Research paper on types of contract for small and large businesses

Business, Company

Types of contracts:

There are three types of government contracts two of which are; fixed price contracts and cost reimbursable contracts. Fixed price contracts are those that the price is negotiated at the beginning of the contract; thereafter the price remains constant for the entire period of the contract. Cost reimbursable involves the government paying directly for the cost of doing the work; this type of contract has a scheme for giving a fee or profit for the contractor (Blum, 2011). The main advantage of a fixed price contract is that the price of the contract is known at the beginning of the contract, this is a major drawback for the cost reimbursable contract.

Another advantages of fixed price contracts is that the high risk due to the uncertainty in the cost of variable elements give a big estimate for the cost, in case the variable elements do not reach the anticipated costs then the company can make heavy savings. This type of contract however faces a high risk in terms of cost of the elements involved; a hike in the cost of the business would reduce the anticipated profits or even bring about losses

(Kaplow & Shavell, 2004). For the cost reimbursable contract, there are the benefits of being free of any risks and the contractor may take an unfinished design as the costs can be fixed thereafter. The major disadvantage as highlighted is before is that there is high uncertainty at the beginning of the contract on what the cost will be (Emanuel, 2006).

Opportunities for small businesses:

A small business is easier to manage compared to a large business. A small business has lesser departments, employees, and activities. Coordination of the business is very important in the productivity and efficiency of in attaining the objectives. The communication and flow of funds between departments is also easier and efficient besides there being a personal touch between the management and the employees. There is also a narrow focus as they are not involved in many activities in the case of a large business it would be a big task to achieve such a capacity of management (Kaplow & Shavell, 2004).

Flexibility in decision-making and high responsiveness is another opportunity enjoyed by small businesses over large businesses. This is especially when there are emerging issues that need to be addressed in short time but have a major impact in a business. They can also change their model to align with the trends in the market. This is because for small businesses the decisions are made by few individuals, as there are few stakeholders. Few decisions makers also means the consensus is easily arrived at. Besides, the legal procedures are not sophisticated and labyrinthine. This would not be the case with large businesses, which have complex decision-making systems.

This gives small businesses an upper hand over their large counterparts who may loose on short notice opportunities (Blum, 2011).

Another a major opportunity for small businesses is the ease of access to capital; small businesses need less capital to start and run. This would not be difficult to get as one can use savings or loans. Such loans would not be difficult to get, as their magnitude pose no serious consequences to the financial institution. This would not be the case with large businesses requiring big capital bases. Small businesses can therefore invest easily and without concerns on capital availability (Frey, 2005).

Contracts for small businesses:

Uncertainty in the cost and requirement of the contract poses is a big trouble for small businesses. This is because such a business might not have the necessary mechanisms to procure the needs that might arise in the process of the business. There could for instance arise a need for more employees during the process, there could also be needs that the business may have not handled in the past, such would bring so much trouble to small businesses (Frey, 2005).

The most favorable contract type for my business would be the cost reimbursement contract. This is because taking such a contract is not very risk to the business. The contract gives convenience to the company in the face of the dynamics in the market that would otherwise see the company exposed to risks of incurring losses. There is also much supervision from the contracting entity (government or other entity) the company is therefore going to meet the exact expectations of the contract bringing about no conflict or subversion of expectations (Blum, 2011).

Contracts for large businesses:

For a large business, the best contract type would be fixed price contract. Many features of this contract favor small businesses. First is that there is certainty in the costs of meeting the entire contracts; this would be suitable for the company as it can set up its mechanisms to see to it that they meet all the requirements. Besides, with the magnitude of their transactions, large companies are in a better position to make projections on what they may incur, they can also afford the required consultancy for such a risky endeavor (Kaplow, L., & Shavell, S. (2004). In the event that the expected expenditure is below those anticipated, the company is going to make huge gains, there is also the risk of the company incurring more expenses than anticipated, this is likely to reduce the profits and even cause losses. For big companies however, such risks are worth taking, this is because they have wide activities in such a way that loss in one may be shouldered by the others. Were such a company to take a cost reimbursement contract, the potential for the profits would not be equally high (Frey, 2005).

Plan for justification of the government to give contract:

References:

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Frey, R. S. (2005). Successful proposal strategies for small businesses using knowledge management to win government, private-sector, and international contracts (4th ed.). Boston: Artech House.

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