

Chapter 10

The Management of Alternative Work Arrangements

Key Concepts in this Chapter:

Alternative Work Arrangements and Valid Contracts

Purpose of Project Contract Management

Types of Contracts

Risk Considerations in Contract Management

Discussion Questions

Application Vignette

Homework, Exercises and Core Case

You have almost reached the point of finishing the project plan. All that is left to do is decide what work will be done by your organization and what work will be done by outside vendors. The discussion on working with outside vendors, or providers, is called how to best structure an alternative work arrangement. Sometimes this is also called the "make" or "buy" decision. This can be a very formal process (as in structuring a project contract) or informal (where two or more organizations agree to do or not do certain work). This chapter covers the more formal path of alternative work arrangements as this is most likely going to be what will reflect future project work in organizations. Support for this can be found in the growth of outsourcing in most industries and in the sheer scope of what is outsourced today.

As you consider what resources you have been given in the Project Charter, it becomes increasingly apparent that you will need to outsource certain types of work so that your organization can get the needed experts for your project. This may not be an easy thing to do as you know little about which vendors are competent and available. You also need to get a contract management specialist on board to advise you on how to proceed in contracting out work.

As you ponder all the requirements of the customer, you simply want to provide the best set of products and services at the most affordable cost to you and your company. What kind of experience does your organization have to give you an indication about the reputation of certain vendors? Upon further review, you find that your organization has little to offer in lessons learned. Maybe this is so because organizations do not fully understand project management work and how it applies to outsourcing. You decide that all that is missing is a lack of knowledge on their part as to what you and your team are doing in planning these projects. Outsourcing work makes sense since the two projects you are finishing have complex work required and yet to be delivered.

You also know that some of your colleagues will scream unfairness when they find out you are recommending outsourcing work they typically do within the company. Your job, as you have decided, will be to educate the masses on how important the outsourcing of this work will be and how to best contract out the work. You decide to call that contract specialist to plan out this outsourcing effort so that at least from a contract management perspective, the project will have every detail proactively considered. Maybe then you can get a good night's sleep.

Alternative Work Arrangements and Valid Contracts

People use contracts every day. Whether they are buying a home or product, there are agreements to sign (i.e., sometimes a contract) with regard to financial terms and conditions, requirements to fix broken parts and components, or just delivery deadlines. Contracts have become very common in business in the United States. When a contract is used in business today, it provides an example of an alternative work arrangement. An alternative work arrangement is defined as getting organizational work done in a non-traditional way. Non-traditional ways include the replacement of internal work arrangements with external resources. Long-term contracts, franchises, memorandums of agreement, collaborative research and development centers, and joint ventures are just some of the examples of alternative work arrangements. The most common form of an alternative work arrangement, though, is a project contract.

As we discussed in Chapter 5, project contracts are usually structured into four sections (see Figure 5-2). Chapter 5 explains the different types and methods of development of requirements typically found in project contracts. The discussion on how contract requirements are developed was necessary because requirements *should* flow from the project work breakdown structure. That is the primary reason we discussed the different types of requirements and how these requirements should be the SMART format. However, before contract requirements are written, project teams need to ask an important question: Is the work being considered appropriate for a contractual relationship with a vendor, supplier or provider? In other words, is the project contract going to be an appropriate mechanism to get the project work done?

To answer these questions, one must understand what a contract is and is not. Understanding the essential elements of a contract will help you to understand the boundaries of forming a valid contract or agreement. Figure 10-1 explains that a contract is an agreement between parties to do or not do a certain thing. Thus, contracts, formal agreements, procurement orders and purchase requests generally fall into the legal definition of a contract that most project managers either manage or support. In fact, the term "Contract Administration" is the complete process of managing the buying and selling of goods and services between partners in a business transaction throughout the project life cycle. Contracts and agreements can be very

simple (e.g., a handshake or verbal commitment) or very complex (involving many pages of documentation).

A contract of any type has five essential elements as shown in Figure 10-1.

An *offer* must be made or tendered from a seller (or provider) to a buyer. The offer must be clear in intent and purpose and understood to mean roughly the same thing to both buyer and seller so that there is a "meeting of minds." Thus, for a seller to say that an offer was extended to the buyer is not enough to form a valid contract. The buyer also must perceive the meaning, or purpose, of the communication. Sometimes to determine if there was a "meeting of minds," one must look at how the offer was communicated to the buyer and the circumstances of the offer. Providing the buyer with a list of seller human resources, for instance, does not necessarily mean the seller is offering those resources to the buyer for the period of the contract. We would all love to have "Einstein" promised on our projects but many times we end up with "Beavis and Butthead." We see this scenario unveiling itself in business when a seller provides a proposal with outstanding human resources implied as part of the offer but when the contract is signed and valid, the seller provides people not as noteworthy. These kinds of issues should have been discussed before the contract was signed by both parties to ensure a "meeting of minds" between parties to the contract.

Project Contract Management

- Contract Administration is the complete process of managing the buying and selling of goods and services between partners in a business transaction throughout the project life cycle
- Definition of a contract includes:
 - -An agreement between parties to do or not do a certain thing
 - -Essential elements of a contract include:
 - An offer
 - An acceptance
 - Competent parties
 - Mutual consideration
 - Legality of purpose

Figure 10-1. Elements of a Valid Contract

A second element of a valid contract is an *acceptance* of the scope, terms and conditions of the contract. An acceptance also has to be clear to both parties to the contract and understood to mean the same thing in purpose. An acceptance is an acknowledgment by the buyer that the seller's offer is good enough to form a binding agreement between the buyer and seller. The use of handshakes, verbal commitments and signatures are all valid methods that indicate acceptance of an offer. An offer and acceptance are really two sides of the same coin; you cannot have one without the other in making a valid contract.

A third element of a valid contract is that all parties to the contract are *competent*. Usually this involves a determination of the competency of all parties to the contract. Obviously, if someone does not have the mental capacity to enter into a contract, then the contract is normally null and void. The competency of both the buyer and seller usually is indicated by some type of authority given to the approvers of the contract that represent the parties to the contract. Sometimes a contract officer represents a buyer or seller and gives his or her approval of the contract. This is an implied competency since authority has been given to that person to represent the organization. The use of a "Power of Attorney" falls into this category as this represents an authorization to act on someone else's behalf in a legal or business matter.

The fourth element of a valid contract is *mutual consideration*. *Mutual consideration* means that all parties to the contract either give up or provide something in accordance with the requirements, terms and conditions of the contract. When a seller provides a product or service to the buyer, there is typically consideration from the buyer in the form of financial payment for those goods and services. The buyer receives the goods and services, thus completing the "mutuality" of the contract; both parties to the contract, in this example, receive something. Mutual consideration can also be in the form of not doing something. For instance, a seller being paid to not enter a certain market or not produce too much product is a good example of mutual consideration. Many governments use "quota" type contracts to manage commodities like milk and corn. The purpose of this is to keep production levels low and prices high in the hopes of protecting the interests of corn farmers and milk producers.

The final element of a valid contract is that a contract must be *legal* in purpose. One cannot enter into a valid contract to put a "hit" on someone to have them murdered. This obviously violates United States law and would not be a valid contract. Thus, both buyer and seller would need to have excellent legal advice to make sure requirements, terms and conditions do not violate federal, state, and local laws. This becomes even more complex when global organizations enter into contracts with United States companies, blending laws of different countries. What is legal in one country may be illegal in another. Also, United States organizations typically are more familiar with legal concerns, whereas other countries may not be as exposed to the concept.

Project Contract Management

- A contract has two purposes: to formally document the details of the business transaction and to further the relationship between buyer and seller as partners in the business transaction
- Contract Requirements were covered in Chapter 5
- Contract Terms and Conditions include the following:
 - Define the rights and responsibilities of both parties in the contract
 - Essential elements of the concept of 'Terms' include:
 - May address a technical aspect of the contract (e.g., the project statement of work or specifications, etc.)
 - May address an administrative aspect of the contract (e.g., how disputes are resolved, payments are made, modifications done, etc.)
 - Essential elements of the concept of 'Conditions' include:
 - A statement that either activates or suspends a 'Term'
 - May enforce, suspend, or rescind a 'Term' in the contract but the occurrence or non-occurrence of the condition does not change the 'Terms' agreed upon in the contract

Figure 10-2. Duality of Purpose of Project Contract

Purpose of Project Contract Management

Project contracts serve two purposes as outlined in Figure 10-2. The first purpose is to formally document the details of the business transaction among all parties to the contract. The documentation of the transaction can be very formal with many pages of requirements, terms and conditions or informal with very few pages in length. For instance, the United States Air Force's contract for the F-16 fighter was only 10 pages in length while the C-5 cargo plane contract weighed over five tons--quite a difference in the amount of documentation in a contract between a buyer and seller.

The second purpose of a contract is to further the relationship between buyer and seller as partners in the business transaction. A contract should provide a "win-win" situation for both buyer and seller. In other words, after the contract is completed, both buyer and seller should be able to look back on it with satisfaction for a job well done. The result of a successful contract negotiation is that the business relationship is represented well in the contract, the contract provides an adequate framework for getting work accomplished, and work can be measured with regard to performance. Contracts should not be negotiated and written to take advantage of another party to

the contract. That being said, some organizations and people try to outmaneuver their business partners to sign contracts that benefit only themselves and no one else. There is a saying in the contract business that the "worm will turn", meaning that if someone takes advantage of another in a contract, they will get their just rewards. The administration of contracts is much better when both sides seek mutual benefit and satisfaction. To better understand how contracts are administered, one needs a basic knowledge of how "Terms and Conditions" work in contract management. As defined in Figure 10-2, "Terms" address technical or administrative aspects of the contract. Technical aspects refer to the technical requirements discussed in Chapter 5.

Administrative aspects refer to any aspect of managing the relationship between parties in the contract. The best way to understand the concept of "Terms" relative to a contract is to provide some examples that are commonly used in the administration of contracts on projects. Here are some common questions used to generate "Terms" in project contracts today:

Common Questions That Lead to Contract "Terms"

1. How will the seller provide certifications of product parts and components for buyer review and approval? Is there a buyer requirement for a particular part or component?
2. How will proof of concept be chosen for a particular technical solution?
3. What standards will be used to judge quality and value in products and services provided?
4. What kinds of testing will be conducted on products and services provided to qualify the products and services as adequate to fulfill the contract?
5. What kinds of seller reviews will be provided along the way in the design, development and testing of products and services to measure technical progress?
6. How will capacity, usage and satisfaction be measured in the design of products?
7. How will the seller manage the release of updated technical designs between vendors and the buyer?
8. How will the seller ensure that the technical solution is safe?
9. How will the seller provide agendas and minutes for technical reviews?
10. How will the seller choose a technical solution in coordination with all parties to the contract?

These are just a few of the concerns that parties to the contract need to address before the contract is completed. Answers to these questions usually lead to a "Terms" statement as such in the contract. "Terms" serve to modify requirements in the work statement and any specification invoked in the contract. For instance, if the seller suggests having a design review monthly, a set of "Terms" in the contract might be that the design reviews would be held alternatively at buyer and seller locations, be one

working day in length, and have an agenda for each meeting developed by the seller as approved by the buyer. There is no limit to the number of "Terms" you can put in a contract. However, the fewer the requirements and "Terms" in a contract, the clearer and more focused work is for project team members and providers. There is also less of a chance of inconsistency between "Terms" and requirements with the fewer number of "Terms" put into a contract. Brevity has its advantages.

Conditions

"Conditions" serve to activate, suspend or rescind a "Term" in the contract but the occurrence or non-occurrence of the condition does not change the "Terms" agreed upon in the contract. In other words, just because a condition occurs does not necessarily mean that the "Terms" in the contract are changed or eliminated. Using the previous example of the monthly design review, what would happen if there was a technical problem that was of such magnitude that a design review needed to be done before the next scheduled monthly meeting? Obviously, you would want a "Condition" in the contract that would allow for more frequently held meetings if the need exists. However, just because a meeting might be held prior to the scheduled monthly design review does not eliminate the seller's requirement (as part of the "Terms" in the contract) to conduct a monthly design review.

Another example might be an administration of a "Term" in the contract with regard to when the seller would be paid—for instance, on the first of the month. A "Condition" to this "Term" might be that the seller will be paid if there is adequate progress on their part of the project as stipulated in the contract. If the buyer has a "Condition" that the seller has to have certain parts of the contract done at clearly established times, then payment to the seller might be suspended based on the buyer's determination that work is not progressing adequately.

Additional "Conditions" might be: how the seller is notified that payments will be suspended or delayed, what triggers a payment recovery plan, and how the seller might be allowed to respond to a buyer determination of payment suspension. "Terms and Conditions" in a contract reflect the relationship between buyer and seller. We will now discuss how the use of different types of contracts gives flexibility to contract administrators to more adequately capture the nature of business relationships.

Types of Contracts

There are different types of contracts that allow for an array of buyer and seller relationships. As shown in Figure 10-3, contract types differ depending on the requirements, terms and conditions of the buyer and seller; the degree of risk invoked in the business transaction; and the types of products and services provided throughout

Project Contract Management

-Contract types vary depending on the requirements and terms and conditions of the buyer and seller, the degree of risk invoked in the business transaction, and the types of products and services provided through the contract.

-Contract types include:

-Fixed Price or Lump-Sum (Firm Fixed Price and Fixed Price Incentive)

-Cost-Reimbursable (Cost Plus Award Fee, Cost Plus Fixed Fee, and Cost Plus Incentive)

-Time and Service (Time and Materials (T&M))

Figure 10-3. Basic Types of Project Contracts

the contract. The type of contract chosen for a project should reflect the work being done: research and development (R&D) work tends to have more open-ended requirements, terms and conditions; manufacturing and assembly work tends to have specific requirements and detailed terms and conditions; and service-type work tends to have a hybrid of open and less-specific requirements, terms and conditions.

Thus, there are three basic types of contracts organizations use today: Fixed Price, Cost-Reimbursable, and Time and Service. Fixed Price contracts are the easiest to understand as they basically reflect work that is known and products that need no further development. Some other common terms for Fixed Price contracts are Lump-Sum, Firm Fixed Price and Fixed Price Incentive. These are all based on the basic tenet that the seller will be given a fixed amount of money in the contract regardless of how much the seller actually experiences in costs to produce an item or provide a service. Some variations, like Fixed Price Incentive contracts, allow a sharing of costs that reduces the amount of profit, or fee, the seller receives.

Cost-Reimbursable contracts are more likely to be found in R&D contexts since the seller is reimbursed for their costs expended on the project. Thus, work tends to be more undefined and open-ended, as both buyer and seller realize that there are no definitive

answers to problems, and that solutions may vary in an R&D context. Other names for Cost-Reimbursable contracts are Cost Plus Award Fee (CPAF) and Cost Plus Fixed Fee (CPFF) type contracts. Each of these contracts recognizes that the seller will be reimbursed up to a point since there is usually a maximum of reimbursement negotiated *a priori* to contract approval. In addition to the reimbursement of costs, CPAF contracts allow sellers to earn an award for good work as determined by the buyer, and CPFF contracts allow sellers to earn a fee as negotiated in the contract.

Time and Service contracts represent a hybrid of Fixed Price and Cost-Reimbursement contracts and are sometimes called Time and Materials contracts. For example, let us assume that you need to hire a curriculum specialist for about 100 hours of work to review, edit and rewrite lesson plans. This is a service contract since the work is completely in labor hours. Since you know the labor rate for this type of work, similar to Fixed Price contexts, you negotiate a \$30.00 per hour rate in the contract. The labor rate of \$30/hour is fixed before the contract is approved. However, since the lesson plans are complex and evolving right now, you are unsure exactly how many labor hours you will need from the curriculum specialist. Thus, you negotiate the basic contract for 100 hours and three options of 50 hours each just in case you need them. This is like a Cost-Reimbursement environment since the amount of work is undefined. The buyer has the option of invoking options in the contract so if the buyer needs additional hours for curriculum development, the contract type allows flexibility in how many hours to choose.

Each of the three different types of contracts represents a different risk profile for buyer and seller. We will address these profiles in the next section.

Risk Considerations in Contract Management

Figure 10-4 shows the three risk profiles for Fixed Price, Cost-Reimbursement and Time and Service contracts. In Fixed Price contracts, the seller's risk is the highest of any contract type. The seller agrees to provide a product or service at a negotiated cost regardless of what the costs actually are. Thus, if the seller agrees to provide 10 chairs at \$100 per chair and their costs for each chair are \$110, then the seller has to absorb the \$10 per chair cost overrun. On the other hand, if the chair turns out to cost less than the expected \$100/chair, then there is more profit for the seller. The buyer's risk is the lowest since the seller agrees to make and provide products or services at a negotiated cost. Thus, the seller must be sure that the product or service is defined enough to eliminate guesswork since there is a huge potential for cost growth if unplanned requirement changes occur.

Project Contract Management

Contract types and risk include:

- Fixed Price (Firm Fixed Price and Fixed Price Incentive)

-Lowest buyer's risk

-Highest seller's risk

- Cost Reimbursement (Cost Plus Award Fee, Cost Plus Fixed Fee, and Cost Plus Incentive)

-Medium to High buyer's risk

-Medium to High seller's risk

- Time and Service (Time and Materials (T&M))

-High buyer's risk

-Low seller's risk

Figure 10-4. Risk Considerations in Project Contract Management

Time and Service contracts are in many ways opposite to Fixed Price contracts since the buyer absorbs most of the risk in the business transaction. The buyer has to determine how much to pay per labor hour and how many labor hours to purchase in each option. If the buyer cannot adequately predict how much support is needed then they will either pay too much money per labor hour and/or buy more labor hours than are needed. This puts the buyer into an overspending scenario which means that the project will experience a needless cost overrun. The seller just has to provide the labor hours for the agreed-upon price and for the agreed-upon amount of time.

Cost-Reimbursement contracts represent a sharing of risk between buyer and seller since costs are reimbursed to the seller up to a point but then after a certain amount, cost overruns can be shared. Thus, if there are problems on the project and costs begin to climb unexpectedly, then the buyer will most likely share in these cost overruns. Going back to our example of the \$100 chair, the contract could have been negotiated as a Cost-Reimbursement type contract where the seller would recover costs up to \$100/chair; if costs exceeded \$100/chair, then the buyer and seller would share 50/50 (as an example of a share ratio) of any costs between \$100.01 and \$120.00. For costs per chair greater than \$120.00, the seller would absorb all costs. A Cost-Reimbursement type contract allows both buyer and seller to jointly share in the cost

risk to the project. However, if costs exceed the negotiated total cost overrun (\$120.00 per chair in this example), then the seller will have all the risk from that point on. Thus, these types of contracts incentivize sellers to try to maintain costs within certain parameters and buyers to provide enough money to get work done in an orderly fashion.

We have addressed many of the basic issues in contract management as part of the larger issue of alternative work arrangements. Contract administration is a fundamental project management activity that, if done properly, can lead to better business effectiveness and partnerships. The administration of contracts can be a dry area of project management but it is certainly a valuable one.

Discussion Questions

1. What are the key elements of a valid contract? Define in your own words the concept of mutual consideration.
2. Provide justification as to why an organization would consider an alternative work arrangement. What are the limitations of using alternative work arrangements?
3. What are "Terms and Conditions" used for in contract management? Give an example of a "Term" and a "Condition" in an organizational contract.
4. Discuss the differences among the three main types of contracts used in project management. Describe the context when each might be used.
5. What are the different risk conditions for buyers and sellers in each contract type?

Application Vignette

Determining the "Terms and Conditions" (T&C) on a contract is a very important process, not to be taken lightly. Project teams who develop contractual T&C must do their homework to be sure that they are clear, factual and unambiguous. The SMART model would apply here especially when the T&C are going to be sent out to unknown potential bidders that may eventually win the contract. Investigative skills are at a premium in this process; project teams will need to review functional and technical requirements, interview prospective customers and stakeholders, discuss legal issues with appropriate sources, and assess reputations of potential vendors long before the T&C gets written and put into a request for proposal. When vendors who become partners through a contract do not follow the T&C of the contract, there is the potential for fraud. Fraud is a dishonest act committed by a person, or persons, for personal advantage. Before signing a contract and agreeing to the T&C written in it, be sure to include steps to see if the T&C are SMART—Specific, Measurable, Agreed Upon, Realistic and Time-Based. Ensure that every term would be completely understood and if there are "Terms" that distress one party to the contract, the prudent choice is to

communicate openly with the other party so that appropriate revisions can be made to where both parties are comfortable for the contract to be signed.

The following five "Terms" or "Conditions" are being disputed by your potential trading partner. A short reason for their discomfort is provided. Your job is to develop questions for the vendor that will help your team decide if their concerns should be incorporated into T&C revisions. Remember that in the world of alternative work arrangements, it takes at least two trading partners to reach mutual agreement:

1. The vendor will conduct system-test child-prevention lock software for 15 days prior to buyer acceptance.

Vendor Concern: The vendor does not feel it is necessary to do testing on the child-prevention lock software since this will be accomplished later at the complete system demonstration and testing. Rather, the vendor would just like to do system testing for the entire project.

2. Certified parts for Project X can be used if agreed to by the buyer.

Vendor Concern: The vendor would also like to use "non" certified parts if done by a provider of their choosing.

3. The vendor will conduct component, unit and system testing on all software and hardware products being delivered on Project X.

Vendor Concern: The vendor would like to have an associate vendor participate in component, unit and system testing. The associate vendor is an expert in the field.

4. The vendor can combine component, unit and system testing for the environmental-control software if the number of lines of code is less than one thousand (1,000).

Vendor Concern: The vendor believes that 1,000 lines of code is an arbitrary and unnecessary restrictive number. They would like to see a boundary of 10,000 lines of code.

5. The vendor will provide draft technical manuals to the buyer for review and approval at least three months prior to Project X closure.

Vendor Concern: The vendor believes that the "three months" requirement is too restrictive. A more realistic number in their view is one month before Project X closure.

Homework, Exercises and Core Case

1. Project contracts are usually in which three types?
 - a. Firm fixed price, cost incentive, time and materials.
 - b. Firm fixed price, cost plus, time and service.
 - c. Firm fixed price, incentive, risk plus.
 - d. Qualitative, quantitative, descriptive.
 - e. Agreed-upon price, consideration, descriptive.
2. Which of the following is an essential element of a valid contract?
 - a. Offer, acceptance and competent parties.
 - b. On-going effort to improve an organization's effectiveness.
 - c. Grouping of work that is standardized throughout an organization.
 - d. Unique effort that has a definite beginning and end.
 - e. Something unique that evolves into a program.
3. Section 4 of the contract (from Chapter 5) usually contains what material?
 - a. Administrative information.
 - b. Applicable laws.
 - c. Bidding information.
 - d. Requirements.
 - e. Order of precedence.
4. A "Term" in contract administration is BEST described as a(n):
 - a. Certification of intent.
 - b. Modification of technical or administrative aspects of the contract.
 - c. Regrouping of project team work.
 - d. Modification of the contract itself.
 - e. Act of agreement.
5. A "Condition" in contract administration is BEST described as a(n):
 - a. Certification of intent.
 - b. Modification of technical or administrative aspects of the contract.
 - c. Regrouping of project team work.
 - d. Modification of a "Term."
 - e. Act of agreement.
6. The contract type with the lowest buyer risk is a:
 - a. Firm fixed price.
 - b. Cost plus.
 - c. Time and service.
 - d. Statement of work.
 - e. Risk Register.

7. The contract type with low seller risk is a:
 - a. Firm fixed price.
 - b. Cost plus.
 - c. Time and service.
 - d. Statement of work.
 - e. Risk Register.
8. The _____ element of a valid contract addresses what both parties either give up or provide in an alternative work arrangement.
 - a. Competency.
 - b. Mutual consideration.
 - c. Offer.
 - d. Legality of purpose.
 - e. Acceptance.
9. You are purchasing a known part in your project for the product you are manufacturing. What type of contract would you MOST likely use?
 - a. Cost-Reimbursable
 - b. Fixed Price
 - c. Offer and Acceptance
 - d. Time and Service
 - e. Cost Incentive
10. You are purchasing a known part in your project for the product you are manufacturing. What type of contract would you MOST likely use?
 - a. Cost-Reimbursable
 - b. Fixed Price
 - c. Offer and Acceptance
 - d. Time and Service
 - e. Cost Incentive
11. Define the concept of "Contract Administration" as employed on most projects.
12. Explain what a "Term" is in a project contract. How are they used and what kinds are there? How do they relate to technical requirements in the contract?
13. Explain what a "Condition" is in a project contract. How are they used and what kinds are there? How do they relate to "Terms" in the contract?
14. Discuss the risk implications for each major type of contract. When do you believe these risk considerations should be considered in the project life cycle? Why?

15. Discuss the concept of "mutual consideration." Why is it important in project contract management?

16. Why do you believe the process of contract management is necessary in business today? What is causing the growth in contracting in general?

17. A vendor makes an offer to a buyer. The buyer never accepts the offer. Is this a valid contract even though the vendor stated that receipt of the offer constituted acceptance of the offer?

Exercise 10-1—What Type of Contract Makes Sense?

A vendor wants to provide a proposal on work your firm is considering. While the vendor seems reliable, you are not sure you completely trust this vendor given the nature of the work involved (e.g., this work exposes you to areas where you do not have much expertise). This potential partner could rack up the hours on you and you would not know or be able to tell if you were getting what you paid for. This also involves doing some things that have never been accomplished before since a new product is being developed. What type of contract should you use to possibly limit your exposure to this potential business partner?

Exercise 10-2—"Terms" Versus "Conditions"

Which of the following two contract statements is a "term" and which is a "condition"? Please provide rationale for your choices.

The vendor will certify parts for Project X two weeks before the beginning of hardware testing.

Parts can be delivered to the buyer with less than three months remaining on Project X if an engineering change altered the technical manual design and layout.

Core Case —The "Acquisition Plan"

Your project team has been assigned the six month task of developing an "Acquisition Plan" for repairing roads in the upper state. These roads are in terrible shape; they are filled with pot holes, and have loose gravel, overflowing roadside vegetation, poor drainage, and missing shoulders. The money to repair the roads has been budgeted but the expertise required to improve these roads within your organization is questionable at best.

Your top management is, thus, heavily leaning towards an alternative work arrangement. To do this your team is considering advertising for bids from prospective

providers and then selecting one vendor to repair the roads. Your project team has been given 15 contract administration activities from a top-level planning team that will lead to the hiring of a vendor to do this project. These 15 activities comprise the complete "Acquisition Plan" for selecting and contracting with a vendor through an alternative work arrangement. Unfortunately, the 15 activities are in random order. Your task is to arrange these contract administration activities into the proper order to get a vendor on contract. These activities as follows:

- 3 Determine project and contract risks.
- 8 Write the request for proposal (RFP).
- 7 Analyze and determine which type of contract to use on this project.
- 14 Determine project vendor.
- 11 Provide requests for proposals (RFPs) to prospective vendors.
- 12 Receive contract proposals and certifications.
- 13 Analyze contract bids to select the best source provider.
- 1 Assess and determine project scope.
- 15 Announce new vendor for project in public release statement.
- 9 Publish advertisement for the receipt of vendor proposals.
- 2 Determine project scope, cost and schedule objectives.
- 6 Decide what criteria to use to select a vendor.
- 5 Analyze and select key equipment and facility resource requirements.
- 4 Assign human resource roles to complete the project.
- 10 Ask proposal providers for certifications.