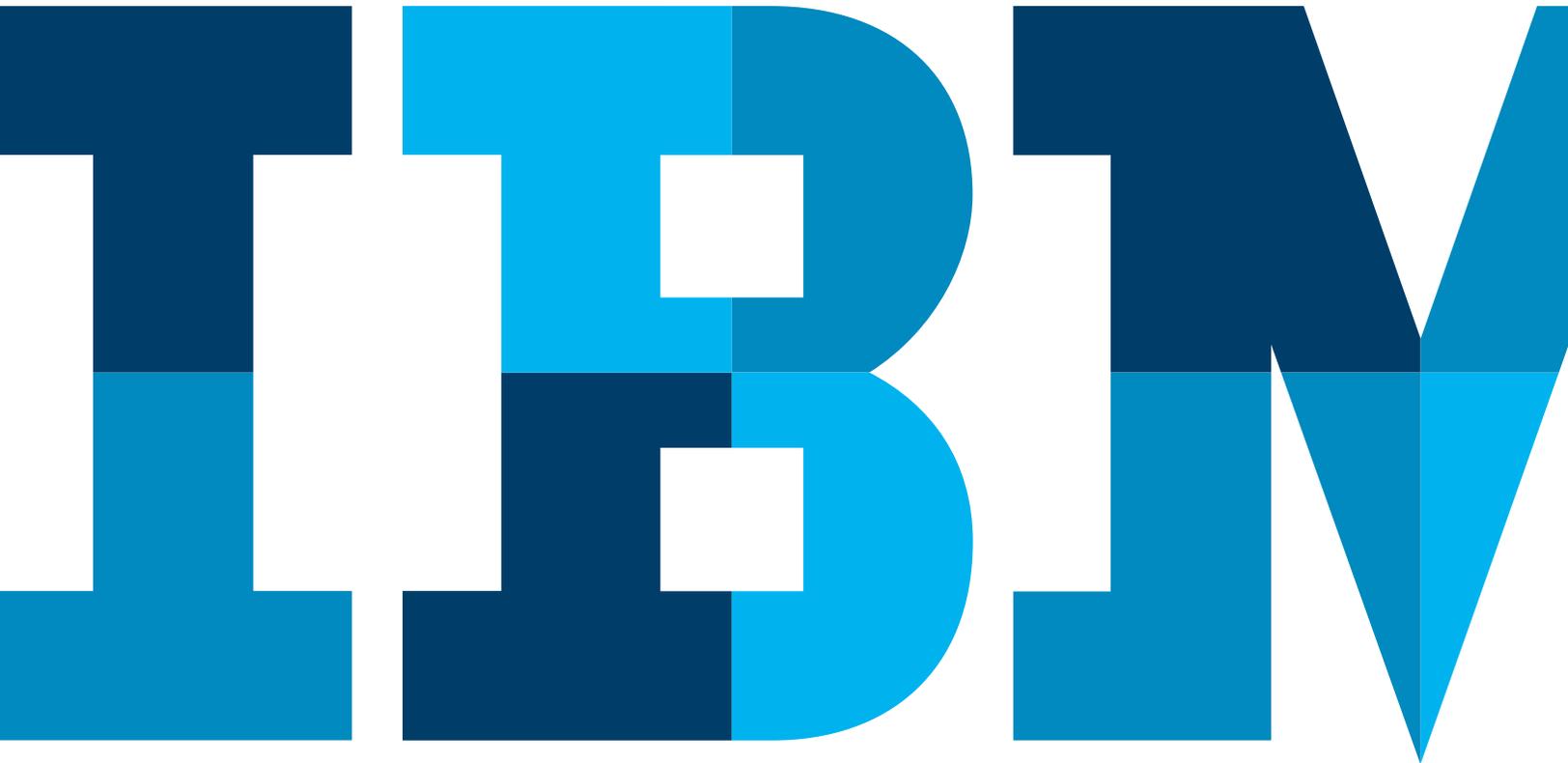


# Contract management's effect on in-house counsel



Internal legal organizations are not growing or having their budgets expanded at the same pace as the increased demand on their organizations and business. Many legal teams at global companies are effectively being asked to do more with the same or less.

They are being called on to manage a higher workload and deliver faster reviews and contracting, while at the same time facing rising regulatory and compliance demands. Growing legal risks and business pressures, mergers and acquisitions, restructurings and reorganizations also can add a tremendous volume to an already pressing load.

The average Fortune 1000 company can maintain more than 40,000 active contracts, often with obligations that number in the tens of thousands for complicated services agreements. Yet, even today, contracts are often languishing in file cabinets, being managed using manual processes or with very limited technologies. The status-quo “file and forget” approach often leads to:

- Deficient or non-existent contract approvals processes
- Un-auditable contract paper trails
- Poor contract exposure analysis
- Increased legal and financial risk
- Poor contract visibility and control
- Lost savings, profit, and revenue opportunities

To address these issues, a growing number of Global 2000 companies have automated their contract management processes. Achieving greater visibility with a central, electronic contract repository can be a primary reason companies are investing in contract management technologies, followed by a desire to gain greater control over contracts for compliance reasons.

Best-in-class contract management software solutions typically span the various stages of the contract lifecycle, from proposal and contract creation, negotiation, obligations management, and compliance enforcement, through contract amendment, renewal, and ongoing analysis.

## 4 Core Benefits of Contract Management

### 1. Transition from legal advisor to strategic partner

Using technology to leverage the assets and intelligence at the disposal of the legal department, for example the information contained within the contract library and the negotiation acumen of the in-house counsel, to enable legal to transition from being an advisor to becoming a more active, integral part of the enterprise's strategic direction and operations.

### 2. Mitigate risk and enforce compliance

Stopping fiscal, compliance and ethical problems before they happen by getting the contract right the first time — and using the contract management framework to enforce and help facilitate compliance.

### 3. Increase legal productivity

Enabling the efficient creation, negotiation and approval of contracts by automating the process and involving the best legal minds in the enterprise only when necessary.

### 4. Gain 100 percent contract lifecycle visibility

Gaining visibility into what is happening in your active contracts at virtually every stage of the contract lifecycle from the creation, negotiation, and approval process through to tracking milestones and renewals. Knowing the who, what, where, when and how much of every contract and at at virtually every stage of the contract process.

## Dividing Deeper: 4 Core Benefits of Contract Management

### 1. Transition from legal advisor to strategic partner

The legal department should be viewed as a strategic partner in structuring and negotiating deals. In order to facilitate the move from cost center to strategic partner, the legal team has to find ways to streamline and automate those common and sometimes simplistic tasks that used to be achieved through manual processes. Legal also needs all the intelligence held in the active contract library readily available to provide advice to internal stakeholders in aiding the decision making process. In addition, having the right information at the right time is critical to adding value to the enterprise.

Contract management solutions can enable a dynamic view into virtually all of the business' obligations and commitments across the global organization. This enables the authorized stakeholders to view critical contract data in real time without having to expend significant efforts or work through gatekeepers to locate contracts in a filing cabinet or limited tool. At the heart of this visibility is a contract library or repository which provides a complete, current view of virtually all contracts, as well as supporting documentation, amendments and sub-agreements. Best-in-class solutions can enable a single view of prevailing language and terms, even as contracts are amended over time. Contract templates and authoring tools, exception notifications and automation of approvals processes enable legal to create stronger agreements and help facilitate compliance to both internal policy and external rules and regulations. The solutions typically allow for a library of approved terms and conditions, with alerts and approval requirements for modified agreements as well as providing visibility into the contract process bottlenecks.

With enterprise contract management, companies can instantly access information about their contracts and terms, analyze the contracts across specific categories and departments and take an enterprise-wide view to determine trends, analyze exposures and risks, or gain insight into opportunities for savings or to increase revenue. Once an identified trend, either positive or negative, legal counsel can then take affirmative steps to act upon that information. This information empowers legal to focus their time on more strategic activities, rather than wasting time searching for contracts.

### 2. Mitigate risk and enforce compliance

From Sarbanes-Oxley, Securities and Exchange Commission (SEC) and Financial Accounting Standards Board (FASB) rules to internal policies and controls, managing compliance at a global corporation brings significant requirements and challenges. Companies need to focus on three areas of compliance: (1) "State" enacted rules and regulations, (2) internal policies that may not have any connection to specific governable laws, rather business rules the company has set as an internal standard, and (3) the obligations contained with the contract. Many legal departments are severely limited in their compliance efforts due to having a partial view of their risks —and limited visibility into, and control over, contracts.

With contract management software, legal can help facilitate and enforce compliance through automatic notification and approval routing when a suggested contractual provision is out of line with standard language, by providing greater and timelier visibility into exposures and risks and tracking of non-standard language that may expose the company to greater risk, thereby allowing it to mitigate any potential damages by getting ahead of the risk. Many enterprises using contract lifecycle management have observed immediate benefits in their visibility into and identification of financial and legal risks.

Contract management solutions can also enable improved risk assessment and help facilitate compliance by providing instant and more in-depth visibility to contracts and obligations; by providing tools to analyze contracts and identify risks; and by linking contracts and the contract management solution to strategic operational and tactical systems and actions. In addition, contract management solutions can lessen a company's audit and compliance costs.

As many contracts are managed by exception, material events such as delivery dates, contract renewals, vendor obligations, pricing revisions, etc. are not readily evident. This requires legal and other departments to manually manage key deliverables for a contract to help ensure that partners and vendors are delivering on their commitments. Best-in-class contract management technologies provide configurable event triggers based on predefined parameters that are customizable for each contract. Predictive notification to the appropriate stakeholder for key events helps verify that a contract is actively managed and essential deadlines and deliverables are not missed. With tight integration to enterprise systems, contract management solutions can help ensure that financial and order management systems are in-line with contract terms and conditions. Supply and contract management solution suite providers, such as IBM, have pre-built integrations with spend, sourcing, supplier performance management and compliance solutions. These integrations can help ensure that the terms negotiated with customers and trading partners during the contract process are realized after the contract is executed.

Contract management solutions can speed and simplify the audit, investigation and reporting process for legal, helping ensure successful transfer of information the first time and virtually every time. The solutions can eliminate the need for legal to search through mountains of e-mails and notes to create an audit trail for approvals, etc.

### **3. Increase legal productivity**

By automating, reusing standard language and gaining greater control over the contracting process, companies can significantly reduce risk and better enforce corporate standards and advantages.

With authoring and negotiation tools, best-in-class contracts management solutions permit professionals to work in Microsoft Word to create contracts from pre-approved clause and term libraries, yet still enforce pre-determined templates, language, terms and approvals. This enables legal departments to work with familiar technology while still helping ensure that corporate standards and approvals are followed.

Too often, legal personnel create unique provisions which do not create additional legal protection for the corporation leading to multiple variations on the same provision. These variations not only delay the contract review process, but also make knowledge transfer very difficult. When companies go through the exercise of selecting and adhering to standard and alternative clauses they are able to move through the negotiation process much more quickly but also empower consistent knowledge to be transferred to new employees.

Control over primary and alternate clause usage can reduce the opportunity for frontline field or other unauthorized personnel to create rogue contracts that do not conform to company business and legal standards. Deviations to approved templates and terms can be flagged and contract approvals rerouted for appropriate legal or management review. With contract management solutions, corporate and legal executives can establish defined, finite control over who can create, modify and approve contractual agreements, thereby helping eliminate the need for legal to review contracts that are developed with standard language. This control helps enable creation of stronger contracts and reduction of risk associated with

undesirable terms and conditions. Legal can accelerate its review and approval of contracts without sacrificing quality, specifically by routing contracts for certain levels of legal review based on defined conditions or exceptions. For example, a major biotech company uses such technology to automatically receive and route contract requests for less strategic matters to paralegals. By applying this type of strategic processing, the company was able to alleviate the demand on their attorneys' time by more than 25 percent, equating to significant cost savings.

#### **4. Gain 100 percent contract lifecycle visibility**

Contract management solutions can enable the creation of stronger contracts, not only by enforcing compliance to approved policies, terms and language, but also by using the intelligence and analysis of contracts across the organization. The more a company improves its ability to manage and enhance business terms at virtually every stage of the contract lifecycle, the more it can transform contracting into a strategic competence. Leading contract management solutions provide advanced functionality, such as workflow, alerts and reporting, that help to proactively review contracts; as well as executive dashboards and custom reports to generate operational information for continuous improvement. This enables legal to view contracts at a more strategic level to find improvement opportunities whenever they need to occur, even if it is a currently active contract.

Having visibility into active contracts is extremely important if a mass change becomes necessary due to events like regulatory change, M&A activity, reorganization, etc. When an agreement needs to be amended, having the functionality that allows for automatic mass changes and distribution saves countless hours and dollars as well as reduces the risk that something was missed.

Contract management solutions can enable stronger processes and negotiation. Having detailed supplier, customer or partner performance information linked to the contracts can enable more advantageous negotiations during renewals. With a contract management solution's analytical capabilities, legal and contracting professionals can better measure cycle times and evaluate productivity; assess contract risk levels across the organization and amend or eliminate sub-optimal contracts. Legal can also leverage policy pop-up capabilities within a contract management solution to educate the business user as to why specific language will not be accepted or may require senior level approval. This allows the business user to conduct stronger negotiation on the front end rather than routing an unacceptable agreement to legal for review.

Contract automation helps to ensure that virtually all stakeholders to the contract process — including legal, finance, sales, and procurement — have visibility into and control over the contract both during negotiation and after execution. The legal department is able to remove themselves from tactical activities such as locating contracts or approving standard language, and can focus on more strategic activities such as reviewing negotiated terms that fall outside of preapproved language and uncovering other bottlenecks or risks in the process.

## Conclusion

Contracts are an integral part of the way every business operates and achieves its business objectives. Understanding what is happening at each stage of the contract lifecycle is also integral to effective contract, compliance and business management.

Contract management solutions helps the in-house counsel proactively streamline and control virtually every aspect of the contracting process. The legal team can help ensure the way their enterprise interacts with other enterprises and is as efficient as possible making the company easier to do business with. This efficiency can also mean an increase in the productivity of overstretched counsel and paralegals.

Contract management solutions are designed to help enable the enforcement of standards for operational and regulatory compliance that mitigates risk within contracts. By not opening loopholes or overexposing the company, it can potentially reduce the amount of money spent on costly litigation by getting the contracts right the first time.

One of the most important aspects of managing contracts by using a robust industry-leading solution is that the in-house counsel can focus on legal priorities and stop spending hours reviewing standard contracts and enforcing or rewriting the same standard clauses time and time again because there is no mechanism to help ensure its automatic inclusion.

In summary, contract management solutions can help enable legal departments to significantly reduce their reliance on paper, gain greater visibility and control over their contracting processes, significantly reduce risks and deliver even stronger agreements and more effective contracting and compliance for the business. In an automated contract management environment, legal can add more value to the business by becoming more involved in strategic decision making and matters.

## **IBM Emptoris Contract Management**

IBM® Emptoris® Contract Management covers all stages of the contract lifecycle from creation, execution and discovery through renewals, renegotiation, performance monitoring and analysis. The software enables companies to actively manage all types of contracts, including enterprise, procurement and sales contracts. IBM Emptoris Contract Management helps to:

- Transform your enterprise contract management processes to create stronger contracts, gain global contract visibility and optimize legal and contracting resources.
- Improve supplier relationships, actively drive compliance and mitigate risks for your procurement organization.
- Automate sales contract management processes to expedite time to closure, optimize revenue and improve customer relationships.



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