

Suppliers in the Spotlight

A Look at Procurement Priorities for Law Firms in 2019

Procurement plays an essential role in law firms' ability to reduce and contain costs, manage risks and improve the level of supplier service delivery. Reflecting procurement's rising value, a majority of law firms (67 percent) have established a procurement function, according to a Procurement Leader survey conducted in connection with HBR Consulting's [2018 Law Firm Procurement Roundtable](#).

As a trusted partner, the procurement function can drive significant business value for the firm from a number of perspectives and can achieve higher-level goals by developing and facilitating processes that improve the strategic management of supplier relationships.

Based on the discussions that occurred during the Roundtable, as well as our experience with clients and the market, three areas have emerged as strategic priorities law firm procurement functions should focus on in 2019:

- Supplier risk management
- Supplier relationship management
- Supplier diversity

By focusing on these three areas, the procurement function can manage supplier relationships in a more holistic and substantive way, helping the firm achieve key business goals.

Supplier Risk Management

Historically, third-party risk management in law firms has existed as a decentralized activity handled on a localized (department or office) basis. To the extent any cross-firm coordination existed, it was facilitated by IT. However, IT generally focused on the issues and risks within its scope of expertise and for suppliers that clearly fell under its umbrella. Risk exposure in other areas of the firm – such as the business continuity group, HR, general counsel, etc. – might not be visible because IT stakeholders lacked insight into engaging those suppliers.

Given the security issues in today's business and legal environment, risk management must become a firm-wide focus. Today's law firms handle an incredible amount of

sensitive information – from proprietary and financial client data to internal information including employees' personal data. The sheer volume of this information, combined with a perception that the legal industry's security measures are less sophisticated than other industries, makes law firms attractive targets for hackers. As a result, law firms must address the management of supplier risk in a less siloed and more holistic way.

Procurement has a broader view into the firm's suppliers, through sourcing and negotiations or by supporting the contract review and management process. As such, the procurement function is a natural nexus for ensuring that proper supplier risk management processes and policies are followed, while engaging other functions (IT, security, etc.) as necessary based on a supplier's risk rating. Additionally, clients increasingly expect law firms to demonstrate maturity in risk management strategies and processes. Clients routinely request information about the manner in which law firms manage these risks. In some cases, clients perform audits to ensure law firms are in compliance with regulatory requirements and the clients' own security expectations. For clients, it is not enough simply to know that security controls exist. They want proof that their law firms follow those controls and assess and monitor the risks posed by firms' suppliers on an ongoing basis. Yet, there is evidence that many law firms are not adequately responding to the risks associated with supplier relationships. Despite increased regulatory pressure and growing client expectations, HBR's Procurement Leaders survey showed that just 53 percent of law firms have a formal, third-party risk management policy in place while 78 percent of firms have had clients request documentation of the firm's policy.

The procurement function is a natural nexus for ensuring that proper supplier risk management processes and policies are followed. Clients increasingly expect law firms to demonstrate maturity in risk management strategies and processes.

The procurement function can support and facilitate a centralized process for assessing suppliers' relative risk that will help identify high and critical risk suppliers, such as those that work on-site, have access to systems and networks or are responsible for storing or processing critical information.

Specifically, the procurement function is uniquely positioned to facilitate the following activities:

- *Preliminary risk scoring.* New suppliers can be put through a scoring process that helps identify their inherent risk based on services and products provided. Based on that score, proper steps can be taken (in coordination with other functional areas of the firm) to mitigate potential risks. These steps can include a broader and deeper security review and ensuring appropriate terms are incorporated into contracts, thus reducing the threats posed by high and critical risk suppliers.
- *Process facilitation and monitoring.* The procurement function can ensure a defined process is followed, while actively monitoring compliance and periodically re-evaluating the number of suppliers that have gone through the risk scoring process. Active monitoring provides an accurate gauge of the law firm's general risk exposure.
- *Risk visibility.* The procurement function can ensure constant visibility into the firm's overall risk profile.

Supplier Relationship Management

In many law firms, supplier relationship management is a reactionary activity based on specific events rather than a structured and strategically coordinated approach. Suppliers are usually not subject to a regular review process and monthly operational meetings with large suppliers tend to focus on top-of-mind concerns instead of the broader relationship and performance. As a result, performance against service level agreements (SLAs) and key performance indicators (KPIs) are rarely monitored or addressed in a consistent manner. However, SLAs and KPIs

are key components of a law firm's relationship with critically important suppliers because they define the quality of the relationship. Agreements should therefore clearly define KPIs in a way that aligns with a firm's expectations. Performance monitoring then provides insights into troubling trends that can be proactively addressed before larger issues occur.

Law firms often struggle to hold suppliers accountable because firms fail to formalize a process for monitoring KPIs or identifying performance trends. With third-party suppliers taking an increasing role in managing, leading and supporting critical aspects of operations, law firms must ensure that service level expectations are consistently met. Critical service failures jeopardize a law firm's reputation and put operational capabilities at risk. They may even warrant exploring options to terminate the firm's relationship with the supplier. For example, if a law firm's network supplier experiences extended downtime, the supplier relationship management process will uncover whether it is a one-time occurrence or indicative of a chronic problem. If the contract is structured with the right provisions, the law firm would have cause to terminate the relationship with the network supplier before a critical failure occurs that could result in negative (and potentially dire) operational or reputational outcomes.

The bottom line: Law firms need current and accurate information to make the right decisions about suppliers when specific issues arise. Firms must have the ability to determine whether an issue is a one-time occurrence or a recurring issue that requires a more comprehensive solution or possibly even replacing the supplier. On the flip side, effective supplier management can help identify suppliers that are performing well and can be leveraged in additional capacities. The procurement function can improve supplier performance management by administering a formal, quarterly review process. Key relationship stakeholders should also participate so they can offer guidance and insights about specific supplier performance. The quarterly supplier review process can be leveraged to align with a broader third-party risk management program.

As part of the review process, the procurement function can ensure that suppliers provide an agenda and meeting materials showing their performance against SLAs and KPIs prior to each meeting. This reduces the burden on internal stakeholders and reinforces the expectation that every supplier will demonstrate how its relationship generates tangible value for the firm.

By implementing a regular process for reviews with suppliers, the procurement function will enable the law firm to track and monitor supplier performance over time. Essentially, procurement spearheads the creation of a window into each supplier's history with the firm. By taking on a more active role in the relationship management process, procurement helps firms achieve better supplier relationships.

Agendas for quarterly supplier reviews should include:

- A discussion of KPIs and SLA performance
- End-user feedback via net promoter score – an index that measures users' willingness to recommend the service to others
- Any other issues relevant to the supplier's relationship with the law firm

Supplier Diversity

Most law firms make an effort to recruit, hire and promote diverse candidates at all levels. They also engage in sustainability initiatives or pro-bono work in support of social responsibility objectives. Encouraged by the social responsibility efforts in their own companies and industries, clients frequently request information about their law firms' social responsibility efforts, including specific focus on diversity. But when it comes to supplier diversity, law firms are playing catch-up with the corporate world. For years, corporations have made specific investments in and focused efforts on building robust supplier diversity programs.

Now, clients are starting to ask their key strategic partners, including law firms, to provide information on their own supplier diversity efforts and performance. They expect their law firms to demonstrate a positive impact to local communities by participating in supplier relationships with minority and women-owned businesses as well as other suppliers that exemplify diversity.

In RFPs, it is not uncommon for clients to request information about supplier diversity policies and practices along with supporting statistics. Some clients go as far as requesting quarterly supplier diversity reports from firms, as clients can incorporate this information into their own reporting. Key steps for firms to establish a supplier diversity program while also meeting clients' expectations include:

- Developing a basic supplier diversity policy;
- Identifying all active, diverse suppliers, along with annual or semi-annual refreshes of that information; and
- Establishing a process that enables the firm to quickly and efficiently report on the usage of diverse suppliers, which can be used internally and externally.

Although many firms still have a long way to go in creating and documenting a diverse supplier base, it is an area in which meaningful progress can be made in a short period of time. The procurement function can help to champion these specific efforts.

Conclusion

The daily operation of a law firm and the level of service it provides to clients, internally and externally, are increasingly tied to the quality and continuity of its suppliers. Experiencing significant risk events or critical services failures will jeopardize a firm's ability to operate and compete in an increasingly crowded legal landscape.

As we enter 2019, firms face growing pressure from clients, partners and internal stakeholders to ensure quality and continuity and minimize risk. The procurement function is a natural, centralized hub for facilitating programs and

strategies that help do so. Procurement functions should therefore give serious consideration to prioritizing supplier risk management, relationship management and diversity and to building these three priorities into their 2019 goals and objectives.

Interested in learning more about how HBR Consulting can help your law firm meet its 2019 procurement priorities? Contact us today to start the conversation.

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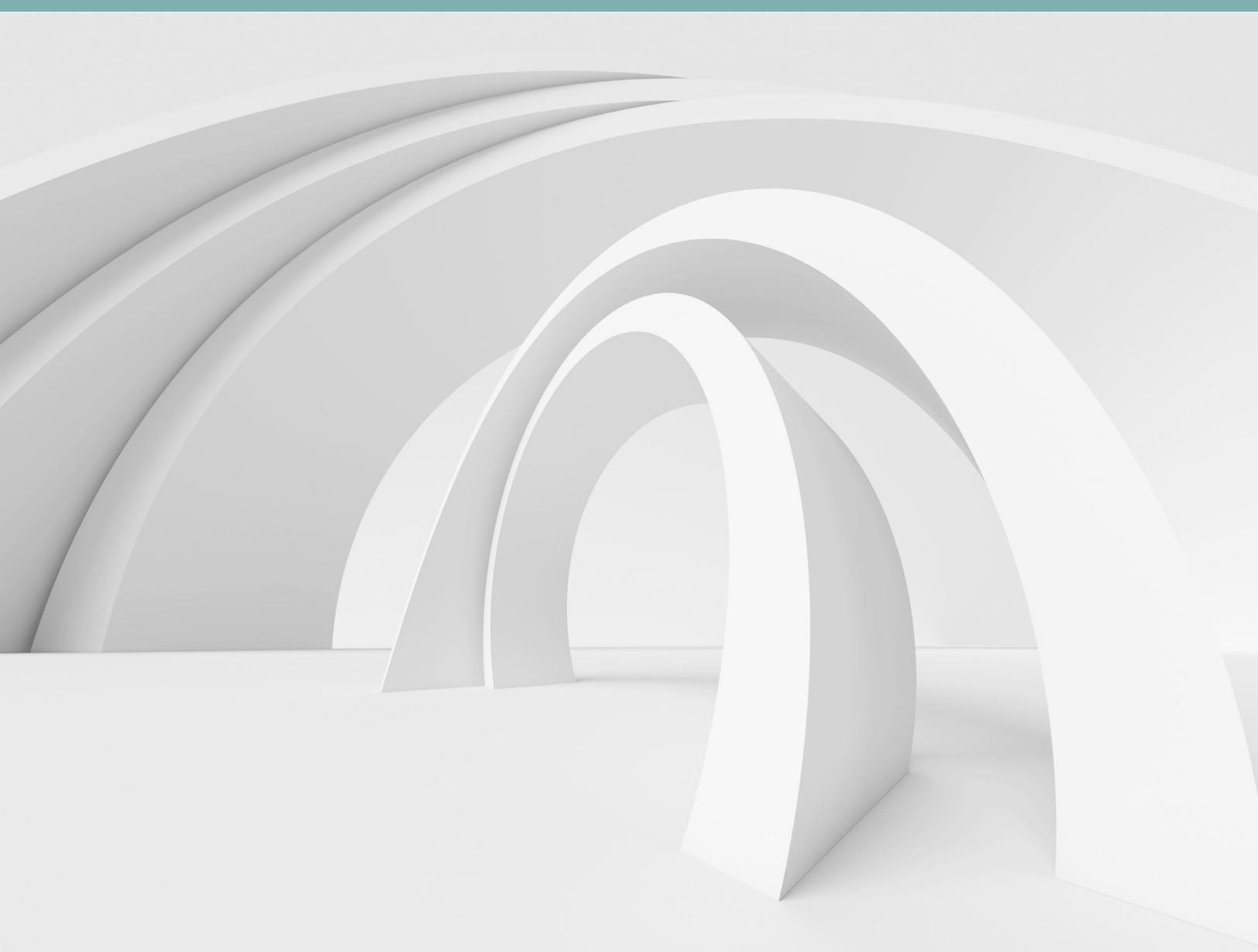
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