

Msc pm course notes essay



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Master of Science in Project Management Module 5: Contracts and Procurement Module learning outcomes • • • • Define the criteria for understanding project contracts; Discuss the fundamental concepts of procurement practices; Identify the legal and contractual obligations; Assess the importance of procurement to competitive business performance; Discuss how methods and techniques can be used in handling the extent of financial costing in projects. Week 3: Procurement management: part 1 Learning objectives for Week 3 • • Specifying requirements for procurement Developing a project procurement management plan Selecting and assessing suppliers Introduction This week, you will examine the development of a procurement management plan, requirements, and specifications. You will learn about bids and proposals and the process of selecting suppliers. You also will explore how you can plan for contracting. The recorded lecture begins by introducing you to the procurement management plan. The week concludes with a discussion on planning for contracting. You can play each section as many times as you like and also read the text version.

The textbook readings cover the key learning objectives at a reasonably challenging level. The PowerPoint slides at the end provide useful diagrams and summaries to help you review the main points you have covered during the week. For the assessment, you will discuss a question online and also complete a 1/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B.

V. Last update: August 10 Module 5: Contracts and Procurement Hand-in Assignment demonstrating that you can apply the techniques you have studied. Reading Textbooks Sollish, F. , Semanik, J. , Morris, P. W. G. ed. & Pinto, J. K. ed. 2011. Planning and administering project contracts and procurement. Laureate Education, Inc. , custom ed. Hoboken: John Wiley & Sons. Cavinato, J. L. , Flynn, A. E. & Kaufmann, R. G. (eds.) (2006) Supply management handbook. 7th ed. New York: McGraw-Hill [Online]. Available from: <http://site.ebrary.com.ezproxy.iv.ac.uk/lib/liverpool/docDetail.action?docID=10155019> (Accessed: 19 February 2010). (Please note that the references to these readings can be found in the Weekly Notes text under the headings of the topics to which they relate.) • Specifying requirements for procurement Section 13. 1 of the Sollish, Semanik, Morris & Pinto text explains various concepts related to successful planning and implementation of contracting and procurement strategies. This section highlights the importance of aligning procurement with organisational strategy.

This section also explains supply planning and management strategies. Pages 121–127 of the Cavinato, Flynn, & Kauffman text explain various sourcing models used for defining organisational needs, which help an organisation in effective supply management. • Selecting and assessing suppliers Section 1. 13 of the Sollish, Semanik, Morris & Pinto text explores the importance of information provided by suppliers in generating bids and proposals. This section also stresses the need to keep the confidentiality of supplier information to maintain sound business relationships.

Pages 127–141 of Cavinato, Flynn, & Kauffman text focus on the sourcing process and how suppliers are evaluated and selected. These pages also suggest various approaches for measuring supplier performance.

Supplemental readings Fellowes, Inc. (2010) The importance of records management [Online] Available from: 2/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10

Module 5: Contracts and Procurement http://www.fellowes.com/Fellowes/site/workspace/workspace_article_org_6.aspx (Accessed: 22 April 2010). Office of Government Commerce (OGC) 1 HM Treasury (2009) A formula for success Procurement effectiveness in major project delivery. London: OGC [Online]. Available from: http://www.ogc.gov.uk/documents/A_Formula_for_Success%282%29.pdf (Accessed: 19 May 2010). Office of Government Commerce (OGC) 2 HM Treasury (2010) Contract management in long term or complex projects: Key commercial principles to help ensure value for money. London: OGC [Online].

Available from: http://www.ogc.gov.uk/documents/Contract_Management_in_Complex_Procurement%281%29.pdf (Accessed: 19 May 2010). Project Management Institute (2008) A guide to the project management body of knowledge (PMBOK). 4th ed. Newton Square: Project Management Institute. 3/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images <https://assignbuster.com/msc-pm-course-notes-essay/>

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Week 3: Procurement management: part 1 Weekly Notes Week 3

introduction A very important development in project management during the past decade is the manner in which logistics and concern for supply chain functions affect the way projects are developed. This week you examine the components of a project procurement management plan with an emphasis on the importance of well-defined requirements and specifications. You analyse the complex organisational framework in which project managers must participate to ensure the procurement needs of the project will be addressed.

In all strategic projects, senior stakeholders will find considerable advantage in developing their policy and strategic thinking through business-to-business engagement of their potential suppliers—developing a stronger understanding of the art of the possible and preparing to better manage uncertainty (Office of Government Commerce 1 HM Treasury, 2009, p. 5).

Specifying requirements for procurement Textbook reading (Sollish, Semanik, Morris & Pinto: Section 13. 1) Online reading (Cavinato, Flynn, & Kauffman: pp. 21–127) The project manager’s analysis of a project’s procurement requirements takes place within the larger organisational context where supply-planning and supply-management strategies stem from the long-term needs of the organisation as the organisation responds to external factors such as procurement trends and supply issues affecting goods or material required by the organisation. The Office of Government Commerce (OGC) suggests that defining procurement requirements in terms

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of outputs and outcomes not only allows for innovative proposals, but also accommodates the possibility of change (OGC, 2010, p.). The OGC's approach to requirements definition focusses on what needs to be produced or acquired—not on how the delivery will take place. Flynn (in Cavinato, Flynn, & Kauffman, 2007, p. 121) defines 'sourcing' as 'the process of identifying potential sources that could provide needed products or services'. The author's definition of 'knowledge-based supply management' emphasises the complex requirements that must be understood for an organisation's procurement processes to be successful.

Flynn describes knowledge-based supply management as a process that is driven by knowledge about customers, organisational strategy, the economy, the supply base, and other factors that influence the ability of supply and suppliers to contribute to the organisation's long-term success. 4/14

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V. Last update: August 10 Module 5: Contracts and Procurement According to Flynn, supply is uniquely positioned to synthesise the information and input from three distinct sources: internal business partners, the supply base, and the customer base. Flynn compares a spend-driven sourcing model to a risk-driven sourcing model in their approaches to accomplish the operational goal of delivering the right goods or services at the right time, at the right service level in the right quantity, at the right price from the right source (pp. 22–124). The commitment to total quality management is a key component of

both models. Where a procurement department exists, that department's objectives are linked to the organisation's strategic goals and also must be taken into account by the project manager. Examples of procurement department objectives might include the following (Sollish, Semanik, Morris & Pinto, 2011):

- Reduce the average cost of materials.
- Hold quarterly business review with the main suppliers on the approved supplier list.

Develop a training programme to qualify members of the staff as certified procurement professionals. It is within this organisational framework that project managers lead project teams through the creation of procurement management plans and the determination of the procurement requirements unique to their projects. Developing a project procurement management plan In the context of the organisation's procurement framework of policies and procedures, the project manager leads the project team through the creation of a project procurement management plan.

According to A Guide to the Project Management Body of Knowledge (PMBOK; 2008), the project's procurement management plan should describe how the procurement process will be managed from developing procurement documents through contract closure. The procurement management plan can be formal or informal, highly detailed or broadly framed, and it is based on the needs of each project. Planning the project's procurement process is an integral part of the overall planning phase of the project.

The project manager, with the support of the project team, will utilise the project's requirements documentation, scope statement, and work

breakdown structure (WBS) as inputs to the procurement management plan.

Complying with regulatory obligations (health, safety, environmental, permits) may also impact options for procurement. The project's

procurement management plan must also comply with organisational procurement policies and procedures and answer questions such as: Is the

project manager authorised to contact potential vendors directly? Does

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Contracts and Procurement organisation maintain an approved vendor

database? Many interdependencies and constraints impact the development

and execution of the procurement management plan. Depending on the size

and complexity of the project, the procurement management plan can do

the following (adapted from the PMBOK, 2008, pp. 24–325): • • Specify

make-or-buy decisions. Identify types of contracts or agreements that will be

used. Assess risk management issues and strategies. The UK OGC

emphasises that risk is an intrinsic element of complex procurement. Any

approach to engage suppliers to support the delivery of complex projects

should be based on a clear understanding of the risks involved, as well as

how and by whom they might be managed and owned. The OGC

recommends early engagement with potential suppliers to provide the

opportunity to explore their understanding of possible risks and their ability

to manage them (OGC, 2009, p. 7). Design standardised procurement

documents that will be created throughout the project, including the use of

specific forms and templates required by the organisation. Determine how

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procurement activities will be coordinated with the other project aspects. Define roles and responsibilities of the project team and of the organisation's contracting and purchasing department. This portion of the procurement plan defines which process is owned by whom. For example, a project involving the renovation of the City of Cambridge involved tendering for rebuilding a wrought-iron bridge on the river Cam as one of the procured items.

The procurement management plan for that renovation project specifically designated individuals who owned the process for developing requirements and who owned the bidding process. Establish the form and format to be used for the procurement/contract statements of work, including procurement metrics used to manage contracts and to evaluate suppliers. A procurement plan identifies templates that should be used for procurement documents. This includes templates for requirements, specifications, bids, and requests for information (RFI), requests for proposal (RFP), and requests for quote (RFQ) documents.

Identification of these templates is especially useful for large and complex projects. • • • 6/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement A procurement management plan, like the majority of the project planning documents, is a document which needs to be updated throughout the project's life cycle by utilising the project's change management process.

Increasingly, organisations use online tools to develop and maintain the plans and continuously update the information contained therein. Project managers need to make sure that the initial procurement management plan and its components are appropriately communicated to relevant stakeholders and that any modifications to it are shared in a timely manner and follow the agreed-upon approval process. In the management of projects, documents undergo modifications and take different forms during their life cycles.

The life cycle of a document may broadly be categorised into the following phases: development, base-lining, change management, storage, and archival. The procurement process generates a large number of documents. Most of these documents are legally binding, and many of them have stringent management and retention requirements by law. Project managers ensure that documents created during the project life cycle are maintained and archived appropriately. Different countries/regions have diverse documentation management and retention requirements.

For example, the Sarbanes-Oxley Act in the US and the Data Protection Act in the EU govern retention requirements for legal and financial documents. As more and more documents are now generated in the electronic form, requirements for retention of electronic records and for enabling their e-discovery have been defined in these acts. Project managers should be aware of documentation management requirements for different procurement documents. Electronic documentation management systems are often used to maintain not only e-documents but also scanned paper documents.

Selecting and assessing suppliers Textbook reading (Sollish, Semanik, Morris & Pinto: Section 1. 13) Online reading (Cavinato, Flynn, & Kauffman: pp. 127–141) According to Flynn (in Cavinato, Flynn, & Kauffman, 2006, p. 127) the sourcing process includes the generation of a possible list of suppliers and the analysis of which suppliers should be included and excluded from the candidates under consideration. The author notes that research on decisionmaking suggests that a failure to generate a wide range of alternatives often results in a suboptimal decision.

The author concludes that because of this effect on the outcome, sourcing is a critical juncture in the acquisition process. As a result, Flynn recommends treating sourcing as a two-stage process: 7/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement 1. Identify a broad range of suppliers that might be worthy of consideration; and 2.

Narrow the list to a reasonable number for more in-depth analysis and selection. When procurement plays a major role in a project, the project manager should actively participate in the buying team’s discussion of the following strategic questions, which are discussed in detail in Cavinato, Flynn, & Kauffman (pp. 128–132):

- Existing or new supplier: Is the existing supplier performing adequately, or should the sourcing team consider other sources?
- Number of suppliers: Can the risks be minimised and the opportunities maximised best through a single source or through multiple sources?

Supply-based rationalisation means determining the optimal number of suppliers for any given requirement. In some cases this may mean adding, not eliminating, suppliers. Size of supplier: Will the short- and long-term needs of the organisation, and ultimately those of the final customer, be met best by a small, medium, or large supplier? Location and proximity: Will a local, national, or global supplier best serve the needs of the buying organisation? Does proximity matter? If so, how close does the supplier or one of its facilities need to be in relation to the buying organisation or one of its facilities?

Type of relationship: What type of buyer-supplier relationship should be developed? Is an alliance or partnership warranted? Is the purchase of strategic or operational importance? Contract length: Is the contract (relationship) designed to be short-, medium-, or long-term? The UK OGC indicates that a longer contract allows for the potential of a greater investment and more innovation, but may also be restrictive and not suitable where there is a high uncertainty or instability and potential of change (OGC, 2010, p. 3).

Type of supplier: Can the need be met best by a manufacturer, wholesaler, reseller, contract manufacturer or other outsourced third party? Social, political, and environmental considerations: Are there any social, political, or environmental concerns that might heavily influence the loss of potential sources? • • • • • 8/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B.

V. Last update: August 10 Module 5: Contracts and Procurement • Financial stability: Are the potential sources financially viable? Week 3 summary An organisation's procurement processes have a significant impact on the project manager's roles and responsibilities in planning and executing any project with a need for outside products or services. Specifying projectspecific procurement requirements is based on the project manager's understanding and application of the organisational supply planning and supply management strategies and procedures.

Within this context, the project manager is responsible for leading the project team through the development and approval of the project's procurement management plan. The project manager coordinates the development, storage, and archival of the documentation associated with the project. Documentation management requirements and regulations vary by organisation, industry, and regions, so it is the project manager's responsibility to be aware of those requirements and to ensure that documentation is completed accurately and in a timely manner.

The project manager documents the description of the items, the schedule, budget, terms and conditions, and any other constraints placed on the procurable item by specific project needs. After outlining the details of the requirements and specifications, the project manager may be part of the sourcing team responsible for soliciting bids and proposals from potential suppliers. The project manager ensures that the information gathered during this part of the procurement process is shared with the pertinent project stakeholders and included as appropriate in updates to the project's procurement management plan.

This generally includes mapping the procurement plan to the overall WBS and project schedule. The project manager's input is critical in assisting senior stakeholders in the identification of areas where potential highprobability risks can be transformed into lower-probability risks through insightful make-or-buy decisions. The project manager works with the appropriate groups or individuals within the performing organisation to manage and control the procurement process from the contracting stage through to the end of the project. References Fellowes, Inc. 2010) The importance of records management [Online] Available from: http://www.fellowes.com/Fellowes/site/workspace/workspace_article_org_6.aspx (Accessed: 22 April 2010). 9/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement Office of Government Commerce (OGC) 1 HM Treasury (2009) A formula for success Procurement effectiveness in major project delivery.

London: OGC [Online]. Available from: http://www.ogc.gov.uk/documents/A_Formula_for_Success%282%29.pdf (Accessed: 19 May

2010). Office of Government Commerce (OGC) 2 HM Treasury (2010)

Contract management in long term or complex projects: Key commercial principles to help ensure value for money. London: OGC [Online]. Available from: http://www.ogc.gov.uk/documents/Contract_Management_in_Complex_Procurement%281%29.pdf (Accessed: 19 May 2010). Project Management Institute (2008) A guide

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to the project management body of knowledge (PMBOK). 4th ed. Newton Square: Project Management Institute. 0/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement Contracts and Procurement Week 3 Procurement management: part 1 On completion of the module, students should be able to: ? Define the criteria for understanding project contracts. ? Discuss the fundamental concepts of procurement practices. Identify the legal and contractual obligations. ? Assess the importance of procurement to competitive business performance. ? Discuss how methods and techniques can be used in handling the extent of financial costing in projects. 11/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement This week's topics are: Specifying requirements for procurement ? Developing a project procurement management plan ? Selecting and assessing suppliers Specifying requirements for procurement The Office of Government Commerce suggests that defining procurement requirements in terms of outputs and outcomes not only allows for innovative proposals, but also accommodates the possibility of change (Office of Government Commerce (OGC) 2 p. 3). The author of this week's reading defines knowledgebased supply management with an emphasis on the complex requirements that must be understood for an organisation's procurement processes to be

successful. 12/14 Copyright – Laureate Online Education © All rights reserved, 2000 – 2009, The module, in all its parts: syllabus, guidelines, lectures, discussion questions, technical notes, images and any additional material is copyrighted by Laureate Online Education B. V. Last update: August 10 Module 5: Contracts and Procurement Developing a project procurement management plan The procurement management plan can be formal or informal, highly detailed or broadly framed, and is based on the needs of each project.

A procurement management plan, like the majority of the project planning documents, is a document which needs to be updated throughout the project's life cycle by utilising the project's change management process.

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Sourcing is a critical juncture in the acquisition process. The author of this week's reading suggests treating sourcing as a two-stage process: 1. Identify a wide range of suppliers 2. Narrow the list to a smaller number for more in-depth analysis and selection Here is a list of questions that a project manager should participate in answering, if procurement plays a major role in a project: Is this an existing or new supplier? What is the number of suppliers needed? What is the size of the supplier? What is the location and proximity?

What is the relationship between the supplier and the buyer? What is the contract length? What type of supplier is needed? Are there any social, political, or environmental concerns? Are the sources financially stable?

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