



Paper to be presented at the DRUID 2011

on

INNOVATION, STRATEGY, and STRUCTURE -
Organizations, Institutions, Systems and Regions

at

Copenhagen Business School, Denmark, June 15-17, 2011

How do firms match their capabilities to projects? Evidence from M&A legal advisors

Philipp Meyer

University of Pennsylvania
Management Department Strategy Group
philippm@wharton.upenn.edu

Olivier Chatain

chatain@wharton.upenn.edu

Abstract

The matching of capabilities to projects is one of the most fundamental decisions in modern organizations, and the outcome of this decision critically impacts on performance. Yet comparatively little evidence exists on the factors that determine a firm's decision to match its capabilities to projects. This examines factors that govern a firm's decision to match individual-level capabilities to projects. We empirically study how UK M&A law firms allocate their lawyers to M&A mandates. Our dataset on lawyers (individual-level capabilities) and M&A mandates (projects) allows us to observe which lawyers have and which have not been staffed on particular mandates. We find that more capacity constrained lawyers are significantly less likely to be deployed in new deals. However this effect is muted by the quality and experience of the lawyer, suggesting that law firms leverage the value-added of these highly valuable resources across more deals and that more experienced and better lawyers are also more efficient in their capacity deployment. Furthermore, consistent with assortative matching, we find that a firm's best lawyers are deployed in higher value deals; however we do not find evidence that law firms match their best capabilities to projects of high future value.

Jelcodes:M21,-

How do firms match their capabilities to projects?

Evidence from M&A legal advisors

Abstract

The matching of capabilities to projects is one of the most fundamental decisions in modern organizations, and the outcome of this decision critically impacts on performance. Yet comparatively little evidence exists on the factors that determine a firm's decision to match its capabilities to projects. This examines factors that govern a firm's decision to match individual-level capabilities to projects. We empirically study how UK M&A law firms allocate their lawyers to M&A mandates. Our dataset on lawyers (individual-level capabilities) and M&A mandates (projects) allows us to observe which lawyers have and which have not been staffed on particular mandates. We find that more capacity constrained lawyers are significantly less likely to be deployed in new deals. However this effect is mooted by the quality and experience of the lawyer, suggesting that law firms leverage the value-added of these highly valuable resources across more deals and that more experienced and better lawyers are also more efficient in their capacity deployment. Furthermore, consistent with assortative matching, we find that a firm's best lawyers are deployed in higher value deals; however we do not find evidence that law firms match their best capabilities to projects of high future value.

Key words: Capability Deployment; Capabilities; Resources; Capacity Constraint; Mergers and Acquisitions; Legal Advisors

1. Introduction

Strategic management scholars have emphasized the importance of firm capabilities¹ in creating and capturing value (Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter, 2007; Barney, 1991). Firms control a bundle of heterogeneous capabilities and the firm's ability to deploy these resources appropriately is critical for the firm's performance (Sirmon, Gove, and Hitt, 2008; Sirmon and Hitt, 2009; Amit and Schoemaker, 1993). While a firm's decision to match its capabilities to projects is one of the most fundamental decisions in organizations (Andrews, 1987), we know surprisingly little about the factors that determine this decision, partly because high quality data on capabilities and the outcome of the firm's decision to match its resources to projects is hard to obtain. However, if capabilities matter to create and capture value, and if the deployment of capabilities matter to capture rents (Makadok, 2001, 2003) it is important to know how firms match their capabilities to projects in organizations, and what governs the decision made by firms to deploy capabilities specific projects. Empirical research into these questions is important not only to test and extend existing theories that attempt to explain a firm's capability deployment but also to provide insights about the magnitude and economic relevance of the actual effects that theory predicts.

This paper empirically examines the determinants of firm's decisions to match its resources to projects. In doing so, we focus on the firm's decision to allocate *individual-level* capabilities, i.e. capabilities that reside in individuals within the organization, to projects. Further, in this paper, we focus on the characteristics of the capabilities to be deployed at the time of the firm's decision, as well as on the characteristics of project to which the firms need to deploy capabilities as the main factors behind the firm's decision to match its capabilities to projects. We consider relevant factors for this decision to be how capacity constrained the

¹ In this paper we use the terms capabilities and resources interchangeably

individual-level capabilities is at the time of the decision, the quality of the capability, and the experience of the individual who carries the capability; projects characteristics here include the amount of revenue the project generates for the firm, and the future commercial impact.

We propose that the more capacity constrained an individual-level capability is, the less likely it is that the firm will match it to a new project. This relationship will be critically moderated by the characteristics of the individual capability; in particular, the quality of the individual-level capability and the individual's experience will lower the effect of capacity constraint on likelihood of being allocated, as higher quality capabilities are utilized more efficiently across more projects and as more experienced individuals use their capabilities more efficiently. Furthermore, we propose that higher quality individual-level capabilities are more likely to be matched to projects that generate higher revenue for the firm, as predicted by an efficient allocation. Higher quality individual-level capabilities should also be more likely to be matched to projects that are most likely to generate future revenue as this increases the firm's future profits potential. If supported, the latter could also be evidence that clients suffer from moral hazard in the law firm's ex-post decision to match its capabilities to projects.

The empirical context for our study is the market for legal M&A advice in the United Kingdom. Using data from the leading UK law firm data providers Chambers and Partner and Waterlow, we have assembled a rich dataset on all major UK legal firms and their partners (lawyers) between 1998 and 2004, including data on the characteristics of the partners, such as quality and experience. Furthermore, we have collected a large dataset on mergers and acquisitions that occurred between 2000 and 2004 (where at least one party –acquirer, seller, or target– was based in the UK), including detailed data on which lawyer was working on which deal for which party, using data from Mergermarket. We combine both datasets to observe the

law firm's matching of individual-level capabilities (lawyers) to projects (M&A mandates).

Our results show that the number of deals a partner has been staffed on in the past months negatively impacts on the partner's probability of being staffed on a new incoming mandate. The magnitude of the effects is economically very significant: for instance, for each deal a partner has been staffed on between months 3 and month 6 prior to a new mandate, his likelihood of being staffed on the new mandate is reduced by 17.3% (significant at the 0.1% level). Thus capacity constrained resources are significantly less likely to be matched to new projects. Interestingly, this effect is significantly reduced for more experienced partners and partners of higher quality. The detection of this moderation effect is particularly remarkable given that the human capabilities studied already represent a sample of high quality and experienced lawyers. This finding suggests that law firms leverage the value-added of their higher quality lawyers more efficiently across more projects, and that more experienced and higher quality lawyers have learned to deploy their capacity more efficiently. The evidence also suggests that high quality partners are more likely to be staffed on higher value mandates than their lower quality peers, consistent with the assortative matching of better capabilities to projects where they create the highest value. However surprisingly we do not find robust evidence that firms allocate their best resources to projects that have a high future commercial relevance to the firm, suggesting that clients do not suffer from moral hazard in the law firm's capability deployment decision.

This paper documents patterns of resource allocation that are consistent with firms actively matching capabilities to projects where they are most productive under capacity constraint. This contributes to the empirical and theoretical literature on capabilities and on competitive advantage. Empirically, we show how the scarcity of resources affects the deployment and how firms alleviate capacity constraint inherent in resources through leveraging

the rare and most valuable resources across a wide range of projects. Theoretically, this paper bolsters the idea that the relative scarcity and opportunity cost of resources are important concepts to better understand how scarce resources are deployed. Overall, this paper shows that owning scarce and resources is not enough; resources need to be intelligently deployed, and the deployment decision is not necessarily a trivial one. In this regard, we show specific criteria that firms appear to consider when making their resource deployment decision, such as capacity constraint, quality and experience of resources, as well as the commercial impact of the project.

2. Conceptual Development

Strategic management research has focused on firm capabilities² to explain heterogeneity in organizational performance and competitive advantage, and capabilities or resources have been proposed as the fundamental building blocks or genes of organizations (e.g. Helfat, Finkelstein, Mitchell, Peteraf, Singh, Teece and Winter, 2007; Barney, 1991). Firms have to constantly match their capabilities to projects in order to conduct their operations, and this firms must selectively match its capabilities to projects as their capabilities are capacity constrained which inherently limits the growth of the firm (Penrose, 1959; Slater, 1980). Therefore, the intelligent deployment of capabilities is critical to capture rents for organizations and it accounts for heterogeneity in firm performance (Makadok, 2001, 2003).

Yet the issue of how firms deploy their resources and capabilities to attain certain outcomes and goals, and thereby the link between capabilities and performance, has received little empirical attention in the literature, partly because high quality micro-data on capabilities and project is hard to obtain. In this regard, many scholars implicitly adopt “satisficing” models

² Wernerfelt (1984) defines an organizational capabilities or resources as “anything which could be thought of as a strength or weakness of the firm”.

to explain resource deployment decision based on the choice models developed by Simon (1954) and Cohen, March, and Olsen (1972). Barney and Arikan (2001) point out that more work is needed to better understand how the management of resources (including their deployment decision) governs the impact of resource ownership on performance.

Guided by efficiency criteria, scholars in operations research have also built prescriptive models to guide the firms decision to allocation financial resources to projects (e.g. Cezik and L'Ecuyer, 2008; Lewis, Srinivasan, and Subrahmanian 1998; Korhonen and Syrjanen, 2004; Chao, Kavadias and Gaimon, 2009); yet these models fall short in realistically explaining the factors that determine the firm's decision to match capabilities to projects.

There have also been recent advances on the resource deployment decision of firms from management scholars. Sirmon, Hitt and Ireland (2007) differentiate between bundling which refers to a firm's practices of integrating resources to create value, and leveraging which involves a firm's decisions to configure and deploy resources in a specific market context. Sirmon, Gove and Hitt (2008) show a manager's resource bundling and deployment decision affects performance but that this effect is moderated by contextual factors. Sirmon and Hitt (2009) show that the resource investment decision must be congruent with the resource deployment decision. Similarly, in the context of the strategic human capital deployment in law firms Kor and Leblebici (2005) show that a law firm's decision to leverage (i.e. deploy) its expert human capital needs to be calibrated with its expert human capital hiring decisions (i.e. capability development) to avoid performance impairments. Further, Kor and Mahoney (2005) show that the governance of firms' resource deployment decisions affects firm performance.

More recently, Levinthal and Wu (2010) point out that the firm's decision to match individual-level capabilities to projects is not only guided by firm-internal consideration but also

by the demand environment influencing the opportunity cost of the capabilities. As such both a resource's capacity constraint and the opportunity cost of deploying resources in specific situations are important concepts to understand firms' decisions to match capabilities to projects.

However, while the above papers have provided important insights into some factors that influence a firm's resource deployment decision, we still know comparably little on how characteristics of the capability and of the project govern the firm's decision to match specific capabilities to particular projects. Further, the above contributions have also not examined how firms manage the capacity constrained of their most valuable and rare resources. Building on the above literature, this paper examines what factors govern the firm's decision to match its individual-level capabilities to projects, paying particular attention to how firms efficiently manage the deployment of rare and valuable capacity-constraint resources. Based on the assumption that firm's capabilities can reside in individuals and that individual-level capabilities are an important component of firm capabilities (Nelson and Winter, 1982; Kogut and Zander, 1992; Grant, 1996), we focus on the firm's decision to allocate individual-level capabilities to projects. This focus seems particularly justified given the importance of human capital in the creation of rents in the professional service sector (Gilson and Mnookin, 1985; Starbuck, 1993).

2.2. Development of Hypotheses

In the development of our hypotheses, we assume that firms allocate resources to projects (as opposed to resources choosing to allocate themselves to projects), that firms do not have perfect knowledge when future projects will emerge, and that firms at least myopically rationally deploy capabilities at hand to emergent projects.

With any given project, myopically rational firms want to deploy their best human

capabilities to this project as this maximizes the outcome of the each project. However human capabilities have a finite capacity to be deployed which hinders firms from deploying their best capabilities to every suitable project (Penrose, 1959; Slater, 1980). If a capability with a given capacity is deployed on N projects, each of these projects will reduce the free capacity for other new projects. If the firm now receives new business and has to deploy its capabilities on a new additional project, it faces the decision to deploy the capability to the new project which requires a certain free capacity; however, due of to the capacity constraint of the capability, the firm can only deploy the capability if the capability has enough capacity to be deployed on this new project. Hence, if the capability has not enough capacity to be deployed on this project, the firm is unable to deploy the capability to this project. In particular, ceteris paribus, the higher the currently deployed capacity of a capability and the lower the free capacity of this capability, the less likely it is that the capability will be deployed. We therefore hypothesize:

Hypothesis 1: The more capacity constrained an individual-level capability is, the less likely the firm will allocate it to a new project.

Complex projects, particularly in service sector firms, require several heterogeneous human capability inputs. Projects require heterogeneous inputs in terms of their quality, and the input that comes from different resources is heterogeneous in its quality. Complex projects in service organizations often require a unique input that can often only be provided by the high quality capabilities in the firm. This high quality input is not (easily) substitutable through the quantity of lower quality inputs. Hence, firms deploy the unique value of input of the higher quality individual-level capabilities across most projects. As high quality capabilities are rare and scarce (Barney, 1991), firms will limit the capacity of the higher quality capability devoted to a particular project to the absolute necessary and substitute the substitutable portion of the input of

the higher quality capability with that of lower quality capabilities where appropriate. This will lead to better quality capabilities being allocated to a larger number of projects, though their capacity engaged in each project will be lower. We therefore hypothesize:

Hypothesis 2a: The negative effect of a capability's capacity constraint on its likelihood of being allocated to a new project is moderated by the quality of the capability. That is, for better quality capabilities the effect of the capability's capacity constraint on its likelihood of being matched to a new project is smaller.

Human resources are also heterogeneous in terms of their level of experience. The deployment of capabilities inherent in the human resources is affected by the experience of the human resource. In particular, more experienced human resources might be able to learn how to efficiently deploy their capacity and multi-project, which would enable them to utilize their finite capacity more efficiently. Therefore, it seems that the capacity that projects demand from individual-level capabilities is a function of the experience of the human resource and is decreasing in experience. This will lead to more experienced individual-level capabilities being allocated to a larger number of projects, though their capacity engaged in each project will be lower. We therefore hypothesize:

Hypothesis 2b: The negative effect of a capability's capacity constraint on its likelihood of being allocated to a new project is moderated by the experience of the individual carrying the capability. That is, for more experienced individual the effect of the capability's capacity constraint on its likelihood of being matched to a new project is smaller.

Projects are heterogeneous in many dimensions. One such dimension is the amount of revenue firms receive when delivering the service associated with the projects. In a competitive environment, customers will bargain with firms about the price and quality of service they receive. Suppliers value the projects that generate the highest income most and hence will ex-ante pledge to deploy its highest quality capabilities to the projects that are highest income

earning to maximize the quality of service for any given price in order to increase the firm's chances of being selected as the supplier. Customers expect firms to honor the agreed terms of the ex-ante bargaining. Hence, firms are more likely to match their highest quality capabilities to projects that generate high revenue. This is consistent with the logic of assortative matching initially proposed by Shapley and Shubik (1972) and Becker (1973). We therefore hypothesize:

Hypothesis 3: Firms are more likely to match higher quality individual-level capabilities to higher value projects.

It is in the rational interest of a supplier firm to maximize its future income. A supplier firm is able to achieve this by soliciting for future business and building a relationship with client; clients assign mandates not only based on price but also based on past experience with a particular supplier. Thus, if a supplier supplies a high quality service, (risk-averse) clients might mandate this supplier again, although the supplier's bid in a competitive auction does not represent the best price-quality trade-off. Evidence for such relational capital is abundant in the literature (Kale, Perlmutter, and Singh, 2000 ; Elfenbein and Zenger, 2010). Thus it is in suppliers' rational interest to deploy their highest quality capabilities in projects that deliver a service for a client that might mandate the supplier in the future again. Thus we hypothesize:

Hypothesis 4: Firms are more likely to match higher quality individual-level capabilities to projects that have a high future commercial value to the firm.

There is another rationale that can underlie the prediction we make in Hypothesis 4. In particular, a supplier firm might choose to replace high quality capabilities committed to high fee earning projects that do not have a high future commercial relevance with lower quality capabilities, and re-deploy the high quality capabilities in high fee earning projects that have a high future commercial relevance. In this regard, clients would suffer from classical moral

hazard behavior (Holmstrom, 1979) where a client chooses a supplier based on non-enforceable terms, and the supplier violates these terms ex-post to maximize its payoff; in this regard, it is often very difficult for the client to observe in reality that the supplier firm has replaced some of its high-quality capabilities with lower quality capabilities. Even if a client would be able to observe this, it is often very costly for clients to withdraw and re-assign a mandate to another supplier due to sunk cost and switching cost.

3. Empirical Context: The UK M&A Legal Advice market

The empirical context of our study are UK law firms providing legal advice to parties involved in acquisitions. Like other professional service firms, law firms use their employees knowledge to deliver specialized services to their clients (Maister, 1993), and organize to ensure that their members acquire the relevant expertise while guaranteeing clients high quality service (Gilson and Mnookin, 1989; Levin and Tadelis, 2005; O’Flaherty and Aloysius, 1996). As law firms primarily create value for their client through the expertise of their lawyers, they provide an excellent empirical setting to study how firms allocate individual-level capabilities to projects.

Law firms are partnerships that share profits and risk. Lawyers typically enter at the associate level, and progress over time to the partner level. The average associate to partner ratio is ca. 4.8 associates for every partner. While associates and partners receive base salaries, the partners typically earn the highest remuneration through profit sharing. Law firm revenue in corporate mandates is generated through hourly rates per lawyer. Hence the size of mandates determines the size of the fee, and the mandates size is therefore a critical project characteristic.

In order to receive corporate legal services, corporate clients mandate specific law firms. In this regard, corporate clients are not able to mix and match lawyers across firms, and are

somewhat restricted to the set of lawyers within the mandated law firm(s). It is important to note that while certain partners often hold key relationships to corporate clients (often due to prior engagements in related but different fields), they are not necessarily staffed on these mandates, and staffing decisions typically are made by the law firms.

The UK corporate legal market in specific is one of the largest in the world. In 2005 the 100 largest UK based law firms had a combined turnover of £ 9.6bn. The top four firms (Clifford Chance, Freshfields, Linklaters and Allen & Overy commonly referred to as “the Magic Circle”) accounted for 33% of this figure (£3.1bn). As our sample contains data on over 200 of the most prominent law firms in the UK we consider it representative of the UK corporate legal sector. The trends over the past 15 years have been intensive growth, specialization and intensification of competition. As a consequence, corporate legal publications such as The Chambers and Partners’ Guides have gained extremely high relevance in the legal profession as they provide guidance to potential client with regards to information on law firms. Given the importance of professional integrity in the legal field, law firms have no choice but to be more transparent with these publications. We exploit this transparency to obtain rich and reliable on the firm and individual-level capabilities of law firms, which is unique in the UK corporate legal setting.

Giving legal advice to clients engaged in corporate transactions such as acquisitions is a significant part of the activity of corporate law firms, particularly in the UK. Acquirers, sellers, and potential targets typically mandate law firms very early in the acquisition process to obtain critical information on the legal implications of the transaction, but also to manage the legal aspects of the transaction. Law firms devote significant resources to obtaining these high-fee earning mandates and to delivering a high-quality service in such mandates. In this regard, as with other corporate legal services the reputation and relationship of the law firm to the client

matter significantly which law firm clients choose (Chatain, 2010).

The UK is one of the world's most active markets for corporate M&A activity with over £100bn in 2004 representing c. 15.8% of worldwide M&A activity in 2004. Given the large amount of hours that law firms bill in complex M&A transactions, the legal fees for mergers and acquisitions can be very significant³. Given the importance of acquisitions, mandates are often publicized, and the publication also serves as a marketing tool for law firms. We exploit this transparency to observe law firms staffed which lawyers on which mandated transactions.

4. Data and Methodology

4.1. Data

Data on Law firms and individual partners was sourced through Chambers & Partners and the Waterlow in the years 1998 to 2004. The “Waterlow’s Solicitors’ and Barristers’ Directory” is compiled every year and is a directory of all law firms in the United Kingdom. The directories have been compiled since 1844. It contains details on law firms and all partners working for the law firms, including their name, qualifications, and date of admission. This information is compiled in book (about 1,500 pages) and is not available in electronic format. Therefore, we had to convert this data into electronic format by copying the information for each law firm and lawyer into an electronic file for each of the years. In this regard, we focused on the partner in a law firm; our Waterlow file of lawyers contained detailed information on 12,177 unique lawyers⁴.

In order to obtain data on the quality of law firms and their lawyers, we used data from

³ For instance, according to the trade magazine “The Lawyer” in BHP Billiton's failed bid for Rio Tinto in 2008 generated legal fees in excess of £35m.

⁴ Lawyers were drawn from firms that were ranked among the top 100 firms by size at any point between 1995 and 2005 or from US firms with offices in the UK.

the Chambers and Partner Client's Guide to the UK Legal Profession. Chambers and Partner compile an annual ranking of law firms and lawyers for each law field, and also publish this in a c. 1,500 page book every year. The guide covers more than 60 areas of law divided into subcategories, and lists recommended corporate law firms and lawyers in as many as six tiers, within each of which firms and lawyers are deemed to be of comparable expertise level⁵. As with the Waterlow data, we had to copy the data into an electronic datafile for each of the years. Our Chambers file contained detailed data on 9,696 unique lawyers. We then combined the two files based at the lawyer-year observation. However, as the lawyer names and affiliations are fully not standardized across the two data sources, we standardized the law firm names across the two databases, and matched the lawyer names based on a technique proposed by Trajtenberg, Shiff, and Melamed (2006)⁶ that maximizes the number of correct matches based on a custom programmed computer algorithm. Partners that only appeared in Waterlow but were not ranked by Chambers were assumed to be not ranked, and therefore of comparably worse quality.

Data on acquisitions was sourced through mergermarket. Mergermarket is widely used among investment banks and other professional service firms due to its rich, detailed, and high quality data. While mergermarket is similar to other acquisition databases such as SDC Platinum, it collects information which other databases do not collect. For instance, mergermarket has data on which law firm advised an acquisition party in a specific acquisition, including detailed data on which individual lawyer in the law firm was staffed on the transaction. This particular information is pivotal for our analysis as it allows us to link the lawyer and law firm data (i.e. data on capabilities) to the advisory mandates (i.e. data on projects). Mergermarket obtains this

⁵ The rankings reflect the lawyer's and law firm's "technical legal ability, professional conduct, client service, commercial astuteness, diligence, commitment, and other qualities most valued by the client". The rankings are based on annual surveys conducted by Chambers and Partners which target general counsels of firms included among the top 250 largest market capitalizations in the London Stock Exchange.

⁶ Trajtenberg, Shiff and Melamed originally developed this technique for matching patents to inventors.

information through firms directly reporting to them and through the financial press. We have checked this information for several acquisitions through contacting insiders and the actual individuals staffed on the transaction; our tests fully confirmed the accuracy of the data. Our mergermarket database contained data on acquisitions in which at least one UK party (acquirer, seller, or target) was involved between 1998 and 2004 and for which data on which lawyers were working on which transaction was available; overall, there were 5,971 transactions with an average volume of \$553m per transaction⁷.

We subsequently merged the data on lawyers and law firms from Waterlow and Chambers with the data on acquisitions and lawyer staffing from mergermarket by the name of the lawyer and law firm and the year of observation that appeared in both databases. As law firm names and lawyer names were not standardized across the databases, we utilized the same matching technique as described above (Trajtenberg, Shiff, and Melamed, 2006).

In order to test our hypotheses we needed to identify a risk set of lawyers which could realistically be staffed on a specific transaction. We directly observe every lawyer that was staffed through our dataset, and include them into the risk set. In order to identify non-staffed lawyers which could have realistically been staffed on a specific transaction, we deployed the following procedure: for every transaction, we considered all non-staffed lawyers which worked for the law firm that has been mandated for the specific transaction in the relevant year as listed in the Chambers and Waterlow data. To only include these lawyers with a high chance of

⁷ While Mergermarket has only been used sparsely in academic research, partly due to its inaccessibility (e.g. it is very cumbersome to download the entire database), we have conducted various comparisons the SDC data to rule out any biases that might affect our results: these tests yielded that Mergermarket covers about 25% of the number of transactions in SDC, with the transactions being similar in terms of transaction geography, industry composition, and public-to-private ratio. However the average transaction value in mergermarket was with \$385m approximately double as large as that of the transactions in the SDC data. This suggests that mergermarket focuses on medium to larger transactions and omits smaller transactions⁷. However these omissions do not necessarily represent a bias to our data, as the law firms covered by Chambers are most likely to be mandated in medium to large transactions. We also noticed that the mergermarket data is “cleaner” than the SDC data with less duplicate entries and less “internal acquisitions”.

staffing, we exclude any lawyers that operate in law field irrelevant to corporate acquisitions (e.g. environmental law). As we do not have the exact information which law field each lawyer specializes in, we use as a proxy whether the lawyer has at least once been staffed on a corporate acquisition mandate between 1998-2004. Thus, in addition to all staffed lawyers, we also include any non-staffed lawyer working for the mandated law firm who has at least once been staffed on a corporate acquisition mandate during the 7 year period observed in our sample to arrive at our risk set. The final main sample consisted of 200,490 lawyer-staffing observations covering 8,857 unique staffing decisions, 2,217 unique lawyers, 224 unique law firms, and 3,451 unique acquisitions. The lawyers, law firms, and acquisitions are representative of the original sample.

4.2 Dependent Variable

Our dependent variable is whether a lawyer has been staffed on a mandate or not. We observe whether a lawyer has been staffed in a transaction through the mergermarket database. We also observe if a lawyer has not been staffed on a particular mandate through the mergermarket database. We use a binary variable “STAFFED” which equals 0 if the lawyer has not been staffed on the mandate, and 1 if the lawyer has been staffed on the mandate.

4.3 Independent Variables

We deploy several independent variables to test Hypothesis 1-4. For Hypothesis 1, to capture capacity constraint for a given new mandate (project), we measure the number of mandates a particular lawyer has been staffed on recently. As the number of projects that a given lawyer has been staffed on is conditional on the point in time of staffing, we construct 6 variables that measure the number of mandates a lawyer has been staffed on in the last 3 months, 3-6

months, 6-9 months, 9-12 months, 12-18 months, and 18-24 months. Doing this allows us to take into account varying time lengths of mandates, and analyze a tailing-off effect of capacity constraint on likelihood of staffing. We do not observe when the mandate begins but only when the mandate ends, i.e. when the acquisition is announced. While this introduces measurement error, it does not necessarily bias our results. In particular, the measurement error is random, will inflate standard errors on our coefficients and lead to an attenuation of the coefficients towards 0 (Aigner, 1973). We also ran alternative specification with different time intervals of the capacity constraint measure, and our results were fully confirmed.

To test Hypothesis 2a and 2b, we interact our capacity constraint variables with the quality and experience of the lawyer. To capture lawyer quality we utilize the Chambers lawyer ranking and measure whether a lawyer was ranked in an acquisition relevant law field⁸; appearing in the relevant ranking implies that the lawyer is of high quality, while not appearing in the ranking suggests that the lawyer is of worse quality. To capture lawyer experience, we measure the number of years the lawyer has been practicing.

To test Hypothesis 3, we interact the binary variable indicating whether a lawyer is ranked in an acquisition relevant law field with the (quintiled) acquisitions size variables⁹. In the absence of data on the exact fee a mandate generates for a law firm, the size of the acquisition represents a good proxy (equity value); in this regard, the lawyers we interviewed unambiguously communicated that bigger transactions generate bigger fees as bigger transactions involve more work and therefore more billable lawyer-hours.

To test Hypothesis 4, we interact the binary variable indicating whether a lawyer is ranked in an acquisition relevant law field with a binary indicator variable indicating whether the

⁸ Acquisition relevant law field here include the Chambers classifications Corporate Finance and Private Equity

⁹ As we has a significant number of acquisitions that did not report the transaction size, we include quintile variables for the transaction size alongside a missing indicator variable.

client is the acquirer/seller, or target. The rationale behind this is as follows: While acquirer and sellers persist post-acquisition, target firms are often absorbed and integrated into the acquirer company, and cease to exist as an independent entity. As a consequence, target firms are often not able to mandate their law firm again, and any new mandates are decided on by the management of the combined entity, typically predominantly the acquirer's management. As law firm mandates tend to be often decided based on lasting relationships (Chatain, 2010), target firms are less likely to generate future mandate for law firms than acquirer or seller¹⁰.

4.4 Control Variables

We include several control variables at the lawyer, law firm, and mandate level. We control for the ranking and law field, including sub-law-field of the lawyer. This enables us to capture further information about the lawyer's specialization and quality not captured by the binary variable indicating whether a lawyer is ranked in an acquisition relevant law field, such as a high quality in a different field (e.g. environmental law). In this regard, we include a variable whether the lawyer appears in any ranking, a continuous variable for the normalized rank (% of the maximum rank), and indicator variables for the law field and sub-law-field where the lawyer is ranked. To capture any other individual lawyer level unobserved heterogeneity, we also include individual lawyer fixed effects in our specifications.

We include variables that capture the size of the law firm (measured as number of partners), as well as a measure for law firm quality (profitability as measured by fees per partner generated). Further, as we only have lawyers that are partners at the law firms in our main database, we control for the ratio of non-partners to partners for each law firm at the time of the mandate. In particular, controlling for this enables us to capture distorting effect of law firms

¹⁰ This rationale was fully confirmed in our interviews with lawyers.

systematically substituting partner staffing with the staffing by associates. Further, we also capture the main geographical focus of the law firm with binary London, National, International dummies. Table 1 provides a descriptive overview of the variables used in our analysis.

 Insert table 1 about here

4.5 Econometric Model and Specification

We use longitudinal data with individual and firm fixed effects to strengthen our identification strategy. As we regress our independent variables against a binary dependent variable, we use a logit regression to conduct our analysis. Furthermore, we include individual fixed effects in our regression using a conditional logit at the individual level. In particular, as we conduct our main analysis based on the following specification [“Equation (1)”]:

$$\begin{aligned}
 STAFFED_{i,j} = & \beta_0 + \beta_1 PAST_STAFFING_{i,j} + \beta_2 PAST_STAFFING * RANKED_ACQ_FIELD_{i,j} \\
 & + \beta_3 PAST_STAFFING * EXPERIENCE_{i,j} + \beta_4 RANKED_ACQ_FIELD * DEALSIZE_{i,j} \\
 & + \beta_5 RANKED_ACQ_FIELD * CLIENT_TYPE_{i,j} + \gamma * C_{i,j} + LAWYER_FX_j + \varepsilon
 \end{aligned}$$

for i lawyers and j transactions, where β_n are coefficients estimates, γ is a vector of coefficient estimates pertaining to the vector of control variables, $C_{i,t,x}$ is a vector of control variables including the lawyer experience variable, the binary variable indicating whether a lawyer is ranked in an acquisition relevant law field, and the client type indicator variable, the individual lawyer normalized ranking variable alongside a missing indicator, and law field and law sub-field indicators, the law firms size and profitability variables, the law firm ratio of non-partners to partners variables, and the location of the law firm indicator variables. We include

individual lawyer fixed effects through the conditional logit. We cluster standard errors at the individual lawyer level and therefore compute robust standard errors.

Ideally, we also want to include law firm and year fixed effects in our main regressions model. However, if we include these additional >200 variables, the maximum likelihood estimator is unable to compute the coefficient estimates and the estimation breaks down. In order to rule out that law firm fixed or time fixed effects confound our results, we run robustness checks with the independent variables of interest and lawyers, law firm and year fixed effects.

5. Results

Table 2 shows the results from our main conditional logit regressions. Column 1 displays our baseline regression as in equation 1 above. Columns 2, 3, 4 and 5 add interaction effects to our baseline regression model to test Hypotheses 2a, 2b, 3, and 4 respectively. While we only display the regression models including all control variables and all fixed effects specified above in table 2 due to space restrictions, it is important to note that we obtain similar results if we regress the key independent variable alone against the dependent variable respectively, and as such our results displayed are not driven by the inclusion of control variables.

Insert table 2 about here

Across models 1 to 5, the coefficients for the past staffing variables that measure capacity constraints are negative and mostly significant at the 1% level; specifically, the estimates for Staffings in past 3 to 6 months, Staffings in past 6 to 9 months, Staffings in past 9 to 12 months, Staffings in past 12 to 18 months, and Staffings in past 18 to 24 months are all consistently negative and highly significant, mostly at the 1% level. The effect is also highly economically

significant. For instance, for each staffing in the period time 3 – 6 months ago, a lawyer’s likelihood of being matched to a new project is reduced by 18.6% [or $e^{-0.206}$] (column 1). Even for staffing that occurred a longer time ago this effect is still economically significant: for instance, for each staffing in the period time 12 – 18 months ago, a lawyer’s likelihood of being staffed on a new project is reduced by 9.3% [or $e^{-0.0975}$] (column 1). Only the coefficient estimate of Staffings in last 3 months is not consistently significant (merely significant at the 5% level in the model in column 3), though it is consistently negative across the specifications. However this non-finding might be due to measurement error¹¹.

The coefficient estimates for the past staffing variables are fairly stable across the 5 models, though the estimates in model 4 are slightly higher due to the inclusion of specific interaction terms. In general, the coefficient estimates for the past staffing variables decline with the time period in which the past staffing is measured, i.e. the coefficient for Staffings in past 3 to 6 months is bigger than that of Staffings in past 6 to 9 months with subsequently declining coefficient estimates by time period. Most of these differences is the coefficients are significant at the 5% level. Declining effect sizes of past staffing with the time period in which they occurred are logical: the further the project staffing is in the past, the higher the chances that the project is finished by the time the firm has to match its capabilities a new project, and the less likely is it that these past project staffing will constrain the lawyer’s likelihood of being matched to a new project. Taken together the above results provide overwhelming support for hypothesis 1 that relates an individual level capability’s capacity constraint negatively to its likelihood of being matched to a new project. Firms are less likely to match their capacity constraint individual

¹¹ More specifically, as we do not directly measure project staffing but announced transactions that allows us to infer an staffing in the past based on the assumption that all projects take the same (average) amount of length, for the Staffings in last 3 months measure we might fail to capture transactions that occur just before the new staffing decision and erroneously include staffings that occur just after the new staffing decision

level capabilities to new projects.

Several control variables are robustly significant across the models: Lawyer experience is negative and significant at the 1% level. Therefore more experienced lawyers are less likely to be staffed on new mandates. This finding can be explained by the fact that the distribution of deals size is skewed to the left, and that firms do not generally allocate their experienced lawyers to lower value mandates. This might also explain the negative (though statistically insignificant) effect of being ranked in an acquisition relevant law field on likelihood of being matched to a new mandate. Further quintile transaction size variables indicate that lawyers are more likely to be staffed on big transactions as more lawyers are need on these transactions. Moreover, we also find that individual lawyers are less likely to be staffed in individual mandates in larger firms as these firms have a greater pool of capabilities to deploy for new projects.

Model 2 (column 2) tests Hypothesis 2a. The set of focal interaction effects (Staffings in past months x lawyer ranking) are generally positive; the interaction with Staffings in past 3 to 6 months and Staffings in past 6 to 9 months are significant at the 1% level and the interaction with Staffings in last 3 month is significant at the 10% level. The estimates are economically significant, but they are smaller than the main effects of the staffing variables suggesting that the negative effect of capacity constraint on likelihood of being staffed in a new project holds also for high quality capabilities, though this effect is significantly smaller than for lower quality capabilities. In this regard, a significance test of the combined coefficient of the past staffing variables and the interaction terms in model 2 yields that all combined coefficient variables up for the periods up to the past 12 months are significant at the 5% level. Further, interestingly, similar to the main effects the interaction effects are decreasing in magnitude with the time period in which past staffing are measured. Overall, the above results provide support for

Hypothesis 2a: the effect of an individual level capability's capacity constraint on its likelihood of being matched to a new project is mooted by the quality of the individual level capability.

Model 3 (column 3) tests Hypothesis 2b. The set of focal interaction effects (Staffings in past months x lawyer experience) are generally positive; the interaction with Staffings in last 3 months is highly significant at the 1% level, while the interaction with Staffings in past 3 to 6 months is significant at the 5% level and the interactions with Staffings in past 9 to 12 months x lawyer and Staffings in past 12 to 18 months are significant at the 10% level. The small coefficient estimates are due to experience being measured in months; in particular, the estimates are economically significant; for instance, the negative effect of a project staffing in the past 3-6 months on its likelihood of being is matched to a new project is mooted by 7% for a lawyer with 5 more years of experience. The estimates of the interaction terms are smaller than the main effects of the staffing variables suggesting that the negative effect of capacity constraint on likelihood of being staffed in a new project holds also for high experienced lawyers, though this effect is significantly smaller than for less experienced lawyers. Further, interestingly, similar to the main effects the interaction effects are decreasing in magnitude with the time period in which past staffing are measured. Overall, the above results provide support for Hypothesis 2b: the effect of an individual level capability's capacity constraint on its likelihood of being matched to a new project is mooted by the experience of the individual that carries the capability. Our evidence in support of Hypothesis 2a and 2b is consistent with findings by Garicano and Hubbard (2008) that US law firms which design their production system hierarchically, i.e. who "vertically specialize", achieve an increased outcome.

Model 4 (column 4) tests Hypothesis 3. This focal interaction variable (Dealsize_Q5xRanked in Acquisition Relevant field) is positive and significant at the 5% level.

The effect is large with the coefficient estimate being 0.51; this means that a high quality lawyer is 66.5% more likely to be matched to a new high fee earning project compared to a new not high fee earning project. Even when accounting for the negative but insignificant main effect of a high quality lawyer being staffed on a general new deal (which can be explained by the fact that the distribution of deals size is skewed to the left), the combined coefficient is positive. Overall, this above evidence provides support for Hypothesis 3: firms match their highest quality capabilities to the projects that generate the highest fee.

Model 5 (column 5) tests Hypothesis 4. However, while the focal variable (Ranked in Acquisition relevant field x client is acquirer) is positive, it is not significant at the 10% level. Therefore we do not find evidence that firms allocate their resources to project which are most likely to generate future revenue. This suggests that law firms do not engage ex-post in moral hazard behavior when matching their capabilities to projects. However, as the binary variable indicating whether the client is an acquirer is only a rough estimate of the likelihood of future revenue from this client, this non-finding might be due to measurement error that leads to inflation in the standard errors and attenuation bias in the coefficient estimate.

6. Discussion and Conclusion

This paper has examined the determinants of a firm's decision to match its individual-level capabilities to projects, focusing on the capability's capacity constraint, its quality and experience, as well as the commercial characteristics of the project. In the empirical context of law firms matching their lawyers to corporate M&A mandates, we have found evidence that that the number of deals a partner has been staffed on in the past months has a strong negative impact on the partner's probability of being staffed on a new incoming mandate. Thus capacity

constrained resources are significantly less likely to be matched to new projects. Interestingly, this effect is significantly muted by the quality and experience of the partners. This is consistent with our theory that the effect of a resource's capacity constraint on its likelihood of being allocated to a new project is less momentous for high quality and more experienced resources, as firms leverage the value-add of higher quality and more experienced lawyers more efficiently across more projects, and/or as more experienced and higher quality lawyers have learned to deploy their capacity more efficiently. However, our analysis is unable to distinguish which of these mechanisms is ultimately driving the effect. Further, we found evidence that high quality lawyers are more likely to be staffed on higher value mandates than their lower quality peers. Interestingly, we do not find robust evidence that firms allocate their best resources to projects that are more likely to generate future business; as such we also do not find evidence that client's suffer from moral hazard in the law firm's capability deployment decision. This may speak to the strength of professional norms in the UK profession but also to the importance of relationship and reputation in the legal profession.

6.2 Contributions

Despite the prominence of the resource-based view in the strategic management literature, we know comparably little about the factors that govern a firm's decision to deploy particular capabilities to specific projects. Yet several scholars have stressed the importance of a firm's capacity to deploy its capabilities in order to explain heterogeneity in firm performance. This paper documents patterns of resource allocation that are consistent with firms actively matching capabilities to projects where they are most productive under capacity constraint. In this regard, our paper provides crucial insights into the factors that drive a firm's decision to

match its individual-level capabilities to projects. This contributes to the empirical and theoretical literature on capabilities and on competitive advantage. In this regard, we show how the scarcity of resources affects the deployment and how firms alleviate capacity constraint inherent in resources through leveraging better resources across a wide range of projects. Further firms match their best capabilities to the most complex and highest fee earning projects, consistent with assortative matching. Interestingly, in the UK legal market firms do not seem to engage in ex-post moral hazard behavior in their decision to match their best capabilities to mandates in order to increase the potential for future revenue at the cost of current clients, which might speak to the high professional norms in the UK legal market. Our paper also makes a significant *empirical* contribution, as it has provided insights about the economic magnitude of the actual effect of capacity constraint of capabilities on their future likelihood of being deployed on new projects. In this regard, we find that this effect is economically large and very significant.

Overall, this paper shows that owning scarce and resources is not enough; resources need to be intelligently deployed, and the deployment decision is not necessarily a simple one. While our qualitative research shows that firms do not seem match their capabilities to projects based on efficiency optimizing algorithms, the capability matching decision is also not random. Instead, firms appear to intelligently deploy their resources based on myopically rational decision criteria that benefit the firm at least in the short-term. In this regard, we have shown specific criteria that firms appear to consider when making their resource deployment decision, such as capacity constraint, quality and experience of resources, as well as the project's current and future commercial impact. This paper also underscores the concepts of relative scarcity and opportunity cost of resources to understand how scarce resources are deployed.

References

- Aigner, D.J. 1973. Regression with a Binary Independent Variable Subject to Errors of Observation. *Journal of Econometrics* 1(1):49-60.
- Amit, R., and Schoemaker, P.J.H. 1993. Strategic assets and organizational rent. *Strategic Management Journal*, 14:33–46.
- Andrews, K.R. 1987. *The Concept of Corporate Strategy*. Homewood, IL: Irwin
- Barney, J. B. 1991. Firm resources and sustained competitive advantage. *Journal of Management*, 17:99-120
- Barney, J. B., & Arikan, A. M. 2001. The resource-based view: Origins and implications. In M. Hitt, R. Freeman, & J. Harrison (Eds.), *Handbook of strategic management*: 124–188. Oxford, U.K.:Blackwell.
- Becker, G.S. 1973. A theory of marriage: part I. *Journal of Political Economy*, 81: 813–846.
- Chao, R.O., Kavadias, S., Gaimon, C. 2009. Revenue Driven Resource Allocation: Funding Authority, Incentives, and New Product Development Portfolio Management. *Management Science*, 55:1556-1569
- Chatain, O. 2010. Value Creation, Competition and Performance in Buyer-Supplier Relationships, *Strategic Management Journal*, 32:76-102
- Cezik MT, L'Ecuyer P. 2008. Staffing multiskill call centers via linear programming and simulation. *Management Science*. 54(2):310-323
- Cohen, M. D, March, J.G., and Olsen, J.P. 1972. A garbage can model of organizational choice. *Administrative Science Quarterly*, 17:1–25.
- Elfenbein, D., Zenger, T. 2010. The Economics of Relational (Social) Capital: Exploring the Value of Exchange Relationships in Industrial Procurement. *SSRN Working Paper*, Nr. 1351852
- Garicano, L., and Hubbard, T.N. 2008. The Return to Knowledge Hierarchies. *NBER working Paper*, No. 12815
- Gilson R.J, Mnookin, R.H. 1985. Sharing Among the Human Capitalists: An Economic Inquiry into the Corporate Law Firm and How Patners Split Profit. *Stanford Law Review*, 37:313-392
- Grant, RM. 1996. Toward a knowledge-based theory of the firm. *Strategic Management Journal* 17:109-122.
- Holmstrom, B. 1979. Moral Hazard and Observability. *Bell Journal of Economics*. 10:74-91
- Kale, P., Perlmutter, H., Singh, H. 2000. Learning and protection of proprietary assets in strategic alliances: Building relational capital. *Strategic Management Journal*, 21:217-37
- Kogut, B, Zander, U. 1992. Knowledge of the Firm, Combinative Capabilities, and the replication of technologies. *Organization Science*. 3:383-397
- Kor, Y., Mahoney, T. 2005. How dynamics, management, and governance of resource deployments influence firm-level performance. *Strategic Management Journal*, 26:489-496
- Kor YY, Leblebici H. 2005. How do interdependencies among human-capital deployment, development, and diversification strategies affect firms' financial performance? *Strategic Management Journal*. 26(10):967-985
- Korhonen, P., Syrjanen, M. 2004. Resource allocation based on efficiency analysis. *Management Science*. 50:1134-1144
- Lewis, G.H., Srinivasan, A, Subrahmanian, E. 1998. Staffing and allocation of workers in an administrative office. *Management Science*. 44(4): 548-570

- Levin, J., Tadelis, S. 2005. Profit sharing and the role of professional partnerships. *Quarterly Journal of Economics*, 120:131-171
- Levinthal, D. A, Wu, B. 2010. Opportunity costs and non-scale free capabilities: profit maximization, corporate scope, and profit margins. *Strategic Management Journal* 31:780–801.
- Makadok R. 2001. Toward a synthesis of the resource based and dynamic-capability views of rent creation. *Strategic Management Journal* 22(5):387–401.
- Makadok R. 2003. Doing the right thing and knowing the right thing to do: why the whole is greater than the sum of the parts. *Strategic Management Journal*, October Special Issue 24:1043–1055.
- Makadok R, Barney JB. 2001. Strategic factor market intelligence: an application of information economics to strategy formulation and competitor intelligence. *Management Science* 47(12):1621–1638.
- Maister, D.H. 1993. *Managing the Professional Service Firm*. New York: The Fress Press
- Nelson, R. R., Winter, S. G. 1982. *An evolutionary theory of economic change*. Cambridge, MA: Belknap Press
- O’Flaherty, B., Siow, A. 1995. Up-or-Out Rules in the Market for Lawyers. *Journal of Labor Economics*, 13:709-735
- Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal*, 5:171-180
- Penrose, E.T. 1959. *The Theory of the Growth of the Firm*. Oxford, UK: Blackwell Publishers
- Prahalad, C.K., Hamel, G. 1990. The Core Competence of the Corporation. *Harvard Business Review*, 68:79-91.
- Simon, H. 1955. A behavioral model of rational choice. *Quarterly Journal of Economics*, 69:99-118.
- Sirmon DG, Gove S, Hitt MA. 2008. Resource management in dyadic competitive rivalry: the effects of resource bundling and deployment. *Academy of Management Journal* 51(5):918–935.
- Sirmon, D.G., Hitt, M.A. 2009. Contingencies within dynamic managerial capabilities: Interdependent Effects of Resource Investment and Deployment on Firm Performance. *Strategic Management Journal*. 30(13):1375-1394
- Sirmon, D. G., Hitt, M. A., & Ireland, R. D. 2007. Managing firm resources in dynamic environments to create value: Looking inside the black box. *Academy of Management Review*, 32:273–292
- Shapley, L. and Shubik, M. 1972. The assignment game I: the core. *International Journal of Game Theory*, 1:111–130.
- Slater, M. 1980. The managerial limitations to the growth of firms. *Economic Journal*. 90:520-528
- Starbuck WH. 1993. Keeping a butterfly and an elephant in a house of cards: the elements of exceptional success. *Journal of Management Studies* 30(6):885–921.
- Trajtenberg, M., Shiff, G., and Melamed, R. 2006. The “Names Game”: Harnessing Inventors' Patent Data for Economic Research, *NBER Working Paper*, No. 12479
- Wernerfelt, B. 1984. A resource-based view of the firm. *Strategic Management Journal* 5:171-180

Table 1
Descriptive statistics

Variable	Mean	SD	Min	Max
Staffed	0.044213	0.205568	0	1
Avg. Rank of Ranked	0.281104	0.368016	0	1.5
Not Ranked	0.494971	0.499976	0	1
Experience (month)	206.9823	76.3721	4	566
Project staffings in last 3 months	0.354475	0.72221	0	15
Project staffings in past 3 - 6 months	0.321109	0.690734	0	15
Project staffings in past 6 - 9 months	0.308677	0.680077	0	15
Project staffings in past 9 - 12 months	0.295403	0.66759	0	12
Project staffings in past 12 - 18 months	0.537113	1.002259	0	15
Project staffings in past 18 -24 months	0.485464	0.959842	0	15
Ranked in Acquisition Relevant Law Field	0.156854	0.363664	0	1
Avg. Rank in Acq. Relevant Law Field	0.182073	0.32347	0	1.25
Number of Partners of Law Firm	185.8825	123.548	2	516
Net Annual Income of Law Firm (in £m)	114.6996	93.87375	0	360
Associate-to-Partner Ratio of Law Firm	5.784176	1.50333	1.294118	24.33333
London Law Firm	0.363061	0.480884	0	1
National Law Firm	0.023981	0.15299	0	1

Table 2
Main Regression results

	(1)	(2)	(3)	(4)	(5)
Lawyer rank in any field	-0.214 (0.177)	-0.270 (0.181)	-0.243 (0.178)	-0.246 (0.179)	-0.261 (0.185)
Not Ranked	0.658 (0.705)	0.598 (0.716)	0.703 (0.693)	0.662 (0.698)	0.666 (0.704)
Ranked in acquisition relevant field	0.334 (0.331)	-0.256 (0.347)	0.284 (0.336)	0.259 (0.332)	0.334 (0.347)
Rank in acquisition relevant field	-0.347 (0.281)	-0.0621 (0.279)	-0.266 (0.283)	-0.231 (0.289)	-0.392 (0.321)
Lawyer Experience	-0.0171*** (0.00173)	-0.0174*** (0.00180)	-0.0185*** (0.00183)	-0.0171*** (0.00172)	-0.0171*** (0.00172)
London law firm	-0.187 (0.255)	-0.0557 (0.254)	-0.152 (0.263)	-0.187 (0.255)	-0.184 (0.254)
National law firm	0.228 (0.290)	0.327 (0.291)	0.250 (0.313)	0.227 (0.290)	0.231 (0.290)
Staffings in last 3 month	-0.0186 (0.0408)	-0.0819 (0.0691)	-0.446** (0.179)	-0.0186 (0.0410)	-0.0183 (0.0408)
Staffings in past 3 to 6 mths	-0.206*** (0.0415)	-0.282*** (0.0583)	-0.449*** (0.144)	-0.205*** (0.0418)	-0.206*** (0.0414)
Staffings in past 6 to 9 mths	-0.131*** (0.0364)	-0.208*** (0.0551)	-0.277** (0.119)	-0.130*** (0.0364)	-0.131*** (0.0364)
Staffings in past 9 to 12 mths	-0.157*** (0.0370)	-0.210*** (0.0423)	-0.331*** (0.0831)	-0.173*** (0.0296)	-0.172*** (0.0299)
Staffings in past 12 to 18 mths	-0.0975*** (0.0249)	-0.130*** (0.0388)	-0.216*** (0.0722)	-0.0978*** (0.0252)	-0.0978*** (0.0248)
Staffings in past 18 to 24 mths	-0.0832*** (0.0297)	-0.0961*** (0.0367)	-0.166 (0.110)	-0.0831*** (0.0297)	-0.0829*** (0.0297)
Dealsize_Q5	0.545*** (0.0703)	0.543*** (0.0702)	0.542*** (0.0702)	0.502*** (0.0792)	0.546*** (0.0704)
Dealsize_Q4	0.348*** (0.0668)	0.348*** (0.0667)	-0.196*** (0.0492)	0.347*** (0.0667)	0.349*** (0.0668)
Dealsize_Q3	0.236*** (0.0651)	0.236*** (0.0650)	-0.308*** (0.0531)	0.236*** (0.0651)	0.238*** (0.0653)
Dealsize_Q2	0.0747 (0.0638)	0.0739 (0.0638)	-0.468*** (0.0580)	0.0748 (0.0638)	0.0750 (0.0638)
Dealsize_Q1	-0.0342 (0.0625)	-0.0349 (0.0625)	-0.580*** (0.0602)	-0.0341 (0.0625)	-0.0338 (0.0625)
Law firm; # of Partners <10	-0.426 (0.577)	-0.490 (0.568)	-0.426 (0.575)	-0.425 (0.580)	0.424 (0.577)
Law firm; # of Partners between 10 and 50	-0.795 (0.613)	-0.860 (0.612)	-0.783 (0.601)	-0.790 (0.612)	-0.371 (0.409)
Law firm; # of Partners between 50 and 100	-1.453** (0.632)	-1.495** (0.628)	-1.429** (0.618)	-1.447** (0.630)	-1.029** (0.427)

Continuation of table 2

	(1)	(2)	(3)	(4)	(5)
Law firm; # of Partners between 100 and 250	-1.398** (0.646)	-1.415** (0.643)	-1.377** (0.631)	-1.391** (0.645)	-0.973** (0.443)
Law firm; # of Partners >250	-1.434** (0.670)	-1.472** (0.670)	-1.429** (0.657)	-1.431** (0.669)	-1.011** (0.476)
Law Firm: NAI<50m	0.662* (0.349)	0.677* (0.354)	-0.464*** (0.142)	0.677* (0.349)	0.663* (0.349)
L. Firm: NAI betw. 50 and 100m	0.207 (0.333)	0.222 (0.338)	-0.652* (0.351)	0.216 (0.334)	0.207 (0.334)
Law Firm: NAI >100m	-0.417 (0.794)	-0.369 (0.798)	-1.058 (0.746)	-0.416 (0.797)	-0.419 (0.792)
L. Firm: Assoc.-to-Partner Ratio	0.00321 (0.0291)	0.00197 (0.0288)	0.00836 (0.0290)	0.00344 (0.0291)	0.00299 (0.0291)
Staffings in last 3 month x ranked in acq. relevant field		0.126* (0.0757)			
Staffings in past 3- 6 mths x ranked in acq. relevant field		0.169*** (0.0550)			
Staffings in past 6- 9 mths x ranked in acq. relevant field		0.168*** (0.0523)			
Staffings in past 9-12 mths x ranked in acq. relevant field		0.0710 (0.0574)			
Staffings in past 12-18 mths x ranked in acq. relevant field		0.0594 (0.0460)			
Staffings in past 18- 24 mths x ranked in acq. relevant field		0.0270 (0.0410)			
Staffings in last 3 month x lawyer experience			0.00200*** (0.000682)		
Staffings in past 3- 6 mths x lawyer experience			0.00114** (0.000565)		
Staffings in past 6-9 mths x lawyer experience			0.000659 (0.000471)		
Staffings in past 9-12 mths x lawyer experience			0.000666* (0.000343)		
Staffings in past 12-18 mths x lawyer experience			0.000493* (0.000291)		
Staffings in past 18-24 mths x lawyer experience			0.000353 (0.000428)		
Dealsize_Q5xRanked in Acq. Relevant field				0.507* (0.260)	
Ranked in Acquisition rlvt. field x client acquirer					0.00701 (0.143)
Lawyer fixed effects	Included	Included	Included	Included	Included
Area Ranking dummies	Included	Included	Included	Included	Included
Missing data dummies	Included	Included	Included	Included	Included
Observations	145,373	145,373	145,373	145,373	145,373

Robust standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1