

# The Vendor Governance Gap: Why the Process Was Designed to Fail You

*This paper expands on the argument made in the LinkedIn post of the same name. It is part of the Plateau Strategy Capital Governance series.*

## The Unstated Problem

There are two procurement processes in your organization.

The first one protects capital. It starts before the vendor is in the room, validates the problem independently, defines what good looks like before anyone has a financial interest in the answer, and gives procurement the standing to run a genuinely competitive process against a scope that has been stress-tested.

The second one was sold to you as best practice. By consultants. Who bill by the hour when it fails. It starts after the vendor has already shaped the narrative, after the champion is emotionally committed, after the business case has been socialized at the board level. It hands procurement a scope they didn't validate, a problem they didn't define, and a vendor relationship they didn't build — and holds them accountable for the outcome.

Most organizations are running the second process. They believe they are running the first.

### Four questions worth answering from wherever you sit:

1. *Who wrote the original problem statement this program is solving — and did they have a vendor relationship at the time?*
2. *Can you trace the current scope back to functional outcomes in the approved business case — not requirements, not milestones, but business outcomes the organization committed to achieving?*
3. *What is the fully loaded annual cost of this platform at steady state — including support headcount, integration maintenance, license escalation, and the organizational change that was never adequately funded?*
4. *If this program came to your investment committee today at its current scope and cost — would it be funded?*

If you cannot answer the first three, the fourth question is already academic.

This paper is about the gap between them — where it opens, why it persists, and what it costs.

## Where the Capital Goes

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The standard governance model has a structural blind spot. It is designed to manage a vendor relationship after the relationship has been established. It has no mechanism for the moment that actually determines the outcome: the moment before the vendor is formally engaged, when the problem is being defined and the solution is being framed.

That moment — the pre-flight gap — is where the real capital decision gets made. Not in the investment committee. Not in the procurement process. In a conversation between a vendor who has identified a career opportunity and an internal champion who needs a win.

### The Vendor Trap

The vendor's first sale is never the contract. It is the problem definition.

Once the vendor has shaped the problem, everything that follows — the scope, the architecture, the ROI, the business case — is built on their foundation.

The investment committee reviews a document that was constructed by the party with the most to gain from it being approved.

This is not a vendor ethics problem. It is a governance architecture problem. And it produces the same outcome every time.

## The Three Moments Where Capital Is Lost

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Capital does not disappear at contract signing. It leaks through three sequential failures, each one making the next worse.

### The first moment: when the problem is identified.

A leader identifies a pain point. Someone explores options. Vendors are contacted informally. Their language begins shaping the internal narrative. A solution is assumed before the problem is validated.

This is also the moment the vendor vocabulary enters the building. Words like scalability, future-proof, integration-ready, and AI-enabled are not neutral descriptions. They are selling terms — designed to create urgency, imply inevitability, and foreclose the question of whether a different approach might serve the business better.

What those terms do not say is equally important. Scalability does not mean the platform will scale for your business. Enterprise ERP systems are architected for complexity at a level that requires a support organization most mid-market companies do not have and cannot cost-justify. The

economies of scale that make these platforms financially defensible do not materialize until revenues reach \$4 billion or more in many cases. The vendor's reference clients are not your business. Their architecture is not your architecture. Their support model is not the support model your organization will actually build.

The fully loaded cost of an enterprise platform — implementation, customization, integration maintenance, annual licensing, the support headcount required to administer it, the business process owners who now have technology dependencies they didn't have before, the training overhead, and the organizational change management that is almost never adequately funded — is routinely three to four times the number in the business case. This is not a surprise to the vendor. It is a known structure they have observed across hundreds of implementations. It is simply not in their interest to make it visible before you sign.

### The second moment: when procurement is finally engaged.

By the time procurement enters the process the business case is drafted. The ROI has been socialized. The sponsor is emotionally committed. The vendor has shaped the architecture. The board remembers the numbers.

Procurement is now asked to run a competitive process against a scope they did not validate, for a problem they did not define, using vendor assumptions they did not challenge. The die is already cast. The vendor is already embedded. The internal champion is already invested.

Procurement is now responsible for governing a decision they had no role in shaping. This is the structural failure that gets misread as a procurement performance problem. It is not. Procurement is a victim of the design, not the cause of the failure.

### The third moment: when change requests surface.

The fixed price was never fixed. It was an opening position. The vendor modeled this deal before you signed. They knew where the changes would come from. They knew which requirements were underspecified. They knew the sunk cost would govern once you were eight months in.

Every change request looks individually reasonable. One scope adjustment. One integration complexity nobody anticipated. One requirement that wasn't in the original spec. Individually defensible. Collectively a different program — one the vendor priced for from the beginning.

Change requests are not scope management failures. They are the vendor's actual revenue model. The fixed price contract was the sales tactic that got them in the room.

## What the PMO Cannot See

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When the program is underway the organization turns to its primary governance instrument: the PMO. Status reports are produced. RAG dashboards are maintained. Steering committees are held. The program is green.

What the PMO is measuring is not the program that was funded. It is the theater version of the program — scope against a delivery plan, requirements against a specification, milestones against a schedule. These are all measurements of the plan. None of them measure whether the plan still corresponds to the business case that justified the capital.

The business case that cleared the investment committee described functional and process enablement — what the business would be able to do after this investment that it could not do before, expressed in terms the business recognized: cycle times, headcount requirements, revenue capacity, customer outcomes. That document moved to a shelf the moment capital was committed. The governing document became the delivery plan. The delivery plan was written by people whose mandate was delivery, not return.

The gap between what was funded and what is being built does not open at a single moment. It opens one change request at a time. One deferred requirement at a time. One scope decision made at sprint level that individually looks reasonable and collectively represents a different program with a different cost structure and a different strategic objective than the one the CFO signed off on.

The PMO will tell you the program is on track. It is on track — against the delivery plan. Whether the delivery plan still traces to the business case is a question the PMO was never designed to ask. That question requires a different instrument, a different accountability, and a different standing in the room.

## **AI: The Same Mechanism, Higher Stakes**

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Artificial intelligence is the current iteration of the vendor-led problem definition mechanism — and it is operating with less institutional resistance than any enterprise technology wave in recent memory.

The pitch is structurally identical: let us in and we'll solve the problem. The problem, as with every previous wave, will be defined by the vendor. The business case will be built on vendor assumptions. The ROI will be constructed to clear the hurdle rate. The champion will be the internal leader who needs to demonstrate AI leadership to the board.

What is different about AI is the degree to which the problem itself is genuinely ambiguous. Enterprise software has well-understood failure modes. AI use cases in enterprise environments are still being invented. This ambiguity is not a limitation — for the vendor, it is an opportunity. When the problem is undefined the vendor who defines it first controls everything that follows.

The hidden costs follow the same pattern as enterprise platforms but with additional layers. The data infrastructure required to make AI work at enterprise scale is typically not what the

organization has. The model governance overhead — the processes, roles, and systems required to monitor, audit, and maintain AI outputs at production scale — is almost never in the business case. The organizational dependency being created — on vendor models, vendor APIs, vendor update cycles — is a capital liability that accumulates invisibly until the renewal conversation.

The board question about AI governance is not a technology question. It is a capital governance question. Who defined the problem this investment is solving? Who validated that definition independently? What is the fully loaded cost including data infrastructure, governance overhead, and organizational dependency? What are the kill criteria — the specific, measurable conditions under which this investment should not proceed or should be terminated?

Those questions require the same pre-flight governance layer that every vendor-led initiative requires. The AI label does not change the structure. It raises the stakes because the ambiguity gives the vendor more room to operate before the governance function activates.

## The Pre-Flight Governance Layer

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The gap is structural. Closing it requires a governance layer that operates before the vendor is in the room — not a procurement reform, not a vendor management framework, but an independent function whose mandate is to validate the problem before anyone has a financial interest in the solution.

This is the foundation of the Plateau Strategy P<sup>2</sup> methodology.

Before vendors enter the room P<sup>2</sup> establishes five conditions that must be met before any capital request advances:

**Validate the problem independently.** Not the problem as described by the function experiencing the pain point — which is already shaped by vendor conversations that have happened informally — but the problem as defined by an independent assessment of what the business actually needs to achieve its strategic objectives.

**Define the strategic quadrant.** Every capital request belongs to a business unit that occupies a position in the portfolio — Star, Cash Cow, Question Mark, or Dog. The IT investment that is appropriate for a Star is not appropriate for a Cash Cow. Most organizations fund investment requests based on the quality of the business case, not the strategic position of the requesting unit. This is how Cash Cows systematically consume capital that should be going to Stars.

**Build the traceability matrix before the vendor builds it.** The business case that will eventually reach the investment committee needs to be traceable to functional and process outcomes that were defined independently — the specific things the business will be able to do, the headcount implications, the process changes, the revenue or cost consequences — not to vendor reference architectures or consultant deliverable frameworks.

**Set kill criteria in advance.** The conditions under which this investment should not proceed, or should be terminated mid-execution, need to be defined before the sunk cost makes them politically impossible to invoke. Kill criteria defined after capital is committed are not kill criteria. They are a governance theater prop.

**Define what good looks like before anyone is selling it.** The internal definition of success — measured in business outcomes, not delivery milestones — must exist before the vendor presents their definition of success.

When these five elements are in place procurement can run a genuinely competitive, defensible process. Without them procurement is negotiating a scope it did not validate, enforcing a business case it did not shape, and governing a vendor it did not select.

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## The CFO's Role

This governance layer cannot be owned by procurement. Procurement does not have the standing to challenge a business case that the CFO's direct reports have already socialized at board level. It cannot be owned by IT. IT has a structural interest in the technology decisions that the pre-flight layer is designed to stress-test.

It must be owned at the level where capital accountability sits. Which means the CFO.

Not as an additional workload. As a reframe of work that is already happening. The CFO who asks "did this business case clear the hurdle rate?" is governing the reported program. The CFO who asks "who defined the problem this business case is solving, and did they have a financial interest in the answer?" is governing the real one.

The pre-flight governance layer makes that second question answerable before capital is committed — not discoverable after it is lost.

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## The Plateau Strategy P<sup>2</sup> Framework

The P<sup>2</sup> Capital Governance Methodology addresses this gap through a four-gate framework that begins before the budget cycle and maintains capital traceability through go-live and post-implementation.

Gate 1 — Strategic Positioning — operates before any dollar is requested or any vendor is contacted. It establishes the strategic quadrant, opens the Assumption Register, and ensures no investment request advances without independent validation of the problem it claims to solve.

Gate 2 — Investment Decision — operates before capital is committed. It stress-tests the business case against comparable implementations, audits vendor claims independently

— including the fully loaded TCO that vendor proposals systematically understate — and defines kill criteria before sunk cost makes them impossible to invoke.

Gate 3 — Execution Governance — operates continuously from capital commitment through go-live. It maintains the traceability register connecting delivery to the original functional and process outcomes, monitors capital leakage signals, and gives the CFO the factual basis for governance conversations the PMO cannot deflect.

Gate 4 — Value Realization — operates at 90 days, 12 months, and 24 months post go-live. It closes the loop between what was approved, what was delivered, and what the carrying cost of deferred scope actually represents.

*The P<sup>2</sup> methodology is not a framework you implement. It is a governance layer we operate alongside you — before the vendor, before the capital commitment, and through execution. If these questions are live in your organization, that is the conversation worth having.*

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## Conclusion

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The vendor capture problem is not a procurement problem. It is not a vendor ethics problem. It is a governance architecture problem — and the architecture was designed by people who profit from its failure.

The process was built this way. By consultants. Sold as best practice. Monetized on the change requests.

The organizations that close this gap do not reform procurement. They build the layer that procurement was never given. They validate the problem before the vendor defines it. They define success before the vendor sells it. They set the kill criteria before the sunk cost buries them.

The process was built this way. It does not have to stay that way.

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### PLATEAU STRATEGY

Capital Efficacy Series

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*Four continents. Multiple capital cycles. I've watched brilliant CFOs get blindsided — by vendors selling certainty, by organizations caught in politics, by leaders advancing careers ahead of the balance sheet.*

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