IS YOUR VENDOR MANAGEMENT PROGRAM

Inadequate?

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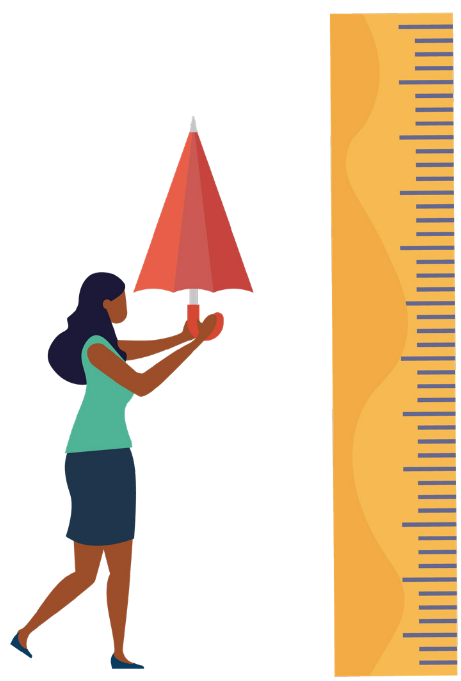
What's a great cup of coffee? Ask three different people and you'll probably get three different answers.

Ask your senior management team and three lines of defense – which includes the line of business/business units, your vendor management team and your internal audit team – if your vendor management program is adequate and you may very well get four different answers. Who knew?

It's up to you, the person overseeing vendor management, to set the standard and report against that standard with the appropriate level of transparency. As a best practice, at least annually you should be asking the following big question:

Is my vendor management program adequate?

Your vendor management program's adequacy hinges upon how well your program's key performance indicators (KPIs) stack up in all seven pillars of vendor management. Communicating your performance against those KPIs to the board, senior management, your vendor management team, your lines of business and even your vendors, is also a key to your success.



REGULATORY RISKS THAT COINCIDE WITH AN INADEQUATE VENDOR MANAGEMENT PROGRAM

When it comes to having an adequate vendor management program, the stakes have never been higher. The environment of business today changes every day. Seriously!

Know what's at stake upfront. If your vendor management program is inadequate, without even meaning to, you're exposing your organization to substantial risks like the following:

STRATEGIC RISK

If the vendor offers products/services that aren't compatible with your organization's goals, can't be effectively monitored by your organization or don't provide an adequate return on investment (ROI), then that causes problems for you.

REPUTATIONAL RISK

If a vendor interacts directly with your customers and the relationship doesn't meet expectations, or, for example, if the third party vendor is receiving a lot of customer complaints, then there's a chance of your reputation being impacted.

OPERATIONAL RISK

Occurs in all products/services, channels and processes when the product/service is critical to your organization's operations. You do NOT want to inadvertently leave your organization at risk of curtailing or suspending operations for a period of time.

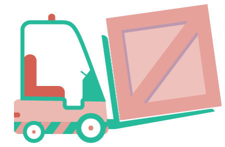
FINANCIAL RISK

The vendor's financial posture may be considered risky if there's a decline in earnings or there's pending litigation as these trends can affect the overall vendor relationship.

COMPLIANCE RISK

If the vendor isn't adhering to laws, regulations, guidelines and industry specifications then there's substantial compliance risk present.

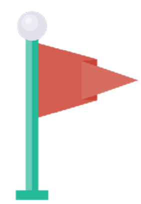
TRANSACTIONAL RISK



If there's an issue or concern with the service or product delivery, then that negatively affects your organization.

OTHER RISKS

Many other risks can come into play such as country, interest rate, liquidity, concentration, information security and more. None of which you want to open your organization up to susceptibility.



If you don't have an adequate vendor management program, you won't be as aware of the impact these risks can have on your organization. And, you won't be able to properly assess any risk to your organization if your vendor management program doesn't have the processes and procedures in place to perform a regular assessment. Your program should be able to identify, make the entire organization fully aware of and understand the reason for any safeguards that should be in place to protect your organization.

This is just the beginning! There's a lot more that can go very wrong quickly when your organization's vendor management is inadequate.

5 Signs Your Vendor Management Program Is Inadequate

There are signs that indicate your vendor management program is inadequate. Here are five of the major ones.

1. NO WAY TO MEASURE YOUR VENDOR'S PERFORMANCE

KPIs are used to identify and measure an organization's success in meeting business objectives. Every vendor management program must be able to use metrics to measure their vendor's performance to be successful. Always define the yardstick before you measure anything. If you can't do that, then problems will follow. What's your organization's KPIs for the various types of vendors you utilize? **You should have your KPIs outlined for the various types of vendors such as your core processor, call center, bank secrecy act/anti-money laundering (BSA/AML) vendor and more.**

Organizations use KPIs in different ways, depending upon the organization's goals, objectives and the industry. KPIs will exist at all levels within the organization but at a high level, KPIs focus on the overall performance of the organization. A line of business may use KPIs to focus on the core competencies it takes to keep the line of business successful and meeting their performance objectives. Sales may use KPIs such as the number of new customers, customer turnover and web page hits as all are examples of KPIs that may be used within an organization.

Here's an example that really shows how a KPI can be used in vendor management. For instance, if your organization outsources its call center, the KPIs for your call center vendor will center around the ***operational aspects*** of the call center as these are going to give you the clearest picture of how well the vendor is performing.

Your call center KPIs may include the following:

DROPPED CALLS

CALL VOLUME

LENGTH OF AVERAGE CALL

CUSTOMER SATISFACTION

Let's look at dropped calls. Dropped calls represent the number of calls that never get completed for one reason or another. Your organization may establish a KPI for dropped calls at 10% of the total call volume. Therefore, out of every 100 calls, you should expect 10 or fewer calls to be dropped. By watching this KPI you can determine if your call center is answering customer questions in a timely and efficient manner. If you change a call script and the KPI goes up, you know your script may need to be adjusted so your call center personnel can meet their KPI for dropped calls.

Again, every organization is going to have a unique set of KPIs that focus on how they intend to achieve their strategic objectives.

2. SPENDING EXCESS FUNDS ON MISSED CONTRACT RENEWALS

Often, an ***inadequate*** vendor management program is the direct result of little to no financial backing from senior management and/or the board. While this may be because they feel there's no budget available to allocate to vendor management, or they don't understand the positive ROI a well-run vendor management program has, the unfortunate reality is that more times than not this leads to **loosing** far more money than they would have saved.

A vendor management program without the right tools to manage vendors makes it very challenging to properly manage each vendor and practically impossible to manage all of your vendors. An inadequate vendor management program tends to miss contract renewals and non-renewal notice periods. These missed opportunities to terminate a vendor contract will cost your organization unanticipated price increases and often it will cause duplication of products or services in your organization.

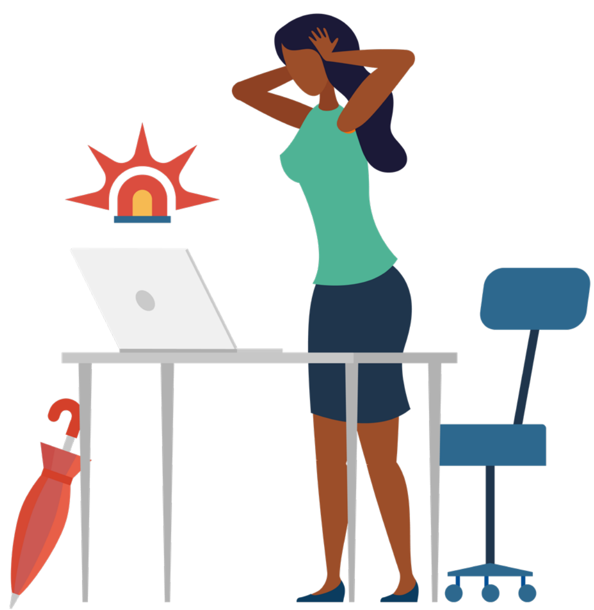
3. THERE ARE INCONSISTENT PROCESSES ACROSS THE ORGANIZATION

There's a good chance that to make the workload lighter, you're giving a lot of control to the business units to select and manage vendors. This is a decentralized vendor management process. One of the biggest concerns with any decentralized process is **inconsistency**. There may be vendor management policies and procedures in place, but with the distributed operating model, there's not a great way to confirm everyone at the organization is following directions.

There's likely no uniform approach being followed to select a new vendor, request vendor due diligence, monitor vendor service levels and other responsibilities that come with the territory of overseeing a vendor lifecycle. The program just isn't well-developed and concrete enough for your program to be considered adequate.

4. YOU'VE RECEIVED POOR EXAM OR AUDIT RESULTS

This is a ***major*** indicator that a vendor management program is inadequate. If examiners or auditors are finding areas where your program could improve, flaws in your program or are overall giving you critical feedback, which all results in poor ratings, then the program is inadequate and needs beefed up.



5. YOU'VE RECEIVED AN ENFORCEMENT ACTION OR MANY CUSTOMER COMPLAINTS

Virtually every enforcement action has its roots in inadequate vendor management. An inoperable vendor management program leads to inadequate vendor management, and in turn, leads to customer complaints and/or **fines**. Enforcement actions due to poor vendor oversight are all too common today. Even more common are increased customer complaints which inevitably leads to the Consumer Financial Protection Bureau's (CFPB) scrutiny.

If you are noticing signs like those above, then it's time to ramp up your program as an inadequate program often leads to risky, costly and unfortunate circumstances.

4 Next Steps to Create an Adequate Vendor Management Program

There are steps you can take to ensure your vendor management program is adequate. The following 4 steps will help.

1. **Centralize your vendor management program.** A centralized vendor management framework places all responsibilities on a single, enterprise-wide vendor management team. Enterprise level departments, such as Compliance or Internal Audit, are on the same organizational level as a high functioning third party risk management program. One team to manage the seven pillars of vendor management which are:

- Vendor Selection
- Risk Assessment
- Due Diligence
- Contractual Standards
- Reporting
- Ongoing Monitoring

This leads to a more disciplined approach to vendor management and a higher level of communication and consistency.

2. **Create a comprehensive set of policy, program and procedures documentation.** Adequate vendor management programs have well-developed documentation setting them up for success. Really take the time to develop complete documents. It's crucial. Here's a little more about each:

- **The Policy –** An internal document that asserts how the organization will manage third party vendors and risk. It's written at the board level and should include the basic broad framework as to how third party risk management is handled.
- **The Program –** An internal document that lays out the concepts within the policy. It should be instructive to senior management and the lines of business, setting out in fairly detailed steps what the business units need to know and what is expected throughout the organization to appropriately manage vendors. It should be strong enough to support all of the lines of business yet flexible enough that it allows for the addition of new third parties or products.
- **The Procedures –** Often called the desktop procedures, the document is designed to be a step-by-step recipe for every facet of third party risk but written in such a way that anyone could follow the steps and come to generally the same work product.

3. **Create an internal audit team.** The internal audit team is the third line of defense. They're checking the vendor management team's work to ensure everything being done is in compliance with what is outlined in the vendor management policy, program and procedures. From there, they're identifying any inconsistences and gaps. This gives you an opportunity to address any program issues **before** an examiner or external auditor discovers them. It also helps discover areas where improvement can be made.

4. **Request a proper vendor management budget.** Remember, there's a ROI from investing in vendor management. The ROI isn't just monetary. Adequate vendor management can save you in every aspect of our business such as audit and examination success, fewer customer complaints, efficient management of third parties, protection from massive data breaches and more.

Inadequate vendor management will result in vendor mishaps. Adequate vendor management will result in successful vendor relationships across the organization.

Download free work product samples and see how Venminder can help reduce your vendor management workload.

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About Venminder
Venminder is a leading third party risk management provider dedicated to helping the financial services industry mitigate vendor risk.

Venminder's team of due diligence experts offer a suite of services that can significantly reduce the workload by addressing the tactical challenges of vendor management tasks. Venminder's vendor management software can guide a user through critical processes such as risk assessments, due diligence requirements and task management.