



input

Pitfalls in implementing and running a CM-system

Practical angle to a legal challenge

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Introduction and limitation

- Contract Management is the development and maintenance of client/partner business agreements in a structured manner. A contract management system facilitates coordination, reporting, and monitoring of multiple business processes and partners throughout the supply chain.
- The strength of contract management tools lies in automation: streamlining the management of each contract through its entire lifecycle, including the stages of planning, negotiation, storage, maintenance, and analysis. In short; Cradle to grave!
- CMS as opposed to a document management system (DMS) which is a system used to track and store electronic documents and/or images of paper documents
- This synopsis will not focus on the variation of specific CM-systems, but will raise questions that are of a general nature

Success factors in implementing a CM-system

- Management focus
- Comprehensible user interface
- Successful process of system implementation
- Sufficient level of internal qualifications
- Susceptibility in the organization in general



Overall objectives

- Improved information related to contracts and the activities governed by those contracts - better information and more of it
- Streamlined processes that result in reduced operating expenses
- Maximum realization of revenue and/or cost savings potential by maximizing the benefits of each contract through event management and performance and compliance monitoring
- Maximum involvement of stakeholders through an online, paperless contracting process
- Improved relationships with all stakeholders including staff, customers and suppliers
- Strategic sourcing benefits - maximize buying power through better managed contracts
- Business intelligence through proper analysis of information about contracts and contracted activities



Specific objectives for using a CM-system

- Getting a total overview and control with your entire contract portfolio, including all terms and conditions
- Compliance with legal requirements like SOA and other
- Documentation, traceability and ensuring of work flow in the process
- Standardization of forms and templates in the system
- Support to all procurement related work, including historical facts
- Sharing of information throughout the company on the right level
- Efficiency improvement of internal work-load
- Integration with ERP and other internal systems
- Guarantee and warranty handling

Overview and control with your total contract portfolio

- The contracts will have to be admitted and maintained in the CM system, deadlines and alerts need to be followed up in order for the system to give an accurate picture of status quo
- Conditioned by the system supporting the different categories of procurements and contracts
- The system needs to support both an adequate handling of the RFQ phase and the administration phase of the procurement process
- Challenge – data quality

Compliance with legal requirements

- Access to standardized RFQ documents and contract templates, may ensure compliance with principal legal requirements
- The drawback of making use of contract templates, is that they are of a general nature, and very often represent a compromise in form and content to enable them to be used for a broad variety of procurements. General contract templates are often insufficiently adapted to suit each unique procurement process, and may entail an inadequate evaluation of the legal exposure and risk that are particular to the procurement at hand
- However, general contract templates may secure principal legal requirements and company specific policy and requirements in a good way
- The users will invariably represent a challenge – the users are often technical personell with no formal legal training

Documentation, traceability and work process

- A CM system will help ensure the document flow, traceability and general access to the documents, and may also, depending on the system, support internal company requirements in regard to work process
- Challenge in regard to data quality. If the system is not used in accordance with its premises, and the users fail to enter the contracts, minutes, memorandums and supporting documentation, the data quality will inevitably be poor
- How are documents created? This question becomes important when multiple people need to collaborate, and the logistics of version control and authoring arise.
- Is there a way to vouch for the authenticity of a document?

Standardization of forms and templates I

- The company may benefit from the availability of standardized, common framework conditions that will make follow-up and legal- and commercial exposure predictable. The fact that the templates are of a general nature, and not suited to fit your particular procurement may however represent a disadvantage
- There is an obvious difference in the process of procuring flowers/office supplies, and for instance procuring offshore services – never the less, general contract templates and standard RFQ documents may only to a certain degree be adapted to support the gap

Standardization of forms and templates II

- Some CM systems may allow the user to compile the contract, based on pre-defined clauses. Based on defining the type/category of purchase, the system will generate a more or less “custom-made” contract
- However, updating and maintaining the contract clause library may represent a challenge, as may the fact, as earlier mentioned, that the users more often than not, are without formal legal training. This may effect, and represent a problem, in regard to coherence within the different documents
- Depending on how user-friendly and clear you want the template structure to appear, you may have to choose between few contract templates to cover several procurement categories, or several templates adapted to each category

Procurement support

- Implementing a CM system may represent a welcome addition to the company toolbox and may in several ways support the everyday procurement work-process, by
 - Simplifying and facilitating the follow-up of deadlines and alerts
 - Easy access to all the RFQ-documents needed, including the contract-documents and templates for letters, minutes and notices
 - Maintaining and making available historical documents and previous versions of the contract, to ensure contract- and supplier history, transparency and the transfer of experience and best practices

Sharing of information

- Easy access to correct information at the correct level in the organization
- Access may represent a legal challenge; The system must support user-access on different levels; read/write/change/remove/add/access only to specific documents, etc. to secure correct access according to company policy and internal work-process
- Confidential and stock-exchange sensitive information must be secured
- The company need to define internal roles in regard to document-access and authorization
- Challenge – security and data quality. The system will never be better than the sum of information registered in the system. How will documents be kept secure? How will unauthorized personnel be prevented from reading, modifying or destroying documents?



Efficiency improvement of internal workload

- Easy access to relevant procurement documents and contract templates
- Contract administration made easier by automatic alerts in regard to deadlines, options, expiry dates, and time for renegotiations, supplier follow-up, and access to contract- and supplier history
- Depending on the system, it may support measuring contractual targets/savings and the follow-up of Key Performance Indicators (KPI)
- May also allow for the measuring of total call-offs and the organizations loyalty to the contracts entered in to
- Challenge – sufficient data quality, and a successful implementation



Integration with ERP and other internal systems I

- To the extent that the CMS system is linked to the company's ERP system it may give the company good commercial control and control with total call-offs, both on and outside of the agreements
- May give a better overview of the collective scope of work, whether or not similar agreements and similar/related scope of work may be covered by one, instead of multiple agreements
- The composition of the collective software portfolio – as well as management focus on internal report requirements, needs to be coordinated to ensure a high level of data quality, in the preferred system



Integration with ERP and other internal systems II

- Fully integrated software systems which support accounting, human resources, work orders, variation orders, call-offs, travel, contract and contract management etc, may, depending on the system, represent an effective management instrument in regard to a strategic assessment of the collective contract portfolio
- Challenges? Data quality – data quality – data quality!
- A CM system will never be better than the sum of information entered in to the system by the users. Management focus on the use of the system is therefore of the utmost importance. This may be maintained by a thorough implementation, and by focusing on using the systems functionality in regard to reporting

Guarantee and warranty handling

- May contribute to a structured warranty and claims handling, to ensure an effective and correct follow-up. Predefined forms and standardized wording will enable the company to treat the suppliers equally, and will professionalize the company in the eyes of the supplier market
- Structured warranty and claims handling may help avoid later loss and legal disputes by compliance to legal requirements in the contracts
- Challenge – the human factor
- One may also rise the question of whether claims- and warranty handling should be standardized at all



Some final comments and conclusions

- Without a sufficient management focus on data quality, and without a successful implementation, the CM system may end up as a very expensive filing system!

Crap in – crap out!

- May be a pretext for doing nothing because it makes the work-process too standardized and may entail important strategic, tactical and operative assessments regarding each specific contract and the collective portfolio, to be system dependent
- The legal assessments will be streamlined by employing general contract templates which may represent a challenge to companies with a varied contract portfolio – demands a good degree of independence and continuous focus from the users to intercept the need for individual adjustment

