venminder

IMPORTANCE OF VENDOR DUE DILIGENCE AND OVERSIGHT

Vendor due diligence is a critical component of managing vendors. In pre-contract and post-contract stages of the lifecycle, you should be gathering and analyzing due diligence.

WHAT IS VENDOR DUE DILIGENCE?

You're expected to perform initial and ongoing due diligence over your vendors and ensure procedures are in place to continuously measure, monitor and control risks that you identify. It involves general vendor research, collecting documentation and analyzing that documentation to identify any gaps or risks in the vendor's procedures. You must understand the two types of vendor due diligence in order to fully understand what due diligence is.

Initial Due Diligence: Involves analyzing and verifying that your prospective vendor meets your needs and is in regulatory compliance. You need to determine if a relationship would help achieve your organization's strategic and financial goals and then mitigate identified risks to the best of your ability.

Ongoing Due Diligence: Involves the ongoing monitoring of your vendor to ensure they continually meet your needs. Not only should due diligence be performed prior to selecting a vendor, but it should also be performed periodically during the course of the relationship. The more critical the vendor is to your operation, the higher the frequency of your ongoing due diligence schedule.

4 REASONS WHY VENDOR DUE DILIGENCE IS IMPORTANT

1 **Regulatory Expectation.** Chances are that you're in a regulated industry. In order to satisfy regulators, they expect adequate due diligence is performed.

2 **Manage Risk.** No one wants to do business with a risky vendor. Perform due diligence upfront and as part of your ongoing monitoring to help catch potential risk, such as customer complaints or faulty security controls.

3 **Good Business Sense.** Due diligence helps protect your organization, customers and data. It can identify negative vendor actions, trends and contract gaps. Failure to do your due diligence exposes your organization to incredible risk.

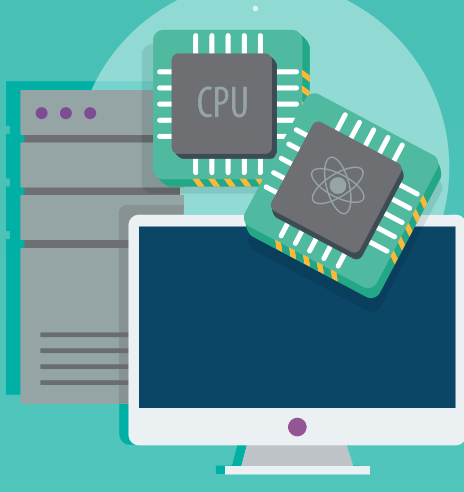
4 **Opportunity to Walk Away.** While performing due diligence, you may discover that another vendor is a better fit for your organization. It's better to partner with a vendor who understands your organization's needs.

WHAT IS VENDOR OVERSIGHT?

Vendor oversight is all the steps taken to appropriately evaluate the risks a vendor poses to your organization and to ensure the vendor is meeting all of the service level agreements that are stipulated in the contract. It's every task you perform throughout the entire vendor lifecycle to examine and mitigate risk.

4 REASONS WHY VENDOR OVERSIGHT IS IMPORTANT

1 **Regulations change, risk doesn't.**
Your organization faces varying amounts of risk simply by outsourcing a product or service to a third party. The amount of risk will fluctuate over time. Today's risk assessment may not be the same as yesterday's, nor tomorrow's assessment. And, given the speed of regulatory change today, it's prudent to keep your finger on the pulse of every vendor.



2 **Industry disruption is real.** Technology changes fast. Today, quantum computing is about to be mainstreamed. The potential to totally disrupt entire industries using technological innovation has never been greater. Tomorrow will only bring improved computer performance and increased opportunities for disruption. Your vendors are subject to the same technical forces that are affecting your organization. Vendors have already begun to simply disappear, so adequate oversight and planning is important and to help protect your organization should a disruptive vendor event occur.

3 **There's a return on investment.** Your business and its profitability are important to you and many other people. Providing products and services while doing the best you can to generate a reasonable profit can be tough. Vendor oversight is a sound business practice because it'll save your organization money by allowing you to better manage the risk of a potential vendor failure.

4 **Organizational maturity happens.** Organizations morph over time. All living things are either in a state of growth or a state of decline, even corporations. If you choose to do business with a startup, it's inevitable the vendor is going to change over time. And, if you choose to utilize a very established, stable vendor, they too will still change over time. You'll never know how either is changing if you don't monitor them. Change can be a good thing. It can also signal the beginning of the end. You'll have to monitor your vendors to ensure they don't morph and send your organization into a scramble.

Vendor monitoring is often the forgotten pillar of third party risk management. It's easier to do the initial vendor due diligence on the upfront, onboarding side of the equation. While initial due diligence is critical and can be a trying experience you don't want to repeat, **the ongoing monitoring and constant oversight of your vendors is the real meat and potatoes of any third party risk management program.** Your vendor risk management program will earn its reputation, good or bad, with ongoing monitoring.

If your program is operational and the board thinks everything is great, keep it that way by keeping your finger on the pulse of your vendors.