

Final Project 1

Code: MGM 496-PMG496

Contracting & Procurement in Projects

Faculty of Management
Midocean University

Midocean University

Faculty of Management

Bachelor of Project Management



Contracting & Procurement in Projects

Student name

Abdulrahman Al Tayyar

Graduation Project – 1

Faculty of Management – Midocean University

Supervisor

Dr. Abdulrahim Nader

Faculty member- Faculty of management- Midocean University

Table of Contents

1.	Chapter 1: Introduction	3
1.1.	Research Background.....	4
1.2.	Research Problem.....	5
1.2.1.	Theoretical Gaps.....	5
1.2.2.	Practical Gaps.....	5
1.3.	Research Significance.....	5
1.3.1.	At the theoretical level.....	5
1.3.2.	At the practical level.....	5
1.4.	Research Questions.....	6
1.5.	Research Objectives.....	6
1.6.	Research Hypotheses.....	6
1.7.	Research Model.....	6
1.8.	Research Methodology.....	7
1.9.	Scope of The Study.....	7
1.10.	The Suggested Project Structure.....	7
2.	Chapter 2: Literature Review	8
2.1.	Introduction.....	9
2.2.	The independent variable.....	9
2.3.	The dependent variable.....	9
2.4.	The relationship between the independent and the dependent variables.....	9
2.5.	Conclusion.....	10
	References	10

1. Chapter 1: Introduction

1.1. Research Background

The core element that enables an organization to deliver a project on time, within budget and to the highest quality, is effective contracting and procurement management. Every project outcome depends heavily on how an organization plans its procurement, selects and evaluates its suppliers and allocates risks through contract types and administers contracts during execution, especially in modern project industries, characterized by outsourcing, multi-tier supply chains and specialized sub-contracting.

Within (PMBOK) Project Management Body of Knowledge, procurement is not just a transactional activity, it is more of an integrated management process that aligns with the make-or-buy decisions, sourcing strategies and contract governance with project scope, schedule, cost, quality and risk plans. Contracting decisions shape the performance across the project life cycle and of course it influences the incentive structure, the accountability, change control, and dispute likelihood. Regardless of the availability of formal standards and procedures, several projects still experience delays, claims, scope creep and cost overrun related to procurement. The core problem is derived from weak procurement planning, incomplete specifications, misaligned contracts, insufficient supplier evaluation and inadequate contract administration capabilities.

This graduation project will explain the test of the contracting and procurement management exercises in projects and their relationship with the project performance. It aims to identify gaps related to theoretical and practical in how procurement and contract governance are implemented and to propose an empirical model that explains how procurement and contracting capabilities contribute to successful project delivery. This study is placed within the control of the project management system and has an academic understanding and professional practices contribution by providing evidence-based recommendations for improvement in the processes and decisions of the contracting and procurement.

1.2. Research Problem

The root cause of problems in any project underperformance is mainly caused by procurement and contract management. This section expresses the research problem by pointing out the gaps in existing theory and gaps observed in practice, building up to a focused research problem statement and the main research question.

This section is divided into two sub-sections:

1.2.1. Theoretical Gaps

Theoretically, procurement is a key project management knowledge area, but the empirical findings remain shattered regarding which contracting and procurement practices most strongly predict project performances across industries.

Previous studies usually test singular elements (e.g. contract type or supplier selection) without including them in a logical model that links procurement planning, sourcing decisions, contract governance and ongoing contract administration to measurable performance outcomes.

There are not enough data and evidence from emerging markets and the GCC, where regulatory requirements, localization policies and procedures and market structure can shape procurement behavior and supplier relationships.

1.2.2. Practical Gaps

Usually, organizations apply standard contracting templates without tailoring it per contract type, incentives mechanism or risk allocation to meet the project complexity and uncertainty. Overemphasizing the lowest price, while underweighting past performance, capacity, and risk, leading to delivery delays, quality issues and increased change orders are categories under the supplier evaluation process.

Contract administration practices (e.g., change control, claims management, performance monitoring) and inconsistently implemented, resulting in debates, delays in timelines and cost increases.

Main Research Question: How do contracting and procurement management practices influence project performance (time, cost, quality and stakeholder satisfaction) in project-based organizations?

1.3. Research Significance

The study is quite important because it deepens our understanding of how contracting and procurement capabilities influence project success, while also offering practical insights for organizations aiming to reduce procurement risks and strengthen supplier performance.

1.3.1. At the theoretical level

- This study brings together planning in procurement, different sourcing strategies, the selection of contracts and contract administration within a single framework that explains their impact on project outcomes.
- It adds to the procurement and project governance literature by exploring how elements such as supplier performance and the quality of buyer-supplier relationships act as a middleman.
- It will also provide the necessary evidence tailored to the GCC Region, where the delivery of projects depends highly on third party suppliers and subcontractors, making procurement practices mainly critical.

1.3.2. At the practical level

- The results will be able to help the project managers and the procurement department individuals to choose the right contract type and incentive structure that matches the level of risk and uncertainty in their projects.
- It will also offer several practical recommendations for a strong supplier evaluation without depending on the cost alone but also emphasizing the suppliers' capabilities, quality and reliability.
- The study will also highlight different ways to improve the practices related to the contract administration that will include change control, performance tracking, and claims handling to minimize debates and enhance the performance of delivery.

1.4. Research Questions

1. To which level does procurement planning quality affect the project performance in terms of clarity of requirements, sourcing strategy, make or buy analysis?
2. How does the contract type fit influence the supplier performance and the overall project's outcome?
3. What is the general effect of supplier evaluation strictness on the supplier performance?
4. How does the contract administration capabilities influence the project performance?

5. Does supplier performance intervene the relationship between contracting/procurement practices and the overall project performance?

1.5. Research Objectives

- The main objective is to examine the impact of procurement planning quality on the project performance,
- To assess how effective the contract type fit is on the supplier and the project performance,
- To also investigate the influence of contract administration capabilities on the project performance,
- Finally, to test if the supplier performance intervenes the relationship between contracting/procurement practices and the project performance.

1.6. Research Hypotheses

- The procurement planning quality has a positive and significant effect on the project performance.
- Contract type fit has a positive and significant effect on supplier performance.
- Supplier evaluation strictness has a positive and significant effect on the supplier performance.
- Contract administration capabilities have a positive and significant effect on the project performance.
- The supplier performance has a positive and significant effect on the project performance.
- Supplier performance intervenes the relationship between (1) contract type fit and project performance, and (2) supplier evaluation strictness and project performance.

1.7. Research Model

- Independent Variables: Procurement Planning Quality Contract Type Fit Supplier Evaluation Strictness Contract Administration Capabilities
- Intervening Variables: Supplier Performance (Delivery Reliability, Quality Assurance, Responsiveness)
- Dependent Variables: Project Performance (Cost, Time, Quality and Satisfaction)
Expected Relationships

- Independent Variables -> Supplier Performance -> Project Performance, with a direct path from contract administration capabilities to project performance.

1.8. Research Methodology

Suggested industry and organization for the empirical study:

- The study could be conducted within project-based companies in Saudi Arabia that usually rely heavily on external suppliers and subcontractors, such as contractors (construction), engineering consultancies, facility management companies, and large IT companies.
- A suitable setting is a medium to large company that executes several projects using formal processes for tendering, framework agreement or builds contracts, where procurement planning and contract administration are institutionalized.

Research Methodology Brief

- **Research Design:** Quantitative, explanatory, cross-sectional study
- **Population and Sample:** Project Managers, procurement specialists, contract engineers, and project control professionals involved in procurement/contract administration on active or recently completed projects.
- **Data collection:** Developing a structured questionnaire using items adapted from prior studies and standards to measure the procurement planning quality, contract type fit, supplier evaluation strictness, contract administration capabilities, supplier performance and project performance.
- **Ethical Considerations:** informed consent, confidentiality, voluntary participation and anonymized reporting.

1.9. Scope of Study

Geographical Scope: Riyadh, Saudi Arabia

Sectoral Scope: Project-based organizations with formal procurement and contracting activities

Unit of Analysis: Individual projects and the procurement/contracting practices applied within them.

Time Scope: Projects executed or closed within the last 24 months to ensure respondents can accurately assess practices and outcomes.

1.10. The Suggested Project Structure

- Chapter 1: Introduction Background Problem Significance Research questions Objectives
- Chapter 2: Literature Review Theoretical Foundations Contracting/Procurement constructs Project performance Hypotheses development
- Chapter 3: Research Methodology Design Sampling measures Data collection Analysis plan Ethics
- Chapter 4. Results and findings Descriptions Statistics Measurement Model Hypothesis Testing
- Chapter 5: Discussion and Conclusion Interpretation Implications Limitations Recommendations Future Research
- References: Appendices Survey Instrument Consent Form Additional Tables Chapter 2: Literature Review Introduction The independent variable The dependent variable The relationship between the independent and the dependent variables Conclusion

2. Chapter 2: Literature Review

2.1.Introduction

What we mean by contracting and procurement is that it is the set of processes where the project acquires goods, services and work from external suppliers and governs the resulting contractual relationship. When we have a project based setting, the contracting and procurement management decisions share cost exposure, schedule reliability, quality, outcomes and risk allocation because a significant share of project scope is often delivered by suppliers and subcontractors.

In this chapter, I will be reviewing the theoretical foundations and empirical research related to procurement planning, sourcing strategies, contract types and risk allocation, supplier selection and evaluation and contract management. It also synthesizes prior findings on how contracting and procurement management influences the supplier performance and the overall project cycle as it also provides a basis for developing the study hypothesis and research model.

2.2. The independent variable

The independent variable in this study is represented by contracting and procurement management practices, operationalized through 4 different dimensions.

1. Procurement Planning Quality
2. Contract Type Fit
3. Supplier Evaluation and Assessment
4. Contract Administration Capabilities.

These dimensions reflect both ex-ante governance choice (planning, sourcing and contract design) and ex-post governance practices (administration and control during execution)

Procurement planning quality involves translating project scope into clear requirements, defining sourcing strategy, estimating costs, and preparing procurement documents. High-quality planning reduces ambiguity, supports realistic scheduling, and improves supplier alignment, which can reduce rework and variations.

Contract type fit concerns the alignment of contract form with project uncertainty and complexity. Fixed-price contracts provide cost certainty but may increase change orders under uncertainty, whereas cost-reimbursable and time-and-materials arrangements

provide flexibility but require stronger controls to prevent cost escalation. Selecting an appropriate contract form and incentive mechanism can improve risk sharing and motivate performance.

Supplier evaluation rigor refers to the extent to which supplier selection relies on structured, multi-criteria assessment rather than price alone. Common criteria include technical capability, past performance, financial stability, quality systems, and delivery capacity. Rigorous evaluation helps reduce supplier-related risks and improves delivery reliability.

Contract administration capabilities represent the organization's ability to manage the contract during execution, including monitoring supplier performance, managing changes, maintaining records, handling claims, and enforcing governance mechanisms. Strong administration supports timely decision-making, reduces disputes, and keeps deliverables aligned with contractual requirements.

2.3. The dependent variable

The dependent variable is project performance, typically conceptualized using the "iron triangle" (time, cost, and quality) and extended criteria such as client satisfaction, safety, and long-term value. Project performance reflects the effectiveness and efficiency of project delivery and is affected by both internal project management capability and external supplier contributions.

In procurement-intensive projects, supplier performance becomes a critical determinant of project performance because suppliers deliver key components, services, and specialized work packages. Delays, quality nonconformance, or low responsiveness from suppliers can directly translate into schedule slippage, cost overruns, and stakeholder dissatisfaction.

2.4. The relationship between the independent and the dependent variables

Research on project governance suggests that contracting and procurement mechanisms influence performance through both incentive alignment and control. From a transaction cost economics perspective, contract form and governance structures should be matched to

uncertainty, asset specificity, and frequency of transactions to reduce opportunism and coordination costs. Agency theory further highlights the role of incentives and monitoring in aligning supplier behavior with project objectives.

Empirical studies in construction and other project-based industries show that poorly defined requirements and weak procurement planning are associated with higher variation orders and claims, which negatively affect cost and time performance. Similarly, misaligned contract types can create adversarial relationships, increase dispute probability, and reduce collaboration, especially under high uncertainty.

Supplier selection research indicates that multi-criteria evaluation improves the likelihood of selecting capable suppliers, enhancing delivery reliability and quality conformance. Contract administration practices—such as performance monitoring, structured change control, and timely issue resolution—support relational stability and reduce the escalation of conflicts into formal disputes.

Based on the reviewed literature, this study expects contracting and procurement management practices to positively influence supplier performance and, in turn, improve project performance. Supplier performance is therefore conceptualized as an important mechanism linking contracting/procurement decisions to final project outcomes.

2.5. Conclusion

Chapter 2 synthesized the main theoretical and empirical perspectives on contracting and procurement management in projects. The reviewed literature indicates that procurement planning quality, contract type fit, supplier evaluation rigor, and contract administration capabilities are consistently linked to reduced uncertainty, stronger governance, and improved supplier outcomes.

Across project-based sectors, supplier performance emerges as a key mechanism through which contracting and procurement decisions translate into final project performance. Accordingly, the evidence supports the development of an integrative model in which contracting/procurement practices influence project performance directly and indirectly through supplier performance.

This review provides the foundation for the study hypotheses and the proposed research model to be empirically tested in the next phases using survey-based data and appropriate statistical techniques.

References

- Ahmad, I., & Minkarah, I. (1988). Questionnaire survey on bidding in construction. *Journal of Management in Engineering*, 4(3), 229–243.
- Bajari, P., & Tadelis, S. (2001). Incentives versus transaction costs: A theory of procurement contracts. *RAND Journal of Economics*, 32(3), 387–407.
- Kerzner, H. (2022). *Project management: A systems approach to planning, scheduling, and controlling* (13th ed.). Wiley.
- Project Management Institute. (2021). *A guide to the project management body of knowledge (PMBOK® Guide)* (7th ed.). PMI.
- Project Management Institute. (2017). *A guide to the project management body of knowledge (PMBOK® Guide)* (6th ed.). PMI.
- Turner, J. R. (2014). *The handbook of project-based management: Leading strategic change in organizations* (4th ed.). McGraw-Hill.
- Walker, D. H. T., & Rowlinson, S. (Eds.). (2008). *Procurement systems: A cross-industry project management perspective*. Taylor & Francis.
- Ahmad, I., & Minkarah, I. (1988). Questionnaire survey on bidding in construction. *Journal of Management in Engineering*, 4(3), 229–243.
- Bajari, P., & Tadelis, S. (2001). Incentives versus transaction costs: A theory of procurement contracts. *RAND Journal of Economics*, 32(3), 387–407.
- Kerzner, H. (2022). *Project management: A systems approach to planning, scheduling, and controlling* (13th ed.). Wiley.
- Project Management Institute. (2021). *A guide to the project management body of knowledge (PMBOK® Guide)* (7th ed.). PMI.
- Project Management Institute. (2017). *A guide to the project management body of knowledge (PMBOK® Guide)* (6th ed.). PMI.
- Turner, J. R. (2014). *The handbook of project-based management: Leading strategic change in organizations* (4th ed.). McGraw-Hill.
- Walker, D. H. T., & Rowlinson, S. (Eds.). (2008). *Procurement systems: A cross-industry project management perspective*. Taylor & Francis.

- Arrowsmith, S. (2014). *The law of public and utilities procurement: Regulation in the EU and UK* (3rd ed.). Sweet & Maxwell.
- Cheung, S. O., Yiu, T. W., & Lam, M. C. (2013). Interweaving trust and communication with project performance. *Journal of Construction Engineering and Management*, 139(8), 941–950.
- Choi, T. Y., & Hartley, J. L. (1996). An exploration of supplier selection practices across the supply chain. *Journal of Operations Management*, 14(4), 333–343.
- Jiang, W., & Li, X. (2019). Contract governance, relational governance and performance in inter-organizational relationships: A meta-analysis. *Journal of Business Research*, 99, 444–457.
- Thai, K. V. (2009). *International handbook of public procurement*. CRC Press.
- Ahmad, I., & Minkarah, I. (1988). Questionnaire survey on bidding in construction. *Journal of Management in Engineering*, 4(3), 229–243.
- Bajari, P., & Tadelis, S. (2001). Incentives versus transaction costs: A theory of procurement contracts. *RAND Journal of Economics*, 32(3), 387–407.
- Kerzner, H. (2022). *Project management: A systems approach to planning, scheduling, and controlling* (13th ed.). Wiley.
- Project Management Institute. (2021). *A guide to the project management body of knowledge (PMBOK® Guide)* (7th ed.). PMI.
- Project Management Institute. (2017). *A guide to the project management body of knowledge (PMBOK® Guide)* (6th ed.). PMI.
- Turner, J. R. (2014). *The handbook of project-based management: Leading strategic change in organizations* (4th ed.). McGraw-Hill.
- Walker, D. H. T., & Rowlinson, S. (Eds.). (2008). *Procurement systems: A cross-industry project management perspective*. Taylor & Francis.
- Arrowsmith, S. (2014). *The law of public and utilities procurement: Regulation in the EU and UK* (3rd ed.). Sweet & Maxwell.
- Cheung, S. O., Yiu, T. W., & Lam, M. C. (2013). Interweaving trust and communication with project performance. *Journal of Construction Engineering and Management*, 139(8), 941–950.
- Choi, T. Y., & Hartley, J. L. (1996). An exploration of supplier selection practices across the supply chain. *Journal of Operations Management*, 14(4), 333–343.

Jiang, W., & Li, X. (2019). Contract governance, relational governance and performance in inter-organizational relationships: A meta-analysis. *Journal of Business Research*, 99, 444–457.

Thai, K. V. (2009). *International handbook of public procurement*. CRC Press.

Flyvbjerg, B. (2017). *The Oxford handbook of megaproject management*. Oxford University Press.

Turner, J. R., & Müller, R. (2003). On the nature of the project as a temporary organization. *International Journal of Project Management*, 21(1), 1–8.

Yong, Y. C., & Mustaffa, N. E. (2013). Critical success factors for Malaysian construction projects: An empirical assessment. *Construction Management and Economics*, 31(9), 959–978.