

Contract Management (Adapted from the CIPS position dated Sept 2003)

Contract Management is a fundamental part of the procurement process and should form part of the overall procurement strategy.

The key positions in this paper are summarised below:

- Good contract management promotes good practice and professionalism.
- Qualified and experienced P&SM professionals have the skills required for effective contract management.
- P&SM practitioners should possess at minimum, the 'knowledge and understanding' requirements relating to contracts management embodied in the CIPS Graduate Diploma.
- Contract management applies to a whole gamut of procurements from a simple order to a complex construction or service contract.
- Multi-disciplinary teams with a mix of skills should be established to enable contracts to be managed effectively and risks minimised.

Defining Contract Management

Contract management can be defined as: "the activities of a buyer during a contract period to ensure that all parties to the contract fulfil their contractual obligations." An important aspect of this is managing the relationships between all parties in the most effective way so as to ensure the contract meets the optimum combination of cost, time and quality.

Contract activities can be split into two distinct but interdependent phases: 'upstream' (pre-award), 'downstream' (post-award). Contract management is a downstream activity but can only be effective if upstream activities are properly carried out.

For purposes of clarity, upstream would include the following activities which are all pre-contract:

- assembling the project team
- developing contract strategy
- assessing risk
- developing an exit strategy

- developing the contract management plan
- drafting specifications and requirements
- establishing the correct form of contract
- setting pre-qualification, qualification and tender procedures
- drafting the Invitation to Tender documentation
- evaluating tenders
- awarding contracts.

Downstream contract management includes managing:

- change within the contract
- administration of the contract
- continuous assessment and re-assessment of risk within the contract
- the parties' contract performance
- closure of the contract and performance feedback
- the purchasing organisation's performance and effectiveness
- contractor relationships.

Contract management applies to the whole gamut of procurements from a simple order to a complex construction or service contract.

An essential feature in both the upstream and downstream aspects of contract management is effective project and programme management, skill sets which as often as not are lacking or at least underdeveloped as far as purchasing processes are concerned.

Other key functions are team management (leading teams as appropriate, both internally, and with supplier participation) and setting and managing SLAs, a function which is particularly appropriate in outsourcing or critical supply environments.

CIPS recognises that contracts can go wrong. It is essential

that P&SM professionals work with other stakeholders to deal with any problems or other issues and also to assess any commercial risks that might arise before and during the execution of the contract, in order to limit any detrimental consequences to the organisation.

P&SM professionals must therefore be involved at the earliest possible stage in the contract process.

What Skills are required?

Commercial agreements are increasing in complexity and supply chains are often inter-dependent, thus the potential for organisations to be exposed to risk is concomitantly greater. Multi-disciplinary teams with a mix of skills should therefore be established to enable contracts to be managed effectively and these risks minimised. The P&SM professional should possess, as a minimum, the 'knowledge and understanding' requirements relating to contracts management embodied in the CIPS Graduate Diploma. The list below outlines other key skills that are required:

- strategic partnering skills e.g. co-operation with common goals
- relationship management skills - knowing when to 'intervene'
- listening skills
- facilitation skills
- influencing skills
- change management and change control skills
- dispute resolution skills
- risk identification and risk management skills
- the ability to interpret and understand contracts.

Also desirable is the ability to recognise that the rate of business change is accelerating and that therefore there is an

increased emphasis on the need for the effective management of contract change, along with the growing importance of building greater flexibility into the contract as far as upstream activities are concerned.

Outcomes of effective contract management include:

- a more disciplined and structured approach to contracting
- the development of appropriate strategies early in the process
- the production of a robust plan
- the clear definition of the outcomes to be established at the outset of the contract
- the establishment of the right form of supplier relationship
- the proper and continuous assessment of risk
- the ability to use benchmarking techniques and continuous reassessment in order to ensure continuous improvement
- the development of clear change control procedures and a professional approach to change management
- the ability to disseminate procurement skills and knowledge to other parties
- the minimisation of cost
- the identification and apportionment of risk as appropriate i.e. to the party best placed to manage the specific risk
- limiting a company's exposure to unnecessary risk
- putting in place measures to control the circumstances under which risk will be borne
- allowing for the development of the strategy with regard to certain other procurement issues, such as social responsibility, environmental responsibility or ethical trading. All of which lead to the overriding objective of the optimum combination of cost, time and quality.

CIPS recognises that these points represent good procurement practice and should be applied when undertaking

different forms of procurement. Good contract management promotes good practice and professionalism.

Conclusion

Effective contract management, which is a downstream activity, is highly dependent upon sound upstream work and the application of professional skills. CIPS believes that qualified and experienced P&SM professionals have the skills required for effective contract management and it would encourage all organisations to take advantage of such skills. By doing so, organisations should see significant bottom-line benefits.