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COLLEGE OF BUSINESS
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From Research to Relevance

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28 Case Studies from Companies Changing the World One Business Relationship at a Time

A Report By: Kate Vitasek

Table of Contents

Executive Summary

Many companies say “strategic” supplier. Unfortunately, while there might be an intent to have a strategic supplier relationship, the execution can fall short.

A case in point is an analysis of a facilities management contract for Fortune 500 company. A review by UT researchers showed many contradictions between the buyer’s “intent” and his or her actions. For example:

- The buyer wanted “innovation” — yet the contract had an 800-page SOW with exacting detail on how the supplier should perform each activity in scope.
- The buyer wanted “outcomes” — yet the contract spelled out over 550 service level agreement (SLA) metrics.
- The buyer outsourced to the expert and wanted more “insight” — yet the buyer retained a large staff to provide “oversight” for managing the supplier.
- The buyer wanted the supplier to have “productivity improvements” — yet its transactional pricing scheme inherently incentivized the supplier to have more transactions. For example, if paid hourly for custodians, what supplier wouldn’t want more custodians?
- The buyer wanted a “partner” — yet the contract had a 60-day “termination for convenience” clause.

These are just a few of the inherent structural flaws UT researchers found as part of a research project funded by the U.S. Air Force. The research led to the book *Vested Outsourcing: Five Rules that Will Transform Outsourcing*, first published in 2010.

When the UT research first came out, many thought it was an intriguing theory, but difficult to put into practice. The critique led to the UT researchers teaming with the International Association for Contract and Commercial Management (IACCM) to write a second book on Vested — *The Vested Outsourcing Manual* — which provides a step-by-step guidebook for how to turn the five rules into a contract.

At time of writing UT faculty members have authored nine books, 23 white papers and published over 300 articles including four in Harvard Business Review.

From Research To Reality: Vested In Action

Every year, the appetite for shifting to a Vested business model increases. What started as a research project has turned into a methodology. UT’s coursework on Vested has expanded significantly – from one course in 2010 to a robust Certified Deal Architect program which offers five certification levels ranging from a Foundation Certificate to a Certified Deal Architect Coach.

Today, the Vested methodology is fast becoming a movement. The Vested library includes 20 formal case studies which tells the stories of 36 organizations making the shift to a Vested business model. Another 32 organizations have been open/public about their success.

Companies from virtually every industry are making the shift, applying Vested to spend categories as facilities management, reverse logistics, third-party logistics, environmental services, fiber optic network management, labor services and IT/BPO outsourcing. And companies are beginning to apply Vested in strategic direct spend categories; for example, Danfoss, a Nordborg, Denmark-based manufacturer of heating and cooling products, created a Vested agreement with NuTech, a manufacturer of high-precision compressor housings and related machined parts.

Just what is the adoption?

As of 2023, **571** companies have:

- Sent **over 10,000** people to our courses (**4341** to one or more paid courses and over **6100** to our free courses)
- completed **134** initiatives
- completed **193** CaT's
- produced **20** formal case studies from **36 organizations** with another **32** other organizations being open/public about their success
- created **151** Certified Deal Architects around the world

More Than Just Vested

Throughout the years, UT's research has also expanded.

- Two faculty put the concept of formal relational contracts on the map with Harvard University's Oliver Hart – a Nobel Laureate in Economic Sciences for his work on Contract Theory. The work led to the book *Contracting the New Economy: Using Relational Contracts to Boost Trust and Collaboration in Strategic Business Relationships*
- Three faculty put the concept of sourcing business model theory on the map with their pioneering book *Strategic Sourcing in the New Economy: Harnessing the Potential of Sourcing Business Models for Modern Procurement*.
- UT faculty teamed with Dr. Karl Manrodt and Dr. Jerry Ledlow to develop a Compatibility and Trust Assessment to quantifiably measure trust and cultural fit in trading partner relationships (featured in Harvard Business Review)
- UT faculty teamed with thought leading procurement practitioners to create the Request for Partner process – enabling organizations to get to a Vested agreement using a highly collaborative bid process.
- UT's researchers have been lauded for their researching conflict prevention techniques such as the Standing Neutral concept.

Unpacking This White Paper

This white paper seeks to share some of the UT's research's favorite case studies from those applying Vested – including sharing how organizations are exploring using the Vested and Getting-to-We relational contracting methodologies and tools in multi-supplier environments to address the growing need to manage an ecosystem of partners.

However, this paper seeks to go beyond sharing the successes of Vested by sharing examples of how organizations are using many of the other Vested tools and resources such as Deal Reviews, Relational Contracting, and Standing Neutrals.

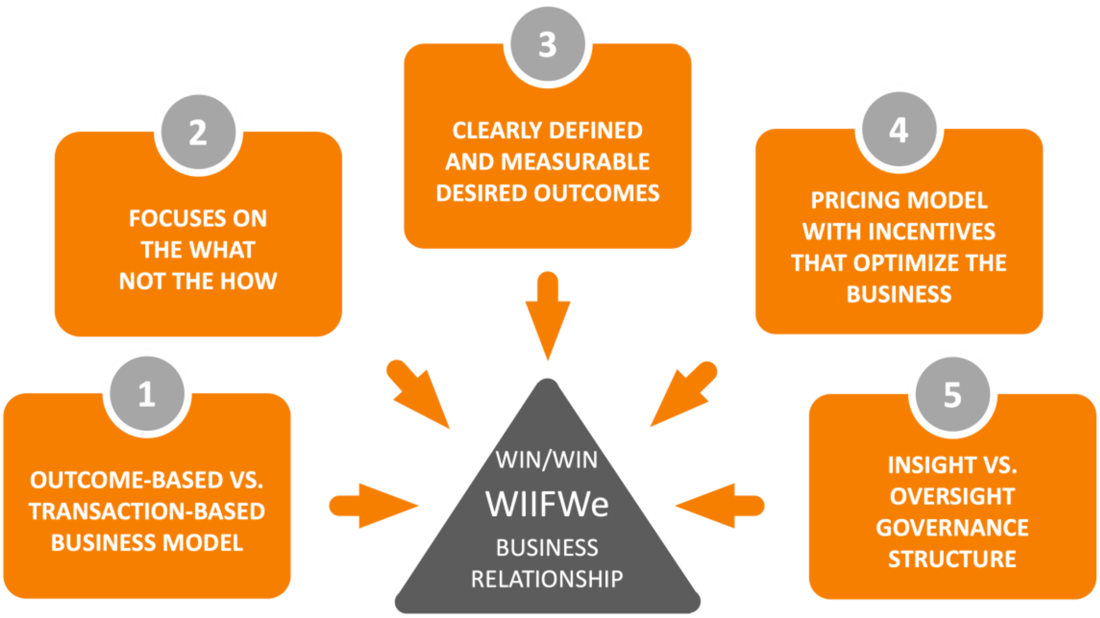
The white paper is divided into seven sections which profile 15 one-page case studies from real companies making the shift to Vested, and another 16 case studies that highlight how organizations who might not be ready for Vested are using the pioneering tools and resources from UT.

- *Vested Agreements* (includes 15 case studies)
- *Relational Contracting* (includes 4 case studies)
- *Vested and Relational Contracting in a Multi-Supplier Environment* (includes 3 case studies)
- *Deal Reviews* (includes 2 case studies)
- *Request for Partner Process* (includes 3 case studies)
- *Compatibility and Trust Assessment* (includes 2 case studies)
- *Standing Neutral* (includes 2 case studies)

We hope the white paper and the case studies will inspire you to learn more about UT's research, courses and tools that are available to help you improve your own strategic business relationships.

Vested Agreements

The Vested methodology replaces a transactional “buy-sell” relationship with a highly collaborative relational contract using an outcome-based economic model. Business partners create a genuine win-win partnership to navigate the dynamic nature of business and drive innovation. But how do you go beyond simply saying strategic partnership to becoming true win-win strategic partners? By architecting your agreement based on the five simple rules below.



Source: Vested®

The Five Rules are supported by 10 contractual Elements that work together to form a win-win business model to help outsourcing partners focus on creating and sharing value. Rules 1 through 4 create the fundamental rules of the contract by establishing the Desired Outcomes, scope, metrics and economics of the partnership. Rule 5 establishes how the parties will govern the relationship. Combined, the Vested Five Rules help refocus business partnerships from a “what’s-in-it-for-Me (WIIFMe) transactional approach to a highly collaborative “what’s-in-it-for-We” (WIIFWe) Vested business model that promotes (and rewards) the parties when they collaborate.

The following pages provide a sample of 15 one-page case studies profiling companies that are using a Vested business model to create a highly collaborative win-win business relationship.

bp – JLL

Since its inception in 1908 the bp story has always been about transitions. bp's purpose is reimagining energy with a big hairy audacious goal to help the world reach net zero emissions by 2050 and improve people's lives. bp plans to get there by dramatically reducing carbon in bp's operations and production facilities and by growing new low-carbon businesses, products and services.

Jones Lang LaSalle (JLL) is a world leader in real estate and facility management services with roots back to 1783. Like bp, the ability to effectively transform throughout the years has been a cornerstone of its success. JLL's purpose is to "shape the future of real estate for a better world." Today, JLL's operations span 91 countries where they manage over 4.6B square feet of owned property and an additional 1B in leased facilities.

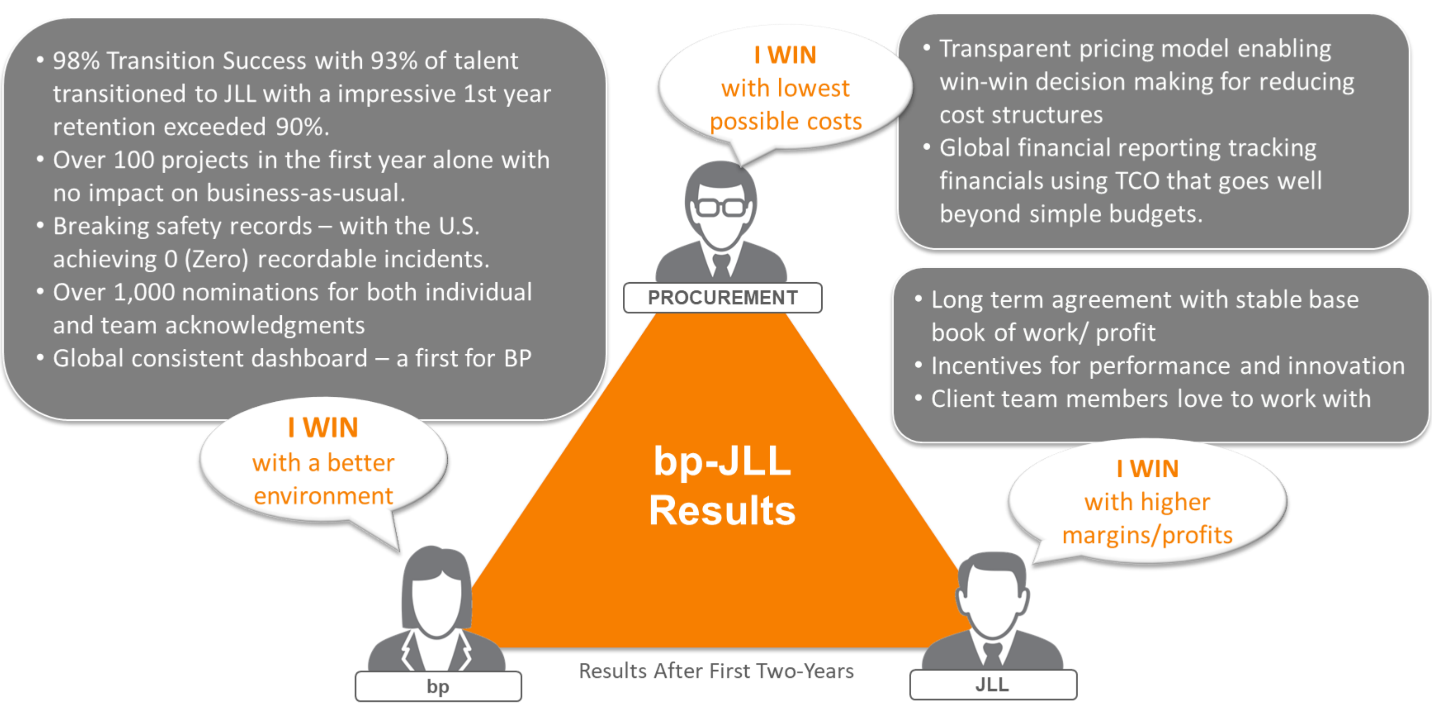
The transformation of bp's facilities and real estate contracts began when Wendy Cuthbert – bp Global Head of Workplace Solutions – joined bp in the fall of 2019. bp's total facilities management portfolio includes over 130 locations in 20 countries. In 2019 they had four "primary" suppliers operating around the world with one working under a performance-based agreement and the others being transactional.

After joining bp, Wendy encouraged bp's RE/FM leaders to explore the University of Tennessee's (UT) Vested methodology. bp engaged UT to host three regional workshops where key bp real estate and facilities management team members could do a deeper dive on Vested.

Wendy explains the impact of the workshops: "The workshops helped team members take the Vested theory and see how it could work with what bp wanted to do. I remember the team had to complete some self-assessments. We scored ourselves against the '12 Ailments of Outsourcing' as well as how well our contracts followed the Vested Five Rules. The team would see the gaps and use the workshop time to understand how the Vested methodology could help bp close the gaps."

In the spring of 2020, bp made the strategic decision to create a Vested agreement and ultimately sought the best supplier from the three down-selected candidates. JLL was ultimately selected as the partner of choice the first week of June 2020 with the goal to work with bp to reimagine workplace solutions across the globe. They signed their Vested agreement in November 2021 – the first Vested agreement for bp and the third for JLL.

To view the complete Case Study, please click this link.



Telenet – Solutions 30

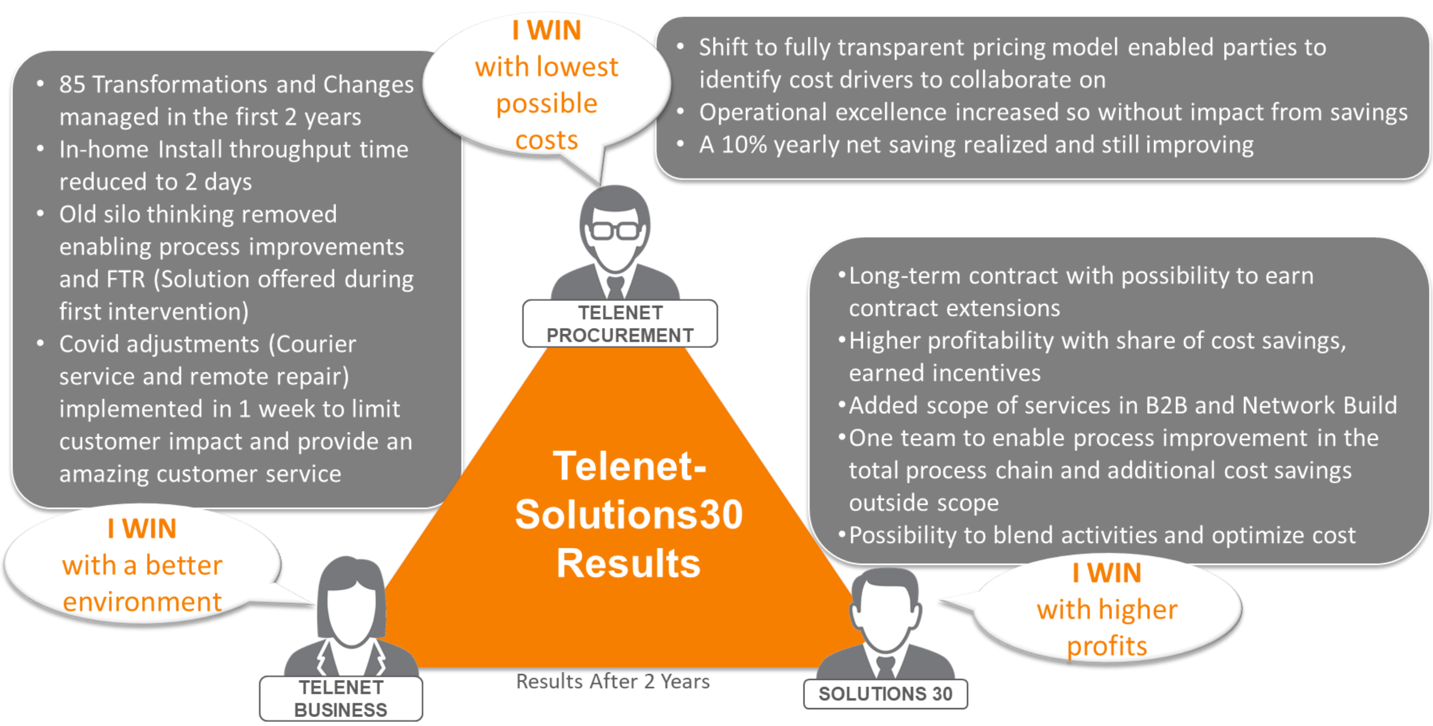
In 2016 Telenet – Belgium's second largest telco provider – found itself in a fast-changing Telecom world. Senior executives chartered a task force to embark on a six-month effort to review the changing landscape of how increased commoditization and digitization would impact how Telenet operated. This strategic review also included assessing core competencies and determining what areas to consider for more strategic outsourcing.

One area that came under scrutiny was how Telenet approached its network operations. Micha Berger, CTO of Telenet, clearly remembers the dilemma. "Field Services was considered a valuable asset for Telenet, but Telenet did not have the flexibility or company culture to grow this part of the business or to provide technicians the opportunity to expand their careers." After the six months of soul searching one thing was clear: doing business the way it had always been done would no longer work. Telenet would need to transform and change how it worked so they could fund the additional investments needed to continue to lead the market and fuel its cycle of sustainable growth.

By the end of 2016, Telenet executives decided to go to market with a tender process to find a strategic partner that could help them transform their network operations. What started with a tender process with 14 potential suppliers ended in December 2017 with Telenet formally selecting Solutions 30 as their partner of choice with the goal to create a Vested agreement. The parties signed Belgium's first Vested outsourcing agreement in July 2018.

By the end of 2021 Telenet and Solutions 30 had been working under a Vested model for just over three years with significant success. John Porter, the CEO of Telenet, is glad the parties took a path to a Vested partnership: "Putting together the partnership with Solutions 30 in 2018 is one of the best things we have done. The partnership enables Telenet to accelerate the delivery of differentiated customer value propositions and an outstanding user experience." The below "performance pyramid" shares some high-level results.

To view the complete Case Study, please click this link.



Healthcare – Facilities Management

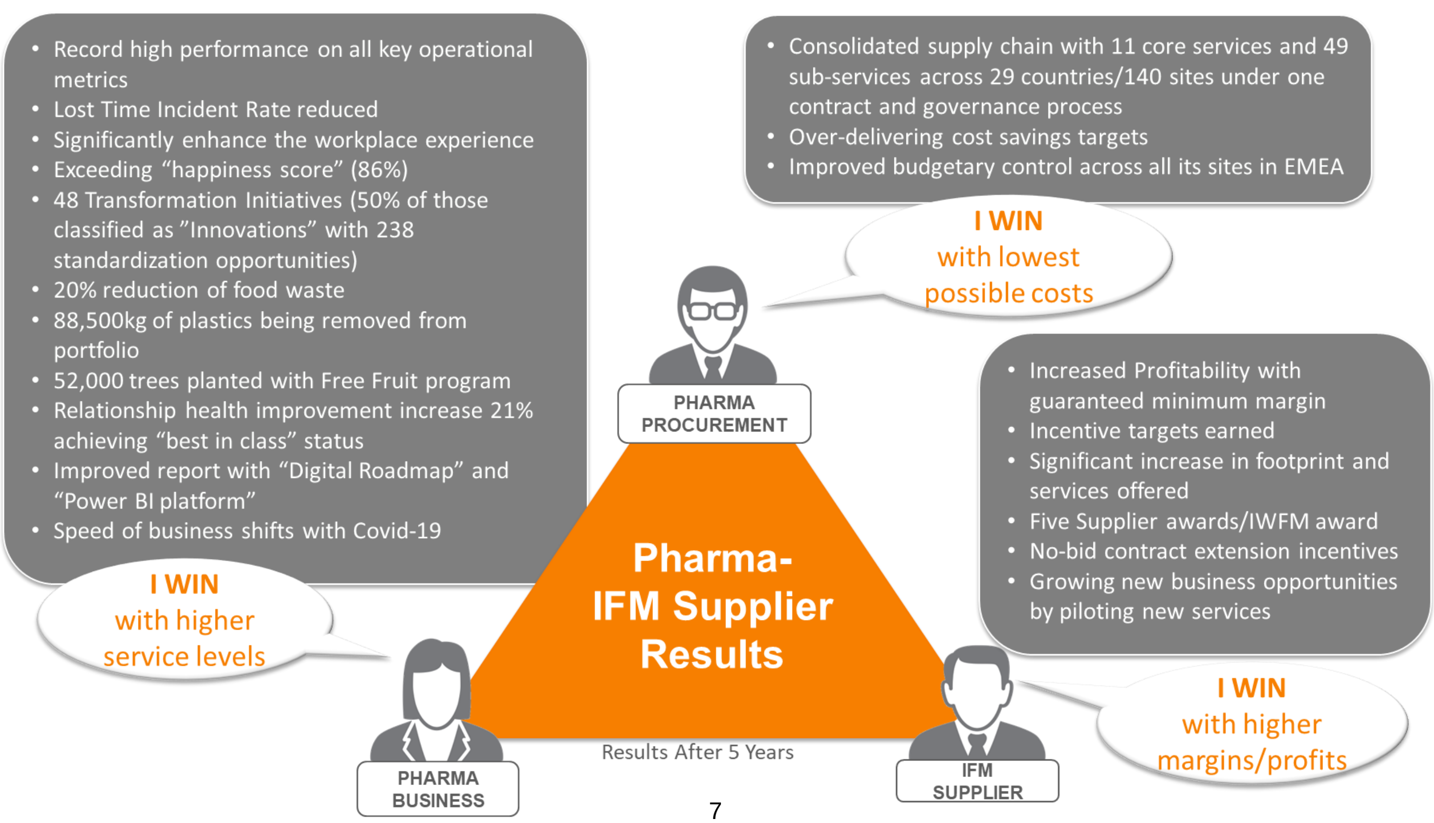
The buying company (HealthcareCo) is one of the world's largest and most broadly based healthcare companies with products spanning both pharmaceutical and consumer products. The service provider (Supplier) is a global leader in quality-of-life services and is considered one of the top 25 employers in the world. Their relationship spans more than 25 years.

In 2013, the HealthcareCo set out to create a more "strategic" approach, by shifting to an integrated facilities management (IFM) solution. It expanded locations across ten countries in the Europe, Middle East and Africa (EMEA) region, including the United Kingdom, Italy, Germany and Belgium. From a commercial perspective, the parties shifted risk to the Supplier for performance against pre-defined service level agreements (SLAs) at a set budget, and signed a GMP (gross maximum price) performance-based pricing model.

In the spring of 2015, with the current contract nearing its expiration date, HealthcareCo began to consider how it could further mature its outsourcing efforts and was in the process of creating a Request for Proposal to go back to the market. It was during this period that HealthcareCo stumbled across the work of the University of Tennessee on the Vested business model. The parties engaged a Vested Center of Excellence to conduct a Deal Review to see if restructuring their existing agreement to a win-win Vested business model could unleash the desired innovation HealthcareCo was seeking.

The Deal Review was a turning point for both parties. It was clear the business model was ripe for reinvention. Ultimately, for the next nine months, the parties set out to totally restructure their relationship and contract, using the UT's Vested methodology. The companies worked with a Vested Center of Excellence to provide coaching and legal support during their Vested journey to transform their partnership. After a series of 20 facilitated workshops HealthcareCo and Supplier signed Europe's first Vested Agreement for Integrated Facilities Management (IFM) in February 2017. The contract spanned 153 sites in 29 countries across EMEA, and included 11 core services and 49 sub-services. It involved 2000 Supplier employees supporting 44,000 Buyer employees in 32 languages.

By 2020 the parties had a complete turnaround in the health of the relationship, with a formal Health Check rating score increasing from only 58% in 2016 to over 90% after making the shift under the Vested agreement.



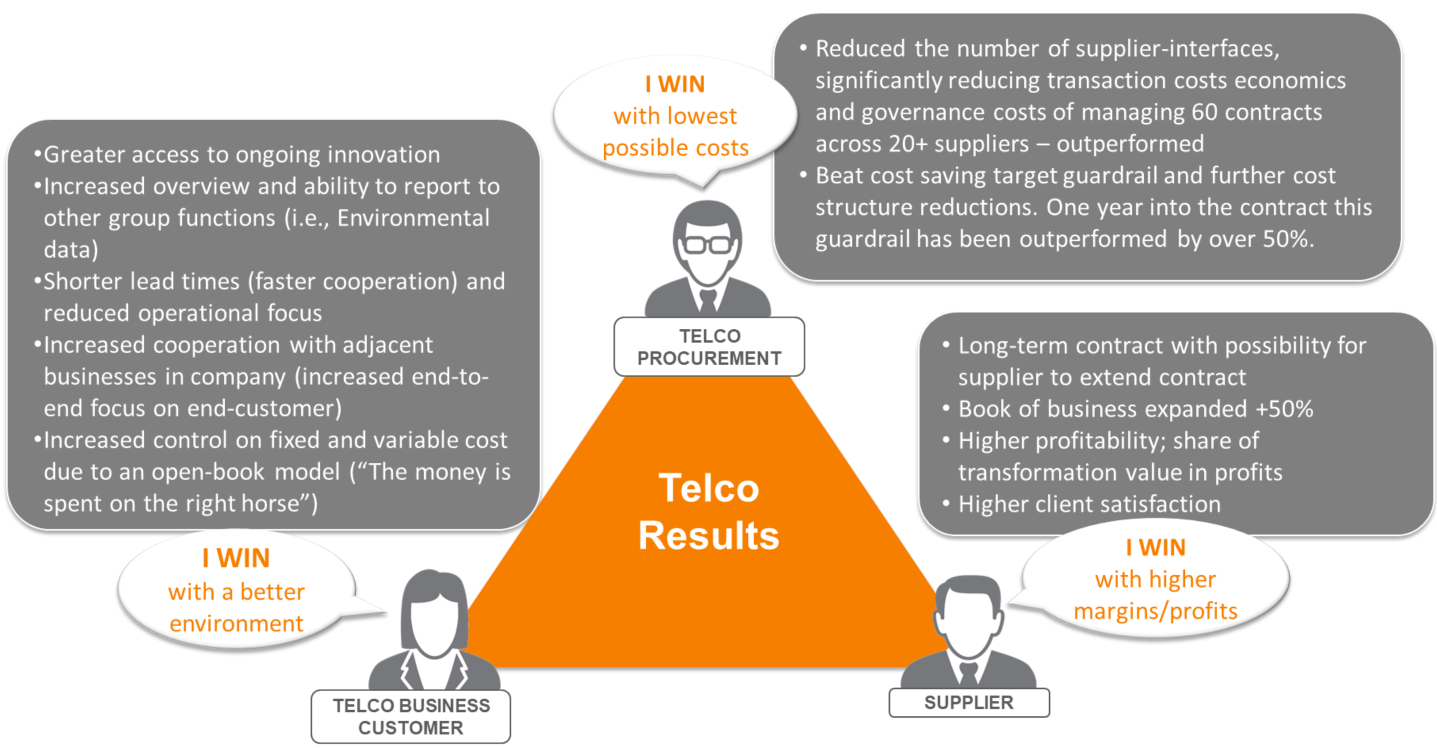
Telecommunications – Technical Maintenance

The buying company is a key leader in telecommunications in Europe (referred to TelCo). TelCo began their Vested journey like most organizations: wanting to understand if making the shift to a highly collaborative Vested relationship is worth the effort. Today TelCo has five Vested agreements.

TelCo's Vested initiative started as a pilot to see if the Vested model could work to streamline the maintenance for its thousands of technical sites including cell towers. TelCo kicked off the Vested journey by having EY, a Vested Center of Excellence, conduct a six-week "pre-study" that included over 20 different functions within TelCo. The pre-study revealed several key things. First TelCo's numerous contracts were rooted in transaction-based models, which created a misalignment of goals. TelCo had "stiff contracts" that were not flexible in allowing suppliers to optimize maintenance operations.

TelCo's leadership team decided to formally approve the pilot. The Vested journey – facilitated by EY and Cirio law firm – included 17 highly interactive workshops where TelCo and their supplier co-created how they would follow the Vested Five Rules. The process took eight months (including vacation breaks). TelCo inked their Vested agreement in April 2017.

Under the Vested agreement the supplier is rewarded for making investments in the relationship that help TelCo and the supplier achieve mutually defined Desired Outcomes. A supplier executive commented: "Under the pricing model, we make less profit on base services. However, we have the potential to earn above market profit margins on our project/transformation initiatives. Shifting to Vested means we (both TelCo and the supplier) now look at the financials across the whole portfolio of business together and not just the price of individual projects or services. We are now making much smarter and collaborative business decisions that ultimately motivate TelCo to make investments that will have a high ROI for both parties."



Discovery Health

The healthcare market in South Africa – like most countries – is dynamic and evolving. Discovery Health launched what would become one of the most progressive insurance platforms for individuals and employers to fund medical treatment (called a Medical Scheme in South Africa). In 1998 South Africa passed the Medical Schemes Act to regulate the industry. The Act required medical schemes to become non-profit entities governed by an independent board of trustees. To comply with the Act, Discovery Health split into two entities: The Discovery Health Medical Scheme (the Scheme) and Discovery Health (Pty) Limited (DH), a medical scheme administrator. The Scheme ultimately contracted with DH to provide administration and managed care services as an outsourced service provider.

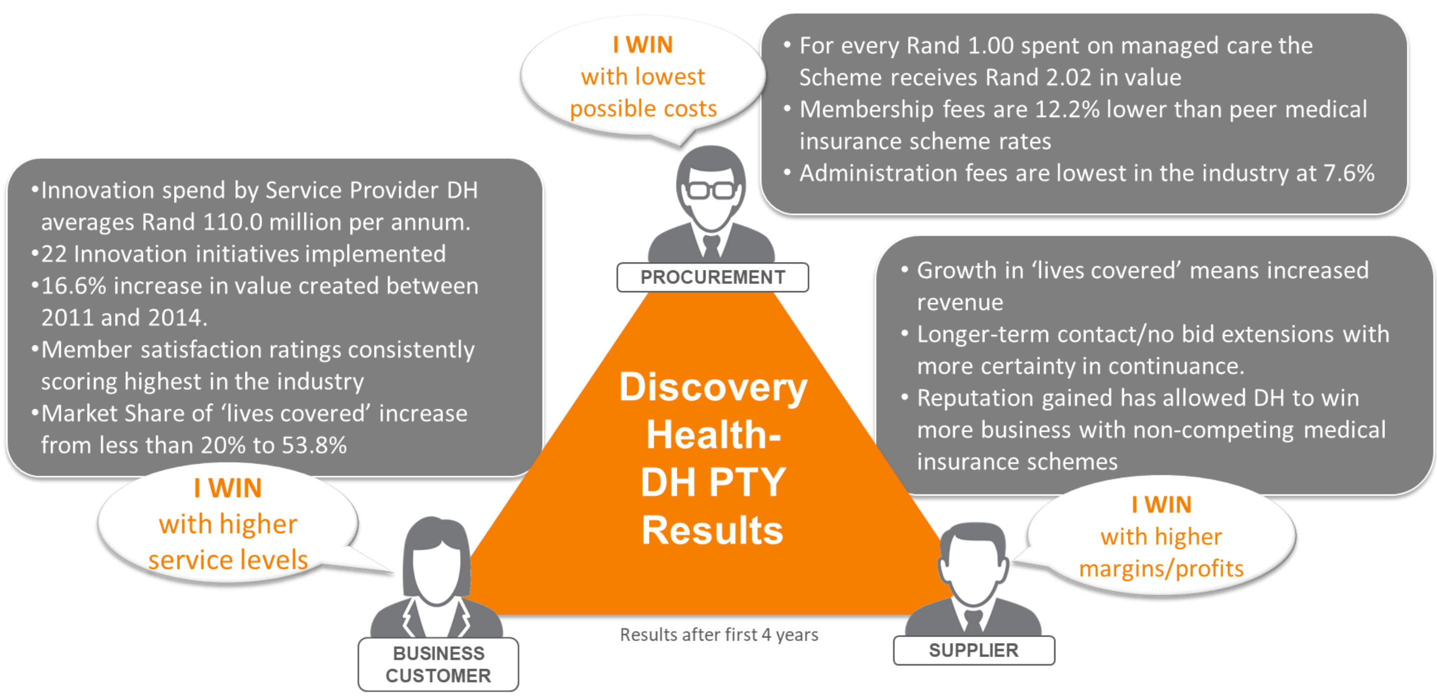
When Milton Streak joined the Scheme in 2009 as the Principal Officer, he immediately realized the strong collaboration between the Scheme and DH was as a source of the Scheme's competitive advantage. There was no doubt the Scheme had an excellent working relationship with Discovery Health. As the Principal Officer, Milton Streak knew the Scheme would need to dig deeper into best practices for outsourced contracts. His research led him to the University of Tennessee's research on Vested outsourcing for creating highly collaborative win-win relationships.

In 2015, the Scheme's Board of Directors commissioned a formal review of the relationship and contract, engaging Dr. Andrew Downard. The report was very positive; indeed, the Scheme and DH had set up an excellent outsourcing contract producing solid results – with one caveat: the parties failed to incorporate the very successful relational aspects into their contract – a hallmark of a true Vested relationship.

The review triggered the Scheme and DH to restructure their existing contract to include the formal aspects of a relational contract, incorporating the intent and collaborative governance mechanisms. The impact was taking an already good relationship to a great relationship. The journey to a Vested agreement required documenting the overall intent of the relationship, incorporating the softer aspects of the relationship that were a genuine source of success, and creating formal governance mechanisms to keep the parties aligned over time.

The results were exceptional. Under the leadership of Streak and his counterpart at DH – Dr. Jonny Broomberg, DH's CEO – the duo grew the Scheme to South Africa's largest open medical scheme, documenting dozens of innovations, and leading to lower costs and improved services and product offerings.

To view the complete Case Study, please click this link.



Island Health – Hospitalists

Canada's Vancouver Island Health Authority (Island Health) provides health care services through a network of hospitals, clinics, health units, community-based services, home support, and residential care centers for over 767,000 people throughout Vancouver Island and surrounding areas. Island Health pioneered in developing a Hospitalist service in British Columbia in 2000, establishing a small group of Hospitalists to work at two hospitals. However, enthusiasm for the practice waned each time the Island Health Administrators and the Hospitalists met to renew their contract.

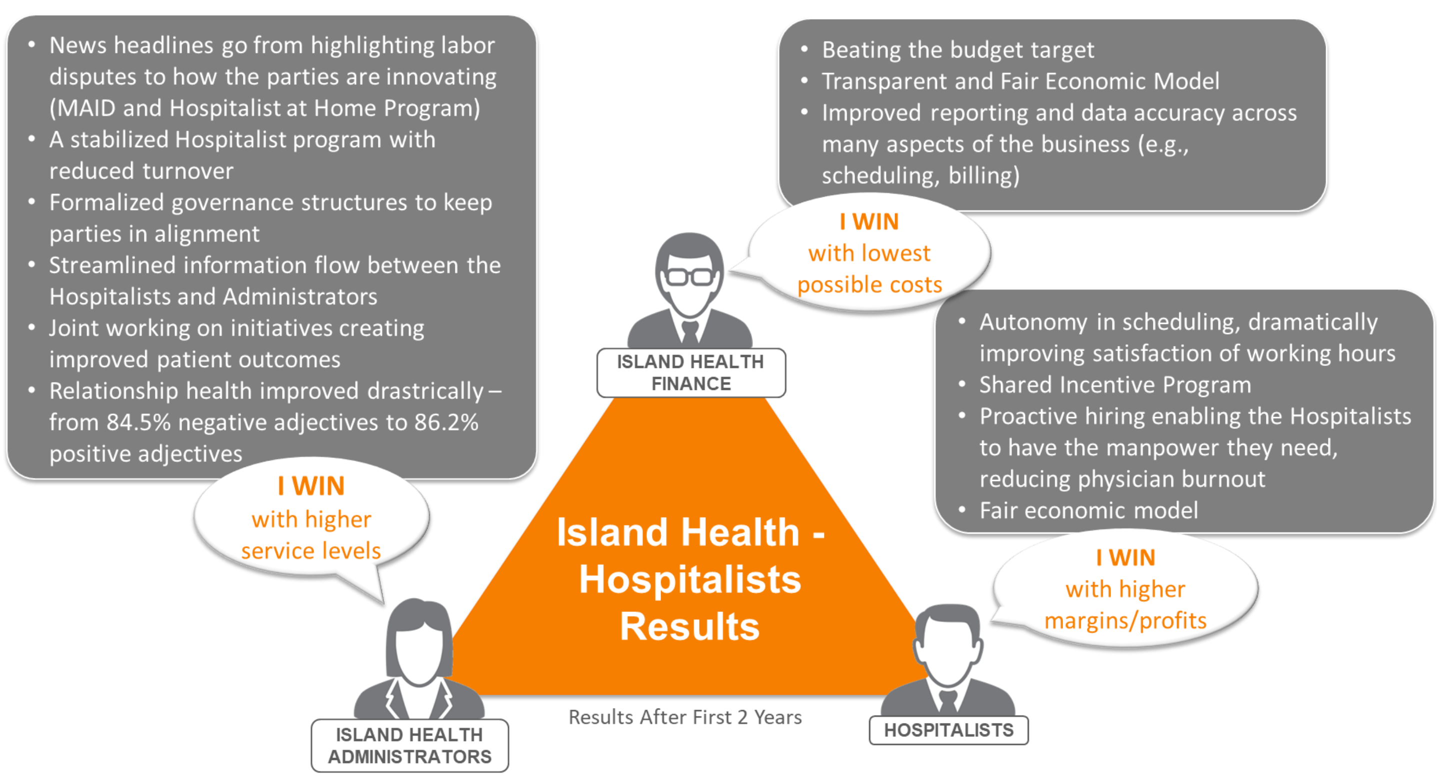
Between 2000 and 2014 Island Health and the Hospitalists had gone through contentious contract negotiations four times. When their fourth contract expired on June 30, 2014, neither side was optimistic about how negotiations would proceed. Both parties recognized the critical need to build a new relationship and made changes in personnel in the fall of 2015 to get the relationship back on track. But the relationship was so broken that contract negotiations went into a standstill; neither side knew how to proceed. Simply put, both sides were stuck.

Kim Kerrone, Island Heath's Vice-President, Chief Financial Officer, Legal Services & Risk attended a presentation on the Vested business model and thought "Could Vested be applied to the Island Health and Hospitalists' relationship to get them unstuck?"

Kerrone went back to Island Health Administrators and Hospitalists and recommended they look into the Vested collaborative model. Both parties agreed to send key leaders and stakeholders, including 12 Island Health Administrators and nine Hospitalists, to a three-day "Alignment Workshop" on May 30, 2016 to explore if Vested would be a good fit for their relationship and to align on a Statement of Intent for the relationship. The workshop was a turning point for the parties – with the decision to use the Vested methodology to help them shift from an arms-length transactional agreement to a highly collaborative and transparent Vested agreement.

The results were nothing short of a stunning turnaround in the health of the relationship.

To view the complete Case Study, please click this link.



Dell – FedEx Supply Chain (formerly GENCO)

Dell's story began with a belief and a passion: that everybody should have easy access to the best technology anywhere in the world. That was in 1984 in Michael Dell's University of Texas dorm room. Today, Dell Technologies is instrumental in changing the digital landscape the world over. Dell is among the world's leading technology companies helping to transform people's lives with extraordinary capabilities.

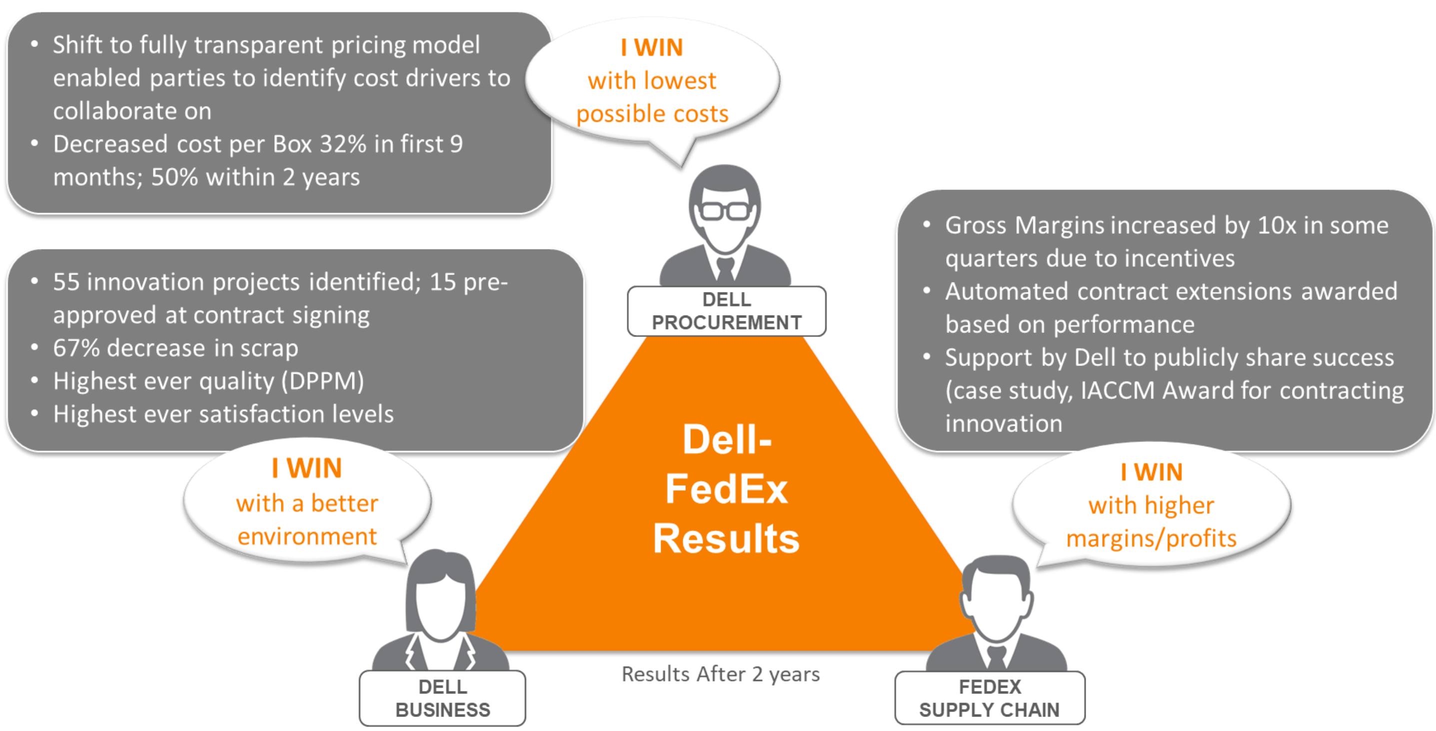
GENCO (now part of FedEx Supply Chain Services) was considered a pioneer and market leader in reverse logistics, providing triage, test and repair, remarketing and product liquidation solutions. GENCO offered a complete range of product lifecycle logistics® services to customers in the technology, consumer, industrial, retail, and healthcare markets.

In 2007 Dell participated in UT's research on Vested outsourcing. In 2010, Dell sent two senior managers to UT's inaugural Vested Outsourcing Executive Education class. Dell was intrigued and decided to approach GENCO about the possibility to shift to a Vested sourcing business model. The companies met at a neutral offsite location in June 2011 in Fort Worth, Texas, to have candid discussions about each party's commitment to convert its contract to a Vested approach.

Dell and GENCO ultimately agreed to move forward with the goal to create a new Vested agreement with a commitment to include a new attitude and approach toward risk and reward sharing. In 2011 they moved forward to convert their existing strategic supplier to a Vested business model – using UT's Vested courseware combined with support from a Vested Center of Excellence.

A small joint Dell-GENCO team "Core Team" set out to create the Vested agreement, transforming the relationship from a transaction-based contract to a win-win Vested business model. The parties crafted their Vested agreement in four months and the results were spectacular. Stephen McPherson, Dell Global Operations Leader, who works side by side with GENCO in its Nashville operations center explains. "The results have been beyond my wildest dreams. It has simply been amazing to see how we could literally turn around the culture and see such drastic results in such a short time frame."

To view the complete Case Study, please click this link.



Intel – DHL (Inbound Logistics – Costa Rica)

Intel historically uses a well-crafted and resourced Supplier Development Program (SDP) for managing supply for its logistics operations. The SDP program ensures there are at least three capable, competitive suppliers for all segments of Intel's business.

Intel and one of its logistics suppliers – DHL – had talked about more progressive approaches for their logistics supply chain. But the talk was resulting in very little action, frustrating executives from both companies. Weary of discourse, everyone agreed, "We have talked for multiple years. Let's stop talking, and start doing."

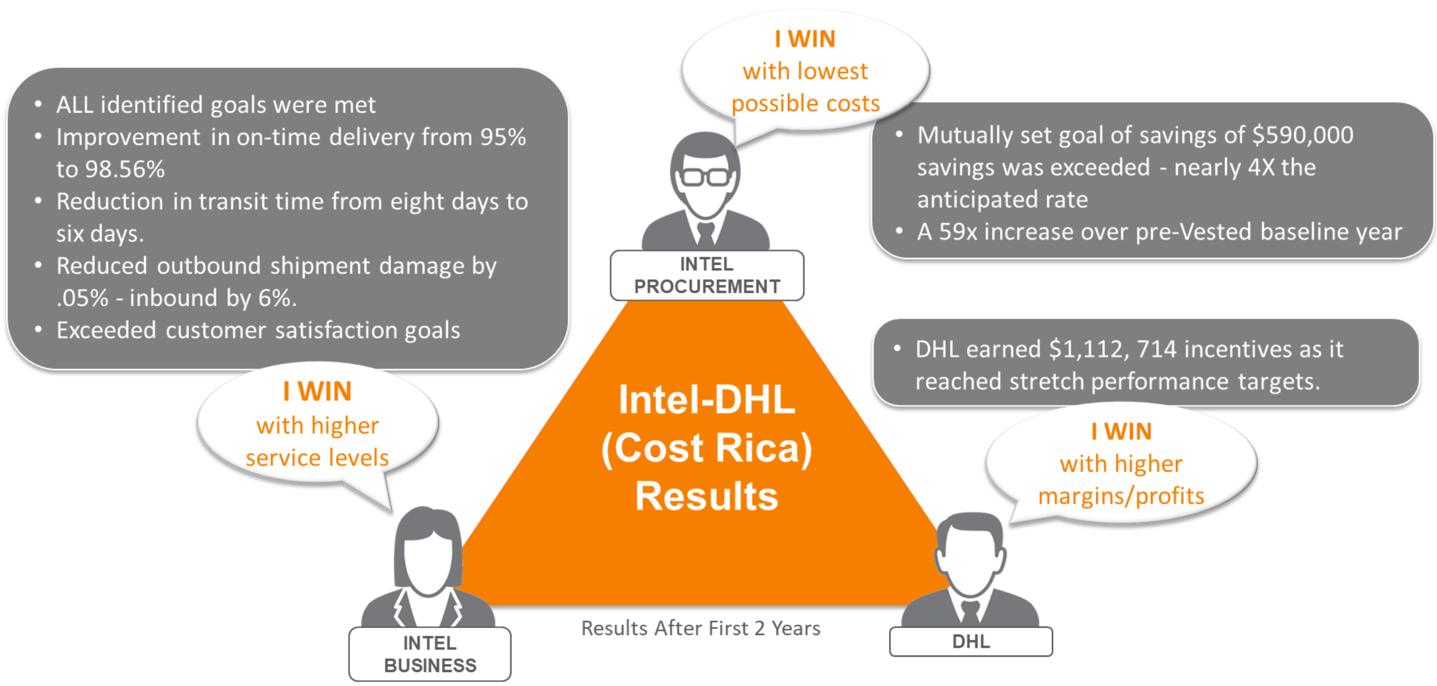
The doing? Making a shift from a conventional transactional business model to a highly collaborative win-win Vested business model. The decision? Kickstart a Vested pilot – a first for both Intel and DHL. The parties set out to create a Vested agreement in Costa Rica for inbound logistics services.

The team turned to the University of Tennessee's ***Creating a Vested Agreement*** course and coaching support to help them make the shift. Within one year of implementation, Intel and DHL approached one another with an entirely new mindset. Within that same year, aspirational goals were surpassed, bringing exponentially greater profit to the companies' bottom lines.

Intel's Todd Shire reflects on the Vested journey. "What started as a simple pilot became a radically altered mindset that brought game theory to life," says Shire. "Skeptics became champions. Cultural tensions diminished. Trust grew."

Shire sums up the duo's success: "Intel's costs went down and DHL's margins went up – a true win-win. Also, the health of our relationship has improved dramatically. We have found that being Vested is much more enriching than the traditional buyer-supplier relationship. And what is most surprising is that opportunities always seem to come from unexpected places. Vested has helped us find these 'Ponies' and monetize them into true value for both Intel and DHL."

To view the complete Case Study, please click this link.



Intel – DHL (Reverse Logistics – Netherlands)

Global reverse logistics (GRL) is a department within Intel (Ireland), whose role is to provide warranty services to Intel's direct and indirect customers within Europe, the Middle East and Africa (EMEA). The returned products are recovered where possible and failure data provided to Intel to support product improvements.

GRL utilizes DHL as its service provider, to manage an integrated Reverse Logistics network comprising a central depot, four satellite depots, technical screening and multiple freight networks supporting in/outbound freight to customers, repair and international replenishment shipments to Asia and the United States. GRL's inventory is characterized by a high number of stocking units (SKU), diverse product range and a mix of fast and slow-moving goods.

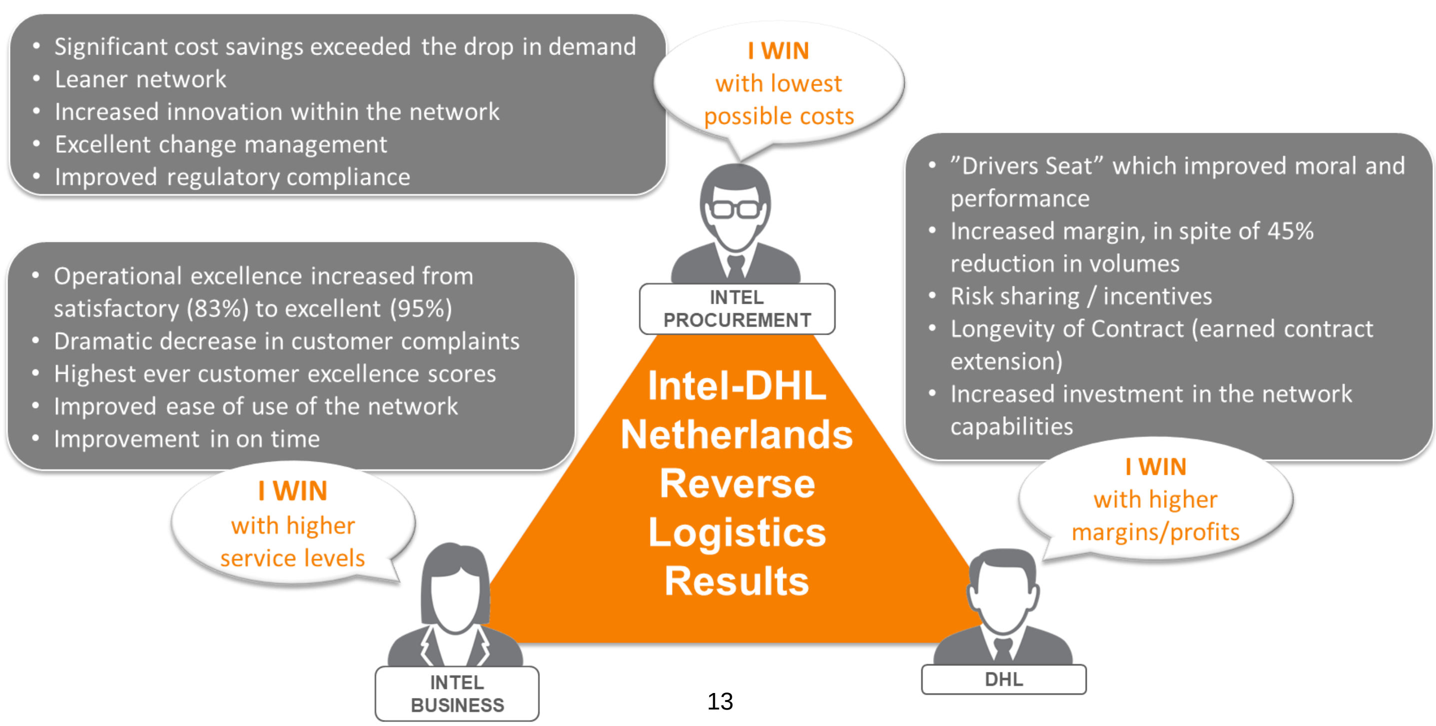
After the success they were having in Costa Rica, the Vested Sourcing Business Model appeared to be a viable option for moving forward to address the challenges that stood in front of the parties.

- Adjusting to reduced volume: How can Intel realize the benefit from a significant drop in return volume and DHLSC reduce its cost base but still meet the evolving requirements of its customer in a commercially feasible and sustainable manner?
- Operational excellence: How does Intel ensure that customer service does not suffer during the divestment of the desktop board business?
- Change management: How do Intel and DHLSC proactively manage change and ensure they control the events rather than the other way around?
- Transformation: How do Intel and DHLSC develop capabilities to address the technical, compliance and logistical challenges created by the new Intel business plan?

Doing things differently requires the courage to challenge the status quo. And a belief the end result is worth the change efforts. John Hayes, Intel Business Process Dev Mgr., reflects back on lessons learned throughout the journey. "One of the lessons was that there is real economic value in Vested. It's not just a 'share the love' philosophy, but a very pragmatic and systemized structure for achieving transformational goals."

A second lesson learned was in how to "let go." One common fear most organizations have when making the shift to Vested is a concern about losing control, especially as buying teams learn to *Focus on the What, Not the How* and on an *Insight vs Oversight Governance Structure*. Intel was no different.

To view the complete Case Study, please click [this link].



Microsoft – Accenture "OneFinance"

In 2006, Microsoft embarked on a complete reengineering of its major global finance processes and operations. Called the OneFinance initiative, the effort outsourced back-office finance transactions spread across 95 countries to Accenture under a new kind of outsourcing agreement. Under the agreement, both parties are incented to improve performance and deliver increased value year-over-year and share in the risks and rewards of doing so. This innovative outsourcing relationship symbiotically vests Microsoft and Accenture in each other's success. They are most successful when they are both successful.

In February 2007, Microsoft signed an outsourcing agreement with Accenture, with an original contract term of seven years at a value of $185 million. The contract spanned their entire back-office finance processes spanning three major areas:

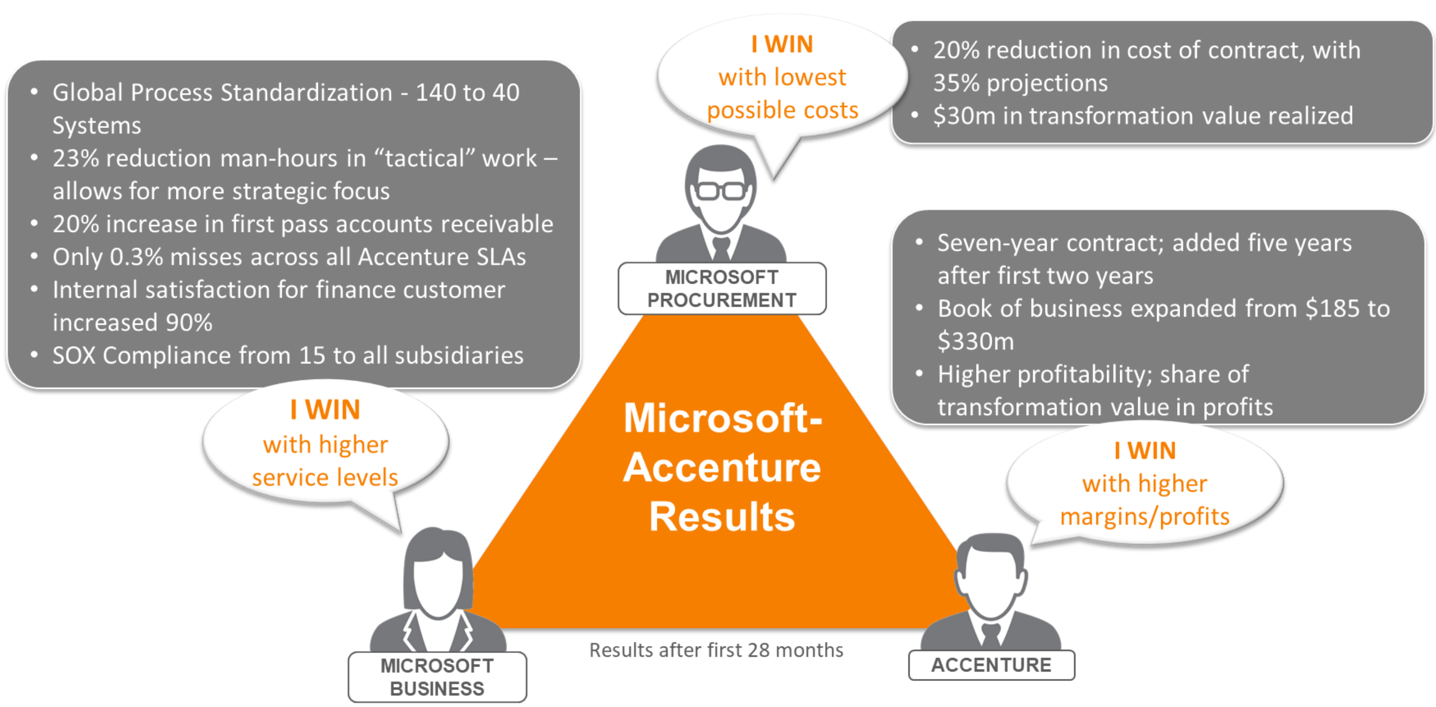
- AP - Expense reports & invoices
- Requisition to Purchase Order process
- General accounting

The Desired Outcomes for the partnership were as follows:

- Global Process Standardization Moving Forward
- Optimizing Resources
- Improve Service Levels to Employees, Partners and Clients
- Improve Sarbanes Oxley (SOX) Compliance
- Total Costs Reduction for Microsoft
- Increased Business and Profitability for Accenture

Twenty-eight months later, based on a proven platform of success, they extended the agreement to 2018, at a total contract value of $278 million. In the summer of 2009, the scope of the contract was expanded to include Accounts Payable and Buy Center processes for the United States, increasing the contract value to $330 million. Also, Accenture can work on transformational projects with Microsoft, thereby adding value for both parties.

To view the complete Case Study, please click this link.



P&G – Jones Lang LaSalle

In 2000, A.G. Lafley took the helm as P&G's CEO to help lead the organization into the 21st century. Innovation became a hallmark under A.G. Lafley's leadership. Lafley bet looking beyond P&G walls could produce highly profitable innovations that would drive value for both P&G and the parties bringing innovation to P&G. The thinking required rejection of "not invented here" to enthusiasm for those ideas "proudly found elsewhere." By 2003, P&G extended this thinking to how they worked with suppliers, believing that by working with world class outsource service providers it could drive costs lower and ensure service offerings remained on the leading edge of best practice.

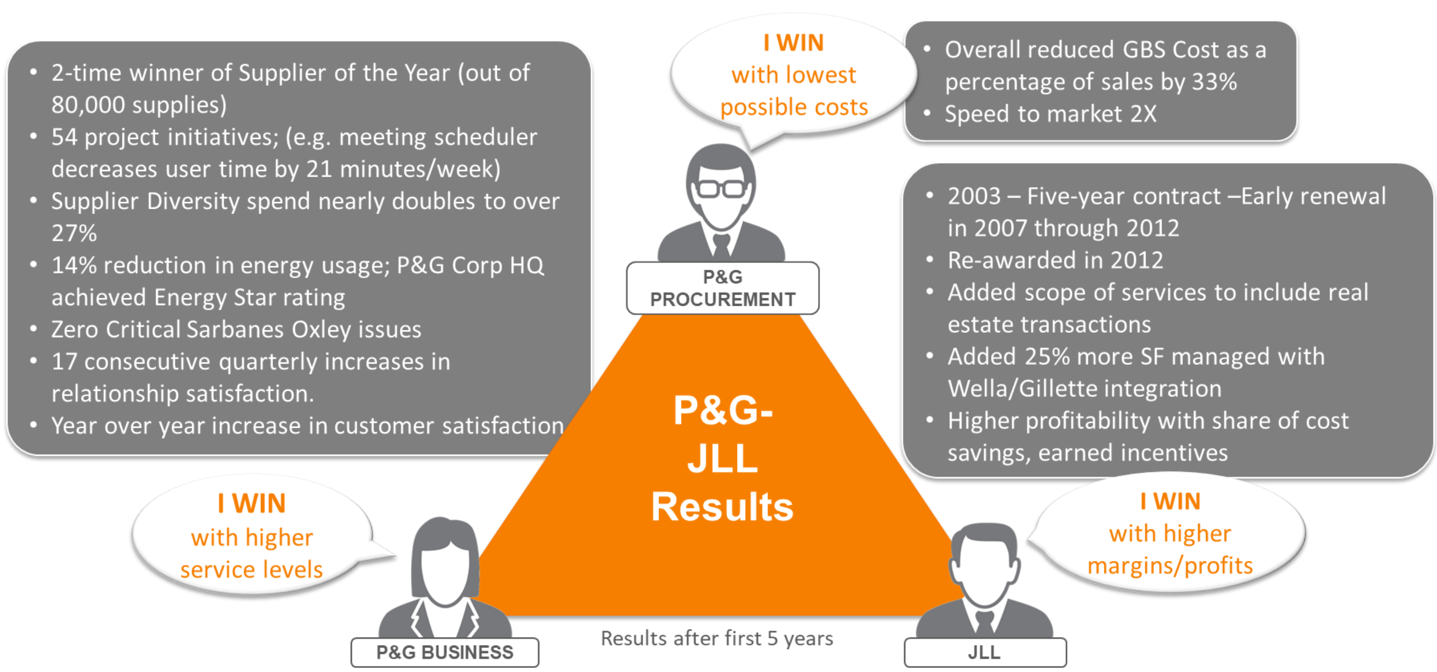
In 2003, P&G signed a groundbreaking contract with JLL, spanning 60 countries and including facility management, project management and strategic occupancy services. While the size and complexity of the deal was a first for both companies, the approach for the commercial contract was also a first. Simply put, P&G wanted an outsourcing relationship that challenged JLL to not just take CARE of their buildings, but also take CHARGE of their buildings. The companies created a commercial agreement that was "Vested" in nature. The solution was to flip the conventional outsourcing approach on its head where P&G would create a business model around contracting for transformation instead of contracting for day-to-day work.

But what were the secret ingredients to architecting a contract that drive the right behaviors? In short, P&G and JLL established a business agreement where both parties have a Vested interest in each other's success. They are most successful when they are both successful.

The business relationship with JLL has been, by all factors, wildly successful. In just five short years, JLL went from being a new supplier to P&G to winning "Supplier of the Year" two years in a row among 80,000 suppliers.

A true Vested Outsourcing agreement is designed when all parties are winners. After eight years, the P&G / JLL deal had proven that it is possible to develop a true win-win partnership. JLL had proven it could balance what some would call a paradox – achieving high service levels AND reducing costs. P&G proved it could truly outsource work – managing the what and not the how for the betterment of both companies. Regardless of how you measure it – P&G is happy with how well the JLL outsourcing relationship has grown. In fact, P&G has been so happy that JLL is the only supplier to be awarded the Global Business Services Excellence Award three years in a row and was also awarded the coveted P&G Supplier of the Year award in 2008 and 2009.

To view the complete Case Study, please click this link.



Jaguar – Unipart

In 1998, Jaguar was at the bottom of the JD Powers rankings in customer satisfaction; not because people did not love their cars – but because they could not get parts to keep them running! Jaguar turned to Unipart Logistics – a supplier of 15 years to seek a new way of doing business – a Vested way.

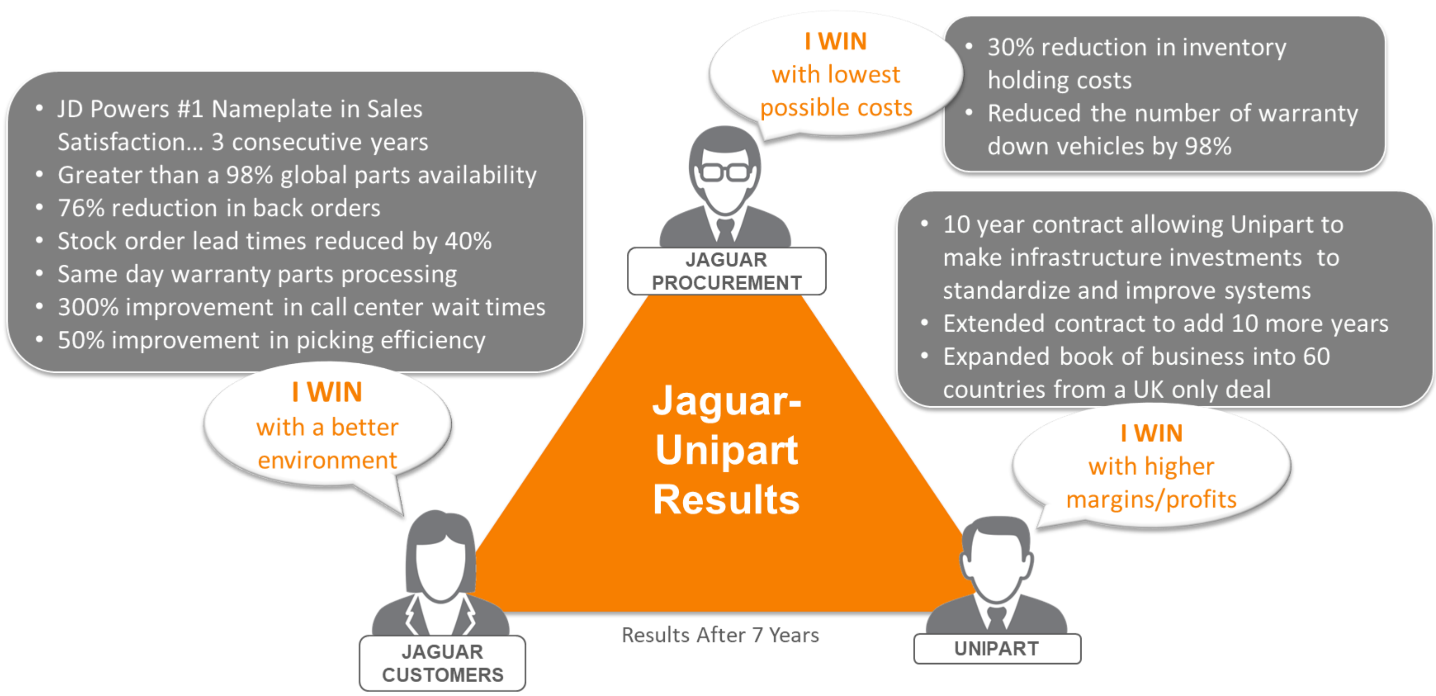
Jaguar and Unipart are a great example of the power of CEO vision to get a Vested Agreement jump-started. Sir Nick Scheele, CEO of Jaguar and John Neill, Unipart's CEO, recognized that the relationship was not working as well as it could. At an informal dinner they discussed how the companies could improve the business model while also driving more positive benefits for both Jaguar and Unipart. They created a shared vision and aligned interest with the goal to achieve the #1 ranking in JD Powers for customer satisfaction in deal parts and service. This is their Shared Vision Statement:

"To support Jaguar dealers in delivering a uniquely personal ownership experience to Jaguar drivers worldwide, ensuring industry leading owner loyalty – through partnership and world class logistics."

This vision drove a 10-year agreement that highly motivated Unipart to invest heavily in Jaguar's supply chain. The results? A 50% improvement in picking productivity, 30% reduction in inventory, and a 76% reduction in backorders. And the best result – Jaguar moved from worst to first in JD Powers rankings in 7 years, with cars waiting on parts reduced by 98%

In November, 2010 Jaguar Land Rover North America was proud to announce that Jaguar has achieved the highest score in the U.S. auto industry and is ranked highest among luxury brands for customer sales satisfaction in J.D. Power and Associates 2010 Sales Satisfaction Index (SSI) Study. Jaguar was the highest scoring brand in the sales satisfaction study for the third consecutive year, and repeated as the highest ranked luxury brand.

To view a *Supply Chain Europe* magazine article on this partnership, please click this link.



Integrated Management Services – Temporary Staffing

Dan Keto and Dean Dorcas wanted to go into business together. Because both men had a knack for managing people, and neither of them had significant start-up capital, starting a temporary staffing agency came to mind. Employee turnover is high in the temporary staffing world. To offer stable, dedicated employees, Dan and Dean decided to rely on a more "senior" workforce and focus on administrative and white-collar type work. In 1996, Dan and Dean gave birth to their business, Senior Staffing. The company was renamed Integrated Management Services (IMS) about a year later.

Dan and Dean felt strongly their agency should be more than a body shop; it should offer brainpower to help companies be more productive and solve production needs. It should be more than a manpower provider with typical markup; it should create value – for themselves, their customers, and their employees.

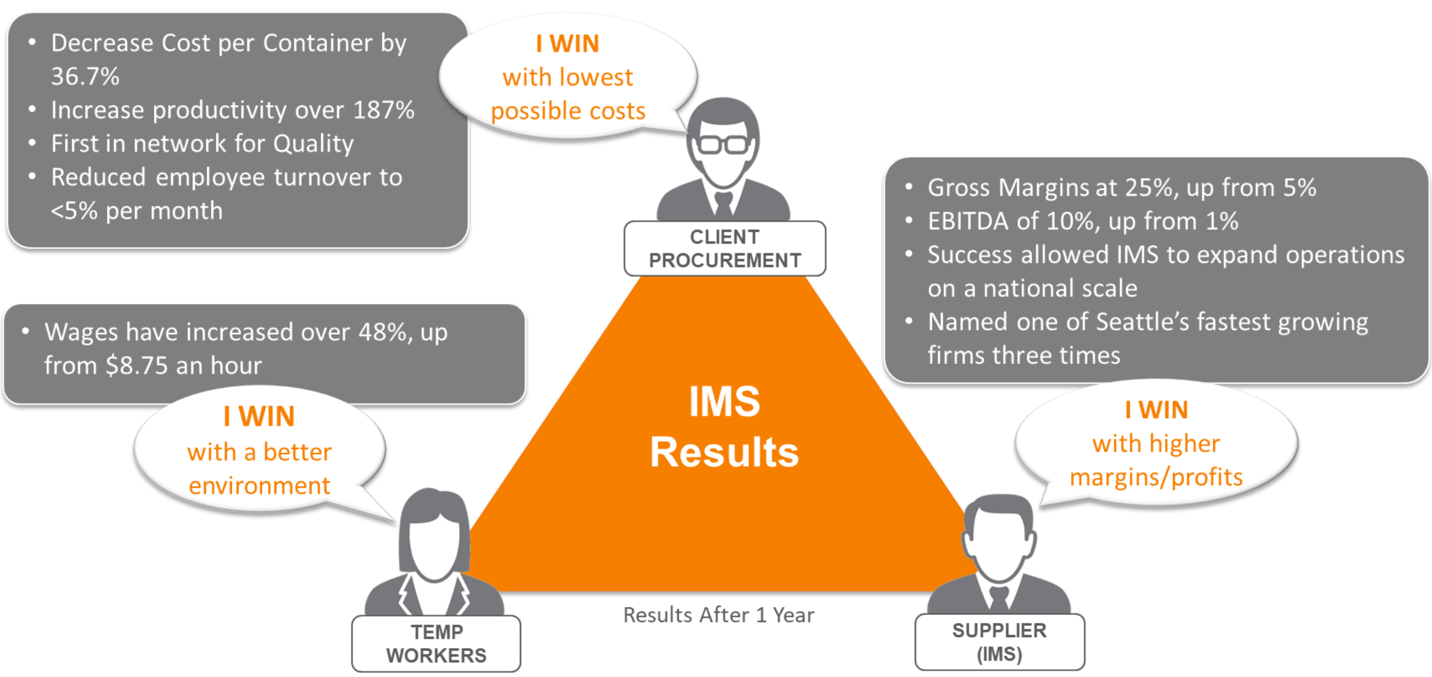
Using workers in the senior age category is a pretty clever idea, but, in practice, there was a fatal flaw – especially if you staff your workers in manual, light industrial-type jobs like production assembly and warehousing. "Customers didn't think older workers could be productive in more manual jobs," explained Dean. "After all, IMS wanted to replace workers half their age and, seemingly, more fit. It was a tough sell."

IMS came up with an offer that was hard to refuse. Dan and Dean approached a potential customer in the retail industry that was using about ten temporary workers every day to bag and tag clothing. "Rather than simply 'staff' workers and charge the typical markup, we went to the customer with the idea for him to 'outsource' the work to Senior Staffing for 5 percent less than what they were currently paying. We thought if we could guarantee our client a cost savings and we took the risk of getting the workers to do the same work faster, we'd have a better chance of winning the work." And win work they did.

But the temp workers also won – with hourly wages raising 48% an hour.

Using a Vested approach has helped IMS grow rapidly. IMS went on to expand its operations and was named one of the fastest-growing companies in Washington State three times.

To view the complete Case Study, please click this link.



MnDOT – Flatiron Mason

The world held its collective breath during rush hour, August 1, 2007, as Minnesota's Bridge #9340 buckled, then collapsed into the mighty Mississippi River 64 feet below. More than a hundred vehicles were trapped on the I-35W Bridge as it tumbled into the water. Thirteen people, 8 men and 5 women, died and 145 were injured.

The catastrophic bridge failure resulted in immediate monetary consequences. The Minnesota Department of Transportation (MnDOT) Office of Investment Management estimated the daily cost to motorists at $400,000. The State Dept of Economic Development estimated an additional net economic impact of $113,000 daily. And the Minneapolis Chamber of Commerce claimed the daily cost to business exceeded half a million dollars.

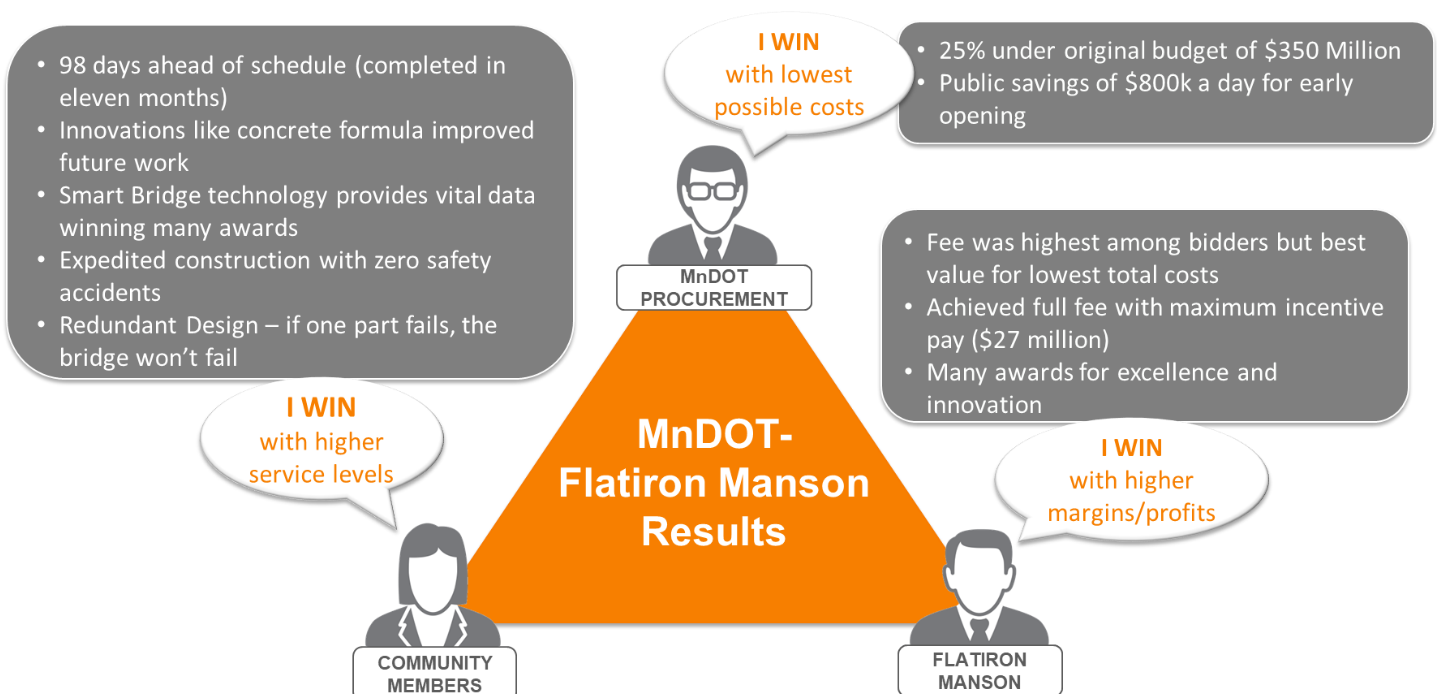
Time was of the essence. Minnesota Governor Tim Pawlenty challenged MnDOT to complete a replacement bridge within 18 months. Considering it typically takes that long (or longer) just to identify the scope of a project the size of the I-35W Bridge, MnDOT approached the rebuild in a radically different way. Within 18 hours of the tragedy, stakeholders met to decide how to proceed. MnDOT employed a rarely used law (Minnesota Statute §161.3410) that granted authority to use a best value approach versus the conventional cost-plus lowest bid approach. MnDOT set out to find the right partner – a contractor that accepted the aggressive goals, understood the sensitive nature of the project, and brought unique skills to the table.

MnDOT selected Flatiron Manson, a joint venture between Flatiron Constructors, Inc. and Manson Construction Company, as the contractor, and architect Linda Figg of Figg Engineering. Jon Chiglo, MnDOT Project Manager, and Peter Sanderson, Flatiron Manson Project Manager led the team to mutual goals and commitment to the rebuild. The collapse damaged public trust and confidence about MnDOT's ability to provide safety. The nature of the tragedy demanded sensitivity as well as haste. Everyone agreed "business as usual" was not an option.

Together, the team triumphed when the new state-of-the-art I-35W Bridge was opened for traffic ahead of schedule. The 1,223-foot span bridge was the Grand Prize Winner from America's Transportation Awards for "representing the best in innovative management, accountability, and timeliness and won numerous other awards.

What were the secret ingredients to architecting a contract that drives the right behaviors? In short, MnDOT and Flatiron Manson established a business agreement where both parties have a Vested interest in each other's success. They are most successful when they are both successful.

To view the complete Case Study, please click this link.



Department of Energy "Rocky Flats"

The U.S. Department of Energy knew there was a serious community relations problem when 17,000 people encircled the 17-mile buffer zone of the Rocky Flats Nuclear Production Site in protest of what citizens and environmentalists feared to be one of the worst environmentally hazardous sites in the world. Fears become a hard reality when the FBI, Justice Department, and EPA conducted a surprise raid. Serious environmental issues were found and President George H. W. Bush ordered full closure of Rocky Flats in 1992.

Total closure and cleanup of a nuclear production facility had never been accomplished anywhere in the world. The original DOE 1995 Baseline Environmental Management Report estimated that the project could require up to 75 years and cost up to $37 billion. Two different contractors had made little progress towards cleanup, and the closure effort was costing taxpayers almost a billion dollars a year.

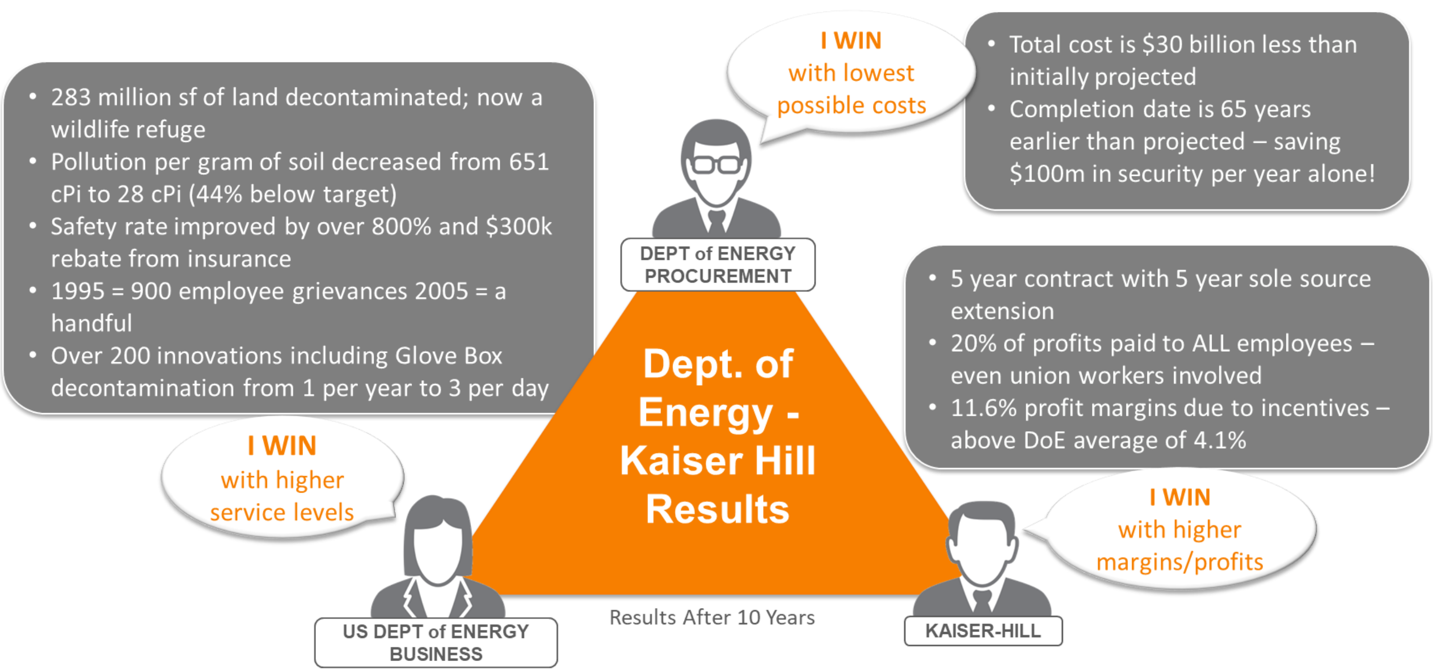
On July 1, 1995, the United States Department of Energy (DOE) signed a five-year contract with Kaiser-Hill Company LLC, a joint venture of CH2M Hill and Kaiser Engineers, to manage Rocky Flats cleanup and closure. In 2005, just 10 short years after Kaiser-Hill started, the improbable became a reality. Kaiser-Hill successfully removed transuranic and other hazardous waste the equivalent to a 65-story building the length and width of a football field. In the end, the Rocky Flats Nuclear Production site was transformed into a 6,550-acre wildlife environmental refuge. The site was not just clean, but clean enough for birds and bison. The project also came in a staggering $27 billion under budget projections and 65 years ahead of initial projections.

The DOE learned an important lesson many people might think of as common sense. You get what you pay for. Having clearly defined and measurable Desired Outcomes with significant incentives highly motivated Kaiser-Hill to not just show up – but to be wildly successful. The more Kaiser-Hill achieved the DOE's goals, the more Kaiser-Hill succeeded themselves. Across the board, Kaiser-Hill achieved the DOEs Desired Outcomes for safety, closed, clean and costs.

Kaiser-Hill earned the maximum incentive – 11.6%. While many, including the Government Accountabilities Office, argued the fees were too high, Kaiser-Hill faced significant risk if they did not perform. The critical point is that when Kaiser-Hill "won" with more profit, the DOE "won" with lowered costs.

The DOE and taxpayers got the best part of the deal – successful cleanup and closure of one of the most dangerous nuclear sites in the world – at a staggering $30 billion under budget and 65 years ahead of the originally projected schedule.

To view the complete Case Study, please click this link.



Non-Vested Relational Contracts

Let's start by explaining what a Relational Contract is and is not.

The book *Contracting in the New Economy* defines a relational contract as:

> A legally enforceable written contract establishing a commercial partnership within a flexible contractual framework based on social norms and jointly defined objectives, prioritizing a relationship with the continuous alignment of interests before the commercial transactions.

The graphic below illustrates the basic differences between a common Transactional Contract and a Relational Contract.

Focus	The commercial transaction	The relationship
Relationship	Arm's-length relationship	Partnership
Risk management	Use of power and creation of enforceable contractual obligations	Risk avoidance by creation of continuous alignment of interests
Social norms	Disconnect from social norms	Explicitly includes social norms as contractual obligations
Planning	Aims for complete planning, i.e., contract should cover all future events	Creates a fair and balanced flexible framework

A key goal of a relational contract is to create a continuous alignment of interests throughout the contract term. To achieve the best results, it is important to place equal importance on both the process of entering into the contract as well as on the content of the relational contract. The process of negotiating and jointly creating the relational contract is not just a means to get to the written document, but an important part of creating what is actually in focus: the relationship.

Next – it is important to understand the difference between a relational contract and Vested. ***A Vested agreement is a formal relational contract.*** However, a relational contract is not always a Vested agreement. This is because a relational contract can be used all types of contracts – including preferred provider relationships.

The following pages highlight case studies illustrating how organizations are using Relational Contracts without being fully Vested.

Boeing Australia & iDiC

The following is a Press Release dated August 12, 2021

Indigenous Defence and Infrastructure Consortium (iDiC) and Boeing Australia have signed a head agreement based on relational management principles to grow and support Aboriginal and Torres Strait Islander-owned and controlled businesses.

The world-first agreement with an Indigenous business will see both companies operate as one. The agreement is based upon a shared vision of delivering Black Excellence, relational objectives, guiding principles and intended behaviours. This will ensure the engagement of Indigenous-owned businesses is elevated from a transactional relationship to that of a true strategic partnership.

The groundbreaking, five-year head agreement will standardise the contracts between the two businesses and make it easier for all of Boeing's Australian subsidiaries to engage Indigenous small and medium enterprises.

"We have been working with Boeing Defence Australia (BDA) since 2017 and in that time we have engaged 20 different Indigenous businesses to deliver services to Boeing," said Adam Goodes, iDiC CEO and Director and 2014 Australian of the year.

During this time, BDA has grown what it spends with Indigenous businesses to more than $10 million a year and it expects this figure to increase significantly now that all of its Australian subsidiaries can engage Indigenous owned businesses under the agreement.

"BDA has shown true leadership and commitment in its push for genuine and sustainable reconciliation between Aboriginal and Torres Strait Islander peoples and the wider community in Australia," said Goodes.

"Our shared vision of: 'One team delivering sustainable operational expertise built on a culture of trust and innovation, driving first-time quality and Black Excellence' underpins all that we do together."

"We jointly define Black Excellence as the mindset, backed by continuous action, to look within ourselves and act in ways that progress our communities without discrediting the effect of forces outside of our communities. This includes someone who is black and portrays great qualities and abilities that make our community proud. We are committed to expanding Indigenous participation to provide opportunities for Black Excellence to shine."

"In addition, this unique agreement further builds on our joint work towards boosting Indigenous education and employment prospects."

iDiC identifies business opportunities for its Indigenous business consortium partners and provides turnkey solutions to prime contractors delivering nation-building projects in the infrastructure and defence industries.

"Boeing and iDiC have worked together to create a true partnership based on trust and aligned values," said Goodes. "To have a partner like Boeing, who is prepared to look outside the square and approach things differently, is a great feat for Indigenous businesses."

The Indigenous Defence & Infrastructure Consortium (iDiC) is a single-point deployment project and account manager, providing a diverse range of services via its consortium partners, all of whom are Indigenous-owned businesses. With a national footprint, the iDiC has proven capability in a range of direct and indirect procurement services to support large defence and infrastructure projects.

Boeing and IDIC went on to win the 2022 Supplier Diversity Partnership of the Year Award during the Supply Nation Connect awards for 2022, already delivering $11 million to Indigenous businesses.

SKAO (Square Kilometre Array Observatory) Software Development

The Square Kilometre Array Observatory (SKAO) was officially born with the goal of creating the world's next-generation astronomical observatory. SKAO is one of the world's youngest intergovernmental organizations (IGO), meaning it is governed by a treaty of member countries. Because it is an IGO, SKAO must rely on a global collaboration between the member countries to achieve its mission. SKAO's chief aim is to build and operate cutting-edge radio telescopes that will fundamentally deepen the understanding of the Universe and the scientific origin of life itself. SKAO's Director General likes to say SKAO's endeavor is "the largest scope – technical or organizational – of any scientific project ever conceived."

Building the world's next generation observatory would require a high degree of collaboration between the countries and the various suppliers. The job of operationalizing the software supplier around the world fell on the shoulders of Nick Rees, Head of Computing and Software for SKAO. Nick explains his dilemma. "SKAO had a very informal and collaborative way of working before the formalized treaty; everyone agreed that we needed to stay the course using the Agile operating constructs they had adopted. But now, we desperately needed to formalize our relationships with contracts. Moreover, many of the stakeholder organizations who were in the design consortium would become 'suppliers,' and the thought of making traditional formal contracts was intimidating."

Rees explains the apprehension: "Instead of collaborators and partners, suppliers would be seen more like traditional vendors operating in an 'us versus them" environment. No one was really excited about making contracts. I knew SKAO needed an alternative contracting process and framework that was flexible enough to fit our unique needs – especially something that would embrace our Agile working methods."

Nick came across the work of the University of Tennessee on relational contracts and began socializing the concept us using a relational contracting process to create formal relational contracts. The idea emerged to use UT's relational contracting process coupled with an NEC4 contract templates.

NEC stands for "New Engineering Contract," and it refers to a suite of contracts commonly used in the construction industry. By March 2019, Rees and Maurizio Miccolis, the software project manager at SKAO, had achieved complete buy-in to combine the NEC4 contract template acting as the Master Services (framework) agreement, the NEC Professional Services Short Contract *(PSSC)* template which serves as a contracting vehicle for issuing work orders in three-month increments aligned to the parties' Agile SAFE operating system, and UT's Getting-to-We relational contracting methodology.

The strategy solved the dilemma of how to contract for the long-term relationship with strategic supplier partners while allowing them a way to incorporate their Agile operating system into a formal contract.

In April 2019 team members completed both UT's formal coursework (learning) and pre-work before attending a series of workshops where they collaboratively made decisions and co-create deliverables that would become the foundation for their contracts. The relational components (Shared Vision, Guiding Principles, Intended Behaviors and Governance mechanisms) were formally embedded into the NEC4 framework agreement.

SKAO and its supplier have been operating under formal relational contracting since the summer of 2019 with a great deal of success. Key benefits include: buy-in and commitment from the collaborative relational contracting process, standardization of contracts across all suppliers while offering scalability and flexibility, formality of alignment, lower intrinsic risk with more innovation. And – if you ask team members – they will tell you that a side benefit of relational contracting is a high trust environment with happier team members.

After over three years of success, SKAO software and computing team members are well on their way of changing the fundamental nature of how software is imaged and delivered. Team members all agree: the contracts surrounding SKAO's software ecosystem are helping set a new standard for how software and computing services are designed and delivered in the future.

Australian Navy – FFG Enterprise

In 2007, the Australian Navy began a journey toward what would become relational contracting. The journey focused on two critical enablers:

1. Adoption of relational contracting practices, which meant a shift from arms-length and highly competitive contracting process to a collaborative approach.
2. Adoption of a performance-based "Group Maintenance Contract," which focused on improved asset management practices that leveraged the strengths of both the Navy and strategic industry partners.

Together, these two principles became the hallmark of what is now known as the FFG Enterprise. The FFG Enterprise is a term that describes the collaborative approach relationship between the Navy and two suppliers – BAE Systems and Thales. The FFG Enterprise exists to provide the Royal Australian Navy with materially seaworthy FFG guided missile warships – on time, every time – until they are withdrawn from service. There are currently four frigates (vessels) supported by the FFG Enterprise.

Michael Houghton – Director General of Major Service Ships – believed the Group Maintenance Contract concept was tailor-made for the FFG, which was drowning in transactions with unreasonable maintenance expectations written into contracts for no reason. Houghton believed Group Maintenance Contracts would enable a commercial structure in which the Navy and suppliers worked together to define the scope of work and solve problems. "People who understood the requirements best were placed together to challenge documents and create collaborative solutions. The Group Maintenance Contract was what University of Tennessee researchers would classify as a typical performance-based logistics contract. The Group Maintenance Contract replaced the endless passing of paperwork with collaboration at levels of the work being done."

Changing the commercial nature of the contract was only half the battle. By 2016 the Australian Navy realized they would need to also change the mindset of how they treated the supplier. The other part would lie in changing the culture in which the Navy worked with suppliers along the way. For this they turned to a relational contracting process.

The process started by revising their Charter. A quick comparison between the original Charter and the revised Charter shows a marked difference in tone. The new Charter reflects a focus on specificity, accountability, and teamwork. It speaks directly to the culture of the organizations and the mutual trust and collaboration reflected in behaviors. Two important elements were added. The first was an objective to lead and drive change not just within the FFG Enterprise, but across the broader Maritime Systems Division. The second was an emphasis on safety, a critical factor made easier by the straight-forward communication between individuals.

While the FFG opted to not have a formal relational contract, they have had a great deal of success using a relational contracting process. The Navy has proven the "soft and fuzzy" relational contracting concepts can deliver hard, quantifiable results. Today the FFG Enterprise is not only meeting its goals – but is a role model for the Australian Navy. Hard numbers include (but are not limited to):

- The number of days an FFG is available for service increased from a low of < 210 days to > 300 days.
- A significant improvement in the quality from 67 Significant Defects in 2015 to 16 in 2017.
- Over 20% realized cost savings, in the order of AUD$28 million per year
- 45% savings on a like-for-like scope of work
- 46% reduction in costs per task
- 43% reduction in labor hours per task
- 44% reduction in labor costs per hour
- 8+ labor hour reduction per Technical Repair Specification (TRS)
- 100% on-time or early delivery of the FFG capability out of maintenance
- 25% increase in the achievement of Material Ready Days (MRDs)

To view the complete Case Study, please click this link.

Reliance CM

RelianceCM is a small business enterprise specializing in contract manufacturing for startups, emerging businesses and pioneering OEMs. In 2010 RelianceCM's CEO – Scott Shroeder – began a transformational process to change how they think and work starting in the fall of 2010.

RelianceCM – located in Western Oregon's Willamette Valley – is not what most investors would call a hotbed for an outsourced contract manufacturing company – especially one catering to the high-tech industry. A quick drive around Corvallis and you will see why the 55,000-person town is known more for logging, seed farms, and of course, the Oregon State Beavers. In addition, RelianceCM's approach to contracting manufacturing is different. Rather than focus on a particular industry or product type, it focuses on the early stages of the product life cycle: the start-up, production and launch phase. Schroeder contends, "the start-up phase is the most crucial stage of the product life cycle. There is little room for error and even the smallest oversight can have a huge impact on a product's profitability, success and long-term sales growth."[1]

Schroeder's transformation efforts to rethink how they worked with clients began after he attended the University of Tennessee's Vested Outsourcing Executive Education course. Schroeder was initially excited about the opportunity of Vested – but quickly became demoralized when he began to explain Vested to his clients. Two things happened as RelianceCM began to educate customers. First, there were customers who 'just didn't get it,' Schroeder explains. "When I tried to explain Vested Outsourcing, we had customers cross their eyes and look at me like 'what are you trying to sell me?'"

The second problem was more frustrating. Schroeder noted, "Some customers were smart enough to understand Vested, yet they still relied upon a purchase order as the governing agreement to our relationship. Here I was talking about business outcomes (which they loved), but when we started to talk about a long-term win-win contract the only way they knew how to do business was to issue a PO for a widget."

Schroeder then decided perhaps the best path for RelianceCM was to take a lighter touch and adopt a relational contracting process instead of trying to convince clients to create fully Vested agreements with an outcome-based economic model. It was then Schroeder and his team decided to stop 'selling' the concept of Vested and simply start 'living' the Vested mindset by taking actions every day would improve trust, transparency and compatibility with clients. "We learned quickly there was no way in hell we were going to convince our customers to change their contracts. So instead, we embraced the fundamental heart of Vested and sought to radically improve our trust, transparency and compatibility with clients through our behaviors. We made a hard stance we would open the kimono per se and lead with transparency as a way to establish trust. We would also consciously seek to see if we could improve our compatibility with clients. We figured if we could get traction in these three areas, good things would happen."

Patty Baker, who changed her title from Office Manager to Relationship Manager, adds, "When we changed how we acted and treated customers, it allowed our customers to see us differently – and they began to change how they worked with us. When we were transparent, customers would feel more comfortable being transparent with us. It was a virtuous cycle. The more Vested we acted, the more Vested our customers would act."

The bottom line? Schroeder says it is RelianceCM's bottom line. The first year RelianceCM doubled its revenue. And revenues have continued to grow ever since. While revenues rose, Schroeder was most pleased with the increase in RelianceCM's margins. Schroeder grins as he states, "Margins are much higher."

What Schroeder finds interesting is his cost of sales has drastically decreased. "Our sales manager retired, and we didn't miss a beat. In fact, now about 80 percent of our new projects are from clients who come to us ready to buy versus before we were going out knocking on doors and nurturing deals. That is a complete flip-flop."

To view the complete Case Study, please click this link.

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[1] Scott Schroeder quotes are from an interview with Kate Vitasek in December, 2018.

Using Vested/Relational Contracts in a Multi-Party Environment

To date, the vast majority of Vested agreements are created for a dyadic (two-party) relationship. For example, bp and JLL, Island Health and their Hospitalist, Telenet and Solutions30. However, it is possible to have Vested agreement with multiple parties.

The following three case studies provide insights into how organizations can deploy Vested/Relational Contracts in a multi-party environment.

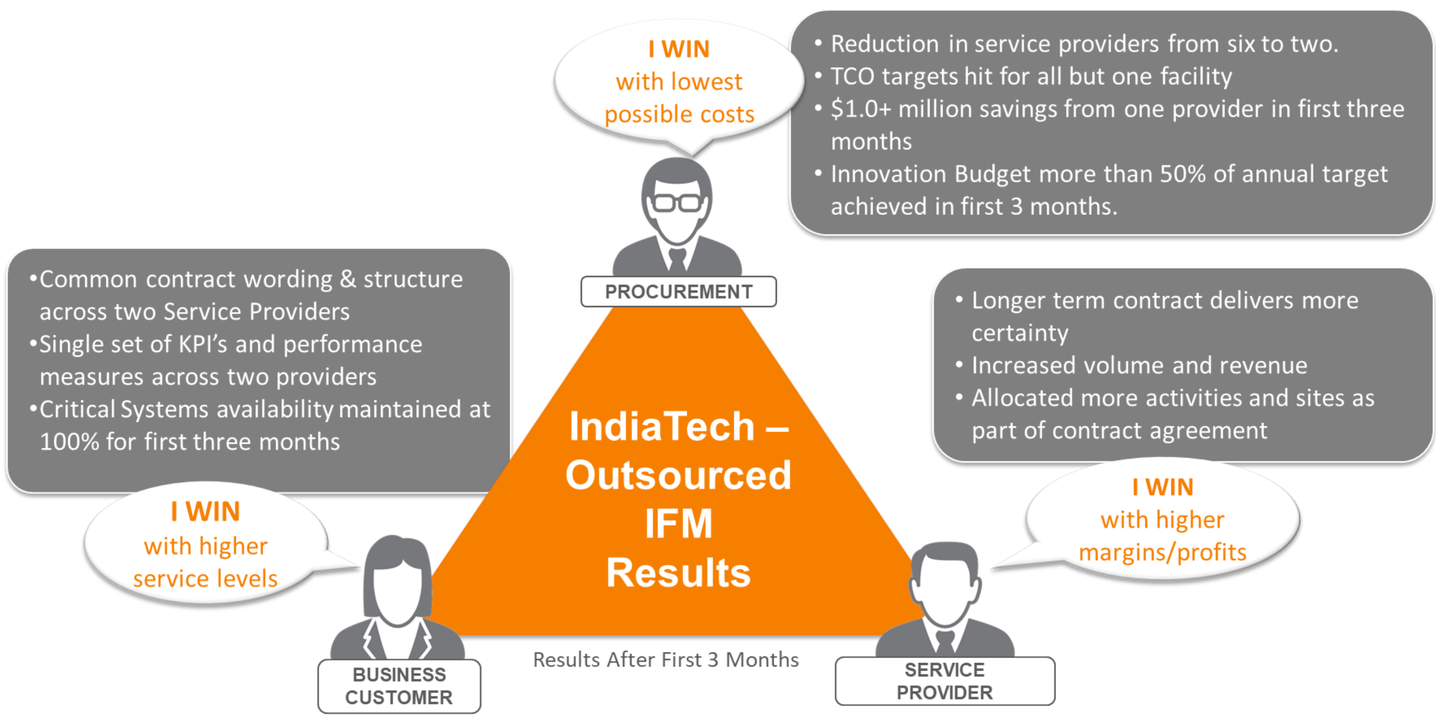
India IT/BPO Fortune 500 Outsourcing Company – Facilities Management

Like many organizations that have grown significantly in the IT sector in India, this Fortune 500 IT/BPO Service Provider (OutsourceCo) had accumulated many office building, campuses, and other facilities over time. This had resulted in facilities in over 50 locations with approximately 24 million square feet of space. To manage these facilities the company had at one stage up to 12 different Facilities Management contractors working across the country (later reduced to 6). The management team responsible for facilities found getting consistency and value from this large and dispersed holding while dealing with many different service providers was next to impossible. They therefore decided to move to one or two global Facilities Management organizations to cover their whole portfolio of facilities.

The challenge the company faced was the complexity of what they were seeking to do would rule out a quick transition and undertaking the normal request for tender processes would be costly and time consuming. The corporate leadership for procurement had come across the Vested model and persuaded the organization to go through the process of creating a Vested agreement with an 'open book' pricing model in lieu of a competitive review. The other benefit that the OutsourceCo was seeking was to have a common contract structure and wording for both service providers, the only differences were to be in the pricing model and the names of key staff.

To reach the goals set the Fortune 500 company and two global FM Service Providers went through the process of creating a tripartite Shared Vision, Guiding Principles, and Intended Behaviors. This joint Statement of Intent harnessed all three parties to achieving the outcomes that were identified. The process of getting two of the worlds fiercest competitors to collaborate on a common project was driven by two things; first, the parties engaged an independent third-party Vested Centre of Excellence to guide them through the process. And second, the first piece of work that was undertaken was the creation of the shared Statement of Intent. The latter provided a compass to guide the parties whenever things became uncomfortable.

The outcomes from the two agreements are summarized in the graphic below. Importantly these results are from the first three month 'Transition Period' and show that the approach taken delivered quick results. The Service Providers were able to quickly ramp up the new sites to the new arrangement and client site management teams, who had been involved in the creation of the agreement, were quickly able to get up to speed.



McDonald's – System First

The best example of having a Vested agreement in a multi-supplier environment is McDonald's – which creates what they call a "system" with their key suppliers. McDonald's System all started with a vision and philosophy that "None of us is a good as all of us" and today keeps McDonald's on the top of Gartner's benchmark charts as having the most successful supply chain in the world.

The secret sauce of McDonald's success is found within long-term transparent relationships based on the unwavering belief that everyone in the McDonald's "System" can and should win. The deep-seated culture for long-term, win-win relationships with suppliers dates back to McDonald's inception when founder Ray Kroc established a precedent of trust and loyalty. Kroc believed that if the restaurant owner/operators and suppliers succeeded, success would come to him as well. Simply put, McDonald's, its owner/operators, and their suppliers have a Vested interest in helping each other succeed.

Kroc's "System" philosophy is often described as a three-legged stool. One leg is McDonald's employees, a second leg is the owner/operators that run the restaurants, and the third leg is McDonald's supplier partners. The stool is only as strong as the three legs. This means that the company employees – the franchise owner/operators – and the suppliers each support the weight of McDonald's equally. For one to prosper, each must prosper. Kroc's System has stood the test of time because leaders within the System have continued to honor a "System First" approach where solutions always include the consideration, "What's best for the System?"

Kroc's insistence on What's In It for We (WIIFWe) thinking has created the world's most powerful restaurant and supply chain. WIIFWe thinking is ingrained in the DNA of McDonald's, its suppliers and its restaurant owner/operators. The results are staggering. Kroc's System has expanded to over 100 countries and 33,000 restaurants serving over 68 million customers a day and the numbers grow more impressive every day. McDonald's has also set the standards in food quality, safety, and assured supply. Customers know they will get the same consistent food and service from Arkansas to Alaska and from Argentina to Azerbaijan.

The secret to making it work is that McDonald's and its most strategic suppliers have a deep commitment to each other to continually deliver value for McDonald's System. Suppliers are confident the McDonald's business is not vulnerable to competitors' price-cutting and arbitrary change. And McDonald's is confident that its suppliers are delivering the best possible value and looking out after McDonald's interests to protect and grow the System.

Suppliers consistently report that while McDonald's is very much tapped into the supply chain, they avoid micromanaging. One supplier summed the McDonald's approach as liberating. "McDonald's is very supportive in setting the tone for all of the suppliers to work better to make the McDonald's System better. McDonald's lives and breathes to help its suppliers be successful. It seems simple – it's easy to talk about… but hard to do."

McDonald's uses a peer-to-peer relationship between supplier and McDonald's for each level – from operational to executive. The peer-to-peer alignment is a proactive approach to managing the business. To McDonald's – suppliers are part of the planning and execution of their Plan to Win. It's not just business – it's personal.

When you look back at McDonald's success – the results are simply staggering. In 2023, McDonald's was named one the World's Most Admired Companies by Fortune for the 15th consecutive year. The list of awards goes on and on. But most impressive is the fact that suppliers are very loyal to the McDonald's System – innovating to keep McDonald's ahead of their competitors year over year.

Read the complete case study in the book ***Vested: How P&G, McDonald's and Microsoft are Redefining Winning in Business Relationships***.

SKAO (Square Kilometre Array Observatory) Software Development

By March 2019, Nick Rees, Head of Computing and Software at SKAO, and Maurizio Miccolis, the software project manager at SKAO, had achieved complete buy-in to combine the NEC4 contract templates for SKAO's software and computing contracts and UT Vested methodology for relational contracts. To put the theory into practice SKAO and its supplier partners would use the University of Tennessee's Vested ***Getting to We*** relational contracting methodology. The UT methodology tightly integrates "learning" and "doing" using a cross-organizational team (a mix of suppliers and SKAO employees). Team members completed both formal coursework (learning) and pre-work before attending workshops where they collaboratively made decisions and co-create deliverables that would become the foundation for their contracts (doing).

The coursework is where team members learned the fundamentals of relational contracting (the why and how). The seven-module course uses self-paced, video-based topics allowing team members to learn essential knowledge before attending the workshops. The course has a dedicated learning module for each of the five steps of the relational contracting process. Each Module includes several short (20 minutes or less) "Topics" where team members learn how to put relational contracting theory into practice.

The heart of the UT methodology is when SKAO and their stakeholders from key supplier partners attend facilitated workshops where they co-created their formal relational contract they would use over the next ten-year phase to build and deliver the software and computing backbone for SKAO.

The Introduction and Steps 1-3 were done as a large cohort and included over 30 key stakeholders including representatives from 15 supplier partners and key SKAO employees. Steps 4 and 5 were done with a smaller stakeholder team that worked to incorporate the operational aspects into the NEC4 contract template – including designing the governance mechanisms that would be incorporated into the NEC4 overarching framework agreement.

A key part of the co-creation process is getting a diverse set of people to have true consensus. The facilitated workshop process introduced a proven "Fist-to-Five" consensus decision making tool where all team members would both verbally and physically "vote" on their decisions. If a team member was not "all in" with a five, it meant they could not be 100% to the decision. The team would then seek to understand why and rework the decision until 100% of team members could be all in with a 100% commitment to the decisions they would be making.

Miccolis led the efforts to create the governance framework and mechanisms that would be embedded into the NEC4 framework agreement. These governance mechanisms would then be used across all software and computing supplier partners. Miccolis explains, "Each supplier partner has their own relational contract. Combined, all of the supplier partners create an "ecosystem" of relationships that needs to be governed to make sure that we maintain alignment and cohesively allow all partners in the ecosystem (both SKAO team members and supplier partner team members) to successfully achieve our shared vision and strategic objectives. To help us manage the ecosystem, we developed the Framework Information document that contains guidelines for the implementation of our Governance structure."

The Framework Information document is formally integrated into the NEC4 contract which SKAO and each supplier partner signs. In essence, the NEC4 framework agreement provides the overarching protocols for governing across the software and computing ecosystem. Miccolis continues. "The overarching governance ensures we maintain alignment through good governance practices as we navigate the dynamic nature of software and computing."

Deal Reviews

A Deal Review is a formal, neutral third-party review conducted by a Vested Center of Excellence (CoE) that is fully trained and certified in using the Vested methodology. Companies often opt to do a Deal Reviews to help them understand any gaps they may have in an existing relationship with the goal to help them determine how much potential work/change they will need to go through to create a Vested agreement.

A Deal Review includes:

- 10 Elements Contract Review – an in-depth contract review where a Vested Center of Excellence "scores" the contract against the 10 Elements of a Vested agreement. The scores are adjusted to include any processes/mechanisms that may or may not be actually demonstrated in practice. For example, the contract may not have a formal written relationship management/governance structure, but the parties have a sound governance structure in practice. Likewise, the contract may be very clear and the parties are not living into the contractual obligations.
- 12 Ailments Assessment – CoEs provide their opinion of how the partnership "scores" against the 12 Ailments of Outsourcing. Opinions largely stem from interviews and from identified structural flaws in the contract. For example, a prescriptive statement of work opens the door for the "Outsourcing Paradox."
- Compatibility and Trust Assessment – Deal Reviews include a Compatibility and Trust assessment and the results are delivered in person as part of the workshop at the end of the Deal Review.
- Readiness Assessment – CoEs provide their opinion of how "ready" the parties are to embark on a Vested relationship across five key "readiness" criteria.

Deal Reviews conclude with a formal one-day workshop with the key stakeholders.

In many cases, the Deal Review creates the reason/justification for shifting to Vested. However, some organizations do a Deal Review before and after they develop their Vested agreement to see how well they have closed the gaps. The before and after snapshots are transformational in nature and teams become motivated to see the great progress in closing their gaps after going through the Vested methodology.

The following pages highlight case studies illustrating how organizations are using Deal Reviews as part of their Vested journey.

Diversey & Wipro Deal Review

Diversey Inc. had been outsourcing IT operations for several years, and by 2012 were on their third-generation outsourcing effort with Wipro. The duo set out to understand if they were incorporating best practices in how they were approaching their outsourcing efforts. It was during their research they heard about the University of Tennessee's "Deal Review" process, which does an in-depth diagnostic to determine the improvement opportunities into how a deal is structured.

Brent Hoag, Diversey Inc.'s CIO explained: "Our supply chain group had just gone through a Deal Review and were impressed with the learning. We felt a review by a neutral third party would be good. Both Diversey and Wipro felt that we were doing all the right things, but we wanted to make sure we had all the pieces of the puzzle in place that would motivate both parties to most effectively achieve our Desired Outcomes."

Steeped in research conducted by the University of Tennessee and funded by the United States Air Force, the Deal Review scores the existing relationship against five key rules and 10 elements for a successful Vested Outsourcing agreement. It provides the companies with recommendations that can create a true Vested partnership and can yield significant benefits for both parties.

With both parties full of passion and energized to drive their relationship to the next level, it was a smooth process for the University of Tennessee to collect all the relevant documents within two weeks. Key individuals—Management/Visionaries, Service Delivery, Relationship Management, Business Analyst, Procurement/Commercial Management and Legal—were interviewed. In addition, the parties participated in an online Compatibility and Trust Assessment® (CaT).

Each of the four major components of the Deal Review scored above average indicating the parties were indeed approaching a highly collaborative win-win Vested Outsourcing relationship. Both parties were operating in harmony and delivering transformational results and value beyond what either party could deliver themselves.

The Deal Review revealed impressive degrees of strategic alignment of both companies. Long-term C-level engagements were established and were driving mutual benefits and value for both parties. However, with such strong alignment, the Deal Review revealed the lack of a formal Shared Vision and formally documented Desired Outcomes. Responses in the interview to the question "what is your shared vision" varied greatly. While there were strong general themes across both organizations, there was not a unified clear vision. Without a shared vision, it is hard to be clear on Desired Outcomes, which are results that someone or some company strongly wants to achieve. This is critical when embarking on transformational-type outsourcing work.

Also, the Deal Review revealed the parties had only informally documented strategic direction and Desired Outcomes and that the Desired Outcomes were not a key component to the agreement itself. The existing deal – while stressing transformation – had focused on documenting the "now" in terms of a traditional statement of work. This is a common mistake, but one that can easily cause a service provider to get anchored in the "now" versus focusing on the "next." University of Tennessee researchers call this the Activity Trap.

The Deal Review also revealed weaknesses in the pricing model. While Diversey and Wipro had jointly adjusted their pricing model over the evolution of their relationship, there were gaps around what is commonly called the supplier having "skin in the game," which are incentives, gain share and risk allocation.

"We were not surprised by the findings of the Deal Review. We knew there were opportunities. The University of Tennessee's Deal Review process helped us to see the shortcomings clear in front of us and get a sense of urgency to address them," said Kiran Vedak, Chief Technologist at Diversey.

The companies used the Deal Review results to create an improvement plan. Hoag shared his satisfaction with the Deal Review process, "The University of Tennessee Deal Review process was definitely worth the time, effort and costs."

To view the complete Case Study, please click this link.

Pharma - Facilities Management Deal Review

A global pharmaceutical company (Pharma) had been outsourcing its North American facilities management operations since 2010 under a performance-based agreement. In 2014, Pharma was a crossroads; do they renew with their facilities management provider (FMCo) or do they go to bid?

The parties challenged the underlying constructs of not only their existing contract, but a performance-based model in general. One of the things that concerned them was the sustainability of the performance-based business model. The concern was stated that *"You can't completely decouple the business model from financial performance. If you have poor operational performance there's likely going to be an impact financially as well. We were now hitting year over year glidepath savings, but we wondered if this was sustainable."*

This ultimately led to both parties having discussions around the viability of moving to a Vested business model. They decided to do a formal "Deal Review" to assess their existing relationship and contract.

The results of the Deal Review were clear. The parties had definitely outgrown their existing performance-based contract. The anonymous interviews revealed that the contract was constricting the path forward. Most divisional leadership found the value that FMCo brought to the table, but were struggling with 'letting go' in some cases. Both parties wanted much more than just year-over-year glide path results, but to get to the next level it was clear the contract and existing behaviors needed to change from a performance-based agreement buying contractual outputs to a highly collaborative Vested Agreement that could help them drive mutual value against bigger picture business outcomes. A Vested Agreement would allow them to shift to an outcomes-based agreement and incentivize the Buyer to invest in much-needed innovation that would be essential if they were going to sustain year-over-year cost savings and continued value-add services.

A key part of the Deal Review was to analyze the contract with the goal to see how well the existing contract stacked up against the best practices identified in UT's award-winning research on highly collaborative outsourcing relationships.

With respect to the contract structure and the 10 Elements, the parties scored 3.0. (For reference, a Vested Agreement scores at least 4 on all 10 elements). Furthermore, the parties were not 100% living into the intentions of the contract language; that is behaving to the governance guidelines and with teamwork. This dynamic also caused a lower score on the overall assessment.

With regard to the Outsourcing Ailments, the parties scored 2.7 on a scale of 5. The review indicated the parties were suffering most from "Measurement Minutia" and the "Junkyard Dog Factor".

A key part of the Deal Review is the Compatibility and Trust Assessment® (CaT). A broad base of team members from each organization participated in an anonymous survey designed to identify gaps in compatibility and trust. The CaT confirmed what management believed – the relationship was strong enough to warrant moving to a Vested Agreement. The CaT found that both organizations had similar behaviors and cultures, and that their relationship was developing in a positive way. This was a very strong result, given the friction the performance-based agreement had put on the relationship.

The Readiness Assessment also confirmed both parties had the needed level of readiness to create a Vested Agreement.

The Deal Review ultimately helped Pharma and FMCo to understand the gaps in their existing relationship. Pharma ultimately used the results of the Deal Review as a business case justification to move forward creating a Vested agreement.

While the parties did not reach a fully Vested (certified) agreement, the parties agreed that the Vested methodology brought great value by helping them shift their thinking and structure to a much more effective agreement.

RFPartner

Up until 2015, all of the organizations shifting to Vested were doing a no-bid “flip” where they would choose to restructure an existing agreement versus using a bid process. The Canadian government (Vancouver Coastal Health) wanted to make the shift to a Vested agreement for an environmental services outsourcing contract, but by law had to go through a bid process. The University of Tennessee worked with VCH to develop a bidding process that would incorporate the Five Rules into their process, modifying their existing Request for Solution process.

Request for Partner is a structured competitive bidding method designed to help companies pick the optimal Supplier for a Vested agreement. It is an integrated approach using 5 Phases/12 Steps that go from finding capable Suppliers through contract development and onboarding. It prevents a “throw it over the fence” mentality so the bid, contract and governance support the business needs.

The RFPartner process uses a cross-functional Deal Architect Team where a joint Buyer-Supplier team co-create a high-level solution given established Buyer-Supplier guardrails. It utilizes facilitated, highly collaborative co-creation “workshops” which formally incorporates the Vested Five Rules / 10 Elements into the process with.

- Rules 1 and 2 are part of the “bid” process
- Rules 3-5 are part of the “contracting” phase

Use of the highly collaborative RFPartner process is designed to help choose a partner with the “right fit” regarding the Supplier’s solution and their culture fit. As such, buying organizations also incorporate “best value” techniques and cultural fit into their supplier selection criteria.

The benefits of the RFPartner process include:

- Increased likelihood of meeting corporate goals and objectives because the Supplier’s solution is tailored to the Buyer’s needs (not an apples-to-apples specification, but a solution fit for purpose based using the Supplier’s unique capabilities)
- Supplier’s buy-in and shared interest, because the Supplier team co-creates their solution with the Buyer’s team
- Facilitated workshops enable the joint Buyer-Supplier teams to work on the relationship from Day 1, and see which team has the best cultural fit

The following pages highlight case studies illustrating how organizations are using the Request for Partner process.

Vancouver Coastal Health

Vancouver Coastal Health (VCH) was the first organization to use the Request for Partner (RFPartner) process for selecting a strategic supplier to manage environmental services (EVS) across 34 health sites.

The genesis began when David Handley – VP of Business Partnerships for VCH – set out on a journey to do things differently. Handley ran a group called BISS – Business Initiatives and Support Services (BISS). As part of his ongoing quest to find best practices, he was introduced to the University of Tennessee's Vested methodology. The BISS team and its key stakeholders liked what they saw and felt that an outcome-based approach was more appropriately suited to achieving BISS's business objectives, including reducing hospital-acquired infections which can cost lives and millions of dollars.

However, there was one drawback. Handley realized that all of the companies making the shift to Vested were doing so by "flipping" existing supplier relationships to Vested agreements.

Handley contacted UT's lead faculty and researcher Kate Vitasek to see if perhaps there was a way to create a Vested agreement while going through a competitive bid process. Vitasek and the BISS team worked through a way that would enable VCH to get to a Vested agreement using what UT researchers coined as a "Request for Partner" process.

As part of the RFPartner process. VCH did extensive market research and down-selected three potential suppliers. On November 15, 2013, BISS issued a "Mutual Value Solution Request for Proposal" (their name for the RFPartner process) for the supply of the Environmental Services. The bid process gave suppliers 10 weeks to develop a "concept proposal" that would be due on January 31, 2014. The goal of the concept proposal was to allow suppliers to propose potential solutions that would seek to optimize BISS's six Desired Outcomes.

Two of the potential suppliers were selected to move forward to the next stage in the competitive bid process. This period lasted between January 31, 2014 and April 16, 2014 and involved two service providers working with BISS and VCH and PHC clinical stakeholders to flesh out and validate the Desired Outcomes and develop a comprehensive solution proposal designed to best meet the two healthcare organization's needs. As part of the process, BISS and the potential suppliers jointly engaged hospital and residential care stakeholders, spending time in stakeholder workshops to determine how cleaning affected VCH's and PHC's goals, an example being decreasing infection rates. This enabled the suppliers to develop a comprehensive solution designed to meet the health organizations' outcomes.

BISS reviewed the proposals, using well thought out and executed supplier selection criteria to select Compass Group Canada, a preferred candidate that would not only offer the best value, but the best overall fit for establishing a long-term outsourcing agreement designed to span seven years.

The final phase was negotiations between BISS and Compass using the University of Tennessee's collaborative "Vested Outsourcing" process specifically designed to allow buyers and suppliers to use a collaborative "win-win" negotiation process to directly link Compass's performance measures to the business objectives of the health organizations' stakeholders.

Looking back, David Handley asserts. "It was more than just doing things differently. It was about learning a new mindset. It was also about picking the right partner and creating the environment to let that partner shine. There must be cultural compatibility and similar values between a buyer and supplier. And there must be a clear intent to build a trusting relationship."

To view the complete Case Study, please click this link.

Telia & Veolia

Telia – Sweden's largest Telco operator – operated 16,000 technical sites covering four site types: mobile network, fixed network, caves, and tunnels. Previous sourcing decisions and re-organizations had resulted in over 60 contracts supported by over 20 suppliers. When Telia first set out to explore Vested for its infrastructure contracts, it did not know which of the 20 suppliers – if any – would be the right Vested partner.

In May 2016, the company began what would be the Nordics' first use of the Request for Partner process. However, the journey didn't just start with the simple decision. Rather, Telia turned EY – a Vested Center of Excellence to help them think through their options. EY's recommendation? Telia should explore University of Tennessee "Request for Partner" process.

UT researchers had developed the Request for Partner process in collaboration with the Canadian government, which wanted to make the shift to a Vested model, but by law had to go through a competitive bid process rather than opt to restructure an existing contract.

Telia worked with EY to map out a two-month RFPartner process. The process was designed for Telia to down-select from the list of 20-plus current suppliers to what would be five suppliers known as the "long list." From this long list, Telia ultimately short-listed three suppliers. This part of the RFPartner process involved site visits to assess supplier capabilities and contacts with one or more of the potential supplier's clients as references. Due diligence meetings also include discussions on performance, and often involve validation of information from the RFP about capabilities and observation of the supplier "in action."

The final short-listed suppliers also spent time in site visits and stakeholder workshops that helped them develop their proposed solutions. These collaborative sessions were designed to have a high degree of supplier interaction where Telia and the suppliers develop operational knowledge of each other's team and how well the parties work together.

A key part of the RFPartner workshops was for Telia and the potential partners to develop a high-level roadmap for transformation. EY's Robin Warchalowski explained, "Most Requests for Proposal are designed for the buying organization to write a spec and have the supplier bid on the spec. The winning supplier is typically the one that has the best capabilities at the lowest price – or best value. The RFPartner process is designed for the buyer to share their problem and to have the supplier develop a solution for how they will help the buying organization transform to the desired future state."

As part of the stakeholder workshops, Telia and Veolia agreed on the following five Desired Outcomes.

1. Deliver high-quality FM services with high stakeholder satisfaction and high network reliability
2. Contribute to TechSite's transformation program and improved maintenance
3. Create a continuously improved financial result for both parties
4. Become a role model within sustainability
5. Create a OneTech with a winning, safe and innovative culture

The RFPartner process culminated with Telia ultimately selecting one partner – Veolia – to move forward to create a Vested agreement using UT's Vested methodology. Telia and Veolia signed their Vested agreement in the spring of 2017.

State of Tennessee – Facilities Management

When the State of Tennessee learned of an award-winning collaborative contracting model developed at the University of Tennessee known as the Vested methodology, State leadership was intrigued. Vested had been used in the private sector to great success by companies for large procurements, but had never been utilized in state government. As part of its strategic and continual efforts to improve and increase efficiency in procurement, the State adopted key elements of the Vested methodology into an approved procurement process known as Collaborative Value Development (CVD).

The CVD process supplements normal State procurement methods (RFI, RFQ, and RFP) with a new and innovative component called CVD Workshops. The purpose of the CVD Workshops is to gain knowledge from the Qualified Respondents (QRs); who are vendors that have already been pre-qualified by the State to assist with defining the cost model, work allocation, and other requirements that will be incorporated into the procurement. QR representatives work collaboratively with each other and the State to help the State better understand industry best practices and standards, and assist in formulating the requirements that will be incorporated into the RFP. The framework for the workshops derives from the Vested methodology, which provides a proven roadmap (with step-by-step instructions) for defining requirements for complex sourcing initiatives.

Collaborative Value Development Procurement Method: The State sought to improve how the State procured these high volume, professional services by utilizing the CVD process, a four-tiered procurement process outlined below:

- Tier 1 – Request for Information (RFI): An RFI was publicly posted in August 2015; 27 vendors provided responses on topics such as their knowledge and experience providing FM services to a variety of facility types, cost structure and ranges, and what information they would need to respond to a future solicitation for these services.
- Tier 2 – Request for Qualifications (RFQ): The State issued an RFQ in April 2016 to evaluate vendors through both a written response and oral presentations based on their technical qualifications and experience managing facilities for ten different facility types that are representative of the State's real estate portfolio. Three vendors were deemed the "Qualified Respondents" (QRs) that would participate in the next step of the procurement process.
- Tier 3 – Collaborative Value Development (CVD) Workshops: Representatives from the three Qualified Respondents jointly attended workshops from August to November 2016 along with a "Core Team" of State stakeholders representing the CPO, Comptroller, the two major public university systems, the State's Real Estate Asset Management Group, and the governor's Customer-Focused Government agency spearheading the initiative. Additionally, State subject matter experts for IT and HR attended certain parts of the workshops to assist in answering vendor questions and crafting language related to their respective subject matter areas.
- Tier 4 – Request for Proposals (RFP): An RFP was issued to the three QRs in December 2016 that sought to award a Statewide contract that would serve as a master service agreement where a State agency or higher education institution (referred to in the solicitation as an "Authorized Entity") wishing to utilize the contract negotiates and signs Participating Addendums (PAs) to the Statewide Contract. All three QRs submitted proposals to the RFP.

The State of Tennessee's CVD process propelled the State to success in its FM procurement. In procuring services that come with significant taxpayer investment and services state government is inherently unfamiliar with, the State assumes greater risk and therefore is ethically obliged to turn over every stone in its effort to achieve success. The CVD process facilitated this quest through its innovative method of enhanced involvement, at every level, with all stakeholders.

Suppliers also walked away feeling the process was not only fair – but also refreshing because it gave them a chance to truly show the value they could bring beyond a simple transactional business model.

Compatibility and Trust Assessment

Trust matters in any relationship. But it is essential in for strategic business relationships. The pandemic-related disruptions of supply chains around the world have painfully brought to light flawed supplier relationships – making it abundantly clear that trust between companies and their suppliers is integral to building a resilient supply chain.

But how do firms work to develop and maintain trust? And, if trust has been reduced, is it possible to change course and create a better relationship?

The problem is trust is a fuzzy thing. How do you measure the level of trust in business relationships? This question led the University of Tennessee to develop the Compatibility and Trust (CaT) assessment tool which measures the health of the trading partner relationship and helps the trading partners understand how their actions and behaviors may inhibit trust in the relationship.

The CaT assessment tool measures five key relational components that contribute to a healthy and trusting relationship.

- Focus is the ability to combine individual roles into a corporate direction to benefit all stakeholders. There is a common purpose and direction and clarity around that direction.
- Communication is the efficient and effective transfer of meaning through words and actions to achieve and grow mutually beneficial outcomes. It includes open and timely sharing of information that a partner needs to make decisions.
- Team orientation is the ability to focus and direct individual goals and objectives into a cohesive group strategy. Team orientation is a key indicator of how well trading partners work together.
- Innovation is an organization's ability to dynamically deal with change and its tolerance for risk and trying out new ideas and solutions. Strong and trusting relationships allow the parties to share risks and rewards, invest in each other's capabilities, and collaborate to achieve common goals.
- Performance trust is the consistency in performing as promised — i.e., meeting commitments.

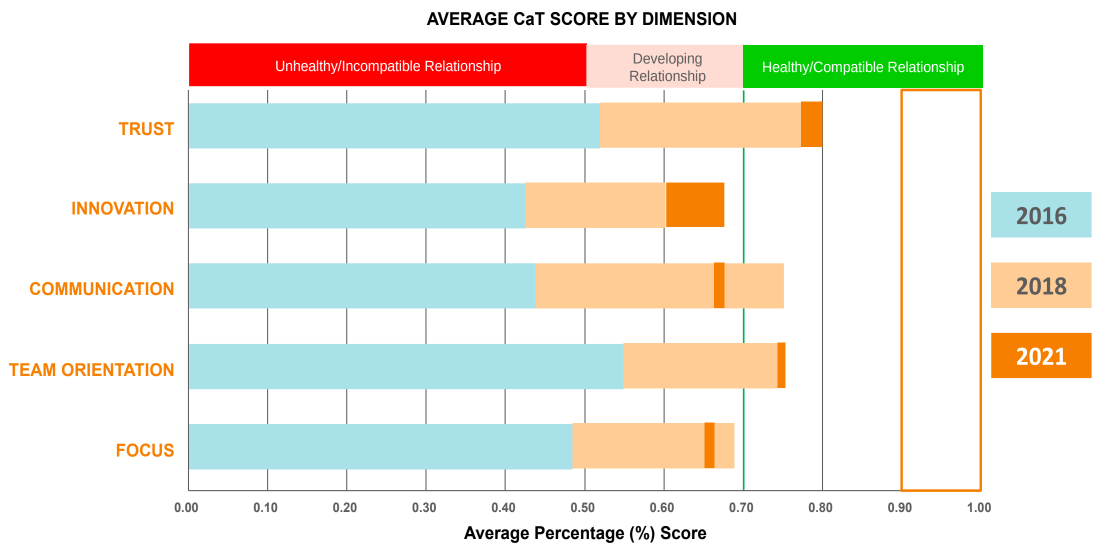
The following pages highlight case studies illustrating how organizations are using the Compatibility and Trust assessment to improve their relationship health.

Island Health – Hospitalists

Previously we shared the case study of Island Health and their Hospitalists who made the shift to a Vested business model for their labor services agreement. As part of their Vested journey, they have completed multiple CaT assessments to track the health of their relationship. The baseline CaT was in 2016; the partners completed a follow-up CaT in 2018 and the third CaT in 2021. The results were phenomenal, with the parties having a staggering turnaround in relationship health as measured by the CaT.

Looking at the before and after adjectives of the relationship, there was ***a shift from 84.5% negative words to 86.2% positive in just over two years***. The parties maintained a positive relationship even five years later in 2021 with 89% positive adjectives.

The overall Combined CaT Index increased from 0.48 in 2016 to 0.71 in 2018. The graph to the right shows the trend in relationship health as measured by the CaT Index for each of the five dimensions.



When the parties repeated the CaT in 2021, they were in the midst of the Covid-19 pandemic. We interviewed both Island Health Administrators and the Hospitalists to see how they have fared during the pandemic. They told us that when the pandemic hit their region in March 2020, the Island Health system was suddenly faced with a dramatic change in its patient mix. The total patient count dropped by 60% as the health system postponed elective or non-urgent procedures to mitigate the spread of Covid-19. Even though the physicians needed to manage fewer cases, those patients were at higher risk, on average, than those they handled in normal times. The impact on the budget and workload was drastic.

Simply put, stress was high and it was harder to stay aligned due to social distancing mandates that prevented face-to-face planning meetings. But rather than turn to classical tit-for-tat 'us-versus-them' negotiations they would have done in the past, Island Health and the Hospitalists dealt with what could have been a contentious situation by approaching their contract as a flexible framework with the goal to maintain relationship health. The trading partners turned to their shared vision and guiding principles they had created as part of the strategic relationship reset in 2016 to address the challenges to work through a very stressful period for both partners.

The result of a 2021 CaT assessment? Despite the stress of the pandemic, Team Orientation, Trust and Innovation shifted into high gear and even increased. For example, the parties implemented an innovative new program that entailed the Hospitalists seeing patients in their homes.

The parties shifted slightly backward in terms of the Focus and Communication dimensions of the CaT assessment. This was attributed to the fact that with all of the changes due to Covid-19 they could not keep their focus on the desired outcomes and objectives they had established as part of their face-to-face governance alignment meetings and they had transitioned their face-to-face meetings to virtual meetings.

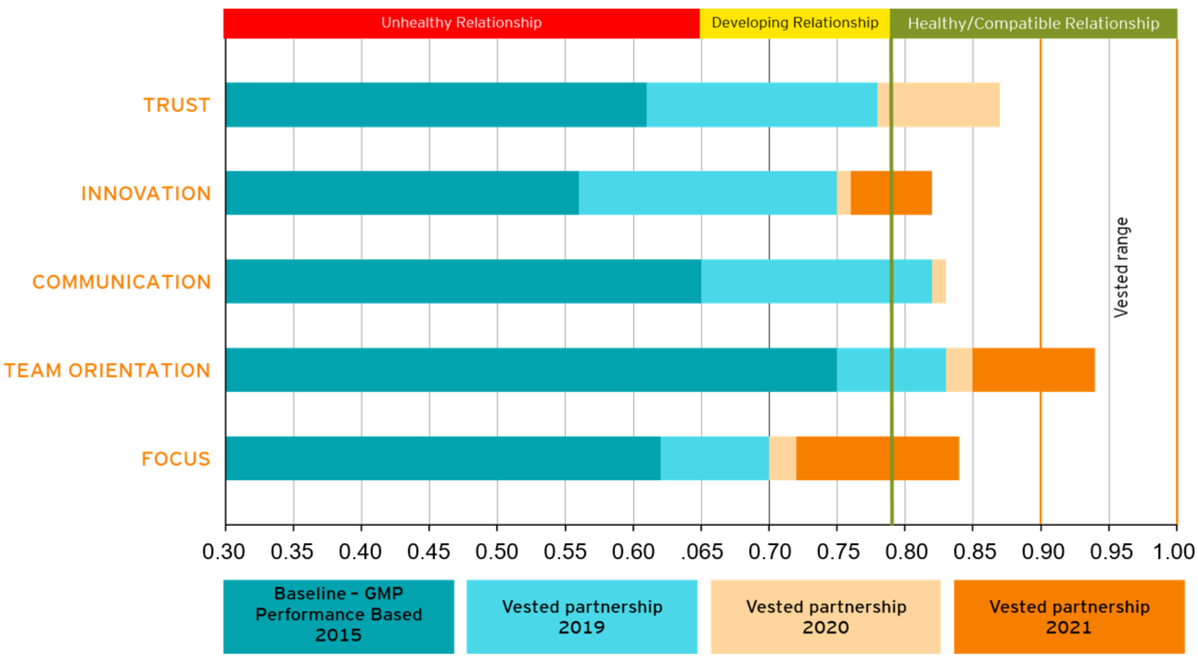
Pharma - Outsourced Facilities Management Provider

Previously we shared the case study of Pharma and their outsourced facilities management provider. (FMCo)

In the spring of 2015, as Pharma and the providers contract neared its expiration date, Pharma began to consider how it could further mature its outsourcing efforts. EY proposed that Pharma look more deeply at the Vested model and conducted a 'Deal Review,' which also included a CaT assessment.

The CaT assessment provided hard data around the topic of trust – giving the parties a clear baseline for their relationship health and showing where the party's behaviors had eroded over time. Ultimately PharmaCo. embarked on a nine-month journey to establish a true partnership under a Vested model with FMCo. It was a breath of fresh air for FMCo – who was also very frustrated with the relationship.

As part of their Vested partnership, the parties have continued monitoring their relationship with "Health Checks" facilitated by EY. Each of the Health Checks includes a CaT assessment. The graphic shows the significant results in relationship health as measured by the CaT Index. Today, the relationship is internationally recognized for its collaboration and has multiple industry awards.



Overall, relationship health increased by 35% in six years, with team members reporting trust levels are far beyond the best levels they can remember in the history of the relationship. Relationship health increased by 22% between the baseline year and the first Health Check and has continued to mature as the parties actively work to further build trust in their relationship. This increase is in despite of the Covid pandemic wreaking havoc on most FM operations.

Using a Standing Neutral

You do not need to be a Nobel-prize winning economist to know that contracts are inherently incomplete. No lawyer has yet crafted the perfect contract that will anticipate every eventuality. Problems and unexpected events are always around the corner.

Long-term contractual relationships are especially vulnerable to the damage caused by friction in relationships, particularly when this friction turns into a formal dispute. In far too many relationships the parties do not perceive a need to engage in conventional conflict resolution until they begin to experience real pain. By that time, they have blamed each other for their troubles.

To avoid these harmful escalations of conflict in business relationships, we argue for the proactive use of a "Standing Neutral" – a trusted, independent expert advisor (or a panel of three advisors) – chosen by the contracting parties at the onset of the relationship with the clear goal to maintain a healthy relationship. A Standing Neutral process can best be described as a proactive, quick, informal, flexible, adaptable, non-adversarial, neutral, expert, preferably nonbinding, process for preventing and achieving the earliest possible solution to problems and preventing potential disputes.

There are three critical elements essential to the success of the Standing Neutral technique:

- Early mutual selection
- Continuous involvement by the Standing Neutral
- Prompt action on any issues.

When parties combine the three elements above into a Standing Neutral process they are, in essence, establishing the "rules" of how they will use the Standing Neutral to prevent or resolve issues early. A well-designed Standing Neutral process embeds its customized rules as foundational components of the parties' ongoing governance.

Standing Neutrals have had a remarkable record of success wherever they have been used. In the vast majority of cases, the parties never look to the Standing Neutral to make any recommendations or decisions. And in the small minority of cases where the Standing Neutral actually makes a recommendation, 95% of the recommendations are accepted by the parties without resort to mediation, arbitration or litigation.[2]

Why does the presence of a Standing Neutral have such a powerful impact? The evaluative, but typically non-binding, nature of the Standing Neutral provides a helpful "dose of reality" to the parties and encourages them to be more objective in their dealings with each other. When differences of opinion do arise, the parties' continuous access to the Standing Neutral allows them to quickly use the Standing Neutral as an objective sounding board, obtaining a recommended course of action minimally disruptive to the business relationship. This encourages teamwork and leads to improved performance by all parties. The contracting parties become inherently incentivized to concentrate on "fixing the problem" rather than "fixing the blame," and use their mutual knowledge to solve the problem rather than relinquishing control to the Neutral.

The following pages highlight case studies illustrating how organizations are using a Standing Neutral

[2] Dispute Resolution Board Foundation (DRBF) *Dispute Review Board Manual* (2007) Available online at http://www.drb.org/manual_access.htm.

High Tech Original Equipment Manufacturer – Construction Contractors

A high-tech manufacturing company (HighTechCo) found itself facing a negotiations gridlock with a major construction contractor. Construction claims had followed a classic cycle with issues turning into formal claims. Each round of discussions left unresolved led to an increasing round of escalations with lawyers, mediators and outside counsel getting involved with each escalation. While virtually all claims were resolved – often in the 11th hour before arbitration or litigation – the vicious cycle was costly and exhausting.

While the gridlock was at the tipping point with one supplier, the problem could not be blamed on a bad supplier. Claims are common in the construction industry and even the Company's best suppliers suffered from a stack of stifling claims sidetracking essential team members from more productive work. While most claims were often settled at the 11th hour, it was not uncommon for at least one claim to be escalated all of the way up to the director or vice president level and sometimes to arbitration. One executive explained it as "complete and utter waste of precious time and resources."

HighTechCo was not the only one frustrated. Their suppliers also dreaded going through dispute resolution. A claim would escalate within the Company to their procurement manager and then to their worldwide procurement manager. Most of the time the businesspeople involved had no understanding of what the law might actually say, so they would escalate to the lawyers. To make matters worse, they only had a partial view of the facts from the HighTechCo's perspective. The dispute resolution process was painful and protracted.

HighTechCo's leadership grew increasingly frustrated as the time and cost of resolving disputes ran into the millions of dollars. A change was needed. The program turned to a "Standing Neutral." The Standing Neutral concept is an innovative and proactive improvement on traditional Alternative Dispute Resolution (ADR) techniques. The Standing Neutral's primary role has also been referred to as a "Village Elder", "Referee", "Wise-Person", or "The Glue." The primary role of a classic Standing Neutral is to serve as a "real-time" dispute-preventer throughout a relationship and a dispute resolver if the dispute is not prevented. In essence, contracting parties opt to have a highly qualified and respected pre-selected expert who helps parties resolve issues while they are small so minor problems don't escalate into a formal claim with potential for gridlock in a dispute resolution process.

When HighTechCo set out to shift the focus from dispute resolution to dispute prevention there was not a formal list of best practices for a program like they were envisioning. But despite not having a blueprint for success, the program has been nothing short of spectacular. Prior to the program team members described dispute resolution process as "painful and protracted" and as a "complete and utter waste of precious time and resources." Today team members use words like "fast and fair" and "a smart process that should become an industry standard."

The program has been in place for seven years and has been a huge success

- In the seven years only one incident used the pre-described arbitration process and outside counsel. For comparison, before the program, two of their larger construction contracts suffered from a stifling stack of claims. One project had $30 million in claims on $220 million project and a second had $50 million in claims on a $1.3 billion project.
- Resolution drastically reduced delays. Prior to adopting a Standing Neutral, some claims took over five years to settle with one particularly pesky claim going to a six-week trial. Under a Standing Neutral, misalignment is managed in real-time as part of ongoing governance meetings. The one issue that did go to formal resolution with the Standing Neutral was managed in a quick and fair manner.

The program has evolved and been expanded with the HighTechCo now using four Standing Neutrals to support all of the company's construction agreements.

Team members all agree the program has taught them how to make the shift from resolving disputes to monitoring, managing and mitigating risks that arise in real time. Team members are glad to see the prevention focus and the processes that help them work through issues while they are small.

Information Management Company - Facilities Management Agreement

Outsourcing agreements – especially ones that are complex and integrated in nature – are good candidates for a Standing Neutral.

When an Information Management Company (InfoCo) set out create a more strategic relationship with their service provider they wanted to ensure the relationship stayed healthy. InfoCo made the strategic move to develop a sole source facilities management outsourcing agreement spanning nearly 70 facility management services in nearly 200 assets. InfoCo initially engaged SIREAS, LLC a global real estate advisory firm to provide consulting for the bid process to help them select a supplier to consolidate the services of over 200 suppliers through the solution design, partner selection, contract negotiation and execution to transition.

SIREAS was initially engaged to represent InfoCo during the bid process. However, through the process, the supplier found value with SIREAS's expertise and integrity and that SIREAS understood the intent of the relationship. Both parties agreed to have SIREAS act as a Standing Neutral during the transition phase, with the cost split 50/50.

The value of using a Standing Neutral provided an almost immediate return on investment (ROI) as the parties got through the common transition issues fairly and expeditiously. For example, in the first quarter, it became apparent that one particular key performance indicator (KPI) outlined in the contract was driving inappropriate behaviors on both sides of the table. Major organizational changes within the client had introduced new players who came from different organizations and were not familiar with the "intent" of the deal and more particularly of the rationale behind the particular KPI. Independently, each party began conversations with the Standing Neutral to express concern (for different reasons) about what was happening with the KPI and the impact it was having on performance and the supplier's fee.

After gathering the relevant information, SIREAS brought both parties to the table and facilitated a discussion. The teams were reminded of the original intent of the KPI. They were informed of the challenges each side was facing and the behaviors occurring as each side attempted to resolve their concerns independently. Within a short timeframe, the parties agreed with SIREAS' recommendation to suspend the KPI until the challenges with data collection and reporting could be addressed. Training sessions were delivered for the new players to reinforce the intent of the deal, delineate the desired outcomes, address the appropriate supplier management/client management behavior and define the appropriate action plan to replace the KPI. What normally would have been a negative cycle was resolved equitably and amicably addressing each party's needs.

The success of using a Standing Neutral during the transition phase prompted the companies to expand the use of the Standing Neutral for the full duration of the agreement (five years with multiple extension options). Both parties felt this made sense when considering the complexity and the dollar value of the deal. As such, the Standing Neutral role was permanently embedded into the formal governance structure and escalation processes to provide ongoing advice and guidance relative to effective performance measurement strategies, management of the governance platform, and onboarding training for new managers joining the relationship from either party.

For More Information

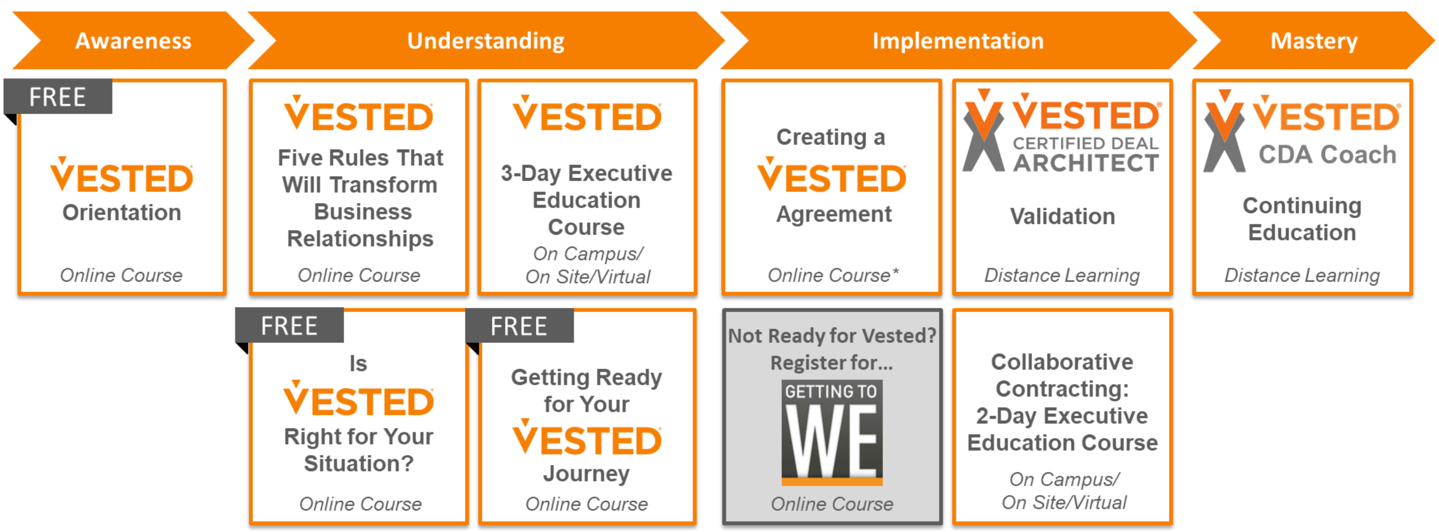
Please visit https://www.vestedway.com/compatibility-and-trust-assessment/ for more on CaT Assessments. You can access a copy of the Frequently Asked Questions, and be linked to a Center of Excellence to begin your assessment.

The University of Tennessee is highly regarded for its Graduate and Executive Education programs. Ranked #1 in the world in supply chain management research, researchers have authored seven books on the Vested business model and its application in strategic sourcing.

WHY WHAT HOW WHEN NEGOTIATE THE RELATIONSHIP TELLS THE REAL STORIES

We encourage you to read the books on Vested, which can be found at most online book retailers (e.g., Amazon, Barnes and Noble) or at www.vestedway.com/books.

For those wanting to dig deeper, UT offers a blend of onsite and online courses including a capstone course where individuals get a chance to put the Vested theory into practice. Course content is designed to align with where you are in your journey ranging from Awareness to Mastery. For additional information, visit the University of Tennessee's website dedicated to the Vested business model at http://www.vestedway.com/ you can learn more about our Executive Education courses in the Certified Deal Architect program. You can also visit our research library and download case studies, white paper and resources. For more information, contact kvitasek@utk.edu.



* Prerequisites for ***Creating a Vested Agreement*** class are:

Five Rules, ***Is Vested Right?***, ***Getting Ready***, and the ***Vested 3-Day Executive Education Course*** **OR** Be working with a **Vested Center of Excellence**

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