SMALL BUSINESS VENDOR MANAGEMENT POLICY

A practical guide for protecting your business technology assets.

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Disclaimer: This sample policy has been provided by Michael Nichols as a generic document to support the enhancement of your security posture. It is based on security frameworks, SOC 2 and NIST CSF, and has been adapted specifically for small business use. It is unlikely to be complete for your organization without customization. This document is not legal advice and I am independent of a registered CPA firm.

[Company Name] Vendor Management Policy							
Effective Date:				**Document Owner:**			
Revision History							
Revision	Rev. Date	Description	Prepared By	Reviewed By	Date	Approved By	Date
1.0							

1. Purpose

This policy provides a structured approach to managing relationships with outside service providers (vendors). Following this policy helps protect <Company Name>'s information and systems.

With more businesses using outside vendors for critical services, it's important to monitor these relationships to ensure they meet your company's security standards. This policy helps ensure all your information stays confidential, accurate, and available when needed.

2. Scope

This policy and supporting procedures encompass all system resources that are owned, operated, maintained, and controlled by <Company> and all other system resources, both internally and externally, that interact with these systems.

- Internal Systems – resources owned, operated, maintained, and controlled by <Company> and include all network devices (firewalls, routers, switches, load balancers, other network devices), servers (both physical and virtual servers, along with the operating systems and applications that reside on them) and any other system resources deemed in scope.

- External Systems – resources owned operated, maintained, and controlled by any entity other than <Company>, but for which these very resources may impact the confidentiality, integrity, and availability (CIA) and overall security of the internal system resources.

- When referencing the term “users”, this includes any individual that has been granted access rights by <Company> to various system resources and has went through all required provisioning steps. Users typically include, but may not be limited to, the following: employees, consultants, vendors, contractors, along with local, state, and federal personnel.

- For the purposes of this policy, vendor management is defined as the following: The policies, procedures, and related processes undertaken for managing activities conducted through third-party relationships and identifying and controlling the risks arising from such relationships, to the same extent as if the activity were handled within the organization.

- Additionally, the terms “vendors”, “third-party”, “third parties”, “outsourcers”, “organizations”, and the variant thereof are defined as entities providing outsourcing services to <Company>.

3. Element of Risk

When using outside vendors, certain risks arise because important functions are now handled by another organization. Understanding these risks helps your company prevent issues that could lead to financial losses, legal problems, or damage to your reputation.

Key risks to monitor include:

- Compliance Risk: Vendors might not follow required laws or regulations, especially regarding personal information protection.
- Reputation Risk: If a vendor has poor public perception (due to data breaches, unethical practices, etc.), it can affect your company's reputation too.
- Strategic Risk: Vendors might not align with your long-term business goals, wasting resources on services that don't provide good value.
- Operational Risk: Problems with a vendor's internal processes could disrupt your daily business operations.
- Transaction Risk: Vendors might fail to deliver promised services or secure your information properly.
- Financial Risk: Vendors with financial difficulties might not be able to provide consistent service.
- Geographic Risk: Political, economic, or social issues in a vendor's location could affect service delivery.
- Technology Risk: Vendors might have inadequate technology resources, poor security practices, or outdated systems.

4. Benefits of Vendor Management

Vendor management is more than just meeting regulatory compliance purposes. Specifically, vendor management initiatives for <Company> should aim to help <Company Name> reduce costs, improve operations, strengthen security, while also improving relationships with all applicable third-party outsourcing entities. Vendors for <Company> are looked upon as instrumental organizations providing critical services, and are to be taken seriously which means assessing all risk areas while also striving for the following:

- Reduction of Costs
- Improvement of Operations
- Strengthening of Security

- Improvement of Relations

5. Vendor Assessment Analysis

Vendor management requires thorough assessment of current vendors, evaluation of new providers, and continuous monitoring. Your company's vendor assessment should:

- Identify all third-party outsourcing organizations
- Obtain contractual documents and supporting documentation (including legal correspondence, financial statements, revenue/expense information)
- Review all regulatory compliance reports (SOC2, PCI DSS, FISMA, ISO, etc.)
- Assess consumer complaints and business practices
- Review any security breaches or cyber incidents
- Identify which vendors handle sensitive information (PII, payment data, PHI)
- Review vendor policies for incident response, security awareness, business continuity, and disaster recovery
- Assess vendor IT platforms and personnel expertise
- Complete any additional measures deemed necessary

6. Due Diligence in Vendor Selection

The selection process for new vendors must thoroughly assess all relevant risk areas, including:

- Financial documentation review (statements, audits)
- Regulatory compliance history
- Industry experience and business knowledge
- Operational capacity and scalability
- Subcontractor relationships and oversight
- Industry and public reputation
- Legal history and potential concerns
- Management team expertise and qualifications
- Alignment with your company's strategic vision
- Security policies and procedures
- Internal control systems
- Insurance coverage

7. Contractual Documentation

All vendor relationships require comprehensive contractual documentation that includes:

- Formalized written agreement defining roles, responsibilities, and expectations
- Approval from senior management and key stakeholders

- Verification that stakeholders understand risks, potential conflicts, and due diligence findings
- Legal review addressing all issues and concerns
- Clearly defined performance standards and reporting requirements
- Fee structure and financial terms
- Compliance requirements and certifications
- Data protection and information security requirements
- Legal provisions for dispute resolution, indemnification, service continuity, intellectual property, etc.

8. Management Oversight and Continuous Monitoring

After establishing vendor relationships, continuously monitor for risks related to compliance, reputation, strategy, operations, transactions, finances, geographic issues, and technology. Senior management should be involved in oversight to ensure vendors remain aligned with your company's long-term goals.

It is vital to pay special attention to information security practices, ensuring vendors maintain strong policies and follow security best practices.

9. Breach Notification

Vendors must notify all affected individuals if sensitive data is compromised, as required by law.

10. Related Standards, Policies, and Processes

- Information Security Policy
- Acceptable Use Policy
- Data Classification Handling Policy
- Incident Response Policy

11. Vendor Management Checklists

Procedure	Responsible Party	General Notes / Comments
Identify all third-party vendors		
Obtain all contractual documents and other supporting documentation for helping assess current third-party services.		
Obtain all regulatory compliance reports. This may include assessments such as SOC1, SOC2, PCI DSS, FISMA, ISO, and many		

other compliance mandates and reports.		
Identify, review, and assess any consumer complaints, unethical business practices, etc.		
Identify and document data transmitted to or stored by the third-party that belongs to the organization.		
Monitor third-party activity and ensure breaches or security incidents are communicated to the organization.		