

The importance of contract execution management in project management^{1, 2}

Yang Xu

ABSTRACT

The modern enterprise's economic contacts and the determination of all kinds of relations are mainly carried out through contracts. As one of the important contents of the modern enterprise management system, contract management is one of the important factors to realize the successful operation and management of enterprises. Contract management is an important part of project management. Project contract management is an important guarantee to ensure the smooth implementation of construction projects. It is also an important means to ensure the legitimate interests of the project implementation.

Key words: Contract Management; Enterprise Project Management; Importance; Execution; risk identification, Management of risk

INTRODUCTION

In a world of business where contracts are the most important proof that we can have, the contract execution management in a project is important. The implementation of contract management helps to improve business development, reduce investment in business costs, and improve an important way of business economic benefits.

When we talked about the contract execution management in enterprise project management we can mainly follow two aspects to consider: On the one hand, the production and operation can be successfully merged with the market organically so that the competitiveness and resilience of the enterprise in the market can be enhanced; on the other hand, the contractual

¹ Editor's note: Student papers are authored by graduate or undergraduate students based on coursework at accredited universities or training programs. This paper was prepared as a deliverable for the course "International Contract Management" facilitated by Dr Paul D. Giammalvo of PT Mitratata Citragraha, Jakarta, Indonesia as an Adjunct Professor under contract to SKEMA Business School for the program Master of Science in Project and Programme Management and Business Development. <http://www.skema.edu/programmes/masters-of-science>. For more information on this global program (Lille and Paris in France; Belo Horizonte in Brazil), contact Dr Paul Gardiner, Global Programme Director, at paul.gardiner@skema.edu.

² How to cite this paper: Xu, Y. (2018). The importance of contract execution management in project management, *PM World Journal*, Volume VII, Issue VII - July.

execution management can enable the enterprise to maintain its own rights while performing its functions so as to ensure the economic efficiency of enterprises.

Therefore, contract execution management occupies an absolute position in project management. Systematically elaborating on its characteristics and importance possesses the significance of the times and science.

The role of contract management in the project can be subdivided into: helping company to establish and improve the concept of the legal system and the using of legal means to safeguard their legitimate rights and interests; Promote the level of their own management to improve and create business benefits; Clarify the business and Employee rights and obligations; contract management can effectively reduce risk and ensure equity; it can also improve efficiency and quality.

However, in today's society, many companies or engineering projects lack a contract management system. And it can cause issues very important for the company: For example, the lack of dynamic management of the contract; the contract is not standardized, the terms are too simple; the concept of contract law is weak, etc.

This paper mainly analyses the importance of contract execution management in project management, analyzes the specific content of contract execution management and its focus in different stages, and then emphasizes that contract execution management is the top priority of project management.

From this analysis this paper will help answer the following question:

- 1 How to Identify Contract Defects and Risks in Projects ?
- 2 How to effectively implement the contract management can reduce or avoid the risk?
- 3 Correctly identify the Strengths; Weaknesses; Opportunities; Threats of contract management in project.

METHODOLOGY

2.1 Development of the Alternatives

First of all, through the introduction, we can understand the importance of contract management and the risks and difficulties in the implementation of contract management. Therefore, I will be able to develop three alternatives about contract management.

- 1 Establish a reasonable and effective contract management model (alternative A)

- 2 Effectively control each stage of project research, contract review and supervision of the implementation (alternative B)
- 3 Establish a static and dynamic contract management institution (alternative C)

2.2 Development of the outcomes and cash flows for each alternative

1 Establish a reasonable and effective contract management model (alternative A)

To establish and perfect the contract management system, we should pay attention to three aspects. First, the implementation of contract management agencies, staffing and personnel training, establish a contractual review and classification management system, so that contract management gradually standardized and institutionalized. Second, there is a need to clarify the responsibilities of the contracting department, contract review department, contracting authority, contractual filing department and contractor. Finally, once the rules and regulations have been formulated, they should not only strictly follow the implementation but also have corresponding measures to ensure that the system can be updated to meet the changes in laws and regulations, policies and business practices.

2 Effectively control each stage of project research, contract review and supervision of the implementation (alternative B)

When negotiating and signing the contract, ensure that the written expression is correct and avoid the contradiction between the terms. When using the format contract, care should be taken to avoid the circumstance of exempting from liability, aggravating the other party's responsibility and excluding the other party's main right. To strengthen the awareness for the contract changes, the new procedures for the management; timely and properly perform the obligation to send the correct letter and other notices; emphasis on evidence (information) retention and to ensure its effectiveness.

3 Establish a static and dynamic contract management institution (alternative C)

Adopting static and dynamic management methods can reduce the occurrence of mid-term and late-stage disputes in contract management and avoid the lag of establishment of measures, and track the fulfillment of contracts. After the settlement of the contract dispute, the company should evaluate and summarize the whole incident process and implement the accountability system on the basis of dividing responsibilities according to causes.

2.3 Selection of criteria

To analyze the 3 alternatives and to be then able to decide which one suppose to the most appropriate to optimize contracts management, we can now use a multi-attribute decision model based on satisficing requirements to eliminate any poor alternative. The attributes are

criteria, which appear to be the most effective to understand how appropriate each alternative is. They are:

- **Easy to implementation:** we need to know if it will be easy to implementation for optimizing the contract management
- **Cost:** we should take consideration to the cost to the contract management
- **Effectively achieve goals:** once we Implemented and execute if we can achieve the goals.
- **Time:** The time needed by the company to implement: we focus on the time efforts needed for the implementation
- **Quality of work:** We need to think about whether it can help improve management

So we can then obtain this table:

Selection attributes	Alternative A	Alternative B	Alternative C
Easy to implementation	Better	Worse	Equal
Cost	Worse	Worse	Worse
Effectively achieve goals	Better	Equal	Better
Time	Equal	Worse	Worse
Quality of work	Better	Better	Better
DOMINANCE?	YES	NO	MAYBE?

Figure 1: qualitative analysis

The table is filled in with different color code and qualitative attributes, as follow:

- Green color indicates that the attribute as excellent impact on the contract management
- Blue color indicates that the attribute is fair
- Red score indicates that the attribute has a poor consequence

The minimum acceptable criterion is to have no red-coded attribute for the alternative. So I will remove the alternative B, which has 3 red-coded attributes.

FINDINGS

3.1 Analysis and comparison of the alternatives

Through the above analysis, we can know that the alternative B can be removed, because it has poor consequences for the contract management. Now we need to determine which alternative, between the A and the C is the most appropriate



We can now compare the two rest alternatives. To recommend the best alternative to optimize the contract management, we produce a quantitative analysis with the relative weighted technique. We use the same attributes as for the previous figure.

Quality	
Excellent	2
Good	1
Poor	0

We thus obtain this quantitative analysis:

Attribute	Alternative A	Alternative C
Easy to implementation	1.2	1.5
Cost	1.8	1.1
Effectively achieve goals	2	0.7
Time	0.6	1.1
Quality of work	2	1.2
Totals	7.6	5.6

Figure 2: quantitative analysis

From this table, we can compare the two alternatives we can know what attributes are important to the companies. To better analyze the alternatives and their appropriateness we use an additive weighting model as follows:

Attribute	Step 1	Step 2			Alternative A		Alternative B	
	Relative rank	Normalized weight (A)			(B)	(A) * (B)	(C)	(A) *(C)
Easy to implementation	5	5/15	=	0.33	1.2	0.40	1.5	0.49
Cost	3	3/15	=	0.2	1.8	0.36	1.1	0.22
Effectively achieve goals	1	1/15	=	0.06	2	0.12	0.7	0.04
Time	4	4/15	=	0.26	0.6	0.16	1.1	0.28
Quality of work	2	2/15	=	0.13	2	0.26	1.2	0.16
SUM	15		SUM	1	SUM	1.3		1.19

Figure 3: additive weighting model analysis

3.2 Selection of the preferred alternative

Now, WE CAN SEE THAT considering $1.3/1.19 = 1.09$ and $1.09 * 100 = 109\%$, we found that the alternative A is better than alternative B. So From both tables, the alternative A, Establish a reasonable and effective contract management model is preferred alternative.

3.4 Performances monitoring and post-evaluation of results

We can devise a suitable timeframe for the establishment of a contract management model before the plan is put into effect, calculate the budget (set up a training institution) through stakeholder discussion, and appoint personnel to supervise. Once a new contract management model has been set up and implemented, we can observe whether contractual issues will arise after the implementation of the contract management model, so that the project cannot be successfully achieved its goals and interests.

If it is a good result, we can prove that good contract management systems and models are essential in any project and enterprise.

CONCLUSIONS

A good contract management will be able to effectively prevent arbitrariness in decision-making and accurately analyze and judge counterparties, design technical provisions, properly handle emerging issues, and resolve disputes legally and reasonably. In this paper, our objective statement was to answer these questions:

1 How to Identify Contract Defects and Risks in Projects?

2 How to effectively implement the contract management can reduce or avoid the risk?

Firstly based on the above analysis, we can know that there are many risks and defects in contract management that may reduce the project's success, for example the problem of the model of contract management; the Institutional issues of contract management; lack of monitoring of contract performance and effective contract performance tracking, supervision, management. So, based on these questions, we propose three alternatives, by analyzing we finally chose the alternative A.

Secondly, the optimization of the contract management system is a process. We need staffing and training. We need funds to set up some institutions or departments. In fact, the control over the legal risks of contracts, the core competence of a company means not only its litigation ability (which is uncontrollable) but rather the contractual managerial ability (predictable).

BIBLIOGRAPHY

Thrive Contract Management Solutions. (n.d.). Retrieved from <https://www.nthrive.com/solutions/back/contract-management>

王秀卓. 企业合同管理中的法律风险与控制策略探讨 [J]. 时代金融, 2012(11).

刘志东. 企业合同管理中的风险控制措施研究 [J]. 东方企业文化, 2014(16).

Hartman F. The real cost of weasel clauses in your contracts, proceeding of the 29th Annual Project Management Institute Seminars and Symposium, 9-15 October 1998

Naughter, T. (n.d.). 6 Quick Ways to Improve Your Project Contract Management. Retrieved from <https://www.contractworks.com/blog/6-quick-ways-to-improve-your-project-contract-management>

How to Simplify the Contract Management Process: Managing Workflows. (2017, July 20). Retrieved from <https://www.processmaker.com/blog/workflow/simplify-contract-management-process/>

What is Contract Management? (2012, July 12). Retrieved from <https://www.youtube.com/watch?v=QIVkI7SwvzE>

Contract management - What is it and the process about? (n.d.). Retrieved from <http://www.sopima.com/what-is-contract-management/>

Through-contracts-management Retrieved from <https://www.linkedin.com/pulse/20140417182944-3050849-driving-collaboration->

Top Ten Steps for Effective Contract Management. (n.d.). Retrieved from <http://www.acc.com/legalresources/publications/topten/ttsecm.cfm>

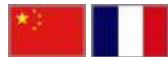
Cook, K. (n.d.). 3 essential soft skills for exceptional contract managers. Retrieved from <http://blog.contractroom.com/3-essential-soft-skills-for-exceptional-contract-managers>

About the Author



Yang Xu

Paris, France



Yang Xu is an MSc student in SKEMA Business School, majoring in Project and Programme Management & Business Development (PPMBD). He graduated from la Rochelle business school (sup de co) and obtained a Bachelor's degree in commercial management. He had worked in urban construction in China and now has his own business in Paris. He lives in Paris, France now and can be contacted at yang1.xu@skema.edu.

Yang chose SKEMA Business School because first it started out to be more suitable. The second was because there are more international students and internationalization in the school. The school atmosphere was very good. At the same time, the school rankings were not bad, still in progress.

He has been in France for 5 years. He says "the French people are good and bad. This is certain. French elegance, Paris, the temperament of those ladies, make you think that is the classic interpretation. However, in some small cities, some French people are still quite arrogant. They have some prejudice against China. This was something I did not expect before I came to France. They all say that French people are romantic, but they will always deny that because their romance is not deliberate, but into life, just as visiting the park, they often see Grandma and Grandpa hand in hand, watching in the years of quiet.

Skema helped me a lot, and after two years of classes in Skema I learned a lot about business theory, which made me yearn more for the coming life."