



Middle East Technical University (METU) of Ankara
Presentation to the Energy Commission

CONTRACT ADMINISTRATION

What are we talking about?

Typical contents

Organizational models

Professional profiles

External consultants

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WHAT ARE WE TALKING ABOUT?

What is it?

- It is nothing but the rationalization and organization of a number of activities that have always been performed, even though they were not known as «Contract Administration»
- It allows a more efficient and focused management of administrative aspects of a contract
- It covers all fields connected with economic and financial aspects of a contract

About its birth

- It was first introduced by Contractors
- Different perception of the monetary risks of a contract between Owner and Contractors
- In the origin, it was mostly confined to claims and litigations
- Afterwards, management of all administrative aspects
- Things that had always been done, little by little start entering the Contract Administration area

WHAT ARE WE TALKING ABOUT?

How is it evolving?

- Most large contractors avail themselves of this technique
- Anglo-saxon operators (Owners) have introduced it longtime ago
- Mediterranean operators and contractors are introducing it
- More and more often, external resources (Contract Management Consultants) are utilized
- In the current economic situation, margins tend to shrink, exposing contractors to higher risks of cost overrun. Hence higher and higher importance of a tight control on economic aspects of a contract

WHAT ARE WE TALKING ABOUT?

What are its advantages?

- Bring “value for money”;
- Ensure that we will only pay for what we get;
- Minimize Variations and Claims;
- Balance Cost / Time / Quality;
- Ensure recovery of eligible costs;
- Ensure compliance with prescriptions – Contract and Authorities;
- Ensure that processes are traceable and auditable;
- Avoid wrong or fraudulent contract reporting.



TYPICAL CONTENTS

Main areas in which Contract Administration supports Project Managers:

Contract Management	Business Interface Management	Change Management	Claim Management
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TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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- Contract interpretations
- Contract summaries
- Contract amendments, revisions
- Briefings to the Project Team
- Prepare letters / take action on «hot» issues

... in any case, never replace the competencies of the Project Manager and his/her team.
JUST SUPPORT

TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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Manage interfaces with company functions outside of the Project Team, like:

- Legal department contract amendments, interpretations
- Financial department Letters of credit, bank guarantees, etc
- Accounting department invoicing procedure, status
- Insurance department insurance claims, policies T's&C's, validity
- Human resource department local conditions
- Local entities customs, social security

... once again, just support, not replacement of corporate functions

TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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A Change Order (or Variation Order, or V.O.) is any modification to scope and/or quality and/or execution scheme, which modifies time schedule and/or cost and/or responsibility, without altering the nature of the Contract

Generally requested by the Client

Variation Orders vs Contract Amendments

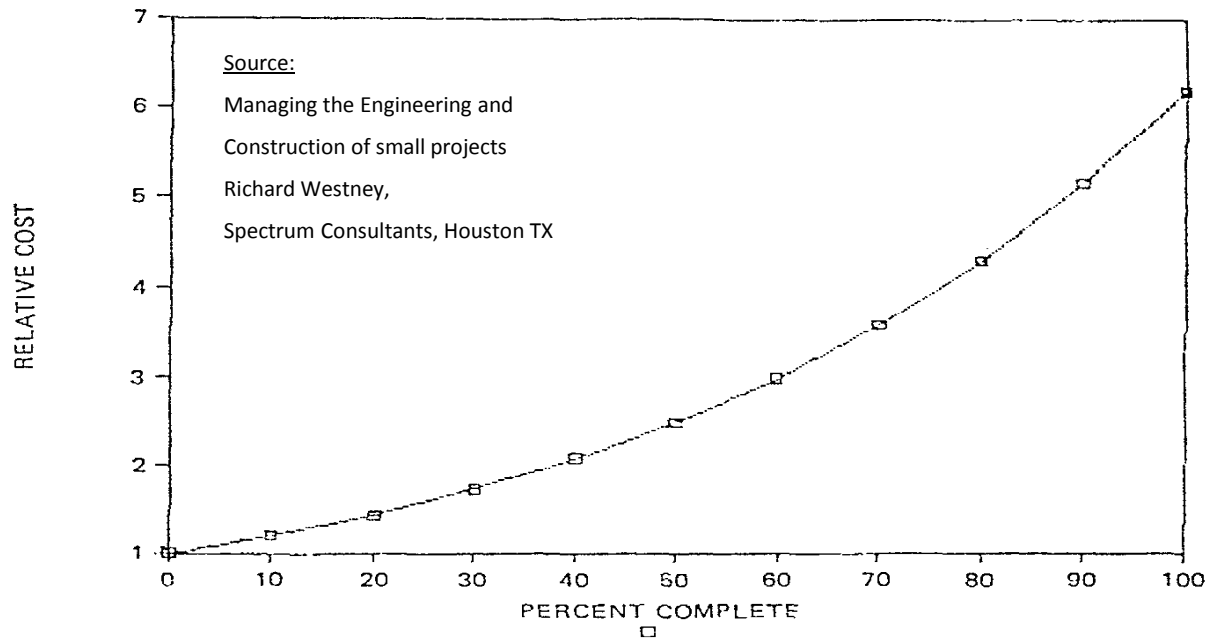
Variation Orders – role of Contract Administrators

- Contractual interpretation - is it a V.O. or not?
- Produce opinions, position papers
- Support Project team in the description and quantification of the V.O.
- Support Project Manager in the discussion of the V.O.
- Keep V.O. log, identify whether approved, rejected, withdrawn, cancelled or on HOLD

TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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Disruption effect – aggregate impact of Variation Orders



TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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A claim occurs when one of the contract parties believes that an action of the other party has caused alterations to the contractual picture, entitling the first party to compensation

Anticipate claims – identify areas of potential claims (active or passive)

Importance of contract analysis and Contract Handover

Claim and claim defence

Claims vs clients and vs suppliers/sub-contractors. For an EPC Contractor, BOTH...

Prepare claims – Contract Administrator co-operates with and supports the Project Team

TYPICAL CONTENTS

Contract Management	Business Interface Management	Change Management	Claim Management
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Manage claims – conflicting interests of both parties, also for the definition time

Conclusion of complex claims is often postponed to the end of the contract – pro's and con's

Claims can end up in litigation, arbitration, court cases

Company senior management is generally involved – economic and «polytical» aspects

External «claim consultants» are used more and more often

ORGANIZATIONAL MODELS

Usually, Contract Administration is an organized department in the company, providing functional supervision, continuity and professional update

This Unit renders its services to Projects in a different way for:

- Complex Projects
- Intermediate complexity Projects
- Simple Projects

«Complex» and «Simple» refer to a set of factors, such as economic size, financing scheme, number of parties involved

Based on complexity, Contract Administration services can be rendered through:

- Personnel dedicated to the Project Team on full time basis
- Project team personnel sharing Contract Administration responsibilities
- External services
- On call personnel

PROFESSIONAL PROFILES

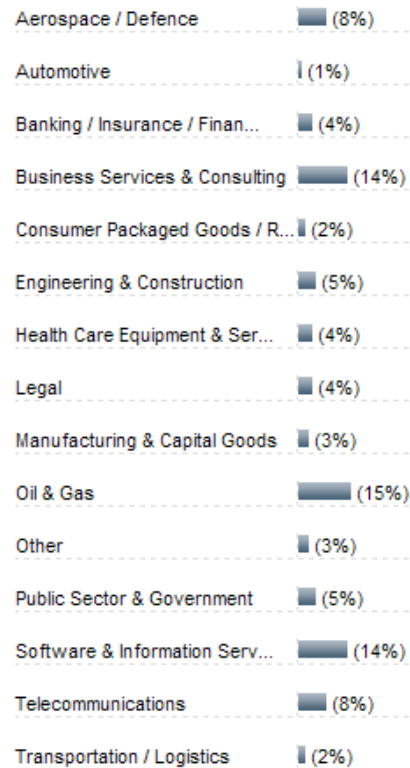


International Association for Contract & Commercial Management

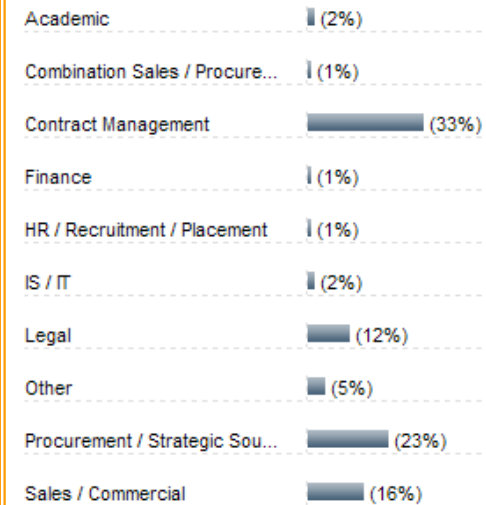
Who We Are:

- »» 19542 members worldwide
- »» An extended network of 8488 corporations from 129 countries
- »» Members include around half of the Global 500
- »» Offices in Europe and North America
- »» Representatives worldwide

BY INDUSTRY



BY FUNCTION/ROLE



EXTERNAL CONSULTANTS

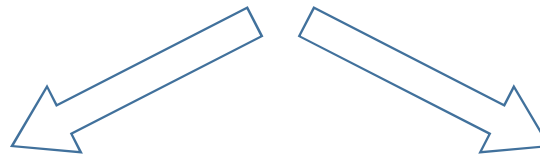
Every contract has elements that can be managed at clerical level, while others require experienced Contract Manager

At the onset of a Project, we can determine the level of anticipated contract management requirements

High profile individuals are often required to manage contracts with potentially high level of conflictiveness

Should we use internal resources to manage this kind of contracts, or make use of external contractors?

Advantages of using external resources (Contract Management Consultant)



Short term advantages

- Readily available
- Specific competencies
- Relatively high costs but only as long as needed

Medium / long term advantages

- Coach internal resources
- Create relationship

EXTERNAL CONSULTANTS

Some contract management aspects require recourse to a lawyer (usually a law firm, and usually for claims). In these cases, somebody needs to bridge with project management culture

This «somebody» is the Contract Management Consultant

Consultants on the market often have the profile of a «legal engineer»

Who is a «legal engineer»?

- With an engineer, he speaks as a lawyer
- With a lawyer, he speaks as an engineer
- With both he provides a bridge and a synthesis
- He does something that neither an engineer nor a lawyer can do

Where does he/she come from?

- Project management background
- Contract management experience
- Commercial experience

These characteristics cannot be improvised

Questions are welcome

Teşekkür