

# Key procurement priorities for law firms in 2024

Meeting client expectations amid economic uncertainties

# Introduction

The post-pandemic era has ushered in the return of a perennial concern for law firms: **meeting client expectations** amid **economic uncertainties**.

**Firms are striving to distinguish themselves as client spend normalizes. But they are struggling to find ways to enhance efficiency and deliver outstanding client service while also mitigating risk under the dual threats of a recession and political upheaval.**

Historically, firms navigating similar shifts have found it advantageous to strengthen and centralize their procurement functions. Could that approach again offer solutions? We once more surveyed law firm procurement leaders across the country, asking them to identify their current and future concerns. From those discussions and our own ongoing client experiences, four key concerns emerged: managing vendor risk, improving operational processes, increasing the scope of vendor governance, and centering sustainability and supplier diversity considerations.

A photograph of three business professionals (two men and one woman) sitting around a small table in a modern office setting, engaged in a discussion. The image is overlaid with a semi-transparent blue and green gradient. The title 'Managing vendor risk' is written in large white text across the bottom of the image.

# Managing vendor risk

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## The risk landscape

**The average law firm engages with more than 2,000 vendors. Most firms (62 percent) manage expenditures exceeding \$75 million, with 44 percent surpassing \$100 million. The depth of firm reliance on third parties makes it no surprise that managing third-party risk again tops our list of priorities for the coming year.**

Managing third-party vendors introduces legal, operational, reputational, and cybersecurity risks for law firms. For example, vendors must adhere to the same legal and regulatory standards as their law firm. Failure on the part of vendors to comply with relevant regulations can result in legal consequences for both the vendors and their firms. Dependence on third-party vendors for critical services exposes firms to the risk of service disruptions. Any downtime or failure on the part of vendors can directly impact the firm's operations, leading to delays in client services and potential financial losses. In addition, ambiguities or inadequacies in contracts with vendors can lead to misunderstandings, disputes, and difficulties in enforcing agreements.

Perhaps the third-party risk that looms largest is data security and privacy. Firms must ensure that vendors comply with privacy laws, such as the General Data Protection Regulation and the California Consumer Protection Act, to mitigate risks. Further, vendors that fail to implement robust cybersecurity measures expose firms to the risk of cyber threats. One major law firm acknowledged that a cyberthreat accessed 184,000 files with private, privileged information relating to a high-profile acquisition earlier this year. The files were exposed for six months on a third-party vendor's unsecured Microsoft Azure cloud server, publicly accessible to anyone with internet access who knew where to look.

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## Three steps to address third-party risks

To effectively manage these risks, law firms should implement a comprehensive vendor risk management program that includes thorough due diligence, regular assessments, and continuous monitoring. Law firms must encourage all partners and departments to give procurement the opportunity to conduct a full review before engaging any third parties.

Here are three steps that law firms and their stakeholders should follow every time they engage a new vendor.

### 1. Survey the risk landscape

Before taking action, firms must understand the size and scope of potential third-party risks. Procurement should first identify all active vendors across the firm. The most efficient way to unearth vendor relationships is through a centralized spend visibility system. The procurement team can use this system to determine how much access each vendor has to the firm's data and networks.

The procurement team should then build a risk-value matrix to rank its vendors according to the risks they pose and the value they provide. The risk score should capture the potential risk each vendor presents in the event of a catastrophe, such as a data breach, vendor insolvency, or physical damage resulting from a weather disaster or act of God. Using a scale from 1 to 100, procurement can assign each vendor a risk score that takes into account the vendor's access to data, the duration of the vendor-firm relationship, the vendor's performance during that time, and the vendor's overall reputation. Procurement should solicit input from the stakeholders engaging each supplier and the suppliers themselves to calculate this score.

In addition to risk, procurement should also evaluate each vendor's criticality, or how critical that supplier's services are to the firm. One straightforward proxy for criticality is spend.

Using this matrix, procurement can determine which vendors pose the highest risk and which offer the most value. Procurement should solicit cross-functional feedback to avoid blind spots and obtain buy-in for moving forward with those vendors that offer the greatest value at an acceptable level of risk.

## 2. Build a risk mitigation program

Procurement can then build a comprehensive risk management program into its contracting process. The program should span the vendor relationship lifecycle, from onboarding to offboarding. The procurement team should incorporate pre-onboarding questionnaires, vendor compliance validation, data-sharing protocols, and other similar measures into the program.

The procurement team should also incorporate a supplier's risk profile into its contract, using key performance indicators to encourage vendor compliance and keep the firm ahead of possible threats. Each vendor contract should also specify clear obligations and triggers for breach provisions, including the proper indemnification level based on each risk factor.

### **Additional terms and conclusions that firms should include in all third-party contracts include these:**

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Remediation timelines and methodologies for identified security risks

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Breach notification guidelines

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A policy requiring employee and subcontractor background checks

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A policy for managing data subjects' access requests and access rights

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Minimum insurance requirements, including coverage for general liability, cyber liability, and errors and omissions

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Notification requirements before deploying updates to technology

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A right to audit clause

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### 3. Monitor risks and measure program activity

What gets measured gets managed, and vendor performance is no different. External and internal reviews are both essential.

The procurement team should schedule at least quarterly vendor reviews using key performance indicators to measure how well each vendor is adhering to its service-level agreement. Stakeholders should also offer qualitative feedback and guidance to help vendors improve performance.

Internally, procurement should measure program effectiveness through metrics such as the number of vendors onboarded and how many of those were identified as critical or high risk, how many were flagged for additional review, and how many failed the risk assessment process.

The key is to find a flexible, sustainable system that reduces the manual effort required to maintain the program and reflects changing regulations and firm needs. Building a dashboard that automatically updates can reduce the burden on the team while ensuring that the firm's vendor base continues to align with the firm's risk appetite.

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# Improving operational processes

Law firms often struggle with how to make the right buying decision every time. Making smart, efficient buying decisions consistently involves evaluating the kind of parties they are working with, conducting the right risk assessments, and understanding how to leverage the preferred vendor relationships the firm has established. All of this requires a procurement model with consistent processes that help firms consolidate their purchasing power, negotiate better deals, and leverage volume discounts.

The first step is to centralize procurement activities, which promotes standardization across the firm. Slightly more than half of the respondents to our survey reported a centralized or center-led structure, so this remains a key opportunity for many firms.

Another essential part of the standardization process involves establishing unified procurement policies to guide decision-making. Standardized workflows, from requisition to vendor selection and contract management, ensure a structured and transparent procurement process. Technology and automation can also play a significant role in improving consistency.

**The firm should also implement robust supplier relationship management processes. Some examples of these policies include the following:**

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<b>Sourcing:</b>	The firm should have a policy requiring the assessment of potential vendors to ensure alignment with the firm's goals and quality standards. The assessment should consider the vendor's experience, financial stability, and reputation.
<b>Contracting:</b>	The procurement team should define expectations and obligations in vendor contracts, including service levels, deliverables, and performance metrics. Service-level agreements should incorporate KPIs to measure vendor performance against agreed-upon benchmarks.
<b>Goal setting:</b>	Ensure that vendors understand the firm's business objectives and are committed to contributing to its success.
<b>Communication:</b>	Define communication protocols to facilitate effective and transparent communication between the law firm and its vendors. Establish channels for regular updates, issue resolution, and strategic discussions.
<b>Performance incentives:</b>	Implementing performance-based incentives rewards vendors for exceeding expectations. Penalty clauses can also discourage noncompliance with agreed-upon service levels or other critical terms.
<b>Continuous improvement:</b>	Foster a culture of continuous improvement by encouraging vendors to suggest innovative solutions and process enhancements. Collaborate on joint initiatives aimed at enhancing efficiency and achieving mutual goals.
<b>Conflict resolution:</b>	Develop processes to resolve disputes that arise between the firm and its vendors. Dispute resolution mechanisms must be fair and impartial and designed to preserve the ongoing relationship.
<b>Supplier diversity:</b>	Promote diversity and inclusion by fostering support for businesses owned by women, minorities, veterans, and other underrepresented groups.
<b>Exit strategies:</b>	Define the procedures for transitioning to alternative vendors while minimizing disruption to firm operations.

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Procurement software and e-procurement platforms can streamline requisitions, approvals, and order processing and eliminate manual work. These platforms also should offer analytics tools, enabling deeper insights into spending patterns and vendor performance.

Additionally, procurement should prepare to play a key role in deploying AI as a strategic lever to reduce costs. Key AI applications for sourcing include spend analytics and cost optimization, supplier identification and qualification, contract management, demand forecasting and planning, and supplier performance monitoring. However, widespread concerns around security and privacy compliance as well as output accuracy remain, so firms should plan to take a slow, steady approach to implementing this technology.

# Increasing the scope of vendor governance

Although vendor governance dropped from second to third in the list of priorities for the coming year, vendor oversight remains a critical function for the procurement team. Centralizing the procurement team is the easiest way to ensure consistency.

The procurement team should focus its vendor governance on five service pillars:

- 1.** **Assessing risks:**  
Measuring and monitoring the risks of working with third parties
- 2.** **Sourcing:**  
Choosing vendors with the right expertise, scale, and pricing
- 3.** **Contracting:**  
Clearly defining vendor obligations and consequences in the hiring process
- 4.** **Controlling costs:**  
Guiding staff to make cost-effective buying decisions
- 5.** **Relationship monitoring:**  
Improving service delivery through regular communication

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## Assessing risk

The first section of this article covered the risk assessment process. This section will address the remaining four pillars, explaining best practices that firms can use to improve service delivery and create sustainable cost savings.

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## Sourcing

The first step in sourcing is conducting a needs assessment to fully understand the firm's requirements. The assessment should identify the scope of goods or services needed. Then the procurement team should conduct market research to identify potential vendors that align with the law firm's needs based on their reputation, track record, capabilities, and industry expertise. Next, the team should send out an RFP to gather detailed information about each vendor's capabilities, experience, and approach to meeting the law firm's requirements.

To evaluate prospects, the procurement team should establish clear qualification criteria, considering factors such as financial stability, experience, certifications, and compliance with legal and ethical standards. A scorecard can help procurement staff compare potential vendors. A cross-functional team of stakeholders from varying departments, including legal and IT, can offer a 360-degree perspective on proposals. Of course, it is most critical to obtain input from the end users who will use the vendor's products or services.

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## Contracting

The procurement team plays a key role in establishing clear contracts that outline the obligations and responsibilities of the law firm and the vendor. An initial step is defining timelines, milestones, and any deliverables to ensure mutual understanding and accountability.

Other key clauses include service-level agreements that establish specific service levels, response times, and quality standards. The agreement should include provisions for regular SLA reviews and adjustments as needed. Additionally, the contract should include a termination clause that outlines the conditions under which either party can terminate the contract and specify notice periods and any associated penalties or liabilities in case of early termination. The vendor must also agree to adhere to the firm's policies and code of conduct, including ethical standards.

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## Controlling costs

The procurement team is ideally situated to help firms understand market pricing trends and set budgets and benchmarks. The team should help the firm achieve favorable pricing structures through longer-term contracts and volume discounts. Data analysis can help the team make smart pricing decisions based on the vendor's history and performance.

Procurement staff should also negotiate flexible contract terms that allow the firm to adjust the scope of services, quantities, or other variables based on changing needs. Terms should allow for periodic renegotiation of pricing based on market conditions and vendor performance. Performance-based bonuses and penalties align vendor interests with the firm's goals.

The procurement team should review vendor contracts regularly to assess whether the agreed-upon pricing remains competitive and reasonable based on vendor performance. Beyond contracting, the team should regularly review departmental costs to pinpoint any deviations from budgeted amounts. With this data in hand, the team can make informed decisions about resource allocation and spending priorities.

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## Monitoring relationships

The procurement team plays a crucial role in monitoring vendor relationships and enhancing service delivery. Regular performance reviews and comparisons to KPIs can address concerns and identify opportunities for improvement when performance deviates from expected service levels, response times, and quality standards.

The vendor relationship is a two-way street, so procurement should collaborate with vendors to implement continuous improvement initiatives aimed at enhancing service delivery. Vendors may be in the best position to proactively suggest and implement efficiency improvements.



# Strengthening sustainability and supplier diversity initiatives

In 2024, environmental, social, and governance (ESG) considerations are too important to investors for procurement teams to leave them to chance. Rather, firms should factor in sustainability and supplier diversity at each step of the vendor-selection process, though that isn't happening yet in most firms.

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## Sustainability

When asked what role procurement should play in supporting environmental and sustainability initiatives, about a third (32%) of respondents said that their procurement departments take an active role, setting sustainability strategy and goals for their firm. Slightly more than a third (36%) said their procurement teams take on only a supportive role by reporting and identifying potential vendors. And the final third acknowledged, surprisingly and disappointingly, that their procurement team still plays no role in sustainability.

These firms are missing out on a remarkable opportunity, as procurement teams are in a unique position to drive sustainability efforts. Ninety percent of law firms' carbon footprint stems from their vendors, not the firm's operational activities. Thus, the only way that law firms can move the needle on their environmental impact is by making more thoughtful choices regarding vendors.

As firms hopefully move toward implementing stronger sustainability programs by focusing on vendor selection, they should first evaluate their current carbon footprint and determine what each vendor contributes to that baseline. Once that baseline is established, firms can set

meaningful, progressive targets over time to improve their environmental performance either by influencing their existing vendors to operate in more sustainable ways or by choosing more sustainable vendors. Clearly, procurement can and should play a pivotal role in guiding law firms through this maturation.

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## Supplier diversity

This year, supplier diversity fell to the fifth spot in firms' list of priorities. Does that mean firms are deprioritizing diversity? Not at all. Instead, the number of firms that have implemented or are implementing formal supplier diversity programs rose 27 percent just this year.

As firms are standardizing their approach to supplier diversity, they're taking more active steps to increase the use of diverse suppliers. Most firms (67%) are incorporating diverse suppliers into their RFP or bid process. Firms are identifying diverse suppliers in a variety of ways, from conducting online research on suppliers to partnering with their technology vendors and asking for referrals from leaders of diverse business groups. Slightly less than half (42%) are educating their stakeholders on program goals, while a quarter (25%) are researching and meeting with diverse potential suppliers and the remainder are taking other steps (17%). A small portion (8%) have no process in place for expanding supplier diversity.

**Again, procurement should be playing a leadership role here. In evaluating next steps to grow their firm's supplier diversity program, procurement should consider the firm's current level of maturity, using a scale such as this:**

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**LEVEL 1**

Adopting a supplier diversity policy and beginning to consider diversity in procurement

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**LEVEL 2**

Analyzing spend with diverse suppliers to understand the firm's baseline

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**LEVEL 3**

Setting goals for improvement and creating strategies to achieve those goals

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By understanding their spend and setting reasonable targets for increasing spend with diverse suppliers, procurement can help law firms align their business practices with broader societal goals and client expectations.



# Law firms must recognize the full value of their procurement teams

As law firms navigate an evolving business landscape, they should not underestimate the potential impact of their procurement teams. Procurement serves as a crucial ally in the pursuit of operational efficiencies and in managing vendors and their associated risks.

While firms are increasingly recognizing the value of procurement teams, they may still need to articulate their value proposition: a competitive edge involves more than just fee structures. It entails crafting a comprehensive service delivery package that addresses critical aspects such as risk management, robust vendor governance, process optimization, ESG considerations, and supplier diversity. By embracing this holistic approach, law firms can not only fortify themselves against future financial challenges but proactively position themselves as strategic business partners.

## Connect with a Harbor expert

Contact us today to discover how Harbor can help your firm meet its procurement goals in 2024.



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