

Gartner for Legal & Compliance Leaders

Scenario Planning for Economic Uncertainty

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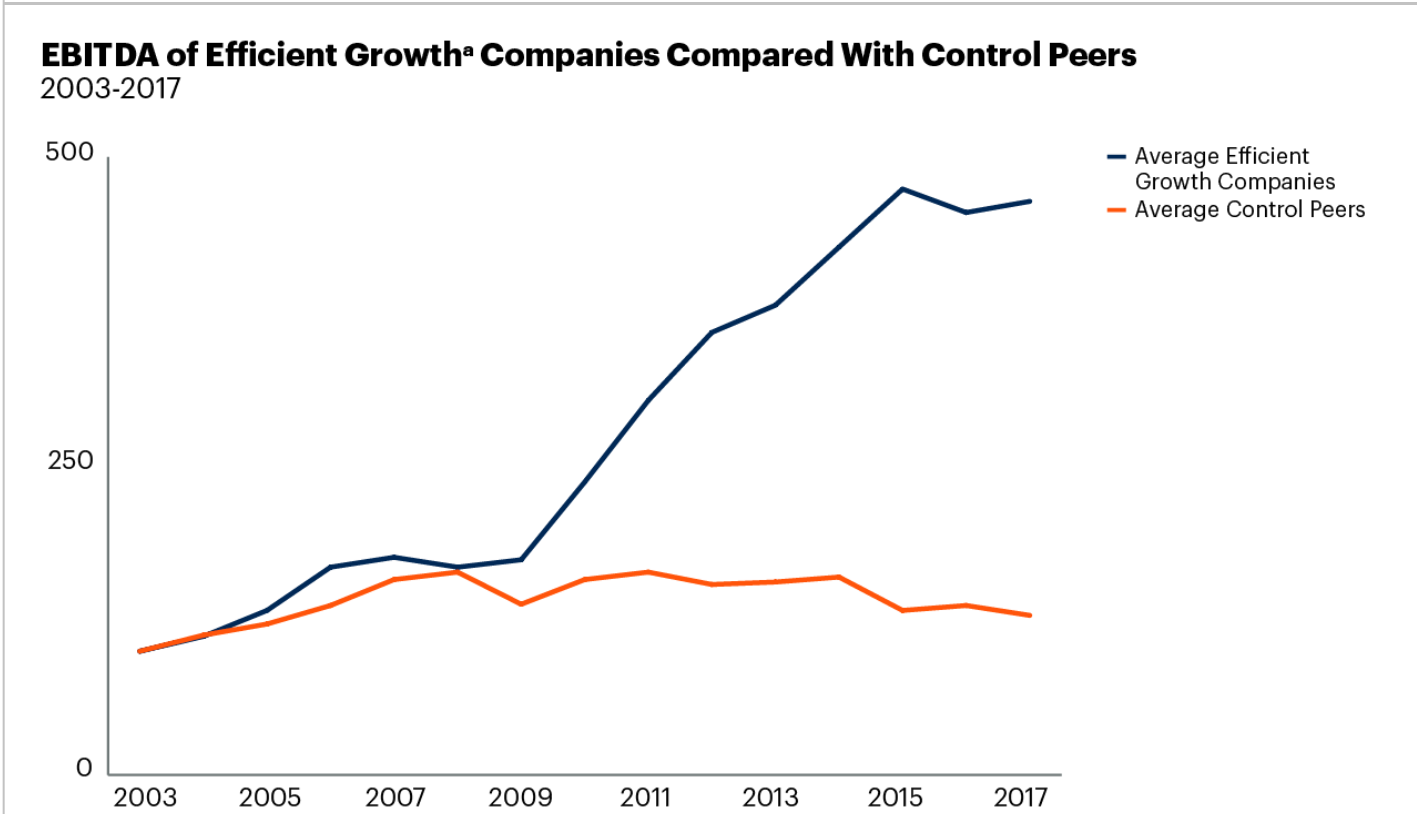
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Scenario Planning for Economic Uncertainty

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As the global economy progresses through the late-stage business cycle, organizations must prepare to navigate through moments of economic flux, or “turns.” Turns can be economic, geopolitical, environmental, social or competitive. During this time of uncertainty, most executives choose to stay “on course” and simply weather changes in economic cycles. However, failing to act on opportunities and risks presented by the turns would be a grave mistake. The most successful organizations take risks in “the turns”, those places in the enterprise journey where others slow down. Gartner’s Efficient Growth research shows that a small number of organizations that anticipated the future and developed comprehensive action plans before the turns (2008-09 recession), were rewarded with sustained advantage over their competitors over the last eight years (see Figure 1).

Figure 1: EBITDA of Efficient Growth Companies Compared With Control Peers



n = 60 (30 Efficient Growth companies and 30 control peers)

Source: S&P Capital IQ, Compustat; Gartner (January 2019)

• Efficient Growth companies are Fortune 1000 companies that were top quartile for their sector in their 20-year revenue CAGR and top quartile for their sector in the number of years they achieved simultaneous revenue and margin growth.

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Gaining that advantage requires a proactive, concerted approach to strategy, cost and talent planning. This is where scenario planning comes in. Scenario planning is a tool used for identifying future uncertainties and developing suitable action plans to respond to changes in the business environment. However, scenario planning is conventionally perceived to be relevant only at the organizational level; functions fail to apply the same discipline to their strategic decisions and operational plans. The result is that, during the turns, while the executive leadership is prepared to act, functions become reactive, resorting to hastily executed decisions.

Progressive function leaders understand that corporate scenario plans require functional preparedness. They use corporate scenarios to understand shifts in strategic and operational decisions and make small but powerful changes to start positioning their teams to act on the risks and opportunities that economic uncertainty can create.

The Importance of Scenario Planning for Your Function

Legal and compliance leaders should use scenario planning in their capacity as both strategic advisors to the business and functional leaders. Most do the former—particularly for specific situations. In fact, 61% of executives expect general counsel to lead their company’s scenario planning on Brexit, and 95% of executives expect them to flag and prepare for major enterprise risks.[1]

However, outputs of corporate planning can’t be used as is—primarily because corporate planning fails to consider the implications to legal strategy, risk exposures and demand and supply of legal services. For example, at the corporate level, responding to a market turn might translate into efforts to attract new customers, holding the line on pricing and cutting unnecessary costs. But as a function, implications for legal would include reviewing contracts for early termination opportunities, renegotiating with suppliers or increasing L&E support for possible workforce reductions.

Cascading corporate-level scenarios and conducting scenario planning for your function can help:

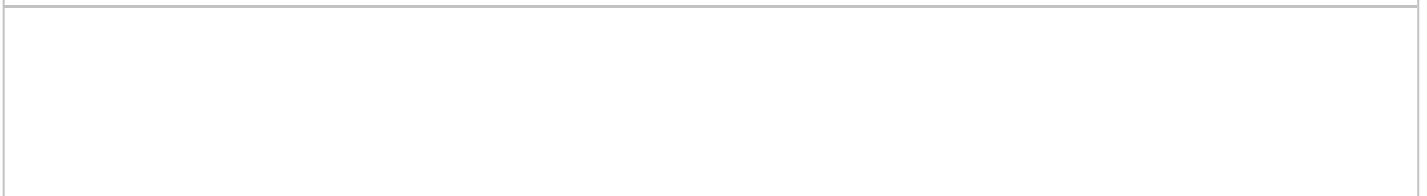
1. Maintain focus on critical growth and transformation initiatives during the turns
2. Identify “sure-fire” strategic decisions to pursue regardless of which future unfolds
3. Prepare the team to mitigate potential risks and provide timely risk-aligned guidance across different scenarios
4. Build capacity to manage surges in legal work (for example, increase in supplier contract negotiations and L&E claims)
5. Perform due diligence on short-term, critical decisions and making strategic course corrections as needed

Scenario Planning Helps Create an Agile Strategy To Navigate the Turns

Scenario-based planning is generally conducted in a group setting where diversity of participants is critical to fleshing out the consequences of the different futures. Typically, senior lawyers will bring in perspectives based on their experience and can provide inputs on resourcing. Frontline staff can contribute from an operational and workload impact perspective. Diversity of participants helps reveal interdependencies across the function and ensures a complete set of potential implications is uncovered.

A function’s scenario planning activities mirror those executed during corporate scenario planning. However, instead of creating scenarios, begin with cascading all corporate-level scenarios (see Figure 2).

Figure 2: Roadmap for Scenario Planning



Roadmap for Scenario Planning

■ Corporate Scenario Planning
■ Functional Scenario Planning



Source: Gartner (2019)

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Next, for each scenario, diagnose and articulate implications to the legal and compliance services' demand and supply and to the function's strategy, given the risk exposure (Figure 3)

- Demand-Supply of Services: Review scenarios and understand how to efficiently match legal and compliance services to demand in different scenarios
- Strategy-Risk Exposure: Determine what should be prioritized in terms of legal and compliance support

Post implications, the team should focus on identifying risk and opportunities that will emerge. Once the implications, risks and opportunities are clear, understand how the legal and compliance strategy, goals and projects/initiatives need to be adjusted given a scenario. Translate these into action plans that match the severity of the implications and revolve around which levers (e.g., people, processes, systems, budget) to pull to meet business needs, manage risks and capitalize on opportunities. All action plans should tie back to the core strategy of the function.

Figure 3: Diagnostic Questions to Outline Implications for Your Function

Diagnostic Questions to Outline Implications for Your Function

Demand for Legal Services <ul style="list-style-type: none">• How does this change the importance of current functional capabilities from an near- and long-term perspective?• What functional capabilities are scenario-agnostic?• How would this impact our current staffing and budgeting plans?	Supply of Legal Services <ul style="list-style-type: none">• What's the impact on our key third-party service providers (for e.g., financial status, fees, service quality, etc.)? What contingency plans should we discuss with them?• How does it impact distribution of work between staff and third-party service providers?• Who are the key internal and external resources we need to retain?
Strategy <ul style="list-style-type: none">• Would this require us to make incremental or disruptive strategy changes?• How would this affect the underlying decision criteria and weightings used for deciding functional investments?	Risk Exposure <ul style="list-style-type: none">• What are the areas of increased risk exposure?• Are there possible areas of contention between business demands for growth and regulators' demand for compliance?• How does this impact the organization's risk appetite?

Source: Gartner (2019)

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Scenario planning can often come across as a blue-sky exercise. Legal and compliance leaders can make this exercise pragmatic by leading their teams to define actions that the team must either start or stop doing right now to prepare for the future scenario and by assigning action items to specific staff members (e.g., running an alternate fee-arrangement pilot or reassessing outside counsel rates).

The outcome is a “winning in the turns” playbook containing a set of scenario-independent strategic actions (i.e., “sure-fire” moves) and a set of actions that are contingent on the emergence of each scenario (i.e., scenario-specific). This approach can make strategy execution more resilient because it allows legal and compliance leaders — in the event of scenario changes — to simply replace the scenario-specific actions without the need for a full-blown strategy review.

Preparing Your Team to Capture Opportunities

Progressive function leaders look to seize new opportunities in the turns, alongside responding to risks. As legal and compliance teams craft risk-response strategies, time should also be spent on surfacing opportunities to revamp strategy, budget and talent plans.

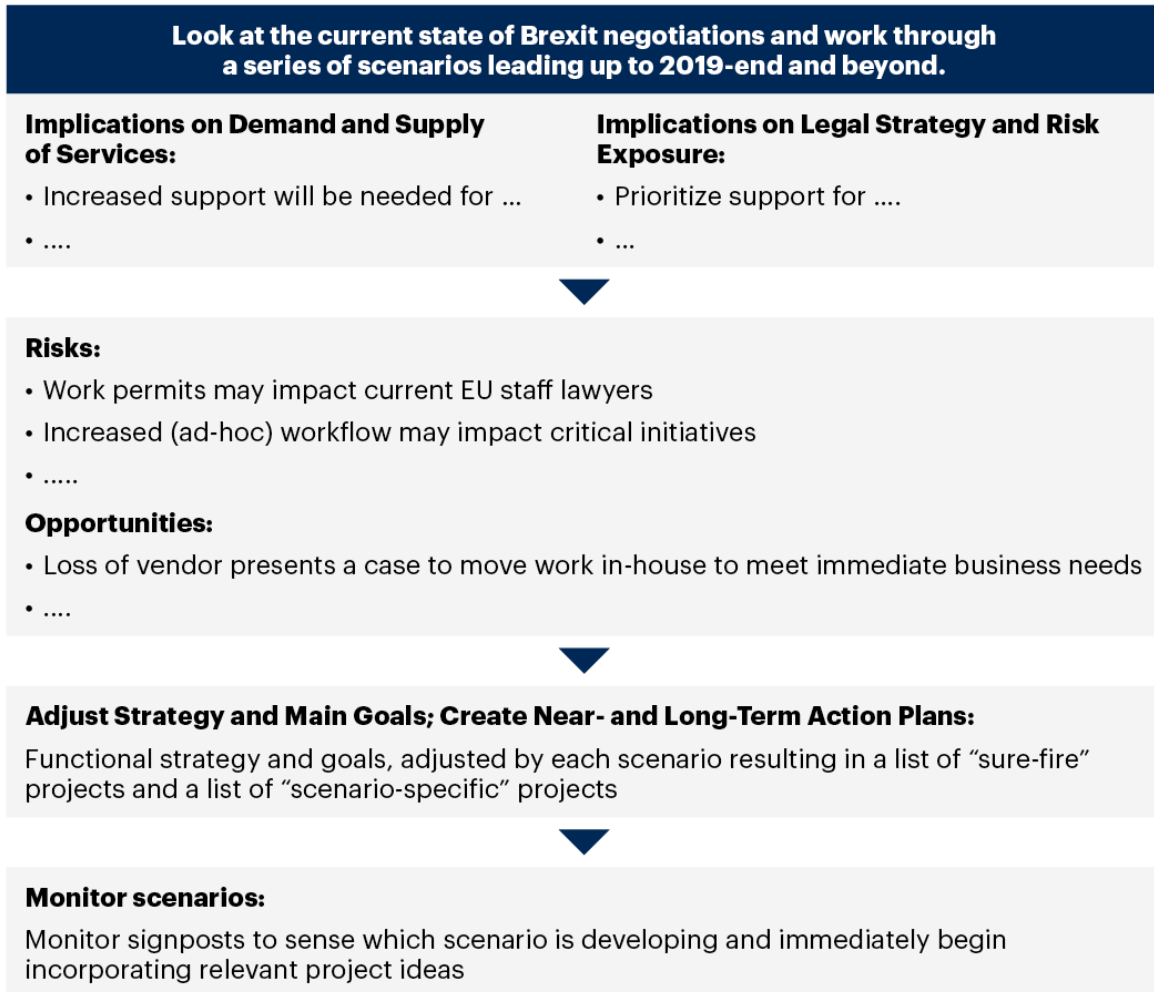
As illustrated in Figure 4, at a corporate level, for Brexit-related scenarios, legal and compliance will need to help business clients with contract reviews, employment strategies and policies/procedures. As a function, legal and compliance faces the risk of visa changes for its EU staff or of critical legal service providers moving their base impacting supply. But turns also bring opportunities. Talent mobility increases the legal talent supply in EU regions outside the U.K. Struggling law firms with a predominant EU client base have talent who can be potential backfills. By asking themselves, “Have I identified potential latent hires at other law firms or even organizations?” legal and compliance leaders can identify a talent pool, ahead of the turns, to bridge capability gaps. Another opportunity arises in the form of new partnerships as smaller law firms are more likely to be amenable to customizing their services for companies.

Focusing on action items that will help the team get ahead of the uncertainties as opposed to reactively controlling for their negative effects, provides a motivational ending to the exercise and is less burdensome for staff who must execute the action plan.

Figure 4: Capturing Opportunities in the Turns

Functional Scenario Planning

Planning for Brexit



Source: Gartner (2019)

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Actions for a Successful Scenario Planning Exercise

Our research on scenario planning shows three factors materially improve the effectiveness of scenario planning.

- Create ‘agreed-upon’ plans for both strategic and tactical decisions: Reaction times, during the turn, will be short. Given the increased interconnectedness of risks it will take time to think through all the impacts on the business. Having agreed-upon plans, which focus on both immediate operational decisions and long-term strategic decisions, will be critical.
- Over-focus on communicating the scenario narrative and disseminating action plans: Communicating scenarios and action plans helps the team understand the rationale for the strategy. You can also create a scenario narrative template to concisely document the key details of a scenario.

Ensure the Winning in the Turns playbook stays relevant: Define measurable signposts to help gain early visibility into how and when each scenario will unfold. Equip lawyers and other legal department staff with scenario planning trainings and playbooks to ensure successful risk-response activation.

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This complimentary research is part of Gartner's ongoing coverage of the business impact of the coronavirus (COVID-19).

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