

# SIGN HERE!

## - WHY CONTRACTS FAIL AND WHAT TO DO ABOUT IT

*Successful contract-based business relationships need to achieve a balanced focus on what is in the contract and what isn't. Delivering what's in the contract is just the ticket to the game. It's what you do outside the contract that delivers true customer satisfaction.*

*The exciting news is that the rewards for doing this are substantial and typically costs less than delivering on the contractual alone. In this paper we present the missing piece for the organisational performance jig-saw by providing a mechanism for the measurement and assessment of both contractual and non-contractual value flows.*



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**OPTIMICE**  
optimising business relationships

## CONTRACTS ALONE WILL NOT DELIVER OUTSTANDING BUSINESS VALUE

Nearly all aspects of business are governed by contracts. Their intent is to ensure that we get what we are promised. A contract is an exchange of promises between two or more parties. In order for an agreement to be a contract it must be supported by consideration. The agreement must also be sufficiently certain and complete to be enforced in the courts and the parties must have intended their agreement to be a contract. **But herein also lays the problem.**

The contract is not in place to ensure that both parties achieve the maximum value from the transaction. Rather, it provides a vehicle for recourse when one of the parties to the contract fails to deliver. There is a big gap between delivering just enough to pass the requirements of the contract and delivering maximum value.

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Consider a visit to the local restaurant. You look at the menu card and order – you enter into a contract. A meal is provided in exchange for money. If you find that the food is not fresh you may complain and demand a refund. But if the couple sitting next to you are very loud, or if the waiter's body language clearly signals you need to move on to accommodate the growing queue of waiting customers, you will probably not be in a position to require a refund. However, you are certainly not a happy customer and may decide never to return.

Also consider a typical employment relationship. The employee enters into a contract with his or her employer. In return for an agreed salary the employee performs certain duties. After a period of time the employee decides to resign. Why? Has the employer breached the employment contract? Has the agreed salary not been paid? It is mostly something quite different which lead people to resign. Reasons could include seeking new challenges; working fewer hours to dedicate more time with the family; taking time out to study, better conditions or moving interstate.

In both examples the key issue here is not the contract itself. Instead it is a failure to deliver more than just the bare bones of the contract. It is a failure to meet expectations. This is exactly the problem we face when relying solely on the contract as the tool for extracting maximum value.

Let's make it a little more complex. Imagine a company who has outsourced its Information Technology (IT) to three different providers. In the growing world of multi-sourcing this is becoming increasingly popular. As the CIO you have negotiated contracts with each of the IT providers. Each contract viewed in isolation is a win-win for both parties and your relationship with each of the providers is good. But the delivery of a seamless service to your organization requires the three providers to work together. In our experience, this is largely ignored and nasty surprises and disappointment about lack of collaboration is often the result.

A contract focuses on a **static** set of requirements which must be delivered. Firms have become astute enough to minimise the use of terms and conditions that might lead to them being sued. Changes in business circumstances can in fact impede the creation of business value and at times make good business relationship untenable.

The contract focuses on a static set of minimum requirements which must be delivered. But it does not guarantee a productive relationship.

the minimum enforceable conditions to be met. While they aim for clarity of intent they often fail to capture concepts which underpin a real working relationship. Formal contracts will rarely have terms relating to intangible elements like “staff friendliness”. It is therefore left to the “implied” contract, leaving a big gap between what would constitute a breach of contract and what both parties hope to achieve from the contract. The problem with contracts is that they are more about avoiding problems than generating value.

That doesn't mean that contracts should be avoided or aren't valuable. They indeed form an important foundation for a business exchange. However, one needs to appreciate the kind of value they provide. In some ways they are like painkillers. You buy painkillers as an insurance against potential pain. Once you feel the pain you quickly take one and the pain goes away. But whilst the pain has gone away this doesn't mean that you are now fit and healthy. This is the difference between fixing a problem and working towards creating real value. No-one wants to have to keep taking painkillers and no-one want to have to continually refer back to the contract to ensure that things are going well.

We have experienced countless examples of clients telling us that their service-provider “might have delivered according to the contract, but we are certainly not a happy customer”. Typically the discussion includes statements like “We thought that a large company like that would have been able to tap into their global experience and deliver innovation to our organisation”, or “Yes, they did resolve this problem within the 2 hour time limit set out in the contract...but this was such a simple problem...if their people had been better trained this could have been fixed in 2 minutes!”. Similarly, the service provider's typical re-

Even when the contract is very clear about exactly what needs to be delivered there still be many, many different way of providing this without leading to a productive and efficient outcome in the eyes of the recipient. If we look at the restaurant example the contract is for the delivery of food to order and typically not friendly staff. Food is tangible, staff friendliness is less so. It is hard to articulate “staff friendliness” in contractual terms.

Contracts attempt to set out the agreement between the parties on what is expected and

#### Case in Point: Supply Group

A Corporate Supply Group in a global resources company had negotiated a 'great' deal with a supplier. The supplier had entered into a pricing agreement providing substantial reductions based on the potential scale of the sales opportunity, as they had been promised 'preferential' status.

However, the resources company was decentralized and advice from the corporate supply group was largely ignored by the local business units. The supplier was extremely unhappy when the sales figures turned out to be well below the forecast. When confronting the Supply Group with this the response was 'Well...we didn't think you were listening to our requests for further product development, so our business units didn't feel comfortable ordering your equipment.'

The contract didn't include, or mention product development.

sponse is “Yes, they do pay us on time, but the level of documentation they require is far greater than what we had expected”, or “Their approval process for our proposals is so convoluted and the decision making process so complex that this is costing us much more effort than we had anticipated.”

It is apparent that outside the narrowly defined scope of the contract we find a set of very important and highly **dynamic** undocumented expectations, assumptions and beliefs.

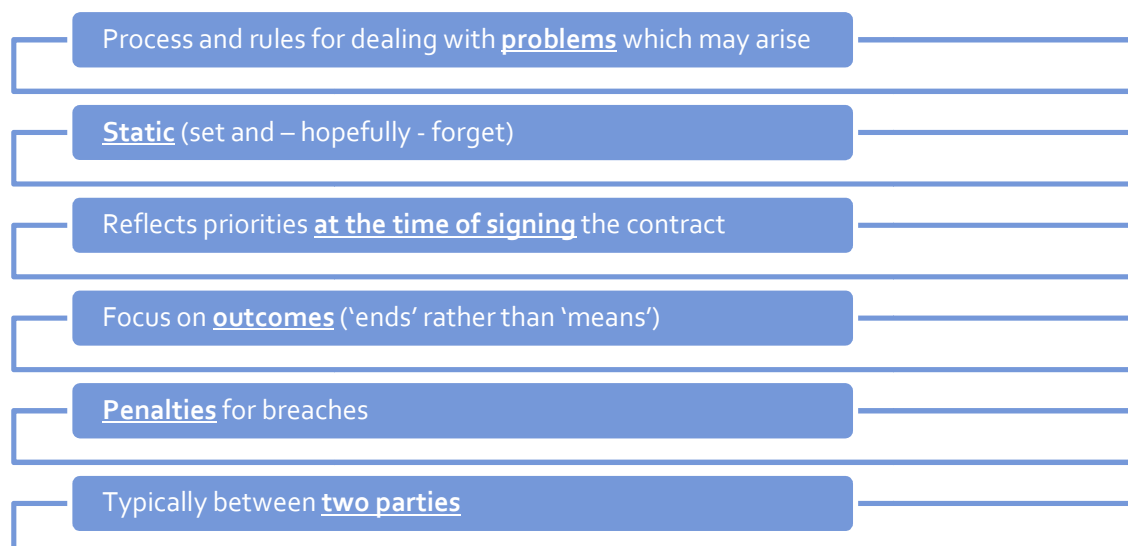
From a legal perspective the problem is that it would be impossible to include these in the contract. They only become clear as the business relationship develops.

My mother used to say to my father with a smile in her eyes “When we got married I didn’t have a problem agreeing to have your mother for lunch every Sunday. But you never told me she’d live past 92!”.

It is apparent that outside the narrowly defined scope of the contract we find a set of very important and highly dynamic undocumented expectations, assumptions and beliefs.

It is clear that there is a significant difference between delivering just enough to meet the ‘the contract’ and what is actually considered important to extract maximum value. This applies equally to intra-organisational relationships even though there might not be a legal contract *per se*. For instance, an internal Accounting department may not have a legally binding contract which governs the provision of its services, but there still exist some fairly ‘hard’ commitments and expectations which for the individual people involved might as well be considered a real contract.

The ‘contract mindset’ is summarized in the figure below:



## WHEN ORGANISATIONS FOCUS PRIMARILY ON THE CONTRACT

So, what is the consequence of relying solely on delivering what is in the 'contract'? The answer is simple. We lose the potential for realising maximum value. Professor Les Wilcox at the London School of Economics compared the performance of contracts based on the relative health of the relationship. The difference was up 40% of the contract value. This is a substantial amount of money. But it is not really a big surprise, when you think about it.

Imagine that your service provider tells you that unfortunately one of the key projects is running behind schedule and the reason for the delay is that they haven't been able to schedule interviews with key people in your organization as planned. In a low trust environment you would most likely double-check with your people. The service provider knows that it is unlikely that you will take the message on surface value and asks all their project managers to keep a detailed record of each and every conversation they have had with the client. The hidden overheads on each side of the relationship start to add up.

When expectations, assumptions of beliefs are repeatedly not met we start to disassociate ourselves from the relationship. The race to delivering just the bare bones of the contract is well underway. Unless all parties perceive that they are providing and receiving fair value the relationship is not 'in exchange'<sup>1</sup>, and they don't want to provide any more than they absolutely have to. With the hidden cost of additional governance there is simply no margin left for delivering anything but what is strictly in the contract.

So, what happens when one party feels that the relationship is not 'in exchange' and when the contract is the only vehicle for governing the relationship? The first thing to explore is the contract. Having resided in the bottom drawer since its inception it is dusted off in a hope to find a clause which can provide some level of compensation.

At the same time the aggrieved party starts to gather evidence for the breach. Additional reports are requested, further status meetings held, invoices scrutinised, staff monitored etc.. The focus is no longer solving the problem but

### Case in Point

Recently, one of the authors was working as an independent consultant on a project that involved the client's CIO and their IT service provider. As is popular in the IT industry nearly all relationships are governed by Service Level Agreements, or SLAs. The SLA includes a series of measures against which the service provider must deliver. If you miss a part of the SLA you will most likely be paying a 'fine'. In often heated meetings it appeared obvious that the CIO was frustrated by incidents which had happened over the last week. His personal reputation was being impacted by these incidents and he felt the provider could have done more to either prevent them, or resolve them more quickly.

However, since the SLAs weren't breached he had nowhere to go with his frustration. Naturally, he would look for any insignificant breach – potentially in a completely different area – and use this as a vehicle to let off steam. In subsequent meetings the service provider would be very upset about their client's abrupt behavior. "We don't get it...all the traffic lights are green...what is going on...we are being scrutinised like never before...and we haven't done a thing wrong!"

What they were experiencing was the reaction to ignoring a non-contractual problem.

<sup>1</sup> For a more detailed description of the principles of reciprocity see "Teamwork Is an Individual Skill", Avery, C.M, Berret Kohler (2001).

primarily on assigning blame. Sadly, the contract is often used as a blunt instrument to address what is often a non-contractual problem.

If we look at another typical contractual arrangement – alliances – the picture isn't prettier. Alliances are growing by 25% per year, but run at a 60-70% failure rate<sup>2</sup>. A traditional contract approach would have you focus on getting the detail of the alliance agreement just right, topped up with governance structures, metrics and a close watch on your alliance partner's performance. With such a high failure rate it appears obvious that the contract approach isn't working.

At some stage one of the contract parties may want to get out of the relationship. But can they? Maybe it is simply too hard to get out. The replacement costs are considered too high, or there just isn't an alternative. Many IT outsourcing contracts run over a period of several years. If the relationship between the provider and recipient of service is reduced to delivering just enough to 'keep us out of jail' both organisations can be faced with years of a mediocre performance. A weekly magazine recently described a situation where a married couple with children both wanted a divorce. However, neither of them wanted the children and therefore couldn't agree on the terms for the divorce. The family is apparently still together!

## A NEW APPROACH TO ACHIEVE MAXIMUM VALUE – DESPITE THE CONTRACT!

Obviously, there is a need to focus on what we really want rather than what is necessarily in the contract. This is because business is inherently dynamic. What was put in the contract made a lot of sense at the time. But that was well ahead of actually working together. And well ahead of figuring out what matters on a daily basis. The static nature of the contract does not work well with the dynamic nature of business. Therefore contracts are often reduced to being invoked when things go wrong rather than used to assist with ensuring that maximum value is achieved. They simply aren't providing sufficient value in terms of achieving the most from the business relationship.

Many organisations do try to get feedback from business partners, customers or other stakeholders through surveys. Customer satisfaction surveys and alliance maturity assessments etc. are conducted periodically and can tell you that your clients are 68.95% happy. Alternatively, if you are into the Net Promoter Score (NPS) movement<sup>3</sup>, you might be asking your customers how likely it is that they will recommend your company to a friend or a colleague.

What is important is to understand what specifically matters to the parties in the relationship right now. You are unlikely to find this in either the contract or in a satisfaction survey.

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<sup>2</sup> Simple Rules For Making Alliances Work, Harvard Business Review, November 2007

<sup>3</sup> Fred Reichheld suggests companies ask their customers the 'true ultimate question', which is "How likely is it that you would recommend this company to a friend or colleague?". Based on this an organisation can calculate its Net Promoter Score, or NPS. Read more at <http://www.theultimatequestion.com/theultimatequestion/home.asp>

But focusing on what we really want is not the same as running a satisfaction survey, or calculating your NPS. Surveys are generic and focus is on past performance. Given the dynamic nature of business there is little help in determining that the 'we were 68.95 % happy last year'. What is important is to understand what **specifically** matters to the parties in the relationship right now. You are unlikely to find this in either the contract or in a satisfaction survey.

Non-contractuals can be specific and for which someone can be held accountable for delivering.

For example, one of our clients has more than 40,000 staff globally. The company had a history of a centralized approach to delivering core corporate services such as IT, HR and Health and Safety. However, a new CEO changed the centralised top-down approach to a decentralised approach in less than 12 months. Looking at the past shouldn't lead you to believe that you know what will be important in the future.

Focusing on – and delivering on – what really matters in a business relationship generates trust. Trust is important, as there is a clear correlation between trust, speed and cost. A business relationship with high trust can move at tremendous speed and at low cost. Conversely, with low trust comes high cost and low speed. Stephen Covey provides a very good example of this dynamic in post a 9/11 world<sup>4</sup>. After 9/11 the terror alert was dramatically heightened, as there was a perceived higher risk of further terrorist attacks involving aircrafts. Consider the impacts. New sophisticated and expensive scanners are put in place at more airports. Longer queues at the airport scanners. Trust went down. Speed went down. Cost went up.

One of our very good friends works in the publishing industry. If you are new to the industry opening a bookshop life can be challenging. With no prior history of working with publishers, all orders for books must be paid for up front. You are being tested. Can you be trusted? Do you pay on time? How well do we get on? Do you appear to know what you are doing? However, with just a few orders paid on time the relationship with the publishers change quickly To 30 day payment terms and return of unsold stock, leading to a lower cost to the business. There is now sufficient relationship history between the parties - an entry level trust has been established - and the publisher feels comfortable to offer additional value. It would have been very, very hard to negotiate these upfront. As the owner of the bookshop you have also found that the publisher delivers on time and the transport company actually helped you get the books out of the truck and into the shop. You now know they can actually deliver. You might decide to increase your order next time i.e. developing an increased value exchange

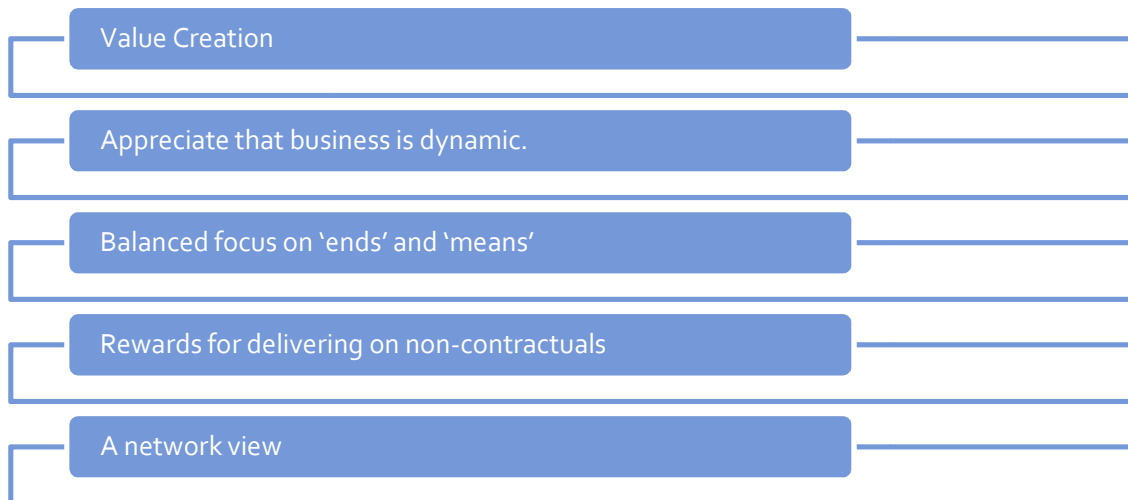
In essence, what we are arguing for is that organisations need to balance what is in the contract (the 'contractuals') with all the things which are expected, anticipated, assumed but also not documented (the 'non-contractuals').

Non-contractuals can by nature not be enforced by the courts, but are perceived as valuable for the recipient. Examples of non-contractuals include early warning about stock running low; disclosure of a budget size or providing someone with guidance on how a process really works.

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<sup>4</sup> The Speed of Trust, Stephen M Covey, Free Press (2006)

If you want to get outstanding trust-based results from a business relationship there are a number of things which are critical differentiators compared to the contract-centric mindset. To get outstanding results you need to change the focus to:



## Value Creation

First of all the focus is on **value creation** as opposed to conflict resolution. This requires a fundamental shift in thinking which we only very rarely experience, especially with lawyers and purchasing staff<sup>5</sup>. It isn't that they don't get 'it', but they are simply 'programmed' to focus on risks and avoiding or managing problem. They therefore find it difficult to prioritise it as they feel they already have enough on their plate just getting that part of it right. Also, they have very little experience in it. Their customers expect them to focus on the contractual side of the business relationship, so they never get a chance to practice.

## Business is dynamic

Secondly, we need to move away from just focusing on a static contract to appreciating that **business is dynamic**. We need to understand that what was important when we signed the contract can change dramatically in a short period of time. That is why the contract will only reflect priorities at the time of signing it, or alternatively very general priorities. In any case, it is simply impossible to predict the dynamic nature of business and the contract will therefore never be able to **reflect current priorities**. Business cycles mean that a growth focus today might be turned into a survival focus 3 months later. The Global Financial Crisis which started in late 2008 is clear evidence of this.

## Ends versus Means

Contracts are focused on outcomes, things which can be measured. It makes it easier to determine if something has delivered or not. How it is done is typically either not mandated, or at best framed in a

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<sup>5</sup> See Levine, Steward "Getting to Resolution" (Berret Kohler, 1998) for an in-depth introduction to why the legal system is not geared to actually resolving conflict. Levine says that a typical settlement of a lawsuit is considered successful when both sides are equally unhappy about the outcome.

very generic way (e.g. 'You will follow the ABC process to deliver outcome XYZ'). However, outcome-based metrics are lagging indicators and focusing on these is akin to driving only looking in the rear mirror. How things are done on a day-to-day basis will give you an early warning about the 'temperature' of the business relationship.

A US study of alliances in 90 companies across a cross-section of industries found that when partners invest time up front to jointly define the relationship they want, the alliance generates significantly greater value than when they focus exclusively on business goals, contract terms and formal governance structures<sup>6</sup>.

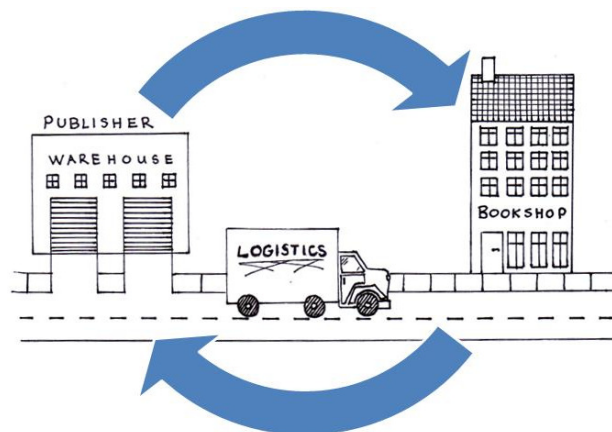
## Rewards

Contracts will have rules for what happens if the contract is breached. It might even have rewards in place if certain contractual deliverables have been met. However, as the non-contractual elements aren't in it, we have lost a tremendous opportunity to have a structured **reward system** for delivering the non-contractuals. So, what we need here is to start thinking about rewards for delivering value through non-contractuals.

## Network view

Traditionally, contracts are seen typically as business transactions between two organisations. While there are many exceptions to this, contracts with multiple parties are still the exception, and the lawyers will certainly argue that the level of complexity and risk goes up exponentially. Therefore, there is a preference for breaking the transaction up into 'manageable chunks'. However, if you want to achieve maximum value you need to adopt a **network view**. This means looking at all the stakeholders who need to work together to deliver value, even when there is not a direct contractual relationships between the parties.

For, example if you own a book shop you have a contractual relationship with a publisher and the publisher has a contract with a transport company to get the books to your shop on time. When you adopt a network view of the transaction you see the bookshop, the publisher and the transport company as three entities that need to work together.

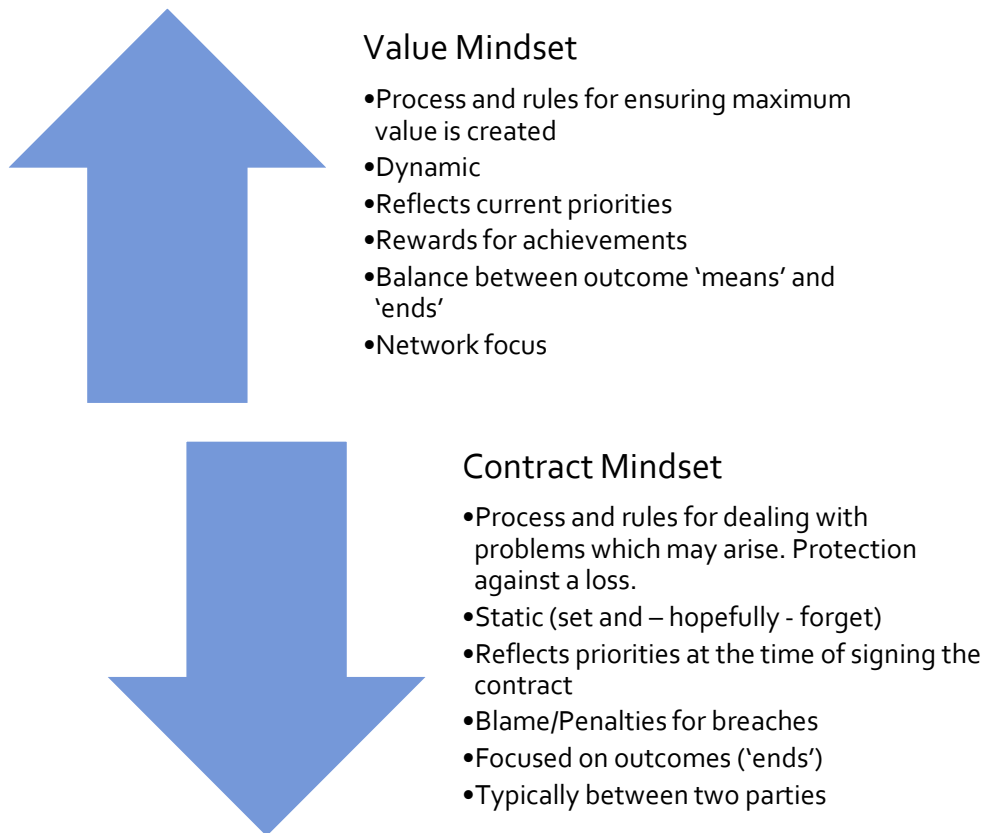


They are all depending on each other and whilst it might be convenient to break the network up into manageable chunks from a risk mitigation perspective, it certainly does not work from a value perspective. Further below we describe how Value Network Analysis is in our view the most efficient way by which you can identify value flowing between roles in a network.

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<sup>6</sup> Simple Rules for Making Alliances Work, Harvard Business Review, November 2007.

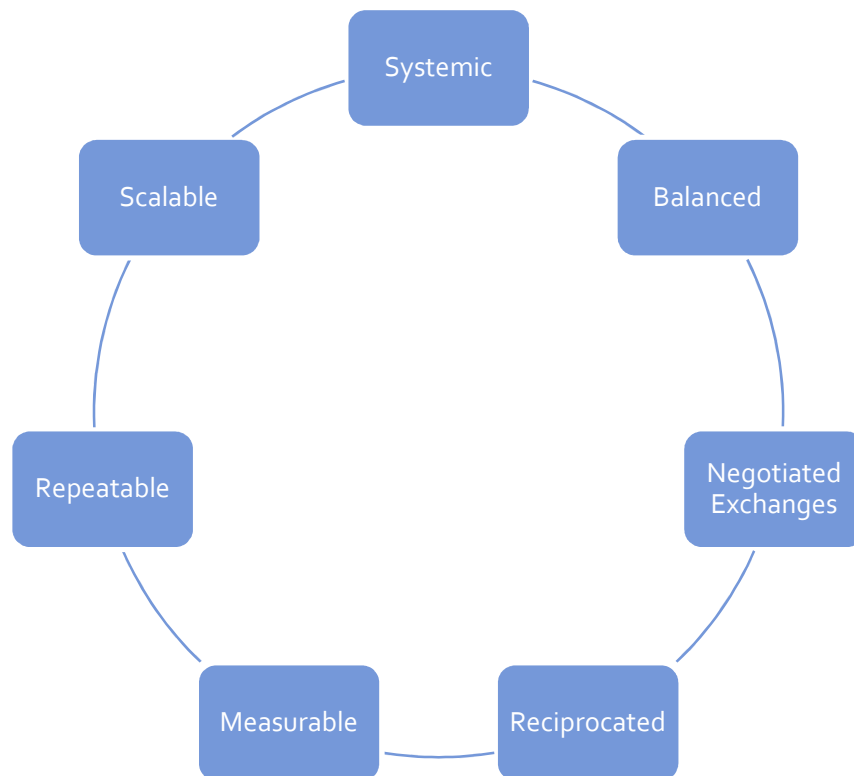
The figure below provides a summary of the difference between a contract and a value mindset.



So, what we need is a clear-cut focus on what specifically matters in the relationship and then making a concerted effort to work towards achieving this. Similar effort and rigor needs to be applied to getting the most out of the relationship as is applied to setting up the rules and processes for when or if things go wrong. The following section will provide an overview of the elements required to develop such an approach.

## ESTABLISHING THE FOUNDATION OF AN APPROACH

Understanding what matters now and monitoring this over time doesn't happen by chance. It requires a method of doing. The characteristics of the method must include the following:



## Systemic

This new focus on what really matters is something which all parties to the business relationship need to be involved with. Business relationships are becoming ever more entangled and complex. The supply chain is now a supply network. To deliver optimal value all the key parties involved in the overall business relationship must be included. You need to look at all the core players involved in the relationship as one network.

## Balanced

As described above one needs a balance between what is in the contract and the dynamic needs of the business. What was important and assumed when signing the contract is very likely to change over time. The individuals involved in the contract negotiation are most likely not around when it comes to dealing with operational and practical issues. It is only over time one realises what really matters.

## Negotiated Exchanges

All parties need to ensure that they have the same understanding of what each other want and desire. What do you mean by a 'table in a quiet area'? How quiet is quiet? Can I actually deliver this? Would you consider sitting outside? Unless assumptions, expectations and implications are surfaced it is impossible for a negotiation to occur and therefore the party to deliver on his or her part of the agreement.

## Reciprocated

There must be something in it for everyone. For a legal contract to be binding there must be 'consideration'. It isn't legally binding unless both parties contribute something. Whilst non-contractuals by nature

aren't included in the legal contract they also require 'consideration'. Unless all parties perceive that they are providing and receiving fair value the relationship is not 'in exchange', and it is only a matter of time before the non-contractuals fall by the wayside.

## Measurable

Peter Drucker famously said that if you can't measure it you can't manage it. The identification of what matters needs to be accompanied by a measure of how well this particular 'thing' is being delivered. If you are responsible for delivering a quiet table to the dinner guests but are never told if they perceived the table as quiet or not, you have practically no way of improving.

## Repeatable

As stated above the dynamic nature of business means that what is important right now may be less important in 3 months. New and more important priorities may have arisen. Therefore the method must be able to be repeated. If the method only resides inside the heads of a few enlightened individuals there is no capacity to carry the effort forward.

## Scalable

Relationships are found at multiple levels, i.e. between companies, divisions, business units or work-teams etc.. Any method must be able to be applied to whichever layer of abstraction is relevant, as contracts exist at all of these levels.

## OVERVIEW OF THE PARTNERSHIP SCORECARD

The Partnership Scorecard has been designed to meet the above characteristics. A Partnership Scorecard contains a balanced set of jointly negotiated and agreed contractual and non-contractual commitments between two or more parties who rely on each other to deliver business outcomes.

Successful outcomes are achieved by following a simple 3 step process:



### 1. Map Value Flows

We propose to use Value Network Analysis (VNA)<sup>7</sup> as the method for identifying and understanding how value flows between key parties involved in a contractual relationship. Whilst VNA use the terminology of tangibles and intangibles we have found that organisations relate faster to the terms contractual and non-contractuals. For all intents and purposes there are no differences in the meaning and definition of these labels.

Verna Allee has defined VNA as "...any web of relationships that generates tangible and intangible value through complex dynamic exchanges between two or more individuals, groups, or organizations"<sup>8</sup>

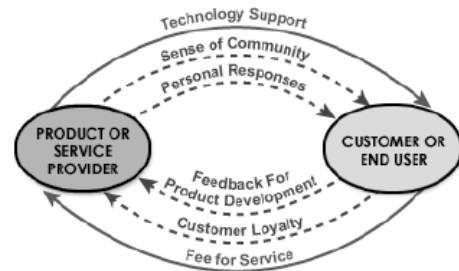
VNA is therefore a business modeling technique for capturing, visualising and then analysing the network of interactions for improvement opportunities. The technique inherits the attributes of a traditional business process mapping technique, with the addition of some unique features for identifying intangible flows (Allee, 2006, 2008).

<sup>7</sup> See [http://en.wikipedia.org/wiki/Value\\_network](http://en.wikipedia.org/wiki/Value_network)

<sup>8</sup> Allee, V. The Future of Knowledge: Increasing Prosperity through Value Networks, Butterworth-Heinemann 2003 (ISBN-13:)

A VNA map consists of three basic elements:

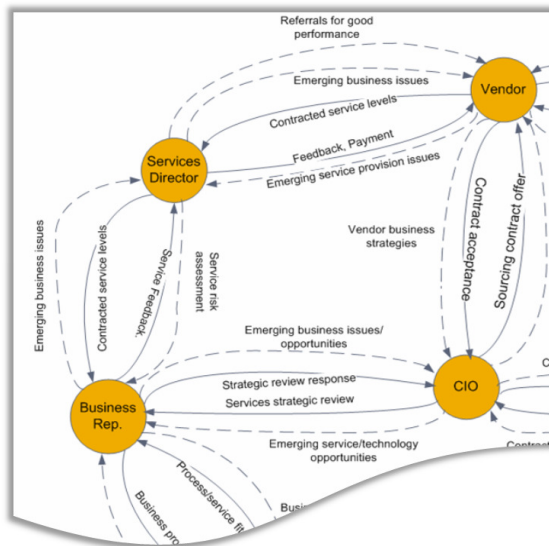
1. The ovals identify “participants”. Participants can be at the individual or group level, but at all times represent human decision makers.
2. The arrows identify a flow between participants. They are always one-way flows.
3. Solid lines represent contractual (tangible) flows, dotted lines are non-contractual (intangible) flows. Labels represent deliverables which each role is responsible for delivering



The boundary of the mapping depends on the scope of the contract and which roles impact the overall value which the contract is meant to deliver. VNA is typically conducted in a workshop setting, ideally with the participants representing the identified roles.

Once the contractual and non-contractual flows are identified between the roles, analyses can be conducted to assess the dynamics of the value flows across the partnership as represented by the network. Imbalances in value exchange between roles can be addressed through negotiation to create an agreed overall value network.

An extract from an actual value network map is shown below, and you can see that the above value network has a balance of contractual and non-contractual value flows, with the levels of reciprocity balanced to ensure a sustainable partnership between roles can be achieved.



## 2. Develop Scorecard

The Partnership Scorecard™ is a direct output from the VNA maps. Each deliverable can be represented on the scorecard with the value creator and value recipient identified. The first step however, is to decide what value flows need to be captured on the scorecard.

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Typically, all the non-contractual value flows would be included, together with those contractual value flows that aren't captured in other service level agreement reporting mechanisms. A short survey is constructed with the identified value flows framed as survey questions, as illustrated below.

Intangible Deliverables	Delivered by:	Survey Question	Assessed by:	Assessment <sup>1</sup>	Value to Role <sup>2</sup>	Cost/Risk of Provision <sup>3</sup>
Service Risk Assessment	Services Director	I feel well informed about potential service delivery risks	Business Rep	-1	3	3
Emerging Business Issues	Services Director	I feel well informed on emerging business issues that might impact demand for our services	Vendors	0	4	2
Emerging Business Issues	Business Reps	I feel well informed in emerging business issues that might impact on us	Services Director	-1	5	2
Emerging Business Issues/ Opportunities	Business Reps	I feel well informed about business issues and opportunities that IT could assist with	CIO	1	5	1
Vendor Business Strategies	Vendors	The vendors keep me well apprised of their business directions and activities	CIO	2	2	5
Business/Budget Forecasts	CIO	We are kept well informed on IT budget forecasts, both long and short term	Vendors	0	4	1
Emerging Service/ Technology Opportunities	CIO	We are well apprised of the major technology trends and risks as well as the opportunities that they may provide	Business Reps	0	4	1

<sup>1</sup> -2: strongly disagree; -1:disagree; 0:neutral; +1:agree; +2:strongly agree

<sup>2</sup> 1=Little value; 2=Some value; 3=Appreciated; 4=High Value; 5=Critical Value

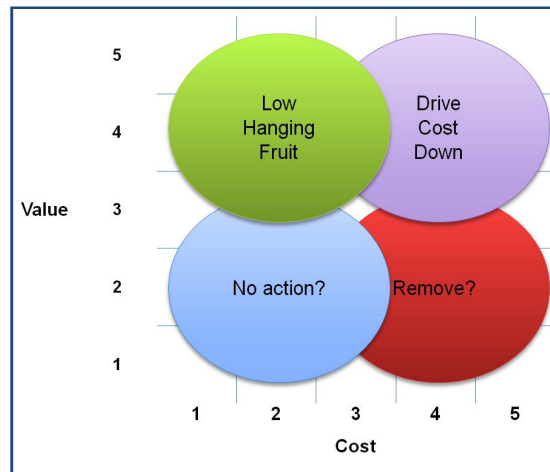
<sup>3</sup> 1=Minimal; 2=Modest; 3=Nominal; 4=High; 5=Very High

The objective of the survey is to assess current performance on non-contractual value deliverables. It is anticipated that many of the contractual value flows would be assessed by existing contractual score-cards, though contractual value flows could also be included in the survey.

The columns for "Value to Role" and "Cost or Risk of Provision" could have been assessed during the VNA exercise or can be captured here to provide a basis for prioritising high value opportunities, as well as identifying areas of potential over servicing. Changes in the Value/Cost levels identified in the VNA can be adjusted with experience, over time.

Targets for performance improvement can also then be set along with identified activities required to meet these targets. The completed survey is analysed for relationship improvement opportunities.

“Low Hanging Fruit” can be identified where performance gaps exist on highly rated value flows and cost of provision is minimal. On the other hand there may be areas that are over-serviced, where the perceived performance and cost of delivery is not matched by the perceived value rating. One would need to consider if these can be achieved at a lower cost, or potentially even removed. Some reprioritisation opportunities would therefore exist.

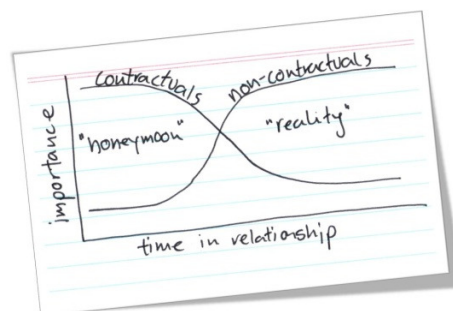


One can see from the scorecard above that some important differences exist from traditional performance scorecards. The critical differences are:

- Accountabilities are articulated down to the “role” level. The Partnership Scorecard™ makes it abundantly clear as to who is responsible for what.
- All role participants in the Partnership Scorecard™ are both value creators and value assessors. There is no “Us and Them”. “Master/Slave” situations are minimised through the exposed interdependencies of the roles analysed. Partnerships are by definition, reciprocal arrangements. The Partnership Scorecard™ simply makes such arrangements explicit.
- The contractual measures are the expected “contracted” deliverables. If they do not exist within a formal contract, the opportunity exists to add them.
- The non-contractual measures are nearly always perception, and perception often becomes reality. A monthly assessment survey for non-contractuals is an effective means for gaining a quick “temperature check” for how these value deliveries are progressing.

### 3. Monitor Performance

The ongoing monitoring of the ‘temperature’ of the relationship is what provides business partners with an ‘Early Warning System’. Our work to date in establishing and monitoring business relationships shows that the non-contractual elements become increasingly important over time. The key reason for ongoing performance monitoring is that business is indeed dynamic. What is considered to be instrumental to relationship success changes over time.



Just consider professional couples with small children. Business travel can often be a topic of much debate, but as the little ones grow up the potential for conflict often goes away. It is exactly the same in business relationships where the focus on growth might turn into a focus on quality or client retention.

We suggest that the contractual deliverables are merely the ‘ticket to the game’ and that what really matters are the non-contractuals. We have found that in nearly all business relationships the non-contractual elements are largely being ignored. At the same time, we have seen that the value of the non-contractuals is perceived as higher compared to the contractual. The really positive news is that the non-contractuals typically cost less to deliver.

	Cost	Performance	Value
<b>Contractuals</b> (~20-30%)	 Dearer	 Better	 Less
<b>Non-contractuals</b> (~70-80%)	 Cheaper	 Worse	 More

The ongoing performance monitoring therefore serves several causes and have several benefits. With ongoing performance monitoring you will be able to:

- Assess the overall temperature of the relationship and intervene before conflict occurs.
- Pinpoint exactly where in the relationship the pain is being felt. The Value Network Analysis mapping and the subsequent assessment of performance of value delivered allows you to identify which value flows are problematic, and which specific roles are involved.

## CONCLUSION

In summary, we have argued that successful contract-based business relationships need to achieve a balanced focus on what is in the contract and what isn't. We refer to this as a balance between the contractuals and the non-contractuals.

The exciting news is that the rewards for doing this are substantial and typically cost less than delivering on the contractuals. The Partnership Scorecard™ provides a missing piece for the organisational performance jig-saw, by providing a mechanism for the measurement and assessment of both contractual and non-contractual value flows at an operational role level. Without the Partnership Scorecard™, organisations have often struggled to operationalise their strategic plans and risk getting caught up in a race towards mediocre performance.

We suggest organisations use Value Network Analysis as a critical enabler for the generation of an effective Partnership Scorecard™. Uniquely, the Partnership Scorecard™ demonstrates the shared nature of a partnership, whether external or internal to an organisation, by creating interdependent accountabilities.

By working at the individual level, individual accountabilities can be articulated, providing a stronger linkage between strategic objectives and operational performance, than has previously been possible. In combination with strategic alignment tools, organisational culture alignment programs and organisational / social network tools, the Partnership Scorecard™ can provide the effectiveness toolkit that organisations are searching for today.

## ABOUT OPTIMICE

Optimice provides specialised consulting services to help organisations map and improve business relationships at multiple levels. Optimice identifies relationship patterns between people, organisations or markets, and we have improved the basic techniques to optimise these relationships in a compelling business-focused context.

Our Partnership Scorecard™ helps organisations manage the intangible relationship aspects of outsourcing, smart sourcing, alliances, joint-ventures and similar complex business frameworks.

Our specialized survey tool [www.onasurveys.com](http://www.onasurveys.com) provides consultants and other practitioners the most effective and user friendly tool available on the market to collect data on business relationships.

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