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Gartner's 2023 Top Legal and Compliance Technology Predictions

Increasing Corporate Legal and Compliance Technology Investments Amid Economic Volatility

Overview

Legal and compliance leaders are turning to technology solutions to boost efficiency in a volatile economic environment. This research guides leaders through an increasingly mature and convergent technology market toward new solutions to support department workflows.

Key Findings

- COVID-19 and rising geopolitical tensions have contributed to increased volatility and complexity in legal and compliance workloads, with looming economic headwinds placing further pressure on departments. Legal and compliance departments are seeking relief in technology; with 63% of surveyed legal leaders planning to accelerate legal tech investments in the face of high inflation rates. [1]
- Legal tech markets are shifting in the face of vendor consolidation and market exits, as new entrants continue to emerge. Despite excessive hype that continues to surround certain innovations, some emerging technologies have begun to flourish, increasing opportunities for a wider audience.

Recommendations

When looking to invest in technologies, legal and compliance leaders should:

- Keep informed of the changing legal tech market dynamics due to vendor consolidations and shutdowns. This will help leaders forge a resilient technology strategy, and in the case of future vendor acquisitions, think ahead for future expansion of technology use in the legal department.
- Clarify the scope, needs and goals of their department before making an investment to best align their priorities with vendor offerings.
- Evaluate how legal technology strategy potentially complements and can benefit from technology initiatives in different functions — especially as technology budgets increase throughout the organization in the wake of economic volatility.
- Ensure that legal and compliance staff are well-equipped to adjust and adapt their workflows alongside the increased adoption of technology.

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Strategic Planning Assumptions

- By 2026, 25% of existing legal tech providers will no longer exist.
- By 2026, 25% of first draft contracts and other written documents in corporate legal departments will be generated entirely by artificial intelligence (AI) tools.
- By 2026, companies will triple their spend on regulatory intelligence technology, substantially outpacing current regulatory intelligence spend with law firms and in-house staff.
- By 2026, legal and compliance department investments in governance, risk and compliance (GRC) tools will increase by 50%.
- By 2026, 40% of legal departments will have implemented workflow automation technology to support systematic intake and triage for most of the work kept in-house.

Analysis

What You Need to Know

Following the COVID-19 pandemic and rising geopolitical tensions, legal and compliance departments faced significant volatility, increasing their workloads in scale and complexity.

Our previous research has shown that departments are overburdened and resources are strained, with 54% of lawyers experiencing some degree of exhaustion and 20% experiencing high levels of exhaustion — negatively impacting department efficiency. [2] However, a tight and expensive talent market prevents legal departments from increasing their headcount to keep up with increasingly complex workloads.

Further, high inflation rates and growing fears of an impending recession impose additional pressure and economic limitations on organizations, pushing legal departments to operate in a more cost-conscious environment.

To address these economic pressures, organizations have turned to increased investments in technology to drive productivity. Rather than reducing investments in the face of high inflation rates, CFOs instead consider technology investments as a key strategy to sustain business performance, with 21% of CFOs currently pursuing automation as their main course of action and 24% of CFOs planning to pursue automation if inflation continues in 4Q22. [3] Further, 52% of technology executives project that IT budgets will increase in the next year. [4]

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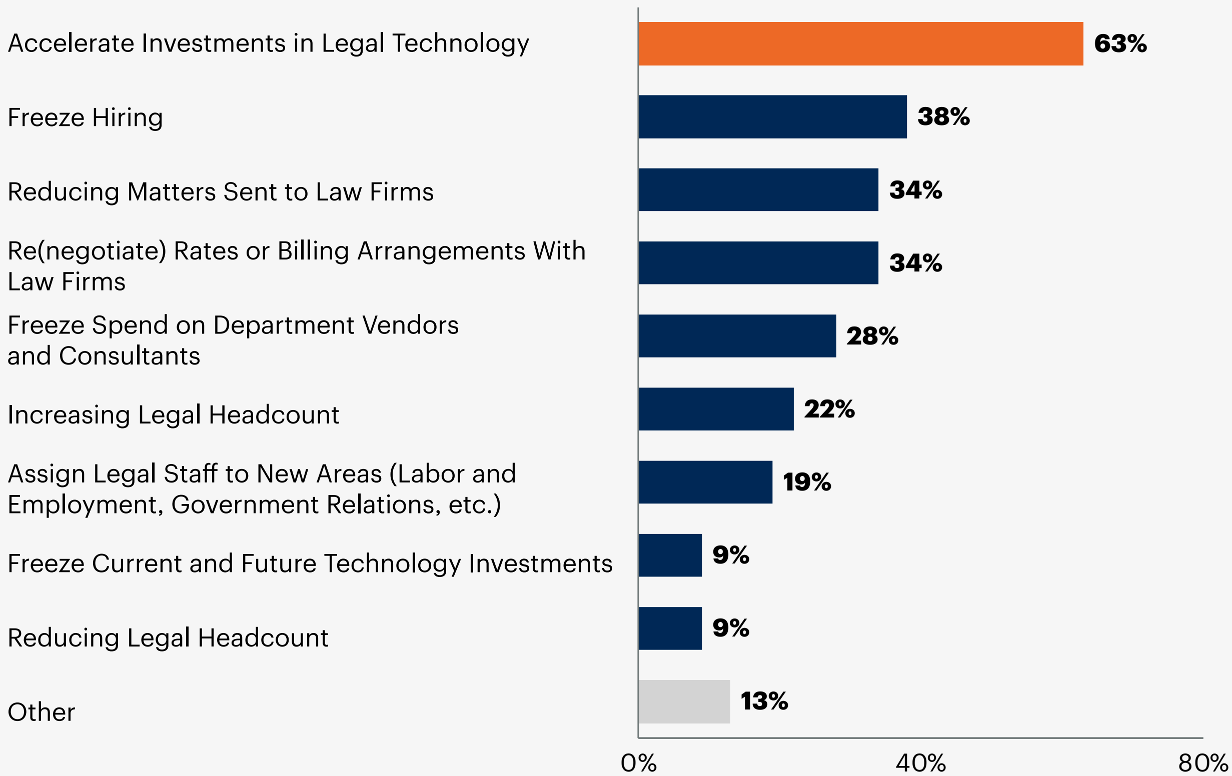
Legal departments are expected to follow a similar trend. Sixty-three percent of legal leaders reported they plan to accelerate investments in legal technology to manage increasing workloads in a cost-effective manner (see Figure 1). [1]

Figure 1: Anticipated Changes to the Legal Budget and Department



n = 32 organizations
Q. Which changes do you anticipate making in the next year to the legal budget and/or department? (Select all that apply.)
Source: 2022 Gartner Cost Optimization Strategies Amid Inflationary Pressures Webinar Poll

“Cost Optimization Strategies Amid Inflationary Pressures.” Webinar Poll. August 24 2022. Gartner.

Along with increasing investments in legal technology, the legal technology market is exhibiting a great deal of change. Some segments have consolidated due to recent acquisitions of niche players that have been rolled into a broader suite of solutions by individual providers. Despite headwinds for new emerging startups resulting from the end of “cheap money” due to rising interest rates, some sophisticated technologies are showing steady progress in the advancement of automation and AI techniques.

In the face of rising needs and greater uncertainty, legal and compliance leaders must now turn to increasingly mature providers to support core workflows, while monitoring the potential for innovation. This research projects the trends that legal and compliance leaders must account for in their technology plans across the next three years.

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Strategic Planning Assumptions

Strategic Planning Assumption: By 2026, 25% of existing legal tech providers will no longer exist.

Analysis by: Ron Friedmann, Senior Director Analyst, Gartner for Legal, Risk & Compliance

Key Findings:

- **Reduced Venture Capital (VC) Funding Stresses Startups —** Legal technology funding rounds have grown markedly, launching new players and supporting existing ones' growth. This was particularly noticeable from 2019 to 2021, with VC investments rising from approximately $1B to $2.5B. In 2022, however, new funding has dropped significantly; nearly 50% fewer companies received funding in 3Q compared to the start of the year.* With new funding rounds likely to remain scarce, some recently funded startups may not survive.
- **Private Equity (PE) Investments Are Also Down —** PE-driven legal technology rollups face similar headwinds. Deal flow in 2022 was noticeably lower than prior years. Those legal tech providers running low on cash likely will likely find fewer PE benefactors in the current environment.
- **Market Growth Lower Than Investors Expected —** Regular financing rounds in one legal tech sector — contract life cycle management (CLM) — suggest high market growth. Yet Gartner data suggests relatively low CLM growth. From 2020 to 2022, our benchmarking shows an increase in CLM penetration in legal departments of only two percentage points (from 42% to 44%, n = 126 for 2020 and n = 92 for 2022). [9,10] Because our comparison draws from a different group of respondents, these two data points are suggestive only. But the relatively small increase would, in most markets, not justify the number of new CLM startups the market has seen in the same time period.
- **Enterprise Players Enter Legal —** Enterprise software providers are moving closer into the corporate legal domain, offering legal-specific products or composable solutions that can be readily adopted by legal and compliance teams. Products from established enterprise providers are often an easier internal sell for legal departments, than selecting a product from a provider not already in use. Enterprise options likely pose competitive threats to stand-alone providers.

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Market Implications:

- With some players exiting the market and fewer new ones entering, the number of choices in each legal tech software category will go down. Limiting buyer choice may actually be a benefit: The plethora of choices has made buying decisions overly complicated.
- The impact of PE rollups to data remains unclear. Consolidators may be integrating some of their acquisitions, but there are few public indications of products being sunset.

Recommendations:

- In deciding between adding a module of existing enterprise software or a new standalone product, legal leaders must carefully balance functionality, competing internal stakeholder interests, system integration ease and the risk of vendor exit.
- The need to streamline processes and automate is great, but the risk of vendor failure is up. Legal leaders should move forward with automation, backed by more thorough vendor diligence.
- Legal leaders should ensure they can recover their data in the event of vendor failure.

Strategic Planning Assumption: By 2026, 25% of first draft contracts and other written documents in corporate legal departments will be generated entirely by AI tools.

Analysis by: Ron Friedmann, Senior Director Analyst, Gartner for Legal, Risk & Compliance

Key Findings:

- **AI Text Generation Is Advancing Rapidly —** For years, rule-based systems have allowed automation of contracts and other document generation based on a question and answer approach. Now, the advent of AI large language models usher in the ability to generate written language, as if produced by a human. These systems are improving rapidly but still lack human judgment
- **Legal-Specific Vendors Now Offer Automated Drafting in Narrow Domains —** The improvement of AI algorithms, emergence of new vendors and decrease in data modeling costs signal a growing likelihood of the use of AI in legal department document creation.

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Market Implications:

- With rapid advances in large language models, new legal tech entrants will offer better first draft documents than those available from companies that started years ago but that have not advanced their AI foundations.
- If the AI training data is faulty, the algorithm could produce incorrect documents. Vendors will need to ensure that inputs and output are accurate.
- Despite advancements, human-in-the-loop remains an important factor in training and evaluating outputs.

Recommendations:

- Legal leaders must stay abreast of vendor developments as AI technologies continue to evolve at a rapid rate and new or improved uses arise to automate written legal documents. Automated first drafts speed turnaround time, allow inhouse counsel to focus on more strategic work and help ensure consistency.
- Despite advancements, in-house legal professionals must review all computergenerated documents and may need to edit them as well. Realistic goals are more thorough documents, greater consistency across documents, and saving time — not replacing lawyers or eliminating human review.

Strategic Planning Assumption: By 2026, companies will triple their spend on regulatory intelligence technology, substantially outpacing current regulatory intelligence spend with law firms and in-house staff.

Analysis by: Nicholas Sworek, Director, Advisory, Gartner for Legal, Risk & Compliance

Key Findings:

- **Increased Complexity in the Regulatory Landscape —** Rising geopolitical tensions have contributed to deglobalization and an increase in the number of regulatory changes as countries compete on new terrains. Trends toward deglobalization provide new challenges for corporations to localize their policies for multiple different jurisdictions
- **Strained Legal Departmental Resources Struggle to Handle Changing Regulations Without Technology —** In the face of budget constraints, over half of compliance departments report their staff headcounts will remain stagnant over the coming year — despite the complex regulatory landscape increasing compliance staff workloads. [9] This leads to difficulties in tracking and addressing rapid regulatory changes. The second most common obstacle legal leaders faced when addressing the current regulatory landscape was difficulty scaling compliance program efforts across multiple jurisdictions. [11] Regulatory intelligence tools assist organizations in tracking regulations and determining changes to implement within the business — offering significant cost-saving potential through reducing in-house burden in handling regulatory changes.

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- **Improved Regulatory Intelligence Tools —** Regulatory intelligence tools are increasingly incorporating AI to improve their capabilities. The increased use of AI promises greater time and cost saving potential for organizations as they manage high volumes of regulatory changes, driving increased interest in investing in regulatory intelligence technologies.

Market Implications:

- The time-burden placed on organizations as they set up and implement regulatory intelligence tools can discourage investment. Therefore, vendors will need to improve their products to simplify the integration of the technology into existing business processes to better support customers.
- To meet increased organizational demand, vendors must increasingly expand the risk terrains they cover to include corporate compliance, trade and sanctions, labor and employment, EHS, and insurance.

Recommendations:

- To make the best possible regulatory intelligence technology investments, leaders must calibrate the scale of their department's regulatory intelligence needs. Organizations with simpler regulatory intelligence needs may consider investing in regulatory tracking solutions, whereas organizations that face heavier regulatory volume and volatility might benefit from more sophisticated, albeit more costly, regulatory change management solutions.
- Furthermore, organizations should evaluate their regulatory intelligence portfolio — which can consist of a combination of in-house staff, law firms, ALSPs, regulatory tracking solutions and regulatory change management solutions — and ensure their portfolio accurately meets the needs of their business.
- When considering vendors, leaders should align the vendor's covered risk terrains with the organization's prioritie

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Strategic Planning Assumption: By 2026, legal and compliance department investments in GRC tools will increase by 50%.

Analysis by: Zack Hutto, Director, Analyst, Gartner for Legal, Risk & Compliance

Key Findings:

- **Increased Need For Organizations to Act on a More Complex Environment —**
  - **Increased Rate of Disruption:** Legal leaders ranked managing new and emerging legal and compliance risks as their top priority for 2023, reflecting how much time leaders have spent responding to them. [11] In fact, our research indicates that by 2024, legal leaders will be spending 100% more time managing disruptions than they were prepandemic — an effect of recent deglobalization trends increasing the complexity of the risk landscape. [12] However, legal and compliance departments are understaffed and overburdened as they struggle to keep up with and act upon rapidly changing regulations.
  - **Increased Data Risks:** Remote work has increased the number of communication channels employees use, posing a challenge for compliance teams to readily detect data security risks. Failure to manage these risks has real consequences; responding to data breaches costs organizations $1 million more on average than in prepandemic times, driving growing investments in GRC tools to better manage these risks.*
  - **Increased Compliance Regulations:** External stakeholders are calling for compliance departments to readily address this complex landscape.

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Key Findings: (Continued)

- **Improvements and Maturation of GRC Tools —**
  - As the GRC market continues toward consolidation, vendors are increasingly supporting ethics and compliance capabilities, including addressing policy management, conflict of interest disclosure management and whistleblower hotline capabilities, among other compliance-specific use cases.
  - A similar trend is seen in vendor expansion to support environmental, social and governance (ESG) risk and cybersecurity risk. On the ESG side, vendors provide the capability to understand the relationship between the management of ESG risks and the company's business performance. Vendor expansion to support cyber risk include risk quantification, performance management and maturity assessment capabilities.
  - This vendor expansion into different risk terrains increases the capabilities of products and meets organizational needs and demands, making investments into GRC tools more fruitful for compliance teams challenged to keep up with an increasingly complex environment.

Market Implications:

- As GRC tools support a broader array of risk domains, there will likely be a greater need for access to the system from an increasingly cross-functional group of stakeholders and risk owners. In response, vendors will need to improve their product interface to be more accessible for nontechnical users, streamlining collaboration and preventing potential slowdowns.
- GRC vendors will need to ensure that end users are well-equipped to implement and use the technology — improving the technology and training clients on how to use the tools to limit any additional time burden that stems from integrating GRC tools into existing workflows.

Recommendations:

- Legal leaders should understand the scope, scale and needs of their organization before investing in a vendor. When considering platforms, ensure the risk terrains covered by the vendor can match those most relevant to the organization.
- When investing in technologies, legal leaders should keep overall trends in GRC vendor consolidation and risk terrain expansion in mind. This is particularly important for organizations looking to scale the platforms across multiple different use cases.
- Leaders should involve and keep other stakeholders informed when selecting technologies — considering the ease of use and language support of each vendor for stakeholders that may come into contact with the product.

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Strategic Planning Assumption: By 2026, 40% of legal departments will have implemented workflow automation technology to support systematic intake and triage for most of the work kept in-house.

Analysis by: Kerrie McDonald, Director, Analyst, Gartner for Legal, Risk & Compliance

Key Findings:

- **Legal Departments Are Under Strain —** Legal departmental resources are spread thin. Workloads are increasing while headcounts remain flat: 54% of lawyers report experiencing exhaustion, and 66% report working a greater number of hours. [2] Compounding this exhaustion is the fact that legal teams are navigating more unfamiliar issues as a result of disruption events such as the COVID-19 pandemic, geopolitical conflict and a changing social landscape. To respond to these pressures and help close the gap between rising workload and relatively static headcount, legal leaders must leverage workflow automation technology to increase efficiency and productivity for work kept in-house.
- **Existing Processes Are Ill-Equipped to Handle Rising Demands —** Most legal departments lack systematic intake and triage for work kept in-house. This is a problem because systematic intake allows legal leaders to make smarter decisions about how legal services are delivered and creates a data foundation that enables business value capture and reporting. A centralized intake process is in place for some legal departments, with a recent poll reporting that 38% have a formal, centralized intake process to manage internal matters. [16] Though having a centralized intake process is a good start, these methods often rely on shared email inboxes, static forms and cobbled together systems that require heavy manual administration and do not provide automated support in assigning, executing or managing the work. For legal departments to realize the full transformation potential of internal workload management solutions, they must leverage workflow automation.
- **Automation Increases Legal Department Productivity —** Automation in internal workload management improves speed and offers a pathway for legal departments to increase productivity and scalability, enabling legal departments to meet business demands amid existing resource constraints. The automation opportunity for internal workload management is substantial and, if well-executed, transformational for legal and business teams. Legal workflow technologies allow legal departments to automate routine tasks, reducing the burden on individual team members and freeing up team capacity to focus on higher value work. Examples of workflow automation include rule-based routing, live status tracking, conditional logic, selfgenerating templates and dynamic reporting based on data collected at intake.

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- Vendors Are Expanding Coverage to Include Internal Workload Management Use Cases — Historically, the matter management technology market has been more focused on external matter management; however, that is changing, and vendors in this space are also investing in system functionality to support internal work management needs. This enhanced functionality allows legal teams to manage work in purpose-built ways not previously possible without significant custom development investment. Additionally, there are no-code/low-code vendors that provide a platform upon which legal departments can build workflow capabilities including intake and triage for work kept in-house.

Market Implications:

- Workflow automation vendors should be prepared to help legal leaders make the business case for using technology to support systematic intake and triage for work kept in-house and ensure change management is a key part of implementation planning. Legal and business team members alike will resist this change and moving from the traditional, free-for-all model for intake and triage of internal work can feel daunting. Legal leaders need help articulating the business benefits of using workflow automation technology to secure buy-in for the solution.
- Using a technology solution to support intake and triage for internal work will be a big change for legal and business team members. Individuals will already be apprehensive of this change. If workflow automation vendors do not focus on the user interface and overall user experience, legal leaders will struggle to drive adoption and credibility of the broader solution.

Recommendations:

- Build the business case for investing in workflow automation technology to support systematic intake and triage for work kept in-house. The business case should consider benefits and fears associated with moving to this new way of working, such as fear of changing request behavior and fear of "losing the personal touch" between legal and the business.
- Determine technology needs and priorities using a capabilities-driven approach. Start with understanding end-user pain points to identify required technology capabilities. Other business functions may similarly have implemented internal intake systems to improve their workflows. Before investing in legal intake and triage, legal leaders should assess the needs of their department and consider the benefits and drawbacks of joining a larger digital workforce or adopting a separate, legal-specific technology.
- Incorporate the day-to-day workflows of lawyers and business partners into decisions about how to move forward with technology; this system is for them. Many legal leaders start with a pilot so they can apply lessons learned to broader rollouts and use the success of the pilot to gain traction and build credibility for an expanded solution.

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A Look Back

In response to your requests, we are taking a look back at some key predictions from previous years. We have intentionally selected predictions from opposite ends of the scale — one where we were wholly or largely on target, as well as on we missed.

On Target: 2020 Prediction — By 2023, 33% of corporate legal departments will have a dedicated legal technology expert to support the increasing automation of core in-house workflows.

Following the COVID-19 pandemic, the move toward a hybrid work environment accelerated this growing reliance on legal technology, urging corporate legal departments to rethink their technology strategies, and perhaps further incentivizing them to hire dedicated technology personnel. Our most recent data reflects this trend, with a greater share of legal departments having staff dedicated to support technology implementation. Twenty-eight percent of legal departments report having access to a technology counsel, and 30% report having access to a data scientist or analyst, compared to only one in five departments having access to either point of contact in 2018. [9,17] Though somewhat offtarget, the increase observed tracks closely to our original projection, likely due to the need to operate in a digital environment because of the pandemic.

Missed: 2020 Prediction — By 2023, organizational spending on third-party risk management (TPRM) technologies to support due diligence and monitoring will increase by 50%.

Although TPRM investments appear to lag previous projections made at the end of 2019, two drivers have amplified the urgency for TPRM investments. First, the COVID-19 pandemic caused supply chain disruptions, proving how reliant organizations are on third parties and the need for effective management of third-party risks. Second, recent ESG initiatives have called for greater scrutiny of third-party practices, with TPRM vendors trending toward supporting ESG-related third-party risks in response to increased regulations. Due in part to both factors, 72% of organizations rank automating core TPRM processes as a top three priority in improving their organization's TPRM — evidence of continued interest in TPRM technology investments.[18]

While we fell short of our prediction, we observe increasing expenditures devoted to thirdparty risk management systems within the compliance budget.

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Evidence

1. 2022 Gartner Cost Optimization Strategies Amid Inflationary Pressures Webinar Pollr.
2. 2021 Gartner Legal Department Engagement Survey.
3. 2022 Gartner CFO Playbook for Enhancing Profitability and Driving Digital Acceleration Webinar Poll.
4. 2023 Gartner CIO and Technology Executive Survey.
9. 2022 Legal and Compliance Budget & Efficiency Benchmark.
10. 2020 Gartner State of the Legal Function.
11. 2023 Legal and Compliance Agenda Poll.
12. 2022 Gartner Legal Disruption Response Panel Survey.
16. "Using Legal Metrics: Driving Decisions and Communicating Value" Webinar Poll, Gartner.
17. 2018 Gartner State of the Legal Function Survey.
18. 2022 Gartner Third Party Risk Management Survey.

*- from multiple research resources

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