5 BEST PRACTICES TO ENSURE CONTRACT COMPLIANCE

Introduction

The uncertain times faced by organizations have made it imperative for them to focus on strategies that deliver the best operational performance, eliminate unnecessary costs and increase financial transparency. Companies will have to drive savings to their bottom line while achieving process efficiencies and one way to do this effectively is through proper contract management.

A majority of enterprises today do not have a central repository to hold contracts. Its high time organizations start consolidating their contracts across business units located globally. The aim is to close process gaps and ensure visibility to the contractual and non-contractual spend. It has been seen that best in class organizations achieve up to 80% more savings than others through a set system of contract compliance.

Contract visibility and the linkage of contracts with enterprise spend are the keys to achieving maximum contract compliance. Contract compliance helps to provide guidance and insight into business processes and helps in achieving savings through better negotiations. This white paper focuses on practices that can support implementation of streamlined contract management solutions.

- Deploy a contract repository that is dynamic and in tune with market trends.

- Define and communicate essential benchmarks for measurement of performance with regards to contract compliance

- Establish a smooth system of contract audits for internal processes

- Standardize and accelerate contract authoring by maintaining a contract template and clause library

- Create a standard workflow for collaborative authoring and negotiation of contracts

Best Practices For Contract Compliance

1. Deploy a contract repository that is dynamic and in tune with market trends

Contract negotiations driven by dynamic markets

Contract negotiations can be a sure-fire way to leverage savings opportunities. With current markets being dynamic and highly volatile, it is imperative that organizations establish contract negotiations which are affected by market changes and trends.

Tracking global contracts is a major challenge

The challenge lies in increasing visibility of contracts that are negotiated based on different currencies and on commodities which are volatile in nature. Global companies with vendors spread across multiple geographies may deal with different currencies.

Currency fluctuations may result in companies overpaying for contracts which have been negotiated earlier making them lose out on savings. Companies need to track contracts dealt in commodity markets as massive drop in prices may be a goldmine of savings opportunities. This can be efficiently managed with the help of escalator - de-escalator clauses in the contract itself.

Best Practices

- Include provision of escalation and de-escalation clauses during contract negotiation that are linked to market parameters like Foreign exchange & Commodity indices

- Set a system of alerts and reminders for the specific escalator/de-escalator clauses linked to commodity or Forex indices.

- Track and measure the compliance and if possible quantify the savings accrued from these contracts

Best Practices For Contract Compliance

2. Define and communicate essential benchmarks for measurement of performance with regards to contract compliance

Transparent measures for contract compliance are pivotal

It is necessary to have quantifiable performance measurement across the organization with regards to the contract compliance process. This establishes transparency in the system and helps define targets. Having a quantifiable measure for contract compliance also helps to identify processes or business units which are underperforming.

Matching spend data to contracts - A tedious endeavor

The challenge is to establish acceptable parameters for measuring performance across business. The most difficult aspect here is to match large amounts of contract data with spend data across the organization. Many a times this process must be done manually and may involve large amount of man hours.

Best Practices

- Link contracts to spend to establish parameters of measurement

- Establish benchmark parameters with regards to peers

- Track and measure contract compliance and utilization based on these parameters and benchmarks

- Communicate and elicit input from concerned decision makers while determining parameters

Best Practices For Contract Compliance

3. Establish a smooth system of contract audits for internal processes

A Robust Audit process gains organizational commitment

Analyzing post spend data is the first and foremost step in identifying lost opportunities to find savings avenues. Many a times, contract non-compliance is in the form of overpayment/ unavailing eligible discounts to/from vendors which is a huge source of savings leakage. Having a system in place which measures internal processes and puts in plain view what needs to be done helps in achieving organizational commitment.

Disparate data: A major road block to efficient auditing

It's a huge endeavor trying to consolidate contract data across different geographies and disparate formats to perform an efficient and thorough audit of internal processes. Identifying critical areas to improve visibility is also another area that needs to be paid due attention to. Find discrepancies from the audit process

Best Practices

Increase visibility and develop the necessary infrastructure and organizational commitment towards contract compliance practices. This can be done by improving visibility in these areas:

- **Currency Change and Conversion**
- **Cost Amortization**
- **Volume Discounts**
- **Buyer Turnover**
- **Clerical Errors**
- **Carryover provision for Replacement Contracts**

Best Practices For Contract Compliance

4. Standardize and accelerate contract authoring by maintaining a contract template and clause library

Standardized contract creation = Faster contract creation

Long drawn out contract authoring leads to undue delays in negotiation cycles. Well set templates and formats for contract authoring also facilitate lower risks of violating regulations or skipping details.

Standardizing is a continuous process

Set templates can create challenges when amendments and modifications must be made, especially during the preparation of customized contracts. Regular updating of templates and clauses for any changes due to regulations, processes or industry measures should be an activity that needs to be handled with utmost care and under the guidance of the concerned domain experts with constant monitoring.

Best Practices

- Define mandatory / non-mandatory clauses

- Define templates and clauses based on geographies and categories

- Ensure continuous updates to all clauses and ensure access to relevant stakeholders to modify templates

Best Practices For Contract Compliance

5. Create a standard workflow for collaborative authoring and negotiation of contracts

A Standard workflow is the key to smooth contract creation

It is pivotal that the process of amending, approving and drafting contracts is a smooth one that not only ensures faster contract authoring and approval but also ensures necessary input from all essential stakeholders. This standardization of workflow is essential to reduce contract authoring cycle time and ensure that every stakeholder is involved. This also ensures no ambiguity and confusion in the process of contract authoring.

Bringing together contract stakeholders is essential

The challenge is to bring together all stakeholders' imperative to contract authoring on a single platform to ensure inputs. This helps to streamline the process of amending and gaining approval for contracts.


Best Practices

- Create a standard work flow with set protocols and procedures

- Define hierarchies for approval process

- Ensure access to all necessary stakeholders during the contract authoring and amendment process.

Conclusion

This list is not a comprehensive one, but it does provide a path towards better contract compliance. Using an automated contract lifecycle management solution (such as Ultria CLM) can help immensely in this regard. CLM solutions can automate the most common tasks involved in contract management while providing a simpler and more intuitive way of building contracts in the first place.

Contract compliance can work as a differentiating factor for organizations in the highly competitive global marketplace.
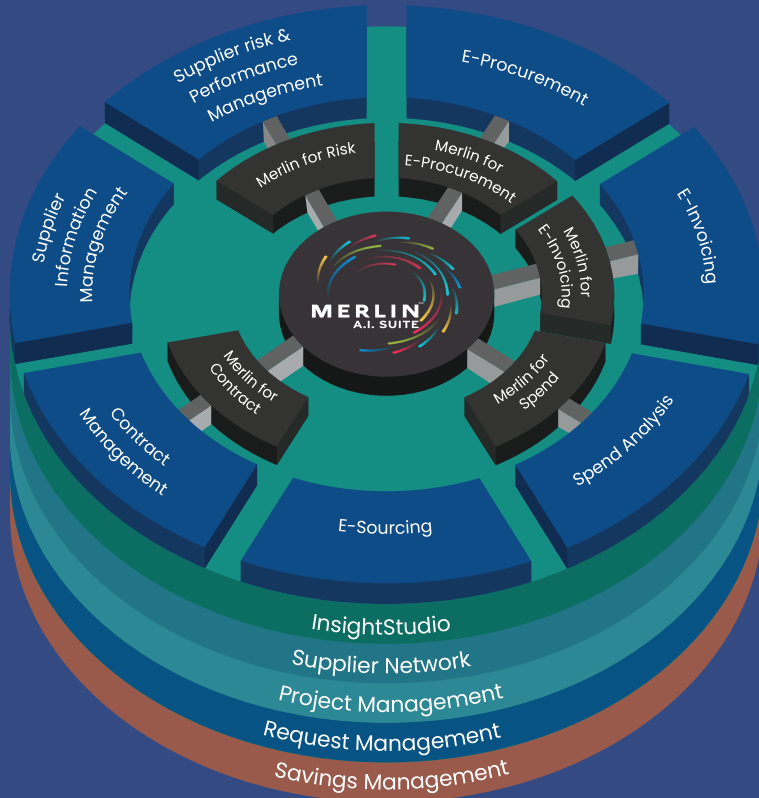
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