THEORETICAL DESCRIPTION OF REVIEW CONTRACT DOCUMENTS

Florina-Cristina FILIP

Transilvania University of Brasov, Romania

Abstract. The aim of this paper is to describe the process of review contract documents to ensure that their contents are properly checked and are signed when they are free of ambiguities and unreasonable risks. During the review, all requirements (contract content and applicable documents) must be taken into account and the relevant technical departments called in to carry out assessments where appropriate. Accepted requirements must be introduced to the company's organization. The specialist scope applies to all customer requirements, contract documents and standards, which are not processed and released as part of a project.

1. Introduction

The multi-functionality of contracts has been acknowledged for a long time but receives increasing attention. Three research methods are commonly applied to understand the multi-functionality of contracts: survey research, longitudinal case studies and meta-study analysis [1]. Studies of how firms proceed from stage-to-stage as contractual relationships evolve dynamically are scarce and represent a gap in the literature. This is true particularly in the case of supply chain contracting, where most studies fail to acknowledge the dynamic nature of supply chain operations and the subsequent need for contracts to evolve over time and as circumstance change. What is needed is additional process-based research that shows how firms can adjust contracts on an ongoing basis; in particular, how firms evolve from less complete to more complete forms of contractual arrangement and from more formal to more informal forms of effective governance [2].

A contract can be defined as "an agreement between two parties under which one party promises to do something for the other in return for a consideration . . . which places obligations on both parties to fulfill their part of the agreement". Contracts are used to provide incentives to coordinate companies, in the absence of an ability to exert direct control over supply parties. Traditionally, most contracts in the have been dealing with purchasing volumes and risk sharing. Contracts could be designed in different spirits of formulation. The desire of many parties involved in contractual agreements is to have flexibility in the terms of the contract. Contracts should be clear and simple to stimulate good management. Contracts are also supposed to be fair, transparent and created to stimulate teamwork [3].

The use of contracts in business relationships has long been the lifeblood of a business, as the contracts provide the terms, pricing, and service levels of customer, partner and/or supplier relationships. Contracts provide a framework by which an organization manages and mitigates risk in its supplier relationships. As a result, contracts have become the living breathing documents that control the dynamics of everyday business in an ever increasing fashion.

Contract management requires the systematic management of contract creation, execution, compliance and analysis to maximize performance and minimize risk. With the increase in the complexity of doing business coupled with the increase in transaction volumes and value in an ever tightening regulatory framework has resulted in businesses taking note of the importance of proper management of contracts with their suppliers. Most organizations manage their contracts through a decentralized, paper based approach using ad hoc spreadsheets or databases. This exposes the enterprise to significant risk [4].

Contracts and services agreements are essential business tools for professional trading and business relationships. Without clearly defined and agreed contracts, misunderstandings can develop, expectations of client and provider (customer and supplier) fail to match, and all sorts of problems can occur. While the tradition and spirit of shaking hands on a verbal deal between two friends in business is helpful in underpinning a good trading relationship, it is sensible for significant supply arrangements to documented and agreed, usually by signatures.

Aside from the process of clearly agreeing and understanding the expectations between supplier and client, contracts or agreements also help if one

or both of the original deal-makers one day move on, which can then give other people the problem of how to make sense of what might or might not have been agreed between the two parties. Formal signed agreements or contracts are also useful, and can be essential, for when service problems or failures occur, or for when the customer's or client's requirements change one way or another. Proper contracts and agreements provide an essential reference point upon which to discuss and negotiate effective outcomes whenever situations change, in terms of the client's requirements and the provider's capability. Suppliers and customers are each extremely vulnerable to expensive and distracting disputes if there is no written agreement to refer to when and if necessary [5].

Contract time is the maximum time allowed for completion of all work described in the contract documents. An accurate forecast of contract time is important to all concerned parties and is crucial to contract administration because the predicted duration and associated cost form the basis for budgeting, planning, monitoring and even litigation purposes. Excessive contract time is costly, extends the construction crew's exposure to traffic, increases risks of the contractor and the owner, and prolongs inconvenience to the public. Insufficient contract time because higher bids overrun of contract time, increased claims, substandard performance, and safety issues [6].

2. Receiving and recording contract documents

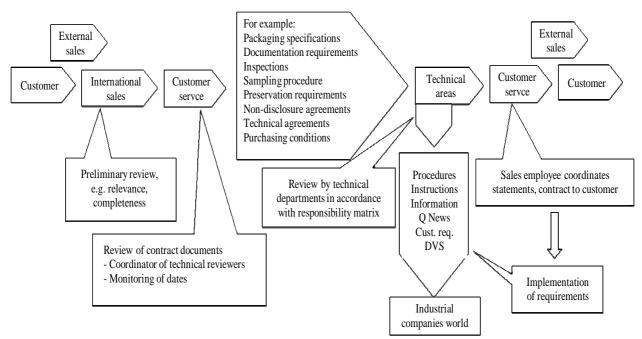Sales employees have overall responsibility for a process (GV).

Figure 1. Responsibility matrices

All contract documents received by an industrial company must be allocated to the relevant category (type of contract document) by means of the "responsibility matrices" and consequently to the sales department defined as having "overall responsibility". If contract documents are received by departments which are not responsible for processing them, they must ensure that the documents are forwarded to the department which is named as having "overall responsibility" in the relevant responsibility matrix, e.g. internal sales. This department will then forward the documents to all of the departments marked "R" and "S"

(responsible and support) in the corresponding matrices.

2.1. Department with overall responsibility "GV"

The department with overall responsibility must record the contract documents in the "contract documents" database and assign them to the relevant customer. Where possible, the contract documents should be stored locally in the department with overall responsibility until the database is introduced. The required data are logged and entered in the database via an entry mask. This

process is regulated by compulsory fields and special rights in the system, as is the modification and/or deletion of data.

The following information must be entered when logging the data:
- date received/logged;
- customer;
- customer's plant/site;
- customer's department (where specified);
- name of customer contact (where specified);
- version/issue;
- contract number;
- contract category.

In addition to logging the data, the department with overall responsibility is also responsible for introducing the checking process (workflow) to the departments responsible for carrying out the review "R" and the supporting technical departments (marked "S" in the matrix), notifying all of the departments designated "I" in the responsibility matrices, coordinating and sending out a statement to the customer via external sales, updating the contract documents in the database. The department named as having overall responsibility uses a time plan to monitor and document the progress of the process/assessment.

2.2. Receipt in the subsidiaries and regional offices

Contract documents received by subsidiaries and/or regional offices should undergo an initial review (examination of content and requirements). The subsidiary and/or regional office will then decide, on the basis of the review and with input from other technical areas, whether the contract documents apply to the industrial companies. The subsidiary and/or regional office must always forward the contract documents to the department defined as having "overall responsibility" in the "responsibility matrices" for logging in the central database.

Where possible, the contract documents should be stored locally until the database is introduced. Logging the documents centrally prevents repeat and multiple reviews of the same documents from being carried out by other departments in a company.

2.3. Review of the contract documents by the responsible departments ("R")

When the documents are being reviewed by the responsible departments (R), it is necessary to establish whether a previous version of the contract documents already exists for the respective customer.

If such a document exists, this should be taken into account when reviewing the new contract documents and included in the new database if not already recorded. If a contract has already been concluded for this issue date, no further review is required.

Customer/legal requirements are identified and compared with the applicable internal requirements. Any changes which need to be made in respect of the company are identified and assessed. This process is defined locally within the responsible departments (R). If the requirements are accepted, the responsible department (R) must make plans to introduce them and implement them accordingly. If at this point, the decision has already been made to reject the contract, the procedure described in section "rejection of the contract" is followed. The customer is informed of the respective decision by the department defined as having overall responsibility, with input from the relevant external sales personnel.

2.4. Confidentiality requirement

If specific parts of the contract documents are subject to special confidentiality requirements, this must be taken into account and the documents concerned protected by means of controlled access rights in the database. For example, this would apply if a division of an industrial company is in competition with the customer to whom the contract document applies.

2.5. Input from the supporting technical departments ("S")

Depending on the content of the contract, various supporting technical departments will need to assess parts of the contract. The supporting technical departments (S – Support) for the individual contract types are specified in the "responsibility matrices". Other departments can also be consulted about the assessment at any time if the requirements of the contract documents deem this to be necessary. The supporting technical departments (S) are responsible for carrying out specific assessments of the content, issuing written statements on their subject area and feeding information back to the requisitioning department "GV" or "R".

2.6. Clarification of outstanding points and contract approval

If individual parts of the contract are not adequately explained, the department named as having overall responsibility "GV" must coordinate a further course of action internally, as well as with

Receipt of contract documents by the company → Processing in product

Product development

No → Allocate contract documents (type) and forward to responsible departments (R)

Record contract documents in database (acc. to matrix)

Check for/compare with existing contract documents for his customer

New contract — No → Confirm receipt of contract documents if requested by customer → End

2 ← Yes

Input required for — No → 1

Yes

Distribute documents to supporting areas (R/S/I) in acc.with matrix; log in database ---- Draw up schedule

Technical areas (R) to check requirements associated with content, legal aspects and company policy (with supplier where necessary); provide statements

Coordinate statements, if required; submit to decision makers ---- Monitor database

Can the contract — No → Notify customer of rejection

Yes

Do contract documents — No → Sign and send to customer → 1

Yes

Send notification proposal for contract documents to customer

Reply received — No → Query necessary/

Yes

Does the customer → Query with customer ← Yes

2 ←

Yes

Sign and send to customer

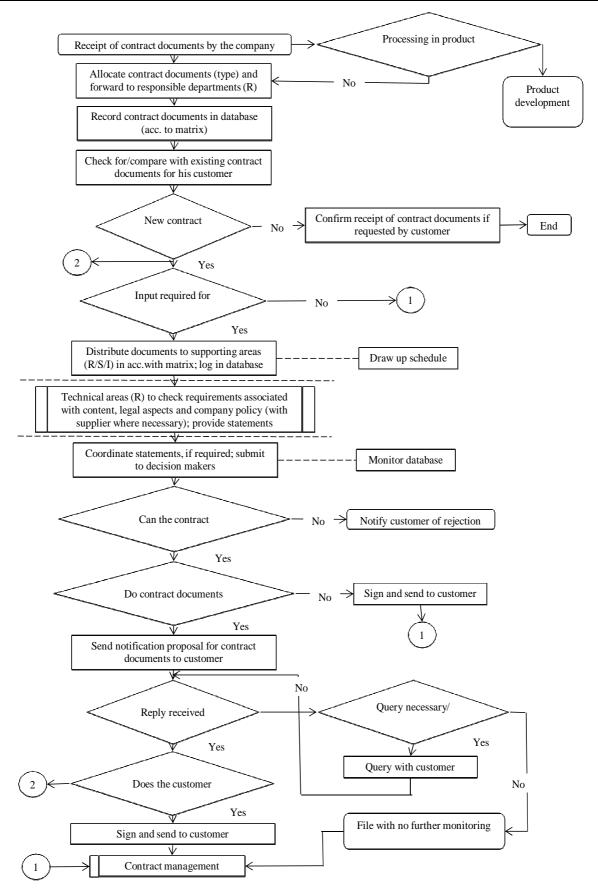No → File with no further monitoring

1 → Contract management ←

Figure 2. Review of contract documents (for receipt of customer enquiry through to replying to customer)

the customer, in agreement with the relevant external sales personnel. This can take the form of meetings, or involve consultation with the relevant technical departments (R and S

Following clarification, the contract is approved by the person responsible for granting approval in accordance with a signature directive. In individual cases, it may not be in the company's interests to sign a contract. In this instance, it is not necessary to push for a signature if this course of action has been agreed with the relevant external sales personnel. The contract can be withheld if the customer has not issued a reminder.

A status is allocated to the contract in the database which reflects the decision.

Contract can be accepted/signed (FR – approved). Contract can be accepted/signed with modifications (FRM – approved with modifications). In the event of additional agreements, it must be clear from the contract that it is only applicable in connection with the additional agreement. Contract cannot be accepted/signed (AU – rejected/invalid).

2.7. Signing of the contract by the customer

In order to conclude the contract, the signed contract must be sent to the customer. If the contract does not bear the customer's signature, the department named as having overall responsibility must request a countersignature.

2.7. Contract changes or additional agreement

If objections, e.g. from the technical departments, mean that the contract cannot be signed without restrictions or modifications, the sales department with overall responsibility must contact the customer in agreement with the relevant external sales personnel. The contract can be signed once any critical issues have been clarified and coordinated. Changes and provisions must be documented, where necessary in the form of an additional agreement.

2.8. Rejection of the contract

If the decision is made to reject the contract or no agreement was reached during the negotiations, the customer must be informed of this in agreement with external sales. Depending on the nature of the contract, justification may be required**.**

3. Documentation

The contract, all applicable documents (and additional agreements where appropriate) and documents pertaining to the contract review process and contract negotiations serve to document the entire process. These documents should be stored in the database or locally, in drives belonging to the department with overall responsibility ("GV"), in the interim.

This must be carried out by the relevant department with overall responsibility ("GV"). When storing documents, all legal regulations, customer-specific regulations and rules governing a company, must be taken into account and the original documents are archived in accordance with local regulations.

If the record of a coordinating discussion with the customer (e.g. visit report) is sent to the customer and no objection is raised, the record is regarded as having been approved by the customer. No formal confirmation is required from the customer.

4. Conclusions

The aim of contract review is to carry out a commercial and technical assessment of the documents provided by the customer to check that they are complete, up-to-date and feasible.

Before entering into a delivery agreement with the customer a contract review is carried out to ensure that:
- the product requirements have been suitably defined and documented (e.g. drawing, specification, design requirements);
- deviating requirements are clarified prior to submitting the quotation or closing the contract (e. g. drawing deviations, drawing modifications made by the customer, delivery dates, price);
- the defined requirements can be met (he quotation is prepared following a cross-functional manufacturing feasibility analysis).

The contracts may be all contract documents in accordance with the matrices which are aimed at delivering a product or providing a customer with a service, or are directly or indirectly linked to such processes (agreements, instructions, legal requirements etc.). The customer may be an authority or an institution whose agreements, instructions or legal requirements make up a direct or indirect part of a contract.

The customer's requirements must be known and understood in full. Any missing or inadequate information should be obtained where necessary, with input from the "GV" departments and in agreement with the relevant external sales personnel.

A concluded contract is a prerequisite for contract management. The requirements agreed in the contract are introduced and implemented within the company, by the responsible department ("R"), my means of contract management.

All of the relevant technical departments must be notified and the documents made available where necessary. Any specified non-disclosure or confidentiality agreements must be taken into account.

Documents which have not been concluded or are still in progress must be marked "rejected" or "in progress" as appropriate so that they can be identified by all departments involved.

In cases where only sections of the contract documents have been coordinated and concluded, these must be identified by "sections valid" in the system.

Acknowledgement

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