“An Investigation into the Feasibility of the Vested Outsourcing Methodology within IT Outsourcing Departments”

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Abstract

IT Outsourcing has grown in popularity over the years with companies looking to obtain greater efficiencies and secure greater stake within their relevant markets. Naturally, the preference for contracting becomes important and companies have historically chosen to use traditional transactional contracting methods. However, in the last 50 years relational contracting methods have become more popular and arguments exist over the greater effectiveness that relational contracting has over traditional methods. Vested Outsourcing is an example of a more progressive relational contracting methodology. The objective of this dissertation is to explore this methodology to determine whether IT outsourcing departments would be open to implementing the model. The dissertation explores the preference of contracting styles within IT outsourcing departments and the potential reasons for the lack of knowledge regarding Vested within the industry. The results of this dissertation demonstrate a pattern of usage of a mixture of traditional and relational approaches, but a dependency on traditional contracting to protect parties. The results show that the preference for traditional over relational methods makes it unlikely that the Vested model would be adopted on a large scale within the IT industry at this time.

A qualitative research methodology was used via semi-structured, in-depth interviews to collect the relevant data to reach the research objectives. A case study research strategy was used, with a focus on the IT industry. The data collection methods of snowballing and purposive sampling were used and the data was collected from participants with current or previous experience within outsourcing departments within nine different IT companies. Timing allotted to perform the research, company concerns over confidentiality and the current Cov-19 pandemic served as limitations to the overall project and ability to obtain greater numbers of participants. The goal of this dissertation was to assist IT outsourcing departments in finding effective and productivity maximizing contracting methods.

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I'd like to thank my husband Xavier, my family, my church family, friends and all that have given an encouraging and motivating word in this journey.

Now on to bigger and brighter things…..

TABLE OF CONTENTS

CHAPTER 1: Introduction

Global IT companies have grown their outsourcing departments for many reasons, some of which include the pursuit of innovation and the desire to eliminate the burden of IT functions and accelerate reengineering (Liang, Wang, Xue and Cui, 2016). They also use outsourcing for political and economic reasons to bypass political barriers of the IS department and obtain more costs savings for the business. IT outsourcing departments face major risks when choosing to outsource resources from other IT and technology providers, but with the major push for globalization and dominance within the market outsourcing becomes inevitable. Sound contractual agreements thus become an absolute must. Traditional contracting methods are transaction focused, aimed at protecting the parties from actions of the 'other' party that may bring harm to the business. In these formal contracts companies attempt to contract for every possible situation that may arise during the life of the agreement, such as noncompliance, failure of performance, unsatisfactory pricing, litigation, etc.

Studies have shown that transaction-based contracts are known to have certain disadvantages that can lead to the problem of contract incompleteness (Hart, 2017). In other words, it is impossible for companies to contract for every possible situation that may arise during the life the engagement. Thus, companies recognized a need for contracting methodologies that focus on the relationship between the parties. Ian MacNeil is credited for authoring what is known as relational contracting, wherein he defines a contract as "relations among people who have exchanged, are exchanging, or expect to be exchanging in the future" (MacNeil, 2000). According to Rahman and Kumaraswamy (2004), relational contracts are seen as promises of doing something in future, but because not all events can be predicted at the time of contracting, mutual future planning is required. Relational contracting incentivises mutually acceptable solutions, better communication and informal working relationships, mutual future planning, risk sharing and consequent reward (Liang, et al., 2016).

Certain risks are inherent in contracting, such as supplier opportunism and agency costs, which has necessitated a push for contracting methodologies that can avoid such risks. Supplier opportunism occurs when there is an exchange of information between two parties that is necessary for the performance of goods or services, and the one of the parties chooses to use the information outside of its intended purpose and to the poaching party's benefit (Aubert, Rivard and Patry, 2003). Risks of losing intellectual property and other proprietary information leads these IT companies to draft large formal contracts to protect their intellectual property, reduce risk of agency costs, and ensure that Suppliers fulfil their obligations. Researchers of relational contracting methods suggest that its founding principles of shared rewards and risks, joint future planning, joint dispute resolution can combat these risks.

An example of one relational contracting methodology is Vested Outsourcing ("Vested"). Vested is a modern relational contracting theory developed by the University of Tennessee. It holds that it is important to focus on the desired outcome of the engagement, not the transaction itself (Vitasek and Manrodt, 2012). Vested Outsourcing promotes five principles of contracting that embody an attitude of win-win for both the client and vendor. The core principles of Vested seek to establish systematic, collaborative outsourcing relationships in which companies and their service providers become 'vested' in each other's success (Vitasek et al., 2010). By doing this Vested hopes that the parties will create long term win-win relationships based on achieving mutually determined goals. The methodology promotes highly integrated outcome-based business models that use value incentives to maintain mutual advantage of both parties within the relationship. Although there have been case studies performed using the Vested model in other industries, limited research is available to show its impact within the IT outsourcing arena.

This dissertation seeks to explore the current contracting preferences within IT outsourcing and determine if Vested Outsourcing would receive a positive welcome within the industry. It seeks to address the gap in current literature regarding Vested and IT outsourcing by investigating its potential impact on current negotiation processes within the industry. IT professionals from nine different global IT companies, all with experience negotiating contracts within IT outsourcing, will be interviewed using semi-structured in depth interviews. They were asked to critique the Vested five core principles and to opine on the methodology's feasibility within the industry. This research aims to determine whether in IT outsourcing engagements, relational contracting methods are preferred over traditional, transaction focused methodologies. This project explores the reasons behind the lack of information regarding Vested and whether this lack of information is due simply to the methodology lacking exposure, or because IT outsourcing departments prefer traditional contracting, or because certain core principles of Vested would encounter hindrances to its implementation as a whole. The overall goal of this study is to assist IT outsourcing departments in finding effective and productivity maximizing contracting methods.

CHAPTER 2: Literature Review

2.1 History of IT Outsourcing

Outsourcing is defined as the business practice of hiring an outside party to perform services or provide products that would normally be performed in-house. The practice of outsourcing is normally taken as a cost-cutting measure, but recently has been taken more often to obtain greater transformation or innovation. According to Wilcocks et al. (2004), the primary reason for choosing to outsource has been to gain competitive advantage through partnership, by the sharing of information and knowledge between parties.

IT outsourcing cannot be isolated from other organizational functions. The decision to outsource can carry higher risks when relying on suppliers to fulfil the integral needs of the organization. It therefore requires commitment from nearly all facets of the organization to create a successful outsourcing engagement. Risks of IT outsourcing can be hidden costs, unclear scope or division of responsibility between client and supplier, information security, ineffective communication between the operational entities and increased dependency on a particular supplier (Chandar and Zeleznikov, 2014). Also, due to the ever evolving technology and advances within IT, the underlying economics also changes rapidly, requiring organizations to focus more and more of their efforts on remaining ahead of the rest.

Organizations may also use outsourcing for political and economic reasons to help secure greater market share within the IT sector. With the major push for globalization and dominance within the market, outsourcing becomes inevitable and sound contractual agreements become an absolute must.

2.2 Traditional vs. Relational Contracting: Deciding Factors for Contracting in IT Outsourcing

McFarlan stated that it is essential to establish solid legal contracts before entering into outsourcing deals because the contract could be the key to the failure or success of the engagement happen (Chen and Bharadwaj, 2009). He stressed that one should try and anticipate in the contract anything that might. The basis of traditional contracting methods is focused on the transaction itself, protecting the parties from the potential harmful actions of the 'other' party. In these formal contracts, the focus is on contracting for every possible situation that may arise during the life of the agreement, such as breach, IP infringement, non-performance, pricing, disputes and litigation, etc.

Formal contracting seeks to come to a 'complete' contract, which is believed to produce efficient outcomes (Kwawu and Hughes, 2005). It represents promises or obligations to carry out future actions, which in turn can lead to complex situations (MacNeil, 1978). However, the more complex the contract, the greater the requirement for specificity in roles, responsibilities, procedures for monitoring, and penalties for noncompliance. These contractual requirements create agency costs of drafting, negotiating and safeguarding the agreement. Traditional approaches to contracting for IT outsourcing deals emphasize the need to prepare complete and comprehensive formal contracts in order to reduce risk. However, Oliver Williamson, who significantly contributed to the transaction costs theory, believed that contracts are by their very nature incomplete and that one cannot simply think of everything when they negotiate and write a contract (Teece, 2010).

MacNeil (2000), recognized as the author of relational contracting, defines a contract as relations among people who have exchanged, are exchanging, or expect to be exchanging in the future. Under his theory, later renamed the essential contract theory, every transaction is embedded in complex relations. MacNeil (1978) believed that the contract rarely has the capacity to sufficiently safeguard the parties because of the inability to forecast all future contingencies. Kwawu and Hughes state that relational contracting is based on the proposition that economic exchanges contain a significant social component, which is reflected in the behaviour and social relationships of the parties to the exchange (MacNeil, 1980). The relational approach offers clients and their vendors joint problem solving and extensive use of renegotiations in resolving conflicts by the parties themselves, without the need to involve third parties (Ling, Rahman and Ng, 2006). It also incentivises mutually acceptable solutions, better communication and informal working relationships, mutual future planning, risk sharing and consequent reward. To deal with unforeseen contingencies relational contracting advocates for joint future planning to be managed by the project team (both parties included) and savings and profits to be shared by both parties (Rahman and Kumaraswamy, 2002).

The basic principles of relational contracting are implemented in several methods, to include: Joint decision making, dispute resolution process, pain/gain sharing and shared Risk (Johnson, 2011). Joint decision making implements the principles of mutual trust, top management support, effective coordinating and problem solving. When this is not effective, a clear dispute resolution process provides a more effective strategy. Pain/gain sharing implements the principles of fair profit, shared resources, and a win-win attitude, effective in reducing risks of supplier and client opportunism. Lastly shared risk implements principles of mutual trust and willingness to share information, resources and risk. Rai et al. (2012) argues that relational contracting has been made inherently necessary due to the long term exchange relationships and complex and unanticipated obligations. With IT outsourcing, the legal contract alone has been shown to be insufficient given the complexities of real life outsourcing arrangements and rapid technological and organizational changes.

Transaction costs theory (“TCE”), agency theory and relational exchange theory are theories that have all been used to understand outsourcing contract structures. The TCE theory states that transaction characteristics such as asset specificity, interdependence of activities and uncertainty related to the task involvement can increase contracting risks (Chen and Bharadwaj, 2009). Agency theory emphasizes the role of task complexity, uncertainty of supplier behaviour and measurement problems in increasing the costs of forming and enforcing outsourcing contracts. The TCE and agency theories are used most often as support for traditional contracting methods as they highlight the major concerns of parties and risks that parties anticipate when considering to enter into a contractual relationship. The relational exchange theory holds that elements of the exchange relationship such as trust and relational norms play a role in determining contract structures. The ability to enforce the parties’ obligations and ensure that both parties perform those actions and responsibilities that have been agreed is a major concern when determining what method is most appropriate when contracting. The psychological contract, introduced first by Argyris (1960), is seen as an agreement where both parties have a shared understanding of what they are expected to contribute to one other. Lioliou et al. (2014) defines the psychological contract as being a perceived mutual agreement between two parties, not the obligations of both sides, creating a sense of accountability and is therefore psychologically binding. Robinson and Rousseau (1994) state that it is as self-regulating mechanism that can motivate partners to perform to the conditions of their agreement. Put together, if there is mutual understanding and mutual agreement of the terms of the engagement, these researchers would agree that a psychological contract has been formed. As relational contracting requires mutual understanding and collaboration, the idea of psychological contracts arguably lends support to the viability of relational contracting methods.

Risk of supplier opportunism also affects the choice of contract structure and the TCE theory states that detailed contracts limit opportunistic behaviour by stipulating the mutual expectations. Many companies fear that the more incomplete the contract the more likely it is for opportunistic suppliers to exploit the clients at the expense of the service performance. Using the TCE theory as support, some researchers argue that service contracts should stipulate the rights and obligations of buyers and supplier through formal rules, terms and procedures with great levels of specificity (Zou et al., 2019). By doing this it could mitigate the opportunism of service suppliers and encourage better performance outcomes.

According to Martins, Duarte and Costa (2017), the relationship type between the parties will impact the quality of services the buyer company will provide to its customers. Transactional relationships are seen as arm's length relationships that are short term agreements where the buyer can easily replace the supplier without effecting regular business operations. Strategic and collaborative relationships involve interdependence between parties to attain common goals, which usually leads to long term relationships with the parties sharing risks and benefits of the engagement. From the buyer's perspective in services contacts, the main characteristics that complicate the specifications of contracts are the supplier's intangibility of the offering, the context-dependence of the value created, the heterogeneity of resources and outcomes related to the service and the inseparability of the performance from the consumption of the service. According to Zou et al. (2019), the fundamental issue with services procurement is the asymmetry of information between buyers and suppliers and the uncertainty in specifying the desired income or the steps required to achieve it.

As it relates to governance structures within contracts, which are mechanisms that are used to monitor the success or failures within the engagement, formal governance agreements aim to prevent opportunistic behaviour by creating mutually agreed upon and legally binding sets of acceptable behaviours. In contrast, relational governance involves more human elements of outsourcing relationships which provide social controls to mitigate risks of opportunistic behaviours. Relational governance requires operationalized terms of trust, implemented by social control mechanisms of commitment, communication and mutual dependence (Chen and Bharadwaj, 2009).

Martins, Duarte and Costa (2017), opine that managing IT service contracts involves both hard and soft side contracting. The hard side (traditional) involves development and execution of rigid contracts. Soft side contracting (relational) involves strengthening of the relationship, increasing trust between partners and contributing to mutual obligations and enhanced outcomes. They state that relationship management is more associated with strategic and collaborative relationships than with transactional ones. Lioliou et al.'s (2014) research aimed to provide in-depth examination into the interrelations of formal and relational governance, by examining the psychological contract between outsourcing parties. The research examined outsourcing partner's tendencies to either integrate formal and relational governance or substitute one mechanism for other. It found that because of the binding nature of relational governance, partners were more likely to substitute relational for formal governance. However, Lioliou et al.'s ending suggestion was that outsourcing relationships could be governed more robustly if managers would focus on the potential for realizing the effects of both formal and relational governance rather than substituting one for the other.

As stated above, relational contracting requires significant amounts of trust among parties. Morgan and Hunt (1994) state that trust exists when one party's confidence is enhanced by the other party's reliability and integrity. Zaheer and Venkatraman (1995) demonstrated that a model that combines trust and transaction costs economics variables explains relational governance. In their research they established that trust was a significant factor in inter-organizational economic exchange. Aspects that have been considered to create trust are availability, confidentiality, accountability and system integrity. Goo, Nam and Huang (2008), state that many inter-organizational relationships are formed among parties not familiar with one another, requiring the parties to have some type of initial trust to develop an interaction history. According to Rai et al. (2012), trust has been found to be influential in IT outsourcing because it alleviate the concerns of supplier opportunism and reduces the burden of monitoring and promotes the parties pursuit of opportunities and sharing risks.

2.3 Vested Outsourcing: an example of relational contracting

The Vested Outsourcing methodology originated from a research project commissioned by the US Air Force and was conducted by the Univ. of Tennessee and Defence Acquisition University. The project studied successful outsourcing relationships using collaborative practices that were designed to create and share value for buyers and suppliers above and beyond the traditional transaction based agreement (Vitasek, 2016). The model differs from conventional transaction based and risk averse contracting. Its goal is to craft collaborative business to business agreements that create working rules that will encourage successful and long lasting business relationships on mutually desired outcomes. It is a combination of outcome based and shared value principles. The model uses the game theory concepts of John Nash and Robert Axelrod regarding the study of quantified impact of individual behaviour or of the decision makers within an organization. Vitasek (2016) states that behavioural economics is evolving more broadly into relational economics, with the belief that economic value can be expanded through positive relationship thinking rather than adversarial relationships. Vested outsourcing is based on the belief that shared value principles build on the aspect of relational economies through the creation of economic value for all parties (Vitasek and Mandrodt, 2012).

Vested Outsourcing is founded on five principles to achieve win-win optimization through collaboration, trust and shared values. Vested goes on to identify ten core elements that will help implement the five principles and put the model into practice (Vitasek and Mandrodt, 2012). They are as follows:

1. Focus on outcomes, not transactions.
   a. Element 1- business model map
   b. Element 2- shared vision statement and statement of intent
2. Focus on the WHAT, not the HOW.
   a. Element 3- statement of objectives/workload allocation
3. Agree on clearly defined and measurable outcomes.
   a. Element 4- clearly defined and measurable desired outcomes
   b. Element 5- performance management
4. Pricing model with incentives that optimize the business.
   a. Element 6- pricing model incentives
5. Insight versus oversight governance structure.
   a. Element 7- relationship management
   b. Element 8- transformation management
   c. Element 9- exit management
   d. Element 10- special concerns and external requirements

Members of the Vested research team opine that there are certain ailments that exist within outsourcing relationships that breakdown the relationships and cause clients to move services back in-house or switch vendors. The first ailment is that clients hire vendors to perform services because of their expertise but spend great effort detailing the required tasks for the engagement rather than relying on the expertise of the vendor. This expends unnecessary resources and clients use transaction based models that in many circumstances fail to provide incentives for vendors to find the most efficient way to perform the services.

Vested's first principle encourages parties to focus on the outcome and not the transaction and as a result the parties will have a cooperative and collaborative mind-set that opens up the conversation between the parties (Vitasek and Mandrodt, 2012). The intention is for parties to share what is needed and admit the gaps in each other's capabilities and aim to focus on the benefits that the other party brings to the table. This sharing of information brings into the focus the issue of trust. However this principle would receive criticism from Kwawu and Hughes, which argue that even if companies are directed toward trustworthiness, firms may be forced to be opportunistic for sheer survival (Kwawu and Hughes, 2005). They question whether such a 'relational' move can truly be successful within the current industry structure.

The second principle states the parties should "focus on the what, not the how", which moves away from traditional approaches to outsourcing where the client specifies what it wants and how the supplier should go about performing the service (Vitasek, Mandrodt and Ledyard, 2010). This principle holds that the client should specify what they want and then shift the responsibility to the service provider to determine how the work gets delivered. This requires significant collaboration with the supplier and high levels of trust on behalf of the client. Tafti (2010) notes that proper implementation of effective collaboration can be challenging, particularly for offshored engagements due to status differences and strict boundaries among organizations.

The third principle holds that the parties should agree on clearly defined and measurable outcomes and that it is imperative for the parties to spend time during the contract negotiations to define exactly how success will be measured. The parties should work together to define how performance will be measured to determine if the desired outcomes have been achieved. This includes measurement mechanisms such as key performance indicators that are reported regularly as part of the contract's governance framework. Researchers Whang (1992), and Ryall and Sampson (2006) all agreed that product/tasks and party obligations that are clearly defined is a component of IT outsourcing that is most prevalent.

Vested's fourth principle regarding pricing models that incentivise the business, promotes the idea that it is imperative for parties to design a pricing model aimed at compensating a supplier for achieving transformational results beyond simply performing base services that have been contracted for (Vitasek and Ledyard, 2010). The pricing model would be based on the four building blocks of establishing guardrails, incentives, identifying the total cost of ownership and margin matching. Vested states that the parties should identify and deal early on with the corporate boundaries that could impact or derail the business relationship and pricing framework, and create incentives that would be beneficial to both parties. Zou et al.'s research supports Vested's belief that incentives should be used to achieve better performance. According to Zou et al. (2019), the greater the service complexity and greater the role of incentives in achieving good supplier performance.

The final principle holds that the governance structure should provide insight versus oversight supports mutual policies that emphasise the importance of building collaborative relationships, managing transformation from old to new environments, and sets out procedures in the unfortunate case that the parties need to exit the relationship (Vitasek and Mandrodt, 2012). Monitoring provisions are used to reduce contractual risks by specifying procedures that are designed to oversee the supplier's operations on an on-going basis (Chen and Bharadwaj, 2009). These may include periodic audits, reviews, benchmarking and adherence to guidelines such as disaster recovery plans. To cater for dispute resolution concerns, provisions would be included within the contracts that govern rewards and sanctions. Also, property rights within contracts are typically included to govern the intensive information sharing and exchange between suppliers and clients. They cover ownership of copyrights, rights to use and control IP, data security and confidentially terms, and rights to access source code, etc. (Chen and Bharadwaj, 2009).

The Vested method promotes the attitude of 'What's in it for We', which is a mind-set that looks for mutual benefit in the outsourcing relationship. It strives to increase the benefit for both parties by unlocking a greater opportunity than what is current realized by either party (Vitasek and Ledyard, 2010). The methodology aims to increase the size of the entire pie versus increasing the size of the pie for only one party. As certain proponents of relational contracting have stated that the method is most suited promote win-win situations amongst the parties, proponents of Vested believe that the "What's in it for We” mind-set creates win-win situation for outsourcing parties that leads to long-lasting successful relationships.

Companies that have followed the Vested method have come from financial, technology, consulting and automotive industries, but there is a lack of literature that provides critical analysis of the methodology. Although a number of case studies have been published regarding the use of the methodology in major global companies such as Accenture, Microsoft, and Jaguar, information regarding its impact within the IT industry and IT outsourcing departments is lacking. This study seeks to address this gap by exploring the current contracting processes used within the industry to see if Vested would make a feasible option to obtain successful outsourcing engagements.

CHAPTER 3: Research Questions and Methodology

3.1 Research Questions

This research dissertation seeks to explore the preferences for contract structure and negotiations within IT outsourcing departments. It seeks to answer the following question: Is the Vested Outsourcing methodology a feasible contracting methodology for IT Outsourcing Departments? To attempt to answer this question the following sub questions will need to be explored:

- Are traditional contracting methods used more than relational contracting methods in IT outsourcing? If so, why?
- What is the level of knowledge of Vested outsourcing principles within the industry?
- Is the "What's in it for We mind-set" a viable mind-set in IT outsourcing contracts?
- How acceptable would the five basic principles of Vested be to IT outsourcing professionals? Would they work effectively in outsourcing negotiations?
- Are there any obstacles or hindrances that prevent or will prevent IT outsourcing departments from embracing Vested?
- What are the potential reasons why Vested is not as well known within the IT outsourcing community?
- How likely is it that Vested Outsourcing will be embraced by IT outsourcing departments in the future?

At the close of this research it is the hope that this project may assist IT outsourcing departments in finding effective and productivity maximizing contracting methods. It may serve to further introduce the industry to a new outsourcing methodology, or validate that the current contracting methods are yielding the most effective results.

3.2 Research Methodology

3.2.1 Research Design

The research philosophy behind this study is qualitative as qualitative research is often associated with interpretive studies that need to make sense of the subjective ideas expressed about the phenomenon being studied (Saunders et al., 2016). A quantitative study was not appropriate because this project did not involve variables which could be measured numerically using a range of statistical techniques. The research design for this dissertation consists of a mix of exploratory and explanatory research methods. Exploratory methods, which are typically used to explore an issue, problem, or phenomenon, were selected as the intention of this research is to explore the Vested methodology and its potential impact on IT outsourcing if it was to be implemented. Explanatory research methods establish casual relationships between variables. This method was also used as this dissertation seeks to understand the preference for contracting methods used within the industry and to understand the reasons for the lack of research and studies on Vested within the industry. These designs were chosen above descriptive research methods as descriptive methods seek to portray an accurate profile of persons and/or events and this does not align with the intention of this study to understand the reasons behind certain actions, which is inherently subjective (Saunders et al., 2016).

The specific research strategy chosen for this project was a case study, which is defined as strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence (Robson, 2011). This type of strategy is used most often in explanatory and exploratory research methods. The 'case' in this study is IT industry; specifically IT outsourcing departments within nine different IT global companies. Due to time constraints on the research, this project will be a cross-sectional study, taking a snap shot of the current status of the IT sourcing industry and mind-set of professionals therein.

3.2.2 Data collection and Sampling

Qualitative research methods were used based on the purpose of this research project and the significance of establishing personal contact with the IT professionals in order to understand reasons behind choosing to use or not use Vested contracting methods. Semi- structured interviews were chosen as they permit in-depth questions. Semi-structured interviews are more suited for exploratory and explanatory studies as they are helpful in finding out what is happening, understanding the relationships between variables and seeking new insights (Saunders et al., 2016). These interviews allowed for gathering of more detailed information on the current contracting preferences within the industry and potentially some insightful critiques of the Vested methodology.

Non-probability sampling methods were used to obtain participants for this project. Probability sampling is more suitable for survey and experimental research strategies, which is why that method was not selected. Non-probability sampling is used when the population is not known and it is impossible to answer research questions or to address objectives that require you to make statistical inferences about the characteristics of the population (Saunders et al., 2016). The population size was not known as it pertains to IT industry and professionals working in IT outsourcing departments. Also, a mixture of purposive and snowball sampling was used. Purposive sampling was selected as this method enables one to answer research questions and meet objectives. This method does not require large sample sizes as with case study research the objective is to obtain informative responses that can meet the research objectives. It also enables one to study the sample group in greater depth. This was very important for this project as there is a current lack of research regarding Vested and IT outsourcing the intention is to determine the reason behind this lack of information. Snowball sampling was used as it is typically used when it is difficult to identify members of the desired population. For this research project, although it was not difficult to find individuals that have worked in the IT industry, there was some difficulty in locating individuals that have worked in IT outsourcing and participated in contract negotiations. Therefore those which agreed to participate were asked to further identify potential participants that had similar work experience.

The eleven interviewees for this project were chosen based on their work experience within the IT industry and experience in outsourcing and contract negotiations. Each interviewee had at minimum of over three years of experience within the IT industry and at least two of those three years were involved in contract negotiations. The interviewees were contacted via the dissertation author's LinkedIn connections and asked if they were willing to participate in the study. Interviewees were asked to request participation from others that have similar experience and were willing to participate in the project. Volunteers were assured of the confidentiality of their identity and anonymity of their employers or any confidential information revealed during the interviews regarding a specific company in which a contract was negotiated, unless this was already public knowledge.

The sample size was eleven participants from nine different IT companies to ensure that a more holistic opinion within the IT industry could be obtained regarding the feasibility of the Vested methodology. As stated by Saunders et al. (2016), with non-probability sampling, there are no rules for sample size as the logical relationship between the sample selection technique and the purpose and focus of your research is what is most important. According to Guest et al. (2006), for research where the aim is to understand commonalities within a fairly homogeneous group, 12 in-depth interviews should suffice. As the participants have all worked or are currently working in IT outsourcing departments, their responses should be able to sufficiently meet the research objectives. The generalizations to be made through this research are more about the theory of the Vested model than the population itself. Therefore, the sample size will depend on the research questions and objectives. The roles of the participants are broken down as follows: (4) legally qualified counsellors working as either contract manager or in-house counsel, (3) strategic sourcing specialists, and (4) sales roles. The nine different global IT companies specialise in one or more of the following service areas: cloud solutions, telecommunications, digital media, advertising, and desktop software offerings. As requested by participants, the identities of the companies have been kept confidential as the contracting and legal strategies used by each company are proprietary information.

The interviews were conducted over the phone or via Skype and were recorded and transcribed using the Google Recorder for Android. Once transcribed by the application the interview transcripts were reviewed and edited for spelling and grammatical errors. Also, participant names, company names and other sensitive information were also redacted before being attached to the appendix of this dissertation.

3.2.3 Limitations

Confidentiality concerns by participants and their employers served as a limitation in gaining access to participants who potentially could have added more in-depth and company specific information to the research. The lack of critical studies on the Vested model served as a limitation to the literature review and the ability to obtain a fully comprehensive background on the model itself. It also made it difficult to apply a proven research design as currently there is little to no literature on past research projects that give step-by-step instructions on the application of the Vested model to specific contract negotiations. The set timing to perform the required research and interviews also served as a limitation to this project as it increased the difficulty in the ability to find interview participants on short notice. Due to the nature of contract negotiations and the fact that they typically take several months to complete, it also limited the research design structures that could be used. The current Cov-19 pandemic served as a significant limitation in the ability to obtain more participants. Several participants who originally agreed to assist with the dissertation had to withdraw due to family, employment or illness matters. The interviewees that participated in the dissertation also made attempts to recruit co-workers who could participate, but due to restrictions and changes in the working environment, the opportunity to interview these individuals was reduced.

3.2.4 Ethical considerations

Due to the nature of the research and subject matter of this dissertation, this study posed little to no risk to the participants that were involved. Confidentiality of participants' identities was preserved throughout the duration of the project. This project did not involve vulnerable populations and deception was not used.

CHAPTER 4: Findings

This chapter will outline the overall findings of the research based upon the responses of participants in the study. The findings have been structured in overall themes in responses to the research objectives outlined in Chapter 3.

A. There are advantages and disadvantages to both relational and traditional contracting methodologies.

Participant’s believed that traditional contracting methods allowed for easier set up of contractual relationships between clients and suppliers, and that they were less risky. Traditional methods were believed to provide greater ability to penalize partners for noncompliance with the terms of the contract. Participants believed that traditional contracting methods were more suitable for short term contracts, or engagements where the client/customer was not looking to establish a long lasting relationship with the supplier. Participant #1 stated that this method was used where “we will pay them for the specific functions, but there was no mutual trust and there was none of that partnership where we work to the same goal,” (Appendix B-1). Participants #9 and #10 both believed that traditional contracting benefits the bigger party in the relationship, creating a David vs. Goliath dynamic. Participant #10 believed that traditional contracting methods benefits the client more than the supplier and the method does not provide flexibility (Appendix B-10). Participant #11 stated that, “I think it's less risky but I noticed it can limit potential players to develop more value than that is actually written down in the contract” (Appendix B-11).

Advantages of relational contracting were that this method was more helpful in negotiations and that it levelled the playing field between bigger and smaller companies. Participant #6 stated that relational contracting helps speed up the negotiating process as one does not have to cater for every situation in the contract (Appendix B-6). Participants #8 and #9 believed that relational contracting worked better in agile environments such as within the IT industry. Disadvantages of the method were that it could lead to ambiguous terms in contracting and unclear responsibilities between the parties which may lead to one party attempting to take advantage of another. The participants believed that with relational contracting, some aspects of the relationship would not be enforceable because they would not be written down formally in the contract. Participant #2 stated that parties may believe they have a good relationship, but at the end of the day many parts of the relationship are still not enforceable (Appendix B-2). Participant #1 stated that “especially in the senior kind of level within the partner, and sometimes those new managers would not have the pre-built relationship with us or they don't have the same vision for the company. So there was no way for us to, you know, kind of control the outcome as well as we would in the initial, you know, kind of stricter contract,” (Appendix B-1). With changes in senior management it makes it more difficult to maintain the relationship and can even hurt the relationship that has been built between the parties.

B. <u>There is a mix of traditional and relational contracting methods used within the IT industry currently, but the overall contracting process remains more traditional/transactional.</u>

Based on responses from participants it became evident that both relational and traditional contracting methods were used in practice within the IT outsourcing space. Participant #7 stated that the choice of contracting depended on the type of work to be performed (Appendix B-7). Majority of the participants believed that relational contracting methods were beneficial due to the dynamic and changing nature of the IT industry, but it soon became apparent that they believed that traditional contracting methods were necessary in order ensure protection for the company. Participant #2 stated that, "I think in building relationships with your clients, trust and confidence in this is necessary and that facilitates, I suppose, an easier contract negotiation. At the end of the day when you know your client, you know, you build informal relations with them… but then I think you need to have the traditional contracting aspect of things as well, because I've seen it too many times in practice where we think we have an amazing relationship and then things don't go right and then you have to rely on the contract. You have to pull it out because that's where your protection is, you know? Otherwise it's unenforceable," (Appendix B-2). Participant #6 appeared to agree that the relationship was handled separately from the contracting process, stating that, "The relationship portion is handled separately to the contractual piece. So there might be a broader long-term strategic relationship with a supplier but the contracts will be done transaction by transaction," (Appendix B-6). Participant #3 believed that companies did not mandate a certain style of contracting, but that it was more of an individual decision on which contracting methodology was chosen when dealing with suppliers (Appendix B-3).

C. <u>There is a lack of knowledge of the Vested outsourcing principles within the IT industry and the reasons for such lack of knowledge are varied.</u>

Eight participants stated that they had not heard of Vested in their career within the IT industry. Participant #9 had heard of the model through an academic friend and two other participants stated that they had heard of similar concepts to the Vested principles but did not know that there was a formal name given to the methodology. Participant #3 stated that they had been trained in a similar contracting method that promoted similar principles as Vested, as it promoted the building of partnerships, but had not heard of the formal name of Vested Outsourcing (Appendix B-3).

D. <u>Certain principles within the Vested Model are not likely to be embraced by IT outsourcing departments and would hinder the implementation of the model in its entirety on a wide scale within the IT industry.</u>

Principle 1- Focus on the Outcome not the transaction

Most participants were in agreement with this principle and believed that this could be implemented, and has in practice, within IT outsourcing, as parties can sometimes lose sight of what they are looking to achieve and this helps set clear objectives and goals. Participants stated that this principle was the ideal way of handling things and would help to realign parties when disagreements arise. Participants #8 and #9 believed that this principle works based on the type of engagement being contracted. Participant #1, however, did state that implementing this principle may not be as easy in practice as it is difficult for clients to impose their values on the suppliers (Appendix B-1). The example provided was that if a supplier services the client and a number of the client's competitors, it would be difficult to impose the client's principles on the supplier when the supplier is serving the competitors at the same time (Appendix B-1). Participant # 10 stated that the parties' mind-set in contracting is first and foremost to protect their company and not from the perspective of coming to a common ground (Appendix B-10).

Principle 2- Focus on the What, not the How

10 out of 11 of the participants believed that this principle would be effective in IT outsourcing departments as its implementation would assist in gaining efficiencies and other insights that the client would not normally be able to bring to the table or identify, although many stated that this principle was the ideal position versus what is done in practice. Participants agreed that too much involvement of the client in the 'how' results in a waste of resources, and that the suppliers were chosen based upon their expertise in the field and should be allowed to demonstrate their expertise in order to reach the desired goal. Participants #6 and #9 did state that limitations by law or regulations that may prevent the client from taking a hands off approach. Participant #6 stated that "it has to be a lot of trust that's built up over time to then just allow the provider to run the service, you know," (Appendix B-6). Participant #11 raised the issue over company reputation concerns which may affect the client's desire to take such an approach (Appendix B-11). Participant #10 disagreed wholeheartedly with this principle stating that the clients never take a completely hands off attitude with the supplier (Appendix B-10).

Principle 3- Agree on clearly defined and measurable outcomes.

Participants agreed that this would be and has been implemented within IT outsourcing. Participant #1 stated that "this is a no-brainer!" (Appendix B-1). Participants believed that this provides a reference point for the parties and helps hold the parties accountable. KPIs were believed to be very helpful. Three participants noted that this principle is also implemented in traditional contracting. Participants #2 and #9 noted that this principle may not be applicable in all engagements, such as off the shelf products that do not require customization. Participant #7 also noted that this principle may present some difficulties as parties may have different interpretations on success and the correct method of measurement (Appendix B-7).

Principle 4- Pricing model with incentives that optimize the business.

Participant responses to this principle were quite mixed. Participants #9 believed that pricing model incentives would only work in larger deals within IT outsourcing (Appendix B-9). Participants #3 and #7 stated that this principle could work, but that the parties needed to ensure that the outcomes were clearly measurable. A lot of negatives were identified with this principle, one being that there may be difficulty in the parties finding the pricing 'sweet spot' that would make the deal beneficial and valuable for both parties (Appendix B-9). Participant #8 stated that smaller companies likely would not like this form of pricing model as it can be ambiguous and cause the supplier to lose out on additional transactions (Appendix B-8). They also stated that certain aspects of the service delivery can limit the parties' ability to avail of a pricing model that promotes efficiencies and value, such as the use of offshore resources. Parties may not be able to permit the usage of offshore resources due to information and personal data concerns due to regulations etc. Participant #6 stated that in their experience, senior executives would not be open to sharing value with supplier as they would want to keep all of the additional value for their own company (Appendix B-6).

Principle 5- Insight versus oversight governance structure

All participants believed that this principle would be beneficial to the IT outsourcing space. The advantages would be that it would provide useful information to the parties and its most valuable if the parties wish to continue the relationship long term. It assists in building trust levels between the parties. Participant #6 stated that having an insight versus oversight governance structure would be more effective as clients that micromanage suppliers do a disservice to themselves and the clients will not, as a result, benefit from the expertise of the supplier (Appendix B-6). Micromanaging amounts to a waste of resources. Certain participants noted that these governance structures were normally found in high value contracts or would not be so important to have in short term relationships. Participant #7 stated that implementing such a structure would require a lot of work in it application because it could not be applied uniformly to all situations (Appendix B-7).

E. <u>The "What's in it for We mind set" is an ideal concept but not currently embraced at a large scale within IT industry.</u>

Participants believed that although the IT industry is the industry that likely would be most open to Vested, a model that promotes partnership amongst the parties, currently the market is far from accepting and adapting to such a new way of thinking. Certain participants felt that currently the market is quite rigid in its contracting processes. Participant #3 in particular believed that a win-win situation is not practical. They stated that "In most relationships it more like lose-lose. If one person's winning the other person can't be winning. So, you know, someone has to lose somewhere and otherwise both people can't get what they want commercially and you know legally everything," (Appendix B-3). Participant #3 went on to state that a perceived win for a party can potentially lead to a breakdown in the relationship. Participant #4 stated that they believed that a win-win attitude is applicable and could work within IT outsourcing, but that “if you're looking for that win-win all the time it may be hard to identify and it really needs to be strategic provider that you are contracting with to be able to identify that win-win,” (Appendix B-4).

F. Although certain larger or global IT companies would be more open to embracing the model, the likelihood of widespread implementation of Vested Outsourcing within the IT industry is low due to certain risks and traditional/transactional contracting preferences in legal departments and company executives. The model, if applied, would likely be on case by case, project by project basis.

Based on participant responses it became apparent that members of the IT outsourcing space would be willing, and have already, implemented a number of the principles that Vested. For example, Participant #11 stated that the principles that govern performance measuring, roles of supplier and the clients, and evaluation insights would be beneficial (Appendix B-11). Participant #2 stated that they believed that some companies within the IT industry would implement Vested, but it would require educating more people about the model (Appendix B-2). However, the overall consensus among participants seemed to be that Vested would encounter difficulty in being implemented on a wide scale within the industry. Participant #6 stated that “I think it could work in the future but it needs the right personalities and the right executives to in the right mind-set on the client side to influence,” (Appendix B-6). Participant #9 stated that they believed it would be difficult to implement Vested as whole because legal departments would give a natural pushback because they are more conservative, and this model requires giving over a lot of information, an action that many smaller companies that are new to the market may not want to embrace (Appendix B-9). Participant #6 and #10 appeared to agree stating that because of the pricing model incentives that Vested promotes, many company executives would not want to move in that direction as pricing would be a sticking point for them. Participant #10 (Appendix B-10) also stated that they did not believe this would be implemented at large scale because clients want to maintain their superior position.

<u>CHAPTER 5: Discussion</u>

The results showed that traditional contracting methods, using formal agreements are believed to be most effective in reducing risk of supplier opportunism and as a strong accountability measure for parties to an agreement. The participants from a legal background were the greatest supporters of this opinion, which arguable can be expected as traditionally, the formal contracts have been and continue to be drafted by in house and private legal counsel. The participants that worked as sourcing strategists proved to be stronger proponents of relational methods, showing more preference for building relationships between clients and suppliers to make effective deals. The sourcing strategists and sales professionals that worked from the supplier's role showed concern for the client's desire to maintain more control in the contracting relationship and stated that this desire for control by clients hindered the ability of suppliers to bring their best expertise to engagements. Although most participants believed that the IT industry is still more traditional in its contracting processes, all recognized that relational approaches are taken when building the relationship between the parties.

The results revealed that risk of supplier opportunism is still of great concern within IT outsourcing departments, with companies still attempting to find methods to reduce this risk. The risks identified by participants were related to use of offshore resources, information security, trade secrets, company reputation, among many others. With many participants stating that traditional transaction-based methods were typically used to combat such risks, this would lead one to believe that within IT outsourcing there still remains the preference for traditional approaches to supplier risk reduction. Although participants believed that relational methods would assist in the building of trust between clients and their suppliers, they believed that the trust building exercises would require significant amount of time and would be based on the type of engagement and length of relationship desired by the parties. This preference for traditional methods for risk reduction goes against the more optimistic view of relational methods shown in the literature. The literature would suggest that relational methods are the ideal answer to reduce, or even prevent, supplier opportunism and party disputes as relational methods promote joint collaboration, flexibility and joint problem solving. However, the responses from participants show that although there is hope that the parties can resolve matters without the need for formal legal measures, a lack of trust and fear that at the very end companies still seek to find a competitive edge, still remains. The results did reveal that a mixture of traditional and relational contracting methods are used currently within IT outsourcing and that a mix of those methodologies is believed to lead to successful contracts.

The participants' responses regarding the parties' ability to have mutual trust lends support to the relational exchange theory that states that elements of the exchange relationship such as trust and relational norms play a role in determining contract structures. The participants believed that clients would be hesitant, and in some cases would not be willing, to support Vested's second principle and give over great levels of responsibility in the service delivery, and take a hands off approach due to fear that the supplier would seek to gain the advantage over them. This advantage could come through price increases or misappropriating of sensitive information. In particular, regarding Vested's fifth principal that encourages insightful governance structures, certain participants noted that insight is more ideal, but many clients would want to maintain the superior position in the relationship and ensure that supplier was not taking advantage or operating in a way that would harm the client's business. As noted by Zaheer and Venkatraman (1995), the level of trust between the client and supplier seems to determine the company's approach to contracting, whether it is transactional or relational. If there is no trust between the parties and a long-lasting relationship is not anticipated, traditional methods are preferred. In contrast, trust and confidence between the parties was identified by participants as being necessary for a long-standing partnership.

Vested's first principle reiterates the basic principle of relational contracting methods that parties should work together to come to desired outcomes and not solely focus on the transactions taking place. As Martins, Duarte and Costa (2017) state, collaborative relationships involve interdependence of both parties to obtain common goals. Vested's first principle holds that a collaborative mind-set opens up the conversation between parties and admits gaps in each other's capabilities. Literature regarding relational contracting tends to agree that collaborative contracting requires sharing of risk and interdependence of each party's strengths. This principle is also valued within IT outsourcing departments, with the participants of the study recognizing the benefits of parties coming together to focus on the end outcome of the engagement, in order to help build a relationship of trust. This principle also proved, based on participant's responses, to be most effective in settling disputes and re-centring the focus of the parties when things went awry.

Vested's second and third principles are currently used within IT outsourcing, albeit with some exceptions. The participants that Vested's second principle would receive support from suppliers as it is most beneficial to them in ensuring that they are able to use their expertise to achieve the desired outcomes. The idea that the parties should focus on the what, not the how received positive reactions by the participants that worked in supplier roles as this was the position most favoured by their companies. Those working from the client's perspective naturally showed hesitance in a more hands off approach, which gives evidence of client's distrust of suppliers and the fear of opportunistic behaviour. The third principle of creating clearly measurable outcomes was the one principle of Vested that was agreed to by all participants. It appears to be a concept that is deemed vital in outsourcing engagements, and based on the literature and participant responses, a concept used in both traditional and relational contracting methods.

Although Johnson (2011) would argue relational method includes pain/gain sharing and fair profits, like Vested's fourth principle, the results showed mixed opinions among the IT outsourcing professionals. Although the authors of Vested argue that incentivised pricing models are imperative for parties who wish to achieve transformational results beyond the simple performance of basic services, participants of this study noted that it would be difficult to find the 'sweet spot' in pricing and others had not seen it used in practice within the IT industry. Although certain participants noted that incentivising suppliers would naturally be beneficial, it was noted overall by all participants that usage of this principle would depend on the type of service being contracted for, and this opinion is supported by Zou et al.'s research. The participant responses also made it clear that only a certain type of company may be open to such pricing models, and a large factor would be the size and age of that company.

Vested's fifth principle of insight governance instead of oversight received positive feedback from participants, although some noted that such an effort would require a considerable amount of time and attention to create. It became apparent in the study that governance structures are not only a mechanism used in relational contracting, but can be quite standard in traditional transaction based agreements. Chen and Bhardwaj's (2009) examples of governance structures tends to lend more support to oversight focused governance structures, which is in opposition to the Vested principle and many of the opinions of the IT outsourcing professionals in the study. However, this oversight focused governance structure may in fact be most popular in practice as certain participants did identify that client's wish to maintain control over their suppliers, and governance structures can be one mechanism that they can use. However, the consequences of an oversight focused governance structure could cause clients to expend unnecessary resources and lose out on the benefits of the supplier's expertise.

Vested's "What's in it for We" mind-set also follows the win-win attitude promoted within relational contracting, but based upon responses from participants this mind-set is more idealistic and not attainable so much in practice. Relational contracting methods encourage collaboration and mutual benefits, which is the precipice for Vested's "What's in it for We" attitude. However, the adoption and application of this mind-set among IT outsourcing professionals seems to be lacking as many of the participants seemed to question whether such a mind-set is even achievable. In order to obtain adoption of this mind-set, it would require buy in from senior executives and leaders of the companies involved, which based on responses, was the major hindrance.

The overarching opinion of the IT outsourcing professionals seemed to be that companies want to ensure the success of their own business and keep whatever value that is identified, for themselves. Because the mind-set of "What's in it for We" and principles of collaboration and mutual trust are at the heart of Vested, in order to convince companies to adopt the Vested model, senior executives, directors, right down to the legal and contracting professionals would have to transform their thinking. The distrust between clients and suppliers would need to be overcome in order to avail of the supposed benefits of a relational methodology like Vested.

CHAPTER 6: Conclusion

This dissertation has shown that although relational methods are used and encouraged within IT outsourcing departments, there remains a preference for traditional, transaction-based methods. The IT professionals interviewed in the study showed that relational methods are necessary to building strong, collaborative relationships between parties, and effective in dispute resolution, but relational contracting is not effective on its own. The current belief is that traditional contracting methods are necessary to reduce risks of company opportunism and to protect the rights and property of each company that is a party to the agreement. This preference within the industry for traditional methods makes it unlikely that the Vested Outsourcing methodology would be adopted on a large scale within the IT industry. The “What’s in it for We” attitude appears to be more of an idealistic viewpoint, when in fact companies typically hold opposite attitudes and are more concerned with protecting their own businesses.

Although the Vested principles were believed to be ideal, and some even currently used within the industry, the fear of supplier opportunism, risk in sharing and security of information, and the desire to retain value for one’s own company remains too concerning with those negotiating contracts within IT outsourcing departments. With IT outsourcing professionals resisting the some of the foundational principles of Vested, its leaves one to reason that it would be difficult to have a widespread implementation of the Vested model within the IT industry at this time. This dissertation may also serve to prove, as identified by Lioliou et al., that managers within IT outsourcing should recognize the success that is possible when both formal and relational contracting practices are used, versus substituting one method for the other. The model would likely have to have an extensive proven record of reducing supplier opportunism and increasing profitability for both the client and supplier before it could achieve wide adoption.

Further research is needed into the Vested model and the application of its principles for contracts within IT outsourcing departments, especially research providing critical analysis of the impact on the success of the relevant contracts. It would also be beneficial to study the attitudes of legal professionals regarding Vested principles, as most outsourcing departments rely on their legal departments to set up their contractual engagements. If the authors of the Vested model were able to obtain sufficient buy-in from legal professionals, it could serve to boost its popularity within the industry and assist in its widespread adoption. Research into the model’s ability to reduce supplier opportunism would also likely serve to improve the model’s attractiveness within the IT industry.

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APPENDIX A

QUESTIONS FOR SEMI-STRUCTURED INTERVIEWS:

Obtain consent from Participant (verbal) before start of the interview

In your career have you always worked in Sourcing?

What roles did you have in sourcing?

Is your current role in Sourcing? If not, how long did you work in sourcing in the past?

Were you working from the client or the supplier side?

How long have worked within the IT sector?

How many years of experience do you have in contract negotiations?

Do you know the difference between relational contracting and traditional contracting? (if not a description will be provided)

[Provided descriptions based on readings]

What advantages do you see in traditional contracting? Disadvantages?

What advantages do you see in relational contracting? Disadvantages?

In your career, have you ever heard of the Vested outsourcing methodology? If so, please state how much you know of the model?

[Brief description of the Vested Outsourcing methodology provided from the following readings:Vitasek, Mandrodt and Ledyard, 2010; Vitasek and Mandrodt, 2012]

1. In the Vested process the follow the following statements are used as guiding principles in the negotiation process. Please give your opinion on these principles and your opinion regarding whether you believe they have a place within IT outsourcing? If not, please detail why you think so.
    a. The negotiation should focus on outcomes or the transaction?(1)

        Shared vision statements between executives of both contracting parties

    b. Focus on what not the how (2)

        Having clear work allocations?

    c. The Parties should clearly define and measure desired outcomes?(3)

Performance metrics? Performance management?

d. Use pricing model incentives?(4)
e. Use insight versus oversight governance structure?(5)

What's your opinion on the importance of governance? Whats the importance of relationship management? Transformation management? Exit management plans?

2. Is it important to build flexibility into the contracts? To what extent should a contract be flexible? Are there any negatives to having flexibility in contracts? What have you seen in your experience when flexibility is attempted?
3. What are your thoughts on the Win-Win or "Whats in it for We" concept? Is this feasible for IT outsourcing? Why or why not? Negatives or positives that you can foresee?

4. In your opinion, are shared value creation contracts effective? What are the advantages or disadvantages in practice?
5. In your opinion, what is the likelihood of IT outsourcing departments implementing the Vested model? What are the obstacles in such implementation, if any?

APPENDIX B

APPENDIX B-1 Participant #1 INTERVIEW

Interviewer: Well thanks so much for agreeing to join and to participate in the study. Just as a matter of my ethical procedures for my research I have to just make the statement that this this interview is completely voluntary. If any time you wish to stop the interview, or withdraw from the research project that's perfectly fine. Your participation will be anonymized. If there's any company information or anything you say in the study that you wish to be redacted, you could just let me know and I'll make sure that it's redacted in the transcript. My transcript will be given to my university and it's going to be attached to the appendix of my dissertation when it's submitted and published in the school library; but that's about the extent to where to where it will go. So if you're fine to move forward then we can just go ahead and get started.

#1: Yeah, sounds great. I'm happy with that.

Interviewer: All right, thank you okay. So just to start out, in your career in your work experience in the past have you worked in sourcing? And if so, for how many years? And when I refer to sourcing I mean just working on contracts, negotiating contracts, for your specific company to bring in other suppliers to provide services.

#1: Well altogether I can say now for about four and a half years. I'll say four and a half years ago is when I got into it initially, in my previous role as an operations administrator. Then obviously I also moved into more of a sales contracts role. So about four and a half years all together.

Interviewer: Okay, and during those four and a half years were they entire time in the IT industry?

#1: Yes, I initially was it was a B2B kind of corporate in my corporate level IT and now it well in Company A there's not… actually no that's not correct because next month, I am taking over a part of the business that was the fact that will require me to negotiate contracts as well. Okay, so yes IT throughout.

Interviewer: Okay, so just some questions from your knowledge… Do you know the difference between traditional contracting and/or relational contracting? And if you don't, or if you're the terms aren't you know, well known to you… if you know them by different terms just let me know and I can just give you a short little spiel. This will build on to the rest of my questions.

#1: If you could explain that better then I'd love that.

Interviewer: Okay, so traditional contracts basically is the formal contracting process where it represents the promises and obligations to carry out future actions. They govern complex situations and they try to govern for asset specificity, interdependence of activities , and any uncertainty related to the task environment that creates risk and contracting. So the more complex the contract, the greater requirement for specificity in the roles and responsibilities, procedures behind monitoring the supplier and the client, and penalties for non-compliance. So you have like your lawyers, your contract managers, you have your sales guys, the deal negotiators, the finance people all working to make sure they have a solid contract. And they try and anticipate for every particular eventuality that will occur during the life of the relationship. As opposed to relational contracting which is more dynamic and it focuses on building relationships between the contracting parties. It's more about joint problem solving, extensive use of renegotiations to resolve conflicts. It incentivizes mutual acceptable solutions, better communication, informal working relationships, mutual future planning and risk sharing and consequent rewards.

#1: Which are I'm assuming they're not all legally binding in this particular case, right?

Interviewer: They can be legally binding but it's not so much, um, it's not so much around having a super tight contract that is not open for flexibility. so relational contracting has more flexibility around it. it's a bit more informal. it involves a lot more trust between the client and supplier, versus a traditional approaches basically around the transaction itself. I'm going to pay you to do this and these are the rules and obligations for both parties. Cut and dry.

#1: So you actually in fact in my first role in this case I had experience with both. Okay the first because we had in fact two different types of first one was the reseller agreement. I remember that we had which was basically a strict rules of what needs to be done from their side and what they've received in return, what were the actual terms in in terms of the revenue they're supposed to bring as well as the number of clients and as such basically strict rules. as well as partner agreements, which as you said were a lot more flexible and allowed us to have more, well I wouldn't say informal conversation but a lot more lenient ways towards them as well as towards us. so we have two different types of contracts

Interviewer: okay and in your opinion what was the advantage in traditional contracting and as well as any disadvantages related to that?

#1: So let's say the traditional contract they the reason we had a traditional contract in place from this case is for companies that we don't did not have the close relationship with it was basically to access their network of clients where we will pay them for car not specific functions, but there was no mutual trust and there was none of that partnership where we work to the same goal. It was also easier to penalize the partner in case something didn't go along, you know with the plan that we have set out initially. So let's say if the quality of work was not delivered, or let's say if they did not bring enough clients in a specific period of time, we did not pay out specific bonuses or specific kickbacks that we were meant to. That was the kind of that was the main kind of benefit of the of the formal contracts that we had.

In terms of the more partnership agreements that we had, those were companies that we sometimes considered to be like an extended arm of our company, because they had a very similar values to us and in that case they had a very similar approach towards the client. And again from my perspective, back then it was it was a lot more trustworthy kind of relationship and allowed kind of a more free approach in how they approached clients, how they want to introduce their solutions, how they wanted to use our platform in order to build solutions for the client. So it was a lot more trust being put on it which clients did a fact appreciate quite a lot because it gave them a way to grow and the build a company the way they wanted and still get the benefits of specific pay-outs from us or sort of discounts for the product.

Interviewer: Okay, okay and did you see any disadvantages from the more relational or partnership contracts?

#1: So. To me the biggest disadvantage was that obviously sometimes the management changes would take place. For example especially in the senior kind of level within the partner, and sometimes those new managers would not have the pre-built relationship with us or they don't have the same vision for the company. So there was no way for us to, you know, kind of control the outcome as well as we would in the initial, you know, kind of stricter contract. The reseller contracts we used to call it. So the control over the partner was harder if the some changes were introduced or something happened with within their organization.

Interviewer: Okay. Now um this research project is looking into the vested outsourcing methodology, and I just want to know have you ever heard of the model before?

#1: Because repeat the word again

Interviewer: Vested outsourcing methodology.

#1: I'm gonna have a wild guess that it's like a pre-screen partner the partner about a company that would carry out a specific function for the company such as could be a call centre or something that or at lead generation foreigner company. Right or is this something else?

Interviewer: yeah it's more general than. It's that is an actual contracting process or account contracting model and principle. So let me give you a little bit of background on it and then I'll ask you a couple of questions to follow up from there. so for the Vested model the core principal and methodology is to establish a systematic collaborative and outsourcing relationship in which the company and the service provider become vested or mutually committed in each other's success, creating a long-term win-win relationship based on achieving mutual determined goals. So the model requires the parties to build a solid collaborative foundation for sharing value highly integrated outcome-based business models that use value incentives to maintain mutual advantage. So in its purest case a service provider is paid only when it is successful in achieving the mutually agreed desired outcomes. So the vested outsourcing agreement sometimes combines fee per transactions per transaction with a significant version of value based incentives. So the mix of fees for transactions and value exchange and commercial incentives creates more flexibility and opportunities for the organization to deliver value efficiencies instead of simply focusing on the price. So it's more of a hybrid business model hybrid business model.

So I'm going to ask you… there's basically five principles that the vested model is based on and I'm going to ask you your opinion on these five principles whether you think it would work in the IT sourcing industry or whether you think it's not very feasible… the advantages disadvantages. So if you can just build on that. So the first principle is the negotiation should focus on the outcome not the transaction itself. So that would involve having shared vision statements between executives and both contracting parties. what's your opinion on that does that work in IT outsourcing is that beneficial or are there some disadvantages that follow from that?

<u>#1:</u> So the first thing that comes to mind is the major, the very big ask is, are you is the contractor or the vested third party? Are they focusing solely on your business or are they actually additionally serving other businesses around? Because it's very hard to impose your values on it third-party company if in fact they are working with different companies who might have different values. When you look from their perspective, it could create a chaos in terms of what they do, how they approach clients, how they pitch, how they how they communicate. So the transaction itself is extremely important, I believe, and it should be the core as well, if you're contracting someone else externally. There should be a specific way of teaching them how you want your product or whatever you're selling in this case is being positioned or whatever service it is in fact. But I don't think sharing values will work long term if the company is to work with other parties as well.

<u>Interviewer:</u> okay and when you say work with other parties, you mean this particular company is working with ….let's say for instance your current employer ….now there's a couple of other big entities in the same space. So if this particular service provider is working for your particular company and working for company two, three and four, you're saying that will cause difficulty in having them share the same value that your company has?

<u>#1:</u> So I'll give you a practical example… yeah it's easier for me to explain. Now in my previous job as lead generation it was very often, like the initial point of contact was very often, you know outsourced to different companies, because it doesn't require quite a lot of manpower and so on. So we would teach them how to sell the value proposition, how to set up the value proposition of our product and show them our requirements; how many leads we expect and how much you're gonna pay for it. but weren't not going to go and try to impose or try to teach them our value of the company, as the general values and the long-term vision of the company, because we knew that the same company was also serving our competitors such as Company B or Company C and other giants. And even the values of Company B or Company D or any of those they are very different at the actual core. So if every company try to impose that on this specific service provider that will create chaos. So they were very much like "tell us how to position your product, show us your ideal customer." But the values they have and how they how they build the companies and how it has to be aligned, I don't believe you should be pitching those onto the service provider.

<u>Interviewer:</u> okay this leads on to the second principal and that is the the contract should focus on on the what the like on what you're looking to what the client is looking to achieve not how the client wants to achieve it. So basically You give over to the supplier this is what I want you to do for me, this is the end. I'll come that I want you to provide for me but I'm not going to tell you how to do it. I want you to use your resources use your knowledge base your experience to get me to this outcome. I'm going to put all this into your hands. what is your opinion on that should does that really work in IT in a um, resourcing perspective

#1: I will say no is. 100% No. Because there are two issues I can think of right on top of my head. The first one is the image of the initial company. At the end of the day this company, this service provider is becoming that the front face or whatever it is, in the specific service they provide. So they cant use that approach of whatever it takes to achieve their goal because this can be damaging for the company. Another issue is of the actual quality.. like how you measure the outcome of the actual service? what is it revenue? is it people being brought into company? Is it is a recruits? depending what it is right? and there is a specific way that you have to ensure throughout the process of doing that specific thing in order to achieve desired outcome and achieve it with specific quality. so I there has to be some guidelines or at least some expectations how is it to be achieved, which should be recorded in contract. but it never can be a case where you give it a free will to the service providers to deliver whatever they way they want, because at the end of the day every company will try to reduce the cost and reduce the costs can often lead the loss of quality. And they will try to do it as quick as I efficiently as they can, which is not always the best way to approach it.

Interviewer: Okay, so then the third principle from Vested it seems to try and cover for that. But you know, you may very well disagree. It says the parties should clearly define and measure the desired outcomes. So the client says this is my outcome that I want, and then the parties work together to define what are what the performance metrics will be. How the performance will be measured how it will be managed etc. So they're going to clearly define and measure those outcomes. Is that feasible, is that recommended, or are there some disadvantages to that? Working together to do that.

#1: yeah it has to be like that. I would say it's a very much a no-brainer. It has to be there yeah measurement is everything at the end of the day because if you do not measure the outcome of the specific service then how do you know if it's successful or not? What are you actually paying for? Secondly, at the end of the day, the only reason you are getting the third party to carry out specific service is if you don't have the manpower or the resources do it yourself, or if the specific company is in position to deliver a better result than you are as a company. So you have to have a reference point and that reference point has to be your measurement, as well what's expected which also has to be clearly outlined and benchmarked to the initial status. So yes, it has to be, but as I said earlier on there has to be some guidelines in terms of how that's achieved, not just the end to end measurement.

Interviewer: So the fourth principle is to use pricing model incentives. So one example that Vested has used in the past is that the client wants to achieve certain efficiencies within the organization, which in turn could in some ways impact the suppliers ability to make money, because the more transactions the more money supplier makes. But with this Vested model for pricing incentives, it would sometimes work out to that if supplier is able to help the client achieve these efficiencies, the client will then in turn give you give the supplier a 10% bonus on based on the value of the savings that they've achieved for the client. Is that something that you think would work?

#1: This is actually this is really very interesting because that's a conversation I had at a meeting that we just came out of, I because I'm currently working with contracts with their specific reseller about bonus structures and how do we incentivize them in order to achieve specific goals. See the main thing about that is that yes I think it's extremely beneficial because those are the fact motivate the party to perform better. It gives them something to aim for. It shows them what good is, what great is, or what excellent is and what they actually get for achieving that. but again, bring it back to my previous point. there has to be specific guidelines on how that’s achieved because, you know, there's this big saying “there's many ways to skin the cat”. And it's not always not all of those ways are you know necessarily as beneficial to you as you know others, right even though this skin goes the same. There has to be guidelines in terms of what's achieved, not just about the specific number of deliverable. it has to be around it as well to have the protective layer for the contracting company in order to assure there is no there's no shortcuts, there is no doing stuff that's not necessarily beneficial to them, despite the fact they'll actually reach the goal. So the way of doing things how does achieved the rules should be then bound to the company vision and company plan.

<u>Interviewer:</u> then the fifth principle is that for governance for covering for what amounts to be the management of the relationship, management of transformation, exit strategies in case the relationship breaks down, those governance structures should focus on giving the supplier and the client insight versus oversight. So the client shouldn’t not focus on basically watching supplier and having so much um, so much resources pulled into providing oversight of the engagement, but more insight to understand what's working, what's not working. To help monitor and foster a healthy relationship between the parties; to have insight into making sure transformation is really taking place; and to work together if there's if let's say the strategies aren't working and you need to get out get out of the relationship you already have that in that plan in place. You’ve worked mutually together to make sure that the relationship exits in a peaceful manner etc. So what what's your opinion on an insight governance structure versus oversight?

<u>#1:</u> So first of all, the very clear, what's really important the contracts is what we call the red flags. And that's something that should be clearly explained and outline it to the partner whenever you sign the contract that has any form of financial or specific incentive. well the red flag is means if this happens, you know, this is our exit strategy; like if this happens, you know, we are not we are not going to work with you we're going to finish all of the cooperation and you're not getting any payment or we are not getting reimbursement and for the specific work right. There has to be a red flag that are very much outlined. But I think the key to this is to actually find it the right partner up front and then outline the process, the best practices to them in terms of how to achieve the specific outcome. Again, it's very hard for me to say how because it all really all depends on what kind of service you're looking at. The most I had experience with was lead generation and that's something that's it was very, you know, we had to give a lot of guidelines in terms of kind of what sort of prospects are we expecting. You know, what to look for and how would you want to pitch the value proposition. We just don't want you to provide us with anyone who agrees to talk with us as a company, right? So in this case, yes, I believe it's about mutual partnership where they understand the value, they understand what's expected of them and what they're not allowed to do. What can potentially damage our image or their image or can break down the relationship.

I don't think there is any future in that if it's exchange of services which is not partnership, because in partnership you have the mutual goal where you want to achieve where. Excerpt in an exchange of services, what I believe it's you are trying to make the most money out of me, while I'm trying to get your service for us cheap as possible. That's kind of t the major difference. I do fully agree, yes, it has to be has to be something that's clearly outlined this though this this is what we expect from you and if those are the guidelines outside of how we expect you to do it, but it shouldn't be it shouldn't be environment where the contracting company has to have a constant oversight and supervision over the partner in order to achieve the goal because at the end of the day, you're actually wasting resources yeah.

Interviewer: Okay and then for Vested the mind-set that they promote is a "what's in it for we" concept. So it's like a win-win concept, so not what's in it for me. Both parties are looking in at the engagement for what's most beneficial for, you know, for both parties. So what's your opinion of that type of mind-set going into and engagement for IT outsourcing? Is that a mind-set that works or is it not realistic?

#1: Yes it's very much works, but it has to be a company that's very much dedicated to your product. What I mean by it is , it's a company that operates solely on the product that you're providing. For example, my example would be a partnership where they're working on our development platform in the past they're building solutions for clients based on our platform, and our platform only. They were not used in our competitor, because how can you differentiate it? Then our goal is what's in it for us, when you can potentially have the same agreement with a competitor, and then have you differentiate those. How do you show your best practices, how do you do all that's right? So that's why it all depends on the type of a company and their business model and how they generate revenue. I do believe that those are in fact the strongest contracts and the partnerships that lead to the best results. Because at the end of the day, then it is a mutual understanding of benefits, what can we actually achieve and then also the principle of one plus one equals three applies where we're working together to actually increase the output of performance at the very end. If they're working separately and working just based in exchange of goods or services then not so much.

Interviewer: okay and for the Vested model…. so based on my research there hasn't been much writing on the on Vested the use of Vested in IT sourcing to this date…. can you can you give your opinion on the reason behind why Vested is not very well known? Do you think there's a likelihood that IT outsourcing companies would potentially move to a Vested model based on those five principles or are there any obstacles that would prevent them from doing so.

#1: I believe it all depends on the product and the dominance of a specific company because you have contracting company that's definite market leader and owns a specific share of the market… let's say if you look at Company E in the cloud right now, they own majority of the global share. If they have partners who do in fact do integrations or do implementations on the cloud services, then yes. I think that's a phenomenal idea because they have mutual understanding. Mutual success and mutual goals. But if you're looking at something else, for example a company like I work day that has more solutions and all that sort of stuff. They don't have quite a lot of competitors in the market and it will be very difficult for the partner for example to sold to them for life. A small company wants to sell solutions for implementations and therefore limiting their the revenue streams and in that case, it will be a lot more difficult to introduce that Vested model because they'll more than likely also work with a competitors or they'll have to broaden their spectrum of offering to different areas.

So all depends on what's in the background. What is the outsourcing company? if we have a definite leader or we have if the usage of the specific product and it's so broad that allows to for a company to develop expertise in a specific product, then yes. Other than it'll be very difficult to use across the board, and then it's a lot more time consuming to find a partner suitable for that sort of as far so that's sort of agreement. Okay, it's not potentially, you know, suitable to all the regions. like jumping on any of the smaller yeah markets it would be very hard for you to find a suitable partner, especially when it's language specific. But that in the US yes, it might be because the markets are vast and so it all depends on the products really.

I'm a strong advocate of it sharing wealth for work Company A and we are market dominant very much in terms of search. I should yeah and we do have partners for example that do only sell our products and only work based off of Company A product and they make quite a lot of revenue on it and yeah, we are working out online agreement where we have the same aim in mind we have the same work. We work together, we pump resources into them and with expected outcomes, and we help them develop because their success is our success and our success their success.

Yeah. Okay, it's a great model but has to be suitable exactly, okay.

<u>Interviewer:</u> All right well that's it. Thanks you so much.

APPENDIX B-2 Participant #2 INTERVIEW

Interviewer: Um so thanks XXXX for joining and agreeing to participate. In compliance with the ethical procedures for my interview I want to let you know that this interview is completely voluntary. it will be recorded but your name and any other information you would like for me to keep confidential can be redacted. Your name, of course, will be redacted but any other company names that you don't want me to have that released in my transcript I can certainly delete that. the transcript will be printed and attached to the back to the appendix of my dissertation. It will just be released of course to my graders and then a copy place in the lot in my school's library, but that's pretty much the extent of what it of how it's released. if at any point you want end the interview that's perfectly fine, but it's just completely voluntary. so I really appreciate you agreeing to participate

#2: No problem

Interviewer: Just some preliminary questions to begin the interview. In your in your career have you always worked in sourcing or is just a certain amount of years

#2: just a certain amount years I suppose

Interviewer: okay, so at how many years have you worked in sourcing and then what were your roles when you worked in sourcing?

#2: so my first pure sourcing role was in Company F okay. Prior to that I was at Company G. so I was more on the supplier side than the buyer side. I was there for six years okay.

Interviewer: and your role there was a contract manager,

#2: yes.

Interviewer: Including your position when you worked for Company F and when you worked for Company G, if any other companies previous to that, how long or what's the length of time you've worked in the IT sector

#2: oh so let me say seven years then

Interviewer: okay and out of those seven years were you always working in contract negotiations?

#2: yes,

Interviewer: okay, all right, so I'm sure you already know what these two things are, but just in case I can give you description the difference between traditional which is like formal contracting and relational contracting relationship, okay? Do want me to give you a description of both because it’s going to lead into my questions later

#2: okay

Interviewer: So traditional contracting is basically, you know, the formal contracts that attorneys draft to cover for whatever situation that the client or that's going to govern the transaction between the client and the supplier. so it's created to cater for any particular event or situation that may come up during that transaction, to lower the risk that may be involved; to try and obtain asset specificity, clearly defined the rules and responsibilities, procedures for monitoring, and penalties for non-compliance. relational contracting is more on-going and dynamic and it's about building the relationship between the contracting parties, leading to an exchange in the future, and it offers clients and their vendor’s joint problem-solving and extensive use of renegotiations and resolving conflicts by the parties without involving a third-party like a court or an arbitrator. It incentivizes the parties to mutually decide on acceptable solutions, better communications, and informal working relationships. so just based on your experience in contract negotiations in the past seven years, what advantages or disadvantages do you see to formal or traditional contracting?

#2: I'm more on the side of traditional contracting, where I think you know, relationships are key to the role. I think in building relationships with your clients, trust and confidence in this is necessary and that facilitates, I suppose, an easier contract negotiation. At the end of the day when you know your client, you know, you build informal relations with them. I'm very informal when I deal with clients or events but then I think you need to have the traditional contracting aspect of things as well, because I've seen it too many times in practice where we think we have an amazing relationship and then things don’t go right and then you have to rely on the contract. you have to pull it out and that's where your protection is, you know? Otherwise it's unenforceable. so you need to have a knuckle's time and in black and white. Okay, so regardless of how strong your relationship is and how much you can try and solve things, you're always going to try and solve the issue together without having to go back to the contract. And saying we're going to see you or you know, you're always going to try and find a workaround because you don't want to touch the relationship you want to maintain that you know for longevity. however sometimes you just need the protection there in the end of the day.

Interviewer: Okay and in your experience working in the IT industry and in contract negotiations, have you heard of the vested outsourcing methodology in the past?

#2: I've heard of it but I don't really know exactly everything about it

Interviewer: okay, so I'll give you a brief description. so Vested is a model that's used to establish systematic collaborative and outsourcing systematic collaborative outsourcing relationships in which companies and service rep providers become vested or mutually committed to each other's success creating a long-term win-win relationship based on achieving mutual determined goals. so the model requires building a solid cooperative foundation for sharing value. it's highly integrated income based business models use value incentives to maintain mutual advantage and the service provider is paid only when it's successful achieving the mutually agreed desired outcomes.

#2: So their like value base deals

Interviewer: that was what they were trying to push, you know to incentivize. Can you give me a bit of background and how you guys used the value-based deals, like well what did that entail?

#2: oh I'm trying to think; now it was based on icons and it was a place on total savings. It was a large it was Australian far just telco that was our client and they were trying to sell a huge strategy piece for their business, you know was talented government over there and they needed to really I didn't bring it into the new century. I think you know, everything was very old in terms of how they did things, so it was a whole strategy piece of work and I think they looked at certain areas of the business in which they think, you know productivity could be improved. Cost savings that could be made across the board, they present these numbers to them and decide basically, you know engages solely to do this piece of work and we'll take percentage should we be successful in achieving these monetary savings across the board? Okay so I think you know, it was pretty steep as well. I think you know was the thing along 40% was quite high in terms of what our return would be, but I suppose the investment was coming from us in the end of the day.

Interviewer: Okay so that so then my questions next are going to be on the vested principles. So the vested process is based on guiding principles for the negotiation process, so based on five principles. so I'm going to tell you what the five principles are and get your opinion on whether you feel that that these principles would work in the IT outsourcing space if they're if it does work, why or if not why not; is it realistic is it feasible, you know, etc. so the first principle is that the negotiation process should focus on the outcome not so much the transaction itself. So there should be shared vision statements between executives of both contracting parties and those shared visions should be trickled down to all those that are involved in the in the in the business relationship. And just focusing mainly on the outcome that both parties have mutually agreed to come to mm-hm. So you think that that would work or are there any disadvantages this advantages to that?

#2: yeah a lot of time you do lose sight of what you know you're trying to achieve and I think by signing your objective at front, um, it really helps because then both parties are committed to moving towards a certain goal or both clear on our expectations; you know on how you get there, you know, there's multiple ways to get there in the end of the day as multiple ways to solve a problem. but at least we're going in the right direction in terms of the outcome. we're trying to achieve we're both committed to working that way, so I think you know that is solid from a relationship standpoint and I think it's important and good practice that could be done. I know right now like, you know, we're sourcing from multiple different vendors and you know, everyone's motive is different. you know I keep going back to you know I'm trying to get this done as quick as possible we want to work with you, we want to achieve this. so I like the foundation and I find when I start doing that with vendors, they're more likely to come back and bend on terms that I want to have because, you know, they can see I'm really trying. I've committed to that from the outside with them so finding it actually use quite working quite easily and because I remember in Company F it was like, oh we want this closed. I was coming from the other side because we were dominant party but all these other providers are like yeah sure we'll change that term, we'll change that term. Well this is a lot easier yeah it's because I'm coming to them saying, you know, I'm committed to going this done as quickly as possible we really want your product and you know, it's yeah. Setting that tone from the beginning so they understand that I will work together with them or working choices that go right.

Interviewer: okay and so then the second principal follows on to that. so the parties should 'focus on the what not the how'. so the client and supplier should work together to focus on what exactly we're looking to achieve and the client doesn't really detail or try and control how the supplier's going to get there. they put the trust in the supplier to do what they need to do to get the client to the end goal.

#2: Yeah. Yeah. I think yeah. You kind of have to because regardless of what the outcome is if you can get there, you can get there. Right, you know, it's up to the person providing the service to be able to provide the service. So however, they got there. I don't care. As long as I got what I want, right. This sufficient quality and it works as part of the specifications on how we need it to work. So their internal workings isn't anything to do with me as far as I see it, you know? Yes, I've seen this in business.

Interviewer: Okay, and then the third principle is the party should clearly define and measure the desired outcome. so there should be clear performance metrics and performance management.

#2: Sometimes depending on what we're getting the end of the day. but I do think performance metrics keep people accountable. Yeah, and it keeps people thinking and you know because their skin in the game. it's like put your money where your mouth is right. I do feel that is necessary in certain situations. Especially if you know, you're preparing something quite expensive. I think it's always you know, it's always good to have these in place.

Interviewer: and in what situations do you think it's not really needed. If that if that if that's even the case?

#2: I think you know things that are out of the box sometimes that aren't customized that are, you know, smaller pieces of software sometimes, you know, it does what it says there's you know, they don't negotiate on terms it, you know, it's not going to grow. Yeah, something like that, okay fair enough it is what it is, but anything that you can customize or grow with or you know develop onto in the future or create integrations with yes. You need to have clearly defined. I think.

Interviewer: Okay and then the fourth principle is that the parties should use pricing model incentives to incentivize the supplier to meet the mutually agreed outcome but as like you said in your experience with Company G using the value-based pricing models, do you think that works in every case or is that just how clients and suppliers should work together at all times?

#2: I think it depends. I don't think it's worthwhile in some smaller cases. I think in larger deals yes when there's a lot more at stake; when it's potential for company. because if someone wants something new at the end of the day, you're going to pay the fee. you know, if something's valuable, if there's a valuable piece of software, I'm going to say I need that and I don't care what it costs, just give it to me. as long as it functions is the way it should just you know, it's not about saving. but then if it's a larger piece of work and you know, it is quite expensive and costly the business you can look at reclaiming some of the value. So yes, you know for larger pieces of work. I think your pricing model could work.

Interviewer: Okay. And then the last principle is that governance should serve to give insight into the relationship, into the actions taking place, the performance; versus oversight where the client is overseeing every specific piece of work. what's your opinion on that?

#2: Yeah, I suppose because it comes down to that building the relationship of trust and confidence between the parties. and relational contracting and I think you know that is key to solving any problems. You know, because you only learn from experience and you know, instead of analysing everything, you know, you learn from mistakes you learn at what's working and what's not working and you build and adapt as a result of that. And then I feel it's easier to resolve issues than because you can see people are being proactive and learning and then you have confidence that they're not going to make the same mistake again. Instead of being micro managed which I don't I don't believe anyone likes. people are going to make mistakes as inevitable. Yeah, and you can't be watching every step you make. that's not a relationship of trust. You need to trust vendors. You know, we're human with thanks so yeah. It's just not coming down the hardest thing if they do. I'm looking Okay, well this happened but we did this instead is work around and it's still working. So it's talking about human aspect of things as well.

Interviewer: Okay, and so just some follow-up questions from those principles. do you believe it's important to build flexibility into contracts or to what extent should a contract be flexible? Are there any negatives in having flexibility in contracts, you know, as it relates to governing for the changes maybe in the industry changes in the in the business in the client needs changes in what suppliers able to actually. Provide.

#2: I suppose that comes down to like you know the main thing in the area of concern which would be for a scope creep there. You know an increase in price. You need to be careful about this as well at all times. Yeah, that's where you think, you know, large-scale construction projects, you know, you look at the hospitals here and things like that. You're like how the hell is running over? Wow, who was contracting this? This is crazy. So you do need to have controls in place, I suppose, to look at these things, but you do need a certain amount of flexibility of paper as well. You're not going to always penalize, but you know the way there's a performance and things maybe we'll waive them in a certain situation. You're not always going to charge them over interest fees in terms of light payments things like that things happen in business. As long as it's not something that's you know happening over and over and over again, you know. There does need to be flexibility. Obviously change control provisions are important in contracts. But the need you need to protect yourself as well from things like scope creep. In deals requirements may need to change, however they may have an additional cost to the supplier and that needs to be taken into consideration as well. But you know, it's not like we will charge you in the event.

Interviewer: Okay and so vested is really based on a mind-set of what's of win-win; "what's in it for we". So do you think that type of mind-set is feasible for the IT outsourcing space?

#2: In terms of. If we're going to a third-party to provide what we need, yeah I do because if your eyes you are looking to the other party to deliver obviously you're going to set KPIs. You're going to you know set your scope and what you're expectation in terms of the service. However, you know, if it's beneficial for you it's beneficial for me. If you're serving my customers, my needs my business, sufficiently and you know, obviously, you know, it's good for you as well. I think it works, you know, you're making money off the back of this at the end of the Day. so yeah no I do think it would work in every situation, and especially you need to build and have trust in whoever is providing that because they're an arm of your business and the end of the day it is you who is contracting.

<u>Interviewer:</u> And but do you think that there's some aspects of that type of mind-set that IT outsourcers or the clients themselves would be wary of.

<u>#2:</u> The clients yeah, whoever's procuring it. Um, yeah because I feel like you know, whoever you're. The company you are sourcing to at the end of the day is a representation of your business. because you know, you don't say oh say it was like a phone company and they thought I'd source to a third party, you know and say oh that's third party the photo phone of my source too you think it's the phone company that you associate that with the brand so it's brand reputation in the end of the day see me be careful. So that's why I feel like it is trust in relationship and that's where I think relational contracting does work to a certain extent. but I think you know a value-based model would work and incentivize people more because if I think it makes people work harder. Because there's more in it for them.

<u>Interviewer:</u> Okay. And for value-based pricing models, do you think there are any disadvantages to using that?

<u>#2:</u> I suppose if you're selling that at the end of the day, you don't know how much you've quantified. But there are a number of unknowns and you sometimes don't know that until you get stuck into the project. So you're carrying the risk there to a certain extent in terms of being able to cover your costs. You know, there could be a great financial reward there at the end of the day. But yeah each party needs to be cautious in terms of how you pitch these and what kind of businesses pitch these models. So you think that certain team would do have prior to entering into it because you know, you could be at a loss in the end of the day. It's like doing a fixed price piece of work, you know, you carry the risk.

<u>Interviewer:</u> Yeah, so based on my readings it doesn't seem that the Vested outsourcing model is very prevalent yet in the IT space. Do you think that there's potential for Vested to be used more or are there just certain obstacles or disadvantages of the model that you think has prevented companies from using the methodology?

<u>#2:</u> With IT sourcing .Yeah, yeah. I think it's just something new and you know people are creatures of habit, and you know, it's been more transactional to date. You know, it's traditional buying relationship so they don't it having many players come to the market and sell on a different way and it's something people are cautious about. Obviously with something new, something that is guaranteed is preferred. So it's just like it's selling them this new way and I don't think I've seen it sold very well or that much at all to be honest. So I think its educating people honest and I think that would you know, maybe make people take more of a risk because everything's quite transactional at the moment.

APPENDIX B-3 Participant #3 INTERVIEW

Interviewer: Okay, so thanks XXX for agreeing to participate. So in compliance with the ethical procedures for my university, this this is completely voluntary participation. The interview will be recorded but your name and will be redacted, of course, and then if there's any information that you wish for me not to share in my in my transcript, let me know and I can redact that also. The transcript will be printed or typed up and it will be attached in the appendix of my dissertation for my graders. Once it's finalized it'll be released and attached to my dissertation and that's going to be placed in the school library, but that's the extent of where this interview will go. So if at any time during the interview you wish for it to stop you let me know. Everything is completely voluntary. So if you're fine to move forward we can just go ahead and get started.

#3: Okay

Interviewer: thanks. All right, so just some preliminary questions just to get background on yourself. In your in your career have you always worked in sourcing, or if not how many years were you working in a sourcing or outsourcing role?

#3: Officially in sourcing coming up to five years. And before that I would have been project manager, maybe for a good maybe seven years. I was working in telephone industry before that. Then I would have been in site acquisition which is a kind of a project management. And also before that maybe for about six or seven years in sales.

Interviewer: okay, and in your career how many years have you worked in the IT sector?

#3: And sourcing specifically would be four years. And but in telecom sector before that so I don't know if you class as IT or not four years

Interviewer: okay, and when you are working in IT sourcing was it always from the client side, the one that's procuring the services or did you ever work from the supplier side as well?

#3: client side.

Interviewer: Okay. And um of those years working in in sourcing or in project management or in sales how many of those years were you actually participating in the contract negotiations?

#3: I would say about eight years

Interviewer: okay, so I'm going to ask a couple of questions about just to get your take or your opinion on the advantages and disadvantages of traditional formal contracting as opposed to relationship-based contracting. So I can give you a short background on what I mean by traditional versus relational if you need it or are you fine do you understand those concepts already?

#3: You could, that would be good

Interviewer: okay so traditional contracting is basically the formal contracts where legal draws up a formal agreement between two parties that govern for whatever the transaction is going to be. It tries to cater for all eventual situations that may take place. It has a procedures or provisions that that govern for the role and responsibilities of the parties. Procedures for monitoring penalties for non-compliance and tries to safeguard for all potential risks that will come from potentially agency costs, value leakage and supplier opportunism. so relational contracting is a bit different and it's more on-going and dynamic and it's based on joint problem solving and extensive use of renegotiations and resolving conflicts by the parties without the need to involve a third party like a court, Or an arbitrator. It incentivizes mutually acceptable solutions better communication and involves informal working relationships, and to deal with unforeseen contingencies relational contracting advocates for joint future planning by the managing project team. So from your experience in the last, you know, eight years what advantages or disadvantages do you see in the more of the traditional transactional approach to contracting? Versus the relational side building the relationship style of contracting.

#3: My experience is more relationship than formal and I find that, you know, you get a quicker and a better results by working with the other party rather than going the traditional root let's say. and that's how I would approach anything whether it be negotiation contract and issues, anything at all for me, as long as the other party is willing to enter into that and kind of more informal relationship and deal with it in that way, then that's generally my approach.

Interviewer: Okay and so based on your experience and working in the IT sector, what do you what style do you think is more prevalent is it more traditional or is it more relationship-based?

#3: And it's hard for me to say because I think it's to a certain sense…. I don't think it's mandated by a company per se. I think it's an individual thing. So I suppose my background and history coming from sales through project management into procurement or sourcing has informed me on how I deal with suppliers and issues and commercial negotiations and legal. I find that because I've been on the other side of the table that I understand and kind of have empathy with the supplier because I understand why they can't do certain things rather than mandating and saying we're not returning. I to try to find the common points and then work on those and then work together on finding workarounds where the kind of non-agreement pieces is. so I think I'm not saying my side is any different but it's hard for me to know, you know, if there's one common direction that most procurement or functions or sourcing functions are going in I would like to think it's becoming more relationship led rather than rather than transactional. But I suppose I can only give you my view of how I approach.

Interviewer: Okay, so have you heard of the Vested outsourcing methodology in the past or would you like me to give you some background on that

#3: yeah,

Interviewer: okay so Vested methodology is based on or it wants to establish a systematic collaborative outsourcing relationship in which the company and the service provider both become vested or mutually committed to each other's success creating a long-term win-win relationship based on achieving mutually determined goals. so it puts the practitioners on a path to outsourcing success by creating relationships based on five key rules, and it moves away from conventional transaction based and risk reverse approach to contracting and the goal is to craft collaborative business to business agreements that create a set of working rules that will facilitate successful and long-lasting business relationships based on mutually desired outcomes. So in essence it could be a combination of fees per transactions and value exchange and commercial incentive models and so it's more of a hybrid business model a hybrid business model. It's more than just performance base; its more investment based contracting. So for the Vested principles, or vested outsourcing methodology, it's based on five principles. so I'm going to detail those principles to you and get your opinion on whether you think it would work in the IT sourcing space or whether there's going to be some hindrances in IT outsourcing departments in implementing this type of principle.

Okay, so the first is that the negotiation should focus on the outcome itself not the transaction. so there should be shared a shared vision statement between the executives of both the client and the supplier and that vision statement should govern the entire relationship and should be flowed down to all those that are involved in the in the business relationship. so focusing on the outcome not the transaction, does that work? Does that have an advantage or would some companies not be willing to implement something like that?

<u>#3:</u> That’s the ideal way of doing it. to understand where you both were need to get to; understand what's what you want to get from the relationship; what the other party you want to get from the relationship and then you work backwards then to see how you go about working together as a partnership. That’s to me, that is the is the best way to do it.

<u>Interviewer:</u> Okay. the second principle is that the party should focus on what they're looking to achieve not how they're going to achieve it so the client and the and the supplier work together to decide exactly what's going to be the outcome of the relationship they have clear work allocations, but client the client is not detailing to the supplier how they should go about achieving this and outcome does that work or are company’s leery of implementing something like that?

<u>#3:</u> yeah, I think I think partly. I mean, one thing you need to be careful is ensuring that you're close enough. so if you take an example of a company we've had in the past…if you want on bundle that relationship with our partner and you've given complete cart blanch to them to do what they see best, which is a partnership. You’re nearly treating the outsourced supplier as a part of your business, which is the way you want to do it. But if you give them too much control and they become too comfortable then they're holding all the cards. They've dictated all the processes and procedures and everything and they they've got all the tools and everything that they're using to deliver for you. if that turns out that delivery or that performance starts to not be as not be as good as you want it to be in years to come then it's very difficult for you to move away from that relationship because they own and they haven't imparted all of their processes to you. so it's very difficult to move away if you feel commercially or operationally that they're not performing. Does that make sense?

<u>Interviewer:</u> yeah

#3: yeah you can't, in my mind, is that in a partnership you need to work with them but you don't necessarily let them dictate how they're going to deliver a completely. if it's a fully outsourced then fair enough, they're the subject matter experts. but to a certain extent you still need one of your guys or one of your team to fully understand how they're doing at certain extent, not all the nuts and bolts, but the fundamentals of it. Because otherwise they've become too sticky, as you would say, and they would feel that you were never going to move away because they you don't know how it could be done if you decided to insource it at a later date. it's a kind of a control thing. so to certain extent yes, you have to trust them as they're experts to go and do that piece of work, and you know, you so long-term commitment five years whatever ten years and but still to understand what they're doing on the ground. And how have someone internally, close enough to understand what they're doing to meet up you need to have that kind of risk mitigation and in case in case for non-performance down the line.

Interviewer: so then the third principle is that the parties should clearly define and measure desired outcomes, involving performance rep metrics performance met management, etc.

#3: Yeah. You don't know what it looks like. you need to know what good looks like at the end of the day

Interviewer: And then the fourth principle is that pricing model incentives should be used. so in the past one example of two companies using Vested was that was a case study published where Accenture and Microsoft partnered under the vested model for Accenture to revamp Microsoft's global finance operations. so the pricing model was based on Accenture creating efficiencies within Microsoft's financial operations and then in in turn by making one solid system for Microsoft to use, Accenture received certain incentive payments to create those efficiencies. So from with the way it's written Accenture took on certain risks, of course, as they weren't going to make as much money as they possibly could if they charged if every specific transaction, but by investing in the process and agreeing to create efficiencies for Microsoft they receive those incentive payments and then Microsoft was able to you know, get rid of the many different departments. So what's your opinion on I guess which what we would call value creation pricing incentive models?

#3: so the last thing you want is that the offerings might not be their idea or something that's been something that's already been done in the past and they're just rehashing something and put the likes of a consulting company and these companies they charge a lot of money. You need to determine what the value is coming out of it. So you need to ensure that that's firmly defined. So you need to look at what it is, what the outcome we need to be and if that outcome is a financially driven outcome, ex. we need to save five million dollars by doing this. If you set them a target of five million dollars or whatever the case may be or milestones of a million dollars, every quarter or whatever mm-hmm certain percentage irrelevant how they do it as long as they achieve that result. But if they're going to come and say what we fixed this we decided to go with this process that you can't seem to find out come out of it then I think you're going down the wrong road because they could be just coming up with rehashing old ideas and things you've done already yourself internally. To have a defined outcome whether it be equality you know something that's a quality improvement, whether it's you know, certain amount of resources reduced because of this process change or a financial benefit at the end and otherwise and they'll just you know, my concern would they be they will be just thrown out ideas that you know have been have been used before and they're getting their still getting paid for.

So yeah, that's my opinion on that. That's when you'd have to have you have to and it's gone back to your whole point where do we want to get to and then the, The whole statement is we want to say we want to reduce 30% FTE staff members. If you can help us to reduce 30,000 members, then you get paid. Okay, you don't mean to certain extend it to relevant how you do it. Yeah.

<u>Interviewer:</u> Okay, and then the fifth principle is that the governance structure that's used to govern the relationship should serve to give insight to the operations and the actions that are being taken place in the relationship, versus simply oversight by the client where they are overseeing every specific action that takes place. So in your opinion do you think it's more important to have insight where the both parties work together to create systems that govern that manage the relationship that manage transformation that manage potential exit plans if the relationship doesn't work or is oversight the with the way to go?

<u>#3:</u> sometimes companies outsource for specific reasons like they don't have the subject matter expertise, they don't have the resources, they don't have the money and they just they just want to completely lift and shift it into a different company and that's the case they're going to want that outsourced partner to do everything for them and then they're going to want to just to see the result. so that's one way of looking at it. in my opinion, if you do it as I said earlier on you need to retain some form of control and whether that's a project manager or whatever the case may be. I think that the outsourced partner and on the a person or a team should work with them to ensure that you know that we're happy with how it's working not so much to dictate what they're doing, but at least to understand what they're doing and how they're going about. To say not all companies have the same the reason for outsourcing. sometimes it is to you know, reduce your workforce by a thousand people and give you give yourself the flexibility then to outsource and you know, you can cut that contract with termination for convenience to whatever the case may be you're about to worry about how to go but a few if you're really outsourcing something for example. Let's use the example of something not enough specifically in IT but if you're outsourcing all your campaign services mm-hmm do you really want to have a you know, do you really want to an insight into accounting services to know because it's something that you and a company you don't want to run yourself . you're going to outsource that but it depends on what it is depends how critical is the business you're outsourced something that's not court your business that's what outsourcing is all about mm-hmm, but would you if you're going to outsource something to do with your network in IT? For example, you want to do a complete managed service for all of your MPLS or whatever the case will be in telecoms. I firmly believe if you're going to do that you can outsource that but you still need a project manager or a program manager internally who's going to work closely and understand what they're doing because everything they do they're going to have to come back and look for some form of approval. So it all depends on what you're outsourcing and I suppose on what level the detail or what level of information you're going to want to be involved in from a permanent approval point of view.

Interviewer: Yeah. I'm just trying to get um, just different people who have worked in IT in the IT space get their opinion on the principles of vested and see whether it's actually something that IT outsourcing departments would want to use or whether its parts of it work other parts don't etc. So it's definitely helping. So Vested is based on a mind-set of "what's in it for we" not what's it what's in it for me. So do you think that type of mind-set is prevalent in the IT space, a win-win mind-set or is it something that you know, maybe certain IT departments would shy away from.

#3: Depends if it's the actual business themselves as in the people, the users, versus the procurement or sourcing function. so some people will say there's no such thing. it's probably a win versus perceived win. Okay, so it. in most relationships it more like lose-lose. Okay if one person's winning the other person can't be winning. So, you know, someone has to lose somewhere and otherwise both people can't get what they want commercially and you know legally everything. So sometimes we talk about a win perceived which can be a problem as well because that perceived win can turn into you know, the relationship breaking down. So you kind of need to both parties need to be sure or be kind of aware that it's kind of a slight lose-lose before they move forward because I firmly believe both parties can't ultimately win completely. If you have to give something, you know, and that's what a partnership's all about. So it went you know, I can give you an example of how I've transacted with a value out of reseller you all have heard of them CDW mm-hmm and I've on my relationship with MS pure trust. No, that's what it's all about. So you've got I've gone fully into that relationship. I was asked to move away from between 8 and 12 and global value resources to one global bar. And with that I have a good working relationship with the one manager who I trust. now that's not to say he might not be doing things in the background that could disprove that and disappoint me down the line but hasn't happened in 18 months. Okay, but because I give him and I share information and I give him the information he requires and I understand he needs to make money as a sales guy as an individual. I gave him the opportunity to make revenue to make commission. I don't I don't I don't I'm not concerned about him making money or concerned about him trying to oversell because there are only VAR. So if you want to look at it might not be outsourcing to certain extent but it's a proper partnership. and so to a certain extent to meet us as close to a win when you can get. And by doing that I have to I have to promote value out of reseller internally in the business mm-hmm and make sure that any mistakes or anything that we're finding along the road which do happen. I keep them internal and don't broadcast those to the business to ensure that they've got the confidence that they're that that that value out of reseller are in it for their for our best interests, so there are on our side rather than on the OEM side as in the vendor. so, that's the only way to make it work is to show is that if possible she'll trust share information, share where you're difficulties are and share where you're you know, and give them the benefit of making revenue making money if that's what if that's what they need to do as long as they're delivering. Yeah, so that's the way I that's the way I see it.

Interviewer: okay and so what your opinion what's your overall opinion then of shared value creation contracts a lot like Vested where both parties are what want to share the value the potential value that that will come out of the relationship.

<u>#3:</u> Yeah, I think that's fine. I mean, there's one thing about this it's kind of taken the partnership to a whole new level you need to get into joint venture scenario then okay and. I think it's okay as long as both parties are fully aware of the gain share model whatever that model is. the only problem okay sure is as I said earlier on you have to be firmly and you have to firm me to find what that what that shares going to be okay because sometimes one party might feel like they brought more value and they'll give you a bill for what they thought you and you might disagree and say well actually we were doing that anyway, so we're not going to pay you for that. So you need to be very careful about the definition of that right and you know to certain things we tried that with the value of a reseller and then they were saying well, we actually brought you an extra five percent from this from there from Company H for our group sake. and I would say well I had a conversation with Company H myself and I pushed our conversation the only reason that you got that extra five percent is because I pushed on a phone call last week, because what evaluator you still have the relationship directly with the supplier as well from managing point of view you're using the VAR to grease the wheels. So you could end up in an argument and break that relationship if they feel that they've lost trust in you that you're going to push back and not pay them for something they thought they deserved. so for me if you're going to have that completely kind of gain share partnership model you both gain by them pushing something for you and they gain by making money out of it, it needs to be firm and concrete. what you know, how that is and how that has monitored. but as long as you have that and it's defined then I think it works very well because they're incentivized to do to do the best thing for you rather than being incentivized to you know, potentially just you know over a bill or whatever the case right so it's all about that define and what looks good.

<u>Interviewer:</u> Looking at the contract itself do you believe that it's that having building flexibility into the contract to govern for changes in the industry changes in client needs changes in and what the suppliers actually able to provide do you think that's beneficial having a more flexible contract like vested or are there certain negatives in leaving it more flexible and more relationship and informal?

<u>#3:</u> I will be inclined to separate the commercial and operational part of the contract from the turns and conditions, okay, so I would I'll be inclined to for them or for with venom whose paper you want to go on and you be well aware this and the job you do every day the week, yeah, it's the goal with your template terms and conditions that's your normal LOL and your insurance is and you're all that sort of stock termination for convenience you need all of that no matter no matter how flexible you're going to ever be your supplier, it benefits you and the partner. To have those things hide down okay that's when partners just break down then when this visit there's a crack in as a crack where someone can you know can pull down say actually we didn't agree to that we didn't agree there so we didn't agree that so I would firmly you think you need to put the solid the solid groundwork in on the terms and conditions and that's a separate piece of work now when it comes to doing the actual piece of work that they that they're going to do for you on the ground, whether it be an outsourced project specifically for IT, or for whatever the case may be that needs to be a separate let's say exhibit to the decencies. And that's the one that can usual flexibility but that flexibility needs to be covered by change order okay I can't be and can't be true flexible otherwise again, you know yourself from looking at thousands and documents over the years yeah that you need clear to deliverables and that benefits you as much as the supplier because

if you don't give them period of deliverables and scope then they don't know what good looks like and if you decide not to pay them because you believe in averted commas that they haven't delivered then you know, that's when you go 10 year end up going down the road of, you know, And less ages, you know, the teachers. Kind of relationship or you end up in court or whatever the case may be, so to me reason be rigid when it comes to the to the traditional decency and then obviously flexibility as a from a partnership point of view on a deliverables of what you expect and deliver over a given period of time and the flexibility and that then comes down to change order. So I suppose I'm I don't believe too much in too much flexibility when it comes to the contractual relationship because that's more relationships breakdown if you can't if you can't define exactly what looks good on both sides.

Interviewer: That makes sense yeah, yeah. Okay and so lastly for the vested outsourcing model currently it doesn't seem to be that well known within the IT space or I haven't found much evidence of its usage in in research writings that is do you think that vested will become popular in the future or do you think there's certain or do you think that there's certain obstacles or hindrances that would prevent a model like vested being use it being used on a wide on? A wide scale in in IT. We are professor contracts.

#3: I mean, as I said, I still think you need to have your contractual relationship there, whether it's you call it faster or not so I don't think the best at peace comes out in the contract, okay? I think the best appease comes out when the relationship and they're not that that's really down to your manager or your company about how they decide they want to work with. Partners or outsource part is whatever the case may be so I don't necessarily see it. I'd never heard of vested before it makes sense to me as an individual. I firmly believe you have to be work as a partner with the suppliers but other individuals might feel that they wanted tables and dictate. So to me, it's the only way to go. Okay, but you know, I don't sure if what I do. I would never put a name or vested on it. I would have just put a name of it being a logical way to deal with suppliers okay, so I'm not too sure if you can actually put a title on I know obviously there is a title on you know, if that's it outsourcing mm-hmm. What what's to say people aren't doing that now 50% of the population in Ireland or the globally aren't doing that anyway as by default, okay, it's an individual choice about how you manage your suppliers a lot too sure if you if an IT company would come in and say right, we're going to only. You know use vested as a model maybe it may be there are ones out there hmm and maybe that's an education piece to say right this is the model we want to take we're going to treat our suppliers like partners and this is the direction we're going to go in but it's not going to work in all parts of sourcing because there are some kind of consumer items that you you're not going to put the time and effort and you're going to say I want to buy you know, we all I want the ability to buy, you know, a thousand pencils. Yeah, that's not going to you're not going to build a relationship to do that you're going to have a hundred suppliers you can choose from and not just becomes transactional. If you look at it you say these are our five or ten top outsourced suppliers are outsourced opportunities, we're going to use the vested model for this potentially and yeah, but I'd never heard of it being called recipe before I just to me it's just it just a to certain extent a style. I would see it as okay. I'm pretty presumably there are companies out there who would be recommended not that the vested outsourcing model is used and so maybe when someone joins a team to take a training course or they. Yeah, that's all about relationships and partnerships. It works completely, you know, it's very negative towards transactional and you know, you know argumentative relationships with suppliers. So I suppose I've taken my I've taken my guidance from that course. Relationships and how you treat suppliers as partners rather than just a transactional and supplier. So, I don't know if that answers your question, but I've never heard of it being called Vested before. Okay, but it's you know, you're talking to you know, you're talking to the converted here. It's the only way I think you can you can work with suppliers in my opinion. Okay. I'm sure other people would tell you different.

Interviewer: Yeah, so, all right well thanks XXXX. That completes the interview.

APPENDIX B-4 Participant #4 INTERVIEW

Interviewer: So thanks again for agreeing to participate XXX, I really appreciate it. To comply with the ethical procedures for my university, this is completely voluntary participation. The interview is being recorded but you know, your name will be redacted and if there's any company information anything specific that you would like for me to redact in the transcript, you let me know and I can certainly have that taken out. It will be attached to the back of my dissertation in my appendix for my graders to review my of course my discussion and you know, my analysis based on the information I received from participants. then also when my dissertation is finally printed it'll be placed in our school library and the transcript, of course will be in the back of that booklet, but that's the extent to where this transcript will go. If at any time during this interview you wish for it to stop you let me know and that that'll be perfectly fine. So if you're if you're fine to move forward, I'll just go ahead and get started on the questions.

#4: Yeah perfect um, so what I will say is that obviously any kind of company information that I may mention yes that could be redacted obviously right?

Interviewer: okay definitely, will do. Alright so just some a quick background on you before I move into the specific questions on vested. So in your career over the years, have you always worked in some form of sourcing role, and if not, how many years have you worked in a sourcing capacity?

#4: Yeah, so I have worked in specifically sourcing role for the past nearly six years yeah. so I've worked in a variety of companies well three different companies and you know I suppose I've experienced a wide variety of you know, different suppliers and also to many landscapes as well as different offerings from those suppliers as well.

Interviewer: okay, and what kind of roles did you have? When you in those sourcing roles were they you… just detail what types of roles that you participated in.

#4: Yeah, so they were all I suppose sourcing leads for you know, whether it's either a particular supplier our top suppliers for particular company, and I suppose identifying any kind of consolidation savings for those suppliers as well and while working alongside the business for identifying their requirements and running and RFP an RFI for various projects. So yeah I suppose very kind of, you know strategic sourcing role. Yes, that's what I have undertaken for all my roles within strategic sourcing.

Interviewer: okay, and then were you working for the client or the buyer for the buyer's side or were you working from the supplier side or both was it a mix of both?

#4: I know I believe first from the buyer side, so I know we've been yeah on the buyer end

Interviewer: okay and for those in sourcing, were they always in the IT sector?

#4: Yeah,

Interviewer: okay and um for those you know, six years that you worked in the IT sector and sourcing have you participated in extensive contract negotiations the entire time or is there just a specific amount of years where you were involved in contract negotiations?

#4: I would say for my first role wasn't really involved in contracting negotiation. So that was the first year and a half. It was sourcing beyond that then so for the remaining time yes. I have been involved in contracting negotiations from different levels as both Company G obviously working quite a lot with the contract managers to help them or assist them with the negotiations and then you know at Company I. There it varies at times depending on you know, what region I'm negotiating for because we don't actually have any contract managers. So we actually directly with Legal. So I am required to kind of review some of the contractual causes a bit more but for the US we would work out the along alongside the contract managers.

Interviewer: Okay and so I'm going to ask a couple of questions um about you know, concerning your opinion of more traditional formal contracting base specifically on the transaction itself versus relational contracting based on building the relationship between the two parties. I can give you a quick background on what on what I mean by but what I mean by traditional contracting in relational contracting if that would help.

#4: Yeah sure

Interviewer: okay so traditional contracts are of course based on the transaction itself it's more formal or legal drafts a formal agreement that will govern all the eventual situations that may come about during the relationship or during the transaction. The contract would try and cover for any potential risks that arise from agency costs, value leakage supplier opportunism all the roads are responsibilities of both parties' penalties for not complying with the term of terms of the contract etc. Relational contracting is more about having an on-going dynamic state of relations among the contracting parties. It offers the client and their vendor joint problem-solving and extensive use of renegotiations and resolving any conflict without the need to involve a third-party like a court or an arbitrator. It incentivizes mutually acceptable solutions better communication and informal working relationships also involve risk sharing and consequent rewards. And so examples of this would be maybe shared resources a win-win attitude pain sharing etc. Shared risk elements of or principles of mutual trust and willingness to share information resources and risk.

So from your opinion and your experience in the in the last years, do you do you believe that or what advantages could you see in a more traditional transactional approach to contracting advantages disadvantages as opposed to more relational approach?

#4: So I think with your formal traditional approach, I think that's probably most applicable when you have a supplier that is perhaps maybe not seen or deemed does a partner as much or I think you know, if you are, you know, implementing a transactional kind of relationship. It's really kind of you're forcing that, you know, the agreement or the transaction is perhaps a once off or it's just not strategic. In terms of the business or the services that you're providing to the business, I would see kind of the more relational negotiations as very much, you know important when you're establishing a partnership A.

long-term partnership one that is necessary for you know, the strategy of the sourcing organization as well as you know, the business requester. And in terms of where they want to bring that offering what they want to do with it and you know, even there might be, you know, mutual benefits involved so are we as you know, the buyer are we also perhaps selling them? And a product or service from our own company so we could be a buyer a woman and the seller at the other end. So I think you know, you need to take those kind of points into consideration when deciding on your approach. So I've seen both transactional and relational negotiations take place and they are very different. And you know, it's very much, you know developing that relationship on one end for the relation relational negotiations and you know not doing that as much or at all for this transactional negotiation.

Interviewer: And just based on your experience, you know working in the IT space from a sourcing expected perspective, do you find that you see more? Which style do you see used more traditional or relational?

#4: Yeah. Yeah, it's hard to say because you definitely do see like a good variety. I mean, we all we have you know in any company I'm sure you have a lot of transactional suppliers that you don't pay much attention to you have the contract in place and then you kind of don't think about it until the renewal comes up. Then on the other hand you do have those important suppliers that you know, you're, I suppose constantly revaluating and thinking of next steps, you know. Like where we want to take the relationship and you kind of have more of a road map with that supplier in terms of where we're going with them. So yeah it definitely is a mixture and I would say only you know, you could only have your top 20 suppliers that you may be within each category that you may be concentrating on developing a relational strategy with them.

Interviewer: Okay, and so have you heard of the vested outsourcing methodology in the past?

#4: I have not any

Interviewer: So let me give you a quick background on that before I ask some questions on Vested. So vested is a is a principal or methodology that wishes to establish a systematic collaborative outsourcing relationship and which companies and service providers become vested or mutually committed in each other's success creating a long-term win-win relationship based on achieving mutual determined goals. So it puts the practitioners on the path to outsourcing success by creating relationships based on five key rules. When applied to the business outsourcing practice that has the potential to transform outsourcing relationships. So it moves away from transaction-based and risk-averse approaches to contracting and its goal is to create collaborative business to business agreements that create a set of rules that will facilitate long-lasting business relationships. It's based on shared value principles, it requires the parties to build a solid cooperative foundation for shared that for sharing value so it's highly integrated outcome based business models use value incentives to maintain the mutual advantage. So the Vested process is based on five principles. I'm going to detail these principles to you and ask you whether you see whether you believe that this is that that each principle is um applicable or feasible in the IT space or whether you believe it's um, maybe a two you know to you know, I guess I would say altruistic, you know, it's a good idea but it really wouldn't work so um, So for the first principal is um, it's that the negotiation process should focus on outcomes of the engagement not so much on the transaction. So this would involve having a shared vision statement from both parties from the out from the outs from the outset that executives would you know, push down to the rest of all the staff that's involved in the in the relationship so you focus on the outcome first and foremost.

<u>#4:</u> Yeah so um, I think yeah that's definitely important in terms of IT and you know, if you're serving a particular service for IT, you know. one example, I can think of maybe as you know, the IT helped us that you maybe I sourcing not service so it's definitely important that you kind of have a shared vision in terms of what that's going to look like because that's I suppose it's a client-facing business or a client-facing service that you're that they would be providing to your business. I think yeah, it's an I don't know if you're touching on as well and when I think of IT, you know, obviously you're thinking of SLAs and some agreement and so that might also further down the line try into what your vision is because you're kind of looking at okay, well what level of service are we looking for here on what's happening look like. It's definitely important when establishing that relationship and also in your negotiation for the contract.

<u>Interviewer:</u> Okay and the second principle is that the parties should focus on what they're looking to achieve not how they plan to achieve it. so you have clear work allocations but the client is not telling the supplier step by step how they expect the supplier to deliver that final outcome they give that responsibility completely over to supplier to you determine how they're going to achieve it does that work in the IT space giving the supplier that level of responsibility? Do you see that there's some certain hindrances in maybe and IT or a client someone that's purchasing a service and an implementing something like that?

<u>#4:</u> Yeah, so I think it's that the important for the supplier to have their own vision in terms of what that's going to look like. I think though if there is anything specific or anything unique that the that's a buyer is requesting and that would obviously need to be you know, as both highlighted to the supplier. But even if you were looking at, you know, various different suppliers you need to be selecting a supplier based on what their vision looks like looks like for the service. So you know when you're going and evaluating various suppliers and you would want eats each supplier that's proposing to have you know their own vision or what that service would look like so it's definitely important that the supplier to provide that to you and while you know, if needed you can you know add to that.

<u>Interviewer:</u> Okay. Okay and so then the third principle is that the party should clearly define and um clearly define and measure the desired outcome so there should be clearly defined performance metrics performance management, etc.

<u>#4:</u> Yeah, so I suppose I kind of touched on that in the first principle. so as I mentioned it is critically important for you know, technology services, especially you know with your sourcing a service to an IT provider, you know, want kind of turnaround times are you looking at and for service or even just you know, response time remediation times on so that's all very important. And then you know if I don't know if it depends on the relationship, but if performance credit need to be included there as well for

you know, any penalties then that would need to be decided as well, but obviously would you know, that would take place during all the negotiations.

Interviewer: Okay and then that the fourth principle is that you the party should use pricing model incentives, so whereas in you know, traditional are transactional contracting, you know, whatever I guess suppliers all of suppliers actions are you know based on a certain fee you pay per fee per action, you know, and the supplier makes money that way this model would serve to have more of a value sharing model where client wants outcome a to take place and they may be looking for certain efficiencies within the organization and client be is not going to charge, you know per transaction but the fees would be structured to incentivize and reward the supplier for getting to outcome. So more of incentive payments versus per fee or per transaction payments. Do you think that that works um in the IT space as a whole or you know, what what's your opinion on those type of pricing models?

#4: So just to be clear are you talking about period pricing or just you know more like value sharing value price models. So what kind of what value did this supplier bring to this engagement and pricing based on that?

Interviewer: To home to incentivize them to increase the value that comes from the engagement.

#4: Yeah, can you just explain sorry you were going through the principal first can you just go through that again could just to make sure I understand clearly so for to use pricing model incentives,

Interviewer: so for example in one of the contracts vested contracts that took place a particular company wanted to transform their global financial operations, they had several finance departments and they wanted to have one single finance global finance department and so this particular supplier was brought in to bring in to achieve that efficiency. Versus like having the multiple finance departments would have definitely benefited this supplier if they took over you know, that whole process because they could you know, charge per department per department per country, etc. But because they are going to create an efficiency they're losing out on how much money they made but the client then said well we will give you these incentive payments if you bring me this if you ensure that this amount of value is brought back to my company.

#4: Okay, okay yeah, well yeah I think that is you know, certainly important for any relational negotiations or just even the long-term relationship or partnership that you're going to have with a supplier, you know with the value at their that they're providing. I suppose it's it doesn't make the relationship, you know, doesn't it maybe it's not as worthwhile and they're I suppose. Are always going to be provided out there that maybe willing to provide that value add so you know, it's yeah. I mean yeah, it's important. I don't know what else I do that, all right, um.

Interviewer: Okay, no problem, so you think it may work, but maybe not in every situation.

#4: Yeah if there's opportunity there it definitely works if not you know, it's you can't always find that opportunity for value in in negotiation, but if it exists then it definitely worthwhile pursuing

Interviewer: okay and so then the fifth principle is that for the governance structures that that's used to govern their relationship if the government structure should provide more insight into the relationship as it relates to managing the relationship, managing the transformation, managing the exit any exit plan should the relationship break down; versus oversight where the client is basically monitoring every aspect of the service and every action of the supplier is insight better than oversight or is oversight just.

#4: in my view, you know, oversight maybe too much or maybe to you may require too much effort in from a buyer's side, yeah. I think if you have a supplier on it, you know a relational it's you know, the partnership you have a good relationship there you kind of want to have a government structure in place to help manage that. So I mean if it's you know an important supplier, you're going to have to have someone managing that overall relationship. So yeah, it's definitely I suppose being kind of more you're being proactive but you're not being you know, you following every step that they're taking. So yeah, that would be my opinion on that and you don't want to strategic suppliers that is you know requires a lot or too much effort on your end to monitor them either because I think part of the body that they bring is that you know, there is that kind of trust there as well, so I think in that case the governance structure would be adequate.

Interviewer: Okay, as it relates to the contract itself, do you feel that having more informal processes built in more flexible flexibility built into the contract with whether that's beneficial or whether there's disadvantages to having flexibility too much flexibility in a contract?

#4: I'm in my opinion too much flexibility in your contracts mainly to ambiguous situations. While either wanted to be you know, you don't want to be lost in something that is to rigorous as well you want to kind of be clear on what it is that you're agreeing to. but having said that, if you are pursuing a long-term relationship with the supplier I suppose you do also need an element of flexibility to you know, develop that relationship over time and you know as your business changes that relationship could change as well. So you need to be able to adjust as required.

Interviewer: And so Vested is really based on a on a win-win mind-set on what they call "what's in it for we", so what's in it for both parties. Is that a feasible mind-set to have in an IT outsourcing? If so why and are there any negatives that you could see to a mind-set like that?

#4: I think the only negative would be that I think it can only be applied to IT and applied to only a select number of suppliers I would say is that you know, is there always a win-win. You know, it's if you're looking for that win-win all the time it may be hard to identify and it really needs to be strategic provider that you are contracting with to be able to identify that win-win. But yeah, I think it's definitely applicable to IT and you know. I suppose just even Company I at the moment, you know, given this certain circumstances where putting the business continuity plan and place for our critical suppliers and you know, the majority of those suppliers are IT providers. So it just shows you how critical they are to just keeping the business open and running. So yeah it definitely applicable so IT

Interviewer: okay and then in your opinion for shared value creation contracts or you know, value-added contracts do you think they're effective in IT? Are those concepts used all the time or do you see certain, I guess disadvantages to those type of agreements that prevents IT from using them?

#4: No, I don't see any disadvantages to using them. I think that you know if the opportunity exists to create that value adds then it's definitely worthwhile. I can't think of the top of my head of you know, any kind of situations that I've experienced in terms of you know, pursuing a relationship with the supplier in that sense.so yeah, sorry no that's fine, it's fine. But yeah no, can't think of any disadvantages.

Interviewer: Okay and then lastly so Vested hasn't from what I've seen in the research been as well known within the IT space at least from a research perspective yet. Do you believe that there's potential for invested to be used more often in IT, or do you think there's certain aspects of the of the principles that would hinder it from being well known or well used?

#4: I think the only thing with IT is about to move so fast on it changes, so you know it changes so quickly is a rapidly so you know, your IT requirements can change as well. There's always suppliers that you might I suppose be wanting to move to tomorrow if you can. So the only thing I would say about, you know, Vested, is that I suppose you do want those you know, strategic long term relationships or partnerships, but at the same time you do want to have the flexibility to move and maybe go with the new supplier if need be. So you're also ensuring that you're covered in that sense within your contract as well. So that is the only thing I would point out you know, is just the ever-changing needs of the businesses and relationships in relation to the IT services that they require.

Interviewer: Okay, okay well, um yet that's the unless you have any other comments that that concludes the interview, so you have any questions for me or any other further comments.

#4: I know that's it for me. I hope it was helpful anyway and that I was able to answer questions.

APPENDIX B-5 Participant #5 INTERVIEW

Interviewer: Um, so thanks again for agreeing participate. To comply with my ethical procedures for my university, this is completely voluntary participation. Your name will be made confidential and any other if there's company names or anything that you that you state that you wish to be redacted from the transcript let me know and I can certainly do that. The transcript is going to be added to the appendix of my dissertation for my graders to read and also when it's printed and put inside the school library. It will be attached to the back part of my dissertation, but that sticks to where this transcript will go. So if you're fine to move forward we can go ahead and get started.

#5: Yeah, sure.

Interviewer: Okay. So just to get a bit of background on yourself that will kind of you know lead into the questions regarding the vested methodology. So in you're in your career thus far have you always worked in somewhat of a sourcing role and if so what types of roles have you had in sourcing?

#5: I mean with… do you mean some type of HR roles as like it like..?

Interviewer: like procurement or buying like from the either the client side or and involve it in like contract negotiations from the supplier side.

#5: Okay, so I haven't even moved it any of those rules in my career before I just summarize about myself. I have an experience that I mean, I will mention the company name is you said, this will be confidential in the project. I worked at Company E working for about five and a half years before joining to Company A. and when I was the marketing manager in company team which was a conscious of vendors and at the same time external teams like telemarketing teams and so on they were also contractors as well. And after Company E after five and a half years, I started to work at Company A for about one year ago, but here I haven't experienced any vendor relations so far. So my background, especially at Company E had experience on managing venders like people and also my media agencies. Selecting agencies and so on. Regarding the procurement ideas, of course, I was involved in hiring processes of the people in those things but I wasn't a kind of you know, a procurement manager. I was available hiring managers there.

Interviewer: Okay, so when you manage the vendors did you manage like were you involved in the contracts that were awarded to those vendors and kind of was involved in like say a project?

#5: I managed a relationship with the vendor during the process of the contract. Or. I'm not really okay that was the culture working with since these people working for Company E in between there was another company who were officially hiring them actually yeah two girls and with the contracts with the you know matters on the contracts so I was basically of course. In terms of executional stuff like preparing contracts putting the agreement, the specifying to all the description and so on these were the things that that's company was doing on behalf of us okay,

Interviewer: so when you selected so you were involved in the selection in the selection process for a vendor

#5: yeah

Interviewer: okay so was that was that individual people or was that like okay, so you see vendor a as a company itself, they seem to align with you know, the, Principles that Company E stands for and that's why we want to pick them, how would that selection process go?

#5: I mean maybe seventy to eighty percent is individuals, people hiring. So in that matter I was basically, you know, determining the selection criteria's of those individuals if they fit to the art to our needs rolling and thirty percent was companies which for example let's say Company E is need creative agencies support then of course. I was involved in selecting this agency overall and I was Able to remind the way how as Company E, they will be working with them but there was again some standard contracts that Company E was providing to us. So we were basically you know, we didn't have any chance to change anything on those contexts yeah we were just setting them up.

Interviewer: Okay, okay so well then we'll jump straight into the methodologies. So Vested methodology... and I'm just looking for your opinion because of your experience working in the IT space whether you think this is a methodology that could be used by sourcing departments when they select their potential supplier that they're going to engage and the business relationship that that will flow from that so that. Vested as opposed to just transactional contracting …that basically I'm you know, selecting you to provide this particular service, here's the formal contract these the terms and conditions this is the end result that I want, you know, here are the penalties for not for not um, Um complying with the terms of the contract and you know cut and dry. Vested are more of a collaborative and a relationship base methodology that um tries to allow the practitioners to create a relationship based on five key principles that I'm going to outline and the model tries to craft collaborative business agreements that creates a set of working rules that can facilitate successful and long-lasting business relationships. So it's about shared value principles and about working mutually together to and to incentivize the supplier and the client itself to work together to this final outcome looking for a win-win oh a win-win situation. so um just to get your opinion on the five principles if you could tell me whether you think from your experience working at Company E, or at Company A or whatever other IT space that you've worked in um, whether you think this principle is something that that companies really IT sourcing space would be open to embracing or whether it's not very feasible and it's just basically too good to be true, it's not really effective in practice.

So the first principle is that the negotiations should focus on the outcome itself and not so much the transaction so focusing both parties focus on what they're looking to achieve versus the individual transactions that take place.

#5: Can you elaborate the individual transactions here so let's say the IT provider, you know Company E is outsourcing one of its data centres, they want to get they want to use maybe.

Interviewer: I don't know if they do this already because all the big players are all working together. Company E has zone data centres, but maybe they need extra space so they want to partner with Company D for their for their for their cloud solutions to you know to use their cloud solutions to put some of the Company E's applications on that space they want to partner with them it they're not going to focus so much on how much each how much that service is going to cost per say like okay, we're going to buy this amount of space this is the fee these are the terms etc. The focus wouldn't turn beyond Company E's looking to save some money not spend so much on building more data centres, we need a company that's going to give us this amount of space to help us with our customers and this is what we want to focus on this partnership.

#5: All right, first of all, I think this type of questions may actually differ maybe more procurement managers okay yes, so to be honest and here answer that I would be giving to you. I don't know if you can use it

Interviewer: okay yeah

#5: yeah person basically but ideally I would say both outcome. And of course individual transactions because on the outcomes side there were some projects for example when I remember from my experience where we needed to focus more to the outcome than the transaction period. For example. I can give an example from the telemarketing agency that I was managing, you know, Sometimes the telemarketing agents may not be able to deliver the outcomes that you are asking from them due to the many external factors that they are working on so those types. I was focusing on the individual transactions, for example, the quality of the people that we are hiring to the telemarketing team or the number of hosts that they close the number of leads that they could acquire maybe they couldn't close but acquired. So I don't know if that answers your question okay but I believe it will change from the case by case right

Interviewer: okay, and then the second principle is that one should focus or the party should focus on what they're looking to achieve not so much how. So the client wants this specific outcome, wants these specific results, but they're not going to direct the vendor or the supplier on how there's going to achieve it. so they're going to put like all the responsibility and the trust on the vendor to do what they what the vendor feels is best, what the vendor knows based on their expertise how to do to achieve that end goal. So they give up control over how it's taking place.

#5: This is a proposal that you are supporting

Interviewer: I'm not that I'm supporting… I'm seeing if people in IT would even be open to something like this because this is what Vested says, you shouldn't tell you other the client shouldn't waste time or waste resources trying to tell um, the vendor or the or the supplier how to achieve it because you know in essence you're reaching out you're outsourcing because that that particular company has the expertise that you lack so it's a waste of resources to try and tell them how to achieve. That if they're the ones that have the subject matter expertise,

#5: okay, well I think when it comes to IT industry would be more conservative on that because you know IT is a field that is quite complex, to be honest, and sometimes with clients that we were working with is it was not easy to understand for the vendors to understand our objectives. Like for example my company like Company E, they are selling cloud products, it's not a tangible product, you know, it's not a shampoo. You will be telling the agents and say that okay promote this I want this and this from you yeah. so especially for IT industry I would say no they wouldn't be that open to leave everything to this vendors that's there working with because of the nature of the products yeah and that they are working with but individually on one aspect. I agree with the proposal if you know, you are trying to find a vendor who can support you on the fields that you lack of expertise. Of course you should allow them to do but for IT, I wouldn't agree

Interviewer: okay and then the third principle is that the party should clearly define and measure the desired outcome so there should be performance metrics there should be performance management systems put in place to detail what success really is and that should be mutually decided between the parties.

#5: I totally agree of course and this should be equal to find on the contracts that's you are doing with the lender as well just to setting up the target. I'm think KPIs for both parties are I think it's very helpful for the teams to shape their work according to those KPIs,

Interviewer: okay and in the fourth principle is that the pricing model should incentivize the supplier to meet the clients objectives. So, as opposed to in a regular transaction based model where it's all about the fees the supplier wants to make as much money as possible this type of this type of vest and model would focus more on achieving value for both for the client and for the supplier. so if the client is looking for some form of savings some form of obtaining efficiencies this may have an effect on the amount of money that supplier could potentially make but because the pricing model is made to incentivize the supplier to meet those efficiencies or meet those savings it it's it becomes a win-win situation. So it's about value-sharing pricing models. Do you think that's something I in the IT space they're open to does it work all the time or just sometimes?

#5: Oh well I think yes because I think across the world only the fee-based pricing models are understood. that does not mean that they are that successful so I would say yes, but in practice I haven't experienced such type of thing to be honest, okay, so I can't say that I'm a hundred percent sure okay and

Interviewer: and then the fifth model is that for governance for the governance of the relationship the governance of the business relationship. it should focus on giving the parties both parties insight into what's going on what's working what's not working the relationship itself, if you're looking for transformation also of the if the relationship breaks down there's certain exit management plans that have been put in place but all these things should serve to give insight into what's going on not oversight where the client is watching every single thing that's taking place during the, During the engagement.

#5: I agree with that as well because I mean at the end of the day you are giving responsibility to the vendor to do the job on behalf of you, so you will not be, you know, spending your time on keeping an eye on them the and keep watching them all the time. I think this would be quite time-consuming for the company as well. So I agree that those engagements the purpose should be given insights to each other whether they're checking off a to do list on everyone and what's everyone doing.

Interviewer: Vested also promotes having flexibility both into the contract to allow for changes maybe in the client needs changes within the industry changes within I guess the suppliers ability to meet the outcomes .so the contract is not super strict, it's flexible and it's able to adapt to like the changing environment within the relationship. do you think that that works or that IT providers would be open to having a flexible contract or are there certain things that would prevent them from doing so.

#5: Well, I think this is not only for IT, but all the for all the corporate companies international corporate companies, it doesn't sound like a reality especially in the future because especially the international global companies need to put stuff put up some general agreements to leverage to all these subsidiaries across the world and ensure that there's a standardization on everything that they are doing with their vendors across the world. So even though I mean individual subsidiaries would agree with that I think it wouldn't help flexibility and then this also would be risky for the headquarters because this complicates them not being able to watch everything that is being done in the subsequent level. So I think for not only IT that's for all the global companies, this is not something that can be applicable in the near future. I would say but for local companies yes can give them more advantages flexibility and give them more advantages for both parties for both vendor and companies.

Interviewer: okay, and then lastly so Vested right now is not exactly widely used within the IT space especially not from what the readings that I've come across. do you feel that potentially in the future that IT providers would be open to moving to the Vested model or you think that that there are certain hindrances or stumbling blocks that will prevent them from moving to a model like this.

#5: You mean …..

Interviewer: I mean based on the five principles I just outlined. As to the whole model...

#5: I think in the near future I don't foresee that. That type of transformation will change this industry so I don't know why not but maybe in the long term maybe. I don't know if this answered your no I'm just yeah,

Interviewer: yeah, it's just use on your experience and your interaction within the within the industry do you think that they would be open to doing something like this on like a wide scale or are they just certain aspects of it? Or do you think IT providers were sort of shy away from?

#5: So far what I observed yes they would be shy away from but I mean, we are going to be a very interesting period right now with the Corona virus impact on everything so maybe after this period's IT industry may be able to understand for example as it lost matter as inside putting something flexibility on their contracts. Because you know the world may face some type of same situation in the future. So it may change the way of you know, working that the IT companies are doing with their vendors, but other than that, if this Cov-19 pandemic hadn't happened, I don't think that it would be that type transformation.

Interviewer: Okay, well those are my questions. I just wanted to um, not very long at all just to get um, just IT professionals opinions on the model.

APPENDIX B-6 Participant #6 INTERVIEW

Interviewer: so thanks XXXX for joining. Just so I mean compliance with my the ethical procedures of my university to let you know that this interview is completely voluntary. It's going to be recorded, audio recorded and the transcript will be provided to the graders of my dissertation. your name will be redacted as well as any information you give let's say for example a company name and you wish for that to not be released that will be redacted as well from the transcript and then once my dissertation is complete and they print it they'll place it in the library at my university and your transcript will be there as well, but of course there will be no ties to you. If any point during this interview you wish to stop you're free to do so. But if that's all if you're willing to continue we can go ahead and get started.

#6: Yep sure that's all fine.

Interviewer: All right, thanks. So just to get a bit of background on yourself that will help like colour the in the rest of your responses to the interview. In your career up to this date how um, have you always worked in a sourcing role and if so what types of roles have you worked in sourcing?

#6: just to give you a brief history so I started it my career in supply chain management, which is more on the operational side of logistics and purchasing and running third party logistics providers and warehousing and things like that. And I moved into specific demand forecasting and demand planning rules. Mostly focusing on telecommunications products. and from there I moved into recall like a category management service role where we were looking at direct procurement and You know, what products to buy which supplies to choose, you know prices all the rest of that but um focusing on the direct side. Then I moved into indirect procurement in the IT sourcing role that you know me from Company C so I was there for three years and now I've been at Company J for about five months. I think in an indirect sourcing role with more of a broader remit in terms of categories. So basically, almost anything indirect could come across my desk at the minute

Interviewer: okay and of those years how many were directly IT industry roles.

#6: the three and a half years

Interviewer: okay, now that you're with Company J, so I know with Company C you were client side. So now you're getting the viewpoint of the supplier side or are you still are you working sourcing are you are still on the client side working?

#6: still on the client side

Interviewer: okay and I know when you're working with Company C you were involved in contract negotiations, have you I I'm assuming you're involved in that now as well with Company J?

#6: Yeah, that's yes, that's right

Interviewer: and then if you did you do that beforehand before you came to Company C work with a contracts.

#6: Yes, but um, it was much more commercially focused because it was direct procurement the suppliers were a lot more stable, okay. We turned it we had all of the mastered terms the conditions were already set and then we just would up, you know negotiate on price and delivery terms and then and volume and things like that, okay,

Interviewer: okay so I'm going to ask you a couple of questions about the different types of contracting and then get into the vested methodology. So I just want to get your opinion on maybe the advantages and disadvantages of traditional versus relational contracting. so just to give you a background traditional contracts is like the formal contract the transactional contracting where legal is involved they draft a contract document that covers for all the rules and responsibilities of the parties and you know payment And penalties if the parties, if maybe the supplier does not meet whatever its obligations or the client doesn't meet whatever obligations. So it's very formal and it tries to cover for every specific, you know, eventuality that may take place during the during the transaction. as opposed to relational contracting which is considered more of a dynamic state of relations among the parties and it offers the client and the vendor joint problem solving and extensive use of renegotiations to resolve any conflicts without the need to involve a third party like a court or a or an arbitrator and an incentivizes a mutually acceptable solutions to deal with any unforeseen contingencies by having joint future planning built into built into the agreement through like project teams. Etc. So from your experience in the last, you know years, do you feel that what advantages do you see in the traditional form of contracting which tries to cover for everything in in the agreement or disadvantages if there are some as opposed to more of the relational side?

#6: It seems to me the way that you're explaining relational contracting and the hints in the name I guess as well as mm-hmm if you realize a lot more on the relationships between the parties.

Interviewer: Yes.

#6: And so thinking about that it would require you to maintain good relationships and that that also means that the people involved have to be I guess on board and signed up to this process and if all of if a lot of the eventualities aren't covered under the contract then and people have to negotiate in good faith when there's an issue then the parties involved need to actually provide that good faith. And I guess when I think about, I was going to say salesperson behaviour but maybe its human behaviour in general, everyone is always looking for an edge. You know, you know, we have savings targets in procurement we have we have other business related targets that we need to meet. Salespeople have sales related targets and profitability targets and when to meet those targets everyone's looking for an advantage. So the temptation is there for people to take advantage of relational-based approach. So, I think that's one of the downsides. One of the good sides I guess would mean less potentially less time involved with legal negotiations in the development of contracts or development of statements of work. So, maybe the contracting process could be sped up. It could be much quicker because you eliminate the need to cater for every single situation that might occur. And then I guess it depends as well with relational who to what level of the contracts agreed because I find that I'm having a specialist review contracts can add value for the business mm-hmm or whereas the business on the business side, they often will agree to whatever is put in front of them. Because they're dealing with a specialist in dealing with the salesperson on the on the supply side, right? So potentially the on the purchasing side there should also be a specialist whereas the business people, you know, they want the product and they want to get things done but they're not used to. Making sure that they're getting a good deal or a fair deal and they could be potentially is taken advantage of.

<u>Interviewer:</u> Okay, so in the in your experience with an IT, do you feel that currently within the industry that they use more of a traditional transactional contracts or are they using mainly relational relationship-based contracting?

<u>#6:</u> In my experience, it's the contracts have been traditional transaction-based contracts. The relationship portion is handled separately to the contractual piece. So there might be a broader long-term strategic relationship with a supplier but the contracts will be done transaction by transaction.

<u>Interviewer:</u> Okay. So taking a look at have you ever heard of vested before I start asking questions on it.

<u>#6:</u> No,

<u>Interviewer:</u> Okay, okay, so just I'll give you a background invested before I get into the model itself. so vested is a model that attack establishes systematic collaborative outsourcing relationships, which the company and the service provider become vested or mutually committed to each other's success with hopes to creating a long-term win-win relationship based on achieving mutually determined goals. So it's based on five key principles which are applied to increase innovation and improving efficiency it moves away from transaction-based and risk-averse approaches to contracting with the goal to craft collaborative business to business agreements to create a set of working rules that can facilitate successful and long-lasting business relationships and the model requires the party to build a solid cooperative foundation for sharing value. So I'm going to list out the five principles that the that invested is based on and just get your opinion on whether you think these principles are feasible, whether they would work or whether those within the IT space would be willing to implement these or if they're not already implemented or whether you think there's certain disadvantages to it that will prevent the I those within the IT outsourcing industry from embracing such a principle.

<u>Interviewer:</u> So the first one is the negotiation itself should focus on the outcome not the transaction. so the lead execs from the companies that are going to do business together should come together to form like a shared vision statement that they feel should govern the relationship and that should be flowed down to all the staff from client and supplier side that would help govern how they're going to move going forward. And they focus on what they're looking to achieve versus the specific transactions that will take place during the engagement. What’s your opinion on that and did you say this was um, specifically an outsourcing situation?

#6: Oh yeah, um. Yes, definitely I think you need that you need that kind of guiding light from the executive level about what needs to be achieved through the procurement and contracting process, okay, that's very important in announced especially in a long-term outsourcing situation.

Interviewer: And so and the fact that you're going to focus on the outcome versus the transaction itself because you said it in previously that you feel a lot of the contracts have been focused on the transactions yeah so focusing on the outcome itself versus the transaction which what's your thoughts on that?

#6: It's focusing on the outcome; let's say I was trying to think of some examples. You're outcome might be to reduce let's say you're outsourcing a call centre your outcome might be to reduce the time to answer calls, so then focusing on that outcome is good, but you need. That's kind of like the guiding principle or the or the end goal and then you need to you would need to build the structure the contract and they keep form it's indicators within that contract. and then and let's say the operational management of that contract to meet that that end goal of say reducing time to answer calls so like obviously in that situation you're one of your KPIs would that you would measure would be what's the time what's the average time that's taken but then you would also have to agree do you measure how do you measure that do you measure it as an average time for a day or per hour or? How would you want to measure that see there's a lot of there's a lot of detail I think that needs to go into supporting how you meet that goal. So that would be my view yes. The goal is very important and focusing on the goal is important that the also the detail of how you're going to get to that goal.

Interviewer: Okay and so that leads into the second principle, it says that the party should focus on the what, not that how. so have clear working allocations meaning that the client knows clearly what they what they wish to receive they've clearly communicated that to and work together with the supplier to determine what their needs are what they're looking to achieve but they're not going to tell supplier exactly how they should go about achieving it. They're going to put that trust that responsibility on supplier to use whatever subject matter expertise that they have to come to reach that final goal, they're going to you know, basically.

#6: Not I wouldn't say they go completely hands off because they're working together during the entire process, but the supplier's not going to tell… I mean, the client is not going to try and tell supplier how they should achieve it. Yeah in theory that's really important for an outsourcing situation because the reason you're outsourcing a portion of your business is because the supplier has their expertise in that area more expertise than you it's not a core function of your business and so you want to answer. That's employer probably provides that service for many customers, so they have experience across many customers in many different situations, they should be able to do a better job than you mm-hmm in executing. I'm guessing so same for us okay sorry so yes out it's really important in outsourcing so um, I think you know and what I was saying previously about defining the KPIs defining the goals that yes that really makes sense and that's how in theory in textbook theory that's how you should approach an outsourcing situation. is to find your define your end goals and what you want to achieve and then let the supplier tell you all that the supplier decide the best way to achieve those goals definitely support that for outsourcing

Interviewer: Okay and then do you think that's currently done in practice, though?

#6: To an extent it depends with the customer for the customer, okay? And how much control they're willing to really give over…. sometimes there's a regulatory concerns to as to the way that things need to be done. Let's say like access to data or like maybe that maybe again going back to the call centre example, if you're outsourcing your call centre to the India like maybe that accessing certain systems enterprise system has to be done from it from a controlled environment in a clean room and so people can't work from home. So that kind of removes one option for the outsourced call centre provider. It limits how they can provide the service. So I guess regulatory with limit that and I guess you know, the control the control all pieces, well yeah. it has to be a lot of trust that's built up over time to then to just allow the provider to run the service, you know hands off from there from the client.

Interviewer: Okay, okay so then the third principle is and I think it sort of follows what you've been saying and answering the previous questions. The parties should clearly define and measure desired outcomes have performance metrics performance management. They should work together to mutually determine what those are going to be so they can determine what success is.

#6: Yeah definitely both need to have clear expectations about the results that need to be achieved from the contract and what the success is. and I don't know if you have this inner further point but um, I've seen models where um from a compensation point of view the supplier can receive, you know bonuses or bonus payments for meeting those that those objectives right

Interviewer: yeah you are. That's the fourth principle to use a pricing model to incentivize the supplier to meet whatever the goals are.

#6: Yeah, definitely I mean, Motivating some people within the suppliers organization to then to go above and beyond an excel and really deliver and meet those targets… and generally you could have penalties in a contract if they don't meet targets. But I think the carrot is more effective than the stick in situations and it's better for the relationship as well.

Interviewer: and just to follow up on that so and of course in certain situations where the client is looking to build efficiencies within their organization by outsourcing so and essence that may limit the amount of fees the supplier can charge because there are not that many transactions taking place specifically. Do you think that in IT outsourcing would be open to a model like this? That they will be incentivized to meet those efficiencies versus charging on a transaction by transaction model?

#6: Um, I think they would be incentivized to use them approach such as this because the contractor would be longer which would be it should be appealing to the outsource provider. A longer term contract means that they can be able to reduce their cost base and get better efficiencies over time. And just trying to think of the other thing. No sorry, it's that it's slipped my mind,

Interviewer: okay, no problem no problem.

#6: Transaction by transaction

Interviewer: okay and then the fifth principle is that the governance structure that's built should serve to provide insight into the relationship into how transformation is taking place exit management strategies is your surgical provide insight to both parties versus oversight by the client.

#6: Yes, I think I think if you're going to enter into a long-term outsourcing partnership then you need to be a partnership for crystalline achieving those original aims and the parties need to collaborate and work together to achieve those goals rather than the client seeking to get him involved and provide direction and essentially micromanage the outsource provider. If the client tries to do that they're actually doing themselves a disservice because they're not getting the benefit of all of the expertise industry expertise that they're paying for through the outsourced service.

Interviewer: Okay and so with vested they really encourage having more flexibility and the contract to govern for changes within the industry changes within from the client side changes from the supplier side, do you think that that within the IT space that having flexibility in contracts is something that that they're open to or are there certain negatives to it that would prevent, you know, IT providers from wanting to go that route.

#6: I think um. I think there are open to it on the IT side, um. To the extent that you can outsource. I think it's going to depend on, again, on the industry and the regulations the that applied to that industry, mm-hmm. I think that would be our contour if you're outsourcing say a function of your business from an IT perspective like your help desk. Oh, what's up all that kind of that kind of respect to where you're just moving resources across?

Interviewer: Okay, and then vested has a mind-set of what's in it for we like a win-win situation for both parties is that something that you see a mind-set you see the IT outsourcing departments embracing or is that you know to too good to be true to have a situations where there's like a win-win dynamic.

#6: They can have a win-win dynamic in it and a contractual level. I think the incentive pricing and the incentive payments that I mentioned earlier first. I think a lot of that will build on that because they'll say well we're paying for the service they should provide it to the service level that we require they're not really in the mind-set of saying well if the supplier does a good job we should pay them a little bit extra I don't say I don't see that very much. Okay, it's very it's very much this is what we want to pay for this is what we're prepared to pay.

Interviewer: Yeah. Okay, and so what's your opinion on shared value creation contracts? Are they effective where they're where the parties are trying to share the value?

#6: They can yeah; they can be effective in the right situation. the problem then again is getting the business executives to agree to that type of model because I've always seen that they're in the mind-set of if they want to pay a fee for a service, but they're they want to keep all of the value for their own for their own company all of it all of the additional value. They don't want to share that that that business case value with the supplier.

Interviewer: Okay. Okay, so in your opinion, um so from my readings and research so far, it doesn't seem that vested is has been you know implemented on a wide scale within the IT space. do you think there's a reason for that or do you think like if there's a reason because there's certain aspects of the model that the IT industry may not IT outsourcing industry in particular may not be a might not want to implement or do you think that that it's that you could you could see vested being implemented in the future.

#6: I could see it. I still like agree with you, I don't I didn't think it's been implemented to the extent that you were talking about here today. And the reason for that I think is around the pricing. Really to really get this to work you have to have the incentive base pricing for the supplier. And I think that's a sticking point for a lot of executives. I think it could work in the future but it needs the right personalities and the right executives to in the right mind-set on the client side to influence.

Interviewer: Okay. All right, well thanks XXXX that's the interview right there, so if you don't have if you have any more comments, let me know but if not we can go ahead and wrap up.

#6: Okay. That was interesting. Yeah.

APPENDIX B-7 Participant #7 INTERVIEW

Interviewer: Thanks for agreeing to participate. In accordance with the ethical procedures for my university, this participation is completely voluntary. The interview is being audio recorded and will be transcribed and added to the appendix of my dissertation and then once it is complete they're going to print a copy and they're going to place it in our school library. But your name will be redacted as well as if there's any information for example company names that you may you may state in your interview, that you wish to be redacted. If at any time you want to stop the interview that's perfectly fine. It shouldn't take any longer than 30 minutes. So I'm going to go ahead and dive right in if you're okay with moving forward,

#7: I'm like an open book

Interviewer: okay thanks so just a couple of preliminary questions just you get a bit on your background that will help shape the interview going forward. Have you worked in the past in some form of sourcing or outsourcing role or and if so what type of roles did you have?

#7: It would have been in a sales role but I also employed and being a lecturer or university. I think it was like five years.

Interviewer: okay and was it for those entire for all those years was it in the IT industry?

#7: I think there's a huge IT part in it when we talk about.

Interviewer: Okay, okay yeah and so digital media

#7: Exactly okay, therefore. I think it's a mix between IT and digital media

Interviewer: okay and in those roles were you involved in contract negotiations.

#7: And negotiating parts of the contract for example the prices or let's says the amount or the service but I was not developing a contract because I'm not a lawyer.

Interviewer: just a couple of preliminary questions about the types of contracting that we see in business. so there's the traditional contracts which involve like the legal part where the lawyers drafting the specific terms and conditions of the be engagement, you know, price limitation of liability identification to cover for all types of risks penalties, if the parties don't comply with the terms of the contract etc. and then if things go wrong they go to the courts or they go to an arbitrator. so that's traditional transactional contracting as opposed to relational contracting which is about building agreement based on the relationship between the parties so it allows for dynamic relations, um joint problem solving extensive use of renegotiations to resolve a conflict that doesn't involve litigation. It doesn't involve going to the court, it doesn't involve going to an arbitrator and it's about a mutual future planning risk sharing and consequent rewards. So just in your experience, did you work from the client or the buyer side or from the supplier side?

#7: Supplier side

Interviewer: okay, so when you were assisting in negotiating price, what the services were going to be etc., do you believe or just in your opinion what were some of the benefits or negatives about traditional the traditional contract versus having relationship-based contracting or did you only see one certain type?

#7: No I think you have to differentiate between a like a scope of work summary. yeah you get to the client and the contract itself so we were negotiated the deal and then we had a framework where all the legal parts is covered up. You told me and we could adjust the contract based on the relationship part, okay, yeah and I think that was the best solution because the framework and you're safe a legal point of view and there are space to adjust the contract based on the relationship with the other side,

Interviewer: okay and then um as it relates to let's say if there was if there were some type of dispute going on in in your experience that you see contracts that allowed for a mutual resolution Of a dispute was strictly go to a third party, let them resolve it?

#7: okay with just you mean for example, if the client is unhappy and you want to get out of the relationship for example. for example or let's say this supply the client feels you didn't deliver what you said you were going to deliver yeah promote of the time there was something that can exit option well up in the contract so that means for example in easy words if the client is unhappy with our product or our services. On I don't know years a cancellation is a year, but you have the option to cancel the contract within the three months, so there was always an active option so we can avoid to go to court or to involve third party, okay and.

Interviewer: Okay yes so moving on then to vest the best in model, so have you heard of the vested outsourcing methodology before?

#7: No I have not

Interviewer: Okay, so I'm going to give you a short background on that and then ask you a couple of questions about the principles that the methodology is based upon and see and ask for your opinion whether those principles are feasible in an IT sourcing outsourcing space or whether it's those principles really wouldn't be effective or IT sourcing departments really wouldn't want to implement something like that. so vested is a model that's based on systematic collaborative outsourcing relationships in which companies and service providers become vested or mutually committed to each other's success by creating a long-term win-win relationship based on achieving mutual determined goals. So it's based on five key principles when applied to a business outsourcing practice that has the potential to transform the outsourcing relationship through innovation and to improve efficiency. So it moves away from transaction based risk adverse approaches to contracting and the goal is to be to create collaborative business a business relationships to create a set of working rules that can facilitate long-lasting relationships. So the model requires the parties to build a solid cooperative foundation for sharing value and it's about um, integrated outcome based business models that use value incentives to maintain mutual advantage.

Interviewer: So the first principal that vested is based on is that the negotiation process should focus on the outcome itself not the transaction. So the executives from the client and supplier side should come up with a shared vision statement that will govern the relationship moving forward. The focus is always on what we're trying to show you to achieve versus this specific transactions that take place during the life of the relationship. Do you think that that's something that IT providers would be interested in or that they already put in practice or are they more so focused on the transaction?

#7: I think this model is also trending in certain areas in IT and it's all so just so we understand it's clear it's about a contract where it's specified on the outcome. It's not about how we get there. It's just about come right? Yeah, yeah. It will have more benefits from the side of the clients rather than the IT providers. Okay, but I think I mean, I think I think the demand side like the client side will benefit for more from it because they don't have any risk anymore, but at the same time there's also a benefit for IT providers as I think it's also good for their IT providers because if the client will be happy with the outcome that the end of the day this will last until a long-term relationship. So for my point of view, yes, I think it's beneficial and I think it may be be able to be better than a purge is actual focused.

Interviewer: Okay and when you say that the clients don't have much risk, what do you mean by that?

#7: Clients want to achieve a certain goal throughout an IT solution. When six months and he will only make a transaction monetary if this goal is achieved. I think the risk is very low, right? Okay. Right compared to buying let's say services IT services or products without knowing the outcomes. So therefore I think the risk will be decreased on the client side.

Interviewer: Okay, okay and so then the second principal is that the party should focus on what they're looking to achieve not how. So there's clear work allocations outlined in in the contract and the client puts. Their trust in the IT outsourcer to achieve the goal, they're not trying to dictate how they're to achieve that goal they put that responsibility on the on the supplier

#7: yeah, I think it's better for both sides to be honest because the IT side has more freedom and space to make their own strategies to achieve this goals,

Interviewer: okay, and do you think that there is?

#7: There's any side or any thought process from the clients perspective in giving that level of responsibility or that level of trust over to you over to the supplier. So you mean like so...

Interviewer: so let's say especially when it's IT business, okay so company a knows what they're looking to achieve they have certain concerns certain efficiencies, they're looking to reach they're going in allowing supplier to dig to determine exactly how they're going to achieve it, it's sometimes requires a lot of exchange of information it may it may require some risk sharing. Do you think there's anything that would prevent or any concerns that would prevent a client from wanting to give that level of trust over to the supplier?

#7: yeah. I think it's mandatory. I think the time spending on and changing on discussions and sharing information and building trust is much longer compared to negotiating a contract where you have an exit option which is just focused on transaction. So I think the pros for the demands are for the client signed is that the risk is lower once you have your done with all the discussions and once you have talked to many different suppliers. So and that's the contrary side of it. I think you have to build trust and you have to. Spend a lot of time talking to many different supplies and making a deep dive and look how this organization is structured so I think there are pros and cons

<u>Interviewer:</u> okay and then the third principle is that the party should clearly define and measure what the desired outcomes are so that's through performance metrics performance metrics. I mean performance management. All that should be built into the contract and clearly defined.

<u>#7:</u> I mean performance management is a very broad. I think what you talking about like maybe the measurement. so you have measurement you detail exactly what you're looking to achieve how you're going to measure the success of those of those outcomes and then you also have a team that manages performance and it's both it's both parties working to do this yes. Okay, yeah, so what's the question?

<u>Interviewer:</u> Sorry, whether you think that that's that would be something that IT departments would implement or are there certain aspects that that just wouldn't work.

<u>#7:</u> Yeah, I think it only works to a certain point to be honest with you, okay guys defining clear goals which are measured can still some space of maybe miss understanding what actually success is right so. Yeah, I think on both sides different departments such as performance management will work together, but at the end I still think, on the other measurement side I think it's a challenge to create this. It's always perceived differently

<u>Interviewer:</u> okay and then the fourth principle is that that there should be pricing models used to incentivize the supplier to meet the goal so let's say for example, the client is looking to obtain efficiencies which may and in the end spell out savings for the client and because suppliers typically make more money when there's more transactions. Thinking place this may have an effect a negative effect on how much money supplier can make but to alleviate that the client has built-in certain incentive payments that will encourage the supplier to meet those efficiencies yeah definitely yeah.

<u>#7:</u> I think that's a module most clients would prefer it makes sense yeah.

<u>Interviewer:</u> Do you think suppliers like that type of model?

<u>#7:</u> um, I think supplies would like that kind of model if they ever certain experience in the market and if they have structured processes then they would like it. If you're talking about very small companies without defined processes and structures maybe can be different or difficult

<u>Interviewer:</u> okay and then the fifth principal is that for the governance structure to govern the relationship governance for transformation for exit management plans and case the relationship breaks down those governance structures should serve to provide insight into what's happening during the relationship versus oversight by the client. Okay, so let's say for so for best that they suggest you should have different teams that manages that that governs the relationship that makes you the relationship stays healthy that it's working team that manages transformation, so whatever the if the client is looking

to transform a certain department within their organization, they man they monitor that they I mean not monitor, but they manage it and they, Try and cater for it cater for any hiccups anything that goes wrong disputes etc. and then they also have a team that manages or creates an exit management strategy just in case client suppliers say hey, this is not working we need to we want to do these specific steps to make sure that when we in the relationship everything is okay. But and all those teams and all those plans that are put in place it provides insight for both parties into what's going on. Versus the client is creating all of these teams and is just watching supplier at every step of what's going on.

#7: Yeah, I think from the this supplier side it needs A lot of from the client side. I think it's depending on the trust level. So the advantage trust level the lower the control will be from the client side. so I don't think they're going to be a lot of teams would be involved if there's a certain trust and the longer the relationship is the bigger the trust is the lower the control would be from the client side, so therefore the lower will be the number of departments are going to be involved that's what I think from the client point of view. And I think this is also for the supplier point of view. I think this is the same yeah, okay great on this trust level and the and the relationship middle

Interviewer: okay and vested also encourages that the contract should have flexibility to cater for changes by in the client's needs in the suppliers needs and then the industry the contract should cater for or should allow flexibility of things go wrong. If things um, if needs change etc. without needing to you know, basically have legal redraft a contract. it's just built up with enough flexibility that changes can take place do you think that that's something I teach apartments and sourcing or outsourcing that they would want to implement flexibility in the contract or they're a little leery of doing that.

#7: personally I think they would like this. I think both sides would like this certain amount of flexibility, okay yeah fast moving markets and you know what that's what's happening right now with the Corona virus going on there's always something happening. So I think both sides want this kind of flexibility, but on the supplier side on the IT side, maybe having a bending contract which is a little bit longer would be a little bit more important than having flexibility. I guess okay, so you think that if the contract is for a longer period suppliers like okay, yes I'm open to having flexibility but if it's a simple transaction, they don't want it what they want it clear and set out yeah, I think so,

Interviewer: okay and as it relates to the mind-set of vested that they want that they want the clients and suppliers to have it's a win-win mind-set where the parties look for 'what's in it For we' and that's not what's in it for me. so do you think that this mind-set um could be embraced within IT outsourcing that that everyone looks for a win-win situation or is that just Not feasible?

#7: I'm pretty sure that everybody has this one with mind-set especially when it comes to IT and especially when it comes to long-term solutions and achievements from both sides some pretty sure if it's a good businessman they're both interested in a win-win situation a lot and.

Interviewer: How in your experience have you seen that type of how is that mind-set played out so from a client side of her supplier side?

#7:It's rock communication, okay having all the meetings haven't ever called understanding the other side and openly communicating what's the personal but also what the business goals are on both sides, so both sides can understand each other and if both sides are intelligent and long-term oriented. I think then they can find a win-win solution and, and I think that's also the experience I made okay

Interviewer: okay and then as it relates to shared value creation contracts where both parties are looking to share the value that that that will come out of the relationship do you see what are the advantages or disadvantages you see in practice with those type of those type of contracts?

#7: Can you give an example of a value in that case?

Interviewer: So, let's say, um. Like I was stating that that company A is looking for a certain efficiency, so maybe they have their global operation they have several different financial departments and they're looking to bringing them all in and make one single department. so the outsourcer is not going to take over 10 different departments, but of course that that would mean more money for the outsourcer but they won't want one department; but then in turn for the outsourced to achieving that they're going to incentivize them through payments, like bonus payments. Like you've achieved this level efficiency for me you brought me down from ten to one, I'm going to give you these bonus payments. Do you think those type of models work or are do they only work in certain situations the pros and cons of doing something like that?

#7: I think they would work and I think it's a very good idea because the IT outsourcing side is more motivated to achieve that goals if there are incentivized at the same time and they get more insights about the clients and from the client side. I think they have they defined clear goals also giving insights. Yeah, I just think that that's the best scenario for both sides, so I think it makes sense. I think from the client point of view to be really honest with you giving too much information can be dangerous as well. So as I said before it depends really on the level of trust and how long communication had been going on between both parties.

Interviewer: Okay, and so based on those principles and those I know that that the mind-set that that vested requires both sides to have, just in my readings and in my research, it doesn't seem that Vested has been used at in a on a large scale within the IT. Do you think that that's due to certain aspects of the model and certain hindrances or obstacles that will permit that have prevented the IT space from embracing a model like this or do you think that it may simply be because they just haven't heard of it, but they would embrace it?

#7: I think they heard of it but it does not make sense all the time. If you're new to the market and if you're new IT supplier and outsourcing most of the companies won't give you that kind of information.

Interviewer: Yeah, okay, so it's. So you think it's mainly companies who've been in this space for a long time would be open to considering something like this.

#7: At least companies who have a certain reputation okay now I think so. I can't I can't imagine that a huge company's give that man of insights to third parties but maybe that's interesting for you thesis as well. I think if the contract itself has a NDA agreement or something like that, maybe and they would do it yeah, okay.

Interviewer: All right well, um that those are all of my questions if you if you don't have any other comments I'll go ahead and wrap up now but thank you yeah.

#7: I hope it was helpful

Interviewer: yeah it was this it was definitely

APPENDIX B-8 Participant #8 INTERVIEW

Interviewer: Okay, so thanks XXXX for agreeing to participate. To comply with my university ethical procedures I want let you know that this is completely voluntary participation. your name will remain confidential as well as any information you may state in this interview as it relates to like company names you've participated with etc. that can also be redacted. The transcript will be attached to my dissertation in the appendix and then released at my university library where they print a copy but that's the full extent of it. So if you're willing to move forward we can go ahead.

#8: let's go ahead yes,

Interviewer: okay, so just to get a background on yourself and your roles in the past. Have you always worked in a sourcing type of role outsourcing type of role and if so what type of roles did you have in sourcing?

#8: The past have been roles in insourcing mm-hmm, but previously it was both in sourcing and outsourcing because I was looking at both customer side as well as the supplier side to bring about a situation that can holistically be provided to our customers. So it was sourcing services from the market and also selling integrating it as a system integrator company and selling it out to customers as well as a holistic solution, so it was both. I have six years in the sourcing team but my career is more from the legal side of reviewing contracts and analysing the contractual relationship in sourcing and outsourcing.

Interviewer: okay and then for IT, how long how many years of IT industry experience do you have?

#8: all six years six years,

Interviewer: okay, all right and I'm just going to get um your opinion on the differences between a traditional contracting and a relational contracting and based on your experience. I'm guessing you probably already know what I mean by that but if you want me to provide a bit more detail I can.

#8: What was the second?

Interviewer: so traditional contracting, you know legal is drafting a formal contract to cover for every single thing that possibly could occur like limitation of liability, penalty to something goes wrong, roles and responsibilities; versus relational contracting that's more focused on building the relationship ,having provisions in the contracts that allows for joint resolution of disputes, joint decision making as it relates to what the obligations are of the parties without having to go to a third party like a court or an arbitrator to resolve any issues.

#8: Okay, so which one do I prefer is that the question?

Interviewer: no the question is what advantages and disadvantages do you see in traditional contracting as opposed to relational contracting?

#8: Okay, um, so traditional contracting would be very one-sided. That's what I believe sometimes because most of the contracts are have to be drafted in keeping in mind the kind of role that the customer has to play and the supplier. So what portion of services and what portion of knowledge both the parties have to get on table to decide as in how decisions have to be made, you know together problems with the outcomes of those decisions. How do they resolve it using governance mechanism or a result together? But what happens with in a traditional is that some of the nuances of an engagement are not addressed and it's not flexible. Flexibility is something that's not, and it's very rigid. It's very watertight to be able to accommodate different scenarios that are there in an engagement. Now typically the IT industry has experienced is better movement from the development business model to agile. now what happens in an agile is that the customer as well as the supplier have to sit through a sprint and decide as to what is going to be the scope of the services so the sound or the order forms are not to justify the scope completely, and this is where I believe that a traditional contracting would not be able to provide an environment for an agile way of working. but yes, it does it does accommodate for a waterfall but that's not how we're working now we're looking at more faster more quick turnarounds and more discussion with the customer while they're working and the supplier is taking more inputs from the customer and working simultaneously. so contracting will have to be relation contracting so that it accommodated difference scenario and provides both the party to work in our in relation or together with each other so that's what I feel that's the fall back.

Interviewer: so currently in your experience of the six years, do you think that IT providers follow traditional contracting or are they more comfortable with relational contracts?

#8: In IT where the industries dynamic is changing a relation contract is deferred the other that traditional, but if it is an any other industry like manufacturing I would say traditional would be better because parties are aware of the responsibilities. A division of responsibility with the surprises customer so for an IT industry, which is so dynamic and changing with every or every moment I think relationship with the better okay,

Interviewer: and so have you heard of the vested outsourcing methodology before?

#8: No

Interviewer: okay so I'm going to give you a background on it and then I'm going to ask you a couple of questions about the principles that the methodology is based on and get your opinion whether those principles are feasible for the IT outsourcing space or whether they're basically, you know, too good to be true, or they won't work in practice etc. so vested is methodology that's made to establish a systematic collaborative and outsourcing relationship in which the cuss the company and the service provider becomes vested or mutually committed to each other's success by creating a long-term win-win relationship in achieving mutually determined goals. It's based on five key rules; when they are applied to the business outsourcing practice have the potential to transform the outsourcing relationship by increasing innovation and improving efficiency. It moves away from traditional transaction based and risk reversed approaches to contracting and relies on highly integrated outcome based business models using value incentives to maintain mutual advantage and requires a lot more collaborative solutions to create mutual advantage to achieve the desired outcomes.

Interviewer: so the first principle that the model is based on is that the negotiation process should focus on the outcome that the parties wish to come to versus the individual transactions involved. So for example the executives of the of the client or customer and the supplier should have a joint vision statement that's flowed down to all the staff that are involved that will govern their relationship and the focus of the of the relationship and the contract itself should focus on the outcome not you know, the individual minor transactions that take place within the engagement.

#8: Okay.

Interviewer: So in your opinion is that something you think within the IT outsourcing or sourcing space that they'd be willing to implement?

#8: I think it should. I think yes they should be willing to implement it because it's more suited to the industry with outcome. It’s the outcome is I think with the type the way the industry is so dynamic. I think it is advisable but you see any instances or vitamins yet actually a company implementing these principles so the amount of IT outsourcing examples?

Interviewer: so I'm just looking now to see whether IT professionals within working in contact negotiations would be would think of this type of principle or this model with all five principles, you know, join together would be embraced, going forward in contract negotiations. So in your in your opinion is it more effective to focus on the outcome versus the transaction or is it you know, or in your experience have you found that the those who were negotiating contracts like to just focus on okay, what am I buying what are the fees? Who's going to do what etc.?

#8: So okay now it completely depends upon what kind of services we are purchasing. Now it being at a tool subscription I would say outcome really matters whether it works whether it's able to handle the kind of expectation that our business has. But now if you're looking at more of a professional services, I would say okay now I need to know into go into details. If you look at a development I would then say okay now I need to go into the details of what's going to happen at what state what are the pricing at what level what are the deliverables also.

Interviewer: so that’s coming to my question have you seen instances of its application it's only because I believe the principle is valid and but it's not uniformly applicable to all engagements within IT industry?

#8: there are some engagements which I feel it's perfectly suited for like a product purchase something a lot but if it's more to do with enhancement development or so also for if edited when there is more flexibility and mobility required to be incorporated under the contract to be able to cover all kind of instances. I believe in those this principle may not stand on the it concentrates on the outcome, but sometimes you just have to configure on also a party interacting with each other and then coming up with what's going to be the outcome so the sow will be worth it in a manner to talk about what are the different stages and what are the expectation. But sometimes the means is to be decided in the contract, so what I'm trying to say is that this this principle is good. But it's not applicable to all type of engagements that we have in IT industry, that's what I feel.

Interviewer: okay and the second principle is that the contract should focus on the what not the how. So when so when they're negotiating the agreement and what's going to take place, um, they should focus on exactly what they're looking to achieve not how there will how they're going to achieve it. Meaning the customer is not trying to control how supplier is going to achieve the end goals. That should they shouldn't waste resources on trying to tell supplier what they're supposed to do because they're going to supplier because of their subject matter expertise. So the focus of the contract should be what is supply going to give me etc. and then how supplier achieves that's for supplier to work that out

#8: so in this case all in my opinion you have the IT industry has engagements which are fixed price and time material. in a fixed price engagement you would have milestones and you would have expectation link as in what is needed by the customer and X amount is paid when that what is being delivered hmm how they reach to what is on the supplier whether they have ten people they have one person is a customer wouldn't get what I care about is the outcome. But there are other engagements like kind of material engagements where the customer is worried about how so how you're going to do it how much time you put in what is the material output out of that time invested. so I believe that or again coming to the question that not all transactions are identical and not all transactions are copy of the other and that is a reason why they cannot be one principle to govern all engagements. But yes these principles are applicable in suited for certain types of engagements, that's what I believe

Interviewer: okay and then the third principle is that the agreement should have clearly defined clearly defined and measurable desired outcomes through performance metrics, performance management procedures, etc. like KPIs SLA's etc. so just like maybe it's having a team that's put together that has client and supplier staff involved to monitor the performance and see and just monitor the performance and see whether the things are working or going according to according to how they had defined..

#8: And what was the question?

Interviewer: sorry. Again, it's the same question. Is this working IT? Do you think that they're already implementing things like this or as you stated before possibly it only works in certain situations?

#8: I would say it's a hybrid what all because I have been in companies and I have seen a matrix being put into place which basically are the KPIs performance matrix. I've also seen a contract having a performance management in place where when they put in reviews and evaluation. S you know what I would also say that it differs and depends on the engagement and there is no stereotype approach to this. It could be a hybrid it could be a particular approach taken like a performance matrix. What is usually decided is applicable is depending upon how we've structured the engagement that I totally and whether or what is our intent is it how we want the services to be performed or what we want the services to be performed. So, I think again going back to the question that it all depends upon the intent of the customer upon what is being a taken and the kind of control that you want to have on the supplier, whether it's the end product or the needs to the end.

Interviewer: Okay, so if customer has more interest in the in how they're getting to the end in outcome, do you think KPIs and performance metrics work?

#8: Yes, okay. If it's kept yeah because it is how well the person is who's been deployed is able to book a work because at the end of the day what we're getting out of the contract are his skill sets in the concentrated on that.

Interviewer: but in turn though if it's an outcome, do you do you feel KPIs aren't needed if all we want is like a specific.

#8:Let's say if it's, for example a cloud migration, we just need these applications mood from on-perm to the cloud get me to the cloud and I'm paying you for that, do you think that in those situations performance metrics aren't exactly relevant? It's not relevant okay what event would be management of evaluating how many applications have moved over the period of two weeks and how long is there an anticipated delay or not or will the timelines as agreed or milestones were going to be followed that's all we get.

Interviewer: Okay and then the fourth principle is that the pricing model should be used or drafted in a way that will incentivize the supplier to meet the outcome of that the client wishes to achieve. so even for example of the client is looking to achieve efficiencies which because of in a typical fixed engagement, supplier is able to charge more; but if you're looking for efficiencies that cuts down on the amount of transactions that can possibly take place. But in turn by giving them incentive payments they can motivate supplier to still work to achieve that efficiency. Do you think that type of model works or suppliers don't like that clients don't like to use them models like that?

#8: Oh when you see incentivized what kind of engagement are you looking at so it's more like a value of a value.

Interviewer: Let's say they're like value incentive payments. So supplier I want you go from 10 applications to one main one that's going to be rolling over my entire enterprise. so suppliers not going to be paid for giving 10 great working applications, they're only going to make money on one, but because supplier has brought me down from having to spend resources that work on 10 different applications and I'm going to give him this incentive payment for bringing that level of efficiency to me.

#8: I mean at the end, it has to be a profit to engagement for both the parties. If you reduce one definitely you'll have to incentivize the supplier to ensure that he does that he let go of 10 or the form you have one order for me, please being able to be paid that much that he gets I mean. So unifying the license or having one tool in place to govern the dentist. I'm sure incentives would need to be able to do that because we have to let go of certain amount of business to be able to channelize the things from one avenue; but how they do it to the extent they do it that I don't know and that's more depending upon a commercial discussion how. but if the is going to lose 10 order forms, definitely gave the gate that there is some kind of incentive that the supplier would need from the customer, even if the customer does not want to do that okay, Interviewer: so okay and then the fifth principal is that um, the governance structure that's put in place by the engagement should serve to provide insight into what's taking place within the engagement versus oversight. Versus the customer monitoring every step of the way what supplier is doing?

#8: Depends on the engagement again. If you don't need an insight, you don't need to know what the supplier is doing each point of time, but if it's a time material then you definitely need an insight to see how the number of resources utilized because you're billed on an hourly rate or I don't know daily or something. So you're paying for the number of hours that is being invested. So you definitely need to know what you're spending on soon and inside that is needed, but an inside is not needed in a fixed price engagement, so it completely depends upon the stock of your engagement right.

Interviewer: so the model the model says states that in all situations there should be some level of governance. that's there the governance that caters for the relationship building maintaining the relationship itself maintaining any transformation that you know, customers looking to achieve and then to maintain exit strategies just in case the relationship breaks down so what vested says that traditionally and transaction-based contracting governance it's all about the customer watching every single step of supplier to make sure that they're there's not any there, they're not taking any opportunistic behaviours, they're not trying to steal information, you know, steal IP etc. or charge too much, um, make money off the customer. Vested the governance structure should not be drafted in a way that is giving customer just strictly oversight but more insight to understand when things aren't going wrong with things are going wrong it has a mechanism for i the both parties to work together to resolve those issues. So it's not so much an antagonistic or a conflicting type of attitude in the governance structure, it's about working together to resolve issues that may arise both parties are involved in doing that.

#8: Yeah I think, that works and it is to be independent kind of engagement. Coming back to one of your questions that governance could be a different in a form of API's of above his matrix engagement and performance management. But yes for a customer to have an insight and oversight is obviously capable because they need to understand how the services are being provided and what are they paying for whether they really want that kind of services. So I do agree that this concept is good but how it is applied the journey depends upon the kind of engagement it is. yeah it is the it's a very good high level principle but it's application would require a little work around the principles and the concept because it has to be crafted to suit the engagement need and the transaction and it cannot be just uniformly applied that's what I believe. Because as I said industry is very dynamic and keeps involving there are different answers of the business dealers, which are getting discovered every time I get into an engagement so I come up with another new part of an engagement. So I believe that because it's so dynamically industry the principal can be applied but it has to be analysed on case to your spaces,

Interviewer: okay, and then so vested promotes contracts that are more flexible and able to draft in a way that it's easy for them to adapt to changes within client needs changes within the industry itself and the environment changes within you know, what customers with the suppliers actually able to you know able to provide so what's your opinion on flexible contracts. Do you think in your experience in IT, do IT providers, like, Insourcing and outsourcing do they like flexibility.

#8: Okay, so no, I don't think they like flexibility because with a flexibility comes a price and if the flexibility has an impact on the commercials of the supplier, they're all preserved change requests that has to be signed to address a change and whatever has been agreed is always rigid. Yes, they do want to keep up with the demands of the customer, but if it is it has commercial impact on the supplier on the supplier than a change request is always for the case of just ability I believe suppliers are not very happy to have. They liked us always to outline clearly and to also clearly outline what is out of scope and what is included so that the pricing is done accordingly.

Interviewer: Okay, and do you feel that their desire to not have so much flexibility is because they're focusing more on than transaction than the outcome.

#8: No, I don't think so any kind of flexibility or transactional outcome any kind of flexibility from what has been a gate and signed what always have a commercial impact even if you're looking at transaction and outcome I maybe I don't understand the question that well, but if I mean, like so the transaction is this okay just focusing completely on the transaction, it's okay. so every time so every time my resource comes to your facility, we work five hours the fee is such and such point bait so that's completely focused on the transaction itself. I'm giving you five resources it's been five hours a day at you're at your facility, this is surprise boom versus the outcome. I need your resources to perform these level of configurations and upgrades to my system. So with the flexible contract it may say it may say um, you know, you know, basically this is the fixed price you're I'm going to give you these amount of hours and then you find out later you find out later on man, I need your resources come back because it's not working. Okay if we're coming back to you to work on this again, that's another amount of hours that I'm that that I'm going to bill you for so in your opinion do you think that that's how suppliers really think are they focusing more on okay? I'm expending more hours to you pay me for this or do you think currently now within the, Industry suppliers and clients are working better to get to the outcome. Well, I think I think the number of us have to put in the charge you for that. Okay, if it isn't either spatter, even if it's a transaction or an outcome, please something that is that is not agreed in the contract there is always a discussion needed because since the always a commercial implication of a flexibility, okay, if we're given five people to work for five hours and you ask one or more. You will be charged for that. So, I believe flexibility comes with a price that's it.

Interviewer: So vested requires or wants the parties to have a win-win attitude a what's a mind-set that says what's in it for we not what's in it for me what's in it for you? So do you think the type of mind-set would work in IT sourcing or outsourcing, um a what's in it for we mind-set. Is it just too good to be true? Or do you think that you know that's embrace sometimes or we'll be embracing their future?

#8: Maybe some information future but now I don't see that because it's not some win-win situation for either parties that one person. Yeah, okay now let me break this up. This is what I feel in situation as in if customer gets what they want with the amount of service levels that they are expecting the kind of product that they are expecting out of the engagement is a win for them at a price that they want to give. Now for the supplier it is the they have agreed a price they have a price that all the services are they providing it's they're getting that price add their own at other terms and condition which is favourable to them as well who work and innovate. So it's a win-win situation for both and both the parties. It's for the parties working together for an outcome or working towards the requirements of the South. But if you if you look at from the other perspective of are it a win-win situation is the agreement good for both the party, no because it's at the end of the day the customer takes on the service, he's basically paying you for that service. So it's not it's a good self for you. It's a good buy for that, but it's not like an overall it. It's not an overall good, but if you see from the commercial perspective, it's that's where I would say a vitamin situation is ideally defined and not overall good for. The parties like I wouldn't I wouldn't understand that but I would more concentrate on commercial win and the kind of services that they're I would more analyse this question from that perspective so yeah,

Interviewer: okay, so do you think from a commercial's respective you can achieve when but not on the whole? Or you don't think you can achieve win-win at all or it's just not you can achieve invent only commercially and from the services that you're taking yeah, okay and what is that and what is the other good service yeah and what do you and what part what part of the engagement do you think you can't achieve win-win?

#8: When the terms between the parties and all favourable that means it does not provide conducive working environment by the party, there are restrictions like most favourite customer most favourite prices or non-solicitation or some restriction, these are destructive clauses. so if you have these distributed covenants in the engagement or you don't have favourable prices, you've given a high discount with the customer to ensure the customers bind so that's something I don't consider as a win-win machine because somebody at is at an unfavourable position from the other party. But a win-win equation would be a conducive working environment no restriction with respect to the functionality, they're no restrictive governance signed between the party or there is the services are received and agreed in the manner that that is actually sold out. so customer gets what he wants at the price at a price that he wants to pay and the supplies able to pay gives the customer the product without any additional restrictions to be put in place.

Interviewer: okay and so what's your opinion then on so that's it doesn't from what I've read, um up into this point doesn't seem to be have been used that often in and outsourcing or sourcing spaces, um within IT. do you feel that this is because there are certain obstacles or hindrances within the model itself that would prevent it being rolled out on you know, a wide or is it simply you just think people just may not have heard about it, but departments would be open to implementing something like vested.

#8: Because it's a standard it can be there's a lot of flexibility that the, that the whole principal suggests and it also talks about performance evaluation insights outside; it also talks about what is the role of a customer and what's the role of our supplier how they can work in a situation. so what I believe is that it definitely can be you know implemented but because the industry is so dynamic it needs to be analysed on it needs to be his faces with respect to it's a implicate application because that could, Be restrictions as well or where all the principles of rested or physical cannot completely be followed and complied with that could be restrictions in the IT industry. because it's also going industry and the way we are engaging now we are structuring our transactions are also changing business doesn't do models are changing and because of which I don't the system, the industry can have a uniform application of this principle. But yes on a case two case basis sourcing should analyse whether this principle can be implemented for a better outcome for either party for either of them,

Interviewer: Yeah. Okay, well that's my interview, so thank you so much for agreeing to participate. Thank you so much.

APPENDIX B-9 Participant #9 INTERVIEW

Interviewer: Thanks XXXX for agreeing to participate. In compliance with the ethical procedures for my school, this interview is totally voluntary. If at any point you wish to stop you're free to do so it is being recorded but your name will remain confidential as well as if any time during the interview you for example name a company name something specific that you wish to be redacted you let me know and that will be removed from the transcripts. The transcripts will be put inside the appendix of my dissertation and given to the graders and then of course when it's printed and placed in our school library, it'll be it'll sit there. But that's the extent to where this transcript will go and there won't be any specific ties to you. So if you're fine to move forward, we can go ahead and get started.

#9: yes that sounds good, thank you.

Interviewer: great. So in your career, have you always worked in a sourcing role or if not you know, how many years if Experience do you have in sourcing and what types of roles have you had?

#9: I have had approximately five or six years in sourcing. Four with my current company, but previous to that I had approximately 10 years in civil litigation where I would have frequently been litigating and disputes over contracts as well as tortious disputes. But I would have worked a lot with commercial contract disputes.

Interviewer: Okay, and for how many of those years have you worked in the IT sector?

#9: Four.

Interviewer: Okay, and were you working from the client or the supplier side?

#9: When I was a litigation, it would have actually been both.

Interviewer: Okay, and

#9: but in when I was in-house it has always been on the client side.

Interviewer: Okay and I'm guessing for many of those years if not all you've been involved in contract negotiations based on what you've said.

#9: Yes,

Interviewer: okay, so I'm going to ask your opinion on traditional contracting, meaning the formal contracts that are drafted by, you know attorneys that will govern for all the eventualities that you know, That can be foreseeing in an engagement, you know, limitation of liability identification penalties for non-compliance etc. versus relational contracting which is all about joint problem-solving renegotiations and resolving a conflict without the need of a third-party like a court or an arbitrator. In your opinion, what are some of the advantages and disadvantages of the traditional transaction-based contracting versus more relationship-based and joint problem-solving?

#9: Okay, so I think the traditional contracting process is wizard to benefit the bigger party the deep rockets so I think it's very much weighted towards the stronger negotiating party and so there are clear benefits to that what I do think is that even for the weaker party it is possible to for example put a cap and liability to assess your maximum risk under that contract and walk away and say in doing this business the most harm that can ever come to me is x amount of dollars because that's what I have capped by ability. So that is good for you know, smaller companies, they can really mark up what their liabilities are in their books. So you know, if they're looking for further investment, it's something that they can really carry forward as a certainty a relationship builds. and I think it's clearly something that the whole world is moving towards and they're aren't always the same David and Goliath you can't always identify the stronger party, you know, if you look at Company H 10 or 20 years ago, it was a dark, you know, you know, so you have to be aware and I when you go into a contract as a David as the big guy that this smaller company that you're working with has the potential to argue in a shorter period of time so you can't go in with the same heavy hand that approach therefore that means that the majority of the benefits that a bigger party would derive from the traditional approach has

Interviewer: Okay and in your opinion based on your experience with representing IT providers and working in an IT sourcing space do you feel that that currently in negotiations traditional contracting is used or is relational contracting more prevalent

#9: 100% traditional contracting at the moment. I do see a push towards the relation but definitely it's reluctant in my experience it's reluctant that the parties they're both sorry, it's rare. they're both parties wanted it could be that a party wants it and they have leveraging that negotiation to really force some of that and approach but generally it's not something I don't think that's generally practiced.

Interviewer: Okay and so have you heard of vested outsourcing in the past?

#9: and briefly from an academic friend of mine,

Interviewer: okay, so let me just give you a quick background and then we can we can continue the questions from there. so that's it is a model that establishes systematic collaborative outsourcing relationships where the company and the service provider both become vested or mutually committed to each other's success by achieving mutual determined goals. The methodology is based on five key principles and the business outsourcing practice has the potential to transform the outsourcing relationship to increase innovation and improve efficiency. The model moves away from the transaction-based risk-averse approach to contracting and its goal is to create collaborative business to business agreements. It uses value incentives to maintain mutual advantage. so I'm going to just list out the five principles that the model is based on and get your opinion whether in the IT sourcing outsourcing space, whether these principles are currently followed or whether they're just a little too good to be true or they wouldn't work in practice.

#9: Okay,

Interviewer: okay so the first principle is that the negotiation itself should focus on the overall outcome that the party's wish to reach versus the individual transactions that are involved in in the engagement.

So this would also include the execs from the client and supplier side having a shared vision statement that they flow down to all of their staff below them that will govern their relationship so that the focus is on the end outcome versus the tiny transactions that will take place during the relationship itself. Okay, so in your opinion do you think that this world working at IT's a sourcing outsourcing environment or?

#9: Yes, I can see it working and I can lie. I can't say that I haven't identified that approach being taken in business processors in contracts, in their outsourcing processes and entire in-house activities as opposed to individual and service engagements. oh and practically instead of having an ace statement of work the set side a particular deliverable it is an it's a more generic joint goal that includes innovation funds that includes governance, you know, really strict governance to make sure that everybody is you know, targeting and working towards that goal and check-in points. so it is definitely something that I think should be brought more into and should I take contracting. I have seen it.

Interviewer: And do you think there's certain areas of IT that may not want to apply something like this or it just wouldn't work.

#9: Yeah. I mean, I think for your traditional sass subscription, you know, there's no need. There's no joint work. I'd come you know, really. It's just like we need this. It really is it's going to be kind of you know, the service having engagements.

Interviewer: Okay, the second principle is that the party should focus on what they're looking to achieve not how they will achieve it. So they should there should be clear work allocations who are who is responsible for what but the client shouldn't tell the supplier how they should achieve should shouldn't waste resources trying to describe to supplier how they should achieve that in that end outcome. They should allow Supplier to use the expertise that they and they say they have to achieve the outcome.

#9: Here I mean and an ideal world what you're talking about is definitely better but that requires in my opinion an awful lot of really effective due diligence, mm-hmm. They hmm the supplier has got to demonstrate at the point before you get to contract their ability to do these things and show how they do them and make sure that the process is that they use are compliant with what's the customer is looking for and so yeah. I think I think that it's possibly ideal from a contracting perspective but I think if you contract that way you can't just ignore the need to be aware of how they're carrying like this work you what you have to do is you have to find out before you contract perform your due diligence and then say okay we've built this level of trust we've decided to go forward with contracts in order to go forward with contracts we're going to build on that trust and not put all this detail into the contract.

Interviewer: Ok, the third principle is that the parties should clearly define and measure the desired outcomes by and by doing this they can have performance metrics performance met performance management, etc.

#9: Yeah, absolutely and I think that is quite I think that is probably the closest to across over you have in the traditional method.

Interviewer: Okay.

#9: Yeah. I think that there is something that shouldn't be too much of a deviation from what we're currently doing. You should always be measuring your KPIs and you're SLAs. Yeah.

Interviewer: All right, okay, so then the next principle is that for the pricing model it should focus on incentivizing the supplier to meet the end outcome. So the pricing model that that that selected. For the engage. Agreement let's say for example, you're the client is looking for certain efficiencies well by getting efficiencies brought into the organization it may reduce the amount of you know, fee transactions that that would typically take place so but by putting in into the pricing model incentive payments for the supplier, it will invent devices supplier to achieve those efficiencies for the benefit of. The client so kind of like value pricing models.

#9: Yeah, I mean. My critical thought on that would be it's not always that the parties agree on the sweet spot for pricing say for example, you're doing a software development business process and it's sourcing agreement and you're with a company that has a significant number of resources offshore that are cheaper than a gymnastic resource to an absolutely the sweet spot and the incentive on the pricing there would be led us to more of this offshore, that's not necessary. What you're going to be wanting if you have this business process of you have this and software development but it's on a lot of say applications that have very heavy security restrictions you're going to keep them onshore so it's you're going to want to incentivize the supplier to create automations that can be used domestically as opposed to just sending everything offshore. So then you're balancing what I would say this sweet spot of Offshore resourcing for the supplier versus the reliability and this security of automation that you can run domestically mm-hmm so as a principal. It may work on less complicated deals yes and very simple deals that will work but I do think it's I do think it's limited and the more compacts the deal the less likely it is to apply. I don't think it's a generic. And principal yeah, okay

Interviewer: okay and then the final principle is that the governance structures that are built into the contract that handle for the relation the management of the relationship itself management of like the transformation that at the client maybe looking to achieve exit management strategies in case the relationship breaks down all of those government structures should be built with the intent to provide insight. Into what's going on versus oversight by the client?

#9: I mean this is something that could apply to every contract and shoot apply to every contract. I'm here awkwardly without merits is a contractual nightmare and it's an operational nightmare so I think the idea that that you're not taking your boxes by having the right number of meetings producing the right number of reports, but genuinely providing. Useful information and higher project is running that there is I did out as the most valuable part of any follow-on relationship after a contract so I think that's amazing yeah, okay,

Interviewer: okay and vested also promotes flexibility in contracts so that it will cater for changes in the needs of the client changes in the ability maybe of supplier to provide a specific part of the service or changes within the industry itself. So do you think within IT sourcing outsourcing space that flexibly flexibility and contracts is desired or are they you know, leery of putting those flexibility mechanisms in place?

#9: I'm thinking operational flexibility definitely is required. I mean, if you think about it an awful lot of IT companies, you know, they're in their infancy, they're young, you know, they've changed massively so a contract that they may have signed up to five years ago may not reflect the company they are today. so yeah, absolutely I think to that extent definitely but also there's so much more fear and need for protection around what IT captures especially in the form of data and the systems it touches even if it doesn't capture data it's touching systems. so I think people want really strict parameters around what they can and cannot do and those instances so I think it's kind of it would apply to some areas of IT, but it would be the opposite of where IT is going and others, okay.

Interviewer: Okay and then to follow on Vested also has a mind-set where they want to achieve win-win for both the client and the suppliers. So they call it a ‘what's in it for us’ concept as opposed to what's in it for me what's in it for the supplier etc... So do you think that that's a realistic mind-set that IT providers would undertake in a sourcing engagement or are there? Is it just you know, they're just not open to it?

#9: Yeah, honestly, um, I think the partnership approach it's common the walks in it for way, yeah, absolutely I think an IT I think it's the most open to that and I mean in my experience there have been times where I have been negotiating a contract and I'm wondering how an earth were given as much as we are high enough high and earth were the one putting all the money out and yet this is all about the common good so I'm like well bring something to the table with your common good we're giving you so much money, but it out of me having the More traditional old approach and I do I have found my approach is clearly not caught next and I've had to adjust higher approach when dealing with IT companies so definitely it's not I do think yeah the what's in it for we is permitting the IT contract in process, okay partnership approach where I am where I'm familiar yeah, you know, we're looking to have bills strategic partnerships if you're a strong company, we're a strong company we're trusting you we want you to do well, you know,

Interviewer: Yeah and then so your um for shared value creation contracts were they were the parties want to share the value that that comes out of and engagement so the client gets outcome a supplier gets, you know this amount of value for fees etc. do you think that those that that the IT industry in sourcing in particular?

#9: Outsourcing and sourcing in particular that more of these providers are moving to that type of model. And to be credit less. I haven't seen that know okay. I die haven't I'm probably seen it once and I think people are just definitely still more inclined to be fit to take a contract and divide up. I get this you get that I get this I provide consideration for that. I think people prefer a real clean cut and deliver kind of division of deliverables, mm-hmm. I not sure about am whether or not. That's the stand able. I mean, I don't know I'm thinking of the one time that I did see it we are getting the benefit of the deliverables as opposed to adding sort of proprietary ownership over them, so. You know, if the intention is on this premise that you can divide our ownership. I don't see that working but if it's to. As kind of ascribe benefits from deliverables. And. Individually then yes it could work does that make sense yeah I think yeah, no, no, no. I understand what you mean.

Interviewer: in your opinion just based on your experience, do you believe that um, IT outsourcers IT sourcing departments would be would be open to implementing this in the future or are there just certain aspects of the model that the providers just wouldn't be able to sign up to?

#9: and that makes plain why it's not that prevalent yet, you know what I think I think like I have seen I can probably identify two major contracts that I would say definitely followed. Four of the five principles, mm-hmm, oh I yeah okay the one that I don't think it really focus on was the weighted payment, you know, which towards your goals yeah. I don't think there's a common sweet spot on it, but um, I think when I look to the time that I've seen those principles being used they were directed from SVP level directors. they were directed from guys that have been using that have already done the transition say from waterfall to agile that have got used to this kind of more trust relationship thing. the time that I've seen is that's where the kind of the push was and there was a natural pushback from the legal team because legal teams are so much more conservative right because it was coming from such a high level on the project we were kind of you know, we were we were moved along that line. so I think with IT it'll come to IT a lot quicker than it would go to any other and you know kind of industry and I think going to be met with reluctance by the legal team but it's going to be inevitable and it's going to be a follow-on from the move that IT generally it has taken from waterfall absolutely controlled to agile, so I see it as a natural progression.

APPENDIX B-10 Participant #10 INTERVIEW

Interviewer: I appreciate you agreeing to do this short notice. So to comply with ethical procedures of the dissertation, this participation is completely voluntary. Your name will be confidential in the transcript as well as if you for example say any company names that you wish not to be, you know released in the transcript that can also be redacted. this transcript will be attached to the appendix of my dissertation for my graders to look over an examine as well as when the dissertation is printed and placed in our school library your transcript will be added to that to that copy; but there will be no official ties to you in any way. So if you're if you're willing we could just go ahead and move forward.

#10: Yeah that's fine

Interviewer: okay thanks so just to get a um, a bit of a background on yourself before I start asking questions about um, you know contract methods and the main focus of my dissertation which is vested methodology. in your career in the past, have you always worked in a form of a sourcing role or um, and if you have what types of roles have you had in sourcing?

#10: So the role that I started working is something we call over here as a contracting role,

Interviewer: Okay

#10: Yeah contracts. The supply of contracts as well as the customer contracts which means sourcing in and outsourcing. Both. So those are the kind of contracts that I have been working on since past five years. Initially I was talking with an IT company, so the kind of contracts was different. Currently I'm working with the time manufacturing company. So the kind of contracts are different but the concepts remain the same okay, which means there's a set of contacts where in via procuring something and there's a set of contacts wherein we are selling.

Interviewer: okay, and for how long were you working in an IT industry role.

#10: Okay about three and a half years in the IT sector

Interviewer: okay and for all of the years that you have experience working with contracts, you've been involved in the negotiations of those contracts.

#10: Yes, okay view negotiations all of it okay and something that we call end to end contracting. so what it basically means is the point of time that you receive a contract from the other party you pick it up from there you review it you negotiated you close it and you finally sign it,

Interviewer: okay and so from your role within with the IT sector was you working from the client side or from supplier side?

#10: I was looking for the supplier side

Interviewer: okay and so just to get your opinion since you've worked from the supplier side, um, of course you have traditional contracting which is you know, the formal contracts drafted by you know, legal counsel that covers for every eventual situation that can take place during the engagement. It covers for a limitation of liability, indemnifications, responsibilities of parties, it covers for penalties, if you know, the parties don't comply with the terms of the contract etc... so there's certain well in your opinion, I'm guessing there may be certain advantages or disadvantages from that style of contracting as opposed to what is unknown as relational contracting which is focused on joint problem solving renegotiations resolving that the conflict between the parties without the need of you know, a third party like a court or an arbitrator etc.. So you know in your experience, um, what are some of the advantages and disadvantages of both the traditional form of you know, formal contracting versus relationship based which tries to allow for joint problem solving without the need of a litigation about the contract?

<u>#10:</u> okay, so basically the way we draft a contract and the point of time when we draft a contract is before the relationship begins. so after a non-disclosure agreement is done and you decide that you finally want to get into a formal relationship with the customer what you do is you will respond the terms and conditions on the basis of which you want to do your business, which as you mentioned your limitation of liability, and then the IPR then is all of this come in that contact. But the intention of this contract is not that later on, you know, this will be taken up in a court of law. So usually the way we built this contract is we also built in our mediation to see things we build in a time for the parties to you know, negotiate in case of any dispute. and in my experience what mostly I have seen is if there's an agreement okay at the beginning of the relationship later on when there is any issue that comes up it's much easier for parties to resolve it outside the court because this certain terms and conditions that you have agreed to that forms the basis of the discussion between the two parties and it was a lot easier to negotiate it out of court and in you know, keep the relationship going instead of just going to a court. what happens is when you don't have a contract in the first place at that point of time when they and you're working with the other party then when there's an issue that comes up then that is something that becomes a challenge because there's no base for you to start discussing or you start discussing on the basis of what is the opinion of either of the parties. It is not a formalized contract that states that this is what needs to be done and effectively outside the court settlement is something that always works in the favour of parties as compared to our judicial intervention. The customer or the supplier always seen outside court settlements working a lot more effectively than going to the court. In fact, even in different jurisdictions, I have seen this that you know friendly negotiations are much more helpful than going to the court.

<u>Interviewer:</u> Okay, and so in your experience within the IT sector negotiating the contracts there do you believe that you know, the customers and your company that you worked for favoured more of a relational relationship-based approach to forming their contract in and putting in mechanisms that allow for joint resolution of you know, disputes versus you know, having strong penalties and you know litigation-based litigation focus provisions within the contract?

<u>#10:</u> They want to even in my experience and the IT sector as well as the manufacturing sector whenever contract is drafted it is more from the perspective of a relationship based contracting it is not from the perspective that you know, what happens when this if you know an issue comes up and it has to go to the court. It is more of a relationship based contracting wherein the customer always requests ,

they want something that is favourable for their business. But somewhere what happens is when you negotiate the contract and it's more of your relationship building exercise. So you come to a middle ground so effectively the customer gets for the customer wants and the service provider is not in a very bad situation because both the parties understand that this relationship that they need to build they need to support each other for our good outcome.

Interviewer: Okay, perfect. And so in your experience of the last couple of years, have you come across what's known as the Vested outsourcing methodology.

#10: I'm sorry what outsourcing the thought methodology best did vested.

Interviewer: Vested

#10: no, okay. I mean if you can explain the concept then maybe yes but I'm not heard of the model such.

Interviewer: Okay, so I'm going to so my dissertation is based on this methodology and so I'm going to give you a bit of background and then ask you, um based on your experience your opinion of the principles that the methodology is based upon and whether they're feasible for the IT industry. So vested is a model that establishes a systematic outsourcing relationships in which the company and the service provider both become vested or mutually committed to each other's success by creating a long-term win-win relationship in achieving mutually determined goals. So it's based upon five key rules and it moves away from the traditional transaction based and risk-averse approaches to contracting and the goal is to craft collaborative business to business agreements and create a set of working rules that can facilitate successful long-lasting business relationships are mutually determined and desired goals

Interviewer: so the first principle that the model is based on is that the negotiation process should focus on the final outcome that is desired by both parties versus the individual transactions that may take place during the relationship. Okay so in your opinion do you do you find that you see this within the IT space already or is this something is it um, is it uh, they basically does focusing on the outcome versus you know, individual transactions is that just not working in practice.

#10: At this is not happening and I thinking it's the exact opposite. the IT sector when you start negotiating a contract you start discussing a contract you do look at what is you know desired out of this contract what is the what is it that the customer wants. but when you are negotiating it when you are discussing it the provisions that you build in most of them are more from the perspective, how do I protect myself, how do I protect my company it's not from the perspective that you know. It’s a relationship both of us have to come to a common ground, which is the common. Company D it is more from the perspective that how do I protect myself that's the first thought that is there and that is you know told to everyone that is how contact needs to be structured the best way to structure a contract is to protect your company as much as you can.

Interviewer: Okay and so then the second principle is that the parties, when they're negotiating the contract should focus on what they're looking to achieve not how they wish to achieve it. So in the contract it's built out clear work allocations for who is responsible for what and the client is not detailing to the supplier how they should go about achieving a certain outcome. They put that responsibility on the supplier they put their trust they give as much information as needed and they basically trust the supplier to get them to that final outcome.

#10: I think that is something that happens on a case by case basis, okay. When they are talking about contracting for the IT sector, I would say that it is split into two major parts. Okay one is something that is known as a fixed price contracting, and one is something called time and material engagement, which from a Europa perspective can also be seen as our temporary agency working engagement. So now what happens in a fixed price engagement mostly is that the customers say that okay fine this is the agreed price this is what I need how you achieve it is up to the Supplier to do it. How this supplier makes it happen but these are the timelines within which there's a sort of outcome that the customer requests, okay. So effectively in a fixed price engagement, it's more at the discretion of the supplier how to make it happen how to ensure that the customer gets what the customer wants. But when we are talking about a time and material engagement, a customer is asking the supplier for certain resources those resources are absolutely working at the customer's discretion as well, whatever the customer is saying as for whatever requirements the customer has. So when that's an area there is absolutely nothing that is at the discretion on the supplier in that scenario everything is, every minute detail is also controlled by the track so effectively. It depends on what kind of contract that you are entering into with the customer the methodology followed will differ okay,

Interviewer: okay and so then the third principle follows on the on that and says the parties should clearly define and measure the desired outcomes through what would be performance metrics and performance management mechanisms.

#10: Back to something that is done in every single contract and if you see the liquidated damages there so obviously I did there are you know certain time frames that are given and what is the outcome that is desired what is it the supply has to do this is usually I've always seen very detailed in a contract mm-hmm.

Interviewer: And then the so you think this happens in in all contracts within the IT sector?

#10: I will take you to 90% of the contracts this happens

Interviewer: okay and so the fourth principle then is that the pricing model that selected for and outsourcing engagement should focus on incentivizing the supplier to meet the outcome that's desired by the client and not so much, you know individual fees so you know. for example, if the client wishes to achieve a certain level of efficiencies, those efficiencies may spell out to you know, bring savings back to the clients, but that sometimes has a negative effect on how much money the supplier can earn. But by building into the pricing model incentive payments, um for the supplier this can encourage them to do all they can to meet that efficiency. Have you seen that in practice um, and do you think this actually works?

#10: I have not seen this and practice it. I am not sure to be honest but I have seen it the exact opposite okay, it's it the what the customers say is these this is the outcome that I need this is the time frame within which I need the outcome if you can't achieve this efficiency level or you can't achieve this outcome this is the penalty that you will have to pay there is no incentives that I have person saying in the IT sector that is offered to a service provider by the customer. That is something that I've only seen in the marketing contracts not your IT contracts,

Interviewer: okay and then the fifth principle then is that the governance structures that are built into the contract to help with managing the relationship, managing any transformation that takes place that that the client is looking for throughout the engagement to manage, you know, exit strategies just in case the relationship breaks down. These governance structures should serve to provide insight for both parties into what's taking place at any time during the engagement versus oversight by the client.

#10: Is something that is usually there in most of the contracts...at least the contracts that are high value contracts, they always have a governance structure. they have certain people mentioned, you know whom you can go to they have this entire exit strategy mentioned they have certain meeting time periods mentioned that you know, these are the time periods within which governance meetings will happen., even when things are going right just to ensure everyone's on the same page everything is on track and how you know, what are the for the steps that need to be taken. so always seeing governance being there in the high value contracts at least

Interviewer: okay and in your opinion, do you think within the IT sector that they would prefer the governance structure to give insight or do you think it's more focused on the client watching the supplier and making sure that supplier is meeting all of their requirements?

#10: It's more of the clad watching the supplier

Interviewer: And has that been effective or do you think that there are some disadvantages to that?

#10: They are disadvantages and advantages for everything but when we talk about a governance structure and you know the client trying to monitor what the supplier is doing, sometimes clients don't understand there's a supplier has certain capabilities because of which that entire work has been outsourced to the supplier in the first place. if the customer had the capability to perform that job it would have never outsourced it to a supplier so the customer needs to understand that if the supplier is suggesting something in the customers opinion, it might not be correct, but since the supplier is the expert of it they need to give some credit to the supplier and not try and enforce their point of view and say that this is how it needs to happen because sometimes practically what the client is asking for is impossible.

Interviewer: okay, okay and so with vested them encourage flexibility within the contract. so have flexibility built into cater for changes within the client's needs changes within the ability of supplier maybe to perform or maybe even changes within the industry that or the environment itself that may affect certain aspects of the engagement. Do you find of the IT sector that they like to have flexibility both into the contract or do they prefer, you know, more rigid terms?

#10: With your terms and what they always say is that in case of any deviation or any change in the environment or any change, you know required by either of the parties there's a change request that needs to be entered into between the parties. Which means that for any change there's a written document that needs to be signed between the parties okay? so even if it's just, you know, a little bit change in scope the parties need to enter into a written document., but what the customers very smartly do is if there are services that answer to the services of the customers requesting. The services the customer expects to be a part of the current scope of work and not change the questions required for that no change in fees is required for that, but the moment the supplier says okay that there has to be this change that is required the customer immediately wants to sign a formal change request, okay? That is something that you know, the customers try and as for their requirements and as per their needs and as for what is favourable to them.

Interviewer: okay, okay and so then best it has a mind-set or I guess a concept that they like to promote and that's a win-win or 'what's in it for we' concept versus what's in it for me, wasn't it for you. Do you find that this is something that you that that we see in the IT sector or is it something that you see that can potentially be embraced in their future or is it just too unrealistic?

#10: So as of today this is absolutely not you can't say it in any of the contracts so then you have the customer. Okay think of even a single customer who would actually believe in this concept and I think that we are pretty far from accepting this concept and being able to implement. It it's going to take us quite a few years to get there because as of now there's a very set rigid mind-set which even if you try people is not willing to change. It's something else has been prevalent for too long for people to be able to change adapt the new mind-set. so while I do think that it is a very good mind-set and that the current contracting mind-set needs to change I do believe that we are pretty far from making any changes it's currently myself everyone friends for their own company,

Interviewer: okay, okay so in your opinion considering all the five principles that Vested is based upon …well currently in my research I haven't found many examples yet of the vested methodology on a whole being implemented within the IT outsourcing space. But in your opinion, do you think that this may be due to the fact that people just don't know about the methodology or is it because there are certain parts or aspects of the methodology that just wouldn't work within IT at this time?

#10: I believe it took combination of both okay. So one people are not really aware of this methodology and two it is also that this way of doing business okay in the IT sector. It is always that the customer has a upper hand as compared to the service provider, okay. So of course they wouldn't want to change that. They don't want to build a relationship they like maintaining the superior nature that they have in a nitric contract.

Interviewer: Okay

#10: so for them to change the entire mind-set it's I don't think they would think it's too favourable for that for them as of today you go to any customer across the globe. I have worked with Australians. I have worked with US people I have worked across most of the countries in Europe, India, of course, I have worked with some of the Indian parties. each one of them the moment you talk to a customer they have certain mind-set, which is that the customer is superior and the service provider is supposed to, and he's getting paid to do what the customer needs okay. so the mind-set and accepting this entire concept that you are talking about I think it's going to be very challenging and as and I don't think customers are going to be very happy with it while it is very favourable for the service providers and service providers would love to adopt it. I don't think the customers will let them do that, okay, okay so in your opinions or suppliers this works much better.

Interviewer: Yes, okay. All right well that that pretty much drops up my interview, um, if unless you have any further comments we can go ahead and close out the interview and

#10: okay. It was.

APPENDIX B-11 Participant #11 INTERVIEW

Interviewer: Okay, thank you for going to participate in this interview. In compliance with my university's ethical procedures this interview is completely voluntary and if any point you wish to end the interview you are free to do so. The transcript will be recorded but your name and any information you may state during the interview as it relates to a company name etc. will be redacted from the transcript. The transcript will be given to my submitted in the appendix of my dissertation and submitted to the graders and then as well as attached to the appendix when it's printed and placed within my school library. But if you're fine to move forward, you can say yes or no and we can go ahead and get started.

#11: Well, I hereby officially request that you redact my name the companies that I name and every other personal information.

Interviewer: Okay, so in your career in the past, have you worked in and outsourcing role and if so has it been the IT industry and for how long?

#11: I've worked on the sales side for about how many years maybe three years something like that, two three years. And wouldn't IT yes software development and actually a bit longer it was about five years.

Interviewer: Okay and you were working from the client or the supplier side of the table

#11: supplier side.

Interviewer: Okay, and were you involved in contract negotiations? Or at least the negotiation process and coming to an agreement.

#11: Yes.

Interviewer: Okay, now I have a couple of questions about your opinion on the differences and the advantage of disadvantages of traditional contracting meaning the traditional formal contract where a lawyer would draft a formal agreement that would cover for all the potential events that may take place during the engagement as a real as relates to roles and responsibilities penalties at the parties don't comply with their with their obligations under the contract. Just to govern for any risks that may take place agency costs value leakage and supplier opportunism. So we had that traditional form of contracting and then you have the relational form of contracting which focuses on mutual resolution of disputes renegotiation of term for the new contract to resolve any conflicts without the need of having to go to a third party like a quarter an arbitrator etc.. It would incentivize mutually acceptable solutions better communications and in an informal working relationships. So in your experience and working from the supplier side of the table, what are some of the advantages to the disadvantages of having of when negotiating a contract focusing on the more traditional side or as opposed to advantages and disadvantages of a relational approach?

#11: Well if you look at the traditional way of doing business where the contracts I would say in my experience, it will be sort of less of an maybe upfront investment from the company to really deep dive into the put the time and the effort to build and relational type of contracts. I would say the traditional way is easier to set up for both parties. I also think that if you are in a relationship with a partner that you don't necessarily want to see as a long-term, you know relationship or you don't want to be in that that specific partner with a lot in in the long term relationship it it's also better for you to probably have a contract that doesn't put you in that in a structure with that with that partner. Oh also if you want to make sure you cover up a risk or potential risks more and better you want to make sure that that's covered as well. so I think it's less risky but I noticed I can limit potential players to develop more value, that is then that is actually written down in the contract so that might be disadvantage and also it's a very transactional way of it's more of a transactional way to do business. So you know I cannot see a lot of partners, a lot of companies doing more than was in the contract to sort of flow to make the ratio even better in the long term.

Interviewer: okay and so um in your experience within the IT industry do you think that the IT industry currently uses more traditional forms of contracting or art or is the more relationship building approach taken?

#11: Hmm. Definitely in my experience more new traditional approach because I mean when it comes down to IT, I think there is definitely room for relational approach, especially since big complex IT solutions are not just transactional but can really transform a business and therefore the partner the supply and might be in a good position to be actually a long-term sort of relational partner; but as of now in my experience, it was more so the traditional way of contracting

Interviewer: okay, so have you heard of vested in you're in your dealings with an IT,

#11: nope,

Interviewer: okay, so I'm going to give a background on bested the Vested outsourcing methodology and then asks your opinion on the principles that the methodology is based on and whether you feel those principles are applicable to you IT sourcing outsourcing environments or whether they're basically just too good to be true. so vested is a model that wishes to establish systematic collaborative and outsourcing relationships in which the company the service provider both become vested or mutually committed to each other's success creating a long-term win-win relationship based on achieving mutually determined goals it moves away from transaction based and risk adverse approaches to contracting. It requires parties to build a solid cooperative foundation for sharing value. It's highly integrated outcome based business models use the value incentives to maintain mutual advantage.

Interviewer: So for the first principle that vested is based upon it states that the negotiation process should focus on the outcome that the parties wish to achieve versus the individual transactions that would have been involved in the engagement, mmm, and it may also it would also include having for example a shared vision statement from the executives of both contracting parties which those that vision statement will govern the relationship going forward and will maintain the focus on the outcome Versus individual transactions. Okay so in your opinion, do you see that this would occur this can occur in in practice within IT outsourcing or is there something about that that principle that would keep a certain companies from implementing it?

#11: I in theory it sounds very good and also I do see a lot of different aspects that can be extremely valuable, for example the value-based incentivizing. In real life I think it's going to be very challenging because I see a lot of risk in sort of having a lot of so loose ends in in the contracts based and with the argument of okay, we're going to try to solve this because I've this shared shred vision. I think probably a combination of the traditional and the vested way can work best in which you have very solid agreements, but at the same time a value-based incentivized system, so maybe the combination of both would be will be better.

Interviewer: Okay, so the second principle is that the party should focus on what is going to look into achieve not how they wish to achieve it,

#11: okay, so the first was only about the mission to shared mission statement

Interviewer: that was the first question about the principle that the negotiation should focus on the outcome. This is the second principle that the focus should be on what they're looking to achieve not how they how they will achieve it so there's clear work allocations the client is not telling supplier step by step how they should go about achieving that goal, they're not wasting resources doing that they're putting their trust on the supplier to get them to their outcome,

#11: okay, um, I see the efficiency games that you can get there, but I also think that more and more now the focus is being put on the how as well in businesses, especially when I look at my experience and my business now. I'm not sure if that can work especially for companies who are very much in the sort of public spotlight. the how is very important to so if they have suppliers in their holes or the value chain that they bring in and that they say okay, you can figure out how you do it as long as you give us the results that my that might bring some things in organization that you don't want to or it might stimulate some people and negative. So what do you mean by that?

Interviewer: let's so in that for example. I'm mainly with an outsourcing you're giving over a certain role of your business or certain aspect of your business, you know, yeah to be taken care of by that supplier. For example if you if I hire a company and I said I just want you to give me efficiency gains. I will you know, get my cloud division to you and you figure out how you do it.

#11: I don't care how let's say that company will outsource to specific errors in the world where pays are extremely low and their workers are paid well and you know, you get you get the gains but the how is not governing the contract. for example companies who have a sustainability focus you say the how does it matter but as long as you do it and they do it in a non-sustainable way that can cause issues for especially bigger firms who have more than only the bottom line to think about but also their reputation and also the way they do business. If you in your high level vision at least agree on the key areas of how you would like the business, how you like would to do business in a broad way and the supplier knows your vision there then it might work.

Interviewer: So then the third principle that is at the party should clearly define and measure their desired outcomes through for example, performance metrics performance management mechanisms. so they had their KPIs they had their SLA's their expectations all that is clearly defined clearly able to be measured so they can track the success of the work being done.

#11: But isn't that a lot of times the case in a traditional way of contracting as well?

Interviewer: yeah, I'm just I'm just saying do you think that

#11: oh yes, I think that's important. I think that's very important. I believe that the KPIs and the performance measures of the contract should be tied into the KPIs of the business. so the party who is hiring supplier, this would be it should be a very tight link to that and so whenever it is applied we'll do something it will have a direct positive impact on or negative of course on the on the business KPIs of the of the company. The KPIs at the supplier is committing to should align to that is that what you're trying to say yeah. I think that the main in every sense the main thing is of course a business school that they need to achieve with that outsourcing project or with you know, with hiring the supplier. So I think the supplier should be aware of the main business goals yeah of the company that they're doing basis with and then in the contract it should somehow there should somehow or some way have a reflection of those business goals. Maybe not of course a high level but a breakdown if you break the open business goes down it should be flowing into the main business goals so that this supplier is contributing to the long-term goal of that of that business with the outsourcing project.

Interviewer: the fourth principle is that pricing model incentives should be used to incentivize supplier to meet the goals of the client and for vested a lot of times in this situation from what I've read the examples, they have given is when the client wishes to achieve certain efficiencies that may lessen the amount of you know, transactions that that can take place that the supplier could potentially charge for, but when you build a pricing model that has incentive payments in there for the supplier to in turn encourage them to achieve that level of efficiency. Vested’s opinion is that it creates a win-win situation. So in your opinion, are pricing models that incentivise effective are they used a lot of times within IT outsourcing or sourcing engagements?

#11: Hmm. Yes. I think they can be effective the outcome then needs to of course be Measurable. so if you need to be able to measure the impact well, but if there's ambiguity there and it sounds easy sometimes where yeah, you can always put everything in conclude concrete numbers, but sometimes with overlapping businesses units or multiple clients working on it can be hard and if it cannot be very concretely put into a number that might be a challenge. but in my opinion, yeah, Outsourcing projects where they were very clear about that and where the performance of the company was dependent of course on the performance of the how well the supplier did it will lead to a stronger relationship on the long term. Yes, I definitely do believe so

Interviewer: okay and then the fifth principle is that the governing structures that are set up then they go with new agreement that covers for maintaining the relationship between the parties, overseeing or governing the transformation that they wish to achieve and even the exit strategies in case the relationship break that breaks down. Those governance structures should serve to provide the parties both parties insight into what's taking place at any point during the relationship whereas things are going well things are not going well versus serving as the clients ability to oversee everything that the supplier is doing

#11: Yes but how is that different from traditional way of contracting? Because in the contract the supplier will have their own mechanisms in there in their as well to make sure so her vested it's a joint governance structure. it's the supplier and the client are coming together hmm to examine what's taking place during the relationship there their project teams are joined and they're both working on maintaining the relationship they're both working on maintaining or achieving the transformation, they're both deciding.

Interviewer: in traditional contracts, the governance structure is sometimes just a mechanism for the client to make sure suppliers doing what they said they were going to do.

#11: I say yeah to depend on the type of relationship you want to have with the supplier. So if the relationship should be more short-term or if it's a relationship where you just need to bargain very hard on price because you need a low price so therefore. You know, it doesn't really matter whether you better not have a long-term relationship then you might want to have a contract which is more of a sort of control mechanism rather than giving insights to both parties. But if the partner or the supplier that you are engaging with can be valuable to your business on the long run because of these the insights that they may create in the great creativity. They might bring to your to your business then yes, you might want to consider that as well, but then, yeah that it needs to be very clear, of course. What insights you're going to provide to both parties think that's also key thing. I mean what insights the status updates or where they are in terms of the KPIs or those things that that could be part of it, yes. Okay, yeah. I mean some things should be already known within the supplier side of course, but uh, I'll say depends on what type of relationship you want to engage with this supplier

Interviewer: okay and then so best it promotes having flexibility within your contract where it can allow for changes within that and so clients' needs changes sometimes in what suppliers able to provide changes within the industry or the environment itself to the contract is flexible. It's able to able to allow for those changes that may take place during the life of the relationship. You know without the need to always have to go back and rewrite the contract rewrite it the flexibility is built in there for change so in your opinion, do you find that then the IT industry IT, you know sourcing outsourcing space that they are open To flexible contracts?

#11: Nope.

Interviewer: Okay and in your opinion, why is that?

#11: To risky, ambiguous. Maybe it leaves too much room maybe for one of the parties to not perform their role and trying to go back and change things. So no I've never really saw a big interest for a lot of flexibility now when it comes down to maybe how you can do a certain thing they might not have all the specific details in there exactly on how you're going to you know, right at the code that the software will have. But in in general, you know, the most part the things that can be written down yeah I've seen it being written down.

Interviewer: okay, yeah and vested is also has a concept or a mind-set that's referred to as 'What's in it for we', not what's in it for me. They want to have a win-win system when win situation in their agreements. Do you find that within the IT outsourcing arena that parties are looking for a win-win? Or is it you know, basically the other way around? And do you see in the future that they are able to embrace him a win-win mind-set?

#11: I see it more so in contracts that are more sort of performance-based yeah there because if they they're agree on the shared value that the collaboration will bring for example, the supplier is going to cost this many euros and efficiency that's a clear when if the amount of savings for example will be then attached to extra money for the supplier as well. So in that sense when we were talking about a sort of performance-based or contract or a value instead of contract then yes I have. I've seen it in other scenarios, it's more so the sort of the talks between the two companies that start off as when win but then in the contract it's you know more two parties trying to make sure they're both covered in in a good way so that. Yeah, we can potentially see more of that especially because in certain areas of IT, you can quantify a lot as opposed to maybe other sectors. So in that sense I do see some room to have that in there clearly. Yeah.

Interviewer: Okay and for the more value creation type of contracts where the parties are wishing to share the value of the engagement, you know, the client gets the efficiency supplier gets to value of maybe the payment incentive payments etc.; do you find that these types of agreements are used often within IT? Outsourcing or is it or is it does your traditional fee transaction-based type of pricing model?

#11: I see more hourly sort of based contracts where it is applicable say this is an amount of hours maybe in the form of a retainer as well. But it comes up more now based on performance, but I do see more based on hourly fees that will be agreed upon beforehand. Okay, yeah and so but I would also well actually what would I do see more and more is a hybrid structure where you have a set of hours in the former retainer and then also a part where that is flexible based on the actual output of these supplier.

Interviewer: Okay, currently in my readings and in my research vested has not gained extreme popularity yet at this time within the IT outsourcing space that may be because IT providers not really knowing about the methodology or it could be based on certain obstacles that that the providers see within the methodology itself the principles at the methodology is based upon. So from your experience, do you think that it may be because people just don't know about it nor do you do you see you know based on what I've told you about the principles of vested that there's certain obstacles about the model that would prevent IT outsourcing departments from wanting to implement it?

#11: I think it's because of the last thing you said. I think that there are there are a lot of elements in there that are being used for example the value-based incentives structure, maybe even the shared vision. But I believe that other elements are not being used most likely because of the risks associated with them. Having said that I also do see more see more and more long-term relationship based on collaborations between companies at the moment and especially where IT companies are really trying to transform another business. so that's where the potentially will you know happen more but at the moment I think it's more so because of the associated risks in there and that on a you know, business level everything outside of the contract might be very long-term partnership related. But then in the contract, you know companies are really still trying to make sure they cover off risks rather than looking at long-term relationship building.

Interviewer: Okay. All right well that completes my interview if you don't have any more further comments we'll go ahead and close up thank you so much appreciate it.