

Policy-Centric Control in the Contract Management Process

THE CONTRACT LIFE-CYCLE MANAGEMENT (CLM) MARKET has evolved over the last 30 years. In fact, one may view it as a growth from rudimentary contract document editing to content management, and to the inclusion of full life-cycle management.

The recent focus has been to define the overall business process encompassing contracts and implement this process with the aid of technology—beyond word processing and storage frameworks. With this process-centric view, buyers in the public and private sectors have been seeking applications to help their business organize their procedures, track their approvals, and



manage their contract repositories. However, this trend is, interestingly enough, developing beyond a process-centric perspective. Buyers in the market are now embracing the desire for technology to help them manage and enforce their business policies. CLM buyers have become policy-centric.

What is the difference between process-centric and policy-centric? To understand this difference, it might be best to first understand the contract evolutionary picture; that is, over time how technology has addressed the business needs around contract creation and administration. Figure 1 on page 26 demonstrates the evolutionary picture as different periods of evolution, each period defined by having certain characteristics.

The Creation Period First, there was a need to simply help a business create a contract—to write it down on paper. Early on, contracts were hand-written. The tool of choice was a pen, a writing implement to permanently mark obligations between two or more parties. This was time-consuming, and reproducing copies was laborious and error-prone. Then the typewriter was invented, improving read-ability and making it easier to reproduce copies with the aid of the mimeograph. With the advent of computers becoming business tools, word processing applications provided a way for contracts to be created and saved. Editing contracts became much easier. Formats and styles were designed to better structure contracts. Locating existing contracts and formats, implementing business policy, and productivity was frustrating, difficult, and time-consuming.

The Organization Period Once contracts had an easier way to be created, the business need became



A policy-centric solution guarantees the correct policy is enforced. In fact, and more importantly, it is the policy statements that dictate which process to follow to begin with.

one of organization. File management systems provided a way for businesses to organize contracts into storage groups, directories, and folders. Yet, with this, a need developed to address the problem of locating a contract once it was stored on a floppy disk or one of the many storage directories. Content management systems then surfaced to meet this need, providing a way to associate attributes with each contract so that one could locate all contracts that have a given set of

key attributes, for example. Many of today's businesses find themselves still struggling through this period. While contract location issues eased somewhat, problems remained with implementing business policy and productivity. A new issue started to surface as well—tracking terms across multiple contracts.

The Processing Period In recent years, a business need has developed for technology to help in the overall process involving the creation, organization, negotiation, approval, signing, and execution of a contract. This process-centric view includes needs for better visibility into the contracting process, better standardization of procedures and content, improved collaboration among the employees involved, and improved quality in customer relationship, risk management, and audit discovery. Contract life-cycle management technologies grew to meet this need by delivering capabilities to define processes. Businesses achieved better visibility into contracting operations and they now had a vehicle to standardize their procedures and track-related activities. By centralizing these operations, employees can better collaborate and monitor the details. Several CLM vendors provide process-centric solutions. Most do so by delivering a fixed process and associated set of data items that once implemented provide answers to business needs, so long as the business follows the process procedures established by the CLM vendor. The better CLM vendors determined that businesses should be able to establish their own process with their own data terminology, and not be bound by fixed contract terms and procedures. As such, they provide solutions that are more agile to better adapt to the true needs, by allowing a way for businesses to employ process improvement techniques on their contracting process, change their process when a change is warranted, and allow a business to grow with the solution and the solution to grow with the business. Contract location issues continue to be solved, and productivity metrics improve by putting in place standard, repeatable contracting processes. However, implementing business policy, and ensuring such policy is followed, continues to plague solutions in this period.

The Controlling Period The market has entered the “controlling” period of evolutionary need. Businesses with defined processes are realizing that these processes and procedures are implementing business policy. This is an important addition in perspective. Not only are businesses concerned about following a prescribed process, the one that is defined by operational standards, they also understand that policy governs how these processes should proceed. Businesses want technology to help them implement policy and implement how that policy must govern the process, its detailed steps, the associated approvals, and the correct contract type being produced.

The implications of this policy-centric perspective is that CLM vendors need to develop technology that allows for policy definition, not simply process definition; policy integration in process definition in data capture and in contract creation. So now let's look at answers to the question, "What are the differences between process-centric and policy-centric CLM solutions?"

A process-centric view states that data needs to be collected. Typically, a human needs to "make sure" that the correct data is collected, resulting in potential re-work and quality errors. A policy-centric view guarantees that the correct data is collected at the correct time in the process, and this data is used to determine which business policies now apply.

A process-centric view states that approvals are required. Typically, a human determines to whom an approval request should be sent. However, this too is error-prone, as occasionally evidenced by the wrong level of

approval being granted and not discovered until after the contract is executed. A policy-centric view guarantees that the correct level of approval is obtained at the correct point in the process, because this view executes business policy.

A process-centric view states that a contract needs to be created at some point in time. Typically, a human would obtain a contract template for what he or she thinks is the correct contract type; and/or would obtain additional clauses and place these

clauses in the template. Manual contract construction is a flawed approach because business policies are inconsistently followed, and there are issues in clause and contract quality and versions. A policy-centric view states that the correct type of contract is created containing the correct clauses in the correct document location and which clauses are required given the situation at hand; for example, making sure a specific clause is included or not included in a contract with the prescribed approval in place.

Summarizing, a process-centric CLM solution helps to

make sure a process is executed correctly. A policy-centric CLM solution makes sure business policies and processes are executed correctly. Have you ever been faced with the question, "Okay, I have completed my task, what's next?" or "This is a special situation—who needs to approve it?" A solution built around a policy-centric core will evaluate the situation and take the user to the appropriate policy-driven next step, and make sure that appropriate policy-driven approvals are in place before continuing. As such, a policy-centric solution guarantees the correct policy is enforced. In fact, and more importantly, it is the policy statements that dictate which process to follow to begin with. It is straightforward to understand why business needs policy-centric CLM solutions. This level of control is a must for a business trying to completely address the need to improve their overall contracting process. Without technology that delivers policy-centric capabilities, human decision-making remains required for adherence to policy, and therefore, the potential for human error and policy mishaps exist. What specifically does this mean for a CLM solution? Such features go beyond process definition and go well beyond solutions that deliver only a predefined set of rules to be leveraged in a process (such as e-mail notifications or expiration date alerts). A robust policy-centric CLM solution should provide the capability to:

- Define policy rules in the terminology of the business, with the agility to define any combination of rules to be applied when and where such implementation is dictated by policy;
- Integrate policy rules within the process such that the process proceeds down the correct path according to the business policies;
- Integrate policy rules within the process such that the correct data, contract attributes, and negotiated decisions are captured at the correct time and are captured fully and completely;
- Integrate policy rules within the contract creation process to guarantee the correct contract type is created, and the applicable contract content (and only the applicable contract content) is contained therein; and
- Change policy rules when and if corresponding changes to policy occur within the business, and have these policy changes take place without the need for software redeployment or custom software development. Essentially, this capability directly infers that a business can define their own policies within the solution and not be bound by out-of-the-box rules hard-coded into the software.

"This is a special situation—who needs to approve it?" A solution built around a policy-centric core will evaluate the situation and take the user to the appropriate policy-driven next step, and make sure that appropriate policy-driven approvals are in place before continuing.

The Fulfillment Period A future period of evolution presents a vision in which the technology directly fulfills the established policies and carries out all contracting activities without the need for human intervention, unless human intervention is warranted. With the technology of policy management and rule-driven controls put in place by the controlling period of evolution, it is not a stretch to envision such policies and rules to be at the core of an expert system; expert in both contracting process and contract documentation creation. One could say we are at the beginning of this evolutionary period in the contracting process, at least from a technology perspective. Total contract fulfillment is achieved during this period of evolution.

- Imagine a concept of operation dealing with “sell-side” contracts, where a sales department representative logs in to a contract expert system. An initial set of questions is asked, and based on the answers, the contract expert system performs certain activities, asks more questions, obtains the necessary approvals, and builds the appropriate contract from clauses stored in a clause library.
- Imagine the contract expert system implementing business policy perfectly, with no error in execution. If a specific clause is required for a situation, then the clause is included in the contract at its correct location, automatically.

- Imagine a legal staff not being troubled with “standard” contracts, thus having time to use their skills more effectively on only the more tedious, out-of-the-normal-policy contracts. The contract expert system also would be able to use nonstandard clauses in a contract build, defined as clauses that deal with concessions, discount levels, service levels, and other situations that are not a part of a standard contract build, but are clauses that have approved language and are selected usually through negotiation based on the characteristics and terms of the contract. And if special approvals are required, the contract expert system will obtain approval before inserting the clause into the contract build.

Conclusion Business needs are shifting from process-centric CLM solutions to policy-centric solutions. This shift may be debatable, but it is logical given an appreciation in how contract activities and their supporting technology have evolved over the years. The shift to policy-centric solutions is just one step in the overall contracting evolution. The characteristics of the shift have been born from a need to ensure business policy is followed and policy management is in place. More than process management, policy-centric solutions ensure the right process is followed at the right time. ■■■

ABOUT CLM MATRIX

CLM Matrix is the market leader in Contract Lifecycle Management (CLM) software solutions on Microsoft Office and SharePoint technology platforms. Our solution extends the functionality of traditional contract management software by adding features such as:

- Rule-based document creation
- Clause libraries
- Policy-based approval workflow

- Automated reminders and alerts
- Real time user defined reporting
- Integration with legacy enterprise software
- Contract compliance tracking
- Multi-language capabilities
- Support for global environments
- Fully configurable to specific process and document types without code (wizard driven)



To learn more about CLM Matrix and our award winning software solutions, please visit clmmatrix.com or contact us directly at 1.800.961.6534.
