

Investigating risks of outcome-based service contracts from a provider's perspective

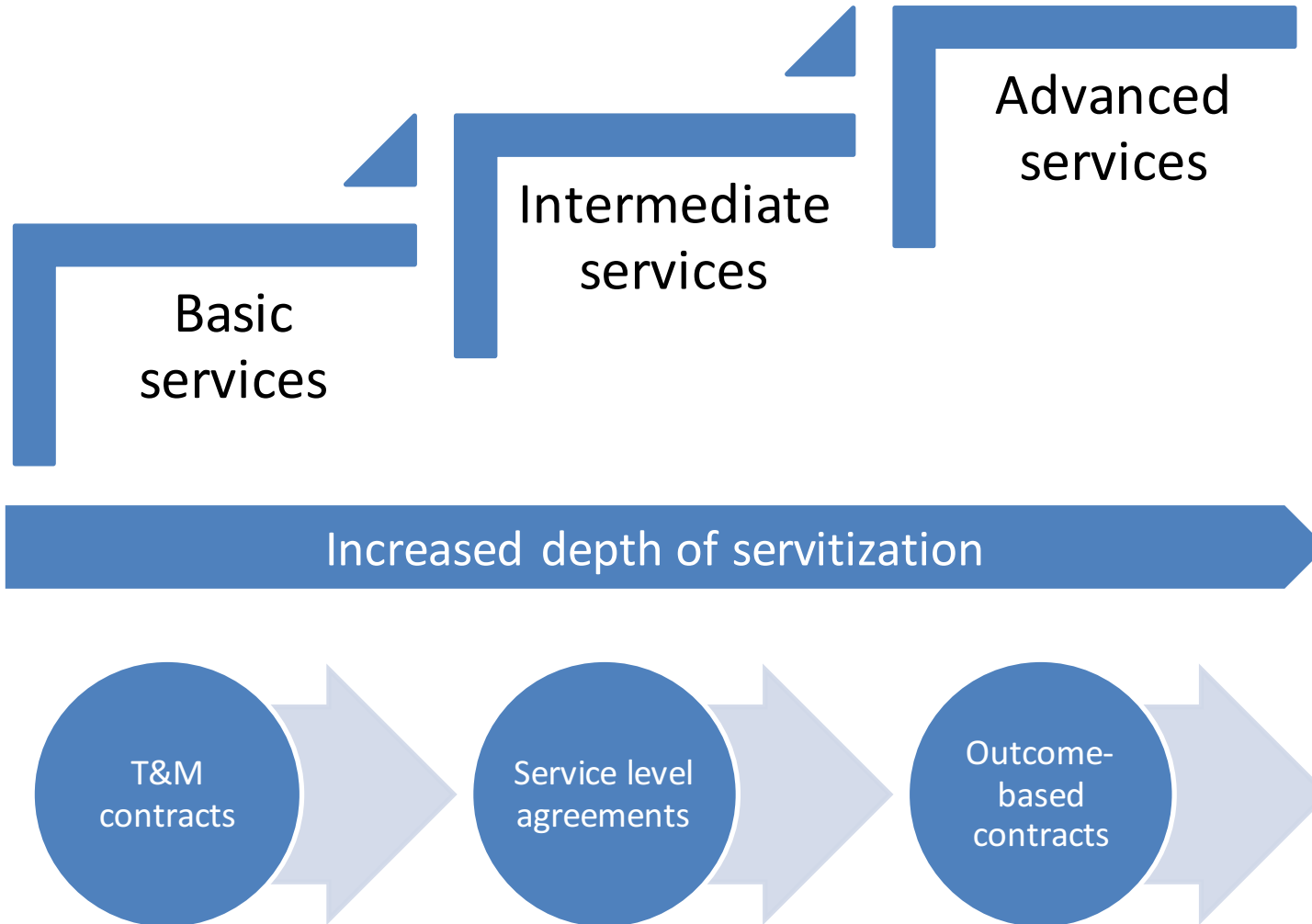
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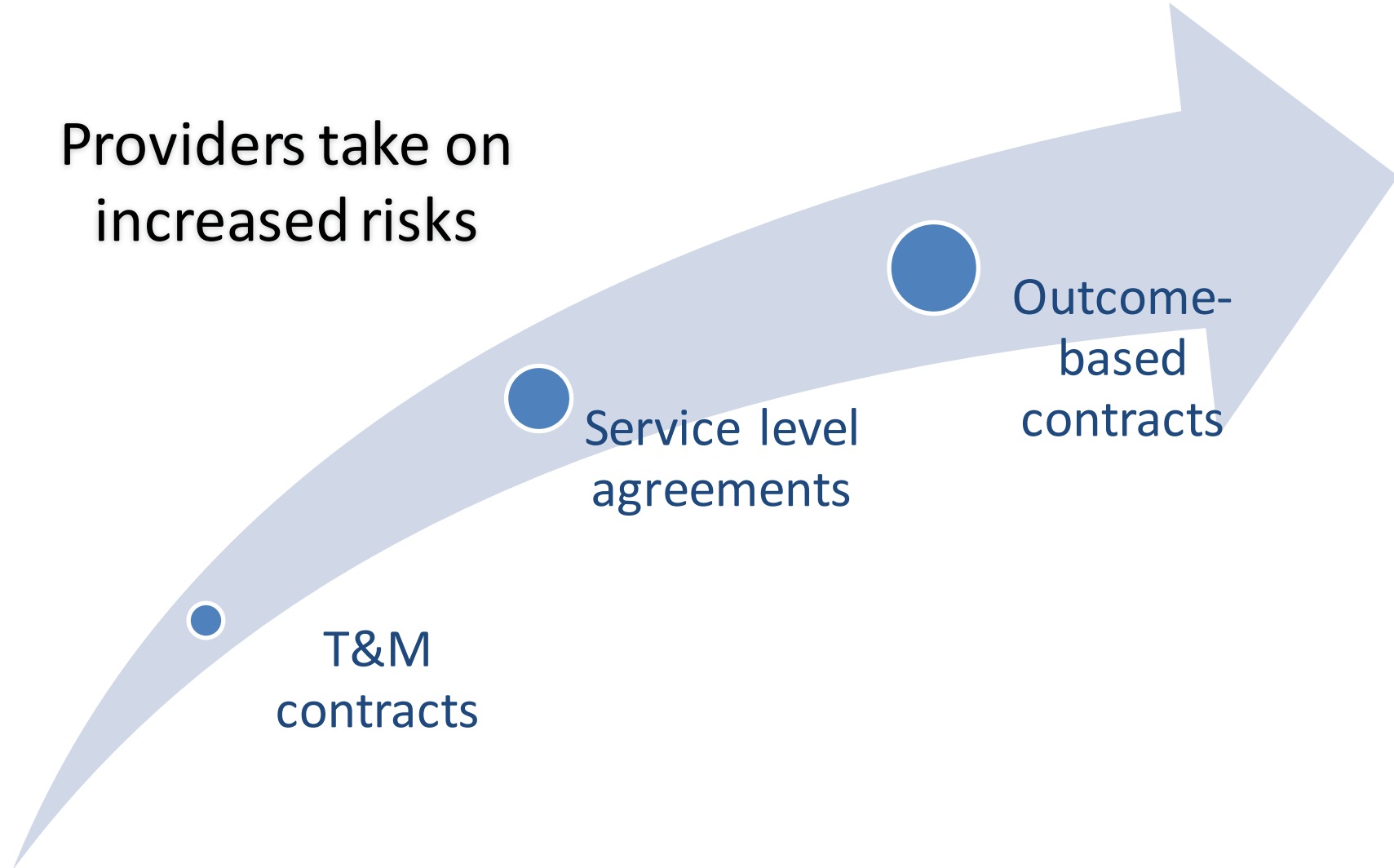
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Background



Motivation

Providers take on increased risks

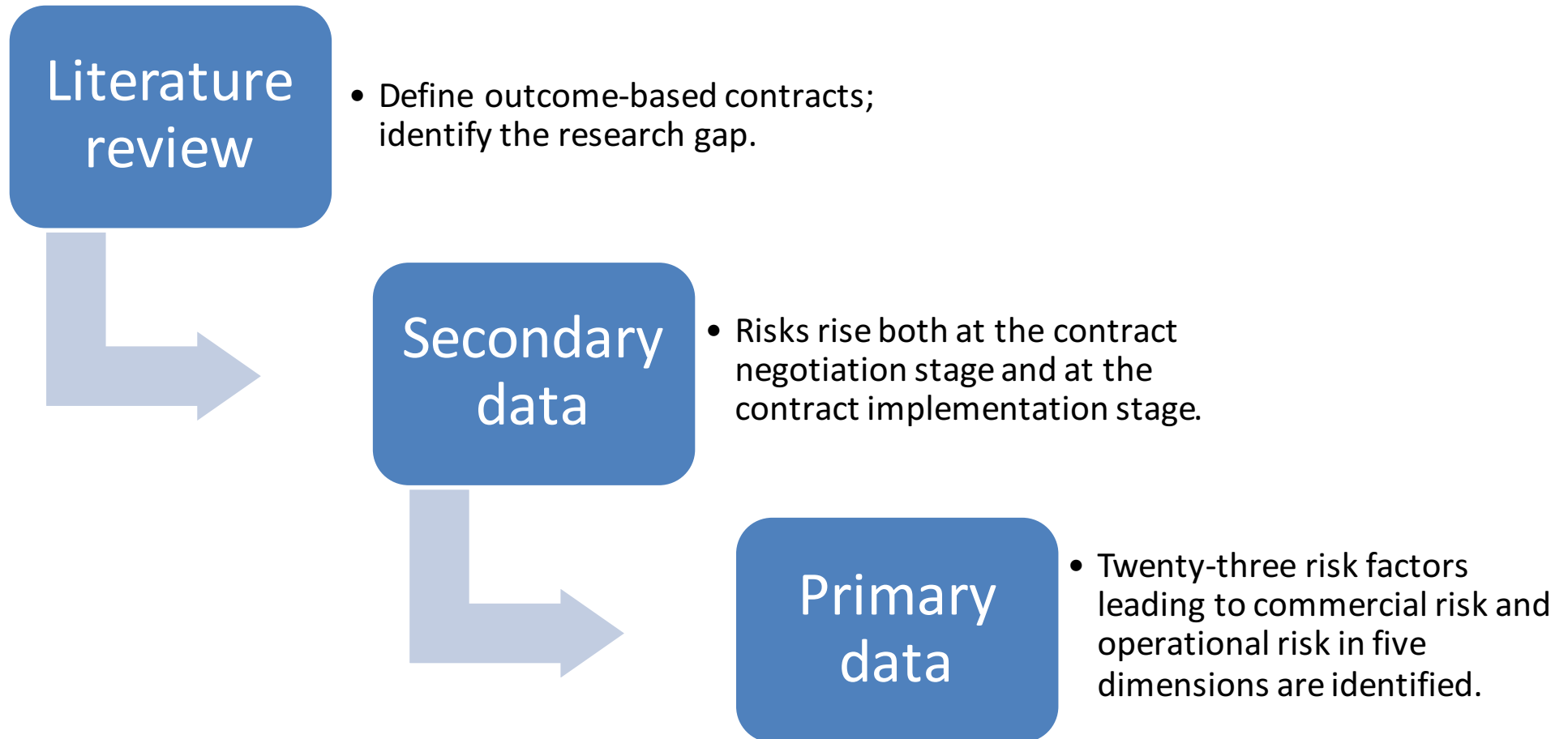


T&M
contracts

Service level
agreements

Outcome-
based
contracts

Research design



Literature review

- Defining outcome-based contracts

“An agreement between the provider and the customer that the provider provides total solutions and is paid based on the outcomes of the solutions or the outcomes of customer value in a continual use situation.”

Offerings

- Total solutions are to be delivered instead of individual components; outcomes are specified instead of inputs, processes or outputs.

Payment

- The payments the provider receives depend on the outcomes of the total solutions or the outcomes of customer value.

Relationships

- The agreements should be in a continual use situation, referring to the relational instead of transactional nature of the relationship.

Research finding I – commercial & operational risk

- Risks rise both...

At the contracting stage



Commercial risk

refers to the risk regarding the contract negotiations and contract decisions at the contracting stage

e.g. unsuitable contract decisions or complex contract negotiation process.

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At the delivery stage



Operational risk

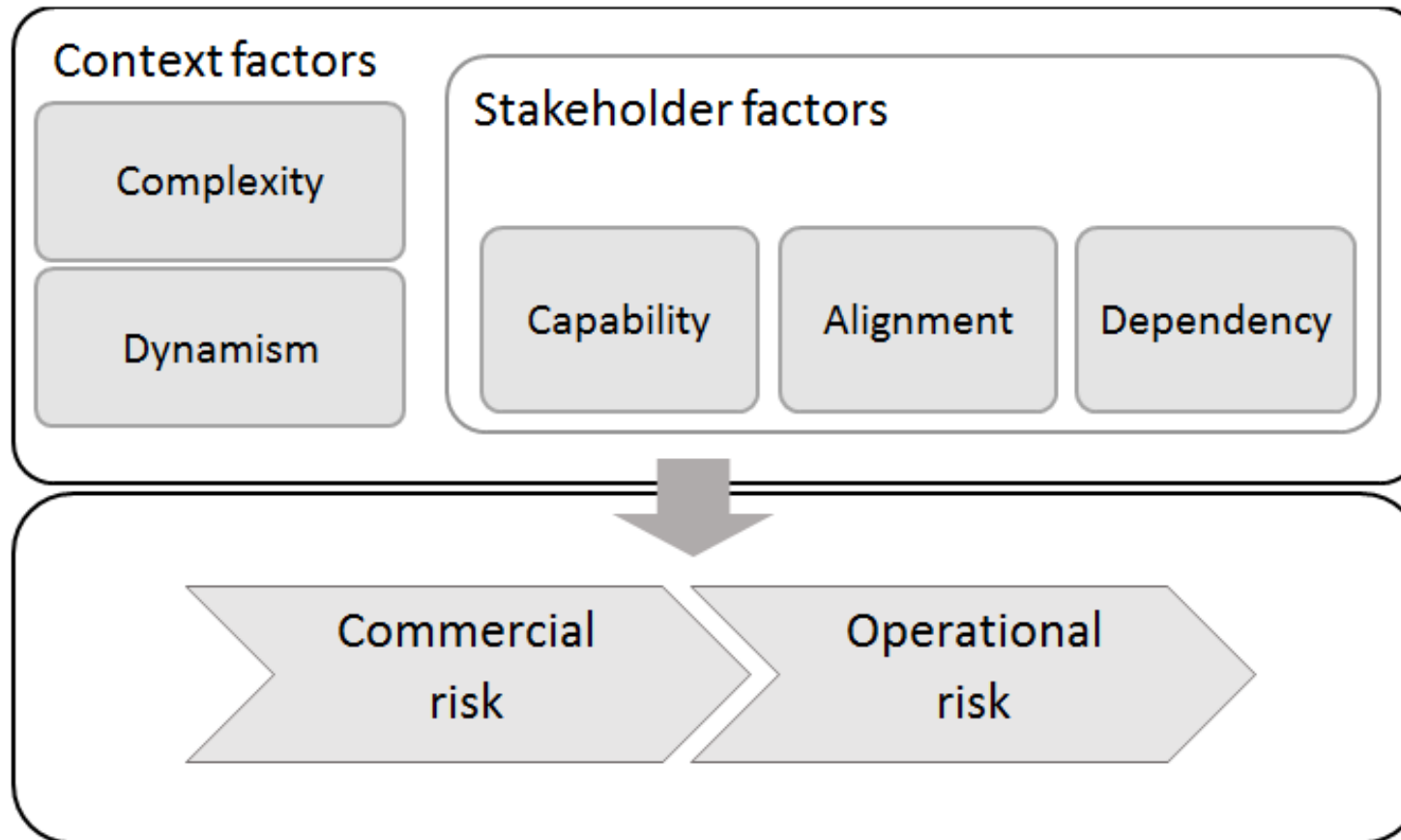
refers to the risk regarding the implementation and the delivery of OBCs

e.g. complexity in service delivery, providers' failing to deliver required services, customers' failing to achieve expected value.

Research finding II – risk factors

Risks of OBC from case studies	Risk factors of OBC from case studies	Dimensions
<p>Commercial risk regarding the contract negotiations and contract decisions, e.g. unsuitable contract decisions, complex negotiation process</p>	<p>Involvement of multiple stakeholders Diversified customer demands Unclear customer demands Complex contracts Complex environment Dynamic customer demands Dynamic environment Long-term contracts Providers' lack of capabilities to contract OBC Providers' lack of capabilities to deliver OBC</p>	<p>Complexity</p>
<p>Operational risk regarding the contract implementation and delivery, e.g. complexity in service delivery, failure to achieve customer value</p>	<p>Providers' internal inconsistency Providers' internal resistance Customers' lack of capabilities to consume the delivery and to play their roles Other stakeholders' lack of capabilities to perform Mismatching in goals between providers and customers Mismatching in visions between providers and customers Mismatching in practices between providers and customers Mismatching in understandings between providers and customers Mismatching in culture between providers and customers Mismatching in bargaining power between providers and customers Dependency on customers Dependency on other stakeholders Upfront investments</p>	<p>Dynamism</p>
		<p>Capability</p>
		<p>Alignment</p>
		<p>Dependency</p>

Research finding III – the risk framework



Risk framework of outcome-based contracts from a provider's perspective

Research finding IV – evaluation on risk factors

Dimension	Risk factors of OBC from case studies	Commercial risk	Operational risk	Total contribution
<i>Context factors</i>				
Complexity	Involvement of multiple stakeholders	7	6	13
	Diversified customer demands	5	0	5
	Unclear customer demands	3	1	4
	Complex contracts	3	0	3
	Complex environment	1	4	5
Dynamism	Dynamic customer demands	2	3	5
	Dynamic environment	1	4	5
	Long-term contracts	4	1	5
<i>Stakeholder factors</i>				
Capability	Providers' lack of capabilities to contract OBC	7	0	7
	Providers' lack of capabilities to deliver OBC	1	14	15
	Providers' internal inconsistency	5	6	11
	Providers' internal resistance	2	2	4
	Customers' lack of capabilities to consume the delivery and to play their roles	0	7	7
	Other stakeholders' lack of capabilities to perform	0	6	6
Alignment	Mismatching in goals between providers and customers	3	1	4
	Mismatching in visions between providers and customers	1	3	4
	Mismatching in practices between providers and customers	2	1	3
	Mismatching in understandings between providers and customers	3	3	6
	Mismatching in culture between providers and customers	0	2	2
	Mismatching in bargaining power between providers and customers	4	1	5
Dependency	Dependency on customers	0	10	10
	Dependency on other stakeholders	0	7	7
	Upfront investments	1	4	5

Involvement of multiple stakeholders

Providers' lack of capabilities to deliver OBC
Providers' internal consistency

Dependency on customers

Discussions

- “Involvement of multiple stakeholders” has been identified in this research to be highly accountable for both commercial and operational risk.
- The long-term characteristic of OBCs has raised concerns that it is difficult to predict what can happen within years when the contracts are negotiated. Flexibility should be built in where possible.
- “Providers’ lack of capabilities” is a key risk factor, including not only the lack of capabilities to deliver OBCs, but also the lack of capabilities to negotiate and to establish OBCs, as well as the lack of organizational capabilities such as the internal inconsistency.
- Practitioners should devote to achieve alignments and reduce the gaps with customers in these aspects – goals, visions, practices, understandings, culture and bargaining power.
- Understanding the dependency on customers and other stakeholders can facilitate providers to better understand potential risks they take in OBCs.

Conclusions

- Twenty-three risk factors of OBCs are identified in five dimensions – complexity, dynamism, capability, alignment and dependency. The former two are regarding the context of OBCs, while the latter three are regarding the stakeholders of OBCs.
- Commercial risk at the contract negotiation stage and operational risk at the contract implementation stage are differentiated. And we analysed and evaluated how the identified twenty-three risk factors contribute to commercial risk and operational risk respectively.
- A risk framework of OBC is proposed with theoretical and practical implications.
- It opens some future research areas, such as a quantitative research on risks of OBCs, a comparison between risks of OBC and risks of traditional contracts, etc.

Thank you!
Questions?

Forthcoming Webinars

Date	Topic	Invited speaker
14:30hr BST		
2017		
April 10th	Investigating risks of outcome-based service contracts from a provider's perspective	Jingchen Hou
May 8th	A Process for B2B Partnerships: designing to deliver capability across companies	Florian Urmeter
June 12th	Exploring the Service Journey	Veronica Martinez
July 10th	Business Ecosystems: Towards a Classification Model	Florian Urmeter