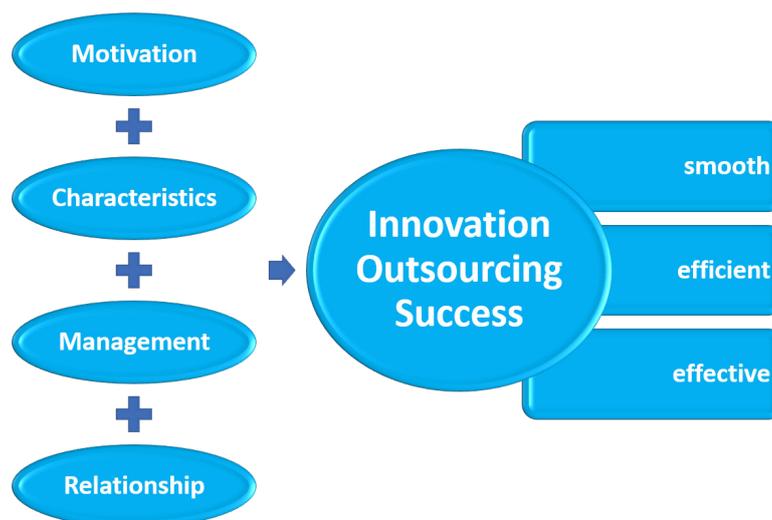# Innovation Outsourcing
Four Action Fields

Large parts of the innovation value chain are outsourced to service providers and the proportion of external activities has constantly grown over the last decades. Depending on the industry and the actual stage, up to 70% of innovation activities are externalised and the fully virtual start-ups depend totally on the execution muscle of service providers. In short, Innovation Outsourcing's footprint is constantly growing, and this trend is unlikely to turn anytime soon.

Outsourcing Paradox

Routine business processes like Innovation Outsourcing could be expected to run smoothly and close to the peak of operational performance but real-life leaves much to be desired. Impressive failure rates, mismatches between client requirements and service provider deliveries and up to 30% malperformance in the quality field result in annual investment losses in the billion $US range. Already a depressing figure, which gets worse once the subsequent damage to the respective innovation processes is added. Frequently Innovation Outsourcing offers room for significant improvement. Four rather simple steps will increase outsourcing performance.

„Improving Innovation Outsourcing - 4 Action Fields for Management."

Motivation, Consequence, Objective

Outsourcing of innovation activities is usually preceded by a certain motivation or driving force. Apart from the common motivations like cost reduction or access to technology, exotic ones like "force change into business" can be found as well (see box). In any case, efficient and effective Innovation Outsourcing depends on organisa-

tions using homogenous motivations and as few as possible. One would be best but if multiple motivations are unavoidable, they should at least not be contradictory. As soon as the sourcing department is running a lowest bidder model, the innovation unit requires world class expertise and the quality unit puts compliance first, the negative impact on outsourcing performance will be remarkable.

Regardless of the motivation(s) selected, assessing the resulting consequences is a necessity. The lowest bidder approach will probably require outsourcing to low cost countries, leading potentially to increased travelling, problematic logistics, legal complexity and operational challenges due to different time zones and mentalities. Skipping this step, ignoring the consequences of a given motivation, bears the risk of Innovation Outsourcing performing far below expectations or eating up far more internal resources than intended.

Last step is the discussion about managing the resulting challenges and the selection of the person(s) responsible to do so. Going with diligence through all three steps equals the evolution of the outsourcing motivation towards a clear and reliable outsourcing objective, as important to Innovation Outsourcing as to any other business process.

- *Reduce Operating Costs*
- *Flexibility to scale operations*
- *Standardise processes*
- *Meet regulatory requirements*
- *Increase global effectiveness*
- *Transform processes*
- *Access to talent*
- *Access to technology*
- *Improve capabilities*
- *Force change into business*

Source: State of the Outsourcing Industry, Key Findings, HfS Research, Cambridge, UK

Built-In Characteristics

In any case, Innovation Outsourcing cannot be reduced to the defined objective, since it comes with certain unavoidable and built-in characteristics. Some are obvious like a growing dependency on external muscle, but some are subtler like the gradual loss of internal expertise that might follow externalisation. Directly related to this loss of expertise is the challenge to internalise the generated know how, not only the generated data, and to achieve true intellectual ownership of the external innovation results.

Contrary to other types of outsourcing, Innovation Outsourcing usually lacks precise specifications or expectational values. In combination with the inherent complexity and uncertainty of innovation, precise requirement definition, management of externalised processes and reliable control of external results is frequently a superb challenge.

Having a clear understanding of these unavoidable characteristics helps to prevent mistakes and errors and serves as a basis to actively manage the operational performance of Innovation Outsourcing.

Individuals Matter

Outsourcing management is one of the most consistent challenges of Innovation Outsourcing. Surveys over the last decades always put this topic top of the lists of issues to

„Impact beyond Cost Saving."

be solved or processes to perform better. One of the most relevant tasks of outsourcing managers is keeping client and service provider synchronised during a project. While there might be a common understanding at project start, company boundaries are likely to de-sync both sides as timelines and dependencies change, methodologies perform below expectations or technologies fail to deliver. Without a constant alignment of both sides, deliveries not matching requirements is a common outcome.

Outsourcing managers are individuals and surveys show that individuals play a fundamental role for outsourcing performance. 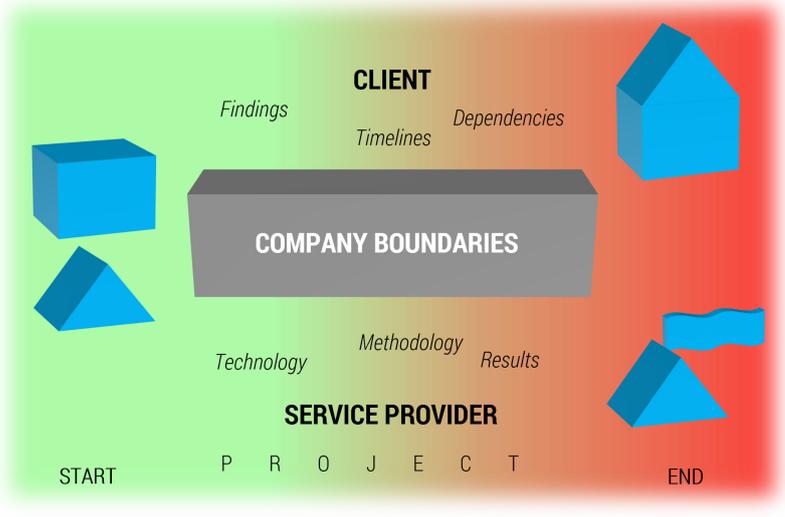Identical companies being paired in Innovation Outsourcing have been reported to perform both below and above standards, the only distinguishing feature being the individuals acting on both sides. In short, the personal relationship of individuals defines to a large degree the performance of the business relationship of companies. Future will tell if the growing footprint of cloud-based outsourcing platforms will impact outsourcing performance by reducing the level of personal relationship.

PROJECT SYNCHRONISATION

CLIENT

Findings

Timelines

Dependencies

COMPANY BOUNDARIES

Technology

Methodology

Results

SERVICE PROVIDER

START   P   R   O   J   E   C   T   END

Action

Objectives, characteristics, management and individuals - four fields of action for Management to improve Innovation Outsourcing significantly. Ignoring or neglecting them prevents Innovation Outsourcing from running at peak performance, wasting time and money and impeding innovation.

More to the outsourcing topic in one of the next issues.

*Management
Action Required."*

▲ **PERMANENTS**
Four Action Fields