



VESTED For Success Case Study

Innovation in Healthcare Outsourcing:

How the Discovery Health Medical Scheme and
Discovery Health (Pty) Limited Create Value Through
Their Innovative Vested Outsourcing Relationship

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INNOVATION IN HEALTHCARE OUTSOURCING

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EXECUTIVE SUMMARY

The health market in South Africa – like most countries – is dynamic and evolving. Adrian Gore – an actuary by trade and entrepreneur in spirit – saw this as an opportunity for disruptive innovation. Gore founded Discovery Health in 1992 with a focus on making people healthier and enhancing lifestyles. Discovery Health launched what would become one of the most progressive insurance platforms for individuals and employers to fund medical treatment (referred to as a medical scheme in South Africa).

Gore found himself in the midst of another major disruption in 1998 when the Medical Schemes Act, which regulates the industry in South Africa, required medical schemes to become non-profit entities governed by an independent board of trustees. Discovery Health needed to be split into two entities: The Discovery Health Medical Scheme and Discovery Health (Pty) Limited, a medical scheme administrator. The Discovery Health Medical Scheme was duly registered under the amended legislation. To comply with the Act, the Discovery Health Medical Scheme faced the challenge of creating an outsourcing contract for work it had once performed in house. The Scheme ultimately contracted with Discovery Health (Pty) Limited to provide administration and managed care services.

The Scheme and Discovery Health worked hard to build a sound relationship and continue the innovative spirit in which Gore had founded the organisation. In fact, as researchers at the University of Tennessee that study outsourcing relationships, we would argue that the parties blazed a trail of innovation as they fostered what would become South Africa's first ever Vested Outsourcing agreement.

This case study profiles the Discovery Health Medical Scheme / Discovery Health (Pty) Limited outsourcing journey – showing how the two parties work in a highly collaborative Vested relationship. Together, they are not only leaders in progressive outsourcing, but are consistently delivering disruptive innovation to South Africa's healthcare system, and to their stakeholders, including medical scheme members, employers and the healthcare delivery system.



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BACKGROUND AND KEY TERMS

Medical schemes provide an essential role in South Africa's private healthcare system by providing funding to approximately 17% of the population for medical treatment. Members join medical schemes either as individuals in their own right, or through their employer, many of whom subsidise their contributions to some extent.

All medical schemes in South Africa are non-profit entities that are regulated by the Council for Medical Schemes. At time of writing, there are 83 medical schemes in South Africa classified as either restricted or open. In a restricted medical scheme membership is confined to a defined group by reference to a trade or profession (e.g. accountants) or employment by a particular firm. For example, BMW and De Beers – both large companies operating in South Africa, have restricted medical schemes. By contrast, any member of the public can join an open scheme, either in their own right or through their employer. Typically, open schemes offer a variety of benefit plans that provide different levels of cover (e.g. hospital only, limited day to day, comprehensive) with contributions levels set accordingly.

Medical schemes work by taking on members who pay monthly contributions into a pool of funds that is managed by the medical scheme. In return for contributions, members receive medical insurance coverage according to the rules of the medical scheme to which they belong.

Medical schemes belong to their members and do not have shareholders. Any surplus funds not paid out in claims, administration fees and other non-healthcare expenditure remain in the pool to be used for the benefit of the members.

The Discovery Health Medical Scheme is South Africa's largest open medical scheme. At time of writing this case study, the Scheme has 2,7 million lives covered. The core purpose of the Scheme is to achieve, in a sustainable manner, the best possible value for its members, which comprises the benefits, quality of care and service levels members have access to, relative to their plan contributions.

The Discovery Health Medical Scheme is managed by an independent non-executive Board of Trustees, of which the majority are elected by members. The Board oversees the business of the Scheme and as such is accountable to members. The Principal Officer (equivalent to the CEO of a for-profit business) is responsible for the day-to-day management of the Scheme. A management team supports the Principal Officer. Like most medical schemes in South Africa, Discovery Health Medical Scheme has chosen to fully outsource the provision of administration and managed care services to Discovery Health (Pty) Limited which is an independent service provider.

Throughout this case study we use the following key terms;

- "DHMS" and the "Scheme" are used interchangeably to refer to the Discovery Health Medical Scheme.
- "DH" or "Discovery Health" are used interchangeably to refer to Discovery Health (Pty) Limited.
- "Parties" refers to both DHMS and DH, especially as it relates to the coming together of DHMS and DH in their contract.
- "The Board" is used to refer to the independent non-executive Board of Trustees of DHMS.
- "UT" refers to the University of Tennessee
- "Vested Outsourcing" or "Vested" refers to a sourcing business model developed by UT researchers designed to optimise outsourcing relationships.



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PART 1: THE EVOLUTION OF THE DISCOVERY HEALTH MEDICAL SCHEME

In 1992, Adrian Gore, a South African actuary and entrepreneur, founded a health insurer named Discovery Health with seed-funding of ten million Rand. The Discovery Health business concept and the company's core purpose is based on making people healthier and enhancing their lifestyles. Gore believed that this approach could be a powerful market disruptor which could significantly shift competition, as well as be a force for good in the world.

At the time, the consumption of healthcare services funded by traditional healthcare plans was problematic with members consuming every benefit available to them – perhaps feeling that if they did not use it, they would lose it. Being innovative from the get-go, Discovery Health introduced the concept of a Medical Savings Account (MSA) which empowered members to manage their discretionary healthcare spend in a more responsible manner and unused benefits could be transferred to the next benefit year, so they didn't lose it. The MSA concept was a major disruptor in the health insurance industry which resulted in a significant reduction in wasteful expenditure.

In 1997, Discovery Health again disrupted the market when it introduced Vitality, which is a science-based incentive driven wellness program and is now an international brand in its own right. Vitality encourages healthy behaviour that reduces long-term healthcare costs by rewarding members for improving their health.

The Medical Schemes Act No 131 of 1998 ushered in new legislation for the medical schemes industry. One of the most significant changes was the requirement for medical schemes to be governed by an independent board of trustees which is completely independent from the scheme's administrator. The board of trustees also had to appoint an administrator and managed care organisation, based on the provisions in the Act.

The effect of the new legislation was that Discovery Health needed to be split into two entities: The Discovery Health Medical Scheme and Discovery Health (Pty) Limited, a medical scheme administrator. DHMS was duly registered under the amended legislation. To comply with the Act, DHMS contracted with Discovery Health to provide administration and managed care services. It was important during this time of change to ensure that the Scheme maintained the competitive advantage it had enjoyed prior to the changes to the legislation. Innovation, after all, was at the center of its success. The development of governance mechanisms that were both collaborative – yet also clearly delineated DHMS as a separate entity from DH – would be an important driver of future performance. While DH was now a separate company from DHMS, the outsourcing relationship should be based on trust and collaboration with a focus on ensuring continued value creation for DHMS' members.

Milton Streak joined DHMS in 2009 as the Principal Officer. The Board was attracted to Milton's extensive experience in the healthcare management sector. But what really gave Milton the edge on the top job for the Scheme was the emphasis on innovation. Innovation is very important to the Scheme and Milton is no stranger to innovation. In fact, he formally studied innovation, completing his Masters of Management in Entrepreneurship and New Venture Creation at the University of Witwatersrand. This combination of healthcare management and innovation gave him a unique take on how the Scheme should view value creation for its members.

The Scheme had grown significantly over the years and was now a very large and complex business. As Milton settled into his new role, he began to think about ways to improve the efficiency and effectiveness of how the parties worked together. He was impressed by the collaborative



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working relationship – and immediately recognised the collaboration as a source of DHMS' competitive advantage. He wanted to harness the collaborative spirit and initiated a board committee structure reporting to the Board to ensure strategic focus in the various areas that are important to the Scheme. The sub-committees had the benefit of further strengthening the working relationship between DHMS and DH.

In 2012, against a backdrop of its extensive fiduciary and governance obligations, the Board sought to obtain assurance over all its relational as well as transactional governance processes. Deloitte was appointed to conduct a formal Operating Model and Governance Review of the relationships, governance structures and interactions between the Scheme and DH. Deloitte presented their report to the DHMS membership in June 2013 with a key recommendation for DHMS to review and optimise their outsourcing contracts with DH.



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PART 2: DHMS INTRODUCES VESTED APPROACH

The Deloitte review had suggested DHMS review and optimise their outsourcing contracts. The Board agreed with this recommendation.

There was no doubt that DHMS had a great working relationship with DH. In fact, the Deloitte review saw the relationship as a key strength. Over the years many Board members had seen first-hand how well the collaborative relationship worked and several questioned why other organisations seemed to approach their outsourcing relationship with a detached lowest price mentality. Many within DHMS were anxious that pressure to use price as the main measure of the success of the outsourcing contract with DH might put a wedge in the relationship and thus negatively impact DHMS' members and the scheme itself.

As the Principal Officer, Milton Streak knew DHMS would need to dig deeper into best practices for outsource contracts to truly understand what the leading practices were. Milton wanted to do some research himself before DHMS jumped in and engaged a consulting or law firm to put a critical eye to their contracts. Milton had never considered himself an expert on outsourcing so he decided to spend the rest of the winter doing research that would guide DHMS down the best path.

Milton didn't have to go far in his learning journey. He knew that outsourcing was a big business and many companies had large outsourcing contracts and relationships – especially in the growing IT outsourcing field. Milton turned to an acquaintance who was steeped in Information Technology outsourcing - Pat Felton - an IT business entrepreneur. Milton and Barry Stott (a DHMS Trustee at the time) met with Pat, to pick his brain. Pat suggested they look at the research the University of Tennessee was doing on a concept the researchers called Vested Outsourcing - or Vested for short.

When Barry and Milton explained DHMS wanted to learn more about how to structure a successful outsource contract, Pat immediately recommend the *Vested Outsourcing Manual: The Guide for Creating Successful Outsource and Business Relationships*. Pat was insistent, "You have got to read this book!" Milton and Barry were immediately intrigued by Pat's insights, so much so that Milton ordered the book that evening.

The book was based on almost a decade of research by the University of Tennessee. Researchers had studied some of the world's most successful outsource relationships and found that highly collaborative relationships backed up by "win-win" contracts had a direct impact on success. It also validated a hunch Milton had; conventional transactional price focused outsourcing agreements created friction between companies and their outsourced services providers.

Milton was fascinated to read about how the Vested methodology combined a relational contract with outcome-based economics. Outcomes-based thinking was not a new topic in healthcare. Having worked as both a professionally trained pharmacist as well as in the management of businesses in the health sector, Milton knew organisations could benefit from a longer-term focus on achieving healthcare outcomes. But he had not really thought of applying outcomes-based thinking to the economics of a contract. The more he read, the more it made sense. Focusing on mutually defined longer term business outcomes would mean both DHMS and DH interests would be tightly aligned – in essence turning the concept of win-win into an economic reality.

Milton closed the book and put it on his nightstand after he turned the last page. His head was spinning. The proverbial penny dropped as he digested his thoughts. *DHMS and DH already had a Vested relationship – but they did not call it that.* Milton thought to himself, DHMS is more successful than our competitors *because* of our relationship with DH. The parties were strongly



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aligned and were vested in each other's success, they had just not used the Vested label to describe it.

Milton shared his enthusiasm with the small team that ran the Scheme's day-to-day operations. They were fascinated to learn that the Vested methodology emphasised creating a relational contract between a company and their supplier. This was exciting as it dovetailed with the relational governance aspects of the Deloitte Review. "What was particularly attractive was that the Vested methodology created a system that enables organisations to effectively implement and manage complex outsourcing relationships. We were also really attracted to the diligence and structure UT researchers had put into the methodology," explained Yashmita Mistry, Head of Compliance and Governance at DHMS.

The next steps were clear. The *Vested Outsourcing Manual* provided a step-by-step methodology for creating a win-win "Vested" agreement - offering a way of formally 'documenting' the relationship in a contract with the Five Rules and Ten Contractual Elements of Vested. DHMS would use the *Vested Outsourcing Manual* to formally codify the nature of their relationship into the contract with DH. The timing was perfect. The DH contract was about to come up for review anyway.

The Board also liked the idea. The University of Tennessee framework was steeped in research. DHMS set out to use the *Vested Outsourcing Manual* to restructure their agreement with DH into a formal Vested agreement.

Milton took the idea to his counterpart at DH – Dr. Jonny Broomberg, DH's CEO. Jonny liked the logic of a win-win Vested relationship. The foundation for the Vested model is steeped in behavioral and transaction cost economics designed to optimise relationships through alignment of interests (i.e. a win-win relationship). Economic optimisation models were not new to Broomberg, who had received his PhD in Health Economics. Jonny firmly supported the concept of both parties using the Vested framework as the foundation for the contract renewal.

Both organisations decided to limit the team working on the new contract. DHMS took the lead for drafting the contract. DHMS spend the remaining part of 2013 and the greater part of 2014 revamping the DH contract.

DHMS used the *Vested Outsourcing Manual: A Guide for Creating Successful Business and Outsourcing Agreements* to guide them as they restructured their existing contract. Team members liked the fact that the Manual provided a sound framework and step-by-step guide for what they would need to do – which included creating a flexible contract framework that would be made up of ten contractual "elements". They also liked that much of the Vested materials were available as open source publications and downloads.

The team worked methodically with the goal of incorporating as much of the learnings as possible into the contract. Extensive changes were made to the existing agreements to cater for each party's strategy, risks and operational requirements.

In March 2014, a first draft of the revised Administration and Managed Care contracts were presented to the Board at a DHMS strategy session. The Board was comfortable with the direction that the drafters had taken and mandated the team to continue with the process.



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Milton was pleased. “DHMS and DH have always had a relationship I would depict as Vested in nature. However, using the Vested Outsourcing Manual enabled us to formalise the intent of our relationship in a way we had not done in the past. DHMS and DH now have an even stronger relationship through aligned interests with a focus on driving innovation toward mutually defined outcomes.”

In fact, the Vested methodology specifically ensures organisations include mechanisms for dealing with innovation. The new contract dealt with innovation explicitly by setting a process for DHMS to provide its input, recommendations and direction in relation to any innovations that DH is working on.

Jonny Broomberg was not afraid to invest in innovation to support DHMS, and DH committed to invest an amount of no less than R50 million each year of the agreement in incremental innovations which benefit the Scheme through improvements of service, achieve cost savings for the Scheme, or provide additional benefits to attract and retain members. This commitment was in addition to the already significant innovation budget that DH commits each year.

Jonny holds that “Innovation is part of DH’s DNA. So while it makes sense to invest in innovation from a strategic standpoint, our win-win contract with DHMS makes it very attractive from an economic standpoint. As the CEO, I know that we not only have a good relationship, but also a good contract that drives the right behaviors. This confidence means we are not afraid to invest because we have a strong long-term relationship which allows us to recoup our investments over the long term. Many current investments in healthcare are long term in nature, and without this type of relationship, we would be more averse to making them. I believe that this is a problem faced by many of our competitors who cannot afford to invest for the long term, as they do not have Vested type contractual relationships with their medical scheme clients”

Milton Streak agrees. “The win-win nature of our contract is essential. When DH invests in innovation that improves the services and value to our members, it ultimately results in better retention of members and attracts new members. This in turn benefits DHMS and DH.”

10 Elements of a Vested Agreement	
Rule 1: Outcome-Based vs. Transaction-Based Business Model	
Element 1	Business Model
Element 2	Shared Vision Statement and Statement of Intent
Rule 2: Focus on the WHAT, not the HOW	
Element 3	Statement of Objectives/Workload Allocation
Rule 3: Clearly Defined and Measurable Desired Outcomes	
Element 4	Performance Metrics for Desired Outcomes
Element 5	Performance Management
Rule 4: Pricing Model Incentives are Optimized for Cost/Service Tradeoffs	
Element 6	Pricing Model (Margin Matching / Incentives Framework)
Rule 5: Insight vs. Oversight Governance Structure	
Element 7	Relationship Management Framework
Element 8	Transformation Management
Element 9	Exit Management Plan
Element 10	Special Concerns and External Requirements



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PART 3: VESTED IN ACTION - RESULTS

Michael van der Nest, Chairman of DHMS reflects on the amazing progress made using a Vested approach. He agrees with Milton. “DHMS and DH have always had a relationship that is Vested in nature. It has been astounding to see the results that have come from our highly collaborative relationship with DH. And we are definitely seeing the pay-off of using the University of Tennessee’s best practices that we have incorporated into our contract.” Daisy Naidoo, a member of the Board of Trustees, agrees, describing the DH relationship as “engaged and collaborative”. She adds that it never feels like an “us and them relationship”.

The following pages outline some of the tangible benefits DHMS and DH have had as a result of the Vested model across five critical focus areas of success:

- growth
- innovation
- member value
- competitive contribution rates
- member satisfaction

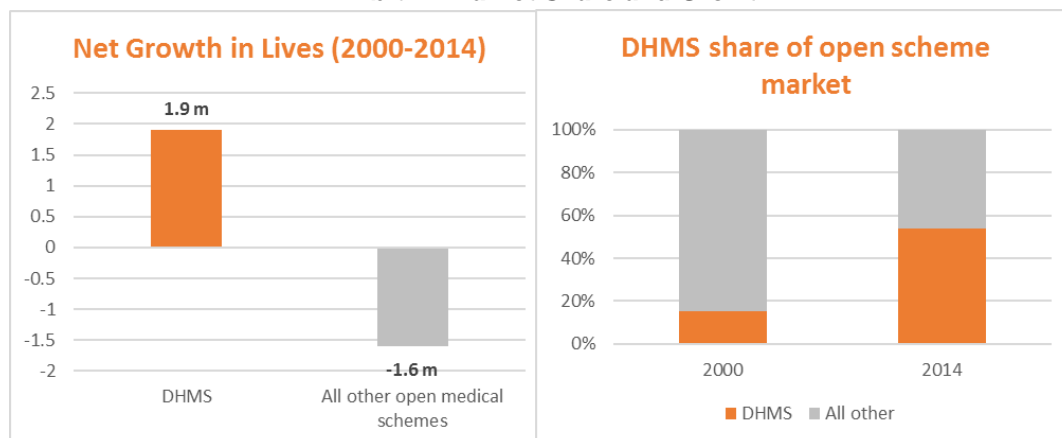
Growth

Growing the Scheme is critical to the success of both DHMS and DH. For DHMS, growth in new members equates to sustainability. New members claim significantly less, and are typically younger and healthier than the existing pool of members. The rich benefits, competitive premiums, exceptional service and a strong brand association all attract new members.

Jonny Broomberg explains. “Our strategy is simple. We focus on what is best for the Scheme because we know that ultimately it is good for us as well. Our win-win agreement has done a great job of aligning our interests to ensure we are both highly focused on growth opportunities. The results speak for themselves.”

The results have seen consistent continued growth in members (see Exhibit 1). Between 2000 and 2014, DHMS grew by 1.9 million lives whilst the rest of the open schemes market has shrunk by 1.6 million lives. At the end of 2014, the Scheme has an impressive 53.8% market share with nearly 2.7 million lives. A further 57 000 lives joined DHMS in 2015.

Exhibit 1 - Market Share and Growth



Source: Discovery Health

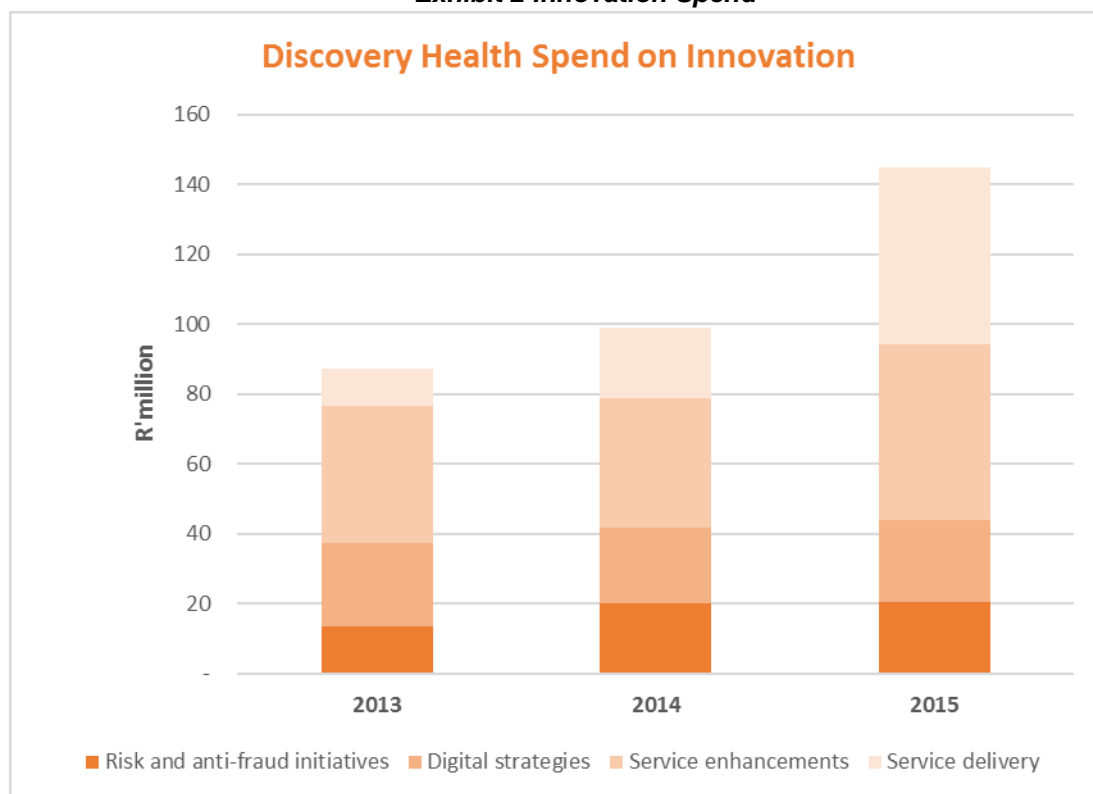


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Innovations

A Vested agreement – by design – creates a highly collaborative relationship where both parties work on transformation initiatives that create value through innovation. DH always focused on innovating as a way to create member value. As Dinesh Govender, Chief Marketing Officer for Discovery points out, “The Vested agreement allows us to take the long term view and therefore we can invest in innovation and resources in marketing and distribution”. The Scheme's best practice governance structures - a Board of Trustees and various Board Committees initiated in 2010 - complement DH by maintaining a focus on value. DH has in fact spent on average R110 million each year from 2013 to 2015 on a range of innovations. Exhibit 2 shows the rate of innovation is not just stable, but consistently increases every year.

Exhibit 2 Innovation Spend



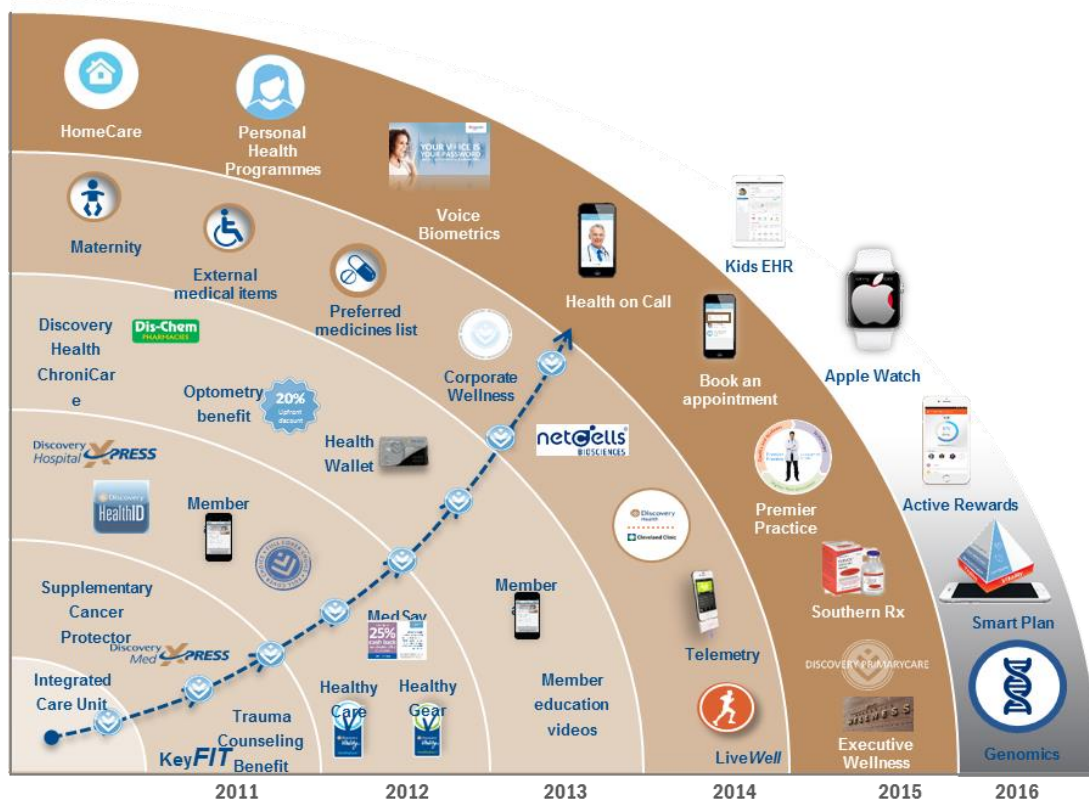
Source: Discovery Health

DH's drive to innovate is showcased each year at the annual Discovery Health Medical Scheme Product Launch which sets a hard deadline by which all new initiatives for the forthcoming year are announced. Exhibit 3 highlights the extent of these innovations since 2011 through to the first half of 2016.



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Exhibit 3 Innovation Growth Map



Source: Discovery Health

Ryan Noach, Deputy CEO of DH, shares how the parties work together transparently on innovation. “DH has set up a specific entity to house its investments in healthcare service delivery which have been established with the goal of driving down healthcare costs. This structure allows the benefits of the investments to be tracked transparently. And this transparency ultimately helps us to work collaboratively on innovation projects. Currently, these investments are not profitable, and their operating losses are borne by DH. Once they become profitable, the transparent structure will allow the value created to be shared with DHMS and our other medical scheme clients.”



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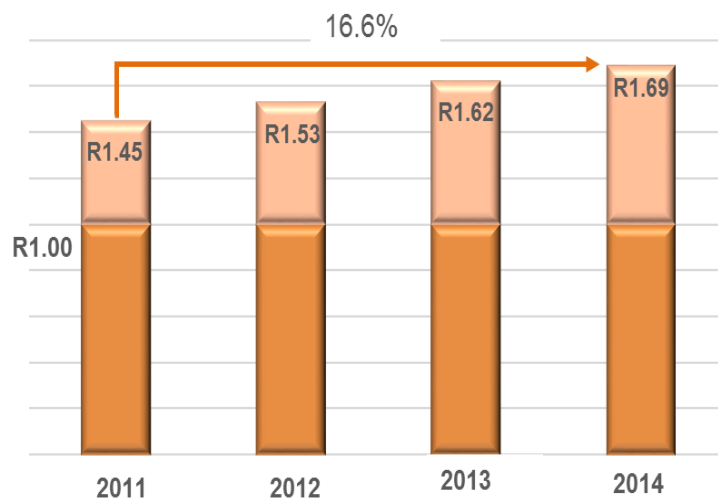
Member Value

Of course – innovation is nice – but it must drive value. And for DHMS that means member value. As part of the Operating Model and Governance Review, Deloitte designed a methodology to assist the Board in assessing the value for money that DH provides to the Scheme in return for the fees paid.

The value for money calculation measures the value received by members for every one Rand of fees paid to DH for the services they provide. Exhibit 4 below clearly shows that members are getting significantly more value than they are contributing and this additional value is increasing over time.

Exhibit 4 Value Generated for Members

Value generated for DHMS members per R1 of fee paid



For every R1 spent
on managed care and
administration fees,
beneficiaries of the
Scheme derived **R1.69**
in value

Value Formula based on CMS Annual Report data. Not yet available for 2015-2016.

Source: Deloitte Value Formula Review, November 2015



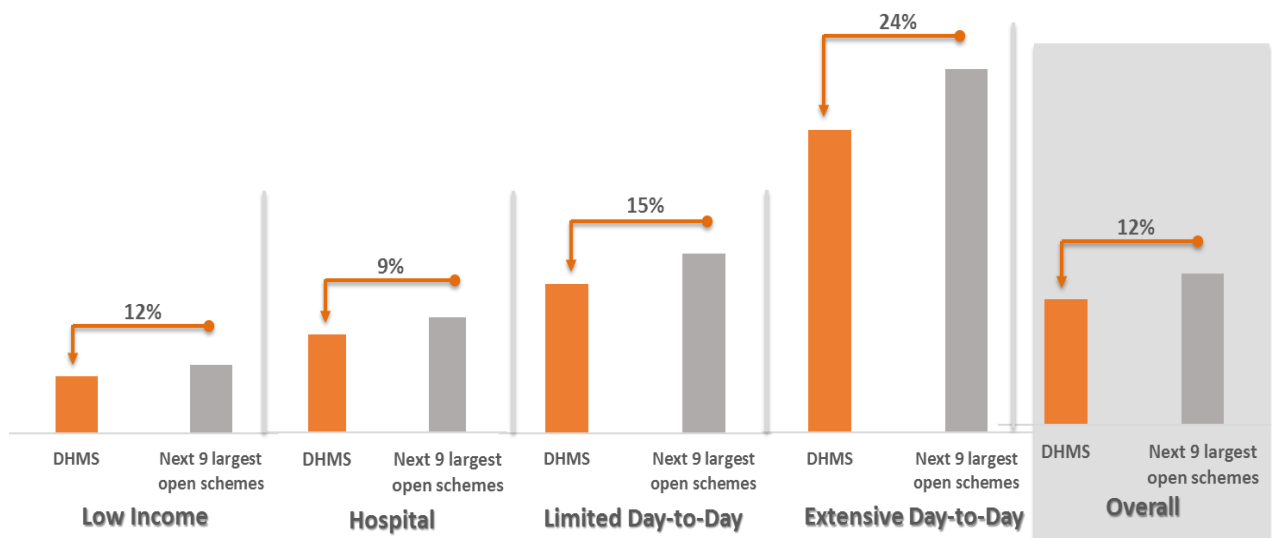
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Competitive Contribution Rates

One way to assess the benefits to members of the Vested nature of the relationship is to compare DHMS' contribution rates to its competitors. The results are impressive (see Exhibit 5). DHMS' contribution rates are on average 12% lower per principal member than the nine largest open medical schemes that compete directly with DHMS. This is primarily due to DHMS' and DH's combined efforts to contain the impact of medical inflation and are achieved through highly effective contract negotiation with hospitals and other service providers as well as effective claims risk management strategies.

Exhibit 5 Average contribution differential for a principal member in 2016

DHMS provides the **richest benefits** and **lowest contributions** in the market



Source: Published Contributions 2016

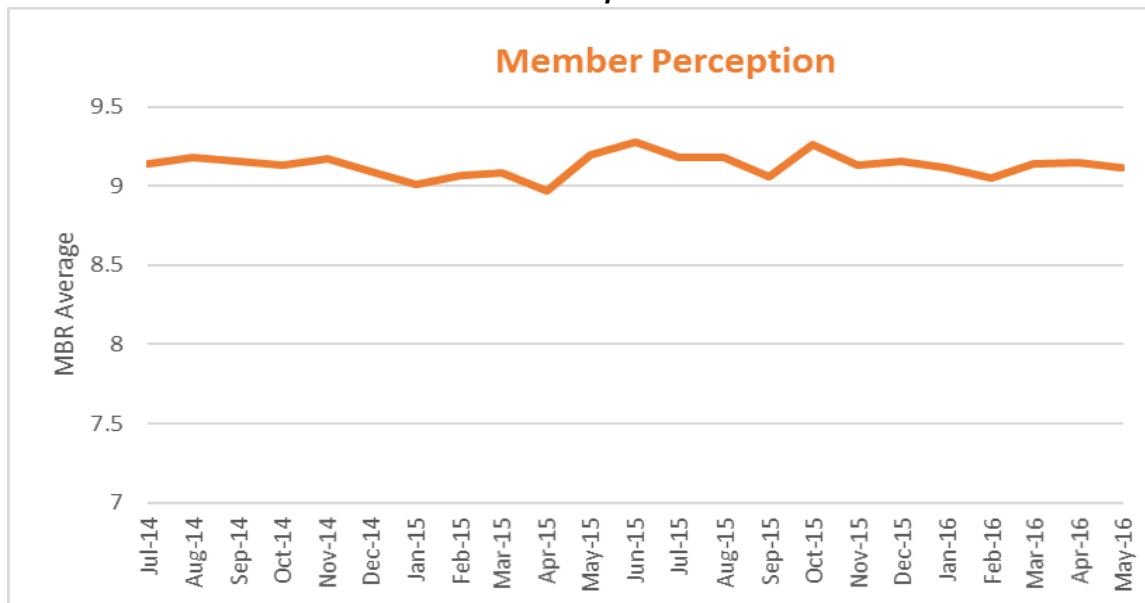


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Member Satisfaction

While innovation is important, DHMS and DH both knew they needed to maintain a high degree of member satisfaction. Members' perception scores are exceptional - consistently scoring above 8.96 out of a possible 10 (see Exhibit 6).

Exhibit 6 Member Perception of the Scheme



Source: Discovery Health

Selwyn Kahlberg, the DHMS Chief Risk and Operations Officer loves to talk about how the members are central to the Vested model: “Even when DH introduces innovations that improve their own efficiency, their litmus test is always whether the change will be good for the member. If not, it is simply discarded.”

DH Benefits

A Vested agreement is founded on a true win-win philosophy. “While the results that the Discovery Health Medical Scheme has achieved are exceptional, we could not be as successful without Discovery Health,” explains Milton Streak.

Jonny Broomberg agrees. “At the foundation of our relationship is the fact we have aligned interests. A Vested business model allows us to win together – and lose together. Having a long term, high trust relationship with DHMS has helped attract the best people into our business and allowed us to build confidence in making investments in infrastructure that will further benefit both parties. The infrastructure we have built has also allowed us to attract other restricted medical schemes as clients”. Today DH administers 3.3 million lives on their platform.



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PART 4: THE VESTED JOURNEY CONTINUES

Most innovative organisations don't like to rest on their laurels. And the Board of Trustees was not about to let DHMS rest on theirs. While the Board's perception was that the relationship with DH was healthy and the associated agreements were well structured and in line with Vested principles, the Board decided to do a formal review against the Vested principles.

Towards the end of 2015, Milton reached out to Kate Vitasek, the author of the *Vested Outsourcing Manual* and the lead researcher at the University of Tennessee, for suggestions on what form a formal review would take. A few weeks later Milton was on a business trip in the United States and took advantage of the opportunity to meet with Kate to learn more about UT's process for a formal review.

The formal Deal Review – conducted by a Vested Center of Excellence - consisted of the following:

- A formal review of the DHMS/DH contract to determine how well the organisations had incorporated the Vested Five Rules into the physical contract.
- Interviews with key stakeholders to understand how the agreement actually operates from a day-to-day point of view.
- A Compatibility and Trust assessment (CaT) to draw out and measure the degree of compatibility and trust that exists between the parties. The CaT also assists the organisations to drill down to specific areas where differences in perception reside, and gain an understanding of these gaps.
- A formal review and “Alignment Workshop” to develop a roadmap for how the organisations would close the gaps.

While Jonny had liked the approach DHMS had taken with Vested so far – he was intrigued by the prospect of a formal review. He knew that if DHMS and DH could make improvements to further align the relational aspects of the way the organisations worked together it would be extremely powerful. After all, eight Nobel prizes had been awarded to economists, mathematicians, and social scientists who have been studying win-win economics.

The Board wholeheartedly approved the formal review and engaged a Vested Center of Excellence from Australia to conduct the review.

Andrew Downard conducted the review between December 2015 and March 2016. The formal review found the DHMS/DH relationship was fundamentally sound with both parties clearly focused on providing outstanding service and value to members of the Scheme. In fact, the DHMS contract was benchmarked significantly higher compared with most outsourcing relationships studied by the University of Tennessee at the early stages of their Vested journey.

While the DHMS/DH review scored relatively high on their maturity and execution of their Vested relationship, the review did find room for improvement and suggested specific recommendations to close gaps in how the parties were applying the Vested Five Rules and Ten Contractual Elements.

First, Andrew Downard, who conducted the interviews, recommended the Scheme revise their Master Service Agreement to explicitly acknowledge the adoption of the Vested business model and make minor changes to the structure and flow of their contract, in order to allow the parties to have a more flexible agreement that could readily change “when business happens”. In doing this, the parties would be able to create a more sustainable relationship that adapts easily to changing business needs.



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Shared Vision

It was clear to Andrew that the parties were behaving Vested. However, the review found that the actual written contract could benefit by clearly documenting the intent of the Vested business model.

To close this gap, Andrew conducted a two-day workshop between the key leadership of DHMS and DH where the parties developed and documented the following Shared Vision:

“Together, we build SA’s most innovative, competitive and sustainable member centric healthcare system that is focused on making members healthier. We provide access to the highest quality care at the lowest costs, supported by excellent member service.”

Guiding Principles

A second part of the workshop was dedicated to the parties writing up formal guiding principles that would be applied to the relationship. Guiding principles are essential components of a relational contract because they highlight how the parties operate on the basis of good faith and fairness. During the workshop, the Parties jointly committed to the following Guiding Principles to help maintain their relationship:

Reciprocity. We will make exchanges, whether large or small, that are mutually beneficial taking relative risk and reward into account. We will not make any demand on the other that we, ourselves, are not willing to return in kind. We recognise that reciprocity lies at the heart of this relationship’s ability to reach its goals and will ensure that all requests consider mutual benefit, costs and impact on both parties.

Autonomy. We seek to work as equals in all our interactions for the purpose of reaching our mutually agreed goals. Neither will seek to use its power to induce the other to make a decision that is against its best interest and those of the relationship. We strive to maximise transparency, making as much information as necessary available to each other, thus allowing both organisations to make optimal decisions.

Commitment. We recognise that together we stand the best chance of reaching the agreed shared vision for the future through aligned engagement. As such, we commit to a relationship that seeks fairness and balance by working together.

Equity. We acknowledge that some situations will require an unequal distribution of benefits for risks taken or investments made. In those situations, and in keeping with the obligation of equity, we will strive to compensate each party fairly in proportion to the value, risk, or investment made to the relationship. We further acknowledge that we will face unpredictable situations we may not have addressed in our initial contract. In keeping with this principle, we will work within our governance structure to remedy any situation not covered in the contract in a way that preserves the purpose and meaning of the parties’ intentions for the relationship.

Honesty. Honesty is a fundamental principle that enables us to trust each other’s words and actions. We will be truthful, both about the facts and about intentions and experiences. We separate the facts from people’s observations, perceptions, and experiences and will accurately speak to our own perception of the facts. Where differences in perception exist, we will seek to understand the reasons for the differences and achieve a common understanding.



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Integrity. Integrity is always doing the right thing. We acknowledge that in order for our relationship to achieve our desired outcomes all individuals will continually strive to make decisions that are consistent with our shared vision and values. We will not tolerate arbitrary decision-making and our collective words and actions will be aligned for the greater good of the relationship and all of our stakeholders.

Statement of Intended Behaviors

The workshop also helped the Parties formalise how they could actively promote day-to-day behaviors to foster an environment of trust, transparency, and compatibility. Together, they formalised the following behaviors (referred to as a Statement of Intended Behaviors) to be added to their contract.

- Mutual respect: We treat each other, members and all other stakeholders with respect in all interactions.
- Open, honest and transparent: We always interact openly, honestly and transparently even when it feels difficult to do so.
- Innovation: We aspire to lead the market with disruptive and continuous innovation. We realise we may not always be successful, yet we promote courage and learning when we don't succeed.
- Pragmatic and flexible: We are pragmatic and flexible in our approach to doing business, particularly in the face of change and external pressures.
- Sharing and collaboration: We work for the improvement and benefit of both organisations. We consciously cooperate to advance our joint objectives.
- Perspective and understanding: We make conscious efforts to understand each other's needs and perspectives, and endeavour to walk in each other's shoes.

The intentions of promoting these behaviors are to guide behavior and communication with one another and contribute to achieving the shared vision.

Desired Outcomes

A good outsourcing agreement must include top-level Desired Outcomes and a Statement of Objectives that outlines the scope of work the service provider must perform to achieve the Desired Outcomes. The deal review interviews revealed commonality in goals and objectives, but these had not been documented into formal Desired Outcomes.

During the last part of the workshop, the parties were able to mutually agree on the following four high level desired outcomes for their organisations:

- The leading open scheme in SA.
- Preferential access to superior levels of care.
- Healthier and satisfied members.
- Win-win relationship creating a competitive advantage and value for members and stakeholders.

The review found that considerable work had been carried out by DHMS and DH in defining a comprehensive list of the activities (Statement of Objectives /Statement of Work) that DH must perform. The contract includes a clearly defined Statement of Work as a schedule in the contract. The majority of these items in the Statement of Work do not tell DH *how* to do the work, but rather specifies *what* is to be achieved. This is good practice for complex outsourcing initiatives that require innovation because it gives the service provider the bandwidth to apply their expertise and challenge the existing processes, thereby enabling innovation.



INNOVATION IN HEALTHCARE OUTSOURCING

CONCLUSION

Adrian Gore set out to drive disruptive innovation for South Africa's health system in 1992. His entrepreneurial spirit is still alive and well in Discovery Health Medical Scheme and Discovery Health.

But ask any innovator, and they will tell you it's hard to predict where the next innovation and disruption will come from. And for Discovery Health Medical Scheme and Discovery Health, a significant innovation is their Vested Outsourcing business model.

The University of Tennessee's formal review validated Milton and Jonny's hunch; their highly collaborative Vested relationship is a competitive advantage. Together, they are better and the nature of their relationship is what is allowing them to create sustainable value for members.

But the review did much more than validate a hunch. First, it helped both organisations understand where they sit versus the Vested benchmarks. This gave the parties a tangible roadmap of next steps that would further strengthen the relationship. In some cases, recommendations were technical in nature. In other cases, suggestions included educating stakeholders on the foundation of Vested to ensure the parties have a sustainable relationship. A key part of this is having key individuals from both organisations continue their development and education in the Vested model, becoming Certified Deal Architects.

The University of Tennessee would like to thank both Discovery Health Medical Scheme and Discovery Health for participating in the formal review and this case study. Opening up an organisation to an external review can be insightful – but also expose vulnerabilities. But Milton and Jonny know that shining a light on opportunities is the only way to strengthen weaknesses.

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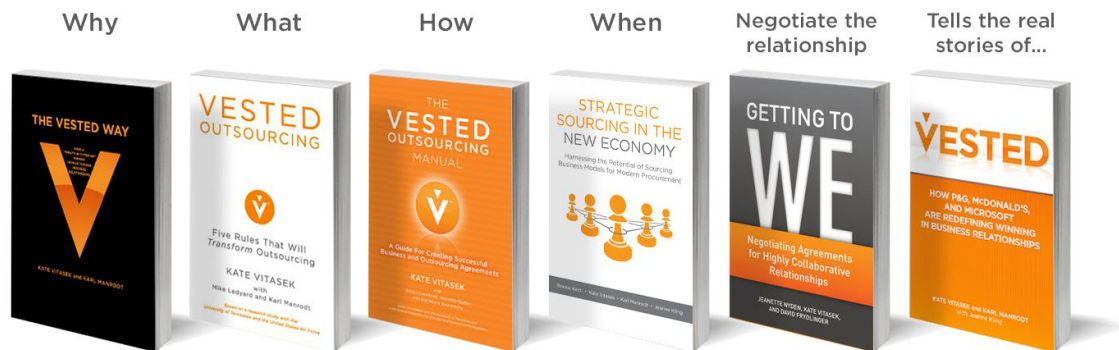
- Milton Streak, DHMS's Principal Officer
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INNOVATION IN HEALTHCARE OUTSOURCING

FOR MORE INFORMATION

Visit the University of Tennessee's website dedicated to Vested at www.vestedway.com where you can download white papers, watch videos, read articles and subscribe to our blog or register for our online or onsite courses. We encourage you to read our six books on the Vested topic, which can be found at most online book retailers (e.g. Amazon, Barnes and Noble) or at www.vestedway.com/books.



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