

Vendors = Invisible Risks

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Vendors, suppliers, service providers, and consultants have become indispensable to many businesses. ‘Vendor’ is a generic term for many sales and service providers, such as couriers, cleaners, accountants, bookkeepers, strategy or insurance consultants, lawyers, brokers, out-sourced HR, IT gurus, engineers, architects, contractors, handy-men, etc.

Not only does this outsourcing move costs from “fixed” to “variable” and add financial flexibility to many organizations, it also provides important – and sometimes critical – contributors. Unfortunately, outsourcing also creates new liabilities, and the risks vendors bring along, somewhat like flu germs, are often ignored or not recognized until it’s too late.

What can go wrong?

From my experience with hundreds of organizations both large and small, here are several misperceptions and uncertainties that can ambush you.

- Bodily Injury or Property Damage. Can injured ‘consultants’ claim under your workers’ comp or other benefits? If a supplier injures your employee or fries your computer server, who’s responsible to fix the problem?
- Harassment. If your employee claims harassment by a vendor, who’s at risk?
- Theft. Vendors can steal property, inventory, key employees, data, trade secrets and private client information. How can you limit your vulnerability?
- Errors & Omissions. How can you prevent a consultant’s error or late project delivery – and any resultant dispute – from impacting your client relationships and reputation?
- Penalties and fines. How nasty can the IRS, Workers’ Comp, and OSHA get if a contract worker is really doing an employee’s job? Bureaucratic hassle, anyone?

You can prevent this ~

Contracts and non-disclosure agreements (NDAs) are absolutely your best defense in clarifying the above uncertainties. They don’t need to be long or complex; they should be:

- Clear and fair – carefully spelling out the responsibilities and relationships, the products or services of each party;
- Specific to your business and situation – **not** generic, and not copied from the internet or cobbled together from past agreements;
- Addressing independent contractor status, how disputes will be resolved, which state laws and courts will be used, confidentiality, and hold harmless agreements for errors, omissions or damages caused – backstopped by suitable insurance, certificates, etc.

Finally, be sure to establish some simple internal procedures. Be clear about who can be hired, under what terms, with what agreements and/or insurance are in place, and so on. Establish clear authority for signing or changing contracts. Your vendor files should include all signed documents, insurance certificates and pertinent correspondence. Archive them for complete statute of limitations periods.