

A WAY TO SUCCESSFUL AND STRATEGIC CONTRACT MANAGEMENT

KRISTIAN JAAKKOLA [EFECTE CORP.]

1. ABSTRACT

Contracts and partnerships are an essential part of today's high speed, multilateral business culture – both in the public and private sector. Contract management is becoming an integral part of project management, and business in general. Many commercial and project managers are more and more facing contract management issues.

One of the challenges is often how to get started with contract management. The process of preparing and launching of contract management in an organisation can take years. This kind of a process should be seen as an on-going multi-step process instead of a project that can be completed in less than a year. However, contract management development is beneficial and even crucial. The good news is that after each completed sub-project contract management results in cost savings and increased profits. As contract management concept is extended to the entire organisation in its' widest and purest form it will be an essential competitive edge.

When contract management issue is in the agenda, one of the major aspects to consider is naturally the operations and processes in the organisation. Thereafter it is possible to identify the key issues of contract management development in your organisation. Some typical characteristics can be found in different kind of business operations and related contracts. These considerations will help you in finding the starting point and further in mapping the development path for managing related workflows and processes in contract management.

There are several very typical and easily identifiable steps related to contract management development within a company. The first step is simply to get the basic contract management operations established. These include such things as a centralised contract repository, appointment of person(s) responsible for each contract, a contract management handbook, company contract templates and defining required proactive alarms on the contracts. The second step is to make the contracts “alive” – in other words, be part of the business. This covers issues such as contract management process, deeper involvement of business units, use of contracts in operations such as project management, and truly active use of contract management as a business tool. Finally, the third step in the process of contract management – it is the strategic step. As this level of development is reached your organisation is able to evaluate entire organisations' contract and partnership network from a strategic point of view. This final phase genuinely integrates contract management as a valuable tool for long-term planning, strategy formulation, and strategy implementation.

2. KEYWORDS

Keywords: contract management, contract, Efecte, project management, risk management, software project, system implementation

3. INTRODUCTION

Running a large enterprise involves running several smaller, process-specific business units and coordinating their activities, together with activities of many outside contractors. The common factor in all present and future businesses is the pace of change. The change can be seen in many ways: as increased competition, increased regulation, increased innovation, as well as in other ways. As enterprises wish to become more adaptable, they are being transformed into 'projectised' organisations [1]. In a networked world these projectised organisations are essentially about managing groups of information, people, assets and financial assets linked together, and governed by contracts. Contract management is in the core of running competitive enterprise whether it is a private or a public.

Business environment is getting more complicated and so are the laws. In the past contracts needed only to deal with the laws in one country. Nowadays international trade laws, EU laws etc. have to be taken into account. On the other hand the creation of enterprise value is ever-increasingly dependent on

a network of suppliers, business partners and other stakeholders. This changes operational risks into contract risks which are easily outside the control and audition of management team. This risk to enterprise value is even increased by the fact that customers are becoming more aware of their rights and responsibilities, thus demanding and negotiating better contracts for themselves.

Given this background it is impossible to imagine running an enterprise without an adequate *contract management process*. According to a recent study IACCM [2] contracting often is a series of disconnected activities, rather than a process. This leads to poor visibility and metrics for the control. These common inefficiencies relate closely to access to information and to workflow. According to the IACCM study senior managers state that improvement would contribute to better risk management (69%) and reduced costs (89%). Some of the senior managers (23%) also believed that better contract management would lead to higher revenue.

Demand for a *process-view* on contract management has been raised by management, compliance teams and auditors as well as they should be raised by owners of the company. Contract approval, tracking, storing and management needs to be shown to use audited workflow. To cost-efficiently facilitate these demands enterprises need contract management processes and supporting tools. These allow better contracts to be created in less time. This will lead to decreased costs, increased profits, better risk management, and increased value for the entire enterprise.

This paper will discuss issues related to the implementation of contract management including considerations, risks, downfalls, benefits, and possibilities.

4. CONTRACT MANAGEMENT

Today's business models are driving the complexity of contracts, their terms and conditions. Similarly the number of contracts is rapidly increasing. The way contracts are managed must be changed. Managing contracts manually and in an ad-hoc manner is resulting in higher risks and costs. For example, according to the analyst company Goldman Sachs study e.g. improvement in reduction in erroneous payments can be as high as 75-90% and negotiation cycle can be much faster (50%) [3]. Additionally lack of clear executive ownership of contract management issues is one of the major reasons for operational weaknesses.

The implementation of contract management can be described as a three step process [4]. These steps overlap each other but they can be separately dealt with. The first step is to simply get the basic contract management operations established. These include such as a centralised contract repository, appointment of person(s) responsible for each contract, a contract management handbook, company contract templates and defining proactive alarms for the contracts. The second step is to make the contracts "alive" – in other words, be part of the business. This covers issues such as contract management process, deeper involvement of business units, use of contracts in operations such as project management, and active use of contract management as a business tool. Finally, the third step in the process of contract management – it is the strategic step. As this level of development is achieved, an enterprise is able to evaluate contract and partnership network from a strategic point of view. This final step integrates contract management as a corner stone for long-term planning, strategy formulation, and strategy implementation. The process of preparing and launching of contract management in an enterprise can take years. Above-mentioned phases can be used to formulate and schedule a stepwise project.

4.1 Getting started

Before getting started with contract management project there are several considerations to be made. The most important consideration is resource allocation. For a contract management project, as for any project, it is essential to have top management commitment on resources, goals, and schedule. Another important step is the nomination of project manager for contract management. Naturally, the goals and the schedule should be in line with the resources as well as the other way around. Once these basic preparations have been done, the project is set to get started.

4.2 Step 1, the basics

During the first phase one needs to consider the following tasks: scope of contract management, process definitions, contract manual / handbook, contract templates, software selection (as contract management tool), scanning and storing of contracts, interest groups, responsible persons, the starting point, and the order of progress both organisationally and operationally.

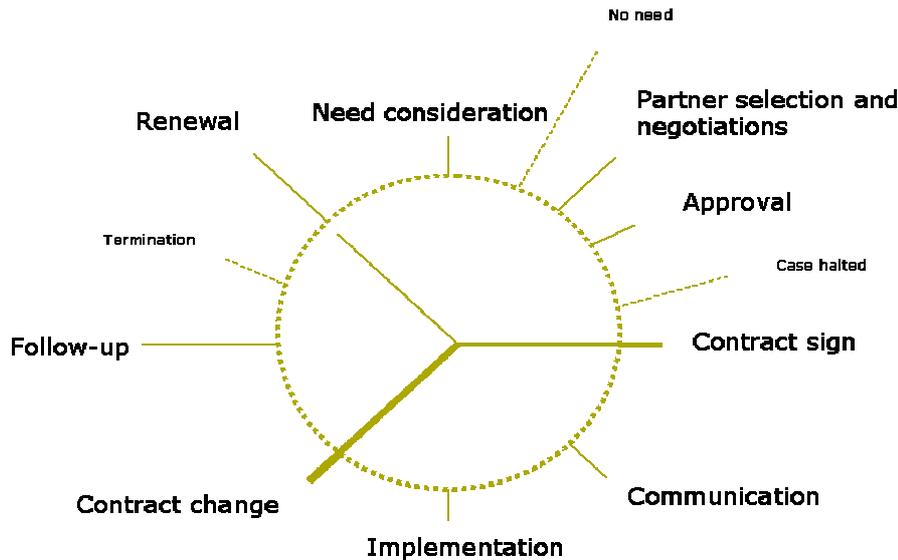


Diagram 2: A typical lifecycle of a contract

The life cycle of a contract starts before the contract is signed. Need consideration, negotiations and partner selection are all important steps in a process. An effective approval procedure must be formed and further it is important that information on the contracts is effectively distributed. Finally, all these phases require accurate defining the user group profiles for security reasons.

4.2.3 The tool – Contract Management Software

Some of the key issues when selecting the software tool are the following: whether to choose a ready-made solution or tailor-made, that security issues has been addressed, that access to contract information is flexible (preferably via web-browser) according to pre-defined user profiles, that extensive reporting is supported, that contract repository is in place, and finally that proactive management is supported with alarm functionality. The downfall with tailor-made solutions is the cost and time. It is often forgotten that tailor-made solutions rarely have maintenance and all changes are costly. The good thing about tailor-made solutions is that they should address your unique needs perfectly. Otherwise packaged standard solutions should be always opted. Luckily some state-of-the-art standard solutions available offer the same flexibility as tailor-made solutions without trade-off related to cost and efficiency benefits.

When all above-mentioned considerations and decisions have been made it is time to get started. First, physical contracts must be searched and collected from each part of the organisation. Secondly responsible person for each unit and also each contract must be appointed. Third step is to feed in all the information into chosen contract management tool. This part of the project requires time, resources and diligent work. This usually takes from 4 to 12 months considering that other work has to be done during the project as well. When step 1 is completed, basic contract management functions, procedures and tools are in place. The goal of the first step is to get things organised in order to generate cost savings in contract management administration work and to reduce unnecessary costs related to uncontrolled continuance of contracts.

4.3 Step 2, the expansion

The second step, which can overlap the first step, is expanding the concept to business people. In essence this means that everyone in the organisation should know how to deal with contracts, in other words, how to create contracts, where to store contracts, how to approve deviations, how to find contracts that effect one's own work and how to communicate about contracts. This step does not mean that everyone should be trained to be a contract lawyer. It simply means that everyone should understand the common principles and know how to take advantage of the contracts that have been negotiated.

This phase requires training, time and hard work. This step is very straight-forward and takes typically from 6 to 24 months depending on the size of the organisation and the resources available. The goal is to further decrease costs but also to increase profits and benefits gained by contracts as well as to

increase the quality of operations. Quality issue is essential in successful managing of customer and partner relationships.

4.4 Step 3, Strategic control

The final step is about reaching strategic control over contracts. When previous steps have been successfully completed this final step is all about taking advantage of the leverage gained by superior contract management. Extensive contract management significantly reduces risks, decreases dependence on a single vendor, partner or party, enables volume discounts to be used and helps the forming and implementation of future visions. The goal of the third contract management step is to gain competitive advantage against other enterprises in the same line of business.

4.5 Typical obstacles

Some of the basic obstacles in contract management project phases are that the contract information is literally spread all over the organisation forming “islands of information”, some of the information is lost and the overall visibility is poor if non-existing. But the most challenging problem is perhaps the resistance to change among personnel. Old manners die slowly and people often are openly opposed to change. One way to tackle this problem is to communicate openly and try to create commitment by showing real benefits to individuals. These benefits can be such as increased profits (for sales people), reduces costs (to managers), less administration and routine work (for assistants and administration people) or better risk management (for top management).

Another typical problem is related to project management. As all projects, contract management project can be faced with classic project management problems such as: how to align all the resources at the right time in the right place, how to measure the progress of the project, how to assure successful completion of the project, and finally how to see the results gained by the project. Summarised it is all about commitment, follow-up and rigid project management.

Third typical challenge is related to organising the follow-up for the contract management process. The central question is how to organise effective follow-up and at the same time ensure motivation so that the new ways of working and dealing with contracts are being used throughout the organisation. One possible solution to this is to first temporarily centralise the operations and responsibilities and when project is running then slowly redistribute the responsibilities again as commitment and new ways of working has been established.

5. CONCLUSIONS

Contract management is an issue of strategic importance both organisations and to projects. Through successful contract management organisations can increase control, increase effectiveness and reduce costs and also provide strategic and competitive advantages. This applies to all kinds of organisations regardless of size or line of business. An organisation that fails to pay attention to the contract process is often not collecting the revenues they could and they are paying too much for the services and assets it buys. Poor management of contracts means huge risk-taking and lots of excess costs.

Key goals for a contract management project are to ensure easy access to contract information and to form flexible support for the contract workflow. In order to reach these goals some essential issues to address in a contract management project are: take a holistic process-view, clear definition of phases and processes, clear definition of responsibilities, centralise information but enable de-centralised usage of it, and finally visibility and control over contracts. All this require genuine commitment and discipline in the organisation – but also suitable software tool to support automated processes.

6. REFERENCES

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Bio Summary

Author: Kristian Jaakkola

Affiliation: CEO, Efecte Oy

Degrees: M.Sc.

Professional activities: IT, middle and top management, contract management

Societies: Project management association Finland