



Teaming Agreements Are a Lot Like Arranged Marriages

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The outsourcing of information services, including the maintenance and updating of their related legacy software programs is becoming commonplace in industry. Sometimes such relationships are created using clearly defined roles and relationships. Other times, such services are simply scattered with overlapping or shared relationships. This author suggests using teaming agreements to precisely specify who does what and who is responsible for what.

Teaming agreements between corporations are a lot like *arranged marriages* within certain cultures of the world. The parents – mostly the fathers – get together and decide that one’s son will marry the other’s daughter. Period. End of discussion. The parents then meet – mostly the fathers – and introduce the young participants, who have no say in the matter.

Likewise, with many corporate teaming arrangements, one executive will meet with another executive and they will decide that their firms will join together on a new project. Period. End of discussion. The executives then meet to introduce the project participants, who have no say in the matter.

The funny thing is that arranged marriages between previous strangers most often work. Even funnier, perhaps, such arrangements between corporations and their projects also seem to work. Perhaps we in industry have learned something from the ancient ways.

Now that the U.S. Department of Justice and the European Community are starting to vigorously object to permanent consolidations (mergers) between international companies, we are starting to hear more about the formation of strategic teaming arrangements between what are otherwise competing firms. Hardly a week goes by that we do not read about major competitors forming some type of an arrangement or alliance, a strategic relationship, to go after a certain new project. And strangely, such arrangements seem to work.

We see this phenomena happening in all industries, but perhaps most particularly in the information technology (IT) outsourcing industry where new multi-year contracts are awarded almost monthly. These huge mega-deals are often beyond the capability of any single firm to support. But two or three companies acting in unison with each other seem to work nicely. One example is Electronic Data Systems Corp., who was awarded a far-

reaching contract valued at as much as \$6.9 billion over eight years to revamp the U.S. Navy and Marine Corps' computer system. Its key partners in the contract included WorldCom Inc. and Raytheon Company [1].

What is the fascination with teaming arrangements? Why are so many being formed? When one firm commits to joining forces with another firm, what does that really mean? What is the best approach for firms to take?

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What are Teaming Arrangements?

As a starting point we should understand the concept itself. Teaming agreements in a nutshell are simply legal contracts between two or more companies. In teaming agreements, firms agree to do something, or to refrain from doing something. To be enforceable, such agreements need to be for a legal purpose.

Teaming agreements between one company and another means that two or more companies will join forces to go after a new segment of work, often a particular new project. Each company will commit something unique to the arrangement such as financial resources, key people, company assets, technology, etc., and each will expect to share in the risks and

rewards of the endeavor. Perhaps a couple of specific formal definitions will help us to understand the concept.

Two leading authors in the field of project management have defined teaming arrangements in the following manner:

An agreement of two or more firms to form a partnership or joint venture to act as a potential prime contractor; or an agreement by a potential prime contractor to act as a subcontractor under a specified acquisition program; or an agreement for a joint proposal resulting from a normal prime contractor-subcontractor, licensee-licensor, or leader-company relationship [2].

This may help. But perhaps another definition will better reinforce our understanding. Since many of us work on contracts funded by the U.S. Government, perhaps we should understand their perspective of such arrangements:

An arrangement between two or more companies, either as a partnership or joint venture, to perform on a specific contract. The team itself may be designated to act as the prime contractor; or one of the team members may be designated to act as the prime contractor, and the other member(s) designated to act as subcontractors. When the characteristics of joint control (i.e., joint property, joint liability for losses and expenses, and joint participation in profits) are evident, then the teaming arrangement is a joint venture. When these characteristics are not present then the arrangement may more closely resemble that of a prime contractor/subcontractor [3].

There is one important point when

trying to understand the concept of strategic teaming: such agreements between two or more companies can be whatever these companies want them to be in their new relationship. Whenever two or more parties announce that they have formed a teaming alliance, the specific details of who is responsible for what are typically known only to the teaming participants, possibly their customer, as defined in their agreement. Teaming arrangements are the product of the parties involved:

The strategic alliance is the parties' own creation. There are few laws constraining the teams to which the parties can agree ... Parties to a strategic alliance agreement, therefore, need to be careful to state fully the terms of their alliance [4].

Good, bad or otherwise, a teaming arrangement between one company to another creates a unique arrangement. Great care must be taken to ensure that the strategic arrangement represents the intent of all parties.

Now let us get back to the matter of the outsourcing (IT) services. There are two common models commonly used to outsource these activities. Each paradigm places a different responsibility on the performing companies. These two approaches are 1) with use of a teaming agreement whereby we must buy our product from a certain company, or, we must sell our product to a certain company, or, we must split a project by some preset formula; or, 2) without a teaming agreement whereby we must cooperate with another company or companies to satisfy the ultimate wishes of the cus-

tomers, no matter what.

To team or not to team, that is the question.

Model No. 1: Outsourcing IT Services with a Teaming Agreement

This first model employs a teaming agreement. Such arrangements specify precisely the roles of each party. The participants have an arrangement clearly delineating who is responsible for what. They have formed a precise relationship between the two or more participating companies: superior/subordinate, equal partners, 60/40 split, etc. By the terms of their teaming agreement, each company knows what is expected of it. Responsibility and authority will be clearly outlined.

This approach is illustrated in Figure 1, using as an example a recent United States Air Force (USAF) contract for the Aerospace Center support work at Arnold Air Force Base in Tennessee. In this case, the arrangement calls for a superior/subordinate relationship. This model is clear, clean, and workable. All parties, including the USAF buying customer and the two subcontractors, know who is responsible for the project: the Computer Sciences Corporation (CSC).

This model requires that the CSC buy certain previously defined scope-of-work from its two major team members for the duration of the agreement period, in this case three years. Typically under such arrangements, competition will be perpetually waived, and the principles must continue to buy (or sell) from the same source until the performance period is ended.

However, some teaming agreements will allow for either a pricing update or a competition to be held at a given future

point in time. In this model, everyone clearly knows who is the boss of the effort. When things go right or possibly wrong, the USAF buying customer knows exactly who to hold accountable. The USAF has a direct privity of contract with only one company, CSC. In turn, CSC has a direct contractual relationship with both DynCorp and General Physics.

It should be stated that any teaming arrangement could (sometimes) be abused because the people in the trenches from the subordinate companies know that the prime contractor has no choice but to buy from them. However, if there is evidence that the subordinate firms are taking advantage of their legal agreement and not cooperating fully by providing either a reasonable price or adequate services, the best recourse is to elevate the issue back to the executives who consummated the deal in the first place.

In most cases, the established rapport between the executives who originated the initial agreement will be more than sufficient to bring reason back into such relationships. Much like the fathers in the ancient cultures, the executives expect – they will demand – that the teaming agreement works.

Model No. 2: Outsourcing IT Services Without Teaming Agreements

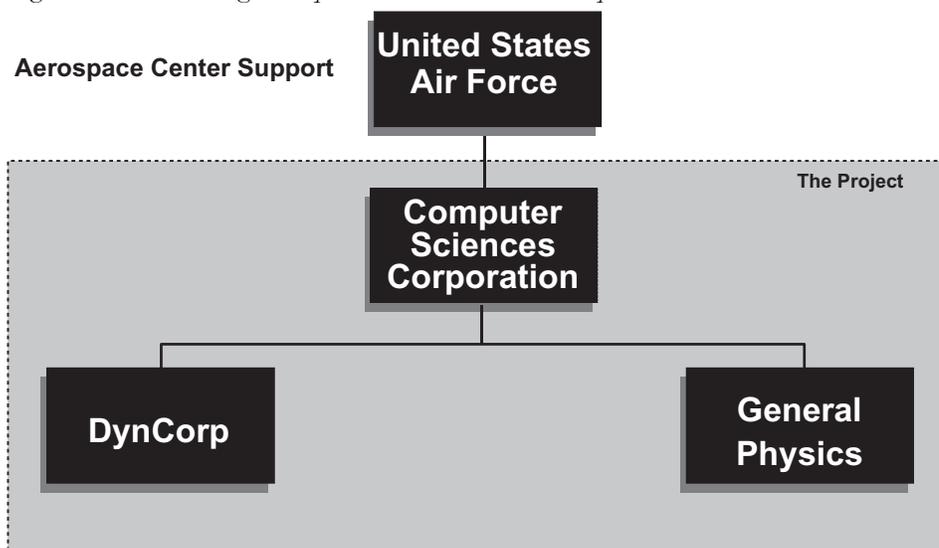
In the second model, there is no teaming arrangement. The buying company simply expects that the chosen companies will work together in a cooperative way, under the direction of the IT buyer. Sometimes it works. Other times it is questionable.

We will use as an illustration the outsourcing of an IT effort that was done by British Petroleum Exploration (BPX), which started in 1993. BPX planned to outsource all its IT operations in an attempt to reduce its operating cost.

After BPX conducted an initial survey of how other IT services had been outsourced, they decided against using a single source supplier under a long-term arrangement, as other firms had elected to do. Rather, BPX chose to engage multiple contractors and insist these companies work in concert to provide the IT services. The company sent out a Request for Information (RFI) packet to 100 potential candidates indicating their intent to offer multiple contracts for all its IT work. A total of 65 companies responded to the RFI.

After a series of face-to-face discussions, BPX reduced the viable candidates' list down to only 16 firms. Next, BPX

Figure 1: *With Teaming: A Superior-Subordinate Relationship*



went for a shortened list of only six firms. Weeklong sessions were held with these six final companies, resulting in the receipt of five compliant proposals. From these five proposals, BPX selected three firms to perform all its IT services. Multiple contracts were then awarded to the three selected companies.

This approach is illustrated in Figure 2: There is one overall IT project with three separate contracts, requiring each contractor to work with the other two to provide *seamless* services to BPX:

Rather than totally outsource to one supplier, BPX hired three suppliers under an umbrella contract, which obligated the suppliers to work together [5].

Possibly, there could have been no contractual agreement between these three companies, since European antitrust laws may have prevented such teaming alliances:

Although European antitrust laws prevented the three suppliers from joining in a formal alliance to deliver services to us (we have a separate agreement with each company), the companies agreed to provide combined services to all our sites [6].

The intent of BPX was to let the three contracted companies work out their own detailed interfaces, and to minimize the BPX management responsibilities:

They wanted them to work together as a consortium – to present a united interface to the company, and deal with any issues amongst themselves, thereby minimizing BPX involvement [7].

How did this BPX contracting approach work? It appeared to be adequate; the needed services were delivered, but not without certain problems:

The contracts were drawn up in ways that did not encourage cooperation between vendors. This left BPX with a range of inter-contract problems arising from what was described as *the cracks* between vendors. BPX ended up with the considerable task of having to manage not only each individual subcontractor but also the relationship and interfaces between them [8].

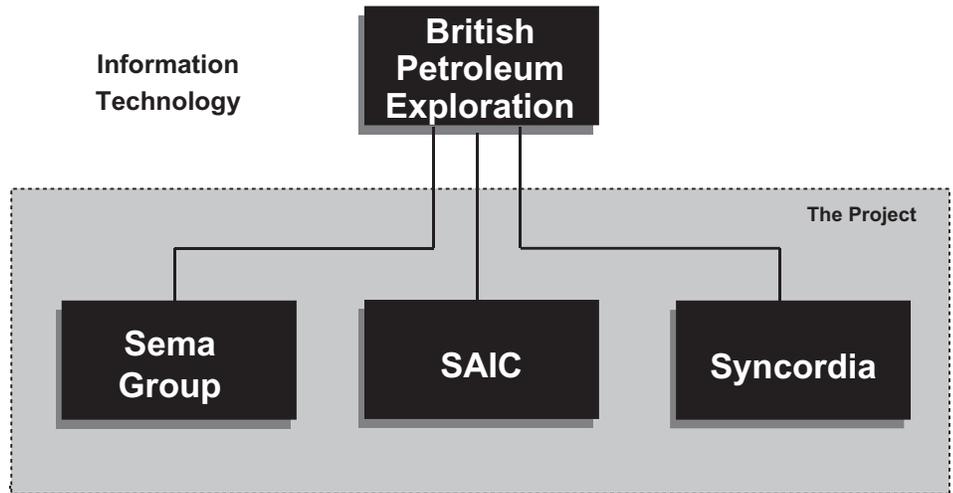


Figure 2: *Without Teaming: An Umbrella Contract for One Project*

At the end of their five-year contracts, all three companies were again retained by BPX, although in some cases their respective roles were diminished. But most significant perhaps, the vendor alliance concept was dropped at BPX. One of their managers later remarked:

It's very difficult to get multi-vendors to work in alliance... We decided to go for the one-supplier option [9].

So much for the idea of getting cooperation from multiple suppliers.

Which Model Seems to Work Best?

In American football, there is a play called the *Hail Mary* pass. This pass is used whenever a team is in desperate straights, and they have no other course of action. The quarterback gets the ball, steps back, and throws a pass as far as he can in the direction of a cluster of players. Some of the players in the cluster are from his team, and some are from the other team. His silent prayer calls for someone on his team to somehow catch the ball. Sometimes it works. Most of the time it does not. It is a desperate measure.

There are two conditions calling for the use of the *Hail Mary* pass: 1) sheer desperation, and 2) no definitive plan of action. It would seem that the use of Model No. 2 as described above – the outsourcing of IT work without establishing clear lines of authority and responsibility – can be compared to the *Hail Mary* pass.

In the two models of IT outsourcing arrangements presented here, the first model calls for a teaming arrangement. The roles and relationships of all parties

are established. There is someone specifically in charge, and all other participants are subordinate to that company. In the second model, the relationships between participants are not defined, and each entity is left to work out its role and relationship on its own. The question is, why would anyone choose to employ the second model?

Some will argue that the superior-subordinate model is unduly costly because the superior is given some value (a fee) for managing subordinates. This may be the case with the prime contractor getting a small (negotiable) fee for managing the subcontractors. But it would appear to be a value well spent. You always know exactly who is in charge, and who has the responsibility and authority for the project. You also know the total costs.

However, whenever you do not set clear lines of responsibility with your suppliers, someone has to manage the cracks and overlaps. Such management costs are often hidden, but they are real and are contained within the buyer's organization. When quantified, such supplier management costs will typically exceed the costs of a small management fee paid to a prime contractor to manage the entire effort. Not placing clear lines of responsibility with suppliers to save a small management fee is a false economy.

Others have suggested that by not specifically defining suppliers' roles with great precision, synergies between them will somehow emerge from the relationship, and each organization will excel with their respective contributions. This would seem to be an unduly optimistic approach.

Model No. 1, the use of a definitive teaming agreement, would appear to be most appropriate. In any business rela-

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tionship, it is mandatory to know precisely who to praise when things go well, and who to hold accountable when things do not. There is nothing inherently wrong with teaming agreements as long as the buyer is aware of the teaming arrangement, and there is a competition held with other firms, or other teams.

Model No. 2 would appear to be fundamentally flawed, in the opinion of this author, as the BPX experience demonstrates in the following:

Our outsourcing strategy has not always worked smoothly, we have encountered some bumps ... While senior managers at BP and the three suppliers clearly understood the vision of seamless service captured in the framework agreements, their respective operations did not [10].

Perhaps we should again look to the ancient ways of arranged marriages between families. While in the Old World the families – mostly the fathers – would agree on the matchmaking. After the marriage, the participants decided who was responsible for what although there were certainly precedents to follow. What is being suggested is that companies should follow the ancient ways and let the parents – the corporate executives – decide what projects should be joined by other projects. However, such corporate relationships should not be left open to chance for the parties to work out.

In all cases, the executives who arrange the teams' formation should also insist on such agreements being reinforced in great detail. This includes defining who is responsible for what, and covering, among other things, the possibility of an early breakup, a dissolution of the arrangement, and a way to reasonably settle any disputed issues. In the modern world of marriage, we often refer to this arrangement as a *prenuptial agreement*.

Summary

In the opinion of this author, a combination of the Old World with the modern world makes the best form of a strategic teaming arrangement. The families (the corporate executives) should endorse any teaming agreement, but the details of their arrangement should be specifically spelled out: who does what, who is responsible for what, and how do we get out of this arrangement, all in the form of a prenuptial called a teaming agreement. ♦

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