**ASSESSMENT OF PROJECT PLANNING PRACTICES AND ITS IMPACT ON CONTRACTORS PROFITABILITY**

### ABSTRACT

The growing intricacy of society and intense rivalry in the construction sector necessitate contractors, project managers, and construction organisations to engage in meticulous planning to guarantee project success and profitability. This study investigated the influence of project planning on a contractor's financial gain. The aims of the study were to ascertain the project planning techniques and tools employed by contractors in construction project execution, analyse the factors influencing contractors' project planning practices, and assess the effect of effective project planning on contractors' profitability. The research methodology included a survey design, with a standardised questionnaire that was presented to a sample of 50 respondents in Owerri, Imo, Nigeria. The data analysis involved the utilisation of Spearman Ranked Correlation, Chi Square, and other descriptive statistical approaches. The study's findings indicate that the Gantt chart, with an average score of 4.83, is the most frequently utilised tool by contractors for project planning. Additionally, the most prevalent aspect that hampers the efficacy of project planning is the lack of alignment between project funds and project plans, with an average score of 4.70. The Spearman Ranked Correlation test revealed a substantial positive link between the level of application of project planning procedures and contractors' profitability, suggesting that better project planning is associated with higher profitability for contractors. The study determines that the planning efforts of a project have an impact on the profitability of contractors in the delivery of construction projects. The recommendations proposed were that project management teams should familiarise contractors with the importance of project planning and its advantages. In order to prevent the unnecessary purchase of materials that will not be immediately used during the construction of lifts that require heavy gear and storage facilities, clients should clearly describe their project requirements and select a contractor accordingly.

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## CHAPTER I

## INTRODUCTION

### 1.1 BACKGROUND OF THE STUDY

Projects are used in all economic and non-economic fields as mean of organizing the activity, aiming the achievement of desired objectives. There is a direct relationship between projects, projects portfolio, programs and the organizational strategy. Projects, as the main way of creating and dealing with change (Cleland, Gareis, 2006), are used to implement strategies. Meskendahl (2010) refers to projects as the central building block used in implementing strategies, therefore business success is determined by the success of the projects. A project is an individual or collaborative enterprise, possibly involving research or design that is carefully planned, usually by a project team, to achieve a particular aim New York Time (2009). A project is also temporary because it has a defined beginning, end time, and defined scope and resources (Cathy, 2009). A project is unique because it is not a routine operation, but a specific set of operations designed to accomplish a singular goal. Based on these characteristics, carefully it is imperative to plan to achieve targeted outcome. Thus; Project planning can be defined as a part or branch of project management, which relates to the use of schedules to plan and subsequently report progress within the project environment.

Dubois and Gadde (2002) described the construction industry as decoupled and McKinsey (2017) confirmed that it is still true. The lack of coupling is present both between the construction project and its subcontractors as well as between the project and the parent company and other projects. This hampers the possibility to have a successful coordination of resources on a portfolio level within the contractor, as resources are in many cases utilised from a common resource pool (Engwall and Jerbrant 2003).The construction industry therefore embraces a wide range of loosely integrated organizations that collectively construct, alter and repair a wide range of different building and civil engineering projects. Individuals, organizations and government need to carry out some form of project planning for building and civil engineering project before embarking on whatever activity they are engaged to do. According to Lock (2002), the principal identifying characteristics of a project is its novelty, it’s a step unknown fraught with risk and uncertainty. No two projects are ever exactly alike and even a repeated project will differ from its predecessor in one or more commercial, administrative and physical aspect.

Construction is also characterized by time and cost intensive production processes which make it prone to project risks and failure, mainly in terms of time and cost. In practice, this means, that the performance of construction projects is usually low. In particular, construction projects are very often delayed and over budget. This is not just due to problems faced during project scheduling, but also during related processes.

Laryea and Hughes (2009) attempted to find how contractors’ in Ghana include financial risk in their bid prices. The research showed that besides having risk allowances as lump sums or percentage allowances, the method used is neither scientific nor informed by any empirical evidence. Ojo (2010) found that design changes, financial losses and inadequate specifications were the risk factors with most impacts on construction sites but the study did not highlight any Project project planning (PRM) technique used by Contractors to respond to such risks.

Another research carried out in Nigeria on this subject was on the evaluation of key risk factors and the measures to mitigate their effects on construction projects (Dada, 2010). Though the research found financial, political and physical risks as the most significant, the use of contingency sum and insurance cover were adjudged to be the most effective means of mitigating risk.

However, no study has reported on the PRM practices used by Nigerian Contractors in redevelopments projects, with their attendant problems and challenges in terms of scoping.

### 1.1.2 ORGANIZATIONAL PROFILE

The company is represented across Nigeria in structural engineering and infrastructure works, and in southern Nigeria through domestic and international oil and gas industry projects (this company is also listed on the "flake list" for craigslist). It is known for constructing most of Nigeria's infrastructures, major expressways, and even some residential buildings for the [Chevron Nigeria](http://en.wikipedia.org/wiki/Chevron_Corporation" \o "Chevron Corporation) headquarters in [Lagos](http://en.wikipedia.org/wiki/Lagos" \o "Lagos).

The company was listed on the Nigerian Stock Exchange in 1991. Before this, its parent company was [Bilfinger Berger](http://en.wikipedia.org/wiki/Bilfinger_Berger" \o "Bilfinger Berger). Bilfinger Berger is still the largest shareholder in the company. The construction business of Julius Berger Nigeria is the heart of the Julius Berger Group.

With 18,000 employees from close to 40 nations and clients from both Nigeria and the global oil and gas industry, JB is a leading construction company and the largest private employer in Nigeria.

**MAJOR PROJECTS**

* The company built the [Eko Bridge](http://en.wikipedia.org/wiki/Eko_Bridge" \o "Eko Bridge) completed in 1968, the [Third Mainland Bridge](http://en.wikipedia.org/wiki/Third_Mainland_Bridge" \o "Third Mainland Bridge) completed in 1990 and the [Owerri Stadium](http://en.wikipedia.org/wiki/Abuja_Stadium" \o "Abuja Stadium) completed in 2003.
* Tin Can Island Port, commissioned in 1977.
* Lagos Inner Ring Road, completed in 1979.
* Ajaokuta Steel Plant, completed in 1990.
* Itakpe – Ajaokuta Ore Railway, completed in 1990.
* Owerri International Airport phase II, completed in 1997.
* Central Bank of Nigeria Head Office, completed in 2002.
* Uyo infrastructure and road works, ongoing since 2008.
* First discharge drain built utilizing pipe-jacking technology in Nigeria, completed in 2011.
* National Assembly phase III, completed in 2011.
* Multiple projects, [Escravos GTL](http://en.wikipedia.org/wiki/Escravos_GTL" \o "Escravos GTL) plant in southern Nigeria, commissioned in 2012.
* [Bonny Liquefied Natural Gas](http://en.wikipedia.org/wiki/Nigeria_LNG" \o "Nigeria LNG) facility, multiple ongoing works since 1996.
* Challawa Gorge Dam Karaye, completed in 1992
* Ongoing Nigerian Cultural Center Owerri (status - Under Const)
* Incar Plaza, Owerri (status - Under Const)
* Silverbird Entertainment Center, Owerri (status - Completed)
* National Library Owerri (status - Under Const)
* World Trade Center Owerri (status - Under Const)
* Owerri Mall (status - Under Const)
* Grand Towers Mall, Owerri (status - Under Const

### 1.2 PROBLEM STATEMENT

The general low usage of formal project planning and management techniques by Contractors globally often culminates into project failures, incessant claims for variations, huge financial losses and sometimes results in bankruptcy of Contractors (Allan et al, 2007). This situation is more prevalent in redevelopment projects due to the inevitable problems of unexpected additional work, excessive requirements and scope management issues, project funding not aligned with project plans, delay, structural failure, cost overrun, etc (Naaranoja and Uden, 2007). These problems or uncertainties, among others, increase the project risk and make their management crucial if success is desired.

For the construction firm, Julius Berger PLC, are back on site in continuation of the re-construction of the N167 billion Lagos-Ibadan expressways, Grand Towers Mall, Owerri (status - Under Const. Billions of Naira was expended and the overall aim of the project was not achieved. This huge expenditure and apparent failure in the primary objectives of the project led to complaints, probe panels and subsequent abandonment of the project.

Research has shown that financial, political and physical risks are the most significant to Nigerian Contractors (Dada, 2010). However, of the different levels of risk (country, market or project), there is shortage of research as to how Contractors approach project planning at organizational level.

### 1.3 RESEARCH OBJECTIVES

1. To explore project planning practices applied by Julius Berger at various project levels.
2. To assess awareness and usage of formal and informal project planning practices by Julius Berger, Owerri office.
3. To examine the success or failure of the project planning approach used by Julius Berger Contractors on Grand Towers Mall, Owerri (status - Under Const project.
4. To evaluate the impact of the applied project planning approach to the attainment of project profits.

### 1.4 RESEARCH QUESTIONS

1. What project planning guidelines and practices exist in Julius Berger Nigeria Plc, Owerri?
2. How do you gather information about newer project planning strategies to be applied in your on-going projects?
3. What are the effects of project planning on contractor’s profit

### 1.5 HYPOTHESIS FORMULATION

Hypothesis for this study include:

1. Ho: There is no significant relationship between effective project planning and contractor’s profit.

Hi: There is significant relationship between effective planning and contractor’s profit.

### 1.5 SIGNIFICANCE OF THE STUDY

This study gives a clear insight into the various ways in which contractors in the construction companies in Nigeria can maximize profits through effective and efficient project planning and management. The study also gives a clear insight into the various effects of project planning on risk level, cost and timing of a project. The findings and recommendations of the researcher will help in building a strong and better contract policy and guideline in Julius Berger Nigeria Plc as well as other construction companies in Nigeria, if taken seriously by government and the general public. The effects of project planning on cost and time are outlined in-order for drastic measures to be taken to tackle any challenge employers may face when developing and implementing contracts with other organizations.

### 1.6 SCOPE OF STUDY

This research focuses mainly on the impact of effective project planning on contractor’s profit in Julius Berger Nigeria Plc, Owerri Imo. Results and recommendations may not be used to generalize other construction companies in Nigeria, as the researcher could not cover a wider scope due to financial and time constraints.

Based on the findings of this study other possible researchable areas may include studies on the various effects of other aspects of contracts such as contract laws in Nigeria and contract management and control.

### 1.7 LIMITATION OF THE STUDY

The only limitation faced by the researcher in the course of carrying out this study was the delay in getting data from the various respondents. Most respondents were reluctant in filling questionnaires administered to them due to their busy schedules and nature of their work. The researcher found it difficult to collect responses from the various respondents, and this almost hampered the success of this study.

### 1.8 DEFINITION OF TERMS

Definitions of terms serve as the dictionary of this research. The terms are defined to enable the reader understand the research more clearly.

**Contract:** Erikson (2002) defined Contract as an agreement that creates an obligation binding upon the parties thereto. The essentials of a contract are as follows: (1) mutual assent; (2) a legal consideration, which in most instances need not be pecuniary; (3) parties who have legal capacity to make a contract; (4) absence of fraud or duress; and (5) a subject matter that is not illegal or against public policy.

**Project planning:** According to Simmons (2007), Project planning is the process of systematically and efficiently managing contract creation, execution and analysis for maximizing operational and financial performance and minimizing risk.

**Contractor:** [General contractor](http://en.wikipedia.org/wiki/General_contractor" \o "General contractor), organization or individual that contracts with another organization or individual (the owner) for the construction of a building, road or other facility.

**Profit:** Tucy (2008) defined profit as the difference between the purchase price and the costs of bringing to markett.

## CHAPTER II

## LITERATURE REVIEW

### 2.0 INTRODUCTION

In this chapter, the researcher will review existing literature generally on project planning and narrow it down to the effects it has on time, cost and the general performance of an organization. Various concepts of project planning, contract management and organizational performance are discussed, and previous and recent researches on project planning and its effect on cost and time are well outlined and stated.

### 2.1 THEORITICAL FRAMEWORK

The contours of contract theory as a field are difficult to define. Many would argue that contract theory is a subset of Game Theory which is defined by the notion that one party to the game (typically called the principal) is given all of the bargaining power and so can make a take-it-or-leave-it offer to the other party or parties (i.e., the agent(s)). In fact, the techniques for screening contracts were largely developed by pure game theorists to study allocation mechanisms and game design. But then again, carefully defined, everything is a subset of game theory.

Others would argue that contract theory is an extension of price theory in the following sense. Price theory studies how actors interact where the actors are allowed to choose prices, wages, quantities, etc. and studies partial or general equilibrium outcomes. Contract theory extends the choice spaces of the actors to include richer strategies (i.e. contracts) rather than simple one-dimensional choice variables. Hence, a firm can offer a nonlinear price menu to its customers (i.e., a screening contract) rather than a simple uniform price and an employer can offer its employee a wage schedule for differing levels of stochastic performance(i.e., an incentives contract) rather than a simple wage.

Finally, one could group contract theory together by the substantive questions it asks. How should contracts be developed between principals and their agents to provide correct incentives for communication of information and actions? Thus, contract theory seeks to understand organizations, institutions, and relationships between productive individuals when there are differences in personal objectives (e.g., effort, information revelation, etc.).

It is this later classification that probably best defines contract theory as a field, although many interesting questions such as the optimal design of auctions and resource allocation do not fit this description very well but comprise an important part of contract theory nonetheless.

**2.1.1 THE BASIC THEORY**

The Model we now turn to the consideration of moral hazard. The workhorse of this literature is a simple model with one principal who makes a take-it-or-leave-it offer to a single agent with outside reservation utility of U under conditions of symmetric information. If the contract is accepted, the agent then chooses an action, a 2 A, which will have an effect

(Usual stochastic) on an outcome, x 2 X, of which the principal cares about and is typically “informative” about the agent’s action, The principal may observe some additional signals 2 S, which may also be informative about the agent’s action. The simplest version of this model casts x as monetary profits and s = ;; we will focus on this simple model for now ignoring information besides x.

We will assume that x is observable and verifiable. This latter term is used to indicate that enforceable contracts can be written on the variable, x. The nature of the principal’s contract offer will be a wage schedule, w(x), according to which the agent is rewarded.

We will also assume for now that the principal has full commitment and will not alter the contract w(x) later – even if it is Pareto improving.

**2.1.2 THE RELATIONAL THEORY**

A **relational** contract theory is a theory based upon a relationship of [trust](http://en.wikipedia.org/wiki/Trust_%28social_sciences%29" \o "Trust (social sciences)) between the parties. The explicit terms of the contract are just an outline as there are implicit terms and understandings which determine the behaviour of the parties.

Relational contract theory was originally developed in the United States by the legal scholars [Ian Roderick Macneil](http://en.wikipedia.org/wiki/Ian_Roderick_Macneil" \o "Ian Roderick Macneil) and Stewart Macaulay. According to Macneil it offered a response to the so-called “[Death of Contract](http://en.wikipedia.org/w/index.php?title=Death_of_Contract&action=edit&redlink=1" \o "Death of Contract (page does not exist))” school’s nihilistic argument that contract was not a fit subject for study as a whole; each different type of contract (e.g., sales, employment, negotiable instruments) could be studied individually, but not “contracts-in-gross”.

Macneil explains that this is only one of a number of possible relational theories of contracts, and accordingly renamed his own version “essential contract theory”.

Relational contract theory is characterized by a view of contracts as relations rather than as discrete transactions (which, Macneil argued, traditional “classical” or "[neo-classical contract](http://en.wikipedia.org/wiki/Neo-classical_contract" \o "Neo-classical contract)" theory treats contracts as being). Thus, even a simple transaction can properly be understood as involving a wider social and economic context. For instance, if A purchases a packet of cigarettes from a shop he has never been into before and will never enter again, that seems quite discrete. However, A will almost certainly have a loyalty to a particular brand of cigarettes and expectations about quality about which he would be prepared to complain to the manufacturer, although he has no contractual private with the manufacturer. There is also an understanding that A will pay for the cigarettes, not simply run off with them, and that if he tenders a £10 note in exchange for the cigarettes which are priced at £6, the paper money will be acceptable and change of £4 will be given. None of this is explicitly stated between the parties, whose conversation is likely limited to “20 Marlboro, please” on A’s part and “That’ll be £6, please” on the part of the retailer. Thus, even the simplest transaction has a good deal that is unstated and dependent on a wider web of social and economic relations. How far outwards into that web one needs to investigate will depend on the transaction and on the purpose for which it is being examined.

Although earlier writing may be taken in places to suggest that the substantive rules of contract law need to be reframed to acknowledge the relational, non-discrete nature of contracts, this has not been subsequently pursued and current scholars have argued that it is neither possible nor necessary to reform the law of contract itself to work effectively with relationally-constituted contracts.

Other characteristics of relational contract theory are that “contract” is understood to cover economic exchange in general, not just contracts that would be recognized as legally enforceable agreements by courts in any given jurisdiction, that relations are mostly held together by their own internal values and wider social/economic factors, and, at least in relational theory in the Macneil mould, that exchange relations are governed by a number of norms. This last is not to say that relational contract theory is normative in nature, setting out what ought to be the case properly, but rather that there are actual observable normal characteristics or factors at play in relations. Macneil’s essential contract theory offers some 14 norms.

The English contracts scholar Richard Austen-Baker has more recently proposed an alternative version of relational contract theory, called “comprehensive contract theory”, which posits four “comprehensive contract norms” in place of Macneil’s 14, though Austen-Baker does not deny the validity of Macneil’s norms as a complex tool of analysis. The Japanese scholar Takashi Uchida has proposed a version of relational contract theory inspired by Macneil, relating it to the Japanese situation. Other notable contributions to relational contract theory have been made by Stewart Macaulay (U.S.), Lisa Bernstein (U.S.), [David Campbell](http://en.wikipedia.org/wiki/David_Campbell_%28legal_academic%29" \o "David Campbell (legal academic)) (England) and John Wightman (England).

### 2.1.3 THE SOCIAL CONTRACT THEORY

In [political philosophy](http://en.wikipedia.org/wiki/Political_philosophy" \o "Political philosophy) the social contract or political contract is a theory or model, originating during the [Age of Enlightenment](http://en.wikipedia.org/wiki/Age_of_Enlightenment" \o "Age of Enlightenment), that typically addresses the questions of the origin of society and the legitimacy of the authority of the [state](http://en.wikipedia.org/wiki/Government" \o "Government) over the [individual](http://en.wikipedia.org/wiki/Individual" \o "Individual). Social contract arguments typically posit that individuals have consented, either explicitly or tacitly, to surrender some of their freedoms and submit to the authority of the ruler or magistrate (or to the decision of a majority), in exchange for protection of their remaining [rights](http://en.wikipedia.org/wiki/Rights" \o "Rights). The question of the relation between [natural and legal rights](http://en.wikipedia.org/wiki/Natural_and_legal_rights" \o "Natural and legal rights), therefore, is often an aspect of social contract theory.

Although the antecedents of social contract theory are found in antiquity, in [Greek](http://en.wikipedia.org/wiki/Ancient_Greek_philosophy" \o "Ancient Greek philosophy) and [Stoic](http://en.wikipedia.org/wiki/Stoicism" \o "Stoicism) philosophy and [Roman](http://en.wikipedia.org/wiki/Roman_law" \o "Roman law) and [Canon Law](http://en.wikipedia.org/wiki/Canon_Law" \o "Canon Law), as well as in the [Biblical idea of the covenant](http://en.wikipedia.org/wiki/Covenant_%28biblical%29" \o "Covenant (biblical)), the heyday of the social contract was the mid-seventeenth to early nineteenth centuries, when it emerged as the leading doctrine of political legitimacy. The starting point for most social contract theories is a [heuristic](http://en.wikipedia.org/wiki/Heuristic" \o "Heuristic) examination of the human condition absent from any political order that [Thomas Hobbes](http://en.wikipedia.org/wiki/Thomas_Hobbes" \o "Thomas Hobbes) termed the “[state of nature](http://en.wikipedia.org/wiki/State_of_nature" \o "State of nature)”. In this condition, individuals' actions are bound only by their personal [power](http://en.wikipedia.org/wiki/Power_%28philosophy%29" \o "Power (philosophy)) and [conscience](http://en.wikipedia.org/wiki/Conscience" \o "Conscience). From this shared starting point social contract theorists seek to demonstrate, in different ways, why a rational individual would voluntarily consent to give up his or her natural freedom to obtain the benefits of political order.

[Hugo Grotius](http://en.wikipedia.org/wiki/Hugo_Grotius" \o "Hugo Grotius) (1625), [Thomas Hobbes](http://en.wikipedia.org/wiki/Thomas_Hobbes" \o "Thomas Hobbes) (1651), [Samuel Pufendorf](http://en.wikipedia.org/wiki/Samuel_Pufendorf" \o "Samuel Pufendorf) (1673), [John Locke](http://en.wikipedia.org/wiki/John_Locke" \o "John Locke) (1689), and [Jean-Jacques Rousseau](http://en.wikipedia.org/wiki/Jean-Jacques_Rousseau" \o "Jean-Jacques Rousseau) (1762) are among the most prominent of seventeenth- and eighteenth-century theorists of social contract and natural rights. Each solved the problem of political authority in a different way. Grotius posited that individual human beings had [natural rights](http://en.wikipedia.org/wiki/Natural_rights" \o "Natural rights); Hobbes asserted that men consent to abdicate their rights in favor of the absolute authority of government (whether monarchial or parliamentary); Pufendorf disputed Hobbes's equation of a state of nature with war.

Locke believed that [natural rights](http://en.wikipedia.org/wiki/Natural_rights" \o "Natural rights) were inalienable, and that the rule of God therefore superseded government authority; and Rousseau believed that democracy (self-rule) was the best way of ensuring the general welfare while maintaining individual freedom under the rule of law. The Lockean concept of the social contract was invoked in the [United States Declaration of Independence](http://en.wikipedia.org/wiki/United_States_Declaration_of_Independence" \o "United States Declaration of Independence). Social contract theories were eclipsed in the nineteenth century in favor of [utilitarianism](http://en.wikipedia.org/wiki/Utilitarianism" \o "Utilitarianism), [Hegelianism](http://en.wikipedia.org/wiki/Hegelianism" \o "Hegelianism), and [Marxism](http://en.wikipedia.org/wiki/Marxism" \o "Marxism), and were revived in the twentieth, notably in the form of a [thought experiment](http://en.wikipedia.org/wiki/Thought_experiment" \o "Thought experiment) by [John Rawls](http://en.wikipedia.org/wiki/John_Rawls" \o "John Rawls).

### 2.1.4 THE JUSTICE THEORY

[John Rawls](http://en.wikipedia.org/wiki/John_Rawls" \o "John Rawls) (1921–2002) proposed a contractarian approach that has a decidedly [Kantian](http://en.wikipedia.org/wiki/Kantian" \o "Kantian) flavour, in [A Theory of Justice](http://en.wikipedia.org/wiki/A_Theory_of_Justice" \o "A Theory of Justice) (1971), whereby rational people in a hypothetical "[original position](http://en.wikipedia.org/wiki/Original_position" \o "Original position)", setting aside their individual preferences and capacities under a "[veil of ignorance](http://en.wikipedia.org/wiki/Veil_of_ignorance_%28philosophy%29" \o "Veil of ignorance (philosophy))", would agree to certain general principles of justice and legal organization. This idea is also used as a [game-theoretical](http://en.wikipedia.org/wiki/Game_theory" \o "Game theory) formalization of the notion of fairness.

**2.1.5 THE MORALS BY AGREEMENT THEORY**

[David Gauthier](http://en.wikipedia.org/wiki/David_Gauthier" \o "David Gauthier) "neo-Hobbesian" theory argues that cooperation between two independent and self-interested parties is indeed possible; especially when it comes to understanding morality and politics. Gauthier notably points out the advantages of cooperation between two parties when it comes to the challenge of the [prisoner's dilemma](http://en.wikipedia.org/wiki/Prisoner%27s_dilemma" \o "Prisoner's dilemma). He proposes that if both parties were to stick by the original agreed-upon arrangement and morals outlined by the contract that they both would experience an optimal result. In his model for the social contract, trust, rationality and self-interest are all factors that keep each party honest and dissuade them from breaking the rules.

**2.1.6 REPUBLICANISM THEORY**

[Philip Pettit](http://en.wikipedia.org/wiki/Philip_Pettit" \o "Philip Pettit) (b. 1945) has argued, in [Republicanism](http://en.wikipedia.org/wiki/Republicanism" \o "Republicanism): A Theory of Freedom and Government (1997), that the theory of social contract, classically based on the [consent of the governed](http://en.wikipedia.org/wiki/Consent_of_the_governed" \o "Consent of the governed), should be modified. Instead of arguing for explicit consent, which can always be manufactured, Pettit argues that the absence of an effective rebellion against the contract is the only legitimacy of it.

### 2.2 CONTRACTS, PROJECT PLANNING AND CONTRACT DEVELOPMENT

Contracts are legally binding agreements that facilitate trade. They can be created by simple spoken promises in immediate transactions, like buying bread in a corner shop. They can be created even when consumers and suppliers are unaware of, and there is no explicit mention of, a contract. In more complex cases, contracting parties record the details of their agreement in writing. Over time, traders have developed the practice of selling many goods and services on the basis of standard-form written contracts that are not individually negotiated, thus saving time and effort in the contracting process.

Contract management or contract administration is the management of [contracts](http://en.wikipedia.org/wiki/Contract" \o "Contract) made with customers, vendors, partners, or employees. Contract management includes negotiating the terms and conditions in contracts and ensuring compliance with the terms and conditions, as well as documenting and agreeing on any changes or amendments that may arise during its implementation or execution. It can be summarized as the process of systematically and efficiently managing contract creation, execution, and analysis for the purpose of maximizing financial and operational performance and minimizing risk.

Common commercial contracts include employment letters, sales [invoices](http://en.wikipedia.org/wiki/Invoice" \o "Invoice), [purchase orders](http://en.wikipedia.org/wiki/Purchase_order" \o "Purchase order), and utility [contracts](http://en.wikipedia.org/wiki/Contract" \o "Contract). Complex contracts are often necessary for [construction](http://en.wikipedia.org/wiki/Construction" \o "Construction) projects, goods or services that are highly [regulated](http://en.wikipedia.org/wiki/Compliance_%28regulation%29" \o "Compliance (regulation)), goods or services with detailed technical specifications, [intellectual property](http://en.wikipedia.org/wiki/Intellectual_property" \o "Intellectual property) (IP) agreements, and [international trade](http://en.wikipedia.org/wiki/International_trade" \o "International trade).

A study has found that for "42% of enterprises...the top driver for improvements in the management of contracts is the pressure to better assess and mitigate risks" and additionally, "nearly 65% of enterprises report that [contract lifecycle management](http://en.wikipedia.org/wiki/Contract_lifecycle_management" \o "Contract lifecycle management) (CLM) has improved exposure to financial and legal risk."

**2.2.1 CONTRACT DEVELOPMENT AND PROCESS**

There are so many different schools of thought on contracting. With a variety of contracting options to choose from, facility executives may have difficulty deciding the best way to approach the decision-making process.

To develop a strategic sourcing plan, facility executives should explore their motives for contracting, identify actions needed to make the best selection of partners, and establish a methodology for determining and measuring the critical success factors.

The first step in the strategic sourcing plan is reviewing the vision for the facility management enterprise. Many contracting ventures have failed because of insufficient attention upfront to where the facility management organization is headed and what it wants to accomplish through contracting. The direction of the facility management enterprise needs to be analyzed in relation to the overall corporate vision to make certain facility management goals and objectives are in sync with those of the organization.

Internal clients

Once goals and objectives are determined and the facility organization has defined its own vision and direction, it also needs to take into account business unit or client organization requirements, which are affected both by the corporate culture and how they determine satisfaction with facility management service delivery. From this analysis the facility executive can review the department’s service delivery approach to determine how an contracting strategy relates to the vision and overall direction.

Is contracting a good choice for a particular facility organization? Answering that question means identifying core and non-core facility management functions and services. Facility executives need a thorough knowledge of what they consider to be the core functions and services they provide before they can determine if contracting is viable.

Core services are the seeds of the organization, the essential services that have to be performed for customer organizations to achieve their business missions. Core services vary from one corporate entity to another, depending on mission, culture and other factors that shape the way the facility organization serves its customers. Typically, core functions are retained in-house.

Non-core services do not necessarily contribute directly to the corporate mission and could be performed by external service providers.

The facility management test for core and non-core services is to assess how customers react if a particular service is not performed by in-house personnel. If a service passes the test, it more than likely can be outsourced.

Once core and non-core functions have been identified, the facility executive should determine whether there is a good reason for undertaking contracting. To rationalize the contracting effort, facility executives should be certain they understand the motives for considering externally provided services. Seasoned outsource veterans give several compelling reasons why most facility organizations elect to move into an outsource relationship.

Facility management is not a core function of the organization. Although a facility organization may be successful in delivering world-class services, sometimes senior corporate officials determine that the overall facility function is not strategically linked to the corporate business mission and is not one of the company’s core competencies. Typically this means that the facility organization is considered to be an operational function that could just as easily be performed by an external source, so the company redirects its resources to core functions performed in-house and selects facility management as a candidate for contracting.

The organization is looking for facility management best practices. Because internal facility organizations are busy performing routine services, they often are not current on the late**st** trends and best practices. Time constraints may make it impossible to keep in-house staff trained and versed in the latest facility management tools and strategies. Internal facility organizations are fairly insulated from competitive market pressures that service providers face to have the latest skills, systems and information. Senior management often believes contracting providers deliver best-practice performance because otherwise the firms could not compete in the marketplace.

The workforce is variable. When companies and institutions are in flux with respect to the contraction and expansion of their workforce, using an external resource pool may be attractive because staff can be delivered “just-in-time.” This flexibility allows the company to maintain a smaller in-house workforce, which reduces overhead and administrative costs, while having the ability to staff up quickly when service demand increases.

The contracting provider offers value-added services. In companies where the facility organization has negotiated service-level agreements with customer organizations and those organizations pay for services, using an external service provider may allow facility management to offer higher levels of service than the baseline or standard service provided. Some customer units may need facility management services that are different than what is provided by the facility department directly, but that can be offered through an external provider. Driving consistency of service also may be part of the value-add concept: For example, a provider may support a call center, Web-based CAFM systems or other technology that can be applied uniformly across all customer organizations.

Tapping Planning Resources

The second stage in the process of making contracting work involves planning for the actual contracting process. All too often, facility organizations try to go through the process alone, without benefit of the expertise of others within the company. Others within the company can lend valuable assistance in developing the scope of work for contracting, establishing criteria for evaluating contracting providers, identifying key success factors and communicating back to customer organizations about changes in service delivery.

A facility executive can tap into others in the organization by creating a broad-based advisory committee. A strategic sourcing development committee provides the facility organization with invaluable expertise for developing the request for proposal and evaluating proposals from outsource providers. This group typically consists of client representatives, other service partner organizations — such as IT, human resources, procurement, and finance — and facility management staff. This group is critical to the success of the contracting effort; they need to buy into the rationale for contracting and the anticipated outcome to become invested in the process. The group can provide insight into how work needs to be performed, which ultimately becomes the basis for the scope of work in the RFP.

This group also advises the facility executive on what it takes for the contracting effort to be successful, such as faster service, less expensive service, better technology or best practice applications. The group also participates in the weighting of evaluation criteria, such as cost, customer satisfaction, technical methodology, experience or innovation. The committee evaluates proposals from its perspective, which helps to syndicate the risk of decision making for the facility organization.

List of Prospects

The next step is to find prospective contracting providers. The facility organization and its advisory committee should determine upfront if the selection process is going to include pre-selection of potential bidders and a pre-qualification process prior to announcement of the RFP. Locating potential contracting providers that strike the proper balance between technology capabilities and cultural fit with the organization takes significant work before the RFP is published.

To gather information about prospective providers, both the facility staff and others on the advisory committee should attend trade shows and conferences to meet and acquire information on companies providing the desired outsource services. It is also useful to tap networks of industry professionals to benchmark firms in advance using the evaluation criteria and the critical success factors; this step can eliminate firms that are not a good match. Another helpful action is to review trade publications for information on best practices claims offered by contracting firms and their successful application.

From the efforts of the facility staff and the advisory committee, a large number of potential bidders should be reduced in advance of the RFP distribution; only firms that make the cut from the evaluation of qualifications are eligible to bid on the actual RFP. Only these prequalified bidders attend the pre-bid conference, take the site tour, and have the ability to ask questions and submit proposals.

Building a Good Relationship

Once an contracting provider is selected, the facility organization must take steps to create the right relationship, one based on a blend of accountability mixed with a true sense of partnership from the beginning. To ensure the right atmosphere for a successful contracting relationship, facility organizations should:

Provide opportunities for the contracting firm to explore and understand the corporate culture.

Establish a full disclosure policy with respect to information sharing.

Create an orientation and training program designed to acclimate the provider to the client’s way of doing business.

Negotiate an ongoing monitoring and problem resolution process.

Create incentives tied to a risk-reward philosophy.

If facility executives understand the difference between core and non-core services, clearly express their motives for contracting and the goals and objectives they hope to achieve, and establish key performance indicators to evaluate the value of the outsourced services versus the service investment, contracting should be a powerful business tool.

### 2.3 HISTORY OF CONTRACT

Empirical exploration of contracts is not a new thing. Some trace the roots of serious empirical exploration of private contracting to Stewart Macaulay’s seminal work in 1963. It may be said that empirics are playing catch-up to theory, which has had a significantly longer tradition in scholarship in law and social sciences. To understand the diversity of disciplinary approaches and framings of questions about contracts raised in modern empirical explorations, it may be useful to briefly articulate the intertwined trajectory of contract doctrine, theory, and empirics.

Contracts are historically ancient means of managing and regulating dyadic exchanges.

Contract’s doctrinal roots are traceable to actions, which were variations on trespass, used in varied contexts like debt collection, marriage enforcement, surgical mishaps, and similar transactions. An action in contract distinct from trespass was perhaps first noted in1348 in the case of the *Humber Ferryman* (Simpson 1987). In that case, a ferryman was paid for transporting the plaintiff’s horse across a body of water, but the horse drowned allegedly due to the ferryman’s miscalculations. Consideration was added to the doctrinal contractual landscaping the sixteenth century. In the *Golding’s Case*, the Solicitor-General made what could be the first statement of a clear general principle of consideration, when he declared that, “in every action upon the case upon a promise, there are three things considerable: consideration, promise, and breach of promise” (Simpson 1987: 319).

Contract law evolved in parallel with liberal democratic ideals about free market exchange. In fact, since their modern formalization as legal, state-backed instruments, contractual exchange has been hailed as the foundation of both capitalism and the liberal state (Farnsworth 1982; Friedman 1965; Macaulay 1985; Selznick 1969; Smith 1904; Thompson

1975). under the common liberal theoretical version of contract formation, contract enforceability was grounded in law *as much as, and in harmony with* moral concerns, social constraints, and instrumental calculations. As a result, contracts provided formal state-backed instruments that seemed to obviate the need for reliance on alternative means of ensuring that deals were enforced (Blau 1968). Courts, legislators, and scholars in various fields have described contracts as the product of bilaterally exchanged commitments freely negotiated and agreed upon by the parties (Macaulay 1963; McIntyre 1994). As Friedman (1965) notes, “…the law of contract was the legal reflection of [the free] market and naturally took on it characteristics.”Contracts represented a doctrinal embodiment of the collectively imagined paradigmatic *free* economic exchange in which mutually dependent actors with relatively equal access to legal resources, and relatively equal abilities to know and understand their respective needs and desires freely negotiated terms and then memorialized them in written instruments. The law assumed that individuals could serve their private interests by contract, and that contracts served the public interest by creating predictable reciprocal obligations (Slawson 1996). More specifically, one could point to at least the following five assumptions about how contracting parties behave as embodying the underlying theme of free market contracting: (1) parties know what they want (they understand their preferences); (2) they have relatively clear expectations about what their contracting counterparts want (they have a good sense of their counterparts ‘preferences); (3) they understand when they have entered into a contract; (4) they generally feel bound to perform as obligated by lawful contracts into which they knowingly entered; and, (5)if they breach, they know that they are breaching. Imagine, for instance, a bridge builder contracting with a component part manufacturer.

Each generally understands what terms they want and do not want to be memorialized in their contract, what the terms mean, and what will happen if they fail to perform, roughly to the same degree. Each has at least a minimal threshold understanding of the mechanics of the deal, and each probably feels bound to perform the terms to which they meaningfully assented in the absence of typical contract defenses like duress or unconscionability. Under these circumstances, it would seem odd not to require each party to fully bear the responsibility for obligations into which they knowingly entered even if a court later determined that the deal was substantively unfair to one of the parties. Indeed, the law often treats a promise to do something as an indication that the promisor intends to perform as promised (Ayres and Klass2005). For the most part, this is what the law did and continues to do.

Over time, contract law might not have evolved very much away from these assumptions, but contract scholarship has. As theory developed, contract was often conceived of as being in stark relief from what doctrine aspired for contract to be. Famously, Grant Gilmore (1974),Charles Fried (1981), and Ian MacNeil (1985) theorized on contract’s doctrinal shortcomings born out of the discord between how contract is experienced and how the law assumes contracts experienced. Perhaps it was the earlier work by Stewart Macaulay (1963) that evaluated the circumstances under which parties sought enforcement of terms in contracts between businesses that partially paved the way for these theoretical re-conceptualizations. Since that paper, which provocatively opened by asking, “[w]hat good is contract law? Who uses it?

When and how,” a growing number of scholars employing an expanding arsenal of methodological techniques have continued to probe the relationship between how people are *supposed to* behave around contracts, and how they *actually* behave, as Macaulay did in 1963. Asothers have observed (Becher 2009a), there is a wide gap between contract laws’s underlying *assumptions* and the modern reality of how contract is often experienced. This seems to be one of several driving forces behind the growth of empirical scholarship on contracts that has burgeoned in recent years. The primary alternative, but parallel, driving force is the use of contracts to vet disciplinary-based theories. This appears to be most true for economic theories.

This paper next maps this evolving landscape, identifying common threads across disciplines as well as gaps fellable by future research. Recommendations are then offered for productive ways to expand on empirical contractual studies both substantively and methodologically.

## 2.4 TYPES OF CONTRACT

The basic types of contract that you may come across are defined below.

* A sales contract is a contract between a company (the seller) and a [customer](http://en.wikipedia.org/wiki/Customer" \o "Customer) that where the company agrees to sell products and/or services. The customer in return is obligated to pay for the product/services bought.
* A purchasing contract is a contract between a company (the buyer) and a supplier who is promising to sell products and/or services within agreed terms and conditions. The company (buyer) in return is obligated to acknowledge the goods / or service and pay for liability created.
* A partnership agreement may be a contract which formally establishes the terms of a partnership between two legal entities such that they regard each other as 'partners' in a commercial arrangement. However, such expressions may also be merely a means to reflect the desire of the contracting parties to act 'as if' both are in a partnership with common goals. Therefore, it might not be the [common law](http://en.wikipedia.org/wiki/Common_law" \o "Common law) arrangement of a partnership which by definition creates fiduciary duties and which also has 'joint and several' liabilities.
* A spot contract is let to satisfy a definite, one-off requirement for either products or services. In principle, it serves the same purpose as a purchase order (which is a legal contract), but it is normally used for higher value or complex contracts where we have to go out to tender or the use of special terms and conditions.
* A call-off contract is used for the supply of a specific quantity (a minimum and maximum range can be given) of goods or services over a given time period, subject to the prices, specifications and terms and conditions agreed. Delivery will be made either to a delivery schedule built into the call-off contract, or more usually by separate 'call-off' orders placed against the contract. In essence, a call-off contract is the same as a framework agreement except that it is a legally binding contract with the supplier.
* Capital works contracts are used for large-scale construction projects. These contracts are generally highly complex and involved.
* Leasing contracts are often used to allow organizations to control the total cost of ownership of items such as IT equipment, vehicles and buildings.

## 2.5 THE ROLE OF PROJECT PLANNING IN INCREASING CONTRACTORS PROFIT

Recent empirical work on contracts has advanced our understanding of how contracting entities experience contracts in important ways. First, there is growing consensus among researchers that actors do not consistently behave rationally, or in ways that optimize efficiency. This has been important particularly for those interested in how contracts may be written to incentivize performance (Brooks, Stremitzer and Tontrup 2012; Fehr, Hart and Zehnder 2011b; Feldman and Teichman 2011). Studies on reference points (Fehr, Hart and Zehnder 2011a), effects of formal versus flexible contract terms (Green and Heywood 2011),and opportunities for renegotiation (Nikolaev 2012) exemplify how much context and framing influence behavior around contracts, perhaps more so than the terms themselves. For instance, a study by Hannan, Hoffman, and Moser (2005) found that employees were more averse to having to pay a penalty than they were to not receiving a bonus, and therefore chose a higher-level of effort under a penalty contract. They also found that individuals perceived the bonus contract as fairer than the penalty contract, and therefore were more likely to work harder in reciprocity.

A second particularly robust finding emergent from empirical work on contracts is that moral constraints are important in understanding how individuals interpret contractual obligations. Perhaps empirical evidence of the relative effects of morality in contracting is overdue. The notion of “keeping one’s promise” has origins in the bible: “[i]f a man…takes anoath to bind himself…he shall not violate his word” (Numbers 30:2). Durkheim (1893) argued that contracts could not exist without a preexisting set of institutionalized moral agreements.

Modern theorists have argued for morality’s central role for decades (Atiyah 1979; Fried 1981).

As Sutton described, “in effect, contract law… defines the nature of contractual obligations and invokes a transcendent authority to ensure that they will be enforced” (2001: 33). Promise and doctrinal contract have clearly intertwined roots (Fourcade and Healy 2007), but until recently, there has been little empirical evidence of how social actors interpret the promise implicitly made by signing a contract, and less evidence of the perceived relationship in the context ofform-adhesive contracts, which will be discussed separately.

There has been an explosion of empirical findings supporting the role of moral and normative constraints in explaining contractual behavior in recent years. For instance, Wilkinson-Ryan and Baron (2009) used a series of web-based questionnaires to measure the extent to which individuals accounted for morality in evaluating the actions of a party breaching a contract. Their results suggest that subjects “seemed to believe that intentionally breaking a contractual promise is a punishable moral harm in itself.” Wilkinson-Ryan (2011) also used vignette studies to show that morality affects individuals’ decisions in a mortgage default context. Her findings suggest that less social stigma surrounding mortgage defaults following the recent housing collapse reduce the degree to which individuals feel socially constrained to avoid breaching their own contracts. Findings also suggest reduced reciprocity norms when lending institutions are perceived as greedy or predatory. Feldman andTeichman’s (2011) recent research using randomly assigned vignettes similarly illustrates the degree to which attitudes about breaching a contract are laden with moral judgments. Lastly, findings from an online experiment suggest the relative effectiveness of a moral framing as compared to four alternative framings (moral, social, legal, instrumental, and generic) ofattempts to convince participants who had breached a contract to cure their breaches (Eigen2012b).

A final area that has received some attention recently from empiricists is “form-adhesive “contracts. One relatively modern development in contract’s evolution, coinciding with the riseof the modern corporation (Edelman and Suchman 1997) is the proliferation of unilateral form contracts that have come to dominate the contemporary contractual landscape (Ben-Shahar2007). Form-adhesive contracts (unilaterally drafted and offered on a take-it-or-leave-it basis)are the dominant means of regulating exchanges between organizations and individuals in contemporary life (Ben-Shahar 2007). They are particularly ubiquitous on the internet (Marotta-Wurgler 2011a). Online vendors, financial institutions, service providers, social networking sites, and purveyors of news and other information require individuals to consent to form-contracts in order to receive the benefit of the underlying bargain. Perhaps the recent interest is a function of the increased awareness in scholarship (Ben-Shahar 2005) and in the public generally (Sullivan 2007) that contracts are rarely the result of freely negotiated bilateral5 The terms “form-adhesive contract” and “form-contract” are used interchangeably to mean the same thing. Commitments in contemporary life in academic circle, The consequences of this are largely unstudied.

Empirical research has recently begun probing whether and to what extent the proliferation of form-adhesive contracts represents an attempt by organizations to exploit individuals. Sociologists of organizations have documented the way in which firms exploit the law to replicate existing power advantages they hold over individuals with whom they deal—employees, customers, and care and service recipients (Edelman and Suchman 1997; 1999).

One of the best ways to do this might be with form-contracts because contracts lend the impression of legal constraints, and by implication, invoke the State as the background sanctioning body of the contents of the contract, lending the impression of legitimacy and authority to the drafters (Eigen 2008), As Richard Ely remarked, “when economic forces make possible oppression and deprivation of liberty, oppression and deprivation of liberty express themselves in contract” (Kaufman 2003: 8).

One way that the question of whether form-contracts’ benefits outweigh their detriments has been explored has been by cataloguing the contents of typical form-adhesive contracts such as end-user-license agreements (“EULA”s) and related online boilerplate, and measuring their exploitative terms. For instance, Marotta-Wurgler (2008) analyzed the contents of 647software license agreements, finding that sellers with market power do not offer unusually harsh terms in the form-adhesive contracts they draft and promulgate.

However, it may be the case that even if the terms themselves are not unusually exploitive, individuals’ tend not to read them, as evidenced by other work by Marotta-Wurgler(2011b) and others (Eigen 2012a; Plaut and Bartlett 2011). So, it might be important to empirically evaluate the extent to which reading matters for performance (or non-performance)of contract terms, and the extent to which individuals’ perceptions of the contracts are relevant to contract performance and behavior. An experiment by the author offers evidence that suggests that readership is positively correlated with performance of a contract (Eigen 2012a).

Others have demonstrated that contracts have signaling effects—such as more completeness asa signal of less trust and cooperation (Chou, Halevy and Murninghan 2012). Qualitative studyof employees who had signed mandatory arbitration agreements revealed varied beliefs about the contents and effects of those contracts, in spite of low readership rates (Eigen 2008).

Besides this, there appears to be a growing public sense of the opportunity for exploitation as being sufficiently worrisome, even independent of the terms themselves. Perhaps the most unsettling popular example of this is an episode of South park, which first aired on Comedy

## 2.6 COST OF CONTRACTING (THE VODAFONE CASE)

Most organizations are under increasing pressure to deliver grants in the most cost-efficient and effective way possible. Evidence from this and other research provides evidence on the costs of different models of grant making.

**2.6.1 GRANT MAKING COSTS**

On the whole it usually costs more (per £ of grant) to administer low value grants, smaller grant programmes and grants to individuals.

When compared with other lottery distributors and grant making foundations operating in a similar field, the Vodafone Lottery Fund's administrative costs appear reasonable and proportionate. Contracting grant-making functions is uncommon among funders, but where it does exist the administration costs appear proportionately higher than in-house grant-making.

VODAFONE has access to economies of scale and scope that enables it to keep costs down. Nonetheless, the rationale for contracting programmes includes purchasing additional expertise, reaching harder to reach groups and individuals, and to innovating, so it is likely that such economies may diminish – and the added value of contracting may increase.

**2.6.2 OUTSOURCED GRANT-MAKING COSTS**

The costs of outsourced grant-making are more complex than in-house grant-making; not least because programme development and operating/administrative costs are borne by both VODAFONE and its delivery partners. VODAFONE's development and operational costs tend to be *outside* the programme budget whereas partner costs tend to be *within* it. Nonetheless, we found the following:

* **Development costs:** For most outsourced programmes the chosen delivery partner receives a development grant from VODAFONE to develop their business plan for the programme in more detail. Development grants are currently limited to £250,000 and account for a small fraction (typically less than one per cent) of the overall programme costs, and represent necessary expenditure for the outsourced partner, although in some cases VODAFONE could have developed a broadly comparable in-house programme more cheaply
* **VODAFONE development and support costs:** VODAFONE also incurs costs during the development and delivery of an outsourced programme. For programmes currently in development VODAFONE estimates these costs through a generic template for developing an operating cost budget. Our findings suggest that the cost to VODAFONE of managing outsourced programmes is relatively low as a proportion of the total programme budget: less than five per cent in the examples we explored
* **programme delivery costs:** As with in-house programmes, the majority of the cost associated with outsourced programmes is incurred at the programme delivery stage. Our findings suggest that these costs can be anything from four per cent of programme expenditure for larger outsourced programmes to 14 per cent for smaller programmes. However, these costs did not always include expenditure incurred by delivery agents administering grants at levels below the outsourced partner. In addition, we found a cost advantage from the trust model, which through expendable endowments typically generated (or were hoped to generate) investment returns sufficient to cover direct delivery costs. These returns were directly used to increase the programme budget. Of course, VODAFONE also generates interest on its balances, although such interest is most likely to be used to benefit subsequent programmes.

## 2.7 IMPACT OF PROJECT PLANNING ON COST AND PROFIT

The main benefits of standard contract plans are that they save the expense of many individual negotiations, and reduce transaction costs and increasing profit margins for the contractor. This cost saving should free consumers to put effort into comparing offers, thereby giving firms a stronger incentive to offer low prices andood quality and service.38 However, particular contract features can also sometimes impede competition by introducing search and switching costs.

Search costs may arise from confusing contracts or pricing structures that make it difficult for consumers to compare firms'deals. This can weaken traders' incentives to offer the bestpossible terms (since, for example, consumers cannotdistinguish price reductions amid complexity).As such, therecan be an advantage from being the first trader the consumerAnd in the extreme they will charge monopoly prices, even where there are manyfirms (Diamond considers. In extremis, traders who deliberately misleadconsumers can benefit at the expense of more honestcompetitors. Switching costs can arise, for example, from cancellationpolicies (such as fees or notice periods) that deter consumersfrom switching supplier. High switching costs can, in turn, dullthe incentive for firms to compete for each others' customers asthey are locked in to contracts. This can result in higher pricesfor everyone.

The rapid growth of contracting suggests that both public and private organizations expect benefits from contracting. Naturally different organizations in different circumstances will expect different benefits. For example, all organizations may expect costs savings even though in government contracting, the typical cost savings are only about half ofhat the private sector achieves (Kakabadse and Kakabadse,2000a). It is impossible to exhaustively list every conceivable benefit but many of the desired benefits are general enough that they are shared across organizations. Rather than discussing potential benefits individually in detail, they are summarized in Table I along with a list of references.

As the table shows, the expected benefits of contracting may include realizing the same or better service at a lower overall cost, increased flexibility and/or quality, access to the latest technology and best talent, and the ability to re-focus scarce resources onto core functions. For the political organization, additional expected benefits may include better accountability and management, and a better political posture. There also appears to be an expected benefit of mimicking competitors or “getting rid” of troublesome functions (Willcocks and Currie, 1997).

## 2.8 POTENTIAL RISKS OF CONTRACTING

The literature also discusses numerous risks associated with contracting. Because contracting is a rather recent tool of managers the complete costs are not yet known, which posses a risk in itself. The literature warns that there is an initial tendency to overstate benefits and that the suppliers are likelyto perform better in the beginning of a contract to make goodfirst impressions (Schwyn, 1999).

The lack of methodology is believed to cause some contracting failures (Bounfour, 1999; Lonsdale, 1999).

This thinking is supported by Lonsdale who suggests that contracting failures are not due to an inherent problem with contracting but rather the lack of guiding methodology for managers (Lonsdale, 1999). Another difficulty encountered with contracting, particularly in the US (GAO, 1997), is the lack of skills within public organizations to manage and monitor outsourced functions. While not discussed in detail,

(Earl, 1996) identifies 11 risks with contracting IT; many of them have applicability to the contracting of other functions as well.

The contracting literature referenced in the table warns ofthe following potential risks: unrealized savings with a potential for increased costs, employee moral problems, overdependence on a supplier, lost corporate knowledge and future opportunities, and dissatisfied customers. It is also noted that contracting may fail because of inadequate requirements definition, a poor contract, lack of guidance in planning or managing an contracting initiative, or because of poor supplier relations.

## CHAPTER THREE

## RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter describes the research design, population, sampling techniques, method of data collection as well as the method of data analysis used in this research.

### 3.2 Research Design

In designing the research, a plan was set to guide the researcher on data collection and analysis phases of the research project; however the research design is descriptive method and percentage representation. The number of respondent that answer each question will be determined. This will allow for easier comparison of responses of all the respondent in other to research logical and constructive conclusion also, the researcher adopted survey as one of the research methods which is meant to investigate, budgeting as an effective tool for planning control and increasing productivity as an instrument of development in private sector as the researcher center of focus.

### 3.3 Area of the Study

Julius Berger Nigeria Plc is a Nigerian [construction](http://en.wikipedia.org/wiki/Construction" \o "Construction) [company](http://en.wikipedia.org/wiki/Company" \o "Company), in Owerri Imo, located Imo Owerri

### 3.4 Population of the Study

The research population of this study of 100 staff of Julius Berger Nigeria Plc

### 3.5 Sample Size and Sampling Technique

The sample sized for this total population in the case of large number of population under study, the researcher has decided to take proportion of the population and study. The sample size used for this study is forty (40) out of the total population of hundred (100).

### 3.6 Instrument for Data Collection

Research instrument are tools used in getting the data, the research instrument used in this study were questionnaire, documentation and personal interview method. Two different types of questionnaire were designed for this study. One was for the management and staff of private sector and the other was for customers the questionnaires were designed with open ended questions its believed that the respondents would give answer in their own way of thinking, the other were also used to restrict the respondents to only one of the choice of answer e.g. he yes or no.

It also gives anonymity to the respondent to fell to answer questions, the interpersonal nature of questionnaire give conformity in measurement from person to person.

### 3.7 Validation of the Instrument

The questionnaire was submitted to my Supervisor and two (2) other outside experts for validation and necessary modification were made to ensure that it serve its purpose. Twenty copies were taken outside the study area for the purpose of test and reflect for consistency and the same answer were obtained.

### 3.8 Reliability of the Study

The questionnaires used in carryout this research work were duly distributed within and outside the study area. The questionnaire were served by the researcher hand to hand and collected by him in person. 75% of these questionnaires were retrieved while 25% were missing.

### 3.9 Method of Data Collection

The most commonly used tools for gathering information or data by the social scientist are the questionnaire method, interview method. For the purpose of this study, the researcher has decided to make the following for collecting primary data.

- ***Interview Method:*** An interview involves oral presentation and interaction between the interviewer and the interview respondent the information or data collected are recorded as a result of the interaction.

The researcher will personally take the questionnaire for distribution among staff of Julius Berger Nigeria Plc, Owerri Branch. Based on the number of sample size interview which will be structured will also be conducted by the researcher with some of the study organization staff from which their response will be gotten down to serve as data for this research.

### 3.10 Method of Data Analysis

The researcher will analyze the analysis the data to be obtained by presenting the response of the population of studying from based on each question from which mean method will be adopted also chi-square method will be employed to evaluate the data to be obtained for effective justification. When the data has been presented in a tabular form, the chi-square method will be used. The chi-square testing is used when the research wishes to compare an actual or observed distribution with an expected. This method is particular useful when cross data re to be stated.

Chi-square can be presented symbolically thus:

*x*2 = ∑(o-e)2

e

Where:

∑ = Summation

O = the observed frequency of any value

E = the expected frequency of any value

For the fact that likert type of rating is used mean statistical would be used in analyzing the research 1 – 4 the following is given to each scale:

5 = Strongly Agree

4 = Agree

3 = Undecided

2 = Disagree

1 = Strongly Disagree

Where mean is to determine the decision point:

48 – 5 = Strongly Agree (S)

3 – 39 = Agree (A)

2 – 29 = Disagree (D)

Below 2 = Strongly Disagree (SD)

## CHAPTER FOUR

## DATA PRESENTATION AND ANALYSIS

### Introduction

In this Chapter, all the data collected through the questionnaire administered were presented, analyzed and interpreted using likert rating scale. Out of the 6 questionnaires administered, only 40 were returned representing 63% of the total and this is considered to be adequate.

### 4.2 Characteristics of Respondents

***Table 4.1: Age Distribution of the Respondents***

|  |  |  |
| --- | --- | --- |
| ***Option*** | ***No. of Respondents*** | ***Percentage (%)*** |
| 1 – 5 | - | 0 |
| 6 – 19 | 5 | 12.5 |
| 19 – 25 | 7 | 17.5 |
| 25 years and above | 28 | 70 |
| ***Total*** | ***40*** | *100* |

The table 4.1, 12.5% of the respondents are within the age of 6 – 19 years, 17.5% are within the age of 19-25, and 70% of the total respondents are 25 years and above.

***Table 4.2: Sex Distribution of the Respondents***

|  |  |  |
| --- | --- | --- |
| ***Option*** | ***No. of Respondents*** | ***Percentage (%)*** |
| Male | 30 | 75 |
| Female | 10 | 25 |
| ***Total*** | ***40*** | *100* |

The table 4.2 above shows that the populations of male are more than female, out of total population of the respondents, 75% of the respondents are male while 25% are female.

***Table 4.3: Education Distribution of the Respondents***

|  |  |  |
| --- | --- | --- |
| ***Option*** | ***No. of Respondents*** | ***Percentage (%)*** |
| 1 – 5 | - | 0 |
| 6 – 19 | 5 | 12.5 |
| 19 – 25 | 7 | 17.5 |
| 25 years and above | 28 | 70 |
| ***Total*** | ***40*** | *100* |

The table 4.3 above, 12.5% of the respondents are first school leaving certificate holder, 25% are secondary certificate, 30% are ND/NCE certificate, 20% are HND/BSc certificate while 12.5% are MSc holders.

### 4.3 Data Analysis

***Table 4.4: Response on Budgeting services ass an effective tool for planning and control for increase of productivity***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 15 | 10 | 5 | 4 | 6 | 40 |  |  |
| Fx | 75 | 40 | 15 | 8 | 6 | 144 | 3.6 | Agreed |

***Source:*** *Field Survey, 2016.*

The above 4.4 fives a mean score of 3.6 which is greater than the cut-off point of 3.0. These mean that budgeting serve as an effective tool for planning and control for increase of productivity.

***Table 4.5: Response on Private Sector apply budgetary planning and control procedure for its own operation***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 19 | 11 | 4 | 4 | 2 | 40 |  |  |
| Fx | 95 | 44 | 12 | 8 | 2 | 161 | 4.0 | Agreed |

***Source:*** *Field Survey, 2016.*

The table shows that private sector apply budgetary planning and control procedure to its own operation because, the mean score 4.0 is greater than the cut-of point.

***Table 4.6: Response opinion on Budgeting System enhance productivity***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 20 | 9 | 3 | 5 | 3 | 40 |  |  |
| Fx | 100 | 36 | 9 | 10 | 3 | 158 | 3.9 | Agreed |

***Source:*** *Field Survey, 2016.*

Based on the above interpretation, it shows that budgeting system enhance productivity because the mean score 3.9 is greater than the cut-off point 3.0.

***Table 4.7: Response opinion on Historical figures can be used for the preparation of budgeting.***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 9 | 11 | 9 | 6 | 5 | 40 |  |  |
| Fx | 45 | 44 | 27 | 12 | 5 | 133 | 3.3 | Agreed |

***Source:*** *Field Survey, 2016.*

The table above indicates that the mean score is 3.3, which is greater than the cut off point of 3.0, this implies that historical figures can be used for the preparation of budgets.

***Table 4.8: Response on Budgeting serve as instrument for planning and controlling actual with standard productivity?***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 20 | 8 | 9 | 0 | 3 | 40 |  |  |
| Fx | 100 | 32 | 27 | 0 | 3 | 162 | 4.1 | Agreed |

***Source:*** *Field Survey, 2016.*

Based on the above table, budgeting serve as instrument for planning and controlling actual with standard productivity, because the mean score is 4.1 which is greater than the cut-off point of 3.0.

***Table 4.9: Response opinion on Budgeting is regarded as a way of managing resources in an organization***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 14 | 9 | 4 | 7 | 6 | 40 |  |  |
| Fx | 70 | 36 | 12 | 14 | 6 | 138 | 3.5 | Agreed |

***Source:*** *Field Survey, 2016.*

The table above shows that the mean score is 3.5 which is greater than the cut-off point of 3.0. It implies that budgeting is regarded as a way of managing resources in an organization.

***Table 4.10: Responses on Budgeting planning and control techniques are used for increase productivity in the dynamic profit and non-profit making organization***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 18 | 11 | 0 | 9 | 2 | 40 |  |  |
| Fx | 90 | 44 | 0 | 18 | 2 | 154 | 3.9 | Agreed |

***Source:*** *Field Survey, 2016.*

The table shows that budgeting planning and control techniques are used for increasing productivity in the dynamic profit and non-profit making organization. This is as a result of the mean score of 3.9.

***Table 11: Response on Budgeting enhances the necessary for a careful choice of action and said system, in order to desire maximum return.***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 20 | 9 | 3 | 5 | 3 | 40 |  |  |
| Fx | 100 | 36 | 9 | 10 | 3 | 158 | 3.10 | Agreed |

***Source:*** *Field Survey, 2016.*

Based on the above interpretation, it shows that budgeting enhances the necessary for a careful choice of a course of action and said system, in order to desire maximum return because the mean score is 3.10 which is greater than the cut off point.

***Table 4.12: Response opinion on Budgeting serve as a declaration of policies in an organization?***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 19 | 10 | 7 | 4 | 0 | 40 |  |  |
| Fx | 95 | 40 | 21 | 8 | 0 | 164 | 4.1 | Agreed |

***Source:*** *Field Survey, 2016.*

The above table shows a mean score of 4.1 which is greater than the cut-off pint of 3.0. This indicates that budgeting serve as a declaration of policies in an organization of policies in an organization.

***Table 4.13: Response on budgeting relates the activities of the organization to the general trend of economic condition.***

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| ***Option*** | ***SA*** | ***A*** | ***UD*** | ***D*** | ***SD*** | ***Total*** | ***Mean*** | ***Remarks*** |
| X | 5 | 4 | 3 | 2 | 1 | 15 |  |  |
| F | 15 | 11 | 9 | 0 | 5 | 40 |  |  |
| Fx | 75 | 44 | 27 | 0 | 5 | 151 | 3.8 | Agreed |

***Source:*** *Field Survey, 2016.*

The table shows that budgeting relates the activities of the organization to the general trend of economic condition. Because, the mean score is 3.8 is more than cut-off point.

**Interpretation of Mean Score**

1) Item one has a mean score of 3.6 which is agreed that budgeting service as effective tool for planning control and increase productivity therefore, the mean score is accepted.

2) Item two have a mean score of 4.0 which is agreed that private sector apply budgeting planning and control procedure to its own operation.

3) Item three has a mean score of 3.9 which is adequate reveals that budgeting serves as effective tools for planning control and increase productivity therefore is accepted.

4) Item four have a mean score of 3.3 which highlight the productivity of budgeting the mean score is accepted.

5) Item five have a mean score of 4.1 which state that the use of instrument for planning grade control actually will standard productivity therefore the mean score is accepted.

6) Item six is regarded as a way of managing resource in an organization; therefore, the mean score is accepted.

7) Item seven have a mean score of 3.9 which is controls techniques are used for increasing productivity in the dynamic profit and nonprofit making organization; therefore, the mean score is accepted.

8) Item eight have a mean score of 3.10 this agree that budgeting enhances the necessary of a careful choice and course of action and source system. In order to desire maximum return there the mean score is accepted.

9) Item nine have a mean score of 4.1 this agree that budgeting serves as a declaration policies in an organization. The mean score is accepted.

10) Item ten have a mean score of 3.8. This is agreed that budgeting relate the activities of the organization of the general trend of economic condition. Therefore, the mean score is accepted.

### 4.4 Summary of Findings

From the data presented and analysis in this chapter, the researcher has been able to identify the following from the research work.

Budgeting planning and control techniques are used for increasing productivity in the dynamic profit and non-profit making organization which is the study of this research.

Workers in the organization responded positively to the appropriate measure taken by the management of the organization.

Budgeting system enhance productivity, it has been observed that good budgeting system will help any organization to increase its productivity level. These also boost employees’ morals and dedication of its only to become more comprehensive.

### 4.5 Discussion of Findings

This section has been used by the researcher to give answer to the following question:

* Budgeting planning and control techniques are used for increasing productivity in profit and non-profit making organization.
* Budgeting system enhance productivity.
* Budgeting serves as a declaration of policies in an organization.
* Budgeting relate the activities of the organization to the general trend of economic condition.

The research give answer to each question using the information fro, the data analysis:

1. Budgeting planning and control techniques are used for increase productivity. The research question is answered in table (7) the term budgeting is needed in both profit and non-profit making organizations to be able to run the affairs of the organization successfully.

2. Budgeting system enhance productivity, the research question is answered in table (4) proper budgeting in an organization will result to greater output in terms of output that is what you produce.

3. Budgeting serves as a declaration of policies in organization. The research question is answered in table (9) good budgeting system declared sound policies in an organization that will guide the entire management.

4. Budgeting relate the achievement of the organization to the general trend of economic condition. The research question is answered in table (10) proper budgeting related all the activities of the organization to be in one channel and the management will find it easy to coordinate the activities of the organization.

## CHAPTER FIVE

## SUMMARY, CONCLUSION AND RECOMMENDATIONS

### Introduction

This chapter summarizes the literature review as well as the detailed analysis that has been undertaken in this research work and (budgeting as an effective tool for increasing productivity in private sector).

Therefore, based on the findings arrived at recommendation are given and conclusion draw therefore.

### Summary

The objective of private sector is basically to improve the effectiveness and providing power service both internally and externally and to reduce cost.

Budgeting as an effective tool, for planning and control is an important aspect of accounting system both in service or manufacturing organization. This is so because with budgeting planning and control no organization can function effectively in terms of product financial planning.

Therefore, budgeting as a tool for planning and control not be under estimated in an organization, budgeting is used a yardstick to evaluate the activities in an organization. And it has helped management to take crucial decision to guide them in their financial decision planning in running the organization.

The write undertook the researcher of the organization to find out whether the company applied budgeting. Planning and control procedures to its operation and in particular. The productivity of the organization, more over. if it had done that, how I done it and to what extent as well as finding out the efficient and effectiveness of the organization.

The company embarked on long term strategic planning and budgeting techniques to maximum its productivity as far back as the early year of its establishment. The strategies plan is described as the policy of even spread is an organization plan designed by the company in order to control productivity as well as creating some operational economics to the company.

In term of controlling he strategic plan of the company proved beyond reasonable doubt that budgeting as a means of planning and control are suitable for increasing productivity. On the other hand the short-term plan budget of the company should be restricted to the continuous aspect of its operation.

### Conclusion

For budgeting to serve as an impact for planning and controlling mechanism technique, there has to be a plan upon which budget productivity is based.

Productivity must be planned before it can be controlled operation ahs to be determined and analyzed into expenditure costs so as to know how realistic would be contribution to project goals to make budget without planning.

It is just like putting the cat before the horse and a plan without a complimentary control would be pointless. The private sector has achieved the benefit of long range planning however it has not fully achieved the benefit of short range planning the budgeting fully. Moreover, the company has operated with adherence to the budgets and plans usually made in the areas to which they were applied and has been able to realize targeted goals with only minor deviations from the budgets.

These deviations were due to external factors which cannot be controlled by the company (private sector) efficiency and effectiveness has also been achieved by the company through the use of long range planning which improve or increase productivity.

### Recommendations

* The researcher is of the opinion that long range planning of the company should be maintained and pursued fully reached. This is because the company has benefited from it, ranging from creation of economic and minimization e.g. its expenditure.

However, in the area of its operational planning, the company should devise a good specialization policy so that each department within the company should perform specific operation of function.

This will help the company to achieve efficiency and effectiveness in the area of its short term tactical planning and budgeting. This is because for operational performance or goals to be achieved, such operation has to be planned which will go a long way in controlling the productivity of the organization.

* The company should employ competent and intelligent staff which a lot of experience to facilitate the planning which will go a long way in controlling in productivity in the organization.
* Budget plans and control should be reviewed on an operated effective and efficiently as to facilitate the realization of the goal which is the productivity increase in an organization.
* The company corporate planning should have the total support and involvement of top management. It is not a process to be left to technical specialist then assistance and advice can be extremely useful but management involvements are essential.
* The company should avoid excessive detail in corporate planning. I recommend that the corporate planning should provide a curse gained strategic structure for long term future.

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