Contract and relationship management
Driving results and maximising outcomes

A guide for government agencies March 2011
Acknowledgement and thanks – development of this guide

This guide is part of a Government initiative, under the Government Procurement Reform Programme, to support good procurement practice and make it easier for New Zealand businesses to engage with government. It has been developed after consultation and discussion.

Specific input and guidance were received from the **Procurement Development Technical Advisory Group**, which is an advisory group comprising senior procurement advisers from government agencies: the Ministry of Foreign Affairs and Trade, the Ministry of Social Development, the Auckland District Health Board, the Ministry of Agriculture and Forestry, the Ministry of Justice, Inland Revenue and Public Trust.

Feedback on this guide

We want to ensure that this guide provides you with comprehensive information on managing contracts. We’re interested in your views on what works well and what we could improve. Please provide any feedback to: procurement@mbie.govt.nz.
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Overview of contract management

The main aim of contract management is to ensure that goods or services are delivered on time, at the agreed cost and to the specified requirements.

It means developing effective working relationships with your suppliers, ensuring effective service delivery, maximising value for money and providing consistent quality for stakeholders and end users.

The nature and extent of contract management will vary between contracts. It can be influenced by the nature and value of the purchase and the type of relationship your agency wants with the supplier - both in the short and the long term. Contract management continues throughout the life of the contract – managing delivery proactively, resolving issues that arise and anticipating business needs and potential problems.

For longer-term contracts, contract management also involves initiatives and discussions aimed at continual performance improvement.

The essentials for successful contract management

- **Good preparation.** Accurately assess your agency’s needs and you’ll have a clear understanding of the results you’re looking for, the quality required and any time or budget constraints.

- **Careful supplier selection.** By carefully considering the attributes, capacities and capabilities you require for your contract, and designing a process to test potential suppliers against them, you can be more confident that you’ll select the best supplier at a price that represents value for money.

- **Appropriate contract selection.** The contract mechanism and terms and conditions you choose should reflect the nature and value of the purchase and manage your agency’s exposure to financial, legal and operational risks. Importantly, the contract should cover how you’ll measure the quality of delivery and the supplier’s performance.

- **Comprehensive description of the goods or services.** All contracts must comprehensively specify your requirements in a concise, easy-to-understand way that provides the supplier with all the information it needs to deliver successfully. You should also offer the supplier the opportunity to ask questions about any aspect of the contract before delivery begins.
When describing the goods or services and service levels you require, use the SMARTER approach that is, make your contract deliverables:

- **Specific**
- **Measurable**
- **Attainable**
- **Relevant**
- **Time bound**
- **Evaluated**
- **Recorded**.

**A Contract Management Plan.** Contract management tends to receive the least attention – and sometimes only when issues arise. A Contract Management Plan can be a useful tool, particularly for high-value, complex, unique or strategic procurements. It greatly increases your chances of achieving a successful outcome to your procurement.

**Single business focus.** Each party needs to understand the other’s business. Both parties’ objectives under the contract must be achievable.

**Service delivery management.** Manage service delivery proactively and you’ll ensure that the goods or services you require are delivered as agreed, to the required level of performance and quality, and within budget. Make sure you monitor supplier performance consistently to ensure that your agency continues to get value for money.

**Relationship management.** Effective contract management relies on good communication based on mutual respect, trust, understanding, openness and accountability. Keep the relationship between you and your supplier open and constructive, resolving or easing tensions and identifying issues early.

**Contract administration.** Make sure your agency keeps full and accurate records of your business transactions, to ensure good governance, transparency and accountability. Your agency must be able to demonstrate that it’s delivering efficient and effective services to its stakeholders.

**Continual improvement.** You can ensure continual improvement by taking a flexible approach to the contract, through which your agency and the supplier can negotiate continual improvements in quality and achieve greater ongoing efficiencies and benefits.

**People, skills and continuity.** Appoint a contract manager at the outset. If the contract is long term or complex, you might also need a contract-management team comprising a mix of specialists with the right skills to understand the requirements and manage the supplier relationship at all levels.

**Knowledge.** Make sure that your contract manager understands the business, the results you’re looking for and the way that they’ll be delivered under the contract. That way they’ll understand the implications of potential issues and opportunities.

**Flexibility.** Both parties to the contract need to be flexible and willing to adapt to unanticipated challenges. Your flexibility in finding mutually acceptable solutions can be key to the contract’s success.

**Proactivity.** Good contract management anticipates and responds promptly to issues, risks and emerging business needs.
## What can go wrong, and why?

Common reasons for poor contract management include:

<table>
<thead>
<tr>
<th>Cause</th>
<th>Consequences</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ The agency fails to plan adequately for the transition to a new supplier.</td>
<td>▪ Users or stakeholders aren’t aware of the new supplier or changed requirements, and operational disruptions affect the agency’s ability to deliver.</td>
</tr>
<tr>
<td>▪ The agency’s requirements are poorly specified. ▪ The supplier’s assumptions aren’t checked.</td>
<td>▪ The supplier doesn’t understand the nature and quality of the goods or services required. ▪ The supplier’s delivery is inconsistent with the agency’s requirements, and intended benefits aren’t realised.</td>
</tr>
<tr>
<td>▪ The contract terms and conditions are inappropriate for the type of purchase.</td>
<td>▪ The agency and supplier fail to understand their respective obligations and responsibilities. ▪ The legal terms and conditions fail to provide a suitable framework or remedies to best resolve issues that arise.</td>
</tr>
<tr>
<td>▪ The wrong people are employed to manage the contract. ▪ Inadequate resources are assigned to contract management. ▪ The authorities and responsibilities for making decisions aren’t clear. ▪ The contract managers appointed by the agency and the supplier have different levels of skills and experience, which makes it difficult to control expectations and achieve results.</td>
<td>▪ Contract management is poor, issues aren’t resolved and can build up, and the supplier isn’t held to account. ▪ Understandings differ on how to deliver, monitor and implement the contract. ▪ Progress is slow – even stalled. ▪ The relationship deteriorates and becomes unworkable. ▪ The supplier fails to deliver and the agency fails to notice. ▪ Misunderstandings and disagreements arise. Too many issues are escalated inappropriately. ▪ Decisions aren’t made at the right time, if at all. Staff who have no authority make decisions. Decision-making is inconsistent. ▪ The supplier is obliged to take control, resulting in unbalanced decisions that are not in the agency’s interests.</td>
</tr>
<tr>
<td>▪ The contract’s context, complexities and dependencies aren’t well understood. ▪ The agency fails to monitor and measure delivery and the supplier’s performance. ▪ The agency fails to monitor and manage related risks (e.g. political, commercial).</td>
<td>▪ The agency can’t assess whether it’s getting full delivery and value for money, or the quality results it requires.</td>
</tr>
<tr>
<td>▪ Parties focus on current delivery arrangements rather than the potential for improvement.</td>
<td>▪ New business processes don’t integrate with existing processes, which leads to problems or failure. ▪ Opportunities are missed to improve efficiencies, value for money and performance.</td>
</tr>
</tbody>
</table>
To achieve good contract performance, public entities should ensure that the terms of the contract are adhered to, and that all parties to the contract understand their respective obligations.

Office of the Auditor General
Procurement Guidance for Public Entities

Contract Management Plan

Your agency needs to monitor and manage its suppliers’ performance to ensure they deliver value for money

While the written contract with your supplier is a record of your mutual legal obligations, it’s not designed as a contract-management tool. That’s where a Contract Management Plan is useful, as it enables both parties to understand and record the contract’s operational implications.

A formal Contract Management Plan is recommended for significant procurements that are high value, high risk, complex, novel or likely to attract specific media attention or come under significant public scrutiny. In developing your Plan, make sure you tailor it to the individual contract; the contents and amount of detail will depend on the nature of the procurement.

A Contract Management Plan should include:

- identification and contact details for each party’s contract manager
- the contract managers’ key responsibilities
- a timeline of key actions, deliverables, milestones and payment dates
- the reporting requirements (frequency, type, content and distribution)
- the meeting requirements (chair, location and standard agenda items)
- the process for achieving and checking key deliverables
- the quality / standards and measuring process (e.g. KPIs)
- payment procedures
- the process for agreeing and controlling variations and changes to the contract
- a contract management risk plan
- a fixed asset plan and register (fixed assets could include laptops or vehicles that your agency buys and that your supplier uses in delivering services)
- guidance on any agency policies or procedures that apply to the supplier (if appropriate)
- ordering procedures (if appropriate).

Remember, a Contract Management Plan is a living document – you should keep it updated throughout the contract.

Your Contract Management Plan must be consistent with the terms of the contract.

Review the Contract Management Plan regularly, and adjust it to address emerging issues, needs and opportunities.
Driving results and maximising outcomes

Effective contract management relies on three separate, but interrelated factors:

- **Managing service delivery** ensures that a contract is being delivered as agreed, to the required levels of performance and quality.
- **Managing relationships** keeps the relationship between the two parties open and constructive, aiming to resolve problems early and focus on continual improvement.
- **Managing contract administration** provides governance and accountability through tracking and recording delivery.

All three factors must be managed effectively and consistently if the contract is to succeed.

**Factor 1 – Managing service delivery**

**Service-delivery management is about managing a supplier’s performance against the performance indicators in the contract**

To meet your agency’s business requirements, your supplier must achieve the best possible balance between time, cost and quality to deliver the goods or services you seek. Service-delivery management can help to balance these factors, providing your agency with the best possible value for money.

Well structured service-delivery management helps both parties to:

- quantify the costs and benefits of the contract
- ensure that responsibilities are clearly defined and assigned
- clearly define standards for delivery
- ensure that payment is only made for goods or services that meet the required (and verified) standard
- ensure that deliverables comply with the agreed business requirements.

It will also help your agency to develop your current and future requirements.
What are ‘metrics’?

Metrics are statistics developed to measure or quantify something. In contract management, metrics are aspects of delivery that can be tracked, measured and verified.

What measures should we use?

Measuring service quality means creating and using quality measures. Aspects of service quality that can be measured include:

- customer service
- availability
- capacity
- efficiency
- reliability
- flexibility
- timeliness
- responsiveness
- problem solving
- proactivity
- innovation.

Measuring service delivery

There are many ways to measure delivery. In some contracts it’s as simple as assessing whether the measure has been either ‘met’ or ‘not met’. This can happen for aspects of delivery where there is nothing to be gained, or no value added, beyond whether or not delivery happened.

Additional statistics (metrics) can be developed when it’s important not only to establish whether delivery has happened, but to measure its quantity or quality. Some service aspects (such as throughput, cost and accuracy) can be counted and measured in a simple, mathematical way. For example, quality can be expressed on a scale of 1 to 10, with parties predetermining the criterion each number value represents as well as setting the minimal acceptable level of quality.

In the early stages of contract rollout it’s a good idea to allow some flexibility in how delivery will be assessed – such as giving your supplier a reasonable timeframe to get ready for full delivery. During this initial phase it might not be productive to point out a minor transgression on standards, especially if the supplier has worked hard to bring the service ‘on stream’ quickly.

During contract start-up, reliability, accuracy and other aspects might fluctuate, so it’s important to stipulate an appropriate timeframe for services to be bedded down and in which you won’t strictly enforce the service levels. In doing so, remember that too short a timeframe might give an unfair picture, and too long a timeframe might be similarly misleading.

Measuring service quality

Managing service delivery involves more than simply gauging whether services are being delivered to volumes, timeframes or costs. You also need to assess the quality of the services being delivered.

Make sure that you clearly describe the standards you expect in the contract documents – and that both parties understand and agree on the performance metrics before delivery begins. You can always adjust the metrics by agreement as the contract progresses.

Contract management is ultimately about ensuring value for money

Quality measures and metrics provide information on how well a supplier is performing – but it’s no use providing a perfect service if the costs are prohibitive.

Ensuring value for money is about the trade-off between service quality and cost. Your contract management should focus on ensuring that you continue to achieve value for money over time.
Effectiveness, efficiency and economy

What if the supplier is an in house business unit or another government agency?

In this case, you can use a service level agreement instead of a formal contract.

Value for money comes from using resources effectively, efficiently and economically.

- **Effectiveness** is the extent to which objectives are achieved. In contrast to efficiency, effectiveness is determined without reference to costs.
- **Efficiency** is a comparison of what can be achieved with what has been achieved using the same resources e.g. time, labour, materials. It’s an important part of determining productivity.
- **Economy** is concerned with the benefit obtained from the procurement. As well as being based on value for money, it’s about the maximum effectiveness and efficiency of the purchase. It involves conserving resources and eliminating waste.

Every contract should contain mechanisms for measuring the supplier’s performance and determining the overall benefits achieved. Developing a benefits statement enables both parties to see the extent to which the overall results can be achieved against what has been achieved.

Risk

In contract management, the term ‘risk management’ incorporates all the activities required to identify, control and manage risks that might have a negative impact on the contract being performed effectively – and ultimately to ensure value for money.

- Check your agency’s policies and processes on risk management and incorporate relevant processes into your contract-management practice.

- Check out the *Procurement Process Risk Register* template at: [www.procurement.govt.nz](http://www.procurement.govt.nz).

Types of risk

Many contract-management risks relate to the supplier being unable to deliver to the required level, quality, time or cost. Other risks can relate to the nature of the goods or services themselves and how they impact on the ultimate end users. For government agencies, risk can be categorised as:

- operational
- legal
- financial
- reputational (for the agency)
- political (for the Minister and Government).
Managing risks

Work with your supplier to decide who’s responsible for each area of risk, how you can minimise the chances of negative events happening and how you’ll manage them if they do.

Questions to answer for each area of risk include:

- who’s best able to control the events that might lead to the risk happening?
- who’s best able to control the risk if it happens?
- who should be involved in controlling the risk: the agency or the supplier?
- who should be responsible for a risk if it can’t be controlled?

Risks that are within the supplier’s control include:

- organisational capacity
- staff capabilities
- the cost of materials
- resources and effort
- effectiveness (driving quality)
- efficiency (driving value for money)
- ongoing business direction and research and development.

Risks that are beyond the supplier’s control include:

- the agency’s demand for the goods or services being much greater than expected and the supplier being unable to cope
- the agency’s demand for the goods or services being much lower than expected and economies of scale being lost, making delivery unprofitable
- the agency’s subject matter expert or contract manager (who has established key relationships with the supplier) being transferred or moving on
- changes in the agency’s requirements, such as new policy or legislation, that require the agency to make demands that the supplier can’t meet
- extraordinary events (force majeure), where factors beyond the supplier’s control disrupt delivery. For example, premises might flood and therefore can’t be accessed
- the agency being unable to meet its obligations under the contract.
Factor 2 – Managing relationships

The relationship spectrum

In contract management, it’s important to establish effective working relationships with suppliers. The nature of the procurement will help to determine the relationship you want to develop with the supplier.

The relationship spectrum shows the differing degrees of closeness that can exist between buyers and suppliers – depending on the nature of the contract.

Supply Positioning Model

The Supply Positioning Model will enable your agency to understand the priority of each contract and the amount of time and effort it should invest in each supplier relationship. It can also support decisions on the stock levels you need to secure supply.

Goods/services that have a high supply risk are referred to as ‘strategic’. Those with a low supply risk are referred to as ‘tactical’.

Plot each type of procurement on the grid. This will show you the importance of different types of goods and services to your agency.
The Model involves charting each type of purchase onto a grid. The grid’s axes represent two factors:

- Your agency’s risk, vulnerability and exposure in securing the supply of the goods or services i.e. how critical these items are for you to meet your public policy or business objectives (the ‘supply risk’)
- The cost to your agency of the goods or services (the ‘relative cost’).

The types of factor that could influence ‘supply risk’ include:

- the importance of the goods or services to your agency’s business needs or outcomes
- the complexity of the goods or services
- the current supplier’s ability to deliver
- the delivery lead time
- the level of competition in the supply market
- the product life.

The Supply Positioning Model

Each quadrant explained

<table>
<thead>
<tr>
<th>supply risk, vulnerability, exposure</th>
<th>low</th>
<th>high</th>
</tr>
</thead>
<tbody>
<tr>
<td>relative cost $</td>
<td></td>
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</table>

SS | Buyer’s priority = security of supply
High supply risk - vital to secure supply. Low cost - buyer can hold large stocks. Short term: buy when prices are low. RELATIONSHIP = competitive. Med/long term: find more suppliers and/or develop closer relationships. RELATIONSHIP = collaborative.

SC | Buyer’s priority = security of supply & good price
Most critical items. Limited source of supply and high costs. Need longer-term collaborative relationships with a small number of suppliers. RELATIONSHIP = collaborative.

TA | Buyer’s priority = purchasing efficiency
High-volume, low-value items with many suppliers. Need to streamline purchasing process e.g. p-cards or online ordering. RELATIONSHIP = transactional.

TP | Buyer’s priority = improving profit through cost savings
Good source of supply, but high total cost. Need for savings so regularly test market. RELATIONSHIP = transactional/competitive.

Example:

A local hospital has a range of suppliers for different types of goods and services. In analysing the nature of these relationships, the Procurement Manager makes the following assessment.
Competitive and collaborative relationships

Relationships between agencies and suppliers can be:

- **competitive** (often called ‘win-lose’ relationships), where a gain by one party results in a loss to the other, or
- **collaborative** (often called ‘win-win’ relationships), in which both parties acknowledge the benefits of doing business together and adding value, from which they can both gain.

**Competitive relationships**

Competitive relationships are associated with ‘transactional procurements’: simple exchanges in which the supplier provides goods or services and the buyer provides money in payment. Transactional procurements typically involve:

- standard products or services
- many competing suppliers
- wide supply markets
- no benefits, or no need for a high degree of trust
- in environment in which the cost of switching from one supplier to another is low.

In a competitive relationship the buyer seeks to obtain the best possible price for the required quality and delivery standards. They try to squeeze the supplier’s profit margins. While this approach is unlikely to produce a long-term relationship, it should always be professional and ethical.

**Collaborative relationships**

In a collaborative relationship the buyer seeks to develop a long-term relationship with the supplier – one in which both seek ways to add value for the ultimate benefit of the buyer, the supplier and end users. It’s a proactive relationship focused on looking for improvements, not a ‘cosy customer-supplier’ relationship in which the status quo is allowed to prevail.

The supplier and the buyer usually:

- look for improvements and innovations together, secure in the knowledge that any benefits achieved will be shared
- jointly set targets for improvements in cost and quality, and meet regularly to discuss progress in achieving them.

Collaborative relationships take time and effort to develop and are associated with more strategic procurements. They’re not suitable for procurements where a failure in supply would not be damaging to the buyer.

Collaborative relationships typically involve:

- shared objectives
- a mutual search for greater efficiency
- joint planning for the future
- each party understanding the expectations of the other and seeking to meet them
- an environment of equal partnership.

The three key factors for successful collaborative relationships are:

- clear, open and honest communication
- mutual trust, respect and understanding
- collaboration and joint problem-solving.
Communication

Many cases of mistrust or concern result from a failure to communicate effectively – whether it’s on the specifics of the deliverables, your agency’s overall business goals, or your concerns about underperformance.

At the negotiation stage, each party might be concerned about unduly exposing its position for fear that the other will exploit information. However, if you’re looking for a long-term, collaborative relationship, you should encourage information-sharing from the outset, with a view to developing trust and working together to achieve mutually beneficial results. Note though that there should be a realistic balance between openness and reserving negotiating positions at this stage.

Mutual trust

Trust can be the defining characteristic of a collaborative relationship between agency and supplier. In this context it might mean having confidence in the other party’s:

- capability to ‘do the job’ well
- goodwill – having the interests of ‘us’ and the relationship at heart
- integrity – acting and speaking honestly
- commitment to the relationship beyond the letter of the contract.

Trust can only be won through developing strong relationships, often between the people managing the contract on a day-to-day basis. It has to be built and ‘earned’ through actions and behaviours, rather than assertions, and is often tested when problems arise.

Joint problem-solving

No matter how good the relationship between agency and supplier, and how stable the delivery of the goods or services, problems can still arise.

Good contract management involves both agency and supplier co-operating to ensure that problems are recognised and resolved quickly and effectively. You can do this by:

- agreeing on problem-handling procedures in advance through a risk management plan and dispute-resolution protocol
- ensuring clear, timely notification, reporting and escalation procedures that enable problems to be resolved before they develop into disputes
- ensuring the supplier has its own risk-management procedures, including internal escalation procedures, and uses them when needed. These procedures should seek to prevent problems as well as resolve them.

Your agency has an obligation to communicate any concerns about the supplier’s performance – after all, the supplier can only fix a problem if they know about it. Failing to notify the supplier of a problem could result in a series of small problems building up to become material performance issues, which is unfair on the supplier. Whatever the nature of the problem, it’s vital that:

- you notify the supplier immediately
- you choose the appropriate notification channel, depending on the problem’s severity (e.g. phone call, e-mail, letter, face-to-face meeting)
- you record the problem as part of tracking overall performance
- both parties act in good faith to negotiate a mutually acceptable resolution
- the problem-solving approaches are practical, clear, achievable and effective
- you follow escalation procedures if the initial approaches are unsuccessful.
Escalating disputes

Your agency’s response to problems should match the nature and severity of the failures. For small problems, it may be enough to tell the supplier what the problem is and how it affects your agency. For more critical failures the contract may specify a particular approach, such as withholding part payment against an invoice until delivery has been made in full.

The contract will normally provide a process for escalating problems and, if escalation is unsuccessful, the additional actions parties can take. Options include mediation, arbitration and litigation.

<table>
<thead>
<tr>
<th>Mediation</th>
<th>Arbitration</th>
<th>Litigation</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Non-adversarial: seeks a ‘win-win’ solution.</td>
<td>• Less confrontational than litigation – potential to retain trading relations.</td>
<td>• Adversarial: polarised positions can damage ongoing relations. Often results in win-lose decisions.</td>
</tr>
<tr>
<td>• Can be less damaging to the parties’ ongoing relationship than other adversarial approaches.</td>
<td>• Proceedings confidential.</td>
<td>• Proceedings are public: risk of negative public relations, loss of confidentiality.</td>
</tr>
<tr>
<td>• Confidential settlement between the parties.</td>
<td>• Can sometimes be faster and less costly than litigation, although not always.</td>
<td>• Timeframe often lengthy.</td>
</tr>
<tr>
<td>• Less costly than arbitration or litigation.</td>
<td>• Decisions are enforceable.</td>
<td>• Legal fees costly.</td>
</tr>
<tr>
<td>• Faster than arbitration or litigation.</td>
<td></td>
<td>• Final decision enforceable.</td>
</tr>
<tr>
<td>• Mediator skilled in finding constructive solution.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Decision not binding unless parties agree.</td>
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Agency-supplier relationships

To some extent, parties can choose the nature and extent of their relationships. Your agency should decide on the type of relationship it seeks with each of its suppliers, based on the importance of the goods or services to your business and the value of the procurement.

A number of tools are available to help you determine the relationships that are appropriate with different types of supplier. They include the ‘Supply Positioning Model’.
Benefits of effective relationships

Ultimately the relationship between your agency and its supplier will influence the contract’s success. Get it right and the benefits will follow.

The benefits of developing and maintaining an effective working relationship include:

<table>
<thead>
<tr>
<th>For the agency</th>
<th>For the supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>☑ Established points of contact. Clear understanding of requirements and quality and efficiencies in delivery.</td>
<td>☑ Established points of contact. Clear understanding of requirements and quality and efficiencies in delivery.</td>
</tr>
<tr>
<td>☑ Issues sorted quickly through mutual cooperation with win-win results. Time and resource savings.</td>
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</tr>
<tr>
<td>☑ Goodwill ensures flexibility and priority for urgent requirements.</td>
<td>☑ Valued relationship means it’s worth investing in good customer support.</td>
</tr>
<tr>
<td>☑ Motivation for supplier to invest in R&amp;D supports innovation, efficiency gains and value-for-money improvements.</td>
<td>☑ Management time and resources freed up. Ability to invest in innovation through R&amp;D. Can achieve efficiency gains and value-for-money improvements that can be shared with the agency and add to ongoing business development and commercialisation.</td>
</tr>
<tr>
<td>☑ Familiarity, openness and trust. Reliable supplier that can be trusted to deliver. Supports agency meeting business/operational objectives while ensuring ongoing value for money.</td>
<td>☑ Familiarity, openness and trust. Expectation of ongoing work. Reliable, timely payments. Provides improved cash flow and supports ongoing business development planning.</td>
</tr>
</tbody>
</table>

Managing relationships with internal and external stakeholders

From an agency’s perspective, ‘stakeholders’ include people within the organisation who benefit from the goods or services (e.g. staff who use newly purchased desks) and people outside the organisation (e.g. taxpayers who are the recipients of a purchased service). Identifying these stakeholders and developing appropriate relationships is part of good contract-management practice.

In many procurements, these stakeholders’ needs and expectations will be a key influence – their requirements must be satisfied and they must be included in assessments or reviews of suppliers’ performance and the suitability and quality of the goods or services delivered.

Satisfying stakeholder groups

You can develop a framework for managing these relationships by identifying relevant stakeholders and mapping their ‘power and influence’ and ‘interest and aspirations’.
Stakeholder power and interest matrix

The diagram below indicates a possible approach for different types of stakeholder.
Factor 3 – Managing contract administration

The key procedures involved in contract administration are:

- maintaining contract-related documentation and keeping records
- ordering goods or services
- paying for goods or services
- monitoring deliverables
- monitoring budgets
- controlling changes and variations to the contract
- managing and planning resources
- undertaking management reporting
- managing assets.

Records management

As part of good procurement practice and according to your responsibilities under the Public Records Act 2005, you should keep full and accurate records of your business activities.

Applicable to Public Service agencies, State Services agencies and local authorities, the Act’s key objectives include:

- promoting government accountability through good record-keeping
- enhancing public confidence in the integrity of government records.

Under the Act, agencies are required to:

- create and maintain full and accurate records in accordance with normal, prudent business practice. These include records of activities carried out by contractors on an agency’s behalf. Records must also be accessible in the future
- ensure that records are disposed of properly and under the authority of the Chief Archivist. Disposal is usually by either destruction or transfer to archives.

The Chief Archivist sets the record-keeping standards that agencies are required to meet.

Check your internal record-management policies and requirements to ensure they are fully reflected in your contract-management activities.
Change control

Changes to services, procedures and prices can affect service delivery, performance and costs and whether the contract continues to represent value for money.

All your contracts should include change-control procedures that clearly identify the parties’ roles and responsibilities, along with the procedures for raising, evaluating, costing and approving change requests. They should cover:

- change requests
- impact assessments
- costing
- prioritisation
- authorisation
- recording the agreement to the change
- implementation control.

Management reporting

Any requirements for service performance reports and management information should be defined before and during contract negotiations, confirmed during the transition to implementation and recorded in the contract.

Where possible, use the supplier’s own financial and operational reporting cycles. If the supplier’s standard internal business reports would provide the information you require, save unnecessary duplication of effort by accepting those instead. However, you may need to allow for the timing of reports to match the supplier’s normal reporting cycle.

Asset management

If your agency is to keep ownership of any assets the supplier buys and uses in delivering its services (such as laptop computers), you have overall responsibility for those assets.

In many cases, the supplier will undertake the day-to-day asset management (because they have physical control of the assets), then return the assets to your agency at the end of the contract.

Your agency’s contract manager should ensure that:

- the supplier has an asset register detailing all assets purchased, their specifications, serial numbers, dates of purchase, costs (receipts for purchase), locations held and condition
- the asset register is kept up to date
- records are kept of any assets used by a third party
- maintenance, upgrades and replacements are planned and budgeted for.

The contract manager will be responsible for liaising with the supplier on asset administration, upkeep and maintenance.
The drivers for continual improvement and change during a contract can come from a range of sources.

**Internal drivers include:**
- evolving business requirements
- organisational restructuring (of either party)
- significant revisions to either party’s corporate strategy/business objectives.

**External drivers include:**
- developments in technology (things that were not possible become possible, and are now desirable)
- economic trends that affect the relationship’s profitability/value for money from the perspective of the agency or the supplier
- the need to provide electronic forms of service delivery to meet customer expectations
- changes in legislation or legal interpretation.

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**Continual improvement**

*Ideally, the requirement for continual improvement should be embodied within the contract and reflected in the relationship between the parties.*

This can be at a number of levels, from simple price improvements through cost savings to process efficiencies leading to better delivery times.

**Opportunity**

Your agency should continually look for opportunities to improve how you (and your supplier) operate. In contract management, this translates into a need for continual improvement in your agency’s and supplier’s performance and increased value for money.

Continual improvement should be part of your and your supplier’s philosophy, and should include improving the performance of the contract-management team as well as delivery under the contract.

However, it’s important that continual improvement is seen as desirable and beneficial for both parties, rather than as a means to drive down prices.

**Managing change**

A successful working relationship requires a mutual commitment to introduce identified improvements and meet your agency’s evolving business needs. Properly managed change, in itself, can also be a good opportunity to alter or improve a service.

**The implications of change**

It’s vitally important to understand the implications of change from both your and your supplier’s perspectives.

To an extent, both of you are taking calculated risks when you enter a long-term contract. However, the cumulative effect of change during the contract is likely to balance out for both. Joint planning for change is vital to minimise the risks.
**Roles and responsibilities**

A typical contract relationship has the following roles and responsibilities:

<table>
<thead>
<tr>
<th>Role</th>
<th>Agency</th>
<th>Supplier</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sponsor</strong></td>
<td>The project sponsor is responsible for the contract’s high-level results. They should be a senior manager with the authority to take major decisions on behalf of your agency.</td>
<td>The supplier should have a correspondingly senior role – someone who takes responsibility for the contract's success from the supplier's perspective and has a senior level of authority.</td>
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</tbody>
</table>
| **Contract manager** | Appointing a contract manager ensures single-point accountability for day-to-day operations. However, you might need a contract-management team for large, high-value, complex or high-risk contracts. Each contract will vary in terms of the contract-management resources needed. The contract manager's (or contract management team’s) main responsibilities are to:  
  - ensure that the contract reflects what has been agreed between the parties  
  - act as the single point of contact for all contract matters  
  - oversee the contract’s day-to-day operations  
  - check invoices and only approve payment when satisfied that delivery has been made in full  
  - regularly monitor and report on the supplier’s performance  
  - ensure issues are identified and resolved quickly and effectively  
  - escalate issues as necessary  
  - maintain an overview of the contract specifications and seek changes where appropriate to meet emerging business needs. | The main responsibilities of the supplier’s contract manager are to:  
  - implement the contract on time, within budget and to specification  
  - monitor contract performance and report on service levels and results  
  - represent the supplier at meetings with the agency  
  - respond to changing agency needs  
  - identify and manage exceptions  
  - identify and manage risk  
  - ensure issues are identified and resolved quickly and effectively  
  - escalate issues as necessary  
  - maintain or develop service components  
  - maintain or develop supporting resources to deliver successfully. |
| **Relationship managers** | Not all contracts need both a contract manager and a relationship manager. However, the agency and the supplier might each need a relationship manager for large, high-value, complex or high-risk contracts. Relationship managers are responsible for:  
  - encouraging an atmosphere of trust, openness and clear communication and an attitude based on working together and shared objectives  
  - proactively looking for ways to improve the relationship and ensure stakeholders feel involved  
  - establishing and managing an effective communication framework between all stakeholders  
  - ensuring, where possible, that communications at all levels are peer to peer  
  - managing the resolution of disputes – resolving ‘soft’ tensions between agency and supplier, and ‘managing upwards’ to ensure senior management are informed about issues before they escalate and can intervene as appropriate  
  - establishing regular reporting procedures (formal and informal)  
  - organising forums, seminars, training and other information-sharing activities. | |
| **Service or product users** | Stakeholders and end-users of services are responsible for:  
  - monitoring the quality of service from a customer perspective  
  - reporting incidents, problems and issues promptly and accurately as they arise  
  - participating in any contract review. | |