IMPORTANCE OF CONTRACT MANAGEMENT

Introduction:

Contracts form the foundation of all business relationships. But with a growing number of contracts, an increasing complexity and the ongoing need for amendments, it becomes challenging to manage the valuable information in the contracts. Contract management is the process that enables both parties to a contract to meet their obligations in order to deliver the objectives required from the contract. It is a Relationship Management. It also involves building a good working relationship between customer and provider. It continues throughout the life of a contract and involves managing proactively to anticipate future needs, as well as reacting to situations that arise. In other words, Contract management is the management of contracts made with customers, vendors, partners, or employees. Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes that may arise during its implementation or execution. It can be summarized as the process of systematically and efficiently managing contract creation, execution and analysis for the purpose of maximizing financial and operational performance and minimizing risk. Contract management contributes significantly to a company's financial health and is viewed as a strategic weapon in optimizing contract performance and improving the return on investments.

The service agreement should support this dynamic by creating a governance structure that facilitates productive discussions and offers leverage and incentives to promote the customer's goals. For example, both the service provider and the customer should have experienced executives with meaningful authority and long-term responsibility to make important joint decisions that arise on a day-to-day basis. By using the same points of contact over months or years, the executives can develop a thorough understanding of both parties' interests and possess a "historical" context when new issues arise. The executives also should know the agreement and, ideally, know how it was negotiated and what issues the parties ultimately decided not to address. With a thorough knowledge of each parties' rights and responsibilities under the agreement, the executives have a context in which to negotiate and can use consistent, negotiated processes to resolve issues, whenever possible.

Role of the Contract Manager:

As all of the above makes clear, the role of the customer's contract manager is critical to the overall success of the outsourcing engagement. The contract manager should understand the contract terms and work with the customer's internal legal department to make sure that the customer is able to use the tools that the contract provides. The contract manager should observe contract formalities and exercise the discipline to maintain a comprehensive record of communications to preserve the customer's rights and avoid unnecessarily re-negotiating issues that have previously been resolved.

Maintaining contract formalities can be especially challenging when the original, pre-outsourcing organisation was particularly informal. Where before outsourcing, the organisation might have chosen to avoid formal policies and written communications as an unnecessary encumbrance, or might have viewed such measures as an objective for the future, after outsourcing, these formalities take on new importance and customers should step up and impose the formalities for that relationship. Maintaining a strong governance organisation also helps this process. While the temptation might be to keep the leanest possible governance organisation to maximize the outsourcing cost savings, a customer can realise significant benefits from a strong governance organisation that gets the outsourcing off on the right foot by maintaining strict discipline in communications. A short-staffed governance organisation in the early

months of an engagement can miss these fundamental objectives and leave the customer without that valuable context later on.
Contract Management, which can be defined as the execution and monitoring of a contract for the purpose of maximizing financial and operational performance and minimizing risks, involves tracking purchases against contracts to insure preferred suppliers are used, rates adhered to and discounts and rebates collected. Contract Management is important, because, as ordinary as it sounds, it is another part of the sourcing process that can bring a number of benefits to the organisation.

Need for Contract Management:
We may not realize it, but contracts help to drive and shape pretty much every business: Gartner estimates that between 60-80 per cent of all business transactions are governed by contracts or agreements in one form or another, particularly across finance, IT, legal dept, purchasing, sales, operations and HR. So, whether we are aware of it or not, contractual agreements are an important part of an organisation's underpinning structure.

And contracts aren't just about 'laying down the law' with third parties and employees: on a more positive note, they provide the framework for how we work with people and other organisations, they provide the rules and guidelines for obligations so that everyone should be clear what is expected of them. And when managed properly, contracts can even help organisations to reduce costs and improve profitability, as well, of course, as mitigating risk. So contract management is important in business perspective

Benefits of Contract Management:

a) Ensures that contractual obligations by both the sourcing supplier and client are met;
b) Helps eliminate potential breach of contract situations;
c) Improves adherence to outsourcing contract objectives;
d) Provides a well-documented audit trail;
e) Ensures more favourable contract outcomes;
f) Improves quality of service and customer focus;
g) Achieves value for money and financial control;
h) Decreases the level of risk;
i) Clarifies the roles and responsibilities of the contract manager, contractors, end users;
j) Provides early identification and resolution of poor performance, other problems or disputes;
k) Provides evaluation of the specification against contract performance and identification of contract changes or variations.

Conclusion:

Whether it is a small, medium or large organisation, developing contracts management processes and working towards performance improvement should be a key objective of every company's operational mandate. In the age of increasing cost and competition, it can mean the difference between having a sustainable business or a business that takes the time to define and administer superior contract management practices. This applies to all kinds of organisations regardless of the size or line of business. An organisation that fails to pay attention to the contract process is often fails to collect the revenues they could, besides paying too much for the services and assets it buys. Poor management of contracts means high risks, involving excessive costs. Contract management is an issue of strategic importance both to the organisation and to the projects. A thorough contract management organisation can increase control, increase effectiveness and reduce costs and also provide strategic and competitive advantages.