In an industry where the volatile global economy, multi-jurisdictional operations, joint venture projects, and the size and scope of contracts complicate business transactions, energy companies are challenged to make sure their enterprise contract management practices reduce—rather than increase—risks and complexity.

In this collaborative paper, OpenText and PennEnergy look at key industry trends related to contract management. In addition to exploring the critical features of an advanced enterprise contract management solution, the paper sets out the benefits savvy energy companies can realize from their contract management practices, including improved collaboration, operational and regulatory risk mitigation, and ERP integration.
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Foreword

Contract management requires diligence and an eye for detail. The slightest miswording, omission or unintentional suggestion can mean the difference between cooperation and conflict. In the energy industry, where losing the race to the next discovery can mean the end of a company, every stumbling block has the potential to erupt into a financial or logistical nightmare. The complexity of energy projects and ventures mean every contract could affect thousands of livelihoods, or more. An enhanced level of cooperation is a must, and in an industry already facing a major talent crisis, ensuring the right personnel are on the job is more important than ever.

There is a solution. Using the right type of contract management system can ensure the detailed review and thorough diligence that can overcome even the most glaring contractual obstacles. Enterprise level contract management solutions, like the ones offered by OpenText, are simply necessary in today’s world to ensure the most trusting and willing levels of cooperation. From inclusion of all relevant knowledge, to access for all related parties, to checks for consistency and accuracy, only this kind of contract management solution can provide the highest level of security. This ensures when signatures are needed they can be provided with the utmost confidence from all parties. That’s how proper business begins.

HILTON PRICE, PENNEnergy PETROLEUM CONTENT EDITOR

The energy industry continues to evolve, navigating a sea of global transformational changes. At the same time, organizations are adapting, meeting challenges such as increased energy demand, development of alternative and non-conventional energy sources, competition and reduced access to capital. Adding to this potent mix, changes to global regulations, public policy and industry operational models have companies looking for the best ways to manage complexity across the enterprise.

One of the most effective approaches energy companies can take is to maintain strict control over their contractual commitments. They must also carefully manage the impacts those commitments can have on global operations and supply chains—and vice versa. Many factors can affect contract management strategy, but virtually all energy companies must address four critical areas where contract management—or the lack thereof—has significant impact:

• The growing complexity of energy projects, joint ventures and related management issues
• Increased risk and related costs due to multi-party projects governed by further restricting and demanding regulations
• The ongoing talent crisis, which is straining experienced resources and forcing junior resources to undertake management tasks
• The need for enhanced collaboration on energy ventures to mitigate the above factors and improve the contract management model going forward

This paper takes a closer look at these areas and at the types of solutions and feature sets companies should consider to upgrade and enhance their contract management model. Finally, it outlines the benefits energy organizations can anticipate—from improved collaboration, to operational and regulatory risk mitigation, to simple, complete ERP integration—when they implement an advanced contract management solution.

This paper looks at the main challenges this poses for engineers, plant managers, and maintenance workers; outlines key solutions and technologies; and describes the benefits your organization can realize when you extend your EAM system with an enterprise content management (ECM)-based plant asset management solution.

9.15% is the average impact to bottom line performance that results from weaknesses in contract management.¹

Energy Trends and Challenges

Complexity
In the energy industry—probably the most capital intensive, globalized industry there is—project delivery and operations are inherently complex. To meet the rising global demand for energy, projects continue to grow larger, requiring more participants in more regions, with energy exploration and production increasingly undertaken through joint ventures. Capital projects and production also entail complex interfaces between multiple contractors, sub-contractors and work packages. And the scope of these projects and deliverables is constantly changing, as engineering, procurement and construction efforts are often executed simultaneously, requiring continuous reciprocal adaptation.

Given this environment, it’s of little wonder that complexity is one of the most serious challenges to energy industry success and growth—and to managing the contracts that enable those drivers. With the number of players, standards, countries and other variables involved in any given project or production process, how can you track contract performance, value and compliance throughout the life of the project? How do you manage change as contract parameters and timeframes shift? How do you support the dependencies of deliverables between separate work packages and stakeholders?

Organizations dealing constantly with the pressures and vagaries of this rapidly evolving environment require a highly visible, flexible, integrated contract management solution to ensure stakeholder, organization, and vendor-wide alignment of schedule and scope, as well as the ability to track a variety of regional regulatory risk factors.

Risk management
Heightened liability due to potential Health, Safety and Environmental (HSE) non-compliance penalties and public censure has led to a model where risk is contractually distributed and shared among all energy project stakeholders, rather than resting with the owner-operator. This has been brought home in Canada by the Alberta-BC pipeline dispute, with British Columbia insisting that they share in the profits if they are to bear the risks associated, not only with potential pipeline ruptures, but with increased tanker presence and the accompanying possibility of spills along BC’s shores and inlets.

Along with the reputational risk associated with environmental impacts, legal risk remains a serious issue. With recent disasters in the energy sector exposing companies to very costly litigation, there has been greater emphasis on owner-operators sharing risk with EPC contractors, suppliers and field services companies as well. Poor contract management practices directly contribute to legal risk. Shortcomings include the lack of enforceable contract process controls; use of non-standard language, terms and conditions; and the cost and effort required to execute contract-related eDiscovery tasks—finding, collecting, reviewing, culling and logging data—when they are not integrated within a contract management solution.

To mitigate these and other risks, organizations must be able to establish and enforce business rules around the contract process across the enterprise, consistently producing quality, unambiguous, enforceable contracts. Contracts must also be able to adapt to constantly changing regulations, alerting parties to new or revised compliance requirements. Finally, contracts must be understood as strategic documents that align with both business strategy and risk tolerance. All these issues require a contract management solution that delivers maximum visibility into contract terms, deliverables, commitments and liabilities at all levels and for all parties.
The talent crisis

Despite the energy industry’s high demand for skilled contract managers, such specialists are in short supply. As top talent becomes harder to find and retain, companies try to do more with less, and junior employees find themselves tasked more frequently with high-level management duties for which they are not prepared or experienced, including contract preparation.

Moreover, many organizations continue to use multiple, disparate contract management systems and applications, a factor which complicates any lack of contract management experience and can lead to slowdowns, legal disputes, compliance issues and project failure. For example, contracts often lapse and are not renewed on time. This can create a variety of risks, limit your leverage and negotiating power, and possibly cause valuable assets, such as exploration rights or leases on tracts or tenements, to be lost.

Companies need simple, enterprise-wide, integrated solutions to improve efficiencies for overworked contract managers and simplify processes for less experienced employees. Increasing automation levels is also critical as companies strive to do more with less. An automated contract management process can help identify and correct inefficiencies and accelerate contract execution speeds, all while reducing effort, limiting errors and enforcing checks and balances put in place by senior resources.

Collaboration

With globalization and the mounting drive to find and exploit new energy sources, a collaborative, collective approach to project, real property and joint venture management is necessary. This clearly extends to contract management, as do a number of related challenges. Internally, collaborative methods are immediately stonewalled if companies can’t locate contract-related documents that are spread across different departments and functions. Even if you locate your documents, how can you holistically manage them if different areas of the organization use different tools and solutions?

While collaboration and collaborative work applications have been a strong business trend in recent years, energy industry complexity and the fact that collaborative processes can span multiple organizations—not just functions within a single company—necessitate new levels of contract visibility, flexibility, information sharing, compliance control and, particularly, security. As organizations undertaking large-scale collaboration initiatives try to manage constant scope changes and interfaces of deliverables, as well as dependencies between work packages and contractors, they need secure collaboration and interface management between all parties.

The goal is to ensure that all stakeholders have access to a single point of truth, which requires visibility and transparency on all contracts across the enterprise and beyond the company firewall.
The Solution: What Should Energy Companies Look For?

Clearly, organizations looking to compete and grow in the energy space have specific requirements when it comes to contract management. They need a solution that can be tailored to their company and industry by extending existing Enterprise Content Management (ECM) investments, thereby avoiding the costs and ubiquity of point solutions. The solution should address regulatory compliance and should provide the information governance controls necessary for effective management of change during projects and initiatives. Importantly, it should also deliver a high degree of application integration with programs such as Microsoft® Outlook and SharePoint® and with enterprise level ERP applications such as SAP®.

Specific features to look for include:

• **A secure, centrally controlled repository** providing stakeholders with a single point of truth for each individual project and its related contracts as well as rapid access to all associated documents, files, emails and discussions during all stages of the contract lifecycle.

• **Template-based contract file creation** to pre-defined standard metadata, assign users to roles, pre-populate the collaborative space with pertinent information and files, and pre-define tasks and timelines based on the contract type.

• **Information governance**, through automatic application of classifications for proper retention and disposition of contract information.

• **Automation solutions** that address not only the perceived needs of today but have the flexibility to adjust to the fast-emerging needs of the future. Particular advanced automation features include:

  • **Guided authoring** of contract language and documents through a pre-approved library of contract templates and clauses. This not only improves consistency and quality, it also addresses the issue of inexperienced employees assuming more advanced contract creation roles.

  • **Comprehensive process** control throughout the contract lifecycle, using pre-defined, modified or ad-hoc templates, customizable workflows, discussions, task assignments and follow-ups

• **Access from the end user’s business application and device of choice** to improve user adoption and minimize training requirements. Stakeholders should be able to work directly from within their desktop applications—including Microsoft Outlook, Word, Excel, Windows® Explorer or IBM® Notes, smartphones or tablets.

• **Integration with ERP systems and processes** and the ability to fully integrate outside data sources with processes in your ERP (such as supply chain, procurement, finance, enterprise asset management, etc.).

• **Reporting and analysis capabilities** that provide insight into the organization’s contract performance and quickly and simply satisfy compliance requirements.

• **Auditable and version control** features that not only provide users with greater control and certainty around contract history and modifications, but to further enhance compliance by providing fast access to historical contract information should it be requested by external sources or regulators.

• **Enhanced collaboration.** Collaborative workspaces and best practice workflows can be combined to extend contract management to other areas and functions of the business in a controlled manner and single environment.

More than a point solution, energy companies need a structured, adaptable, holistic, strategically-aligned approach that enhances existing contracting processes, manages all contract-related information within a broader information management framework and supports stakeholders across the organization—from engineering through procurement, project management and finance.

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“Increasing regulation is imposing growing pressure on compliance, which is frequently achieved through contract management. Without automation, the necessary visibility and controls cannot be achieved.”

TIM CUMMINS, CEO, INTERNATIONAL ASSOCIATION FOR CONTRACT & COMMERCIAL MANAGEMENT (IACCM)

Benefits of an Advanced Contract Management Solution

By implementing the right enterprise level contract management solution, companies can increase profitability, improve efficiency, enhance management of change, reduce risk and strengthen the strategic impact of their contract practices. At the same time, they can also ensure they deliver effectively on commitments, preserve reputation, retain client loyalty and foster strong vendor and contractor relationships.

There are a number of clear, specific benefits to advanced contract management, including empowering organizations to:

• Rapidly locate all contract knowledge relevant to each user role across the enterprise
• Provide users with access only to contract information that is pertinent to them, preserving the security of sensitive data
• Make sure contracts age appropriately and minimize exposure to non-compliance risk with controls around archiving and dispositions
• Minimize the administration effort required by end-users with templates that support the setup of new contracts and reduce non-compliance risk by controlling processes and information
• Create contracts without involving legal or contract teams in the drafting process
• Enforce consistency and accuracy, shorten negotiation cycles and minimize legal risk by ensuring approved legal language is used
• Achieve a 360-degree view of the information required to make informed decisions, manage scope changes and monitor performance
• Accelerate cycle times and reduce operational costs by automating creation, review, approval and execution processes
• Take advantage of contract incentives by automatically managing key milestones
• Ensure adherence to contractual terms and conditions
• Proactively manage renewals for increased revenue and cost savings
• Enhance business insight, analysis and gain visibility into contract performance
• Easily audit contracts tracking all interactions throughout a contract’s history and ensure contracts age appropriately improving overall information governance
• Ensure a single point of truth and align knowledge of commitments across the functions in the organization

The benefits of an advanced contract management solution stretch from one end of the enterprise to the other. If your company isn’t enjoying those advantages, it’s time to look harder at your contract management practices and the applications you use to execute them.

For a large organization, best practices contract management can equate to millions of dollars in annual savings.

“Contract management is an interdisciplinary process. The added-value potential of consistently using all the information contained in contracts company-wide is enormous. With a contract management solution, process mapping and support is now simple and systematic”

STEFAN HITZ, MANAGER OF DOCUMENTATION, EWE AG

Conclusion: It’s More Than the Fine Print

Energy industry contracts are complicated. Managing those contracts can be even more so, as risks and potential advantages must be distributed and leveraged enterprise-wide, and often beyond to external stakeholders.

Getting a handle on the depth and breadth of the process is a challenge, requiring much more than disparate applications, ad hoc information sharing and junior-level oversight. Effective contract management is end-to-end, enterprise-wide, integrated and flexible. It applies a range of best practices to help all stakeholders proactively manage the contract lifecycle, adapt to change and quickly execute on evolving contract strategies. In the energy industry in particular, it can help organizations manage increasingly complex projects and ventures, mitigate the risks and liabilities created by global economic and operating environments, and enhance secure collaboration within the organization and between venture, vendor and contractor partners.

Looking for what appear to be quick-to-deploy, low-risk solutions is a sure way to end up with quick-to-date, low-functionality products that won’t meet the breadth of your needs and may need to be replaced if you change your operational or strategic direction. There’s a reason contract management is on the radar of leading global organizations. It’s a way to reduce risk, manage change, increase profit, conserve resources and maximize strategic value that has yet to be fully realized by most energy industry players. And that’s the very definition of competitive advantage.

About OpenText

OpenText is the leader in enterprise information management (EIM). EIM enables organization to grow the business, lower costs of operations, and reduce information governance and security related risks. OpenText focuses on the key drivers of business success to improve business insight, strengthen business impact, accelerate process velocity, address information governance and provide security. Our offerings span the needs of the entire digital enterprise, with Enterprise Content Management, Business Process Management, Customer Experience, Management, Information Exchange and Discovery solutions. OpenText helps more than 50 thousand global customers build digital enterprises by unleashing the power of information.

For more, visit www.opentext.com.

About PennEnergy

PennEnergy serves global energy professionals with the broadest, most complete coverage of industry-related information, with resources to help effectively perform critical job functions. Including content from all PennWell Petroleum brands and other industry sources, PennEnergy.com delivers original industry news, financial market data, in-depth research, maps, surveys, statistical data, and equipment/service information. We have also invested in Google search technology to make it easy for customers to search and find needed data.

Since 1910, The PennWell Petroleum Group has been the industry leader for coverage of and service to the worldwide petroleum industry. Its foundation magazines are Oil & Gas Journal, Offshore Magazine, Oil, Gas & Petrochem Equipment, Oil & Gas Financial Journal, LNG Observer and The Petroleum Buyers’ Guide. The group also produces targeted e-Newsletters, hosts global conferences and exhibitions, seminars and forums, directories and technical books, print and electronic databases, surveys and maps.

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