

RETHINKING CONTRACT MANAGEMENT

People, Process & Technology: Defining the Optimal Mix to Improve Performance and Reduce Risk

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INTRODUCTION

Contracts are the backbone of every business. From creating business relationships and defining legal obligations to driving operational processes and financial commitments, contracts require more than a perfunctory signature and space in the file cabinet.

An aspect of virtually every business function, contracts contain key data points that must be identified, tracked, and managed to control risk and meet an organization's financial and operational goals.

As your business grows and evolves, contract management becomes a more complex function to systematize and maintain effectively. This complexity leads to challenges in terms of access to documents, visibility into contract provisions, and time-consuming review and approval workflows, ultimately resulting in:

- Lost revenue
- Inflated costs, and
- Unmanaged risk.

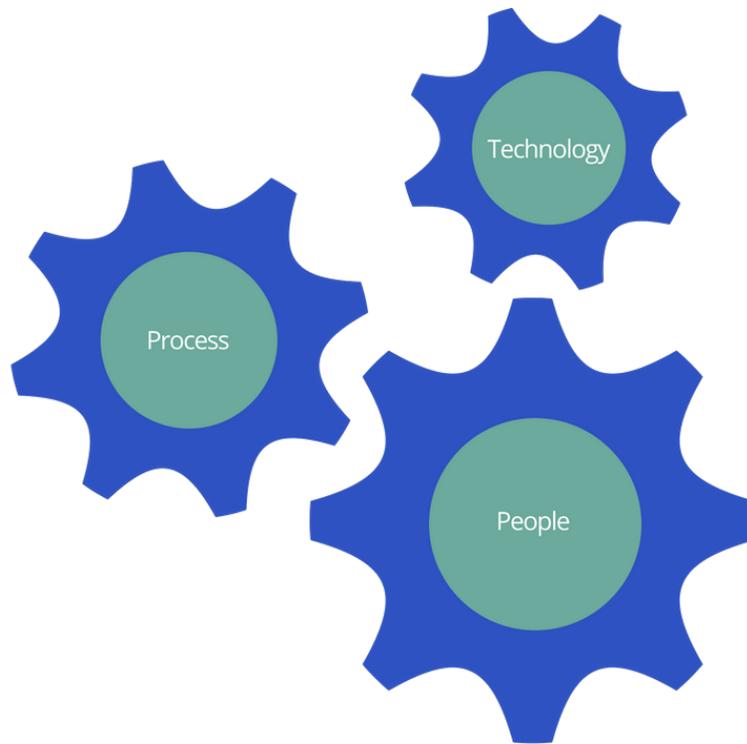
Taking a holistic view of the way people, processes, and technology can efficiently work together enables business leaders to redesign their contract management process, thereby enhancing organizational efficiency and increasing the value contracts provide to their entire organization.

THREE ESSENTIAL ELEMENTS

There is no one-size-fits-all answer to how you better manage your contracts. However, the key to a successful redesign is understanding that contract management is a system — a set of interconnected parts working together to accomplish a goal.

An effective contract management system includes three key components:

- The people of an organization
- Efficient processes
- User-friendly technology



The Three Essential Elements of a Contract Management System

PEOPLE

In the illustration above, the largest cog represents people, while smaller cogs represent process and technology. There is a good reason for this: like other enterprise-wide initiatives, people are the most important part of an effective contract management system. The commitment and involvement of a team — from senior management to professionals engaged in day-to-day contract activities — is closely aligned with the long-term success of a contract management system. It is people who drive the process and use the technology to generate success.

The Intersection of People and Technology

Technology plays a critical role in the effectiveness of a contract management system. However, organizations that derive long-term business value from their contract management system understand one important fact: a once and done implementation of a software tool is not the silver bullet to improving financial and operational performance or mitigating risk.

Without strong adoption, fully engaged users, and efficient processes, a software platform's value is substantially minimized.

The first rule of any technology used in a business is that automation applied to an efficient operation will magnify the efficiency. The second is that automation applied to an inefficient operation will magnify the inefficiency.

- Bill Gates

Technology is simply a tool. Only when an organization's people come together to a) define the goal, b) identify any obstacles to the goal, c) create and carry out a plan to reach the goal, and d) use and continually enhance the tool, will the tool itself deliver value.

The need for strong contributions from team members become even more critical when incorporating technology into a contract management system. As noted by author Josh Kaufman in *The Personal MBA – Master the Art of Business*, "The Paradox of Automation says that **the more efficient the automated system, the more crucial the human contribution of the operators**. Humans are less involved, but their involvement becomes more critical. If an automated system has an error, it will multiply that error until it's fixed or shut down. This is where human operators come in. Efficient Automation makes humans more important, not less."

PROCESS

When considering the importance of various elements in an efficient contract management system, process closely follows people.

From contract creation, approval, and execution to performance tracking, reporting, and storage, each stage of the contract lifecycle includes a distinct series of steps that need to be taken to achieve maximum effectiveness.



Contract Lifecycle Management

While a series of steps may be *effective* on its own (contract creation, review, or approval, for example), it is the *efficiency* of each component step and the way the series of steps work together as a whole that drives results.

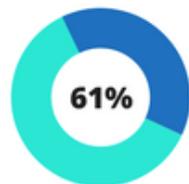
To maximize financial and operational performance and minimize risk, it is important to boost the value and efficiency of your process every step of the way.

Value Boost #1: Easy Access to Contract Data

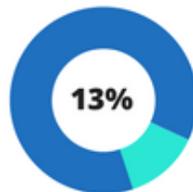
Organizations of all kinds have lost sight (literally and figuratively) of the location of their contracts, how to access them, and how to identify and track time-sensitive provisions contained in them.

A study conducted by the Independent Directors Council (IDC), titled *The Knowledge Quotient: Unlocking Hidden Value of Information Using Search and Content Analytics*, offers a glimpse into the root cause of the problem.

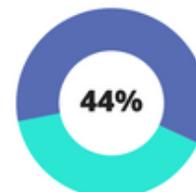
Knowledge Workers: The Search for Information



61% needed to **access four or more systems regularly** to obtain information

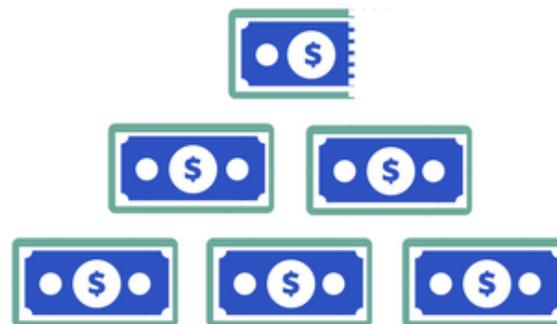


13% needed to **access 11 or more systems regularly** to obtain information



44% of the time **they could not even find the information they needed**

The Knowledge Quotient: Unlocking Hidden Value of Information Using Search and Content Analytics, IDC



\$5.7 Million wasted annually due to inefficient searching

An organization with 1000 knowledge workers. The Knowledge Quotient: Unlocking Hidden Value of Information Using Search and Content Analytics, IDC

These results will not be surprising to organizations dealing with voluminous legacy contracts stored in paper format and processes that allow contracts to be created, stored, and accessed via numerous devices and locations.

If the contracts team can't easily find contract files and quickly identify or track contract provisions:

- Time, resources, and money will be wasted, and
- Deadlines will be missed, leading to increased risks.

When redesigning contract management practices, improving access and enhancing visibility into your contracts is a foundational part of the strategy.

Digitization and Centralization

Digitization and centralization of your contracts are two best practices that immediately help you improve access and visibility into your contracts and solve the problems outlined above. Also, digitizing and centralizing your contracts serves as the catalyst for efficiency throughout your process – saving time and money.

Contracts stored manually — in paper or as scanned images — limit your organization's ability to identify and use information contained in the contract language. Using optical character recognition (OCR) tools to scan contract documents creates "text-searchable" digital files. While OCR isn't perfect, depending on a variety of factors it can convert printed text to electronic format at accuracy rates of 90% and higher. With properly digitized contracts, advanced data mining and machine learning tools can identify and extract data elements, such as renewal dates, for tracking and reporting purposes.

When taking the time to digitize your contracts, storing those documents in one single location enables visibility across your enterprise. A centralized, cloud-based repository, offered through many contract management platforms today, ensures that every person who participates in the contract management process can easily access the latest version of the document. Role-based security offered by these systems also defines each user's level of access to contract documents, which may include final versions or the complete drafting history of the contract. This web-based "source of truth" can be configured to provide anywhere, anytime access from a variety of mobile devices — all without having to search through multiple archives manually.

With a complete library of digitized and centralized contracts in place, organizations can monitor, report on, and track key contractual provisions — all of which add significant value to the organization.

Centralizing and digitizing contracts provides additional benefits to your organization. Contracts professionals and company leadership will gain the insight needed to eliminate redundant or commercially disadvantageous contractual relationships. This kind of broad, all-encompassing view of a contract portfolio can also reveal opportunities for volume discounts and other financial benefits.

Value Boost #2: Contract Templates

Recreating the wheel – starting from scratch each time – is a prime example of contracting inefficiency. When it comes to contract management, consider the wasted time, money, and resources when contracts are created this way:

- Trying to locate the last contract used in a similar situation
- Researching examples and asking colleagues for samples
- Drafting contracts from scratch or attempting to update contract terms and language to meet the needs of the current scenario
- Asking Legal, Finance or other approving parties to approve the contract draft
- Continual reviews and markup of draft contracts that don't use approved language or terms

Creating contracts from scratch or based on legacy files can cause significant challenges.

Contract Creation: Consequences of Recreating the Wheel

Challenge	Consequences
Improper or inconsistent language	Non-performance of contractual obligations and an adverse effect on a company's goodwill
Non-compliance with business rules	Customer satisfaction and other performance issues
Lack of required regulatory language built into the contracts	Violations of regulatory requirements and penalties

Creating approved, business and regulatory-compliant electronic templates for your most commonly used contracts is one of the most critical aspects of contract management system roll-outs. Using templates not only significantly reduces the time needed to move from contract creation to contract execution, but also greatly improves compliance with business rules and regulatory requirements.

Rather than searching for a sample or starting from scratch, pre-approved templates provide a starting point where 80% of the work is already complete.

- Templates include standard, pre-approved contract language and terms, so questions are minimal.
- Business rules and requirements are built into the templates, simplifying compliance.
- Non-negotiable provisions that must be present in every contract are included in templates, ensuring consistency across the entire contract portfolio.

Using templates to standardize contract creation results in a smooth, efficient review and approval process and enterprise-wide compliance.

TECHNOLOGY

As noted earlier in this article, technology plays a critical role in the effectiveness of an organization's contract management system. A key component of the overall contract management system, technology makes contract access, automation, and analysis more efficient for the people who manage contracts on a day-to-day basis.

However, as with any technology, when a platform isn't adopted well by its intended users, generating results and achieving goals is difficult. Moreover, if a platform isn't configured to align with disciplined, efficient processes, the potential benefits of automation are lost.

Criteria: Choosing a Contract Management Platform

Selecting a technology platform can seem like a daunting process. With a broad range of platforms available, understanding the benefits of various features while identifying the right functionality for your environment takes time. When evaluating the many options, several capabilities stand out as those that can make or break the success of a redesigned contract management system.

- **Central repository:** Allows contracts to be stored and organized in a customizable way to meet the needs and security practices of the organization.
- **Comprehensive information capture and easy access:** Delivers the information you need, when you need it.
- **Well-designed, simplified user experience:** Intuitive interfaces that make sense, streamlined workflow with few clicks, and applications that function smoothly.
- **All-in-one tool:** Allows users to create, negotiate and execute contracts in one location without leaving the platform.
- **Key clause summaries, obligation tracking with email and text alerts, and linking to related documents:** Gives the contracts team control over performance and enables key data to be identified and reported.
- **Web/cloud-based application:** Allows access from any location and device with robust, role-based security.

Deploying a contract management system goes beyond simply selecting a platform. An effective contract management platform starts with a positive user experience, which supports a high user adoption rate. When combined with a thoughtful implementation by a team that thoroughly understands a company's unique needs, industry best practices, and the reasons behind them, organizations can be confident that this last component in its contract management system will prove its value.

Whether you are building a business case for redesigning your contract management practices or you are just starting to rethink your contract management process, it is wise to remember that technology is only one cog in the overall system. Improved performance starts with people and processes.

CONCLUSION

An organization's contracts serve as a fundamental source of business intelligence, driving business operations, decision-making and compliance. Thus, developing an enhanced contract management system has moved to the top of the priority list for most organizations.

Designing a system that maximizes value and mitigates risk begins with understanding the potential for contract management to contribute to the organization as a whole. Redesigning and implementing a contract management system requires a keen understanding of the roles people, processes, and technology play in the process.

People play the largest role in a system's success. The core team must come together to define the desired value, craft a plan to achieve it, execute the plan with discipline, and successfully manage change to succeed.

Processes drive results when the series of steps in each stage of the contract lifecycle – from creation and approval to negotiation and storage -- are designed to work together efficiently. When looking to maximize performance and minimize risk, plan to examine and enhance the value and efficiency of your process at every step.

Technology enables both your process and your people. Standardizing contract documents in both digital form and substantive content, and storing them in a central repository, and providing secure, cloud-based access to that information builds the foundation for enhanced productivity with minimum wasted effort and expense.

By understanding how empowered people, disciplined processes, and user-friendly technology can work together holistically, your business can proactively manage contracts across the complete lifecycle and dramatically improve efficiency, reduce risk and maximize value.

About EXTEND Resources

EXTEND Resources is a business and legal solutions company specializing in contract management, cybersecurity, eDiscovery, and other managed information processing services. Information about EXTEND's service can be found at extendresources.com.

Take the next step

To learn more about contract management services from Extend, visit extendresources.com or call (203) 479-9408.



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