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# The purpose of contracts

How clarity of purpose is required to measure contract quality and effectiveness

September 2024

A collaboration between:

**Deloitte.**

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& Contracting**

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## Foreword

The story begins in 2009 and a conference presentation on 'quality by design'.<sup>1</sup> The presentation got me thinking about how we might embed quality by design principles into contracting. And I realized that there is no consensus on what 'quality' means in the context of a contract.

Is it to do with design and layout? Completeness? Legibility and clarity? Its effectiveness in protecting the drafter? The extent to which it generates successful outcomes? It quickly became apparent that to measure quality, you must be clear about the purpose.

Multiple conversations confirmed that there is no single purpose for a contract, and also that purpose varies between situations and between stakeholders. This goes a long way towards explaining why contracts (and negotiations) are so complicated.

But is the fact that something is complicated a good excuse for poor design? And in what ways does poor design impact the quality of performance? These are important questions that we answer in this report.



**Tim Cummins**  
President, WorldCC



**Peggy Pauwels**  
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# Executive summary

Anyone reading this report is likely to conclude that their approach to contracts and the contracting process requires urgent review. Only **39%** of legal and contracts practitioners believe that contracts are supporting successful business outcomes and just **16%** believe that today's negotiations focus on the right topics.

Shocking statistics such as these reinforce the need for answers to a range of fundamental questions:

- Why do only a minority of legal and contracts practitioners believe that contracts are supporting successful business outcomes? While this report provides some clues, more work is needed within individual organizations to uncover the root causes of dissatisfaction, which range from inefficiencies and lack of investment in the process to a mismatch between contract terms and business goals.<sup>2</sup>
- Why do only 16% of practitioners believe that today's negotiations focus on the right topics, and what are the implications of this on business outcomes? Understanding why negotiations are perceived as misaligned with key business objectives will reveal critical gaps in the negotiation process and how its fragmentation and unstructured planning affect overall success.
- Do business owners and executives value contracts as tools for achieving business goals, or are they seen as mere formalities? While business leaders generally deem contracts to be important, they are generally unclear or inconsistent about what purpose they expect them to serve.

- Are there potential alternatives to traditional contracts, and how might they compare in terms of supporting business success? Exploring alternatives such as formalized governance procedures or relationship management strategies could open new avenues for improving business outcomes and reducing reliance on traditional contracts.
- Is there a need to simplify contracts to improve their performance, and what specific aspects of contracts contribute to their complexity? A focus on this question can lead to actionable strategies for streamlining and improving contract design and execution.<sup>3</sup>
- Should there be clearer ownership and responsibility for the contracting and negotiation processes within organizations, especially in the context of rapidly changing market conditions? Clarifying roles and responsibilities in contract management is essential for addressing some of the inefficiencies and misalignments highlighted by the survey, and also in the context of deploying new technologies, including Artificial Intelligence (AI).<sup>4</sup>

Our interviews reveal a small percentage of organizations which have already started to ask and answer these questions. Are you among them?

**Legal and contract practitioners  
low regard for contracts:**



Peggy Pauwels, Partner in Contracts – Transformation Consulting at Deloitte, explains the importance of questioning the purpose of contracts.

PLAY VIDEO



2. WorldCC Benchmark Reports 2021 and 2023 show almost 95% of business executives consider contracts to be important, though the reasons for their interest are inconsistent.

3. *Legal Design: Integrating Business, Design & Legal Thinking with Technology* (Blackwell, 2021).

4. Deloitte and WorldCC: *The ROI of Contracting Excellence* (July 2023)

# Introduction

In 2009 and 2017, the International Association for Contract & Commercial Management (IACCM) conducted comprehensive surveys to explore the multifaceted purposes of contracts in business.

The work undertaken in 2009 had established eleven different views of 'purpose', ranging from recording rights and responsibilities to demonstrating brand and corporate values. Survey participants were asked to evaluate the relative importance of each purpose and then to indicate the extent to which the average contract met that purpose.

The results revealed a substantial gap between the desired and actual performance of contracts, with respondents acknowledging underperformance across all categories.

*Notably, the purpose of 'serving as a framework for mutually successful business outcomes' showed the largest performance shortfall, while 'demonstrating brand and corporate values' achieved the dubious honor of being both the least selected and the most effectively achieved purpose.*

**The surveys reveal broad recognition that contracts are not typically viewed as a source of competitive advantage, but confirm there is desire for improvement. Respondents suggested that business leaders could enhance contract performance through establishing clearer ownership, more thought being given to the alignment between business goals and contract policies, investment in better tools and systems, and reform aimed at simplification and standardization.**

The pandemic and subsequent market volatility led many to recognize the gaps and deficiencies in their contracts. In general, organizations relied upon their relationship to work through the performance issues and challenges they confronted. So, has this led to new thinking and fresh approaches to contracting?

This report revisits the 2017 study to assess whether there have been improvements in how contracts are perceived and utilized. We aim to understand if business practices and contract terms have evolved, particularly in light of the increasing importance of institutional trust and corporate integrity. **By examining the changes and continuities in contract performance, we seek to provide updated insights and recommendations for optimizing the role of contracts in achieving business objectives.**



Listen to a video introduction to this report by Sally Guyer, Global CEO of WorldCC.

PLAY VIDEO



**This report revisits the 2017 study to assess whether, by 2024, there have been improvements in how contracts are perceived, utilized, and perform.**

# About this study



We employed a multi-method approach encompassing a literature review, survey research, and expert interviews. The literature review involved examining academic articles, industry reports, and recent publications to identify key trends and developments in contract management.

A survey was conducted among a diverse group of professionals, including legal experts, contract managers, and business executives, to assess current perceptions and performance of contracts. Additionally, we conducted in-depth interviews with experts and senior practitioners

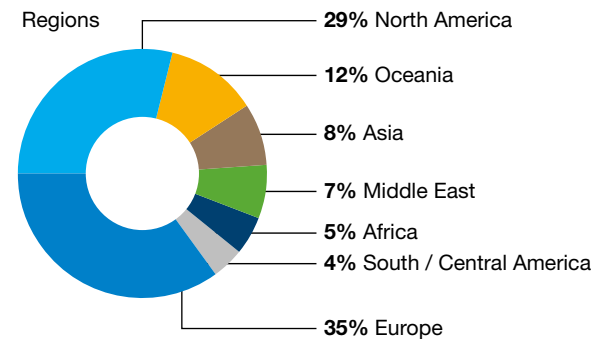
from various fields such as law, finance, procurement, and commercial management to gain qualitative insights. This comprehensive methodology allowed us to capture a broad range of input and draw robust conclusions on the evolving role of contracts in business.

## Survey demographics

 **370+**  
Organizations

 **54%**  **46%**  
Buy-side | Sell-side

 **80%**  
Dealing with contracts for at least 10 years



# Coping with chaos: how purpose is now viewed

Figure 1 shows the results of the on-line survey, revealing a decline in perceived purpose in every category except one.

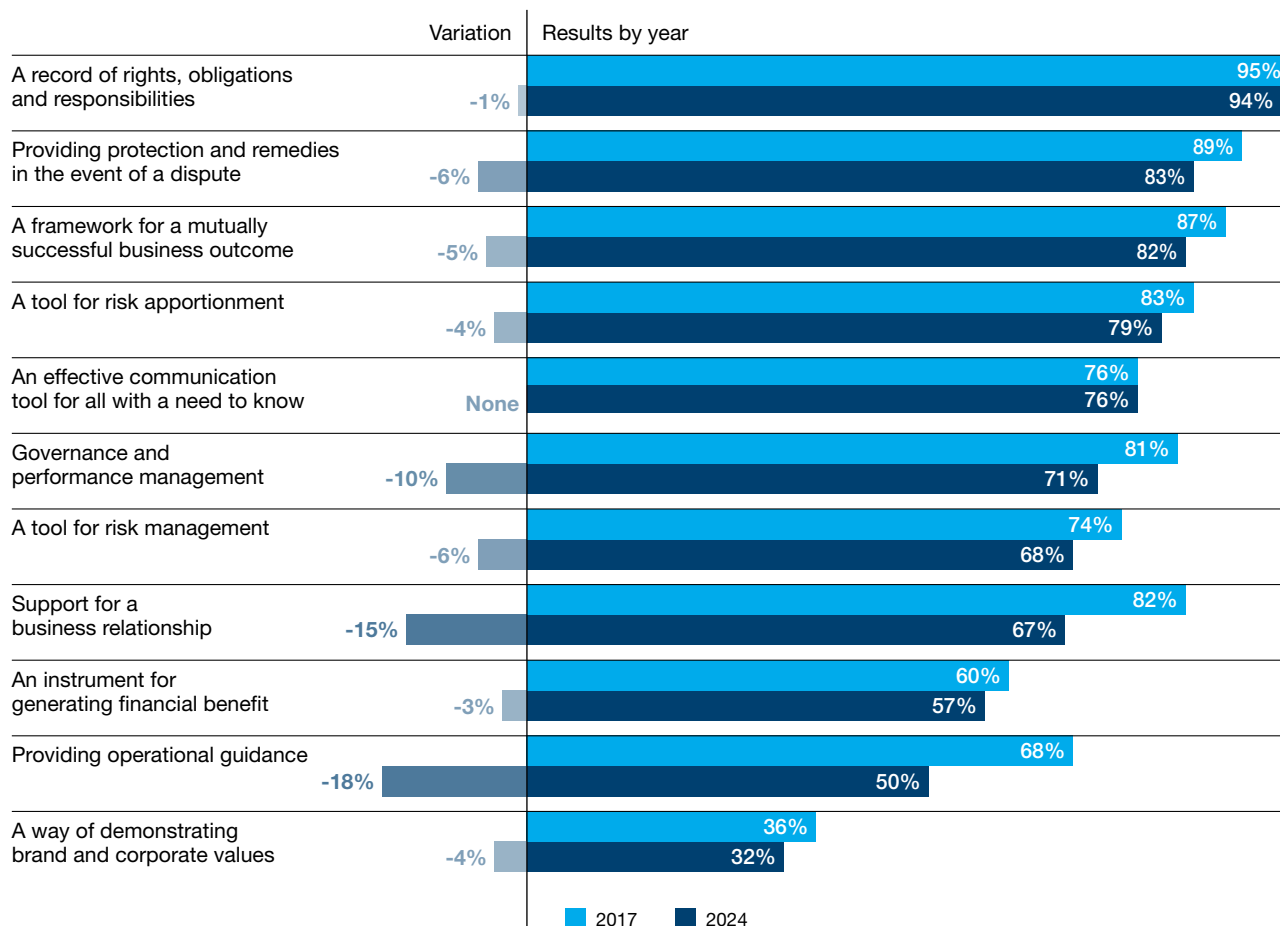
The most significant of these declines are in respect of providing operational guidance, supporting a business relationship, and assisting governance and performance management. This decline reinforces the general perception that the relationship is frequently far more important than the contract in driving and determining outcomes.

The drop in confidence suggests a growing appreciation that **contracts do not adequately account for the dynamic and often unpredictable nature of modern business relationships. This may stem from several factors, including the rigidity of traditional contracts, which can struggle to accommodate the evolving needs and priorities of the parties.** Such concerns are reflected in a growing awareness of the limitations of contracts in addressing complex and multi-faceted business challenges.

*In an increasingly interconnected and fast-paced global market, businesses may find that success requires more than just a well-drafted contract – a point that accounts for the increasing interest in 'relational contracting'.*

*Continued next page*

**Figure 1: The purpose of a contract  
(% identifying as having an important purpose)**



## Coping with chaos: how purpose is now viewed (cont.)

The top three views of purpose remain the same as in 2017:

- **'A record of rights, responsibilities and obligations'**
- **'Providing protection and remedies in the event of a dispute'**
- **'A framework for a mutually successful business outcome'.**

Given the overall findings, the last of these appears rather aspirational – and, as we shall see, shows the largest gap in terms of actual performance. Overall, those who are responsible for contracts appear increasingly doubtful about their ability to foster or maintain successful partnerships.

*The fact that only 16% of respondents believe negotiations today focus on the right topics to achieve this aim underscores the extent of this failure and is a clarion call for change.*

The overall findings – survey, literature and interviews – suggest that traditional risk management mechanisms are struggling to cope with the growing complexity of global supply chains, regulatory environments, and market conditions. While for some this indicates a need for agile and adaptive approaches, a high proportion are doubling down on more adversarial, control-based approaches to risk allocation and compliance – which helps to explain why negotiation time is being diverted from 'the right topics'.

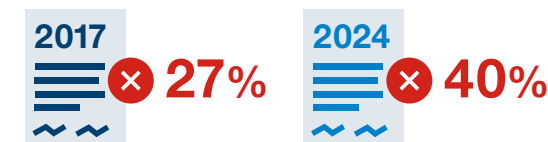
As previously noted, **the two categories that saw the steepest decline in ranking of purpose are 'support for a business relationship' (decrease 15%) and 'providing operational guidance' (decrease 18%)**. This again reflects a criticism by respondents that contracts are too rigid and lack sufficient flexibility to accommodate the rapidly changing dynamics of modern business relationships and operations. **It conveys a sense that 'we succeed in spite of the contract', but many recognize that they lack consistent alternative mechanism.**

These trends highlight a growing disconnect between the traditional roles of contracts and the evolving needs of businesses. The lack of optimism about contracts achieving mutually successful outcomes, effectively apportioning risk, and serving as communication tools suggests **that organizations are grappling with the limitations of conventional contract management in a fast-changing business landscape. This gap points to a need for a re-evaluation of the purpose of contracts, with an increasing emphasis on adaptability, collaboration, and communication.** It is a re-evaluation that a number of those who were interviewed indicate is taking place and their efforts are described in a select group of case studies in the Appendix.

As highlighted in the introduction, clarity of purpose is just one aspect of any product or artefact. The big question for any consumer of that product, service or artefact is whether it is effective, or 'fit for purpose'. On this question, in 2017, the overall 'performance gap' (i.e. the extent to which contracts fail to meet their intended purpose) was on average 27%. Now, it is over 40%. It seems our confidence in contracts as effective instruments of value or control has taken a significant hit and that many are struggling with how to remedy this decline. Should they take actions regarding the contract itself, or look for ways to replace it?

While we know that during the pandemic and beyond, people relied heavily on 'the relationship', we also know that those remain relatively tenuous, and in many cases are being further damaged by more adversarial, or 'take it or leave it', approaches to negotiation. To turn this around, organizations would need to develop new strategies and make significant investments in their relationship management skills and processes.

### The big question: Do contracts fail to meet their intended purpose?



**... as the stats show, confidence in contracts as effective instruments of value or control has taken a significant hit since 2017, and many are struggling with how to remedy this.**

# Effectiveness in fulfilling purpose

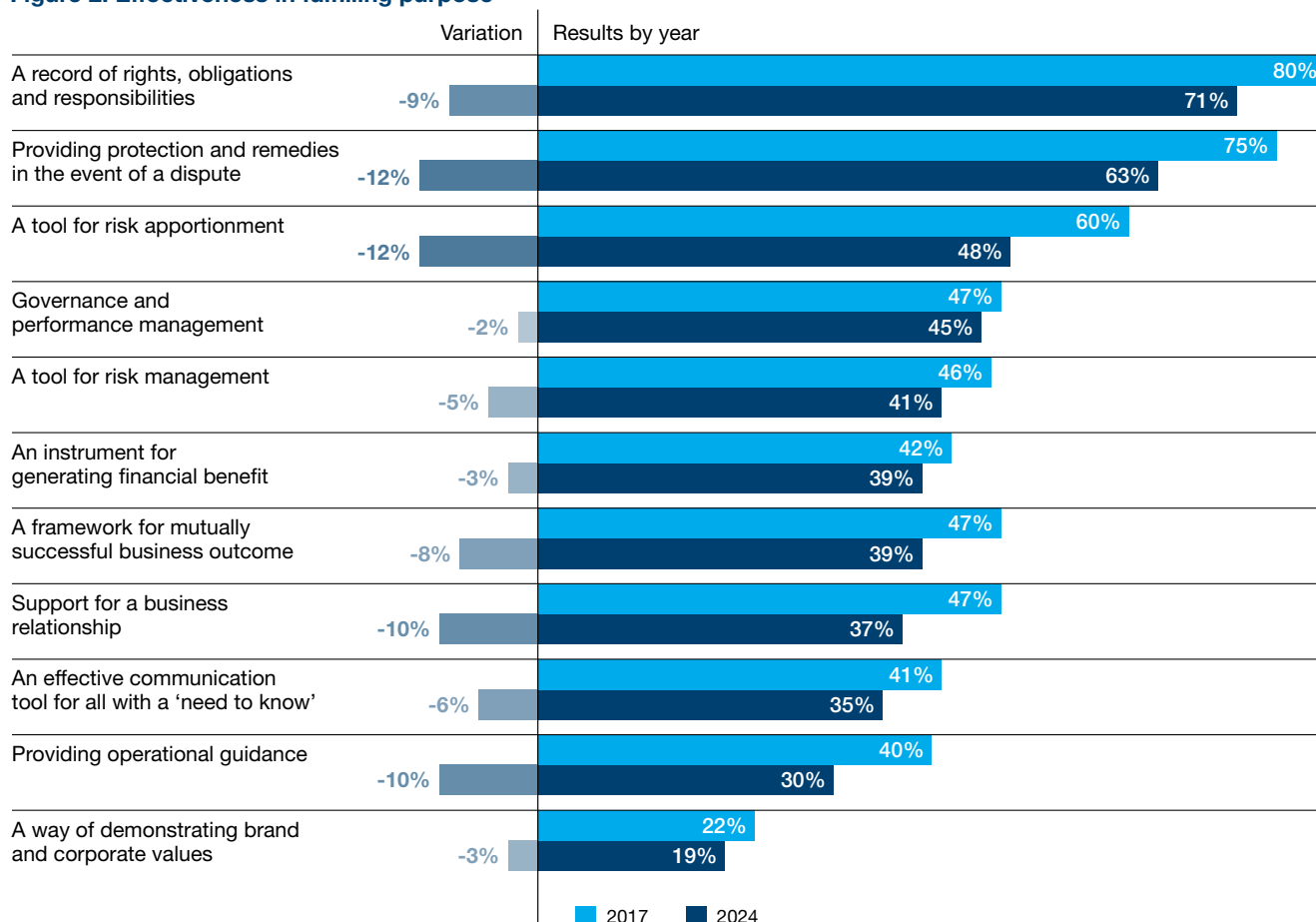
As Figure 2 indicates, contract effectiveness in fulfilling purpose has reduced across all measures in our survey. Even fundamental items like a record of rights, responsibilities and obligations, and protection and remedies in the event of a dispute have declined in effectiveness.

There are numerous reasons why contracts are producing such disappointing results, but high on the list of questions must be 'is anyone doing anything about it?' While a number of the in-depth interviews reveal decisive action, the answer most frequently given is that no one has that responsibility – **there is no owner of the contracting process and resolving the problems is complicated and often highly political.** To illustrate this, the survey data indicates a diverse range of claimed ownership, highlighting the challenges often faced in accountability and clarity.

According to the responses, 24% of participants identified **Contract or Commercial Management** as the primary group responsible for ensuring contracts fulfil their purpose. This suggests that these departments are seen as key players in overseeing the contractual process and ensuring compliance with agreed terms. However, previous WorldCC Benchmark Reports consistently show that operational responsibility for key areas of the contract (e.g. Statements of Work, scope definition, pricing or charging models, cost analysis) typically sit outside the remit of Contract or Commercial Management. For this reason, the 23% of respondents who indicated that there is a collective responsibility for ensuring contracts meet their purpose provides a more accurate depiction of the situation. **This shared approach to responsibility, spanning multiple functions, represents an absence of accountability and a challenge in orchestrating change.**

[Continued next page](#)

**Figure 2: Effectiveness in fulfilling purpose**



## Effectiveness in fulfilling purpose (cont.)

A significant portion, 14%, pointed to the Business Unit as the responsible entity, indicating a tendency for operational teams directly involved in the contract's scope to take ownership. However, 12% reported that responsibility varies and is often unclear, underscoring a potential lack of transparency or consistency in contract management roles. Conversely, 10% noted that while responsibility varies, it is clear who is accountable in each situation, suggesting that **some organizations have well-defined transactional processes, but less clarity when it comes to overall strategies or policies.** This indicates a significant disconnect between senior leadership's strategic objectives and operational delivery, highlighting the need for stronger alignment between strategy and execution to ensure that contract management functions effectively across all levels of the organization.

Other functions such as Procurement, Project Management, and Legal were less frequently identified as primary owners, even though in the case of Legal they are frequently seen as owners of the contract templates.

Overall, the data confirms a varied landscape of responsibility, which inevitably impacts the overall effectiveness of contracts in achieving their purposes, especially when contract-related data is scattered across multiple functions and systems. In this light, the Head of CCM in Americas from a global organization in consulting and technology stated that a significant disconnect often exists between upper management and contracting teams, leading to governance and contract terms that fail to align with the deal's objectives. This misalignment can result in the failure of deals due to differing interests between stakeholders.

Given this situation, the gap between the intended purposes of contracts and their perceived effectiveness in achieving these goals should be no surprise, but the extent of that gap must be a cause for concern and a reason for action. The following analysis examines the extent to which contracts fulfil their intended roles, as identified by respondents in previous surveys and current assessments.

While contracts are somewhat effective in their traditional legal and risk management roles, they struggle to meet broader business expectations such as fostering collaboration, effectively communicating operational guidance, and enhancing corporate values. This analysis suggests a need for a more integrated approach to contract design and management, one that considers the evolving complexities of business relationships and the multifaceted roles that contracts can play. The effectiveness of contracts within organizations is heavily influenced by their clarity and the processes supporting them. Even with the critical role contracts play, many organizations struggle with making them easy to understand and effectively manage.

Despite the strong desire for contracts to serve as tools for driving successful outcomes, the reality is that they still primarily function as documents focused on risk, compliance, and control.

*While these aspects are important, the data shows that contracts are not aligned with the desired outcomes and fail to act as true enablers for navigating the complexities of today's digital economy.*

*Continued next page*



## Effectiveness in fulfilling purpose (cont.)

### Highest effectiveness

A record of rights, obligations, and responsibilities – viewed as effective by

**71%**

With a gap of 23%, contracts are most effective in serving as a record of rights, obligations, and responsibilities. This aligns with the traditional view of contracts as foundational documents in legal and business settings.

Providing protection and remedies in the event of a dispute

**63%**

Contracts are also considered relatively effective in providing legal protection and dispute resolution mechanisms, but with a shortfall of 20%, up 6 points when compared to 2017. This purpose is critical in managing risks and ensuring that parties have recourse in case of disagreements. However, many Legal departments point to the ineffectiveness of their carefully crafted protections due to the failure of the business to properly oversee its rights, obligations and responsibilities.

### Moderate effectiveness

A tool for risk apportionment

**48%**

While contracts are somewhat successful in delineating responsibilities, risk apportionment is a difficult topic and shows under-performance of 31%, up 8 points since 2017. Often this is an issue of power and is exemplified by 'the battle of the forms'. When there are power disparities, the more powerful party may succeed in imposing risk, but with major questions over the counter-party's ability to sustain it.

Governance and performance management and a tool for risk management

**45%**

**41%**

With under-performance gaps of 36% and 33%, these moderate ratings represent a failure by many to introduce more dynamic and adaptable contract terms that can respond to changing circumstances.

### Lower effectiveness

A framework for mutually successful business outcomes

**39%**

There is a notable gap in the effectiveness of contracts in fostering mutually beneficial business relationships. This aligns with earlier findings that indicate a decline in the perception of contracts as tools for achieving collaborative success. The low effectiveness reflects the extent to which contracts are more focused on prevention of outright failure than on supporting success.

An instrument for generating financial benefit

**39%**

and support for a business relationship

**37%**

These low ratings highlight a general disconnect in appreciating the financial and relational benefits associated with contracts and their negotiation. It suggests that while contracts are essential, they are not designed or structured in a way that optimizes their contribution to profitability or relationship-building as much as other business practices.

### Lowest effectiveness

An effective communication tool and providing operational guidance

**35%**

**30%**

This confirms the disconnect between contractual terms and day-to-day business operations, highlighting the need for clearer, more actionable forms of contract which are designed with users in mind.

A way of demonstrating brand and corporate values

**19%**

The lowest effectiveness rating suggests that contracts are not generally perceived as instruments for showcasing a company's values and brand. This finding underscores the notion that contracts are primarily viewed as legal and operational tools rather than strategic or marketing assets.

# Performance gaps in contracting and effectiveness

Responses to the question about general ease of understanding and explaining contracts within the organization, reveal an even 50/50 split, between those finding them easy to understand versus those finding them difficult.

However, it is important to remember that this is how people who are supposedly experts view the instruments they produce. It ignores the fact that, on average, **some 30% of the workforce engages in some way with contracts – and for that 30%, more than 90% say that contracts are difficult or impossible to understand.**

An executive from a Global Supply Chain organization gave this example of a Master Services Agreement (MSA):

*“It was over 105 pages long, not including the Statement of Work (SoW). The contract, even from the perspective of the legal department and contract managers, was difficult to interpret. It contained repetitive and random clauses, leading to a conclusion that these contracts are not fit for purpose. The contract failed to adequately describe the services provided, despite its length.”*

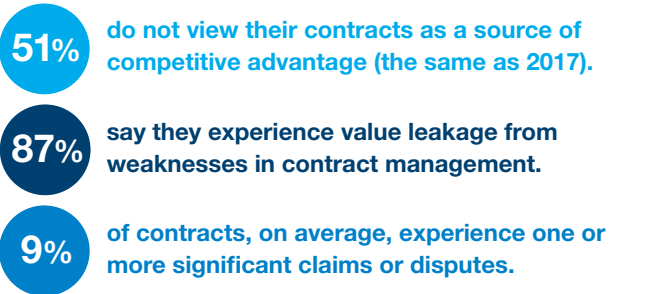
If we want to improve performance, there is a pressing need for improvement in the clarity of contracts. Simplification of design, wording and structure is part of the answer. Deployment of advanced technology is also essential, especially to allow more dynamic change that lets contracts respond to altered requirements or market conditions.

As Figure 3 shows, respondents identified several key areas where contracts often lack clarity, which collectively hinder their effectiveness and accessibility.

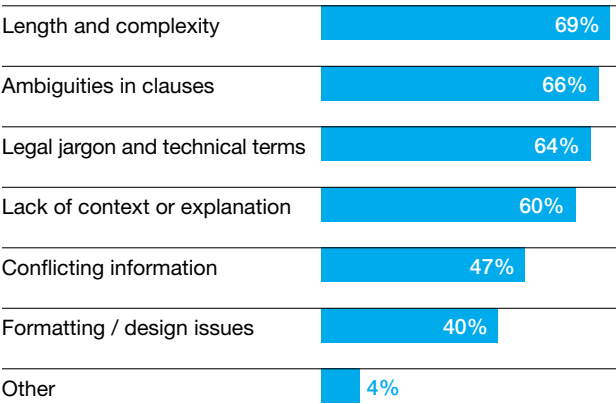
The most prevalent issue is the length and complexity of contracts, making them difficult to navigate, find information and understand. Ambiguities in clauses and the use of legal jargon and technical terms further exacerbate confusion, as these elements can lead to varied interpretations and misunderstandings. The lack of context or explanation for terms and provisions also leaves parties without sufficient background to fully grasp the contract's implications.

Additionally, conflicting information within contracts can create discrepancies, leading to potential errors or disputes. Formatting and design issues, such as poor layout and small fonts, further detract from the readability and usability of contracts. A small percentage of respondents also noted other unique challenges, such as cultural differences and industry-specific complexities. Addressing these issues through clearer drafting, simplified language, and better design can significantly enhance the clarity and effectiveness of contracts, facilitating smoother execution and stronger business relationships.

## Key statistics:



**Figure 3: Areas of contracts that are often unclear**



# Evolving perspectives on contract purposes

Responses to the question about whether the view of a contract's purpose changes depending on its nature and duration were split, with 59% stating that their view of a contract's purpose does change depending on its nature and duration, while 41% did not perceive such a difference.

This suggests that the context and specifics of a contract significantly influence how its purpose is viewed. Additionally, a majority of 54% of respondents felt that contracts are 'moderately reflective' of their brand and corporate values, while 34% agreed that contracts are reflective of these values. **This indicates that while many see some alignment between contracts and corporate identity, there is room for improvement in making contracts more representative of a company's ethos and branding.** These statistics highlight the importance of tailoring contracts not only to the specific business relationship but also to reflect the values and image of the organization, thereby enhancing their strategic role.

Moreover, in terms of contracts reflecting the interdependencies of the ecosystem within which organizations operate, about 20% of respondents rated their contracts as 'poor', indicating that these contracts reflect very few ecosystem interdependencies and require major improvements.

*This rating suggests that many contracts do not fully capture the complexities and interconnectedness of the business environment. While some ecosystem interdependencies are acknowledged, significant gaps remain, highlighting the need for contracts to better address the collaborative and interdependent nature of modern business ecosystems.*

This comprehensive view underscores the importance of contracts not only in formalizing agreements but also in reflecting the broader context and strategic relationships within which organizations operate.



Does a contract's purpose change depending on its nature and duration?

**Yes 59%**  
**No 41%**

# Priorities for improved focus

The Legal Counsel from a multinational technology company was just one of those who stated: *“The purpose of a contract does not end at the signature. Ongoing relevance is essential for the contract’s success.”*

Indeed, when identifying areas where there should be greater focus, a third of respondents emphasized the importance of **prioritizing long-term partnerships over short-term gains**. This indicates a growing recognition of the importance of sustainable relationships in achieving mutual success and stability in business dealings.

*“Contracts should not just be about preserving relationships but should serve as a framework of behaviors that foster growth and success between parties.”*

**Head of Supplier Relationship Management & CCM from one of UK’s leading retailers**

He cited that the key focus should be on how the contract can support the growth and success of the relationship, rather than just ensuring compliance. Long-term partnerships are seen as more beneficial in navigating uncertainties and building trust, compared to the transient nature of short-term agreements.

Not surprisingly, the respondents highlighting this need represented a large proportion of those who understand that the purpose of a contract varies depending on its nature and duration.

Both the **flexibility and adaptability of contract terms and the call for more transparency and clearer communication** are widely understood to be important – an acknowledgment of the dynamic nature of business environments, where rigid contract structures may hinder adaptability to changing circumstances. The demand for transparency and clear communication further underscores the importance of open, honest dialogues during contract formation, which can prevent misunderstandings and align expectations. It is in this regard that negotiations often fail to generate alignment: negotiators are often brought in too late to the process and forced to focus on risk issues, rather than ensuring an appropriate commercial model or opportunities for value.

However, while **risk allocation** is a fundamental aspect of contracts, there may be inadequacies in how risks are identified, assessed, and managed. The increasing complexity of global markets and the variety of risks faced by businesses necessitate a more comprehensive approach to risk and uncertainty analysis and management.

**Key priorities for improved focus are essential for contract success:**

- **long-term partnerships**
- **flexibility and adaptability of terms**
- **transparency and clear communication**
- **comprehensive risk and uncertainty analysis**

# Why don't contracts perform better?

Understanding the reasons behind the suboptimal performance of contracts is crucial for identifying areas for improvement. Here we highlight seven sources of friction and their impact on contract outcomes:

## 1. Inefficient processes and fragmented authority



Users are not empowered to negotiate clauses effectively due to internal conflicts and lack of clear authority. This is compounded by a culture of expediency that degrades contract quality and results in slow negotiation times and outdated requirements.

## 2. Technological and procedural issues



Inadequate digital transformation, reliance on manual processes, and absence of fully integrated Contract Lifecycle Management systems result in inefficiencies and lack of clarity. The process is further burdened when there are complex and / or inconsistent contract terms or templates.

## 3. Resource and leadership constraints



High turnover and understaffing in legal and contract management teams, along with a lack of leadership in contract ownership, result in prolonged review cycles, delayed decision-making, and inconsistent engagement in the contracting process.

## 4. Rigid and transactional contracts



Contracts are often static, transient, and transactional, lacking the agility needed to keep pace with the diverse and complex ecosystems, as well as the dynamic changes in relationships and economic dependencies within the supply chain.

## 5. Misalignment and poor stakeholder management



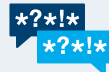
Conflicting KPIs between functions and a lack of alignment between internal teams cause delays and dissatisfaction. Mismanagement of internal stakeholders and unclear responsibilities further exacerbate these issues.

## 6. Compliance and standardization issues



Poor template quality, bureaucratic processes, resistance to change, weak compliance monitoring, and unclear risk management practices contribute to contractual ambiguities, legal risks, and inefficient contract management.

## 7. Client and supplier relationship issues



Challenges with supplier control, unbalanced mutual benefits, and poor contractual outcomes underscore the need for better negotiation practices and relationship management.

### Key statistics:

**76%** reported significant friction and inefficiencies within the contracting process.

**60%** expressed dissatisfaction with their organization's contracting process.

**5%** increase in discontent with the contracting process since 2017.

# What would people like to improve?

The top five areas identified as needing improvement are the essential characteristics and enablers of greater effectiveness, they represent symptoms of the core problem, which is the absence of clear leadership and accountability for producing and maintaining ‘fit for purpose’ contracts and contracting process. This is further explored in the conclusion.

## The top five areas identified by respondents as needing improvement are:

1	Clarity and simplicity
2	Flexibility and adaptability
3	Speed and efficiency
4	Automation and tools
5	Communication and collaboration

The primary concerns reflect a desire for more straightforward and understandable agreements, in addition to the need for contracts to better accommodate changing circumstances and evolving business needs. Case studies suggest that these are indeed effective catalysts for change but are achieved only through senior level support and a clear mandate for action.

Several Commercial and Contract Management (CCM) leaders are observing higher levels of adoption of the organization’s approach for simplifying contracts through visual aids. By integrating flowcharts and graphics, this visual approach aims to make contracts more accessible and easier to understand for all parties involved.

Improving speed and efficiency highlights the demand for more automation and advanced tools. The push for automation suggests that many current processes are bogged down by manual tasks, which can slow down negotiations and execution. Better communication and collaboration during contract management are also essential, as effective interactions can help prevent misunderstandings and align expectations. A Commercial Executive from a major aerospace manufacturer noted the importance of the emphasis on creating contracts that outline ‘who does what’, ‘how do we depend on each other’, and ‘how do we approach challenges’.

**This approach fosters collaboration and ensures that contracts serve as a practical roadmap for the relationship.** Involving Legal or CCM teams early in the process is crucial. While some contracts may be straightforward and not require early involvement, overlooking this can lead to issues later, such as financial concerns or friction points in the relationship.

In contrast, the bottom three priorities identified by respondents – alignment with business goals, training and guidance, and support and resources – are equally critical for operational improvement. While they may not have received as much immediate focus, aligning contract terms, templates and negotiation strategies with business objectives is crucial for ensuring that agreements support the organization’s goals and objectives. Additionally, providing adequate training and guidance is essential for equipping staff with the skills and empowerment to manage complex contracts effectively. Lastly, ensuring sufficient support and resources, including personnel, budget, and technological infrastructure, is fundamental for maintaining a robust contract management capability.

# Conclusion

Key findings suggest that the lack of a unified sense of purpose contributes to issues such as, value leakage and misalignment between goals and expectations. So, what is the purpose of a contract?

## WorldCC's definition of the purpose of a contract:

*"To safeguard and promote the economic and financial interests of the parties by establishing a clear, mutual agreement on their rights, obligations, and expectations. While it includes the theoretical aspect of legal enforceability, its practical value lies in creating a moral and ethical responsibility that encourages parties to fulfil their commitments, fosters trust and cooperation, and provides a framework for resolving disputes. The contract thus serves as both a legal tool and a foundation for achieving mutually beneficial financial outcomes."*

It also means that there is often a lack of investment in building contract management capability. Our interviews in particular emphasize the need for stronger processes, better training, and increased use of technology. While contracts are increasingly recognized for their strategic value, many organizations are not fully utilizing them to manage relationships, demonstrate corporate values, and drive success.

By using a definition such as the one shown here, we are able to make a clear distinction between the core purpose and underlying features or functions. It also means that the quality of performance becomes measurable, and we are therefore able to assess the extent to which our contracts are **'fit for purpose'**.

Stakeholders (business leaders, legal professionals, and contract managers) are urged to improve contract clarity, enhance flexibility, and ensure alignment with business goals.

Lawyers play a crucial role in this process, ensuring contracts are legally sound while collaborating with business professionals to create agreements that are both protective and strategically aligned. Investing in training and technology, fostering collaboration, and embracing transparency in negotiations are critical steps toward transforming contracts into powerful strategic assets.

Looking ahead, contracts will likely shift toward fostering long-term relationships and aligning with corporate social responsibility goals. Technology, particularly advanced contract lifecycle management (CLM) systems and AI, will play a central role in streamlining processes and improving decision-making. The role of contract managers and lawyers will become increasingly strategic, ensuring that contracts deliver on their intended business outcomes.

**Core purpose**  **Underlying features or functions**

**WorldCC's definition of a contract's purpose makes a clear distinction between the core purpose and underlying features or functions.**



# Call to action

**Change is required. Let's rethink some of our ingrained contracting habits:**

- Focus on embracing and elevating the cooperation needed for shared benefit
- Turn contracts into operational manuals clarifying what is being delivered and the value it plays within the business ecosystem
- Define your must-haves in light of the type of trade and the role each of the parties play
- Place these must-haves at the heart of your contracting efforts and move away from the predefined concept of general T&Cs
- Manage risk through pragmatic and operational solutions in-life rather than trying to pre-empt every eventuality upfront and locking these into standard, more restrictive provisions, such as liability and termination
- Redirect your negotiation efforts into managing your contract, your relationships and thus your ecosystem, in-life
- Use data insights to assess whether your contracting framework is still 'fit for purpose' so as to keep in step with changing external circumstances.

**Such changes can only happen if Leadership and Legal and Contracting teams make changes first:**

**Adapt how they approach contracting and are prepared to leave behind their incorrigible legacy approach**

**Lead from the top, embracing these new ways of contracting to drive a change in mindset**

**Take the opportunity to lead and reinvent the practice of contracting**

# Testimonials

## 1. Senior Director, contract management, aerospace and defense

Some years ago, the contracts and commercial function was combined with Legal, and this steadily changed the role of the function and in consequence the purpose of contracts. It wasn't a conscious decision; it was simply that the entire focus became more legalistic. An example is that our approach to the contract terms and negotiation became dominated by risk terms, whereas previously the contracts professionals were more concerned about delivery and performance.

The market uncertainties and volatility of recent years did not result in a formal reappraisal, but it became obvious that the absence of focus and skills in post-award, plus the reduced attention paid to ensuring the quality of things like scope definition and KPIs – were causing problems with customer relationships and margin.

So once again, while the organizational discussions now under way are not specifically related to the purpose of contracts, in effect that is what is happening.

## 2. Program Delivery Manager, Australia's largest electricity provider

### Contract evolution

Over the years, I have witnessed the evolution of contracts through various stages:

**1st generation contracts** These traditional contracts were relatively straightforward, primarily serving as legal documents between a buyer and a seller, focused on the product being exchanged. They typically included standard terms and conditions without much flexibility or user-friendliness. The primary goal was to outline the legal obligations of each party, with little consideration for the practical aspects of service delivery.

**2nd generation contracts** Modern contracts have evolved to be more adaptable and user-friendly, especially in the context of service delivery. They now often incorporate elements such as charts, legal contract design, and process flow charts. These additions are not just cosmetic; they aim to enhance the understanding of deliverables and processes by making the information more accessible and less dependent on strict legal language. This shift reflects a broader trend towards contracts that are easier to navigate and more aligned with the practical needs of the users.

### Current trends in supplier engagement

In the current landscape, suppliers are increasingly seeking clearer and more straightforward information. This shift represents a significant departure from traditional approaches, as suppliers now feel more empowered to challenge the rationale behind certain contract terms. This has fostered a more open and collaborative dialogue between contracting parties, which is a positive development in the sector.

### Collaboration with suppliers

In our organization, we place a strong emphasis on working closely with suppliers. This collaboration is particularly crucial in the energy industry, where technological advancements and regulatory frameworks are continually evolving. Our approach is to remain flexible and agile, ensuring that we can adapt to changes in the market and regulatory environment.

Maintaining clear communication channels is essential to ensuring that all parties understand their roles and responsibilities within the contract. This clarity is vital to the successful execution of contracts and helps to avoid misunderstandings that could lead to disputes.

As contracting professionals, we must be resilient and adaptable to change. This includes accommodating process adjustments and handling volatility in the market. Our focus must always remain on achieving the desired commercial outcomes, despite the challenges that may arise. This resilience and focus are key to ensuring the long-term success of our contracts and relationships with suppliers.

## Testimonials (cont.)

### 3. Global Head of Contract Management, business services

I was very surprised by the survey results, they do not reflect what we are doing at all.

For us, contract management is seen as a critical discipline and its impact on business results is widely acknowledged. Over the last few years, we have worked hard on both legal and contract management to eliminate 'preventist' behavior and to gain a balance between risk and opportunity. That has included far greater and earlier engagement with our account teams to shape the contract strategy and influence customer thinking. It has also meant a growing role in relationship management, with contract management services in high demand because of the role they play in containing risk and realising growth opportunities.

So for us, the contract is very much seen as a multi-faceted instrument – yes, it defines and manages risk, it establishes obligations and responsibilities, it acts as an operational guide. But it also frames our relationships and enables mutual benefits. And naturally it delivers financial outcomes – for both parties.

Our approach has been an evolution and perhaps the pandemic, inflation, supply disruptions hastened that evolution, but I think it has been down to a steady dawning of understanding that good contracting is a real market differentiator and source of value.

### 4. Head of Sales, business services

Our contracts were a problem. They were long, complicated and our sales force absolved themselves from responsibility in getting them to closure. As a result only about 10% of our customer relationships were based on our paper. Lead times to signature were unacceptably long and also unpredictable, which meant revenue and cash flow forecasts were regularly being missed. The pandemic and associated market volatility made things worse as customers became even more risk averse. We needed to take action, but were not clear what that action should be.

Through discussion with WorldCC, I came to understand that a radical contract redesign and simplification might help us remedy this situation. Subsequent experience proved this to be true. My salesforce started to show a new level of ownership and pride in our contract. For the first time they understood the terms and conditions and felt comfortable explaining them.

So what difference did this make? First, the salesforce started to take responsibility for the contract rather than pushing it back onto Legal. This meant that they introduced the contract at the start of the customer engagement and alerted the customer to the likely discussion points. The impact of this has been that today over 70% of the contracts we close are based on our paper. Clearly, this reduces our risk and operational complexity. The effect on cycle time has been equally impressive, with an average reduction of almost 60%. This represents a massive improvement in both sales and legal efficiency. It also means a much faster time to revenue and greater accuracy in forecasting.

Does this add up to a different view of a contract's purpose? The answer is yes. We no longer see it as a battle over risk allocation or risk avoidance; instead, it has become a positive differentiator, it not only manages our risks but also projects our brand values. For me, contract simplification is a catalyst for fundamental improvements in the entire customer engagement and experience.



## Testimonials (cont.)

### 5. Head of CCM, global leader in consulting, technology services and digital transformation

#### Risk allocation and competition

**Current landscape** In today's competitive environment, there is a significant shift in behaviours related to risk allocation. With competition intensifying, parties are often compelled to take on higher levels of risk, which makes negotiations particularly challenging. This trend is reshaping the way deals are approached and finalized.

**Deal dynamics** The drive to secure deals has become increasingly aggressive, leading to tough negotiations. In many cases, the terms and conditions of these deals are unbalanced, which can create long-term issues for the parties involved.

#### Challenges in governance and execution

**Misalignment** A significant challenge in contract governance is the frequent disconnect between upper management and contracting teams. This misalignment often results in governance structures and contract terms that do not align with the overall objectives of the deal, which can jeopardize its success.

**Impact on deals** The misalignment between different stakeholders can lead to the failure of deals. Differing interests and priorities often result in contracts that do not fully support the intended outcomes of the transaction.

#### Friction in negotiations

**Recurrent issues** There are several recurring friction points in negotiations that consistently arise, suggesting a need for better identification and measurement of these issues. Addressing these points can help streamline the negotiation process.

**Potential solutions** The goal is to reduce these friction points, thereby improving the negotiation process and leading to more favorable outcomes for all parties involved.

#### Transformational efforts in CLM

**Revenue and client satisfaction** There is a growing emphasis on balancing revenue generation (50%) with client satisfaction (50%). This balance is crucial for long-term success and is increasingly becoming a key focus area.

**Training and KPIs** Investment in CLM is recognized as valuable, particularly in contributing to key performance indicators such as revenue, bookings, and contribution margins. Training and development in this area are seen as critical to achieving these metrics.

**Data utilization** There is a strong push towards better utilization of data, particularly through AI and generative AI, to leverage data lakes within CLM systems. This approach aims to enhance decision-making and drive more effective contract management practices.

**New operating model** The journey towards a new target operating model is ongoing, with efforts to better integrate CLM and legal functions. This transformation aims to create a more cohesive and efficient framework for managing contracts.



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## Acknowledgements

We would like to extend our deepest gratitude to all those who have contributed to the development and creation of this report.

First and foremost, we are grateful to Peggy Pauwels, Partner in Contracts – Transformation Consulting at Deloitte, the sponsor of this project, for their continued support and commitment throughout this endeavour. Special thanks to Tim Cummins, President and Head of Research and Learning, for his invaluable guidance and strategic direction, which were instrumental in shaping the research framework.

Our sincere appreciation goes to Andrea Alarcon Fernandez for her leadership in managing and executing the research project. We are also grateful to Tara Bevan for her diligent assistance in data information management, ensuring that all the necessary data was accurately compiled and analysed.

We thank everyone involved for their contributions, which have been essential to the successful completion of this report.

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