

## Characteristics of effective contracts

There are a number of key characteristics of an effective contract that you should consider:

- **Precise** - you should clearly specify cost and performance requirements in the contract.
- **Complete** - a complete and detailed contract will limit the likelihood of disputes and the need for costly renegotiations at a later stage.
- **Incentive-based** - you should set the contract up to get the desired performance levels from the supplier. An important part of this process is ensuring that both the buyer and supplier have shared objectives such as performance improvement.
- **Balanced** - a contract should be balanced protecting the interests of both the buyer and the supplier. Attempts at employing clauses to obtain benefits for only one side of the relationship will be corrosive with both parties losing.
- **Flexible** - you should write medium and long-term contracts to allow for changes in technology and the prevailing business conditions. Flexibility clauses should be written into the contract for both the buyer and the supplier to allow for changes in the business environment.