

Project Management Report from São Paulo ¹



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The Relationship Between Project Management and Contract Administration in Engineering & Construction in Brazil

Managing projects in complex sectors, such as engineering and construction, requires the integration of several disciplines and knowledge areas. One of these essential disciplines is contract management, which acts as the formal, legal link that regulates the relationships between all parties involved. This article explores the close relationship between project management and contract administration, highlighting their pillars, phases, and challenges, based on the Construction Extension to the PMBOK® Guide.

Project Management and Contract Administration Definitions

According to the PMBOK® (Project Management Body of Knowledge), a project is a temporary endeavor undertaken to create a unique product, service, or result. It is characterized by its timeliness, specific objectives, well-defined scope, and unique results. Project Management, on the other hand, is the application of knowledge, skills, tools, and techniques to project activities to meet their requirements.

In the project management context, contract administration refers to the set of processes and activities involved in managing contracts signed for a project execution. The Construction Extension to the PMBOK® Guide 2017 defines contract administration as the process used to ensure that all contractual terms and

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conditions are met by the parties involved throughout all phases of the project life cycle.

In engineering and construction projects, where there is a multiplicity of suppliers, contractors and subcontractors, contract management becomes a critical element to ensure that the project's objectives are achieved without financial deviations, missed deadlines or legal conflicts.

Contract management is particularly relevant to procurement, as it constitutes the mandatory interface between the organization and suppliers. However, it is not limited to this area alone, as it requires integration with scope, costs, schedule, communications, and risk management, among other aspects.

The 2007 version of the PMBOK® Construction Extension had four specific knowledge areas (environment, health/safety, claims and finance management). Later, with more recent developments, claims management was grouped within the procurement area, highlighting its procedural relevance within contract administration.

Contract Administration as a process within Project Management

Contract management is one of the many crucial processes used in project management, alongside schedules, work breakdown structures (WBS), quality assurance programs, budgets, and others. Contract management formalizes the relationship between the project and the client and the project and suppliers, establishing obligations, deadlines, and commercial and legal conditions.

Furthermore, the correct and strategic contract management use is vital to controlling scope, deadlines, and costs within a project.

Therefore, in engineering and construction projects, contract management is essential for successful project management.

Role Reversal: Project Management Supporting Contract Administration

Interestingly, although contracts are initially a technique within project management, a role reversal is observed throughout the contract lifecycle phases: project management techniques and tools become essential for contract administration.

However, from the moment the contract between the client and the construction company comes into effect, contract administration itself begins, utilizing project management as a powerful tool in each phase of the contract lifecycle, namely:

- Pre-Contract or New Business Structuring
- Proposal Preparation and Contract Negotiation
- Contract Execution

Contract administration can be divided into the following sequential phases throughout the project lifecycle:

- Pre-Contract or New Business Structuring:
 - Defining the contracting modality
 - Defining the Scope
 - Risk Analysis of this phase
- Proposal Preparation and Contract Negotiation:
 - Preparing the technical and commercial proposals
 - Scope Definition
 - Schedule Definition
 - Quality Requirements
 - Budget Preparation
 - Physical-Financial Schedule
 - Risk Analysis
 - Analysis of the draft contract and annexes
- Contract Execution:
 - Continuous monitoring of contract compliance through performance measurements, technical compliance reviews, and contract audits.
 - Use of project management tools such as schedules, earned value analysis (EVA), and performance indicators.

Contract management occurs in the contract between the client and the construction company, but also in contracts between the construction company and its subcontractors.

This correlation between project management and contract management can be exemplified by the contract monitoring phase, where contract performance is frequently assessed using schedules, earning value analysis (EVA), cost control, and risk management, as some project management techniques and tools examples. Therefore, the success of a contract directly depends on the effective best project management practices use.

Legal certainty and risk matrix in Brazil

Legal certainty in Brazil is a principle that guarantees predictability, stability, and trust in the legal system, ensuring that rules are clear, consistently applied, and that acquired rights are protected. However, Brazil faces challenges in this regard, with problems such as legislative complexity, excessive regulations, changes in legal interpretation, slow judgments, and a confusing tax system, which harm the business environment and generate insecurity.



Photo: Stalled construction

A risk matrix for contracts is a contractual clause that defines, in detail, which supervening events may affect the economic and financial balance of the contract and each party's responsibility for them, as presented on the TCU (Federal Court of Auditors) Portal. It is a mandatory document in some large-scale contracts, as provided for in the new bidding law (Law No. 14,133/2021), and serves to pre-allocate the financial burden of unexpected events to the contracting party or contractor, based on each party's risk management capacity, which is determined by its occurrence probability and impact. It is an important project management tool with a unique role in contract administration.

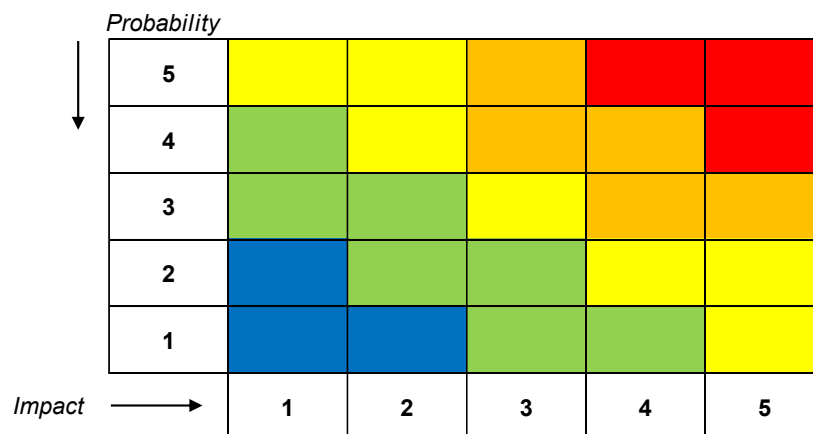


Figure: probability vs impact matrix

Conclusion

Contract administration is an essential element in project management, especially in engineering and construction projects, where contract volume and complexity are high. Its interconnection with the various PMBOK® knowledge areas highlights its strategic importance for project success.

Excelling in contract administration requires the synergistic use of project management tools, which, in turn, helps minimize risks, improve contractual performance, and mitigate issues related to legal certainty. Therefore, it becomes

clear that the success of any project is directly linked to the best practices adoption in contract administration.

In Brazil, the legal certainty issue is one of the major challenges affecting projects. This is yet another reason why contract administration prevails over project management.

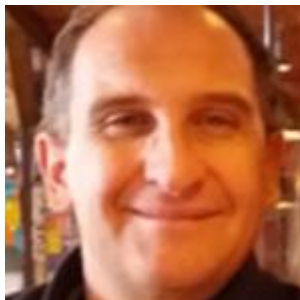
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About the Author



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