



## Using the Contract Management Cycle to maximise value and minimise risk

Insights into managing a contract throughout its entire lifecycle



This knowledge paper is supportive of Procurement professionals operating at operational level of the CIPS Global Standard



CIPS members can record one CPD hour

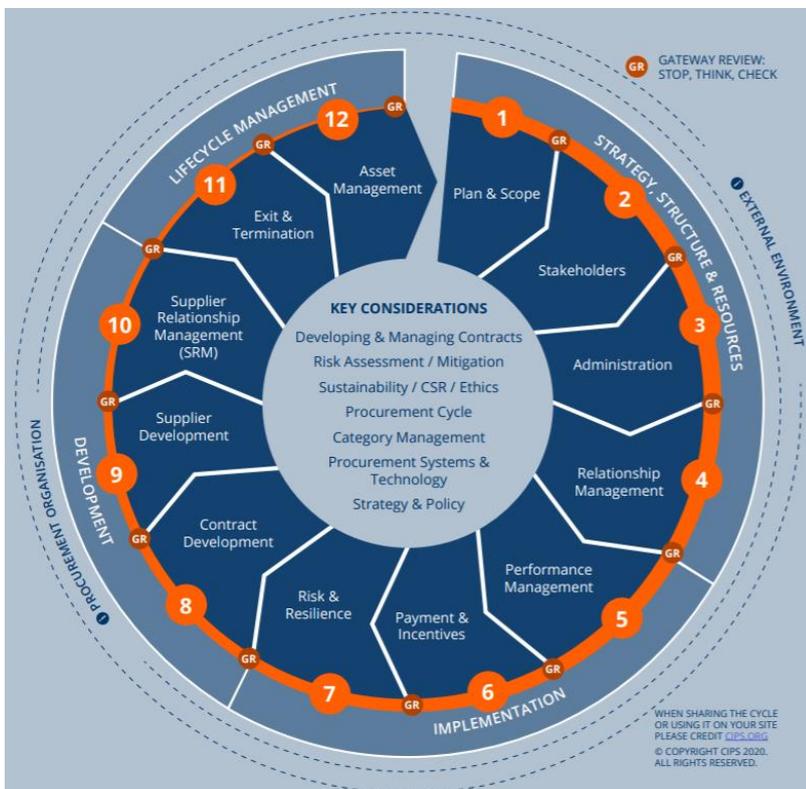
## Using the Contract Management Cycle to maximise value and minimise risk

### Introduction

Contract management is by no means a new concept in procurement and supply. It has however gained in prominence in recent years, driven in part by some very high profile contract/supplier failures and also because organisations increasingly have recognised the benefits contract management can bring.

So, what is it? Conceptually ‘contract management’ is not complicated, it is after all about making sure that what is in the contract actually gets delivered to the right standards. It sounds easy, but there is more to it than that of course. Ultimately the key goals are maximising value and minimising risks throughout the entire life of the contract and maybe even beyond. Contract management is especially important today, because so many organisations are now critically dependent on suppliers. There has been a significant shift in most sectors by organisations focusing on their ‘core’ activities and using specialist third parties for the rest. Many organisations are now as directly dependent on their suppliers and supply chains, to achieve their objectives, as they are on their own employees. It follows therefore that for these organisations contract management itself has become a core competency.

### CIPS Contract Management Cycle



To download the CIPS Contract Management Cycle or view the resources available visit - [www.cips.org/contractmanagement](http://www.cips.org/contractmanagement)

Source: cips.org

## Contract Management Cycle

---

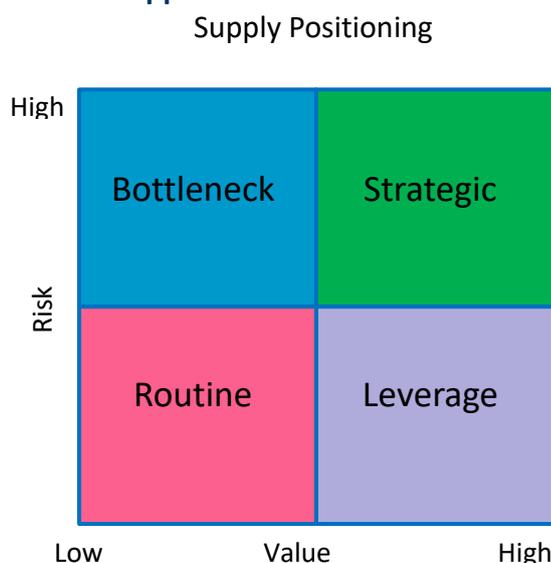
The CIPS contract management cycle is shown on the previous page. Many organisations go wrong by starting the process of contract management too late. Contract management is where value can be maximised and associated risks minimised. However, if it is ignored, poorly implemented or if the contract is not set up in the right way then the value potential will be lost and the exposure to risk can be very high. So, at the very start of the procurement process, when a need has been confirmed, it is important to start thinking about the contract - which mechanisms and terms need to be included within it, right at the very beginning of the process. The CIPS cycle outlines a dozen important activities, but it should be noted that not all these activities are necessary on every single contract. More about this later. These twelve activities should be considered alongside the four distinct phases that arise throughout the lifecycle of a contract:-

1. Pre-award.
2. Award.
3. Management and/or development.
4. End of the contract lifecycle.

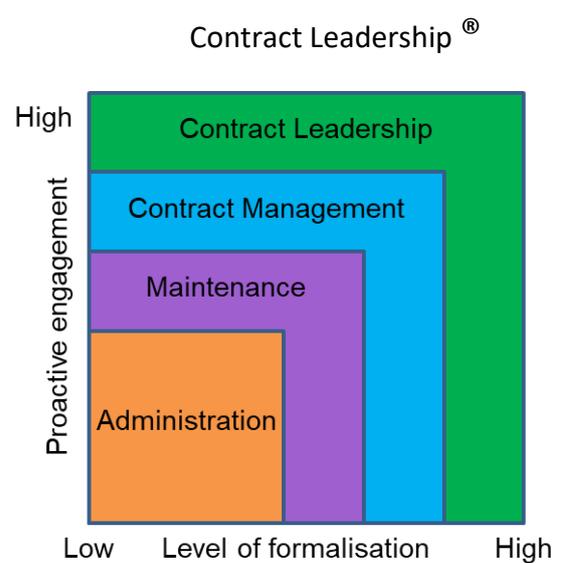
### Phase 1

The importance of this phase must not be underestimated and should start many months before the contract is 'live'. This is when the 'value add' potential is arguably at its greatest. Phase 1 is when key decisions are made and when the procurement organisation has both maximum flexibility and leverage. This phase is about planning and strategy - engaging with stakeholders; finding out their expectations and requirements of the contract over its entire term; and creating the required documentation (specification, performance metrics, terms and conditions etc). Remember, contracts are legally binding – they come with responsibilities and liabilities for all contracting parties. So, be careful what you wish for. What is included within the contract is usually what gets delivered. It is also important at this stage to plan for the management of the contract and the supplier. It is important that the right approach is adopted from the outset. Tools to help in this decision are explained in the next section.

### Decide the Approach



Source: An adaptation, based on Kraljic (1983)



Source: Linton (2017)

Deciding on the right approach for dealing with the contract is a crucial part of planning, especially as it will impact directly on resourcing requirements (to manage the contract effectively). These tools will help you to understand the relative importance of different contracts and how to manage them over their term. Supply positioning is a well-established analytical tool. Its variables focus on the contract value and the potential risks. These are two key characteristics for determining 'importance' in respect of contracts and suppliers. Clearly, those contracts which are both high value and high risk are of the greatest importance to the organisation. Similarly, those contracts which are low value and low risk are of less importance. The issue for the organisation is one of utilising its available internal resources the most effectively. Organisations simply do not have enough resources to proactively manage every single contract. This is why planning is so important during Phase 1.

The Contract Leadership<sup>®</sup> matrix (above) is based on recent and ongoing research, reflecting current best practice. It is a hierarchy, so all contracts need appropriate administration – as a minimum, for example, all contracts must be recorded on the organisation's contracts database. If an organisation does not have such a database it should create one, so it has a clear record of all its contractual relationships with third parties. For some contracts, administration is all that will be needed. Others will need more frequent maintenance, for example checking with stakeholders that the supplier is performing to an acceptable standard and that annual insurances have been renewed. More important contracts require these but also need a greater level of formalisation (for example documented performance reviews on a regular basis) and more proactive engagements with a broader range of stakeholders. This is where contract management often ends. But there will be some contracts that need much more than this. The term 'management' is frequently used in procurement – contract management, category management, supplier management, supply chain management etc. On these most important contracts we need to go beyond management and demonstrate visible leadership of the contract. High levels of formalisation and the highest levels of proactive engagement with stakeholders are necessary at this level. It follows that staff dealing with these contracts must possess a high level of both technical and soft skills to be fully effective.

To summarise, there is much work to be carried out during this initial phase. Decisions taken and documents created here will have a significant impact over the entire lifecycle of the contract. This is when the strategy for the contract is determined. In terms of the lifecycle activities, planning and scoping will be completed and initial stakeholder engagement conducted. Similarly, contract administration will commence. Decisions regarding the approach will be made, which will impact whether relationship management, performance management, contract development, supplier development and supplier relationship management are required. Performance management metrics and payment/incentivisation requirements will also be decided and incorporated within the appropriate contractual documentation. Similarly, the contractual documentation will also reflect any specific requirements that might arise at the end of the contract.

## Phase 2

All the groundwork has been put in during Phase 1. In Phase 2, it is when the formalities crystallise and the contract commences. Although care must be exercised because legally binding commitments might have commenced during Phase 1. In many jurisdictions contracts can become legally binding before the formal award, ie all that is required is for some form of 'acceptance' to have taken place (even though

---

© Colin Linton/Gidea Solutions Limited, 2021. All rights reserved. Contract Leadership<sup>®</sup> is a registered trademark and is owned by Gidea Solutions Limited.

the paperwork has not been formally signed). On more important contracts there might be a need for transition and mobilisation, which could involve several meetings between the contracting parties during the initial weeks and maybe even months after contract commencement. Contractual levers and mechanisms will now activate and, if appropriate, the programme of performance review meetings should be scheduled. Similarly, risk management will also commence, if it has not done so already.

Whilst this second phase seems brief, it is more a case of putting into practice everything that was decided upon in Phase 1 and much of the activity will reflect the nature and importance of the contract. The focus is on 'implementation', ensuring that the strategy agreed in Phase 1 is carried out. The focus is on ensuring the mechanisms for relationship and performance management (if required) are in place. Similarly, the supplier's details need to be set up on the accounts payable system and specific information regarding payments and incentives recorded. The process for risk identification, recording, evaluation, action and monitoring needs to be established.

### Phase 3

As we have seen, not all contracts will need proactive management and certainly not all will require supplier/contract management and development. Decisions about the management approach will have been taken at Phase 1 but remember that circumstances often change over the life of the contract, especially the contract risk profile. For example, changes in the external environment might make it difficult (or even impossible) for one of the contracting parties to fulfil their obligations. Proactive contract management will help to identify such risks at an early stage and action can be taken to minimise any potential adverse impact. Throughout the contract term there is likely to be a need to manage contractual change and deal with conflict situations when they arise. Both are inevitable in longer-term more complex contracts. Such contract change must be documented and recorded.

It can be seen that this phase is only a requirement on more important contracts, ie those that require contract management/leadership. Other contracts should only require administration and maintenance. Remember, the organisation's resources are scarce and should be utilised carefully. These will be deployed in the management of the organisation's most important contracts and supplier relationships. This is where the value potential and risk exposure are the greatest. So, in terms of the lifecycle, at this phase priority will be given to contract and supplier development and SRM. These are activities designed specifically to ensure that all potential opportunities for adding value are pursued.

### Phase 4

All contracts will come to an end. Ideally through natural conclusion and satisfying contract deliverables. Remember though, if the requirement for the underlying goods or services is to continue beyond on the end of the contract, you must allow enough time to re-tender or follow whatever is your chosen route to a new contract award or a contract extension with the existing supplier. Also, bear in mind that you may need to make arrangements if the current supplier has any of your organisation's assets, for example equipment or data. You must also consider any remaining liabilities and responsibilities the supplier might have beyond the end of the contract. For example, the supplier might have liabilities, relating to work they have carried out, that could last for years after the contract has ended. In which

## Contract Management Cycle

---

case you must still carry out the required contract administration and maintenance (and maybe even contract management) as if the contract is still live, until the supplier's liability has ended.

Not all contracts end positively of course; some will involve termination. This might be mutually agreed by both parties because a contract is no longer required or has ended sooner than planned. But often it is due to contract failure, for example through poor performance. Termination will be a last resort and usually issues such as poor performance can be resolved amicably through negotiation. However, where termination is the only option there are legal implications. So, be sure to refer to the agreed terms and conditions and follow the process set out for termination. For most people this will involve working closely with colleagues in Legal to ensure the correct steps are followed. Adopting a proactive approach to contract management will help to identify early warning signs of potential contract failure. The sooner these can be identified and action taken the greater the chance that they can be dealt with more easily.

## Conclusion

The use of third parties (individuals and organisations) represents significant risk potential for the procurement organisation. Indeed, it should be noted that often risks on a contract are far in excess of its financial value, so care needs to be taken on every contract. Do not underestimate the importance of the Phase 1 work to set things up correctly. Taking short-cuts can leave the organisation exposed. The time and resources spent here should be looked upon as an investment, to ensure the contract is set up correctly. Undertaking analysis to ensure the correct approach is adopted from the outset for each contract is vital, but it must be remembered that the risk profile of a contract might change over time. Finally, if you are involved in contract management in any way, ensure you develop and maintain the right skills. If you think you already possess all the required skills, a re-fresh from time to time can prove invaluable because mistakes on contracts can prove very costly indeed. Based on research, the 'top ten skills' for contract managers/leaders are shown as Appendix 1.

### Appendix 1. Top Ten Skills For Contract Managers/Leaders

Skill
1. Understand contract terms and conditions
2. Negotiation tactics and planning
3. Soft skills (influencing, persuasion, etc)
4. Risk management
5. Financial analysis
6. Handling conflict situations and dispute resolution
7. Managing internal stakeholders
8. Understand the fundamental principles of contract law
9. Creating a performance framework for suppliers
10. Relationship management

### About the Author

**Colin Linton MRes MBA PGCHE DipM DipFS FCIB FCIM FCIPS FCIEA FHEA FInstLM** is an academic and trainer in procurement, finance and marketing. His initial research contributed to a Masters in Research at the University of Leicester and is now part of an ongoing programme of data gathering and analysis. Contact him at: [colin.linton@gideasolutions.com](mailto:colin.linton@gideasolutions.com)



[LinkedIn](#)

### Copyright

The research referred to in this paper is the property of Colin Linton (a Director of Gidea Solutions Limited). Similarly, Contract Leadership® is a registered trademark and is owned by Gidea solutions Limited. The research and trademark may be cited by learners in pursuit of their studies and for other academic non-revenue generating purposes provided they are clearly attributed to 'Colin Linton'. However, they must **not** be used for any other purposes without the prior express written permission of Colin Linton (email address as above).

