

CONTRACT MANAGEMENT

SOME ADVISES FROM A DANISH POINT OF VIEW

1. Purpose of this Paper

In addition to the presentation given at May 29 in the Antimonopoly Office the following observations of Danish contract management in general and in particular the case of the Danish sister office will hopefully be useful for the drafting of the first contract in the Slovak Antimonopoly Office. Certainly not useful in the way that all models could be transferred to and adopted in a Slovak context, but useful in the sense that they may provoke reflections.

2. Process Leading to First Contract in Denmark

In the starting point the indicators and data needed were only available to a limited extent. This has also been the situation for most other agencies and offices in Denmark. Indeed, one of the main reasons to work with contracts is that it will start a process where knowledge of the business' activities, resources and results is established.

Such knowledge will be of value for not only the agency, but also for the ministerial department or some other orderer, since it will contribute to reduce information asymmetry.

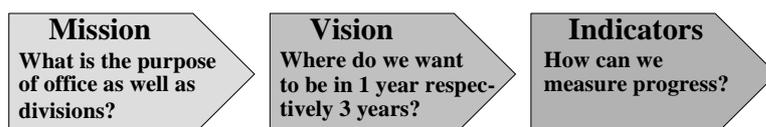
But, of course, the selection of indicators should follow relevant criteria. Otherwise the administrative burden will be high and the benefit low.

The criteria for selecting indicators should follow from the mission and vision of the agency, which again should be based on relevant laws and decisions by the parliament etc. By this, the fundamental criteria will be derived from external sources.

However, also more introvert criteria and indicators should be considered, like competence development or employees' motivation. Such criteria and indicators, of course, are only introvert in a limited sense, since developing relevant competencies and motivation should help the office to perform even better vis-à-vis the customers.

The process of defining criteria and indicators is illustrated below.

Figure 1. From criteria to indicators through defining mission and vision



Establishing of criteria and indicators will often take some time. This especially is the case, if the process is not only regarded as a technical, but also as a communicative exercise of leadership with the purpose, that criteria and indicators should rest on a general understanding and acceptance in the office, which again is a precondition for ownership and commitment. To this end a SWOT-analysis may be a useful tool. But many roads are leading to Rome.

Also data availability should be taken into account. Maybe one should consider a process starting with defining criteria and indicators regardless of data availability. This would lead to a kind of a gross list. Only then, one should be more realistic and look at data availability. One then will realise, that some criteria and indicators will be of high strategic relevance, but the costs establishing data will be immense. For this reason the criteria and indicators should be opted out in at least the first phase of contract management. Maybe they could be mobilised in a later phase where data are established for other less costly indicators and where measuring might be facilitated by more advanced or tailor made record and IT systems.

All this could be summed up with the parole *better start imperfect than not start at all*. Underlying this parole is also the philosophy that contracts are not a legally binding basis for court's passing of sentences, but a basis and occasion for organisational learning and improving of performance.

Also the number of goals and indicators should be considered. Ideal-typically one could distinguish between two models. The first model will only take the most important and strategic goals into account. By this, only some 4- 8 indicators may qualify to be part of the contract. The advantage is that priorities should be clear to everybody. The disadvantage is that all parts of the organisation might not be represented in the contract and this may put a damper on commitment. The extreme alternative would be a contract covering all activities. Such a contract would in fact be a (very) detailed work programme. By this the expected contribution of all employees would be visible, but one might loose the overall perspective, and the costs of measuring will probably be much too high compared with the effect on performance. To this respect the parole could be *better start incomplete, than not start at all*.

Still, regardless of the number of indicators some time will be needed to establish the data that will constitute the basis for measuring increases or decreases in activities, resources and performance in the next phase. Depending on the number of indicators this first phase could last three months or a whole year. Of course also seasonal factors should be considered.

As for the Slovak Antimonopoly Office the question would be, if indicators could be defined in Q3 and data could be established in Q4 so measuring of performance relative to Q3 could start by January the 1st of 2003. If this not is the case it could be considered to regard the contract for 2003 as a development contract, while the contract for 2004 would be the first real operative contract. This rolling out of the contract regime through two years has been the case for many Danish offices and agencies.

3. Extracts from the Contract of the Antimonopoly Office in Denmark

As a follow up on the presentation given at May 29 and the discussion with the executive as well as the divisional level the following indicators concerning service, quality and productivity in the contract of the Danish Antimonopoly Office will be specified.

Service to the Minister or Government / Handling Times

When parliament poses questions concerning mergers, cartels etc. to the minister, the minister should normally respond within 14 days. In answering questions the minister will often be dependent on the technical expertise in the Antimonopoly Office. For this reason the office's delivering of answers to the minister within a given time limit is an important success-criteria and indicator. Normally, this would mean, that the handling time should be shorter than 10 days. For very complicated questions a temporary answer may be given indicating when a final answer will be delivered.

In the contract the following table shows targets and results for 1999 – 2002.

Table 1. Handling Times vis-à-vis the Minister

	1999	2000	2001	2002
Targets: Share of cases handled within time limit	95	95	95	95
Results: Share of cases handled within time limit	98,3	100	100	-

An indicator like this should of course be re-designed according to the fact that the Slovak office does not refer to a minister but to the government as a whole. Also the number of questions a year should be taken into account when deciding whether the indicator is relevant or not. In Denmark the average yearly number of questions is 150. However, also 20 yearly questions could qualify the indicator to be adopted into the contract since the government certainly must be the most important customer alongside with domestic and foreign enterprises going for fair competition in Slovakia.

The contract also includes targets for handling times for cases initiated not by the parliament but by enterprises experiencing unfair competition. For each category of cases - like cartels, state aid, abuse and tendering - targets are set up. Table 2 shows targets for cases concerning complaints on public tendering. Again, it can be seen that targets are based on historical experience instead of fantasy.

Table 2. Handling time: Complaints Concerning Public Tendering

Average handling time in months	1999	2000	2001	2002
Targets	2,4	2,4	3,0	4,0
Results	2,4	2,6	2,1	

Quite interesting, the success-criterion for 2002 is actually lowered compared to 1999 - 2001. The reason is that the office has delivered documentation for a growing complexity. This information is not only interesting from a management point of view, but also from a political point of view: "now the office is going for the big "fish"! However, the actual result was a lower handling time. A full explanation for this is not established, but part of

the explanation is regarded to be that the office has held up quality even with growing complexity. The result could also be due to a time lag, where complaints will first follow some time after the execution of the cases.

Quality of cases

2002 is the first year an indicator and a success-criterion are applied for the quality of work done in the office. The success-criterion is defined as share of cases appealed with success. As shown in table 3 the success-criterion for 2000 as the first year is based on measuring the share of cases appealed with success from 1999 – 2002. Again, it can be seen that the success-criterion is, numerically seen, easier for the years to come, since it is raising from 2,5 % to 4 %. The reason for this is a political wish that the office will be more proactive and an awareness that this almost inevitably will lead to a growing number of successful complaints and appeals. In this sense the General Director of the office can point to the contract as his very explicit political mandate. Or to put it very primitively: making more faults is legitimate, although only to a certain extent, namely 4 %.

Table 3. Share of successful appeals

	1998	1999	2000	2001	2002
Targets	-	-	-	2,5	4,0
Results	5,8	2,3	1,9	4,4	2,5

In several other Danish offices and agencies internal quality audits are practised. One model for this could be that a random selection of executed cases like 1 out of 20 is looked at again: Is the legal basis applied in the proper way? Is the analysis and conclusion – i.e. the answer to some enterprise experiencing unfair competition – communicated in an understandable way? Again, the purpose should be to learn and not to condemn.

Also customer's satisfaction has been an item in the Danish contract. Investigating customer's satisfaction can be done in several different ways, but generally it should be done anonymously. One set up could be to ask a consultancy firm – or SGI! - to do the job. The method could be telephone interviews following a questionnaire. Questions could consider handling time, information on the handling of cases (what is the procedure? how long time will it normally last?) and the comprehensibility of the answers given by the office (can clients actually understand your decisions?).

Such an investigation into customer's satisfaction can be designed in a very ambitious way with a huge number of recipients. But it may also count only a limited number of recipients. In this case answers may not be reliable from a statistical point of view, but still a lot of useful information could be excavated.

In the Slovak contract for 2003 it could be an item on its own to accomplish such an investigation, while it could be a target for the 2004 contract to compare results from 2003 with results from a 2004 investigation. And of course the numbers are only the basis for action. The development and implementation of an action plan based on the investigation data is what really matters.

Productivity

Being aware that measuring productivity is quite a difficult task given the various types of cases and their different degrees of complexity, the Danish Antimonopoly Office has developed an overall measure for productivity, that is the productivity for the agency as a whole.

The productivity is measured according to this formula

$$\text{PR} = \frac{\sum (\text{number of cases})_n \times (\text{weight})_n}{\text{Time spent on handling cases}}$$

The numerator is defining the production. All regular cases, including more administrative tasks, are represented. For each type of case the number of cases are counted and multiplied with a weight representing the complexity of the type of case.

The weights are fixed on a historical basis and they are varying significantly. Handling a merger where approval is not given is weighted 3, while handling a merger where approval is given is weighted 0,5. Most contributions to the ministerial department are weighted 0,2.

The denominator includes all time spent on handling the cases.

As above mentioned the formula is applied for the agency as a whole, but also for each division within the agency.

The people in the Danish Antimonopoly Office are very aware of the nature of the method: ambitious and sophisticated, but still primitive. For this reason they don't regard small variations in productivity as really interesting. Increases or decreases like 2 or 3 percent might as well be results of statistical uncertainty rather than substantial changes.

The method is not used for judging but for learning in order to improve business processes and motivation and skills of the staff and by this the productivity, quality and service.

However, there is also a price for producing this quantitative basis for learning.

- The already mentioned fixing of weights on a historical basis can be quite a task on its own. To be accurate it should be based on some kind of systematically time registration.
- The counting of number of cases may be exhausting if an adequate journal / record technology is not in place.
- The data for the denominator, however, will be more easy to establish, although it should be decided whether time spent on, say, illness and leaves due to taking care of children should be taken into account.

So, measuring productivity in this way may be more accurate, but will take a lot of effort. For this reason it should be considered to include this kind of measuring only after some first experiences are made with simpler forms of measuring. At the same time it could be examined which facilities the existing IT- and journal systems are offering for the monitoring of performance.

4. Organisational impact of the contract regime

The administrative burden following from implementing contracts should always be balanced against the expected gains for the clients. This is also true for the monitoring of contracts. It surely would be overkill for institutions and agencies with the size of the Slovak Antimonopoly Office to invest in a strategic controller and sophisticated IT-based reporting systems.

However, it cannot be expected that the top-level executives already occupied with so many other issues should be in charge of the many operative tasks. Only the strategic analysis and decisions should be a matter for the executive level, while the more operative tasks like gathering and presentation of data could be handed over to someone else. This someone else would often be somebody from the general director's staff or from the division of budgets and administration.

Also the frequency and medium of the reporting should be considered. Normally, measuring and reporting twice a year should be sufficient to correct what might be regarded as shortcomings or to adapt to changes in the environment like new legislation.

The main medium could be the annual report. This would mean that the hitherto annual report of the Antimonopoly Office should be added some 3 – 5 pages, where targets are presented and results are commented upon. These comments might include adjustments of targets and sometimes even the vision. By this, contract management and reporting become reflexive. This point is illustrated in figure 2.

Figure 2. Reflexive Contract Management

