SMEs and Contract Management; an Empirical Study on Turkish Companies

Farzaneh Soleimani ZOGHI[1]

Abstract

Contract has historically been seen as a legal instrument for regulating exchanges between two parties. Recent researches on contract management, however, have been specified other functions for contract such as controlling, coordination, communication, interpretation and risk reducing functions. The relationship between risk and contract has been recognized in contract management literature for many years. In fact it has been assumed that the main function of contract is to control the consequences of risks that are associated with losses. The aim of current study is to measure enterprises' attitudes towards the importance and effectiveness of contracts in dealing with risks in Turkish SMEs. Moreover, this study seeks to reveal how contract management is currently being practiced by SMEs of different sectors in Turkey. In another word, the study endeavors to determine the interdependency of industrial sector of SMEs and their contractual management approach.

The sample has been developed from 2000 SMEs working in different industrial sector and zone in Turkey and data has been collected by using survey. From 200 total responses 192 of them has been found qualified for statistical analysis.

Since data have been gathered by using categorical and multiple response questions with nominal and ordinal scales, Chi square test has been run for analyzing data. The results of Chi- square test have revealed evidence of relationship and association between variables in many cases.

Key words: Contract, Contractual Risk Management, Contract Knowledge Management (CKM) Model, Small and Medium Sized Enterprises (SMEs)

[1] Research Associate, Lecturer, SRH University of Applied Sciences Berlin
E-mail: farzaneh.zoghi@srh-hochschule-berlin.de

Özet

Sözleşme, tarihsel olarak iki taraf arasındaki alışverişi düzenleyen yasal bir araç olarak görülmüştür. Bununla birlikte, sözleşme yönetimi ile ilgili son zamanlarda yapılan araştırmalarda, sözleşme için kontrol, koordinasyon, iletişim, yorumlama ve risk azaltma işlevleri gibi diğer işlevler de dikkate alınmıştır. Sözleşme yönetimi literatüründe, risk ve sözleşme arasındaki ilişkinin varlığı uzun yıllar boyunca kabul edilmiştir. Aslında sözleşmenin temel işlevinin, risklerin sonuçlarını kontrol etmek olduğu varsayılmıştır.

Bu çalışmada, Türkiye'deki KOBİ'lere yönelik sözleşmelerin önemi ve etkinliği konusundaki tutumların ölçülmesi amaçlanmıştır. Ayrıca, bu çalışma, sözleşme yönetiminin, şu anda Türkiye'de farklı sektörlerde yer alan KOBİ'ler tarafından nasıl uygulandığını da ortaya koymaktadır.

Örneklem, Türkiye'de farklı endüstriyel sektör ve bölgede çalışan 2000 KOBİ'den geliştirilmiş olup, veriler anket kullanılarak toplanmıştır. Toplam 200 yanıttan 192'si istatistiksel analiz için uygun bulunmuştur. Veriler, nominal ve sıra ölçekleri ile kategorik ve çoklu yanıt soruları kullanılarak toplandığından, verileri analiz etmek için Ki-kare testi uygulanmıştır. Ki- kare testinin sonuçları, birçok durumda değişkenler arasındaki ilişki ve ilişki kanıtlarını ortaya koymuştur.

Key words: Sözleşme, Sözleşmeli Risk Yönetimi, Sözleşme Bilgisi Yönetimi Modeli, Küçük ve Orta Ölçekli İşletmeler (KOBİ)

Introduction

Contracts have historically been seen as purely legal instrument that regulate reciprocal exchanges between two parties (Aberdeen Group, 2007; Arrighetti, Bachmann and Deakin, 1997; Eigen, 2012). Recent research on contract management, however, has been specified two different functions for contract; control function and coordination function. Control function is about maximizing operational and financial performance and reducing uncertainty and risks by monitoring other party's actions. Coordination function, however, is about building strong ties and trust to facilitate communication and cooperation between parties (Reuer and Arino, 2007; Schuhmann and Eichhorn, 2015).

According to Roxenhall and Ghauri (2004) three reasons lead to writing of a contract; one party wants to use contract to transmit information to another party, a desire to reduce perceived uncertainty and finally, because *"it is customary to do so*. Authors argue that organization are using contract in three different ways; firstly, they use it as a proof in case of conflict to refer to the rights and duties agreed upon, Secondly they use it to control individuals within and outside the company (individuals in other party or even competitors), and thirdly they use contract as interpretation instrument to interpret those parts of the contract that were not explicitly expressed.

Schuhmann and Eichhorn (2015) argue that the optimal potential of contract in managing transactions, and risks associated with them has not been addressed properly yet. The need for a comprehensive framework for managing contracts leads them to develop a model, Contractual Management Model (CMM), which enhances management with using an optimal contract process. Consequently, their model integrates risk management, transaction management and knowledge management to the process of contract management.

The aim of current study is to measure enterprises' attitudes towards the importance and effectiveness of contract in dealing with risks in Turkish

SMEs. Top factors which drive Turkish SMEs' attention to focus on contract management are the focal point of current study.

This paper will discuss about following concepts; contract definition and types, various contract phases and steps, Contract Knowledge Management (CKM) model which can be employed to reduce the effect of risks that exist in different level of any exchange and finally the challenges of employing an effective contract management process in SMEs and its outcomes.

Most of empirical studies of contract law have been limited to a single industry. This paper seeks to provide a broader picture of the contract management practices of different industrial sectors in Turkey.

1. Contract Management Definition and Types

Contract has been defined as an agreement that is enforceable at law. It is basically an instrument that helps enterprises to govern their relationships with other parties (www.VIU.com). It is *"a product of bilaterally exchanged commitments freely negotiated and agreed upon by parties"*.

There are five assumptions that explain contracting parties behavior according to free market contracting theme; parties know what they want, they have clear expectations from counterparts as well, they know when they enter into contract, they feel commitment to perform as obligated by contract and they know when they breach the contract.

There is a wide gap between above mentioned assumptions and the reality of contract law usage and experience. This is one of the driving forces behind the increase of empirical works on contract law in recent years (Eigen, 2012).

Williamson (1985) classified contract law to three different types: classical, neoclassical and relational. Classical contract law has been defined as a type of contract law that is relevant to an exchange associated with high uncertainty and ambiguity of expectations. So the role of classical contract is to clearly express parties' rights and obligations. In neoclassical contract law, however, parties agree on negotiation in case of hardship or change of circumstances. Finally, relational contract law has been defined as a type of contract law that is relevant to an exchange that has no certain starting and ending point and obligations which may or may not be expressed clearly, are emerged from relationship between parties.

Doing business without having a written contract, however, is not problem for companies that know their customers and suppliers well and trust on each other. Researchers believe that trust is a key element in cooperative relationships and it helps in reducing partner's opportunistic behavior, lowering transaction costs, facilitating dispute resolution and reducing the need for obligatory and formal contracting (Das and Teng, 2001).

Increasing level of trust between parties may decrease the importance of contract. Contract may have a critical role in the early stages of an exchange, however, trust can reduce the specification and monitoring of contracts and decrease uncertainty as cooperative behavior and trust emerge between partners (Nooteboom, Berger and Noorderhaven, 1997).

Moreover, many researches indicate that firms react differently to similar challenges in different types of economies. Based on "Institutional theory", some factors such as society, economics, and politics constitute an institutional structure which firms impose on their dealings with other parties (Scott, 2005). If the legal system, for example, in a society is not strong and supportive, contracting parties will not trust on legal system as an institutional factor and will prefer informal arrangements between them, however it could results in some imperfections such as cheating, free riding etc. in the market (North, 1991). (12).

In addition, the impact of culture on managers' decision making process has been explored in organizational science for many years. By assuming that risk definition and risk management behavior may be formed under the effect of social culture, Anil and Cakir (2015) measured the effect of cultural differences on risk management practices among Turkish and

German SMEs (13). By applying Hofstede's cultural dimensions theory, Schuhmann and Zoghi (2016) investigated the impact of national culture on risk management practice between German and Turkish SMEs as well. The results indicated significant differences in risk perception and risk related decision-making between German and Turkish enterprises (14).

Although contract management has been mostly considered as lawyer's work and its importance in establishing long term business relationship between partners has been sporadically considered, literature of contract management indicate it as a crucial activity in determining the success of any business arrangement and transaction (Gutterman, 2013).

2. Different Phases of Contract Management Process

Contract management is not just about contract itself. It establishes a connected cycle of different processes such as negotiation, execution, modification and termination which companies may use to manage their relationships and exchanges with different parties.

Different disciplines view contract differently; financial executives consider contract as assets management, lawyers see the control function of contract as litigation avoidance activity, engineers use contract to perform the project, sellers are concern about customer satisfaction and buyers equate it as guaranty for contract compliance. However, having an effective contract management for the success of a transaction is compatible among all these viewpoints (Hirsch, 1986, p.p. 2).

Beyond legal issues, it is important to consider risk management associated to all phases of effective contract management process. Major risks found in contracting may have different underlying causes; they may arise from including unnecessary needs or omitting the important ones (scope problem), they may arise from failing to choose the right partner with required skills, experiences and attitudes and finally they may arise from considering the cost as the only criteria to choose the partner (cheapest contractor) (www.CIPS.com).

Generally speaking contract management includes three main phases including management of contract negotiation, contract performance and contract ending. Each phase can have different steps based on the nature of the proposed activities;

2.1. Managing the Negotiation of the Contract

Managing the negotiation of the contract includes pre-contractual activities and assisting the drafting; *Pre-contractual activities* consist of three steps including preparing the business case, risk auditing and negotiation of pre-contractual agreement. Preparing the business case is done by identifying the scope of the transaction and the purpose of contract for involved parties. Risk auditing is done by identifying risks, evaluating the likelihood of their occurrence and the importance of their impact and allocating responsibilities among the contracting parties. In negotiation of pre-contractual agreement, parties develop a joint strategy to determine how the contract will work after being drafted. *Drafting* helps decision makers to review the contract again. The final draft shows the outcomes of the contract by considering risks and defining obligations.

2.2. Managing the Performance of the Contract

Managing the performance of the contract consist of three steps including listing the key deadlines, managing the quality and continuity of the performance. *Scheduling deadlines* are crucial in managing contract performance. The lack of deadline may leave parties without resources for breach of contract. *The quality of performance* has to be measured; it should be adapted to the parties' agreement and expectations, the value of money should not decrease over time and achieving a mutual improvement is an important aspect of contract management. *Continuity of performance* has to be considered in case of disorders and disputes which damaging the performance.

2.3. Managing the Ending of Contract

Managing the ending of contract consists of two steps including managing the exit from the contract and consequences of the contract ending. Once the obligations have been fulfilled the contract will end in accordance with its terms. Keeping full and accurate records of the contract and related transactions is important for the purpose of proof. The last step of an effective contract management is to prepare a post-contractual analysis to assess the business case benefits and its potential improvement (Lagrange and others, 2016).

3. Contractual Risk Management

The integration of contract and risk management has been put forward as "Contractual risk management theory" by Keskitalo (2000). According to this theory, contract should include terms that ensure that the contracting party has sufficiently protected the entity against the risk of financial loss. The main focus of Keskitalo's theory is corporate governance and it neglects the important role of contract as planning and managing the transaction (Schuhmann and Eichhorn, 2015).

The importance of knowledge management "as catalyst for contractual management" and its integration in contract process has been discussed earlier under Contract Knowledge Management (CKM) Model. The model has two dimensions; input dimension which refers to the process of identifying, acquiring, developing and evaluating the knowledge and output dimension which refers to supplying information and supporting decision makers for a specific transaction. Schuhmann and Eichhorn (2011) argue that by integrating risk management, transaction management and knowledge management and aligning them toward the contract process, contract can contribute to the management of the enterprise, business unit and transaction more effectively. Following is a summary of authors' CKM model which uses contract as an instrument to corporate controlling by linking four business domains consisting of contract, transaction, risk management and knowledge management.

4. Contract Knowledge Management (CKM) Model

CKM model consist of three main phases (Pre-Award, Award and Post-Award phases) in three different levels (Contract management, Transaction Management for both Buyers and Sellers and Risk Analysis).

4.1. The Pre-Award Phase

The pre-award phase plays a key role in contract management process. It consist of following steps carried out by buyers and sellers ; *Procurement planning* is a process of identifying which needs would be met the best by procuring product. There are several tools and techniques that are applicable for this step such as make-or-buy analysis, expert judgement, and etc. *Solicitation planning* necessitates preparation of documents such as request for proposals (RFP). *Solicitation* step requires gathering information -bids and proposals- from perspective sellers. *Pre-sales activity* is a process of understanding and influencing potential buyers' needs and expectations. Proactive sales management, market research and competitive analysis can be used as tools and techniques in pre-sales step. *Bid/ no bid decision-making* is about evaluating risks and opportunities, and making decisions which are beneficial for the company.

Information, Risk Profiling and Preliminary Agreements are different considerations in Risk analysis level of CKM Berlin model; *Gathering information* has significant importance for both parties. Information obtained from past proposals plays crucial role in clarifying objectives and strategies. *Risk profiling* describes the level of risk which is acceptable for the company, and examines how it will affect decision making and corporate strategy. Risk profiling provides an overview of potential risks and leads to preliminary agreements. *Preliminary agreement* is a contract which is prior to main contract. It clarifies the workload which has been done in the pre-award phase and communicates expectations of both parties.

4.2. Award Phase

Award phase consist of different activities in different levels. Source selection for buyers and contract negotiation and formation for sellers plays significant role in this phase. Risk profiling is about reducing risks which can arise from conflicts. Conflicts might be a result of cultural differences or incompatible objectives.

4.3. Post-Award Phase

Post-Award phase consist of contract administration (checking terms and conditions of the contract, contract closeout /termination (if it makes sense to continue it) and contract evaluation and documentation (what we learned from this endeavor) for both parties. In risk analysis level Post-Award phase include analyzing performance of the contract, termination of the contract and controlling of the contracts (Schuhmann and Eichhorn, 2011).

5. Small and Medium Sized Enterprises (SMEs) Definition

According to European Commission, SMEs are defined as businesses which employ less than 250 staff and have an annual turnover of less than EUR 50 million, and /or their balance sheet total is less than EUR 43 million. They comprise three categories of enterprises, namely micro, small, and medium-sized enterprises (Annual Report, 2014-2015). The cabinet decree 2012/3834 issued in Official Gazette determined Micro, Small, Medium-sized enterprise definitions to group and categorize SMEs in Turkey parallel to the EU recommendation as well (T.C. Resmi Gazete, 2012).

To belong to one of these categories, a firm must fulfill the following conditions;

"Micro" refers to enterprises which have up to 9 employees and their annual turnover and balance sheet is up to EUR 1 million or 4 million Turkish Lira (TL), "Small" refers to enterprises which have from 10 to 49 employees and their annual turnover and balance sheet is from EUR 1 to 5 million or 8 million TL and finally "Medium" refers to enterprise which have from 50 to 249 employees and their annual turnover and balance sheet is from EUR 5 to 25 million or 40 million TL.

One of the criteria for being accepted as SME in Turkey is the degree of independence. In other words, less than 25 percent of capital and shares of a company should belong to one capital group. The company structure of SMEs reveals special characteristics which also should be considered; the owner is present in the enterprise as an entrepreneur and his entrepreneurial risk is linked with the loss of wealth in other words, he is liable for all decisions (www.Kobitek.com). In present study SMEs have been selected as research population. SMEs are assumed not to have a completed institutionalization of their organization and consistent and established business culture (Anil and Cakir (2015).

6. Importance of an Effective Contract Management for SMEs

In a research by Aberdeen group, enterprises have been classified in three levels of practices and performance; Best in class, Industry average and Laggard. Accordingly, 20 percent of enterprises that has been defined as "Best in Class" are enterprises that are significantly superior to the industry norm; they have a high percentage of "on-contract spend" and higher percentage of transactions that are compliant with contracts relative to other enterprises. So, they have a more effective contract management that directly impacts their business that allows them to capture a higher percentage of savings (Aberdeen Group, 2007).

The importance of contract in dealing with risks can be discussed in terms of industrial structure and sector as well. For example in construction industry, contract defines roles, relationships, rights and obligations of the parties in an exchange. It can be used as an effective instrument to predict likely risks inherent to particular projects and to provide innovative solutions for them. Therefore, construction claims, disputes and problems may be significantly reduced (Shapiro, 2012). Furthermore, companies in construction industry often play more than one contractual role at the same time; it requires being more flexible in this industry (Hirsch, 1986, p.p. 317).

Managing the risks associated with contracted work will help enterprises to reduce costs by minimizing the risk of litigation and contractual disputes (www.CIPS.com).

7. Research objectives and Methodology

The main objective of current study is to measure enterprises' attitudes towards the importance of contract management in Turkish SMEs. Moreover, this study seeks to reveal how contract management is currently practiced by SMEs of different sectors in Turkey. In another word, the study endeavors to determine the interdependency of industrial sector of SMEs and their contractual management approach.

The sample was developed from a database of 2000 data from five main industrial sectors (including Construction, Capital goods, IT, Auditing/Consulting/ Training and Trade/ Logistics) from the most important industrial areas in Turkey. Data has been collected by survey method. In current study, response rate is 10 percent. From 200 total responses 192 of them has been found proper for statistical analysis. Table 1 shows the demographic data of the study sample.

Majority of participants are male (78.9 percent), females are 17.9 percent of all participants and the rest (3.2 percent) is unknown due to missing data. More than half of respondents (62.1 percent) are aged between 30 and 45 years old. 50 percent of the participants are managing director or member of management team, 22.7 percent of the participants have a management role in financing and 22.7 percent of them work as a manager in sales department. It is quite evident that among total participants, corporate entity- i.e. Stock Corporation or limited liability company- is significantly dominated (89.5 percent) as a legal form in the SMEs. Regards to the revenue and size of participant SMEs, more than half of them (58.4 percent) are Micro, 30.5 percent are small, 6.8 are Medium and 4.2 percent are large. So, obviously the number of employees in micro and small SMEs is more than half of the total employee numbers (64.7 percent). Participant companies are from five main industry sectors including; Construction (27.2

percent), Capital goods (18.9 percent), IT (9.7 percent), Auditing/Consulting/Training (14.3 percent) and Trade/Logistics (30 percent).

Table 1. Demographic Data

Gender	Male	151
	Female	34
	Others	7
Age	18-29	38
	30-45	120
	46-60	29
	Over 60	5
Role	Managing director / Member of the management team / Assistant to management	87
	Controlling / Internal auditing	6
	Financing	40
	Risk management	2
	Sales / Grants	40
	Member / Head of inspection committee	1
Type of business enterprise	Sole proprietorship	18
	Private company	2
	Corporate entity	172
Industrial Sector	Construction	59
	Capital Goods	41
	Information Technology	21
	Auditing / Consulting / Training	31
	Trade / Logistics	65
Size (number of employee)	More than 250 employees	7
	100 to 250 employees	22
	50 to 99 employees	39
	10 to 49 employees	73
	Less than 10 employees	51
Total		192

Since data have been gathered by using categorical and multiple response questions with nominal and ordinal scales, cross tabulation and Chi square test have been run in SPSS 22 for analyzing data. The results of Chi-square test have revealed evidence of relationship and association between variables in many cases.

8. Data Analysis

Data analysis has been done in two steps; first, it measures enterprises' attitudes towards the importance and effectiveness of contract in dealing with risks and provides a broader picture of contractual management practices of SMEs in Turkey. Second, it measures sectoral conditions' influence on contractual management process by comparing different processes of contractual management cycle in SMEs of five main industrial sectors in Turkey.

8.1. Attitudes of Enterprises Towards Contract Management Importance

For the first part of the analysis, firms in this study were asked whether they agree that the main purpose of a contract is the enforceability of legal claims or not and if they consider contract as essential for the success of a transaction. Moreover, the extent to which SMEs use contract in order to deal with identified transaction risks and the extent to which they perceive contract as effective instrument to determine transaction risks have been examined.

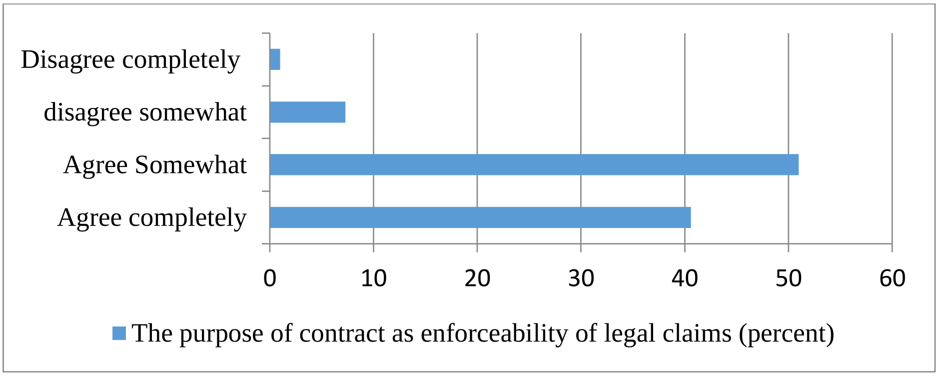

Figure 1. The Main Purpose of a Contract is the Enforceability of Legal Claims.

As shown in Figure 1, the majority of enterprises represented in our survey pool have indicated that they completely agree (40.6 percent) or somewhat agree (51 percent) that there is a high level of priority placed upon contract as the means of enforceability of legal claims.

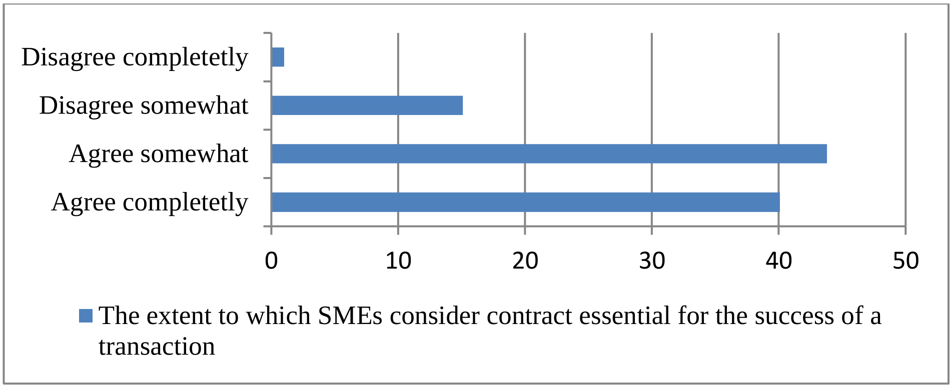

Figure 2. Contract is Essential for the Success of a Transaction.

As shown in Figure 2, majority of enterprises in this survey (40.1 percent completely agree and 43.8 percent agree) consider contract as to be essential for the success of a transaction.

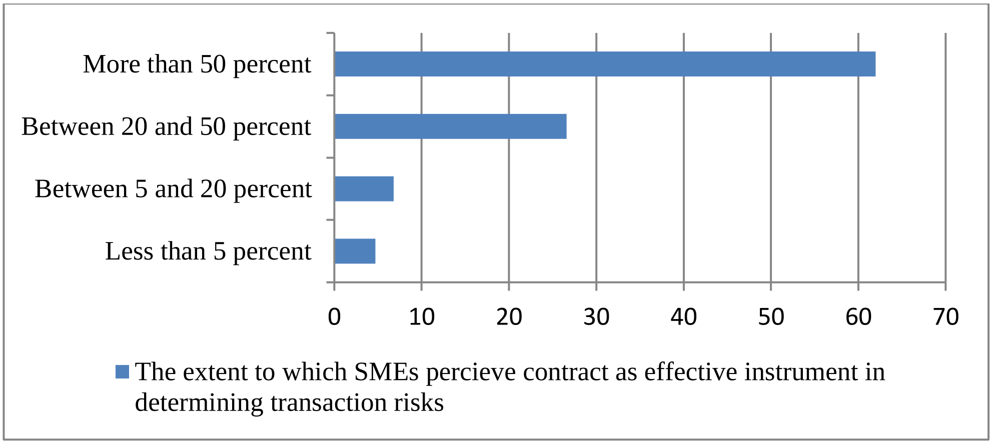

Figure 3. To what Extent does a Contract Determine Transaction Risks in your Opinion?

As shown in Figure 3, enterprises in this survey cited the extent to which they perceive contract as an effective instrument in determining transaction risks. Results indicate that 62 percent of them believe that contract determine transaction risks to the extent of more than 50 percent. 26.6 percent of them believe that contract determine transaction risks to the extent between 20-50 percent. 6.8 percent of them believe that contract determine transaction risks to the extent between 5-20 percent. Only 4.7 percent cited the extent less than 5 percent.

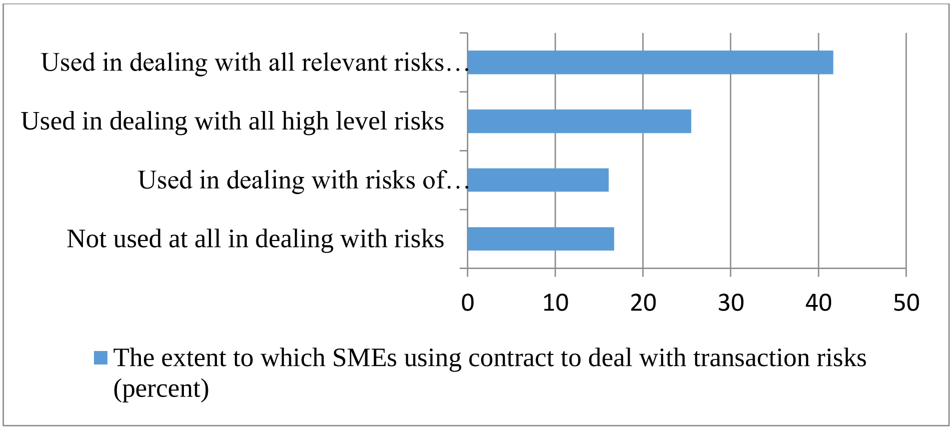

Figure 4. To what Extent does your Company Use Contracts in Order to Deal with Identified Transaction risks?

As shown in Figure 4, enterprises in this survey cited different level of risks which drive them to use contract as a risk management instrument. Results indicate that contract is used by enterprises mostly in dealing with all relevant risks including moderate risks (41.7 percent). 25.5 percent of enterprises use contract in dealing with all high level risks, 16.1 percent of enterprises use contract in dealing with risks of catastrophic proportions and 16.7 percent of enterprises are not using contract in dealing with risks at all.

8.2. Contractual Management Cycle with Risk Perspective

To address the second part of analysis, contractual management cycle has been split into five processes of contract planning, contract drafting, contract implementation, contract controlling and contract evaluating. The study endeavors to determine the interdependency of industrial sector of SMEs and their contractual management approach regarding to each process in contractual management cycle. For this purpose, firms in this study were asked "Does your company have measures for dealing with risks jeopardizing the company established in writing?", "Does your company have a written contract available at the start of processing a contract?", "To what extent does your company use contracts in order to deal with identified transaction risks?", "Does your company monitor contract duration and dates in an electronic database?" and finally, "Does your company evaluate all completed tasks in terms of success and failure?".

8.2.1. Contract Planning

Contracting process starts with planning. The first requirement for an effective planning is to implement a structured process to manage contracting risk and to include appropriate terms in the contract to minimize their likelihood (www.CIPS.com). In the present study, participants have been asked if their company have measures for dealing with risks jeopardizing the company established in writing or not. Answers to the question have been presented in Table 2.

Table 2. Does your Company has Measures for Dealing with Risks Jeopardizing the Company Established in Writing?

	Always	Most of the time	Rarely	Never	Total
Construction	11.9 %	10.2 %	28.8 %	49.2 %	59
Capital Goods	12.2 %	9.8 %	26.8 %	51.2 %	41
Information Technology	9.5 %	23.8 %	47.6 %	19 %	21
Auditing / Consulting / Training	16.1 %	25.8 %	22.6 %	35.5 %	31
Trade/Logistics	16.9 %	23.1 %	18.5 %	41.5 %	65
Total	23	35	54	80	192

More than half of the enterprises in capital goods sector (51.2 percent), almost half of the enterprises in construction sector (49.2 percent), 41.5 percent of enterprises in trade/logistics sector, 35.5 percent of enterprises in auditing / consulting / training sector and only 19 percent of enterprises in IT sector cited that their companies never have measures for dealing with risks jeopardizing the company established in writing. Moreover, 47.6 percent of the enterprises in IT sector, 28.8 percent in construction, 26.8 percent in capital goods, 22.6 percent in auditing / consulting / training sector and 18.5 percent in trade/logistics cited that their companies rarely have measures for dealing with risks jeopardizing the company established in writing.

However, the question "Does your company have measures for dealing with risks jeopardizing the company established in writing?" is determined as independent of the industrial sector of enterprises (with chi-square value of 14.513 and significance level of 0.268).

8.2.2. Contract Drafting

As discussed before drafting helps decision makers to review the contract again. The final draft shows the outcomes of the contract by considering risks and defining obligations (Lagrange and others, 2016). In the present study, participants have been asked if their company have a written contract available at the start of processing a contract or not. Answers to the question have been presented in Table 3.

Table 3. Does your Company have a Written Contract Available at the Start of Processing a Contract?

	Always	Most of the time	Rarely	Never	Total
Construction	39 %	22 %	16.9 %	22 %	59
Capital Goods	29.3 %	7.3 %	19.5 %	43.9 %	41
Information Technology	28.6 %	28.6 %	33.3 %	9.5 %	21
Auditing / Consulting / Training	48.4 %	9.7 %	12.9 %	29 %	31
Trade/Logistics	38.5 %	16.9 %	15.4 %	29.2 %	65
Total	67	33	35	57	192

48.4 percent of enterprises in auditing / consulting / training sector, 39 percent in construction sector, 38.5 percent in trade/logistics sector, 29.3 percent in capital goods sector and 28.6 percent in IT sector always have a written contract available at the start of processing a contract. However, 43.9 percent of enterprises in capital goods sector, 29.2 percent in trade/logistics sector, 29 percent in auditing / consulting / training sector, 22 percent in construction sector and 9.5 percent in IT sector never have a written contract available at the start of processing a contract.

Contingency table analysis shows that the question "Does your company have a written contract available at the start of processing a contract?" is not dependent on the industrial sector of enterprises (with chi-square value of 19.168 and significance level of 0.058).

8.2.3. Contract Implementation

Contract implication is a critical process in contractual management cycle. It depends on the nature of proposed activities. In the present study, participants have been asked to what extent their companies use contracts in order to deal with identified transaction risks. Answers to the question have been presented in Table 4.

Table 4. To what Extent does your Company Use Contract in Order to Deal with Identified Transaction Risks?

	Not used at all in dealing with risks	Used in dealing with risks of catastrophic proportions	Used in dealing with all high level risks	Used in dealing with all relevant risks including moderate risks	Total
Construction	13.6 %	6.8 %	27.1 %	52.5 %	59
Capital Goods	22 %	31.7 %	14.6 %	31.7 %	41
Information Technology	4.8 %	9.5 %	47.6 %	38.1 %	21
Auditing / Consulting / Training	22.6 %	19.4 %	16.1 %	41.9 %	31
Trade/Logistics	16.9 %	10.8 %	26.2 %	46.2 %	65
Total	32	31	49	80	192

22.6 percent of enterprises in auditing / consulting / training sector, 22 percent in capital goods, 16.9 percent in trade/logistics, 13.6 percent in construction and only 4.8 percent in IT sector cited that they never use contract in dealing with risks. 31.7 percent of enterprises in capital goods, 19.4 percent in auditing / consulting / training sector and 10.8 percent in trade/logistics sector use contract in dealing with risks of catastrophic proportions. 47.6 percent of enterprises in IT sector, 27.1 percent in construction and 26.2 percent in trade/logistics sector use contract in dealing with all high level risks. 52.5 percent of enterprises in construction sector, 46.2 percent in trade/logistics and 41.9 percent in auditing / consulting / training sector, 38.1 percent in IT sector and 31.7 percent in capital goods sector use contract in dealing with all relevant risks including moderate risks.

Contingency table analysis shows that the question "To what extent does your company use contracts in order to deal with identified transaction risks?" is dependent on the industrial sector of enterprises (with chi-square value of 23.307and significance level of 0.025).

8.2.4. Contract Control

Monitoring and reviewing contract is essential to ensure contract performance. A timely, accurate and relevant monitoring system helps in identifying problems early and taking action to alter the contract. In the present study, participants have been asked if their company monitor contract duration and dates in an electronic database or not. Answers to the question have been presented in Table 5.

Table 5. Does your Company Monitor Contract Duration and Dates in an Electronic database?

	Always	Most of the time	Rarely	Never	Total
Construction	25.4 %	11.9 %	11.9 %	50.8 %	59
Capital Goods	26.8 %	39 %	9.8 %	24.4 %	41
Information Technology	38.1 %	42.9 %	4.8 %	14.3 %	21
Auditing / Consulting / Training	48.4 %	16.1 %	12.9 %	22.6 %	31
Trade/Logistics	20 %	12.3 %	15.4 %	52.3 %	65
Total	55	42	25	70	192

48.4 percent of enterprises in auditing / consulting / training sector, 38.1 percent in IT sector, 26.8 percent in capital goods sector, 25.4 percent in construction sector and 20 percent in trade/logistics sector always monitor contract duration and dates in an electronic database. 52.3 percent of enterprises in trade/logistics sector, 50.8 percent in construction sector, 24.4 percent in capital goods sector, 22.6 percent in auditing / consulting / training sector and 14.3 percent in IT sector never monitor contract duration and dates in an electronic database.

Contingency table analysis shows that the question "Does your company monitor contract duration and dates in an electronic database?" is dependent on the industrial sector of enterprises (with chi-square value of 35.966 and significance level of 0.000).

8.2.5. Contract Evaluation

Performance evaluation is the final process in contractual management cycle. If monitoring and auditing process have been done properly in earlier step, there should be less evaluation necessary to do at this step. In the present study, participants have been asked if their company evaluate all completed tasks in terms of success and failure or not. Answers to the question have been presented in Table 6.

Table 6. Does your Company Evaluate All Completed Tasks in Terms of Success and Failure?

	Always	Most of the time	Rarely	Never	Total
Construction	64.4 %	20.3 %	6.8 %	8.5 %	59
Capital Goods	70.7 %	22 %	7.3 %	0 %	41
Information Technology	85.7 %	14.3 %	0 %	0 %	21
Auditing / Consulting / Training	71 %	29 %	0 %	0 %	31
Trade/Logistics	61.5 %	29.2 %	6.2 %	3.1 %	65
Total	127	49	10	6	192

85.7 percent of enterprises in IT sector, 71 percent in auditing / consulting / training sector, 70.7 percent in capital goods sector, 64.4 percent in construction sector and 61.5 percent in trade/logistics sector evaluate all completed tasks in terms of success and failure. Only 8.5 percent of enterprises in construction sector and 3.1 percent in trade/logistics sector never evaluate all completed tasks in terms of success and failure.

Finding show that evaluating all completed tasks in terms of success and failure is more important for some of sectors such as IT and auditing / consulting / training sectors compared to others such as construction, trade/logistics and capital goods sector. However, the question "Does your company evaluate all completed tasks in terms of success and failure?" is determined as independent of the industrial sector of enterprises (with chi-square value of 14.209 and significance level of 0.288).

Findings and Conclusion

Findings of the first part of analysis indicate that attitudes towards the importance of contract management in dealing with different types and levels of risk in Turkish SMEs are relatively high. Furthermore, it is evident that in Turkish SMEs, control function of contract is totally recognized. In another word, Turkish enterprises use contract because they believe that contract guarantee the successful enforcement of claims and reduce uncertainty and risks. Further studies might measure Turkish SMEs awareness of contract's coordination function.

Findings of the second part of analysis indicate that a significant number of enterprises, in all sectors, have no plan to deal with risks jeopardizing their companies' establishment in writing. In other words they either do not have any plan for transaction risks or they do not consider contract as a plan to deal with risks that jeopardize the objectives of the company. Results, also, show that a significant number of enterprises from capital goods sector (43.9 percent) and IT sector (33.3 percent) never or rarely have a written contract available at the start of processing a contract. In other words, they are performing contract management in an unstructured manner. Contingency table analysis did not support interdependency between contract drafting and sectorial differences; however, contingency table analysis supported interdependency of size of the company and contract drafting process (with chi-square value of 22.943 and significance level of 0.028). In another words, larger enterprises have more resources and complex organizational structure, so they are performing the process more organized than flat and flexible organizational structure of micro or small companies.

Results show that majority of SMEs in Turkey use contract to deal with risks of catastrophic proportions, moderate and high level risks. In construction and trade/logistics sectors, however, enterprises are performing contract monitoring very poorly. Moreover, enterprises in different industrial sectors, mostly, evaluate all completed tasks in terms of success and failure.

Although contingency table analysis support interdependency of contract management cycle and sectorial differences partly, it is arguable that in SMEs of more established sectors such as construction and capital goods, industry structure, at least in short-term, may be less concerned about risks than other sectors such as IT or auditing / consulting / training due to more intense competition and technological changes.

Zoghi (2016) determined the interdependency of industrial sector and risk management in Turkish SMEs. The study revealed that Turkish SMEs, in general, are managing risks in a very basic level. However, compared to other sectors such as capital goods, trade/logistics, auditing/consulting/training and construction sectors, SMEs from IT sector showed a significant difference in their risk management practices.

Although compared to risk management, contract management is more developed in Turkish SMEs, they mostly consider contract as an obligation or a tool that support them in enforceability of legal claims, but they are not concerned about contracts' significant and usability in dealing with different type of risks and managing transaction. Further studies may identify differences in the institutional framework and its effect on contract management practices among Turkish SMEs in different countries.

References

Aberdeen Group. (2007), *Contract Lifecycle Management and the CFO*. Optimizing Revenues and Capturing Savings. http://media.treasuryandrisk.com/…/aberdeen-contract-lifecycle.pdf

Arrighetti, A. , R. Bachmann & S. Deakin., (1997), "Contract Law, Social Norms and Inter-firm Cooperation". *Cambridge Journal of Economics*. 21, pp.171-195.

Eigen, Z. J., (2012), "Empirical studies of Contract". *Faculty Working Papers*, Paper 204.

http://scholarlycommons.law.northwestern.edu/facultyworkingpapers/204

Reuer, J. & A. Arino (2007), "Strategic Alliance contracts: Dimensions and determinants of Contractual Complexity". *Strategic Management Journal,* 28, pp. 313-330.

Schuhmann, R. & Eichhorn B., (2015), "From contract Management to contractual Management". *European Review of Contract Law*, Vol. 11, No. 1, pp. 1-21.

Roxenhall, T. and Ghauri P. (2004), "Use of the Written Contract in Long-lasting Business Relationships". *Industrial Marketing Management*, Vol. 33, pp. 261-268.

Vancouver Island University (VIU). *Risk Management in Contracts*.

https://www2.viu.ca/riskmanagement/.../RiskManagementinContracts. (Access: 11.02.17)

Williamson, O. E., (1985), The Economic Institutions of capitalism. New York. The Free Press. London. Collier Macmillan Publishers.

Das, T. K. & Teng B. S., (2001), "Trust, Control, and Risk in Strategic Alliances: An Integrated Framework". *Organization Studies*, 22/2, pp. 251-283.

Nooteboom, B., H. Berger N. & Noorderhaven G., (1997), "Effect of Trust and Governance on Relational Risk". *The Academy of Management Journal,* 40(2), pp. 308-338.

Scott, W. R. (2005), "Institutional Theory: contributing to a Theoretical Research Program". *Great minds in management: the process of theory development*, Oxford University Press, ISBN 978-0-19-927681-3, pp. 460-484.

North, D. C., (1992), Transaction Costs, Institutions, and Economic Performance. San Francisco, California. International center for Economic Growth.

Anil, I. & Çakir Ö., (2015), "Cultural Differences And The Effects On Risk Management Practices: An Empirical Study in Turkish and German SME's". Conference Paper, 5th Annual International Conference on Innovation & Entrepreneurship, pp. 100 – 103.

Schuhmann R. & Zoghi F. S., (2016), "The Impact of National Culture on Risk Management – A Survey on Risk Management Practice in Turkish and German SMEs", presented in The 13th Annual International Conference on SMEs, Entrepreneurship and Innovation: Management – Marketing – Economic - Social Aspects , Athens, Greece.

Gutterman, A., (2013), *Top Ten steps for Effective contract Management*. Legal Resources. http://www.acc.com/legalresources/publications/topten/ttsecm.cfm.

Hirsch, W. J., (1986), The Contracts Management Deskbook. Revised edition. American Management Association; amacom.

The Chartered Institute of Purchasing & Supply. *Contract Management Guide*. https://www.cips.org/documents/CIPS_KI_Contract%20Management%20Guidev2.pdf (Access 10.02.17).

Lagrange & Others (2016), *Contract Management: From Drafting to Ending the Contract*. Association of Corporate Counsel. http://www.acc.com/legalresources/quickcounsel/from-drafting-to-ending-the-contract.cfm. (Access: 19.01.16)

Keskitalo, P., (2000), "From assumptions to risk management: an analysis of risk management for Changing circumstances in commercial contracts, especially in the Nordic countries; the theory of contractual risk management and the default norms of risk allocation", Knauppakaari, Helsinki.

Eichhorn, B. & Schuhmann R., (2011), "Integration von Wirtschaft und Recht: Vertragswissensmanagement", *Akademie*, pp. 41 - 44.

Annual report on European SMEs (2014/2015) http://ec.europa.eu/DocsRoom/documents/16341/attachments/2/translations/en/renditions/native.

Republic of Turkey Official Gazette (2012). *T.C. Resmi Gazete* . http://www.resmigazete.gov.tr/eskiler/2012/11/20121104-11.htm.

KOBITEK. http://www.kobitek.com

Shapiro, B. S. *Transferring risks in Construction contract*.

http://www.shk.ca/wp-content/uploads/2013/02/Transferring-Risks-in-Construction-Contracts-BSS.pdf.

Zoghi F. S., (2016), “Risk Management Practices and SMEs: An Empirical Study on Turkish Alliances”, presented in The 3rd International Conference on Advances in Business and Economics (ICABE 27-29 April 2016), Istanbul, Turkey.