


# P&SM: Contract Management



The activities of a buyer before, during and after a contract is signed, to ensure that all parties to the contract understand and fulfil their contractual obligations



CIPS members can record one CPD hour for reading a CIPS Knowledge download that displays a CIPS CPD icon.

### Introduction

The CIPS' practice documents are written as a statement in time. They are a collection of views on good practice within a particular subject area and are intended to provide direction on good practice with some guidance for context and interest. The reader is encouraged to use the CIPS practice documents for their own purposes, such as writing policy statements, guidance or procedures. This particular practice statement has been written primarily for the benefit of full-time purchasing and supply management professionals, but can be used by anyone associated with, or interested in, purchasing and supply management (P&SM).

This document is about contract management.

### Definition

The purpose of the P&SM profession is to create value for an organisation as a result of its need to acquire goods and services from external sources. One of the strategic ways that this objective is achieved is by relationship management, and contracts are tools for capturing and recording these relationships.

Contract management can be defined as 'the activities of a buyer before, during and after a contract is signed, to ensure that all parties to the contract understand and fulfil their contractual obligations'. Contracts may be for specific projects or for the supply of good or services over a period of time, typically between one to three years depending upon circumstances and objectives. This Position on Practice relates to the latter.

### Background

Contract activities can be split into two distinct but interdependent phases: pre-contract award/renewal and post-contract management. Contract management is command and control of the activities spanning both phases, but the potential value adding outcomes of post contract management will not be realised unless effective pre-contract management has resulted in a contract that addresses all stakeholders' needs with the utmost professional skill. A failure in pre-contract management will result in post-contract management time and effort being wasted on trying to resolve and correct omissions and failures of the earlier phase.

The following are typical pre-contract activities:

- Assembling/analysing the views of stakeholders
- Market and Spend analyses
- Developing a supply strategy (including a risk assessment/exit strategy)
- Drafting specifications and agreed requirements
- Pre-qualification of potential suppliers if appropriate
- Drafting and circulating the Invitation to Tender documentation
- Evaluating tenders and possible supplier audits/post-tender meetings
- Awarding of contracts

If this is a contract renewal, in addition to the above, other activities will include:

- Reviewing the supplier performance over the contract period

- Analysing stakeholder perceptions of supplier performance.
- Requesting the supplier's contract renewal proposals or the decision to re-tender the business

Post-contract activities include:

- Administration of the contract, including any subsequent agreed contract changes
- Continuous assessment of performance and re-assessment of risk within the contract
- Handling of stakeholder complaints
- Chairing any agreed supplier/buyer contract review meetings

### Explanation

The P&SM professional should possess, as a minimum, the knowledge and understanding detailed in the CIPS Graduate Diploma. The list below outlines other key skills that are required of a project team:

- Strategic partnering skills (e.g. cooperation with common goals)
- Relationship management skills
- Good communication/ influencing skills
- Facilitation skills
- Emotional intelligence
- Negotiation skills
- Risk management skills
- Knowledge of contract law (especially with regard to General Contract Terms & Conditions)

CIPS believes that the following additional specific skills are necessary for successful contract management:

- Milestone setting (and review) skills are often either lacking or under developed in P&SM processes, but are essential features of both pre- and post-contract management; project/programme management experience or training is, therefore, recommended
- Contracts, whether for goods or services, should include specifications covering all aspects that are important to the customer; experience of setting and managing Service Level Agreements (particularly necessary in outsourcing or critical supply environments) is recommended
- In recognition of the increased rate of business change, the importance has been growing of the need to build greater flexibility into contracts; this has resulted in an increased emphasis on the need for the effective management of contract change skills

### Cross-functional Teams

CIPS also believes that the employment of cross-functional teams to represent various stakeholder groups is highly recommended for the preparation of specifications, tender analyses, supplier audits and key performance setting. Leading teams, both internal and with

external supplier involvement, is an important aspect of contract management and team leadership experience, or training is recommended.

It is important that all members of a cross-functional team are aware of the rationale governing why the contract is being negotiated so that they can all plan efficiently and effectively towards the intended goal. CIPS considers it particularly important to define roles within a cross-functional team. This allows members of the team to contribute effectively and without wasting their time in areas where their skills are unnecessary.

CIPS believes that it is particularly important to define roles and allocate responsibilities when deciding who will manage the contract in the post-award stage and, while they should be involved throughout the contract management process, P&SM professionals input can be especially useful in the post-award stage. The level of this involvement can vary depending on the importance and complexity of the contract. For instance, a low risk contract would usually only require a contract manager to be in place for a few months, if at all, after which the contract could be managed in monthly or quarterly reviews. A more complex and important contract will usually need a more frequent and detailed management regime, involving highly structured performance management processes.

Also desirable in a cross-functional team is the ability to recognise that the rate of business change is accelerating and that therefore there is an increased emphasis on the need for the effective management of contract change, along with the growing importance of building greater flexibility into the contract to cope with possible future scenarios.

### Issues to Consider

CIPS believes that in addition to the above, contract management will be more successful if the following aspects are recognised:

- Successful contract management should result in less recourse to time consuming tendering; and the risks inherent in a change of supplier. The inclusion of a supplier development aspect in the contract can, by encouraging and enabling continuous quality improvement, materially increase the probability of contract renewal and contribute towards sustainability.
- Success in contract management will also be enhanced if more intangible factors such as sustainability, social and environment responsibility and human rights and ethical trading in global contracts are seriously considered and, where appropriate, included in the contractual agreement; brand risks should always be assessed.
- To balance effort against benefits, a positioning analysis to determine bottleneck, leverage, tactical acquisition and strategic critical relationship category for the specific goods or services is recommended in order to decide the appropriate level of resource to commit to managing the contracts for various types of acquisitions.

CIPS recognises that contracts can go wrong. In addition to understanding and always including general terms and conditions in contracts, it is essential that P&SM professionals work with other stakeholders to deal with any problems or other issues and also to assess any commercial risks that might arise before and during the execution of the contract, in order to limit any detrimental consequences to the organisation.

CIPS recommends that consideration is given to a complaints resolution procedure. This should not only address the specific complaint but also ensure that root causes are identified, and procedures are modified, to ensure there is no reoccurrence in the future.

### Conclusion

CIPS believes that effective and appropriate management is vital to the success of any contract and ensures that any potential risks/issues with the contract and the supplier relationship are identified and solved quickly and efficiently. P&SM professionals should be involved at the earliest opportunity and then throughout the life cycle of the contract. The contract management process is complex and inputs are vital from many different stakeholders, but CIPS believes that qualified P&SM professionals are the best placed to manage the overall contract management process.



---

**CIPS Group** Easton House, Easton on the Hill, Stamford, Lincolnshire, PE9 3NZ, United Kingdom  
T +44 (0)1780 756777 F +44 (0)1780 751610 E [info@cips.org](mailto:info@cips.org)

---

**CIPS Africa** Ground Floor, Building B, 48 Sovereign Drive, Route 21 Corporate Park, Irene X30, Centurion, Pretoria, South Africa  
T +27 (0)12 345 6177 F +27 (0)12 345 3309 E [infosasa@cips.org.za](mailto:infosasa@cips.org.za)

---

**CIPS Australasia** Level 8, 520 Collins Street, Melbourne, Victoria 3000, Australia  
T 1300 765 142/+61 (0)3 9629 6000 F 1300 765 143/+61 (0)3 9620 5488 E [info@cipsa.com.au](mailto:info@cipsa.com.au)

---

**CIPS Middle East & North Africa** Office 1703, The Fairmont Hotel, Sheikh Zayed Road, PO Box 49042, Dubai, United Arab Emirates  
T +971 (0)4 327 7348 F +971 (0)4 332 5541 E [mena.enquiries@cips.org](mailto:mena.enquiries@cips.org)



*Printed on stock containing  
50% post consumer  
recycled content*

---

[www.cips.org](http://www.cips.org)

CIPS™ is a registered trademark of the  
Chartered Institute of Purchasing & Supply