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# Contract Dynamics: A Comprehensive Exploration of Contract Cycle Management

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## ABSTRACT

*This article provides a comprehensive exploration of contract cycle management, detailing the nature of contracts and smart contracts, role of contract management professional, as well as the processes and importance of effective contract management. Contract management is a systematic process that optimizes an organization's performance and reduces financial risk. In today's business environment, effective contract management is crucial for cost reduction and productivity enhancement. A Contract Management System (CMS) automates repetitive tasks, streamlining the contract lifecycle from drafting to execution. This reduces administrative costs, enhances workflow productivity, and minimizes noncompliance risk through automated reminders and compliance checks. A robust CMS ensures no deadlines are missed and all contracts are accessible and organized, protecting the organization from legal and financial repercussions. Contract management involves several key steps, including contract drafting, contract vetting, contract abstraction, contract summarization, and auditing and reporting tools. These tools help ensure legal enforceability, reduce errors, and protect the organization's interests.*

**Keywords:** *Contract Lifecycle Management, Smart Contracts, Contract Management System, Risk Mitigation*

## I. WHAT ARE CONTRACTS AND SMART CONTRACTS?

**Contracts as per Indian Contract Act, 1872:** According to Section 2(h) of the Act, an agreement which is enforceable by law is a contract. Thus, the following elements make up a legally binding contract:

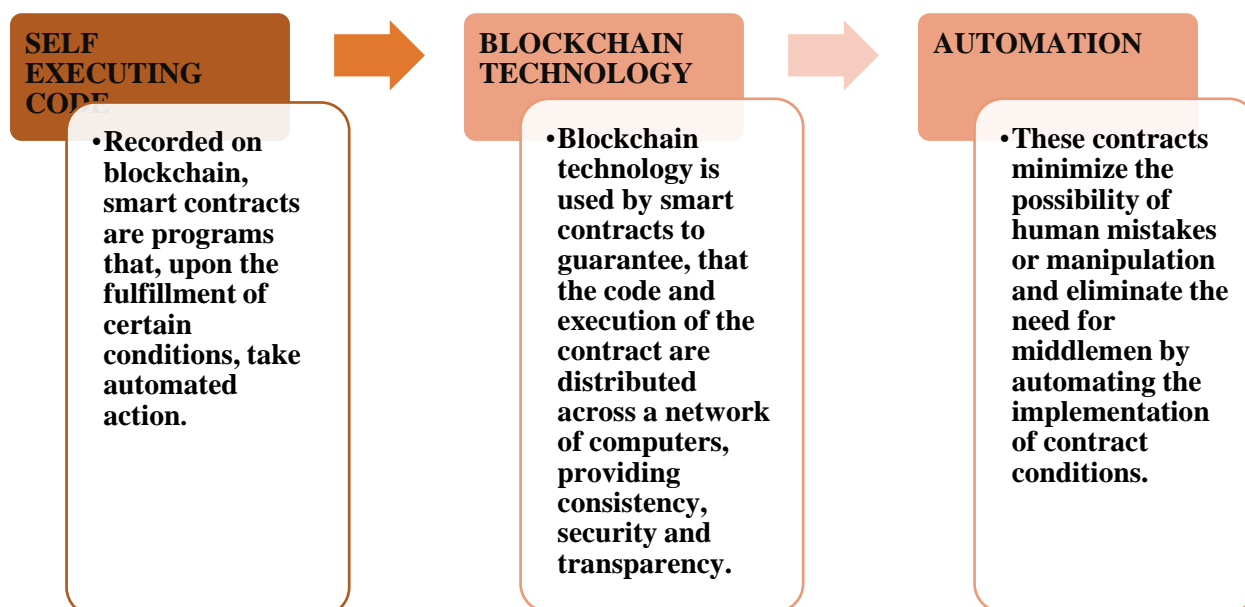
- 1. Proposal and Acceptance:** A proposal, often referred to as an offer, made by one party (the promisor) and accepted by the other (the promisee) constitute the initial milestone in the formation of a contract.
- 2. Promise:** A proposal, when accepted, becomes a promise, as defined by Section 2(b) of the Indian Contract Act, 1872.

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3. **Consideration:** For the promise to create legal relations and obligations, it must be founded and supported by consideration. Consideration is something of value given in return for the promise. As per Section 2(d) of the Indian Contract Act, consideration is defined as when, at the desire of the promisor, the promisee or any other person has done or abstained from doing, or promises to do or abstain from doing, something. Such an act or abstinence is called consideration for the promise.
4. **Agreement:** Section 2(e) of the Indian Contract Act emphasizes that an agreement arises from the mutual exchange of promises forming consideration for each other. However, for an agreement to form a contract, it must meet the additional criteria outlined in Section 10 of the Act, including free consent of parties competent to contract, lawful consideration, lawful object, and not being declared void by law<sup>2</sup>.
5. **Enforceability:** Not all agreements are contracts. For an agreement to be a contract, it must be enforceable by law, as provided in Section 2(h) of the Indian Contract Act.

**Smart Contracts:** A smart contract is a piece of software that is kept on a blockchain, its code fixes the terms and circumstances of the parties' agreement, and "if/when —, then —" logic statements are used to carry it out. For instance, "when product A is delivered, then payment is made." The contract will run and the agreement will be carried out after these requirements are satisfied. Smart contracts, to put it briefly, are self-governing, blockchain-based agreements with logic coding. Smart contracts can eliminate the need for middlemen by automatically executing on pre-programmed sets of criteria<sup>3</sup>.



<sup>2</sup> The Indian Contract Act, 1872, § 10, No. 9, Acts of Parliament, 1872 (India).

<sup>3</sup> LEGAL ZOOM, <https://www.legalzoom.com/articles/what-are-smart-contracts-and-how-are-they-regulated-and-enforced> (last visited on June 19, 2024).

Since smart contracts are frequently stored on and protected by blockchain, they have numerous benefits over traditional contracts, including lower transaction risk, lower administration and service costs, and increased business process efficiency. It is anticipated that smart contracts would provide a better solution than the current transaction mechanism in this respect for a range of organizations<sup>4</sup>.

## II. WHAT IS CONTRACT MANAGEMENT?

The practice of managing a contract's creation, execution, and analysis to optimize an organization's financial and operational performance while lowering financial risk is known as contract management. Companies are under more and more pressure than ever to cut expenses and boost productivity. Since managing contracts takes a lot of time in the business world, an efficient and automated method is required<sup>5</sup>. In simple terms, contract management is the process of Systematically and efficiently managing all essential aspects of contracts —creation, execution and analysis —to enhance the operational as well as financial performance while minimizing risk. It entails a series of stages, from the initial request for creating a contract to its development, execution and ultimately its renewal or termination.

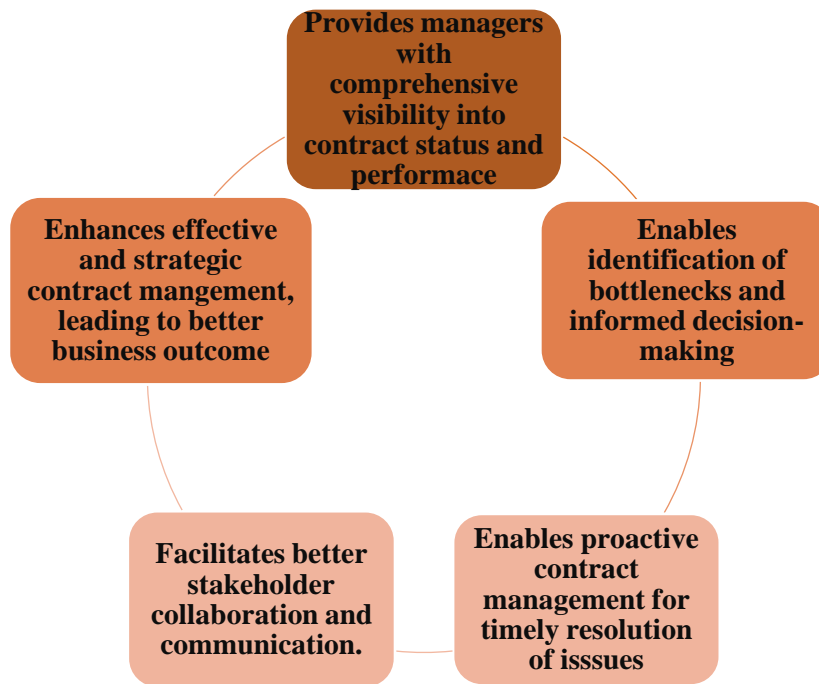
## III. CONTRACT MANAGEMENT SYSTEM AND ITS IMPORTANCE:

1. Contract formation, tracking, and monitoring are just a few of the repetitive operations that a Contract Management System (CMS) automates to expedite the contract lifecycle from drafting to execution. Employees may concentrate on strategic tasks as a result of the decreased time and effort needed for contract administration.
2. In order to minimize administrative costs and increase workflow productivity, automated reminders for important dates and milestones make sure that no deadlines are missed. By offering a single location for all contracts, a CMS also helps reduce risk by guaranteeing accessibility and organization. Automated compliance checks and renewal or expiration warnings further mitigate the risk of noncompliance and associated financial penalties, protecting the company from any legal and financial ramifications.

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<sup>4</sup> Hamed Taherdoost, *Smart Contracts in Blockchain Technology: A critical Review*, 14 MDPI 3 (2023).

<sup>5</sup> Bennett Conlin, *What is Contract Management*, BUSINESS NEWS DAILY (June 20, 2024, 12:27 am), <https://www.businessnewsdaily.com/4813-contract-management.html>.



Contract management is crucial since it aids businesses in risk reduction, compliance assurance, and the management of their legal responsibilities. Businesses may save time and money by doing away with manual procedures when they use a robust contract management system. A smart contract management system minimizes mistakes, increases accuracy, and establishes distinct lines of accountability by automating the whole contract lifecycle<sup>6</sup>.

#### IV. STEPS INVOLVED IN CONTRACT MANAGEMENT

1. **Contract Drafting:** Streamlines the drafting process, reduces errors, and ensures all necessary terms and conditions are included. When a client hires a lawyer to draft a contract, the implicit requirement of the engagement is that the lawyer will draft an enforceable contract that will reliably protect the client's interests if something goes wrong<sup>7</sup>. This tool helps in creating legally binding agreements. It provides templates and standard clauses to ensure consistency and compliance with legal standards.
2. **Contract Vetting:** This tool identifies and mitigates potential risks, ensures contracts are legally sound and protects the organization from unfavorable terms. Reviews and analyzes contracts to ensure accuracy, completeness, and compliance with laws and policies.
3. **Contract Abstraction:** This tool extracts keys terms and clauses from contracts, summarizing important information for easy reference and analysis. It facilitates quick

<sup>6</sup> OBOLOO, <https://oboloo.com/blog/what-are-contract-management-systems-and-why-is-it-important/> (last visited on June 20, 2024).

<sup>7</sup> AMERICAN BAR, <https://www.americanbar.org/content/dam/aba-cms-dotorg/products/inv/book/358622998/Contract%20Drafting%20Sample.pdf> (last visited on June 20, 2024).

access to critical information, improves efficiency in contract review processes, and aids in compliance and risk management<sup>8</sup>.

4. **Contract Summarization:** Similar to contract abstraction, summarization involves creating concise summaries of contracts, highlighting the main points, obligations, and deadlines.
5. **Auditing and Reporting:** This tool monitors and audits contract performance and compliance. It generates reports on various metrics, such as contract fulfillment, compliance status, and financial impact. It Ensures ongoing compliance with contractual obligations, identifies areas for improvement, and provides data for informed decision-making.

## **V. ROLE AND SKILLS OF A CONTRACT MANAGEMENT PROFESSIONAL**

Since they are in charge of a contract's whole lifespan, contract managers are vital members of a company. Creating contracts that fairly represent the interests of the company and all parties involved in a clear, succinct, and legally sound manner is their responsibility. In conversations to establish agreements that satisfy the interests of all parties involved, they also function as mediators in negotiations. Examining terms and conditions, risk mitigation, and compliance monitoring are ways for a contract manager to spot potential problems. For legal reasons, they have to make sure contracts follow industry rules, regulatory requirements, and corporate guidelines<sup>9</sup>.

1. For contract managers, teamwork and communication are critical competencies. They cross departmental boundaries, explain the terms of contracts to interested parties, and settle disputes as needed. They must to possess strong legal knowledge, effective negotiating techniques, meticulousness, organizational aptitude, and communication skills. An organization's risk of litigation and contract conflicts is decreased when its members possess legal acumen, which guarantees compliance with both internal and external rules.
2. Achieving a balance where all parties feel their interests are taken into consideration, encouraging efficient communication, and resolving conflicts are all part of good negotiation abilities. In order to design and evaluate contracts, find inconsistencies or possible hazards, and make sure that every aspect is in line with the organization's goals, meticulous attention to detail is essential. Effective management of several contracts,

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<sup>8</sup> GRACIOUS LEGAL SERVICES LLC, <https://www.graciouslegal.com/contract-abstraction-and-summarization/> (last visited on June 20, 2024).

<sup>9</sup> PLEXUS, <https://www.plexus.co/learn/contract-management/contract-owner> (last visited on June 20, 2024).

each with a deadline, and the establishment of organized filing, monitoring, and priority systems all depend on organizational skill.

3. Effective communication is essential to contract management because it means providing information in a way that is understandable to non-contract experts. A well-informed stakeholder must also be able to actively listen and comprehend the concerns of other stakeholders.

## **VI. SUGGESTIONS AND CONCLUSION**

This article concludes with a thorough analysis of contract cycle management and a call for the assessment of contract management techniques that can enhance organizational performance and lower contractual risk. The need for a formalized approach becomes more evident as pressure mounts on organizations to handle their contracts more cost-effectively, especially in the supply chain and procurement departments. Several important advances stand out in this respect, the most sensible of which is to handle such contracts and correspondences through the use of an appropriate Contract Management System (CMS).

In other words, a CMS handles the laborious procedures that are invariably involved in managing contracts from the point of preparation to the point of signature. It is widely acknowledged that companies may reduce contracting procedures and effectively manage workflows by utilizing AI in contract creation and monitoring. However, there is a danger to compliance in terms of timely performance. Other factors include creating reminders for milestones and significant dates, which lowers the likelihood that they will be missed and spares the company the potential legal and financial fallout from missing deadlines.

Legal compliance and contracting accuracy are also increased by using advanced AI-based technologies for efficient contract creation, evaluation, summary, and auditing. These technologies not only simplify contract administration but also help contract management experts recognize risk and perhaps implement practical risk-reduction techniques. Investing in contract managers' training with an emphasis on legal knowledge, negotiating prowess, and communication skills is another option.

Contract management should carry out ongoing process evaluations and suitable process adjustments in response to shifting legal requirements and company needs in the future. Tracking the development of cutting-edge technologies such as blockchain for smart contracts will improve their efficacy and clarity, particularly in sectors involving multi-step transactions. Stated differently, by taking into account industry best practices in contract management, supported by technological tools and the expertise of contract specialists, organizations may

steer clear of common mistakes, control possible risks in contractual agreements, and maximize contract value. This guarantees healthy growth and the creation of a sustained competitive edge for an organization in the face of market volatility, in addition to being advantageous for the prevention of organizational damage.

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