iJRASET
International Journal For Research in
Applied Science and Engineering Technology

INTERNATIONAL JOURNAL FOR RESEARCH
IN APPLIED SCIENCE & ENGINEERING TECHNOLOGY

Volume: 11 Issue: VII Month of publication: July 2023

DOI: https://doi.org/10.22214/ijraset.2023.54926

International Journal for Research in Applied Science & Engineering Technology (IJRASET)
ISSN: 2321-9653; IC Value: 45.98; SJ Impact Factor: 7.538
Volume 11 Issue VII Jul 2023- Available at www.ijraset.com

Impact of Contract Management on Contractors Profit

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Abstract: The Aim of the study is to establish the effects of contract management on contractor`s profit. Contract management is the process of administering the legal and contractual relationships that a business forms with vendors and employees. Contract management is concerned primarily with written contracts that constitute an obligation to perform a service in exchange for payment.
Being mindful of the process for managing contracts is important to business leaders because it enables them to keep a close eye on the relationships they form with stakeholders.
Keywords: Contract, Contract management, planning, costs, profit

I. INTRODUCTION

Contract management is the process of planning, organizing, and directing the legal agreements that an organization forms with third parties, including vendors, customers, and service providers. While all businesses engage in some level of contract management, whether it be in informal arrangements with its customers or formal agreements to purchase products from a vendor, there are emerging trends in contract management theory which are changing the way business leaders think about their legal relationships.
In the world of business, it is common for an organization to involve contractors or suppliers in one way or another to support in providing service or product to meet its intended requirements.
It is a main duty for operating companies to make sure contractors perform their duties safely and timely through appropriate contract management procedures. Despite significant research progress, the effectiveness of contract management in terms of monitoring contractor's performance has not been tracked and published widely. The main objective of the study is to examine the effectiveness of contract management.

II. OBJECTIVE OF CONTRACT MANAGEMENT

Business owners know from experience that managing relationships with vendors, customers and employees can be a challenging process. The applied theories of contract management can help you gauge the effectiveness and worth of these relationships, keeping your business mindful of the law and helping you create value for your organization's stakeholders.

A. Creating Value

The need to enter into contracts with vendors, employees and even customers is the result of a business' desire to give the best products, projects and services. Creating value for the organization is a key of contract management. Managing the contract is concerned with how well the other party is helping the business create and maintain this added value.

B. Ensuring Quality

Ensuring quality is related closely to the concept of adding value but has more to do with the employees you have on contract than it does with the vendors you take on board.

C. Managing Productivity

Managing productivity is related both to the creation and maintenance of value with client and to the process of ensuring quality of employees. Productivity is about being able to serve the wants and needs of the business, including its customers, in a timely and effective way.

D. Ensuring Compliance

The compliance objective of contract management is concerned largely with legal implications. Failure to follow the terms and conditions as they are laid out in the contract, on the part of either side of the agreement. constitutes a breach of contract and may lead to legal action by one or both parties. This is a costly process and may put the business at serious financial risk.

III.STAGES OF CONTRACT MANAGEMENT

A. Planning Stage

Before you can implement a process, it's important to develop a system that will best suit your company's needs and resources. To keep things streamlined and organized, it's also important to develop contract management processes that can be implemented company wide.

B. Implementation Stage

Once you have outlined your contract management workflow, you will need to implement your plan before you can start using it. This includes deploying contract lifecycle management software to help you to execute contract-related tasks, as well as migrating your contracts to a centralized repository.

A crucial part of your implementation plan is onboarding – making sure everyone involved understands your vision and objectives for contract management and is comfortable with the CLM software they will be using.

C. Pre-contract Stage

Now that you have your contract management foundation set up, you can begin to implement it for new contracts. That means developing new contracts or implementing boilerplate agreements for more standard situations. The key challenge of this stage of contract management is developing a specific document that will deliver what you need and reduce your risks.

D. Handover Stage

It's common – especially in larger companies – that the individuals involved in executing a contract are not the same as those who negotiated it. Thus, to ensure the contract is fulfilled as expected, it's important to ensure a smooth handover. Rather than assuming stakeholders have everything they need, it's useful to spend some time walking through all of the contract details and confirming roles, responsibilities and milestones.

E. Contract Stage

The contract stage is when all the goals of your contracts come to life, assuming you manage them properly. And the previous contract management steps you've completed so far are setting you up to do just that.

F. Pre-renewal Stage

Now is the time to evaluate how your contract performed and decide whether you want to renew or make any changes. Make sure all stakeholders are aware of termination and renewal dates and that you have enough time to consider all the information before you get locked into any decisions.

G. Post-contract Stage

Once a contract ends, there is still some housekeeping to do to ensure that everything is wrapped up properly. This includes ensuring termination conditions have been met, issuing, or paying final invoices, and archiving your contract. It's also useful to perform a contract post-mortem, which can provide valuable information and learnings that can improve the results of future contracts.

IV.PROBLEM STATEMENT

A. Missing Contracts

Big challenge in contracting is missing contracts, and it's more common than you think. 71% of companies couldn't find at least 10% of their contracts.

Contracts are critical business documents stipulating the rights and obligations of contracting parties. Parties rely on the contract document to understand and fulfil their contractual obligations and resolve disputes when they arise. In other words, contracts are not documents you want to lose.

B. Fines and Penalties

A penalty clause in a contract is a provision that obligates the defaulting party to provide some form of compensation to the innocent party in the event of a breach of contract. Getting compensation for a contract breach can sometimes be a difficult process that requires an arduous and costly legal battle.

C. Redlining Standard Agreements

Contract redlining is a major part of contract negotiation. However, if your organization's standard agreements are frequently redlined, it defeats the core purpose of using standard agreements, and it's a sign something is off.

Standard agreements, also known as standard form contracts, are contracts with terms not usually subject to negotiation. The contracting party either accepts or rejects it. Standard agreements are usually used in business-to-customer transactions, and it enables business transactions to happen at scale without hitches.

Common standard agreements include:

1) Non-disclosure agreements (NDAs)
2) Non-compete agreement
3) Terms of service
4) Rental agreements
5) Employment contracts

D. Poor Understanding of the Contracting Process

Many organizations don't understand their contracting process and so do not approach their contracts with confidence. Contracts are too vital not to understand your contracting process, identify your weaknesses, and actively become more efficient. Understanding your contracting process means you know how much time it typically takes to move from one lifecycle stage to another, the lifecycle stage that causes the most delay, and the reason for it. It also includes knowing the contracts that drag on and take more time to process than others in your organization.

E. Lack of Visibility into Contracts

Another challenge organizations face in contract management is that contracts are not visible. This is especially true for non-legal departments. One of the delicate issues Legal departments grapple with is ensuring other departments have access to the contract data they need to perform their duties without exposing sensitive information. The need for all departments in your organization to have visibility into contracts cannot be over-emphasized. Without visibility, contracts cannot be managed, and there will be no way to ensure compliance with contractual terms and regulations.

F. Poor Metrics Tracking

Improving the contracting process has gone beyond making wild guesses and conjectures to gathering reliable data, analysing, and taking data-backed actions. In the past, tracking contracts involved spreadsheets and countless hours spent gathering the information you needed. This was a slow, inefficient, and error-prone process. Unfortunately, some organizations are still trying to track their contracts metrics this way.

V. LITERATURE REVIEW

According to Dean T. Kashiwagi and James Murphy (April 2004), The contractor's profitability in 2002 reflects that most of the contracts are being completed in Quadrant I. Obtaining more work in Quadrants II or III will increase the company's yearly return. Completed Project Profit Analysis (CPPA) is a tool that a contracting company can employ to understand where income is coming from, assess the performance and competency of key personnel, and ultimately prioritize clients to maximize profitability. Upon inspection of a contractor's cost information, there were performance trends that indicate that some clients are clearly more profitable than others.

Kakwezi (2012) in a study on the procurement contract management in public procurement noted that contract management activities can be divided into three broad sections that is service delivery management, relationship management, and contract administration. In this context, service delivery management involves the full management of all the contractual deliverables, performance levels of the contract as well as the contract quality. Silvana (2015) in a study on the contract management on private public partnership indicates that the aim of contract management is the optimization of the efficiency, effectiveness and economy of service in contractual relationship, balancing costs against risks and actively manages the relationship between procurement parties.

Langat (2013) in a study on the procurement performance in public institutions indicates that procurement performance involves the manner in which procurement function is able to reach the objectives and goals with minimum costs. The study examined procurement performance in terms of efficiency, competitiveness of services procured, quality of goods procured, and reduction of conflict of interests within the procurement activities. Masaba (2010) in a study on procurement performance of public entities in Uganda argues that procurement performance can be measured using two metrics: effectiveness and efficiency.

PALA, (2013): The transient, independent, and multi-organizational characteristics of construction projects require development and alignment of relationships in a much faster way. Management and control of these relationships are crucially important to ensure that supply chains operate in an agile, efficient, and smooth manner. Rather than looking into how to improve dyadic relationships between contractor firms and its upstream/downstream supply chain firms, this research was concerned with the management practices of contractor firms for their extended supply chain relationships.

Moses Muhwezi, Arthur Ahimbisibwe (2015): The objective of this research was to investigate the effect of contract management, inter functional coordination, trust on works contract performance in Ugandan public procuring and disposing entities. These results have implications for academicians as well as public procurement practitioners and regulators. For academicians, it is insightful to interpret the individual dimensions of contract management and note that delivery management is relatively more important than the other dimensions in contract performance. Our results also seem to suggest that under rules-oriented conditions in public procurement, inter-functional coordination does not contribute a lot to performance, since inter-functional coordination in its true sense, makes sharing of information open, which is not fully supported by the public procurement laws and regulations.

Aluonzi, Oluka, & Nduhura (2016) in examination of the contract management on performance of road projects in Uganda notes that contract management involves three diverse aspects; achievement of the three goals of product quality, delivery on time and within the budget. In this context, Aluonzi, (2016) indicates that contract management is divided into the upstream/pre contract award activities and downstream/post contract award activities. Marco (2013) in a study on the contract management in Tanzania notes that contract management involves the proactive management of the relationship between the parties in a contract with a view of anticipating future needs and managing arising risks with a view of improving the performance over the lifecycle of the contract.

According to Shubmank Deep et al (2017); Lowest bid awards a most common practice for awarding work charge in India whether its public or private sector. The study tried to investigate the various factors affecting efficiency of contractors in the case of lowest bid award projects. The noticeable factors were inadequate project management assistance) (OI = 66.17%), external (EARII =60.25%): eighth important group was the Equipment related group. The prominent factors were ''low efficiency of equipment (OI = 66.07%),'' (9) Material (EARII =59.31%). On basis of findings, it could be concluded that though lowest bid award is not a primarily a good practice due to firstly the contractor's profit margins are low which contractor is not able to sublet much and tends to employ low efficiency equipment and poor-quality materials. Secondly, projects management practices should be popularized amongst contractors working in small scale projects this can help them in understanding client's need and hence increasing efficiency, which could in turn benefit the contractor.

Aloysius Byaruhanga, Benon C. Basheka (2017); For effective road infrastructure delivery and performance, there is need to build strong contract monitoring mechanisms. These should target the performance of contractors and contract managers/supervisors. With skilled personnel proper contract monitoring practices shall be enforced. In contract monitoring some of the components and practices include skills development, policy development, plans, communication, payments, management of records, contractor appraisal, inspections and audits and dispute resolution. This study found out that if these contract monitoring components are well managed, there is a very high possibility of having a viable road infrastructure project that will guarantee a sound business success and effective service delivery. To improve contractor monitoring and performance of road infrastructure projects the researcher makes the following recommendations:

Stephen Kibet Ngetich, Dr. David Gichuhi (Sept. 2017): The use of information communication technology has a statistically significant influence on procurement contract administration in Public Universities in Kenya. The study also concluded that a unit increase in the use of information communication technology results in an increase in procurement contract administration.

Meriem Harhad (October 2018); The contract management is a key tool for project management because the contract is the written baseline of the project. However, we have not a systematic contract manager in each project, indeed most of the time the project manager has a dual role, even if contract management isn't its core competencies. The management of the contract within a project is meant to maximize outcomes of the project, through a good management and assessment of risks and a well understanding of the customer expectations. However, the role of the contract manager is not included in theoretical project management approach and is not common in main organization of various fields.

S. Kanchana (March 2018): According to the Authors, Effective contract management has emerged as a crucial function to improve profitability, support compliance, and manage risk. It becomes necessary that the contracting activities should be managed by a procurement team as inefficient management leads to customer un-satisfaction and unwanted cost overruns. Frequent reviews of contract management procedures and necessary improvements can bring out the benefits of contract management. The article discussed the various reasons contributions made and their relevant findings.

VI. CONCLUSIONS

In India, the large-scale construction contracts are usually handed over to foreign contractors because of poor performance of contractors here. So, better, and effective contract management is required. Management of contracts is one of the important aspects of construction management. The main factors of contract management are time, cost, and quality delivery. It was seen that contract management has a significant impact on time, cost and quality delivery which means contract management helps in completing the project within the scheduled duration by effectively managing the activities. Contract management has an impact on costs as it helps to save on extra costs due to the risks and sudden changes in the contract. Those changes and risks are managed with the help of effective contract management. Effective Contract management helps in delivering the requirement to the client which is the quality client demands. When contractors deliver quality, it improves their reputation for future contracts. It was seen that contract management helps in avoiding the costs of reworks and non-compliance, which cuts down the contractor's profit to a minimum. So effective contract management has positive effects on contractor's profit.

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