2021 Legal Planning & Budgeting

Preview: State of the Legal Function
September 2020
Demographics

2019 Company Revenue
Percentage of respondents
- Under $1 billion: 9%
- $1-2.5 billion: 16%
- $2.5-4.99 billion: 32%
- $5-9.99 billion: 19%
- $10-19.99 billion: 15%
- $20 billion or more: 14%
- Less than $1 billion: 2%

Industry
Percentage of respondents
- Consumer discretionary and staples: 16%
- Industrials and materials: 20%
- Banking, diversified financials and insurance: 12%
- Government and nonprofit: 9%
- Healthcare: 24%
- IT: 15%
- Energy and utilities communication services: 2%

Number of Headquarters Locations
Percentage of respondents
- Americas: 84%
- EMEA: 14%
- APAC: 2%

Countries of Operation
Percentage of respondents
- Less than 2 countries: 5%
- 2 to 4 countries: 24%
- 5 to 19 countries: 28%
- 20 to 99 countries: 28%
- 100 or more countries: 15%
7 key findings as legal prepares for 2021

Lessons Learned From Legal’s Response to COVID-19

1. Legal departments successfully led through the crisis, but fell short on critical capabilities.
2. Legal faces an expanded mandate in 2021 but flat or reduced resources.

Minimizing Outside Counsel Spend

3. Legal work continues to shift in-house to maximize increasingly constrained resources.

Prioritizing Internal Expertise

4. Specialists increasingly outweigh generalists as legal looks to build deeper expertise internally.
5. Legal departments are insourcing higher-cost practice areas and preparing for a shifting regulatory landscape.

Expanding Operational Capabilities

6. Legal departments are investing in legal operations to drive in-house efficiency.
7. Legal operations teams’ responsibilities are narrowing to focus on critical priorities for 2021 to manage resources and support remote work.
Roadmap

Lessons Learned From Legal’s Response to COVID-19

- Legal led through the crisis
- Lasting impacts on legal work
- Anticipated resource limitations
- Gaps to close for 2021

Minimizing Outside Counsel Spend → Prioritizing Internal Expertise → Expanding Operational Capabilities
Legal departments effectively led through the crisis

Top 4 strengths revealed during COVID-19
Percentage of respondents selecting as a strength

- Department adaptability and resilience (i.e., ability to effectively change priorities and focus): 70%
- Understanding of primary business needs: 23%
- Leadership and decision-making: 17%
- Department skills: 16%

n = 112
Source: Gartner State of the Legal Function 2020
But lasting impacts of 2020 create more work for legal

Most significant impacts on legal work
Percentage of respondents who listed as one of top 3 most significant impacts

- Increase in remote work across the organization: 46%
- Legal and regulatory changes: 39%
- Disruption in new projects/ventures: 30%
- Acceleration of corporate technology use: 29%

n = 104

Note: Question asked was, “Which of the following changes do you expect to have the most significant impact on legal function work?”
Source: Gartner State of the Legal Function September 2020
With increasingly constrained resources

Expected change to budget for remainder of 2020
Percentage of respondents

- Increase by 10%+: 43%
- Increase by 1-10%: 32%
- No Change: 16%
- Reduce by 1-10%: 3%
- Reduce by 11-20%: 3%
- Reduce by 20%+: 1%
- Don't Know: 3%

Expected change to head count for remainder of 2020
Percentage of respondents

- Increase by 10%+: 66%
- Increase by 1-10%: 15%
- No Change: 4%
- Reduce by 1-10%: 7%
- Reduce by 11-20%: 1%
- Don't Know: 3%

n = 115, 116
Source: Gartner State of the Legal Function September 2020
*Percentages may not add to 100 due to rounding.
Build fundamental capabilities going into 2021

Top 4 weaknesses revealed during COVID-19
Percentage of respondents selecting as a weakness

- Technology solutions and level of adoption: 48%
- Knowledge management and coordination: 26%
- Ability to effectively balance routine and unplanned workload: 26%
- Workload prioritization and efficient allocation of work: 25%

n = 111
Source: Gartner State of the Legal Function September 2020
Roadmap

Lessons Learned From Legal’s Response to COVID-19

Minimizing Outside Counsel Spend

- Decrease in legal function spend
- Spend shifting to in-house
- Decrease in law firm use
- Use of cost reduction measures

Prioritizing Internal Expertise

Expanding Operational Capabilities
Legal spend has remained flat

Legal function spending as a percentage of revenue
Quartile distribution

n = 139
Source: Gartner State of the Legal Function 2018

n = 117
Source: Gartner State of the Legal Function September 2020
Legal work continues to shift in-house

Ratio of legal spend in-house vs. outside
Average percent allocation

<table>
<thead>
<tr>
<th>Year</th>
<th>Outside Spend</th>
<th>In-House Spend</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>~13%</td>
<td>49.8%</td>
</tr>
<tr>
<td>2020</td>
<td>~13%</td>
<td>50.2%</td>
</tr>
</tbody>
</table>

n = 139
Source: Gartner State of the Legal Function September 2018

n = 112
Source: Gartner State of the Legal Function September 2020
# Litigation dominates external spending

**Outside legal function spend allocated across practice areas, 2020**

Average percentage allocation, all respondents

<table>
<thead>
<tr>
<th>Practice Area</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Litigation (all)</td>
<td>39.1%</td>
</tr>
<tr>
<td>Intellectual Property</td>
<td>14.5%</td>
</tr>
<tr>
<td>Mergers, Acquisitions, and Divestitures</td>
<td>11.8%</td>
</tr>
<tr>
<td>Labor and Employment</td>
<td>9.4%</td>
</tr>
<tr>
<td>Finance and Securities</td>
<td>7.1%</td>
</tr>
<tr>
<td>Regulatory Compliance</td>
<td>6.4%</td>
</tr>
<tr>
<td>Commercial Contract Management</td>
<td>5.9%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>2.7%</td>
</tr>
<tr>
<td>Government Affairs and Relations</td>
<td>1.3%</td>
</tr>
<tr>
<td>Bankruptcy and Collections</td>
<td>1.3%</td>
</tr>
<tr>
<td>Marketing, Advertising, and Communications</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

n = 89  
Source: Gartner State of the Legal Function September 2020
Roadmap

Lessons Learned From Legal’s Response to COVID-19 → Minimizing Outside Counsel Spend → Prioritizing Internal Expertise → Expanding Operational Capabilities

- Reduction in In-house legal head count
- Shift toward lawyer specialization
In-house legal continues to invest in specialists

Ratio of generalists to specialists, 2018
Percentage of lawyers

- Generalists: 70%
- Specialists: 30%

Ratio of generalists to specialists, 2020
Percentage of lawyers

- Generalists: 64%
- Specialists: 36%

21% increase in specialists as a percentage of total lawyers

n = 142
Source: Gartner State of the Legal Function September 2018

n = 115
Source: Gartner State of the Legal Function September 2020
Specialization reflects demands of new environment

Allocation of in-house specialist FTEs
Median number of specialist FTEs for practice areas with specialist FTEs

- Insourcing highest outside counsel spend
- Anticipated legal and regulatory changes

Note: Only includes data from departments that have in-house specialists for an individual practice area.
Source: Gartner State of the Legal Function September 2020
Roadmap

Lessons Learned From Legal’s Response to COVID-19

Minimizing Outside Counsel Spend

Prioritizing Internal Expertise

Expanding Operational Capabilities

• Growth of legal operations
• Narrowing legal operations mandate
• Investments in legal technology
Legal departments are hiring legal operations managers

Departments with a legal operations manager (or equivalent)

Percentage of respondents

- Yes, role is served by a dedicated specialist outside legal
- Yes, role is served by a non-lawyer
- Yes, role is served by a lawyer

2018:
- 13%
- 20%
- 0%

2020:
- 17%
- 40%
- 1%

n = 142
Source: Gartner State of the Legal Function September 2018

n = 117
Source: Gartner State of the Legal Function September 2020
Legal operations leaders are increasingly focused on cost management and adapting to remote work

Difference in Responsibilities between 2018 and 2020

Percentage of respondents

- Build internal legal knowledge management processes: +21%
- Maintain legal department technology: +24%
- Build the legal department budget: +30%
- Coordinate billing with law firms: +53%
- Track internal legal department spend: +35%
- Track outside counsel spend metrics: +32%

n = 133; n = 65

Source: Gartner State of the Legal Function 2018; Gartner State of the Legal Function September 2020
Legal is investing in fundamental technologies

Adoption of legal technologies
Percentage of respondents

- E-Billing: 48%
- Contract Lifecycle Management: 44%
- Matter Management: 41%
- Document Management: 40%
- IP Management: 33%
- E-Discovery: 33%
- Records Management: 28%
- Enterprise Legal Management: 20%
- Litigation Management: 18%
- Other: 17%
- Regulatory Development Tracker: 14%

n = 116
Source: Gartner State of the Legal Function September 2020
Want to learn more?

Contact us for the full report or to participate in the survey.

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