Driving Innovation Through Collaboration

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Over 50 per cent of organisations who outsource now have a definition for innovation and are talking about it once a quarter. Yet they reach an impasse with their service providers on how to manage it, fund it, and ultimately turn it into reality.

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?

The importance of innovation

When asked how important innovation is to their organisations, the majority of users (59 percent) and suppliers (83 percent) agreed that innovation is very important. Around 50 percent 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?

As part of a wider research programme, in November 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. This paper covers some interim findings from the research; the full report will be published in November 2011.

* KPMG LLP (US), KPMG Holdings Limited (UK) and KPMG International have acquired the business and subsidiaries of advisory firm EquaTerra Inc.
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.

Figure 3
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.

- Sixty percent of the service providers have a dedicated innovation competency/centre for outsourcing, compared to 15 percent of the users.
- Both outsourcing users and providers agree that innovation is different from ‘continuous improvement’.
- Seventy-one percent 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 sixty percent of the organisations surveyed have a clear definition of innovation.

![Bar chart showing percentage responses to questions about innovation practices.]

Figure 4
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 offering, 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.

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.
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 (Figure 7 below). However, that rarely happens in practice, as, as shown by Figure 8, in the experience of the participants, in only 10-20 percent of cases do both organisations take the lead role.

Who should take the lead role?

![Pie chart showing responses for who should take the lead role in innovation, split between user and supplier responses.]

Who normally takes the lead role?

![Pie chart showing responses for who normally takes the lead role in innovation, split between user and supplier responses.]

Figure 7

Figure 8
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 percent 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 percent cite that named leaders are appointed in practice.

User Perspective

![User Perspective Diagram](Image)

```
Yes by both  Yes by service provider only  Yes by end user only  No
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Supplier Perspective

![Supplier Perspective Diagram](Image)

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Yes by both  Yes by service provider only  Yes by end user only  No
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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.

![Chart showing innovation mechanisms](chart.png)

Figure 11
Innovation potential

We asked users and providers whether there is a difference in the innovation potential between the following outsourcing services: Applications, Infrastructure, Business Processes (e.g. F&A, HR, Procurement), Customer care, Knowledge processes and niche areas such as tool design. We asked them to rate each of the services on a scale from 1 to 5, where 1 is ‘Least innovation possible’ and 5 is ‘Most innovation possible’. The combined user and provider scores are depicted in Figure 12. As we can see the participants believe that the most innovation is possible in infrastructure and applications outsourcing and the least is possible in business process outsourcing.

![Innovation potential diagram]

Figure 12
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.

<table>
<thead>
<tr>
<th>Mutual challenges</th>
<th>Challenges for users, but less for suppliers</th>
<th>Challenges for suppliers, but less for users</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Lack of engagement with the business stakeholders</td>
<td>1. Long administrative approval process</td>
<td>1. Client not willing to invest in innovation</td>
</tr>
<tr>
<td>2. Innovation skills in my organisation</td>
<td>2. Inability to clearly define innovation</td>
<td>2. Wrong time to innovate (recession, M&amp;A)</td>
</tr>
<tr>
<td>3. Inability to accurately measure innovation and no common understanding / formal agreements about innovation</td>
<td>3. Innovation skills in service provider organisation</td>
<td>3. Short deal life-cycle</td>
</tr>
</tbody>
</table>

Figure 13

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.

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

Figure 14
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).
About NOA

The National Outsourcing Association (NOA) is a non-profit organisation that represents the interests of outsourcing end users, suppliers and support services. Its focus is on delivering education, excellence and collaboration opportunities in all areas of outsourcing inc. ITO, BPO and KPO.

The NOA’s vision is to be the pre-eminent organisation in the UK that enables and promotes successful by:
- Creating formal and informal networks to aggregate and share good practice in the outsourcing industry
- Promoting the benefits of outsourcing to organisations who operate in the UK and globally
- Representing the UK outsourcing community’s interests and influencing decision makers and business leaders
- Collaborating with other industry bodies within the UK and globally for the benefit of the UK outsourcing community

About KPMG

KPMG is a global network of professional firms providing Audit, Tax and Advisory services. We operate in 150 countries and have 138,000 people working in member firms around the world. The independent member firms of the KPMG network are affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. Each KPMG firm is a legally distinct and separate entity and describes itself as such.

About EquaTerra

EquaTerra was founded upon the principle of helping clients achieve sustainable value in their IT and business processes through internal transformation, shared services and outsourcing. On February 18, 2011 the business of sourcing advisory firm EquaTerra, Inc. and its subsidiaries was acquired by KPMG LLP (US), KPMG Holdings Limited (UK) and KPMG International.