Procurement & Contract Management Mesh

Unpacking the role of contracting professionals in strategic procurement management.



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Establishing strong contracts is essential to protect supply chains in both the private and the public sector. Every year, public organizations manage millions of small and large contracts for procuring critical goods and services.

However, the importance of contract management is often pushed aside by procurement agencies, and it is commonly associated with bureaucracy, disputes, litigation, and penalties related to failed contractual obligations.

Efficient and effective procurement and supply chain management in the public sector are essential to ensure ethical spending of taxpayer dollars and effective delivery of public services.

The combination of simplified perceptions, the limited availability of the procurement workforce, and the administrative complexities of contract management has created the perfect storm in many public organizations. For them, following public contracting policies and adopting best practices has not always been feasible.

In practice, contract management does not always get the same attention and resources as other supply chain processes. This exposes organizations to risks that can cause undesired consequences – from supply quality deterioration to supply interruption.

The Role of Contract Management in the Supply Chain

A supply chain can be defined as a network of individuals and organizations involved in creating products and/or services and delivering them to final customers. Links on the network begin with the manufacturers of the raw materials and end when the finished products and/or services are delivered to the end users.

Supply chain management encompasses the design and implementation of managerial and operational processes for appropriately handling the entire production flow for products and/or services – from the production of raw materials and components to the delivery to the final customers.

In the public sector, the supply chain is represented by the network of contractors and subcontractors that contribute to public value creation by providing public organizations with products and services necessary to deliver services to their end users (e.g., citizens). In this context, supply chain management is likely to overlap with procurement management.

Procurement (also referred to as purchasing, sourcing, or acquisition) is officially defined by the Institute of Public Procurement (NIGP) as the function/department/agency responsible for purchasing, renting, leasing, or otherwise obtaining any supplies, services, or construction. It involves functions such as the description of requirements, the selection and solicitation of supply sources, the preparation and award of contracts, and all phases of contract administration.[1] From this definition, it should be clear that procurement and contract management – often considered as two separate processes – represent two intertwined concepts.

Contract management is formally defined by the National Contract Management Association as the process of managing contracts throughout the contract life cycle while ensuring customer satisfaction. It includes managing contract elements such as negotiations, changes, requirements interpretations, deliverables, contract terms and conditions, and risk management.[2] Thus, contract

FIGURE 1. Procurement Process and Contract Management



Source: This figure is an adaptation of the purchasing process model frameworks included in Bäckstrand, J., Suurmond, R., van Raaij, E., & Chen, C. (2019). Purchasing process models: Inspiration for teaching purchasing and supply management. Journal of Purchasing and Supply Management, 25(5), 100577.

management involves all the activities related to contract creation, execution, and performance analysis after the procurement agency selects one or more suppliers.

If we consider the two definitions of procurement and contract management, it should be clear that contract management involves several key activities are part of procurement management.

In particular, if we look at the procurement process structure (illustrated in Figure 1), we can see that contract management is perceived as starting immediately after the conclusion of the award phase of the procurement cycle. Contract management, in this context, includes those activities related to the management and evaluation of suppliers' offers and supplier selection. And it is involved in many, if not all, of the activities of the post-award phase (including those related to the order-delivery-payment cycle).

Contract management is indeed intertwined with the procurement process and, as such, it plays a key role in the implementation of procurement strategies and the achievement of strategic procurement objectives.

A Blurry Line?

Despite coming into play at the end of the procurement cycle, contract management and contracting professionals play a crucial role in the correct functioning of government supply chains.

Contracting professionals must be able to anticipate the needs of several parties, including internal users (e.g., agency subject matter experts, legal representatives, and maintenance personnel) and external users (e.g., suppliers and end users). They must ensure that the appropriate form of contract is selected.

Lastly, well-written contracts can save public organizations money. They must include information in the contract in a clear, concise, complete, and orderly way, to be sure to univocally identify supplier obligations and outline mechanisms for supplier monitoring and performance evaluation. Figure 2 highlights some of the primary responsibilities overseen by contract management.

An extensive blurry line dominates the conversation about the responsibilities of contract management and

FIGURE 2. Contract Management Responsibilities



Source: Author analysis and elaboration.

procurement relating to "*who does what*."[3] In most public organizations, contract management activities are spread throughout, involving many different people, in different roles.

The varying practices and views on the role of procurement in contract and supply chain management create confusion. A contributing factor could be that practices are not consistent across organizations or types of contracts.

There are three scenarios. First, procurement is responsible for contract management. Second, procurement's role ends with contract award. Third is a hybrid approach where the involvement depends on the type of contract, and the management is shared between the client-agency within the organization and procurement. Regardless, the process requires collaboration between various entities within the agency.

An additional source of confusion relates to the activities that contract management entails. Contract management spans far beyond checking off legal obligations, including aspects of relationship and risk management. The most strategic responsibilities of procurement professionals do not (or should not) end with the contract award.

Procurement and contracting professionals should be responsible for the whole contract life cycle – from pre- to post-award (i.e., Figure 1). They ensure that post-award activities comply with the agreed-upon obligations. In this regard, monitoring and evaluating supplier performance represent critical activities.

One of the main objectives of contract management is to ensure the contract is satisfactorily performed, and the responsibilities of both parties are clearly understood. For procurement organizations to understand whether or not they are getting what they paid for after the contract is awarded, it is fundamental that clear performance targets and expectations are formalized at the contract level.

To effectively accomplish this, contracting and procurement officers can refer to existing commercial performance standards. They are established by organizations such as the American National Standards Institute, the American Society for Testing and Materials, or the International Organization for Standardization (ISO), which can assist public organizations in the definition of the contract performance requirements. Alternatively, contract management can define internal requirements and performance measures based on existing benchmarking, past performance of other suppliers, technical data, and/or previously adopted key performance indicators.

Contract Management and Procurement Strategies

From a strategic perspective, a high level of contract management maturity is required to enable an appropriate implementation of procurement strategies. When defining the purchasing and relationship approach to be established with a supplier, procurement does not have a "fit-for-all" strategy.

For example, purchasing waste management services is very different from purchasing personal protective equipment for hospitals. Both are different from purchasing consumables

FIGURE 3. Procurement Strategies Based on the Kraljic Matrix



Source: Adapted from Kraljic, P. (1983). Purchasing must become supply management. Harvard Business Review, 61(5), 109-117.

TABLE 1. Procurement Items Classification and Suitable Contract Management Approaches

Classification	Contract management practices that support procurement strategies
Non-critical purchases	▶ Buyer-convenient forms of contracts (e.g., fixed-price or unit-price) ▶ One-off contracts to exploit competition ▶ Establish framework agreements to simplify the acquisition process ▶ Performance measures focused on efficiency and rationalization ▶ Minimize contract monitoring efforts
Leverage purchases	▶ Buyer-convenient forms of contracts (e.g., fixed-price or unit-price) ▶ Short-term contracts to exploit competition ▶ Consolidate demand within the same contracts ▶ Formalization of performance measures focused on efficiency and quality (value for money) ▶ Penalty/incentive mechanisms linked to performance ▶ Contract monitoring efforts focused on performance evaluation
Bottleneck purchases	▶ Supplier-convenient forms of contracts (e.g., cost-plus, time and materials) – push for cap mechanisms (e.g., guaranteed maximum price) ▶ Long-term contracts to ensure supply continuity ▶ Consolidate demand within the same contracts to be more attractive for the suppliers ▶ Contract monitoring focused on supply risk assessment and mitigation
Strategic purchases	▶ Supplier-convenient forms of contracts (e.g., cost-plus, time and materials) ▶ Long-term contracts to ensure supply continuity ▶ Formalization of contingency contract mechanisms in case of supply discontinuity ▶ Formalization of collaboration mechanisms at the contract level ▶ Formalization of performance measures focused on several aspects ▶ Penalty/incentive mechanisms linked to performance ▶ Contract monitoring focused on supply risk assessment and mitigation and performance evaluation

for agency offices. For these reasons, procurement agencies usually adopt the so-called "portfolio management" approach. It is a strategic approach to procurement where organizations segment their spending into areas that contain similar or related products and/or services (also called "procurement categories"). Then the organizations implement different procurement strategies in line with this segmentation.

A valuable tool to support the portfolio management approach is the "Kraljic matrix" (Figure 3). This model helps procurement agencies classify the goods and services purchased based on two dimensions. First is the strategic importance (i.e., the impact that goods and services have on essential performance outcomes). The second dimension is the supply risk (the probability of incurring unexpected supply events). According to the classification, the matrix outlines four different types of procurement (strategic, non-critical, leverage, bottleneck). For each one, a specific type of procurement strategy and relationship approach is suggested.

Positioning of goods and services from a portfolio management perspective as different procurement strategies are associated with different contract management approaches, as summarized in Table 1.

Conclusion

Efficient and effective procurement and supply chain management in the public sector are essential to ensure ethical spending of taxpayer dollars and effective delivery of public services.

Procurement officers are stretched thin by various responsibilities and hats worn in an organizational setting. Now, with the great resignation, governments at all levels have lost a significant number of employees, including in procurement.

This should not justify a lack of attention to contract management activities, which represent the critical area for managing supply chain risks. Public organizations should invest in increasing resources and competencies for appropriately managing and improving this part of the procurement process. Higher levels of maturity and supply chain skills, to reflect the responsibilities noted in Figure 2, can also be obtained with initiatives in education and training. CM

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ENDNOTES

1 https://www.nigp.org/dictionary-of-terms?search=procurement&page=2
2 https://www.ncmahq.org/common/Uploaded%20files/Standards%20Practices/ANSI-NCMA%20ASD%201-2019%20(R2022).pdf
3 https://www.proximagroup.com/why-contract-management-is-so-difficult-to-get-right-in-public-sector/