INNOVATION

Two's company: Proactive partnerships in innovation leadership

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Tony Morgan, Strategic Outsourcing Chief Innovation Officer for IBM UK &Ireland and NOA Supplier Board Member, focuses on the value and benefits of appointed named leaders for Innovation in both end user and supplier organisations.

Eighty-two percent of respondents to the NOA/KPMG research recognised the benefits of both parties appointing a named leader to drive innovation through to delivery and benefits realisation. Yet almost the same number of end-user respondents (80%) stated that this doesn't currently happen in practice.

Whether full time, or more commonly part-time, appointing an innovation leader is a key enabler for success. It's about being proactive, being systematic and ensuring accountability in both parties for driving innovation into delivery. Successful innovations will reduce costs and decrease time to market for the client, and can open additional business opportunities that can lead to growth.

The Innovation Leaders own the development and delivery of a joint innovation agenda – focused on what is important to the end user and where the supplier can add value. The Innovation Leader role remains a hybrid role – with commercial, functional, programme management, facilitation and soft skills all important. Equally important is influence. Successful Innovation Leaders make things happen.

Innovation Leaders focus on the full innovation process from idea/challenge/opportunity through qualification and sponsorship and into technical and business case development and handover to delivery. They set, track, measure and critically communicate benefits in each organisation. This often creates a snowball effect – as people see the success of focusing on innovation the pipeline gets bigger. The Innovation Leaders jointly filter out items to focus on the ones that will deliver most value.

In my current role I now lead a community of IBM Innovation Leaders, working closely with their clients. Not all of these Innovation Leaders, particularly the part time ones, have a direct opposite number to work with. This can create challenges and I'd strongly recommend end user organisations consider the benefits of appointing an effective named leader for innovation. Having an energetic, pragmatic pair of innovation leaders is a powerful asset.

To sum up, innovation in outsourcing is about partnership, being pro-active, and having a systematic process to fast track from discussions to delivery. A final thought – if you really want innovation in your outsourcing arrangement to work, why wouldn't you make somebody accountable for delivering it?

TONY MORGAN COMMENTS – ON A COMMON DEFINITION OF INNOVATION IN OUTSOURCING

We've seen some great examples of innovation in outsourcing but this now needs to become much more systematic across the industry.

It is encouraging to see many common findings between end-users and suppliers and it's also now down to them, with help where required, to get to the next level and make innovation in outsourcing work better.

To do this they need to define common goals and align to a common definition and understanding of innovation. Here's a starter definition from the NOA's Innovation Steering Committee. It's a mash-up of definitions from multiple industry sources so an innovation in itself…

Innovation in outsourcing is the application of new ideas, ways of working and/or the use of existing ideas in a new context to deliver value through change.

KPMG

NOA
NATIONAL OUTSOURCING ASSOCIATION

INNOVATION

Driving innovation through collaboration: a joint research project from the National Outsourcing Association and KPMG

Lee Ayling, NOA Board Director for Innovation and Partners Sourcing Advisory, KPMG in the UK and Karene House, Principal Advisor, Sourcing Advisory, KPMG in the UK, discuss the findings of the project.

As governments, economies and organisations all over the world continue to search for ways to move from recession to growth, more and more businesses are looking to embrace innovation to drive ongoing cost savings and business value. But with the ability to consistently deliver innovation in outsourcing sometimes being called into question what does this mean for the suppliers and end users of outsourcing services?

How are you driving innovation with your outsourcing providers and/ if you're a supplier of outsourced services, how are you delivering on innovation for your clients? What's working and what's not? How do you measure impact and how can it be improved?

As part of a wider research programme, in May 2011 EquaTerra*, in conjunction with the National Outsourcing Association (NOA) launched a survey with senior executives from the outsourcing user and supplier side to find out more about innovation in outsourcing.

The importance of innovation

When asked how important innovation is to their organisations, the majority of users (59%) and suppliers (83%) agreed that innovation is very important. Around 50% of all organisations that responded to this survey are discussing innovation once a quarter with their respective service providers or clients. Sadly, in most cases, talking is as far as it gets. The real differentiation is created when innovation is represented by metrics and specific projects.

How important is innovation?
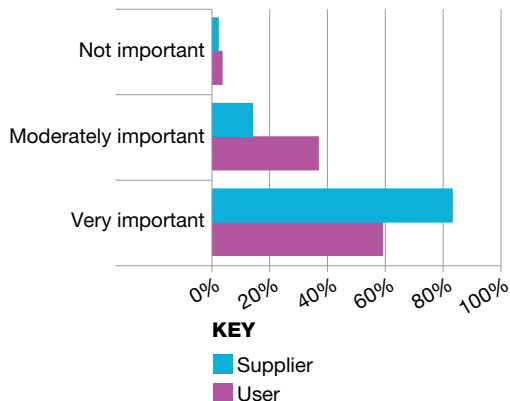
How often is innovation discussed?
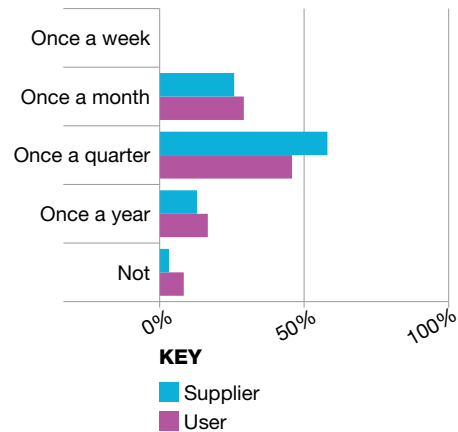
Drivers for innovation

Looking at the most important drivers for innovation in outsourcing, users and service providers agreed that improving quality and lowering costs are the most important, closely followed by decreasing time to market and replacing old legacy systems. Innovation however continues to be a key differentiator when selecting a service provider.
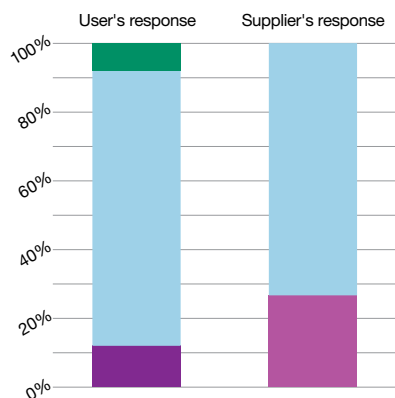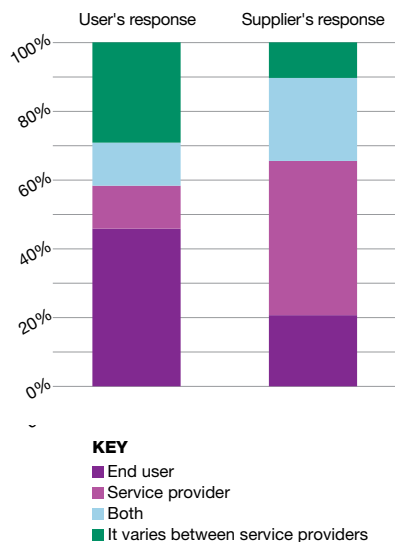
Drivers for innovation
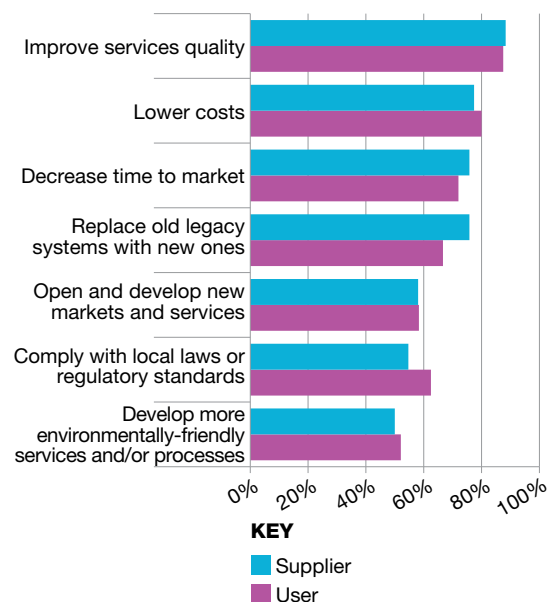
Lead role for innovation

We asked both participant groups who should take the lead role in driving innovation in an outsourcing agreement where innovation is important and also who normally takes the lead role. Both users and providers agreed that both organisations should take the lead role (below). However, that rarely happens in practice. In the experience of the participants, in only 10–20% of cases do both organisations take the lead role.
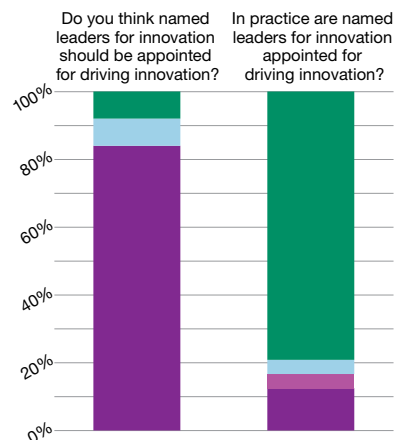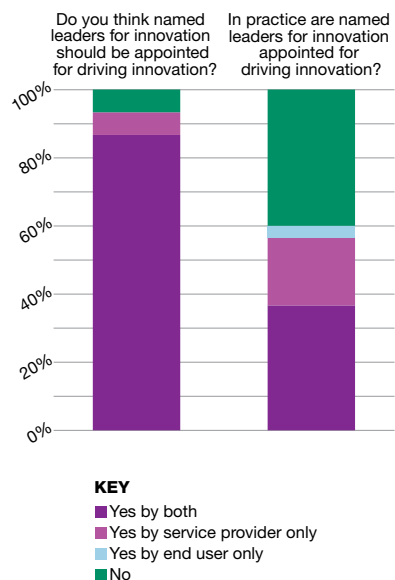
Appointing named leaders for innovation

We also asked whether named leaders for innovation should be appointed to drive innovation in an outsourcing agreement where innovation is important and also whether that happens in practice. More than 80% of the users answered that both organisations should appoint named leaders, but an almost equal percentage of the users say that that never happens in practice. The providers agree with the users that named leaders should be appointed, though they are more positive about the experiences they have with named leaders as almost 60% cite that named leaders are appointed in practice.

Who should take the lead role?

Who normally takes the lead role?

KEY
- ■ End user
- ■ Service provider
- ■ Both
- ■ It varies between service providers

User Perspective of named leaders

Supplier Perspective of named leaders

KEY
- ■ Yes by both
- ■ Yes by service provider only
- ■ Yes by end user only
- ■ No

How seriously do you take innovation?

We asked a couple of different questions to understand how seriously innovation is being taken by the participating organisations, giving some interesting results.

- 60% of the service providers have a dedicated innovation competency/centre for outsourcing, compared to 15 % of the users.
- Both outsourcing users and providers agree that innovation is different from 'continuous improvement'.
- 71% of the service providers have a formal innovation methodology to support the outsourcing contract process, compared to less than a quarter of the user organisations.
- Around 60% of the organisations surveyed have a clear definition of innovation.

Funding of innovation

We asked outsourcing users how innovation should be funded and providers how innovation is normally funded. The majority of the service providers claim that innovation is included as a standard in the service oering, while the majority of the users would like the funding to be agreed for each innovation item based upon the value to the end user and to the service provider. It's clear that there is a disconnect between the way users and providers want to fund or indeed are funding innovation.
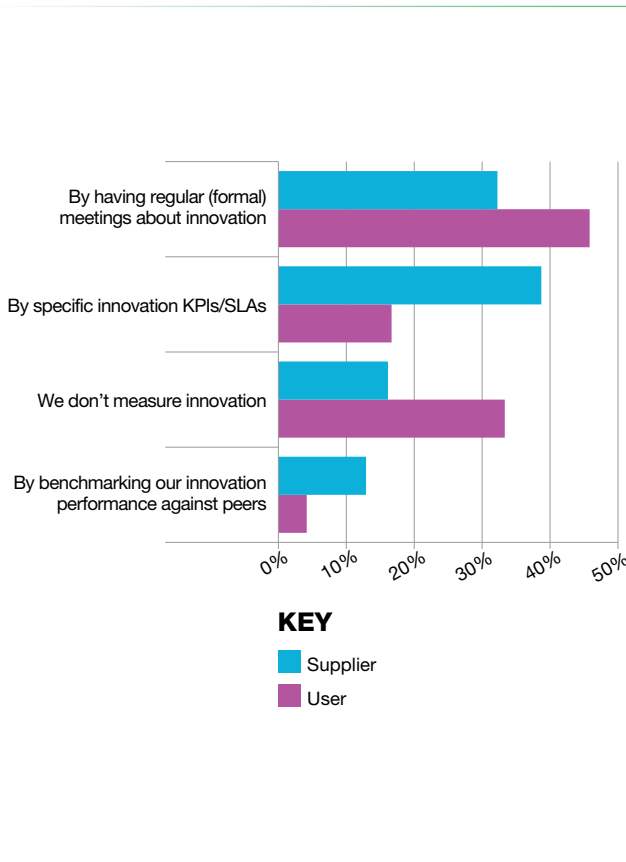
Defining innovation
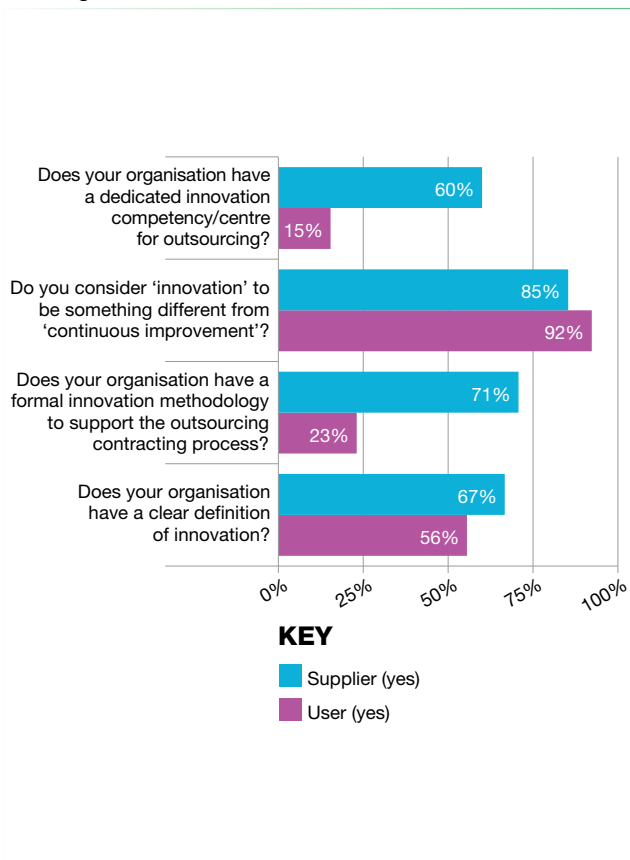
Funding innovation
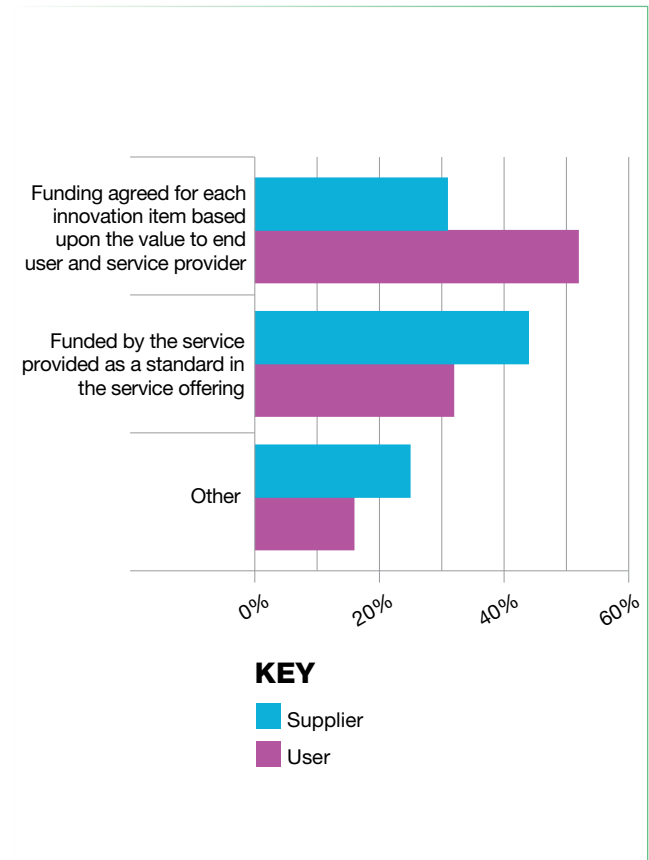
Measuring innovation

When looking at how users and providers are measuring innovation, it seems that the majority of the service providers who participated in this research are using specific innovation KPIs and SLAs and having regular meetings about innovation. However, around 80% of the user organisations surveyed don't measure innovation quantitatively, saying that they either don't measure innovation at all or that they just have meetings about innovation.

Mechanisms to support innovation

Organisations can have different mechanisms in place to support innovation and we asked both groups which innovation mechanisms they are using. The majority of the user and provider organisations have governance structures and risk-reward/gain-sharing mechanisms in place to support innovation. Service providers in general have many more mechanisms in place than users and user organisations can do much more to support their innovation initiatives. This therefore continues to be an area of frustration for service providers and a barrier to innovation having real traction in an organisation and its outsourcing arrangements.

Measuring innovation

KEY
- Supplier
- User

Supporting innovation

KEY
- Supplier
- User
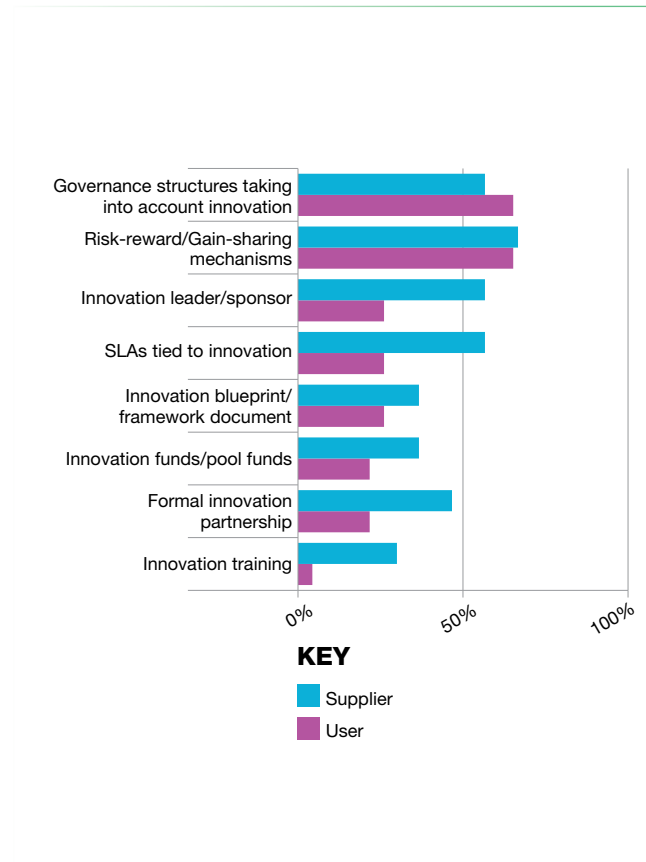
Innovation challenges

The table below summarises the top three obstacles participants cited when asked what the main challenges to their innovation plans were. We have made a distinction between mutual challenges, that are both applicable to the user and provider organisation, as well as challenges that are more significant to users than to providers and vice versa.

Mutual challenges	Challenges for users, but less for suppliers	Challenges for suppliers, but less for users
• Lack of engagement with the business stakeholders • Innovation skills in my organisation • Inability to accurately measure innovation and no common understanding / formal agreements about innovation	• Long administrative approval process • Inability to clearly define innovation • Innovation skills in service provider organisation	• Client not willing to invest in innovation • Wrong time to innovate (recession, M&A) • Short deal life-cycle

What could your client/service provider do to enable you to derive more value from innovation?

In surveying the users as to what their service provider(s) could do to enable them to derive more value from innovation in their outsourcing agreements, and service providers on what their clients could do, we identified the top three ways to derive more value from innovation in outsourcing agreements from both the user and the service provider perspective.

What the supplier can do for the user (according to the user)	What the user can do for the supplier (according to the supplier)
• Be more pro-active in finding what my key challenges are and then providing time to show me how these can be addressed • Show me what they are doing with other clients in my industry and/or with clients in other industries which might be relevant • Invest in our joint success and work with me to develop a more effective approach for delivering joint innovation	• Be more pro-active in telling me what their key challenges are and then providing time to help me understand how I can help address them • Give me more access to stakeholders and sponsors in the business • Invest in our joint success and work with me to develop a more effective approach for delivering joint innovation

KEY FINDINGS

• Innovation is considered to be important, but it seems that buyers are not yet taking it seriously enough

• Investing in (enabling) innovation is key and can increase quality, reduce costs and improve time to market

• Both outsourcing users and service providers need to take a lead role and appoint named leaders for innovation

• Mechanisms that support innovation should be implemented. This does not just mean an appropriate governance structure, but also an innovation framework, methodology, funds, training, etc.

And above all: the success of innovation processes should be measured, and this should be done collaboratively by both the user(s) and the service provider(s)