



Mitigating Risk and Recognizing Cost Savings through Contract Compliance Management

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Consistent and timely enterprise-wide monitoring of terms and conditions in contractual agreements can help companies avoid liabilities, realize cost savings, and improve trading partner relationships.

Overview

The demand for effective solutions to deal with the increasing number of agreements that organizations maintain, as well as the growing complexity of contracts, has risen dramatically over the last few years. Mounting contract volume and intricacy, coupled with intense regulatory pressure to shore up corporate governance, have resulted in vast concerns regarding contract compliance, as well as the adoption of technology to help monitor and manage compliance issues.

A contract is the cornerstone to any business transaction. It represents a binding relationship between contracting entities; defining the terms and conditions for the products and services provided. Still today the majority of organizations continue to manage contracts using primarily manual processes resulting in great inefficiency and contract visibility problems. Recent estimates have shown that over 80% of organizations report that locating a contract is difficult. The *invisible* contract can have several detrimental effects on an organization, including missed savings opportunities and diminished negotiation leverage, along with potential cost, risk, and liability due to non-compliance.

It is not surprising therefore that, in an Aberdeen study, supply chain professionals rated the tracking and enforcement of contract compliance as the most challenging aspects of the contract management process. The ability to track and ensure or enforce compliance both internally with employees and externally with suppliers ranked among the most difficult contract management activities.

Employing contract management solutions can enhance visibility and control over contractual agreements as well as provide the ability to monitor compliance on an enterprise-wide basis. To be effective, Aberdeen Group also identified three key areas of compliance that organizations must enforce: Operational Compliance, Supplier Compliance, and Regulatory Compliance.

Operational Compliance

The process of contract management, until recently, has been largely manual and paper-based; resulting in enormous discrepancies in terms and conditions from one contract to another – creating a nightmare for contract managers to monitor performance and ensure compliance. In order to successfully achieve operational compliance, and minimize unnecessary costs and undue risks, enterprises must make certain that employees abide by internal policies and stated business objectives.

Companies are taking advantage of UpsideContract's flexible template-based contract authoring structure to control and ensure that standard clauses, terms and conditions are

UpsideContract provides visibility and controls necessary for contractual compliance

In today's business environment, organizations are constantly under the gun to comply with internal and external requirements. Even so, most organizations still lack the necessary tools to effectively monitor and manage compliance properly.

UpsideContract provides the fundamental tools to enforce the three key types of contract compliance:

Operational Compliance

UpsideContract ensures internal personnel comply with corporate policies and standards regarding contract creation, negotiation and commitments.

Supplier Compliance

An extensive alert and notification system in UpsideContract ensures that suppliers comply with the terms of a contract, including items such as maintenance schedules and volume purchase discounts.

Regulatory Compliance

UpsideContract addresses key themes as set out in legislation such as the Sarbanes-Oxley Act by improving contract visibility, providing mechanisms for immediate notification of risk events, and offering flexible and comprehensive reporting capabilities.

contained within specific contracts thereby guaranteeing that agreements comply with internal policies. In addition, UpsideContract's comprehensive workflow engine takes an organization's existing business rules to define and determine the appropriate internal controls for contract creation, review and approval.

With UpsideContract, organizations are able to enforce the necessary internal controls to minimize cost and risk by:

- Consistently using the latest terms and conditions in every new contract,
- Ensuring the correct terms and conditions are used with each different contract type,
- Requiring appropriate reviews and approvals to any changes to terms and conditions, and
- Applying specific Compliance Items to be used as approval conditions that must be met prior to the contract being approved and issued.

Supplier Compliance

Organizations must ensure that suppliers honor the pricing, discount structure, and service level agreements agreed to in a contract.

Ensuring contract compliance requires straightforward and flexible access to accurate information. Visibility into contract terms, conditions, and rates help shrink "contract leakage", however, organizations must continue to monitor compliance by integrating contract management solutions with transactional systems.

With UpsideContract, organizations can enforce compliance between transactional systems and supplier contracts thereby assuring adherence to pricing set out in the contract. UpsideContract facilitates the comparison of the actual transaction results against the terms and conditions of a contract to determine if the transaction conducted is compliant with the original intent of the contract. Variances can be immediately reported and notifications sent to the appropriate stakeholders.

Regulatory Compliance

More than ever, organizations face strong demands to comply with new standards of corporate governance. The tremendous impact that legislation has had – particularly in the United States with the Sarbanes-Oxley Act – is evidenced by the growing number of corporations who have either already implemented or are currently evaluating contract management solutions.

Solutions like UpsideContract have given organizations an effective tool to ensure compliance with both government and industry-specific regulations aimed at increasing corporate accountability and disclosure. UpsideContract allows organizations to establish mechanisms to automatically identify, evaluate, track, manage, and report on risk events, drivers, and impacts.

For example, a major transportation company, concerned with the risk and liability associated with insufficient or out-of-date insurance policies used the compliance capabilities within UpsideContract to link to an independent company that would validate insurance policies as well as notify them of any changes to policies that affected established contracts held by the company. By automating the process, they were able to immediately realize a time and cost savings that led to a complete return on investment (ROI) in only 62 days.

Conclusion

Managing and monitoring contract compliance is an essential requirement for businesses to mitigate risk and eliminate unnecessary costs. A single contract not in compliance with any aspect of a government or industry regulation can lead to severe financial penalties for the offending organization. Effective compliance monitoring with contract management solutions like UpsideContract can help stop "maverick" buying, pricing errors, evergreen renewals, milestone slippage and penalties, and regulatory non-compliance. Having the proper tool to support the compliance process helps companies meet internal organizational objectives and stringent regulatory requirements.

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