From research to relevance: The evolution of the Vested outsourcing model

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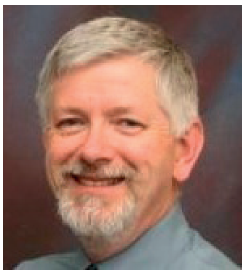

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Abstract

For over two decades, the University of Tennessee has researched better outsourcing methods, leading to the development of the Vested outsourcing business model. The Vested model combines a formal relational contract with an outcome-based business model to create a highly collaborative win–win contract where both the buyer and service provider have a vested interest in each other's success. Since the model was first introduced in 2010, it has been used by over 150 organisations. The win–win approach has proven to deliver lower cost and better service for companies outsourcing *while enabling service providers to increase their profit when they create value for their customer. This paper outlines the evolution of the Vested model from research to the relevance it is having on today's outsourcing practices. The paper provides a high level overview of the model and provide a case study of the Vested model in practice. This article is also included in **The Business & Management Collection** which can be accessed at https://hstalks.com/business/.*

Keywords

Vested, Vested outsourcing, win–win, relationships, supplier trust, EY, outcome-based contracting, relational contracts, ISS

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INTRODUCTION

Outsourcing has become a key strategy for many businesses. But all too often the dynamic nature of business makes it hard for companies and their suppliers to stay aligned when business happens. This often leads to companies' finger-pointing and blaming their suppliers for their supply chain woes and suppliers feeling frustrated due to a constant change of priorities and pressures on their profit. While it might be easy to blame each other, research at the University of Tennessee (UT) suggests many issues stem not from outsourcing — but rather from how organisations are outsourcing.

The vast majority of outsourcing deals today are structured using a conventional transactional business model with the buyer trying to get the best price/service and the supplier trying to maximise their profits. This buy–sell what's-in-it-for-me (WIIFMe) mindset pits buyers and suppliers across the table from each other like a tug of war; a win for the buyer is a loss for the supplier, and vice-versa.

Take for example the very real issue of inflation. If the buyer has shifted the risk of inflation to the supplier, the supplier loses with a lower margin. And if the buyer has taken the risk of inflation, the company outsourcing suffers from higher costs.

When you consider the amount of outsourcing companies rely on it is easy to see the potential of improving the way companies outsource. Take, for example, one sector where business-to-business contracts are essential: outsourcing administration of business processes such as accounts payable and accounts receivable. The global business process outsourcing market was valued at US$280bn in 2023 and is projected to grow at a compound annual growth rate (CAGR) of 9.4 per cent from 2023 to 2030.[1]

Or consider the fact that 90 per cent of Fortune 500 companies outsource at least some logistics[2] and over 50 per cent outsource facilities management operations.[3] When you look at the statistics it is easy to see the huge economic impact that can be gained from improved outsourcing practices.

So, is there a better way to outsource? That question is common for anyone working in supply chain operations. It is also a question that has guided research at the UT for over two decades.

This paper illustrates how a simple research question is having a lasting impact on transforming outsourcing relationships — showing the evolution of how a research project is having significant benefits for today's outsourcing practices. The authors provide a high level overview of the Vested model and provide a case study of the Vested model in practice.

FROM RESEARCH TO RELEVANCE

UT started studying outsourcing when the US Air Force funded a research project to study performance-based contracting for logistics outsourcing in 2003. That research formed the backbone of the 2010 book *Vested Outsourcing: Five Rules That Will Transform Outsourcing*.[4] Vested outsourcing (or simply Vested) has since evolved from an organised and recognised methodology to a movement of loyal followers working to change how organisations outsource. More than 600 organisations have sent over 10,000 people to study Vested as part of the UT Certified Deal Architect programme. Companies such as Dell, Intel, bp, Astra Zeneca, EY, ISS and Jones Lang Lasalle have been early adopters of the Vested methodology in their quest to lower cost and improve performance from outsourced suppliers.

Research phase: 2003–09

In order to learn why some outsourcing deals were highly successful while others fell short of their promise, UT researchers studied some of the world's most successful supplier relationships. For example, what made the Procter & Gamble outsourcing relationship with Jones Lang Lasalle so successful that JLL won supplier of the year two times in less than five years? Or why was Microsoft and Accenture's outsourcing winning so many industry awards? And how was the US Department of Energy's outsourcing contract with Kaiser-Hill so successful that the Rocky Flat's Closure project was closed and cleaned up 65 years ahead of schedule and US$30bn under budget.[5]

UT researchers recognised common threads in the most successful relationships. For starters, all of the successful outsourcing relationships had an identifiable type of business relationship with their suppliers and service providers — one that focused on a collaborative, 'win–win' relationship instead of a transactional approach. In these 'win–win' cases, companies work jointly towards shared goals to drive innovation, create value and reward success. The companies built a high level of trust through deep levels of transparency. Researchers described the approach used in these successful relationships as a 'Vested' mindset, one that is based on a true win–win nature along with mutually defined Desired Outcomes. Simply put, the parties are 'vested' in each other's success. As a result, this new business model was termed Vested Outsourcing or Vested for short.

While these Vested relationships seemed radical — or at least very different from many typical business relationships — the researchers also found their research was aligned with Nobel Prize-winning concepts too. These concepts included Oliver Williamson's 'Transaction Cost Economics', Ronald Coase's 'Theory of the Firm and Total Cost', and more recently, Oliver Hart's work on incomplete contracts and the concept of 'Shading', which occurs when one party feels they have been treated unfairly and thus takes action to rebalance the situation. Thus, the practices discovered by the successful outsourcers were in close alignment with the input from theory.[6]

Codification of the Model: 2009–11

After identifying the core characteristics of Vested outsourcing, UT's research team set out to codify a methodology that could be taught and repeated. The researchers settled on five 'rules' and ten contractual elements that provide a framework for teaching outsourcing partners how to transform an outsourcing relationship into a partnership for sustainable outsourcing success. The rules are:

- focus on outcomes, not transactions;
- focus on the 'what', not the 'how';
- agree on clearly defined and measurable outcomes;
- develop a pricing model with incentives incentives that optimise the business; and
- build a governance structure that provides insight, not oversight.

The framework was first introduced in the book *Vested Outsourcing: Five Rules That Will Transform Outsourcing* – published in 2010.[7]

Proof of concept phase: 2011–21

After codifying the Vested model, UT's research team focused on teaching companies how to put the Vested model into practice with the goal to demonstrate the potential power of the Vested model. Among the early adopters was Dell, which decided to pilot Vested for their reverse logistics operations. Intel was also an early adopter with a DHL contract in Costa Rica the same year. These and other early adaptors provided important empirical proof of the Vested model's impacts. For example:

- Dell and Genco (later acquired by FedEx Supply Chain Services) were able to reduce costs by 42 per cent, scrap by 67 per cent and defective parts per million to record-low levels.[8]
- Intel and DHL reduced cost by over US$2m in two years (nearly four times higher than projected goals) while achieving record performance level increases.[9]

Their early success has led the way for other companies such as Ernst Young (EY) and ISS, which is profiled in this paper.

Building a movement: 2021–present

Today, companies around the world are deploying the concepts taught as part of UT's programme, with over 150 organisations using the methodology to create Vested outsourcing agreements. The methodology has been used successfully in outsourcing spend categories as diverse as facilities management, reverse logistics, third party logistics, environmental services, fibre optic network management, information technology, business process outsourcing, insurance claims management, oil field drilling and completions and labour services.

The UT research library dedicated to Vested now includes eight books, 27 white papers and 24 case studies that document the success stories of organisations such as Vancouver Coastal Health (environmental services), Discovery Health (insurance claims management), bp (facilities management), Dell (reverse logistics) and Island Health (labour services/union contract with doctors).[10] In addition, over two dozen more companies have been public about their shift and success to Vested such as IBM, Leidos and AstraZeneca.

One theme is common among practitioners who have adopted the Vested model: it is easier to win when you have a win–win deal. However, creating true win–win outsourcing deals is not easy. Why? Change takes time. History tells us new concepts often take a while to cross into the mainstream. Take, for example, the mobile phone, which evolved from large, cumbersome and expensive gadgets to virtually replace landlines and become handheld multimedia computers. Or electric cars, which were once considered inferior and perhaps even a novelty. But one thing is clear with good ideas once they are put into practice and proven: once the momentum starts it is impossible to go backward.

FIVE RULES OF VESTED OUTSOURCING

The Vested model uses five rules that are supported by ten contractual 'elements' that address and resolve the structural flaws that can emerge in transaction-based agreements: For example:

- A buyer wants 'innovation' — yet the contract with the supplier has a highly prescriptive Statement of Work (SOW) 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 incentivises the supplier to perform more transactions.

The five rules and ten elements (noted in Figure 1) work together to form a win–win business model to help outsourcing 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 WIIFMe transactional approach to a highly collaborative WIIFWe Vested business model that promotes (and rewards) the parties when they collaborate and create value beyond the status quo. For example, instead of negotiating who will bear the risk of inflation, the parties embrace the fact that inflation is a reality in business and collaborate to identify and invest in operational efficiencies to mitigate the impact of inflation.

Rule 1: Focus on outcomes, not transactions

Conventional outsourcing agreements are typically built around a transaction-based model. The service provider is paid for performing transactional services (per hour, per unit, per mile, per shipment, per call). This approach can lead to what the UT researchers coined a Watermelon Scorecard, which is when the service provider is meeting performance metrics targets (eg 'green' scorecard), but is not achieving the buying organisation's business outcomes (red business outcomes). The organisation that has outsourced gets the transaction performed, but not necessarily the best solution.

As part of Rule 1, the parties create a formal Shared Vision and identify

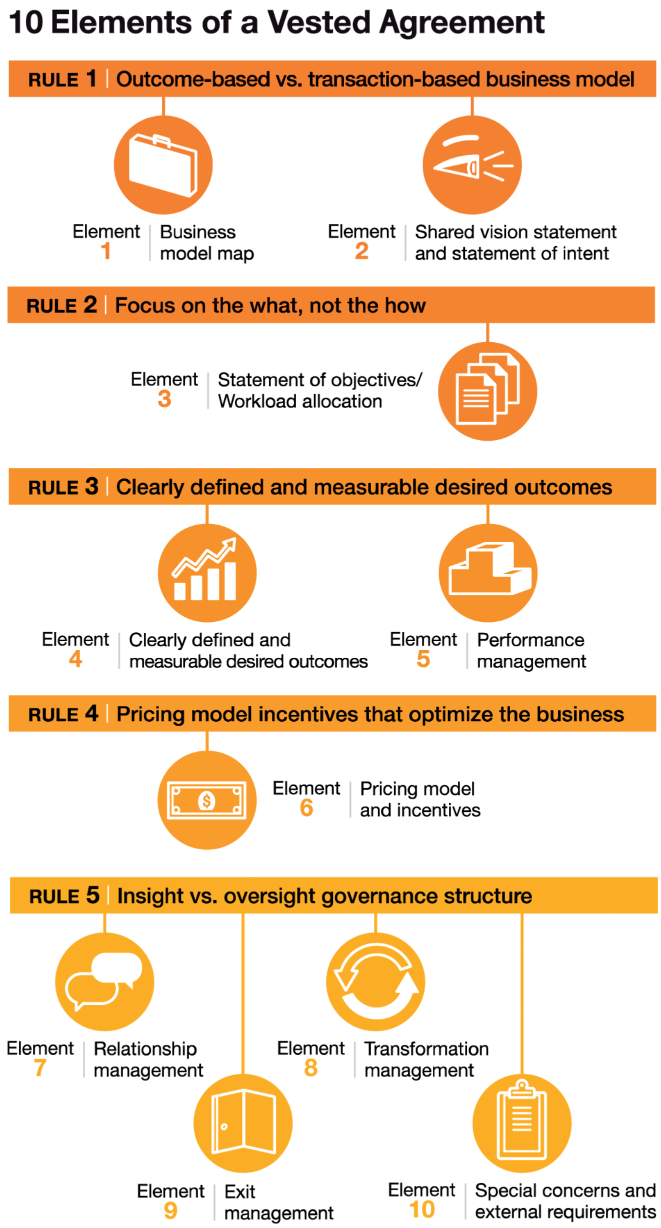


FIGURE 1 Fives rules and ten contractual elements of the Vested methodology

Desired Outcomes. Desired Outcomes are expressed in terms of a limited set — typically no more than five — high-level boundary-spanning business-focused goals. The Desired Outcomes represent the future goals the parties aim to accomplish through the partnership. In essence, the parties contract for the future (to achieve the Desired Outcomes) instead of anchoring the contract around simply performing transactions. The parties also embed six Guiding Principles (proven social norms) into the agreement:

- Reciprocity;
- Autonomy;
- Honesty;
- Equity;
- Loyalty;
- Integrity.

By embedding the Shared Vision, Desired Outcomes and Guiding Principles into the agreement, the parties create the foundation for a formal relational contract that commits the parties to work together to achieve the Shared Vision and business outcomes.

Rule 2: Focus on the what, not the how

Under the Vested model, the buyer specifies 'what' they want versus prescribing the details of the how in a traditional SOW. This gives the service provider the creative room to challenge the status quo and seek the best solutions to get the job done. A Vested agreement shifts away from a conventional SOW and has the partners jointly create an end-to-end taxonomy of the work needed to achieve the Desired Outcomes. This includes the scope of both the service provider and the buying organisation. 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 company do what it does best and challenges the buying organisation to play a key role in supporting the service provider without overlapping and micro-managing them.

Rule 3: Clearly defined and measurable Desired Outcomes

It is important to understand that the Vested model 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. During Rule 3, the partners collaboratively establish metrics which align to the Desired Outcomes. This is done using a Requirements Roadmap tool that links metrics to each of the Desired Outcomes.

Typically, a Vested agreement links 12–15 objectives and associated metrics to the high-level Desired Outcomes. In addition, the Requirements Roadmap establishes details for each metric such as how it is calculated, what data is used, the frequency of measurement and which party is responsible for reporting results on the metric.

When contracting parties are developing their contractual metrics, UT recommends that organisations adopt a 'three dimensional' (3D) perspective when developing the metrics for their relationship, with metrics falling into three categories:

- Operational Metrics (measuring success for today);
- Transformational Metrics (measuring success for tomorrow);
- Relational Metrics (measuring the health of the relationship).

This helps the buying organisation and the supplier to avoid the Watermelon Scorecard by ensuring the metrics are not simply measuring the work that is being done today — but rather provides a *well-rounded* view of the success of the outsourcing partnership.

Rule 4: Pricing model with incentives that optimise the business

Vested Rule 4 centres on structuring a pricing model with incentives that rewards the service provider for going beyond simply performing the work and to focus on optimising the business. A key goal of the pricing model is to incentivise the service provider to drive continuous improvement and to make investments in innovation linked to the parties' Desired Outcomes. There are four design principles for establishing a Vested pricing model.

Pricing model (not a price)

Shifting to a pricing model — versus using a 'price' — is key 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 service provider win together and lose together.

Incentives tied to desired outcomes

A Vested pricing model uses incentives (not penalties) where if a service provider does a good job at helping their client to achieve the mutually defined Desired Outcomes (eg creating value beyond the status quo), they earn incentives, which in term yield more profit. The key is linking incentives to the Desired Outcomes, which aligns the interests of the buying organisation and the service provider as they both have a vested interest in generating added value.

Compensation for costs and risks in line with six common 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. Savvy service providers factor in the risk and add a risk premium to their costs. 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. Viewing risk through the lens of the Guiding Principles (established in Rule 1) versus a risk-shifting or opportunistic lens means risks are not something to shift to the other party but are a fact of the business that must be addressed fairly. A key goal is to collaborate to reduce risk — thus lowering any risk premiums — which ultimately creates value for both the buying organisation and the service provider.

Margin matching to ensure continual alignment

Once the parties commit to developing a Vested agreement their pricing model must be designed to win — and lose — together. 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 equitably affected, which prevents a win–lose scenario that can lead to shading, referred to in the introduction. 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.

Rule 5: Insight versus oversight governance structure

Governance is the glue that holds any Vested agreement together because the governance mechanisms outline how the parties jointly manage the relationship. The Vested model 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 organisation turns its focus from *managing the service provider* to *managing the business with the service provider.*

Many organisations struggle with making the shift from oversight to insight. This can be expected given the history of how outsourcing agreements have evolved. In the early days of outsourcing, many organisations made the mistake of simply throwing the work over the fence to the service provider, with poorly defined requirements and often no performance metrics or Service Level Agreements. As scary as it may seem, we have seen some organisations with a high percentage of outsourcing agreements operating under no formal governance structure. Fortunately, most organisations that jumped into outsourcing have fixed this problem. The downside is that many have gone to the other extreme, with organisations often having a 'shadow organisation' of personnel micromanaging the service provider. As the parties work through Rule 5, they use design principles (as shown in Figure 2) to design a fit-for-purpose governance structure for their relationship.

VESTED IN PRACTICE: THE EY-ISS CASE STUDY

EY is a world leader in professional services spanning four integrated services lines — assurance, consulting, strategy and transactions and tax. This case study examines how EY piloted Vested for workplace services in the Nordic countries (Sweden, Norway, Finland and Denmark). Historically, EY performed its workplace services in-house in the Nordics supported by approximately 150 team members. Beginning in 1990 EY began to outsource facilities management (FM) operations with pilots in Sweden and Finland. Costs went down, and EY reduced its internal headcount to under 150 team members. However, the number of suppliers swelled to over 300.

EY began to think more strategically about its FM outsourcing, first by working more strategically with one supplier in Sweden and Finland. But collectively they still had almost 70 internal team members and over 120 suppliers. Next, they launched a '2nd generation IFM (Integrated Facilities Management) concept' where they added a second key supplier in the mix to further integrate, reducing the number of overall suppliers to fewer than 30.

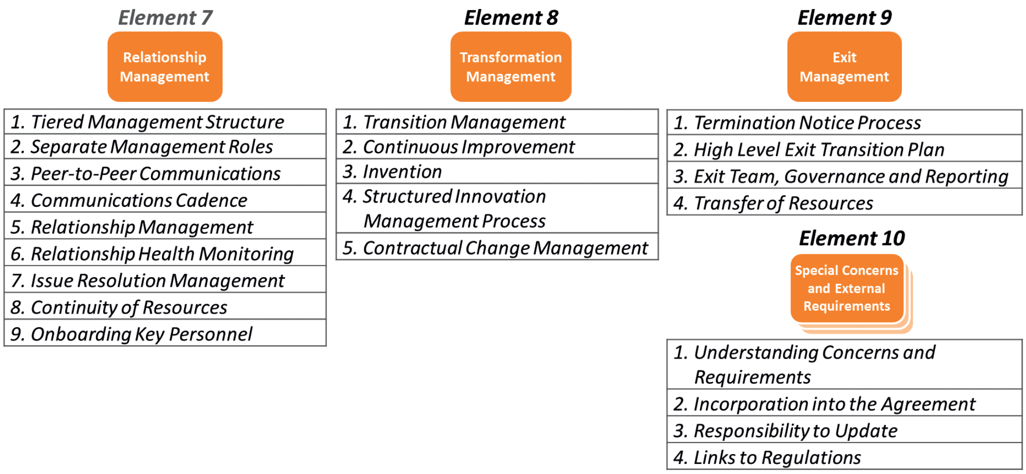


FIGURE 2 Governance design principles

This significantly reduced the administrative burden on the EY in-house team, allowing EY to reduce its internal team to only seven people.

While EY had achieved success with its outsourcing efforts, it was still using a conventional approved provider sourcing model that was not strategic in nature. An internal review found:

- Transforming EY's workplace would require closer collaboration with a highly strategic FM supplier.
- EY's existing contracts were highly transactional in nature — relying on a power-based mindset rather than a collaborative mindset that is mutually beneficial for suppliers.
- Shifting to a Vested business model would be the best option to help EY achieve its aggressive workplace services goals — such as being a world leader in sustainability.

It was then EY began to explore the Vested model.

EY's journey started by issuing a request for partner (RFPartner) competitive bid to its two primary integrated facility management (IFM) suppliers. ISS was ultimately selected as the partner of choice and the parties moved forward to create a Vested agreement, inking EY's first Vested and ISS's fourth Vested agreement.

The benefits of shifting to Vested are producing very real benefits for EY, ISS and their employees. The rest of this case study highlights how they applied each of the Vested Five Rules and shares their results.[11]

Rule 1: Focus on outcomes, not transactions

Rule 1 of Vested helped EY and ISS reframe their thinking from focusing on transactions to focusing on more strategic business outcomes.

Out of the gate, the joint team set out to create a name for the partnership. The name that stuck was 'EPIC' — a phrase that would not only remind all team members during the creation of the Vested agreement about the strategic nature of their partnership, but also a name that would mark the cultural change they would be rolling down to the hundreds of team members working on the field after contract signing. Figure 3 shares the context behind the EPIC name.

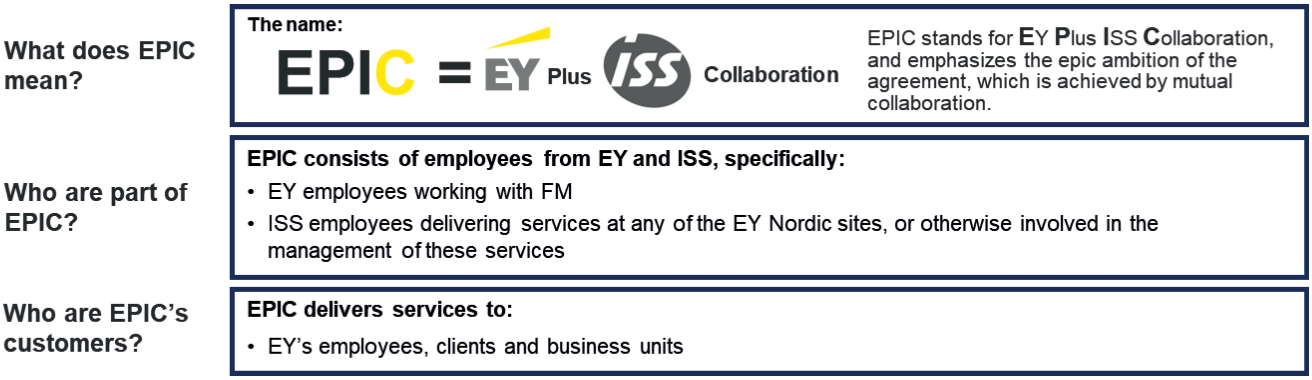


FIGURE 3 Context behind the EPIC name

With the name EPIC solidified, team members turned their focus on creating their Statement of Intent the partnership (see Figure 4). A Statement of Intent combines a formal Shared Vision, high-level Desired Outcomes and Guiding Principles for the partnership.

Rule 2: Focus on the what, not the how

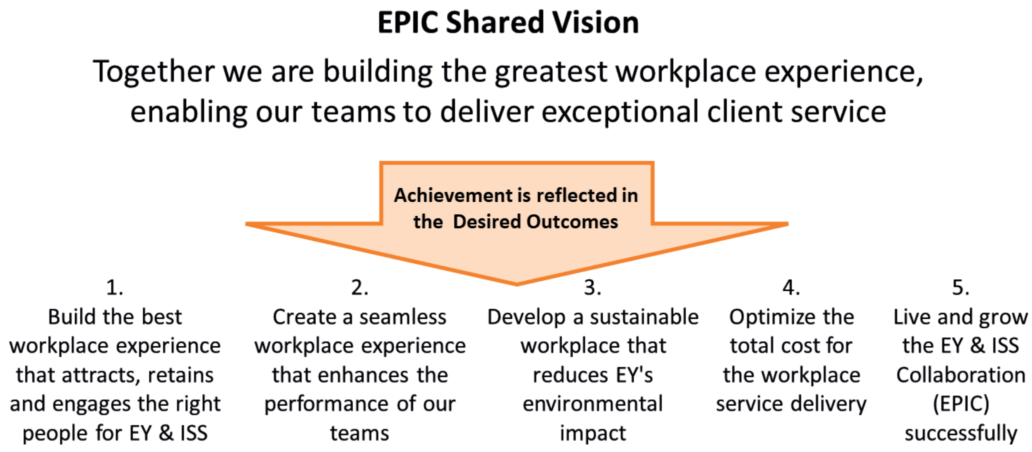
Rule 2 is where the parties agreed on the partnership's overall scope. The first thing the EPIC Team did as part of Rule 2 was put more detail around the Desired Outcomes by identifying eight strategic objectives that would best enable the parties to achieve the Shared Vision. Figure 5 illustrates how the Shared Vision, Desired Outcomes and Strategic Objectives align to create a roadmap for the parties.

The second key deliverable from Rule 2 was to replace the parties conventional SOW. Completing the Taxonomy and Workload Allocation differed significantly from the traditional approach SOW because it was both bilateral and does not go into detail on telling the supplier 'how' to do the work. The rationale is simple. First, suppose a buying organisation tells the supplier how to do the work. In that case, they are, in essence, putting handcuffs on the supplier and buying the status quo – something EY desperately did not want to do since ISS was the expert in delivering workplace services. Second, having an end-to-end bilateral view of the work helped EY and ISS each clearly see their role in collaborating to achieve the Shared Vision.

With the high-level taxonomy complete, a smaller functional focused team worked through a Workload Allocation to define who would do what (see Figure 6 for an excerpt of the 'Cleaning and Waste' part of the Taxonomy/Workload Allocation).

Henrik Møhl, the ISS Nordic Key Account Manager at the time, explains the power of Vested Rule 2 and how it changes the culture of the frontline workers at ISS:

> Focusing on the what and not the how creates a mindset change with the frontline workers at ISS. It's a simple rule, but it shifts the way frontliners approach their work from a list or task mentality to one where they are challenged to think about 'what is important to the EY end-users right now.' This ultimately creates a culture of empowerment on the frontliners, which does two things. First, it allows



Reciprocity: Give and take	We will not make any demands upon the other that are not fair and balanced. Both parties agree to be solution oriented and pragmatic and make fair exchanges over time, within the scope of the agreement, regarding rights and obligations, as well as the distribution of costs, risks and opportunities.
Autonomy: Refrain from using power	We see each other as equals and we trust each other to act based on what is best for the partnership. We will refrain from using power to impose interests that are in conflict with the benefits of one of the parties or the partnership. We agree to base decisions on objective and rational arguments that support the Shared Vision and Desired Outcomes.
Honesty: Be honest and transparent	We proactively and truthfully share facts, information, intentions and experiences and respect different point of views for the best interest of the partnership.
Loyalty: We are in it together	We will be loyal to the partnership and protect each other's brand, by treating each other's interest as being equally important and by considering the relationship as *one* virtual entity. Both parties will therefore strive to generate the greatest value for the partnership.
Equity: Proportional risks and returns	The parties agree to ensure a fair and appropriate distribution in the relationship between risks and rewards, investments and compensation and allocation of responsibilities. For us equity means that a party's ability to mitigate a risk or cost will affect its comparative distribution.
Integrity: Consistency in words and actions	We agree to be consistent and align our words and our actions. We agree to make decisions in accordance with the Guiding Principles and avoid opportunism and focus on the long-term partnership.

FIGURE 4 EPIC Statement of Intent

ISS to adapt and flex work in a timely manner, and second, the empowerment leads to happier employees.

Lastly, the team outlined 'Ponies' — transformative initiatives that would contribute to achieving the parties' Desired Outcomes and Objectives. These would be the source of innovation to drive value for the parties. (The results section later in this paper profiles an example.)

Joint Vision	Desired Outcomes	Objective
"Together we are building the greatest workplace experience, enabling our teams to deliver exceptional client service"	1. Build the best workplace experience that attracts, retains and engages the right people for EY & ISS	1.1 Achieve a highly attractive and satisfying workplace that creates well being for our employees
		1.2 Develop highly engaged ISS employees
	2. Create a seamless workplace experience that enhances the performance of our teams	2.1 Improve productivity and workplace convenience
	3. Develop a sustainable workplace that reduces EY's environmental impact	3.1 Reduce environmental footprint
	4. Optimize the total cost for the workplace service delivery	4.1 Achieve a sustainable baseline-saving
	5. Live and grow the EY & ISS Collaboration (EPIC) successfully	5.1 Continuously improving the relationship
		5.2 Onboard all relevant stakeholders
		5.3 Ensure seamless transitions (temporary objective)

FIGURE 5 Desired Outcomes and Strategic Objectives

Process level 1	Process level 2	Process level 3	Vestified "What"	Responsibility		
				EY	ISS	Landlord Third parties
WS3. Cleaning and waste						
	WS3.1 Cleaning					
		WS3.1.1 General cleaning				
			The office should be clean, tidy and give a professional impression.		X	

There are multiple activities and services that should be performed to make sure EPIC reaches the Desired Outcomes.

In the example above regarding cleaning, it is apparent that ISS is responsible.

There is however no contractual description of HOW cleaning should be done.

FIGURE 6 Example excerpt of the EPIC Taxonomy/Workload Allocation

Rule 3: Clearly defined and measurable outcomes

The goal of Rule 3 is to help strategic partners determine how they will measure and monitor success. The Vested methodology uses a tool known as a Requirements Roadmap which links measures to each of the mutually agreed Desired Outcomes.

As mentioned earlier, EPIC had eight strategic objectives linked to five Desired Outcomes. Using the Requirements

Roadmap tool, the team then mapped a metric to each objective. ISS's Henrik Møhl provides insight:

> Prior to Vested, we used all kinds of random metrics, which, to be honest, didn't add value to the end user. What Rule 3 did was to help us rethink how we measure success aligned with our Desired Outcomes and where we want to be in the future.

Rule 4: Pricing model with incentives to optimise the business

Traditionally EY had purchased workplace services using a transactional economic model. The shift to Vested meant the parties would develop a pricing model with incentives that would reward ISS when mutually defined Desired Outcomes were achieved.

The team carefully followed the Vested design principles. First they embraced full transparency enabling them to identify the true cost drivers for both organisations and to create a model that incentivised ISS to drive down costs and achieve non-cost-related Desired Outcomes such as helping EY achieve its sustainability goals.

To physically create the pricing model the parties mapped the workplace services into a pricing model framework consisting of four 'buckets'.

- *Base services*, which include the workplace services (eg cleaning, dining, reception).
- *Variable services*, which includes user-paid services, client-paid services, projects delivered by ISS, subcontracted projects and projects ISS is asked to support outside of the scope.
- *Governance*, which includes funding the core governance team as well as specialists brought as needed.
- *Transformation*, which allowed total cost of ownership (TCO) and non-TCO transformation initiatives that created value beyond cost savings that help EPIC deliver on its desired outcomes.

Once the services were aligned into the cost driver buckets, the team set out to determine the fair 'base' profit targets. True to the Vested methodology, EPIC used the rules of thumb suggested by the UT where the service provider costs are covered with a baseline minimum profit target below market benchmarks. The rationale is the supplier should *not* be highly compensated for simply showing up to do the work.

The team then aligned incentives to the Desired Outcomes with a mix of monetary and non-monetary incentives. Incentives align to the Desired Outcomes with some being tied to performance against 'base' services and others being tied to achieving transformational and governance objectives. The rationale was ISS should earn the majority of their compensation when they deliver value against the Desired outcomes.

In the case study, Andreas Horwitz (Business Development lead for ISS) reflected, 'Rule 4 is where the rubber hits the road with Vested because you translate your intentions into an economic model.'

Rule 5: Insight versus oversight governance

Rule 5 is where the EPIC team designed the governance mechanisms that would keep them in continual alignment when 'business happens' — something that was crucial when COVID-19 struck.

The Deal Architect Team used UT's 22 governance design principles associated with Rule 5 (recall Figure 2).

One of the design principles is to use a tiered governance structure. Figure 7 illustrates how EPIC uses a three-tier governance structure (Executive Steering Group, Strategic Level and Tactical Level/Country Level tier). Each tier has defined members with clearly defined roles, agenda and cadence.

A second design principle is to align key individuals in peer-to-peer '2-in-a-Box' relationships, meaning that for each key governance role, there is a counterpart within the other organisation. Becky Burningham (EY's procurement lead on EPIC) and Susanne Stenhager (ISS's Commercial Manager) are the 2-in-a-Box partners who manage all of the contract and commercial needs of the EPIC partnership.

All 2-in-a-Box partners are expected to collaborate with their peers to create the optimal way to accomplish the work associated with their role. This includes resolving any issues at the lowest possible level. To facilitate efficient and effective issue resolution, 2-in-a-Box partners are trained on an escalation management process that promotes a 'no-blame culture'. Stenhager explains,

> A key goal of managing issues in a 2-in-a-Box manner is to promote a 'we' mindset and to prevent the typical us-versus-them blame game that comes when someone complains and escalates to their internal manager without putting in the proper time to do a root cause analysis at the lowest

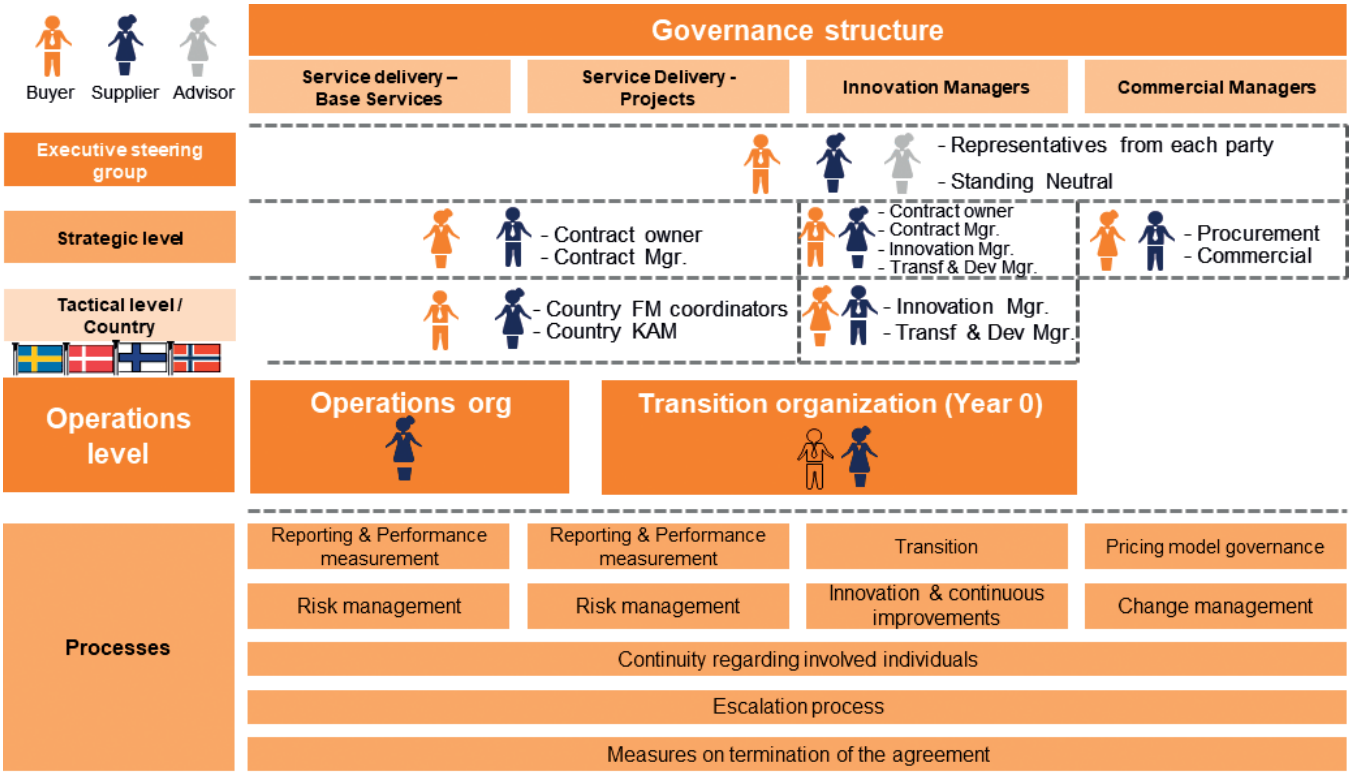


FIGURE 7 EPIC governance structure

> level. Premature escalation leads to managers needing to spend a lot of time solving minor issues that could have been resolved with less effort and fosters a blaming culture.

Finalising the contract

A key part of the Vested methodology is to draft the contract while the 'rules' are being written. In practice, this means when a team has finalised a Vested rule — it is then documented in the parties' formal contract. To do this the team created a legal workstream with a subset of the Deal Architect Team. The team also included the legal representatives of each organisation.

For Jens Holmberg, Legal Director for ISS Sweden, the EPIC agreement was his first experience drafting a Vested agreement. He now has four Vested agreements under his belt.

> A key difference between Vested and a conventional outsource contract is that you are not trying to protect yourself against everything that can go wrong. Instead, you are trying to create a flexible contracting framework to help the parties easily determine what to do when things go wrong, or business needs to change. Unfortunately, this is not what we are taught in law school. But once you start to 'get it,' you realize why a Vested agreement works so well.

Together, with the assistance of Cirio Law Firm, the EPIC team chartered the path to a Vested agreement in their actual contract. The contract work was significant — bringing EY and ISS up to best practice ratings against the UT's benchmarks for a Vested agreement. Figure 8 illustrates the progress the team made in evolving their agreement to across each of the ten Vested contractual elements.

The results

After just one year the EPIC team was achieving epic results against the metrics defined in their Requirements Roadmap. Table 2 shares a high-level summary of

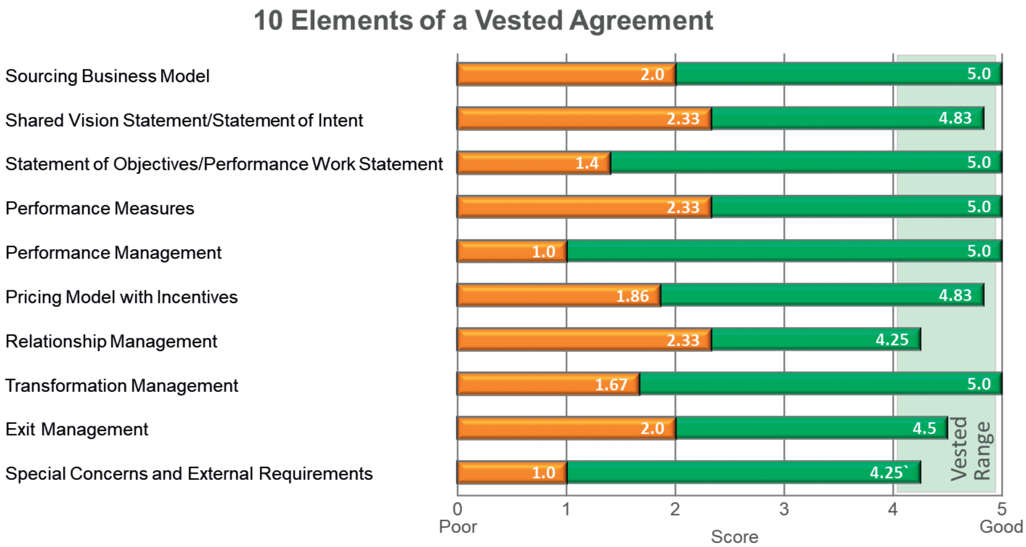


FIGURE 8 Before and after snapshot of EY's workplace service contract

TABLE 2 Results after three years

EY Business Wins	*EY Procurement Wins*	*ISS Wins*
• Seamless transition in year 1 with all stage gates achieved • Highest ever end-user satisfaction (met EPIC target after YR1 and increased target in year 4) • Work efficiency/mystery shopper score increased by 25% • Realising value of Ponies such as the Tech Lobby providing 90% of end-user tech issues with lower cost and higher satisfaction • Measured waste fragments reduced by 40% • Fully automated and AI-enabled dashboard* • Relationship health improves to world-class, increasing from 'average', 'reliable' and 'untrusting' to 'collaborative, 'trusting', 'honest' and 'innovative'	• Year-on-year annual savings exceeding baseline targets by 50–100% • Managing US$20m in TCO with only six team members • Improved space optimisation* • >50% reduction in office space (now 3.6m^2 per employee) • 70% CO_2 emission reduction versus old office • 75% reduction in paper print outs • 7% more workstations with half the space	• Long term contract with contract extensions • Over first three years achieved: • 51% increase in revenue • 50+% margin growth due to incentives equating to a margin significantly above industry average • Happier employees (net promotor score [NPS] satisfaction score increased from +20 to +58 and >50% reduction in employee turnover)

* Outcome-based results beyond EPIC relationship

key results achieved in the first three years of the Vested partnership.

Team members contribute Vested's win–win model for enabling them to be more innovative because the parties are vested in each other's success. For example, one innovation initiative leading to both lower cost for EY and higher margins for ISS is the 'Tech Lobby' initiative. The EY IT department had a high volume of tech-related end-user questions such as handing out chargers, setting up laptops and phones and solving a wide range of Tier 1 IT issues that are relatively easy to solve. Many of these requests were something a less expensive ISS team member could do with a little training. The idea was for ISS to create a highly visible and service-minded Tech Lobby to support the 'First Line of IT'. EY employees now receive assistance by simply stopping by the Tech lobby rather than submitting a ticket and waiting online. This new workplace service is not only less expensive, but it also enables EY staff to return to work quicker and removes the frustration associated with technological failures. Since launching, the Tech Lobby services have expanded and now include almost 90 per cent of end-user IT-related tasks.

EY's IT department also loves the Tech Lobby because the solution is cost-effective and allows them to focus on other, more complex IT-related work. EY's Claus Christensen — Head of Workplace Experience for EY's Nordic Countries comments on the win-win nature.

> EY saves money because we don't need high-end IT people to solve basic tech issues, end users get quicker service and are happier, and ISS wins with an expanded service and higher revenue. It's a win-win Pony that is simple but brilliant.

While the results are impressive, team members point to a benefit that is less quantifiable — but perhaps even more rewarding: the positive culture shift that happens when you follow the Vested Five Rules.

One way the team measures the soft side of the partnership is through the

UT's Compatibility and Trust (CaT) assessment — which is a measure of relationship health across five dimensions. The baseline CaT index was .69 when they started and has risen consistently, reaching a score of .88 four years into the partnership (see Figure 9).

Andrew Price (ISS's Head of Strategic Growth) has been part of the EY-ISS relationship since the beginning and could see the cultural shift beginning to occur. 'As the team went through the Vested process we could see the shift from a 'ME' mindset and way of working to a 'WE' mindset and way of working'.

But what does this really mean in practice? Team members who are far happier. Before Vested, team members described the outsourcing relationship with words such as 'average', 'reliable' and even 'untrusting'. These words are now replaced with more positive ones like 'collaborative', 'trusting', 'honest' and 'innovative'. Figure 10 shares a Word Cloud of what team members think about the EPIC culture based on the latest CaT survey.

EY's Becky Burningham believes having a culture of trust — while hard to quantify economically — brings bottom-line benefits.

> Trust is one of the biggest things that drives extra benefit and extra value. Coming from a procurement perspective, I have seen so many times where things are not disclosed transparently and it creates negativity and erodes trust. Trust and transparency remove the hesitation associated with hidden agendas because you know both parties are not trying to screw each other over.

One of the benefits of a healthy culture is more engaged team members — which can also be measured. One of the metrics EPIC adopted as a global standard is the NPS (Net Promoter Score), which is a satisfaction measurement asking: 'How likely would you recommend working for ISS on the EPIC team?' The NPS

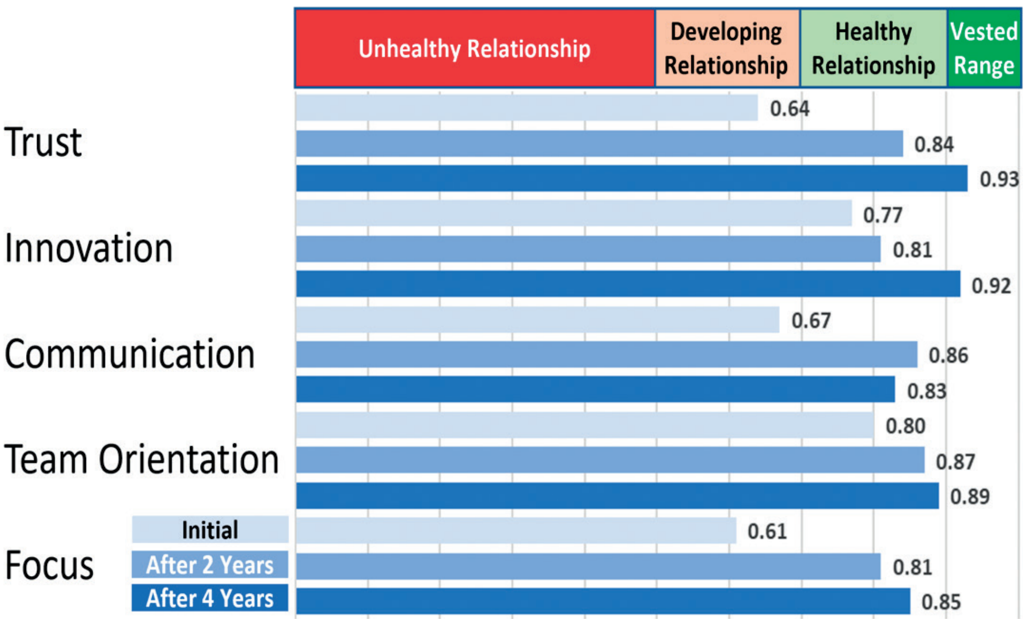


FIGURE 9 EPIC CaT assessment trend scores

FIGURE 10 Word cloud of how EPIC team members describe the culture of the partnership

metric has a scale of -100 (would never recommend) to +100 (would always recommend).

When EPIC first adopted the metric, their score was just over +20, which is considered typical for a company in the services industry. For comparison, the average score across Scandinavian countries ranges between +10 and +30 based on industry with world-class scores falling over +70. Today EPIC tops in at +58 — the highest level across all of ISS's accounts.

EY's Christensen is adamant that the success stems directly from a well-designed win–win agreement that aligns with the success of EY and ISS.

> The Vested methodology has helped us co-create a well-designed system that puts positive tension on both EY and ISS to continually evolve and innovate. The more successful we are together, the more we both win. The result is a culture where everyone is fully engaged and motivated to bring their A+ self to work every day.

RESEARCH CONTRIBUTION AND CONCLUSION

If innovation is the heartbeat of economic health for any company and society, it is time to challenge the status quo of how organisations approach their outsourcing efforts. The tried-and-true buy–sell, non-transparent, power-based methods that became ingrained in the last century no longer work for today's complex and global sourcing challenges.

For over two decades, the UT has researched better outsourcing methods, leading to the development of Vested outsourcing. The Vested collaborative model emphasises shared goals, transparency and trust and has been adopted by over 150 organisations such as the EY-ISS case study noted in this paper. Success with early adopters is promising with buying organisations reducing cost and improving performance due to supplier's investments in innovation and continuous improvement. Suppliers also come out ahead with a Vested model by earning incentives higher than industry average when the partners ahcieve the mutually defined Desired Outcomes.

The authors hope this paper will stimulate more interest in studying how to improve the practice of outsourcing.

ACKNOWLEDGMENTS

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(10) See the UT dedicated website for Vested to access all of the case studies, available at https://www.vestedway.com/ (accessed 25th May, 2025).

(11) The UT has published a detailed teaching case study on the EY-ISS case study. See Vitasek, K. and Jakus, J. (2024), *Winning in the Future of Work: How EY and ISS are Building a Better Working World with a Win-Win Vested Strategic Partnership*, University of Tennessee, available at https://www.vestedway.com/ey-iss-long/ (accessed 25th May, 2025).