

## Keep Poor Vendor Management from Impacting the Bottom Line

Karen McIsaac, PMP

A recent public announcement by a local government disclosed that over \$6 million had been spent on a program for the judicial and criminal justice systems, but that nothing had been delivered. The program was ultimately cancelled.

In the fourth quarter of 2005, a publicly traded company announced to their shareholders and the public that the last quarter dividends would be reduced \$.30 - \$.40 per share due to “problems” with the poor execution and deployment of a new Enterprise Resource Planning system (ERP).

The bottom line in both of these real-world examples is that the organization, its taxpayers and shareholders were negatively impacted by the mispending of project funds. These two examples demonstrate significant investments that required managing an outside software vendor. Many companies will turn these types of initiatives over to the vendor only for the project to falter or fail.

### Who is to Blame?

In today’s world, when something goes wrong everyone likes to put the blame on someone or something. These examples are no different. People often blame all program/project management problems on one specific area, such as technology, poor vendor management, an organization’s ability (or inability) to change, the management/leadership and the list goes on. I believe that the root cause of these problems is poor execution of program/project management.

The more mature organizations that are executing projects using measurements, business-based governance and oversight of project investments, embracing change improvements, doing the “right” projects the right way, recognize the value of program/project management.

When an initiative is large, in terms of overall investment and business impact, it may not always make sense to turn the organization’s success over to a vendor with conflicting priorities. The vendor goes away at the end of the engagement, but the organization must live with results, good or bad. This has led me to believe that organizations should consider the use of an external, unbiased, certified project management professional (PMP) to oversee the client and vendor performance to ensure success.

### Execution Risk

There are many risks associated with major initiatives that involve an outside vendor. One example is every time you hand off a responsibility, you are incurring risk. This holds true for all instances including when a software integrator or consulting firm is engaged and even when you ask for support from your own team members. Execution risk becomes significantly more when there are large dollar investments, software integration, changes in enterprise business processes and associated employee and/or customer behaviors.

### Leadership Risk

Another risk is when an operational manager with other responsibilities is brought on to oversee a large dollar and business transformation initiative. Our profession terms this the “accidental” project manager. The accidental project manager is generally someone that does not possess the skills or the experience to drive a large program/project.

Those that come out of the operational (business as usual) environments that have been successful in transitioning to a new and different role can attest to the differences in required skills and aptitude. The following example shows what can happen to projects led by accidental project managers who are not trained to manage large initiatives involving outside vendors.

A government agency was installing a significant ERP where the vendor was chosen via bid process. The accidental project manager recognized at a very late date that the vendor was incompetent and not performing. The vendor was subsequently dismissed and then proceeded to take the government agency to court. Because the contract and vendor performance had not been managed, tracked and clearly documented, the vendor left with \$3 million in their pocket for non-performance of the contract.

Had this initiative been managed by an independent, certified PMP this risk could have been mitigated. It is also important to remember that when vendors and contracts are not managed, the cost is not only to the organization, its shareholders or taxpayers as in the examples above, but the careers of project sponsors can also be negatively impacted.

## The True Value

So what is the true value of bringing in an independent PMP to oversee a major initiative that involves an outside vendor?

My experience in the industry has left with me invaluable insight from clients that demonstrates what they have gained from having an independent, certified PMP onboard to execute these types of projects. One of the benefits is the creation of tangible documentation that not only ensures that the project is completed on time and within budget, but can also be leveraged in the event that legal issues surface. Project sponsors and stakeholders do not want surprises regarding vendor communication of status, deliverables and releases. Some other specific examples of documentation that outside, certified project managers can provide include:

- Fully integrated workplan that includes vendor and client deliverables and activities
- Employee/customer adoption metrics that track success post-deployment
- Program/project key performance indicators (KPI's)
- Quantifiable metrics that represent current and future state associated costs
- Formal processes for Change Control to minimize cost and timeline overruns

According to my past clients, the value of an independent PMP is also demonstrated in their ability to ensure that the client's infrastructure is in place to support the program/project governance, sponsorship/ownership and that the client methodologies are integrated with the vendor's processes. My clients also say that an outside project manager can place equal focus on the business and technology transformation and integration. Other areas in which an outside program/project manager can benefit an organization include:

- Ensuring that the vendor has appropriate processes in place to support quality requirements as well as a structured method for review and client acceptance of deliverables, release control, incident tracking and revalidation
- Managing vendor and client contracts and performance as well as collaborating with client procurement/sourcing partners for contract questions/performance indicators
- Ensuring there is performing vendor software in escrow that has been accepted by the client and outlined in contracts

Independent project managers with structured project methodologies also have the ability to support the training of client resources in order to mold them into effective program/project participants. They can also provide appropriate oversight and direction for a knowledge transfer from vendor to client resources at the conclusion of the project. This will ensure that when the vendor completes the work, it can be supported by client resources.

Organizations may have their own certified, experienced program/project management talent internally. These are likely to be highly effective human capital in the organization; however, they may not represent the unbiased, unfiltered perspective that may effect how the vendor interface and relationship develops.

### **The Bottom Line**

Executing an initiative that requires an outside vendor does impact your organization's bottom line. Allowing the vendor to oversee the project or designating an accidental project manager can have serious consequences to your organization. You should be aware of your options, consider your risks and identify insurance for success for you and your organization. Consider the value of an independent, experienced PMP to oversee your next initiative that involves vendor management.

*Karen McIsaac, PMP, is an expert in organizing, planning and executing large program/project initiatives. She has over 20 years of experience in delivering large business-driven initiatives with significant business, cultural and technological impact.*

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