VESTED® For Success Case Study

How a Healthcare Company Made the Transition from Transactional to Transformational Outsourcing

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Note: The companies involved in this case study have chosen to remain anonymous. This case study and the views, thoughts and opinions set forth herein are solely those of the author(s) and do not necessarily reflect the positions of the companies. The case was developed based on interviews with 12 individuals in various roles at both the Healthcare Company and the Service Provider. Where appropriate, direct quotes are included in the case study, but the individual’s names are anonymous.

EXECUTIVE SUMMARY

What do you do when you feel you are stuck in a rut with your outsourcing efforts?

A common answer is to try to "mature" your outsourcing model. That is exactly what one HealthcareCo decided to do in 2013. HealthcareCo had worked with ServPro – a facilities management service provider – for more than 25 years. In 2013, HealthcareCo made a strategic decision to shift to an integrated facilities management (IFM) solution across ten of their countries. The goal was to create a more strategic relationship that would drive down costs.

After a competitive bid process, ServPro was glad to win the work. In the case of HealthcareCo and ServPro, the parties adopted a classic GMP (gross maximum price) performance-based model that shifted risk to ServPro for performance against pre-defined service level agreements (SLAs) at a set budget. Taking on the risk was not welcomed by ServPro, but they took on the challenge to reduce costs for the long-standing client.

Unfortunately, HealthcareCo and ServPro quickly came to realize a drawback of a classic GMP performance-based model. With ServPro facing profit pressures, team members were often put in the awkward position to tell HealthcareCo the all-too-dreaded "that is not in scope – we will have to charge you for that" message.

The result? The idea of a risk shifting performance-based agreement sounded like a good idea, but the reality did not live up to the hype. Both parties were left with unmet needs and frustration.

It was during one of those moments of frustration that HealthcareCo began to ask the simple questions: "Is there a better way?" That better way began a journey for HealthcareCo and ServPro working together to design a highly collaborative win-win Vested outsourcing agreement in 2016. *The results have led to the power of AND*.

- For Healthcare Co
    - Over-delivery of cost savings (double-digit savings) *and*
    - Record high performance and satisfaction levels *and*
    - Innovation with 48 Transformational and 238 Standardization initiatives *and*
- For ServPro
    - Increased scope (picking up 96 new sites and additional services) *and*
    - Higher profits for ServPro *and*
- For both: a significant increase higher trust levels, with a 21% improvement in just the first year

This case study profiles HealthcareCo's and ServPro's journey to transform their relationship from a classic "us-versus-them" outsourcing agreement to a what's-in-it-for-we (WIIFWe) Vested agreement. We hope this case study inspires you explore the same question. "Is there a better way" to approach your outsourcing relationships.

PART 1: BACKGROUND

HealthcareCo believes good health is the foundation of vibrant lives, thriving communities and forward progress. Every day, employees in over 150 locations around the world blend heart, science and ingenuity to create better health for humanity.

ServPro is a global leader in facilities management support services, operating in over 50 countries. ServPro's portfolio of services includes Food Services, Facilities Management Services and Employee Benefit Solutions.

The HealthcareCo-ServPro relationship spans more than 25 years. The relationship – like most outsourcing relationships – was task focused and transactional in nature. Team members referred to the relationship as "capable" and "good" – but one that lacked "innovation" and did not motivate ServPro to proactive drive down costs.

In 2013 – after a competitive bid - HealthcareCo expanded their relationship to ServPro taking advantage of two key trends in facilities management outsourcing. The first was to make the shift to an integrated facilities management (IFM) solution across ten countries. This meant expanding the scope of work to ServPro to "bundle" their scope of work in these locations and making them the sole source provider for designated work. The second was to make the shift to a performance-based contract that shift risk to ServPro to down costs.

On the surface it was a brilliant strategy. ServPro was elevated to a "strategic" partner and was chartered with being proactive to actively drive down costs with regard to the scope under their control. To mint the deal, the parties inked a classic GMP (gross maximum price) performance-based contract which shifted risk to ServPro for performance against pre-defined service level agreements (SLAs) at a set budget.

Unfortunately, the reality did not live up to the hype: it left both parties with unmet needs. In addition, the risk shifting nature of the contract pitted HealthcareCo and ServPro against each other creating friction and stress.

By the spring on 2015 the GMP contract was nearing expiration and HealthcareCo was at a crossroads. It was during this time some of HealthcareCo's team members began to ask that seemingly simple question: "Is there a better way".

PART 2: LAYING THE FOUNDATION

As HealthcareCo began to consider how it could further mature its outsourcing efforts it began to have discussions with leading consulting firms that specialized in facilities management outsourcing.

The traditional approach was to creating a Request for Proposal to go back to the market. Perhaps the 25+ plus relationship with ServPro had run its course and there were more capable and cost-effective suppliers out there.

One of the firms HealthcareCo was talking to was EY. EY suggested perhaps that better way HealthcareCo was searching for was a Vested outsourcing model that combined a formal relational contract with an outcome-based economic model.

EY suggested an intriguing idea. What is HealthcareCo and ServPro took part in a neutral 360$^{o.}$ 'Deal Review' where EY would do a deep dive to determine if a Vested model might be a good fit for addressing the parties issues[1]

The review included four components:

- Contract review
- Outsourcing "Ailment" diagnosis
- Compatibility and Trust (CaT) Assessment
- Analysis of the most appropriate sourcing business model

The review concluded with a workshop where the parties candidly discussed their current situation.

The rest of Part 1 highlights the results of the Deal Review.

[1] See the Vested online course, "Is Vested Right for Your Situation?" Available at https://www.vestedway.com/courses/is-vested-right-for-your-situation/

Contract Review

A key component of the Deal Review was an in-depth review of the existing contract against the Vested Five Rules and 10 contractual elements. **Figure 1** indicates how the parties contract scores against the Vested 10 Contractual "Elements".

Figure 1: 10 Elements Contract Review

Ten Elements	Score
Business Model	3.00
Shared Vision Statement and Statement of Intent	2.33
Statement of Objectives/Performance Work Statement	1.80
Top Level Desired Outcomes	1.67
Performance Management	1.67
Pricing Model	3.00
Relationship Management Framework	2.67
Transformation Management	3.00
Exit Management Plan	4.00
Special Concerns and External Regulations	3.00
Total Score	**26.14**

Score Key	Score	Total Score
Poor Agreement	≤2	≤20
Typical Agreement	>2 <4	>20 <40
Vested Agreement	≥4	≥40

The contract review was clear: it was easy to see the contract did not encourage collaboration on mutual goals.

An ah-ha for HealthcareCo's and ServPro was the lack of alignment between what the companies were trying to do and what the contract actually supported. For example, the contract review revealed the existing contract was not aligned with HealthcareCo's and ServPro's objectives for the future. In fact, the contract itself had a very weak alignment to Desired Outcomes (scoring "red" with a score of 1.67 on a scale of 1 to 5). In addition, the actual scope of work (statement of objectives) and associated metrics outlined agreement also scored poorly.

Outsourcing "Ailments" Diagnosis

A second component of the Deal Review was interviewing team members from both HealthcareCo and ServPro to understand if the relationship was suffering from the common outsourcing "ailments".

Figure 2 (on the right) shows the results. Team members admit the results were not surprising: HealthcareCo and ServPro's relationship suffered from all common "outsourcing ailments", with half of the ailments scoring as "severe".

Figure 2: Ailments Assessment

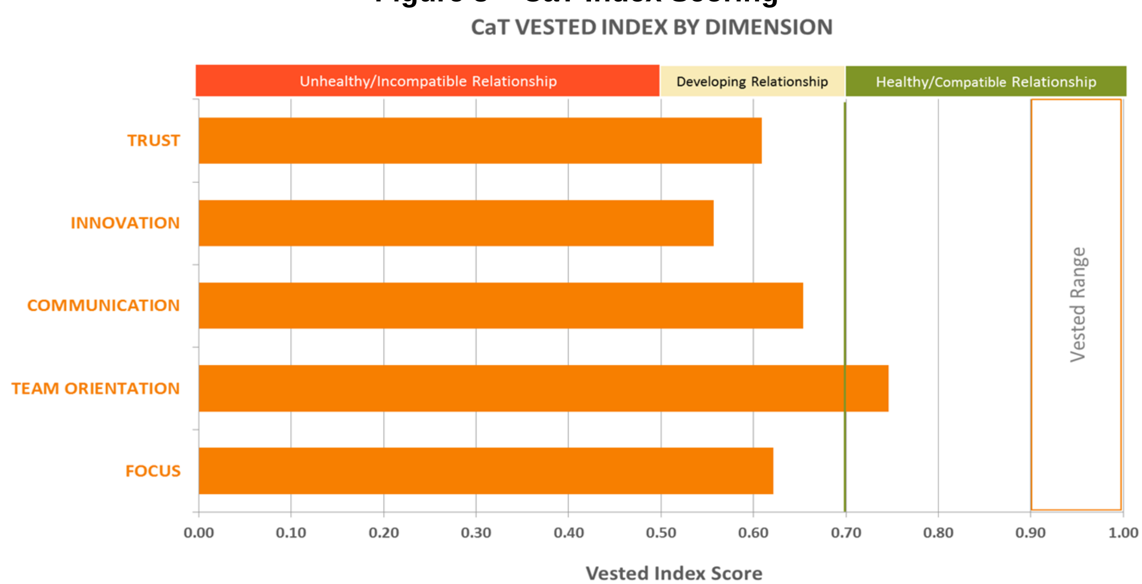
Ailment	Existing Contract
Penny Wise and Pound Foolish	
Outsourcing Paradox	
Activity Trap	
Junkyard Dog	
Honeymoon Effect	
Sandbagging	
Zero Sum Game	
Driving Blind Disease	
Measurement Minutiae	
Power of Not Doing	

Compatibility and Trust Assessment

The third part of the Deal Review was for HealthcareCo and ServPro to complete a Compatibility and Trust (CAT) Assessment. The CaT was developed by Jerry Ledlow Ph.D. and Karl Manrodt Ph.D. to measure the strength of business relationships. The CaT provides a "two-world view" that highlights both real and perceived gaps across five key behavioral dimensions.

The CaT assessment revealed some interesting insights. For example, the CaT Relationship Index summary score showed the parties ranked in what is considered a "developing relationship" status even though the parties had a 25-year-plus working history (**Figure 3**)

Figure 3 – CaT Index Scoring



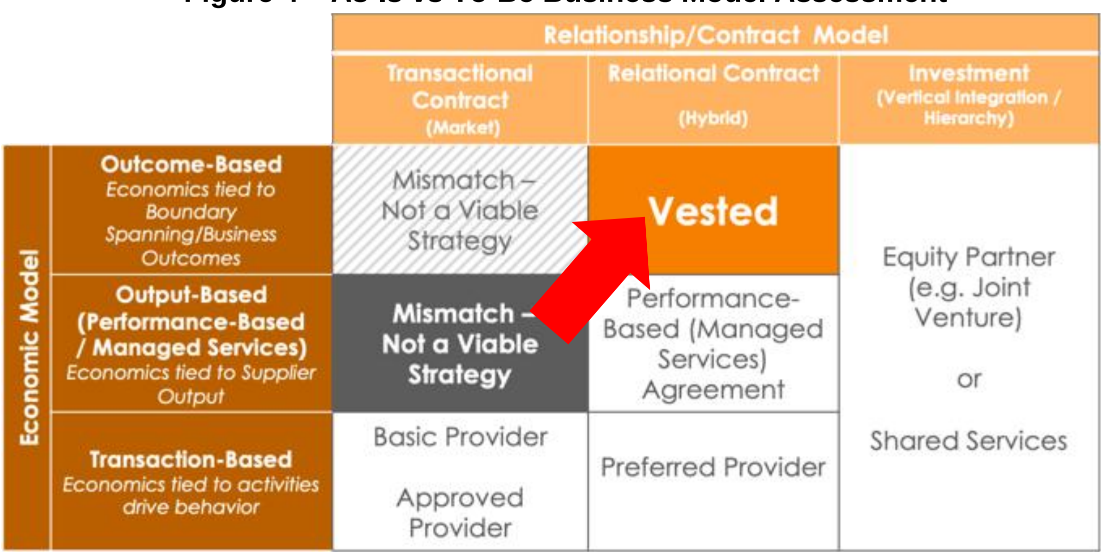
A point of discussion in the workshop was that, despite the CaT score of having a "developing" relationship, HealthcareCo and ServPro were highly aligned in terms of cultural values and behaviors.

Sourcing Business Model Assessment

The final part of the Deal Review was a Sourcing Business Model assessment. An analysis of the business model revealed that the contract itself was a transactional, arms-length contract (versus a relational contract) and promoted a buy-sell *What's-in-it-for-Me* mindset versus a collaborative *What's-in-it-for-We* mindset. In addition, the performance-based GMP (Gross Maximum Price) contract used an output-based economic model versus a more strategic, outcome-based model. The pricing model itself was not transparent and the agreement and nature of the contract were very tactical, not supporting the strategic aspirations of HealthcareCo. Simply put, the contract had a business model mismatch and was not a viable approach for achieving HealthcareCo's strategic objectives.

Figure 4 maps the business model to the University of Tennessee's Business Model framework. Ultimately the parties completed a business model map and decided to restructure their contract to a Vested business model (relational contract with an outcome-based economic model).

Figure 4 – As-Is vs To-Be Business Model Assessment



The Turning Point

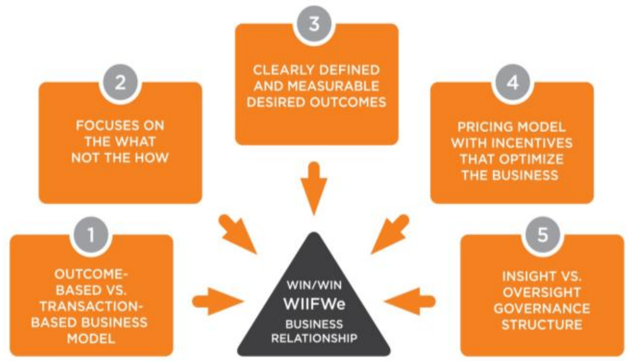
The Deal Review was a turning point for both parties. It was clear the current approach was ripe for reinvention. Ultimately, HealthcareCo decided the best approach was to put a pause on going out to market and instead recommit to its relationship with ServPro.

For the next nine months, the parties continued to work with EY to set out to totally restructure their relationship and contract, using the University of Tennessee's Vested methodology. In addition, the parties engaged Cirio Law Firm to provide legal support to transform their partnership. The journey included a series of 20 facilitated workshops where HealthcareCo and ServPro co-created their Vested agreement. Part 3 shows how HealthcareCo and ServPro worked through each of the Five Rules to put the Vested theory into practice

PART 3: CREATING A VESTED AGREEMENT: FOLLOWING THE VESTED FIVE RULES

Vested is a business model, methodology, mindset and movement for creating highly collaborative business relationships that enable true win-win relationships in which both parties are equally committed to each other's success. When applied, a Vested approach fosters an environment that sparks innovation, resulting in improved service, reduced costs and value that didn't exist before — for both parties.

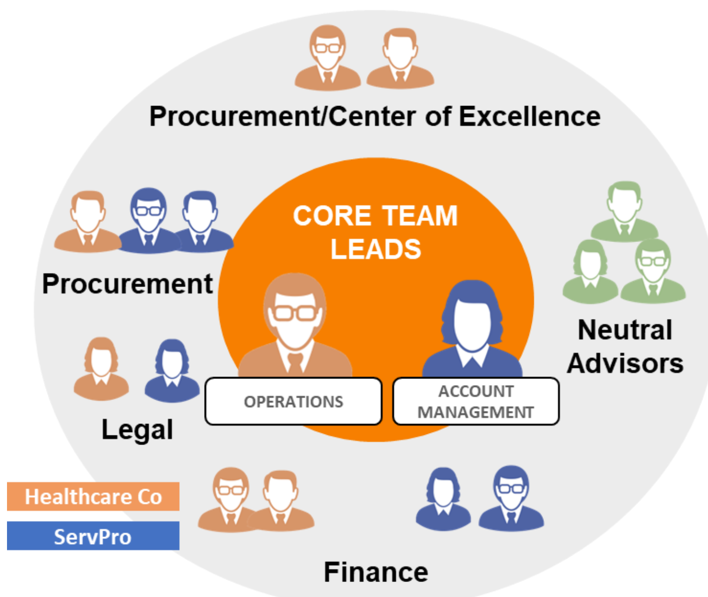
Figure 5: The Five Rules of Vested



The Vested business model is based on Five Rules[2] as illustrated in **Figure 5.**

A Vested Agreement shifts from a conventional, transaction-based "buy/sell" sourcing model to a highly collaborative relational contract with an outcome-based economic framework. The Vested methodology includes creating a "Deal Architect" core team that works side-by-side to translate the intent of the relationship into a win-win contract that follows the Vested Five Rules. A key design feature of the Deal Architect Team was to formally pair key functional team members as "2-in-a-Box" teammates who were jointly accountable to own the design and resolving any issues in their box. **Figure 6** depicts the 14-member HealthcareCo-ServPro Deal Architect Team.

Figure 6: Deal Architect Team



As part of the Vested methodology, team members take the "Creating a Vested Agreement" online course and attend workshops where they collaboratively make decisions that are translated into formal contract language. The process tightly integrates "learning" and "doing," which significantly increases understanding and ultimately buy-in for the changes needed.

[2] For a detailed discussion of Vested and the Five Rules, see *Vested Outsourcing: Five Rules That Will Transform Outsourcing*; http://www.vestedway.com/vested-outsourcing/

The companies also formed a joint Steering Committee with leaders from both organizations. The role of the Steering Committee was to champion and support the Deal Architect Team's progress and ensure the design of the new business model and contract met both organizations' expectations and stayed within the guardrails of the two organizations.

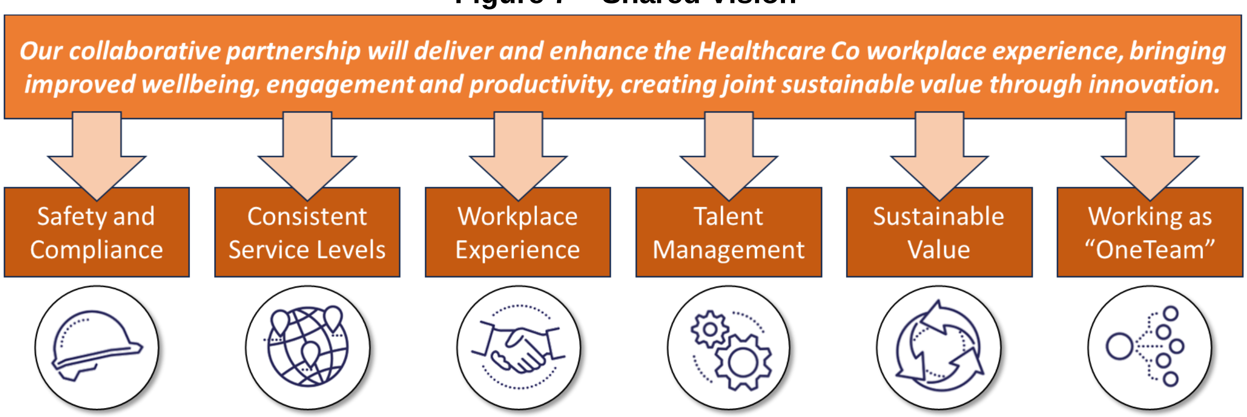
With the Deal Architect Team and Steering Committee in place, it was time to convene in facilitated workshops to co-create their Vested Agreement, defining how they would follow each of the Vested Five Rules. The rest of Part 3 outlines how HealthcareCo and ServPro worked through each of the Five Rules to put the Vested theory into practice. These workshops were facilitated by EY and Cirio as Neutral Advisors to the joint team.

Rule 1: Focus on Outcomes, Not Transactions

Vested Rule 1 – Focus on Outcomes, Not Transactions – means radical alignment around a Shared Vision and execution around Desired Outcomes. The parties held two workshops to complete the essential work for Rule 1.

The first order of business under Rule 1 was the creation of a Shared Vision and high-level Desired Outcomes (see **Figure 7** below).

Figure 7 – Shared Vision



The vision statement and Desired Outcomes created by HealthcareCo and ServPro clearly identified the strategic aims for HealthcareCo's revitalized workplace and FM strategy, and the transformation of which ServPro would be part and a future state the partnership would work towards. The outcomes were built together and would be delivered together.

As the organizations were working through Rule 1, the parties were encouraged to name their relationship. One thing we find helps teams begin to quickly adopt the Vested *'what's-in-it-for-we'* mindset is to create a fictive company with both a buyer and supplier being "one" with a unified vision and Desired Outcomes. Someone on the team suggested naming the partnership "TeamWe".

A second key deliverable from Rule 1 was to adopt proven social norms as Guiding Principles. Embracing Guiding Principles helps prevent the parties from abusing their power or using a hold-up position to extract benefits from one another to the detriment of the relationship. When adopted, Guiding Principles also prevent what Harvard University Professor and Nobel Laureate Oliver Hart refers to as "shading." Shading is a retaliatory behavior in which one party stops cooperating, ceases to be proactive, or makes countermoves. Shading happens when a party isn't getting the outcome it expected from the deal and feels the other party is to blame or has not acted reasonably to mitigate the losses. The aggrieved party often cuts back on performance in subtle ways, sometimes even unconsciously, to compensate. **Figure 8** shares the HealthcareCo/ServPro Guiding Principles.

Figure 8 Guiding Principles agreed by HealthcareCo and ServPro

Guiding Principle	Definition
Reciprocity	We will strive to make fair and balanced exchanges, that are mutually beneficial to the parties. We will not place any expectation upon the other that we ourselves are not willing to return in kind. We recognize that reciprocity lies at the heart of TeamWe's ability to reach its goals and will ensure that short-term and long-term requests are for the benefit of the relationship.
Autonomy	Neither party will seek to use its power against either party's best interests and those of the relationship. We will strive to transparently make as much information available as possible to allow our partner to make good decisions for itself and for the relationship. We recognize that working together and being free from coercion ensures our ability to reach our own goals and those of the TeamWe.
Honesty	We will have accurate and genuine conversations at all levels within the relationship. We will also separate the facts from people's observations, perceptions, and experiences, and we will speak to our own perception. We will then look for the greater good that can come from accepting all points of view as relevant for seeking greater value for all stakeholders.
Loyalty	We will champion and protect the value of the other party's interests to the same extent that we value our own individual interests. TeamWe creates more value for both parties than acting separately.
Equity	We acknowledge that some situations will require an unequal distribution of risk or investment. In those situations, we will strive to compensate each party in proportion to the value, risk, costs incurred, or investment made to TeamWe.
Integrity	We will avoid opportunistic behavior and continually strive to make decisions that are consistent with the Guiding Principles in the best interests of TeamWe. To achieve results, we will align our actions with our words. We will do what we say.
Ambition	We will be brave and relentlessly challenge ourselves to move the objectives of the TeamWe forward. We will continuously build on the lessons learnt, look forward and not focus on the past.

Combined, the Shared Vision and Guiding Principles form the "Statement of Intent" for the relationship, which becomes the beacon for the parties. The Guiding Principles ultimately become binding legal obligations and provide guidance and direction that help contracting parties work through tough and often conflicting goals when business happens. ServPro and HealthcareCo embraced the six Guiding Principles of Vested, putting them into their own words and context. In addition the team added a seventh Guiding Principle of their own (Ambition) that reflected the courage the businesses felt what needed into a Vested contract.

With the Shared Visions and Guiding Principles in place, the Deal Architect Team was ready to move on to Rule 2.

Rule 2: Focus on the What, Not the How

Rule 2 - Focus on the What, not the How – is where the parties agree on the overall "what," making key decisions and commitments around the scope and responsibilities for the partnership. A big step for the partnership was deciding to leverage the scale and expertise of both organizations for the benefit of the partnership. This meant shifting many locations not currently under the scope of ServPro under the partnership as well as thinking about the "big picture" of what scope would fall under the agreement. The conclusion? All soft services for both HealthcareCo's "make" and "non-make" sites would be in scope. In addition, ServPro would manage hard services for non-make sites and projects.

One of the key deliverables from Rule 2 was for the parties to align more tangible objectives to the high-level Desired Outcomes. TeamWe ultimately settled on 16 objectives aligned to the six Desired Outcomes.

A second key deliverable was to create a Taxonomy/Workload Allocation. For TeamWe, this meant shifting away from a detailed "supplier shall" statement of work to jointly developing a bilateral taxonomy and workload allocation matrix that outlined the end-to-end scope and responsibilities for both HealthcareCo and ServPro. The taxonomy ultimately included the 11 core services and 49 sub-services that would serve over 150 HealthcareCo locations. A key feature of the workload allocation matrix is the focus on the "what" and not the "how" which encouraged ServPro to explore innovative solutions to meet the mutually defined Desired Outcomes.

Rule 3: Clearly Defined and Measurable Outcomes

A goal of Rule 3 - Clearly Defined and Measurable Desired Outcomes – is to link the right set of measurement criteria to the Desired Outcomes. There were two workshops where the parties formulated a Requirements Roadmap that aligns metrics to the Desired Outcomes and Objectives. It was during these workshops the Deal Architect Team developed a performance management plan that establishes the metrics, standards and tolerances that would drive desired behaviors and business performance. See example in **Figure 9** on the next page.

Figure 9 – Performance Management Plan

Shared Vision	Desired Outcomes
Our collaborative partnership will deliver and enhance the Healthcare Co workplace experience, bringing improved wellbeing, engagement and productivity, creating joint sustainable value through innovation	Be a market-leading model for Safety, Compliance and Reliability
	Deliver the Healthcare Co Workplace Experience to have consistent level of Service and experience by building type and Site classification
	Continuously enhance the workplace experience, through consumer-facing solutions built on consumer insight
	Attract, retain and engage the people to work together and be the engine of the 'We Company' collaboration
	Deliver sustainable social, financial and environmental value that keeps the 'OneTeam Company' competitive
	Successful transformation into the 'OneTeam Company'

Desired Outcomes	Performance				Incentive	Inspection			
	Objective	Metric	Standard	Tolerance/ AQL		Who	Data Source	Calculation	Collected
1. Be a market-leading model for Safety, Compliance and Reliability	1.1 Exceed the market reference safety indicators, with a goal of zero harm	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	1.2 A fully compliant workplace meeting all applicable statutory, regulatory and Healthcare Co / ServPro requirements and standards	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
	1.3 No business interruption due to elements within control	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Rule 4: Pricing Model with Incentives to Optimize the Business

In conventional outsourcing, companies purchase services for a transaction fee (cost per unit, hour, FTE, shipment, etc.) or in the case of the previous contract between HealthcareCo and ServPro contract in the form of a GMP (Gross Maximum Price) for a set scope of work. In Vested, the economic model is flipped on its head with the buyer and service provider transparently co-creating a pricing model with incentives that reward the supplier when mutually defined outcomes are achieved. In short, the supplier is *vested* in the buyer's success because a win for the supplier is a win for the buyer – and vice versa.

Rule 4 is typically the most difficult for teams to work through and typically requires finance Subject Matter experts. To complete the pricing model the Deal Architect Team created a smaller and focused Joint Finance team including HealthcareCo procurement team members.

The goal of the Rule 4 workshops was to design and build a pricing model while working within both organizations' commercial guardrails and contract targets. Together HealthcareCo and ServPro worked through nine elements of the pricing model as shown in **Figure 10**.

Figure 10 – Nine Elements of a Vested Pricing Model

1	Pricing Model	Description of the structure and logic of the entire pricing model, in which the other annexes and exhibits are referred to
2	Pricing Model Framework	Overall view of the pricing model, based on the Vested pricing model framework with service delivery and transformation
3	Assumptions	Assumptions made for the TCO calculation and Pricing Model such as assumptions regarding scope, demand fluctuations, labour cost, legal entity challenges, currency fluctuations, etc.
4	Risk Assessment	List and description of risks and how they are dealt within the Pricing Model, especially financial risks. For example, these can be risk premiums and/or margin matching triggers for mitigation
5	Pricing Model TCO Tables and Prices	Printed or digital Excel model for calculating costs and prices, including costs and management fees, with descriptions of how this model is built up and how its parts come into play when calculating cost per site and also for higher levels of aggregation
6	Incentives	Description of incentive structure, and how different incentives come into play Process and frequency for calculating and paying incentives
7	Payment Terms	Description of payment terms and related term and conditions, taxes, late payments and related matters (if not covered in standard T&Cs)
8	Margin Matching Triggers & Mechanisms	Description of assumptions, trigger points and margin matching triggers and how margin adjustments are intended to be made and how change discussions may be initiated tied to triggers such as: scope growth, labour cost, currency fluctuations
9	Deployment, Review & Maintenance of Pricing Model	Description of how the pricing model will be maintained, updated with cost data, etc. Process for budgets and fiscal year planning Process for capturing and populating site specific cost data Process, frequency and responsibilities for cost database updates Process for review of overall pricing model

True to the Vested methodology, the parties agreed to make the shift to full transparency – including supplier rebates. A key part of creating the pricing model was to honor each party's guardrails. HealthcareCo was seeking savings across the portfolio measured via baseline budget. ServPro was seeking to achieve a fair minimum gross profit margin with incentives based on the ability to create value.

The team ultimately shifted the existing Guaranteed Maximum Price (GMP) to an evolved pricing model with incentives designed to drive the parties' behaviors to achieve the mutual Desired Outcomes. The more successful the parties were at delivering on the mutually agreed Desired Outcomes the more value created. Success for HealthcareCo would mean increased service *and* lowered costs. As targets were achieved, it would unlock incentives for ServPro which would increase their profit margin and other non-monetary incentives.

The pricing model has four "buckets," and incentives are linked to each bucket to drive the appropriate behaviors.

1. Base Services

Base Services represent stable services that are recurring and predictable and can be budgeted. The foundation for the base services portion of the pricing model is a cost-pass-through compensation model where the "cost is the cost" and costs are passed through with no markup and paid for by HealthcareCo.

ServPro earns their profit with a pre-agreed fixed management which represented the profit potential for ServPro. Thirteen percent of the management fee is tied to performing base services and is guaranteed. The remaining percentage of the management fee is tied to achieving eight key performance indicators (KPIs) linked to the Desired Outcomes.

It is important to note at the time of signing the agreement there was new scope, new locations and new KPIs. To be fair, the parties agreed to limited incentives to five KPIs at Go-Live and phase in the additional KPIs after a baseline was established. Two incentives were the same across all three phases – delivering savings against the budget and health and safety as measured by a "save target." The other KPIs and incentives would phase is as the various sites transitioned under the new Vested agreement.

2. Other Services

One of the things that often haunts organizations when coming up with a pricing model is how to deal with unknown and/or unpredictable services. The Vested methodology addresses this by establishing pricing mechanisms to deal with these variable items. For example, in the case of capital projects, ServPro charges a pre-approved rate card plus an agreed markup when these services are needed. HealthcareCo pays ServPro for actual costs based on the rate card usage. Once again, the pricing model linked incentives for ServPro. However, in this case the incentives were linked to projects being below budget, on time, and meeting project objectives. In addition, ServPro receives a cost-share incentive on projects that come in under budget.

3. Governance

Governance is the management structure required to run the portfolio and includes costs for both HealthcareCo and ServPro. For HealthcareCo costs included their internal operational organization dedicated to working within the scope the relationship. For ServPro, this includes dedicated account management staff acting in key account roles needed to manage the delivery of the vision. It also includes ServPro non-dedicated resources that are linked to contributing to ServPro back-office costs supporting TeamWe.

4. Transformation

A hallmark of a Vested agreement is tying incentives to the parties ability to collaborate to create value for meeting the mutually defined Desired Outcomes defined in Rule 1. In the case of TeamWe the parties agreed on a fixed transformation incentive that could be unlocked as progress towards the Desired Outcomes is met. While the total percentage of incentives is fixed, TeamWe purposefully designed the pricing model to be flexible and allow for business priorities to change over time. For example, for the "near term" TeamWe put heavy emphasis on transition with a larger percentage of the incentive pool tied to a successful transition.

In addition to thinking of the pricing model in terms of the "four buckets", the team wanted the pricing model to be flexible and encourage HealthcareCo location site managers to turn over scope from internal operations to ServPro. To address this, TeamWe structured the pricing model in such way that the model provided strong incentives for locations to turn over scope as part of the Base Services.

Rule 5: Insight Versus Oversight Governance

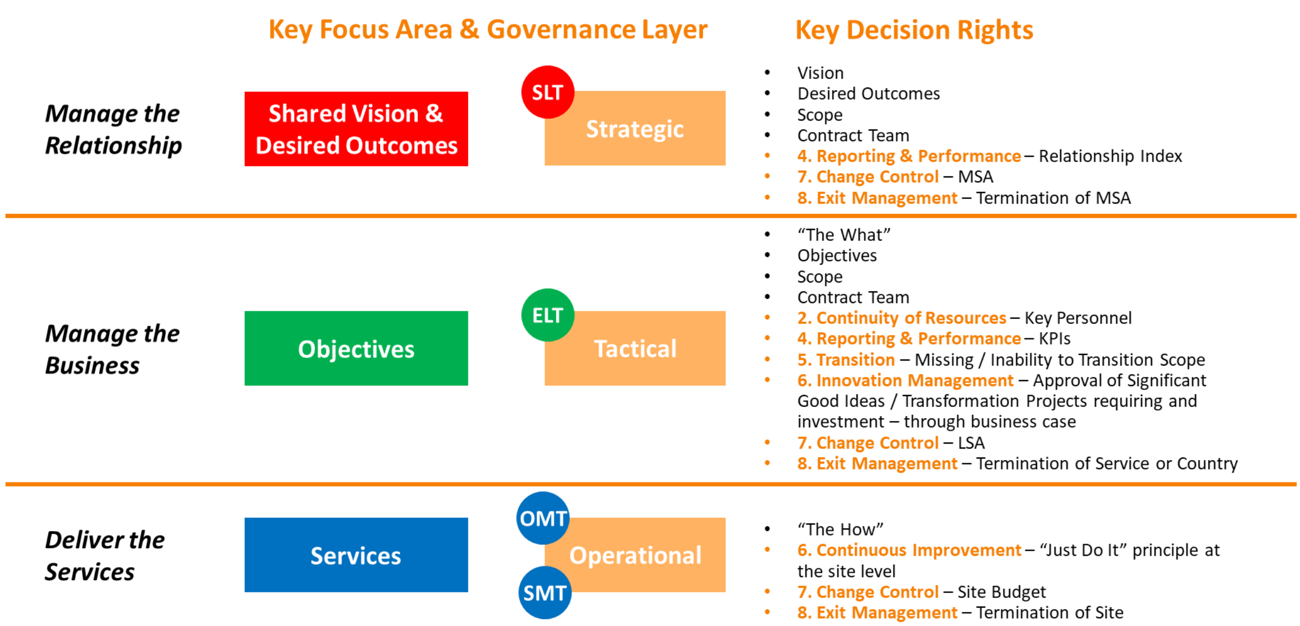
Rule 5 – Insight versus Oversight Governance Structure – is where the parties design the governance mechanisms to keep in continual alignment when "business happens." Think of it this way: if the Shared Vision and Desired Outcomes are the beacon of the relationship, the governance structure is the mechanism for the parties to stop and redirect their efforts when detours occur. The governance framework uses a relationship management structure and joint processes as controlling mechanisms to encourage organizations to make proactive changes for the mutual benefit of all parties. In short, a strong governance structure is the glue that keeps everything together and operating smoothly.

Rule 5 included four workshops. The Deal Architect Team created a governance model that follows proven design principles that create a true spirit of partnership regarding management principles, roles and responsibilities (design principles are noted in bold italic in the text). The governance structure and mechanisms consciously shift away from HealthcareCo managing ServPro as a supplier to the parties jointly managing the business – ***together.***

High-Level Governance Structure Design

Figure 11 graphically summarizes the TeamWe governance structure, which features a three-***tiered governance structure*** with four distinct levels ranging from strategic to local delivery level operations. Each governance tier is responsible for managing key Vested Elements. For example, the Operational Tier has authority to do contract changes at the site budget level while the Tactical Tier has authority to change the Local Service Agreement (LSA) and the Strategic Tier can change the Master Service Agreement (MSA).

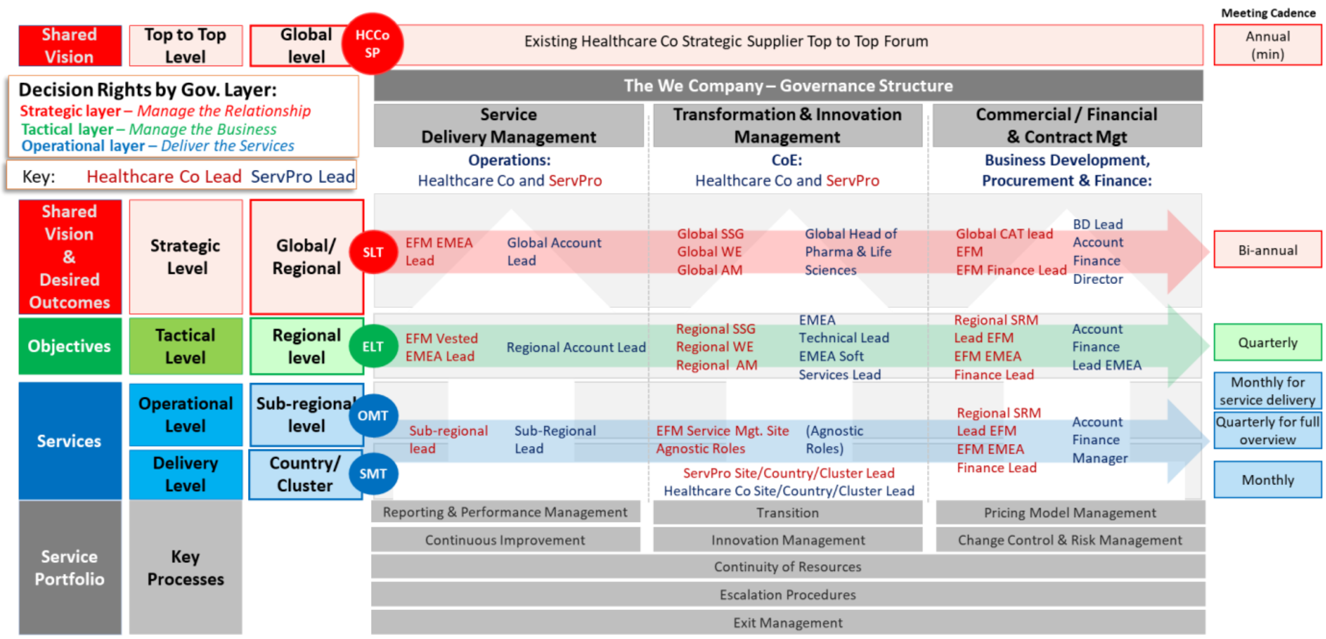
Figure 11 – High Level Governance Structure



**The numbered items in orange align with Vested contractual elements*

The governance structure in **Figure 12** is based on three pillars that represent ***distinct governance roles*** - Transformation and Innovation Management, Commercial & Contract Management, and Service Delivery Management. Each governance level meets at a required ***cadence*** ranging from monthly at the lowest level of governance to annually at the Top-to-Top level.

Figure 12 – Detailed Governance Structure



Staffing to Make Sure Governance Works

The TeamWe agreement also includes ***Key Positions.*** A Key Position is considered a role that is critical to the success of the relationship and operations and are named in the agreement. Key Positions work with a ***"2-in-a-Box"*** partnership mindset as peers. For example, HealthcareCo and ServPro each have a Key Position that serve a "Finance Leads". The highly collaborative 2-in-a-Box approach calls for HealthcareCo and ServPro functional leads to work together to achieve the mutual goals under their span of control.

Continuity of resources for Key Positions is a top priority. Each Key Position has at least one identified resource to cover a long-term absence. The parties have also agreed on guidelines for replacing Key Positions which includes a transition period of three months to allow for the ***onboarding*** of team members in a Key Position role.

Governance is so critical to the success of a Vested Agreement that the TeamWe partnership included a 2-in-a-Box pair that operate as the Governance Leads for the relationship – something the University of Tennessee believes is a best practice

Operationalizing Governance

The contract defines the intent of how each governance tier should work in a "Governance Table." Each governance meeting has a standardized agenda and ***cadence*** for all meeting levels and there is joint meeting ownership with the parties rotating as chairs.

It is important to note that the agenda includes a clear focus on not just managing for today but a conscious decision to spend significant time managing for tomorrow and managing the relationship. Each meeting starts with a reaffirmation of the Shared Vision and Guiding Principles and focuses on how the parties are performing against the mutually defined Desired Outcomes. This is important because in a Vested Agreement the parties write a contract agreeing to collaborate to get to the future, not just for the supplier to perform tasks for today.

In addition to the regular governance meetings, TeamWe hosts strategic summits. For example, at one of the summits team members developed and reviewed regional TeamWe roadmap plans. These are detailed plans prepared by the sub-regional leads about how they will achieve their Desired Outcomes at a site level. A different summit focused on joint communication, increased visibility and communication throughout the governance tree on the ongoing priorities for both parties. They also use the time to collaborate on key initiatives such as working on the design and deployment of a toolkit for how the parties would work together in a merger, acquisition and divestiture process.

TeamWe uses a formal ***issue/resolution process*** that supports and manages potential disagreements and contractual misalignments that may arise between HealthcareCo and ServPro. The process has a clearly defined delegation of authorities designed to ensure issues don't get stuck at lower levels of governance and ensures that the Guiding Principles remain apparent throughout resolution agreements

The parties also use creative mechanisms and even formal programs to ensure alignment. For example, the 'Back to the Shop Floor' program keeps leaders in touch with the day-to-day challenge of front-line work the 'Bring your Boss to Work' program is where a senior leader shadows an employee to understand their day-to-day challenges. These programs not only tighten alignment between each governance tier, but also drive service improvements, increase employee engagement and boost the morale of our frontline staff.

Lastly, TeamWe's governance incorporates mechanisms to ***monitor relationship health***, including an annual health checkup which incorporates a review of relationship health using a Compatibility and Trust (CaT) Assessment. They also did improvement workshops first 3 years of the contract – these included results from the CaT Assessments, and a plan to address any issues to continue to improve the relationship.

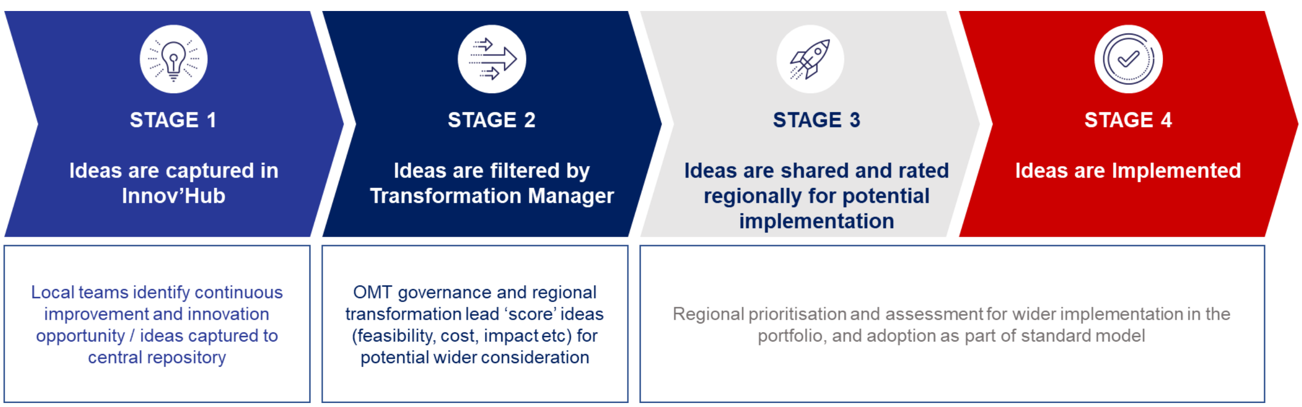
Managing for Tomorrow - Operationalizing Transformation
The desire to transform is at the very heart of the HealthcareCo and ServPro partnership. Recall the TeamWe Shared Vision:

Our collaborative partnership will deliver and enhance the HealthcareCo workplace experience, bringing improved wellbeing, engagement and productivity, creating sustainable value through innovation.

Because innovation is at the center of the TeamWe partnership, the Vested Agreement includes key commitments for how the parties will jointly operationalize and how they collaborate to manage delivery on the promise of a better tomorrow. For TeamWe, innovation comes in the form of both larger-scale transformation initiatives and smaller continuous improvement efforts. Both are key to helping the parties drive and improve the delivery of the Desired Outcomes and Objectives.

The parties have created a joint innovation management process (see **Figure 13** below) with all ideas going through a four-stage structured process designed to take the best ideas through to development and implementation.

Figure 13 – Innovation Management Process



The parties use a simple scoring tool to vet ideas with the highest ROI and all ideas are tracked through the process to ensure good ideas don't end up in the "good idea graveyard." Ideas are classified and managed through governance.

Level 1 ideas are simple incremental continuous improvement ideas not needing formal contract change approval and are reviewed and managed at the local site level of governance. Level 2 ideas are significant transformational ideas and/or those more complex initiatives that need to be more fully assessed and prioritized, or will require a formal contract change or finance approval. Classifying ideas allows for easy-to-implement ideas to not get hung up in the perceived bureaucracy of having to go through high levels of governance.

If needed, ServPro also connects the dots with its training initiatives as they roll out new techniques and technologies. A good example is how TeamWe is rolling out a new cleaning system that turns tap water into ‘stabilized aqueous ozone’, one of nature’s most powerful cleaning agents. ServPro first introduced the system to HealthcareCo’s in a UK site which ultimately became the first chemical-free site within HealthcareCo. True to their goal to use its scale – TeamWe went on to roll out the solution out in other sites.

A key part of the success is the diligent use of an Innovation Roadmap. Transformation initiatives are tracked in an Innovation Roadmap which defines and schedules how the transformation initiatives are implemented. For perspective, one of TeamWe’s Quarterly Business Review reported the parties were tracking 48 transformation initiatives being scaled to multiple locations – 50% of which were classified as innovations. These 48 initiatives equated to 238 standardization opportunities which help TeamWe make progress against the ‘Consistent Service Levels’ Desired Outcome. In many cases, the standardization also helped TeamWe to achieve the ‘Sustainable Value’ Desired Outcome.

Now let’s connect governance to the pricing model. Remember that ServPro is incentivized when the parties achieve TeamWe Desired Outcomes and Objectives. Here ServPro receives a significant incentive payment for achieving the parties’ standardization goals.

It is important to note that ServPro can’t drive transformation without HealthcareCo. Simply put, ServPro team members could come up with 1,000 great ideas but if HealthcareCo didn’t approve the good ideas, they would simply go to the good idea graveyard. For this reason, transformation is not seen as a one-sided ServPro responsibility, but rather a process the parties must operationalize *together* as a primary function of governance.

Finalizing the Contract

Approximately 18 months after HealthcareCo’s initial “is there a better way” question, HealthcareCo and ServPro inked their Vested Agreement. It was also the first Vested partnership for either HealthcareCo or ServPro. The contract:

- involved 2000+ ServPro employees supporting 150+ HealthcareCo sites in 29 countries
- included a broad spectrum of facilities management services (11 core services and 49 sub-services)

The contract itself is based on an overarching MSA (Master Services Agreement) acting as an umbrella agreement that ties together the various country-specific Local Agreements (LAs). The LAs formalize the scope, roles and responsibilities for TeamWe at each site. Local Agreements automatically incorporate all terms and conditions of the MSA unless specifically amended within the LA. Local Agreements based on the template provided in the MSA make it easy for the countries/sites to harmonize with the broader vision and how TeamWe plays by the Vested Five Rules.

A huge milestone for the Deal Architect Team crafting the new partnership was significantly reducing the ailments associated with the previous contract.

Figure 14 to the right highlights the marked shift in how the parties have eliminated conflicting incentives and negative behaviors associated with the previous contract.

Figure 14 – Ailments Scoring

Ailment	Previous Contract	Vested
Penny Wise and Pound Foolish		
Outsourcing Paradox		
Activity Trap		
Junkyard Dog		
Honeymoon Effect		
Sandbagging		
Zero Sum Game		
Driving Blind Disease		
Measurement Minutiae		
Power of Not Doing		

PART 4 – DEPLOYMENT: LIVING INTO THE AGREEMENT

While successfully creating a Vested Agreement is the major milestone on a Vested journey, most of the team members will tell you it is just the first mile marker along the way. With the contract signed, the parties turned their attention to the rollout. This included filling key positions and kicking off the new partnership with 350+ facilities management leaders from both HealthcareCo and ServPro to learn the new Vested Way of working.

3-Day Kick-off Summit

The first key part of deployment involved bringing 350+ facilities management leaders from EMEA together for a formal introduction to TeamWe and the Vested Way of working.

The workshop objective was to share the new Shared Vision, Desired Outcomes, Guiding Principles and governance structures to provide the wider teams with a view of how things would operate in the future. The workshop focused on how the contracting model differed from traditional ones, gamified the learning and appreciation of the Guiding Principles, and included a Q&A to fully introduce the new TeamWe leadership and allow teams to raise questions about the contract and future working.

Feedback was excellent – with a 97% positive rating of which 61% classified as "Gold! It was a fantastic meeting."

"This was probably the best organised event I've attended and also one of the most worthwhile in regards to content and outcomes"

"Well presented topics with good interaction in an informal pleasant team atmosphere. Evening program provided good networking opportunities"

"Vested approach explained by Kate V. was really inspirational."

"Doug's presentation on how disabled people are perceived was so insightful"

"Breakout workshops were excellent way of embedding both principles and culture of Vested. Was great to see collaborative thinking and working"

"I liked the COE presentations the most because for the first time I got to understand what they are involved in, in more detail"

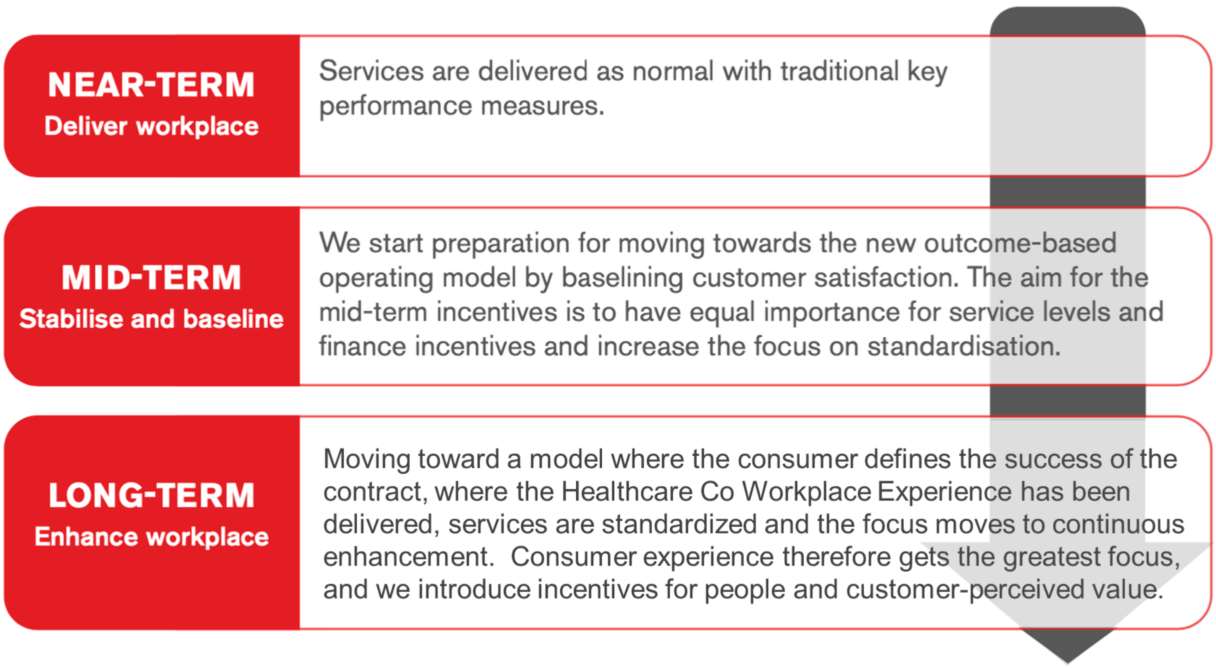
"Special mention for Exercise Pegasus, which was very good in order to create a common emulation with FM Co."

"Amazing spirit and mindset! Never seen before within my client portfolio"

Three Phase Plan

With key leaders getting the basics of the why and how of TeamWe at the kickoff summit, it was now time to roll up everyone's sleeves and operationalize the Vested Agreement using a three-phase plan focused on achieving near-term, mid-term (transitional) and long-term targets. **Figure 15** represents the TeamWe journey for moving through the short- to mid- and long-term objectives.

Figure 15 – Progressing in Objectives



Recall when designing the pricing model TeamWe linked to metrics that changed based on which phase a site was operating in. Key metrics and incentives ramped up during a stabilization phase.

Transition Waves

The rollout involved two "waves". Wave 1 included all incumbent sites where ServPro was already delivering services. Wave 2 involved 96 non-incumbent sites and territories where ServPro was not delivering services for HealthcareCo. With Wave 2 came unique challenges such as onboarding 26 new sites.

Within two years TeamWe had successfully deployed 98% of locations – something HealthcareCo executives had originally thought to be virtually impossible. A key to mobilization success was using Tiger Teams and a robust onboarding program coined as the Vested Stabilization and Operational Readiness (VSOR) program.

Tiger Teams

As the Wave 2 sites were non-incumbent, the parties had the added complexity of not just ramping up on the Vested way of working, but also physically ramping up the sites. This meant ServPro had new or transferred site leads. This also meant the parties would need to develop Local Agreements from scratch.

Taking the lessons learned from Wave 1, TeamWe created Tiger Teams to augment local teams with the specialized commercial support needed to ramp the sites up under the new Vested Agreement. Because the Tiger Teams had experience from onboarding multiple sites in Wave 1, they could leverage their experience, taking anticipatory actions ultimately leading to more efficient and effective site ramp-ups. The Tiger teams played many roles, including:

- Acting as a sounding board and trouble-shooter for site teams
- Recognizing the impact of local, in-country economic factors
- Validating baseline figures to ensure they covered the full scope of services and management activity
- Ensuring standardization opportunities and innovation were embedded in the local solutions
- Providing contract training to Site Leads both regionally and locally

Vested Stabilisation and Operational Readiness (VSOR) Program

Getting the local agreements and physical work transitioned under TeamWe's wing was only one part of mobilization. Equally important (and hard!) was educating the widely dispersed teams on the new way of working. The new TeamWe Vested Agreement was different. First – it flipped the economics to an outcome-based model. But it also fundamentally changed core processes such as how the parties govern the relationship. Out was the traditional us-versus-them vendor manager approach and in were robust governance mechanisms to manage the business – ***together.***

TeamWe developed a Vested Stabilization and Operational Readiness (VSOR) training program and deployed it jointly to HealthcareCo and ServPro operational teams locally. The goal was simple – embed the Vested contract and way of working into the sites and teams so they can get off to the best possible start. It has been extremely successful and allows both parties to discuss the Vested contract and collaborate on how it will operate at a site level.

A key part of VSOR was training workshops educating team members on the Vested way of working. The VSOR team typically spent 3 days at a key site with the local teams working through the operational tools, fee structure, governance, workload allocation, and applying these to real-world examples. This involved a three-part training plan including Contract Training 1, Contract Training 2 and Winning the TeamWe Way Training.

Contract Training 1 included helping team members understand

- a high-level overview of the Vested Deal
- the 'Us Together Company' (TeamWe) Value Case & the pipeline for delivery
- the Commercial structure of the Vested contract
- key principles within the commercial relationship
- key activities & milestones during the operation of the contract
- the commercial structure of the contract, ready for the next phase in the transition process – Solutioning
- how performance management works under the contract
- IT requirements of the contract

Contract Training 2 focused on the transition phase and emphasized stabilization – including governance, continuous improvement, performance management, and project management.

Winning the TeamWe Way Training focused on behavioral training to help people learn how to live into the agreement. In essence, VSOR created an environment where TeamWe partners could test drive the new Vested principles before the mobilization Tiger Team stepped away. Once training was complete, Tiger Team members would then act as a "safety net," attending governance meetings and coaching the team on having the right conversations with TeamWe colleagues. Gradually the Tiger Team stepped away, giving operational teams greater autonomy to manage the local relationship.

> *"The Vested approach is a big departure from traditional client/provider contracts; it requires a change in mindset, ambition and healthy debate from all parties to ensure the parties can effectively live into the Vested Agreement."*
>
> HealthcareCo Governance Lead

To support this, TeamWe engaged a behavioral consultant with expertise in FM and real estate to develop and provide the 'Winning the TeamWe Way' Training in which TeamWe team members discuss the changing landscape and expectations of the new Vested model. The training embeds the principles of the Vested contract by providing practical tips and advice on how to work effectively with TeamWe colleagues and to share best practices. In essence, how to behave in a Vested way so the parties can live into the intentions outlined in the contract. A key part of the training was highly interactive role modeling scenarios to learn new ways of working.

Vested Readiness Index

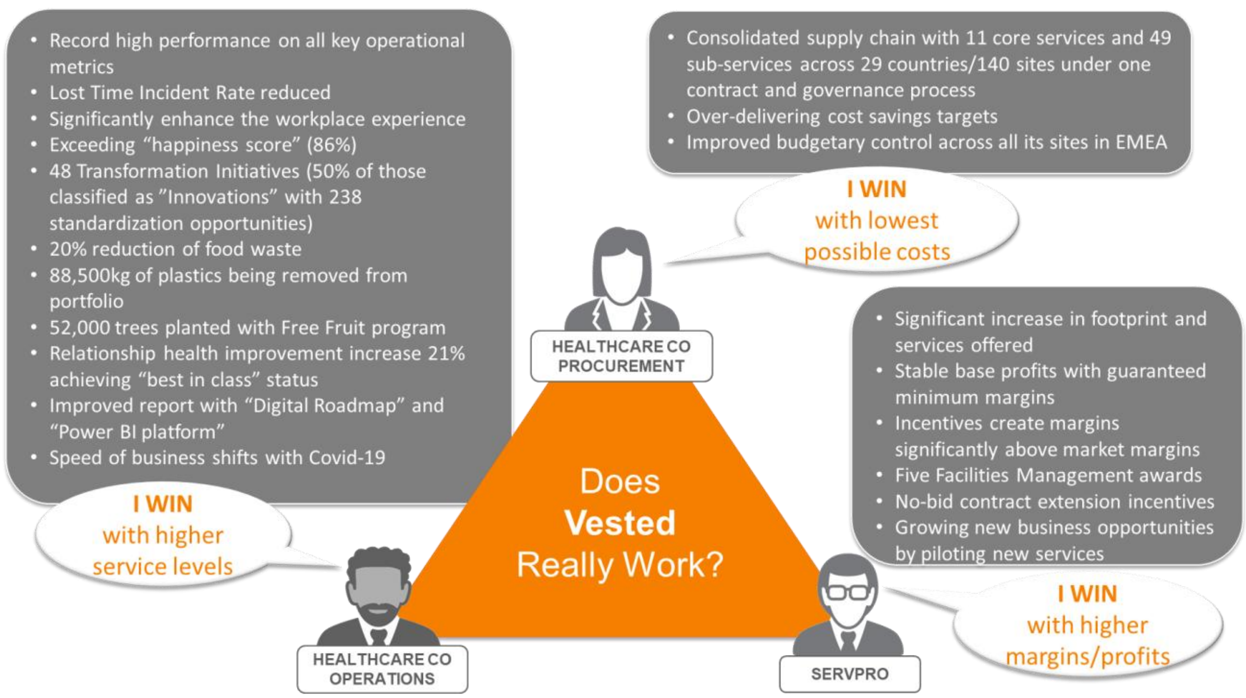
Getting 150+ sites ramped up across Europe was not an easy feat. TeamWe created a "Vested Readiness Index" to help determine if sites were ready. ServPro had a significant incentive linked to a seamless transition to the Vested Way of working. The litmus test was the three-part Readiness Index measured at the site level. The result? A new way of work – a Vested way.

PART 5: VESTED FOR SUCCESS: THE RESULTS ARE REAL

The HealthcareCo and ServPro transition to a Vested Way of working is by all counts a huge success. During this process, there were nearly 20 workshops where dedicated and passionate team members collaboratively transformed a 25+ year relationship into a ground-breaking mutual partnership.

HealthcareCo and ServPro measure success against the Desired Outcomes developed in Rule 1 and further defined with measurable KPIs in Rule 3. Two years after signing the agreement TeamWe engaged EY to audit the success in a formal review. **Figure 16** shares the TeamWe Performance Pyramid, illustrating how the parties have achieved the power of and: lower costs *and* higher service for HealthcareCo *and* high profits for ServPro.

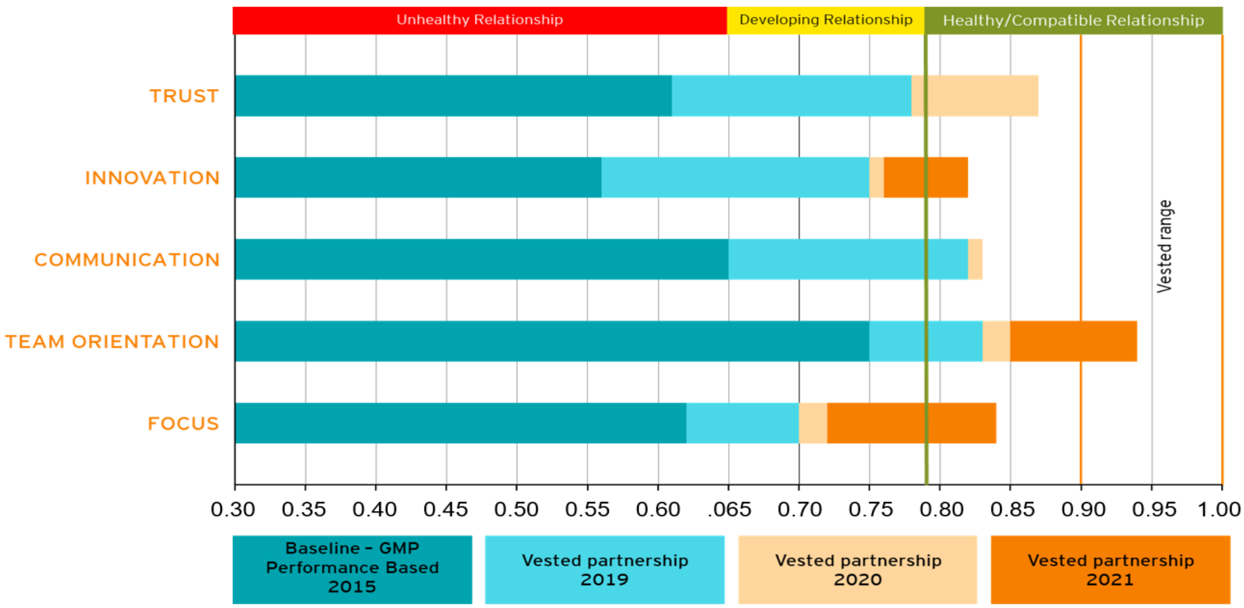
Figure 16 – Performance Pyramid of Results



Relationship Health

While the business executives are excited about the operational and financial results, team members in the field will say one of the biggest benefits of a Vested relationship is defined by the increased trust levels. The TeamWe team is highly collaborative, more productive, and moves "at speed" with the fast-paced business pressures HealthcareCo faces than either party thought was possible. But can trust be quantified? The answer is yes. TeamWe conducts an annual relationship health check which includes a CaT (Compatibility and Trust) assessment survey to gauge the improvement in the overall relationship health. The results? 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. The results are shown in **Figure 17.**

Figure 17: Relationship Health



As part of the Relationship Health Check, TeamWe also looks at the relationship health at sub-regions as well as across the entire relationship. Recall that sites "roll into" the relationship in waves. **Figure 18** (on the next page) shows a positive impact on the relationship across one of the sub-regions after shifting to the Vested way of working. The analysis looks at the percentage of individuals having negative, neutral, and positive feelings about the relationship. The positive ratings improved from only 58% to over 90% after making the shift under the Vested agreement in 2020. **Figure 19** expands on this by showing the adjectives team members used to describe how they felt about the relationship. Just one year after ramping up with the Vested Way of working the percent of negative words decreased from 16.7% to only 1.6%.

Figure 18: Percentage of Individuals Having Negative, Neutral and Positive View

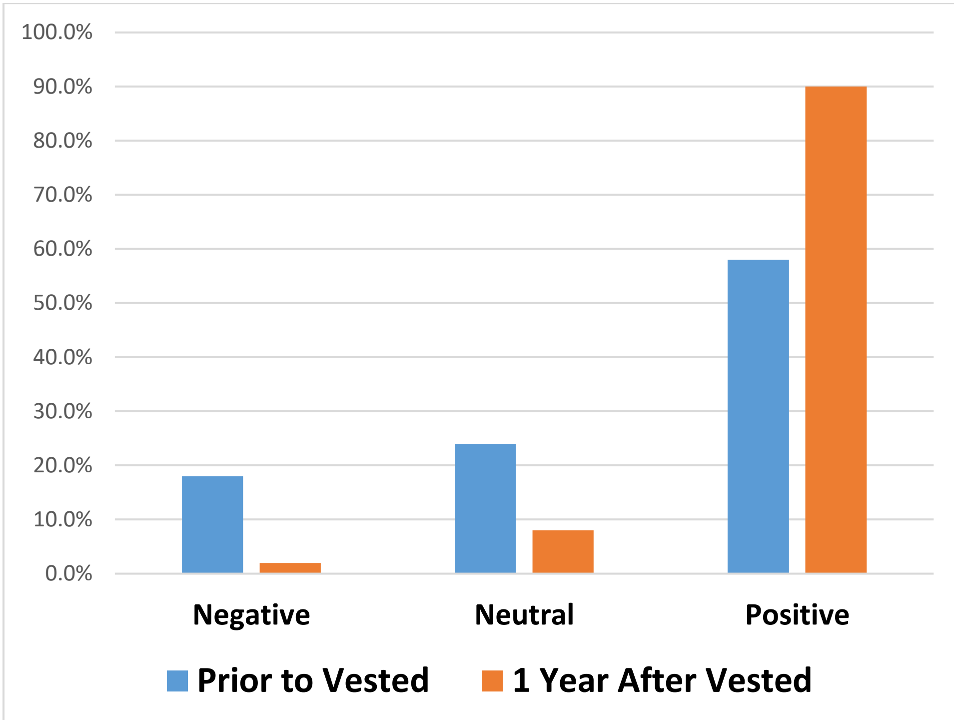
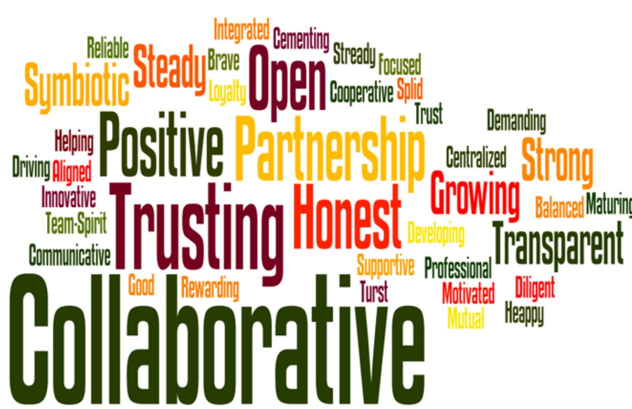


Figure 19: Words Used to Describe the Relationship

Prior to Vested

1 Year After Shifting to Vested



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Magnus Kuchler is EY's Consulting Leader in the Nordics and country managing partner for EY in Sweden. Kuchler leads EY's global work as a University of Tennessee Vested Center of Excellence. He has over 29 years' experience as an outsourcing adviser and has led advised 185 deals. Magnus is a thought leader and pioneer for CRE outsourcing, becoming EY's first certified deal architect and leading 25 Vested outsourcing deals. He is a certified Vested Coach. He was also first in Europe to implement a request for partner process.

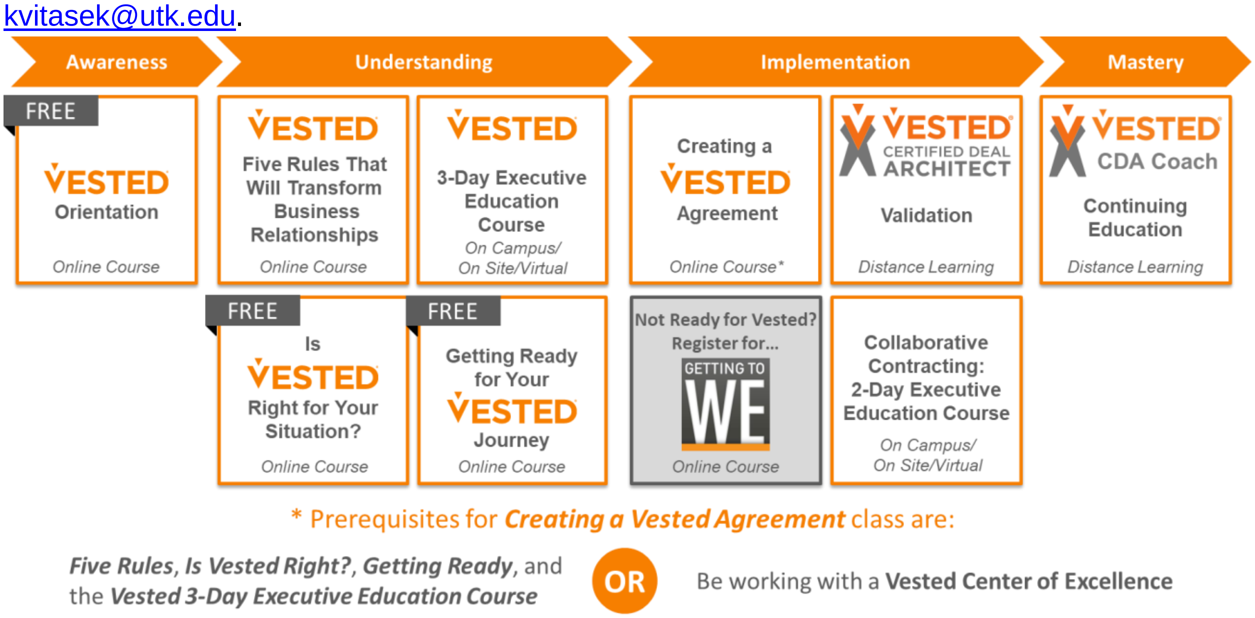
FOR MORE INFORMATION

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.](http://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 to 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/ where 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 papers and resources. For more information, contact kvitasek@utk.edu.



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