IACCM
International Association for Contract and Commercial Management

Vested OUTSOURCING

A Better Way to Structure Outsourcing Contracts

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Vested Outsourcing was developed in partnership with

THE UNIVERSITY of TENNESSEE

Center for Executive Education

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WANTED: A Better Way to Structure Outsourcing Contracts

There have been many articles written that detail all the things that go wrong in outsourcing relationships. Recent trends in off-shoring have accentuated these difficulties. With so many companies outsourcing, it is no surprise that there are many arrangements that fail. In a Deloitte survey, 39 percent of the 300 respondents reported that they had terminated at least one outsourcing contract and transferred it to a different vendor, saying they were “Dissatisfied” or “Very Dissatisfied” with their largest contract; 50 percent brought the function back in-house.[1]

The general media is filled with examples of outsourcing deals gone wrong. Information Week reported that CIO’s took back 20 percent of off-shored IT work in 2006.[2] Yahoo News quoted Marc Lazzari, head of Unisys operations Europe, stating that he knew of up to 10 deals worth between $890 million and $1.9 billion that were already back on the market despite having been signed less than two years earlier.[3]

Many point to the theory of ‘incomplete contracts’ as a cause. This theory, which was introduced by Oliver Hart in 1995, says no contract is complete because no one can anticipate all the future events that may have impact upon it. This incomplete contract theory is especially important today, considering the many contract areas that are difficult to anticipate. For example, global contracts operate under a whole range of uncertainties and gaps in knowledge; the speed of change also causes uncertainty; new competition, regulation, political instability, economic shifts, climate change, technology and communications, social values – these are just some of the areas that can disrupt any contract relationship and are probably impossible to predict.

Indeed, even attempting to predict every eventuality would cause so much delay and prove so controversial that it is clearly impractical to believe that all factors or risks can be anticipated. The one risk that we can be relatively certain about is that unexpected changes will occur. To alleviate this risk, the International Association of Contract and Commercial Management recommends companies spend more on ensuring mutual understanding of goals and how they will be safeguarded. But achieving the shift is proving to be a struggle.

Why? Structuring relationships that deliver successful outcomes is proving extremely difficult. Organizations – both the companies that outsource and their service providers – appear to lack a clear roadmap and structured process to handle complex, long-term relationships. Traditional management and measurement systems frequently get in the way. IACCM has pointed to the core of the problems in that it seems extremely hard to build consensus on the goals of a relationship. In addition, it is hard to reconcile the differing views of risk; of course different internal groups may have diametrically opposed views of the desirability of reaching agreement – some may be welcoming, others threatened.

After reading all that, you might be asking yourself, "Is there a better way?" There is good news. Read on.

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[1] “Why Settle For Less?*” Deloitte Consulting 2008 Outsourcing Report*

[2] “The second decade of offshore outsourcing: where we’re headed”, Information Week, November 5, 2007

[3] 'Winner's curse' affects 20% of outsourcing deals”, Computer Business Review, Published September 26, 2006, (Accessed March 2009)

Finding a Better Way: Research Points the Way

The good news is that thought-leading organizations have challenged conventional outsourcing models over the past 10 years. Much work is occurring in the academic communities to uncover a better way to outsource with the hope of creating an insight that can help contracting professionals overcome the curse of the incomplete contract.

One of the most notable is Dr. Oliver Williamson, professor emeritus of business, economics and law at the University of California, Berkeley, who won a Nobel Prize in economic sciences. Unfortunately, many contracting professionals didn't make the connection that Dr. Williamson was challenging the contracting community to search for a better way to contract when it comes to complex outsourcing agreements. One of the most relevant articles Dr. Williamson has written appeared in an April 2008 article in the *Journal of Supply Chain Management* entitled, "Outsourcing: Transaction Cost Economics and Supply Chain Management." His paper argued that all contracts are incomplete – and as such contracting professionals should strive to find more "credible" ways to create flexible contract frameworks aimed at preserving continuity of service rather than by using a "muscular" approach of frequent bidding and transitioning of suppliers in search of the lowest price. His argument: transaction costs increase because rigid contracts and heavy-handed relationships, where there is a winner and loser in the contract, simply end up driving hidden costs.

The bottom line on Dr. Williamson's work is that the bottom line is not always what you think it is and that you have to look at the hidden costs of doing business as well as the price of what you are buying. He takes the concepts of game theory and focuses it around the contracting process itself – looking through the "lens of the contract" and how organizations behave when it comes to the contract and how people behave during contract negotiations. His work challenges contracting professionals to develop a more "credible" approach when it comes to complex outsourcing agreements.

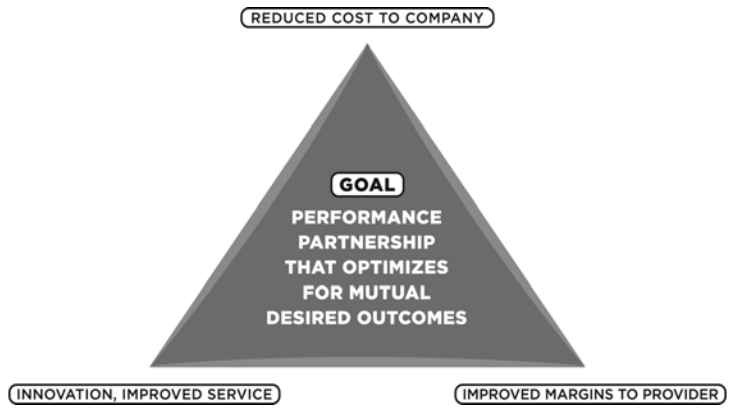
At the same time Dr. Williamson was looking at the economics of outsourcing contracts, the University of Tennessee was busy with applied research, studying companies that were employing performance-based approaches for outsourcing. The University of Tennessee began studying successful outsourcing agreements as part of a large research project funded by the United States Air Force. The key goal of the project was to determine what attributes were used at developing a successful outsourcing agreement and to create a training program for the Air Force and Defense Acquisition University aimed at improving the effectiveness of their outsourcing contracts.

Under the project, University of Tennessee studied 22 companies with very successful outsourcing agreements. This paper is based on the University of Tennessee's research and hands-on experience working with organizations that have developed flexible and dynamic outsourcing contracts that have resulted in win-win solutions for both the companies outsourcing and the service providers.

While many believe win-win is a simple buzzword that is theoretical in nature, the University of Tennessee research has uncovered a set of unwritten rules that companies can use when they are developing their contracts to help them craft agreements that leave the companies involved willing to go the distance to achieve much higher levels of performance and cost savings than previously thought possible.

We have distilled our lessons and approach into what we call Vested Outsourcing — because it is typified by an outsourcing relationship where both parties have a stake in maintaining the arrangement and work together to create a performance partnership that takes the company outsourcing and the service provider to levels of cost, service and profitability levels not realized previously. A key focus is not just on developing the business relationship but on properly structuring the contract to support the business under a flexible contract framework.

While no two Vested Outsourcing partnerships are alike, all good ones achieve a performance partnership based on optimizing for innovation and improved service, reduced cost to the outsourcing company, and improved profits to the outsource provider (see illustration at right). The trend towards performance partnerships has evolved such that companies that outsource and service providers work together to develop a performance-based solution in which their interests are aligned — and both parties receive tangible benefits (either through tangible or intangible incentives).



The Rise of Vested Outsourcing

Crafting True Win-Win Contracts

The heart of a Vested Outsourcing contract is an agreement on desired outcomes that explicitly states the results on which both companies will base their outsource contract. A Vested Outsourcing agreement clearly defines financial penalties or rewards for not meeting or exceeding agreed upon desired outcomes. In such an agreement, regardless of what is being outsourced, the outsourcing partner has the ability to earn additional financial value (e.g., more profit) by contractually committing to achieve the desired outcomes. Simply stated, if the outsource provider achieves the desired outcomes (achieves results), it receives a bonus. It is important to understand Vested Outsourcing is not gainsharing. The manner in which Vested Outsourcing agreements work is outlined in more detail later.

Under this dynamic, the outsource provider is challenged to apply "brain power" and/or investments to solve the company's problem. The provider also takes on risk to do it, in essence putting "skin in the game." The outsource provider looks at how it can best apply world-class processes, technologies and capabilities that will drive value to the company that is outsourcing. This commitment to deliver against projected value for the company outsourcing (such as a commitment to reduce costs or improve service or both) shifts risk to the outsource provider. In exchange, the company outsourcing commits to allow the outsource provider to earn additional profit (above and beyond industry average profits for their service area) for achieving this incremental value. The result is a win-win Vested Outsourcing partnership — a paradigm shift we explore next.

Changing the Game: Going the Whole Nine Yards with Your Outsource Relationship

It's important to understand that Vested Outsourcing is much more than delivering a higher level of service on a given activity. For example, it is:

- NOT about achieving 99 percent fill rate for your warehouse provider versus 95 percent;
- NOT about answering 95 percent of all calls in 20 seconds versus 30 seconds;
- NOT about going from 3,000 defective parts per million (DPPM) to 3.4 (Six Sigma) DPPMs from your contract manufacturer;
- NOT about ensuring that the janitorial service provider cleans the toilets every two hours;
- ... and the list can go on and on.

Unfortunately, many people on both sides of an outsourcing relationship simply do not understand the fundamental business model concepts behind Vested Outsourcing. A common mistake occurs when an organization thinks they have a Vested Outsourcing agreement because they have taken their existing contract and simply added a clause stating that if a service provider achieves the metrics they are paid a bonus. This completely misses the mark. Vested Outsourcing is a fundamental business model paradigm shift in how the outsourcing company and its service providers do business.

WIIFWe versus WIIFMe

While many organizations tout they have "partnerships," our experience and research found that most organizations have an internal desire to optimize their own self interests. This is often known as a "What's in it for Me" approach (WIIFMe). How could they not when we are all ingrained with "winning" from early childhood and most business schools and law schools focus on "winning." Procurement and sales professionals are trained in the art of negotiations to help them "win."

The very word "partner" implies that there are two sides. The progression towards a Vested Outsourcing agreement should focus on creating a culture in which parties are working together to ensure the ultimate success of each other. The mentality should shift from an "us versus them" to a "we" philosophy, or what we call a "What's in it for We" (WIIFWe) philosophy.

Companies that embark on a Vested Outsourcing agreement should approach it as a symbiotic relationship. Only by working together can they succeed. Consider the cartoon below.

The goal of a Vested Outsourcing partnership is to focus on first identifying and then aligning the interests of the players. The relationship becomes more collaborative and expands beyond simply meeting requirements.

A WIIFWe philosophy strives to increase the size of the entire pie (unlock a greater opportunity than is currently realized by either party) versus maximizing the size for any one player (e.g., lower costs at the expense of the outsource provider's profits). WIIFWe challenges the conventional win/lose mentality and tosses it out the window. A company that is trying to maximize its piece of the pie instead of growing the whole pie is not playing under Vested

Outsourcing rules and will most likely craft an outsourcing agreement that is structured with one or more of the ailments we have identified in our research.

Many of you might be thinking, "Win-win is so fluffy. Is it really possible?" Consider a contract manufacturer that had to "touch" a box 12 times to assemble it, but refrained from saying anything as they were "paid by the touch." Under a performance partnership, that supplier would have substantial incentives to help the customer redesign the packaging to reduce the total cost. Let's say that the supplier helped design a box that cost two cents more to manufacture but reduced the "touches" from 12 to 7. If the "touches" cost two cents each, and the annual quantity was 5 million pieces, the annual net savings would be $400,000. Wouldn't you, as the customer, be willing to share that with your supplier?

Developing a WIIFWe relationship is easier to describe than it is to do. Evolving from a culture of oversight and control to mutual respect is not an easy transition for most companies that outsource. Adversarial relationships often persist, and getting to a true win-win relationship will likely take practice. We frequently suggest assigning a neutral party to the team to act as the "win-lose cop" to point out when organizations slip into conventional win-lose thinking.

The first place to watch for potential adversaries is at the executive leadership level. Vested Outsourcing is not for the faint of heart; it demands committed executive leadership from both organizations, willing to transcend the traditional win-lose approaches most companies take when it comes to procuring goods and services. Unfortunately, some executives often feel they are too senior to be coached by the win-lose cop and have a strong conviction they have to do what they think is right for the company, not what will further the objectives of the Vested Outsourcing partnership.

Even when there is commitment at the most senior levels in both organizations, individuals at the lower levels can succumb to an ailment that we term the "Junkyard Dog Factor" and begin to protect their turf. In fact, we have seen this ailment afflict some companies so severely that one or more of the organizations had to fire some of their employees to remove "baggage" or get beyond conventional win-lose thinking.

A common place where all companies should watch for adversaries is among the contracting professionals and lawyers at both organizations. Contracting professionals and lawyers can be the kiss of death for Vested Outsourcing because their entire profession is built around the philosophy of "getting the best deal" for their company. Much of our society's business culture and history has been hardwired to play win-lose. The win-lose cop can come in handy to keep the contracts and legal departments in check. But if their behavior presents an obstacle, the individuals responsible should be removed and replaced with different mindsets whenever possible.

True win-win requires effort and commitment by both parties. Outsourcing does not mean abdication: it must be a partnership with regular, frequent communication to manage the expectations as well as the work. Although the most pernicious problems that affect outsource arrangements are brought on by micromanagement, a different set of problems can emerge when a company hands over a process completely to the outsource provider, washes their hands and walks away.

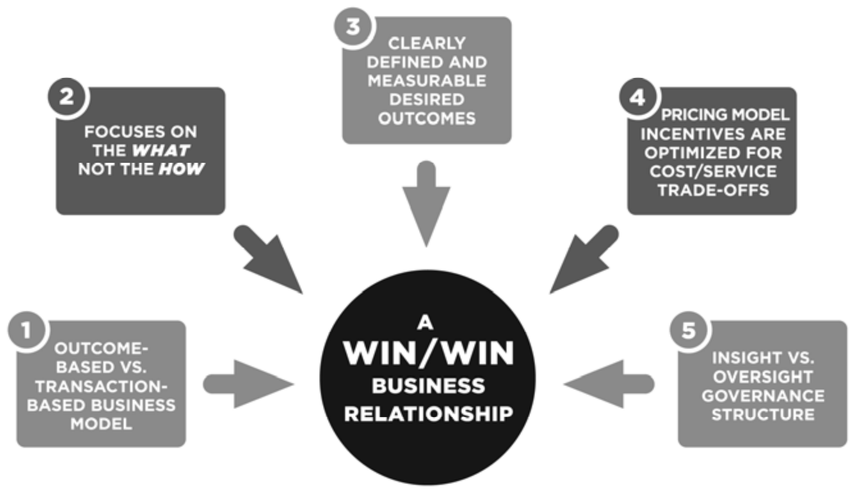
True partnerships often must evolve over time as the parties learn to work under a win-win philosophy. For many companies a win-win approach is a learned behavior, and they have to unlearn their conventional approaches and ways of thinking. Human relationships are fundamental to successful Vested Outsourcing. Absent mutual trust, any attempt to implement Vested Outsourcing will become mired in terms and conditions. In addition, both the company outsourcing and the outsource provider need to make sure they are comfortable in their associated roles. The company outsourcing needs to feel comfortable describing the "what" and delegating the "how" to the outsource provider. The outsource provider must be comfortable signing on to take the risk to deliver the "how." Each organization must constantly seek to overcome roadblocks in the processes, infrastructure, technology and people that prevent the mutual success.

Most companies that use Vested Outsourcing as an approach for outsourcing do not spend much time talking about how it gives their service providers the opportunity to make more money. They prefer to focus on how it delivers better value or better performance at the same or lower total cost. Nevertheless, service providers who work under Vested Outsourcing partnerships often focus on the higher profit potential of Vested Outsourcing and point to the fact that successfully designed Vested Outsourcing partnerships create happier clients. Because the organizations are working together to achieve their goals, Vested Outsourcing works as a true win-win relationship, which is what partnership is all about.

In our experience, only those organizations that truly challenge the WIIFMe mentality are able to achieve true Vested Outsourcing partnerships that deliver outstanding results. In our opinion, adopting anything less than a WIIFWe philosophy will result in less-than-optimal results.

The Five Rules for Structuring Agreements

Deeply wedded to the WIIFWe philosophy are the following five major rules.



- Outcome-based versus transaction-based business model
- Focuses on the "what" not the "how"
- Clearly defined and measurable desired outcomes
- Pricing model incentives optimized for cost/service tradeoffs
- Insight, versus oversight governance structure

In Vested Outsourcing, the organizations work together on a foundation of trust and with mutual accountability for achieving the outcomes. Through the careful alignment of performance objectives, accountability and control, the service provider, while absorbing additional risk, is empowered to pursue improvements that will deliver improved performance, higher profits and lower total cost of ownership. Vested Outsourcing uses the power of free market innovation to improve the outsourcing relationship. This can be challenging to achieve, but the Vested Outsourcing journey should always strive to arrive at this idealized end state to achieve the performance pyramid where both the company outsourcing and the outsource provider are consistently applying a WIIFWe foundation and applying all five of the Vested Outsourcing rules.

For the service providers, Vested Outsourcing is an opportunity to exercise greater flexibility in deciding how support is provided, to ensure cash flow stability through long-term contracts, and to increase revenue by rewarding the service provider's investment in improving processes. For the company that is outsourcing, it is a chance to obtain improved performance while decreasing costs and assets by partnering with a highly competent and properly motivated firm.

To say that Vested Outsourcing represents a departure from conventional outsourcing practice would be to seriously understate the case. Vested Outsourcing changes the fundamental business constructs of the typical outsourcing approach.

Companies wanting to embark on a Vested Outsourcing partnership will need to understand deeply both the central core of the WIIFWe approach and the five rules. They will need to treat them as rules to live by. In our opinion, a Vested Outsourcing partnership that does not strictly adhere to the entire WIIFWe core and all of the five rules can easily fall victim to one or more of the outsourcing ailments that we have identified in our research. We like to think of a Vested Outsourcing partnership that does not adhere to the rules as a pig with lipstick. You can't simply pretty up something that is essentially ugly!

A Case Study at Microsoft

Microsoft has started down the path of Vested Outsourcing. It has always been an advocate for outsourcing activities that are deemed non-core. In fact, Bill Gates has stated that outsourcing mission-critical work offshore is now a “commonsense proposition.” [4]

One service that Microsoft has long outsourced is its facilities management services. And with more than 100 buildings on five different campuses covering around 10 million square feet, it is a huge cost to maintain them.[5] Microsoft wanted to drive deep cost improvements in facilities management, but it feared that beating-up service providers with regard to price might have a negative effect on the service levels of its service providers. This likely would irritate their employees or even worse, result in safety, security or environmental compliance issues. Microsoft teamed with the facilities management consulting boutique firm Expense Management Solutions, Inc. to create a Vested Outsourcing relationship, which Microsoft referred to as its Third Generation Outsourcing Model. Three key strategies of Microsoft’s outsourcing relationship were transparency of costs, placing a percentage of the supplier’s fee at risk, and creating a shared incentive program for reducing overall costs.

The first element of the strategy was to leverage a cost-plus pricing model (pricing models are described in detail in Chapter 9.) This allowed Microsoft to have transparency on its real costs. Transparency was important because one of Microsoft’s primary desired outcomes was to reduce the total spend on facilities management and the lion’s share of the expense was in the actual costs to maintain the facilities and not in the fees charged by its service provider.

While a cost-plus pricing model helped Microsoft gain cost transparency, it did not encourage its suppliers to reduce costs, especially if there were tough service level standards to meet. In fact, as stated in Chapter 3 of *Vested Outsourcing* a cost-plus pricing model often leads to the *Activity Trap* ailment because the service provider would actually reduce its revenue if it were to reduce costs. Plus providers are sometimes pressured to

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[4] M.M. Sathyanarayan, *Offshore Development: Proven Strategies and Tactics for Success* (Cupertino, CA: Globaldev Publishing, 2003).
[5] Chris Owens and Michele Flynn, “Locking in the Benefits of Outsourcing: Innovation, Cost Reduction, and Continuous Improvement at Microsoft,” *Leader* (September 2005): 2-5.

overstaff in order to ensure that high service levels are consistently met. As such, Microsoft and its suppler - Grubb & Ellis - agreed on two other strategies that would help foster high service levels *and* overall cost reductions while preserving profit margins for Grubb & Ellis.

The second strategy Microsoft and Grubb & Ellis agreed on was to place a portion of Grubb & Ellis' fee for managing the business (their profit) at risk. Under this strategy, Grubb & Ellis would earn its profit margins for achieving specific pre-defined and measurable service levels. For example, if Grubb & Ellis typically had a 10 percent profit margin, the Vested Outsourcing agreement included a reduced margin to manage Microsoft's facilities. Put another way, Grubb & Ellis placed a portion of its margin at risk if it was not able to meet Microsoft's service levels. Microsoft's intention was for Grubb &Ellis to receive 100 percent of the at-risk fee; not obtaining it was seen as an operational shortcoming that needed to be fixed, and not as a saving for Microsoft.

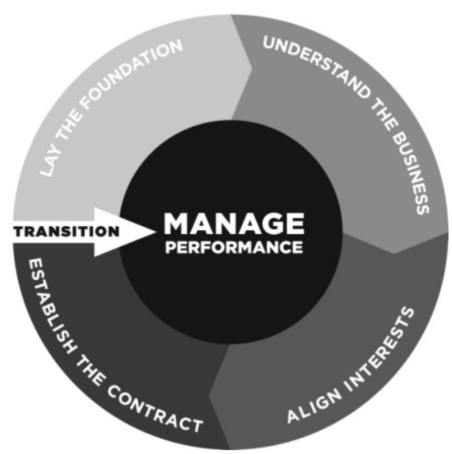
The last strategy implemented was to create a cost-saving incentive for Grubb & Ellis to drive Microsoft's overall costs down. As stated earlier, this cost savings incentive is often referred to as gainsharing. For every $1 in costs Grubb & Ellis was able to help Microsoft save in their facilities management budget, Grubb & Ellis received a portion of the savings. The better Grubb & Ellis was at driving Microsoft's costs down, the more money Grubb & Ellis would make and the less costs Microsoft would have. Grubb & Ellis was actively encouraged and financially motivated to invest its own money in process improvements that would drive down costs for Microsoft.

The result? A Vested Outsourcing relationship that created a true win-win outsourcing relationship that optimized for service-level performance, cost reduction and Grubb & Ellis margin improvements. Over the two years the program was in place, Microsoft and Grubb & Ellis achieved the following results:

- Service level improvements - the gap between Microsoft expectations and supplier performance decreased more than 91 percent
- 22 percent savings based on a cost-plus fee at-risk pricing model
- Nine percent additional savings as a result of the collaborative efforts of each company under the cost sharing provision of the contract.[6]
- In fact, the relationship was so successful that Grubb & Ellis won Microsoft's coveted Supplier of the Year award in 2007 and followed that up by winning Microsoft's Environmental Supplier of the Year award in 2008 for their innovation in environmental sustainability.

Getting Started

If your organization is ready to explore Vested Outsourcing, we recommend using a structured framework to help you transform your existing outsourcing relationship and contract to a more productive performance-based approach. Our research has led to the development of an implementation framework wrapped around the five rules as illustrated in the Vested Outsourcing Implementation Plan diagram in the illustration at right. (Read clockwise starting with "Lay the Foundation.")



[6] Owens and Flynn, 5

Lay the Groundwork

Before you decided to investigate Vested Outsourcing, you should have validated the opportunity. If the intention is to save $1 million dollars over the next three years by outsourcing, is that reasonable given the current spend for this service? What is the current spend? Are there other alternatives to this service that should be considered as a part of the project? There are many questions that need to be considered before proceeding. The answers may not all be available yet, at least not in complete form, but the direction and magnitude should be understood. A high percentage of projects that fail do so as a result of being poorly conceived, or misunderstood by the people executing them.

Understand the Business

An important step in this phase is to establish the baseline. This is essentially the documentation of the "as-is" state of the current program. A good baseline will help the service providers set the foundation for establishing the desired outcomes, the single most important part of any Vested deal. It is also a key input for doing the business case analysis and developing contracts and agreements. A good baseline will provide a solid understanding of improvement opportunities and help to identify what the cost of a program will be – a key for any service provider who is signing up to take risk under a Vested program.

Align Interests

These are really just fancy words for documenting how the outsourcing company and the service provider will work together to achieve the desired outcomes. It is the first pass at the future vision for how the two companies will interface to best achieve results. The current culture within the different organizations will be important, but the teams should be very careful that the "easy path" does not lead straight to the ailments we describe in detail in the book. A measured amount of control must be given to the service provider in order to overcome the inherent risks that come with assuring the desired outcomes.

Establish the Contract

It is also important that the Vested agreement be based around reducing the Total Cost of Ownership versus simply the costs of the transactions performed by the outsource provider. Outsource relationships have interwoven dependencies and proper emphasis needs to be placed on creating an environment that encourages the service provider to work (and push) the company outsourcing to change internal processes if they are inhibiting the success. The pricing model is based on the type of contract (fixed price or cost reimbursement) and the incentives that will be used to reward the outsource provider. In addition, the length of the contract plays important factor because the outsource provider will consider all three elements to determine the price for their services. The agreement should be structured to ensure that the outsource provider truly only assumes risk for decisions that are in the scope of its control. But the agreement should also put pressure on service providers to provide solutions – not just activities. The better the service provider is at solving the company's problem, the more incentives (or profits) the company can make. This encourages outsource providers to develop and institute innovative and cost-effective methods of performing work to drive down total cost while maintaining or improving service.

Manage Performance

You’ve got the contract in place. You are ready to hand over everything to the new partner and walk away! You’re done, right? Wrong! Now is when you understand why we have been insisting that the people who are going to manage this partnership long-term have been part of the team from the beginning. A study[7] conducted by the Outsourcing Center identified the two largest factors in outsourcing failures:

1. The buyer's unclear expectations up front as to its objectives – 23 percent
2. The parties' interests are aligned up front but become misaligned as the buyer's business environment or needs change – 15 percent

We have been heavily focused on the first one so far, but as our buddy Yogi Berra once said, “It ain’t over till it’s over!” The people who will manage this partnership should be part of the team throughout the process in order to acquire the background and knowledge necessary to be successful. We also strongly encourage a change to direct functional communication through the appropriate contacts in both organizations – it is their responsibility to keep the company’s program manager and the supplier’s account manager fully informed. It is essential that the managers hear about problems from their teams first, though. Failure to do so will doom this model.

[7] Kathleen Goolsby & F. Keaton Whitlow, “What Causes Outsourcing Failures?”, *Outsourcing Journal*, August, 2004

Advice for IACCM Members

Many who emphasize the importance of good relationship management are dismissive of the role of contracts, and many who emphasize the importance of a good contract are accused of being dismissive of the needs of the business and its desire to build a good supplier relationship that will drive continuity of supply. Unfortunately, in some cultures, the contract is variously seen as irrelevant, purely a legal instrument, or a Common Law intrusion.

IACCM sympathizes with these perspectives. After all, many companies have flourished without spending time or money on creating contracts. They built and managed satisfactory supplier and customer relationships without the need for lots of legal mumbo-jumbo.
But times have changed; business models are quite different from the way they were 20 or 30 years ago; organizational structures are flatter and leaner; relationships are more global and frequently more volatile; the demands of society, shareholders and regulators have altered. And whether or not members like these changes, the changes are forcing practitioners to adapt the ways we establish and govern trading relationships. Today's contracting and negotiations professionals need to rise the occasion and search out better ways to develop business models and contracts that can address today's complex outsourced contracts.

Much of the complexity businesses face today is due to the fact that today's practitioners are dealing increasingly with the unfamiliar (new markets, new partners, new technologies etc.) and also with a greater speed of change. In combination, these factors create fascinating opportunities for success, but they also represent a source of major risk.
There is no question that the quality of relationships and their management is key to business success. After all, trade depends upon some level of trust and this in turn implies an appropriate relationship.

Today, more than ever, businesses need to take a more formal view of integration between relationship management and contract management. Successful business relationships require clarity, mutual understanding and agreed channels for performance and change management. Whether or not companies choose to think of the capture, communication and recording of commitments and obligations as 'contractual,' the truth is that good business relationships depend upon the disciplines that result from sound contracting practices. The Vested Outsourcing process helps companies follow a structured process and follow clear rules of the game that can help companies not only develop business partnerships but also develop sustainable contracts that support the business partnership.

About the Authors

Kate Vitasek is a nationally recognized innovator in the practice of supply chain management and outsourcing. Vitasek's approaches and insights have been widely published with more than 100 articles in respected academic and trade journals such as the Journal of Business Logistics, Supply Chain Management Review, Harvard Business Review, and Outsourced Logistics.

Vitasek is a faculty member at the University of Tennessee's Center for Executive Education. She's been recognized as a "Woman on the Move in Trade and Transportation" for her leadership in the profession and was recently honored as a "Woman of International Influence" by *Global Executive Women*. She has served on the Board of Directors for the Council of Supply Chain Management Professionals and has been called a "Rainmaker" for her tireless effort in educating the supply chain profession. She can be reached at kvitase@utk.edu

Mike Ledyard has exceptional credentials in business process design and the management of planning, manufacturing, distribution, product development, and engineering in high volume consumer goods and food industries. Mike is a veteran of international sourcing, manufacture and the importation of product and tooling, especially from China and Eastern Asia. He is a skilled communicator, and is able to concisely explain complex supply chain concepts in understandable form to audiences ranging from boardroom executives to shop floor personnel.

Mike was selected as one of the Top 20 Logistics & Supply Chain Executives of 2001-2002. He is also the co-author of the book entitled ***Keeping Score: Measuring the Business Value of Logistics in the Supply Chain***. Mike is also part of the research project for UT on Vested Outsourcing. He can be reached at Mike@VestedOutsourcing.com.

Tim Cummins is the founder and CEO of the International Association for Contract & Commercial Management (IACCM), a non-profit organization that has become the global forum for innovation in trading relationships and practices. IACCM offers cross-industry, cross-functional, multinational insights to the complex world of business and negotiation at a time of unparalleled change. Tim's interest in History, politics and social development are combined with a fascination for communication and writing which enable him to bring helpful insights and ideas on the evolution of business organization, motivation and management to the business community and the IACCM members. He can be reached at tcummins@iaccm.com

Learn More About Vested Outsourcing

THE UNIVERSITY of TENNESSEE UT
Center for Executive Education

Training for Vested Outsourcing is provided by the University of Tennessee's Center for Executive Education. The University of Tennessee offers the following three courses as options to learn about and apply Vested Outsourcing concepts.

A 3 day open enrollment class

This class is held at the University of Tennessee's campus in Knoxville, Tennessee. It is designed as an overview for corporate managers in charge of outsourcing operations and outsourcing professionals at service providers who are trying to move beyond conventional outsourcing approaches. It is ideal for individuals wanting to learn more about how Vested Outsourcing works.

- June 8-10, 2010
- October 26-28, 2010

10 Day Just-in-Time Workshop

The course is offered as a custom course for companies serious about implementing Vested Outsourcing for their organization. In this unique arrangement, University of Tennessee faculty work with a company's team on site with the team members of a real outsourcing project. The training is delivered in 5 two-day sessions that are timed to deliver training at the point in time a company is implementing each phase of the Vested Outsourcing implementation framework. The team consists of both the company that is outsourcing and their service provider(s). **For more information – contact Bric Wheeler 865.974.8759.**

10 Day Vested Certification Program.

The University of Tennessee's Certification Program is a 10-day open enrollment class offered at the University's campus in Knoxville, Tennessee. The program is similar to a Six Sigma Black Belt training program in that involves an extensive educational element coupled with the requirement to complete a project that is signed off by a University faculty member. Each attendee is assigned a Vested faculty mentor to work with the attendee during their project between classes. Attendees may opt to pursue the education-only portion of the training versus completing a project for certification at a reduced rate. The course is held in 5 two-day sessions over a six month period in order to allow attendees to implement projects as part of the coursework. Attendees have up to one year after completing coursework to complete their project and receive their certification.

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