### Eight trends impacting corporate functions

<table>
<thead>
<tr>
<th>Trend</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Pervasive digital capabilities</strong></td>
<td>Digital capabilities permeate all aspects of business and operating models, reshaping how companies (and functions) generate value.</td>
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<td><strong>Corporate function drag</strong></td>
<td>Growth in functions’ overlapping process requirements outpaces coordination and efficiency gains, creating more bureaucracy that drags on the business.</td>
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<td><strong>Data scrutiny</strong></td>
<td>Customers, regulators, business leaders and employees expect companies to understand what data they could have, what can be done with it, what risks it poses, and have plans to manage it well.</td>
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<td><strong>Eroding process ownership</strong></td>
<td>Access to tools and data means the business will do more for itself and expect value beyond current functional process stewardship.</td>
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<td><strong>War for talent</strong></td>
<td>Stiff competition for scarce talent (e.g., data scientists) creates the need for skills-based roles and talent sharing across functions.</td>
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<td><strong>Asset lite</strong></td>
<td>New products and services can be made, customized and launched instantly using resources such as online software, 3D printing and crowdfunding.</td>
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<td><strong>Winners take all</strong></td>
<td>The rise of platforms and network effects means companies that can create enough scale can secure most of the profits in a given market.</td>
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<td><strong>Regulatory fragmentation</strong></td>
<td>Global legal and regulatory frameworks will fragment as more countries assert their place in the global regulatory and economic environment, and enforcement activity is driven by populist and political agendas.</td>
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## Legal 2020: Impact of trends

### Legal must make five shifts to succeed

<table>
<thead>
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<th>Current state</th>
<th>Future state</th>
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<td><strong>Value drivers</strong></td>
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<td>Cost and Quality First</td>
<td>Agile Strategic Support</td>
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<td><strong>Legal’s role</strong></td>
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<tr>
<td>Legal Service Manager</td>
<td>Enterprise Capacity Builder</td>
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<tr>
<td><strong>Business role</strong></td>
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<tr>
<td>Centralized Legal Control</td>
<td>Business Partner Ownership</td>
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<tr>
<td><strong>Delivery model</strong></td>
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<tr>
<td>Direct Service Model</td>
<td>In-Channel Product Delivery</td>
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<td><strong>Resources</strong></td>
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<tr>
<td>Law Firm Relationship Model</td>
<td>Flexible Provider Networks</td>
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Shift 1: Value drivers

Agile Strategic Support

As corporate value shifts toward speed and information, legal value will be determined by the speed at which risk-appetite-adjusted legal judgment is built into strategic decision making and made accessible within operating processes. This means enabling the business to rapidly experiment with new business models, while managing the underlying legal risk and protecting the legal assets on which strategy depends.

Implications for the function

- Legal departments will more narrowly focus time on strategic support, protection of strategic legal assets (e.g., intellectual property [IP]), determining company posture on emerging legal issues, and building internal capacity.
- Legal will shift time from providing direct advisory support to creating scalable legal solutions.
- Legal will shift hiring and spend toward skills that drive future value, including analytics, automation, IP, and process and product design.

Efficient growth companies

Companies That Achieve Sustained, Long-Term Revenue Growth With Simultaneous Margin Improvements

Make faster bets

44% more likely to enter a new market first

Take more risk

Make acquisitions that are, on average, 60% larger than their peers’

Source: Gartner
Shift 2: Legal’s role

Enterprise Capacity Builder
Facing increased demands for service, legal departments must rapidly codify legal judgment to increase enterprise capacity to make, learn from and reduce the cost of legally informed decision making.

Forecast productivity and demand growth across legal departments, 2016–2020
2016 Indexed to 100

<table>
<thead>
<tr>
<th></th>
<th>2016 Workload</th>
<th>Forecast Capacity Growth</th>
<th>Forecast Demand Growth</th>
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<tbody>
<tr>
<td></td>
<td>100</td>
<td>1.3x</td>
<td>1.85x</td>
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Unmet need
By 2020, 10% to 30% of demand for legal services will not be satisfied

Implications for the function
- The legal department must determine which services it is best positioned to provide.
- Legal must enable business ownership of nonlegal work by translating expert legal judgment into actionable criteria, decision rules or processes.
- Legal will build cost-effective provider networks to improve productivity and reduce cost of legal services.

Source: Gartner
Shift 3: Business role

Business Partner Ownership

Increased decision volume and decentralized decision making means business unit leaders and employees must own more "Legal" decisions. Legal department must make legal guidance accessible and easy to use.

Employees fail to seek legal

Guidance During Business Decisions With Legal Implications

- 63% Legal Guidance Not Used

n = 3,543 decisions

Implications for the function

- Legal must create clear decision rules and parameters that enable the business to integrate legal guidance into their processes and manage defined issues on their own.
- Legal needs metrics and mechanisms to evaluate and monitor business execution of legal work to ensure use of legal guidance and limit unintended change in risk exposure.

Source: Gartner
Shift 4: Delivery model

**In-Channel Product Delivery**

Legal will build legal judgment (the “product”) and services into existing workflows, decision processes (e.g., capital allocation processes) and corporate dashboards (e.g., risk and finance reports).

**Legal work that can be standardized and automated**

**Opportunity to Standardize**

63% of current legal work can be standardized

**Opportunity to Automate**

23% of current legal work can be automated

**Implications for compliance**

- Legal should identify the right opportunities to scale legal solutions by applying simple “scope” and “judgment” filters.
- Legal should embed scalable legal solutions (“products”) directly into business workflows.
- Legal should assess client use patterns to understand design failures, make legal access easy for a majority of users and speed direct facilitation of more complex matters.

Source: 2016 State of the Legal Function survey; Harnessing Automation for a Future that Works; McKinsey Global Initiative
Shift 5: Resources

Flexible Provider Networks
Legal will create networks of technology and service providers capable of executing specific legal workflows at lower costs and/or to greater quality. Over time, this means relative reduction in outside counsel spend and an increase in the ratio of nonlegal staff (analytics, automation and design skills).

Evolution of legal capabilities and the service provider market

Implications for the function
- Legal should monitor the external legal service provider market to understand how different technologies can impact cost, quality and efficiency of internal processes.
- Legal should dedicate time toward vendor experimentation while asking law firms about available technology.
- Legal can recruit, develop and network with nontraditional talent sources to bring analytic, artificial intelligence, project and vendor-management skills to legal.

Automated problem solving
Machine learning, natural language processing and data analytics enable automation of more judgment-based activities.

Labor arbitrage
Digitalization and onshore talent enable outsourcing of low-level factual analysis.

Source: Gartner
What to do now?

A to-do list for general counsel

**Immediate**

1. Convene a subgroup of the legal leadership team to examine the eight trends, the five shifts and their implications on your department.

2. Include discussions related to the five shifts as a standing agenda item in meetings with the CEO and CFO.

3. Develop a task force in the legal department to investigate workload rationalization and scaling of legal guidance.

4. Review legal department strategy in light of team discussions and executive feedback.

5. Update department strategic plan and metrics.

**Future**

1. Discuss corporate trends and corporate risk appetite with executive committee and invest in analytic capability.

2. Inventory the work done by your legal department and reallocate work to best-fit providers.

3. Create incentives for knowledge management, identify recurring business problems and embed scalable solutions into business workflows.

4. Identify the right opportunities to scale legal solutions by applying "scope" and "judgment" filters and assess use patterns of legal products.

5. Create a vision for sourcing strategy that aligns external providers with business needs and unbundle legal services among a variety of external providers.
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