competitive pressures for service firms. Large law firms, however, rely on the future demand for the high quality services. They base it on the reputation that they have built over the years.

Nevertheless, the public media is giving a lot of doubt for the future of Big Law. Currently, the General Council office in the US reported on the survey results, in which clients indicate that they are looking for cheaper, instead of AmLaw 20 (the biggest and most prestigious US firms) or Magic Circle (the biggest and most prestigious UK firms) level firms. Even if it is widely agreed that big law firms

overbill their clients; the clients that had bad experience with cheap lawyers or saving money on legal consultations before, say 'nothing is more expensive than a cheap lawyer'. Therefore, big law firms, having reputations of being able to provide steady quality services are charging not only for legal services but for insurance that client got the best possible legal advice.

Overall, in order to be able to sell knowledge, there are at least two aspects that are very important for the firms: highly qualified professionals with high level of expertise and reputation of the firm (Empson, 2010; Suddaby, 2008). Therefore, law firms are constantly competing among themselves at least in two markets: market of talents and market of clients (Maister, 1993). Definitely, in this type of organisation, talents are very important for organisation success on individual level of each professional and leadership of partners-managers. Knowledge intensive service firms are characterised by heavy reliance on professional knowledge or, to be more precise, on the knowledge of their professionals (Muller, Doloreaux, 2009). Previously popular 'up-or-out' talent management techniques are changing to 'become entrepreneurial lawyer' or 'innovate-or-out' policies. While one could argue that people chose carrier of professionals exactly to avoid being entrepreneurial, internal competition with the firms and among the firms currently became based of how entrepreneurial their professionals and leaders are.

3. Lower impact of technology

Miles (2000) identified knowledge intensive business services as belonging to one of these groups: P-KIBS - traditional professional services and T-KIBS - new-technology based services. PKIBS or PFS are providing services related to solving social, physical and psycho-biological systems, while most of them are technology users, only some of professional services have high technical dimension (Metcalf, Miles, 2000). TKIBS services are directly related to new technologies' development, i.e. successful new TKIB could be based on innovation of some one new technology or technological solution. PKIBS are type of knowledge intensive organizations that use technology in their activities (ibid.). Even though technology has become more and more important and allowed number of innovative solutions in PSF daily activities, they are still not technology based or technology developing organizations.

Law firms do use technologies and innovate on the basis of one or other technology that becomes available or is used in a different manner to make legal service delivery more efficient or become easier accessible and cheaper. Already for a while, the technologies' standard bar has been risen for the professional services and some predictions that technology will play definitive role in law firm and client communication came truth to some extent (Susskind, 1996). Document management, knowledge management, client relationship systems, online services for clients, diverse technologies helping generate contracts and litigation-assisting tools are today within basic technologies that leaders law firms use. Technologies are becoming more and more present in legal services business: for example in September 2013 a new application for iPhone and iPad for contract drafting was announced. Some lawyers are getting more and more concerned that their work is being replaced by technology solutions (read more on http://blogs.findlaw.com/technologist/2013/09/we-lawyers-just-got-replaced-by-a-contract-drafting-app.html?goback=.gde_117520_member_5791950393831346177#!). On the other hand, it is hard to deny that even after all the threats to PKIBS business it is still there and growing. After the regulatory change, new entrants are booming the markets of legal services with big investments and new technologies. Although the biggest and most important commercial transactions are still being trusted to having highest levels of expertise experienced lawyers as intellectual input of lawyers cannot be replaced by the smartest technology. Not yet at least.

III. UK Law Firms as a Context

One of the reasons for choosing UK law firms for this research was the fact that the regulatory framework for legal services provision was changing. The UK Legal Act, allowing Alternative Business Structures (ABS) to provide legal services, came into force in October 2011. This new regime has influenced the context and presented new challenges and possibilities to the PSF acting in this particular context. Secondly, UK and US law firms (that had had their initial offices in the UK or US and then spread their activities globally) and their internal procedures as advanced models are followed by the professional practitioners in other countries. So, other countries' professionals perceive UK and US law firms as global market leaders. It has to be mentioned that the UK regulatory changes created conditions for legal service market

to be constantly changing (please see short description of UK regulation of legal profession below). Third reason is that many global law firms, operating worldwide have their offices in London as well. In this way, we could tackle two characteristics of law firms in our sample: providing services internationally, but also acting in the UK, where the regulatory change happened. Law firms define their market as global and not as UK or US only. In addition, firms themselves try to communicate a *same level firm* globally than claim any hierarchy among their offices in different countries. One firm level meaning that they claim to be one firm in many offices, instead of claiming to have one central or main office and other offices as being subordinated by this one. This type of behaviour was also shaped by financial crisis of 2008, when the main business services provision centre shifted away from traditional business capitals. In addition, previous literature emphasizes size and *being international* as positively associated with innovativeness of PKIBS (Lowendahl, 2005, Amara et al. 2009, Wood, 2006). Fourthly, lawyer is considered to be a very traditional profession. Therefore, change is more challenging in legal environment and dominant logic of the market are stronger perceived on various levels: individual, organizational, as well as in the public debate (Baden-Fuller, 1995, Berghman et al., 2012). It makes the phenomenon much more interesting. Finally, the majority of previous innovation studies have been concluded on technology related small or medium firms that are building their activities on innovations. As already mentioned law firms use technology a lot for innovating in many respects. In some cases legal service provision in terms of its delivery is based on technology, like for example, virtual law firms. However, previous literature argues that technology aspect is quite irrelevant for PKIBS innovation in terms that it is still not possible to build new successful businesses on the basis of sole technology innovation (Miles et al. 1995). Innovation in PKIBS is defined by new combinations of knowledge, data and information, close interaction with a client, project based activities that are often tailored fit, often confidential, have no IP rights protection and are of rather incremental nature. Technology is an aspect to innovation here, but it is not enough to be able to innovate. Therefore, it is also not clear enough what level of technological impact these firms have. Considering all of the above-stated contradictions, this study looks at the law firm innovation processes in the UK as a good representation of PSF in mostly advanced context.

IV. Changes in the PSF Environment

There were two major changes in law firms' environment in the UK that caused law firms to rethink their strategies. One change was change in economic conditions that started in 2007-2008. It has affected law firms' activities in many respects: made them revise their size, expenses, review their hourly charging systems, and try to make their activities more efficient. The second change was liberalisation of the regulatory framework of 2011 that allowed external capital in the law firms. The historical change in the legal services provision regulation allowed external capital and non-lawyer involvement in legal services provision. So far, it only affected certain countries, in particular UK and Australia. Even though this change has happened in two countries so far, the debate if it is a way-to-follow became global.

1. Economic change

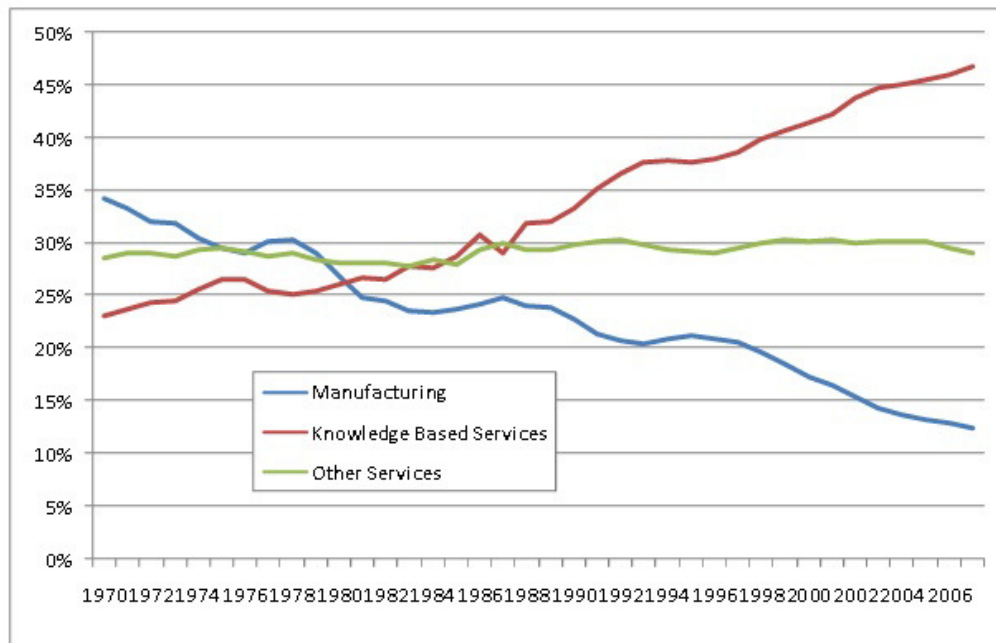
Innovative lawyer phenomenon mainly arose during and after crisis, when law firms faced new expectations and demands from their client. For understanding if below discussed regulatory change is enhancing competition and innovation, it is important to look at how it has combined with economic change. As newly introduced regulation and new entrants as well as potential competition have strengthened the external pressure, time plays important role in the stage that analysed empirical setting is going through. It should be alerted that timing plays rather important explanatory factor in the way, process, and kind of innovation strategy, if any, a particular type of law firm is adapting. Though overall, there could be highlighted three main dimensions of time that are relevant for the models of innovation in the law firms. The first conscious innovative activities as a market differentiator could be identified around ten years ago. It seems that at this time there was a new step in understanding services, role of service provider. There were some attempts by the innovators to go against the dominant logic of the market to stand out of the competition (Prahalad, 2004, Berghman et al., 2013). Since business services started booming together with the technologies helping it, there were business services providers who took the challenge of creating a new business model for the commercial law firm (Ross, 2007). The main idea was to go against any rules of the existing game in every process of the organization – human resource management, employee training, reputation building, communicating to the clients, potential clients

and competitors. It could be observed in very small and very large law firms as well. Although it would be fair to admit that these firms, even by trying to do everything differently also kept certain level of traditionalism. In other words they rarely would go far enough to become too different from their competitors. Large firms kept more traditional business models as they are shown to be changing very slowly (Ross, 2011). Even though, in the large firms the change is still going on, but the strategy to *new approach to all they do* is considered to have been valuable and successful.

Second major innovative activities wave could be noticed in 2009-2010. This term indicates first effects of the financial crisis and first firms' responses to the environmental change. Therefore, this wave is mostly related to reaction to the sudden change in quantity in demand for legal work. The third and the most conscious innovative efforts started in 2012-2013. This represents the period where even the most conservative firms started realizing that the things are not going back to normal and that there is a new reality and that new normal, where being traditional and even having the best reputation might not be enough. Law firms started analysing different management strategies applied in different industries. Some firms tried to apply models used in manufacturing, like Lean Manufacturing and Six Sigma to improve their activities in order to be more efficient. These two stages of law firms' reactions both can be considered as 'after crisis' change.

Therefore, the biggest changes in the market of professional service firms providing business-to-business intangible services occurred in these last years. Unavoidably, this market was affected by the major environmental changes, i.e. global economic crisis that started in 2007/2008. Many law firms had downsized and some even closed (e.g. Halliwells in UK or Howrey LLP in the US). It is worth notifying that before this major change, knowledge based economy was growing rather fast in the last two decades. As a result professional KIBS firms were observed to become central actors in national and global markets (Lowendahl, 2005), more important taxpayers, employers, and lobbyists (Empson, Broschak, Leblebici, 2010). KIBS were reported as fastest growing sub-sector of economy for certain period of time (Metcalf, Miles, 2000). As the Graph 1 below shows, knowledge based services were growing faster than any other sector in 1990-2007 in the UK according to EU KLEMS data base:

Economy restructures towards knowledge-based services (GVA, 1970-2007)



Source: Levy C, Sissons A., Holloway C., A plan for growth in the knowledge economy, 2011;

[http://www.theworkfoundation.com/assets/docs/publications/290_plan%20for%20gro
wth%20in%20the%20knowledge%20economy.pdf](http://www.theworkfoundation.com/assets/docs/publications/290_plan%20for%20growth%20in%20the%20knowledge%20economy.pdf)

Before crisis absolute majority of law firms have considered legal services business as a very low risk and very successful businesses. However, after 2008 it has started a different epoch in legal commercial business services arena. Massive modifications in client demand and client behaviour caused market pressures that led law firms to change in many respects. Although already some time ago, it was clear that law firm management structures as well as the ways of working were regarded quite inefficient, change did not happen before external pressures became very high. It simply seems that law firms were too profitable to care. As Noam Sheiber in July 2013 issue of New Republic describes before crisis law firms:

'Since clients of white-shoe firms typically knocked on their doors and stayed put for decades—one lawyer told me his ex-firm had a committee to decide which clients to accept—the partner rarely had to hustle for business.'

Growing PKIBS sector was undergoing mergers, globalizing their activities, and also facing rather significant changes in regulation. Therefore, regulation and economic changes (one direction or the other) seem to be coming together. Liberalization of certain sectors of professional services was proposed in 2001 and 2003 on European Commission level to enhance further growth and development of the business-to-business service firms in Europe (Wood, 2006). The EU Lawyers' Service Directive of 1977 initiated an important step in regulatory change and moving towards liberalization of the profession in Europe. One of the most important achievements of this Directive is said to be mentioning terms services and legal together (Terry, 2008). In general, changing the status of the closed and traditional profession to service providers has exposed law firms to more regulation than ever before as they became subjects to more regulatory entities. On the other hand, it gave them more liberty to adapt more corporate structures and become more innovative in the ways they provide their services. As a reaction to the pre-crisis growth of knowledge economy, governments by public policies were trying to encourage service innovation by pushing programs to create platforms for development of knowledge intensive business services (e.g. European Commission initiatives on ESIC, European Service Innovation Centre, established in 2011). OECD Report of 2007 stated:

'The fact that the stringency of regulation varies significantly across OECD countries suggests that more often than not, entry in professions is far more restricted than is needed for client protection or market integrity. Excessive regulation may be affecting the efficiency of the business services sector and thus of the economy as a whole.'

2. Regulatory Change

Even though most of the business activities are more or less regulated, some are facing specific regulation compared to the others. Law is a regulated profession and requirements to enter are applied for individuals and firms as well. Generally, considered to be a conservative profession. This is one of the reasons why professional service firms, in particular legal services firms, are not usually identified as innovators. Firstly, traditional professional firms tend to rely on the known rules (and are expected to do so by legal acts, regulators and their clients) rather than innovative risky ideas (SenGupta, 2011). Lawyer's profession is believed to be one of

the oldest professions in the world (Draksas, R. 2012). Some argue this profession is “as old as society itself” (e.g. Stojanov, 1869, Draksas, R. 2012). While more accepted view is that lawyer as a representative of other person formed in ancient Greece in the IV-V BC and more as a procedural figure in the Roman times. Interestingly, some of the legal profession traditions of Roman times are still applied in today’s national regulatory regimes of legal services provision (e.g. separation of rights to prepare documents for courts’ proceedings and represent others in courts; considering non-ethical for lawyers suing their clients for unpaid fees). Such a strong professional identity makes any change in regulation a field for battle between traditionalists and innovators. In addition, it creates rather strong dominant logic and generally accepted “rules of the game” under which these firms operate (Prahald, 2004, Berghman et al., 2012; Baden-Fuller, 1995). Also on the firm level it creates two camps: those that are trying to implement any new practices and those that oppose to it. As any attempt to change is considered as a threat to the ‘thousands of years of tradition’.

Secondly, lawyers are facing certain level of regulation and certain level of autonomy as well. Legal services were given by the kind of monopoly rights to provide legal services. This provision is still applicable in majority of the countries. Besides the state allowed monopoly, regulation is acting on at least two levels: individual (professional) as well as on organizational (law firm), as national regulatory authorities are licensing individuals and their groups to start activity and observe their compliance with the legal and ethical standards (Stephen, Love, 1999). Legitimization and activity regulation is a trade-off for having exclusivity right to provide legal services in the market, which is protected by the barriers to enter it. Becoming more similar to 'other types of organizations' for law firms means losing the advantage of having the protected niche. Regulation change in UK is intending to liberalize the market of legal services. By making it more competitive, it attempts to make legal service more accessible to the wider part of the public. On the other hand, it makes it more challenging for the incumbent law firms to hold their market positions. To explain why UK is particular, we introduce below short description of regulation of legal profession in the UK through last 35 years.

3. Some History of Regulation of Legal Sector in UK

Interestingly, the lowest professional regulation levels in EU are recorded in Ireland and UK (Terry, 2008). In fact UK is considered to have one of the most liberal regulation of legal services in the Western tradition countries. Even though 2011 regulatory change was quite drastic, UK legal services market does not provide absolute monopoly rights to qualified professionals to provide legal services for some time already (Paterson et al., 2003). It could be suggested that such a regulatory framework might be related to the UK law firms' leadership in the world. Many UK as well as US law firms became global firms. They have power and influence as they participate in the most important transactions among the biggest companies and even countries (Lowendahl, 2005, Suddaby, Greenwood, Widerom, 2008). Lawyers around the world follow internal changes and strategies of these global firms.

Traditionally, regulatory instruments used in legal services markets are: control of entry (exam, licence, qualification requirements), restrictions on advertising, fee levels', types of contracts' (fee contracts), and organizational form (Stephen, Love, 1999). In addition to those, there can be identified some additional: education and training requirements, self supervision of activity (like professional ethics, continuing education and specialization within the profession) and higher liability thresholds, restrictions for managing positions in the firms, requirements for professional insurance (Paterson et al., 2003).

Apparently, UK gained fame as the least regulated by gradually deregulating its market for legal services. Step by step it was relaxed certain restrictions that created new field for competition and innovation. Here are some highlights of UK legal services provision deregulation in the XXth century (Paterson, et al., 2003; Stephen, Love, 1999; Terry, 2008; Dance, 2008; Homan, 2011):

1974 recommended scale of fees applied for legal services were cancelled;

1985 restrictions on provision of conveyance services were relaxed;

1986 advertisement of legal services allowed (still subject to control of regulator);

1990 relaxed the requirement that only barristers can appear before higher courts and only upon receiving advice of solicitors;

1998 conditional contingency fees allowed (in civil matters);

1999 certain cases when individuals can directly access barristers were adopted;

2002 comparative fee advertisement allowed;

2007 regulatory body reform; gave basis for the reform of

2011 allowed new organization forms ABS (Alternative Business Structures) having external capital in law firms; being publicly listed; up to 25 per cent of non-lawyers' management.

The latest and widely discussed regulatory change in PSF activities was liberalization in PKIBS sector by the UK Legal Services Act of 2007. It came into force in 2011 and allowed equity capital in legal service firms, which was restricted during the most of the history of law firms' activity. Moreover, until this change the owners and the managers of the law firms could be only qualified lawyers. The new Legal Act opened more opportunities for non-lawyers to make carriers in the law firms. Although some firms were using diverse expertise knowledge and different capacities for their process activities quite for some time already, now these non-lawyers professionals can become partners in the law firms as well.

However, certain exclusive rights still remain with the educated and trained lawyers. UK lawyers that have a right to confidentiality privilege and rights to represent in courts are divided into two categories: barristers and solicitors. Even after the 2011 change, the UK Supreme Court confirmed this exclusive right to qualified lawyers only, as professional services' news portal Mondaq reported on 21 March 2013:

'The starting point taken by the majority of the Supreme Court was that it was universally believed that legal advice privilege applies only in respect of advice given by the legal profession (which, in England and Wales, Lord Neuberger clarified meant barristers, solicitors, members of the Chartered Institute of Legal Executives and, by extension, foreign lawyers)... Therefore, unless there is a change in the law enacted by Parliament, only communications with solicitors, barristers, qualified legal executives and foreign lawyers in relation to the provision of legal advice will be protected from disclosure by reason of legal advice privilege.'

Their Lordship ruled that regulatory change is not enough to conclude that 'all legal service providers have the same privileges'. There are even some differences within the 'privileged ones' – barristers and solicitors. Although solicitors are allowed to

represent in courts under certain specific conditions, there are still some barrister-exclusive fields in litigation (Paterson et al., 2003). Different education, legitimization and regulations for the two types indicated apply. Traditionally barristers work as a sole practice, while solicitors form firms of practice (ibid.). Nowadays mixed ways of practicing are spread. Mainly, the regulatory change that came into effect in 2011 in UK, affected mostly solicitors' activities. As since 2011, it is mainly solicitors' firms are allowed external capital and non-lawyer managers or they can start new firms with other than their own capital. This regulatory change caused debates on a couple of levels. Some suggest non-lawyer capital can provide with additional conflicts of interests for lawyers in the market and create additional dominant power groups. From the incumbents that try to preserve traditions of the profession point of view, such a reform seems risky for quality of legal services' as well as traditional values of the profession.

Overall, it can be argued that UK is leading in Europe in changing legal service regulation; sector of professional services in UK is being liberalized already since 1970 (Love, Stephen, 1997). Even though not all the initiatives of service liberalisation in EU were evaluated positively, it has been extensively shown in prior research that strong institutional changes create pressures for organizations to be innovative (Nijssen, 2006). Some previous studies of law firms' innovation in the UK showed the process of legal service provision was very inefficient and innovation was very much needed in those law firms (Ross A., 2011).

V. Liberalization Towards Innovation

After the implementation of one more step towards liberalization in 2011, UK law firms face challenge of more intense competition as not only professional organizations in UK now are allowed to provide legal services. In general, service liberalization initiatives are proposed on EU level with intension to push for more innovation. However, the new regulation can also be seen from the negative point of view: it creates competition at the expense of quality assurance. In any case, US and other EU countries are watching the changes and trying to understand, if such a liberalization is a way to go or is it a threat to their legal service providers (Dance, 2008). Current regulatory changes in the UK legal markets have raised discussions of possible compromises of professional ethics and additional conflicts of interest that

outside-firm financial capital can introduce (Homan, 2011). Some balance in between being a traditional trustworthy experienced lawyer and innovative enthusiastic and creative lawyer is being searched by the market leaders.

Up till now, the structural changes in the UK legal service provision observed caused by new regulation are not so very evident, although professionals are saying these changes are also coming (Homan, 2011). This can be illustrated by the fact that not many historically traditional UK law firms have claimed to be intending to change their legal form to so-called ABS. On the other hand, they are changing a lot internally without taking outside capital; they are hiring professional managers, creating units, responsible for 'continuous change or improvement' or creating new-to-law-firms internal processes and structures. Continuously reinventing themselves as an innovation strategy was also previously successfully applied in some manufacturing companies (Brown, Eisenhardt, 1997). Despite the traditional oldest firms' perspective on so-called 'Tesco law' (ABS are often referred to as 'Tesco law', as even supermarkets are providing legal services in the UK, since the Legal Act), more individual customer orientated legal services market was changing rather drastically. The number of established ABS is constantly hitting more and more impressive numbers. Some, like this article on www.legalweek.com, are arguing that ABS are getting also into big transaction market:

'The latest deals from two of the most high-profile players in the post-Legal Services Act landscape come amid a stream of ABS licences being awarded since the Act's full implementation last year. Currently the momentum is clearly with the Tesco Law players.'

After the regulatory change, a number of new ABS has been established and some historical law firms are changing their structure and strategy to be more visible and competitive. Therefore, current pressures are bigger in the UK legal market than anywhere else at this time.

Not only law firms, but wider PSF market is also affected by this change. As emergence of new organizational forms in professional services sector, e.g. multidisciplinary firms of lawyers and other professionals, diversified service firms that are more into provision business tailored solutions than legal services, was reported as being an outcome of targeting certain clients and their needs (Empson,

2010). The phenomenon of 'leading for innovation' became rather visible in the legal market, which has been always known as avoiding change (Dunstone, 2009). Therefore, it could be argued that regulatory changes were not imposed on to the legal sectors in the UK, but was a natural step of market development of the whole knowledge intensive businesses.

Even though regulatory aspect of legal sectors has been explored previously by the PSF literature (Love, Stephen, 2004; Stephen, 2001), the impact of liberalization to innovation processes has not been addressed. Following manufacturing innovation literature, there are established impacts on the innovative factors because of the changing environments due to market liberalizations and/or change in the ownership structure (e.g. Calderini, Garrone, 2003, Munari, Sobrero, 2003). Current liberalization allowed previously restricted changes in the ownership of UK law firms. Following the analogy with manufacturing related innovation research, such regulation change should be enhancing innovation in the PKIBS. Service related studies in the field of liberalization mainly were looking at the impact of liberalization in service trade. Its impact on innovation was analysed in rather particular technology and production related services (energy sector, electricity, aspects related to GATS and EU liberalization of service trade) (e.g. see Miozzo, Ramirez, 2003). The main point here is that country-level research did not look at the company-level impact on service innovation process. This empirical study by using big international law firms is revealing the main changes in the internal structures of the PSF in terms of innovation development and revealing the impacts of external changes to these processes. Therefore, it is attempting to fill in the previous gap in understanding the dynamics of innovative procedures in non-technological PSF.

VI. Concluding Remarks. Why PSF Innovation Is Important?

Knowledge intensive business services, not only law firms, are facing extreme changing environmental conditions and recently 'being found' as innovative like accountants, investment bankers, management consultants, legal services. Innovation became a part of PSF daily activities of serving each client by creating new, specific solution for the individual client that cannot be in many cases reapplied (Sundbo, 1997). Law firms daily are creating new internal organizational structures and procedures, new ways to deliver their services, new legal products in order to meet

new expectations of their clients. It is evident that the new market conditions require service firms to 'delight' clients with new creative solutions that should be thought for the clients and on their behalf (Kandampully, 2002). The recent changes in the world economy did not pass by PSF without affecting their internal processes and activities in the market, but despite of all the threats to business services, it seems that KIBS are back on the growth path again. As <http://www.out-law.com> announced in on 27th of August 2013:

'Accountancy, legal and other professional services firms experienced the fastest rise in business volumes since November 2007 in the last three months, according to the Confederation of British Industry (CBI).'

The most current studies argue that knowledge business capital is eminent to the economic growth in the most Recent studies have shown that KBC is an important source of economic growth and is positively correlated with real GDP per capita in a cross-section in many of the world's progressive economies of the world and that it is 'significantly more important than investment in R&D alone' (Hulten, 2013). And the power of these knowledge intensive services is huge and it is increasing, as "Howrey's Bankruptcy and Big Law Firms' Small Future" states:

'Big firms have disproportionate influence, however. They represent the wealthiest and most powerful corporations. They handle cutting-edge issues and unlock the revolving door to senior government posts.'

Knowledge economy is definitely the way we are going in the future. Even though some big law firms might eventually be proven to be too traditional to change and will keep on their inefficient, but client appreciated way to provide business legal services, the knowledge of how does change towards innovation is driven and how does it happen is important to all KIBS and possibly soon to other types of organisations that intend or have to become more knowledge based.

References:

Amara N., Landry R., Doloreux D. 2009. Patterns of Innovation in knowledge - intensive business services, *The Service Industries Journal*, 29:4, 407-430;

Anand N., Gardner H.K., Morris T. 2007. Knowledge-based Innovation; Emergence and Embedding of New Practice Areas in Management Consulting Firms, *Academy of Management Journal*, Vol. 50, No. 2, 406-428;

Draksas R. 2012. *Advokatas: veiklos pagrindai ir problemos*, Monography, Vilnius: Justitia, 29-42;

Drejer I. 2004. Identifying Innovation in Surveys of Services: a Schumpeterian Perspective, *Research Policy* 33, 551-562;

Dance L. E. 2008. The UK Legal Services Act: What Impacts Loom or Global Law Firm Competition? *Law Practice Magazine*, vol. 34, no.5, 35;

Baden-Fuller C. 1995. Strategic Innovation, Corporate Entrepreneurship and Matching Outside-in to Inside-out Approaches to Strategy Research, *British Journal of Management*, 6: S3-S16. doi: 10.1111/j.1467-8551.1995.tb00134.x;

Berghman L., Matthyssens P., Streukens S., Vandembempt K. 2013. Deliberate Learning Mechanisms for Stimulating Strategic Innovation Capacity, *Long Range Planning*, Vol. 46, Issues 1-2, February-April, 39-71;

Brown S. L., Eisenhardt K. M. 1997. The Art of Continuous Change: Linking Complexity Theory and Time-Paced Evolution in Relentlessly Shifting Organizations, *Administrative Science Quarterly*, Vol. 42, No. 1 (Mar.), 1-34;

den Hertog P. 2000. Knowledge-Intensive Business Services as Co-producers of Innovation, *International Journal of Innovation Management*, Vol. 4, No. 4, 491-528;

Empson L., Chapman C. 2006. Partnership versus Corporation: Implications of Alternative Forms of Governance in Professional Service Firms, in Royston Greenwood, Roy Suddaby (ed.) *Professional Service Firms, Research in the Sociology of Organizations*, Volume 24, Emerald Group Publishing Limited, 139-170;

Empson L. 2010. Beyond Dichotomies: A multi-stage model of governance in professional service firms, Working paper;

Empson L., Broschak J.P., Leblebici H. 2010. Beyond Received Wisdom: An Integrative Perspective on Organizing Professionals, Working paper;

Empson L. 2000. Merging Professional Service Firms, *Business Strategy Review*, vol. 11-2, 39-46;

Empson L., 2007. *Managing the Modern Law Firm*, Oxford University Press, New York;

- Hipp C., Grupp H. 2005. Innovation in the Service Sector: The Demand for Service-Specific Innovation Measurement Concepts and Typologies, *Research Policy* 34, 517-535;
- Hulten, C. 2013. Stimulating Economic Growth through Knowledge-Based Investment, OECD Science, Technology and Industry Working Papers, OECD Publishing.<http://dx.doi.org/10.1787/5k46dbzqhj9v-en>:
- Kandampully J. 2002. Innovation as the Core Competency of a Service Organisation: the Role of Technology, Knowledge and Networks, *European Journal of Innovation Management*, vol. 5, No. 1, 18-26;
- Langley A. 1999. Strategies for Theorizing from Process Data, *Academy of Management Review*, October 1, 1999 vol. 24 no. 4 691-710;
- Larsen J. N. 2000. Supplier-User Interaction in Knowledge-Intensive Business Services: Types of Expertise and Modes of Organization, chapter 8;
- Levy C, Sissons A., Holloway C. 2011. A plan for growth in the knowledge economy; http://www.theworkfoundation.com/assets/docs/publications/290_plan%20for%20growth%20in%20the%20knowledge%20economy.pdf
- Lowendahl, B. 2005. Strategic Management of Professional service firms, (3rd ed.) Copenhagen, Denmark, Copenhagen Business School Press;
- Maister D. H. 1993. Managing the Professional Service Firms, Free Press Paperbacks, New York;
- Metcalf I. S., Miles I., 2000. in *Service Economy Measurement and Case Study Development*, Chapter 1, Kluwer Academic Publisher;
- Miles I. 2008. Patterns of Innovation in service industries, *IBM System Journal*, vol. 48, no. 1, 115-128;
- Muller E., Doloreux D. 2009. What We Should Know About Knowledge-Intensive Business Services, *Technology in Society, Journal of Technology*, 31, , 64-72;
- Munari F., Sobrero M. 2003. Privatisation Effects on R&D Investments; in *Corporate Governance, Market Structure and Innovation*, Edward Elgar Publishing Limited;
- Nijssen E.J., Hillebrand B., Vermeulen P.A.M., Kemp R.G.M. 2006. Exploring Product and Service Innovation Similarities and Differences, *International Journal of Research in Marketing* 23, 241-251;
- Paterson I., Fink M., Ogus A. 2003. Economic Impact of Regulation in the field of Liberal Professions in Different Member States, *Regulation of Professional Services*, Research Report, Study for the European Commission, DG Competition, January,;
- Pettigrew A. M. 1992. The character and significance of strategy process research, *Strategic Management Journal*, 13: 5–16, doi: 10.1002/smj.4250130903;
- Prahalad C. K. 2004. The Blinders of Dominant Logic, *Long Range Planning*, 37;

Preissl B. 2000. Service Innovation: What Makes It Different? Empirical Evidence from Germany, in Service Economy Measurement and Case Study Development, Metcalfe I.S., Miles I., 2000, Kluwer Academic Publisher;

Sen Gupta R., Innovative Lawyers 2011, Financial Times special edition, 6 October, 2011;

Smets M.I, Morris T., Malhotra N. 2012. 7 Changing career models and capacity for innovation in professional services. Handbook of Research on Entrepreneurship in Professional Services : 127;

Stephen F. H., Love J.H. 1999. Regulation of the Legal Profession;

Suddaby, R., Greenwood, R. and Wilderom, C. 2008. Introduction to the Journal of Organizational Behavior's special issue on professional service firms: where organization theory and organizational behavior might meet. J. Organiz. Behav., 29: 989–994. doi: 10.1002/job.552;

Sundbo J. 1997. Management of Innovation in Services, The Services Industries Journal, Vol. 17, No. 3, July, 432-455;

Susskind R. 1996. The Future of Law, Oxford University Press Inc., New York,;

Terry L. S. 2008. The Future Regulation of the Legal Profession: The Impact of Treating the Legal Profession as 'Service Providers', Journal of the Professional Lawyer; 189-211;

Wood P. 2006. The Regional Significance of Knowledge-Intensive Services in Europe, Innovation: The European Journal of Social Science Research, 19:1, 51-66;

External data sources:

Globalisation and Structural Adjustment, SUMMARY REPORT OF THE STUDY ON GLOBALISATION AND INNOVATION IN THE BUSINESS SERVICES SECTOR; 2007; <http://www.oecd.org/sti/38619867.pdf>

Homan S. 2011. U.K. Legal Services Act Opens Doors for Supermarkets, Banks, Other Non-Law Corporations to Own, Manage Law Firms, posted by KPO Consultants, Global LPO Conferences, February 26;

Ross A., 2011. Making Law Firms More Innovative, International ILab Conference, London, July 8;

Alex Aldridge; Letter from London: Beware of the Innovative Lawyers; <http://abovethelaw.com/2011/10/letter-from-london-beware-of-the-innovative-lawyers/>

Paul M. Barrett; Howrey's Bankruptcy and Big Law Firms' Small Future; http://www.businessweek.com/articles/2013-05-02/howreys-bankruptcy-and-big-law-firms-small-future?goback=.gde_117520_member_239672069#p1

Jennifer Bollen; Innovative law firm boosts partner roster;
<http://www.efinancialnews.com/story/2011-07-07/mj-hudson-law>

Tesco Law approvals hit double numbers but high-profile applicants frustrated by delays; <http://www.legalweek.com/legal-week/news/2196144/-tesco-law-approvals-hit-double-figures-but-highprofile-applicants-frustrated-by-delays>

Rising lock-up is putting UK law firms at risk of financial failure;
<http://www.managingpartner.com/news/finance/rising-lock-putting-uk-law-firms-risk-financial-failure>

<http://www.ft.com/innovative-lawyers>

http://www.nautadutilh.com/Global/FT_Innovative_Lawyers_2013.pdf

Professional services sector growth at highest level since 2007, according to CBI;
<http://www.out-law.com/en/articles/2013/august/professional-services-sector-growth-at-highest-level-since-2007-according-to-cbi/>

Why can't lawyers manage businesses? <http://www.waderobinson.co.uk/why-cant-lawyers-manage-businesses/#!>

William Peacock, Esq. We (Lawyers) Just Got Replaced By a Contract-Drafting App;
http://blogs.findlaw.com/technologist/2013/09/we-lawyers-just-got-replaced-by-a-contract-drafting-app.html?goback=.gde_117520_member_5791950393831346177#!

Noam Scheiber; The Last Days of Big Law The money Is drying up—and America's most storied firms are terrified; <http://www.newrepublic.com/article/113941/big-law-firms-trouble-when-money-dries#>

Nick Burgess and David Richards; United Kingdom: Supreme Court Confirms Legal Advice Privilege Extends Only To Legal Profession;
<http://www.mondaq.com/x/228232/disclosure+electronic+discovery+privilege/Supreme+Court+Confirms+Legal+Advice+Privilege+Extends+Only+To+Legal+Profession>

Jaishree Kalia; ABS rising – Slater & Gordon and Plexus announce four law firm acquisitions in a day; <http://www.legalbusiness.co.uk/index.php/lb-blog-view/788-abs-rising-slater-gordon-and-plexus-announce-four-law-firm-acquisitions-in-a-day>

Chapter III. Innovave: Enhancing Exploration through Exploitation in PKIBS Innovation Process

I. Introduction

Innovation has often been indicated as a way to grow for organizations, on the other hand, it is considered to be critical to survive, especially in unstable changing environments (Andriopoulos, Lewis, 2009). What conditions lead organisations to turn to innovation is one question that poses interest in academic research. The other question, however, is of importance for academy as well as managers and entrepreneurs; how to enhance innovation when the environment is requiring for a change. Organisational ambidexterity is considered to be the ability of an organisation to combine and complete two tasks at the same time: to exploit current capabilities and competencies while exploring new possibilities (March, 1993; Tushman, O'Reilly, 1996). Traditionally, exploring and exploiting are said to be contradictory forces or tensions that organisation is challenged to mitigate by balancing existing resources, adapt structures, processes and capacities between the search for new opportunities and continue successfully engaging in its current main activity (Andriopoulos, Lewis, 2009; O'Reilly, Tushman, 2013). Most of the studies analysing innovative capability enhancement were using manufacturing companies as their main sample: as a result, many services innovation specific constructs were left aside for quite a long time. In previous research it is quite well explained and developed the idea that in manufacturing the efficiency and flexibility trade-off is present: available limited resources have to be used for daily production, while innovation is often rather costly and risky project. Drawing too much of investments to look for the innovative paths might compromise short term results in manufacturing companies and therefore, it is not priority of profits orientated shareholders and managers. On the other hand, in the long run, organisation that is not innovating might become very vulnerable when any environmental change occurs (O'Reilly, Tushman, 2013).

The services innovation literature is still in the developing stage. As services posed a new challenge for economic theory, for quite a while the main debate engaged

whether it is very similar to manufacturing or is it worth to be analysed separately (F. Gallouj, 2002). Even more, the amount of studies analysing exploring and exploiting capacities in the service firms are very limited so far. However, they offer quite important insights for understanding ambidexterity in new services development environment and allow looking at the organisational opportunities to explore while exploiting (Cabigiosu et al., 2012; Smets et al. 2012). One of the theoretical approaches to analyse services – synthesis approach - argues that service innovations are part of innovation study framework (Miles, 2000, Preissl, 2000, Amara et al., 2009). This stream of literature states services have particularities that have been neglected by the research on technological product and process innovation in manufacturing industry, although general Schumpeterian framework includes services as well (Drejer, 2004). These kinds of studies are building on the innovation theoretical background, however, trying not to ignore specificities of services. Moreover, new service development process description in the literature introduces certain contradiction: the service innovation is considered to be ad hoc, merely 'lucky chance' outcome, project based activity that is dependent on the clients' initiative and needs (Dolsfma, 2004,), on the other hand, it is shown by the research that service innovators are more successful when they organise the process more and not leave it to 'lucky chance' (Vermeulen, 2003, de Brentani, 2001). It is also not clear, what are innovations that service firms make for themselves and what for their clients. Some studies looked at organisational innovation, although included new service combination that lead to innovative output for the clients' benefit as organisational innovation (van der Aa, Elfring, 2002).

Professional service firms, providing business services, especially law firms, were considered very successful but very inefficiently organised services before the financial crisis of 2007/2008 hit their market. Law firms, as being very tradition-based profession, were mostly concentrated on keeping high standards for their daily services. This behaviour had to be re-examined when their clients changed their demands and expectations after facing drastic economic change. In addition, competition among the law firms was enhanced in some countries by liberalisation of service, as for example, Legal Act that came into force in 2011 in the UK. Growing phenomenon of innovative lawyers raised questions of how traditional professional knowledge intensive services innovate.

In this paper it is presented an analysis of innovation in PSF facing changing environments. We compared 10 cases of professional business service firms - law firms - to see how they integrated external and internal innovation factors in a way to be able to innovate through their daily work. We intend to answer to the main research question: how the characteristics of professionals service firms allow them to successfully innovate through exploiting through exploring by combining internal and external factors of innovation and how these ambidextrous organisations perceive these factors? By offering to organizations a new way to look into their internal processes and internal and external factor balances becoming ambidextrous organisation, we aim to contribute to new service development and ambidexterity literature. In our findings we suggest there is a different kind of ambidexterity that is present in PKIBS. We argue that due to the characteristics of PKIBS, they enhance innovation by structural or simultaneous (when organisation is using internal mechanism processes and systems aligned to explore and exploit at the same time) ambidexterity, which is highly contextual (based on behaviour and initiative of individuals) as well. Accordingly, we add to PKIBS literature by suggesting deeper insights about innovations and their development processes of PKIBS facing turbulent environmental changes.

The paper is organized as follows: in the first part the theoretical background that encompasses relevant ambidexterity and new service development streams of literature is introduced; the second part is devoted to the methods, data collection and data analysis. The third part describes our main findings. The evidence on what internal and external factors have been combined in new service development process while providing daily service are discussed. Finally, we provide some discussion and concluding remarks, list contributions of the study and suggest further research directions.

II. Theoretical background

1. Ambidexterity as a reaction to changing environments

As in manufacturing as well as in services, the main challenge for organisations is to stay competitive in stable and survive in turbulent environments; the challenge for the

firm is to be flexible and efficient at the same time (Thompson, 1965; O'Reilly, Tushman, 2013). Definitely, organisations do change their behaviour when environment become unstable. In changing environments organizations are forced to become problem facing and problem solving (Thomson, 1967). At no point organizations has an absolute knowledge about the changes in the environment and the extent to which they have to alter to succeed under the new conditions. Therefore, in its relation to the environment, organizations face constraints and contingencies and seek to control as many of them as they can by managing various tensions (Thompson, 1967; March, 1991; Tushman, O'Reilly, 1997). In order to address such a problem or solve these tensions, it has to be identified, where the tension is coming from or what creates the issue that needs to be faced. This is where innovation has to come into stage and help organizations to lower the uncertainty by being more convinced that their processes and services' offerings are more aligned to the new demands of their clients'. March (1991), in his seminal paper, linking organizational learning and innovation suggested that organizations are facing limitation to choose between the exploiting existing capacities and exploring the new. Ambidexterity, or being able to do both or balance in between the two options successfully, was shown on many occasions to lead to sustainable long-term productivity and innovation (Tushman, O'Reilly 1996, Sheremata, 2000, Benner, Tushman, 2002, 2003).

Previous studies claim that strategies of the firms to become ambidextrous vary a lot, as ambidexterity is shown as could be reached by various paths. For instance ambidexterity could be sequential, when organisation adapts to the changes in the environment in stages (Duncan, 1976; Chandler, 1977; O'Reilly, Tushman, 2013), simultaneous, when both exploration and exploitation are being exercised in organisation at the same time (Tushman, O'Reilly, 2007, O'Reilly, Tushman, 2013), or contextual, where ambidexterity is enhanced at individual rather than organisational level (Gibson, Birkinshaw, 2004; O'Reilly, Tushman, 2013). Most of this evidence concerns tangible product related industries. While some studies have been arguing the similar application of the tension management in consultation business, it ignored the specificities of services (e.g. Andriopoulos, Lewis, 2009). However, it was shown that pursuit of ambidexterity is an important part of the strategy of service firms (Geerts et al., 2010). It still remains quite unclear, which type of ambidexterity strategy, if any, service firms usually apply.

2. Exploring by exploiting

Changes in external environment are shown to be important factors for creating pressures to innovate, make organizational internal changes to adapt to new environments and critical for growth or survival of organization (Schumpeter 1934; Romanelli, Tushman, 1994; Eisenhardt, Tabrizi, 1995; Nijssen et al., 2006, Andriopoulos, Lewis, 2009; O'Reilly, Tushman, 2013). Depending on the strategy, the product firm has to choose whether to ascertain current skills and capabilities or search for new a path that is often considered risky or even compromising current market position (Auh, Menguc, 2005). When dealing with internal or external pressures, it is usually the top management that has to address the identified new problem. In many organisations, many employees' functions are rather specialised. This specialisation is often named as a reason why participation in innovative strategic activity of employees is limited to the top or middle managers. As O'Reilly and Tushman set a doubt about print journalist possessing technical capabilities necessary for on-line news (2013). On the other hand, exactly the ability to innovate embedded in the core activity of PKIBS would eliminate or make this lack of capability insignificant and allow them combining exploitation and exploration in one locus (Smets et al., 2012). One way or another, when changing environmental pressures are present the new knowledge has to be obtained or created. Even though success is argued to be in ambidexterity, turbulent environments are said to be leading to the choice between the two separate strategies (Benner, Tushman, 2001). While boundaries of organizations are difficult to define in one singular manner, exploitation and exploration activities are also defined by the organizational boundaries: as exploration is internal action of learning from members and codes, the exploration deals with learning from competitors (March, 1991; Raisch et al., 2009). As competition is increasing, external factors are important for being proactive and reactive to the market, which plays major role when the environment is non-stable and rather complex (Auh, Menguc, 2005; Garud et al., 2011). Therefore, ambidexterity would require combining internal and external processes and balance them with the environmental change (Raisch et al., 2009; O'Reilly and Tushman, 2013).

To determine internal and external factors of PSF service innovation, we have to determine, what is known of the process and environment of these organizations. PSF are knowledge intensive business services that were going through turbulent changes in the last years. PKIBS are considered as not having a strong technology domain and highly dependent on their human capital (Maister, 1993; Miles, 2000). In addition, they are selling intangible services that are often tailored-fit solutions. Therefore, their innovation is considered to be any new combination of knowledge that creates value to the client with or without client's intervention in innovation development as well as elimination of old type of practice by replacing it by new (Miles, 2002, van der Aa and Elfring, 2000, and Oke, 2010). As mentioned above, the service innovation model by Sundbo and Gallouj (2000) and work of Andersen Metcalfe, Tether (2000) suggested that interconnection and boundary relation could be present in between different internal and external factors of the innovation systems. Therefore, it is logic to believe that any change in the strength of the factor or appearance or disappearance of the factor should cause a change in new service development process within the organisation. Also Ordanini and Maglio (2009) elucidated three critical decision factors in successful process of new service development: customer and market orientation, internal process organisation, and external network. Therefore, to understand new service development process one has to establish a set of internal and external factors that are critical for this type of service innovation.

According to the previous service innovation literature, the internal factors that should be influencing new service development process in PKIBS are: management support (Sundbo J., Gallouj F., 2000), Jong J.P.J., Vermeulen P.A.M., 2003), professionals (Anand et al. 2007, Sherer, Lee. 2002), knowledge (Miles, 2008, den Hertog, 2000), standardisation of procedures (Sundbo, 1997, Ordanini, Maglio, 2009, Tether et al., 2001, Bettiol et al., 2013), innovative culture (Jong., Vermeulen, 2003), technology (den Hertog, 2000, Miles, 2012). While external factors part is not that well developed, according to the service innovation related studies, the main external factors could be identified as the following: clients (depending on industry, the factor can be named as internal or external, as there are different level of client involvement) (Sundbo, Gallouj, 2000, Miles, 2008; Sundbo, 1997), regulators/regulatory framework (as regulatory constraints) (Sundbo, Gallouj, 2000, Preissl B., 2000, Hipp,

Grupp 2005, Anand et al. 2007, Doloreux and Shearmur 2010), regulators/regulatory framework (as regulatory opportunities) they are not extensively studied before, but were mentioned as important for service innovation by Coombs and Miles, (2000), competitors (Sundbo, Gallouj, 2000, Dolsfma 2004; Johne, Store, 1998). Moreover, according to PSF literature, we could identify some PSF specific factors that could be influencing their innovative strategies and behaviors, like restricted forms and governance, involvement in other companies activities, politics, lobbyism (Maister, 1993, Empson, 2007, 2010). Factor by factor analysis thereafter putting them into one innovation patterns specific to PKIBS would reveal how these firms are innovating and what is the role of a particular factor when considering the whole new service development process. This analysis is important in learning about PKIBS innovation within the service innovation context as well as to emphasize the similarities and contrasts to manufacturing.

3. Service innovation process in PSF

New service development literature tends to be describing particular kinds of services (e.g. Cabigiosu et al., 2012; Ordanini, Maglio, 2009; Jong, Vermeulen, 2003; Oke, 2001). The variety of services raised new challenges for building common theoretical and analytical framework for the research. Some scholars suggested that diversity of services should be understood and even appreciated for the better and more precise research in services (Bryson, Monnoyer, 2004). In some service fields, there is a common acknowledgement of the lack of studies and empirical research (Drejer, 2011). It has to be noticed, that, with few exceptions, most previously analysed empirical settings in services were in technology and product intensive service firms like information technology, telecommunications, banks, and hospitals (e.g. Sundbo , Reidenbach and Moak, 1986, Greenhalgh et al., 2004). Additionally, being highly interconnected with manufacturing certain services are recognised difficult to separate from the service-product development process (Kandapully J., 2002). Theoretical approach to study service innovation, which is also the most integral, synthesis approach, argues that service innovations are part of innovation study framework (Amara N. et al., 2009). The studies following synthesis approach are building on the same theoretical background as traditional research on technological product and process innovation in manufacturing industry, however, trying not to ignore

specificities of services. For example, Drejer (2004) argues that Shumpeter's concept of innovation framework is broad enough to study service innovations with their particular characteristics. Following the synthesis approach and considering not only manufacturing, but other type of services as giving valuable theoretical and practical insights for service industry (Gallouj, 2002; Miles, 2000, Preissl, 2000, Amara et al., 2009), we tried to analyse what are the main internal and external factors that allow services to be more efficient and innovative in challenging market conditions.

New service development literature started following new product development by trying to identify a formalised processes used by organisations for new service development. The debate whether new product development and new service development are more similar or different was tested supporting the idea that common general paths can be found (Nijssen et al., 2002). Still, a number of authors state the service entrepreneurs avoid formalising innovation process even in more technology and production related services (e.g. Jong, Vermeulen, 2003). Some argue that service innovation is rather loosely-coupled than formalised process, which is becoming more similar to manufacturing while is becoming more organised (Sundbo, Gallouj, 2000). The variations of detected new service development patterns and comparing these processes with product-related innovation has led many researchers to stress the variety in new service development processes of service sector (Hughes, Wood, 2000), therefore, different service sectors (groups) got the main attention (Drejer, 2011).

Project based activities instead of organised R&D department (Miles, 2008, Gann, Salter, 2000, Hipp, Grupp, 2005) and team innovation paradigm are also found to be more specific for organising innovation in service firms (Oke, 2001). Service innovation is often based on a quick idea, rather than a result of scientific activity (Sundbo, 1997), although research has shown service firms gain more from more organised service innovation (Jong, Vermeulen, 2003). Many service innovations are considered to be created ad hoc, in a rather chaotic process, team work, project basis, client-influenced (Oke, 2001; Hipp, Grupp, 2005). Still service-specific innovation patterns are found in specific fields of service firms, in particular in knowledge intensive services (ibid.). Sundbo (1997), however, suggested that there is a process

of service innovation creating firms that follows common pattern: idea generating, transformation into an innovation project, development, and implementation. Dolsfma (2004) argues that any attempts to determine clear steps in the new service development are arbitrary and any particular service field would be linked to a different pattern of innovative process. Den Hertog (2000) modelled KIBS as a co-producer of innovation, while indicating that KIBS can be highly innovative themselves; he emphasizes the role of client interaction and technology. In reality of PKIBS, it was shown this was too narrow view of rather complicated KIBS innovation path.

Sundbo and Gallouj (2000) in the innovation system trajectories' analysis highlight the differences between the service sectors and argue that service-specific factors are important for researchers at two levels: whole services innovation systems when comparing it to manufacturing as well as establishing different pattern of innovation within services. Following the theoretical model of Sundbo and Gallouj (2000), the service innovation process is an interaction process between the factors operating internally and influencing externally. On the inter-organisational level Andersen Metcalfe, Tether (2000) suggested innovation systems compose three principal elements: organisations, interconnectedness among them, and boundary relationships between them. This literature leads to thinking that even though the process of new service development is rather dynamic than static activity of organisations, its main characteristics can be understood better by defining internal and external factors that are influencing and shaping this process.

III. Methods

The research design chosen to address our main research question is a multiple inductive case study. The study analysed 10 professional business services providing law firms (the list and description of law firms is provided in the Annex 1). Each case was treated as a separate experiment (Eisenhardt, Graebner, 2007). The repetitive 'experiment' method in a multiple case study prevents from including too many case-specific features that may be idiosyncratic to the one particular case. Therefore, it allows to purify the data to the certain extend and allows to include into the results

only those factors that would be detected repeatedly in multiple cases (Eisenhardt, Graebner, 2007). Since case study methodology does not allow for statistical generalization, multiple case study, by using thorough analysis of multiple cases, was used to support the analytical generalization (Eisenhardt, 2011, Yin, 2003). We aim this study to build basis for further empirical testing of our findings. The number of cases is chosen in accordance to the goal of the research to perform a theoretical literal replication, i.e. by showing repeating results for confirming the findings and contrasting results for the predictable and logically explained reasons (Yin, 2003).

Inductive analysis was concluded in few stages: theoretically sampled 10 law firms were analysed and compared among themselves. Cases were preselected on established criteria: the firms were all self-declared to be innovative and even acknowledged as innovators; they were all providing legal business services; they were international firms – acting internationally and/or working with multinational clients. Moreover, law firms that participated had certain procedures for new service development and were willing to participate in the study. Confidentiality issue was stressed as the very important by the participant law firms. Global market for business legal services in which these law firms participate is highly competitive. Moreover, law firms are regulated by the specific regulatory acts in each country; this requires them to follow certain ethical standards and keep clients and their activities confidential. Therefore, each law firm was assigned a random colour title to make law firms more difficult to identify. Please see the list and description of the cases in Annex 1. We made an extra effort since confidentiality issue was stressed many times during the meetings and interviews: all the citations were revised excluding the names of people, firms, clients or partners. The examples of innovative outputs are also described in a way that it would be harder to identify their creators. Further in this section, we provide the main aspects of the research context, describe the data collected, and set forth the process of the data analysis.

1. Research context

The legal services market in UK was chosen for the following reasons. Firstly, it is considered as more advanced in PKIBS sector, compared to other European countries. In addition, the biggest internationally services providing services were started by the

UK and/or USA law firms. The second reason was the UK Legal Services Act adopted in 2007 that came into force in 2011 and de-monopolized legal services market in the UK. Thirdly, previous studies on the importance of geographical proximity showed the location is one of the factors that influence KIBS growth, therefore, need for innovation and innovative activity (Muller, Dolloireux, 2009). UK law firms set of cases was also determined by the fact that all the law firms studied were acting in the same regulatory framework, facing the same regulatory and market change, geographical conditions. In this way it was attempted to control for other environmental factors than those studied. Please see Chapter II for more detailed description of research context and its choice.

It has to be additionally explained that, during the data collection, it was revealed that there were few types of innovative law firms. First group was *global innovative law firms* that are competing on global level. For them UK regulation has quite small effect as the latter legal regime is restricted to the UK only. To this group was characteristic having more possibilities to introduce innovation in the different markets and being global was also an important aspect of being first choice of multinational clients that have multinational interests and issues (also see Wood, 2006). In this way, global law firms operate at the global knowledge and process sharing (ibid.). The second type was *international law firms* that still have their major part of revenue generated in the UK. For these firms UK Legal Services Act had quite significant influence, as their main point of activity and competition was orientated to the UK market of legal services. The third type (which is rather rare in this kind of PKIBS) is *a small national law firm*, which is rather new entrant and tries to innovate in everything that they do at the lowest possible cost. As from the small firms contacted in the UK, no law firm was interested to participate in the study, after considering the growing importance of internationalization aspects of firms, clients and nature of services, one Italian law firm, established and having offices in Italy was included in the sample. Therefore, the data was collected from 9 large and one small firm meeting the above described criteria.

2. Data collection

Data collection took more than 8 months in 2012 and 2013. The main data collected entailed semi-structured interviews; internal documents provided by the law firms;

and external data that was publicly available online, general or specialised professional media sources. Law firms' partners (16), business development and other titles managers (16) - 7 of them were trained and worked as lawyers before moving to management roles in the law firms, different level associates (11), trainees (2) and lawyers consultants (3) were interviewed. The advantage of interviewing persons at the different levels of hierarchical structure of organization as one of the ways to mitigate informant bias was used (Eisenhardt, Graebner, 2007). Overall 48 interviews in 10 law firms were performed. 28 of interviewees were males, 20 were females. Interviews took from 45 to 75 minutes. Additionally, 2 interviews were performed with experts – people that did not work in the law firms, but did law firm innovation consulting and/or evaluation. The interviews were started by open-ended questions and then the follow-up questions asked by the interviewer (Walsh, Bartunek, 2011). To identify the key informants, it was asked for interviews with people that are explicitly and formally involved in innovation process in the studied organisations (ibid.). The main questions asked, among other, included asking interviewed persons to tell examples of the innovations that their firm had developed in the last 12-24 months; to explain how last innovations were thought of, who came up with an idea, how further decisions were made and how the idea was implemented; it was also asked to explain what were the main sources of new ideas. In cases certain factors were not described by the interviewed person, it was asked if some specific factors were present: procedures, policies, systems, structures and techniques. Eventually it was asked to tell about these factors, i.e. how they were used in the law firm. For more details, please see Interview protocol attached in Annex 2.

Six law firms provided with 375 pages of internal innovation-related documents. Mostly, the internal documents provided were indicated as being confidential. Therefore, they were read and analysed in the offices of the relevant law firm. Internal documents were very useful to understand the level of conscious effort in new service development, understand the participants in the processes. Internal documents also revealed a lot about firm's perception of innovation and its innovative initiatives.

Additionally over 800 pages of external - publicly available sources - data was collected and analysed as for the purpose of triangulation of the arguments. Media reports, professional organisations' press releases, internet sites of law firms'

directories, clients' comments in the public sources, any other not by the studied law firm created documents were reviewed as external documents. Since the phenomenon analysed was very recent and having a great interest of the professionals new external documents were continuously appearing during the study.

3. Data analysis

The purpose of this study was not testing existing theory but adding to the path of theory building (van der Aa, Efring, 2002) by placing attention on previously under-researched constructs and their relationship with each other and studied ones. As the main data analysis strategy, we relied on the previous theory as a basis by forming preliminary in advance determined sets and questions (Yin, 2003). When needed to answer to the possible rival explanations and in order to add rigor to the conclusions the going through back and forward between the theory and data process was applied (ibid.). In case a previous theory did not suggest plausible explanations and/or categories, additional qualitative data analysis techniques were used.

All 50 interviews were verbatim transcribed and analysed using Corbin and Strauss (2008) suggested inductive iterative path. The external documents and notes of internal documents were re-read in order to get more into data. To be able to deal with amounts of data, qualitative data analysis software atlas.ti was used to clarify the codes and citations, to compare the cases among themselves. The software was used to determine main categories of themes and subthemes. At the initial stage of coding, the main actors and events were identified. The narratives of how they defined innovations and how they described internal processes were pulled in each case. It was established that different actors and processes were involved in different kinds of innovations' development. All of the firms included in the study considered themselves innovators. Some were more stressing one type of innovation some were successful in all five types of innovations. Therefore, the iteration with existing suggested typologies and taxonomies previously identified as PKIBS innovation was analysed (Soete, Miozzo, 1989, Hertog, 2000, Hipp, Tether, Miles, 2000). Five types of innovations emerged from the data: professional service innovation, service product innovation, service delivery innovation, organizational innovation, and combined innovation. The law firms were grouped in accordance to how they described their processes of innovation for being able to compare cases (Eisenhardt,

1989). Then it was looked deeper into the sub-processes and subcategories (Corbin and Strauss, 2008) in order to understand which were repeating and which were different. The software was used for data management and coding it according to the set thematic criteria; some textual identification was used as well. This allowed looking through the different cases. Thereafter, when the data was grouped and coded, the pattern matching (Yin, 2003) – a comparison of theory based predicted pattern with the empirically determined pattern was applied. After determining the patterns with the cases, the cross-case synthesis to determine repeating and non-repeating patterns was used as a specific multi-case study (ibid.) in order to draw theoretically generalisable conclusions.

To understand the internal and external factors' influence in innovation process, they were analysed as identified and described by the actors. In this analysis, following the thematic coding procedure as described by Flick (1995), the concepts and groups of interest were derived from the research questions of the study, i.e. *a priori*. By using the theoretical coding, i.e. by breaking down the data, conceptualizing it and putting it back in the different bundles; the textual data was grouped in accordance to the concepts and characteristics assigned to them. The core concepts were cross-checked in every case and checked if they are present in similar or the same patterns or there are logically explained different sub-categories. It emerged 15 internal and 12 external factors that were mostly repeated by the firms as the most important in new service development processes. Eventually, all factors were grouped for better communication of the findings. There were factors that were identified as 'pressures': the firms had to deal with these factors in order to innovate or were forced to innovate by the presence of such factors. There were factors that were identified as possibilities and opportunities that firms were trying to create in order to develop new services. We named them as 'captures'. Following methodological suggestions of Gibbert et al., (2008) and Walsh, Bartunek (2011), the categories of internal captures, internal pressures, external captures, and external pressures were developed. Please see next section for detailed description of those categories. To see analysis path and how the factors were reflected in data, please see Annex 3. This annex includes all the law firms' general factors analysis represented by the citations from the interviews.

By contrasting factors that emerged from the data during the analysis with previous literature described factors, theoretical patterns were drawn from the data and repetitively confirmed in the multiple cases, using different sources of data, as performing 'distinct experiments' (Eisenhardt, 2011; Graebner, 2007). By using linkages across the cases, it was constructed a framework of factors and axed with the high, moderate or low factor-influence in the firms' processes of daily activities and/or innovating (Corbin and Strauss, 2008). The analysis and visual representation of the factor influence is presented in Annex 4; the bold font indicates highest level of the factor influence, while italic represents the lowest influence of the relevant factors in the described process. The level of factor influence was determined by description it was given by the actors, their reaction, wording and/or emotions of the actors and repetitive appearance in the same case to include into the results only those factors that would be detected repeatedly in multiple cases (Eisenhardt, Graebner, 2007). This data analysis process helped understanding the main questions posed by this paper identifying the main internal and external factors in the new service development process in law firms. Data analysis path gave deeper understanding of how firms set their priorities in dealing with these pressures and using the captures in highly turbulent environments as we explain further in our findings.

IV. Findings

As we have already stressed in the theory part, costly product development usually requires taking a decision whether to concentrate on current production or engage in process of new product development. This is often presented as a trade off in manufacturing industries (Raisch et al., 2009). Service innovation is considered incremental and therefore, constant and sustainable ability to provide services (daily core activity) while developing new services (innovating) is not in such a contradiction and is not creating the same kind of trade-off for choice (Sundbo, 1997, Kandampully, 2002). Even in certain product industries innovation success is based on continuous improvements and incremental change rather than radical fundamental new products' development (Brown, Eisenhardt, 1997; Bessant, Francis, 1999). Similarly, services are more engaged in the continuous process of new service development in order to fulfil their clients' demands and stand out of the competition. In services there is a need of people who would be daily providing high quality

services and innovating at the same time (Raisch et al., 2009). Especially in the professional services, as professionals or those working closely with them are able to come up with service improvement, as their high knowledge of service and clients is required in order to be able to suggest something new and viable.

We were interested to see how the characteristics of professional service firms allow them to successfully innovate by exploiting through exploring by combining internal and external factors of innovation and how these ambidextrous organisations perceive these factors. In the previous parts we have explained how internal and external factors were drawn from the literature and then from our data. This led to the list of factors from our empirical sample. As it was explained, internal and external factors were divided into captures and pressures according to how they were perceived by the interviewers. Accordingly, here we present analysis of the factors that we have revealed in PKIBS innovation processes.

1. Internal factors in PKIBS innovation processes

1.1. Internal captures

Internal captures of innovative activities indicated by the inductive analysis were related to firm's ability to use certain internal factors that were mostly met in each case studied. The internal captures that were present through the analysis of innovative law firms were: structural internal unit that is responsible for capturing ideas, conscious effort to develop innovative activities inside the firm, internal innovative culture creation, sufficient amount of partners recognizing a need for change, involvement of other type of professionals in firm's daily activities (project managers, client relationship managers, human resource managers, IT specialist, etc.), using internal training as a capture of innovative ideas, organizing tournaments to trigger idea suggestion, talent search and appreciation of individual perspectives, using mixed teams in daily service provision. Internal capture related factors were mainly related to previously in literature discussed importance of knowledge, professionals, management support and innovative culture creation, standardisation of the procedures, and certain PKIBS specific factors. Here we present the main aspects and examples that show how these factors were influencing innovation through daily service provision, i.e. exploring through exploiting.

As innovation in PKIBS is mainly related to creation of new knowledge or new combination of knowledge and information, all of the internal and external capture factors were related to transfer of knowledge (Miles, 2002, van der Aa and Elfring, 2000, and Oke, 2010). It is quite obvious that KIBS firms shown to have higher dependency on the knowledge flows than other types of organizations. In particular in multinational service firms' dependency on sharing knowledge successfully is one of the key elements of providing consistent advice in different countries (Lindsey et al., 2003). Knowledge transfer process in KIBS literature has been of major interest (Muller, Dolloreux, 2007). However, saying knowledge plays major role does not really explain anything anymore. Combining several forms and flows of knowledge to create value (profit, benefit, innovation) for the client is the process that is most apparent in the KIBS innovation process, which was also confirmed by previous studies (Lindsey et al, 2003).

Although in the analysis, this study tried to look deeper and understand what is behind each factor. It is kind of clear that knowledge plays major role in PKIBS innovation despite of the type of innovation (please see description below). In broader perspective, new combinations of data, information and knowledge are the main service produced by the service sector (Miozzo, Miles, 2003); although knowledge is very hard to define, there are some criteria that allow determining categories of knowledge flowing within the essence of PKIBS. Various kinds and levels of knowledge management systems (from the very basic level collection of data to the very sophisticated technologies used to capture and store knowledge) have become industry standard according to the collected data. As Senior Associate from Firm Purple, explains how lawyers collect their experiences in professional innovation field:

'So it's sort of, all lawyers are encouraged when a deal is done to actually channel that information to the know-how team [...] they're responsible for capturing it so as soon as you have closed the deal you will have a person sitting in your office with a sheet of paper because they know that lawyers don't fill it in. [.....]. All of that is captured is maybe being made a template or a note about it and all of it is being put up in our know-how systems so later when we are asking for something we can get the exact deal structures. So it's a lot of effort is being --and time and money is being invested in that sort of all know- how area of the firm. [.....] We also have our knowledge coordinators and what -- it's a funny name - but then really, what these

people do is very important, to be honest. It's like, 'This is your Knowledge Coordinator.' (Senior Associate, Firm Purple)

This citation represents more-industry standard scheme of knowledge capturing inside the firm. What is important that it shows how daily service provision is related to search for new structures of the deal, therefore, with exploring activity.

This study tried to understand what firms do and what they use internally to capture new ideas (new knowledge). So, for example, some law firms were organizing specific innovative ideas capturing internal trainings. In these trainings people were asked to present suggestions for improvement of current organization of the law firm, new ideas related to client service, or innovation in service delivery or internal way of doing things. The firms to different levels exercised this kind of activity.

Often, firms indicated one person that was exceptional in creating new knowledge. As Muller et al. (2012) suggested that there are certain persons that can be called 'knowledge angels' that have certain level of experience, creativity and knowledge of environment, provide KIBS with ideas and visions. Because of the partnership structures of PKIBS, usually partners' leadership was required to keep the process of materialising of the new idea going. Like this manager at Firm Blue tells about the partner that was in their firm:

'Well, we had a very innovative partner in the firm, he was very nice guy and very active, [], he is just like a tiny bundle of energy and associates would love to work with him, you know, he would be there with you at 2 o'clock in the morning. Yes, he was made a partner at Red, then he divided opinions therefore he came to Blue as a partner and then last year he left us last year to go to X. And it is interesting to hear the opinions about him, because I would say he is really the one who was innovative. You went to him with an idea and he would say that is a great idea, let's do that.' (Manager, Firm Blue)

Employing different qualifications and forming mixed skills teams were also used as an internal resource to extract new (or new to PKIBS sector) knowledge. Due to the specific type of personalities and training, high tensions were likely to arise between lawyers and non-lawyers personnel. In some firms, there were developed mechanisms that would allow idea flow and would reduce internal tensions that are specific to PKIBS because of their highly trained personnel and internal competition between the professionals (Maister, 1993; Anand et al., 2007). The ability to accept different views and perspectives were limited in firms. Firstly, as already mentioned, it was

related to specificity of PKIBS particular factors, like identity of professionals and their high self-value. It was confirmed in nine firms out of ten that there were situations of tension between partners, lawyers, and non-lawyers managers, younger and more senior people. Therefore, systems of capture and support for a new idea to be expressed and to be accepted by more senior professionals and partners were one of the critical elements in internal capture factors. Nevertheless, more traditional PSF literature suggest that people choosing professional carrier in reality have very low self-esteem and they are constantly grieving for additional challenge to prove themselves (Maister, 1993). Therefore, internal capture systems, like having a particular unit or putting innovative culture among the common goals are needed to encourage professionals to participate even at the partner level. Like Firm Blue Associates puts it:

'I think when you put a formal procedure like [structural unit], people to that these ideas are addressed they feel more obliged to respond to it. They cannot just say good idea and then forget about it, because if there is a formal procedure you have to respond formally. So then you can expect that they would say yes this is a good idea and let's do it or they can say –well it will not work and why they don't think it's gonna work. So there is a certain level of accountability here. Since people are sharing with you their ideas, you are expected to respond to them. I think that is why it should be formalised. Because given working hours of our associates and partners, they just might be able to forget to respond [to more general requests].' (Firm Blue, Associate)

On the other hand, the process of persuading and negotiating for doing something new was reported to be inseparable part of KIBS innovative environments (Heusinkveld, Benders, 2005). It seems that lack of capture systems can lead to professionals as well as different qualification staff not being active in firms' activities and even change the firm eventually. Like this associate in Firm Green was explaining why he left Firm Blue:

'So, I think they [at Firm Green] do the emails more personable, they like people to be individuals, have character, where actually at Firm Blue I think it is more conformity. It did feel it is more like you are a cog in the system; while in Firm Green they try to make everyone an individual all rounds lawyer, so everyone would be equipped rather than just being a cog in a system. So, it is more flexible and more resilient, I think.' (Associate, Firm Green)

This citation is not exceptional – many lawyers and managers emphasized that they have changed firms because they felt their individuality and talent was not

appreciated, which is one of the specifics of professionals (Meister, 1993). Here below in Table A we summarize the main aspects how using previous service innovation literature we analyzed internal captures in the process of innovating. We suggest that *right* combination of factors rather than one particular capture had impact to incorporate innovation in daily activities.

Table A. Summary of analysis of Internal captures

Internal captures	Overall evaluation
<ul style="list-style-type: none"> - Structural internal unit, - Conscious effort to innovate, - Internal innovative culture, - Partner leadership, - Professional managers, - Internal training, - Ideas' tournaments, - Talent search and appreciation of individual perspectives, - Mixed teams. 	<ul style="list-style-type: none"> - Knowledge management is not enhancing innovation, more daily service provision as it is considered standard by PKIBS; - Partner leadership is crucial for innovating and is stronger than any internal policies or mechanisms; - Internal capture related policies led to overall innovative culture creation; - Engagement of mixed skills and professionals played major role in inserting exploration into daily work, exploitation; - More reward and appreciation of innovative initiatives systems than bottom-up or brainstorming were used; - Individual ideas dominated team work; team as a structure was needed to create overall innovative culture.

As it is presented in Annex 4 in the analysis of internal and external factor analysis in exploitation and exploration activities, various strength combinations of internal captures were used by the firms. Overall, it can be concluded that mainly the same strength of the factors could be met in the exploitation and exploration activities of one firm. Some captures were specifically more dedicated to exploration activity, like talent search in firm Brown or internal innovative culture creation in firm Black. On the other hand, certain internal factors were more visible in daily service provision and its improvement, but not directly for looking for new opportunities, like using mixed teams in firms Black, Green, and Red. However, conscious effort to innovate, innovative culture creation, partner leadership and involvement of the professional non-lawyer managers were among the strongest factors in regards to internal captures.

Lack of internal capture in certain mechanism led to internal pressures that firms were forced to react or they chose to ignore. Therefore, those firms that accepted more internal captures also admitted growing pressures in the firm. However, overall they seemed to be more successful in dealing with those tensions in their new service development process.

1.2. Internal pressures

Internal pressures represent forces that firms perceive as ‘must react to’ that emerged internally. Successfully managed internal pressure becomes internal capture. Pressures tend to rise in daily activity, then if successfully managed turn into captures that allowed increase innovation. Internal pressures that were revealed by our data were established by comparing cases and different levels of interviewees, i.e. partners vs. managers, partners vs. associates, and managers vs. associates. Internal pressures determined were: pressure to be seen as innovative firm internally, collaborative culture creation as a value that firms was not fully encompassing, pressure to hire professionals with mixed competencies that could bring new outside knowledge, going to lower (or stronger) levels of hierarchies within the firm, having innovative structures and procedures to capture ideas and take them to further levels, recognizing (rewarding) people that come up with suggestions internally.

The innovative culture creation in service sectors research was previously determined by few practices: team based brainstorming activity (Oke, 2001), multi-unit structure creation (van der Aa, Elfring, 2002), management support systems (Oke, 2001, Jong, Vermeulen, 2003) and bottom-up systems and top-down new knowledge based system creation (Anand et al., 2007). Presence of such practices led to presence of capture factors and reduced pressures (innovative culture, using mixed teams and professionals with different skills, partner leadership as opposed to over-regulation). Decrease of creativity by over-organising has been also addressed by the previous studies, since one of specificities of professionals is that certain levels of autonomy is considered to be eminent in PSF (Maister, 1993, Joeng, Vermeulen, 2003). All level of professionals (including partners) and employees indicated that there was a pressure to do something in order to engage more different skills people, create internal structures, recognize people for their ideas, and have collaborative cultures that were often associated with flatter structures. In addition, the new Legal Act has permitted UK law firms having non-lawyers managers that can become partners as well. Although successful innovators used ‘outside industry mixed skills’ already for some time, at the time of data collection this policy was growing among the firms.

Like partner in Firm Black elaborates on mixed teams and importance of their value recognition in the firm:

'We don't tend to treat people differently, if they have a similar standard in terms of expertise, we were one of the first firms who created a role of associate director, so the non-lawyer whether they are in the client facing role doing the fee-earning role in it or other department or support divisions can get to a partner level. Well historically, they couldn't become partners because they were not legally qualified, but we created a role of associate directors probably 10 or 12 years ago and the associate director was at the same status as a salary partner' (Firm Black, Partner)

Pressure to be seen as innovative internally, by people working for the firm, contributed to innovative culture creation and attracting talented individuals that have new ideas. Kandampully (2002) argues that without putting innovation as a strategic goal and making the knowledge management core competency of the firm, service firm can hardly be innovative. Law firm White already used particular official innovative culture creation as they saw it as a necessary internal pressure to make initiate the change. As one partner of White explains:

'And if the firm has embraced that innovative firm then from the top down to the bottom the firm is challenging everybody, you know, whether you're the receptionist here on the first floor or the guy who cleans the offices at the end of the day or the trainee or the associate or the partner or the senior partner, all of them can ask themselves the question, "Could I do this differently and better or more efficiently and for less cost?" and so on. [] we felt that that was going to be the most effective way for us to effect change and encourage innovation in the firm. And I think -- you know, I don't think the project and the notion of White as [innovative] firm has totally realized its potential [] But equally I'm sure it is slowly affecting change in the firm, and it's slowly affecting the way people think about their role and think about the firm and it's giving people the self-confidence to think that they can, you know, that it's actually part of their role to think differently and imaginatively about what they do.'(Firm White, Partner)

The firms showed different levels in their practices of collaborative cultures; at some firms all would be involved, like firm White and Beige, in other firms, however, only part of the firm was expected to participate, like firms Red and Blue. Levels of hierarchy were reported quite differently within the same firm: not surprisingly depending on the role of the person interviewed. A clear pattern of common understanding at different levels of the main goals and main principles as being innovative in terms of constantly improving service offering and its provision were reported in the most successful innovators. Definitely, pressures were very interrelated with captures, as mentioned above. For example, internal recognition

pressure was more present at managers and professional levels where reward capture was not present; pressure to engage mixed competencies was expressed by managers where the level of mixed skills engagement was lower. On the other hand, the firms that overall admitted higher pressures also had some mechanisms in place to turn them into captures. In this way, in some situations it is arguable when one ends and the other starts or one leads to another. However, the overall analysis shows, as demonstrated below in the Table B, that collaborative culture creation reduced general internal pressure levels and allowed firms to enhance innovation by creating higher levels of internal capture.

Table B. Summary of analysis of Internal pressures

Internal pressures	Overall evaluation
<ul style="list-style-type: none"> - To be seen innovative, - Collaborative culture, - Engage mixed competencies, - Not strong hierarchies, - Internal structures and procedures, - Internal recognition; 	<ul style="list-style-type: none"> - The higher impact was assigned to the overall collaborative culture creation within the firms; - Strength of hierarchies had only average influence; - More formalization of innovation processes allowed including constant exploration into daily service provision; As structural unit creation encouraged other internal processes as using mixed competencies, recognition of idea and initiative.

The more detailed picture of internal pressures that were faced in each case studied is depicted in Annex 4. Comparing internal pressures to internal pressures, it has to be notified that pressures varied more greatly between the exploitation and exploration activities. As some firms reported as seeing more pressures to innovate, while other saw more pressures coming from the need to improve their daily services. Overall, however, pressures were seen as potential sources for exploration through exploitation. Internal pressure to be seen as innovative firm internally was one of the main factors influencing internal factor combinations. In addition, internal recognition was highly evaluated as a signaling mechanism internally that innovative ideas are welcome. Also the use of mixed competencies more in daily activities and in exploring for new ideas was highly associated with turning pressures into captures.

It has to be mentioned that innovative PKIBS highly acknowledged that their internal processes were influenced, and even caused, by changing environments. Therefore, internal captures were closely associated with external captures in innovative law firms. Usually, if the firm had overall strategy to be seen innovative, it had in place

also mechanisms to capture possibilities outside that could be adapted in its daily service provision. However, overall levels of seeing external examples as relevant varied.

2. External factors in PKIBS innovation processes

2.1. *External captures*

External captures of innovative activities indicated by the inductive analysis were related to firm's ability to use certain external factors in its exploitation and/or exploration activity in order to enhance overall innovation. It is worth notifying that innovative PKIBS did not divide internal and external knowledge captures as separate. They saw the process of mixing both just as elements of the same process of dealing with current environmental changes and change in behaviour of their clients. Overall, the firms were more result than process orientated. More oriented to innovative activities firms exercised more conscious action and had higher levels of awareness in diverse mechanisms to capture external knowledge and change. The main external captures in the firms were: using external experts, taking ideas from competitors, testing ideas with clients, being close to clients, anticipating clients' needs, use other PSF types or other industries as a source of new ideas, use of new technologies.

Previous literature on KIBS innovations emphasized the role of the following external factors that were mostly reflecting our data as external captures: clients, competitors, and technology. Even though previous literature places technology as internal factor, in PKIBS it was mostly external. Technologies were not developed or created within the firms and it was a strategic choice. Technology is usually a leading factor in innovation discussions about technological and manufacturing firms. Understandably so, as new technologies and technology transfer made radical changes in some industries. PKIBS generally have much lower dependence on machinery and technology (Miles, 1993). On the other hand, technologies had already inflicted a huge change in law firms' activities (Susskind, 1996). It is recognised as one of the main differences between service and manufacturing innovation. However, PKIBS are not technology free and they are important technology users (Miles, 2012). When

it comes to innovative processes, the impact of new technology is depending on the type of innovation (from high to service delivery and product innovation to very low in professional service innovation). Technology-economic paradigm (when innovation is R&D process outcome, which is organized and intended for commercialization of new technology) considered being the least relevant for service innovation (Sundbo, 1997). The nature of incremental innovation in services makes it difficult to build the whole industry on new service solely. Even though technology knowledge intensive services (IT, scientific, engineering services) and production intensive services (bank, insurance, hotels, restaurants, retail stores) (Jong, Vermeulen, 2003) have pretty strong technological dimension and can be even new technology-based services innovation, PKIBS have rather small direct technology element in their activities. On the other hand they do use technology and call it critical for being advanced in their internal activities and service delivery innovation. PKIBS use technology or apply it for different and unexpected uses. The new technologies, however, are mostly provided by technology-based companies, and not built internally by PKIBS. Therefore, strategic use of technologies by PKIBS allows them, for instance, to introduce organizational innovation or service delivery innovation (den Hertog, 2000). Interestingly, the more knowledge and daily use of technology allowed firms to be more innovative in the latter type of services. This is how Manager at Firm Red describes the use of technology in their innovation process:

'Often [innovation] has nothing to with the technology and often I think people would drop in technology and think that this is going to solve everything, but that in reality is going to compound the issue. A lot of what is happening related to humans and how they task relate, communicate things to each other, delegate etc. So, we tend to shy away from cramming technology in this way. It can be solution in the end where everybody says it is the most efficient way to do, it is to automate, and then we would design it. [...] You can't just say: 'oh there is this technology that would fix everything'. Because in my experience it does not fix anything at all.' (Firm Red, Manager)

Most service innovations are considered to be tailored-fit solutions (Miles, 2008, Sundbo, 1997). The level of client participation can vary dependently on the service provided (van der Aa, Elfring, 2002). Many KIBS innovations are made by reinforcing clients' own capacities that the client can be not aware of or simply do not have them available inside the firm (Muller, Doloreux, 2009). Collected data revealed that it is true mostly in cases of professional service innovation, i.e. new type of legal

service. The most relevant factor, however, seems to be external pressure of change in the client demand and client need, not client's request per se. It is important to stress that direct involvement of the client might be to some extent relevant in product and service delivery innovation. Close cooperation with clients, understanding well their business activities and their challenges allows PKIBS to proactively offer new services and new solutions for clients. More successful firms demonstrated unique systems in client relationship management that allow them to anticipate clients' needs, offer solutions before they were asked for by the clients (Miles, 2012). Because of the importance of client participation, it is believed that conditions for being a successful service innovator are met when service provider completely stays focused on clients' needs and creates new services upon or prior to the client's request (Kandampully, 2002). Most firms indicated they were aiming for more proactive than reactive service offering. Therefore, they tried to innovate and sell it to their clients or use it to attract new clients more often than really innovated upon client's request. In certain services, like hospitality, previous research has shown proactive market orientation was the main element of successful service innovation (Ordanini, Maglio, 2009). Like in Firm Beige people are from their first day are encouraged to think about possible new services that clients would like to have:

'So, everybody, from their first day here are directly involved with clients. And this helps you to build relationships, to understand better what client might like'. (Firm Beige, Associate)

Coombs and Miles (2000), as later specified by Miles (2008), suggested to differentiate service from product by mainly two features: intangibility and interactivity. Intangibility refers to non-material nature of service, although some service products can be delivered through physical artefacts (like production-intensive and technology-based services). Interactivity stands for customer involvement in the process of creation and provision of the service (Miles, 2008). Client interaction is important specific feature of KIBS activity, although according to our findings, its importance in PKIBS innovation has been overemphasized by previous research. Following this logic, any business is looking at their clients or customers needs in any business developing. Law firms were testing their new ideas with clients for risk management purposes rather than looking for new ideas. But process of coming up with new ideas and asking clients what kind of innovation they would like is more

important than client's direct impact by presenting request or legal problem. For instance, Firm Orange has built their innovative processes around very smart way of interacting with their clients. They were using client relationship management for creating much closer relations with clients, which permitted to be ahead just by listening to clients in a more attentive way. All firms had client relationship management systems and were gathering feedback after the deals, projects or on more permanent basis. Just some of them were better at using their clients in testing new ideas of service innovations and in this way minimizing certain risks related to new service offering. As Manager at Firm Orange was saying:

'[] a big part of my function is finding interesting and innovative things that are going on. Finding good ideas and spreading them around, client listening. [] I'm doing this with clients every week of the year having an independent of objective of what clients want and what they are getting from us and what their preferences and needs are and which is complementary input into client and partner relationship; and we will bring a slightly different spin into their understanding which is used further to improve the service.' (Manager, Firm Orange)

Evaluated together with other factors, direct interaction with the client does not mean clients' direct participation in creation of new service output. Therefore, interaction with clients is more possibilities for capture of clients' needs and market tendencies than direct source of a new service.

Due to the financial crisis and at some point due to new regulatory changes, competition is at its highest point between the PKIBS at the moment. Naturally firms are observing each other and they try not to fall behind the competition. Competitors were viewed as potential source of new ideas generating by some firms; while others observed competitors more for do something different than copy the other firms. Because of the intangible nature of the innovation, competition and innovation is strictly interconnected in the KIBS activity (Corrocher et al., 2012). Most of the firms confirmed that they face competitive pressures and they use innovation as the only possible way to stand out, differentiate themselves from the closest competitors. Most firms use competitors as a capture. Although in many cases it does not mean copying the competitors, it means knowing what others do and do something different. On the other hand, there is rather high percentage of ideas travelling among the firms through partners leaving one firm and joining the other, professionals, professional managers and clients changing firms. In this kind of environment, competitors are also indicated

as possible important external source for professional knowledge intensive service innovation (Johnes and Storey, 1998, Dolfsma, 2004). Like Partner at Yellow explained why they decided they needed to orientate on innovation more recently:

'I think law firms aren't or have not historically been -- some have been actually quite innovative, I think, over a longer period of time, but now -- and have looked at different ideas on the management side of doing things more efficiently and have actually probably done that consistently over a period of time. But I think nowadays it's much -- there's much more focus on it. I think there's much more emphasis on it.' (Yellow, Partner)

The additional challenge in the competition of PKIBS is caused by the fact that the process of new service development is never static. As one of the particularities of service innovation is that legal protection of intellectual property rights creating temporary monopoly is very difficult or in many cases impossible (Hipp, Grupp, 2005). The simple reasons for that being that there are no intellectual property rights that would cover this type of innovation. It is due to lack of technological dimension that rarely any IP rights can be protected (Miles, 2008, Hipp, Grupp, 2005). This makes service innovative output quite easily copied by rivals; therefore, the continuous process of innovative activity is necessary (Sundbo, 1997). Additionally, incremental nature of the service innovation and not difficult imitation of the innovative output in services would make it difficult to grant exclusivity for the service innovator in any case. Again, the impact level varies depending on the type of innovation: some innovations, even though unprotected by any IP right, are impossible to copy. It is either would not make sense to do the same or it would not be profitable, or in some cases, there is some specific to firm knowledge involved that is too difficult to obtain for competitors. In other cases, it just becomes industry standard and only the first one gets the advantage, as Partner at Firm Blue says:

'We are living in a kind of age where everybody knows everything about everybody, well not quite well, but you know, we are moving to that direction and you know that does create tension, but partly it is being pushed as well as being I don't think we have any choice. Well. Yes, I think it is competitive and definitely the [innovation] we were the first to do it. I think other people tried and copied it or us in one way or another. If you read about what other people are doing and they announce it, and then you mean ok, should we be doing that and do we need to do something like that. But it is very multifaceted.' (Firm Blue, Partner)

For instance, in professional service innovation – when new type of transaction is created, there are few possible ways of how this innovation carries on. First, it is

usually confidential, so cannot become a tool for marketing or useful differentiator for the firm. Second, it is not an obvious innovation for those, who are not specialists in the field. Third, even if innovative transaction becomes known to the market, it gives benefits for the firm innovator only up to the moment when other firms are able to repeat it; after it is repeated, it becomes standard in the field. Therefore, rent from the investment in service innovative activity has to be captured by other means than monopolist's pricing. Therefore, higher price of the service or reputation building in the market by becoming more attractive to multinational clients can be main motivators for innovation (Wood, 2006).

The part of KIBS services that can be customized and is more easily copied by competitors is of particular interest (Di Maria et al., 2012). Product and service delivery innovations were shown to be most visible and mostly copied by the competitors, when it was possible and feasible. While organizational innovations allow firms to enhance efficiency, cut internal costs and processes, put up the profit margins, were the ones that were explicitly kept secret by the firms. Those innovations are at risk to be spread by clients mostly, because firms do not have tools to protect them other than keep them secret.

Here below we present summary of External capture analysis in Table C.

Table C. Summary of analysis of External captures

External captures	Overall evaluation
<ul style="list-style-type: none"> - Experts, - Competitors, - Checking ideas with clients, - Being close to clients, - Anticipate clients needs, - Use other PSF and other industries, - Technology; 	<ul style="list-style-type: none"> - Competitors were an important source of innovation in more than half of the cases; - Client direct role in innovation as a source was very limited in all cases; proactive, rather than reactive strategy was applied by the innovative firms; client-related external captures were more important than client as a source per se; - Impact of technology depended on overall strategy of the firms, but on average was lower than any other factor.

As it is demonstrated in the Table C, clients were participating in the innovation of PKIBS in a different way than previously argued. Clients were neither direct source of ideas, nor they were really actively participating in innovation process. Clients were mostly used as an external capture that was actively generated by the law firm by having close relations and knowing client business to anticipate their needs allowed offer of new services and their delivery. Overall, clients, competitors, other

type PSF and different industries were important source of innovation that was captured to incorporate into the daily service provision to renew service offer and organization of the firms. The impact of technology was rather limited to the firms that were implementing pre-regulatory change adopted strategies that were built on reputation and seeking highest bespoke clients.

Following Annex 4 provided representation of external captures, it has to be mentioned that on average firms were rather actively following each other, other PSF, and even other industries to try to capture and adapt some innovative ideas. Even though some firms (line firm White) stated that the most useful external capture as a source for exploration and improving daily services were external experts, the average use of external experts were really low in other firms. As expected client relationship and anticipating of clients' needs were among the strongest external captures for the innovative PKIBS.

2.2. External pressures

External pressures faced by innovative law firms were mostly related to firms' perception of external environmental changes that forced the firms to react. Again, as in internal pressures cases, external pressures when managed lead to captures of innovative ideas. The main external pressures were named by the firms as change in the market conditions, change in client demand, pressures to reduce prices of services, therefore, pressure to reduce costs of service provision, as well as increased competitive pressures and changed regulatory pressures. KIBS innovations are shown to be very demand and market driven (Muller, Doloreux, 2009).

Strategic paradigm (innovation as a strategy to keep up or be ahead of the competition) is most often used to analyse the pattern of service innovation (Sundbo, 1997). The success of knowledge intensive and highly talent-based service firms depend on their ability to create a need for their services in the market (Kandampully, 2002); therefore being innovative is a strategic policy to stay competitive. Traditionally, the competitive strategies of KIBS were mainly based on service quality, reputation and fastness of service delivery; therefore, here innovation is important up to the level that it can improve one of these capabilities (Corrocher et al.,

2012). Market changes seems to be the main external pressure that forced PKIBS into innovations, as Manager at Firm Orange explains:

'...it does mean there is a real competitive opportunity here to be better and to be more innovative, but it's changing fast, because lawyers are very clever people they are not gonna sit around forever. The law firms that succeed, I am sure, are the ones that respond positively to a change and there are enough of them, so we cannot sit around and not innovate.' (Orange, Manager)

The market pressure caused higher competition, lowered clients willingness and ability to pay 'any price' for PKIBS services and therefore, it created pressure to lower the costs and increase efficiency of service. A number of organizational changes – that are organizational innovations, because of their uniqueness – were led by external pressures to be more efficient (Auh, Menguc, 2005; Garud et al., 2011; Drejer, 2004). KIBS innovation is usually linked not only to the client, but surrounding competitors in terms of pressure creation (Corrocher et al., 2012). This created like Mexican wave in the PKIBS sector: as other were doing something, all started doing something. As Partner at Firm White states:

'I would say law firms are quite innovative, because we have to be, because of the market. I think a lot of law firms more generally especially in emerging market are very complacent, because they have grown up in the times when there was too much work and not enough people to do it. And so they hadn't really had the need to be innovative.' (Firm White, Partner)

Another important external change was change in regulation in the UK. Although most of commercial activity is regulated to some extent, PKIBS are mainly self-regulated and specifically regulated. It is also true that any firm is facing certain level of regulation that can influence its behaviour in the market. In this way we try to understand if liberalisation led firms to change their strategy and created pressures to become innovator. There are specific features of self- regulated services innovation (Miles, 2008). If regulation is a factor that a firm is facing it is an element the change of that should influence firm's behaviour in the market. Professionals, however, for a long time acted (and in some places still are) in certain conditions of legal cartel (Stephen, Love, 1999), since they had level of autonomy of self-regulating authorities that supervise their actions as well as legitimize their activity. For instance, for professionals, like lawyers and auditors, licences to start activity are issued (as well as

cancelled) by the local regulator composed of and by lawyers themselves. By having such a tool, professionals can not only assure standards of their ethics and reputation, but also influence number of competitors in the market.

The main external pressures related to regulation were looked in this study as overall regulation and the current change in the UK regulatory framework for the providers of legal services. Analysis of data showed from very low to very high perception of this external pressure. Overall the impact at the time of study was not as high as publicly announced, but it was steadily increasing. As one of the reasons for low impact being that large firms and smaller firms were mostly stressing that they are competing on a global level; therefore, for them national level regulation had low impact. As Manager at Firm Red explained the impact of the regulatory change on their activities:

‘Certainly not yet. The issue certainly is that ABS is only a UK law and part of Australia, There is no other jurisdiction that allows sort of third party ownership or anything sort of similar. In fact jurisdictions are absolutely violently opposed. We also see the arguments in the US recently in terms of Bar and stands on it. Actually, globally international law firms had no way to benefited from this regulation, unless we moved on our UK offices into a different structure, but because we are truly integrated, so we are not able to participate anyway.’ (Firm Red, Manager)

Even though the perception of regulation impact on the firms’ innovative activity and regulatory change varied, most of the firms accepted the fact that current regulatory change in the UK will affect larger or smaller part of their services. Some firms were actively using the change themselves and saw this regulatory liberalisation as an opportunity. As Partner at Firm Orange notified:

‘If you see all that as the opportunity, that opportunity is there for people. But if you hang around for 10 years and want to see what happens, it might be too late. So, yes, we absolutely are preparing to take as much advantage of this as possible.’ (Firm Orange, Partner)

Here below we present Table D to show analysis of External pressures.

Table D. Summary of analysis of External pressures

External pressures	Overall evaluation
<ul style="list-style-type: none"> - Client demand change, - Market change, - Cost pressure, - Regulation; 	<ul style="list-style-type: none"> - The highest pressures were perceived to be changing market that led to cost pressures and change in client demands; - Regulation was not such a strong factor in innovation process. Regulation as a source for innovation was mostly related to volume type of business strategy.

To conclude it has to be mentioned that external pressures overall showed highest awareness and were indicated as the main motivators for being more innovative in the majority of the firms. Even though more bespoke service orientated law firms said to have less threats from the new entrants of the market allowed by new regulators, other external pressures, like market change and change in client demands, were very highly perceived as a pressure to them. This is also seen from the analysis presented in the Annex 4. Definitely, many external pressures created also favourable conditions for the innovators to gain from the market change in terms of new offerings of the services, as their clients also faced market changes. In this way, they were turned into external captures.

V. Discussion and Conclusion

In this study we show that the external and internal factors that influenced firms' new service development processes were incorporated into their daily services provision in a way that these combinations allowed them to innovate. Therefore, by building on the different view to organizational ambidexterity, as the concept developed by Tuchman and O'Reilly (1997) and amended by O'Reilly and Tuchman (2007), this paper is expanding traditional exploitation and exploration and ambidexterity theory with respect to knowledge intensive business services. This paper takes as view that PKIBS organizations do not perceive their external and internal boundaries and exploitation and exploration activities as separated when they try to adapt to very fast changing and highly competitive environment (Thompson, 1967).

Previous studies on ambidexterity have shown that internal captures are not enough to balance efficiency and flexibility pressures (see Raisch et al., 2009). Therefore, in our analysis we added external captures to see how they were enacted in new service development process. PKIBS in their innovative process see exploitation and exploration as both: internal and external captures are merged into one process of learning for innovating. Instead of trying to balance between the exploiting and exploring, their success as innovators was based on capturing internal and external factors and combining them in exploring through exploitation. In addition, eliminating of boundaries without prioritising between the internal or external in these

processes was observed as one of the significant aspects in innovative processes. This paper argues that specificities of services and PKIBS allow them not to choose between strategies of exploiting and exploring, but use them simultaneously. Certain tensions that are considered to be present in manufacturing industries, like a trade-off between the differentiation and integration strategies are very low to non present in PKIBS; firm's ability to integrate both external and internal factors lead to success in new service development (Benner, Tushman, 2003; Raisch et al., 2009). Specific features as partnership as main governance structures, highly qualified human capital, more incremental nature of service innovation, high ability to be flexible within the professional organizational boundaries, allow PKIBS to use exploiting for exploring.

Previous case studies on service innovation do not represent the holistic view on service process (Adams et al., 2006). In particular new service development where new technology is necessary but not sufficient condition for innovation, remains under-researched. Some service innovation related studies, like Cabigiosu et al., 2012, although in rather specific and limited case study of 2 service firms confirmed that services do not trade off between customisation and standardisation. Instead, they were shown to be capable to do both. This study suggested the more holistic view on new service development in PKIBS facing environmental changes. We have analysed new service development according to the internal and external captures and pressures in PKIBS. Adding internal and external pressures to our analysis, we could see what role environmental changes played in PKIBS decision to innovate. It was shown that same professionals that were doing the best job on providing daily services were eminent part of innovation process. This automatically suggests why partnership and apprenticeship models do work for PKIBS, in particular for lawyers; it leaves necessary room for freedom and team work is not imposed it is realised or it is hardly existing. However, formal structures and policies to enhance these internal captures were necessary as well. On the other hand, mixed skills and competencies, proactive market orientations, inclusion of different kinds of external knowledge was being incorporated in internal daily working structures and procedures. The firms perceived external pressures differently: weaker by the ones that considered their position as very strong and more detailed attention was paid to the market changes by those who were trying to strengthen their position. It is reflected in all cases that higher perception of market related changes allowed minimizing the risks when innovating.

The new ideas were mostly cross-fertilised from other knowledge intensive business services, but also from hospitality, retail, and even manufacturing industries.

Ten cases of innovators - law firms were analysed in order to be able to compare the internal and external factors that influenced their internal processes of new service development. It was revealed that seeing both exploiting and exploring, as one innovative strategy was dominant in the most successful innovators. High levels of internal awareness and communication as well as permanent work on external possibilities and dealing with external changes allowed firms to be more successful in developing new services. The firms did not differentiate highly between the boundaries of internal and external captures and pressures; they also did not see them as confronting opposite tensions, but rather as complimenting each other possibilities. PKIBS innovators considered external environmental change as a possibility to act and made internal changes as inevitably related to changing external environment. Therefore, it is suggested that PKIBS ability to become ambidextrous is more natural than other types of organisations and is related to what extent they are able to embed their exploration activities in their service provision, where right combination of internal and external factors are paramount in new service development.

VI. Contributions. Managerial and Policy Implications

This research contributes to the literature in two ways: we extended the knowledge to the innovative tensions of exploration and exploitation and also added to service innovation literature. We explained that due to the certain specific features of PKIBS innovation, exploration and exploitation firms have natural ability to enhance simultaneous ambidexterity (O'Reilley, Tushman, 2013). However, differently from previous research, we argue that structural unit in the innovative PKIBS were not responsible for innovation, but for creating conditions for participation of the individuals and the teams in the new service development process. As one of the characteristics of individuals and teams in PKIBS are that by providing daily services, they have the best expertise knowledge that is required for innovation. Therefore, we suggest that PKIBS have natural ability to become ambidextrous, if they put innovation as a part of their main strategy. In addition, we suggest that they follow new type of ambidexterity, which is structural and contextual at the same time (O'Reilley, Tushman, 2013). By combining internal and external factors of new

service development we extend knowledge on how ambidextrous organisations balance acquisition of knowledge from both internal and external sources (Raisch et al., 2009). In particular, we suggest that external knowledge acquisition was embedded through their exploitation activities and in this way allowed them to innovate through their daily service provision. Innovative PIKBS did not consider exploitation and exploration as opposing forces. This in its turn greatly reduced tensions of the trade off between efficiency and flexibility internally.

The PKIBS innovation process analysis is important for understanding what are the main factors of innovation when technology is not the main condition to develop new service. In the broader sense, our research proposed insights for further study of PKIBS and added to the literature of professional service firm management. This paper offers additional path for consideration for the managements of PKIBS. Moreover, many organisations that are working with highly skilled people are facing similar to PSF tensions. These organisations could benefit from understanding innovative activities of PSF and innovative processes in these firms. Generally, changes in regulation and economic conditions, only strengthened influence of knowledge intensive businesses and created a new platform for investments in the growing economy for broader range of investors. KIBS are currently changing and becoming new platform for innovation: in terms of output as well as in terms of emerging new fields of services, and new organisational forms. As KIBS are continuing to grow, we believe that adding to the theory of new service development literature is rather timely and value-adding effort to deepen understanding of service firms' management and becoming more innovative knowledge intensive service firm.

Certain factors that were addressed in this study have either been not analysed in combination: some aspects were not considered as PKIBS is thought to be rather 'traditional and non-innovative' sector. Our study showed that not only PKIBS innovate, but we can benefit from studying their new service development process. Better understanding and additional knowledge of specific features and characteristics of these organisations can be helpful for potential investors, useful for policy makers as well as managers and professionals. Especially considering the on-going change that is sometimes addressed as 'servitization' and modern economies becoming more knowledge intensive (Gallouj, Savona, 2010). Currently questions placed at the

European regulatory framework are if liberalisation is what European companies need to successfully compete in the global arena. In addition, knowledge obtained from the studies on services firms can be used by currently emerging new phenomenon of the public service sector innovation, which is stressed as one of the priority sectors by EU. Regulation and policy setting in respect to KIBS innovation are within the current debates on European level. Knowing more about the most important determinants for success of KIBS innovation, helps setting appropriation regimes, choosing regulation, and public policies (Gallouj, Savona, 2010). Learning about specificities of PKIBS innovation processes, can be applied in organising public services' innovation.

VII. Limitations and Future Directions

The study was performed in certain specific geographical location and was limited in its timing. According to author's understanding, the outcomes of the regulatory change in the UK legal services sector is expected to appear in more clear shapes in approximately 8-10 years. Since regulation is very new and is limited to the UK, the real size of the effects might not be evident yet. Additional later studies would reveal new insights about the effect of regulation change. In the future we would be able to see if the whole legal sector would go backwards to being more traditional, autonomous and try to protect their markets from innovative firms, services and regulatory frameworks. It seems more likely, however, that business services are merging and taking the opportunities suggested by the liberalisation. Some new service are establishing offering multi-functional business service that try to become universal knowledge intensive business service provider, by even incorporating technology intensive services (Dance, 2008). There could be also splitting of legal sector into ones staying more traditional and have limited potential for innovation and growth (like criminal law, small and medium firm bookkeeping, bankruptcy services) and being more innovation based and trying to grow and expand, which is hardly possible without being innovative.

Overall, we believe that for better understanding of how innovation in PKIBS occurs, the analysis of factors in accordance to the type of innovation would be useful. In our analysis the internal and external factors were extracted from data; then they were

compared to the previous literature by going through iteration process with the service innovation literature and going back to data. As all the firms had some kind and level of innovation activity, all the firms showed quite high awareness of pressures and use of captures. Therefore, the main comparison within the innovation process among the firms led to concluding that the main differences among the PKIBS innovators' innovation processes were within the different kinds of innovation that they were developing. The best combinations of internal and external factors could be defined by the type of innovation that PKIBS is concentrating on in its innovation strategy. Our sample of PKIBS innovators showed that those firms that were trying to innovate in more than one type of new services were internally and externally perceived as more successful innovators. We believe this is a promising path to explore further PKIBS and service innovation.

Additionally, wider study of internal processes dynamics might be useful for better understanding purely internal organizational pressures and management challenges when changing KIBS. As innovating is incorporating exploring into exploiting, this actual understanding and even deeper insights would be useful to tackle more precisely the exact mechanisms of this ambidexterity. Keeping in mind the diversity present in services, it would be interesting to understand to what extent other non-technological PKIBS are using these types of processes to innovate independently.

Generally it is considered that only large law firms will be reacting to environmental changes by enhancing their innovation activity. Because their market power provide for some additional legitimization to be deviating from the standard; which in this case would be presenting firm as a traditional reliable value organization. In this study, it was noticed that the ability to capture internal and external factors, does not depend necessarily on the size or available resources in new service development process. Innovative capabilities of firms innovators were mainly defined by how they managed to incorporate innovation and extend their interest outside of the traditional dominant logic boundaries into their daily working procedures and culture of the firm. In this study only one really small firm was analysed and this case confirmed that size was not among the main important factors in innovation. Small law firms, however, at least in the beginning of their activity should be led by the individual rather than organisational strategies. It would be interesting to extend this question to see what are the characteristics of the individuals that become innovative professionals.

References:

- Adams, R., Bessant, J., Phelps, R. 2006. Innovation management measurement: A review. *International Journal of Management Reviews*, 8(1), 21-47.
- Akerlof, G. A. 1970. The Market for "Lemons": Quality Uncertainty and the Market Mechanism, *The Quarterly Journal of Economics* , Vol. 84, No. 3, 488-500;
- Amara N., Landry R., Doloreux D. 2009. Patterns of Innovation in knowledge - intensive business services, *The Service Industries Journal*, 29:4, 407-430;
- Anand N., Gardner H.K. 2007. Morris T., Knowledge-based Innovation; Emergence and Embedding of New Practice Areas in Management Consulting Firms, *Academy of Management Journal*, Vol. 50, No. 2, 406-428;
- Andersen B., Metcalfe J.S., Tether B. 2000. Distributed Innovation Systems and Instituted Economies Processes in Innovation Systems, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I. (2000), Kluwer Academic Publisher;
- Andriopoulos C. and Lewis M. W. 2009. Exploitation-Exploration Tensions and Organizational Ambidexterity: Managing Paradoxes of Innovation, *Organization Science*, 20:4, 696-717;
- Antonelli C. 2000. Recombination and Production of Technological Knowledge, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I. (2000), Kluwer Academic Publisher;
- Arrow K. J. 1962. The Economic Implications of Learning by Doing, *The Review of Economic Studies*, Vol. 29, No. 3, 155-173;
- van der Aa, Elfring T. 2002. Realizing Innovation in Services, *Scandinavian Journal of Management*, 18, 155-171;
- Auh S., Menguc B. 2005. Balancing exploration and exploitation: The moderating role of competitive intensity, *Journal of Business Research*, Vol. 58, Issue 12, December 2005, Pages 1652–1661;
- Baden-Fuller, C. 1995. Strategic Innovation, Corporate Entrepreneurship and Matching Outside-in to Inside-out Approaches to Strategy Research, *British Journal of Management*, 6: S3–S16. doi: 10.1111/j.1467-8551.1995.tb00134.x;
- Benner, M. J., Tushman, M. 2002. Process management and technological innovation: A longitudinal study of the photography and paint industries. *Administrative Science Quarterly*, 47(4), 676-707;

- Benner, M. J., Tushman, M. L. 2003. Exploitation, exploration, and process management: The productivity dilemma revisited. *Academy of management review*, 28(2), 238-256;
- Berghman L., Matthyssens P., Streukens S.,Vandenbempt K. 2013. Deliberate Learning Mechanisms for Stimulating Strategic Innovation Capacity, *Long Range Planning*, Vol. 46, Issues 1–2, 39–71;
- Benner M.J., Tushman M.L. 2003. Exploitation, Exploration, and Process Management: the Productivity Dilemma Revisited; *Academy of Management Review*, Vol. 28, 238-256;
- Bettiol, M., Di Maria, E., Grandinetti, R. 2013. I servizi ad alta intensità di conoscenza si industrializzano. *Economia e Società Regionale*;
- Bessant J., Francis D. 1999. Developing Strategic Continuous Improvement Capability, *International Journal of Operations & Product Management*, Vol. 18, No. 11, 1106-1119;
- Brown S. L., Eisenhardt K. M. 1997. The Art of Continuous Change: Linking Complexity Theory and Time-Paced Evolution in Relentlessly Shifting Organizations, *Administrative Science Quarterly*, Vol. 42, No. 1, 1-34;
- Bryson J., Monnoyer M. 2002. Understanding the relationship between services and innovation: the RESER review of the European service literature on innovation, 2002; *The Service Industries Journal*, 24:1, 205-222;
- Cabiosu A., Campagnolo D., Costa G., Furlan A. 2012. Knowledge dynamics in third party logistics: balancing Exploitation and exploration through service architectures; in Di Maria E., Grandinetti R., Di Bernardo B., *Exploring Knowledge-intensive business services*, Palgrave Macmillan, 2012;
- Calderini M., Garrone P. 2003. Liberalisation and Balance of R&D Activities: An Empirical Analysis, on R&D Investments, in *Corporate Governance, Market Structure and Innovation*, Edward Elgar Publishing Limited;
- Coombs R., Miles I. 2000. Innovation, Measurement and Services: the New Problematique, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I. (2000), Kluwer Academic Publisher;
- Corbin, J. Strauss, A. 1998. Basics of qualitative research: Techniques and procedures for developing grounded theory, 3rd ed., Sage Publications Inc.; (2008);
- Corrocher N., Cusmano L., Morrison A. 2012. Competitive Strategies in Knowledge-Intensive Business Services: Evidence from Lombardy, in Di Maria E., Grandinetti R., Di Bernardo B., *Exploring Knowledge-Intensive Business Services*, Palgrave Macmillan, 2012;
- De Brentani U. 2001 Innovative Versus Incremental New Business Services: Different Keys for Achieving Success, *Journal of Product Innovation Management*, vol. 18, no. 3, 169-187;

- Di Maria E., Grandinetti R., Di Bernardo B. 2012. Exploring Knowledge-Intensive Business Services, Palgrave Macmillan;
- Drejer I. 2004 Identifying Innovation in Surveys of Services: a Schumpeterian Perspective, *Research Policy* 33, 551-562;
- Eisenhardt K.M. 1989. Building Theories from Case Study Research, *Academy of Management Review*, vol. 14, 620-627;
- Eisenhardt K. M., Graebner M. E. 2007. Theory Building from Cases: Opportunities and challenges, *The Academy of Management Journal*, vol. 50, no. 1, 25-32;
- Eisenhardt, K. M., Tabrizi B. N. 1995. Accelerating Adapting Processes: Product in the Global Computer Industry, *Administrative Science Quarterly*, Vol 40, No.1, 84-110;
- Empson L., Broschak J.P., Leblebici H. 2010. Beyond received wisdom: An integrative perspective on organizing professionals, Working paper;
- Empson L. 2010. Beyond Dichotomies: A multi-stage model of governance in professional service firms, Working paper;
- Empson L. 2000. Merging Professional Service Firms, *Business Strategy Review*, vol. 11-2, 39-46;
- Empson L. 2007. *Managing the Modern Law Firm*, Oxford University Press, New York;
- Flick U. 1995. *An Introduction to Qualitative Research*;
- Fostenlokken S. M., Lowendahl B. R., Revang O. 2003. Knowledge Development through Client Interaction: A Comparative Study; *Organisation Studies*, 24 (6), 859 - 879;
- Gann D. M., Salter A.J. 2000. Innovation in project-based, service -enhanced firms: the construction of complex products and systems, *Research Policy* 29, 955-972;
- Garud R., Gehman J., Kumuraswamy. 2011. Complexity Arrangement for Sustained Innovation: Lessons from 3M Corporation, *Organization Studies*, 32:737, 737-766;
- Gallaher M.P., Petrusa J. E. 2006. Innovation in the U.S. Service Sector, *Journal on Technology Transfer*, 611-629;
- Gallouj F. 2010. Service Innovation: Assimilation, Differentiation, Inversion and Integration, Chapter 75, in Bidgoli H., *The Handbook of Technology Management*, John Wiley and Sons, 989-1000;
- Gallouj F. 2002. Interaction Innovation: a Neoshumpeterian Model, in Sundbo J., Guglsang L., *Innovation as Strategy Reflexivity*, Routhledge, 29-56;

Gallouj F. 2002. Knowledge-Intensive Business Services: Processing Knowledge and Producing Innovation, in Gadrey J., Gallouj F., Productivity, Innovation and Knowledge in Services, Edward Elgar, 256-284;

Gallouj, F., Savona, M. 2010. 1 Towards a theory of innovation in services: a state of the art. *The Handbook of Innovation and Services—A Multi-disciplinary Perspective*, 27-48;

Geerts, A.; Blindenbach-Driesesen, F.; Gemmel, P. 2010. Achieving a balance between exploration and exploitation in service firms: a longitudinal study; In: *Academy of Management Proceedings. Academy of Management*, 1-6;

Gibbert M., Ruigrok W., Wicki B. 2008. What Passes as a Rigorous Case Study? *Strategic Management Journal*, 29, 1456-1474;

Gibson, Cristina B., and Julian Birkinshaw. 2004. The antecedents, consequences, and mediating role of organizational ambidexterity. *Academy of management Journal* 47.2: 209-226;

Greenhalgh T., Glenn R., Macfarlane F., Bate P., Kyriakidou O. 2004. Diffusion of Innovations in Service Organizations: Systematic Review and Recommendations, *Milbank Quarterly*, vol. 82, issue 4, 581–629;

Greenwood R., Empson, L. 2003. The Professional Partnership: Relic or Exemplary Form of Governance? *Organisation Studies*, 24(6):909-933;

Heusinkveld S., Benders J. 2005. Contested Commodification: Consultancies and their Struggle with New Concept Development; *Human Relations*, Vol. 58(3); Sage publications, London;

Den Hertog P., Bilderbeek R., 1999. Conceptualising Service Innovation and Service Innovation Patterns, Thematic essay within framework of the Research Programme Strategic Information Provision on Innovation and Services (SIID) for the Ministry of Economic Affairs, Directorate for General Technology;

Den Hertog P. 2000. Knowledge-Intensive Business Services as Co-producers of Innovation, *International Journal of Innovation Management*, Vol. 4, No. 4, 491-528;

Hipp C., Grupp H. 2005. Innovation in the Service Sector: The Demand for Service-Specific Innovation Measurement Concepts and Typologies, *Research Policy* 34, 2005, 517-535;

Hipp C. 2000. Information Flows and Knowledge Creation in Knowledge-Intensive Business Services: Scheme for Conceptualisation, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I. (2000), Kluwer Academic Publisher;

Hipp C., Tether B.S., Miles I. 2000. The Incidence and Effects of Innovation in Services: Evidence from Germany, *International Journal of Innovation. Management*,

Vol.4 No.4, 417;

Hitt M.A., Bierman L., Shimizu K. 2001. Direct and Moderating Effects of Human Capital Strategy and Performance in Professional Service Firms, *The Academy of Management Journal*, vol. 44, no. 1;

Hughes A., Wood E. 2000. Rethinking Innovation Comparisons between Manufacturing and Services: the Experience of the CBR SME Surveys in the UK, in *Service Economy Measurement and Case Study Development*, Metcalfe I.S., Miles I., (2000), Kluwer Academic Publisher;

Jong J.P.J., Vermeulen P.A.M. 2003. Organizing Successful Service Development: A Literature Review, *SCALES papers at EIM Business and Research Policy*;

Johne A., Storey C. 1998. New service development: a review of the literature and annotated bibliography", *European Journal of Marketing*, Vol. 32, Issues 3/4, 184 – 251;

Dance L. E. 2008. The UK Legal Services Act: What Impacts Loom or Global La Firm Competition? *La Practice Magazine*, Vol. 34, no. 5, 35;

Dolfsma W. 2004. The Process of New Service Development – Issues of Formalisation and Appropriability, *ERIM Report Series Research in Management*;

Doloreux D., Sheamur R. 2010. Exploring and Comparing Innovation Patterns Across Different Knowledge Intensive Business Services, *Economics of Innovation and New Technology*, 2010, 19:7, 605 -625;

Drejer I. 2004. Identifying Innovation in Surveys of Services: a Schumpeterian Perspective, *Research Policy* 33, 551-562;

Drejer I. 2011. Identifying Innovation in Surveys of Services: a Schumpeterian Perspective, *Service Innovation and New Service Development*;

Dunstone S. 2009. Be the Fire! 12 ways to get more innovation happening in your law firm; *International Bar Association Conference*, Madrid;

Kandampully J. 2002 Innovation as the Core Competency of a Service Organisation: the Role of Technology, Knowledge and Networks, *European Journal of Innovation Management*, Vol. 5, No. 1, 18-26;

Larsen J.N. 2000. Supplier-User Interaction in Knowledge-Intensive Business Services: Types of Expertise and Modes of Organization, chapter 8;

Lindsey V., Chadee D., Mattsson J., Johnston R., Millett B. 2003. Relationships, the Role of Individuals and Knowledge Flows in the Internationalisation of Services Firms, *International Journal of Service Industry Management*, Vol. 14, Issue 1, 7-35;

Love H.J., Stephen F.H. 1997. Deregulation and Professional Boundaries: Evidence from English Legal Profession, *Business and Economic History*, Vol. 26, no. 2;

- Løwendahl B.R. 2007. The strategies and management of Professional Service Firms, Service Forum, Tampere, Finland;
- Maglio P.P., Spohrer J. 2008. Fundamentals of Service Science, Academy of Marketing Science, 36, 18-20;
- Maister D.H. 1993. Managing the Professional Service Firms, Free Press Paperbacks, New York;
- March J. 1991. Exploration and Exploitation in Organisational Learning, Organisation Science, Vol. 2, No. 1; 71-87;
- Miles I., 1993. Services in the new industrial economy, Futures Volume 25, Issue 6, Special Issue The Future of Industrialization, July–August 1993: 653–672;
- Miles I. 2000. Services Innovation: Coming of Age in the Knowledge-Based Economy, International Journal of Innovation Management., Vol. 4, 371;
- Miles I. 2003. Services and the Knowledge Based Economy in Tidd J. and Hull F. M., Service Innovation. Organisational Responses to Technological Opportunities and Market Imperatives, Chapter 4;
- Miles I. 2008. Patterns of Innovation in service industries, IBM System Journal, vol. 48, no. 1, 115-128;
- Di Miles M. B., Huberman A. M. 1994. Qualitative Data Analysis: An Expanded Sourcebook, Sage;
- Miozzo, M., Miles, I. (Eds.) 200. Internationalization, Technology and Services. Edward Elgar Publishing, Cheltenham, Northampton, chapter I;
- Miozzo M., Soete, L. 2001. Internationalization of Services: a Technological Perspective. Technological Forecasting and Social Change, Vol. 67, 159-185;
- Miozzo M., Ramirez M., 2003. Services Innovation and Transformation of Work: the Case of UK Telecommunications, New Technology, Work and Employment, 18:1, 62-79;
- Metcalf I.S., Miles I. 2000. in Service Economy Measurement and Case Study Development, Chapter 1, Kluwer Academic Publisher;
- Muller E., Doloreux D. 2009. What We Should Know About Knowledge-Intensive Business Services, Technology in Society, Journal of Technology, 31, 64-72;
- Muller E., Doloreux D. 2007. The Key Dimensions of Knowledge-Intensive Business Services (KIBS) Analysis: a decade of evolution, Working papers;
- Muller E., Zenker A. 2001. Business Services as Actors of Knowledge Transformation: the Role of KIBS in regional and national innovation systems,

Research Policy 30, 1501-1516;

Muller E., Zenker A., Ramos J.C. 2012. Knowledge Angels, Creative Behaviours, and Emerging Innovation Modes: Observations from Alsace, Baden-Wurttemberg, and Catalonia, in Di Maria E., Grandinetti R., Di Bernardo B., Exploring Knowledge-Intensive Business Services, Palgrave Macmillan;

Nijssen E.J., Hillebrand B., Vermeulen P.A.M., Kemp R.G.M. 2006. Exploring Product and Service Innovation Similarities and Differences, International Journal of Research in Marketing 23, 2006, 241-251;

Nonaka I. and Takeuchi H.1995. The Knowledge-Creating Company, Oxford University Press, New York;

Normann R. 1991. Service Management: Strategy and Leadership in Service Business, 2nd Ed., 1991, Chichester, Wiley & Sons;

Oke A. 2001. Making it Happen: How to Improve Innovative Capability in a Service Company; Journal of Change Management, 2:3, 272-281;

Okhuysen G., Bonardi J-P. 2011. Editor's Comments: the Challenges of Building Theory by Combining Lenses; Academy of Management Review, vol. 36, no. 1, 6-11;

O'Reilly, C. A., Tushman, M. L. 2008. Ambidexterity as a dynamic capability: Resolving the innovator's dilemma. Research in organizational behavior, 28, 185-206;

O'Reilly, C. A., Tushman, M. L. 2013. Organizational ambidexterity: Past, present, and future. The Academy of Management Perspectives, 27(4), 324-338;

Ordanini A., Maglio P.P. 2009. Market Orientation, Internal Process and External Network: A Qualitative Comparative Analysis of Key Decisional Alternatives in the New Service Development, Decision Sciences, 39vol. 40, no. 3, August, 2009;

Pfeffer, J., Salancik, G. 1978. The External Control of Organizations: A Resource Dependence Perspective, New York Harper & Row;

Preissl B. 2000. Service Innovation: What Makes It Different? Empirical Evidence from Germany, in Service Economy Measurement and Case Study Development, Metcalfe I.S., Miles I., Kluwer Academic Publisher;

Raisch S., Birkinshaw J., Probst G., Tushman M.L. 2009. Organisational Ambidexterity: Balancing Exploitation and Exploration for Sustained Performance, Organisation Science, Vol. 20, No. 4, 685-695;

Reidenbach R.E., Moak D.L. 1986. Exploring Retail Bank Performance and New Product Development: A Profile of Industry Practices, Journal of Product Innovation Management, vol. 3, Issue 3, September 1986, 187-194;

Romanelli E., Tushman M. L. 1994. Organizational Transformation as Punctuated Equilibrium: An Empirical Test; *Academy of Management Journal*, October 1, 1994 37:5 1141-1166;

Sheremata W. A. 2000. Centrifugal and Centripetal Forces in Radical New Product Development under Time Pressure, *The Academy of Management Review*, Vol. 25, No. 2, 389-408;

Schilling A., Werr A., Gand S., Sadas J-C. 2011. Understanding Professionals' Reactions to Strategic Change: the role of threatened professional identities; *The Service Industries Journal*, 1-17;

Schumpeter J. 1934. *Capitalism, Socialism and Democracy*, Harper and Row; New York;

Sen Gupta R., *Innovative Lawyers 2011*, Financial Times special edition, 6 October, 2011;

Sherer P.D., Lee K. 2002. Institutional Change in Large Law Firms: A Resource Dependency and Institutional Perspective; *Academy of Management Journal*, 2002, vol. 43, no.1, 102-119;

Siggelkow N. 2007. Persuasion with Case Studies, *Academy of Management Journal*, vol. 50, no. 1., 20-24;

Sivula P., van den Bosch F.A.J., Elfring T. 1997. Competence Building by Incorporating Clients into the Development of a Business Service Firm's Knowledge Base, in *Strategic Learning and Knowledge Management*, Sanchez R. and Heene A., 1997, John Wiley & Sons Ltd.;

Soete L., Y Miozzo M. 1989. Trade and Development in Services. A Technological Perspective, Working Paper, Maastricht, Ref. 89-031;

Stephen F. H., Love J.H. 1999. *Regulation of the Legal Profession*;

Suddaby, R., Greenwood, R., Wilderom, C. 2008. Introduction to the Journal of Organizational Behavior's special issue on professional service firms: where organization theory and organizational behavior might meet. *Journal of Organizational Behavior*, 29: 989–994. doi: 10.1002/job.552;

Sundbo J. 1997. Management of Innovation in Services, *The Services Industries Journal*, Vol. 17, No. 3, 1997 July, pp. 432-455;

Sundbo J., Gallouj F. 2000. Innovation as a Loosely Coupled System in Services, 2000, in *Service Economy Measurement and Case Study Development*, Chapter 1, Kluwer Academic Publisher;

Stephen F. H., Love J.H. 1999. *Regulation of the Legal Profession*;

- Susskind, R. 1996. *The Future of Law*, Oxford University Press Inc., New York, 1996;
- Terry L. S. 2008. The Future Regulation of the Legal Profession: The Impact of Treating the Legal Profession as 'Service Providers', *Journal of the Professional Lawyer*; 189-211;
- Tether B. S., Hipp C., Miles I. 2001. Standardisation and particularisation in services: evidence from Germany, *Research Policy*, vol. 30, no. 7, August 2001, 1115–1138;
- Thompson J. D. 1967. *Organizations in Action: Social Science Bases of Administration*. New York: McGraw-Hill;
- Tushman M.L., O'Reilly C.A. 1996. Ambidextrous organizations: managing evolutionary and revolutionary change. *California Management Review*, 38(4): 8-29;
- Tushman M. L., O'Reilly C. A. 1997. *Winning through Innovation: A Practical Guide to Leading Organisational Change and Renewal*; Boston, Ma: Harvard University press;
- Wood P. 2006. The Regional Significance of Knowledge-Intensive Services in Europe; *Innovation: The European Journal of Social Science Research*, 19:1, 51-66;
- Walsh I.J., Bartunek J.M. 2011. Cheating the fates: Organisational Foundings in the Wake of Demise, *Academy of Management*, vol. 54 no. 5, 2011, 1017-1044;
- Yin R.K. 2003. *Case Study Research Design and Methods*, 3rd Edition, 2003, Sage, London, UK.

Chapter IV. Reinventing Corporate Entrepreneurship in PKIBS. Evidence of New Service Development from Big Law Firms

I. Introduction

Since service industry was growing very fast in the last 50 years, international organisations and European Union were supporting service innovation development and so called 'knowledge economy' creation as a main trend of economic policy. Knowledge intensive business services, especially those that were considered to be traditional, have changed their profile got internationalised and were forced to modify their structures and work organization in order to be successful in the changing markets. Currently, the sector faced new challenges again, since clients have become more price and quality cautious because of the complex conditions of global economy and future uncertainties. Professional service firms (PSF) are professional knowledge intensive business services (PKIBS) that were going under drastic growth and changes in their environments in the last years (Miles et al. 1995, Empson, 2000, 2007). PSF providing legal business services recently has been influenced by at least two environmental factors that forced them to change: financial crisis that started in 2007-2008 and regulatory reforms in some countries, like the UK. When facing these changes, the phenomenon of innovative law firms start sizzling business and professional media debate. Law firms start putting innovations and innovative service as their differentiators in the increased competition.

Corporate entrepreneurship (CE) is activities of individuals or teams within the organisations that intend to suggest new ideas or strategies that could be incorporated into the main general strategy of the firm. It is considered to be one of the mechanisms that firms turn to in order to go through the difficult management in uncertain market conditions (Guth, Ginsberg, 1990; Dess et al., 2003). However, professionals and entrepreneurs were placed at the opposite sites for quite a while in the academic management research. The 'conflicting' context of PSF for entrepreneurship and innovation has been disputed in the literature (Reihlen, Werr, 2012). The main conceptual difference between entrepreneur and professional is said

to be that professionals are not motivated by commercialization, but by a constant challenge to solve difficult problems (Maister, 1993; Reihlen, Werr, 2012). Although, current changes in the PSF market had presented new types of professionals: some that are presenting themselves as entrepreneurial, others that are motivated by volume work and standardization of the PSF services. It cannot be argued anymore that professionals are not entrepreneurial, as entrepreneurial qualities are put on the list of requirements for positions in PSF.

In this paper we argue that large law firms use corporate entrepreneurship mechanisms to enhance innovation internally in the firms. There are certain factors why we believe corporate entrepreneurship became recently more visible in the context of large international law firms. First reason is the environmental change that affected the empirical setting of this study: deregulation and economic crisis that were also said to be influencing corporate entrepreneurship initiatives in manufacturing firms (Guth, Ginsberg, 1990). Moreover, innovation was also shown to be reaction to environmental change in service firms (Sundbo, 1997). Secondly, PSF were going through internationalization, mergers and structural changes of the market for quite some time (Empson, 2010). Internationalization was shown to be one of the triggers for corporate entrepreneurship activities and lead to the success of the organization in complicated processes (Dess et al., 2003). Thirdly, considering specific features of PSF as highly skilled human capital (Maister, 1993) and specific governance structures (Empson, 2007), corporate entrepreneurship seems to be the best and easiest way to reach for incremental innovation in turbulent environments. Especially as PSFs are knowledge intensive business services that rely on selling newly developed knowledge that is based on the expertise of their staff. It was shown that human capital and social capital are considered the main conditions for growth in KIBS (Gianecchini, Gubitta, 2012).

We have chosen to analyse the empirical setting of the international innovative law firms in UK to see if service liberalization had influenced firms' behaviour, as major deregulation of legal services occurred recently in the UK. We later included one Italian law firm to see, if similar could be found in innovative law firms outside of the UK. We expect that sectors like law and accounting bearing strong historical values' and ethical standards' are highly affected by environmental changes (Reihle, Werr,

2012). During the process of iteration between our data and literature and data analysis, corporate entrepreneurship patterns were revealed. To address this new tendency in the PSF and corporate entrepreneurship literature and build on this exciting theory, we have conducted an explorative case study of 10 international law firms and argue that these firms use models of corporate entrepreneurship to innovate in uncertain environments. By asking how law firms innovated using corporate entrepreneurship within their main innovation and firms' renewal strategies, we intend add to the new literature connecting corporate entrepreneurship and professional firms. It has to be noted that the theories of entrepreneurship and professional firms are not placed together first by this research. There are, very new, but very appealing attempts to analyse opportunity search and exploration by professionals (e.g. Greenwood, Suddaby, 2006; Reihlen, Werr, 2012; Muzio, Flood, 2012; Løwendahl, 2012). Both theories are quite well established in the different contexts. However, the new context and merging the theories in a new way offers the new insights to both of these theoretical approaches as well as addresses the new organizational phenomenon that builds basis for further exploration (Oxley et al., 2010). We argue that professionals are entrepreneurial and, even more, PSF are using corporate entrepreneurship models to enhance innovation facing changing environment. Our main contribution is to shed more light on service innovation processes in KIBS by explaining what are the patterns of corporate entrepreneurship that are used by successful PKIBS innovators.

II. Theoretical background

The new opportunities to put PSF and CE together were offered lately, when entrepreneurship was argued, to be applicable to the PSF (Reihlen, Werr, 2012). For instance, Muzio and Flood (2012) in their historical analysis of professionalism, entrepreneurship, and managerialism are asking if there was ever a real basis for claiming that essential differences in the nature of profession and commercialism existed at all; or was it changing PSF and external factors that created a new phenomenon. By viewing entrepreneurship like opportunity searching and opportunity exploring behaviour, entrepreneurship entered research of PSF (Eckhardt, Shane, 2003; Hitt, Ireland, Sirmon, Trahms, 2011; Frese, 2009; Reihlen, Werr, 2012). Entrepreneurial activities of professionals are still very new for academic research.

Some attempts to analyse entrepreneurial skills on the individual level of knowledge workers in banks were made some years ago, e.g. Groysberg et al., 2001. On the other hand, banks are big employers of diverse type of human capital and most of them are not partnerships. Corporate entrepreneurship within large international PKIBS, even though it seems quite an evident phenomenon in fast growing and important PSF sector, was for a long time ignored by the scholars (Muzio, Flood 2012; Lowendahl, 2005). Further in this part we will lay out the main applicable definitions and constructs of corporate entrepreneurship, then explain the main characteristics of PKIBS important to our findings. Eventually, we try to discuss how we see CE and PSF merging as united platform for innovation processes in this type of organisations.

1. Corporate entrepreneurship

Corporate entrepreneurship (CE) is explained by developing new autonomous strategies in order to ‘engage in diversification’ within the firm (Burgelman, 1983 (3); Porter, 1980). Definitions of CE in academic literature vary. Sharma and Chrisman (1999) defined CE as ‘process whereby an individual or a group of individuals, in association with an existing organization, create a new organization or instigate renewal or innovation within organization’. In this work we consider corporate entrepreneurship as behaviour of individuals (or teams) within the firm that is directed to search for the new ideas and possibilities within the areas of firm commercial activity or areas that are not directly related to of the current main activities of the firm. Although this definition is quite restricted it is also taking into consideration internal organizational or structural change; it also encompasses incremental innovation, which is more common in PSF (Sundbo, 1997, Hipp, Grupp, 2005). The organizations’ strategies can be induced by the official corporate strategy set by the higher levels of management as well as emerging at the autonomous strategic activities (Burgelman, 1983 (1)). On the other hand, such a behaviour of developing and proposing autonomous strategies can be induced by organisational structures and policies (Ireland et al., 2009). Firm’s strategy to enact corporate entrepreneurship is associated with the changes in environment that require firms to change in order to stay competitive or even to survive (Ireland et al., 2009).

Successful innovation by finding new combinations is one of the most powerful drivers for a change (Schumpeter, 1934). Previous studies have shown CE is enacted in the processes of renewal of established organizations in order to innovate and gain a competitive advantage (Corbett et al., 2013). However, CE could be as well evaluated as potential conflict of interests between individuals and organisations that they work for (Jones, Butler, 1992). In addition, it could be defined as an internal conflict among the different levels of individuals working at different levels of the hierarchy of the organization. In particular, this could be an issue in clear corporate structures, where the functions are divided more strictly and exploration for innovation activity is limited to structural unit (R&D department) or/and top management. PKIBS, however, hardly ever have such a clear corporate structures, as their internal processes and system of governance have different pattern of division of functions and innovation (e.g. Anand et al., 2007).

Autonomous individual strategies might be considered as falling out of the main organization's perspective and can be eliminated by the structure as 'errors' (Burgelman, 1983 (3)). The possible conflict with current or main strategy of the firm presents difficulties for the top management to accept new individual initiatives and use them for the benefit of the firm. This problem may get even bigger in partnerships, where there are several types of partners that are in their turn making their own strategies. The main issue being that disruptive activities of individuals and diverse structural units that are not following main corporate strategy of the firm (or the particular partner) is considered as threatening the main activity of the firm (Schumpeter, 1934; Burgelman 1983). In cases autonomous ideas are not planned for and are not a priori approved by the higher level of management, it is not a part of a planned future behaviour of the firm. The current and main strategy of the firm is considered to be firm's perception of its main past history that defines how it acts in the present and how it sees the further frame of its behaviour and future goals, including the structure, main actors and responsibilities thereof as well as the use of resources (following Burgelman, 1983 (3)).

The risk of failure as well as subordination mechanisms often can place CE in outskirts of the firm's activities. The question is if the CE itself or improper processes that take too long to evaluate the value of CE and compatibility of it to the main

strategy and possible value of it to the firms lead to failure. The processes also can be non-evaluating the risk that is presented by the CE initiative and taking it too fast to the stage of implementation that can also lead to failure as risks were undervalued (Corbett et al., 2007). CE, however, is also recognized as 'one of the main tools for innovation in the manager's toolkit' (Corbett, 2013). Academic research emphasized the capability of the firm to enhance CE to be one of the main factors in organizational learning and innovation (Burgelman, 1983).

Majority of process studies of CE activities were trying to develop models that would reveal what are the inputs or antecedents, processes or internal strategies, and outputs or consequences of CE (eg. Hitt et al., 2011; Ireland et al., 2009). From these studies it could be concluded that if organizations place CE in its structure, create and apply policies that would generate internal culture for encouraging entrepreneurship activities throughout the organisation and reward the successful effort, the overall innovative or strategic renewal goals could be achieved more successfully. One of the questions remaining for academics as well as practitioners is what is the balance between orchestrating induced and autonomous or individual and organisational strategies and what is decreasing CE as over-management and administration. Definitely certain level of trust and culture have to be embedded in internal policies of organisation for enacting CE behaviour (Dess et al., 2003). As already noted, most of the previous research on CE was done in product related context. Some studies have emphasized the importance of top management to involve middle and lower ranks employees to the internal processes of CE (Kuratko et al., 2006; Ireland et al. 2009). Therefore, it is important who is actually being part of the CE process inside of the organisation. Unsurprisingly, when innovation is highly related dependant on technology or engineering requiring knowledge, the number of participants is naturally reducing. Following this, it should be suggested that the type of activity of organisation matters when choosing correct balance for autonomous and organisational strategies and therefore, model of CE.

2. Innovation in professional service firms

PSF are knowledge intensive service firms that have very high dependency on human and social capital (Gianecchini, Gubitta, 2012). Traditional non-technological PSF,

like lawyers, accountants, and management consultants are said to have quite low impact of new machinery and technology for their activities (Miles, 2001). These types of organizations are basing their service on previous academic knowledge and reputation rather than new technological ideas. Therefore, requirement for highly trained staff, close relation with the clients, and non-routine problem solving for clients are considered the main particularities of PSF (Maister, 1993; Smets et al, 2012). Innovation in PKIBS firms is defined as creation and new combination of knowledge that creates additional value for the clients (or potential clients) (Miles, 1993, 2000, 2003; Larsen, 2000, den Hertog, 2000; van der Aa and Elfring, 2000; Oke, 2010). On the other hand, the impact of technology is rather strong and present in the PSF, as in any current aspect of social or business development. Still, technology is not the strongest element as new organizations are being built on human and social capital rather than technological innovation. KIBS innovation output is mainly related to creation of new knowledge and new information (Muller, Doloreux, 2009). As PSF is characterized by the highly trained and skilled professionals their innovation is directly related to enhancing these professionals innovate internally. Certainly, the number of factors can be creating tensions for corporate entrepreneurship possibilities within PSF. For instance, partnership governance structures and legal limitation on the professionals' activities are considered as possible obstacles for growth (Reihlen, Werr, 2012). In addition, highly skilled professionals expect higher levels of autonomy in their activities and are driven by the internal competition (Maister, 1993, Anand et al., 2007). These characteristics encumber internal coordination and implementing of one organisational strategy.

However, lately innovation has been shown to be a necessity for PSF (Smets et al., 2012). Facing the pressure to constantly innovate, CE is a great source of new ideas that innovative firms have to use in constant innovation processes (Kandampully, 2002). Currently, decreased demand for legal services and increased competition made the market for professional services even more demanding. For instance, regulatory change of 2011 in the UK legal services market created possibilities for massive new entries of new participants to the legal services market. It is needless to mention that it was already crowded and very intense competition before the economic and regulatory change. However, latter regulatory change in the UK was quite positively accepted by the entrepreneurial professionals. By contraries these

professionals were trying to create conditions for the new opportunities. It was suggested by the number of studies that corporate entrepreneurship initiatives and success are related to the external factors (Guth, Ginsberg, 1990; Corbett, 2013). It is no wonder that facing current external pressures and market challenges, service sectors become more innovative. Market changes create new possibilities for innovations, as clients are forced to adapt to the new environments themselves, therefore new types of transactions and problems' solutions are required. Lawyers by exceptional execution, proposing new solutions, and new areas of practice, as other services providers, turned to strategically innovative path to stand out of competition (Muller, Doloreux, 2009). Therefore, it is more often declared that 'conservative lawyer's ability to innovate on behalf of their client has become essential part of legal services to the clients' (SenGupta, 2011).

Adapting to the environmental change is often considered as change in organisational structure, or strategy, or both. Structure and strategy paradigm, whether it is strategy that follows structure or is it structure that follows strategy allowed to build better understanding of weather and how the strategies emerge and if autonomous strategies are being incorporated into the whole one corporate strategy of the firms and by whom (Chandler 1962; Cohen et al, 1972; Burgelman, 1983 (1)). Strategic and structural context were both showed to be influential on the firm's ability to integrate both strategies (Burgelman, 1983(1)). While new product development is considered planned company activity, which is embedded in the corporate strategy of the firm, service innovation is often based on a quick idea, rather than a result of scientific activity (Sundbo, 1997). Moreover, quite often service firm innovation is rather project-based activity than a clear structured strategy (Gann, Salter, 2000). Separate unit that is responsible for innovative new service development, as R&D departments spread in the manufacturing firms, were quite rare in service firms. It could be explained by the fact that service innovation usually has incremental than radical nature (Sundbo J., 1997). Due to this and lack of technological dimension, service innovation is unprotected by any intellectual property rights (IPR) (Hipp C., Grupp, H., 2005).

Even though research has shown service firms are more innovative when their innovative activity is organized and planned for, empirical studies were lacking to

explain what structure leads to successful new service development (Jong, Vermeulen, 2003). Sundbo (1997), however, suggested there is a process of service innovation creating firms that follows common pattern: idea generating, transformation into an innovation project, development, and implementation. Dolsfma (2004) argues that any attempts to determine clear steps in the new service development are arbitrary and any particular service field would be linked to a different pattern of innovative process. Not long ago, KIBS innovation itself was questioned by the innovation literature (Muller, Doloreux, 2009). On the other hand, these specific features of PKIBS innovation: namely, that radical innovation is quite rare and no IPR is applicable to collect benefits and gain stable competitive advantage requires firms to continuously innovate (Kandampully, 2002). Therefore, in this respect PKIBS have less favourable opportunity conditions than for instance technological companies (Eckhardt, Shane, 2003). This leads to very intense competition at least on two levels: client search and entrepreneurial professionals' search (Maister, 1993). Moreover, the firms are forced to constantly improve and search for new opportunities that would lead to constant renewal and innovation.

When PSF is following strategy to be innovative, often, separate structural unit would be responsible for fulfilling the part of the strategy by exploring and developing new possibilities. In this sense, traditionally, service innovation was considered as rather loosely-coupled project based activities than formalized process, which is visually becoming more similar to manufacturing while is becoming more organized (Sundbo, Gallouj, 2000; Miles, 2008, Gann, Salter, 2000, Hipp, Grupp, 2005). Services, depending on their specific features are considered to be rather different in certain aspects, e.g. services vary in the technology impact, knowledge as output, level of human capital, etc. Many service innovations are considered to be created ad hoc, in a rather chaotic process, team work, project basis, client-influenced (Oke, 2001; Hipp, Grupp, 2005). Even though service entrepreneurs avoid formalizing innovation process even in more technology and production related services (Jong, Vermeulen, 2003). Drawing a parallel with R&D departments in manufacturing industry, a team responsible for innovation is also found to be more successful structural model for organizing innovation in service firms (Oke, 2001).

3. Corporate entrepreneurship in professional service firms

There is a tendency of PSF becoming more corporate and going towards more organized innovation processes, still, the majority of them are organized as partnerships, where partners are working in the separate practice groups (Anand et al., 2007, Empson, 2010). The specific governance issues here are seen to have and follow one coherent corporate strategy as one organization. On the other hand, partnerships were shown to be the most efficient form of governance for the professionals in the KIBS (Greenwood, Empson, 2003). Additionally, as PSF are characterized by very high level of human capital and desire for independency of professionals is high, this leads to the fact that a lot of autonomous and individual levels' action is expected in PSF (Maister, 1993). Therefore, it has been showed that one of the ways to innovate in PSF is to enhance internal competition among the different practice groups or even individuals (Anand et al, 2007). In PSF, differently from the technology and manufacturing firms, autonomous strategies can be obtained without great material or technical resources other than human intelligence. Moreover, professionals often tend to refuse to follow corporate strategies; especially, if those strategies are introduced by the management that is not directly involved in providing professional services (Maister, 1993). While internal cooperation among the professionals is leading to more efficient and new ways of doing things, innovative strategies have to be built in a way to enhance autonomous participation without compromising independence of professionals too much. Such a structure shows that teamwork is often not an easy task for professionals (Empson, 2007). On the other hand, previous literature leads to the conclusion that one way, in which law firm management can increase innovativeness of a firm, is by encouraging and supporting right levels of corporate entrepreneurship of professionals – lawyers and non-lawyers working in the law firm.

Previous studies have concluded that induced CE behaviour cannot be dictated by the top management, it can be motivated by individual interests, like rewarding systems (Ireland et al., 2009, Hitt et al., 2011). The general view that challenging tasks more than profitability motivates professionals or financial benefits have currently been challenged (Maister, 1993). Some recent studies show PSF are developing new positions and carrier models in their firms (Smets et al, 2012). Entrepreneurial skills

entered the list of requirements to achieve status of partner in PSF. Corporate entrepreneurs are acting within the boundaries of organisation. Therefore, they can be encouraged by the internal policies of the firm possible recognition and carrier possibilities or even financial benefits. Viewing entrepreneurship as a process of looking for valuable opportunities opened broad new possibilities for revealing internal systems of CE within the firms (Venkataraman, 1997; Shane, Venekataraman, 2000; Eckhardt, Shane, 2003).

Following previous studies, we see entrepreneurial activity in PSF as opportunity-seeking and opportunity-exploiting behaviour (Reihle, Werr, 2012; Eckhardt, Shane, 2003; Hitt et al., 2011). Traditionally, the main two types of entrepreneurial activities mainly defined professional entrepreneurship: limited to professional boundaries innovative activities, and moving out of the organization to establish another firm (Reihlen, Werr, 2012). If entrepreneurship were seen as searching for new opportunities of new services, ways to deliver services or ways of organizing service activities within the PSF that they are practicing having a goal to incorporate it into the main strategy of the organization, corporate entrepreneurship would be this activity (Eckhardt, Shane, 2003). Evidently, it depends on how it is perceived in the specific organization. In some firms autonomous strategies are encouraged and the management is using various systems and methods of selection and pretesting suggested ideas (Hitt et al., 2011). Logically, in more hierarchical and traditional firms and their leaders CE initiatives may be considered as disruptive and threatening the main activity of the firm.

Potential differences in the actors, processes, structures and strategies between new service development and new product development are evident in terms of applicability of corporate entrepreneurship. Previous literature did not look in depth of how corporate entrepreneurship can be used as a successful strategy for enhancing innovation within PKIBS. We try to fulfil this gap by suggesting that organizations that have main activities related to human capital and their innovation is not based solely on technology, but on the new idea, corporate entrepreneurship is the main strategy for creating innovative culture and strategy to be able to constantly innovate. We look at PKIBS innovation process in terms of how is it done. In this paper we reveal the main constructs of CE previously developed in the literature, like actors,

process (internal policies), and structures. By merging those constructs with PSF main characteristics, we suggest main patterns of CE actually happening in PKIBS going through environmental changes.

III. Research Method

Qualitative analysis was chosen as the most fitting method to analyze a new phenomenon of innovating PSF (Walsh, Bartunek, 2011). Multiple comparative case study is considered to be more convincing methodologically than single case analysis (Eisenhardt, Greabner, 2011). Empirical comparative multiple case study of 10 international law firms was performed. Inductive analysis was concluded in few stages. Initially, the theoretical sampling of the firms was performed. Out of the firms that were selected based on prior to contacting firms established criteria, 6 agreed to participate in the study. However, some firms dropped out or were excluded from the study because of non-availability or too narrow data sharing. More cases - law firms were preselected and invited to participate in the study. Eventually 10 law firms were analyzed and compared in a multiple case study: 9 international law firms acting globally and having offices in the UK and one Italian firm, acting in Italy (please see Annex 1 for more detailed sample description). The law firms that were contacted all were preselected on certain criteria: they were all self-declared to be innovative and acknowledged as innovators; they were all providing legal business services; they were international firms – acting internationally and/or working with multinational clients. Moreover, law firms that participated had certain procedures for new service development and were willing to participate in the study.

Legal services market is very competitive and confidentiality was one of the main concerns of the participants. Therefore, each law firm was assigned a random colour title to make law firms more difficult to identify. The citations and examples were reviewed in the same manner in order to keep autonomous the firms and persons that were interviewed. The researcher made this effort since confidentiality issue was stressed many times during the meetings and interviews. The number of cases for the analysis was chosen in accordance to the goal of the study to perform a theoretical literal replication, i.e. by showing repeating results for confirming the propositions or contrasting results for the predictable and logically explained reasons (Yin, 2003).

Process related data was collected and analysed following the strategies suggested by Langley (1999).

1. Data Collection

Data collection took more than 8 months in 2012 and 2013. The main data collected entailed semi-structured interviews, internal documents provided by the law firms, and external data that was publicly available online or in general or specialised media sources. Law firms' partners (16), business development and other titles managers (16) - 7 of them where trained and worked as lawyers before moving to management roles in the law firms, different level associates (11), trainees (2) and lawyers consultants (3) were interviewed. The advantage of interviewing persons at the different levels of hierarchical structure of organization as one of the ways to mitigate informant bias was used (Eisenhardt, Graebner, 2007). Overall 48 interviews in 10 law firms were performed. 28 of interviewers were males, 20 were females. Interviews took from 45 to 75 minutes. Additionally, 2 interviews were performed with experts – people that do not work in law firms, but do or did law firm innovation consulting and/or evaluation. The interviews were started by open-ended questions and then the follow-up questions were asked by the interviewer (Walsh, Bartunek, 2011). To identify the key informants, it was asked for interviews with people that are explicitly and formally involved in innovation process in the studied organisations (Walsh, Bartunek, 2011). The main questions asked, among other, included asking interviewed persons to tell examples of the innovations that their firm had developed in the last 12-24 months; to explain how last innovations were thought of, who came up with an idea, how further decisions were made and how the idea was implemented; it was also asked to explain, if the interviewer was an employee of the law firm where should he or she refer to with the suggestions for new services. For more detail, please see Interview protocol attached in Annex 2.

6 law firms provided with 375 pages of internal innovation-related documents. Mostly, the internal documents provided were indicated as being confidential. Therefore, they were read and analysed in the offices of the relevant law firm. Internal documents were very useful to understand the level of conscious effort in new service

development, participants in the processes. Internal documents also revealed a lot about firm's perception of innovation and its innovative initiatives.

Additionally over 800 pages of external - publicly available sources - data was collected and analysed as for the purpose of triangulation of the arguments. Media reports, professional organisations' press releases, internet sites of law firms' directories, clients' comments in the public sources, any other not by the studied law firm created documents were reviewed as external documents. Since the phenomenon analysed is very recent, new external documents were continuously appearing during the study.

2. Data Analysis

The initial stage of coding was completed following Corbin and Strauss, 2008. In this stage we took steps of defining the main actors and events that the actors identified as recent changes in their firms. The main actors in the law firms innovative processes were identified to be: partners (owners, top managers, middle level managers, leaders of the practice groups'), managers (non lawyers or former lawyers that were responsible for business development rather than provision of the legal services to the clients), and different levels associates providing legal services (associates in the law firms are at least three levels: trainees, juniors, seniors). It is worth noting that partners were mostly always involved in daily service provisions. Additionally, in some firms managers were also participating in professional service provision to the clients.

The processes of innovation were mapped visually by using wording of the participants PSF (Langley, 1999). The participants were looked at as active agents in the process as well as objects of the policies applied by the firm (Pettigrew, 1997). Then the iteration process with the literature helped to refine and redefine categories that were matching and amending the previously developed models of corporate entrepreneurship. The literature was used to see what were the patterns of corporate entrepreneurship as described by the previous authors and what was suggesting our data. The main actors that participated in the events were shown to be different levels of professionals – lawyers (partners and associates); as well as employees of the law

firms that were lawyers before and changed their carriers into law firm management; and finally, managers that had never worked as lawyers, who had different industries' and markets' knowledge and that took a challenge to adapt this knowledge for new service development processes in the law firms. Process analysis cannot be separated from its time, context and history (Pettigrew, 1997). The time parallels were considered important as the data was analysed as process data; where the sequences and causes of these sequences might have influence on interpretations and actions of the actors. Therefore, the data was also viewed from the perspective of timing to understand if environmental changes (economic crisis and regulatory change) had impact on the change in firms' thinking and behaviour. The longer time of period that was indicated when some kind of innovative activity started in some firms was around 10 years ago, the shortest 1 year. Thereafter, the main environmental and contextual events that had influenced thinking of the participants were identified.

The sense making processes were used to put data into more theoretically understandable level and being able to transfer what was going on in the data to the others. The narrative strategy added to visual mapping was used to identify patterns of corporate entrepreneurship processes in terms of innovation with the PSF (Langley, 1999). Narrative strategy was followed to be able to tell the story of how the new services were being developed in each case without reducing data or putting it into the categories, just to tell the chronology as much as it was possible as the actors and reflectors of the story told it (Bartunek, 1984). Thereafter, the data was placed into the schemes of innovative processes in each case and then each case was compared to another. Every case was treated as a separate experiment in order to determine and compare the patterns (Eisenhardt, 2011; Eisenhardt, Graebner, 2007). In this way, three patterns of corporate entrepreneurship were emerging out of the data. Therefore, by going through iteration processes with theory, three corporate entrepreneurship models were developed. One firm fell out of the models as it had stated as having no formal or similar to the other firms process for new service development. For this reason, the final conclusions were built on the remaining 9 cases.

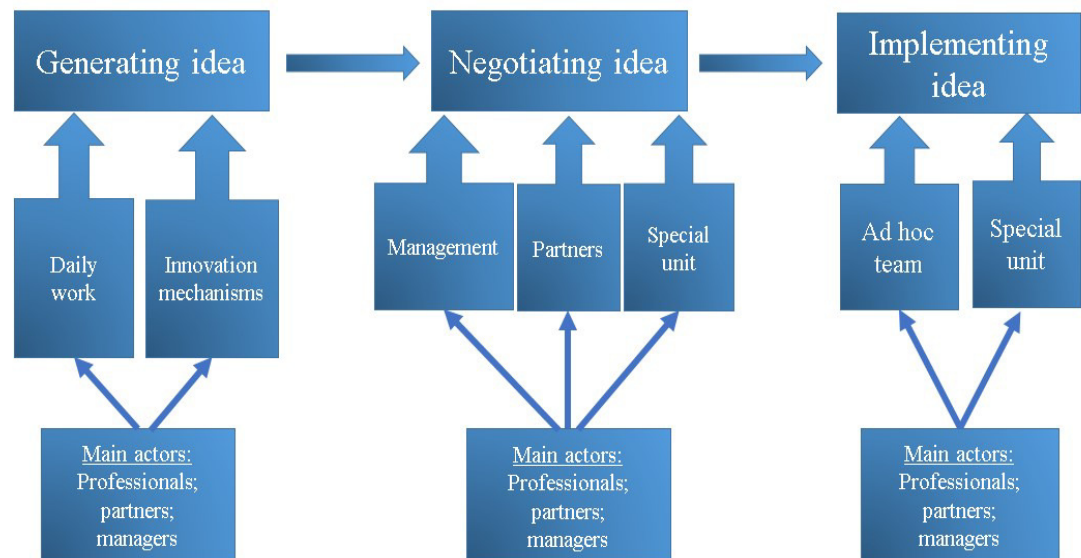
IV. Findings

This study was started as analysis of new service development processes within PKIBS. Even though all the firms that participated in the case study had considered themselves innovative, they differed a lot in their internal policies, structures and strategies for developing new services. However, all the firms used certain policies to enhance individual initiative in their internal processes of new idea capturing. In the most innovation orientated international law firms, we find corporate entrepreneurship encouraging structures and processes incorporated in the main strategy of the firm. In our cases we have confirmed that through corporate entrepreneurship models presented here in this study new services are developed within the big international law firms. We concentrate on the actions of individuals in different internal structures, and changes in structures and strategies, if any, to induce CE behaviour and incorporate it in the organisational strategy of the firms (Burgelman, 1983 (1)). In this way we answer which are the best circumstances under that individuals can enact their CE activities and implement them for the success of the firm (Corbett et al., 2013). We suggest three types of corporate entrepreneurship models based on the main participants as sources of new ideas used in PSF. We discuss structures and innovation strategies that support CE behaviour. We suggest that depending on how PSF is encouraging CE it is defining its innovative processes and efforts.

Among the 9 law firms in our sample there emerged three groups that had developed and were using three models of corporate entrepreneurship to develop new ideas and take them to the level of implementation. During the data analysis, the process of three steps crucial to new service development in PKIBS emerged in data: coming up with an idea, negotiating the new idea, and sending idea for implementation. The suggested process of new service development amends Sundbo (1997). He suggested there is a process of service innovation creating firms followed common pattern: idea generating, transformation into an innovation project, development, and implementation. However, we could not see separated stages of idea transformation, development and implementation. In the PSF in our sample the main turning an idea into innovation project stage was related to negotiating among the actors. Process of persuading and negotiating for doing something new was reported to be inseparable

part of KIBS innovative environments, but it was not emphasized as being the part of the formalised process of new service development (Heusinkveld, Benders, 2005). By looking into the procedures by depicting the main actors, policies and structures of PKIBS innovation, we analysed them through the theoretical concepts developed previously by corporate entrepreneurship literature. The general overview of PSF new service development process initially extracted from our data is depicted in the Figure 1 below. The general view of PKIBS innovation process adds valuable insights and permits to explain better our findings.

Figure 1. Overview of PSF new service development process



As showed in Figure 1, the first step was to come up with an innovative idea. There were two levels where the ideas would come up: individual- natural, when individual while working on some daily task, which was not directly related to the new service development, i.e. providing daily services to the clients, would come up with an idea for new service that could improve the offering of service or efficiency or organization of work of the law firm. This would correspond to autonomous CE

behaviour described in previous literature (Burgelman, 1983 (1)). Mostly innovative ideas were noticed to be obtained while law firms' employees were interacting with external, i.e. not within the law firm people or industries. This underlines importance of incorporating external learning procedures of PSF innovation (Eisenhardt, Martin, 2000). Interestingly enough, firms in our sample considered internal sources of knowledge as more important. However, their perception on the boundaries of organisations varied greatly.

The second level of grasping the ideas from within the law firms' was created artificially. We call this activity as induced, following Burgelman (1983(1)). However, we extend it by defining induced initiative the one that is also autonomous, i.e. not planned by the current concept of corporate strategy, but it occurs as a result of organisational strategy to innovate through enhancing CE behaviour within the firm. It is strategically organized firm level or practice group level structural action where through the formal processes of the law firm the employees are encouraged or asked to participate in suggesting innovative ideas. In this way, ad hoc or permanent teams, groups and individuals would come up with the ideas through the firm-organized event or permanent structures. The related policies were strongly dependent on the model of corporate entrepreneurship enhancement that firms used. The more organized was the innovative initiative processes, more formally a model of corporate entrepreneurship was embedded in the overall strategy of the firm (Burgelman, 1986 (2)). Going from less to more organized innovation process, there was a tendency of always-wider interaction between group of professionals and non-lawyer managers, i.e. pulling together diverse skills and competencies.

The second step of innovating, which was very important on the new service development of PKIBS, was negotiating. Negotiating for new innovation was a main aspect and step of having new service development process. Even in the firms, where there was an official structure and procedure for new service development, negotiating for the new idea was the only way to go from the idea to the innovation. We use term negotiating as it represents the process and the interviewed persons used this term. We amend previous studies by suggesting negotiating as one of the main steps of innovating of PKIBS that can be also formalised. This step was not organized decision making where some process of decision was implemented and other would

have to follow the lead. The process of negotiation looked more like court proceedings, where an individual or group of people would have to convince the critical amount of partners, managers, members of a team or management that their idea was worth implementing. The group that majority of which had to be convinced differed greatly among the firms: partners (practice group or firm level), or management of the firm, special unit mostly related to the new idea, or professionals working on the team that was responsible for innovation in the firm, or selective ad hoc team that would be powerful enough to push innovative idea forward. Firms considered negotiation as the main risk assessment mechanism. Therefore, this stage served as a filter of convincing often quite sceptical group the member of which are often also among the best negotiators around the world (as it is part of the job to negotiate the best deal for the clients).

The last step in new service development was establishing responsibility of implementation the new idea. Depending on the process that was present in the particular law firm, the implementation responsibility was given to professionals, managers, innovation groups or partners. Often giving responsibility was used as a reward or prize mechanism for suggesting or negotiating (or both when it was the same person) an idea for innovation. This was also revealed by Hitt et al. (2011). But the form itself of the reward could be considered very particular to the PSF, as professionals are said to be routine-haters and motivated by the challenge (Maister, 1993; Reihlen, Werr, 2012). On the other hand, it was a very clever strategy of showing the person that the process was on-going and sometimes allowing to witness why the idea could not be implemented. It played very important role in creating innovative culture and showing employees at different levels that corporate entrepreneurship in fact is a part of the overall firm's strategy.

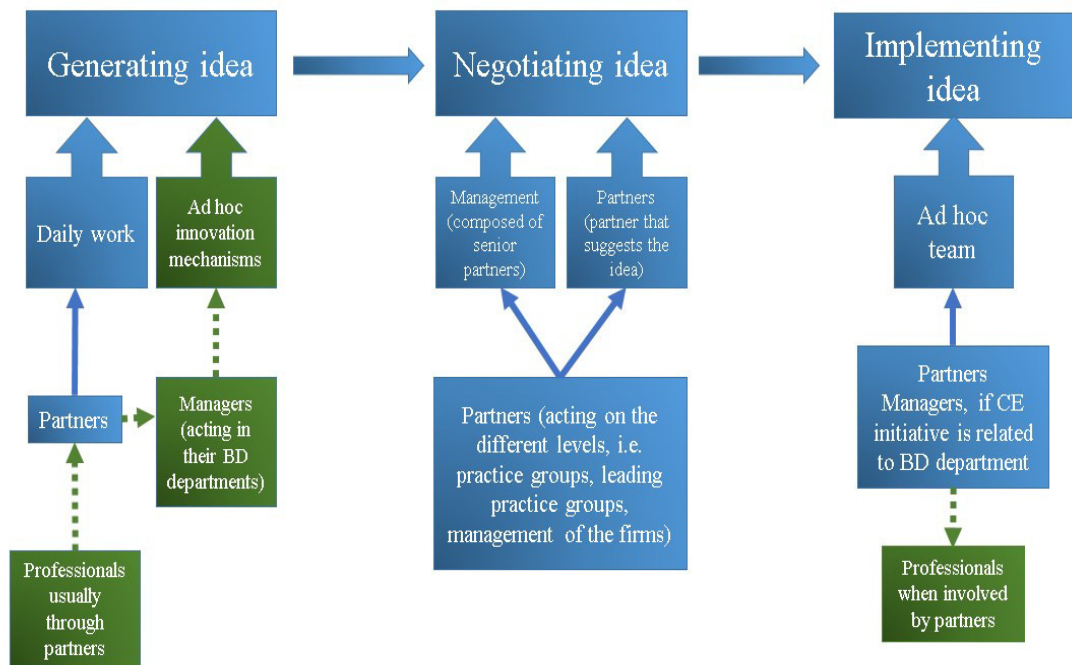
Further in this section, we use the general pattern of PKIBS innovating process to map how CE was incorporated and used to enhance innovation. We suggest three models of how CE was used to enhance innovation. The models differ in the main actors, structures, policies and the level of formalisation of innovation procedures within the firms.

1. Partnership Model

The first model that was defined by the actual participation of partners as entrepreneurs and, therefore, we called it Partnership Mode. The firms that followed this model were: Firm Blue, Firm Brown, and Firm Orange. Partnership Model represents type of CE initiatives that are traditionally associated with PSF: types of governance and apprenticeship training of younger professionals. The hierarchy in these firms could be strong (Firm Blue) or rather liberal (Firm Orange), but a partner was always the ultimate point of reference at all three steps of innovation process. The innovation initiatives were quite dispersed in these firms, as partners were expected to be innovative on the level of their practice groups. The competition internally was mainly among partners or professionals on the partnership track (Anand et al., 2007). However, some corporate entrepreneurship initiatives were present also from the managers and professionals, the main aspect was that innovation was not officially expected from them. Innovation was only in the description of the job of a partner of the law firm.

As depicted by the Figure 2, the Partnership innovation is mainly involving partners at all the levels of the firm. Blue blocks represent permanent daily process, while green represents ad hoc and occasional process. Participation of professionals is limited as all the communication is going through the partners, no other form of communication of the initiative was present. Involvement of managers that were strictly responsible for business development function was episodic. Managers were mostly involved when innovation was directly related to the function (e.g. marketing) and when internal structure or strategy related to the law firms internal life had to be renewed or amended.

Figure 2. Overview of Partnership Model of new service development process



Partner type of CE is mostly related to ad hoc innovation process. Innovation of this kind can be taken to the firm level only if one partner decides it is important to suggest it on the firm level. In Partnership Model no formal procedures of new service development were established at any of the three steps. Usually, no special structural unit was created for innovation. However, for instance, firm Brown was on the way to make some structural changes to enhance innovation. Firm Blue had innovation in its list of values and was considered quite innovative by their competitors. Formal and actual involvement of managers was very limited in these firms' innovation. On the other hand, for instance firm Orange was considered innovative in client relationship and the managers responsible for this part of business were innovating, however, only in this particular field. Associates' participation was mostly episodic. Their participation depended on the partner that they were working with.

Some challenges could be seen in this model of new service development. Firstly, lack of communication within the practice group due to very long working hours and heavy workloads might become an obstacle to share the ideas between the different level employees. Moreover, individual partner might be not motivated or rather conservative. As it was said on many occasions during the interviews, still not all the partners are entrepreneurial, although they are the best lawyers in their field. In this way the idea dies, since there is no mechanism to formalize the path to making it into innovation. As this model does not present any formal internal systems of asking for new ideas, the firm level initiatives on the new service might not be implemented or might not be introduced as potential improvement on the firm level. Lack of these mechanisms was shown to be very demotivating for associate level lawyers in the law firms. As a result, they may never come with an idea or any scepticism would be enough to discourage from acting in the future. In this way, partners do not even get to know there was an initiative. In addition, as competition for intellectual capital among the leader firms is quite high (Maister, 1993), the risk that these professionals might be willing to implement their ideas somewhere else is not acceptable for law firms in this competitive environment. Moreover, partners in these firms simply can be too busy to do it all, as Associate in Firm Blue explains:

'... if you compare us to the production company, there are managers who are running the company and what they do is just manage, they look at the results at the numbers, look at the markets, they take a decision. What our partners are doing? They are doing their job, they are doing actual legal job and they are expected to be managers. So, you can see the difference, people at the production company are not expected to do both. They don't produce, they don't go and get some oil or coal or whatever, and their job is to do business. I can really see how people get exhausted doing their job and after to do a lot of business development and it also requires your mental capability and if you have 8 hours of working hard and then you have to process in your mind some initiatives and some ideas.' (Associate, Firm Blue)

Some partners just would reject the idea of entrepreneurship in professional services and the list the entrepreneurial activity that professionals actually do, as Partner in Firm Blue explains:

'I mean we are lawyers; we are not really entrepreneurs, because we are service providers. People go out there and make business and we provide a service to them and we can be entrepreneurial in terms of what we do in terms of going out and try to find new clients, find news services that we can provide, going to the geographies and jurisdictions, so we can definitely be entrepreneurial in what we do, but we won't

always necessary be the first. But if someone else is doing it and we think it is actually a good idea, then yes, we would follow it.' (Firm Blue, Partner)

The paradox here is that those firms usually are seen as quite innovative in the professional service field. Moreover, they do claim they are looking for entrepreneurial professionals. CE is more related to ability to find and keep clients, keep them satisfied or diversify within the particular area of law, without really affecting the firm as a whole (Anand et al., 2007). Partners are very innovative in this model, as they have no alternatives: corporate entrepreneurship or ability to do business within business is considered as one of the main factors in deciding promotion for partnership. Therefore, it creates certain issues with promoting to partnership people that are pure professional type, i.e. they chose profession to avoid entrepreneurship activities. Especially that entrepreneurial skills are not developed for the associates until they reach partnership level.

Often this type of innovation process that it is like one shot each time and it is not sustainable. It is also very partner-leadership based. In a sense that quite often there is a danger that if a partner leaves the firm, certain processes can be stopped. On the other hand, Firm Orange for instance, was developing certain systems to prevent that from happening. They had examples of internal processes where even partner leaving the firms was not such a significant event in terms of maintaining innovative processes and keeping the clients. This was done as manager, non-lawyer, was directly involved into legal service provision. It has to be kept in mind, that partners are also the owners of the firms; therefore their motivation to innovate is aligned with the best interest of the firm. Definitely, despite of all the challenges, Partnership Model of innovation and partnership CE works pretty well, when it happens, as some partners have influence and authority to act and to take their initiative to the general strategy of the firm.

2. Top Management Model

The firms Green, Black and Red had innovation through CE models that were putting innovation in the job description for their partners and managers. CE strategies were being developed on two levels: one firm level, where more formal procedures were

established; another on lower level, where innovations happened on practice groups where more ad hoc partnership CE model as described above was applied. As this model has an attempt of creating top management force as responsible for the main strategy while 'working force' professionals participate occasionally, in this respect it is similar to manufacturing firm. Another thing being that in PSF partners often are owners, managers and working force professionals at the same time.

Even though these firms were not formally engaging associates or any other non-management positions employees, time-to-time events to ask around for new ideas and suggestions would be organized by the top management. Informally, however, all the employees were encouraged to come up with new ideas, although no established permanent procedures for flushing these ideas were formally present. In other words, associates and other non-management level employees were encouraged to come up with new ideas, but they were not expected or required to. Innovation processes were not strictly organized or assigned to the responsibility of one department. On the other hand, certain partner-manager working groups to develop specific fields for finding new solutions for enhancing efficiency or continuously improve service offering and delivery were present.

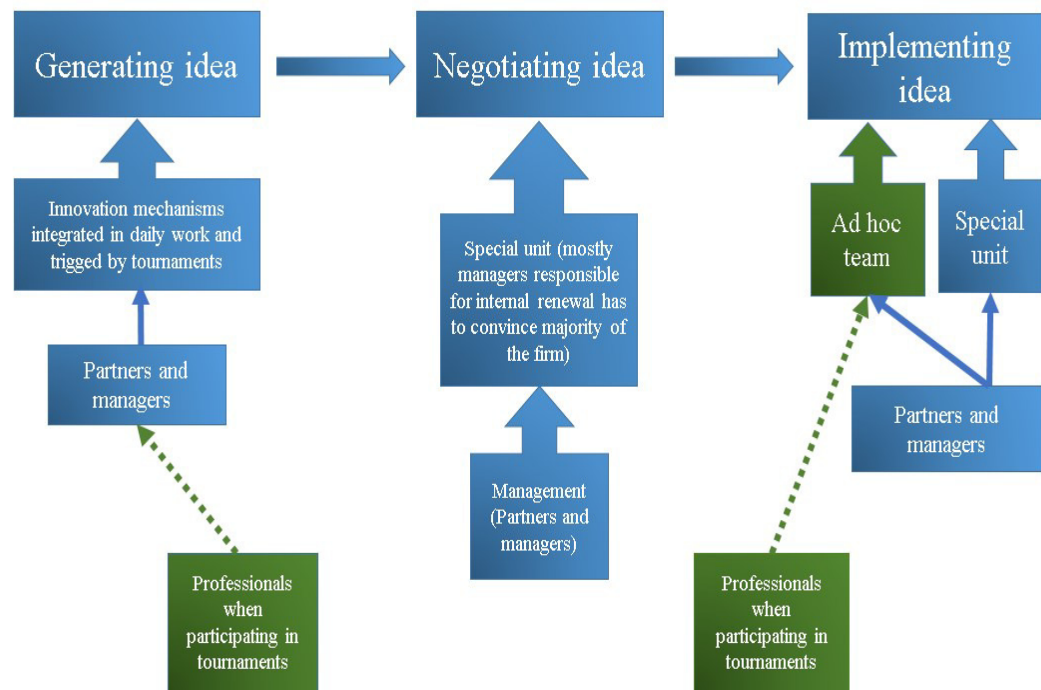
Innovation process here was not clearly shaped, so it could not be named well structured. However, comparing to the Partnership Model, some structural changes were made to adapt to environmental changes. It was more like semi-structured innovation process. It was noticed that semi-structured processes were the way to deal with the size of these firms or means to manage growth. Also autonomy of professionals that are present in large PSF was tackled by internal strategy. The firms in this group had processes where they tried to balance PSF specific characteristics and a need for becoming more corporate because of their size. In their processes negotiation stage of innovating was more formalised than in Partners Model. As Manager in the Firm Green explained:

'This is a partnership [...] There isn't a management dictator that says: 'here is big change everybody do it!' You need to convince people. Lawyers, partner in the top law firm in the world are one of the brightest people in the world. They don't tend to buy into dictates; they need to be convinced on individual level. And so, you pick a friendly face, you pick a supporter and test the idea. [...] you publicize it and if it works, the effort required to make the change is less that or is less than benefit, if

there is no error in it, then people will pick it up and this is the best way to drive change. Change through management dictate is expensive in terms of effort and much less successful.’ (Manager, Firm Green)

As depicted in the schemata in the Figure 3, the main process involves managers and partners that are requested to participate in permanent renewal mechanisms of the firm. Blue blocks represent permanent daily process, while green represents ad hoc and occasional process. By creating professional top management and limiting direct participation of the professionals in the CE, the latter firms use CE that could be said to be mostly to manufacturing similar systems. Associates are involved through the occasional, but still clearly established procedures; although professionals are kept into the daily work zone. CE initiatives are neither strongly encouraged nor neglected, however, when they occur they are appreciated.

Figure 3. Overview of Top Management Model in PSF new service development process



Law firms, like any other organizations, obtain certain characteristics because of their size that influence their ability to change and innovate on the firm level. As they grow, they tend to turn into big bureaucracies, where strategies and budgets for the implementation of internal projects are decided upfront. When it comes to CE, these mechanisms, like unforeseen budgets or cumbersome decision process reduce the possibilities for smooth bottom-up initiatives to come to life (Burgelman, 1983; Dess et al., 2003). Definitely, existence of formal CE encouragement systems reduce this risk by sending signal that at least transparent and weighted decision about the suggested idea will be made. This group of law firms was trying to be both: innovative and not to become too corporate, e.g. they did not have official permanent structural unit responsible for innovating. On the other hand, they had a structural unit that was responsible for developing dynamic capability of change for improving (Bessant, Francis, 1999). The main function of this unit here was to negotiate new idea as a needed change and convince higher management to implement it.

The example of the new service development path was dual: permanent continuous improvement mechanism, where partners and managers come up with an idea, negotiate and implement it. This part of innovation path was the main difference from entirely Partnership Model. While the second path was very similar to the Partnership Model, where mostly ad hoc procedures were followed. Overall, this model of CE was more successful in capturing PSF characteristics for innovating, as it involved managers that were former lawyers and non-lawyers from other industries that had different and new view on the professional services, clients, and ways of increasing efficiency. In addition, the singular events were organized where every level professionals and managers were asked to present new ideas for improvement of any part of firm activity; then a temporary or permanent improvement committee selected some ideas and presented it to the management. Thereafter, some ideas are assigned budget and a team responsible for implementation. Usually, the individual that came up with an idea got to participate in the implementation as an award. In this group of law firms, associates felt quite involved and encouraged to participate in case they had some - in their view - worth CE propositions. The value of the ideas was highly acknowledged in these firms, as Firm's Red Manager explains their path of new ideas within the firm by emphasizing that the same service providing professionals are the main idea generators:

'These ideas come from the people that run processes. Because in a way you are the only person that really knows whether you are frustrated with something and whether you know that you could do something better, some improvement that can be made. So, we basically, you go to lawyers and to business services and ask them if they have ideas. So, for example we ran something that we have called the [] initiative which is making a good idea count. Internally. And we had about 300 ideas that came throughout and we chose what we thought were the best 3 and we are working on those at the moment.' (Manager, Firm Red)

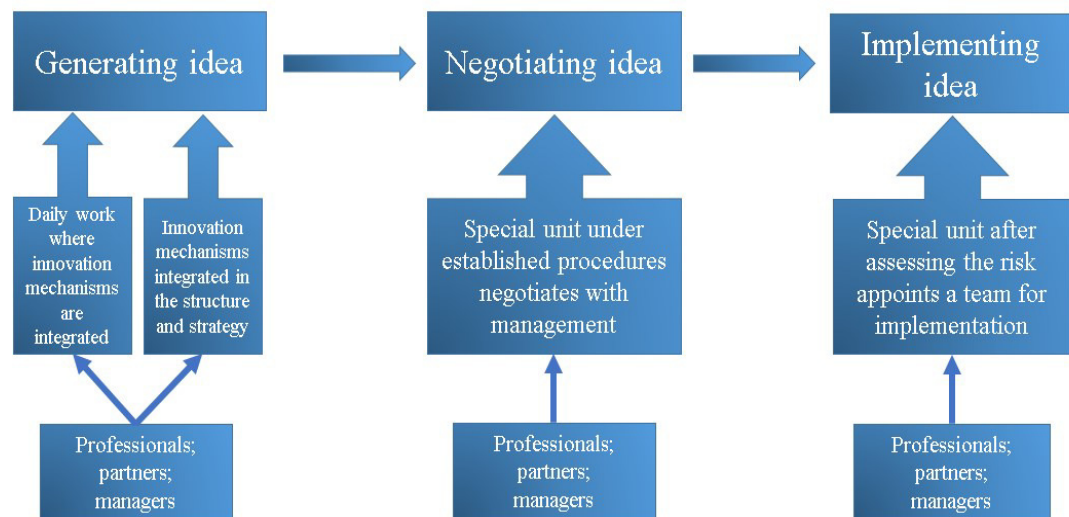
An issue with organizing only temporary tournaments for idea collection could be: what if a professional came up with a brilliant idea one day after the deadline of presenting ideas? In addition, the process of selection can become quite cumbersome, as it has to go through the system and process where no clear criteria are defined. In addition, in this type of innovation process, many CE initiatives might be excluded from reaching the right path, as lower level associates were not aware neither of permanent improvement group, nor where would they go with their CE initiative. Mostly, associates were excluded from participating in any formal way and in case they had to offer something, they would refer to the partner that they were mostly involved with in daily tasks. In this way, the model of CE turned into the first model described above. On the other hand, this model is encompassing at least one new concept that allowed these firms to become innovators in their fields – it realized the value of mixed teams and competencies that, when wisely incorporated in the general strategy, can provide with rather large competitive advantage. Additionally, these firms did not radically change their structure or strategy from the dominant logic of the legal services industry (Baden-Fuller, 1995, Berghman et al., 2012), therefore, if things turned differently, they could still as successfully return to their previous more traditional ways and keep the image of traditional and reliable law firm when it is needed.

3. Corporate Partnership Model

This type of firms had new service development process distinct by the definite corporate strategy to innovate and structural changes to enhance innovation were implemented. Formal procedures for all the three stages of new idea development were present. The firms that had these characteristics were: Firm White, Firm Yellow and Firm Beige. They had one central structural unit on the firm level – permanent

committee, board or a team that was specifically responsible for collecting the ideas, selecting them and presenting them to the firm. The particularity of this structural unit was that it usually involved many different qualifications and backgrounds having lawyers and non-lawyers involved in process evaluation and implementation of the project. Firm White, for instance, had external experts in permanent internal innovation body and in this way they participated constantly in the process of developing and evaluating new ideas. Creation of such structural unit had positive influence on the organizational culture and awareness of the professionals about the innovative processes in the firms. Innovation was expected to ‘run deep’ in the organisation (Ireland et al., 2009). As formality here has assured attention to innovative CE, budget and initiatives were part of the official strategy of the firm, professionals at all levels felt obliged to constantly suggest some improvement of firms’ services, their delivery or increasing efficiency in internal procedures.

Figure 4. Overview of Corporate Partnership Model in new service development process of PKIBS



As Figure 4 shows, the permanent clear innovation structures through encouraging CE initiatives from all the levels of employees of the firm are established. Corporate entrepreneurship initiatives in terms of innovation were officially required from everyone from the first day. New ideas were celebrated if successful project occurred. Risk of failure was perceived as a natural part of the process. Innovation was in the description of everyone working in the firm; and entrepreneurship was in the list of the required qualities. Adding something new to the daily work of the firm secured process of constant renewal of the firm that was a part of a main strategy. To show the example of internal policies to implement this strategy, we cite here Partner at Firm White who explained training as a source of innovative idea generating:

'...So, let's assume that you are mid-ranking associate, so maybe you were working as a lawyer for 3 or 4 years, you would go on a program designed to developed a range of skills, and one segment of that focuses on innovation. So, how we do this is that we split the group into teams of 4 people and we give them the lists of areas in which they might suggest an innovation, so it might have to do with working practices, with work-life balance. So they are going to menu and they going to chose one of them and then they have to pick one innovation that they would like us to introduce, so they have to make a joined view a joined decision on what innovation it is and then they have to present it and they present it to a panel chaired by partner of five people together – somebody from finance, business development, IT etc. And when they presented they are scored on two things one is how innovative it is and how much it could contribute to the business' (Firm White, Partner)

As innovating in services is closely related to performing daily tasks of providing services to clients, every professional involved in it can suggest incremental innovation in the field. To the limited extend the Top Management Model was using similar path to extract the ideas and encourage CE. Corporate Partnership Model is built to support CE and make it not only the part of overall firm' strategy, but also create culture of the firm that would give a role in strategy creation to all. Strategic leadership in PSF is definitely more related to getting out the best of the main resources of the firm – professionals. As Manager in Firm Yellow explains what changed after they introduced structural unit responsible for innovation in the Firm:

'Entrepreneurial sort of feeling [.....] and actually when you say an open culture lots of the ideas -- I think there were 350 submissions from around the firm and lots of the ideas came from the business services people also lawyers. It's the [office in Asia] team that we have who, you know, shared resources for the whole of the global marketing HR and training all sorts of things. A lot of ideas is coming from them as to

things that they just see on their everyday work could be done better so that was I think a big success.’ (Firm Yellow, Manager)

It has to be notified that professionals from other firms considered this model of CE quite challenging and risky. One of the major risks and disruptive elements for successful CE capture in the organisations is considered to be opportunistic behaviours or even suspicion for opportunistic behaviours that create trust issues (Dess et al., 2003). While in this model the formal structures that have clear purposes of the activity work as controlling mechanism for the trust issues in the firm, as it eliminated many questions and doubts and added transparency to the process. In addition, it added clarity for the employees that their suggestions for the firm strategic changes to the smallest incremental internal changes would be evaluated and decided on through the whole clearly defined process. Firm Beige, for instance, was the smallest firm in the sample. The structural unit that was responsible for innovation was the Management Board. On the other hand, they made all the level employees participate in strategic meetings and led quite open book management, where everyone was informed about the firm’s profits and spending. In addition, partners were selected to be the ones that could encourage CE from all the levels employees, as Partner explained what was the main difference between her experience in previous law firm as associate and the Beige:

‘.....when I talk with [trainee and associate], I consider them human beings and not trainee. And I ask their opinion. And I put myself in a position to doubt about my actions. I never say, ‘I think this, you have to do this’. When I approach them, I say, ‘I think this, I’m not sure. Let’s discuss it. What do you think about it?’ Or, ‘Do you like it’? Or, ‘Do you think that it could be done differently?’ (Firm Beige, Partner)

The same impressions were repeated by the trainees that felt quite happy to be able to participate in the firm’s strategic decision making and give opinions on legal issues.

As to the processes, the particularity in these firms were that they organised CE initiatives as they were planned for. Meaning that the firm would try to induce the autonomous CE initiatives through permanently established structure and strategy. Considering that professionals by doing their daily job and knowing daily routines the best, managers bringing different industry knowledge and partners through their expertise, knowledge and long experience of rather close interaction with clients all

together can bring many more CE initiatives to the firm than any group alone, this model seems to be capturing the best the specific capacities of PKIBS organizations. Opposing to some more traditionalist approach that were present in the previous two models of presenting fear of trouble of dealing with too many corporate entrepreneurship initiatives, the latter firms were stressing the need and use of CE in the general strategy of change, especially when it was so needed to face the changing demands of the clients.

V. Discussion and Conclusion

In this paper we analysed how PSF are using CE mechanisms to enhance innovation when facing external changes. From the models presented, it could be suggested the enhancement of CE activities within the PSF due to the external changes in the environment lead to more innovative initiatives and internal renewal of the firms. We also confirm previous suggestion that changes in the demand side of the market not only create challenges but also create new entrepreneurial opportunities for the PSF and individual professionals within the firms (Eckhardt, Shane, 2003). We report on three models of corporate entrepreneurship that we found in our sample of 9 international law firms, providing international legal business services on the global level and daily working with multinational corporations in very competitive environments. From our findings it could be proposed that the more structurally and strategically coherent are innovative initiatives through CE, the better captures of specific PSF characteristics are used for the benefit of the firm. All the three models embedded some level of CE in the strategy of the firm. In the corporate entrepreneurship models that we have examined, CE initiatives were used to increase innovative capabilities of the PSF. In many cases, the strategies coming through CE initiatives were used as renewal of the firms, which were in many case organisational innovations.

We have analysed the CE depending on who were the main actors the CE initiatives from that were encouraged and rewarded, what were the processes, policies and structures related to it. We suggested there are three stages in the new service development in PSF that engage different levels of employees: generating the idea,

negotiating the idea and implementing the idea. Each model had certain parallels that could be drawn between new service development and new product development: Partnership Model had clearly separated functions of law firm business development from actual daily service provision and interaction with the clients; Top Management Innovation Model had separation between managers and the working force; Corporate Partnership Models had structural units responsible for innovation at the firm level. We suggest that these common grounds and similarities can be also useful for the academic research and practitioners in the PSF and other types of the organizations, even manufacturing firms that could reflect on their internal renewal strategies, especially when their employees are highly skilled and qualified. To give more general overview of our results, we synthesize them in this table A below.

Table A. Overview of CE Models in PKIBS for new service development process

Model of CE	Main actors			Process	Structural change	Innovation initiatives through CE
	Idea generation	Negotiation	Implementation			
Partnership	Partners	Partners	Ad hoc team	Ad hoc process	No particular changes	Autonomous
Top Management	Partners and managers	Special unit/partners	Special unit/partners, managers, some professionals	Semi structures process	Unit that has one of the functions innovation	Partly induced, autonomous appreciated
Corporate Partnership	All	Special unit	Special unit and all involved in idea generation	Flexible structure	Structural unit responsible for innovation	Induced autonomous

PKIBS are characterized by certain specific attributes that are particular to them comparing to the other type of organizations. Firstly, KIBS build their success on the quality of human and social capital that they possess. Secondly, the person doing daily job can suggest incremental innovation more efficiently than the innovation specialist. CE initiatives allow satisfying very important needs of professionals that keep them motivated: need for autonomy and need for constant challenge. Finally, as already mentioned, we suggest partnership governance structures are well-equipped platforms for enhancing innovation through CE strategies and in this way create the source of constant flow of the new ideas. The most PSF specific capabilities allow

incorporating innovation strategies through involving all the professionals and encouraging their participation in the organisational innovation strategy of the firm through corporate entrepreneurship initiatives.

As we noted above, certain specifics of PKIBS lead to thinking that their CE models could be giving additional insights for better understanding the mechanisms and balances of CE. It seems that partnerships are built to enhance entrepreneurial activities within the organizations, as each partner is an owner, manager and working force of the firm. In addition, using the CE models large law firms encouraged opportunity search by their employees within the firms – managers and professionals. We also suggest that policies, structures and procedures present in our models, but mostly applicable in the Corporate Partnership Model, where mostly adapted to capture PSF specific features as partner leadership. It was developed to support initiatives at all the levels of the organization. Strategic leadership is often associated with CE in the organizations (Guth, Ginsberg, 1990). Even though major previous research was using samples of manufacturing companies' to see how new ventures or renewal processes have emerged within the organizations, it had mainly taken into account the roles of managers and highly risky decision of starting new and seizure of current product development (Guth, Ginsberg, 1990). While corporate entrepreneurship in manufacturing was treated as prerogative of managers, we propose that in service companies all the professionals can be successfully involved in CE strategy formatting. CE leadership is considered one of the elements on which depends organization's ability to learn using CE structures (Dess et al., 2003). While in new product developing organizations, the roles and functions are more clearly defined, partnerships are still shaping their structures in order to become more corporate, but not too corporate. The main motivation for becoming more corporate is related to firm's level processes implementation and management, which is quite a challenge for the partnership structures, where partners have their own visions and ideas.

In addition, keeping high intellectual capital requires autonomy for professionals at partners as well as associate professional level. Even though previous research confirmed that the more service firm becomes organized for innovation, the more innovative it becomes, it seems that the path in PSF in becoming more innovative is

linked to a number of challenges on balancing diverse interests inside the firm (Jong, Vermeulen, 2003, de Brentani, 2001). Placing new idea generation with the dimension of corporate entrepreneurship allowed law firms to keep the balance between the autonomy of professionals and corporate structures. This strategy, however, required structural and cultural change. Dess et al. (2003) argue the firms can become more entrepreneurial through changing their internal administrative structure and processes. This is confirmed in our models, as changes in structure and strategy led to unification of induced autonomous strategies into organisational strategy of the firm.

VI. Limitations and Further Directions

The amount of studies relating entrepreneurship and professionalism are very limited due to the previous traditionally accepted view that these are two opposing theories. Comparative case studies of theoretically preselected sample have an attempt to extend existing theories and to build a path for the further deductive research within the field (Eisenhardt, Greabner, 2007; Yin, 2003). Currently, entrepreneurship and professionalism are placed together to challenge phenomena that are rising in front of our eyes: organisational change, renewal and innovation of PSF (Reihlen, Werr, 2012). We contributed to that debate. The purpose of this work was to add to the new path of blending previously under-researched 'multiple-lens' approach of search and exploration entrepreneurial opportunities within the firms of professionals (Okhuysen G., Bonardi J-P., 2011). As the phenomenon is present within these firms, more research is needed to understand it and to test it. It would be rather useful to see how in fact the overall strategies of the PSF are integrating CE initiatives: what are the matches and what are considered too risky or too far from the main strategy and path of the firm.

In addition, we would consider a very interesting path for the research to see the actual change of the behaviour of individuals within the firms due to the changes we have described. In particular, changing behaviour can be causing forming new identities of partners, professionals, and managers working in the PSF. Further steps could be taken to see if identity as professional is compatible to corporate entrepreneur identity on the individual level. In addition, such a path of research

would help to analyse if firm's strategy in encouraging CE activities builds reputation and attracts more entrepreneurial professionals. The main question and concern of the practitioner is if strategy to innovate is positively perceived by the clients or only clients that consider themselves as innovative.

It can be seen from our analysis that corporate entrepreneurship becomes one of the main qualities required from successful professionals within the large law firms, but, as the phenomenon is quite recent, it is not so clear what will be the effects for the organisations – law firms – in the long run. It was shown by the previous research that professionals can participate very closely in the innovations of their clients (den Hertog, 2000). Considering close interaction between the PSF and their clients, it is expected that PKIBS clients also play major role in the internal processes of the firm. It could be explored further how external expertise is absorbed into the internal innovative capacity and the process and how it shapes internal strategic actions of the participants of the innovative processes.

References:

Anand N., Gardner H.K., Morris T. 2007. Knowledge-based Innovation; Emergence and Embedding of New Practice Areas in Management Consulting Firms, *Academy of Management Journal*, Vol. 50, No. 2, 406-428;

Baden-Fuller, C. 1995. Strategic Innovation, Corporate Entrepreneurship and Matching Outside-in to Inside-out Approaches to Strategy Research, *British Journal of Management*, 6: S3-S16. doi: 10.1111/j.1467-8551.1995.tb00134.x;

Berghman L., Matthyssens P., Streukens S., Vandenbempt K. 2013. Deliberate Learning Mechanisms for Stimulating Strategic Innovation Capacity, *Long Range Planning*, Vol. 46, Issues 1-2, 39-71;

Bessant J., F. D. 1999 Developing Strategic Continuous Improvement Capability; *International Journal of Operations and Production Management*; Vol. 19, No.11; 1106-1119;

Burgelman R.A. 1983. A process model of internal corporate venturing in the diversified major firm *Administrative Science Quarterly*, jstor;

Burgelman R.A. 1983. Corporate entrepreneurship and strategic management: Insights from a process study, *Management science*, mansci.journal.informs.org;

Burgelman R.A. 1983. A model of the interaction of strategic behavior, corporate context, and the concept of strategy *Academy of management Review*, 1983 - amr.aom.org;

Cabiosu A., Campagnolo D., Costa G., Furlan A. 2012. Knowledge dynamics in third party logistics: balancing Exploitation and exploration through service architectures; in Di Maria E., Grandinetti R., Di Bernardo B., *Exploring Knowledge-intensive business services*, Palgrave Macmillan, 2012;

Chandler, A.D. 1962. *Strategy and structure*. Vol. 4. Cambridge, MA: MIT press, 1990;

Cohen, M. D., J. G. March, and J. P. Olsen. 1972. A garbage can model of organizational choice. *Administrative science quarterly*: 1-25;

Corbett A., Covin J.G., O'Connor C.G., Tucci C.L. 2013. Corporate Entrepreneurship: State-of-the-Art Research and Future Research Agenda; *Journal of Product Innovation Management*; Vol. 30(5), 812-820;

Corbett A., Neck H.M., De Tienne D.R. 2007. How Corporate Entrepreneurs Learn from Fledgling Innovation Initiatives: Cognition and the Development of a Termination Script; *Entrepreneurship Theory and Practice*; 829-852;

Corbin, J. Strauss, A. 1998. *Basics of qualitative research: Techniques and procedures for developing grounded theory*, 3rd ed., Sage Publications Inc.; 2008;

- Dess G.G., Ireland D. R., Zahra A., Floyd S.W., Janney J.J., Lane P.J. 2003 Emerging issues in Corporate Entrepreneurship, *Journal of Management*, vol. 29, 351-378;
- de Brentani, U. 2001. Innovative versus incremental new business services: different keys for achieving success. *The Journal of Product Innovation Management* (169-187).
- Den Hertog P. 2000. Knowledge-Intensive Business Services as Co-producers of Innovation, *International Journal of Innovation Management*, Vol. 4, No. 4, 491-528;
- Dolfsma W. 2004. The Process of New Service Development – Issues of Formalisation and Appropriability, *ERIM Report Series Research in Management*;
- Eckhardt, J.T., Shane S.A. 2003. Opportunities and entrepreneurship. *Journal of management* 29.3; 333-349;
- Eisenhardt K.M. 1989. Building Theories from Case Study Research, *Academy of Management Review*, vol. 14, 620-627;
- Eisenhardt K. M., Graebner M. E. 2007. Theory Building from Cases: Opportunities and challenges, *The Academy of Management Journal*, vol. 50, no. 1, 25-32;
- Eisenhardt, K. M., & Martin, J. A. 2000. Dynamic capabilities: what are they?. *Strategic management journal*, 21(10-11), 1105-1121;
- Empson L. 2010. Beyond Dichotomies: A multi-stage model of governance in professional service firms, Working paper;
- Empson L. 2007. *Managing the Modern Law Firm*, Oxford University Press, New York;
- Flick U. 1995. *An Introduction to Qualitative Research*;
- Frese, M. 2009. *Toward a psychology of entrepreneurship: An action theory perspective*. Now Publishers Inc.;
- Gann D. M., Salter A.J. 2000. Innovation in project-based, service -enhanced firms: the construction of complex products and systems, *Research Policy* 29, 955-972;
- Gianecchini M., Gubitta P. 2012. The Role of Entrepreneurs' Human and Social Capital in Knowledge Intensive Business Services; in *Exploring Knowledge-Intensive Business Services, Knowledge Management Strategies*, 2012, Palgrave Macmillan, UK; pp. 174-192;
- Greenwood, Royston, and Laura Empson. 2003. The professional partnership: relic or exemplary form of governance? *Organization studies* 24.6: 909-933;

- Greenwood R., Suddaby R. 2006. Institutional entrepreneurship in mature fields: The big five accounting firms. *Academy of Management Journal* 49.1: 27-48;
- Groysberg B., Nanda A., Prats J.M. 2001. Entrepreneurship among knowledge workers: evidence from equity analyst market. Division of Research, Harvard Business School;
- Guth W.D., Ginsberg A. 1990. Guest Editors' Introduction: Corporate Entrepreneurship; *Strategy Management Journal*, vol. 11, 5-15;
- Hipp C., Grupp H. 2005. Innovation in the Service Sector: The Demand for Service-Specific Innovation Measurement Concepts and Typologies, *Research Policy* 34, 517-535;
- Hitt, M. A., et al. 2011. Strategic entrepreneurship: creating value for individuals, organizations, and society. *The Academy of Management Perspectives* 25.2: 57-75;
- Ireland, R. D., Covin, J. G., Kuratko, D. F. 2009. Conceptualizing corporate entrepreneurship strategy. *Entrepreneurship Theory and Practice*, 33(1), 19-46.
- Jong J.P.J., Vermeulen P.A.M. 2003. Organizing Successful Service Development: A Literature Review, *SCALES papers at EIM Business and Research Policy*, June 6;
- Kandampully J. 2002. Innovation as the Core Competency of a Service Organisation: the Role of Technology, Knowledge and Networks, *European Journal of Innovation Management*, vol. 5, No. 1, 18-26;
- Kuratko, D. F., Ireland, R. D., Covin, J. G., Hornsby, J. S. 2005. A Model of Middle Level Managers' Entrepreneurial Behavior. *Entrepreneurship Theory and Practice*, 29(6), 699-716;
- Langley A. 1999. Strategies for Theorizing from Process Data; *Academy of Management Review*, vol. 4, 691-710;
- Larsen J.N. 2000. Supplier-User Interaction in Knowledge-Intensive Business Services: Types of Expertise and Modes of Organization, chapter 8;
- Løwendahl, Bente R. 2012. 10 Entrepreneurial strategies for professional service firms. *Handbook of Research on Entrepreneurship in Professional Services*: 183;
- Lowendahl, B. 2005. *Strategic Management of Professional service firms*, 3rd ed. Copenhagen, Denmark, Copenhagen Business School Press;
- Maister D.H. 1993. *Managing the Professional Service Firms*, Free Press Paperbacks, New York;
- Miles I. 1993. Services in the new industrial economy, *Futures* Vol. 25, Issue 6, Special Issue The Future of Industrialization, 653-672;
- Miles I. 2000. Services Innovation: Coming of Age in the Knowledge-Based

- Economy, *International Journal of Innovation Management*. Vol. 4, 371;
- Miles I. 2003. Services and the Knowledge Based Economy in Tidd J. and Hull F. M., *Service Innovation. Organisational Responses to Technological Opportunities and Market Imperatives*, Chapter 4;
- Miles I. 2008. Patterns of Innovation in service industries, *IBM System Journal*, vol. 48, no. 1, 115-128;
- Muller E., Doloreux D. 2009. What We Should Know About Knowledge-Intensive Business Services, *Technology in Society, Journal of Technology*, 31, 64-72;
- Muzio, D., Flood J. 2012. Entrepreneurship, managerialism and professionalism in action: the case of the legal profession in England and Wales. *Handbook of Research on Entrepreneurship in Professional Services*: 369;
- Okhuysen G., Bonardi J-P. 2011. Editor's Comments: The Challenges of Building Theory by Combining Lenses, *Academy of Management Review*, Vol. 36, No 1, 6-11;
- Oxley J.E., Rivkin J. W., Ryall M.D. 2010. The Strategy Research Initiative: Recognizing and Encouraging High-quality Research in Strategy; *Strategic Organization*, Vol. 8 No. 4, 377-386;
- Oke A. 2001. Making it Happen: How to Improve Innovative Capability in a Service Company; *Journal of Change Management*, 2:3, 272-281;
- Pettigrew, A. M. 1992. The character and significance of strategy process research. *Strategic management journal*, 13(S2), 5-16;
- Porter, M.E. 1980. *Competitive strategy*. The Free Press, New York;
- Reihlen M., Wehr A. 2012. Towards a Multi-Level Approach of Studying Entrepreneurship in Professional Services, *Discussion Paper Series*;
- Reihlen M., Wehr A. 2012. *Handbook of Research on Entrepreneurship in Professional Services*, Edward Elgar Publishing, UK;
- Sen Gupta R., *Innovative Lawyers 2011*, *Financial Times special edition*, 6 October, 2011;
- Shane, S., Venkataraman, S. 2000. The promise of entrepreneurship as a field of research. *Academy of management review*, 25(1), 217-226;
- Sharma, P., Chrisman, S. J. J. 2007. Toward a Reconciliation of the Definitional Issues in the Field of Corporate Entrepreneurship. In *Entrepreneurship*, Springer Berlin Heidelberg. 83-103;

Smets, M., T. Morris, and N. Malhotra. 2012. 7 Changing career models and capacity for innovation in professional services. *Handbook of Research on Entrepreneurship in Professional Services* (2012): 127.

Sundbo J. 1997. Management of Innovation in Services, *The Services Industries Journal*, Vol. 17, No. 3, 432-455;

Sundbo J., Gallouj F. 2000. Innovation as a Loosely Coupled System in Services, 2000, in *Service Economy Measurement and Case Study Development*, Chapter 1, Kluwer Academic Publisher;

Malhotra, N., Morris T., Smets M. 2010. New career models in UK professional service firms: from up-or-out to up-and-going-nowhere? *The International Journal of Human Resource Management* 21.9 (2010): 1396-1413;

Venkataraman S. 1997. The Distinctive Domain of Entrepreneurship Research: An Editor's Perspective; In J. Katz, R. Brockhaus (Eds.), *Advances in entrepreneurship, firm emergence, and growth*, vol. 3:119-138. Greenwich, CT: JAI Press;

Walsh I.J., Bartunek J.M. 2011. Cheating the fates: Organisational Foundings in the Wake of Demise, *Academy of Management*, vol. 54 no. 5, 1017-1044;

Yin R.K. 2003. *Case Study Research Design and Methods*, 3rd Edition, Sage, London, UK.

Chapter V. General conclusions: Innovation in knowledge intensive services: study of global law firms

Our research asked the following main questions: how the characteristics of professional service firms allow them to successfully innovate in exploiting through exploring by combining internal and external factors of innovation and how these ambidextrous organisations perceive these factors; and how do successful innovators in professional service firms use corporate entrepreneurship models in their new service development processes? With a goal to shed light on innovation in PKIBS, we concluded a qualitative analysis of ten globally acting law firms, providing business legal services.

We started this study by looking through service innovation literature, more specifically knowledge intensive business service literature to set a theoretical base for this research. Despite of many activities and public debate, academic research in the field of knowledge intensive service innovation appeared to be rather limited. We have noticed that certain generalisations were not always useful for better understanding the specifics of services. In addition, the on-going changes in professional knowledge intensive firms were raising new issues that seemed to be not fully represented in the current research.

Traditionally, strategic management literature states that organizations, when facing certain changes in their environment, are forced to shape their structure and/or strategy in order to stay competitive or even to survive. This is when innovation is considered to be as necessary in the toolkit of the managers. Relying on this previously established idea, we tried to understand how professional knowledge intensive business service firms - law firms reacted to environmental changes that were caused mostly by economic crisis. We also added UK regulatory change in legal services market that occurred in 2011, as possible influential change in the environment of these firms. In this way we could analyse new service development process by seeing how internal and external factors were being incorporated by the

PKIBS that turned to innovation rather recently and that were trying to deal with environmental changes.

Our study analysed how certain internal and external factors that are considered important in service innovation literature are combined to be successful in the changing market. Professional service firms' literature was suggesting that the list of factors generally applicable to services might not be sufficient to understand professional knowledge intensive service innovation. After collecting our data, we have revealed a list of factors that we have grouped according to their locus and perception of the firms. In this way we have developed lists of internal captures and internal pressures, external captures and external pressures. We suggest that mostly law firms were using different combination of the latter captures and pressures and innovating through their daily service provision. In addition, their ability to innovate was highly dependent on who within the law firms participated in this daily service provision, what were the policies and how the processes were structured.

The capability to innovate while keeping high standard of the main business is known as organisational ambidexterity. It entails ability of organisation to exploit current knowledge in its main activity and explore by constantly looking for new opportunities and possibilities in the market. Based on our findings we propose that due to certain specific characteristics of PKIBS, ambidexterity is quite a natural state for law firms. The studied firms were imposing some structural aspects to become ambidextrous, i.e. they were creating certain structures, policies and processes to sustain daily services and constantly improving them. However, this ambidexterity was very individual based, so-called contextual as well, as the same individuals were responsible for both activities. Law firms in our sample were successfully innovating as they managed to include exploration into their daily services in a way that it would embed external learning factors (e.g. external experts, managers with diverse capabilities, react to changes in clients' needs, capture possibilities of market change and regulation). With respect to internal factors, culture and appreciation of young professionals and diverse skills were shown to be essential elements for innovating. In this way, we conclude that as law firms are highly dependent on their human and social capital, they can become ambidextrous by incorporating combinations of internal and external factors that are important for innovating in their daily activities.

It has to be noted that incremental improvement in organisational structure and efficiency of the main activity led to enhancing innovation at different levels of the firms.

When analysing the data, it was established that corporate entrepreneurship type of activities were strongly present in our cases. Therefore, in the second half of empirical analysis we looked at how law firms going through turbulent environments were using corporate entrepreneurship activities as a part of their strategies to be more innovative. Using visual mapping methodology, we developed three types of innovation patterns in the law firms. We suggest that corporate entrepreneurship models depend on successful application of mainly three elements: who participates in corporate entrepreneurship initiatives; what are the formal processes that enhances these initiatives; and what are the policies applied to this type of behaviour.

The first model involved mainly partners in innovating through corporate entrepreneurship. Ad hoc processes were common in this type of law firms. Policies to enhance corporate entrepreneurship initiatives were limited to partners.

In the second model the main actors in innovation process were partners and managers. Semi structured processes of innovation were used, i.e. certain innovations were planned and organised for, while ad hoc processes were also present. However, these firms had implemented policies that corporate entrepreneurship initiatives were welcomed (although not expected) from all the professionals and business development managers (that were not already taking part in formal innovation structure).

The third model had mostly structured innovation process. The strategy of becoming more innovative was aligned with the structural changes. The structural unit, however, was not so important in directly creating innovative output as enhancing corporate entrepreneurship behaviour at the different levels of the firms. All the professionals and employees were expected to come up with innovative ideas and solutions. Successful innovation was celebrated and rewarded.

Considering previously developed research on professional service firms, innovation and corporate entrepreneurship, we suggest that the third model is capturing most of the factors specific to professional and knowledge intensive firms. Therefore, this model should allow law firms to be the most innovative and efficient in the long run. The particularities of professional service firms, among other, considered as specific factors are: attracting and keeping highly trained talented professionals, partnership forms of governance, lower impact of technology, selling new and/or new combinations of knowledge, unprotected constant innovation, incremental nature of service innovation.

This research had some general limitations. It should be noted that wider study of PKIBS innovation processes in terms of number of firms, acting in various countries, would be more representative. In addition, even though we believe our findings give insights for other PKIBS, TKIBS and even other types of organisations, our study was limited to law firms - one type of PKIBS organizations. Finally, the purpose of this study was not to come up with statistically generalisable conclusions, but adding to the path of theory building. Therefore, further studies are needed.

Service innovation is considered as one of the main pillars for further economic development and cooperation among European countries and regions. Business services have become very important players in transferring the newest knowledge and the best practices around the private and public domains. It is critical that business services further develop their capacities and become more proficient in this role. Innovating in professional knowledge services is significant also for improvement of public administration and services, as it brings closer to understanding how the processes can be made more efficient, how the pressures for cost cutting can be met and the best people kept motivated. We believe that further research is needed to deepen on some aspects and to generalise more on the other, so the best applied sustainable innovation practices, structures and policies are examined and spread. This is paramount for further positive change in knowledge intensive services, as knowledge intensive service firms' innovation is not only related to innovating for themselves: being directly involved with their clients in the private and public field it also keeps many private and public sectors going forward and become more efficient and competitive.

Annex 1. Data table. Interviews

Law firm	First location	Number of offices	Number of partners	Number of employees	Web site innovative	Awarded/mentioned as innovative in external sources	Number of interviews
1. Blue	UK	28	<450	<4500	Innovation is a value	Yes	4
2. Green	UK	28	<450	<5500	nd	Yes	4
3. Red	UK	34	<400	<4000	Innovation as constant improvement	Yes	2
4. Yellow	USA	39	<400	<4800	Constantly looking for innovative ways	Yes	2
5. Purple	USA	23	<430	<4200	nd	Yes	3
6. Orange	UK	23	<250	<	Original	Yes	3
7. Black	UK	11	<170	<2300	Innovative	Yes	5
8. White	UK	42	<500	<5000	New legal solutions and products	Yes	8
9. Brown	UK				Innovative	Yes	4
10. Beige	Italy	2			Creative solutions	Yes	12

Annex 2

Interview Protocol

Date []

Name of the company []

Name of the person []

Official job title in the law firm []

This research is trying to understand more about the new service development process in this law firm. Therefore, this interview is devoted to this topic. It is not the purpose of this work to make any evaluations about the processes that your firm is using. The purpose is to learn about the process and the main factors that are important to it.

For facilitating note-taking and avoiding missing important details, I would like to audio tape our conversation. Tapes will be destroyed after the interview materials are transcribed.

Some ground rules for this conversation:

- i. all information, including the title of the company and the names of persons mentioned will be held confidential;*
- ii. if you are not willing to answer to some of the questions, please, just indicate so, and we can move to the next question;*
- iii. if you prefer audio recorder be turned-off at some point, I will be happy to do that.*

This is a semi-structured interview, therefore, additional questions might arise during our conversation. The previewed time for this conversation is approximately one hour.

Interviewee background:

1. . What is currently your position in the firm? (Note: only in cases I do not know or cannot check it online, because usually I know who I am meeting)
2. How long have you worked in this firm?
3. How long have you worked in this position?
4. Do you have any other degrees than in law?

Interviewee perception of innovativeness:

5. Would you please think about the idea of “new services” in the law firm. According to you what are “new services” in a law firm? How would you define them?

Innovativeness of the firm:

6. To your knowledge, did your firm introduce new services for its clients in the last 12 (24 months) months that were not present in the market? Could you describe how they were developed?

7. What would you name as the most common sources of the ideas of the new services for clients from? (Note: clients, competitors, offices in other countries, etc.) (some argue that legal firms only provide tailored-fit services) Were any services introduced by your firm to the market before your clients would ask for it, i.e. introduced to the market without any client prior request or participation?
8. Would you say new service development is more like ad hoc or tailor fit solution upon the client's request or there is a formal internal procedure of the firm? Why so? (Note: responsible partner/manager, team, brainstorming group)
9. Have you played a role in introducing new services to the clients in this firm? Could you tell me about this process?

Institutional perspective:

10. If there is such a procedure, could you describe shortly how does it work in practice?
11. Would you say innovation is a part of strategy of the firm or division/practice group? (Note: purpose, development, management, formal invitations for initiatives, bottom-up process) Do you have a multi-unit structure where each unit is responsible for its part of the new services or is there a common firm-level unit responsible for new service development?

Internal factor-related issues:

12. Is "being innovative" one of the typical requirements for professionals working in the firm? Do you know when a person was hired in your firm because his or her "innovativeness" was weighted heavily ?
13. Are there any official bonus/initiative rewarding systems for bringing up innovative ideas on new services provision?
14. Are there any training or learning initiatives on innovativeness in the firm? How often are they performed? Are they common for all or specified for different levels of professional (employees)?
15. Do you know any new services that were introduced by your firm, because some new technology had become available?
16. Does your firm participate in creating/ developing specific new technology with the purpose to introduce new service for your clients? (Note: software, knowledge management, other innovation supporting technologies)

External factor-related issues:

17. What or who according to you are the main external (Note: but here I like to here also, if internal drivers are more important than external) drivers of the new service ideas? (Note: wait for the answer and then: why so?) Can you name some other external driver of the new service ideas?
18. Has new regulation of 2011 (Note: came into force regulation allowing equity capital and non-professionals participation in the provision of legal services') of legal sector in UK created more pressure to offer something new/different from the competitors (comparing it to previous legal regime)?

19. Did you (your law firm) participate in the process of passing (rejecting/blocking) new regulatory framework that came into force in UK 2011? How important is regulation and communication with the Regulatory Authority in your daily activity?
20. Are you aware of any ABS (Alternative Business Structures) that entered the UK legal services market since 2011 regulation? Do you consider them as your competitors?
21. What is the role of new service introduction at all in your competitive battle (is it as oppose to being traditional, long term on the market reliable partner in clients' business)? How does it rank among the factors of competitiveness for your firm?
22. Are /How many/ lawyers participating /e/ in different professional associations, industry associations, lawyers', professionals, their specialization related (pharmacy, biotechnology, oil)? Would you say this activity has been a source of innovative ideas? (Note: Literature indicates that these can be external drivers of innovation, of the above question does not bring it, it can be interesting to know, the answer to that – if it is important factor in daily activity)
23. Do you have constant communication with other types of business services providers/professionals (auditors, investment bankers)? Would you say they are source of innovative services to your firm? Do you have any of these professionals employed in the law firm? For how long have they been employed? (Note: This is one of the ways to introduce new services in the literature by inviting different profile specialist, also there is an institutional logic of changing the service offered by changing the internal composition)
24. Do you know any law that was lobbied by you (your firm) with a purpose to be able to introduce new legal service by you law firm? Was or is your firm involved in this type of lobbying activity? Do you know any law that was lobbied by you (your firm) with a purpose to be able to introduce new legal service by you law firm?

Additional questions (prepared for each law firm individually, when needed and time allows):

25. You were nominated as Legal Innovator and were awarded for Financial Law innovation by FT in 2011 for (the are on shortlist 2012). What were the sources of these ideas? Were they introduced through the formal innovation procedure?
26. On your law firm website [name of the law firm] is presented as innovative law firm/ having one of the values (working principles) bringing innovative solutions for your clients. Could you describe your innovative activity this year and new services offered to the clients?
27. (if there is a formal new service development procedure in the law firm) If you have to name 3 priority internal procedures in the daily activity, what would those be? (if innovation does not come up) where would you put innovation development?

Thank you very much for your time! Can I contact you if after reviewing the material there are additional questions?

Annex 3. External and Internal Factors in PKIBS new services development processes

Factor	Firm Blue	Firm Green	Firm Red	Firm Yellow	Firm Purple	Firm Orange	Firm Black	Firm White	Firm Brown	Firm Beige
<p>C</p> <p>I</p> <p>N</p> <p>A</p> <p>T</p> <p>E</p> <p>R</p> <p>R</p> <p>A</p> <p>N</p> <p>E</p> <p>L</p>	<p>Low</p> <p>It is kind of someone said, we should do something about this. And they just were going around and then we said let's sit down let's have a meeting, then somehow someone wrote an email, saying well we thought about this we are writing a paper on it. And then you know people had to, you know, it is kind of democratic in a way, but if you initiate it, you can lead and then somebody would step in and help out. (Partner)</p>	<p>Moderate</p> <p>We develop an online tool. To decide that this is sort of actual business case. And then we decide if we want to go with it forward. But we would do it in quite a disciplined way. Through following proper project management and business case analysis. We have system internal where if we need to invest over certain threshold of money. It has to go to the particular committee to get approval. In particular we have a committee involving partners and business development teams who would assess the priority and value of different project. (Manager)</p>	<p>Moderate</p> <p>There was a particular team of people created. They are continuous improvement team. They are a permanent working team. They have been here for two years so far. (Manager)</p>	<p>High</p> <p>And so M is the chairman of the innovation council and he has set up a council of which I'm one of the members to look at all kinds of aspects of innovation whether it's sort of -- a gain whether it's input focus or whether it's slightly more outward focus. (Partner)</p>	<p>Low</p> <p>Because, I mean, in terms of how we operate our organization, I'm not sure we are so innovative, I think. Running an advisory practice is what we do. (Partner)</p>	<p>Low</p> <p>We don't have regular meetings were everyone sits around and says who has got a good idea this morning. It tends to be individuals that come up with an idea I don't know in the night or in the bath and then they talk to the couple of people whom they ask like is it a good idea. Oh yes, that sounds like a good idea let's do that. (Partner)</p>	<p>Moderate</p> <p>So, that is the committee I chair, which meets up every couple of months and that will take ideas that come up from the different division into it, it will look at them, it will decide, if any of those need to go up to the board and we generally have an oversight on where development is going and any innovative ideas, but obviously within the divisions there is that work going on all over. This where I am coming with a committee to decide where are those ideas going and or we can look in a year because</p>	<p>High</p> <p>We have a body, which is called the Innovation Panel. The Innovation Panel is a group of 8 people, chaired by quite a senior partner, and it includes several partners, several other lawyers, several support staff, so people from business development or HR or finance, and also two external members. (Partner)</p>	<p>High</p> <p>[A] was good at bringing together a team of people from across the firm, so we have people from my team knowledge, marketing, IT, somebody from HR, so we have range of 5-6 different disciplines, to make sure lawyers, not lawyer, people who worked in other firms, people that are across section. (Manager)</p>	<p>Moderate</p> <p>We know we have a small committee there that runs the firm and we know that our partners will not -- well, of course will not be happy if we make mistakes because we're not happy but we know there's an incredible level of trust. And they know that, you know, that we did calculated risks and we're not blamed for making mistakes which is I've heard of any lawyers who don't do that. (Partner)</p>

		<p>High There is a standard of how can we get better in everything we do. That applies to project work that we are managing logically strategic internal process towards improving efficiency, so you could put some of it under the heading of innovation. You are improving the tools changing the processes, whatever they are to continuing to improve. (Manager)</p>	<p>Moderate This is a way business have always operated. And this is the way to get ahead of the market place you try to think of new ways of delivering services. I don't think that that's particularly new model and nor are the people that work in that model are different. I think what innovation does take is thinking of new things is a great understanding of your market place, a lot of experience and ability to understand, having very strong cognitive ability, but then again. It is a vast range of skill that it requires. (Partner)</p>	<p>High And I think what we're trying to do at the moment is really to try and make sure we capture all those ideas and act on them. (Partner)</p>	<p>Low So, I think, different, but I'm not sure that's innovative. Our innovation, like we look at it, is in what we do on a day-to-day basis when we advise on transactions and I'm not sure that's organizational. But maybe in the advice we give, we try to distinguish ourselves from our competitors by adding value. (Partner)</p>	<p>High Which means that partners have to bring us in more frequently because acting as lawyers in a traditional sense, the lawyers at this firm they are clever enough to understand that the things won't work the way they used to, because that is not how the change works. They value the different perspective that they can get from valuing somebody from marketing, or finance, or HR into the discussion. And, you know, I think more recently we have been starting to recruit people in these support function who can offer a constructing</p>	<p>we are looking at this one first and its only so much in a way of resource. (Partner)</p> <p>High In this firm we probably always have been innovative anyway. So, a lot of what is happening now in the legal services market I don't think it is new. I think we have always tried to do things slightly differently, even if you go back to the early 90s. (Partner)</p>	<p>High I think we are innovative; it is because we are making a conscious effort to constantly develop. I mean we have teams that are looking at innovation in terms of -- I mean we have a whole different structure within White that is looking at services for clients in that respect. (Senior Associate)</p>	<p>High we are very supportive of people wanting to find new ways to innovate and take business forward, it would be very arrogant I think not to take that approach. Because the reality is that everybody has good ideas all the time, so we don't want those to die in anyway, but to encourage it and to make sure that good ideas are implemented in a way that it can feed across the whole business not just to get, you know, stuck in a particular side or work stream. (Partner)</p>	<p>High So we've always, looked for different ways of doing things and we look at everything with an open mind, you know, every idea that comes up will be evaluated. (Partner)</p>
--	--	--	--	---	--	---	---	--	---	--

<p>Innovative culture</p>	<p>Moderate For me, it should run in the DNA or organisation for it to be a success. And you need to have a sense of youth to do things when the people get behind you and they are enthusiastic and then actually to do it, to execute. (Partner)</p>	<p>Moderate You keep going if you are resilient and that the skill that people need to have or that trade people need to have. Or if you see some success. Typically we would encourage the people that are innovating in a right way or innovating successfully. I suppose what I am trying to say is that it is more than just about having ideas. You know, and those people who are successful. (Manager)</p>	<p>Moderate But the other thing that we tend to shy a little from that a little bit is to say that it is something bizarre or something strange that people come up with ideas. People are expected to innovate and come up with new ideas all the time, it's kind of your job description. (Partner)</p>	<p>High And it shows that people, you know, prepared to do quite a lot of time actually, you know, of their own to develop their thinking, put presentations, you know, and then idea why their idea was better than somebody else's and, you know, I think that's great. That's very positive. It's what we want. (Partner)</p>	<p>Moderate And I think, reasons we are innovative is we think we're pretty good and we think of ways to add value so we can continue to do what we do and continue to get hired. (Partner)</p>	<p>High And when you come up with an idea you are genuinely admired for it produces the environment where people can generate things. This is not so much for me to say. But I also hope that we also have a culture of in fact that there was no monopoly the idea amongst the partners and everybody who works in whatever function whatever department is capable of generating ideas as other people. (Partner)</p>	<p>High In our team we run a very open door policy, so one can speak to myself or other team leaders or managers in the departments. Firm also appreciates suggestions. So, any general thoughts or any ideas from employees they can fill out the formal form, which is considered as well. (Senior Associate)</p>	<p>High Well, have tried very hard to instill a culture of innovation, partly by building it here for amongst the criteria, when people are hired or when they are promoted, so to see if they demonstrated the potential to be innovative. Particularly this applies when people are being promoted to partnership. So, most people who become partners are internally promoted, they have to go through the promotion process and part one of the criteria is looked at is of adding something new which frequently would be innovative, it might be also</p>	<p>Moderate And I went for the law firm for two reasons. On an object level, and on subjective level, I think Firm Brown has their pH balance right, just about right. I think you have got that right between the tournaments, people, and the people at the top desiring to really channel this properly to execute the opportunity. (Manager)</p>	<p>High We incentivize junior people and everybody within the organization to actually speak up and say, "Look, I think this doesn't work or we can do it in a different way or, you know, we should get rid of this rather than this, that or other things" and overtime this has of course, you know, we'll, you know, we make obviously like everybody reasonable amount of errors. But at the same time, you know, if you, you know, overtime we do things differently. (Partner)</p>

	<p>And there are some formal processes that encourage people to come forward with their ideas, like twice a year they would make some competition. (Manager)</p>	<p>We have ideas' hub across globally and people were able to submit their ideas and then there were different prizes. (Manager)</p>	<p>For example we ran something that we have called the magic initiative which is making a good idea count. Internally. And we have put that to the whole firm – anyone could nominate the idea. And we said don't worry if it is really small or seems. (Manager)</p>	<p>They run our competition, sort of innovation competition last year and actually when you say an open culture lots of the ideas -- I think there were 350 submissions from around the firm and lots of the ideas came from the business services. (Manager)</p>			<p>Not specific, but we have various different forms that would allow people to put forward their ideas and get feedback. Once they make that there is that approach that we would engage with a team to develop those ideas and whenever it is possible to implement them with the team as well. (Senior Associate)</p>	<p>We ask periodically suggest innovation, so there is like a virtual box where suggestions' innovations are encouraged and absolutely anybody can suggest their ideas there. Then we also hunt for innovations or beginnings of innovations, so we can pile a report every year at the firm and in doing that we are looking for cases where somebody is doing something slightly innovative that could be developed. (Partner)</p>	<p>Yea, there was something like the best idea competition which they ran in a firm. With prizes trying to encourage people to come up with their ideas. And lots of good ideas came through and the ones that came from the support services were narrowly focused on the support service world rather than service to the client. The lawyers were much better because they are much closer to clients. (Manager)</p>	<p>Talent search/ Appreciate individuality</p>	<p>Moderate they grow their lawyers, what happens is that usually you come as a trainee then you become an associate, that is why I think that they value their people</p>	<p>High They have just come from a new marketing phase where they tried to reinvent the image and they are very much in the individual's world. So, I think</p>	<p>Moderate Who has sort of creative ideas all the time and would go like lets go and do this. Cause that would be a disaster. So, you can't have this</p>	<p>Moderate The more profitable you are, the more you are perceived as being good at that thing and therefore the more it attracts,</p>	<p>High Because I find that a lot of people can be good -- you know, to finish law school, you know, you have to be a</p>	<p>High I think where we are slightly different is with this having this very open culture of everybody feeling that if they develop</p>	<p>Moderate We maybe looking just for a very good lawyer to do a particular area of work if some innovation comes with it</p>	<p>High We pride ourselves for people that are here and that come up with something new. And we want to introduce these people because</p>	<p>High I think you have got that right balance between the tournaments, people, and the people at the top desiring to really channel</p>	<p>High I think we do a much better job with the professionals than we do with the staff. I mean probably because, you</p>
--	--	--	--	---	--	--	--	--	---	--	---	--	---	--	--	---	--	---	--	---

	<p>because they put so much effort and money into training them, so they want to keep them so they have to listen to them. (Associate)</p>	<p>they do the emails more personable, they like people to be individuals, have character, where actually at Firm Blue I think it is more conformity I do feel it is more like you are cog in the system while in Firm Green they try to make everyone an individual all rounds lawyer, so everyone would be equipped rather than just being a cog in a system. So, it is more flexible and more resilient, I think. (Associate)</p>	<p>kind of individuality which might be totally valued in technology or design companies where you do want somebody who is really thinking outside the box. Because at the end of the day we have to make sure that our advise is sustainable, so we cannot risk that. (Manager)</p>	<p>you know, towards your circle the more interesting people and different talents and so on and so forth. (Partner)</p>	<p>very good parrot. If anybody says anything else they are absolutely wrong. But you don't want to work with a parrot. So there needs to be a person where, you know, they have done something different that shows that they have other interests, that they have created something different which -- maybe they wrote an article about something which is completely different, it has nothing to do with law. Maybe they went climbing, I don't know, the Kilimanjaro; not for the purposes of doing fund raising but because they</p>	<p>something new then at very least they will be allowed to get on with in themselves. If it has a wider take-up, then they will be encouraged to center stage of getting it developed. We have a culture here of recognizing that everybody brings something different to the business. (Partner)</p>	<p>fine, but it may not be part of the job description, but there will be other areas, where we might decide well we actually need to develop something in this area, so we actually do need to recruit somebody with that quality or somebody who's got that bit of spark to help us move on in this particular area. (Partner)</p>	<p>of that, not only because it is beneficial for the firm, but because we have that culture where everyone's achievement is acknowledged. (Manager)</p>	<p>this properly to properly execute the opportunity. And nothing I have seen since I joined changed my impression. So that was just a very subjective choice. It wouldn't be true with every law firm. (Manager)</p>	<p>know, for the professionals it's easier for us because we know better. We understand better their world and what they expect but for the professionals we do totally look at things like be able to create outside the box and be able to be, you know, propose a problem and look at it from different angles. And we actually -- that's, you know -- some of the things we do -- honestly, the other thing is some of the things that we do are somewhat obvious but nevertheless nobody has tried and nobody has broken away from practice. (Partner)</p>
--	--	--	--	--	---	--	--	--	---	---

<p>other things so let's not be -- you know, we want a top guy. (Partner)</p>											
<p>To be seen innovative</p>	<p>High I think innovation is which is a bit nerdy. I think many lawyers in our firm would not know what our values are. But there are probably 10 of those values. And I think innovation is the least recognised value. (Manager)</p>	<p>High I would say we would pride ourselves in doing things in a creative way that is making a difference for our clients. Difference to the way the firms runs and the way people feel about firm. (Manager)</p>	<p>High People are expected to innovate and come up with new ideas all the time, it's kind of your job description. Clients absolutely expect that of us. They are coming up with a great solution every day, they don't need to be paid extra for that. That is what we do all the time. (Partner)</p>	<p>High I think law firms aren't or have not historical been - some have been actually quite innovative, I think, over a longer period of time, but now -- and have looked at different ideas on the management side of doing things more efficiently and have actually probably done that consistently over a period of time. But I think nowadays it's much -- there's much more focus on it. I think there's much more emphasis on it. (Partner)</p>	<p>High So, you know, and we think, we're, we're pretty, pretty good group of lawyers. But in measuring us as innovative, I think it means that the individual lawyers who are may be working on the deal. And I think we've tended to attract people who, who fit that mold. (Partner)</p>	<p>High It's important for our clients, particularly, as we are, you know, often we're set to focus on one of the sectors, so yeah, no, it's very important for us to be innovative, obviously, in that respect. So clients will expect it because we work for innovative companies. (Manager)</p>	<p>High I think it is important that you are innovative, not just are seen innovative; I think you have the base the core base that you are providing a very good service that you are recognised as giving the first class service, but innovation is that added value. (Partner)</p>	<p>High It's one important thing among many I think and I mean it has sort of, the general profile racing but it also shows that we are on the forefront. If you come to us we are going to, you know, we're going to be innovative. We're going to cage with you. You're going to get the best possible service. We're going to be in the forefront of, you know, of doing these transactions. I think it does send the message in terms of where we want to be in the market. We do the complicated transactions that no one else does and we're</p>	<p>High Oh, you have to keep going. You can't stop. If you are not innovating as a law firm, that's unless you are at the absolute peak of technical excellence and you are seen as absolute legal specialist in the area. Everyone else they have to compete by innovating to differentiate themselves from the others. It is a crowded market place -- there are lots and lots of law firms, lots of lots clients and each law firm has certain level of differentiation at the market, so it is very competitive and you need to be different to make yourself</p>	<p>High We had to do it because we had to stand out in some other firms don't have to do it. The reality is they have a lot of cash. For them innovation is a disruption. For us innovation is the only way we can actually survive and be seen. (Partner)</p>	

Engage mixed competencies	Moderate And for a lot of senior lawyers if somebody has an idea and this idea was given to them if they think it's a good idea daring thing is to control it and by controlling it they stifle the creativity. The ability to let go I think is hard. And only the smart ones recognise that they should do it but they just find it impossible not to do, but not because they're that people, just because that is how they are brought up and trained. So when I see good ideas I tried to keep them out of the formal process, just to make sure that they happen. (Manager)	High No extra resource, no extra people, we just sort of centered them they learn from one another they support one another better coordination within projects, better coordination across projects. We enabled the firm with the greater degree of certainty and efficiency. (Manager II)	Moderate These ideas come from the people that run processes. Because in a way you are the only person that really knows whether you are frustrated with something and whether you know that you could do something better, some improvement that can be made. So, we basically go to lawyers and to business services and ask them if they have ideas. (Manager)	secretaries or the -- you know, the business support folk in various departments who are saying, "This is crazy. Why did we do this?" (Partner)	Moderate We're probably somewhere in between. We're kind of, slightly more consultative and we like to involve people in broader groups and that's why we don't have that dictatorial kind of approach. (Partner)	Low But -- so let's say that you have an idea about -- okay, there are two. One is on the admin side, you have something like this, obviously, you're going to go to the administrators. But let's say -- but if you have a new client or a new idea of how we could have done this based on something that you read or something that you thought or something that you heard in another --	High And then, we spoke to the partner whose client it was, who -- he was, you know, just delighted that -- that no, he had no idea. So he just finally, "Oh, that's great." The next step, we got the HR director and the legal director, brought the client in and explained how we thought it would potentially work and we all basically agreed to do a pilot for a couple of upcoming cases, which we did. (Manager)	High So basically you know, lawyers moved into management, but they remained basically lawyers. But we decided that we needed other skills -- project planners etc. to help us to get where we want. Let the lawyers do the work that we needed them to do but let other who have more experience of dealing with projects get on and help us with that. And that proved	High And if the firm has embraced that then from the top down to the bottom the firm is challenging everybody, you know, whether you're the receptionist here on the first floor or the guy who cleans the offices at the end of the day or the trainee or the associate or the partner or the senior partner, all of them can ask themselves the question, "Am I doing what I do in the most advanced way that I can or could I do this differently and	High It's going to involve work and investment and time but I can always give you that bit that we are missing and we can do it. But if you are not, if you are not wanting to do investment then yeah, let's not waste each other's time. And so when they without any hesitation gave me the message of what they wanted to do and then the question he came up with me, can I do it. I thought that I was -- I got so much	Moderate We are different about management cultures -- we have managers; or in our internal organization, for example, junior associates are very in front of the clients. So, they have a -- and from the first day, the second day, they have relationship with, with our clients. And in many law firms, junior associate don't, don't do this. (Manager)	was a part of something. And I think that is a -- probably it's not an innovation, but compared to the other law firm, is, is an expression of innovation. (Partner)
---------------------------	---	---	---	---	---	--	---	--	--	---	--	--

	<p>Low You can come and share your ideas. But I think only if you are senior enough you can implement the these ideas yourself only then it can work. In general I think partners are more concerned about what they think about what about others think. (Associate)</p>	<p>High And I thought this would have never happened at Blue where the partner is taking my view over the Global Head. Yea, they are very approachable the partners, there would be no problem in saying that way they are much better than Blue. They are more approachable and they would listen. (Associate)</p>	<p>Low Lawyers have been organised like this for hundreds of years. It is the apprenticeship model. There is partner level people at the top of the tree and there is a junior people at the bottom of the tree. Together they will come up with for solutions for the clients. (Partner)</p>	<p>High We have a very open and we have what we call an open door policy. I mean we just -- we want people to be -- any trainee, secretary, whoever to be able to walk into my office and say either, "I got a problem" or "I've got an idea." It has to be the right way otherwise if it's going to be -- you have to report up a line through the willingness then we're not getting</p>	<p>High I cannot imagine getting a junior person to work with me and then say, "Okay, you're going to be the vegetable in this transaction. You're just going to do whatever I say and you never express any opinion or view about anything." It don't help us in anything at all. It just doesn't work that way. (Senior)</p>	<p>High it's not a huge amount of central kind of command and control, so that each department has quite a lot of freedom to -- what creates it exactly? I mean, we don't get directions from on the high to say everybody must react and, you know, interact with their client in a certain way. We're very much got the flexibility to work to a certain, you know, to individual styles. (Manager)</p>	<p>Moderate We work very much together with partners, lawyers, managers, paralegals, IT or any other position that is needed for the purpose. (Manager)</p>	<p>Moderate I think if you -- I think A&O is very much a culture that you and people can express their ideas and thoughts quite easily. I think the implementation of those sometimes people don't want to take it forward just because they don't have enough time or they think, "Well I've actually come up with an idea but actually my day job is overwhelming</p>	<p>Moderate I was involved in a big innovation in a law firm and I got to see, and I never saw any rigorous management or any rigorous measurement of knowing I actually delivered any value to either the firm or the client but it was branded nicely and it was the partner became a hero which is obviously what they want to be. And so it had, so that's where I like about this place that there isn't too much</p>	<p>High What I also noted in this firm is that there are not so clear separation between the roles. So I can speak normally with the partner to ask some clarifications and I don't have the -- I'm, I'm not scared to ask something because I say, "Oh no, I, I had to know it on myself, so I cannot ask it to, to them." And they, they, they push for this, this, this</p>	<p>confidence with regards to them. (Manager)</p>	<p>better or more efficiently and for less cost?" and so on. And so that -- you know, we felt that that was going to be the most effective way for us as a panel to effect change and encourage innovation in the firm. (Partner)</p>	<p>very successful and has been very successful. So that is really where we brought the innovation. (Partner)</p>	<p>that's what you do in the group lunch. (Senior Associate)</p>
--	--	--	--	---	---	--	--	--	---	---	---	---	---	--

				<p>anywhere so I think there is that kind of, flat management structure which is quite important in the ability to kind of, develop that. (Partner)</p>	Associate)			<p>as it is. I can't take that initiative on top of everything else." (Manager)</p>	<p>or it gets into that stage. (Manager)</p>	<p>big communication and also to have a, a well-known situation and about quite all the activities that are handled by the, by the firm. So I'm with the litigation department. (Trainee)</p>
<p>Internal structures and processes</p>	<p>Low I think in some ways if there was a formalised process, if we have somebody who was in innovative and who had control of it, who would be able to suppress dissent, just to say, you know what this is what we are doing it and we are doing it, and if you have a partners that disagree with that, were formal process like this, it would help definitely. And it is hard to do. (Manager)</p>	<p>High So standardised process by creating a center of excellence and where people share the knowledge as to of the simple ways of improving the process standardise it. And again standard within a framework a lot of flexibility but some consistency. And only by doing things consistently you can sort of learn from your mistakes and improve. So, my experience of being a law firm is that it encourages innovation or it</p>	<p>Moderate So, we really looked for something that was new that has not been considered. And also filtered what we thought was the greatest impact and also to the ease of the implementation. Because the idea must be fantastic, but day-dream that we were never ever going to get there. And you know you have to be grounded in some sort of reality. So we looked at those things as well</p>	<p>High Actually one of the ideas that came out of that competition was sort of software package to track innovative ideas not just for the competition but to be embedded in the culture. So people sort of, you know, put and submit ideas, see how it has been action, you know, get a response and track it and, you know, so there's a lot of ways. (Manager)</p>	<p>Low And then if the idea is not totally formalized then, you know, a group of people will say, "Okay, let's sit down and think whether we can do something with this." Then you write a paper. Then depending on whether it's confidential or not this is going to be circulated within the firm then if it's not good confidential it's going to be</p>	<p>High The partners and are great at all the ingredients in place and I'm just making helping them do it and also recognising I think a big part of my [team] is served finding interesting and innovative things that going on. Finding good ideas and spreading them around. (Manager)</p>	<p>High First step is always checking with local team or department that works within that particular process where the improvement was suggested and they would validate that it would work and then it would go for further procedure depending on what is needed: funding, technology, other resources. (Manager)</p>	<p>High That Innovation Panel organizes a review of things that going on in the firm that are or could be innovative and sponsors and supports particular initiatives. So, that if they approve the initiative, they have a budget which enables them to fund the necessary work to move from concept to implementation. (Partner)</p>	<p>Moderate It would go to what we call our project management office. So that is small team of people that look precisely at that sort of thing, so you would go to them with your idea. I don't think though you would take it straight to the Project management office, I am sure you would want to discuss it with a number of your colleagues, you would probably want to discuss it with the partners that</p>	<p>Low It's -- you talk to anybody in your team and it depends on your role. I mean if you are a professional you will talk to the person you work with and that could be me or it could be a senior associate and a senior associate will then bring it up if necessary. You can knock on my door or anybody's door or you can mention it in the practice groups. I mean we have meetings with</p>

	<p>High To innovate you have to be close to the clients. You need to listen very carefully. When we finish the deal we have a meeting with our clients and then we talk to them and we listen to what we have done wrong, where could we do better. (Partner)</p>	<p>High In terms of how the international firms have to do business in terms of it represents new legal. It's being very close to your clients. We do a lot of talking to our clients to develop our own thinking as of how could we help them through the new regulatory regime that's been introduced. How can we then develop products to support them. (Manager I)</p>	<p>High The other things that we invested a lot is working with clients together on community issues. Client have their own corporate responsibility targets and certainly sometimes their legal function struggle because of their resource demand and to think about on what they can do. So, we work together in term of what we can do. (Partner)</p>	<p>Moderate So it's not like -- you know, but we try both ways to ensure we're understanding what the clients really think of what we do and to respond to it. (Partner)</p>	<p>Moderate The relationship between certain clients and certain people within law firms can vary greatly. There might be an instance at a place like Purple where it really is a matter of a lawyer doing very groundbreaki ng work that no one else is thinking of and giving that advice to the client. And the client will be. "Wow," you know, "God, I had no, no idea you could do that. That's ingenious. Thanks very much." I'm sure, in a lot of law firms, it's the other way around. It's clients go into the law firm saying, "We want to</p>	<p>High Client listening. Clearly, what you are doing today I'm doing with clients every week of the year having an objective of understanding what clients want and what they are getting from us and what their preferences and needs are and which is complementary input into client and partner relationship and we will bring am slightly different spin into their understanding which is used further to improve the service and, therefore, be more innovative if that's what is required. (Manager)</p>	<p>High Certainly there is no better way of understanding if your service is needed than asking your clients about it; that have certain knowledge and expertise about it. (Manager).</p>	<p>High I mean it's working with clients sort of, identifying the client's needs, really understanding what they clients wants that is ultimately driving that and of course then you need to be working close with them and really being engaged and engaging, you know, with clients. (Senior Associate)</p>	<p>(Manager) High We have very strong client relationship management program in the business, so there are very regular conversations with a client what is the future of their business, what we are doing, how we can help, what they are looking for. (Partner)</p>	<p>High So, everybody, from their first day here are directly involved with the clients. And this helps you to build relationship, to understand better what client might like. (Associate)</p>
--	--	---	--	---	--	--	--	---	---	--

		<p>Moderate Other service organisations are important sources, because they are like us, although they have different business models, and their methods of providing services are different and the professions are different, but sometimes we can joint venture with other service organisations. They are clearing houses for information, they are telling us what people are doing. And we can tell them what we think is going on and it useful for them as well. And traditionally we had very strong relationships. (Partner)</p>	<p>High They have come up from the manufacturing originally – taking waste out of processes. Well you can't completely correlate into the professional services firm, but we sort of scanned the messages and brought in some new skills on the lookups on the processes that we do both on the legal side and business support side. We are working on the number of projects how we can be more efficient effectively. (Manager)</p>	<p>High I would try and turn to talk to other industries to know what is happening and they are usually so far ahead that we have to rain back the ideas, but I think it is very good to understand of where our clients are going what technologies are they are looking at, what issues they have and how they are tackling that. Even if it have nothing to do with law so much. I think that help us to be informed of what should we be thinking about in the future. (Manager)</p>	<p>Moderate I mean there is obviously a tremendous amount of literature from other law firms and competitors and quite a lot of things from market consultants in the sense of what about project management, about, you know, efficiencies in various ways, you know, sigma sort of, standards, all that kind of stuff. And I think that, you know, we -- I mean on the innovating council for example, we look at that and we read it, more interested about other ideas and we -- but we don't feel we need to follow x because, you know, x trend because that's</p>	<p>High I think you can learn a lot of lessons from retail market from the way that some people have reengineered their customer journey and how they treat the client and what is the message that the client wants to take away. (Partner)</p>	<p>High Yes, other law firms, financial accountancy firms, I personally also like to look into consumer brands. If I see what they are doing. I am always on the look out and bring them in front of partners. And next week we have a meeting with the CEO at the very minimum every quarter, but usually more often and he expects me to have new ideas every time. And I expect others in my team are expected into other firms and see what other people are doing. (Manager)</p>	<p>High I think you can learn a lot of lessons from retail market from the way that some people have reengineered their customer journey and how they treat the client and what is the message that the client wants to take away. (Partner)</p>	<p>High We do look but that would be in the context of the particular project. So, once we have started on the Belfast project certainly we looked at manufacturing. And we talked to some academics, who study manufacturing in Oxford, but that follows identifying a need after starting the project. Well we naturally get some input just by virtue of turnover of our staff, so we often hire lawyers that had worked in another law firms or another service sectors, so they would often come with ideas. (Partner)</p>	<p>High A lot of our partners are quite broad in their readings, they would read in what is happening in their sectors. So we have one practices areas, they work in technology sector and they would identify not what clients would require but what clients in the technology space are doing. And they are very innovative to come up with ideas of how we can up with new technologies to improve our service. It's not just from specific clients it is from the industry as a whole. (Manager)</p>	<p>High I mean, you know, we have means of financing with the banks that no other law firm uses. You know we use arrangements with the banks which are entirely unknown to law firms and just because this guy came, our guy came and said, "You know what, why don't we do this? This is a good idea. Other industries do it. We should do it." Of course we were afraid at the beginning. Then we looked into it and we understood what it meant and we went to the bank. Then we talked to the bank. We looked at</p>
<p>Use other PSF/industries</p>			<p>High I think you can learn a lot of lessons from retail market from the way that some people have reengineered their customer journey and how they treat the client and what is the message that the client wants to take away. (Partner)</p>	<p>High Yes, other law firms, financial accountancy firms, I personally also like to look into consumer brands. If I see what they are doing. I am always on the look out and bring them in front of partners. And next week we have a meeting with the CEO at the very minimum every quarter, but usually more often and he expects me to have new ideas every time. And I expect others in my team are expected into other firms and see what other people are doing. (Manager)</p>	<p>High I think you can learn a lot of lessons from retail market from the way that some people have reengineered their customer journey and how they treat the client and what is the message that the client wants to take away. (Partner)</p>	<p>High We do look but that would be in the context of the particular project. So, once we have started on the Belfast project certainly we looked at manufacturing. And we talked to some academics, who study manufacturing in Oxford, but that follows identifying a need after starting the project. Well we naturally get some input just by virtue of turnover of our staff, so we often hire lawyers that had worked in another law firms or another service sectors, so they would often come with ideas. (Partner)</p>	<p>High A lot of our partners are quite broad in their readings, they would read in what is happening in their sectors. So we have one practices areas, they work in technology sector and they would identify not what clients would require but what clients in the technology space are doing. And they are very innovative to come up with ideas of how we can up with new technologies to improve our service. It's not just from specific clients it is from the industry as a whole. (Manager)</p>	<p>High We do look but that would be in the context of the particular project. So, once we have started on the Belfast project certainly we looked at manufacturing. And we talked to some academics, who study manufacturing in Oxford, but that follows identifying a need after starting the project. Well we naturally get some input just by virtue of turnover of our staff, so we often hire lawyers that had worked in another law firms or another service sectors, so they would often come with ideas. (Partner)</p>	<p>High I mean, you know, we have means of financing with the banks that no other law firm uses. You know we use arrangements with the banks which are entirely unknown to law firms and just because this guy came, our guy came and said, "You know what, why don't we do this? This is a good idea. Other industries do it. We should do it." Of course we were afraid at the beginning. Then we looked into it and we understood what it meant and we went to the bank. Then we talked to the bank. We looked at</p>		

<p>P R E S S U R E</p>	<p>High I would say that in many cases the source is that the clients comes to us with a problem or an issue or potential transaction. And then we have to be innovative in terms of helping to resolve their problem or succeed in their transaction. (Partner II)</p>	<p>High If we provide a service, people buy it, we are successful. If we provide a service we do everything we can to meet their demand. So, the biggest driver is the client demand. So, if our clients are happy. (Manager II)</p>	<p>High I think it was driven, in both cases by massive client need. That client basically saying I am in trouble here or I need to make a market here. You guys figure out how to do it. Internally we are very lucky. We have a massive network available to us, with 6000 people that can contribute to that solution. (Partner)</p>	<p>High I mean they're increasingly asking for value added things outside the deal so, you know, "Would you train us?" Would you put an extra net dot so that we can share documents more easily?" you know, those sorts of things, you know, maybe they've seen it in another firm or, you know, e-billing, lots of clients asking for that which wasn't done a few years ago. So it does come from the clients as well. (Manager)</p>	<p>High And it's nice to be the one where you've got a client's who's got a problem and no one knows the answer and you thought of something. You thought about some little loophole, some permission of the contract, some regulation that will help the client get the result, and that's a cool feeling. And it's just, it's gratifying. And so, I'd like to think that we, you know, lawyers try to do that in the, in the kind of the business transactions field. And we encourage</p>	<p>High And, and in particular, there was a project last year looking at a long-term strategy of the firm and anticipating basically, how the market is going to move and what we need to do to keep ahead of it. So yeah, now, I would say, possibly in the past -- you know, in some cases, we do enough to be -- respond to clients' needs which is a good thing, but we're trying to look more to the future and anticipate those needs before the clients tell us. (Moderate)</p>	<p>we believe would be a benefit we bring them in. (Partner) High There is a immediacy that clients no demand from service providers. So my job is to take all the part of the job that is not legal and allow lawyers to concentrate on their part. (Manager)</p>	<p>boundaries a lot more on the IT departments. (Manager) High The role of law firms is changing -- they should not be only making transaction, but to solve crucial situations, when the answer to the question what the law should be and who should it favor cannot be answered simply. And the questions that we deal there are transactions where underlying sense of stability and the need for people to reach a deal in the interest of the stability of our societies, like for stability of our currency, for example is not technical and it has direct effect for people lives and very sophisticated principles of ethics needed to</p>	<p>High Quite a lot of the drivers for innovation come from our clients. Our clients are requiring us to deliver higher quality more consistently for lower prices. And those external pressures -- they put pressures on us to do differently in order to maintain our profitability and to prove our work to different solution. You have to propose an idea. Of course maybe it won't fly. Maybe it's risky but that's what the client pays you for, not for saying no. (Partner)</p>
--	--	---	--	--	---	---	---	---	---

		<p>High The point is that I believe you have to be very tuned into the market, because all the clients are under huge pressure, you know, they are under huge cost-cutting pressure and massive competitive pressure as the markets have shrunk and come down. (Partner)</p>	<p>High And clients are looking at other firms, not only the Magic Circle, they are looking at the lower prices and whereas before people went to Magic circle and paid whatever they wanted. Now there have to be more business orientated. It's about getting more clients more business. (Associate)</p>	<p>(Partner) High But at the end of the day, the focal point of that is really around that service delivery and price. (Partner)</p>	<p>High And I think that there the need for it is driven in my view not so much by regulation but by economic circumstances, okay, it's a tough financial environment and therefore people are, you know, more focused on the bottom line and costs. (Partner)</p>	<p>Moderate So there is quite a lot of work that you need to do but most of it is because the client gives you five points and they do not want to over-lawyer it because nobody wants to pay big fees, you know, so you need within -- you know, you need to focus on what the client wants and make sure that, you know, they can do it and then try to structure it in the best way possible and the fastest way possible. (Senior Associate)</p>	<p>High We have got from one client not so long ago saying I am really sorry guys, you have been doing a great service for us for 10 years, but this new firm has appeared, it is one of these alternative business structures and they have told us that they can do exactly the same job for half of the price. We love you, but we are commercial enterprise what can we do? And so you know that situation spotted an innovation. (Manager)</p>	<p>change. (Partner) High It is a lot about understanding of what lawyers do today and stand back and look into it. You will see a lot of lawyers that are forced to change, because they cannot get profits on the case as margins get squeezed more and more. (Manager)</p>	<p>High We have a Business improvement team who look at ways at which the business can be improved and run more efficiently, so how the system or process can be done, faster or better or cheaper. (Partner)</p>	<p>High It is the constant pressure around pricing and the question then is how do we respond to that, how do we provide our services in a different way, and we still give the client the service that they want at the price that they want but it allows us as a business to still secure a sufficient margin to grow to invest and do all of the things that we want to do. (Partner)</p>	<p>High You know we don't just change in terms of policy but soon there'll be a change in what clients want, how they need to be organized, the pricing, you know, what you sell that kind of, produced by the expectations they have on it and so if you want to survive this tremendous crisis that we are facing, you need to do, you need to really think outside the box otherwise you will be gone because the reality is that there isn't a lot of money around for lawyers anymore which maybe actually a good idea at the end</p>
--	--	---	--	---	---	---	--	--	--	--	---

	<p>us, but not in terms of this legislation. UK is only a bit a part of what we do and even UK is not most important. We are more on cross-border business. Fairly small amounts of work we do in UK. So, I would not say that the drivers, you know the way that we try to offer something different to our clients, are not really in the legislation.</p>	<p>certainly not within the area that we work. To say that we get pressure to be on-cost. Cause its a huge international firm and it costs running the business. Firms that are smaller could come in a smaller levels. But then its a client's decision if we will be in that service or stick with a firm like ours and pay the additional premium. I think it will be on the type of matter that it is; if it is very complex, there is a lot of reputation on it, probably they would want like our type of firm than the sort of routine use on the more cost-effective basis, would do it in-house or that sort of thing. (Manager)</p>	<p>globally international law firms had no way to benefited from this regulation, unless we moved on our UK offices into a different structure, but because we are truly integrated, so we are not able to participate anyway. From that perspective it hasn't impact on us, because it can't. I think what interesting is that some of the changes that are happening of the very low end. We see some new companies potentially coming in but not in areas of law that we practice in. (Manager)</p>	<p>space. I mean I'm sure it does change a lot for some people but not for us and that's simply a function of, you know, when you are doing the range of things that we do for the range of clients that we do, it's not a particularly convincing model. (Partner)</p>	<p>doesn't touch us at all, to be honest. It hasn't affected us much more in any case than what we already do. (Senior Associate)</p>	<p>middle of preparing ourselves to making some changes which will involve allowing us to providing services to clients in very different nature than we are doing at the moment. If you see all that as the opportunity, is there for people. But if you hang around for 10 years and want to see what happens it might be too late. So, yes, we are absolutely preparing to take as much advantage of this as possible. (Partner)</p>	<p>competition has already changed. The structure of the legal market structure is changing already you have cooperative legal services coming in and they are the law firm that they had been before, but now if they are ABS they are going to expand and the expansion come up from law firms. (Partner)</p>	<p>am sure it will. What happened so far is that it has changed the competition for the low level commoditized work. But we will know that with the commoditized in it starts at the lower level but it gets steadily higher up. So having a disruptive entrant that is changing the dynamics of the market will eventually changing an impact on all of the players on the market. (Partner)</p>	<p>new outfits arriving o the market and they will make life difficult for us and we are already experiencing organisations that are funded in a different way and they have a different structure, so they don't have a partnership structure, therefore, same profitability models as law firms, and that for us is a massive challenge and if we want to survive in our current form with our partnership structure, we need to find a way to compete with them, their business model. So we have to be seriously creative in some of the areas so we can compete with them. (Manager)</p>
--	--	---	--	---	---	---	---	---	---

Annex 4. Internal and external factor analysis in exploitation and exploration activities

Note: The bold font indicates highest level of the factor influence, regular font indicates moderate use of the factor, while *italic* represents the lowest influence of the relevant factors in the new service development process.

Factors	Internal Captures			Internal Pressures			External Captures			External Pressures		
	Exploitation	Exploitation	Exploration	Exploitation	Exploitation	Exploration	Exploitation	Exploitation	Exploration	Exploitation	Exploitation	Exploration
Law Firm												
Firm White	<ul style="list-style-type: none"> ➤ Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams; 	<ul style="list-style-type: none"> ➤ Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams; 	<ul style="list-style-type: none"> ➤ To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition; 	<ul style="list-style-type: none"> ➤ To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	
Firm Blue	<ul style="list-style-type: none"> ➤ <i>Structural internal unit</i>, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, <i>Mixed teams</i>; 	<ul style="list-style-type: none"> ➤ <i>Structural internal unit</i>, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, <i>Mixed teams</i>; 	<ul style="list-style-type: none"> ➤ To be seen innovative, Collaborative culture, Engaging mixed competencies, <i>Not strong hierarchies</i>, Internal structures and procedures, Internal recognition; 	<ul style="list-style-type: none"> ➤ To be seen innovative, Collaborative culture, Engaging mixed competencies, <i>Not strong hierarchies</i>, Internal structures and procedures, Internal recognition; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	<ul style="list-style-type: none"> ➤ Client demand, Market change, Cost pressure, Regulation; 	

Firm Green	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>
Firm Red	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>
Firm Purple	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>

Firm Brown	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, <i>Not strong hierarchies,</i> Internal structures and procedures, Internal recognition;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, <i>Not strong hierarchies,</i> Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>
Firm Black	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives, Mixed teams;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>
Firm Yellow	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives,</p>	<p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, <i>Ideas' tournaments,</i> Talent search and appreciation of individual perspectives,</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>	<p>Client demand, Market change, Cost pressure, Regulation;</p>

<p>Firm Beige</p>	<p>perspectives, Mixed teams; ▲</p> <p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams. ▲</p>	<p>perspectives, Mixed teams; ▲</p> <p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams. ▲</p>	<p>▲</p> <p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition; ▲</p>	<p>▲</p> <p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition; ▲</p>	<p>▲</p> <p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; ▲</p>	<p>▲</p> <p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology; ▲</p>	<p>▲</p> <p>Client demand, Market change, Cost pressure, Regulation; ▲</p>	<p>▲</p> <p>Client demand, Market change, Cost pressure, Regulation; ▲</p>
<p>Firm Orange</p>	<p>perspectives, Mixed teams; ▲</p> <p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams. ▲</p>	<p>perspectives, Mixed teams; ▲</p> <p>Structural internal unit, Conscious effort to innovate, Internal innovative culture creation, Partner leadership, Professional managers, Internal training, Ideas' tournaments, Talent search and appreciation of individual perspectives, Mixed teams. ▲</p>	<p>▲</p> <p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition. ▲</p>	<p>▲</p> <p>To be seen innovative, Collaborative culture, Engaging mixed competencies, Not strong hierarchies, Internal structures and procedures, Internal recognition. ▲</p>	<p>▲</p> <p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology. ▲</p>	<p>▲</p> <p>External experts, Competitors, Checking ideas with clients, Being close to clients, Anticipate clients needs, Use other PSF and other industries, Technology. ▲</p>	<p>▲</p> <p>Client demand, Market change, Cost pressure, Regulation. ▲</p>	<p>▲</p> <p>Client demand, Market change, Cost pressure, Regulation. ▲</p>