

## **A Study on Factors Affecting Contract Management in Construction Industry**

S. Kanchana<sup>1</sup>, V. Niranjana<sup>2</sup>, G. Arun Karthick<sup>3</sup>

<sup>1</sup>(Associate Professor, Department of Civil Engineering, RVS Technical Campus  
Coimbatore, TamilNadu, India)

<sup>2</sup>(Assistant Professor, Department of Civil Engineering, RVS Technical Campus  
Coimbatore, TamilNadu, India)

<sup>3</sup>(M.E. Student, Department of Civil Engineering, RVS Technical Campus  
Coimbatore, TamilNadu, India)

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**Abstract:** Contract management is the process undertaken to maintain integrity of the contract and ensure that the roles and responsibilities contractually demarcated are fully understood and carried out to contracted standard. Construction industry is a most complicated industry which is constantly facing uncertainties. The salient features of any contract including delivery schedule, quality specifications, regulations and standards are to be monitored by a good contract management team. The recommendation and ideas suggested by researches on contract management aspects are discussed in the article.

**Keywords:** contract management, management team, contract terms, risk management, performance indicators

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### **I. INTRODUCTION**

In India, construction industry is the second largest industry providing employment next to agriculture. But, the performance record of successful implementation of infrastructure projects has not been encouraging in accomplishing projects or intended requirements. Construction is one of the businesses where high level of risk is involved during contractor's fulfillment of their contractual obligations [1]. Effective contract management lies in assessing contractor's performance through safe, timely delivery of their duties. Profitability, support compliance and risk management can be improved by effective contract management. Construction companies should give higher priority to contract management to overcome risky and dangerous operating environments [2]. A well established and mature contract management process can generate great deal in additional savings [3]. Poor operational control, low customer satisfaction, high risk and unwanted costs are the drawbacks of inefficient contract management [4, 5]. This article discusses the various aspects involved in contract management.

### **II. VARIABLES INFLUENCING CONTRACT MANAGEMENT**

There are lots of variables that can influence contract management either directly or indirectly. Activities related to project deliverables, risk management, contractors selection, CM team competence and purchasing-supplier relationships can directly influence contractors management. Contract management plan, contract specifications, key performance indicators and performance outcomes are other variables influencing contract management.

### **III. NECESSITY OF CONTRACT MANAGEMENT**

Contract management procedures of their own are followed by almost all the organizations, but still shortfalls in fulfilling contractual obligations at prescribed time and acceptable level of quality are prevalent [6]. In spite of existence of contract management procedures incidents indicating lack of proper contract management are happening here and there. This necessitates an increasing demand for better contract management through application of effective contract management measures.

Any contract arrangement cannot guarantee a problem free project execution; instead it is the quality of people, management system of the company and contractors who are the real and best guarantors of success. Many research studies revealed that in spite of availability of well documented contract management procedure, some contractors are performing to the agreed levels [7].

### **IV. PERFORMANCE INDICATORS OF CONTRACT MANAGEMENT**

Contractor's performance management includes the following areas: health, security safety and environment, operations, quality, delivery, payment, receipt, expediting and inspection. The term contractor's performance means the accomplishment of contractor's contractual obligations in terms of compliance to

contracts requirements, cost effectiveness and HST performance. The contracts requirements include delivery schedule, quality specifications, regulations and standards. Key performance indicators are used to track and evaluate the contractors performance in compliance with the contract requirements. For performance indicators to be effective, they need to be SMART, specific, measurable, attainable, relevant, Time bounded. The exact performance indicators will vary according to the contract specifications, the level of risk associated with contract failure by the supplier, and the value of the procurement. Performance measurement is all about measuring the right things at the right time for the right people. It is about quality of the measures and not about the quantity [8].

## **V. CONTRACT MANAGEMENT**

Contract management is the process of systematically and efficiently managing contract creation, execution, and analysis for the purpose of maximizing financial operational performance and minimizing risks. Contract management is the process that ensures that all parties to a contract fully meet their obligations, in order to satisfy the operational objectives of the contract and the strategic business goals of the customer. It also involves building good relationship between company and contractor. A key element of contract management include contract communication and contract administration, managing performance, relationship management and contract renewal or termination.

Contract management refers six areas namely contract management team roles and responsibility, risk management, specification preparation, contractor selection, key performance indicators and relationship management. It provides the activities which have direct influence in terms of monitoring contractor's performance to deliver the project contract safely in time and within budget.

Five determinants of effective contract management are apportioning of resources, clear reporting lines, defining of roles and responsibilities, ensuring timely payments, and managing risks. Effectiveness of contract management should make sure the following are in place.

1. Recruit staff with relevant skills.
2. Provide training to address skill gap.
3. Have monitoring plans or checklists in place.
4. Ensure all staff understood their responsibilities in relation to performance management.
5. Establish and maintain a sound relationship with the contractor.
6. Hold regular meeting with the contractor to discuss progress and any problem.
7. Identify any problem at early stage.
8. Make payments only for satisfactory performance.
9. Review the need to end the contract for any breaches of conditions or non-performance.
10. Seek advice on when a contract variation is necessary.

It was found that contract life cycle management is an effective tool to manage risks, compliance and change.

The relationship between contractors monitoring and performance of national road infrastructure projects and the relationship between contractor monitoring components and performance of national road infrastructure projects was assessed in Uganda and suggested that if the contract monitoring components are well managed, there is a very high possibility of business success and effective service delivery [9, 10]. Relational contracting approaches have become more popular in recent years, and have appeared in common forms such as partnering, alliancing and relationship management contracts.

## **VI. CONCLUSION**

Effective contract management has emerged as a crucial function to improve profitability, support compliance and manage risk. It becomes necessary that the contracting activities should be management by a procurement team as inefficient management leads to customer un-satisfaction and unwanted cost overruns. Frequent reviews on contract management procedures and necessary improvements can bring out the benefits of contract management. The article discussed the various reasons contributions made and their relevant findings

which can be considered as useful source of information to enhance contract management system.

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