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ADVISORY & CONSULTING

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## Taking the Fall

an iTnews article by *Ry Crozier* on Aug 11, 2011

with contributions from CHERUB

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## Why you should keep your vendor out of the public firing line.

Writing up a post-incident report to customers is a position few IT project leaders want to find themselves.

The support desk is swamped with tickets, many of which are lodged by the same customers, for the same issue. Those with direct lines into senior IT staff are bypassing that mess altogether.

Everyone wants answers. What's the root cause? Who (or what) caused services to be offline?

If the root of the issue traces back to your vendor, contractor or outsourced third-party, tread carefully.

The rules of scapegoating are unwritten and the game changes from case to case.

When a storage area network failure in 2009 led to an email outage affecting 200,000 customers, WebCentral steadfastly refused to 'out' the vendor whose array failed.

An outage at Queensland's Polaris data centre in March this year was blamed on an "equipment vendor"; again, unnamed.

However, Queensland Health blamed integrator IBM within a day of a highly critical audit of its bungled payroll system.

IBRS advisor Rob Mackinnon offers a rule of thumb when considering the apportionment of public blame.

"There's an old saying that I used to use with my troops - when you start pointing the finger, if you look at your hand there's actually three fingers pointing back at you," he says.

CHERUB CONSULTING director John Liburti says that while vendors are at fault at times, "you probably want to look into your own house first before you start throwing those stones".

"It's convenient sometimes to be able to point at the third party and say, 'Look, we have an arrangement in place, we have a contract in place'. They were obliged to deliver to these requirements," he says.

"But the hardcore reality is that you [the company] have been placed in the position of authority to deliver the service. The vendor ... didn't authorise the project."

There are other reasons not to out your vendor publicly. Doing so could be symptomatic not just of a due diligence failure on your part but also of a relationship breakdown, which could determine whether the project is delivered at all.

If the relationship is indeed beyond repair, public shaming may also impede any hope of securing legal restitution or damages.

"If your project ain't going to work then ... get some money for it," Mackinnon says.

"The best chances of getting ... compensation for a failed project is by keeping it quiet."

## On the chin

For problematic IT projects, the consensus is that the buck stops internally.

"The reality of the matter is, irrespective of who's at fault, the company takes the hit," Liburti says.

"One way or another, they are going to be in the firing line from their customers because it was their decision that resulted in the outsource in the first place."

Blaming a vendor or third-party ignores internal responsibilities and could point to failures in project planning and due diligence.

"It goes back further than due diligence," Mackinnon says.

"It comes down to clearly articulating what it is you're trying to do, what the role of the vendor is going to be, going through the process of selecting that vendor, then doing the due diligence as to whether that's an appropriate vendor."

Liburti says that due diligence processes should flag potential problems with vendors before they occur.

Even when statements of work and expectations are well-defined and understood, some vendors may attempt to sign a deal "on the understanding or belief that they could put in the adjustment" to the contract later, he warns.

"A good company will prevent that from happening," he says.

Another red flag could be contract acceptance with few or no objections.

"When you get back a response from a vendor and there's nothing ticked as a standout item in the contract, they agree to all the services and the service levels, and they'll deliver all the reporting as required, that may very well be the case," Liburti says.

"But buyer beware - let's ask the question. Let's do our due diligence and just find out, particularly if you have some comparative information - [for example], other vendors have responded against some liability clauses, yet this particular vendor hasn't.

"There must be a reason for that. Don't assume that it could have been missed by the legal department or it could very well have been deliberately avoided.

"Signing them up ... knowing full well they may very well fail ... is just as bad as not telling them in the first place that there was a liability."

He adds: "You need to look inward before you start looking outward. It's not always the vendor that's at fault. Don't necessarily start throwing rocks."

### **Make it work**

Another reason not to publicly shame a vendor or supplier is to not jeopardise the investment that has been pumped into the project to date.

"Generally there's multi-millions of dollars worth of investments and benefits that are down the end of the pipeline, hopefully if the thing works," Mackinnon says.

"As a former CIO, I'd be looking at getting the vendor into the camp with me, working in partnership and making the damn thing work.

"I'd be working really really hard to get the solution to work until it looked like it was an impossibility [because] you are duty-bound within your organisation to make it work, and if it isn't going to work then to gracefully walk away."

### **Waving big sticks**

Mackinnon says he would only consider 'outing' a vendor under legal advice and only after all other avenues of escalation have failed.

Even then, it appears inadvisable.

Mackinnon is critical of Queensland Health's blaming of IBM for the failed payroll project.

"I think them outing IBM as they did was really a poor reflection on Queensland Health ... because the governance processes had clearly broken down," he says.

"The senior executives, it would appear from having read the [audit] report, were not well informed of what was going on and they absolved responsibility themselves and left IBM to sort out problems that they should have been deeply engaged in themselves."

When Mackinnon personally inherited a troubled retail systems integration project with a "major US multinational IT firm" in the past, he chose not to shame the supplier, he says.

"They'd [the vendor] put up a product that really wasn't fit for purpose that they were going to re-craft into something suitable for this organisation," he says.

"I came in as CIO, was there for a few months, watched some of the cycles of testing and realised this thing was never going to work.

"We ended up going to a lawyer but never actually going to litigation, settling the matter out of court."

While legal action in this instance resulted in a payout, Mackinnon warns of the potential pitfalls involved.

"It's often large US-based companies that are in the firing line for these things, that's almost always been my experience," he says.

"You've got to be pretty careful ... in their case because some of the large US-based IT companies are incredibly litigious and aggressively so."

Liburti says that threatening the pursuit of penalties can be an effective tool.

"Sometimes it's about keeping the penalty clause up your sleeve and using it as the big stick when you need it, but you don't have to actually hit anyone," he says.

But enacting penalty clauses and legal avenues are signs the vendor relationship is over.

"Once you pull the contract out, the relationship [with the vendor] is dead," Weiser Consulting principal strategic consultant Sonya Weiser says.

## Tips for dealing with vendor meltdown

- **Look inside your own house first:** Blaming the vendor may be symptomatic of deeper issues.
- **Surprises are bad:** "You need to have a culture of allowing mistakes to be talked through," Weiser says. "If everyone tries to hide it and gloss over it, the problem will just get bigger if you don't attack it and look for the root cause."
- **Try to make it work:** If you authorised the project, it's on your head to make it work or step away.
- **Mitigate risk with independent advice:** But remember, "you still have to accept that [advice]," Liburti says. "If the world changes sometime between a minute-and-a-half after you've accepted it and now, the [advisor] can't be held responsible."
- **If you dump a vendor, communicate internally:** "So everyone in the organisation understood what had been done, why it had been done; [that] the product wasn't suitable and the organisation would go hell for leather in effect finding a replacement that would better suit the needs of the business," Mackinnon says.
- **Keep quiet publicly:** Especially if you wish to pursue penalty clauses or legal avenues.

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# CHERUB

## ADVISORY & CONSULTING

Cherub is a Sourcing Advisory and Consulting firm that specialises in providing practical and actionable insight and consulting spanning the entire sourcing lifecycle.

Our single-minded focus is on understanding the Australian IT Sourcing marketplace and leveraging our unrivalled practical experience and market perspective to provide our clients with pragmatic and actionable sourcing advice, solutions and consultancy and help you answer critical questions such as:

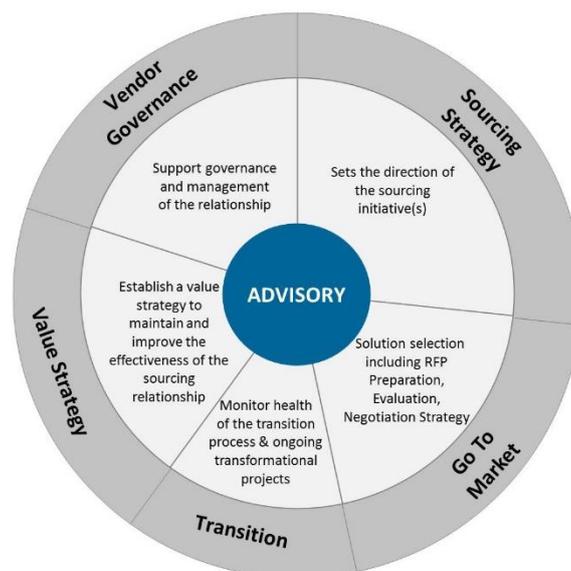
- Am I getting value for money today from my current deal?
- Is my strategy optimised to business needs?
- How can I get the right vendor, with the right services, backed by the right deal?
- How do I realise the goals and objectives of my strategy?
- What should I do to ensure success?

We know that the sourcing journey has many stages. Our Lifecycle Solutions Framework is pivotal in helping our clients to understand each stage of the journey and where their sourcing initiative fits into the overall sourcing journey.

It provides a platform from which clients can have a clear and informed view of the foundational activities and steps that have preceded the journey to date; as well as understanding what activities and steps need to follow to ensure success.

At the heart of our Lifecycle Solution Framework is Advisory Services which is the foundation of everything Cherub does and delivers. Our understanding and appreciation of both the 'hard' and 'soft' aspects of Advisory means that we are able to extend 'thinking' into 'doing' through the application of our best practice approaches, methods and tools.

**Figure 1. Cherub's Lifecycle Solutions Framework**



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This is achieved through our Consulting Solutions that can be used to complement a client team's capacity or capability. Alternatively, a client may opt for a targeted sourcing consultancy where Cherub delivers an end-to-end solution. Such sourcing consultancies can focus on some or all aspects of the sourcing lifecycle, including:

- Sourcing Strategy to set the direction;
- Go To Market to select the solution;
- Price Benchmarking to evaluate the deal, set the price baseline and inform the business case;
- Transition to monitor the health of transition and ongoing transformational projects;
- Value Strategy to review, refine, and if necessary, undertake rectification of a service contract to help maintain and improve the effectiveness of the sourcing relationship between the customer and the supplier; and
- Vendor Governance to support excellence in governance and management of the relationship, including where required, the design and establishment of the vendor management office and toolsets.

We pride ourselves in our flexibility to either “roll our sleeves up” and work closely with clients; or to simply provide expert guidance in a more advisory role.

We believe it is our many years of real-world experience combined with our deep functional expertise that provides lasting value to our clients.

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