

# Contract and Procurement Management Lecture # 1

## Introduction to Contract and Procurement Processes

by

**Dr. Muhammad Waris Ali Khan**  
Faculty of Industrial Management  
[waris@ump.edu.my](mailto:waris@ump.edu.my)

# Chapter Description

- **Aims**
  - The aim of this chapter is to develop the basic understanding with the procurement and contract management processes.
- **Expected Outcomes**
  - Common terms used in Contract and Procurement
  - Contract and Procurement activity
  - PMBOK procurement management processes
  - Contract Life Cycle
  - Project Manager's role in Contract and Procurement processes
- **Other related Information**
  - Study Guide: Project Management Body of Knowledge (PMBOK)
- **References**
  - Ashworth, Allan. Contractual procedures in the construction industry. Pearson Prentice Hall 2006.
  - Broome, Jon. Procurement routes for partnering: a practical guide. Thomas Telford, 2002.
  - Bockrath, Joseph T. Contracts and the legal environment for engineers and architects. McGraw-Hill Science, 2000.



# Content #1

- What is procurement?
- Why need for outsourcing?
- What is contract?
- Project procurement management
- PMBOK procurement management processes
- Role in the contract life cycle



# WHAT IS PROCUREMENT?



# WHAT IS PROCUREMENT?

- **Procurement** is the process of attaining goods, supplies and/or services from a source external to the procuring organization.
- Additional terms may include purchasing, outsourcing/ subcontracting.



# WHY NEED FOR OUTSOURCING?

- To cut down buying/ownership and operational expense
- To allow the procuring organization to emphasis more on its main endeavors
- To acquire new expertise and machineries
- To provide multiple technical and commercial options
- To have convenient access to the newest technology
- To transfer accountability and lability to the other party

# WHAT IS CONTRACT?



# WHAT IS CONTRACT?

- A contract is a legal and formal settlement of an agreement between the offeror and the offeree under which both of the entities are obliged to perform their responsibilities as stated in the agreed terms and conditions. Failure to do so by either party will come under breach of contract.



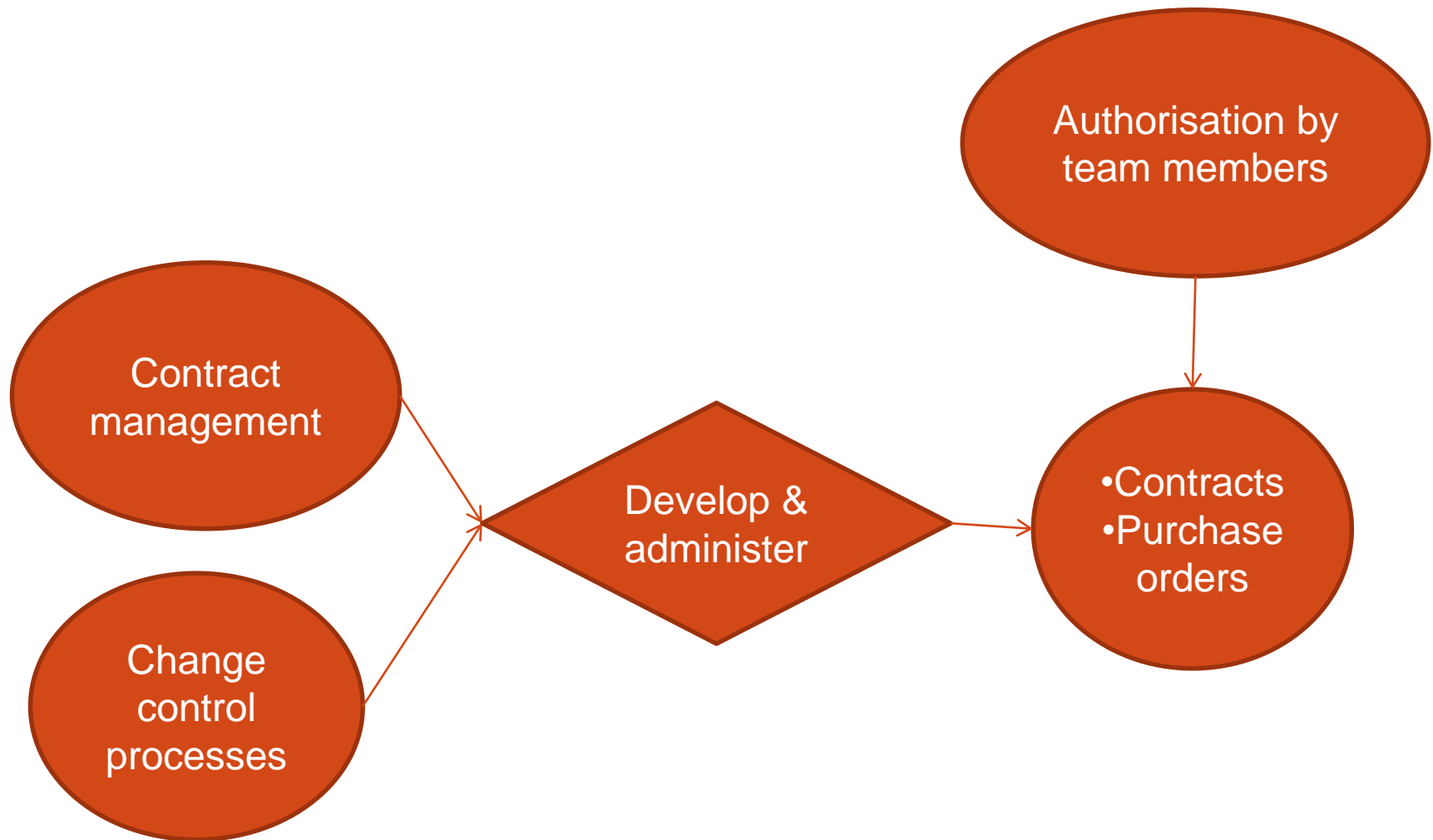
# WHAT IS CONTRACT?

- A Contracts as a risk management tool
- Legal obligation to fulfil/perform
- Enforced through the courts

# PROJECT PROCUREMENT MANAGEMENT

- Project Procurement Management include procedures necessary to acquire supply/goods and services. Due to its strategic importance, it is a customary practice that all organizations formulate stringent polices for acquisition as it is directly concerned with productivity and profitability. It includes many financing options and alternatives methods.

# PROJECT PROCUREMENT MANAGEMENT



# PMBOK PROCUREMENT MANAGEMENT PROCESSES

1. **Plan Procurements**
2. **Conduct Procurements**
3. **Administer Procurement**
4. **Close Procurements**

# PMBOK PROCUREMENT MANAGEMENT PROCESSES

## Planning

Process: **Plan purchases and acquisitions**

Outputs: Procurement management plan, contract statement of work (SOW), make-or-buy decisions, requested changes to the project

Process: **Plan contracting**

Outputs: Procurement documents (i.e., RFP, evaluation criteria, updates to the contract SOW)

## Executing

Process: **Request seller responses**

Outputs: Qualified sellers list, procurement document package, proposals

Process: **Select sellers**

Outputs: Selected sellers, contracts, contract management plan, resource availability information, updates to the procurement management plan, requested changes

## Monitoring and Controlling

Process: **Administer the contract**

Outputs: Contract documentation, requested changes, recommended corrective actions, updates to organizational process assets and the project management plan

## Closing

Process: **Contract closure**

Outputs: Closed contracts, updates to organizational process assets

Project Start

Project Finish

# ROLES IN THE CONTRACT LIFE CYCLE

- Effective contract and procurement management ensures customer satisfaction and contractor profit
- Serves customers by providing them with a controlled effective job and good communications
- Establishes clear expectations of both parties
- Anticipates and handles disputes as they arise
- Ensures compensation for the deliverables achieved.

# Conclusion of The Chapter

- **Conclusion #1**
  - Procurement process involves the procedures necessary to acquire goods & services.
- **Conclusion #2**
  - Contract is a formal document or agreement that defines the working relationship between the client and the contractor



# Author Information

## Other relevant information (if any)

#author may apply your own creativity and innovation where it is appropriate