

INNOVATION

**Glenn Hickling** speaks to leading experts in outsourcing innovation



# The importance of being innovative

Outsourcers are failing to calculate the worth of innovation.

**National Outsourcing Association calls for stronger leadership and improved accountability measures.**

Eighty percent of end-user organisations don't measure innovation quantitatively, and therefore have no true picture of whether investing is proving worth the risk. Over 35% make no attempt to measure it at all, with just 4% claiming to benchmark innovation against their peers.

Over 50% 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 fund it, manage it, and ultimately, turn it into reality.

This is according to research announced by the National Outsourcing Association (NOA) and KPMG, which revealed huge discrepancies in the understanding, governance and measurement of innovation in outsourcing arrangements.

Lee Ayling, Partner at KPMG and NOA's Board Member for Innovation said: "Developing capabilities in tracking the success of innovation is vital. Some projects involve an element of risk to the client, as well as a cost. When proposed savings are monumental, we're seeing clients continuing to accept these challenges. Knowing exactly what benefits the client realised – i.e. cost savings or reduced time to market – is the only way to ascertain the true worth of the project, which, in turn, could drive more innovation. This particularly affects smaller suppliers, who are often more innovative than the big players."

The research also revealed confusion about what innovation actually is.

Ninety two percent of end-user companies polled viewed innovation as being different to 'continuous improvement,' but only 56% of end-users (and 67% of suppliers) have a clear definition of innovation.

Lee Ayling said: "Nearly half of end-users have no clear idea of what innovation actually is. This lack of a mutual definition leads to problems in measuring the value of innovation projects. There is a need for agreed definitions from the outset, especially when multi-sourcing to maintain a healthy competitive balance of suppliers."

Karene House, Principal Advisor at KPMG, and Lee's co-producer on the research states that a "lack of mutual definition of innovation in outsourcing will lead ultimately to dissatisfaction, unhappiness and a mismatch of expectations. When we conduct service provider satisfaction surveys we find a lot of customers saying that 'my provider has not delivered innovation' – when you actually ask them, what does that mean, they struggle with exactly how they would define innovation.

"So if you have a service provider thinking innovation is one thing, and the customer thinking it's something else, you're ultimately never going to be satisfied with the outcome. I think it's quite clear that you have to have some sort of mechanism in your contract, to define innovation, and define the people who are responsible for innovation, so that it becomes inherent within the governance of your relationship and gives expectations as to what will be delivered through the course of that contract and how you will measure it."