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WORKING PAPER SERIES

New Practice Development: Recipes for Success

Heidi Gardner, Tim Morris, Narasimhan Anand

Number 9, January 2006

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Heidi Gardner, London Business School

hgardner@london.edu

Tim Morris, Saïd Business School, University of Oxford

tim.morris@said-business-school.oxford.ac.uk

N. Anand, London Business School

nanand@london.edu

NEW PRACTICE DEVELOPMENT: RECIPES FOR SUCCESS

How do professional service firms create a new practice area? How should a fledgling practice be nurtured? What major pitfalls can derail the creation of a new practice? What can law firms learn about developing new practices from leading firms in their sector and in management consulting? Our research shows that nearly half of all new practice attempts fail, often despite considerable investment of time and resources from both individuals and firms. This chapter seeks to explain why certain initiatives grow into fully-fledged new practices, providing stable income streams and opportunities to serve a wider client base, while others stall and fade away or fail soon after they become stand-alone practices.

Successful firms often build their reputation on one or two core practices – what they tend to call their “bread and butter” practices – and they work to ensure that these stay cutting edge. Critically, these firms also innovate to meet, and indeed lead, market demand by creating new specialist groups that serve emerging client needs in new areas. Our research examines what it takes to make these new practices succeed. We find that three ingredients (elaborated below) are all necessary to ensure success, and that there are three distinct, alternative ways of combining the ingredients to make a successful new practice.

In even the best firms, however, too many new practice initiatives either falter before becoming fully established practices or fail soon thereafter. In our intensive multi-year study, we examined forty cases of new practice development in professional service firms: thirty in consulting and ten in law firms. Overall, we found that almost half of all new practice efforts failed, and ongoing discussions with professionals suggest that failure rates may be even higher if we count early-stage dropouts as

failures. As we discuss in this chapter, each failed case was missing one (or more) of the essential ingredients.

It is vital to understand why so many new practice initiatives fail. Such knowledge can help firms realize value from the considerable attention and resources that they devote to the new practice efforts. It can also enable firms to successfully align their portfolio of practices with changing client demands.

This chapter addresses the ins and outs of developing successful new practices in law firms. We begin by underscoring our claim that new practice creation is an important strategic activity for professional firms. We then present some commonly encountered myths surrounding new practice development in law and consulting firms. These myths comprise stories that partners and other professionals hold about how and why some new practices in their firm surface, grow, and thrive while others emerge only to wither away. Each story is based on simplified versions of reality, and many of these tales have been widely shared within a firm. With careful digging and rigorous analysis across firms and initiatives, we were able to uncover the surprising truths that lie behind these myths. Based on our interviews, observations, and study of internal documents, we discovered that there are three robust ‘recipes’ that guide the success of new practice initiatives. We call them recipes because each has certain required ingredients along with a set of instructions for how to combine them into a successful outcome. Our objective in this chapter is to describe these recipes for developing successful new practices.

The imperative for new practice development

One point was abundantly clear from both the existing literature on professional firms and from our prior work in this area: developing successful new practices is essential

for firms' long-term prosperity and survival. New practices allow professional firms to grow organically and diversify in order to meet ever-changing client needs.

By way of a definition, we consider a 'practice' to be an organizational sub-unit comprising professionals with related expertise, typically focused on a particular set of clients (i.e., utilities sector) or client issues (i.e., mergers & acquisitions). A large and successful practice is often the hallmark of the core competency of a professional firm. In addition to organizing existing expertise, a practice also serves as the vehicle for exploring new markets or adapting to changing competitive circumstances.

Growth and diversification

Professional firms have an inherent imperative for both organic growth and diversification. The 'up-or-out' tournament system by which juniors are promoted to partner creates an endogenous bias for organic growth (Galanter and Palay 1991). For the firm to be viable, newly promoted partners must develop reputations in the client marketplace through which they can attract work and then deploy junior professionals to execute this work (Gilson and Mnookin 1989; Morris and Pinnington 1998). The continued profitability of a professional firm rests on partners' ability to leverage their reputation by deploying increasing numbers of junior staff (Maister 1993).

Beyond this, professional firms have an imperative to diversify, in order to hedge against possible shrinkage in their client markets and exploit underutilized firm resources (Hitt *et al.* 2001). The diversified structure also allows the firm to spread the collective risk of its partners efficiently (Gilson and Mnookin 1985). Consequently a firm seeks to develop multiple groups of professionals who work within different areas of expertise or 'practices' as they are conventionally termed.

The joint imperative for internal growth and diversification of its service offering compels professional service firms to adapt and reconfigure their portfolio of practices. This is done, most importantly, by developing thriving new practices.

Challenges surrounding practice portfolio reconfiguration

We also know from existing research that professional firms face a number of challenges in renewing their configuration of practices. Partners' desire for autonomy in the conduct of their professional tasks and their control of client relationships produce a dispersed distribution of power within the professional firm (Hall 1968). This dispersion limits the ability of the top management of a partnership (as opposed to that of a corporation) to exercise absolute control over strategic initiatives concerning diversification and organic growth. Such strategic decisions are likely to be undertaken at a relatively decentralized level by individual partners since they are most aware of opportunities in their client markets (Hinings, Brown, and Greenwood 1991). However, the lack of a legitimate central planning authority or the absence of an appropriate strategic planning process often leads to internal disputes over the boundaries between practices.

A change in a firm's service offering often results in external clashes, as well. Suddaby and Greenwood (2001), for example, study the creation of new lines of business in the Big Five accounting firms. They argue that as management knowledge 'commodifies' over time firms try to colonize new knowledge territories. The resulting expansion in their scope of activities provokes jurisdictional disputes with other professional communities as firms strive to legitimize certain actors and de-legitimize competitors.

We thus began our study with two clear, interrelated ideas. First, developing successful new practices is essential for professional service firms. Second, the process of new practice development is fraught with difficulties. What are the key ingredients of the new practice development process? How do these ingredients fit together in clear patterns? What are the keys to success? With these questions in mind, we used our in-depth case studies to delve into the process of new practice development. What we found is that, while there is scant research on how new practices are created, there is certainly no shortage of myths about this important aspect of professional firms.

Myths about how new practices are built

When we started talking to senior partners and others about how new practices had developed in their firms, we heard three types of stories. Like myths in the classical sense, professionals use these stories to articulate ambiguous situations and explain otherwise difficult-to-understand events. They also embellish these tales through the use of narrative devices such as heroes, hazardous journeys, a happy ending, or a tragic crash. Each myth consists of a kernel of truth that is useful to our understanding of the process of new practice creation.

Myth of the hero

The first of these myths about how new practices arise is ‘All it takes is a hero.’ Here the practice’s heroic founding partner is held up as the quintessential entrepreneur, whose own vision and intelligence define the practice, whose charisma garners valuable clients and dedicated associates, and whose personal sacrifice and dedication see the practice through to success. According to this myth, any failed practice initiatives are

the result of having a weak or ineffectual founding partner – the equivalent of a tragic hero who simply doesn't have the mettle.

Myth of the market

The second myth about new practice development in professional service firms is 'The market dictates the course.' Here the client is often held up as the omniscient being, wisely leading the thirsty lawyer or consultant to a hidden oasis made possible by a change in law or an expanded scope of business. Another version of this myth holds up the grey-haired professional sage as the seer of market niches to come, strategically steering the firm past hazards toward new and prosperous possibilities. The myth of the market suggests that poor success rates at new practice development are a result of firms' inability or unwillingness to spot and capture opportunities that their clients and visionary leaders put forward.

Myth of serendipity

Finally, the third myth surrounding new practice creation is 'Serendipity rules.' The mythical princes of Serendip were travellers who constantly made unexpected and wonderful discoveries through sheer luck and happenstance as they progressed on their journey. Likewise, these tales in professional firms suggest that there is something almost magical about the confluence of events, professionals, timing, clients, and market conditions that allows a new practice to surface and thrive. Proponents of the myth of serendipity are usually unable – and indeed unwilling – to explain why certain practices failed, except to put forward vague notions about 'bad karma' and things 'not coming together' in the necessary way.

Time and again we heard these stories, across partners, across firms, and across different professions. And yet when we started digging deeper and combining these tales with thorough analysis of how practices are actually built and developed, we found a surprising insight. Underlying these myths are three robust recipes for creating a successful new practice. Our findings show that relying on a single champion is not enough to ensure success, that the market alone is not a sufficient guide, and that placing faith in the magic of serendipity is not always required. In creating successful new practices, there are clear paths that can be followed.

The research study

Before we reveal the recipes for successful new practice creation, we briefly explain the methodology we used to derive our findings.

We conducted a two-phase, multiple case study research program to investigate how new practices arise and develop in professional service firms. We began the first phase by studying in detail four cases of successful new practice development. We focused this first phase on management consulting firms for several reasons. First, the consulting industry has historically faced a somewhat fickle business environment largely because clients tend to see consulting services as a discretionary cost that they reduce in hard times. In addition, consulting firms need to contend with the rise and fall of management fads and fashions. Even if a consultancy does not base its business on offering new ‘knowledge products’ like ‘business process reengineering,’ it still needs to understand how such new ideas impact clients’ strategy and operations. This fast-changing market means that successful consulting firms have had to innovate almost continuously by developing relevant new practices. Management consulting firms are

thus seen as having best practice management processes, and we decided to start by examining new practice development in a selection of these firms.

We studied new practice development in four consulting firms that had each started with a core practice and later diversified their portfolio through the creation of one or more successful new practices. The four range in size from one of the largest consulting firms in the world to a more ‘boutique’ consultancy that has offices in only a handful of locations. They also vary significantly in terms of their core practice areas, including information-technology enabled organizational transformation, corporate strategy, wage determination, and executive recruitment. Our primary source of data was semi-structured interviews conducted over more than twenty hours with a carefully selected set of twelve informants of varying levels of seniority for each case. To analyse more than 350 pages of resulting transcripts, we used case study analysis to uncover the fundamental building blocks of successful new practices and see how they fit together in particular patterns.

We concluded this phase by validating and refining insights from the study of the four cases. In order to verify the robustness of the patterns that we uncovered, we revisited the four firms to seek further cases of successful as well as unsuccessful new practice attempts. For each firm, we included a senior partner who had been an informant for our exploratory phase, and from whom we sought referrals for additional practice founders (or would-be founders, in the failed attempts). These interviews generated twenty-six instances of successful and unsuccessful new practice initiatives that helped verify our preliminary insights.

In the second phase of our research we studied new practice creation in four law firms. This phase led us to believe that that our model applies generally to professional service firms. The four law firms in our sample are all based in London; three have

overseas offices and the other has two other offices in the UK. They vary substantially in size: one has twenty partners, one has fifty, and the other two have more than one hundred partners. The two largest firms provide a range of services to the corporate sector, while the smallest specialises in intellectual property and patenting. The medium sized firm in our sample offers both corporate legal services and a thriving private client practice.

Recipe ingredients required for a new practice

While analysing our research, we realized we could describe a practice development effort in terms of a recipe for building an organization. In the conventional sense, a recipe consists of two parts: ingredients and instructions for combining the ingredients. We therefore begin our discussion with an overview of the necessary ingredients before expanding on how to mix them together. Our analysis revealed that the three critical ingredients for a successful new practice are ‘turf’, ‘expertise’, and ‘support.’

Turf

Our research clearly shows that a new practice must delineate and defend its turf within the firm. Our findings suggest that successful turf creation comprises three aspects: removing barriers to acceptance of the new practice especially by key stakeholders within the firm; using external sources, such as powerful clients, to legitimize the new activity; and using internal sources of persuasion in order to carve out an autonomous territory. Because professional firms are characterized by limited hierarchy and a lack of centralized strategic decision-making, attempts at internal change rely on mobilizing power through coalitions of like-minded partners and supportive clients (Greenwood and Hinings 1996). While a number of consultants told us that they needed to

demonstrate ‘proof through revenues’ it is clear that the promise of potential fees is not enough on its own to create turf that is safe from encroachment by others within the firm: founders also have to convince others that they have proprietary knowledge (as discussed above), and that they have already made significant in-roads using this new approach.

’It’s the responsibility of the [new] practice leaders to develop a strategy and to proselytize and convince people that this is the approach. They do it through a variety of organizational means from developing skills and capabilities and tools through showing that it works by bringing in big client success, pulling in the political leaders ... Trying to concentrate on big leverage points with existing clients and show some impact.’ (Partner: Consulting Firm).

Considering turf issues by type of practice, we see that a new practice in the Catch Up space (radically different from the firm’s existing offering, but existing elsewhere) faces challenges in gaining credibility with clients because other firms have already staked their claim in the domain and the firm has no related expertise or reputation. Practices that are not very different (Tweaking) may be able to convince clients that the firm has a viable offering, but founders must focus on the internal politics of defending their turf from colleagues who do similar work. In contrast, practices that are very new both to the firm and to the market (White Space) must rely on both proof of concept and the reputation of the practice founding partner(s) to convince clients and internal stakeholders that the idea is viable. Finally, we see the fewest turf considerations when firms simply expand modified versions of their existing offerings into new markets: not only do they have a related reputation on which to rely,

but there also are few if any competitors (Product Extension). The first row in Table 1 shows these relationships.

Table 1. Turf considerations, sources of expertise, and organizational support needed for different types of new practice

New practice type <hr/> Ingredient	Tweaking (differentiation: low; novelty: low)	Catch Up (differentiation: high; novelty: low)	Product Extension (differentiation: low; novelty: high)	White Space (differentiation: high; novelty: high)
Turf considerations	Internal legitimacy hard to gain without clear differentiation. Difficult to defend turf against encroachment from colleagues	External credibility harder to build because other firms and professionals have staked their claim	Fewest turf considerations: leverage existing reputation without having to fight off competition	First mover advantage: credibility depends on the strength of the offering and firm's / individual's reputation in other areas
Sources of expertise	Strong possibility to build on existing expertise and adapt / copy other firms' approach	New knowledge most readily available from lateral hires	Export knowledge from existing offices or practices to new locations	Technical expertise is paramount for first-movers – need to build from scratch
Organizational support needed	Cross-selling of the new practice into existing clients	Firm resources for hiring and on-boarding lateral hires or for investing in knowledge-building initiatives by existing partners	Budget and resources for setting up new locations, including investments in local market knowledge	Political backing to 'sell' the idea internally and protect the founder from revenue pressures while starting the new venture

Expertise

In our study we found that professional firms constantly develop new expertise through client assignments. The debatable question then becomes: when is a body of newly developed knowledge different enough to constitute the basis for a new practice? Clearly this issue is intertwined with claims that aspiring practice founders can make about the relative uniqueness of their expertise. The body of knowledge should be distinctive, yet share an approach or interpretive scheme for structuring client work that is commonly understood within the firm. For example, one firm we researched built a new practice in legal aspects of private equity capital that was linked to its core expertise in finance and capital markets, but recognized internally as being distinctive and reflective of growing demand in a new domain of activity. In part, the new expertise was technical and required an understanding of how private equity financing law worked; as well, it involved an understanding of the mechanics of private equity markets, including the nature of the markets' dynamics, the major players, and the jargon conventionally used by market actors.

The second row in Table 1 illustrates how different types and sources of expertise come into play for the four types of new practices. Practices that seek to Catch Up with competitors are likely to find the best source of talent by hiring experts from other firms that already offer that service. Practices that occupy the Tweaking space should be able to source their expertise internally, since current members of the firm work in related areas, and they only have to imitate approaches laid out by competitors. First-movers, those practices in the White Space, rely primarily on technical expertise that they need to build from scratch. Finally, practices that are part of a firm's Product Extension can import their expertise from existing areas to new locations.

Support

Support relates to the supply of both tangible and intangible resources from the firm for the budding practice. For example, the supply of readily trained associates is an important form of organizational support for an emerging practice, as is cross-selling of the new practice by partners with long-standing client relationships. Political sponsorship is widely seen as a crucial form of organizational support, with examples ranging from the Managing Partner bolstering the practice founder's reputation at a partner conference, to providing 'breathing space' from normal client pressures while the founder initially devotes time to build the new practice.

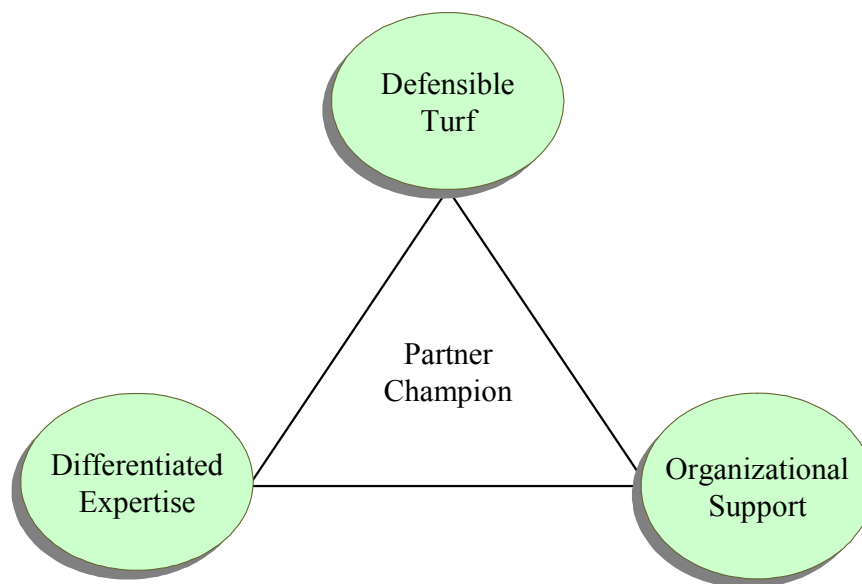
The nature of the support required varies according to the type of new practice, as shown in the third row of Table 1. Support for Catch Up practices that source their expertise through lateral hiring requires resources and processes for attracting, hiring, and socializing new members. Practices in the Tweaking quadrant generally require colleagues to cross-sell the modified offering into their clients. Founders of White Space practices need political support: it is crucial for powerful partners (or the managing committee, firm leadership, etc.) to help bolster the founders' internal capital in order to protect them from revenue pressures while they are focusing on starting the new venture. Finally, practices in the Product Extension domain require support in the form of a budget and resources, such as local staff with requisite knowledge, for establishing themselves in a new market or new location.

Combining the ingredients

Of course, just like in a cookbook recipe, the three new practice ingredients do not come together to form a finished product of their own accord: in a professional service firm a practice founder needs to play the role of chef – or 'champion' if you will -

gathering the ingredients of expertise, turf, and support, and adding them in the right amounts and proper order. It is essential to have an effective practice leader with the skill and motivation to champion the efforts of others. There is an element of the myth of the hero in describing the work of a champion, but the crucial difference that we found is that a sole partner acting on his or her own as the lone ranger – no matter how entrepreneurial or skilled – cannot build a new practice in the absence those three necessary ingredients. Figure 1 shows how we conceptualize these ingredients as interconnected, with the Partner Champion as a central player who pulls together all three components.

Figure 1. Essential ingredients for new practice creation



As we elaborate below, we consistently found that all three ingredients are necessary in order to make a complete (successful) recipe. Depending on the type of new practice effort, however, the ‘flavour’ or variety of each ingredient may differ. One dimension on which the type of new practice can vary is its novelty: is it based on a

brand new concept that the market has never seen before? Or does it already exist within competitor firms, and is it simply being developed as a new offering in the focal firm? A second dimension along which new practices vary is their differentiation from the firm’s core offering. Some new practices are radically different, while others are seen as incremental adjustments to existing offerings. Figure 2 shows how these dimensions fit into a two-by-two matrix, creating four different types of new practice, which we have called Catch Up, White Space, Tweaking, and Product Extension.

Figure 2. Turf considerations for different types of new practices

		Novelty of new practice	
		New to firm but exists at competitors	New to firm and market
Differentiation versus firm’s core practice	Radically different from core	<p>Catch Up</p> <p>The firm needs to develop a completely new practice to catch up with competitor’ offerings</p>	<p>White Space</p> <p>The practice is a first mover: radically new idea that no firm has previously offered the market</p>
	Modestly different from core	<p>Tweaking</p> <p>The new practice is a variant of the firm’s existing offering</p>	<p>Geographic Expansion</p> <p>The firm customises existing capabilities in order to offer a different market something new</p>

Our research shows that there are three different ways of combining these ingredients – three distinct recipes – based on whether the practice founder begins the initiative by focusing on either expertise, support, or turf. In all recipes, the most essential instruction is to ensure that all three ingredients are present in a practice-development effort. As we describe in more detail below, too many firms believe that they can make up for the absence of one ingredient by adding more of the others. This is a mistaken

belief – like trying to bake bread by adding more salt to flour because yeast cannot be obtained. For example, one firm that we researched developed a new patent law practice in Germany on the back of support from a major government client, indicating the presence of turf as an ingredient. The firm also had internal expertise to start the client work. However, the practice suffered from internal squabbles about who should resource the new practice – lack of support caused the practice to fail at the start-up stage. In the sections that follow, along with each recipe, we give additional examples of failed initiatives in order to demonstrate the lessons with concrete examples.

New practice development recipes

While the three ingredients must be present in each successful recipe, the three distinct ways of combining them - whether the practice founder begins the initiative by focusing on expertise, support, or turf - make a difference to how the process unfolds. We describe each of the three recipes below, using real (albeit disguised) examples from the consulting and law firms to illustrate lessons of success and failure.

We start with the Turf-driven recipe because in many respects it is the riskiest: as it requires partners to leverage their relationships with trusting clients, failure in the new practice attempt can damage existing business. We then move on to the Expertise-led recipe, which we tend to see as the toughest one to complete successfully – often because this is the only option for more junior partners who have neither strong enough client relationships to start by creating turf, nor enough internal clout to muster resources from scratch. Finally, we describe the Support-centred recipe. We have generally found this to be the most controversial path. When it works, founders often try to bolster their own reputation as rainmakers by minimizing the role of the firm in

advancing their success; when a Support-centred attempt fails, the founder needs to answer to peers who feel their resources have been squandered.

While reading the descriptions below, it is worth keeping in mind that both the Turf-driven and Expertise-led recipes are examples of emergent processes of new practice development, meaning that they are essentially bottom-up and may have varying degrees of conformity with the firm's existing strategy. In contrast, the Support-centred recipe can be characterized as more strategically driven than the other two recipes, meaning that this route is more closely directed from the top-down and thus is expected to have greater alignment with the firm's planned direction. Despite these differences, the principle that there are three necessary components applies to all of the processes.

Turf-driven recipe

Firm A specializes in intellectual property law and patenting work. It has recently expanded in South East Asia in response to the growth in manufacturing and outsourcing in that region. Its clients include major multinationals and local firms. One of its largest clients, a multinational consumer products firm which is increasingly sourcing products from China, had until then used a range of law firms in each country in the region but proposed to rationalize its arrangements. It approached a partner in Firm A offering it the chance to take over all of its intellectual property work in the region if it would open offices in each of the countries in which it was located. In considering this proposal, the regional managing partner of Firm A could see that while it was consistent with the firm's core expertise, some new knowledge of local trading conditions and laws would have to be developed, primarily through lateral hiring. Because there was likely to be growing demand from other firms for this sort of service

and the client was able to guarantee a certain volume of work for the start up period, Firm A's management team approved the proposal. It appointed a local partner as champion of the project and allocated resources to open offices in countries where there was no representation.

This example shows the typical pattern for a Turf-driven recipe: a professional leverages an existing client relationship for developing and testing new ideas in order to carve out a new territory that she or he can develop into a stand-alone new practice. In our consulting interviews, we heard that partners often strike a deal with clients to 'co-invest' in knowledge building (i.e., add a gratis associate onto the team in exchange for freedom to experiment, or add an extra week's consulting free of charge to test a new methodology). For example, the drive to obtain what he called 'bragging rights within the firm' led the founder of one firm's Post-Merger Support practice to lean on a 'friendly client' in order to experiment with a new consulting proposition. This partner said, 'It was a big enough client relationship. A client that we'd worked with before so there was a degree of confidence that something would come out ... We didn't really know very much about mergers and acquisitions, but we had a great relationship with the client and we went in and offered a "diagnostic" that could be helpful.'

When the new expertise or method proves viable in the initial client tests, the founder can then use this experience as a launching pad to refine and test the ideas with additional clients. Doing so requires either that the partner has additional clients of his own who will let him experiment, or that he begins to convince the 'gatekeepers' of other clients to let him in. During this time, the founder needs his team to codify the knowledge so that it can be easily replicated in a broader setting and so that he can use it for 'internal marketing' in order to garner firm support. Ultimately, a Turf-driven practice succeeds when experiments with the client(s) lead to significantly

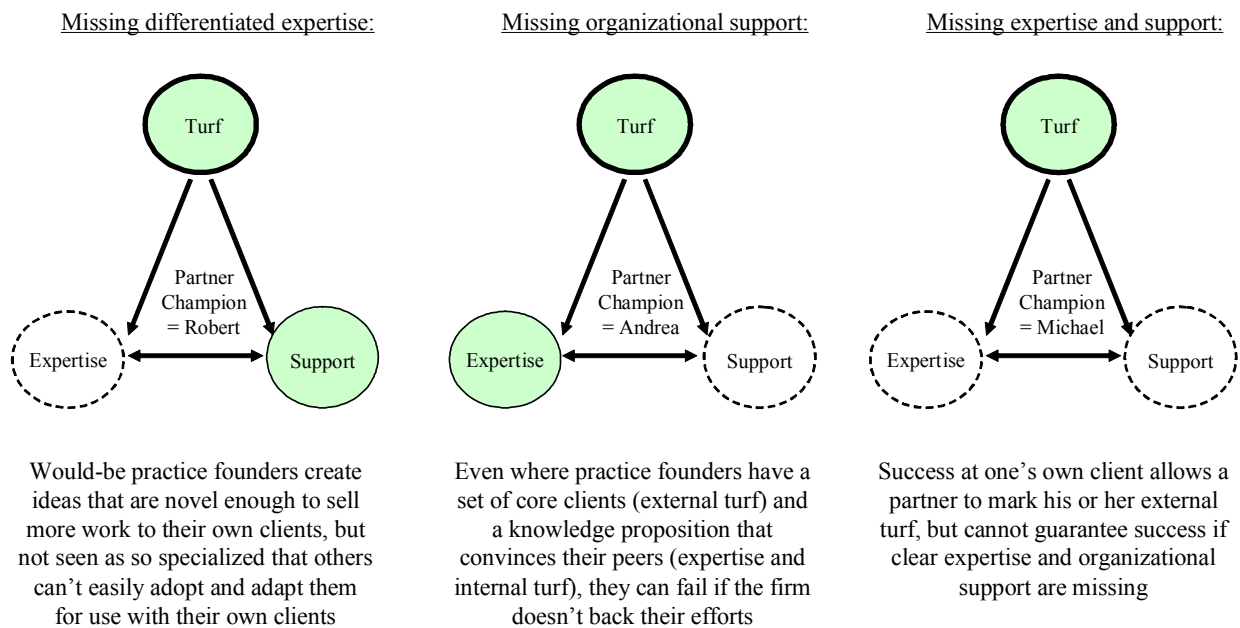
differentiated knowledge that attracts the support of the organization and can be deployed on assignments with other clients.

During our validation interviews, one corporate finance lawyer described the Turf-driven recipe as a ‘high-beta approach’ to building new practices – meaning that it carries higher-than-average penalties for failure but equally high rewards for success¹. These disproportionate results stem from the fact that generally only partners who are already fairly powerful have access to clients for the purposes of experimentation. If the idea for the new practice works with their client, then they can draw on their personal reputation and track record to make claims on their territory. On the other hand, by leaning on trusting clients to try out novel ideas or methods, they risk losing a stable income stream if the experiment fails badly. Another risk is that the time that partners spend building the new practice distracts them from maintaining the client relationship. In either of these two cases, the formerly powerful partner will be worse off than before he or she attempted to start the new practice.

What are the main reasons for failure in the Turf-driven recipe? Overall, we saw three kinds of problems that ultimately derailed new practice attempts. Figure 3 summarizes these problems and displays them graphically. One difficulty that some would-be practice founders faced was an inability to back up their proposition with a clearly delineated knowledge base. In one law firm, Robert used his existing client base in the retailing and consumer sector as a platform to develop a niche to serve clients as they set up new business ventures in the online arena. His intention was to demonstrate specialized expertise in the emerging internet domain, and use this as a way to expand across sectors into media, financial services, and others. As word of his success grew within the firm, however, other partners doubted that it took unique legal knowledge to work in this arena, and they simply offered a similar service to their own clients. ‘They

thought they could just replicate my work – clearly I had failed to convince them that e-commerce was its own niche, with its own unique set of issues and answers.’

Figure 3. Failures of the Turf-driven recipe



Another problem was the founder's failure to secure strong organizational support for the nascent practice. We interviewed Andrea, a consulting partner who had used a set of engagements in the utilities sector to develop an innovative methodology for optimizing the costs of resource scheduling. Although other partners recognized the potential for selling additional work based on this idea, the firm's top management perceived the effort as not having enough scale to be a full-fledged practice and denied the request for dedicated associates to staff these projects. In the end, Andrea's idea was folded into the existing utilities practice.

Returning to the recipe metaphor, Robert and Andrea failed in their efforts because they did not add either expertise or support to the Turf-driven recipe. The third

failure of new practices that are based on turf happens when the founder builds neither distinct expertise nor organizational support for the practice. In one consultancy, a junior partner called Michael was keen to ‘build his personal brand’ by developing a new Customer Management practice based on work he had done at some packaged goods multinationals. Although he developed some new analytical frameworks and innovative organizational designs for his clients, other partners’ teams could easily replicate this work with different clients. Michael admitted to us, ‘Consultants who worked on these projects didn't really need a lot of specialized expertise... Aside from me, there was nobody pounding the table in support of the idea, and I just couldn't go it alone.’ In this case even the initial knowledge-building attempt was feeble and clearly there was no support from the wider organization; the effort was therefore unsuccessful.

What lessons can law firms draw from these examples of the Turf-driven recipe? One overarching theme is that all three ingredients – turf, expertise, and support – are necessary for a practice to succeed. Adding more of one just cannot compensate for the lack of another. A more nuanced point is what it takes to create and defend one’s turf in order to get the recipe started. First, professionals need external credibility with their clients. Firm A’s partner would never have been approached by the consumer goods company if that client didn’t already believe that Firm A either possessed or could quickly develop the capabilities to handle the increased scope of work. The second component of turf is gaining internal legitimacy with peers. Often professionals can leverage their external credibility with clients in order to convince their peers – gatekeepers to other clients and holders of firm resources– that their new ideas are novel but trustworthy. If the partner in Firm A hadn’t been able to convince her regional managing partner of the potential for sustained revenues, she would never have gotten the green light to begin building up local resources.

Expertise-led recipe

Firm B has a strong reputation in the area of finance and capital markets. It had hired a partner from a competitor firm who brought expertise in the growing area of financial services regulation and proposed to develop a fully-fledged practice in this area. While it was clear that this was a growing area of work, there were still questions about whether it would best be positioned as a separate practice or as part of a larger existing practice group. Some partners were sceptical about the extent to which the expertise was really distinctive from other practice groups, and thought that a new practice might confuse the market rather than generate more work. The partner who championed this initiative had a strong reputation in his area and could point to successful examples elsewhere but, as a relatively recent hire, his network among the other partners was somewhat limited. He therefore had to build internal support for the idea by drawing largely on the experience of other firms to convince the other partners that the proposition was viable. For a time the practice was located within a larger one and therefore could share resources and costs; when the flow of work began to increase and look more predictable the practice was given its own budget and formally recognized as separate. In addition, the champion had to build a team of associates who were interested in this work and prepared to work for him exclusively, and to ensure that any work in this area was directed to the practice rather than taken by others. Securing control over the flow of work proved to be a considerable challenge requiring persuasion and emphasis on the new practice's growing credentials because there was no strong central control over work allocation.

In a similar example from one consulting firm's Retail Banking practice, a consultant who was 'hungry to make partner' consciously sought to enhance his personal reputation by founding a new practice area. His first step was to develop new

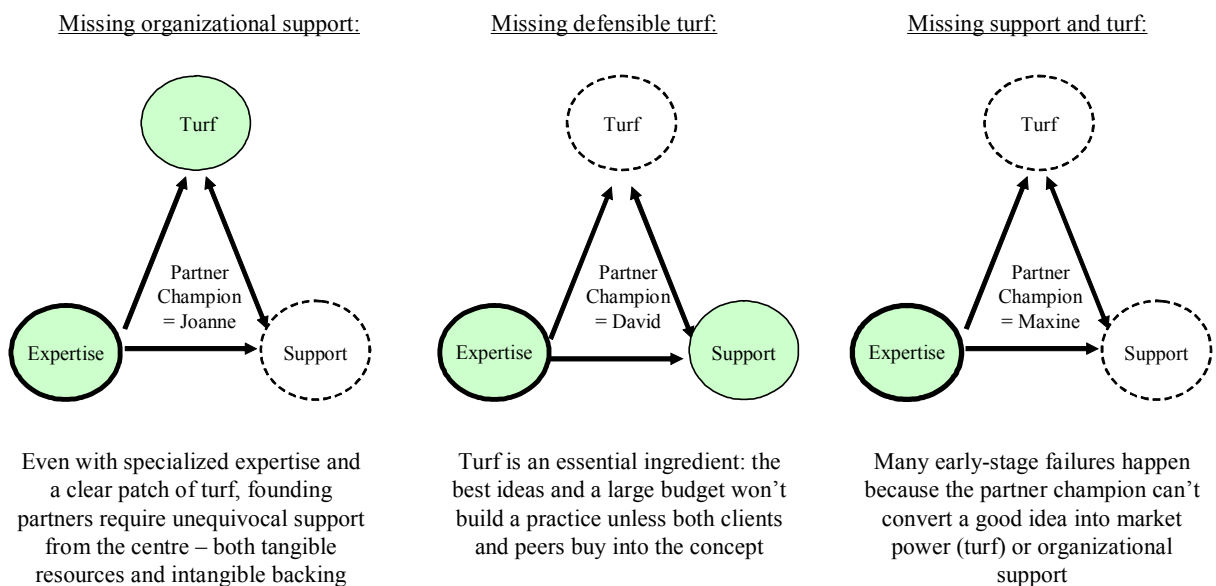
consulting know-how in the area of retail banking, and then conduct an early engagement for a prominent client to show that the knowledge he had developed was commercially viable. This led to sufficient consensus within the firm that retail banking held unique knowledge and insight distinctive from the firm's canonical Strategy practice. With broader support in the form of political backing from powerful partners, the practice was able to negotiate turf within the firm to access clients and grow its business.

As we see in these examples, the trigger to initiate this recipe is typically an ambitious professional who seeks to carve out a personal niche by building up distinct expertise in an area that is new to the firm. Junior professionals often follow this recipe out of necessity: they lack strong client relationships that would otherwise help them to generate legitimate turf, and they are not powerful or connected enough inside the firm to rally support for an untested idea. Instead, the professional identifies a market opportunity that could be targeted with a distinctive knowledge base. After refining and testing this knowledge the professional – often acting in concert with colleagues – successfully leads the initiative to acquire clients and draw support from the wider organization. In one of the firms in our sample, a partner had joined from a larger firm in order to have the freedom to develop his own practice. As he put it: 'The key was to build up the idea of permanence in the minds of "management" and the rest of the staff (by bringing in clients over a decent time period). In that way I could attract and retain good people. Without an established client base it took me two to three years of marketing myself and my fledgling practice plus a lot of support from the centre as there are always opportunities to sell employment law to existing clients.'

In both law and consulting firms, we observed three clear-cut ways in which the Expertise-led recipe failed. Figure 4 explains each of these reasons for failure. In short,

even after creating distinctive knowledge or expertise, the founders were unable either to create sufficient turf or to obtain organizational support, or both. In one consultancy, Joanne attempted to start an Operations Efficiency practice at the firm’s London office with a proposal to assemble a small team that had built up specialized knowledge in the area. The consultant even managed to get a major client interested and hence was able to legitimize his patch of turf in the London office. However, the practice stalled because the global top management of the firm was equivocal about supporting the initiative. Ultimately it lost out to an internal rival practice that had started in the US at about the same time. Joanne said, ‘We got swallowed up by the US group after [the Managing Partner] made it clear that he favoured their approach.’

Figure 4. Failures of the Expertise-led recipe



One law firm example illustrates how the lack of defensible turf leads to failure. David, a partner in one of our sample firms, had returned to London after a number of years working in South East Asia. He had no client base in London but saw an

opportunity in project finance. At that time, project finance was a growing market as new forms of financing were developing to fund large scale construction and energy projects. However, his expertise was in corporate law and he found that his initiative was quickly taken over by a group of construction and finance lawyers. As he said, ‘The practice was clearly viable as a business proposition but I didn’t have a ready-made client base which I could work with or the expertise on my own to make it work. They had the contacts to make it work. I thought about re-training but it was clear we had enough expertise among my partners to make my role superfluous.’

Another pitfall within this recipe is failure to add both support and turf to the mix; no matter how outstanding the knowledge base, a practice cannot survive without both appropriate levels of support and a territory that the founder can defend against ‘internal encroachment.’ In an example from consulting, the Corporate Social Responsibility practice initiative at one firm got underway when Maxine drew together the firm’s thinking on the topic and began to activate a network of internal and external individuals interested in conducting original research. However, when she raised a formal proposal to obtain resources to start up a practice, the partnership committee expressed doubts about potential profitability and legal liability, and refused to support her. As one managing partner whom we interviewed explained: ‘We only require relatively flimsy business plans in the first year – a proposition and agreement from me that the champion can get on with (building the practice). But we do agree a budget which is an important two-way commitment and “the centre” will provide marketing and cross-selling support to kick-start the practice.’ But because there is limited central control over resource allocation in professional firms, the centre cannot necessarily provide all the resources: one partner we interviewed echoed the view of several others

when she said that the most difficult part of the process was to persuade other practices to ‘lend’ associates to grow the practice when there was little direct pay-off for them.

What are the lessons for law firms? Is it possible for a lawyer to develop credibility in an area that is completely unrelated to his or her existing practice, or where the market may not accept that the lawyer/firm has expertise in that area? We believe that it is unlikely that a lawyer would be able to move into a completely unrelated area in the same way as a consultant. However, the reputation of the firm offers some room for manoeuvre - and therefore clients may well be prepared to try out or co-develop a new practice. In one example, a partner moved into a specialist area of insurance litigation which was related but not very close; the combination of her own and the firm’s reputation in litigation was enough for her to convince the clients the area was viable, pick up the law quickly, and then learn the market know-how. Also, we found that the novelty of the domain in the market makes a difference to the expertise required: technical knowledge is more of an issue in areas where the firm wants to be first mover (i.e., first one into a new area like private equity or derivatives), but, for a late mover, the issue is not so much technical know-how as market know-how.

Support-centred recipe

A core practice in Firm C is litigation and the partners in that area had recognized for some time that changes in the demand for their work focused around the growth of arbitration. The central management team therefore supported a proposal that came from the litigation practice to start an arbitration practice. The know-how for this was partly sourced from within the firm as several partners had done work in this area, but the management team also went out and hired new partners to enhance the expertise of

the group. The team decided to ringfence the new practice in terms of its expected contribution for up to two years while work was generated. Three partners agreed to head up the initiative from within the litigation practice, were given resources in the form of staff and marketing budgets, and developed a plan to start up the practice. In making this initiative work, the firm faced two problems: turf issues, and concerns from some of the partners about the costs involved. The latter concern mainly related to the added costs to the firm of the lateral hires, who were all senior partners in other firms but, because this was a relatively new domain of work, did not yet have large client followings. The concern with turf arose because other parts of the firm were also involved in some arbitration work: for example some of the Banking practice partners were undertaking arbitration for insurance clients and did not want to give up control of this work. While the centre agreed that the arbitration practice should be located within the litigation area and should have sole rights to undertake this work, it was unwilling to force a confrontation over internal jurisdictional rights. It therefore took some months before an internal agreement was worked out that the new practice should take on this work with certain 'concessions' to the other affected partners.

The Support-centred recipe typically kicks off with a professional who leads a new practice effort in an area that the firm's top management or partnership committee has clearly identified as a market opportunity. Often, the firm selects a leader who either has a track record of starting and successfully finishing new projects, has expertise in a related area, or whose current client base could provide a launching ground for the new initiative. Our research suggests that consulting firms prefer to seek this new practice leader from existing partners within the firm, and in most cases will turn to the external labour market only where no suitable internal candidates are available (or, perhaps, willing to take on the challenge). Law firms appear to be

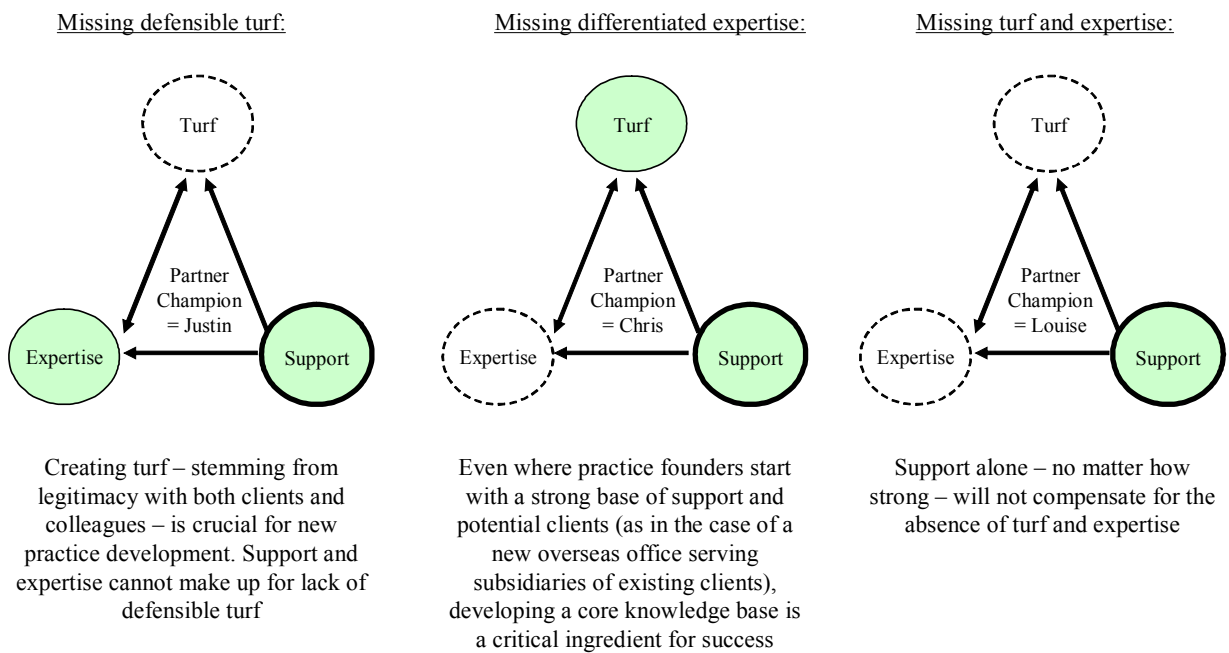
somewhat more amenable to lateral hiring, although managing partners also generally tend first to look in-house for practice founders. After designating a practice leader, the firm provides him or her organizational support in the form of political backing and tangible resources to create the practice's turf and to develop differentiated knowledge to tackle the market opportunity.

One consulting firm's managing partners seized the opportunity to capitalize on changes in UK legislation surrounding executive pay by creating an Executive Compensation practice in the London office. They brought in a partner, Paula, with experience in the US market, which was more advanced in this area, to lead the new practice. Paula described how the firm's management board played a critical role in 'mediating potential conflict-of-interest issues' that arose from providing the new service along with the firm's core services, and in granting support in the form of personnel to staff the new venture. Paula instituted a formal workshop-based course that consultants needed to complete before they could take on Exec Comp assignments; ostensibly, this move helped to maintain high quality standards for professionals in her practice, but it also clearly marked the knowledge base as proprietary and helped to delineate the new practice's turf in the London office.

While this sort of top-down direction setting often works smoothly in a corporate setting, it becomes far more problematic in professional service firms, which tend to be characterized by more dispersed decision making and more autonomous members. Again, we found three reasons for failure, depicted in Figure 5. First, we found examples where partners had managed to secure initial resources from the firm to build up expertise for a new practice, but ultimately failed to convince their colleagues of the effort's merit. In one telling case, a strategy-consulting firm granted a partner called Justin the better part of a year and several dedicated associates to create an elaborate set

of ‘how-to’ documents for conducting client engagements in a new Organizational Learning practice. Other partners doubted the initiative’s revenue potential - ‘It was never going to spin fees on its own,’ they said – and blocked his access to their clients. Justin’s interpretation is that they resented the firm’s sizeable investment in his practice start-up costs, given that other partners needed to fund their ‘pet projects’ from their own operating budgets. In any case, the new practice failed to establish its own turf, and soon thereafter Justin resigned from the firm.

Figure 5. Failures of the Support-centred recipe



A number of cases from the legal field followed similar patterns. Firm D tried several times to start up a New York office. Having seen the need for a US presence, the firm designated a partner, Chris, to do it, gave him plenty of resources, but failed because neither he nor they had access to local referral networks that would deliver the quality of work they wanted. Similarly, the managing partner of Firm A strongly

backed Louise to start a local office of the English firm in Washington DC. The effort soon folded, however, when Louise realized that she couldn't offer the incentives to attract the top talent from competitors. Without local expertise and connections, it was impossible for Louise to bring the new practice to fruition.

What can law firms learn from these examples? First, intangible support like the 'official blessing' of a managing board, or even concrete resources like a project budget are not enough to guarantee success in a professional service firm. Partners who are tasked with building a new practice often need to divert attention from their client work during the start-up phase, which is a double-whammy for their ability to create and defend their new turf: not only do they relinquish a potential source of external legitimacy but they also see their power diminished within the firm. Firms can help them establish turf by gaining the commitment of partners to cross-sell the new practice's work into their existing clients. Second, resources and turf in the absence of compelling and differentiated expertise are not enough to sustain a new practice initiative. Firms need either to invest in internal knowledge-building efforts or to hire expertise from outside.

Even where the Support-centred recipe provides new practice leaders the resources to develop distinctive expertise and the internal legitimacy to mark their territory within the firm, the issue remains: how can a professional develop credibility with clients to provide a new service? Our analysis of turf considerations, shown in Figure 2, offers some clues. Partners need to assess what sort of new practice they are creating: for example if they are in the White Space quadrant, they need to develop *and demonstrate* their own reputation for technical expertise as soon as possible; if they are in the Catch Up quadrant they need to remember that there is a premium on demonstrating market familiarity and expertise, for example by having good networks

with other actors in the market place and understanding how the market works. Where product expansion is planned by opening in a new jurisdiction, professionals can use their firm's reputation to build a practice, but they will need to be able to call on resources and the right sort of backing from other senior partners to deliver on their offer, particularly when just starting up. Where the practice is in the Tweaking quadrant, defending against encroachment internally is more likely to be the pressing concern while, ironically, the client market will already have recognized the need for the practice by going to competitor firms.

Insights across the three recipes for new practice development

Looking across the three recipes, we note a number of important patterns. First, regardless of which ingredient kick-starts the process (i.e., turf, expertise, or support) we find that any successful new practice initiative always combines all three ingredients. Even highly skilled partner champions with vast organizational resources (support) and a new idea (differentiated expertise) cannot succeed unless they convince their clients that the idea is credible, and their colleagues that it is financially viable and intellectually defensible (external and internal turf). As we elaborated above in many examples of failure, simply adding more of any two ingredients cannot make up for the absence of the third.

Second, because the idea of a power-wielding firm centre is anathema to many professionals who greatly value professional autonomy, we emphasize that the role of the centre can take various forms and degrees of intervention. In some firms, the managing partner (sometimes along with his or her committee or board) plays a key role in shaping firm direction and long-term strategy; here, the centre's part in new practice development is likely to be a stronger, more active role along the lines of

portfolio management. In other words, an active managing partner is likely to be highly involved in identifying market opportunities, directing resources, and culling or scaling back practices that no longer fit the firm's best interests. Elsewhere, the centre plays a much less active role, preferring to let decisions up to the 'knowledge market.' This approach defers to a combination of both the internal and external selection environments (i.e., colleagues and clients) for deciding which new practices are viable and important. Here, the firm strategy tends to reflect, rather than direct, new practice development; the Turf-driven recipe and Expertise-led recipe are likely to be more prevalent than the Support-centred recipe. Across firms, however, we found that even in emergent processes (those where practices start with Turf or Expertise), the centre still exercises control over the portfolio by granting or withholding organizational support at some stage in the process. As one managing partner in our law firm sample said: 'Our style is cautious and consensual. My predecessors were more entrepreneurial and actively encouraged new practice initiatives. Now these (initiatives) come from the practice areas and I'm in the "prove to me it will work" mode of managing. Centre-led developments don't exist here. I don't think they are as useful as bottom-up initiatives because there is a lack of individual motivation in the centre-led model.'

Finally, our research to date has focused primarily on the establishment of new practices that build up and develop over time. Most of these new practices start as fledgling groups, often with the initiative of a partner champion and only a handful of other individuals. They also tend to begin with relatively few clients (if any, as in the case of Expertise-led practices) and an idea that has been only minimally tested in the market. For these reasons, therefore, the new practices we've considered in our research tend not to significantly threaten the firm's existing core practice area. As these types of new practice build up, the firm has time to adjust to them. We recognize and caution,

however, that the same case doesn't hold for firms that buy a whole existing practice. Early evidence suggests that successful integration of a whole group of professionals into an existing firm is highly dependent on the degree to which that new practice can create and defend its own turf by bringing along existing clients – assuming that it has both enough organizational support and a knowledge base that is clearly differentiated from the incumbent practices.

Conclusion

We started this chapter by suggesting that practitioners often explain new practice development in terms of what we called the three myths: the entrepreneurial hero, the market, and serendipity. While we believe there is some truth to each of these, it is possible to understand the process of new practice development in more systematic terms. We used the idea of a recipe, with ingredients and a process by which these are mixed together, to explain how new practice development occurs. From our study of consulting and law firms, we propose that there are three key ingredients - turf, expertise, and support - and that they have to be mixed together by a 'champion' who has the skill and motivation to make the recipe work. In short, our findings stress the active role of individuals, rather like the hero myth, but demonstrate that success also requires that the other ingredients are present and that the champion(s) can interact effectively with colleagues and clients to make the process work: this is not a solo effort. Further, our research shows that each ingredient is necessary but not sufficient on its own: all three have to be brought into play by the champion in order to succeed. Failure often results from professionals assuming that one can compensate for the absence of an ingredient by adding more of another.

We also showed that there is more than one way in which the ingredients can combine: our research has revealed three different recipes depending on whether the founder or champion focuses first on developing expertise, support, or turf. Each has its challenges. Expertise-led is the most difficult in our view because there is no ready-made client work offering a springboard to start the process. A Turf-driven recipe has the advantage of clients who will often offer some form of co-investment, but failure risks damaging individual and firm reputations. A Support-centred recipe differs from the other two in that it is a more top-down process, while the others are bottom-up initiatives, but it, too, can be controversial in terms of the allocation of honours if it succeeds or blame if it fails.

We emphasize that the nature of the new practice initiative may differ, which has important implications for the type of issues that the champion has to face in dealing effectively with turf, expertise, and support issues. In particular, we suggest that the questions of how novel and how different the practice is must be taken into account. Practices in what we call the White Space quadrant (novel to the firm and industry, and radically different from the core) have a first mover advantage, but face very different types of challenges with respect to turf, support, and expertise than those in the Tweaking quadrant, for example.

In practical terms, other important contextual issues may also affect the processes we have outlined. For instance, turf considerations may be more acute when the market is contracting and practices are fighting harder for work, than when it is expanding. Compensation systems also undoubtedly affect the extent to which partners are prepared to cooperate with each other in sharing resources, information, or clients: lockstep systems appear to be more amenable to the sort of collaboration necessary for new practice development than highly individualistic reward systems, although this

may be offset by the more limited motivational aspects of the lockstep model. Some firms are clearly more directive than others even if they are all formally organized as partnerships: the more directive firms seem better able to sort out disputes over internal legitimacy and arbitrate more actively over encroachment issues, but they may also stifle bottom-up initiatives more than their less directive competitors. Our research continues to explore these issues.

While our research findings suggest that our model of new practice development, involving ingredients and combining processes, is generalizable to different types of professional service firms, we recognize that subtle differences between sectors may have to be taken into account. One difference relates to expertise. In consulting, expertise is often based on a more fluid model of knowledge that is not constrained in the way that legal knowledge is. Consultants have greater degrees of freedom than lawyers: the former can decide what is new and effective knowledge by asking ‘does it work for clients,’ while lawyers must work within a wider legal framework, asking not only ‘does the client buy my solution,’ but also ‘is it technically sustainable.’ This may well have implications for the ability of lawyers (or other types of professionals who work with externally determined knowledge bases) to create new practices. Nonetheless, we believe that this is a difference of degree rather than type, and that our recipes for success in new practice development are applicable not only to law and consulting, but across the professional services sector as a whole.

Footnotes

1. 'Beta' is a mathematical measure of the sensitivity of rates of return on a given stock compared with rates of return on the market as a whole. For example, a beta of 1.5 forecasts a 1.5% change in the return on an asset for every 1% change in the return on the market – disproportionate rewards for success or penalties for failure.

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