

Effective Contract Management and your Bottom Line

Corporate senior management has been aware for some time of the impact of increasing regulatory and corporate governance requirements on the operation of their organisations. In answer to this, CEOs require sophisticated management reporting and controls to ensure they can meet corporate governance requirements, provide answers for their shareholders, and be seen to be adding value to their organisation.

No longer restricted to the domain of the annual report, CEO's and senior management rely on Balanced Scorecard or Executive Dashboard approaches to ensure that organisational objectives remain on track. In the case of the Balanced Scorecard Managing Hendry approach, organisational objectives are impacted by the identification of Critical Success Factors, which in turn are impacted by the performance of *lead key performance indicators, or KPI's.

In the meantime, many building owners are looking beyond capital gains and leasing income, to realising additional income from the provision of value-added services for their tenants. These services also require more sophisticated reporting and controls to ensure these returns are maximised. These reporting and control measures again drill down to the utilisation of such things as Service Level Agreements, and KPI's.

In addition to this, recent legislation requiring accountability from building owners and CEO's regarding essential safety measure compliance has had a major impact on the property and facilities management sector, and places greater emphasis on the use of effective and efficient reporting and controls. Since many organisations choose to outsource their maintenance and essential safety measure compliance obligations, contractual arrangements and the KPI's listed within them become increasingly significant.

Much study has therefore been devoted to the development of meaningful contracts that utilise KPI's as a means of stating required outcomes that are attuned, ultimately, to organisational objectives. In the contract development process, KPI's are chosen because of their ability to impact positively or adversely on these objectives, and these contracts usually provide incentives for desired results, and punitive measures for failure to meet specified performance targets. These KPI's include essential safety measures, since these definitely impact adversely or positively, on organisational objectives.

However, just how effective are these contracts and the compliance KPI's contained within them, if there is no real resolve for senior or middle management to measure them?

[* Lead key performance indicators are those events happening in the present that will impact on an organisations performance. Lag indicators on the other hand, provide only historical data. A monthly report for example, is a lag indicator.]

My staff have come across many instances of missed essential safety measure testing or maintenance calls, and we suspect that this might be because the contractor effectively controls the paperwork.

We find instances where the contractors sign the essential safety measure reports and maintenance contracts, knowing that the organisation does not have the management

resources to provide effective controls over the enforceability of KPI's. The punitive measures that would theoretically be utilised in ensuring the desired contractor performance results do not happen, and the contractor is paid for work that is not done.

In these instances we find that while it might be efficient to develop a contract that states all the relevant requirements and identifies the KPI's, it is not in itself an effective means of ensuring compliance. In short, we find that effective contracts are those that are enforceable.

Some smaller organisations do this by maintaining their own spreadsheet or paper-based system of reporting and controls which they have to reconcile with the contractors records, but many find these systems quickly become unworkable when the property portfolio extends beyond one or two buildings.

My staff are exposed to our clients outsourced maintenance control systems/ products/ solutions on a daily basis. In the main nearly all are labour intensive and do not confirm that the job is done. These solutions, in the long term are unsustainable and they do not close the loop and protect the client.

We find that our clients need a system that:

- ensures these KPI's are being met
- monitors the efficiency and effectiveness of service delivery, provides the documentation necessary to verify it.
- and effectively brings the document ownership and control back to the client, not the contractor.

In relation to this, we have noticed a significant number of our clients requesting us to fall in line with a new system they have commissioned, called Verified.

Verified provides an overlay over existing systems, that produces electronic media from the written word. This liberates the information so that it can be measured and managed. This effectively removes the client's reliance on the maintenance service provider's documents as a means of processing information.

The information is then made instantly available via the Verified website; including an actual image of the original test sheet. Business rules can be applied to provide automatic notifications and alerts should items fail to comply.

Implementation of Verified has demonstrated an increase in compliance across many maintenance processes such as fire safety measures, testing and tagging of leads, security, general site management reporting and many other paper-based reporting processes, since the delivery process becomes transparent.

Just as important, the Verified system provides contract KPI enforceability, and gives control of the documentation process back to the client. The building owner and CEO not only have the documentation proof of compliance they need, management can utilise an additional option called Verified Dashboard to monitor contractor performance. Clients appear to value this option because it ensures they do not pay for services not performed.

It is tools like these that ensure transparency and accuracy up and down the management chain, and assist in breaking down the information silos inherent in many organisations. They provide an excellent management tool, since they offer a vital link in the loop of defining goals - developing the plan - selling it to the stakeholders -executing the plan - and review, as they provide the feed-back necessary to further redefine the goals.

And finally, CEO's and building owners can rest assured that the contracts that govern the outsourcing of their compliance obligations are effectively managed, because they have a system that ensures the contracts are enforceable, with documented evidence to prove it.