# Vendor Management Governance:

## Forming the Vendor Management Initiative

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# Introduction

In my conversations with others about governance strategies and their relevance to their practice or organization, most were concerned with specific task-level items, such as setting standards, putting escalation points in place, or drafting policies. When I challenged them that those are task levels *under* governance, it became clear that many don't comprehend the concept of governance itself.

*Governance defines how your organization will undertake to manage the vendor management practice and sets the scope.*

This article will highlight what we mean when we are talking about governance and how that applies to vendor management initiatives at organizations. As your organization's vendor management practices mature, having a proper, established governance structure will aid in audits of the overall program. In addition, it formalizes the necessary relationships and oversight required to maximize the value of the organization's investments.

Governance is the agreed-upon method of managing practices in an organization. Under governance models, task-level processes and procedures flow from an agreed-upon understanding of how the organization will move forward, as defined in the scope and vision statement, through a set of rules defined in the standards, referenced by the overall framework that the organization will adhere to.

Governance comprises the following elements outlined in the graphic below.



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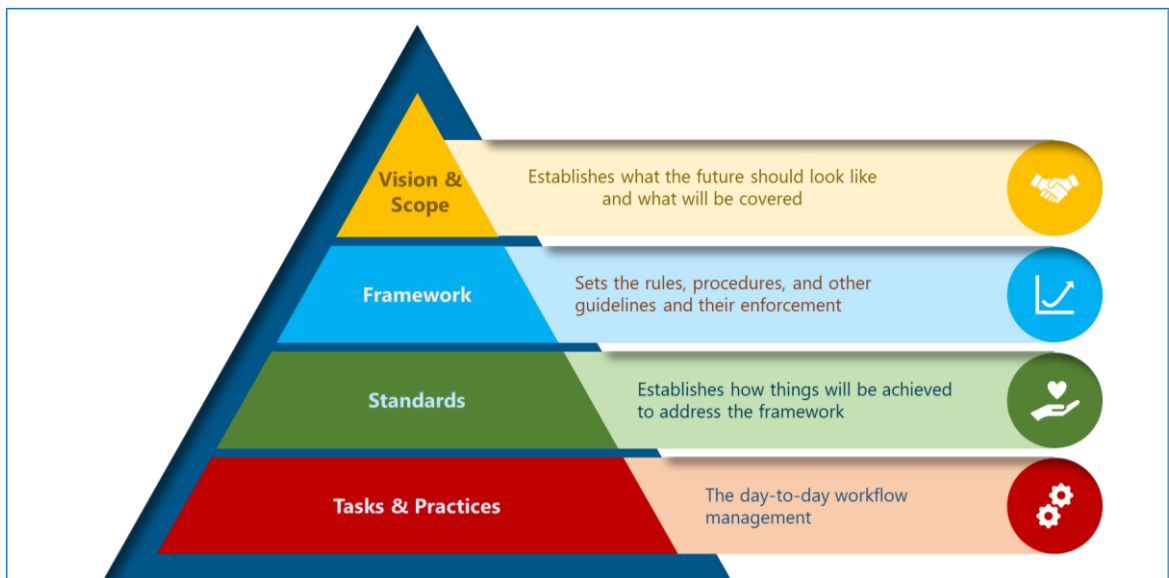
To define a governance model related to vendor management, let's start with a scoping question covering what to include in the vendor management governance model. To keep the scoping discussion on track, develop a vision statement outlining how the organization wants to handle vendor management in the future (as opposed to the current state). The vision statement should reference the goals and objectives to achieve with vendor management governance. As you further develop the vendor management initiative, refer back to these objectives to build metrics for success and showcase improvement over time.

Example Vision Statement #1

- The organization is adopting a formal vendor management initiative to ensure that vendors are accountable for the delivery of high-value services at minimal risk to the organization by ensuring that all required agreements flow through the required contract workflow.

Example Scope

- All contracts in the IT budget
- Any agreement for a service that involves the organization's data and/or infrastructure (requires a risk assessment)

Once we have determined what is in and out of scope, we can set a **framework** to address the overarching principles of how the organization works (who is responsible for what, enforcing which policies, etc.). Frameworks tend to give high-level expectations and guidelines for achieving the outcomes of the practice.

Examples:

- All IT contracts will flow through an agreed-upon contract lifecycle management process.
- The assigned business owner of a vendor relationship is responsible for communicating the performance metrics to the larger organizational teams.
- The IT department will assess all agreements that involve technology.

Under the framework, standards will establish rules outlining the preferred practice to achieve the necessary operational tasks and procedures, including escalation paths for exceptions.

Example standards:

- The escalation path for exceptions to a risk assessment is the Security Governance Committee.
- Legal shall review all agreements that include IP indemnification language.
- The HIPAA Compliance Officer will review any agreement that involves PHI.

Let's use a classic example of developing a Governance model – the US Constitution.

The Founders understood that they would need to set a scope and did so through the Preamble, which is primarily a vision statement on how the newly formed union would govern in the future (*see link in the reference section*). Once they had a clear vision of what they wanted from their discussions, they formed the framework through the Constitution (as opposed to the Articles of Confederation). Having set the framework, with the ability to refer back to the vision statement if they wandered a bit, they set about making standards through the various laws of the land and definitions of the different branches of government that would fulfill the obligations under the framework. Each branch developed operational procedures and practices from those standards to handle the governing tasks.

# Governance for Vendor Management

The scope of the practice is the first thing you must decide when creating a governance model for vendor management. Identifying who will undertake the different roles and tasks is unique to every organization. The available resources dedicated to the practice will determine some potential restrictions, but there are some fundamental aspects we can address.

*"**Governance** is the process of making and enforcing decisions within an organization or society."*

*– Wikipedia*

Scope discussions should address what types of agreements will follow which workflows, which agreements are exempt (and why), and an escalation path for items that either may not meet the standards or potentially need to proceed outside the established workflows.

> I always recommend starting the scoping process with an understanding of your current workflows. Generating a swimlane diagram of the current process and those involved will highlight any weaknesses or missing items to address without associating ownership to the overall process (just pointing out the task levels). *See the resource on developing swimlanes in the reference section.*

In the beginning, formulate a vision statement (a short, simple statement that describes what you are trying to achieve). The vision statement will help keep the scope discussion on track. If the discussion starts to wander, refer back to the vision statement to rope it back in.

Example Vision Statement #1

- The organization is adopting a formal vendor management initiative to ensure that vendors are accountable for the delivery of high-value services at minimal risk to the organization by ensuring that all required agreements flow through the required contract workflow.

Example Vision Statement #2

- The organization intends to leverage multiple departmental policies and procedures to enforce rules of engagement in vendor relationships to promote increasing value and performance from our investments.

Now we have a clear picture of what we want to achieve by embedding vendor management practices in the organization and understanding what will be in and out of scope. The governance model is beginning to form, and we can focus on developing the framework, standards, and procedures to implement.

Please see our research below for information on establishing a vendor management **framework, standards, and practices**. The scope of that discussion is far too big to cover in this article. Our analysts will be happy to work with you on where you are in your current maturity level and resource allocation to help you become more efficient and add value to your organization.

- [Jump Start Your Vendor Management Initiative](#)
- [Elevate Your Vendor Management Initiative](#)
- [Looking at Risk in a New Light: The Six Pillars of Vendor Risk Management](#)

Our analysts can help you address challenges and consider the essential criteria for your vendor management initiative to achieve long-term effectiveness:

- Gain a firm view of your vendor landscape and their downstream vendors (nth parties).
- Identify, mitigate, and accept risk at specific levels.
- Categorize your vendors based on their criticality.
- Track costs and deliverables (including service metrics) over time.
- Develop a mechanism to push vendors into better performance over time.
- Ensure a proper transfer/disposition of assets (including data and access rights) on and after termination.

## Why We Need Governance

Many people ask me, "If vendor management is simply doing good business practices, why do I need to set up formal governance?" The answer to that is simple. Not everyone agrees on the best path forward. Each person in the vendor

management lifecycle often has specific goals their department needs to achieve. Also, individual business units may not have a global perspective of the vendor management process and how it benefits the organization.

Establishing a governance model to address the management of the vendor lifecycle (including due diligence, selection, contract negotiation, onboarding, continuous monitoring, offboarding, etc.) is essential to **making sure that nothing is missed that could either introduce risk to the organization or minimize the value of the vendors' services**.

Since most of the participants in the process are looking to get their piece of the process done as efficiently as possible, **someone should be looking at the whole process to ensure it's meeting the organization's needs**. This level of oversight and accountability strengthens the governance as a whole. It provides preparation in the event of an audit or a negative incident with a vendor. Organizations need to be aware of potential negative impacts.

### Intersections With Other Departmental Policies and Procedures

Depending on the size and resources of your organization, vendor management can be performed either by a specific group (a vendor management office) or simply be a recognized practice with a few people overseeing. No matter how you allocate resources, it is crucial to establish who will ultimately review that the processes are in place and what the escalation paths are for exceptions. The person assigned oversight should have a good overview of the critical business paths in the vendor management lifecycle (including the contract management lifecycle) and be an effective communicator to facilitate knowledge and discussion of each individual group's needs. Executive leadership and upper management will rely on the insight and data the vendor management person brings. This insight adds value to the organization and is a huge selling point for implementing formal vendor management governance.

Vendor Management intersects with and aids in fulfilling several departmental needs. In the event of an audit, it aids in ensuring that policies and procedures are in place and working. Finance, IT, Security, Compliance & Risk Management, Legal, Procurement, and Operations benefit directly from establishing vendor management governance. Each of these groups has a particular viewpoint and needs certain things accomplished to ensure the organization gets what it is paying for as safely as possible.

A few examples:

- Compliance & Risk need to check against evolving regulations to avoid penalties.
- Finance needs to ensure the monies for the services are available and that the vendor relationship does not pose a financial risk.
- Business operations want their deliverables completed on time and budget.
- Security needs to ensure the services are as risk-free as possible.
- IT needs to ensure compatibility with existing systems.
- Legal needs to ensure that the agreements are all properly in place and have adequate protections.
- Procurement needs to ensure that the purchase meets the organization's guidelines.

Without an established vendor management initiative in place, most organizations have some policies and procedures that could be found noncompliant in an audit. A significant value-add of vendor management is ensuring these tangential policies are fulfilled and can be safely tracked and audited. In the documented workflows, note where each policy applies to lend weight to your initiative's oversight. Even before establishing a formal vendor management policy (e.g. your organization is still vetting your procedures), it is vital to cite these other policies for audit and credibility. Don't forget to inform other departments that you are helping their compliance as part of relationship building.

Policies of note include:

- Security risk assessments
- Signature authority
- Purchase authority
- Legal mandates for review
- Regulatory and Compliance checks
- IT review for compatibility

# Summary

Vendor management governance is fundamental to ensuring you get the maximum value from your vendors with the minimum risks to your organization. Establishing these practices throughout the organization helps identify gaps in your workflow processes that auditors could cite for noncompliance with your policies.

Understanding what constitutes the various components of governance allows you to better communicate to your organization the importance of establishing it and how it will help everyone.

# Checklist Items to Gather & Document

☐ Vision Statement [Documented]

☐ Scope [Established and documented]

- Out of Scope [Agreed upon and documented]

☐ Policies [Check to see which can be supported by the vendor management initiative]

- Security
- Finance Signature & Purchase Authority
- Legal
- Risk & Third-Party Risk Management
- Compliance
- IT
- Procurement

☐ Stakeholder List [Identify supporters and potential detractors and those involved in the process]

- Executives
- Workflow Participants
  - Compliance
  - Security
  - Risk
  - Legal & Contract Administration
  - Finance
  - Procurement
  - IT
  - Lines of Business

☐ Workflows Documented [Current practices to optimize]

- New Agreements
- Renewals
- Onboarding Vendor
- Offboarding Vendor

# References

- [Jump Start Your Vendor Management Initiative | Info-Tech Research Group](#)
- [Elevate Your Vendor Management Initiative | Info-Tech Research Group](#)
- [Looking at Risk in a New Light: The Six Pillars of Vendor Risk Management | Info-Tech Research Group](#)
- [Prepare Your Organization for a Successful CLM Project | Info-Tech Research Group](#)
- [The Duty of Due Diligence: Examining your vendors could prevent disaster | Info-Tech Research Group](#)
- [Vendor Contract & Cost Optimization | Info-Tech Research Group](#)
- [Optimize IT Governance for Dynamic Decision-Making | Info-Tech Research Group](#)
- [Constitution Annotated | Library of Congress](#)
- [What is a Swimlane Diagram | Lucidchart](#)

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