

 DEWESoft

 AGM Nemec

 Hilman Instalacije



**VESTED**<sup>®</sup> For Success Case Study

*Dewesoft, AGM Nemec & Hilman*  
Building the City of Acrobats

A Report Authored By:

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## EXECUTIVE SUMMARY

In the fall of 2023 Dr. Jure Knez – founder and President of DEWESoft – had a problem. He was embarking on a huge project to invest in a multi-year construction project to build the “City of Acrobats”

For Knez, the City of Acrobats was not just a construction project; it was a personal passion he was committing to fund over the next 10-12 years as funds became available from the profits and of his company.

The vision? The City of Acrobats would be a world-class technology park located in Slovenia, providing an entrepreneurial environment including production facilities and support services for entrepreneurs and startup companies in Slovenia and beyond. Knez was passionate about supporting entrepreneurs because he knew firsthand the struggles and lack of support and resources startups often experience.

The problem? Knez knew that large construction projects were often fraught with issues frequently leading to cost overruns, delays and even expensive disputes. The building of the City of Acrobats would be even more challenging given the fact it would be built “one module at a time” as funding became available.

When Knez heard about the Vested business model, he had a hunch. Could it work for collaborating with local suppliers who would provide the construction expertise for the City of Acrobats. After an initial workshop with two potential suppliers the answer was clear; the potential partners set out to create a win-win Vested agreement that would meet the unique needs of the City of Acrobats.

This case study goes behind the scenes and shows how the partners (DEWESoft, AGM Nemec and Hilman Inštalacije) created the first Vested agreement for a complex construction project. The agreement – signed on January 1, 2025 – set off a collaboration that already started saving time and money before the ground was even broken.

The case study consists of four parts.

- Part 1 provides a brief **background**
- Part 2 shares how the collaborators **laid the groundwork** for their Vested journey
- Part 3 is a deep dive on how the partners put the Vested theory into practice by **creating a Vested Agreement**. Here we share how the partners approached each of the Vested Five Rules as well as provide insight into how the rules were embedded into the actual contract.
- Part 4 provides a summary of the early **results and offers advice** that will benefit other organizations as they embark on their own Vested journey.

We hope you find this case study an inspiration for seeing the art of the possible when it comes to strategic outsourcing partnerships.



## PART 1: BACKGROUND

DEWESoft got its roots in the late 1990s when a PhD student, Jure Knez, developed a new type of data acquisition software that allowed users to easily measure and visualize various measurement instrument signals. His ideas blossomed into DEWESoft which is now a global leader in measurement technology. DEWESoft - based in Trbovlje, Slovenia - was officially founded in 2000. At the time of writing this case study, DEWESoft has grown to be a \$100 million company with over 400 employees.

Over the years DEWESoft gained notoriety with numerous awards including the NASA Tech Brief Award for a portable DAQ system (2009), recognition for being the fastest-growing company in Slovenia, and exporter of the year awards. Today DEWESoft is a multinational company operating in over 70 countries with a diverse range of clients including NASA, SpaceX, and every single automotive manufacturer.

From the start Dr. Knez believed in creating value not just for himself and his co-founders, but for the employees working at DEWESoft as well. One way Knez did this was by setting up the company to allow for a portion of the company to be owned by its employees. Knez was adamant a culture that creates and shares value through employee ownership fosters long-term success because employees have a stake in the company and win financially when the company does well.

But while DEWESoft and its employees were seeing success from their entrepreneurial spirit, one thing that weighed heavily on the mind of Knez was that Slovenia – especially the Zasavje valley where DEWESoft is headquartered – still suffered from economic depression.

The once rich Zasavska valley historically relied on coal mining. But over the years, economic and political shifts resulted in many of the region’s factories closing and mining operations shutting down. Many lost their jobs and others left the region to seek better opportunities.

Knez and his co-founders realized firsthand how hard it was to make a startup successful. An idea emerged: What if DEWESoft established a startup support solution to help aspiring entrepreneurs get much-needed help in launching their own businesses? The idea took shape when DEWESoft purchased a building across the street from its headquarters and manufacturing facilities. The venture became known as Katapult.

“The idea was that Katapult would be a place entrepreneurs could come to get the support to catapult their great products out in the world,” shared Dr. Knez.

The idea was an instant hit, “Katapult has grown beyond my wildest dreams,” shared Dr. Knez. “There are now over 100 startups passing through Katapult launching many successful products.”

Ever the entrepreneur, Dr. Knez, had yet another idea: expand the concept and build an entire city to support entrepreneurs. Katapult members coined the initiative the “City of Acrobats” because acrobats are innovators who are changing the world for the better.

The goal? The City of Acrobats would become a world-class technology park combining cutting-edge technological know-how with the wisdom of the experienced (DEWESoft) and the enthusiasm of the young startups (Katapult). “The City of Acrobats should represent a commitment to not just entrepreneurial success, but to cultivating a collective vision and



determination that propels the entire region forward to rival tech hubs such as Silicon Valley in the United States,” explained Dr. Knez.

Funding for the City of Acrobats would come from DEWESoft and Dr. Knez as funds became available with the goal to complete the entire City of Acrobats over 10-12 years. “We receive subsidies for the purchase of various devices, such as heat pumps, solar power plants and e-vehicles. With luck, government grants would kick in additional funding and speed the build out even sooner,” shared Miran Skobe who was hired by Dr. Knez to help bring the vision to life.

A small team within DEWESoft and Katapult went to work to make the dream a reality. They engaged an architect and recruited local support. By the fall of 2022 things were taking shape with the overall design.



**Architect’s Vision for the City of Acrobats. Photo Source: DEWESoft**

Dr. Knez and the mayor of Trbovlje, Jasna Gabrič, signed a letter of intent on the construction of the City of Acrobats on October 21, 2022. The Slovenian Minister of Economic Development and Technology, Matjaž Han, shared his excitement about the City of Acrobats “The main purpose of the City of Acrobats is to revive the economic development of the entire Zasavje region, which will also have a tremendous impact on the economic development of the entire country.”<sup>1</sup>

When the City of Acrobats is ultimately developed, it is expected to create over 1,000 jobs for the region and will include a cultural center, educational/training center, congress hall and a variety of world cuisines.

Now for the next challenge: getting it built.

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<sup>1</sup> See <https://www.trbovlje.si/objava/691718>



## PART 2: THE JOURNEY BEGINS - LAYING THE GROUNDWORK

Dr. Knez knew that large construction projects were often fraught with issues frequently leading to cost overruns, delays and even expensive disputes. Indeed, statistics support his concerns. One such study published in 2025 analyzed 662 construction projects across 83 countries and found more than 60% experienced cost overruns and delays.<sup>2</sup> The larger the gap between initial estimates and actual costs, the more likely disputes will arise and costs will increase. The result? Legal battles, project stoppages, and strained relationships with stakeholders.

Dr. Knez also knew good partners bring valuable expertise, resources, and capabilities to the table that could make the idea of the City of Acrobats a reality. His hunch was that two local Slovenian companies – AGM Nemec and Hilman – would likely be good partners for the construction of the City of Acrobats. DEWESoft had experience working with both companies and felt that a properly structured construction contract would help the project avoid many pitfalls, such as finger-pointing among contractors.

AGM Nemec (AGM) is a leading construction company in Slovenia and Hilman Inštalacije (Hilman) provides electrical, plumbing and other construction installation activities and services across a wide variety of industries.

Knez recalled being introduced to the concept of Vested at a local networking event. He read the book *Vested Outsourcing: Five Rules that Transform Outsourcing* and was immediately intrigued. Could Vested help align the interests of DEWESoft and potential construction contractors? He reached out to the University of Tennessee's Kate Vitasek: could Vitasek come to Slovenia and meet with DEWESoft, AGM Nemec and Hilman and see if Vested could be a good fit?

Vitasek proposed an idea. Use the trip not only to educate the companies about Vested, but also to give the parties time to complete Rule 1 of the Vested methodology during an Alignment Workshop. If the potential partners were aligned with Vested being a good fit and could align on a Statement of Intent for the partnership (a formal shared vision, guiding principles and high-level desired outcomes) the team would then be in a good position to continue with the Vested methodology to create a highly collaborative win-win contract for the construction of the City of Acrobats.

In preparation for the workshop, Vitasek recommended the potential partners complete the Vested Five Rules online course as a primer so the team could be ready to go in the workshop. The partners attended the initial Alignment Workshop in January 2024 (facilitated by Vitasek and Jeroen Van de Rijt – founder of the boutique consulting firm Prowez and a Certified Deal Architect Coach). The team left the three days with a unanimous decision: continue with the Vested methodology to create a tri-party agreement for the successful construction of the City of Acrobats.

The rest of this case study shares how the companies applied the Vested Five Rules with much of the information being shared from their actual contract.

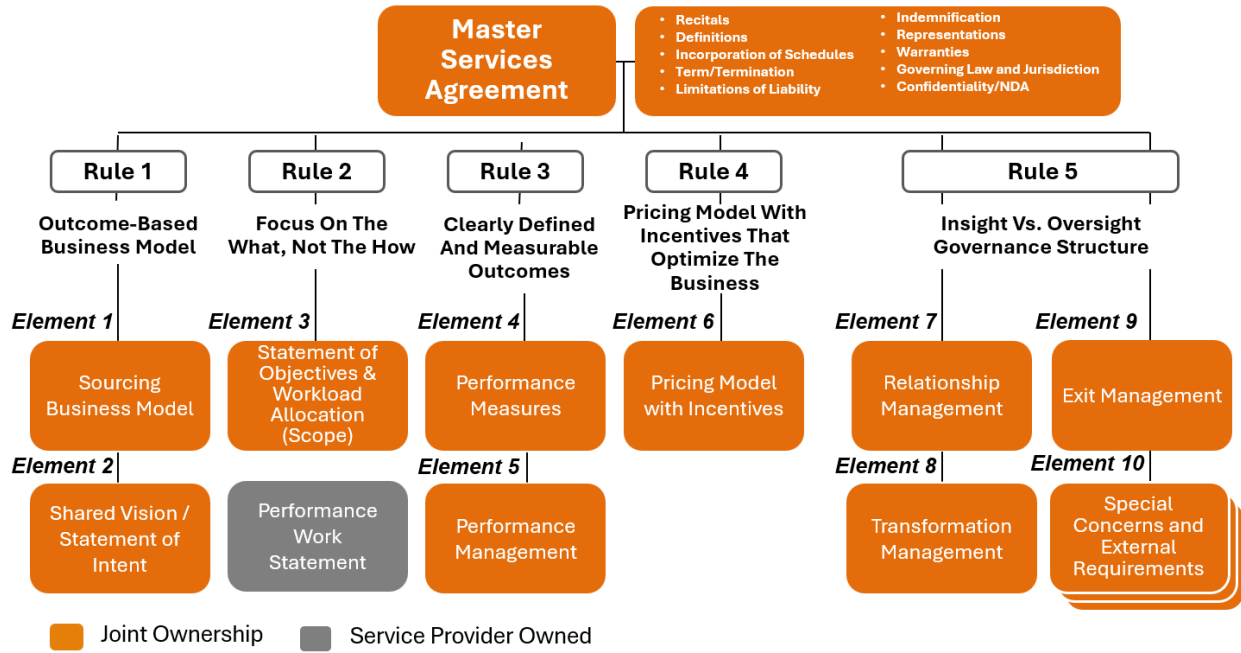
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<sup>2</sup> *Energy Research & Social Science* Volume 123, May 2025, 104057



## PART 3: CREATING A VESTED AGREEMENT

The Vested business model creates a highly collaborative win-win business relationship that combines a formal relational contract with an outcome-based economic model. The Vested model uses Five Rules that are supported by 10 contractual “Elements” (noted in **Figure 1**).



**Figure 1: Structure of a Vested Agreement**

Combined the Rules and contractual Elements work together to form formal relational contract with a win-win outcome-based economic model to help contracting partners focus on creating and sharing value.

Rules 1 through 4 establish the fundamental rules of the contract by establishing the Desired Outcomes, scope, metrics and economics of the partnership. Rule 5 establishes how the parties 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 and create value beyond the status quo.

Combined, the Vested Five Rules and contractual Elements address and resolve common structural flaws that often emerge in transaction-based agreements. For example:

- A buyer wants “innovation,” – yet the contract with the supplier has a highly prescriptive Statement of Work with exacting details on how the supplier should perform each of the activities in scope.
- The buyer wants “outcomes,” – yet the contract spells out dozens of “Service Level Agreement” metrics.
- The buyer outsources to the “expert” and wants more “insight,” – yet the buyer leaves an army of people on staff to provide “oversight” to manage the supplier.



- The buyer wants the supplier to implement “efficiencies,” – yet its transactional pricing scheme inherently incentivizes the supplier to perform more transactions.

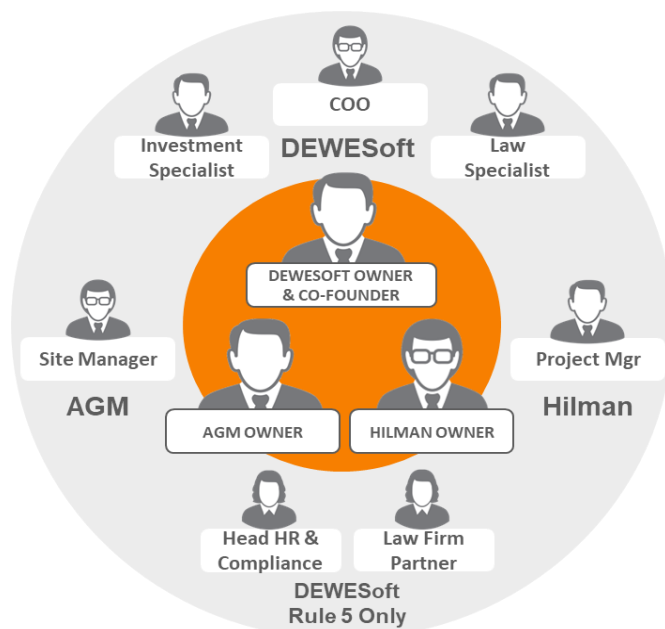
By addressing these structural flaws and realigning incentives, the Vested model enables partners to shift from transactional behaviors to true shared-value creation — unlocking outcomes that neither party could achieve alone.

### The Deal Architect Team

Contracting partners work through the Vested methodology as a team – co-creating their contract to follow Vested’s Five Rules and 10 contractual Elements. The process uses an integrated “learning and doing” philosophy where team members learn key aspects of each Rule/Element and then come together to make decisions and co-create the essential deliverables they will need for their agreements (e.g., develop the pricing model in Rule 4 and the governance structure and mechanisms in Rule 5).

DEWESoft, AGM and Hilman formed a Deal Architect Team (collectively referred to as the Team), as shown in **Figure 2**. The Team enrolled in the University of Tennessee’s Creating a Vested Agreement online course under the coaching support of Jeroen Van de Rijt and Sibrecht Diender.

The Team involved the owners of the three companies, and key individuals that would implement the details of the contract on a daily basis. The legal team served as part-time advisors throughout the entire process but became full-time Team members during Rule 5 where they ensured that the details and governance met all legal requirements.



**Figure 2: Deal Architect Team**

### The Timeline

The Team developed a nine-month schedule (**Figure 3**) where Team members would work through the Vested Five Rules (recall in January, the Team did the Alignment Workshop, where they worked through Rule 1). In total, there were 18.5 working days of workshop/team meetings where the Team collaborated to co-create their Vested agreement, with the majority of the work taking place in virtual team meetings.



Vested Workshops	Jan	Feb	Mar	Apr	May	June	July	Aug	Sep	Oct
Alignment & Rule 1 Workshop	◆									
Rule 2		◆								
Rule 3				◆						
Rule 4				◆		◆				
Rule 5									◆ ◆	
Finalizing the Contract										■

Blue diamond represents in-person team meetings.

**Figure 3: Workshop Schedule**

### Deciding on the Overall Contract Structure

As part of the Alignment Workshop, the Team discussed the pros and cons of various contract structures. Three options were actively debated.

- Option 1: DEWESoft to contract with AGM. AGM would then become the prime contractor and contract with Hilman to support in their area of expertise.
- Option 2: DEWESoft to create two separate contracts: one for AGM and one for Hilman.
- Option 3: DEWESoft to create a tri-lateral contract with both AGM and Hilman under one contract.

The parties ultimately opted for Option 3 which would result in one contract that would bind DEWESoft, AGM and Hilman to the success of the City of Acrobat. A key reason for choosing Option 3 was the parties all had experience working together on past projects and the thinking was a tri-lateral agreement would support the collaborative nature of the relationship better.

### Using the Contract Template

As shown previously in Figure 1, a Vested Agreement is structured with a Master Service Agreement that binds subordinate Schedules (or exhibits) into a contract that codifies each of the Five Rules. Each Element represents a key business aspect of the relationship. For example, Rule 5 includes four Elements about how the parties will govern the relationship.

When properly structured, a Vested agreement is a **formal** relational contract that puts the parties relationship front and center. Contracting partners recognize that ‘business happens’ and the contract itself is a flexible contract framework which does not try to write everything into a rigidly structured contract.



A foundational concept of Vested is that the buyer and supplier(s) develop a flexible contracting framework that help the contracting parties navigate the dynamic nature of business changes and share risk and reward on the journey. As such, a Vested agreement provides enough structure (scaffolding) to provide strategic direction for the parties, while formally embedding the intent of the relationship and governance mechanisms into the contract with the goal of keeping the parties in continual alignment. This enables contracting parties to flex and pivot as business needs change – something that would be critical for the success of the City of Acrobats.

There is no one “right way” to structure a Vested contract. However, UT researchers (in conjunction with CIRIO Law Firm – a Vested Center of Excellence) developed a contract template<sup>3</sup> to help companies take the theory of Vested and put it into practice in an actual contract. The contract template suggests contracts partners segmented their agreement into three “parts” – establishing the general framework of the agreement; 1) the “Rules of the Relationship,” 2) the “Rules of the Business,” and; 3) the supporting schedules.

The Table of Contents of their Vested Agreement is shown on the following page.

This case study used the term “partners” and “partnership”. The contract itself does not constitute a legal “partnership”, but rather the spirit of a partnership through a formal relational contract. To learn more about relational contracting see:

- A New Approach to Contracts: How to Build Better Long-Term Strategic Partnerships (Harvard Business Review)
- Contracting in the New Economy: Using Relational Contracts to Boost Collaboration and Trust in Strategic Business Relationships (Palgrave Macmillan)

Combined, the MSA is 23 pages. Following the MSA are the Schedules. The Schedules span 104 pages and represent the bulk of the contract, containing detailed information for each of the first two parts.

The following five sections of this case study each go into the details of how the Team used the Vested design principles to create their contract for the construction of the City of Acrobats to turn the Vested theory into a win-win relational contract designed to provide the flexibility that the Team would need to complete the City of Acrobats.

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<sup>3</sup> The contract template is available to anyone registering for either the University of Tennessee’s Creating a Vested Agreement online course or UT’s Collaborative Contracting Executive Education course.



**Contract Table of Contents**

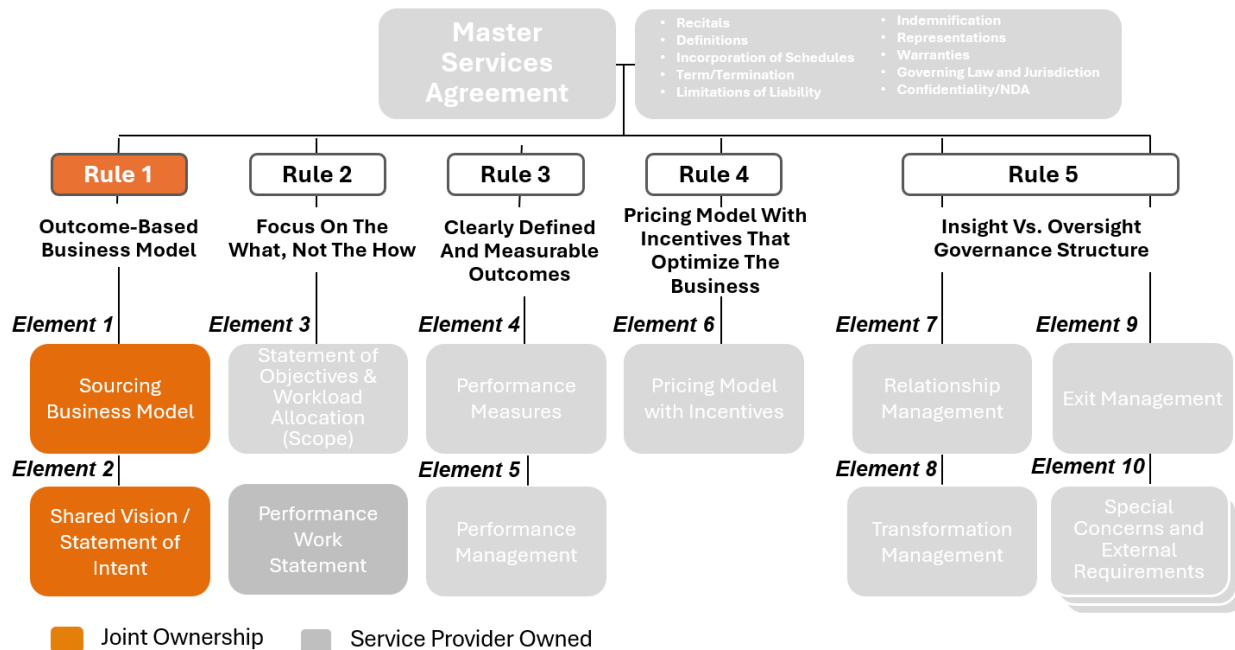
<b>Contracting parties</b>	<b>5</b>
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## RULE 1: FOCUS ON OUTCOMES, NOT TRANSACTIONS

Historically organizations have thought of outsourcing as a “make vs. buy” decision. Many organizations assumed that if they “buy,” they should use competitive “market” forces to guarantee they are getting the best deal. In doing so, the default approach is to use a transaction-based model. Vested reframes the historical transaction-based model to a formal relational contract with a shared risk/shared reward outcome-based economic model where the company outsourcing and their service provider align interests on mutually defined business outcomes.

Rule #1 is where the parties seek to understand if an outcome-based business model is appropriate for their relationship. And if it appropriate, the parties go on to develop a shared vision and guiding principles for their partnership. (Figure 4)



**Figure 4: Vested Agreement Structure**

The first Element in developing a Vested agreement is to ensure a Vested sourcing business model is indeed the most appropriate model for your situation (Element 1).

Element 2 is where the parties develop a formal Statement of Intent (SOI) for their partnership which further solidifies their organizational commitment. Included in the SOI is a formalized shared vision and guiding principles for the relationship, which are incorporated into your agreement. This chapter shares best practices for how to create a Statement of Intent.

The combination of Elements 1 and 2 create the foundation of the relationship and sets the strategic direction for the partnership.

The Team completed Rule 1 as part of their Alignment Workshop. Below we share insights into how the Team followed Rule 1.



### Element 1: Agree on the Sourcing Business Model

It is important to understand that not all contracts should be a Vested agreement. In fact, the vast majority of contracts are likely best suited for more simple transaction-based agreements. The book *Strategic Sourcing in the New Economy*<sup>4</sup> outlines seven sourcing business models and encourages organizations to align on their desired business model prior to any contract work.

Because DEWESoft had previous contracts with both AGM and Hilman, it would have been easy to assume they would use a similar approach.

The Team went to work using the Business Model Mapping template (an open source/free resource from the University of Tennessee) to map both their existing approach and their desired business model. As part of the Alignment Workshop, the Team validated their existing approach largely fell under what is classified as an Approved Provider Model. They also validated their desired approach should be a Vested business model. (Figure 5)

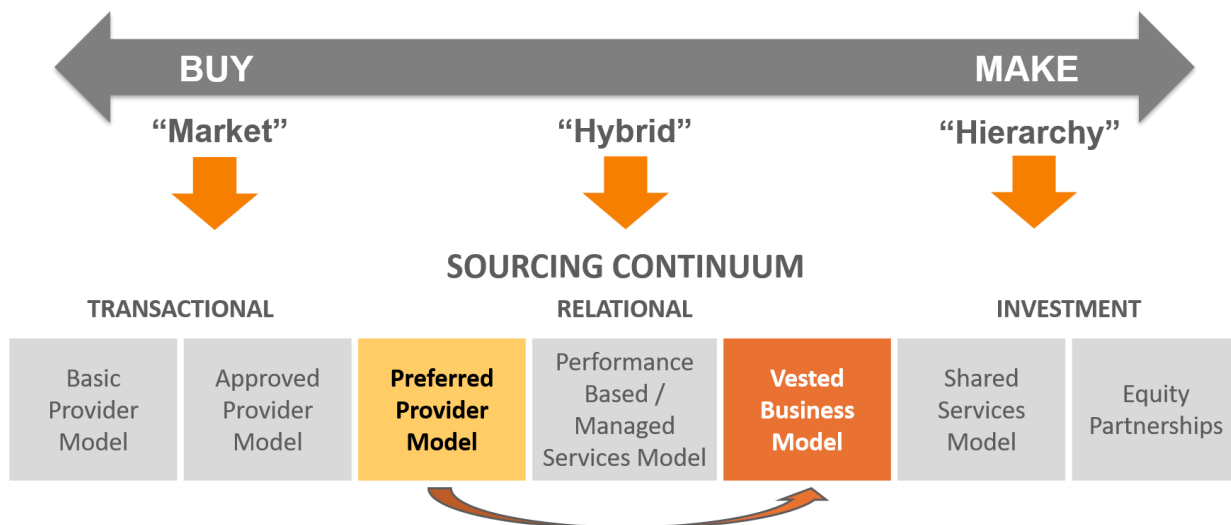


Figure 5: Business Model Map

Figure 6 shares the high-level business model map summary with the current approach noted in red and the desired state being noted in green.

<sup>4</sup> Keith, Bonnie, et al. *Strategic Sourcing in the New Economy: Harnessing the Science of Purchasing for Competitive Advantage*. Palgrave Macmillan, 2016.

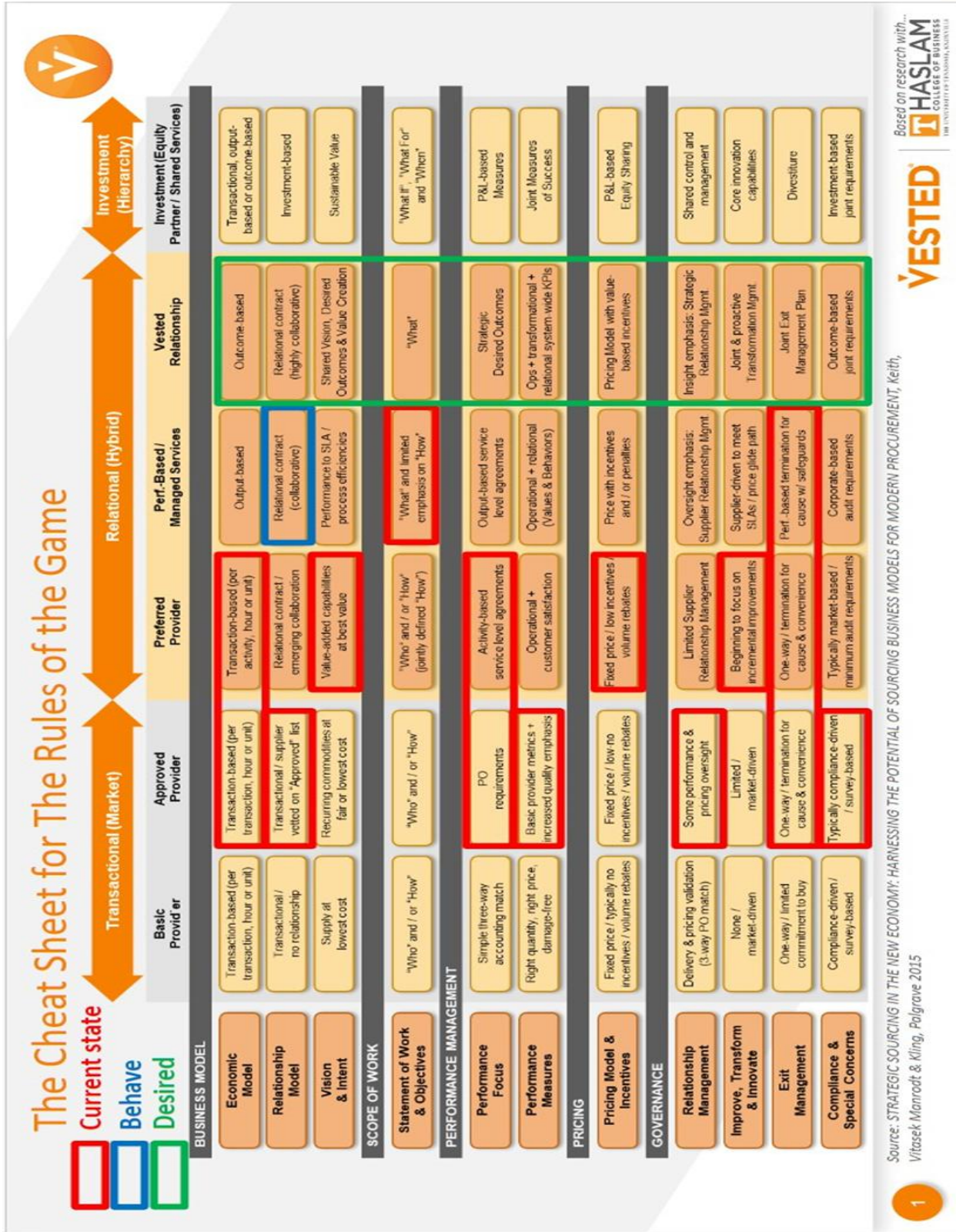


Figure 6: The Path Forward



### ***How Element 1 is Embedded into the Contract***

As show previously in the contract table of contents, Part 1 of the contract focuses on the “General” part of the contract. It is the first part of the contract immediately following the recitals. It is here the parties introduced their intent to operate in a highly collaborative manner using a Vested business model where the parties would “win together and lose together”.

Here the contract includes two general provisions. The first is a Section 1.1 that establishes the “Subject” of what the Team was trying to accomplish through the contract (e.g., build the City of Acrobats over a period of time as funds became available). Section 1.2 is where the Team formally addressed their desire to use a Vested business model, explaining what a Vested agreement is and why they chose to operate under a Vested agreement.

Section 1.2 of the agreement spelled out the “Agreement Documents”. Section 1.2 includes a reference to the Definitions (noted in Appendix 1) and clearly states that the contract is intentionally designed as a flexible contract framework, stating:

*“This Agreement is designed as a flexible contracting framework to embrace the dynamic nature of the business relationship. Any changes to the Agreement shall be governed in line with Schedule B - Contractual Change Management Process. The Parties will use version control for changes to the Agreement (including Schedules) and log the versions in Appendix 2.”*

It is in this section the Team states the Agreement Documents that are included as part of the contract. This included the Master Services Agreement (a 23-page document) and 10 Schedules. Collectively the agreement is 127 pages.

In addition, Section 1.2 includes a reference to how the contracting parties will use Purchase Orders.

*“In addition to the aforementioned Agreement documents, the Parties will issue a Purchase Order for each Module of the City of Acrobats, which will specify the detailed conditions for the construction. Each Purchase Order will be governed by and in accordance with the terms and conditions set forth in this Agreement.”*

### **Element 2: Shared Vision and Statement of Intent**

With the business model understood and mapped, the Team worked together to develop a Statement of Intent to guide them for the duration of their Vested relationship – through the completion of the City of Acrobats.

A Statement of Intent combines a formal Shared Vision, high-level Desired Outcomes and Guiding Principles for the partnership. Combined this sets the intent that the partners are consciously embracing a collaborative mindset.

With the Shared Vision in place, the Team mutually defined six high-level Desired Outcomes. Desired Outcomes are boundary-spanning business outcomes the parties agree to collaborate on and invest in to drive transformation.



The last element of the Statement of Intent was to adopt Guiding Principles for their partnership. Guiding Principles are proven social norms used to create the foundation of a Vested partnership. The Guiding Principles are also formally incorporated into the contract. This means not only using the Guiding Principles to make fair and balanced decisions during the workshops for creating a Vested agreement but also using the Guiding Principles post-contract signing to guide the parties' behaviors for working together.

The Statement of Intent is shown in **Figure 7** on the next page.



### Shared Vision

Our passionate Team is creating a long-lasting trustful cooperation to bring innovation and new life to our region, based around the futuristic and sustainable City of Acrobats.



1	2	3	4	5	6
Achieve and maintain a trustworthy, strong and profitable long-term partnership	Create a self-sufficient, sustainable city	Complete on time or faster without work accidents	Ensure a healthy and comfortable life-work environment	Optimize price-performance ratio to meet Desired Outcomes	Create a futuristic, innovative City of Acrobats featuring an amazing architectural and design experience

### Guiding Principles

<b>Reciprocity</b>	<b>We expect every action to be a fair action.</b> The essence of reciprocity is that you cannot expect more than you give. We share the work and responsibilities based on the abilities of each party. We respect each other and always do things that are in the benefit of all Parties.
<b>Autonomy</b>	<b>We give each other the freedom to act as equals in the best interest of the shared vision.</b> We are committed to win-win culture through freedom, responsibility and trust. Neither party will seek to use its power to wrongfully enforce the others to make decisions against their best interests and those of the relationship.
<b>Honesty</b>	<b>We openly share the facts, intentions and experiences.</b> We commit to having an honest and open working environment, being transparent and truthful in all interactions. All information/numbers that are relevant to the cooperation need to be transparent all the time. We promote fact-based decision making.
<b>Loyalty</b>	<b>Together we respect the needs of all Parties.</b> In a loyal relationship, the needs of all Parties are balanced. We take great care of each other's well-being. When we stand by each other in bad times, we deserve and will be there during the good times.
<b>Equity</b>	<b>All for one, one for all.</b> We are committed to fairness in all aspects especially when sharing the value. We will compensate in proportion to value, risks and investments.
<b>Integrity</b>	<b>We do what we say and what we have agreed on.</b> Our words and actions are for the greater good of our region and entrepreneurship. We avoid harmful and inconsistent behavior.

Figure 7: The Statement of Intent



In addition to the Guiding Principles, the Team agreed to foster an environment of trust, transparency, and compatibility by adopting the five intended behaviors from DEWESoft’s Code of Conduct as well as two additional intended behaviors. They agreed to proactively promote these seven intended behaviors, as shown in **Figure 8**.

<b>Committed:</b> Working passionately, collaboratively and autonomously, we demonstrate a bias toward commitment.
<b>Accountable:</b> Demonstrating integrity and responsibility through ownership of our work, currency of our knowledge and pride in our workplace and colleagues. We operate with a bias toward quality.
<b>Transparent:</b> Creating trust and team spirit by being accessible, open, honest and fair, we demonstrate a bias toward communication.
<b>Respectful:</b> Respectful of our customers, the company, our Team, partners, ourselves and our families, our community and the environment. We operate with a bias toward action.
<b>Innovative and Entrepreneurial:</b> We have an inherent need to improve our skills and to try and try again until we reach the goal. Always open to a change, we have a bias towards creativity and ability to think big.
<b>Act as We:</b> We think, focus and act toward our shared vision and desired outcomes. We act with a "What is in it for WE" mindset so all participants together create project solutions and plan the timeline. We have a bias toward the greatest mutual results.
<b>Reliable:</b> We agree to follow a reliable approach in our cooperation to successfully implement common projects. Reliability is the foundation of trust and consistency. We have a bias towards feeling safe depending on each other.

**Figure 8: Intended Behaviors**

***How Element 2 is Embedded into the Contract***

Part 2 of the contract outlines the “Rules of the Relationship”. It is here that the Team included their jointly agreed Statement of Intent. Section 3 frames the Statement of Intent by stating:

“The Parties have expressed the intent for their relationship which includes the following shared vision/high level Desired Outcomes, Guiding Principles and intended behaviors.”

Section 3 of the contract includes all three parts of the Statement of Intent. Section 3.1 includes the shared vision and desired outcomes, Section 3.2 includes the Guiding Principles, and Section 3.3 includes the intended behaviors.

A key aspect of Part 2 (the Rules of the Relationship), the Team included Section 4, which addresses the how the contracting parties intend the contract to be interpreted. This includes a comprehensive clause that outlines the general provisions for interpretation as well as specific guidance for how the contract should be interpreted in the event of gaps, errors, omissions or ambiguities. Here is also easy to see how the Team consciously framed their intent with the following excerpts from the contract:



*If any provision of this Agreement is determined to be invalid, illegal, or unenforceable, it will be severed from the Agreement and shall not affect the validity of the rest of the Agreement. The remaining provisions will continue to uphold the collaborative spirit and will continue pursuing the Desired Outcomes. The Parties will jointly work to amend or replace the invalid provision, if needed, with a new provision that best reflects the original intent and maintains alignment with our Shared Vision, ensuring continued mutual benefit and relationship between Parties.*

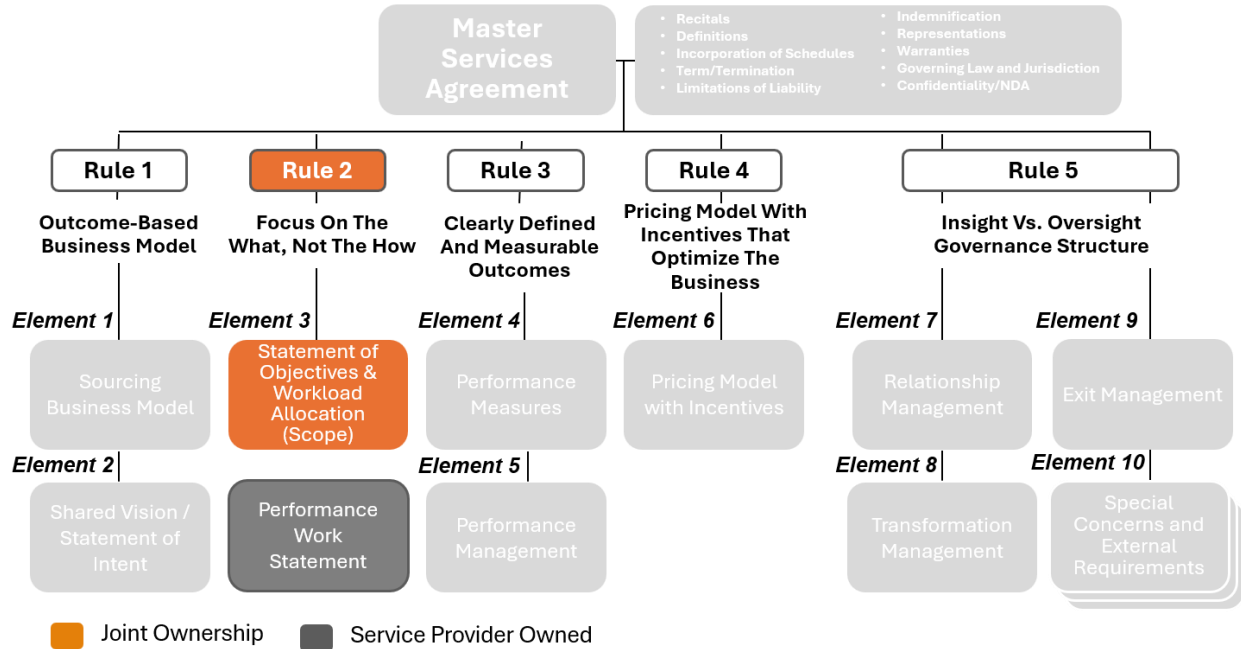
*In interpreting and applying the laws of the chosen jurisdiction, the Parties shall consider the Guiding Principles, the Shared Vision and the Desired Outcomes through the Intended Behaviors that underpin the Vested Agreement. The chosen law should support the achievement of shared goals and the preservation of a collaborative partnership.*

In addition, the Team included a comprehensive clause with clear direction on “Interpretation of the Agreement and of contractual documents” which clearly states the companies will make decision that are in alignment with shared vision and Guiding Principles.



## RULE 2: FOCUS ON THE WHAT, NOT THE HOW

Rule 2 represents how contracting partners document the scope of the partnership. Rule #2 includes one contractual Element which defines the scope and workload allocation. (Figure 9).



**Figure 9: Vested Agreement Structure**







There are two main differences between a conventional approach and the Vested approach when it comes to Rule 2. First, under a Vested approach, the company outsourcing specifies *what* it wants and moves the responsibility of determining *how* the work gets delivered to the service provider. In addition, the workscope should be viewed as collaborative in nature outlining the responsibilities of both the buying company and the service provider(s).



### Element 3: Statement of Objectives/Workload Allocation

To follow Rule #2, contracting parties create a Statement of Objectives (SOO) for their relationship. While Desired Outcomes (established in Rule 1) set the high-level outcomes, the SOO establishes the objectives that the parties strive to accomplish under the agreement. Under a Vested agreement, the company outsourcing must be willing to allow and enable the service provider to make significant changes to improve overall processes and efficiencies within the workscope it is assigned.

The Team landed on 9 objectives, as shown in **Figure 10**.

Vision	Desired Outcomes	Objectives
<p><b><i>Our passionate team is creating a long-lasting trustful cooperation to bring innovation and new life to our region, based around the futuristic and sustainable City of Acrobats.</i></b></p>	 <p><b>1</b> Achieve and maintain a trustworthy, strong and profitable long-term partnership</p>	1a Establish a foundation of trust through transparent communication, reliability, and consistency in actions
	 <p><b>2</b> Create a self-sufficient, sustainable city</p>	2a Green and energy neutral
	 <p><b>3</b> Complete on time or faster without work accidents</p>	3a Construction is finished prior to the baseline 3b Construction without work accident
	 <p><b>4</b> Ensure a healthy and comfortable life-work environment</p>	4a Comfort of indoor conditions
	 <p><b>5</b> Optimize price-performance ratio to meet Desired Outcomes</p>	5a Achieve cost efficiency by optimizing design with agreed performance 5b Reduce total cost of ownership
	 <p><b>6</b> Create a futuristic, innovative City of Acrobats featuring an amazing architectural and design experience</p>	6a Be recognized as a global landmark and become a city identity 6b Attract more companies to the City of Acrobats (and speed up the growth of the City)

**Figure 10: Statement of Objectives**

Once the SOO is agreed, the partners define the workscope using a taxonomy and workload allocation.

The Taxonomy is an end-to-end inventory of the work needed to achieve the Shared Vision and Desired Outcomes within the scope of the partnership. This includes the scope of the supplier *and* the buying organization. The parties then create a workload allocation matrix to define who is responsible for what aspects of the work. In essence, a Vested agreement focuses on letting each firm do what it does best and challenges the buying organization to play a key role in supporting the service provider without overlapping and micromanaging them. It is therefore essential to avoid any duplication of responsibilities and to ensure a clear, shared understanding of all handovers between the parties. An excerpt of the Workload Allocation is shown in **Figure 11** on the next page.



Process Level 1	Process Level 2	Process Level 3	Accountability		Oppty to Change Process	
			DEWESoft	Suppliers		
Construction / Installation	The impoundment of the buildings		X		Both	
	Labor management			X	Suppliers	
	Equipment management			X	Suppliers	
	Material and semi-finished product manipulation and installation			X	Suppliers	
	Excavated material storage (dump)			AGM	Suppliers	
	Implementation of installation		mechanical installations		Hilman	Suppliers
			electrical installations		Hilman	Suppliers
	Assembly of devices and equipment / fine assembly		mechanical installations		Hilman	Suppliers
			electrical installations		Hilman	Suppliers

**Figure 11: Excerpt from the Workload Allocation**

**How Element 2 is Embedded into the Contract**

Part 3 of the contract (Rules of the Business) is where the Team began to document the “guts” of the deal: the scope, metrics and economics.

Part 3 kicks off with Section 8 of the contract defining the scope of work. This includes Section 8.1 (Services) and Section 8.2 (Service Requirements)

You might think a contract with the scale and complexity of the City of Acrobats would have a very detailed Statement of Work in the contract. Rather the MSA has less than 250 words in Section 8. Instead, it points the Schedule G – the Taxonomy and Workload Allocation. Below is an excerpt of the wording from section 8.1.

**8.1. Services**

*All services provided by AGM and Hilman contribute to construction of the City of Acrobats and are described in Schedule G - Taxonomy & Workload Allocation.*

*The Taxonomy describes all activities applicable to the construction of the City of Acrobats in Slovenia. This Taxonomy is the framework for cataloging and grouping all the processes and sub-processes to be performed under the Agreement and related to the construction of the City of Acrobats. The Taxonomy does not document “how” the work is to be done, but rather the “what”. The activities or process steps of the work are decomposed in the Taxonomy to such a level of detail that it can be assigned to one of the Parties. The Workload Allocation (WLA) involves distributing tasks and responsibilities among the Parties to achieve*



*optimal productivity and efficiency. In the WLA the Party that is ultimately responsible for each (sub)process is linked to that activity of the Taxonomy.*

*The Parties acknowledge that achieving the Shared Vision and the Desired Outcomes will require joint efforts and clear division of responsibility between them. They have therefore agreed to allocate responsibilities between them as set out in Schedule G.*

Recall that the bulk of the business details are housed in the schedules. In the case of City of Acrobats contract the workscope is found in Schedule G. Schedule G starts with a clear purpose statement:

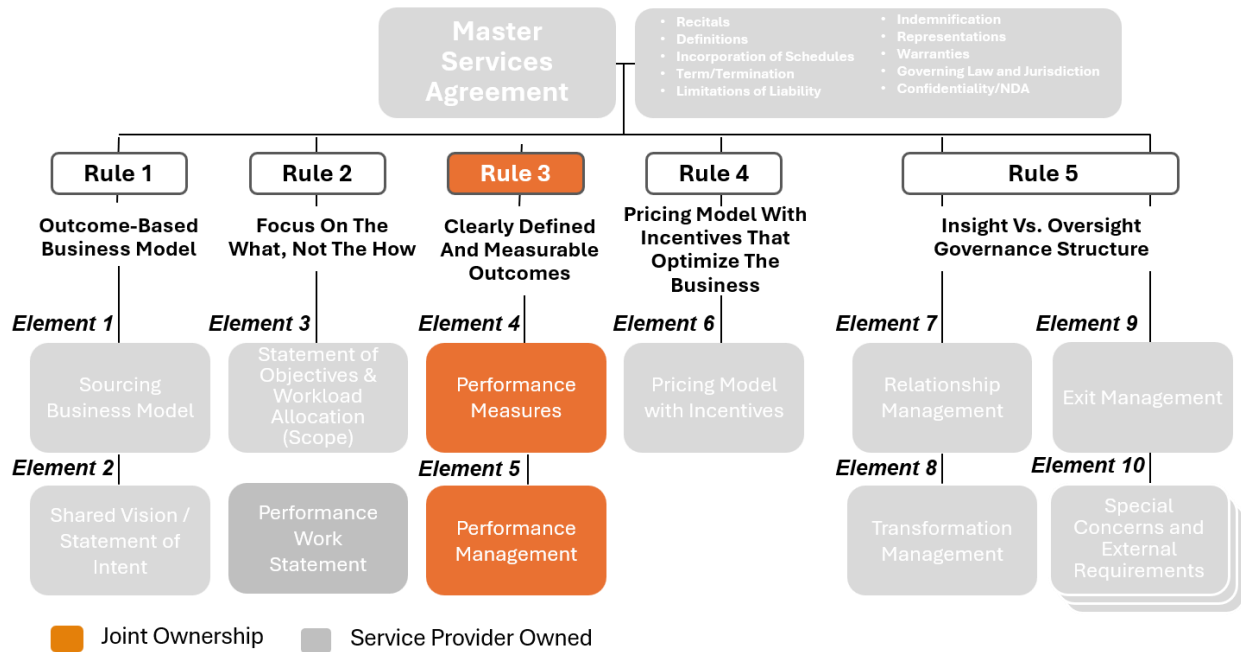
*The purpose of Schedule G is to define the scope of services between the Parties. This schedule aims to ensure clarity, consistency, and mutual understanding in service delivery, outlining the expectations, responsibilities, and standards for all Parties.*

Schedule G includes the actual Taxonomy and Workload Allocation table (in the form of an excel spreadsheet) which is designed to be easily updated when needed to reflect the evolving nature of the City of Acrobats project.



## RULE 3: CLEARLY DEFINED AND MEASURABLE OUTCOMES

The goal of Rule 3 – Clearly Defined and Measurable Desired Outcomes – is to help contracting parties determine how they will measure and monitor their success. Rule 2 includes two contractual Elements – defining performance measures (Element 4) and how the partners will manage performance (Element 5).



**Figure 12: Vested Agreement Structure**

A Vested relationship does not rely on typical Service Level Agreements or task-focused measures. Rather, the Desired Outcomes established in Rule 1 represent the “end game” the parties are trying to achieve. In Rule 3, the partners use the Requirements Roadmap to co-create metrics that are directly aligned with the Desired Outcomes.

Let’s explore how the Team addressed Rule 3.

### Element 4: Performance Measures

Recall in Rule 2 the Team linked objectives to your Desired Outcomes. As part of Rule 3 the Team went on to complete a Requirements Roadmap to add the necessary detail on how they would measure success. (See Figure 13 on the next page for what is known as the Performance Statement portion of the Requirements Roadmap)



← Align to Vision Statement →

Desired Outcome	Performance		
	Objective	Standard	Tolerance/AQL
Outcome A	Objective 1		
	Objective 2		
	Objective 3		
Outcome B	Objective 1		
	Objective 2		
Completed in Rule 1	Completed in Rule 2	To be completed in Rule 3/Element 4	

Vision Statement

Desired Outcomes

- Outcome A
- Outcome B
- Outcome C

**Figure 13 – Performance Statement portion of the Requirements Roadmap**

Recall in Rule 2 the Team linked nine strategic objectives to their six Desired Outcomes. Using the Requirements Roadmap tool, the Team then mapped metric(s) to each objective. This enabled them to clearly define how to measure success. See **Figure 14** below for an example of the Performance Statement for three of the Desired Outcomes.

Desired Outcome	Performance			
	Performance Objective	Metric	Standard	Tolerance/AQL
1. Achieve and maintain trustworthy, strong and profitable long-term partnership	1.a Establish a foundation of trust through transparent communication, reliability, and consistency in actions	Vested Index at measured in a CaT	0.8 on Vested index	None
2. Create a self-sufficient, sustainable City	2.a Green and energy neutral	Energy self-sufficiency (metering)	95 %	85-100%
3. Complete on time or faster without work accident	3.a Construction is finished prior to the baseline	Time (completion date)	on time as defined in a PO	None
	3.b Construction without work accident	Work Accident (as defined by law)	None	None

**Figure 14: Excerpt of the Requirements Roadmap**



### Element 5: Performance Management

Once the measures for each Desired Outcomes are agreed upon, contracting parties create a formal performance management plan which will be embedded into the governance structure.

To complete the Requirements Roadmap, the Team worked through a QASP (Quality Assurance Plan) to help the parties gain clarity for how they will monitor performance for each performance statement. A QASP defines four things:

1. Who is responsible for the data related to the metric?
2. What is the source of the data?
3. How is the metric calculated?
4. How often is the data collected?

See Figure 15 below to see how the QASP is built into the Requirements Roadmap.

Desired Outcome	Performance			Inspection			
	Objective	Standard	Tolerance, AQL	Who	Data Source	Calculation	How Often Collected

Figure 15: QASP Portion of the Requirements Roadmap

Figure 16 shows the how the Team added the detail for the QASP for the three Desired Outcomes.

Performance Objective	Inspection			
	Who	Data Source	Calculation	How Often Collected
1.a Establish a foundation of trust through transparent communication, reliability, and consistency in actions	DWS	Outcome of the CaT Assessment	Calculation from CaT Assessment	At the end of construction of each module
2.a Green and energy neutral	DWS	Sensors from SCADA systems & BIM systems	Sum (operation) / sum (standard solution)	Yearly
3.a Construction is finished prior to the baseline	DWS	Construction diary and timeline	Contract timeline vs project build	After each module
3.b Construction without work accident	DWS	Actual work accidents	Actual work accidents	Every 6 months

Figure 16: Excerpt of QASP Portion of Requirements Roadmap



### ***How Element 3 is Embedded into the Contract***

Part 3 of the contract (Rules of the Business) also houses all aspects of how the contracting partners measure performance against the contract.

The Team incorporated Rule 3 as Section 9 in the contract (Performance Management and Report). Section 9.1 references the Requirements Roadmap and Section 9.2 references the parties Performance Management Plan.

#### ***9.1 Requirements Roadmap***

*The Parties will use a mutually agreed Requirements Roadmap as the primary foundation for measuring performance against the Desired Outcomes outlined in clause 3.1. The Requirements Roadmap maps the Desired Outcomes (column 1), Objectives (column 2), Performance Metrics (column 3), Standards (column 4), and Tolerance / AQL (column 5) and Quality Assurance Plan (columns 7-10) into a table as set out in Exhibit 1 of Schedule F - Requirements Roadmap.*

#### ***9.2 Performance management plan***

*The Performance Management Plan is composed of the processes, tools and documents that the Parties will use as the basis for assessing performance of the Services against the Desired Outcomes. It determines how the Parties will jointly monitor against the Requirements Roadmap. The Performance Measurement Plan includes measuring the quality of the Objectives as listed in the Requirements Roadmap.*

*Reporting and monitoring are critical components of project management and performance evaluation. They involve tracking progress, assessing performance, and ensuring that Desired Outcomes and Objectives are met. Reporting refers to the process of collecting, analyzing, and presenting information about various aspects of a project performance. A time plan, budget plan with savings estimates, energy consumption report, quality report are parts of reporting. Monitoring involves the continuous observation and assessment of various aspects of a project's performance.*

*The Parties reporting and monitoring requirements are set out in Schedule F.*

It is easy to see Schedule F is an integral part of the contract and includes not on the actual Requirements Roadmap, but also key commitments of how the parties will manage ongoing performance (e.g., performance reporting, dashboards, etc.). Schedule F states the purpose is:

*The purpose of this Schedule is to outline the way the Desired Outcomes are measured. This is done via the Requirements Roadmap. The Requirement Roadmap contains performance metrics that define and measure success criteria for the Desired Outcomes as outlined in the Master Vested Agreement.*



## RULE 4: PRICING MODEL WITH INCENTIVES

Rule 4 is where contracting parties establish the economics of the relationship. Most contracts have a price (either a firm fixed price or a price per transaction). A Vested agreement is built on a transparent pricing model and includes incentives to help the partners optimize for business results. The paradigm shift of Vested is that the supplier’s profitability is directly tied to meeting the mutually agreed desired outcomes. A Vested pricing model rewards suppliers for investing in process, service or associated product optimizations that will generate returns in excess of agreement requirements.

Rule 4 includes one Element (Element 6) which is the pricing model for the contract.

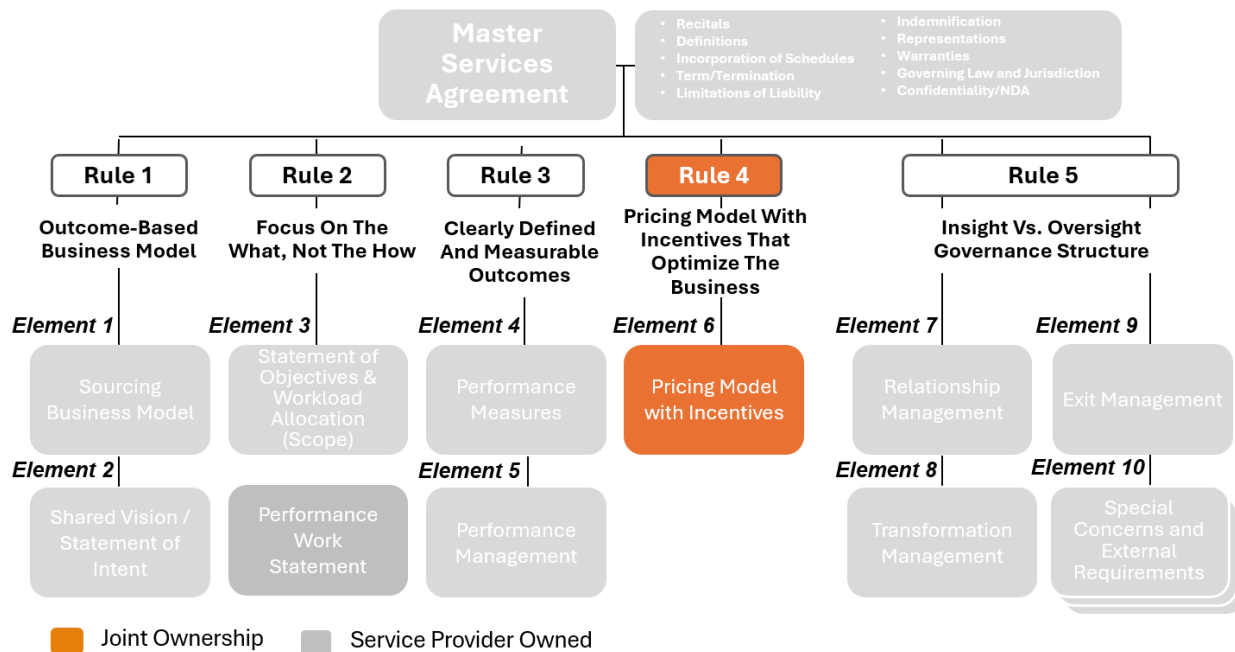


Figure 17 – Performance Statement portion of the Requirements Roadmap

### Element 6: Pricing Model and Incentives

The DEWESoft, AGM and Hilman Team agreed on five essential design principles for the Pricing Model:

- Open book philosophy
- A Pricing Model (not a Price)
- Incentives tied to Desired Outcomes
- Compensation for costs and risks in line with the six Guiding Principles
- Margin Matching Triggers to ensure continual alignment

The following pages provide insight into each of the design principles.



## Open Book Philosophy

Truly open book approaches are transparent and allow the parties to build a fact-based discussion around actual costs for all sides. The parties agreed to reasonable profit margins for the suppliers and strive to manage the total cost across the delivery stream effectively. The primary benefit of an open book approach is that it enables all three companies to understand the actual total cost of ownership and allows them to shift their focus to working collaboratively to eliminate non-value-added activities, duplicative efforts and risks that drive up costs.

True open book pricing requires a high level of trust between the parties and a willingness to be fully transparent. Although many companies see the value of this transparency, actual execution across the supplier and buyer organizations can be difficult to achieve given corporate cultures and constraints. Fortunately, DEWESoft, AGM, and Hilman had the willingness to put this level of transparency into practice.

This is very clearly expressed in their Contract under the Guiding Principle on Honesty:

*“We openly share the facts, intentions and experiences. We commit to having an honest and open working environment, being transparent and truthful in all interactions. All information/numbers that are relevant to the cooperation need to be transparent all the time. We promote fact-based decision making.”*

## A Pricing Model (not a Price)

Shifting to a pricing model – versus using a “price” – is key in a win-win collaboration because a pricing model enables flexibility important for sustaining a healthy business relationship over the life of an agreement. Properly structured Vested agreements reflect a fair and balanced economic model, where the buyer and supplier(s) win together and lose together.

A high-level overview of the Pricing Model structure is shown in **Figure 18** on the next page, where you can clearly see how the various elements are divided across 4 ‘buckets’.



	SERVICE DELIVERY				TRANS-- FORMATION
	1. Base Services		2. Other Services (unanticipated services not in Taxonomy)	3. Governance	4. Transformation Framework
	1a. (done by Hilman / AGM)	1b. (done by other Service Providers)			
<b>Definition</b>	Cost of the <b>TIME</b> spent on construction preparation and actual construction (see Taxonomy) – includes Base works, direct cost and sub-contractor’s costs	All other services linked to project (without margin) on the work of the following type suppliers: skeleton / frame construction, facade, roof, doors & windows	All other direct services linked to the project	Cost of the time for Key Governance Roles	Continuous Improvement
<b>Cost Elements</b>	Cost of the <b>MATERIALS</b> Includes Base works, direct cost including sub-contractor’s cost				50/50 cost savings share
<b>Compensation Method</b>	Cost is the Cost (with below market margin)	Cost Passthrough (with no markup)	Cost is the Cost (with elevated margin)	Cost is the Cost (with elevated margin)	Incentives tied to Desired Outcomes
<b>Margin (per Bucket)</b>	X% Margin	0% Margin	1.5X% Margin	3X% Margin	No limit on Margin – but seeks long term alignment through Margin Matching

*X=the baseline margin with multipliers based on the value AGM and Hilman provided*

**Figure 18: High Level Pricing Model Framework Summary**

The logic behind the scaled margin levels links to Maslow’s Hierarchy teaching the “Physiological Needs and Safety.” The equivalent of Maslow’s base in Vested pricing model is the “base services” consist of the repetitive and stable costs associated with the basic service requirement. For the buyer, basics tend to be ensuring the supplier can deliver on base services as defined. For the supplier, the basics are getting a fair price that ensures they will not lose money – especially on uncontrollable risks. Simply put, a supplier can’t possibly focus the needed time and attention to help their client solve complex business problems if they don’t cover basic costs.

As suppliers provide flexibility and more value-added skills, their margin is scaled to higher levels. The Vested rule of thumb is that a supplier should earn half of market margin on based services but high levels of incentive tied to delivering on the Desired Outcomes.



### Incentives tied to Desired Outcomes

A Vested pricing model uses incentives (not penalties). Under the model, if AGM and Hilman do a good job at helping DEWESoft achieve the mutually defined Desired Outcomes (e.g., creating value beyond the status quo), they earn incentives which in turn lead to more profit. A well-structured Vested agreement links incentives to the Desired Outcomes which aligns the interests of the buying organization and the supplier(s) as they all have a vested interest in generating added value.

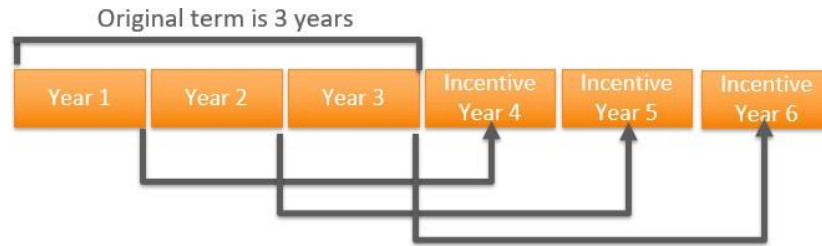
The Team carefully linked both monetary and non-monetary incentives to the Desired Outcomes, as listed in the Requirements Roadmap. In the Agreement, the Parties identified an incentive for each Objective. Figure 19 below provides an overview of the incentive structure under the Agreement.

Objective	Focus	Pricing Model Bucket	Incentive
1a Establish a foundation of trust through transparent communication, reliability, and consistency in actions	Relationship	Governance	Extension of the contract for the next module
2a Green and energy neutral	Sustainable	Transformation	Non-monetary (publicity)
3a Construction is finished prior to the baseline	On-Time	Transformation	Monetary (savings split)
3b Construction without work accident	Safety	Base Service	Non-monetary (party)
4a Comfort of indoor conditions	Indoor conditions	Transformation	Non-monetary (publicity)
5a Achieve cost efficiency by optimizing design with agreed performance	Cost Efficiency	Transformation	Monetary (savings split)
5b Reduce total cost of ownership	TCO	Transformation	Monetary (savings split)
6a Be recognized as a global landmark and become a city identity	Landmark	Transformation	Non-monetary (celebration trip)
6b. Attract more companies to the City of Acrobats (and speed up the growth of the City)	Growth of City	Transformation	Non-monetary (additional scope, City)

**Figure 19: Incentive Structure**

The Team purposefully included both monetary and non-monetary incentives with three monetary incentives, five non-monetary incentives. The monetary incentives are tied to on-time performance and cost optimization (cost efficiency and reducing TCO) while non-monetary incentives focused on things like sustainability and safety as well as intangible benefits such as attracting more companies to the City of Acrobats.

One of the key incentives is a contract extension which is tied to the parties overall relationship health – which would be measured using a neutrally administered Compatibility and Trust (CaT) assessment. The initial term of the agreement is three years with the contract being extended annually or at the end of each module as shown in Figure 20 on the next page.



Incentive for contract extension is granted at the end of each contractual year, OR at the end of a Module, whatever comes first. There will always be at least a 3-year window (if DO1 is met).

**Figure 20: a graphic showcasing three years moving window of contractual work**

### **Compensation for Costs and Risks in Line with the Six Guiding Principles**

The conventional approach for contracting is to shift risk to the other party whenever possible. After all, if the other party will take the risk, why not let them? A Vested agreement is different because it sees risk as something that should be mitigated and managed with a high degree of transparency and collaboration – not simply transferred. When a risk is shifted to a service provider (either in the form of operational risk, legal terms and conditions, or unknown risk), the service provider is forced to factor the risk into its pricing. This is known as a risk premium. Smart service providers factor in the risk and add a risk premium to their costs and margin uplift. And when forced to predict risk, it is in the service provider’s best interest to estimate high, which ultimately leads to higher prices than needed.

As part of the Vested methodology, the Team viewed risk through the lens of the Guiding Principles (established in Rule 1) versus a risk-shifting or opportunistic lens. Risks were not simply shifted to the other party but were considered a fact of the business that had to be addressed fairly. The goal was to collaborate to reduce risk – thus lowering any risk premiums – which ultimately creates value for all parties involved.

Schedule I of the contract shows the initial list of risks as defined during the contracting process. It also specifies that the up-to-date risk register can be found in Exhibit 2 of the Schedule I. The initial listing of risks is shown in **Figure 21** on the next page:



Risk Description / Reason	Probability of Occurrence	Impact on Project	Category: High, Moderate or Low	Responsible Party
Possibility of mine collapse (tunnels, etc.)	Remote	Critical	High	B
Severe shortage of basic construction materials/energents/product	Unlikely	Moderate	Moderate	S
Permanent measures of state authorities	Unlikely	Critical	High	B
Collapse of the company	Unlikely	Serious	Moderate	B, S
Weather delays	Unlikely	Minor	Low	
Labor Shortages, Labour Disputes	Likely	Moderate	Moderate	S
Design Changes	Certain	Moderate	Moderate	B, S
Site Conditions	Unlikely	Moderate	Moderate	S
Safety Incidents	Unlikely	Minor	Low	S
Regulatory Compliance	Likely	Critical	High	B
Cost Overruns	Unlikely	Serious	Moderate	B, S
Subcontractor Issues	Highly Likely	Serious	Moderate	B, S
Scope Creep	Unlikely	Moderate	Moderate	B
Schedule Overruns	Unlikely	Serious	High	S
Quality Issues	Unlikely	Serious	High	S
Financial Risks	Unlikely	Moderate	Moderate	B, S
Contractual Disputes	Remote	Serious	High	B, S
Environmental Risks	Certain	Serious	High	B
Community Opposition	Unlikely	Serious	High	B
Geotechnical Risks	Unlikely	Critical	High	B, S
Security Risks	Likely	Minor	Low	S
Technology Risks	Likely	Moderate	Moderate	B, S
Transportation and Logistics Issues	Unlikely	Moderate	Moderate	S
Change in Government Policies	Unlikely	Serious	High	
Inaccurate Cost Estimates	Unlikely	Moderate	Moderate	B, S
Substandard Workmanship	Unlikely	Minor	Low	S
Delayed Payments	Remote	Critical	High	B
Inadequate Project Management	Remote	Critical	High	B, S

*B- Buyer (DEWESoft) and S=Suppliers (AGM and Hilman). Blank items represent shared risk.*

**Figure 21: Initial List of Risks**

**Margin Matching Triggers to ensure continual alignment**

A properly designed Vested pricing model prevents one party from “winning” at the other party’s expense. This means the economics of the relationship ensure the parties always win together and, if necessary lose together. When “business happens,” the parties are equally affected, which prevents a win-lose scenario that can lead to shading.

Contractual shading (a term coined by Oliver Hart – a Nobel Laureate in Economic Sciences) happens when one party isn’t getting the outcome it expects and feels the other party has not acted reasonably. The aggrieved party will react by becoming less cooperative and less proactive



in meeting the other's needs (e.g., helping to meet sudden shifts in demand that would entail actions not spelled out in the contract, or imposing higher prices when the business climate shifts and it has the upper hand).

To prevent shading, a Vested pricing model uses a concept known as margin matching. Margin matching is a technique used to fairly adjust the economics of the deal when pre-established guardrails are reached. The goal of using margin matching is to establish fair economics for the relationship which ultimately builds trust and creates a sustainable working relationship.

An example of a margin matching trigger is the upper and lower profit margins for the suppliers. For example, if the supplier's profit margin across the entire pricing model for an individual module is less than a certain percent, it would trigger a discussion to review the pricing model and make adjustments. Likewise, if the supplier's profit margin is higher than a certain level it indicated that DEWESoft is likely paying too much for the supplier's services. In either case, a trigger would occur for the companies to review the pricing model for fairness.

The Team incorporated margin matching triggers into the contract as part of the Pricing Model Schedule as following.

*Whenever a mechanism/trigger is activated, the Parties will re-evaluate and adjust the pricing model as needed (see Schedule C - Roles and responsibilities - for more details). Described mechanisms ensure that since business is dynamic and cost structures change over time, that no Party is winning at the other Party's expense. It provides continual alignment between all Parties. In line with the above the management fee can also be adjusted by the Strategic Board through a joint decision by all Parties. This could be valid if the actual 'cost is the cost' exceeds or falls behind the initial baseline for a certain module. It will be recalculated at the end of construction of each module.*

#### **How Element 4 is Embedded into the Contract**

The Team embedded Element 4 into the agreement by referencing the pricing model schedule in Section 10 of the MSA.

*The Parties have agreed on the Pricing Model, including payment terms set out in Schedule I (Pricing Model) and its exhibits. The purpose of the Pricing Model is to govern AGM's and Hilman's rights to compensation for the services, as well as to create incentives and prerequisites for the Parties achieving the Shared Vision, the Desired Outcomes and the Objectives while respecting the Guiding Principles.*

*All the activities required to achieve the Desired Outcomes and Objectives and complete the City of Acrobats are split in the following service categories:*

- *Base services: fundamental or core services that form the foundation of building the City of Acrobats (e.g. construction, installation, quality control etc.)*
- *Other services: All other services which are unanticipated and beyond the taxonomy but linked to the initial project.*
- *Governance services: consists of systems, processes, and structures that ensure accountability, transparency, and effective decision-making within City of Acrobats*
- *Transformation services: the innovation initiatives related to delivering on mutually defined and measurable Objectives.*



*The Pricing Model is a part of Schedule I, which is attached to and forms an integral part of this Agreement.*

*As part of the collaboration towards reaching the Desired Outcomes, the Parties may decide to make investments in improvements, equipment and supplies. These investments for transformation initiatives will be discussed during the regular meetings of the Strategic Board as defined in the Schedule D (the governance schedule).*

The Team then went on to develop a comprehensive Pricing Model Schedule (Schedule I). Purpose of Schedule I reads:

*This Schedule is based on relational Guiding Principles and Intended Behaviors throughout the term of the Agreement. The purpose of this Schedule is to outline the structures and provisions within the partnership leading to a financial win-win situation for both Parties. This Schedule will describe how the Pricing Model, Compensation Method and Incentives Structure will support the purpose of the Agreement.*

*The Parties recognize that business factors may impact our relationship. We will make mutual decisions based on a balanced assessment of needs, risks and available resources. The Guiding Principles will provide guidance to deal with dilemmas that Parties will be confronted with during fulfillment of this Agreement, especially in relation to the commercial terms and the win-win objective of this Agreement.*

The Pricing Model Schedule includes four parts.

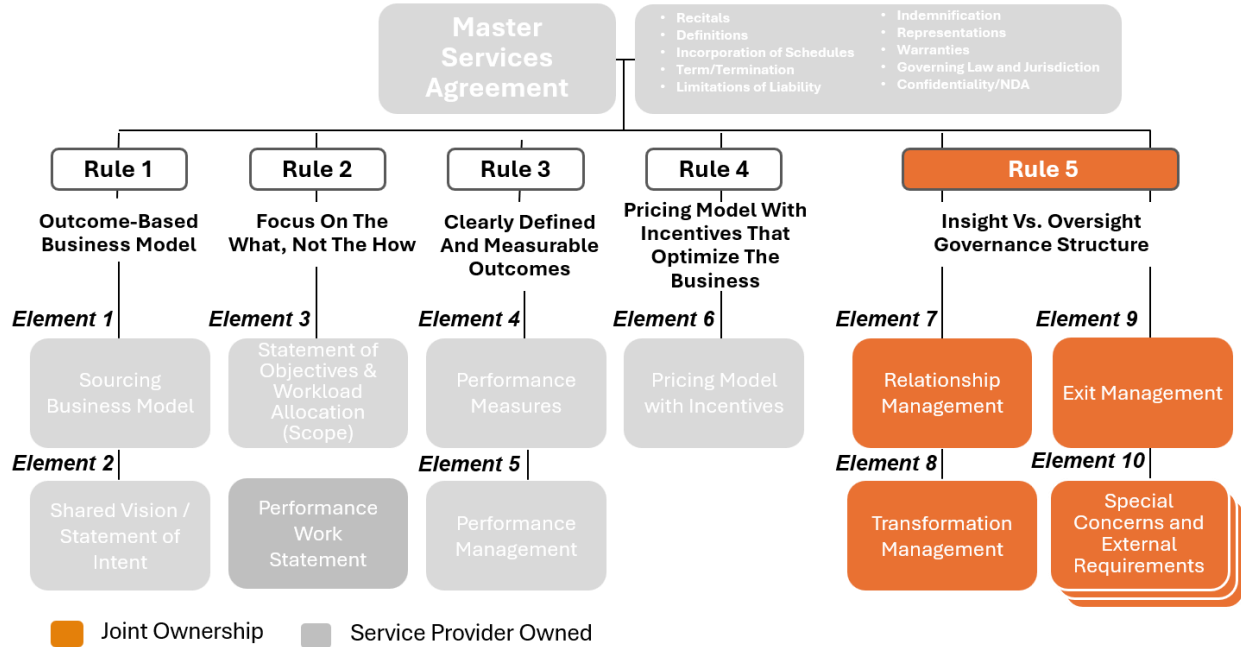
- Part 1 includes the pricing model inputs (e.g., guardrails, assumptions, risk management and TCO approach)
- Part 2 provides an overview of the actual pricing model and includes the pricing model framework including description and the compensation method per pricing model “bucket”, and the baseline calculation.
- Part 3 goes into detail on the incentives
- Part 4 provides guidance on how the parties will manage the pricing model. This includes the governance of the pricing model, how the parties will make adjustments and use Margin Matching, and the financial administration of the pricing model. Lastly, it shows how the parties tend to map the pricing model to standard accounting practices.



## RULE 5: INSIGHT VERSUS OVERSIGHT GOVERNANCE

Rule 5 is the governance—or management—of a Vested agreement and relationship. Great governance means shifting the mindset from simply managing the supplier to governing an extended part of your enterprise

There are four contractual elements of Rule 5 (see Figure 22): relationship management, transformation management, exit management, and compliance matters such as special considerations and external requirements.



**Figure 22: Vested Agreement Structure**

Combined, these elements provide the key governance mechanisms to not only manage performance and achieve transformational results throughout the life of the agreement, but to help you stay in continual alignment of interest when business occurs.

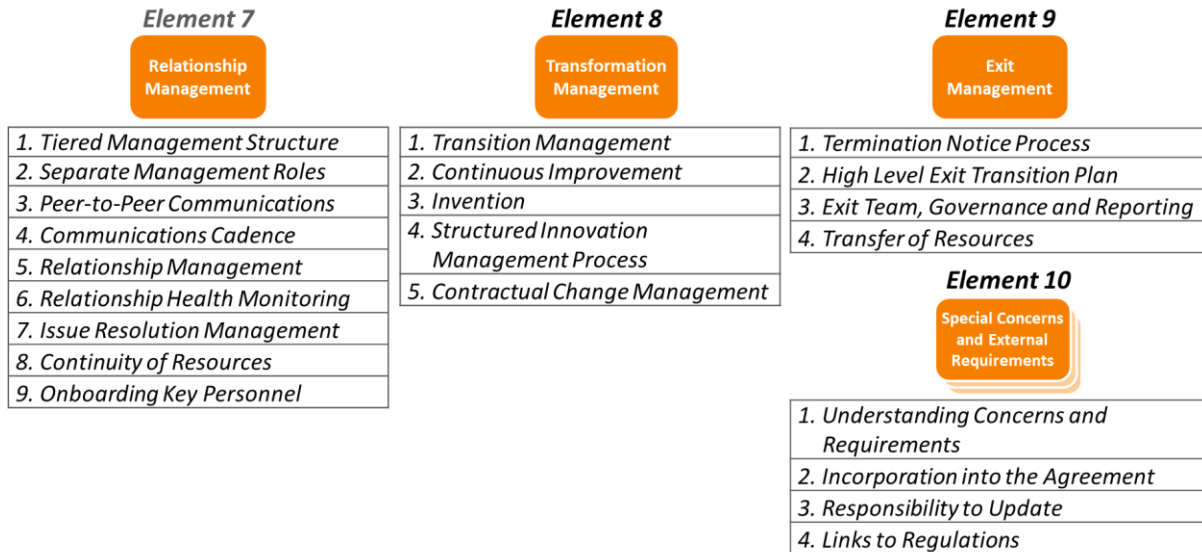
A key difference in a Vested agreement is that Vested shifts from a culture of oversight to one of insight, consciously laying the foundation of trust and mutual accountability for achieving the Desired Outcomes. Let us look at the meaning of the words insight and oversight to get a better understanding of the difference.

**Insight:** Power of acute observation and deduction; penetration, discernment, perception.

**Oversight:** Watchful care, superintendence, general supervision.

Simply put, the buying organization turns its focus from *managing the supplier* to *managing the business with the supplier*.

Rule 5 includes 22 design principles that are mapped to each of the four contractual Elements (see **Figure 23** on the next page)



**Figure 23: Rule 5 Design Principles**

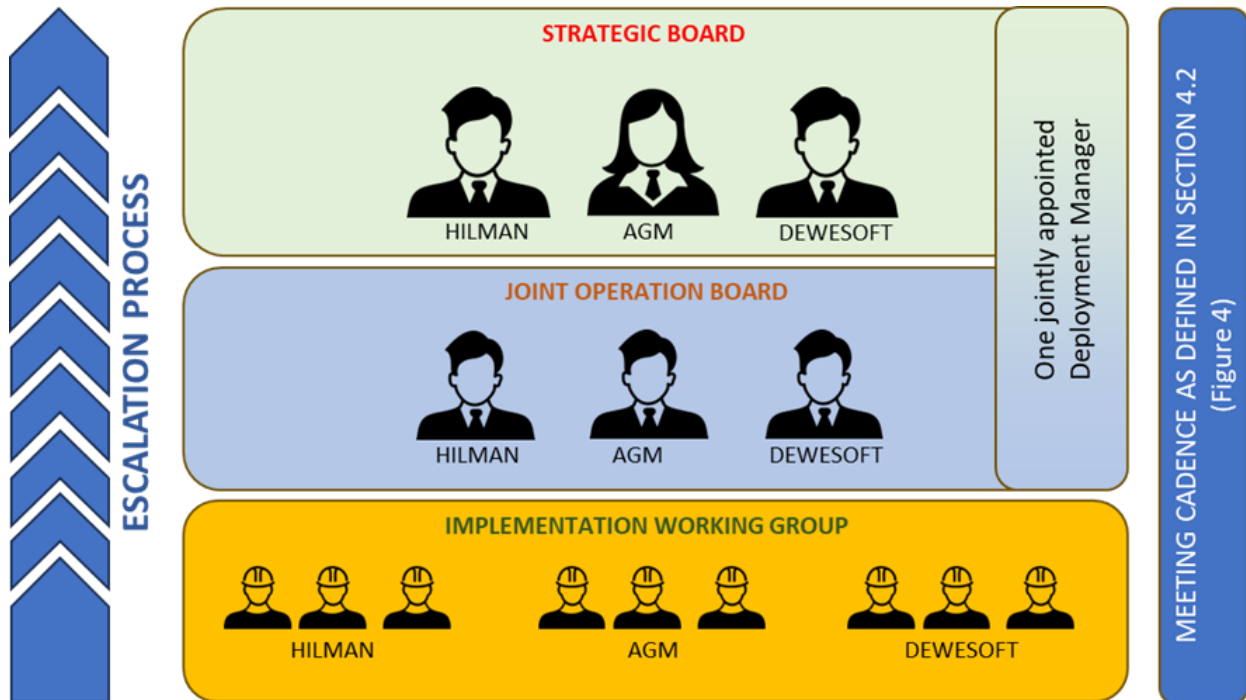
The Team worked through each Element using the design principles and then formally embedded these governance constructs into the physical contract.

The rest of this section shares how the Team applied each of the governance Elements and highlights some of the design principles they used to create their governance protocols.

### **Element 7: Relationship Management**

A relationship management structure creates joint policies that emphasize the importance of building collaborative working relationships, attitudes and behaviors. The Team monitors the agreement within the framework of a flexible governance structure that provides comprehensive insights into what is happening. Relationship Management within a Vested business model is constructed based on a number of important design principles; e.g. a tiered governance structure with clear roles and responsibilities, separate service delivery, transformation and commercial management roles, peer-to-peer communication protocols, a well-defined communications cadence, a documented process to maintain continuity of resources, a performance management program, and a clear process for continuously measuring and managing relational health.

The governance structure the Team designed consists of 3 tiers and is visualized below (see **Figure 24** on the next page).



**Figure 24: Three-Tiered Governance Structure**

As illustrated in Figure 24, the Team decided to use a three-tiered management structure with each tier having specific responsibilities for managing different aspects of the business.

- Strategic Board – top level management, has a holistic view of the Agreement. Here the overall delivery, transformation initiatives, contract management and the relationship is managed and long-term plans are discussed.
- Joint Operation Board – middle level management, manages the tactical operations and mid-term planning regarding the transformation.
- Implementation Working Group – lower management, manages the day-to-day operations.

This structure creates vertical alignment among top management, middle managers and the day-to-day workforce. Each layer is accountable for examining the relationship and business success from its own point of view and ensuring that the relationship is focused on the strategic and transformational components, as well as the tactical and operational elements.

Within their governance framework, the following key roles (functional areas) were identified

- Relationship Management
- Operations Management
- Commercial Management
- Transformation Management (will be covered in Element 8)

**Relationship Management:**

Relationship Management is managed by the Strategic Board. The three Strategic Board members (one representing each Party) manage the overall relationship, provide leadership, advice, and guidance during the contract term.



### **Operations Management:**

Operations Management is managed by the Joint Operations Board. There are three Operations Board members (one representing each Party), who are responsible for the day-to-day operations of the construction of the City of Acrobats.

### **Commercial Management**

Commercial Management is managed at the Strategic Board level. The three members of the Strategic Board are responsible for managing the overall commercial and contractual aspects of the Agreement. One Commercial Manager is appointed by each party who is responsible for keeping track of the Pricing Model and for managing changes in the Pricing Model. The Commercial Managers also ensure that the actual Agreement stays up to date as the business needs and pricing assumptions change.

### ***How Element 7 is Embedded into the Contract***

Section 5 of the MSA includes “Governance Structure and Processes” with Section 5.1 (Relationship Management) stating:

*A Relationship Management Framework is a structured approach designed to guide the process of building, maintaining, and enhancing relationships between Parties and provides a systematic method for addressing various aspects of relationship dynamics, ensuring that interactions are effective, constructive, and mutually beneficial.*

*The Parties are aware of and agree on that the successful achievement of the Shared Vision and the Desired Outcomes requires active management of the Parties' collaboration and performance under the Agreement. The Parties have therefore agreed to set up the governance structure as described in more detail in Schedule C - Relationship Management Framework.*

The Team went on to develop a comprehensive Schedule C which addressed each of the Element 7 design principles.

### **Element 8: Transformation Management**

A Vested agreement includes Transformation Management processes to help an organization stay aligned in a dynamic business environment – allowing the parties and their outsourcing agreement to evolve in a controlled manner. The Macmillan Dictionary definitions are:

- 1) “Transformation” is a change into someone or something different, or the process by which the change happens.
- 2) “Management” is the control and operation of a business or organization.

When the words are combined, it is easy to see that transformation management is defined as the operation of helping an organization to become different, both regarding people (someone) and processes (something).

Element 8 is where contracting parties establish the guidance for how they will manage transformation over the life of their agreement. The University of Tennessee teaches a Vested agreement should include different types of transformation:



1. Initial Transition Management – documenting a common understanding of how the initial transition of workscope is managed and how a wider “What’s-in-it-for-We” mindset is to be achieved in the wider organizations. This will ensure the relationship gets off to a good start by establishing a clear understanding of the transition.
2. Innovation Management, including
  - Continuous Improvement – documenting the expectations for managing day-to-day continuous improvement efforts or business problems that arise.
  - Invention/Innovation – guidelines and a process for managing larger-scale transformation initiatives.
  - Structured Innovation Management Process – establishes the philosophies and the protocols and processes outlining how the parties will manage transformation initiatives.
3. Contract Change Management – process for updating and managing any changes to the actual agreement.

Transformation Management is managed at all three levels of the DEWESoft, AGM and Hilman’s governance framework. At the highest level, the Strategic Board prioritizes and decides on the transformation initiatives, defines the timeline, funding and evaluates the end results against the Desired Outcomes. At the Joint Operations Board level, the transformation execution is supervised by the Transformation Manager. The Transformation Manager has responsibility for driving ideas, innovations, and process changes across all Parties to improve the fulfillment of the objectives in the Requirement Roadmap. The Transformation Manager is responsible for managing the end-to-end process and keeping a constant overview of the transformation funnel and will construct the business cases for the transformation initiatives. The Implementation Working Group executes the transformation initiatives.

In addition, the contract clearly specifies that Continuous Improvements and Innovation Initiatives have similarities from the objective of improving delivery. They differ from each other in the way they are initiated and implemented, the resource requirements (both people and funding) and in the impact they generate. Continuous Improvement focuses on doing it better, whereas Innovation focuses on doing it differently. Both aim to improve performance, leading towards the Desired Outcomes and hence the Shared Vision.

In the DEWESoft, AGM and Hilman collaboration, continuous improvement initiatives drive the transformation of the scope of services to an extent that the process or activity improvement is continuous and incremental in nature, with limited resources needed to implement. Initiatives are identified in all layers of the governance framework (cross functional, cross-company and end-to-end) and collaboratively with the supply chain. Teams are responsible for implementing their own Continuous Improvement initiatives. Where necessary the Deployment Manager facilitates the teams in their continuous improvement “operation”. Continuous Improvement initiatives follow the ‘Just Go Do It’ philosophy.

The Team defined Innovation Initiatives as significant improvements to the current way of working that need resources (people, material or financial) approval to develop. For an innovation initiative to be developed, a business case is created to show the added value of the innovation compared to the cost associated with developing it. The business case requires approval from the Strategic



Board and must meet specific criteria, including a clear contribution to one or more of the Desired Outcomes. Compared to continuous improvement, innovations are step-changes and transform the current activities. Innovation initiatives are identified in all layers of the collaboration (cross functional, cross-company and end-to-end). The Deployment Manager enables the innovation process.

### ***How Element 8 is Embedded into the Contract***

Recall Section 5 of the MSA addresses “Governance Structure and Processes”. Section 5.3 includes how the parties will deal with Element 8.

*The Parties strive to achieve excellence in the realization of the Desired Outcomes for the City of Acrobats through continuous improvements and innovation and are aware that this requires adequate processes for managing continuous improvements efforts and driving larger innovation initiatives. The Parties have therefore agreed to set up the transformation management process as described in more detail in Schedule D - Transformation Management.*

The Team went on to develop a comprehensive Schedule D which contains description of Transformation Management Framework (TMF) as mutually agreed between parties. This schedule describes:

- Continuous improvement versus Innovation
- Transformation management process
- Scoring criteria for ideas

## **Element 9: Exit Management**

Sometimes the best plan simply does not work out or is trumped by unexpected events. Business happens, and companies should have a plan when assumptions change. An exit management strategy provides a template to handle a future where a Vested collaboration is no longer the most logical choice (for whatever reason). The goal of Element 9 is to establish a fair exit management plan and to keep the Team whole in the event of a separation when the separation is not a result of poor performance.

The Team drafted their Exit Management Plan documents defining the key components for how they will handle Exit Management if the need arises to terminate some or all aspects of the agreement. As the Vested agreement and the relationship between Parties isn't a standard service provider arrangement, but rather an agreement for construction of the City of Acrobats, the Exit Management Plan follows the special needs and conditions that this relationship and agreements requires.

Their Exit Management Plan consists of:

- Termination Notice Process
- Exit Transition Plan
- Exit Team & Governance and Reporting
- Exit Compensation
- Transfer of Resources, Assets and Information



### ***How Element 9 is Embedded into the Contract***

Section 6 of the MSA includes the provisions for the term and termination of the contract. While Section 6.1 outlines the term of the agreement, Section 6.2 provides guidance on the termination rights and process for terminating the agreement.

One thing noticeably missing from the termination is a conventional “termination for convenience” clause. Rather, the partners went into the contract with the mindset that termination is not convenient. With this mindset, the partners replaced a classic termination-for-convenience clause with a “termination for justified business reasons” clause. In doing so, the partners can still exit the contract, but must have a good (e.g., justified) reason. One of those reasons is of course a termination of cause in the event any of the parties breach the contract.

In addition, Section 6.2.3 provides guidance on the process for how the parties will terminate the agreement if needed which points to a comprehensive Schedule with more detail on how the partners will unwind the agreement if needed in a fair and reasonable manner that focuses on minimizing risk. The below shares the wording for Section 6.2.3.

#### **6.2.3 Exit Management**

*In the event of Termination, the Parties agree to follow the procedures outlined in Schedule E - Exit Management to ensure that Termination is handled in a manner that respects the collaborative principles of the Agreement and is done by applying the Guiding Principles. The Parties will work together to follow the Exit Management process as outlined in Schedule E, ensuring a smooth Termination minimizing disruption and ensuring that Parties honor their commitments during the exit process so they preserve value and minimize risks to ongoing operations. The focus will be on maintaining the integrity of any ongoing work, transferring knowledge, and safeguarding the Desired Outcomes to the extent possible.*

*In the event that Hilman or AGM terminates the Agreement for any reason, the Agreement remains valid and binding for Dewesoft and the remaining Contractor.*

The excerpt below from Schedule E provides insights in the Exit Management Plan.

*The goal of the Exit Management Plan is to determine and document the key components for how the parties will handle Exit Management if the need arises to terminate some or all aspects of the agreement. The Exit Management Plan governs Termination Notice Process, Exit Transition Plan, Exit Team and Transfer of Resources, Assets and Information.*

*As this Vested agreement (MSA) and the relationship between Parties isn't a standard service provider one, but rather an agreement for construction of the City of Acrobats, so the **Exit Management Plan** follows the special needs and conditions that this relationship and agreements requires.*

The Exit Management Plan went on to document the partners commitments regarding the following:

- Termination Notice Process



- Exit Transition Plan
- Exit Team & Governance and Reporting
- Exit Compensation
- Transfer of Resources, Assets and Information

### Element 10: Special Concerns and External Requirements

Governance frameworks are not one-size-fits-all, especially in more technical or complex relationships. Element 10 recognizes that all agreements are different and that many companies and service providers must understand and adhere to special requirements and regulatory protocols. Thus, the collaboration may require additional provisions that address specific market, local, regional and national requirements.

The section on Special Concerns and External Requirements in the DEWESoft–AGM–Hilman contract is tailored to the unique needs and conditions of the DEWESoft, AGM and Hilman relationship and agreement, and includes compliance with Slovenian and EU laws as well as special concerns related to the building of the City of Acrobats such as local and city regulations, special safety and labor issues, and legal or regulatory obligations that impact the scope of work or the achievement of the Desired Outcomes.

Because the City of Acrobats would be built over long period of time as funds were released, the partners knew there was a high likelihood laws, regulations and other special concerns would change overtime. For example, environmental compliance in 2025 most certainly would evolve due to new regulations and available technology over time.

A Vested agreement is ideal for the City of Acrobats because it - by design - creates a flexible contract framework where contracting partners openly commit to collaboratively address compliance throughout the life of their relationships.

One way this is done is by creating a dedicated schedule in the contract (SCHEDULE K - Special Concerns and External Requirements) which describes

- Compliance with Slovenian and EU Laws
- Addressing Special Concerns
- Proactive Risk Management
- Continuous Monitoring and Adaptation
- Overview of all relevant/applicable legislation and regulations for your partnership.

To provide the needed flexible the partners would need, the partners created a simple table in the contract designed to be updated through ongoing governance. Rather than create “fixed” contract clauses, the table points to applicable laws, regulations and requirements and outlines who is responsible for monitoring and tracking changes to each compliance item.

**Figure 25** on the following page shares an excerpt of the table with some of the regulations that DEWESoft is responsible for monitoring.



Relevant / applicable legislation or regulation	Link to the relevant document	Responsible Party
Zakon o delovnih razmerjih (ZDR-1)	<a href="https://pisrs.si/pregledPredpisa?id=ZAKO5944">https://pisrs.si/pregledPredpisa?id=ZAKO5944</a>	Dewesoft
Zakon o varstvu osebnih podatkov (ZVOP-2)	<a href="https://pisrs.si/pregledPredpisa?id=ZAKO7959">https://pisrs.si/pregledPredpisa?id=ZAKO7959</a>	Dewesoft
Zakon o varnosti in zdravju pri delu (ZVZD-1)	<a href="https://pisrs.si/pregledPredpisa?id=ZAKO5537">https://pisrs.si/pregledPredpisa?id=ZAKO5537</a>	Dewesoft

**Figure 25: Excerpt of Compliance Monitoring Table**

To address the long-term nature of the project and relationship, Schedule K also had a section that provided the commitments the partners agree to use to proactively identify, assess, and mitigate risk over the life of the agreement.

#### **How Element 10 is Embedded into the Contract**

The MSA Section 16 was a clause that addressed “External Regulations”. The clause states:

*In alignment with the Vested principles of integrity, transparency, and mutual responsibility, the Parties commit to comply with all applicable laws, regulations, and industry standards (External Regulations) that govern the execution of this Agreement and as determined in Schedule K - Special Concerns and External Requirements.*

*The Parties focus on collaborative compliance, proactive communication, and mutual responsibility in adhering to External Regulations, ensuring that the partnership remains strong and aligned with legal and regulatory requirements.*

*Recognizing that compliance with External Regulations is a dynamic process, the Parties agree to continually adapt their operations and practices to meet these obligations. This commitment to continuous improvement reflects the Vested approach of driving value and achieving Desired Outcomes while maintaining compliance.*

*The Parties acknowledge that changes in External Regulations may impact the achievement of the Desired Outcomes. In such cases, the Parties commit to working together to assess the impact and explore collaborative solutions that maintain the integrity of the Agreement while ensuring compliance with the new requirements.*

*Should any External Regulation pose a risk to the fulfillment of this Agreement, the Parties agree to engage in open dialogue to identify and implement risk mitigation strategies. The goal is to manage regulatory risks in a manner that aligns with the Vested principles of shared accountability and mutual benefit.*



The Team went on to draft Schedule K as a part of the agreement which contains the description of Special Concerns and External Requirements as mutually agreed between Parties. Schedule K documents the purpose of the schedule as follows:

*The goal of the Special Concerns and External Requirements is to determine and document the relevant legislation and laws for the Parties that need to be complied with. The Parties are focusing on compliance, proactive risk management and will ensure that they are aware of the legislation currently in force, ensuring that all Parties work together to meet legal obligations and address special concerns while maintaining a strong and responsible partnership.*

Schedule K includes:

- Compliance with Slovenian and EU Laws
- Addressing Special Concerns
- Proactive Risk Management
- Continuous Monitoring and Adaptation
- Overview of all relevant/applicable legislation and regulations for your partnership.



## PART 4: CONCLUSION AND ADVICE FOR OTHERS

DEWESoft, AGM and Hilman inked the first ever Vested agreement for a large-scale construction project on January 1, 2025, with groundbreaking scheduled to start in the fall of 2025.

The collaborative partnership began paying off shortly after the contract was signed as the partners immediately began collaborating to find ways to optimize for the project.

### Before and After Vested

Recall that DEWESoft, AGM and Hilman had worked together on projects over the years prior to the City of Acrobats. As part of this case study, we asked Team members to describe what it was like before and after Vested. Below is a sampling of the words they used to describe the working culture.

Before Vested	After Vested
Bureaucratic	Collaborative
Micro-managed	Cooperation
Non-cooperative	Efficient
Not Optimal	Flexible
Perverse Incentives	Fun
Stressful	Objective
Unknown	Win-Win

Perhaps the most interesting view is that of DEWESoft’s Dr. Knez, who describes Vested as “simply magic”.

Magic or not, Team members are convinced Vested is the best possible solution for the building of the City of Acrobats. In fact, Dr. Knez is so bullish on Vested he is already planning on using the Vested methodology for initiatives such as how DEWESoft works with outsourced service providers, and to develop microenterprises within the organization operating within Vested principles.

### Advice for Others

DEWESoft, AGM and Hilman executives want to encourage other organizations to explore the potential of Vested partnerships and eagerly share their Top 3 tips for those considering making the shift to Vested.

- 1. Don’t skip the training.** “It’s absolutely necessary to do the training, redo it, and do it again. It may seem repetitive – but what you find is the repetition helps ingrain the rules and why they are important in the way you work.”
- 2. Trust the Process.** Almost all Team members’ #1 advice was simply “trust the process. “It is easy to think you can shortcut the process and skip steps. But the workshops help you build a mutual understanding of what you are trying to achieve and then align all aspects of the contract and relationship to give you the best chance for success.”
- 3. Use a Neutral Coach.** “Using a Vested coach was invaluable. While we could have done this ourselves without a coach, I am convinced it was exponentially easier because we had a



Coach. The coach also plays a critical role in helping challenge traditional approaches to ensure we are truly creating a win-win contract where all parties are Vested in each other's success."

We hope this case study has inspired you think about how making the shift to a highly collaborative Vested business model can help you achieve your impossible.



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## 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 nine books on the Vested business model and its application in strategic sourcing.



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](mailto: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*



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To learn more about Vested visit the University of Tennessee's dedicated website at [www.vestedway.com](http://www.vestedway.com).