

The Differences Between VENDOR MANAGEMENT MODELS

What model works best for your organization?

Traditional third party risk involves key disciplines which are found across multiple lines of business. Organizations that have a more mature third party risk management program tend to lean to a more centralized or hybrid vendor management function rather than a decentralized one.

In order to choose the right third party risk operating model for you, let's understand the set-up, advantages and disadvantages of each.

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and disadvantages of each.

— The CENTRALIZED Model —

VS.

— The DECENTRALIZED Model —

VS.

— The HYBRID Model —



How It's Set Up

With average vendor lists varying from a couple of hundred to tens of thousands, there's simply too many plates to spin without an organized system to record, store and manage all third parties. With a centralized operating model, you'll have one person or group, such as compliance, overseeing the entire vendor management process.

Advantages & Disadvantages

Discipline

- Allows you to level set the playing field
- Brings discipline to a program which by nature requires constant monitoring of vendor cyber risk, business continuity, disaster recovery, the financial standpoint and more which may all impact your operational and reputational standpoint

Communication

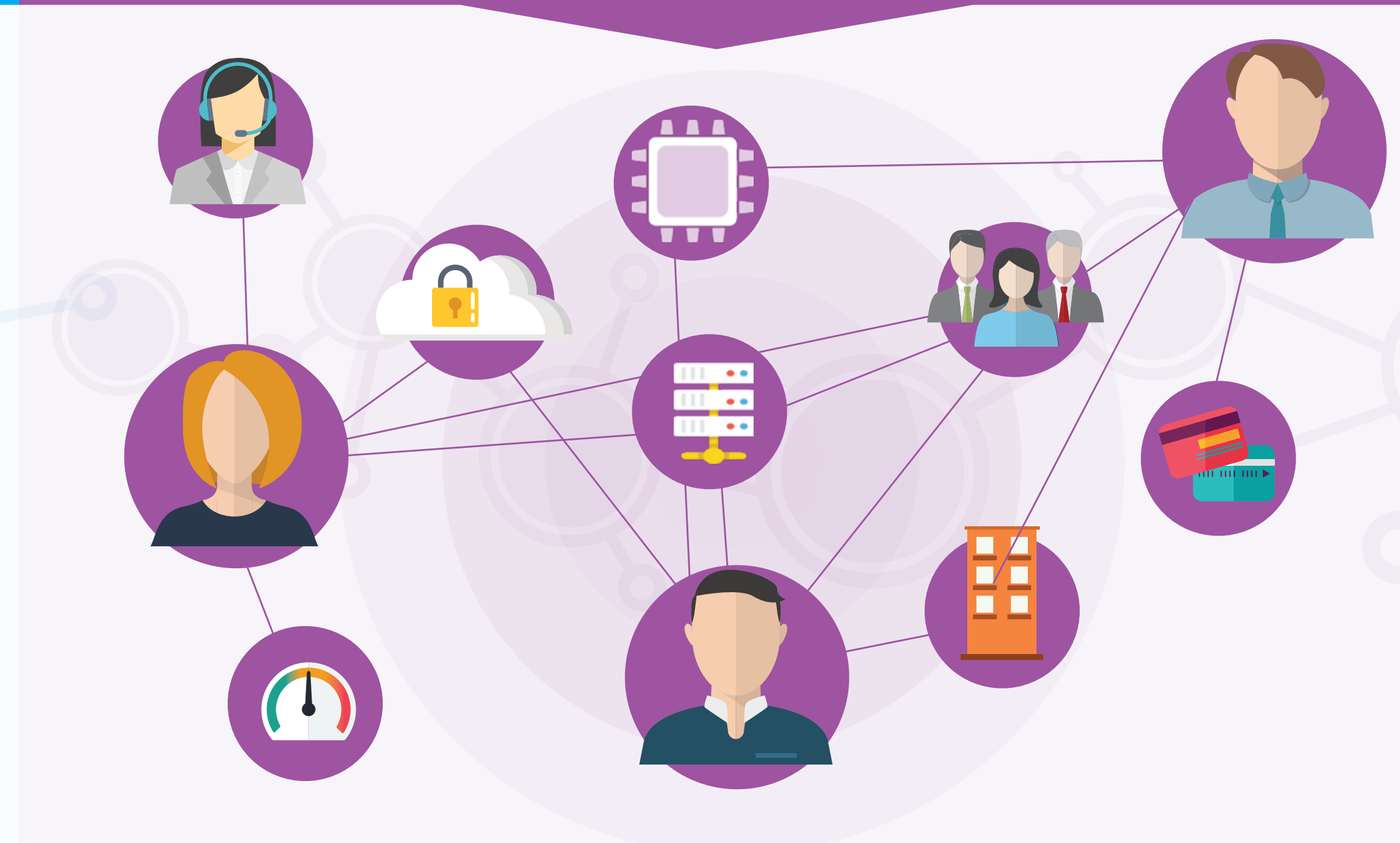
- Creates feedback loops on performance and complaints from your lines of business or first line of defense which can go a long way in the overall lifecycle of the vendor relationship

Impactical Components

- Often fails to recognize and breakdown the operational silos that may exist within an organization which can cause a fully centralized model to fall short when day-to-day relationship managers, in the lines of business, are left out of the vendor management loop completely
- Leaving the business units out of the equation, even unintentionally, means they won't fully understand the risk of doing business with a particular third party



Quick Tip: Organizations that don't have proper internal resources to execute this outsource to external expertise. The external subject matter expert (SME) isn't there to replace existing staff - they complement the program and do the heavy lifting, when and as needed.



How It's Set Up

Various lines of business select and work with the vendor directly. This is common in organizations who run multiple branches and have branch managers responsible for their own profit and loss.

Advantages & Disadvantages

Ligher Workload

- Simply put, many hands make lighter work and your lines of business are in constant contact with the vendor for you

Stronger Monitoring

- Since the lines of business are in contact with the vendors all the time, monitoring performance of a vendor is even easier, and they'll likely notice early warning signs of a potential problem
- All the information from the business units should help greatly as you perform a vendor review when it's time for a contract renewal

Inconsistencies

- The larger the organization, the more risk there is of having radically disparate disciplines related to vendor management
- It's up to the vendor management office to establish routine procedures for checking up on a third party, with each line of business, to be sure service level agreements (SLAs) are being met and the terms and conditions in the contract are being adhered to so there's a real risk of allowing inconsistencies to occur

Lack of Discipline

- If vendor selection is based on relationships over and above cold hard facts – which can happen when a business unit is given more decision-making opportunities – then there is negligible risk assessment evidence performed at the branch level
- This operating model may offer little in terms of working through a disciplined risk management framework and third party risk management professionals are often the last to know about a new vendor onboarding



How It's Set Up

We feel the **THE BEST APPROACH** is a hybrid of the centralized and decentralized model. It's nearly impossible to take vendor management and place it in one central area with the centralized model when the organization is very large. It becomes too much to manage the expectations and essentially creates a black hole where everything will implode. So, with a hybrid model, you'll have a well-organized and disciplined vendor management office setting the guidelines and checking the results while working very closely with the business units to ensure consistency and timeliness of practices.

Advantages

Consistency

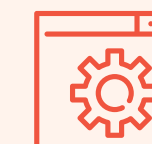
- Baking vendor management into day-to-day practices and setting annual performance goals with the hybrid model will ensure that the expectations of vendor management are closely adhered to and given the appropriate amount of attention

Communication

- There's an open line of communication between the vendor management office and first line of defense – which also creates efficiency

Support

- If the vendor management office has the backing of senior management and accountability to the board, that makes the task of vendor management all that much easier
- The board and senior management set the tone and reinforce that everybody has a role in vendor management and compliance



Even if you use a hybrid approach, you need a robust vendor management software platform to help promote consistency and clarity while gathering all of the documents in the same place.

Want to learn more about Venminder's
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today!

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