COLLEGE OF LAW PRACTICE MANAGEMENT

PRIVATE EQUITY AND THE FUTURE OF LAW FIRMS: FUTURES FORUM RECAP

For most of its history, the legal profession has resisted the question of outside capital. Healthcare, accounting, and consulting absorbed it long ago and reshaped themselves around it. Law has not. The hypothetical moved closer to the open earlier this year, when Bloomberg Law reported that John Quinn, founder of Quinn Emanuel, had called private equity investment in Big Law a foregone conclusion and hinted he might consider it himself.

The April 28 Futures Forum session, hosted by Marcie Borgal Shunk and moderated by Litera's Barry Solomon, asked an operator, an investor, and an analyst whether that resistance can hold. Solomon, a newly elected College of Law Practice Management Fellow, set the stakes by recalling a moment from early in his career, when a senior lawyer in the Office of General Counsel at Sidley Austin corrected him for saying "legal industry." "Barry, it's not an industry. It's a profession." That distinction sits underneath every question about how law firms are organized and capitalized.

Two structural models dominate the conversation today, and they should not be conflated. One is direct ownership, currently possible in Arizona under that state's alternative business structure rules. The other, far more common in North America, is the managed services organization (MSO), in which outside capital owns the back office, the brand, and name, image, and likeness rights, while the law firm itself remains lawyer-owned. "Words are important when we talk about this," said Seth Deutsch, founder of Samson Partners Group. The distinction matters because the two structures carry different governance, different risks, and very different implications for the practice.

The regulatory frame has not kept pace. ABA Model Rule 5.4 prohibits non-lawyer ownership and fee sharing in most jurisdictions; Arizona repealed its version a few years ago, and others may follow. But the rule's surface concern, preserving lawyer independence, sits on top of a deeper one. The real question is control. As Jordan Furlong, principal at Law21, put it, "The fear of loss of control underlines a lot of lawyer resistance to innovation." Capital structure is a proxy for who decides what work gets done, how, and on whose terms.

THE FEAR OF LOSS OF CONTROL UNDERLINES A LOT OF LAWYER RESISTANCE TO INNOVATION.

PRIVATE EQUITY AND THE FUTURE OF LAW FIRMS

What investors are buying in any structure is the predictability of future cash flow, and that makes the analysis very different across legal segments. A personal injury firm built around brand, technology, and high-volume settlements with insurance carriers is straightforward to underwrite. A traditional billable-hour corporate firm, where work follows the people and lawyers cannot be held to non-competes, is much harder to manage.

The economics have also shifted. Deutsch reported a regional firm seeing a 35% revenue decline in one practice as clients adopted Harvey and Eudia, and described a client who replaced a $30,000, 11-person, three-week employment-contract task with two days and $2,500 of work using Claude and a local employment attorney. Furlong echoed the pattern from the client side. "I don't know what's going to be left for law firms to do," one general counsel told him.

Whatever capital structure sits behind a firm, certain client expectations are non-negotiable: independence, loyalty, and judgment in the client's best interests. Those expectations require a governance architecture that most firms do not yet have.

Furlong pointed the audience to a forthcoming Yale Law Journal article by William & Mary law professor Lev Breydo outlining the components: independent boards of directors at the law firm, ethics committees with veto authority, and a compliance officer at the MSO. He also flagged a feature few firms appear to have priced. The MSO does not stay static. Its directives are growth and profitability, and over time, it will acquire infrastructure from additional firms. "Pretty soon, this entity to which you have outsourced and externalized a lot of the operating and structure of the firm is going to be huge. It's going to be bigger than you are."

The risk picture is less unusual than it sounds. Industries from accounting and healthcare to banking, insurance, and asset management already operate with private equity or public ownership and have evolved their own ethical guardrails. Mike Schmidtberger, chairman of Norm Law, who chaired Sidley Austin's executive committee from 2018 to 2025, made the parallel observation that law firms have been failing for decades without help from outside capital. The causes are familiar: strategy misaligned with capability and resources, the wrong clients, the wrong matters, and regulatory change outrunning the firm's ability to keep pace. Outside capital may stabilize some firms and destabilize others; the underlying strategic work is what every managing partner cannot avoid. Deutsch added the practical note. "All equity, no debt at the beginning."

Beneath the deal mechanics sits a quieter problem about lawyer development. AI is already eroding the pyramid of associate work that historically funded both partner profits and the slow accumulation of practical experience. As Furlong told a Canadian firm recently, "Your associates are moving from the revenue column to the cost column." If the MSO holds the technology and data infrastructure, the question of where new lawyers acquire judgment becomes structurally more difficult. Schmidtberger described an alternative model in which firms compress training the way the McLaren F1 team prepares drivers, with simulation before the real car. Either path requires the firm to invest deliberately in development rather than absorbing it as a byproduct of leverage.

The UK and Australia offer the available reference points, and both come with caveats. Most UK private equity activity has gone into personal injury practices, which are franchise-like in structure and a natural fit for outside capital. Australia's experience over close to 25 years offers a more cautionary lesson. Furlong recalled reading the prospectus from Slater and Gordon's IPO, which set out a stark hierarchy in its risk disclosures: shareholders rank third, behind the firm's duty to clients and, above that, its duty to the court. As Furlong summed it up, "You're always going to be third in the list."

The session closed with questions that Furlong said every managing partner should answer before any deal. Why are we doing this? What goal could not be achieved on our own? What will the firm look like in three to five years that it could not look like otherwise? Deutsch added a practical caveat. With 6,000 private equity firms in the United States, partner selection is its own discipline, and track record in other professional services and cultural fit weigh more than capital alone. Schmidtberger drew on Yogi Berra. "If you don't know where you're going, you'll wind up somewhere else." The session began on the question of profession versus industry, and it ended there. Whether the answer firms give will hold under capital pressure depends on choices most have not yet made.

ANALYSIS FROM BLICKSTEIN GROUP

The Blickstein Group is the College's Social Media Sponsor

COLPM Fellow Brad Blickstein's new book, *WWPED (What Would Private Equity Do?)* , takes up the same terrain from a complementary angle: Rather than asking whether to take outside capital, it asks what private equity would do inside your firm if it already owned it. The book's argument is that operating discipline is often needed more than capital, and that most firms can apply it without taking on additional investment.

That question is useful because it clarifies what investors are actually pricing. Deutsch was emphatic that PE is buying "the predictability of future cash flow." WWPED sketches what investors find when they look at a typical firm: strong demand paired with uneven pricing discipline, talented professionals supported by inconsistent systems, high revenues with limited visibility into true profitability, and client relationships that depend heavily on individual partners rather than firm-level infrastructure. Investors see the gap between demand and discipline. Any firm with the will can begin to close it.

The economics of that gap have shifted, and the panel pointed to where. Furlong's general counsel said, "I don't know what's going to be left for law firms to do." Deutsch reported a regional firm seeing a 35% revenue decline in one practice as clients adopted Harvey and Eudia. WWPED maps these pressures onto Jae Um's Cream/Core/Commodity segmentation. Cream work is differentiated and resilient. Commodity work has largely been competed away. Core work—the steady, repeatable, "run-the-company" work that historically anchors revenue—is now the battleground. AI-enabled delivery, client insourcing, and new pricing models are pressing on Core the hardest. Knowing where the firm's work sits on that spectrum is the starting point for decisions about pricing, staffing, and investment.

Furlong's observation that law firms are not particularly well-governed connects to the book's structural diagnosis. Most law firms are not truly hierarchical, and even when leadership sets direction, individual partners retain the practical ability to opt out.

Blickstein Group's 2025 Law Firm COO Survey already named the partners themselves as the biggest obstacle to implementing change, with the inability to form a strategic consensus close behind. When operating discipline is optional, WWPED argues, the firm runs multiple models at once and forfeits the benefits of scale, investment, and consistency. As the book puts it, "tolerance for non-adoption becomes a value killer."

The lightning round at the end of the session asked, in three voices, why. WWPED gives the question a usable shape. Outside capital makes sense for a specific constraint—funding a technology-heavy build, accelerating geographic expansion, or acquiring capabilities that cannot be developed organically—rather than as a substitute for strategic clarity. A firm that can name which of those constraints it is addressing is in a position to evaluate any proposal on the merits. A firm that cannot, has work to do first.

The book's closing line points to where this analysis ends. "Value is rarely accidental. Firms that take ownership of how value is created, protected, and scaled give themselves more choices, not fewer." Solomon opened the session on the difference between profession and industry. The discipline a profession requires of itself looks much like the discipline an investor would impose on it. The firms that build that discipline keep the choice for themselves.