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A Harbor white paper

Five hidden challenges in law firm MSOs

Private capital has identified the opportunity.
Capturing it requires understanding what makes legal different.

The law firm MSO opportunity is real. So are the hidden challenges.

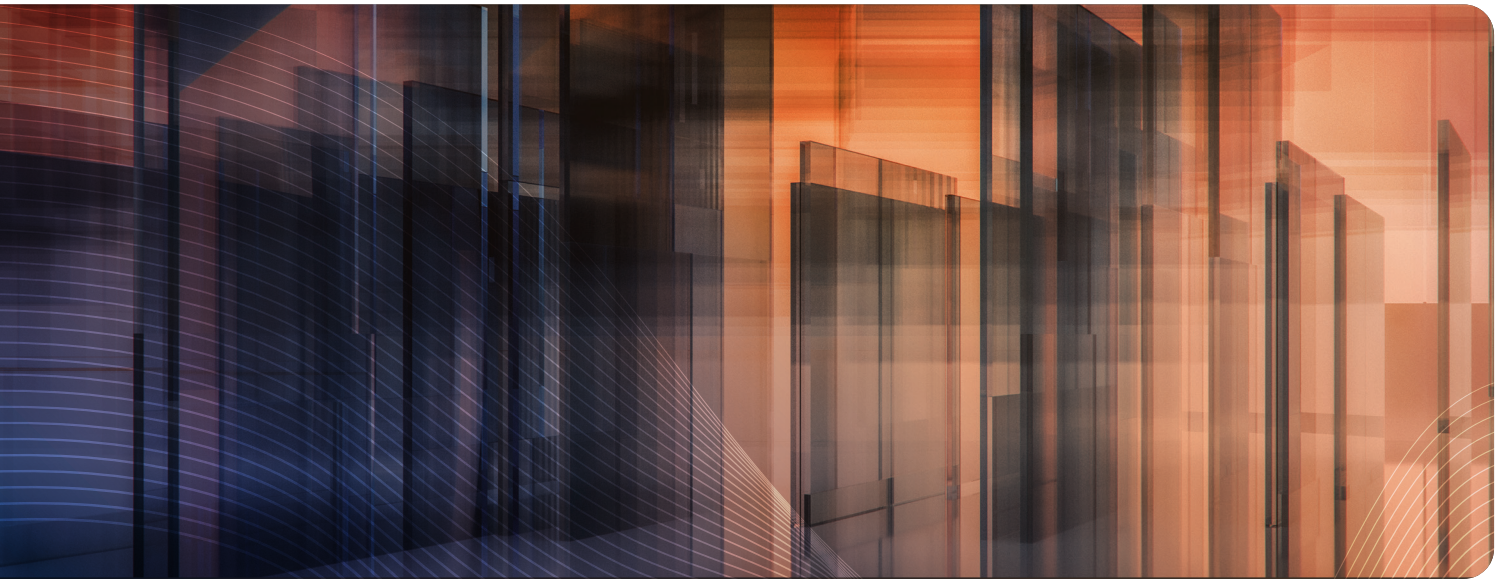
Private capital's interest in legal services is well founded. Law is a large, fragmented market with attractive economics, resilient demand, and substantial opportunity for technology, capital, and enhanced business processes to improve performance.

For law firms, the logic of the MSO model may be even more compelling. The business infrastructure required to operate a competitive law firm is becoming more sophisticated, expensive, and strategically important. AI, cybersecurity, data, pricing, financial management, talent, marketing, and modern service delivery increasingly require professional management and sustained investment. The MSO model can provide both, while preserving lawyer ownership and control of the legal practice.

It is an elegant answer to a real market need.

But some of the challenges to making it work are easy to underestimate. Private equity has spent decades learning how to create value in accounting, healthcare, dentistry, consulting, and other professional services. Much of that experience is highly relevant to legal MSOs. But it is not automatically transferable.

An investor can understand professional-services consolidation extremely well and still encounter some surprises in legal.



The hidden challenges of the law firm MSO

The investor is building a scalable business-services platform around a professional enterprise it does not own; whose most important producers have unusual freedom to leave; whose client relationships can constrain consolidation as well as enable it; whose productivity improvements do not automatically become investor returns; and whose most valuable operating opportunities often sit close to the boundary between business management and professional practice.

Each of these characteristics has implications for underwriting and operations. More importantly, they interact. They are not reasons to question the legal MSO thesis. They are reasons not to assume that success with an MSO elsewhere provides the complete playbook for succeeding here.



1. Ownership doesn't confer the usual operating control

The familiar MSO structure separates the investor-owned business-services enterprise from the lawyer-owned legal practice. That solves the ownership problem. It does not eliminate the operating implications.

The MSO can provide capital, technology, talent, management, and business infrastructure. But many decisions affecting the performance of the enterprise remain with lawyers.

Creating value, controlling value creation, and capturing value are different things.

An MSO can identify an attractive technology investment, a better staffing model, or a more efficient workflow. Successful implementation may still require decisions and behavioral changes inside the law firm, and the resulting economic benefit does not necessarily flow automatically or entirely to the MSO. Governance, incentives, economics, and decision rights therefore matter enormously.

The hidden challenge: In a conventional buyout, ownership creates authority. In a legal MSO, alignment must often do the work that ownership does elsewhere.

2. The revenue can walk out the door

Every professional-services business depends on talent. Legal has an additional characteristic: the profession affirmatively protects lawyer mobility and client choice. Professional rules significantly constrain law firms' ability to use restrictive covenants to prevent lawyers from leaving, competing, and continuing to represent clients who choose to follow them.

That changes how investors should think about revenue durability. A firm may have represented a client for twenty years, but if that relationship resides primarily with one partner, it is a flight risk.

It also changes the risk of integration. New systems, compensation changes, centralized functions, staffing changes, or greater management discipline may be economically sensible. They can also make important lawyers unhappy. Partner retention, succession, compensation, culture, and change management therefore become investment issues, not simply HR issues.

The hidden challenge: The people most capable of taking revenue with them may also be the people whose behavior must change to realize the investment thesis.

3. Scale can create conflicts as well as synergies

Most roll-ups assume that adding customers, capabilities, and data expands opportunity. Legal is more complicated.

Duties of loyalty, confidentiality, and conflicts rules mean that adding a new client or practice can sometimes constrain the work another part of the enterprise can undertake. Similarly, combining information and systems without the appropriate architecture can create confidentiality and access issues rather than synergies.

Maximum integration is not necessarily optimal integration.

The scalable legal MSO needs to know what should be centralized, what should remain separate, where information barriers are required, and how acquisitions affect the opportunity set of the firms the platform supports. That makes conflicts architecture, data architecture, and acquisition strategy interconnected in ways that may be unfamiliar even to experienced professional-services investors.

The hidden challenge: In most roll-ups, every new customer expands the opportunity set. In legal, every new client relationship can create both an asset and a constraint.

4. Productivity does not automatically become profit

Legal services present enormous opportunities for technology and AI-enabled productivity. But the economics are not as simple as "do the same work with fewer people."

Consider an AI-enabled workflow that turns ten hours of legal work into three. That is unquestionably a productivity improvement. Whether it becomes an economic improvement depends on pricing, demand, capacity, staffing, lawyer incentives, and the firm's ability to redeploy the time saved.

Under a fixed-fee arrangement, the gain may flow quickly to margin. Under an hourly model, fewer hours can mean less revenue unless the firm changes pricing, increases volume, or puts the freed capacity to productive use.

The MSO adds another question: who captures the gain?

The client may benefit. The law firm may benefit. The lawyers may benefit. And the MSO needs an economic model that rewards the capital and capability responsible for creating the improvement. This is especially important as AI accelerates: technology can create extraordinary productivity, but operating and economic design determine whether that productivity creates investor value.

The hidden challenge: Making lawyers more productive creates economic potential. The operating model determines who captures it.

5. The most valuable operating opportunities sit at the intersection of the business and practice of law

An MSO exists to professionalize the business side of a law firm. The difficulty is that the business side and the practice of law do not divide neatly.

Technology affects how matters are performed. Intake affects which clients and matters are accepted. Pricing affects client relationships. Knowledge systems contain privileged information. AI touches work product, supervision, confidentiality, and professional judgment. Staffing decisions affect both economics and legal-service delivery.

As a result, many of the highest-value operating opportunities sit close to the boundary between business management and professional practice.

That does not mean an MSO should be timid about transformation. Quite the opposite. It means the platform needs sufficient legal-industry operating expertise to know where to standardize aggressively, where variation is necessary, and how to transform the business without interfering with the professional enterprise that creates its value.

Done well, this can become one of the MSO model's greatest strengths. Lawyers can focus more intently on clients and practicing law while a professionally managed, well-capitalized organization continually improves the infrastructure around them.

The hidden challenge: The best legal MSO will not try to run the law firm. It will build a business platform so good that the law firm becomes better because of it.

A familiar model requires a different playbook

None of these challenges undermines the legal MSO thesis. In many respects, they help explain why the opportunity exists.

Law firms increasingly need sophisticated technology, AI, cybersecurity, data, financial management, talent, and operating capabilities that are expensive and difficult to build independently. A scaled MSO with professional management and access to capital can build those capabilities once, build them well, and continually improve them.

Experience with MSOs in other professional-services sectors is a starting point, not a complete playbook for legal.

The disciplines of building shared services, professionalizing management, deploying capital, integrating acquisitions, and creating scale absolutely transfer. What changes is the environment in which those disciplines must operate.

The successful legal MSO must understand where value can be created, what can be standardized, what cannot, how lawyers and clients respond to change, and how improvements in the legal enterprise become durable value for the MSO.

Buying scale potential and creating a scalable legal platform are not the same thing.

Harbor's view

Harbor has been working on these underlying challenges for decades. Long before private capital entered the category, we were helping leading law firms improve their technology, economics, operating models, procurement, data, service delivery, and business infrastructure. We have seen where standardization works, where it fails, how lawyers adopt change, and how operational decisions become economic outcomes.

That experience is directly applicable to the emerging MSO market. Harbor has launched a dedicated MSO Practice to work with private equity investors and law firms across the investment lifecycle.

For investors, we help evaluate targets and platforms before investment: testing technology, operations, scalability, integration requirements, AI opportunity, management capability, and the realism of the value-creation plan. Post-close, we help turn that plan into execution.

For law firms, we help evaluate MSO readiness, design MSO relationships, and build the right business-services model, and use new capital and capabilities to create a stronger, more competitive firm.

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Build a better business around a better law firm

The capital markets have recognized the opportunity. Law firms are increasingly recognizing the strategic logic.

The next competitive advantage will be understanding the hidden challenges—and knowing how to solve them. If you're evaluating a law firm MSO investment or considering whether your firm is ready for one, contact us to discuss how these challenges could shape your strategy.



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Harbor is a globally integrated team of strategists, technologists and specialists focused on helping law firms, corporations, and their law departments achieve breakthrough outcomes. We are also helping to steer a legal industry in the midst of turbulent change. We navigate alongside our clients and partners, providing salient insights, scalable resources, and seasoned advice.

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