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# GOING GLOBAL? CITY-BASED STATUS, MIMICRY, AND EXPANSION PATH IDIOSYNCRASY IN THE DIFFUSION OF A GLOBAL IDENTITY AMONG U.S. LAW FIRMS, 1980-2011

## Abstract:

This paper investigates the determinants and contingencies of corporate law firm's adoption of a global form. I find that the likelihood of a U.S. law firm to open a foreign branch office increased with its affiliated cities' level of status up to a point and then decreased during the period of 1980-2011. To further assess whether some of the rush to go global is generated by contagion-driven competitive mimicry, I also examined the influence of structurally equivalent firms – firms that are similar in overall geographic configurations. I find that a firm' decision to open a foreign branch office is indeed susceptible to recent similar actions by its structurally equivalent peers but it is firms with less-prestigious location profiles that are most susceptible to such social influence. Additional results show that firms having historically pioneered their own unique expansion path were less affected by recent foreign branch openings of their peers. Together, this chapter illustrates how forces such as location-based status, competitive mimicry, and history interact in the complicated fashion in the diffusion of a global form in the legal industry.

## Keywords:

going global, organizational theory, law firms, status, mimicry

## 1.1. INTRODUCTION

The formation of an organization's market identity or an organization's perceived position in the market relative to others, and its role in organizational behavior and outcome have received considerable attention in contemporary studies of organizations and markets. In particular, many theorists have extended the sociological perspective on identity to the understanding of a diverse array of economic phenomena. Empirical applications of the sociological notion of identity come from various lines of thought. They range from the analysis of the patterns of de-diversification among public corporations (Zuckerman, 2000), the rise of microbrewery (Carroll and Swaminathan, 2000), and the evolution of specialist wine producers (Swaminathan, 2001), to the examination of the formation of identities among Silicon Valley young high-tech companies (Hannan et al, 2006), French cuisine restaurants (Rao, Monin, and Duran, 2003), and feature film producers (Hsu, 2006). Some scholars also studied the ways in which a novel organizational identity had emerged during the Middle Age in Florence (Padgett and McLean, 2006), in the health care sector (Ruef, 2000), and in the disk-array market (McKendrick et al, 2003).

Less explored is a joint consideration of when an economic actor attempts to change its market identity and how this newly formed identity becomes a population-level phenomenon. The structural inertia theory posits that an organization's identity tends to be inertial and thus a new identity has difficulty in diffusing within a given population because selection forces operate more favorably on reliable and accountable entities (Hannan and Freeman, 1984). Despite this theoretical insight, we frequently observe that some organizations attempt to change their identity and

such new identity sometimes succeeds in diffusing across many other firms while other organizations remain firmly committed to the identity with which they are initially associated. In this chapter, I seek to address this individual-level variability by investigating the social structural and historical contexts under which an organization is more or less compelled to engage in strategic action geared towards changing its existing identity.

Specifically, using the U.S. corporate legal services market of the last three decades as an empirical context, I examine the diffusion of a new market identity, a global form in this context. From the perspective of an individual law firm, the adoption of a global form constitutes a major identity change as it primarily involves a shift from being a local or national firm to being a global firm. I suggest that the formation of a global identity is largely initiated by certain law firms which attempt to blur their less prestigious location-based identity by becoming a global firm.

In doing so, I empirically analyze sources of variations in the foreign branch office opening behaviors of large U.S. law firms from 1980 to 2011.[1] I first show that the status level of a focal firm's affiliated cities is curvilinearly (increases and then decreases) associated with its likelihood of going international even after controlling for many other firm-level attributes. I suspect that this is in part because firms positioned in the middle of U.S. city-based status hierarchy are the ones which

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1. It is also worth noting here that it is during this study time period that a new organizational form of mega-law firm has emerged. Scholars of the legal profession have pondered on the economic drivers that lead to exponential growth of law firms during this time period and characterized the phenomenon as the transformation of big law firms (Galanter and Palay, 1991; DeStefano et al., 2003). Yet, they are relatively agnostic about the fact that law firms characteristically vary with respect to how they expand their practice. Although the goal of this paper lies primarily with illuminating the ways in which law firms position and reposition themselves in the identity space, I believe that my analysis offers a starting point to discover the social mechanisms, in addition to the economics of the law firm, that drive the rise of the mega-law firm.

aspire most to challenge existing status hierarchy (cf. Phillips and Zuckerman, 2001) by shifting the arena of competition from national to international.

Secondly, I show that such tendency accelerates through competitive mimicry by which the focal firm's foreign branch opening is influenced by recent similar actions of its structurally equivalent peers. This implies that the population-level diffusion is primarily driven by status-seeking competition among similarly positioned firms (see Burt, 1987; Bothner, 2003). Further, I analyze how those firms having expanded overseas following their own idiosyncratic trajectories react to the pressure of social influence.

## 1.2. THEORY AND HYPOTHESES

### 1.2.1. Location-based Status

In the legal services market, the external audience derives the information about the quality and price of market offerings from the geographic affiliations of prospective producers primarily because they are one of salient, easily observable pieces of information about the producers who are otherwise difficult to evaluate. This holds most strongly when the audience does not have resources or motivation to incur high search cost to locate its match. The implication of regarding a firm's geographical affiliations as important element of its market identity is that firms are likely to engage in identity-oriented behavior by means of changing their geographical profiles.

Although the actor is not able to change its home city, a geographic locale where its first office was established, there is reason to believe that corporate actors sometimes seek to change their disadvantaged locational profiles, thereby forming a new identity. They may engage in this type of identity-oriented actions in order to

alleviate the constraining effect of their past identity.

In the legal services industry, those firms with large corporate clients that have global operations may have economic incentive to expand their foreign operation by way of establishing new non-U.S. branch office. And if law firms also have to compete with one another so as to maintain their existing clients operating overseas, they have sufficient reason to set up overseas offices. I suggest that it is particularly those law firms with mid- level of status of their geographical affiliations have most incentive and capability to expand abroad for two reasons.

First, in my specific empirical setting, it is well-documented that the rise of the multi-office firm is predominantly concentrated among law firms whose hometown is located in the Midwest (e.g., Heinz, Nelson, and Laumann, 2001; Heinz et al., 2005; Silver, 2000; Silver, Phelen, and Rabinowitz, 2009). Indeed, corporate law firms from cities such as New York, Washington D.C. did not at first expand their domestic branch offices even though they were growing in their existing offices. This is because these firms from more prestigious cities desired to preserve their home market identity. For example, New York-based law firms have historically enjoyed endowed opportunities with respect to talents and clientele. Most of this advantage stems from its affiliations with wealthy clients and elite schools and thus there exists the tight coupling between quality and status. This implies that there are endowed advantages to New York-based white-shoes law firms (WASP law firms with elite law school connections and connections to financial markets by proximity) in the corporate legal services market. Therefore, New York firms abstained from diluting status by expanding too thinly. Furthermore, the norm of professional purity tends to be stronger amongst this group and thus they prefer to keep social distance from

their clients. On the contrary, non-New York firms are less constrained to seek market opportunities by moving closer to clients.

Second, changing locational profiles by adding new branch office or moving the main office is an economically costly endeavor. This means that not all firms with less prestigious geographical profiles have the same economic capability or incentive to engage in such actions. Firms located in the least prestigious cities, for example, tend to have few large clients with foreign operations. Thus, these firms with very little location-based status are less likely to have reasons to set up costly foreign offices.

Therefore, I suggest that the formation of a global form among corporate law firms is likely to be initiated by middle-status law firms which attempt to blur their less privileged location-based identity by creating a new market identity. This is in part because firms positioned in the middle of U.S. city-based status hierarchy are the ones which aspire most to challenge existing status hierarchy by shifting the domain of competition from national to international. Thus, I formulate my first hypothesis as:


**H1:** *The level of a focal firm's location-based status increases and then decreases the likelihood that it will open a non-U.S. branch during a given year.*


1.2.2. Competitive Mimicry

Imitation-based explanations are at the heart of organizational research on firm behavior and outcome (See Lieberman and Asaba, 2006 for a comprehensive review of imitation-based theories). Most scholars in this perspective emphasize uncertainty or ambiguity as the scope conditions for imitation behavior. Vast empirical work

documents that imitation is most frequently observed in environments characterized by uncertainty or ambiguity where few decisions have fully predictable outcomes, or the relationship between cause and consequences is unclear. This view is also closely aligned with the neo-institutional idea of mimetism that highlights organizations' tendency to imitate the practices of others that are similar to themselves (DiMaggio and Powell, 1983). Empirical research in the spirit of institutional theory supports this argument. Multiple studies demonstrate that firms tend to follow the corporate strategies of other firms in the same domain (Tolbert and Zucker, 1983; Haveman, 1993; Fligstein, 1985; Palmer et al, 1987).

Given the strong evidence for imitation behavior or mimicry under uncertainty, researchers have developed two major approaches to the question of whom firms imitate. In order to identify reference groups of a focal firm in adoption decisions, one line of research focuses on whom managers frequently 'speak' with outside their immediate organization, aiming to uncovering direct channels of influence. Many researchers in this camp study interlocked companies, and find that an array of organizational practices diffused through direct or indirect contacts originating from the interorganizational network made of directorship ties (Galaskiewicz and Wasserman, 1989; Davis, 1991; Greve, 1996; Haunschild and Beckman, 1998). Another line of research pays attention to whom managers 'observe', considering proximate peers, salient others, and direct rivals or structurally equivalent firms as constituting core reference groups for the focal firm (Burt, 1992; Baum and Korn, 1999; Haveman, 1993; Greve, 1996). Organizational scholarship in this school of thought has made considerable progress in documenting multiple dimensions of proximity, saliency and similarity in various contexts, combining space-based,

network-analytic or categorical approach to specify them (Porac et al., 1995; Stuart, 1998).

Scholars in this latter vein of research suggest two primary reasons for why firms copy the observed actions of similar others. One reason for the similarity-based imitation is offered via social psychological reasoning. This explanation highlights that organizations often imitate their equivalent peers to avoid falling behind since they believe that 'not keeping up with the Jones' would result in the loss of status amongst themselves (Burt, 1987; Bothner, 2003). Another explanation for peer imitation emphasizes the benefit of vicarious learning: organizations perceive that the action of their peers conveys useful information from which they can benefit ( Levitt and March, 1988; Mezia and Lant, 1994). Scholars also suggest that learning from others' experience often focus on the outcomes occurring in spatial proximity (Baum and Haveman, 1997; Baum and Korn, 1999). Yet, it is empirically challenging to tease these two micro mechanisms apart since the rivalry-induced imitation and similarity-based vicarious learning tend to be closely related. The main difference is that the former emphasizes the competitive dynamics between rivals, and the latter underscores the information values of the signal for the purpose of performance enhancement.[2]

My empirical context closely resembles high uncertainty situations portrayed in many

2. Organizational learning theorists argue that managers frequently regard salient firms as their learning targets. According to this line of research, imitating salient others helps actors militate against the cognitive burden involved in learning from others' experience in complex situations, thereby contributing to minimizing uncertainties (Mezias and Lant, 1994). Scholars also argue that the firm's propensity to be imitated is positively associated with the information value of its signal where actions by larger, more successful, or more prestigious firms may be seen as more informative (Haveman, 1993; Greve, 1996; Haunchild and Miner, 1997). This view is consistent with the sociological idea that actors may seek to capitalize on the perceived legitimacy or status gain by closely following the actions of successful, prominent peers.

previous empirical work. In addition, intensifying competition both in the product market and labor market renders this context particularly amenable to imitative pressures. It is worth noting here some of the dramatic changes that are particularly relevant to competitive dynamics, hence isomorphic pressures, in the corporate law market. Until the 1980s, many large law firm partners typically stayed in incumbent positions for lifetime. Yet, lateral movements of partners have drastically increased over the past three decades. This change has intensified competition not only for talents but also for clients as laterals tend to take business with them. In addition, the advent of the legal media (i.e., *American Lawyer*) in the 1980s made information about firm revenue, partner profits and lawyer salaries publicly available. Before the 1980s, these kinds of financial data had been hard to come by as firms did not discuss such matters with outsiders. Overall, more quantitative information has encouraged further competition in both labor and product market as lawyers and corporate purchasers become more willing to switch firms in an effort to make more informed choices (Heinz, Nelson, and Laumann, 2001; Heinz et al., 2005).

Applied to my empirical context, law firms contemplating an entry into a particular country are more likely to resort to the previous experiences of salient firms who share similar location profiles. By observing prior entrants in new areas who are salient to the focal firm, it can learn, for example, whether the increase in firm size with the new opening of the office would at least be supported by a sufficient increase in revenues to cover the costs of the additional lawyers and support staff. Thus, information from the firms already present in the market has a substantial value for the focal firm in making inference about market demand. Furthermore, law firms are likely to believe that copying the actions of similar actors may confer

legitimacy and signals status in the increasingly globalizing marketplace.

Given these characteristics of my empirical context, it is reasonable to expect that law firms' decisions to open a foreign office are likely to be influenced by similar decisions by other firms. Theoretical reasoning outlined above suggests that, under high uncertainty decision situations that involve the opening of a new overseas office, imitation of similar firms will occur to avoid falling behind rival law firms, or to capitalize on information content conveyed through prior openings by similar other laws. Furthermore, due to highly geographic nature of competition in the corporate law market, law firms are more likely to attend to the relevant actions by close competitors who overlap in geographic market space. Thus, I formulate my second hypothesis as:

**H2:** *The greater the number of recent openings of non-U.S. branch by structurally similar peers, the greater the likelihood that a focal law firm will open a non-US branch during a given year.*

1.2.3. Contingency of Mimicry: Idiosyncratic Expansion Path

However, some firms may have been more predisposed to adopt the global organizational form due to their founding conditions such as the vision of the founder. For these firms, there is likely to be internal forces that lead them to follow their idiosyncratic path throughout their lifetime. Illustrative examples in this context would be such firms as Baker & McKenzie, White & Case, and Coudert Brothers.[3] They are

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3. Baker & McKenzie had five U.S. offices and 21 non-U.S. offices in 1978, and this increased to nine and 60 in 2008; White & Case had two U.S. and four non-U.S. offices in 1978, and this

three of the most globalized firms throughout the history of U.S. law firms. Their individual history suggests that the founding fathers envisioned their firm to be an international law firm (Silver, 2000; Silver, Phelen, and Rabinowitz, 2009).

In view of this, I contend that the contagious influence of structurally similar peers on foreign expansion would diminish for firms with atypical expansion trajectory, those with strong internal commitment toward multi-branching strategy. This claim is consistent with the long-standing notion of organizational inertia among organizational theorists (Hannan and Freeman, 1984). Organizational inertia engendered through enduring internal commitment to internationalization, thus, is responsible for generating the moderating effect of peers because inertia renders firms relatively insensitive to changing external influence. On the contrary, this implies that the influence of structurally similar peers on the adoption of global practice would be more pronounced when firms are less predisposed toward following its own path in expansion. Thus, I predict that imitating peers' actions is likely to be weaker for the firms with stronger internal commitment toward internationalization. I test this idea by assessing how the effect predicted in Hypothesis 2 changes by the degree to which law firms have previously established offices in foreign cities in atypical sequences, that is in the sequence in which not many firms have expanded Formally, I formulate my third hypothesis as:

*H3: The influence of peers on the likelihood of opening a non-U.S. branch will decline when the focal law firm has historically followed more idiosyncratic path of*

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increased to five and 32 in 2008; Coudert Brothers (defunct as of 2004) had three U.S. and seven non-U.S. in 1978, and this increased to five and 19 in 2004.

*foreign expansion.*

## 1.3. METHOD

### 1.3.1. Corporate Law Market

The diffusion of spatially multi-unit form, especially with respect to global expansion, has been most remarkable among the population of U.S. corporate law firms (Heinz, Nelson, and Laumann, 2001; Silver, 2000; Silver, Phelen, and Rabinowitz, 2009). The corporate legal services market is a particularly attractive context for my theoretical purpose. This setting allows me to explore the role of market audience and peers concurrently. Two features of the corporate law market are of relevance. First, there has been a shift in client-attorney relationship, increasingly toward more market competition, away from squarely exclusive dealings. Traditionally, competencies of outside law firms accumulate through local work with long-term, proximate clients. Yet, over the past three decades, many large corporations have grown the legal capacity of their own. As a result, much of large law firm's work comes to consist of specialized projects handled in the name of special, local counsel, rather than as on-going, general counsel to corporate headquarters (Uzzi and Lancaster, 2004; Heinz et al, 2005). This means that the corporate inside counsel enjoys increasing authority to disaggregate her company's legal work and delegate it to a panel of outside law firms.[4] Consequently, changing dynamics of client-lawyer relationship have put many law firms under increasing strain. In this

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4. As corporate general counsels tend to be evaluated by the same measures (i.e., cost savings) as other executives, their incentive to shop around for best deals grows. And some general counsels might also have greater incentive to build up their own departments in order to enhance corporate influence, leading to less outsourcing to outside law firms.

light, failures to retain large clients amount to a significant liability. This trend exacerbates as a law firm's home turf is no longer safe from competition coming from both within and outside the legal industry.[5] Product innovation is not much of a solution to the problem for many large, diversified corporate law firms as there is only little room for new service offerings in legal matters.

Second, local variation in demand for a range of legal services and industry specialties typically determines the product scope of firm in the corporate law market (i.e., VC and IT specialty among Silicon Valley law firms, specialty in energy-related regulations among Texas law firms). As a result, product scope and specialization of the law firm is very closely related to its geographic scope. Under this situation, spatially proximate firms' moves are likely to draw significant attention from the focal firm's decision makers. In addition, information from the firms already present in the target geographic market will be of value to the focal firm in making inference about market demand. Indeed, as legal industry publications amply document, law firms allocate major portion of their monitoring efforts to other firms overlapping in geographic markets. Geographically organized professional associations (i.e., New York City Bar) and social clubs also function as auxiliary channels of information. These types of organizations have been known to facilitate active knowledge sharing among lawyers (Nelson, 1992; Powell, 1988; Lounsbury, 2002; Greenwood and Suddaby, 2002). These characteristic elements of the legal services industry indicate that firms have many opportunities and incentives to observe other firms. And,

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5. Another competitive pressure comes from outside the corporate law market. In the 1990s, big accounting firms' encroachment on law's turf had caused significant anxiety in the legal profession although it came to a halt with the demise of Arthur Anderson (Dezalay and Garth, 2004; Suddaby and Greenwood, 2005).

geographically bounded corporate law market space renders empirical grasp of the constitution of peers relatively less problematic. In the setting where comprehensive data on product market activity are difficult to come by, geographic nature of competition allows for an alternative identification of peers and measurement of their actions.

The global expansion of large U.S. law firms is noted as one of the most remarkable transformations that the corporate legal services market has undergone over the last three decades (Heinz, Nelson, and Laumann, 2001; Silver, 2000; Silver, Phelan, and Rabinowitz, 2009). In 1980, there were only a handful of U.S. law firms that could boast of having overseas offices. During the period from 1980 to 2011, yet, 828 foreign branch offices were set up by 189 (out of 421) large U.S. law firm. Despite economic rationales offered by several scholars, however, many observers are still puzzled by the increasing trend toward globalization of corporate law firms.


1.3.2. Multi-branching

Recent years have witnessed a substantial increase in the spatial expansion activity among professional services organizations such as large law firms, big accounting firms, and consulting firms (Brock and Powell, 2005; Denny, 2004; Flood, 1999; Fox, 2000; Dezalay and Garth, 2004). These organizations have accomplished domestic as well as international expansion primarily through direct establishments of branch offices or acquisitions of local offices.[6] The intensification of these activities is

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6. Cross-border M&As among equal-status firms are more of a recent phenomenon compared to direct openings of outpost offices or acquisitions of local offices. Although some firms have started to rely on alliance networks, firms often deploy cross-border alliance network when they need to

accompanied by a dramatic rise in the adoption of spatially multi-unit organizational form, and hence, geographic diversification, among professional services firms. Spatially multi-unit organizations have been most widespread in service industries that directly target individual consumers, as in the hotel industry (Ingram and Baum, 1997), the savings and loans industry (Haveman and Nonnemaker, 2000), the nursing home sector (Baum, Li, and Usher, 2000), the retail banking industry (Greve, 2000), the restaurant industry (Sorensen and Sorenson, 2001), and the retail outlet industry (Ingram and Rao, 2004). Due to scale and learning economies, mass-market oriented retail organizations benefit from centrally-coordinated replication through franchising or chain affiliations (Winter and Szulanski, 2001; Argote and Darr, 2000).

Yet, it is less clear how much of these scale and learning-based benefits professional services firms can extract, for example, in expanding globally, when centrally-coordinated replication is relatively difficult to execute. For example, to what extent do the processes that drive the growth of multi-unit retail organizations such as Wal-Mart, McDonalds, Citibank or Marriott Hotel also drive the spatial expansion of big professional services organizations such as PWC or Baker & McKenzie? Professional services firms are distinguished from retail services companies, most evidently in that the former considers the corporate sector as their primary target market whereas the latter serves mass markets. Gearing toward the needs of individual corporations, rather than mass consumers, limits the extent to which scale economies can be achieved. And, for professional services firms, knowledge transfer

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refer their clients to other out-of-town or country firms due to lack of specific expertise or conflicts of interest (Greenwood, Hinings, and Brown, 1994).

is largely dependent on the mobility of knowledge-carrying employees across geographic units, and expert knowledge tends to localize around clusters of clients. This poses a challenge for the coordination of knowledge transfer and appropriation from knowledge replication. Therefore, conventional accounts grounded in scale-based and learning-centered rationales do not seem to capture the dynamics accompanying the diffusion of spatially multi-unit form among professional services firms.

### 1.3.3. Data, Sample, and Dependent Variable

I compiled a database which allows me to trace global branch expansion histories of U.S. law firms from 1980 through 2011. I limit my sample law firms to the 421 U.S. law firms listed in the *National Law Journal* (NLJ) in the period of analysis. NLJ ranks 250 largest law firms in the U.S. based on its annual surveys of the total numbers of attorneys employed by its sampled law firms across both U.S. and non-U.S. branch offices. From NLJ data, I construct branch-level data that trace branch information of the selected 421 U.S. law firms in a given year to operationalize branch-level variables. Next, I aggregate the branch-level data into the firm-level data to construct firm-level variables. The 421 U.S. law firms' appearances in the NLJ list between 1980 and 2011 result in 7,291 year-firm level observations, are the units of my analyses.[7]

I focus on U.S. law firm's opening of its branch in non-U.S. region, as an indication of

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7. NLJ coverage of given law firm may not be available throughout all years of my study period, and hence the NLJ data are unbalanced panel. Some law firms were disbanded as they went bankrupt or merged with other firms. Others were occasionally not listed because they did not respond to the survey or their size fell outside the 250-bound.

its adoption of globalization strategy. As such, my dependent variable is the binary variable in the year-firm level panel data structure that codes one if a given law firm opened at least one new branch office in non-U.S. regi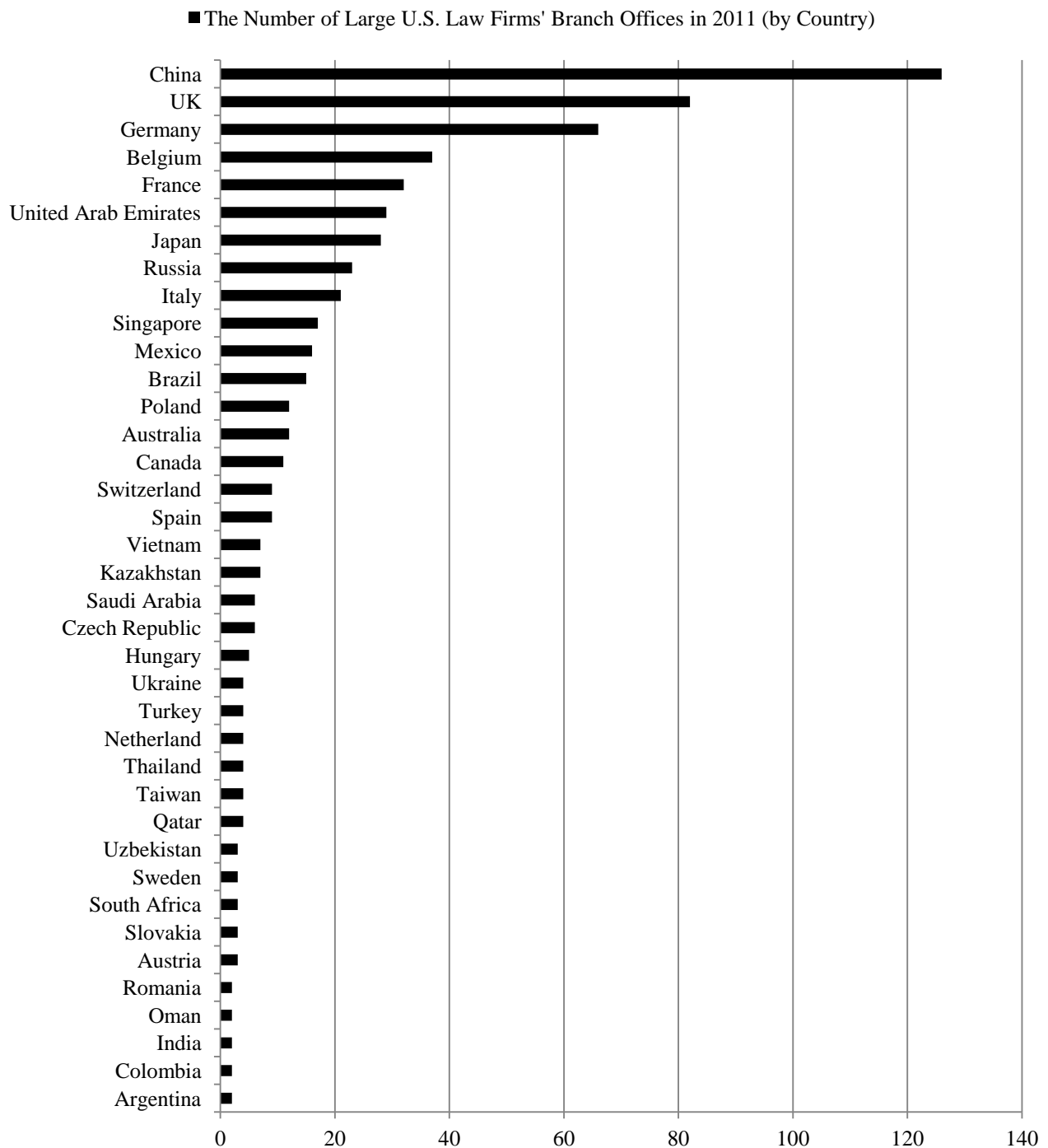ons during a given year and zero if not. To determine whether a U.S. law firms opened a new branch office in non-U.S. regions, I refer to the branch-level data. I record a new branch opening of a law firm in a given year, if a new branch appears in non-U.S. city in which the firm never had presence in the past years. After the identification of new branch offices of a law firm at the branch-level data, I create a dependent variable at the firm-level data that codes one if the firm had at least one new branch location in a given year. For further analyses, I also sub-categorized my dependent variables into two by separately observing new branch office openings in global financial cities (London, Paris, Tokyo, and Hong Kong) and openings in all other non-U.S. cities. Similarly, I code one if a law firm had opened a branch office in the sub-categories of non-U.S. cities. Figure 2.1 presents the geographic distribution of U.S. law firm's non-U.S. branch offices in 1980 and 2011. The map indicates U.S. law firm's expansion of their branches from Europe to Asia and Middle East. Figure 2.2 reports the count of U.S. law firms spread in non-U.S. countries in 2011. Figure 2.3 shows both yearly and cumulative count of law firm's new non-U.S. branch openings.

**Figure 2.1. Global Distribution of U.S. Law Firms' Non-U.S. Branches (1980 vs. 2011)**
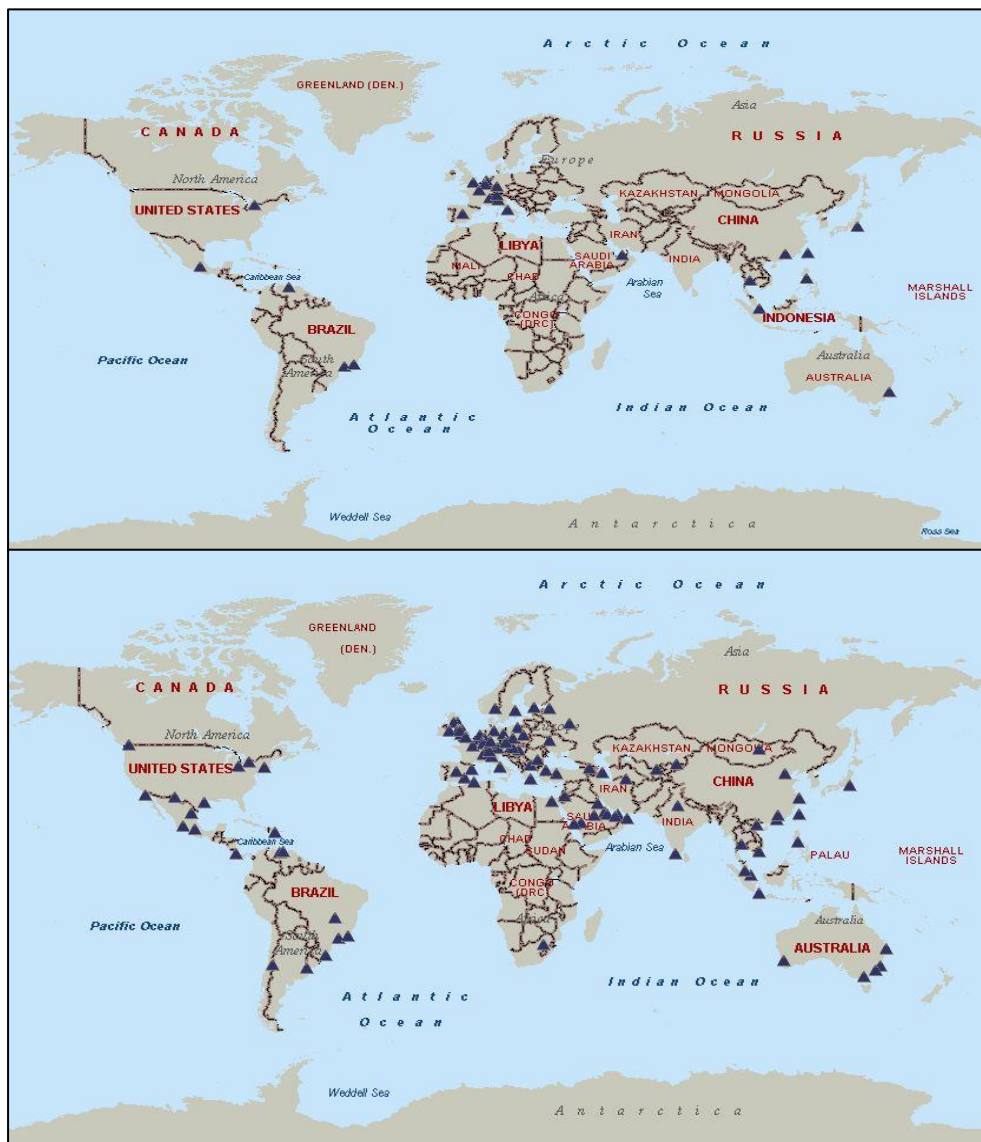


*Note: Branch locations are mapped from NLJ branch-level data.

## Figure 2.2. Global Distribution of U.S. Law Firms' Non-U.S. Branches (2011)

■ The Number of Large U.S. Law Firms' Branch Offices in 2011 (by Country)

China
UK
Germany
Belgium
France
United Arab Emirates
Japan
Russia
Italy
Singapore
Mexico
Brazil
Poland
Australia
Canada
Switzerland
Spain
Vietnam
Kazakhstan
Saudi Arabia
Czech Republic
Hungary
Ukraine
Turkey
Netherland
Thailand
Taiwan
Qatar
Uzbekistan
Sweden
South Africa
Slovakia
Austria
Romania
Oman
India
Colombia
Argentina

0       20      40      60      80      100     120     140

*Note: This graph is developed from NLJ branch-level data. 20 countries with less than two U.S. law firm branch offices are excluded from the graph.

**Figure 2.3. Time Trend of U.S. Law Firm's Non-U.S. Branch Openings (1980-2011)**
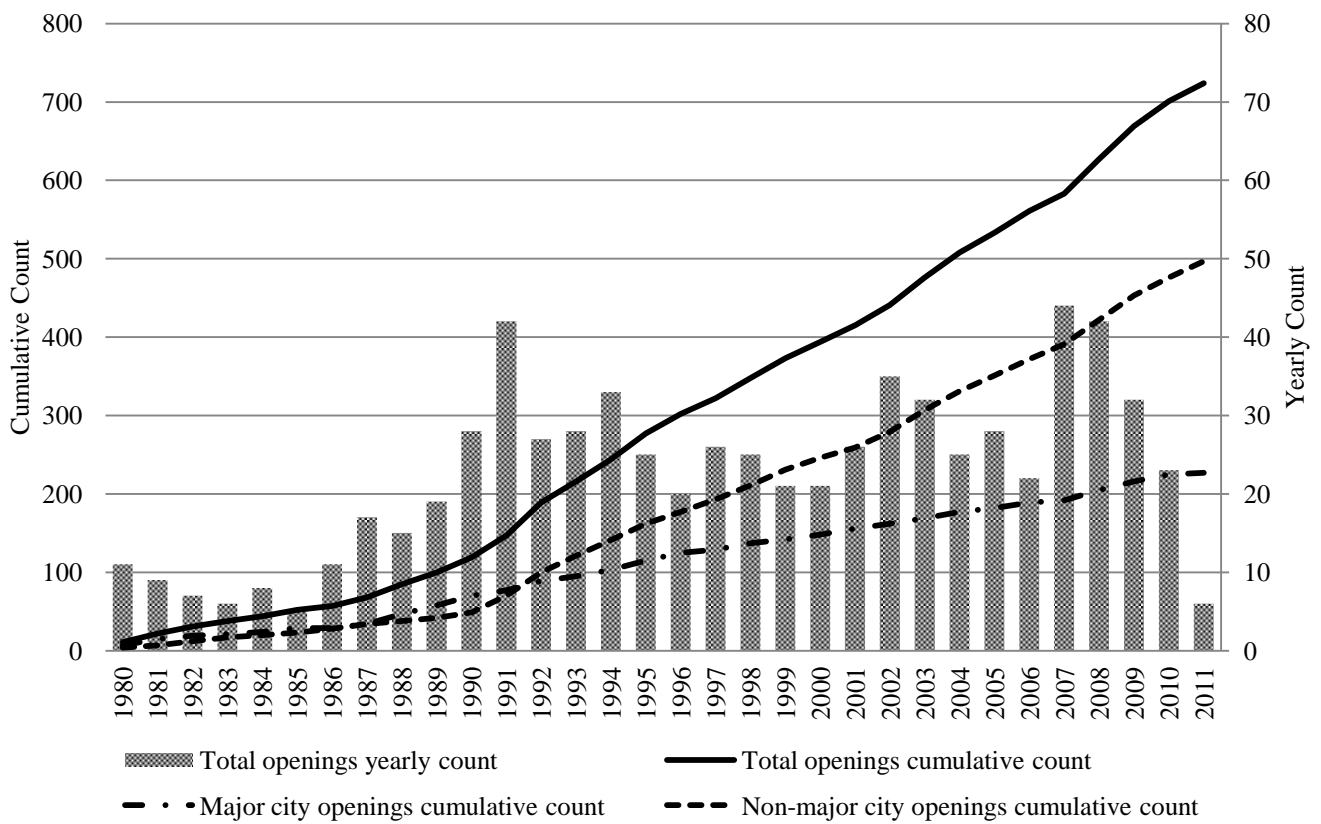


*Note: Graph complied from NLJ branch-level data.

1.3.4. Model Specification

Since my dependent variable is a dichotomous variable that denotes whether the focal firm goes global in a given year, I employ both firm fixed-effects and random-effects logit regression to estimate the likelihood of the U.S. law firm going global.

There are three practical advantages to this estimation strategy when analyzing clustered and longitudinal data. First, random-effects models correct for the problem of interdependence in clustered data. In my data, branch opening activities are clustered within law firms, an instance of repeatable events with variation occurring both within and between individual organizations. The major improvement associated with random-effects models over pooled cross-sectional analysis is thus to account for the effect of clustering on standard errors. Second, in the panel setting, removing unobserved heterogeneity that may remain across law firms after controlling for other organization-level attributes with the utilization of fixed-effects is complicated by the incidental parameters problem when the dependent variable is binary (Baltagi, 2005).

By adopting random-effects models, one can deal with this issue simply by treating individual-specific errors as random draws from normal distribution. Third, the random-effects estimator, as compared to the fixed-effects one, does not force me to drop observations for law firms which did not change their identities throughout the observation window. However, the shortcoming of random-effects is that consistent estimation by maximum likelihood requires the assumption that the errors are independent of other regressors. Subsequently, I also report in the next section the results from the law firm fixed-effects models to show how relaxing this assumption affects the main results by using conditional logit specification.

1.3.5. Hypothesis-Testing Variables

I operationalize the U.S. law firm's location-based status in the following two steps. First, I compute each U.S. branch city's centrality score from the city-by-city matrix. In the current empirical settings, the centrality of the branch location is an important indicator of U.S. law firm's status. Second, I aggregate the city-level centrality score into the firm-level by weighting the score with the proportion of firm's U.S. attorneys allocated to the given city. In the first step to construct city-level centrality, I rely on NLJ branch-level data to first build firm-by-city network. With U.S. law firm as a node and U.S. city as another node, I define a tie between the law firm and the city if the law firm has a branch office in that city. Therefore, in the firm-by-city matrices, $\text{cell}_{ij}$ is coded one if $\text{law firm}_i$ is stationed in $\text{city}_j$ and zero otherwise. I transform this two mode firm-by-city network into one mode city-by-city network. Considering each city as a node in the network, I record a tie between a pair of cities if there is at least one firm that has its offices in both cities. As such, in the city-by-city matrix, each off-diagonal $\text{cell}_{ij}$ denotes the number of law firms that $\text{city}_i$ and $\text{city}_j$ share. For example, if the law firm A has branches in both Los Angeles and New York, then Los Angeles and New York have a tie between them.

From these city-by-city networks, I calculate Bonacich eigenvector centrality, which recursively weights ego's centrality by the centralities of the neighborhoods. In order to control for the across-year variation among annually-changing city-by-city matrices, I normalize this measure by dividing the measure by maximum possible centrality difference between ego and neighborhood in a given network. I use UCINET 6.461 to calculate this measure. The formal mathematical expression of this measure can

be expressed as:

$$c_i(\alpha, \beta) = \sum_{j=1}^{n} (\alpha + \beta c_j)\gamma_{ij},$$

where $c$ is the centrality score, $\alpha$ is the scalar measure, $\beta$ is the weight of other city centralities, and $\gamma_{ij}$ is the relationship between $\text{city}_i$ and $\text{city}_j$ (Sorenson and Stuart, 2001: 1568). Table 2.1a. presents the results of the calculation and shows that Washington has been the most central location in the law firm network in both 1980 and 2011. The next four central cities of New York, Los Angeles, Chicago, and San Francisco in 1980 still maintain their strong central positions in 2011, but centrality of other cities fluctuated over the decades.

**Table 2.1a. Examples of Bonacich Eigenvector Centralities of U.S. Cities**

| 1980 rank | U.S. city | U.S. state | 1980 eigenvector centrality | 2011 rank | 2011 eigenvector centrality |
|---|---|---|---|---|---|
| 1 | Washington | DC | 1.18 | 1 | 0.66 |
| 2 | New York | NY | 0.59 | 2 | 0.64 |
| 3 | Los Angeles | CA | 0.38 | 3 | 0.47 |
| 4 | Chicago | IL | 0.15 | 5 | 0.36 |
| 5 | San Francisco | CA | 0.14 | 4 | 0.39 |
| 6 | Miami | FL | 0.11 | 13 | 0.19 |
| 7 | Denver | CO | 0.08 | 15 | 0.15 |
| 8 | Philadelphia | PA | 0.08 | 14 | 0.18 |
| 9 | Columbus | OH | 0.07 | 54 | 0.04 |
| 10 | Harrisburg | PA | 0.07 | 59 | 0.04 |

In the second step, I aggregate the city-level centrality calculated above into the firm-level. In doing so, I weight the city-level centrality score of a given law firm's branch office city by that office's attorney proportion, which is calculated by dividing the number of U.S. attorneys staffed in the office by the total number of attorneys in its all U.S. offices. Then, this weighted city-level centrality score is summed across all

offices, yielding an individual U.S. law firm's Bonacich eigenvector centrality. Accordingly, greater status at the firm-level means that a given law firm has most of its U.S.-based attorneys in highly central U.S. cities. Table 2.1b well illustrates this procedure with the actual example of calculation of Arnold Porter's status in 2011. In 2011, Arnold had six different U.S. branches of which centrality scores are derived from the above mentioned calculation in the city-by-city network. I weight each city's city-level centrality score with its U.S. attorney proportion. As a law firm headquartered in Washington, Arnold Porter had 67% of its U.S. attorneys staffed in Washington which yield weighted city-level centrality score of 0.45. Summing up all these weighted scores, I assign 0.6089 as the firm-level Bonacich eigenvector centrality score for Arnold Porter in 2011. Table 2.1c presents such firm-level eigenvector centrality scores of the U.S. law firms in 2011.

**Table 2.1b. Examples of Weighted Bonacich Eigenvectors Centralities of U.S. Cities**

| Year | Branch City | State | City eigenvector centrality | U.S. attorney proportion | Weighted city eigenvector centrality |
|------|-------------|-------|-----------------------------|--------------------------|--------------------------------------|
| 2011 | McLean | VA | 0.47 | 0.02 | 0.0009 |
| 2011 | Denver | CO | 0.15 | 0.02 | 0.38 |
| 2011 | San Francisco | CA | 0.39 | 0.03 | 0.0111 |
| 2011 | Los Angeles | CA | 0.46 | 0.08 | 0.0364 |
| 2011 | New York | NY | 0.64 | 0.17 | 0.1064 |
| 2011 | Washington | DC | 0.65 | 0.68 | 0.4504 |
| Firm-level eigenvector centrality | | | | | 0.6089 |

**Table 2.1c. Examples of City-based Status of U.S. Law Firms**

| 2011 rank | U.S. law firm | 2011 eigenvector centrality | 1980 rank | 1980 eigenvector centrality |
|-----------|---------------|-----------------------------|-----------|-----------------------------|
| 1 | Williams & Connolly | 0.659 | N/A | N/A |
| 2 | Kenyon & Kenyon | 0.645 | N/A | N/A |
| 3 | Cleary Gottlieb | 0.645 | 10 | 0.736 |
| 4 | Fried Frank Harris Shriver & Jacobson | 0.644 | 9 | 0.776 |

### Table 2.1c. Examples of City-based Status of U.S. Law Firms

| 2011 rank | U.S. law firm | 2011 eigenvector centrality | 1980 rank | 1980 eigenvector centrality |
|---|---|---|---|---|
| 5 | Willkie Farr & Gallagher | 0.644 | 38 | 0.585 |
| 6 | Seward & Kissel | 0.642 | N/A | N/A |
| 7 | Debevoise & Plimpton | 0.642 | N/A | N/A |
| 8 | Schulte Roth & Zabel | 0.642 | N/A | N/A |
| 9 | Cahill Gordon & Reindel | 0.641 | 24 | 0.609 |
| 10 | Wachtell Lipton Rosen & Katz | 0.641 | N/A | N/A |
| 10 | Patterson Belknap Webb & Tyler | 0.641413 | 38 | 0.585972 |
| 10 | Kramer Levin Naftalis & Frankel | 0.641413 | N/A | N/A |

I measure social influence from two different sources: structurally similar peers and geographically proximate peers to make sure I capture varying sources of peer influence. First, I operationalize the social influence from structurally similar peers by counting the number of structurally similar peers that opened new branches in non-U.S. region in a given year. In devising the measure, I posit that each law firm's distribution of its branch locations is an indicator of its structure. Accordingly, the more cities the two law firms share, the more structurally similar they will be. To systematically detect such structure overlaps, I construct aforementioned firm-by-city matrix for each year, which include both U.S. and non-U.S. cities to capture the law firm's structure outside U.S. as well. Next, I transform such matrix into firm-by-firm matrix. In the resulting network, each U.S. law firm becomes a node and a tie between two nodes is defined when the two law firms concurrently have branch offices in the given city during a given year. Accordingly, the $\text{cell}_{ij}$ in the firm-by-firm matrix counts the number of overlapping cities between $\text{firm}_i$ and $\text{firm}_j$ or their number of market contacts across the cities.

With this firm-by-firm matrix, which reveals U.S. law firm's relationship with each

other in terms of their market contacts in both U.S. and non-U.S. regions, I adopt iterated correlation algorithm called CONCOR[8] to identify groups of law firms with similar relationships. For each yearly-changing firm-by-firm matrix, I categorize the law firms that appear in the network into 8 different groups that share structural similarity.[9] Figure 2.4 presents correspondence analysis of the law firms in 1980 network, which plots the coordinates of the law firms in a plane according to the correlations among themselves. After identifying structurally similar groups of law firms, I can construct a social influence measure for a focal law firm, by counting the number of law firms in the focal firm's group that opened at least one branch offices in non-U.S. regions in the past three years. For further analyses, I also subcategorize this number by the location of their branch openings. I separately count the number of law firms that opened branches in global center of London, Paris, Tokyo, and Hong Kong and count the number of law firms that opened branches in all other cities.

Second, I measure social influence from geographically proximate peers. The influence of geographically proximate peers is straightforward. The more proximate peers will have more influence in the diffusion of law firm's strategy of going global.

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8. The process of assigning actors to blocks involves the use of a correlation matrix, which shows the similarity between two actors through using the standard Pearson product-moment correlation coefficient for each cell in the matrix. Each coefficient between each pair of actors is found in a separate cell, where the value of 1 indicates perfect correlation, and a 0 the opposite (no correlation). CONCOR uses these correlation coefficients as measures for structural equivalence between actors, so that a 1 would mean two actors are perfectly, structurally equivalent; a 0 would indicate no equivalence/similarity between actors, and the values between 0 and 1 the extent to which a pair of actors are structurally equivalent. (Prell, 2011: 182)

9. Each procedure of CONCOR results in a partition of actors into two groups sharing structural similarity. Thus, $n$ partitions will result in 2" blocks. To determine the number of partitions and the number of blocks in CONCOR analysis, I analyzed intra- and inter-block correlations (e.g., Shah (1998) for a discussion of this analysis). Three partitions (resulting in eight blocks) were considered appropriate here in this case with a high average intra-block correlation and a low average inter-block correlation (cf. Tsai, 2002: 189).

To define geographically proximate peers, I adopt the criterion of headquarters locations, rather than office locations because the decision to go global is made by law firms' management executives located within headquarters. Figure 2.5. represents the count distribution of

## Figure 2.4. Correspondence Analysis of Structurally Similar Law Firms
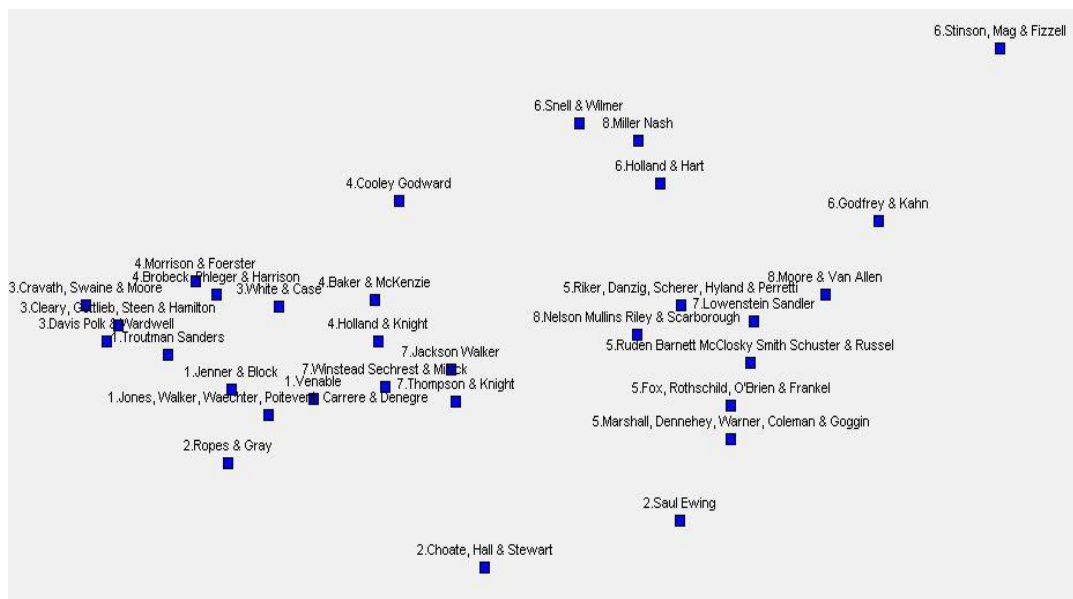
headquarters city of U.S. law firms in 2011. Majority of U.S. law firms (19%) are headquartered in New York and other popular city of Chicago, Philadelphia, and Washington follow New York. To quantify social influence of geographically proximate peers, I observe the law firms whose headquarters cities are same as the focal law firm's and count the number of law firms among such referent law firms that opened at least one branch office in non-U.S. regions within past three years. For further analyses, I sub-categorize the number into the number of law firms opening branches offices in global center cities (London, Paris, Tokyo, and Hong Kong) and otherwise.

### Figure 2.5. HQ City Distribution Among Large U.S. Law Firms (2011)



■ Count of law firms headquartered in the city
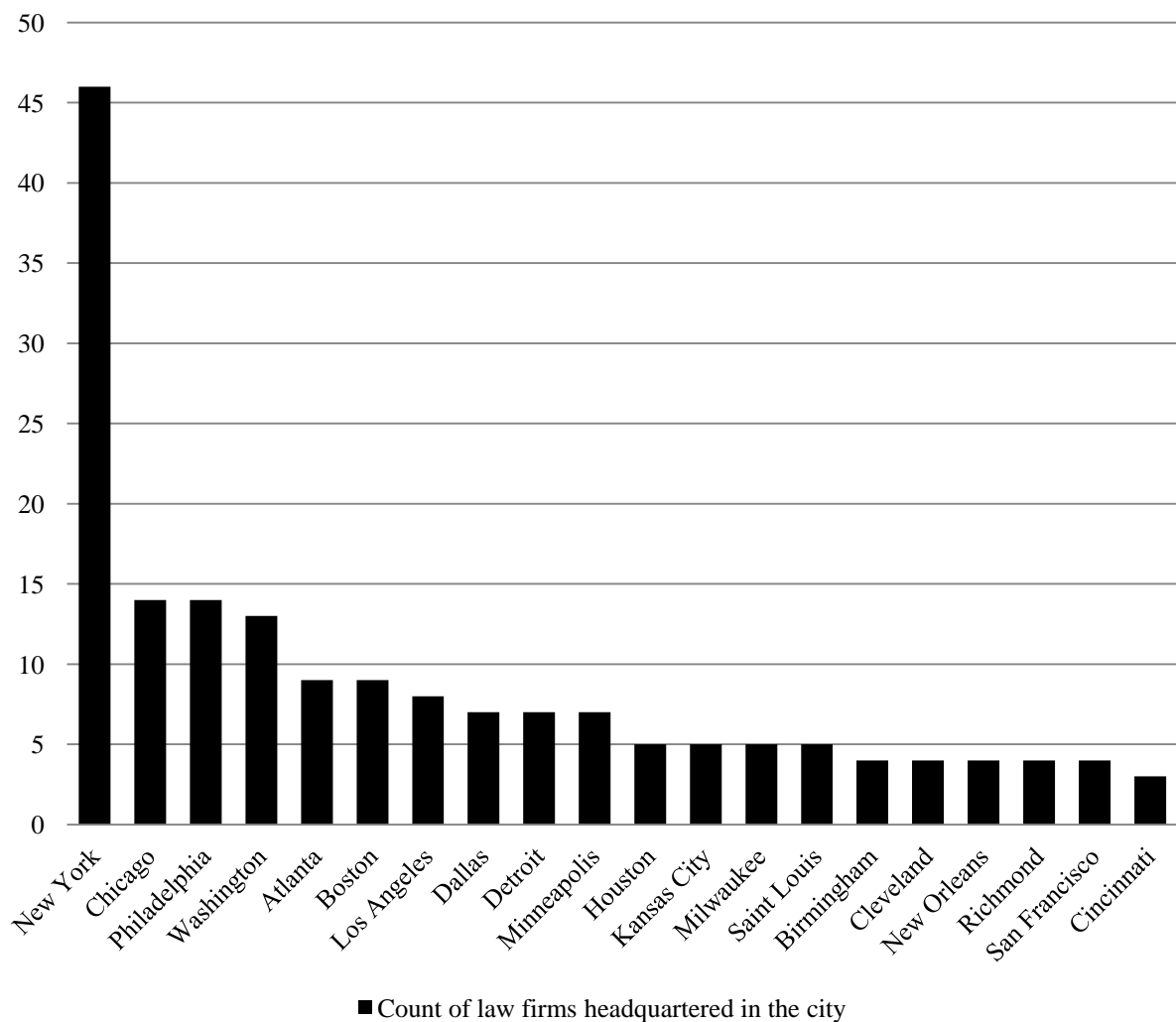
Out of the 57,318 branch portfolios of the 463 law firms covered by NLJ from 1978 to 2011, I select 1,157 non-U.S. located branches that appear for the first time in each firm's history. They include non-U.S. branches that appear in the first observation year of each law firm and new non-U.S. branches that were opened after the first observation year. Thus, I track the entire path of the non-U.S. branch expansion of each law firm. The branch cities of the law firms are categorized into six different regions: Asia/Pacific, Middle East/Africa, Southern America, North/Central America, Eastern Europe, and Western Europe.

I look into each law firm's branch expansion portfolio, count the frequencies of branch openings in each region and sum them across firms. By doing so, I obtain the total branch opening count in each region. In order to calculate the distance between two regions, I calculate the co-appearance frequencies between a focal pair of regions at the firm-level. By co-appearance, I mean the minimum of the number of branch opening counts of two regions. This is summed across the firms to yield the total co-appearance count between a focal pair of regions. The final results of co-appearance calculation are rearranged in region-by-region matrix.

The resulting co-appearance matrix is symmetric. The diagonal values are the total branch opening counts in each region and off-diagonal values are the total co-appearance count between region p in rows and region q in columns. From this co-appearance matrix, the distance is measured. Since distance implies directionality, the comparing two regions must be assumed as a pair of origin and destination respectively. Assuming the region p to be the origin and the region q to be the

destination, I calculate the distance by dividing the

## Table 2.2a. Regional Frequencies of Non-U.S. Branch Openings

| | Branch Opening Count | | | | | | Co-appearance Count | | | | | | | | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Region Code | | | | | | 1 | | | | | | 2 | | | | |
| | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | .. |
| Adorno & Yoss | 0 | 0 | 0 | 1 | 1 | 0 | min (0,0) = 0 | min( 0,0)= 0 | min (0,0) = 0 | min (0,1) = 0 | min (0,1) = 0 | min (0,0) = 0 | min (0,0) = 0 | min (0,0) = 0 | min (0,0) = 0 | min (0,1) = 0 | .. |
| Akin   Gump Strauss Hauer | 2 | 1 | 3 | 0 | 0 | 3 | min (2,2) = 2 | min (2,1) =1 | min (2,3) = 2 | min (2,0) = 0 | min (2,0) = 0 | min (2,3) = 2 | min (1,2) = 1 | min (1,1) = 1 | min (1,3) = 1 | min (1,0) = 0 | .. |
| Alston & Bird | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | .. |
| Altheimer & Gray | 2 | 7 | 0 | 0 | 0 | 2 | 2 | 2 | 0 | 0 | 0 | 2 | 2 | 7 | 0 | 0 | .. |
| Andrews & Kurth | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | .. |
| Arent Fox Kintner | 0 | 2 | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 2 | 0 | .. |
| ⋮ | ⋮ | | | | | | ⋮ | | | | | | | | | | |
| Wilson, Elser, | 1 | 0 | 0 | 0 | 0 | 1 | 1 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | .. |
| Winstead Sechrest | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | .. |
| Winston &Strawn | 3 | 1 | 1 | 0 | 0 | 3 | 3 | 1 | 1 | 0 | 0 | 3 | 1 | 1 | 1 | 0 | .. |
| Winthrop,Stimson | 3 | 0 | 0 | 0 | 0 | 2 | 3 | 0 | 0 | 0 | 0 | 2 | 0 | 0 | 0 | 0 | .. |
| Wyman, Bautzer, | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | .. |
| | | | | | | | | | | | | | | | | | |
| Total | 348 | 135 | 106 | 56 | 53 | 459 | 348 | 87 | 81 | 28 | 40 | 247 | 87 | 135 | 57 | 22 | .. |

## Table 2.2b. Total Co-appearance Count Matrix
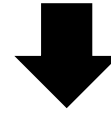
| Region p | Region q | 1 Asia | 2 East Europe | 3 Middle East | 4 North America | 5 South America | 6 West Europe |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | Asia | 348 | 87 | 81 | 28 | 40 | 247 |
| 2 | East Europe | 87 | 135 | 57 | 22 | 27 | 107 |
| 3 | Middle East | 81 | 57 | 106 | 17 | 22 | 89 |
| 4 | North America | 28 | 22 | 17 | 56 | 23 | 34 |
| 5 | South America | 40 | 27 | 22 | 23 | 53 | 43 |
| 6 | West Europe | 247 | 107 | 89 | 34 | 43 | 459 |

## Table 2.2c. Distance Matrix

| Origin p | Destination q | 1 Asia | 2 East Europe | 3 Middle East | 4 North America | 5 South America | 6 West Europe |
| --- | --- | --- | --- | --- | --- | --- | --- |
| 1 | Asia | $1-\dfrac{348}{348}=0$ | $1-\dfrac{87}{348}=0.750$ | $1-\dfrac{81}{348}=0.767$ | 0.919 | 0.885 | 0.290 |
| 2 | East Europe | $1-\dfrac{87}{135}=0.355$ | $1-\dfrac{135}{135}=0$ | $1-\dfrac{57}{135}=0.577$ | 0.837 | 0.800 | 0.207 |
| 3 | Middle East | $1-\dfrac{81}{106}=0.235$ | $1-\dfrac{57}{106}=0.462$ | $1-\dfrac{106}{106}=0$ | 0.839 | 0.792 | 0.160 |
| 4 | North America | 0.500 | 0.607 | 0.696 | 0 | 0.589 | 0.392 |
| 5 | South America | 0.245 | 0.490 | 0.584 | 0.566 | 0 | 0.188 |
| 6 | West Europe | 0.461 | 0.766 | 0.806 | 0.925 | 0.906 | 0 |

total count of branch opening between the two regions by total count of branch expansion in the origin region. In other words, in each row, I divided every off-diagonal value by the diagonal value in the row. By this calculation, I obtain following asymmetric distance matrix.

After identifying all possible distance dyads from the origin p to the destination q in the distance matrix, I match each dyad to non-U.S. expansion sequences of each firm. By assuming the previous region of office opening as the origin and the current region of office opening as the destination, I can compute the distance by every sequence of branch openings. To illustrate this procedure, I use the non-U.S. branch opening sequences of Orrick, Herrington & Sutcliffe as an example.

Below table lists all newly opening non-U.S. branches of Orrick. Orrick's branch expansion path starts from its non-U.S. branch opening in Singapore in 1996. Since Singapore office is the first sequence of its expansion past and distance needs at least two sequences, I assign 0 for the distance in this case. Orrick's next opening is in Tokyo. For the distance from Singapore to Tokyo, I use the dyadic distance from Asia to Asia from the Distance Matrix, which is 0. For its next opening in London, the distance from Tokyo to London is replaced by the dyadic distance from Asia to West Europe in the Distance Matrix, which is 0.290.

However, there are instances where firms open multiple offices during the same year. For example, Orrick opened two new offices in Asia and East Europe in 2005 and three new offices in Asia in 2007. In such cases, I choose the maximum from the set of possible dyadic combinations. In order to differentiate the multiple openings from single openings, I additionally take the power of (1/n) of this maximum distance, where n is the number of openings in the destination region. In the Orrick's example

of in year 2007, the set of possible dyadic distances from each of the two origin regions (A,E) to each of three destination regions (A, A, A), is composed of six dyadic distances (AA, EA, AA, EA, AA, EA). The maximum dyadic distance of this set is from East Europe to Asia, which is 0.355. This value is weighted by the power of (1/3) as there are 3 openings in that year.

**Table 2.2d. Distance Calculation**

| Year | Branch city | Region | Expansion Type | Distance Dyads | Distance | |
|---|---|---|---|---|---|---|
| 1996 | Singapore | Asia | Start year | Start year | 0 | $0^{\frac{1}{1}} = 0$ |
| 1997 | Tokyo | Asia | Single to single | Asia → Asia | 0 | $0^{\frac{1}{1}} = 0$ |
| 1998 | London | West Europe | Single to single | Asia → West Europe | 0.290 | $0.290^{\frac{1}{1}} = 0.290$ |
| 2002 | Paris | West Europe | Single to single | West Europe → West Europe | 0 | $0^{\frac{1}{1}} = 0$ |
| 2003 | Milan | West Europe | Single to single | West Europe → West Europe | 0 | $0^{\frac{1}{1}} = 0$ |
| 2004 | Rome | West Europe | Single to single | West Europe → West Europe | 0 | $0^{\frac{1}{1}} = 0$ |
| 2005 | Moscow | East Europe | Single to multiple | West Europe → East Europe | 0.766 | $0.766^{\frac{1}{2}} = 0.876$ |
| | Taipei | Asia | Single to multiple | West Europe → Asia | 0.461 | |
| 2007 | Beijing | Asia | Multiple to multiple | East Europe → Asia | 0.355 | $0.355^{\frac{1}{3}} = 0.708$ |
| | | | | Asia → Asia | 0 | |
| | Hong Kong | Asia | Multiple to multiple | East Europe → Asia | 0.355 | |
| | | | | Asia → Asia | 0 | |
| | Shanghai | Asia | Multiple to multiple | East Europe → Asia | 0.355 | |
| | | | | Asia → Asia | 0 | |
| 2008 | Berlin | West Europe | Multiple to multiple | Asia → West Europe | 0.290 | $0.290^{\frac{1}{3}} = 0.661$ |
| | | | | Asia → West Europe | 0.290 | |
| | | | | Asia → West Europe | 0.290 | |
| | Dusseldorf | West Europe | Multiple to multiple | Asia → West Europe | 0.290 | |
| | | | | Asia → West Europe | 0.290 | |
| | | | | Asia → West Europe | 0.290 | |
| | Frankfurt | West Europe | Multiple to multiple | Asia → West Europe | 0.290 | |
| | | | | Asia → West Europe | 0.290 | |
| | | | | Asia → West Europe | 0.290 | |
| 2012 | Munich | West Europe | Multiple to single | West Europe → West Europe | 0 | $0^{\frac{1}{1}} = 0$ |
| | | | | West Europe → West Europe | 0 | |
| | | | | West Europe → West Europe | 0 | |

After computing distances from the origin to the destination, I bring these distances to the firm-year level data, which include all history of firm's branch expansion in U.S. and non-U.S. area. I aggregate these into the firm-year level, which include all history of the firm's branch openings in U.S. and non-U.S. regions. As you can see

from the table below, the distance is assigned whenever Orrick opens a new branch in the non-U.S. region and zero distance is assigned whenever Orrick does not open any new non-U.S. branches. The total distance for time t is calculated by summing up all the distances up to time t-1. I also count past new non-U.S. branch openings up to the time t. By dividing the total distance by the count number of past new branch openings, I obtain global expansion path idiosyncrasy of the firm.

### Table 2.2e. Global Expansion Path Idiosyncrasy Calculation

| Year | Non-US Branches | Distance | Total Distance | Past New Non-US Branch Openings | Idiosyncrasy |
|------|-----------------|----------|----------------|----------------------------------|--------------|
| 1978 | . | 0.000 | 0.000 | 0 | 0.000 |
| ⋮ | ⋮ | ⋮ | ⋮ | ⋮ | ⋮ |
| 1995 | . | 0.000 | 0.000 | 0 | 0.000 |
| 1996 | Singapore | 0.000 | 0.000 | 0 | 0.000 |
| 1997 | Tokyo | 0.000 | 0.000 | 1 | 0.000 |
| 1998 | London | 0.290 | 0.000 | 2 | 0.000 |
| 1999 | . | 0.000 | 0.290 | 3 | 0.097 |
| 2000 | . | 0.000 | 0.290 | 3 | 0.097 |
| 2001 | . | 0.000 | 0.290 | 3 | 0.097 |
| 2002 | Paris | 0.000 | 0.290 | 3 | 0.097 |
| 2003 | Milan | 0.000 | 0.290 | 4 | 0.073 |
| 2004 | Rome | 0.000 | 0.290 | 5 | 0.058 |
| 2005 | Moscow, Taipei | 0.876 | 0.290 | 6 | 0.194 |
| 2006 | . | 0.000 | 1.166 | 7 | 0.167 |
| 2007 | Beijing, Hong Kong, Shanghai | 0.708 | 1.166 | 7 | 0.268 |
| 2008 | Berlin, Dusseldorf, Frankfurt | 0.661 | 1.874 | 8 | 0.317 |
| 2009 | . | 0.000 | 2.535 | 9 | 0.282 |
| 2010 | . | 0.000 | 2.535 | 9 | 0.282 |
| 2011 | . | 0.000 | 2.535 | 9 | 0.282 |
| 2012 | Munich | 0.000 | 2.535 | 9 | 0.282 |

### Table 2.2f. Examples of Global Expansion Idiosyncrasy Scores

| U.S. law firm | Global expansion idiosyncrasy |
|---------------|-------------------------------|
| Baker & McKenzie | 0.603 |
| Thompson Knight | 0.579 |
| Piper Rudnick Gray Cary | 0.569 |
| Kirkpatrick & Lockhart Preston Gates Ellis | 0.554 |
| White & Case | 0.536 |
| Squire Sanders & Dempsey (US) | 0.495 |
| Fredrikson Byron P.A. | 0.475 |
| Winstead | 0.462 |
| Cozen O'Connor | 0.462 |
| King Spalding | 0.438 |

### 1.3.6. Control Variables

The economic logic of transaction cost reduction and risk diversification is widely accepted as a powerful explanation of geographic expansion and diversification behavior (Hitt et al., 2001; Kor and Leblebici, 2005). Some of these accounts pertain to the importance of client acquisition and retention in corporate law markets. From the perspective of transaction cost theory, firms have incentives to offer their clients with 'one-stop service' by creating multiple offices. For clients whose entities are geographically spread, law firms may believe that having one outside law firm that handles all work reduces the cost of developing trust that might be difficult to achieve if they were hiring multiple law firms. (Heinz, Nelson, and Laumann, 2001; Heinz et al., 2005).[10] Hence, the belief of law firms that they can maximize the amount of the client's business and retain the client by creating 'one-stop service' may motivate them to diversify into other geographic markets. Similarly the prevailing view from portfolio theory holds that geographic expansion firms have incentives to spread risk by covering a wide range of geographic areas (Gilson and Mnookin, 1985). For example, if a downturn hits the economy and a big client served by the main office goes out of business, portfolio theory reasons that it will be advantageous for the firm to have other clients served by other offices. In this light, firms may geographically

10. 'The promotion-to-partner tournament' theory is a widely accepted theory among legal scholars that explains a more general phenomenon of the growth of large law firms. This thesis holds that law firms must expand to meet the imperatives of their own internal labor markets, that is, to exploit the human capital of the partner fully firm (Galanter and Palay, 1991; Galanter and Henderson, 2008; for criticism against this theory, see Kordana, 1995.

diversify in order to spread risk.[11]

In the analyses, I thus include different law firm attributes that may control for the above economic logic and other alternative explanations for the firm's opening a foreign branch office. First, I control for <u>firm size</u> because the size of the law firm is a strong signal of its scale-based capability that may be associated with the firm's tendency to go global. The size of the law firm is defined as the total number of attorneys across its offices located in both the U.S. and the non-U.S. region. The size of the law firm is defined as the total number of attorneys across its offices located in both the U.S. and the non-U.S. region.

Second, I include the law firm's <u>number of branch offices in non-U.S. regions</u> during a given year to control for individual law firm's multi-branching orientation. From NLJ branch-level data, I simply count the number of offices in non-U.S. for each law firm in a given year and take the one year lag of this variable in the analyses. Third, I measure the <u>regional coverage</u> of the law firm in a given year to control for the fact

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11. Despite its parsimony, focusing on internal economic imperatives ignores heterogeneity of situations in which firm are placed. By bringing our attention closely to the relational dynamics surrounding corporate clients and law firms, I can achieve a more comprehensive understanding of law firms' adoption of foreign practice. Accordingly, it is worth depicting some critical changes on the demand side of the legal market that have occurred over the past years. First, the internationalization of U.S.-headquartered multinational corporations (MNCs) has increased the volume of cross-border transactions and the likelihood of international legal disputes (Michel and Shaked, 1986). Second, complex web of laws and regulations that govern international business - including antitrust laws, employment laws, occupational safety regulations, and tax reporting requirements - that have direct bearings on daily activities of large MNCs, has created additional legal problems for these companies (Heinz et al, 2005). Financial services and, transportation providers, and high-tech manufacturers, which have traditionally been extensive users of legal services, are among most internationalized ones. These exogenous changes toward increasing globalization of large U.S. business have provided a direct impetus for U.S. law firms to change the way their services are delivered and their practices are organized. Furthermore, as noted in the previous section, outside law firms have perceived heightened competitive pressure, because of the deployment of multiple sourcing by once long-term, loyal clients, and growing leverage by corporate general counsels. Thus, law firms' global expansion is exogenously triggered by increasing international activity by their domestic clients, coupled with changing dynamics in their relationships with corporate clients.

the law firm's presence spread in different regions will affect the likelihood of planting branches outside U.S. I categorize the location of branch offices into six different regions of Asia, East Europe, West Europe, Middle East, North American, and South America. From the NLJ branch-level data, I count the number of regions covered by the firm's branch offices for each law firm. For the next control variable, I include the count number of the <u>law firm's recent openings in non-U.S. regions</u> to control for the fact that the adoption of globalization tends to occur in a clustered and sporadic manner. By including the frequency of a given law firm going global during past three years, I isolate the effects of the recent past upon the likelihood of going global in the future.

In addition to regional coverage or number of non-U.S. branch offices, I include entropy index to capture the degree of <u>diversification</u> within individual law firm's locational composition of branch offices. The entropy measure controls for firm's inherent tendency to open new offices in diverse locations, which may strongly influence the law firm's rate of going global. I operationalize entropy index by,

$$\text{Entropy}_{f_i} = \frac{-\sum_k (p_i (\ln p_i))}{\ln (k)},$$

where k is the categories of six regions mentioned above in regional coverage, $p_i$ is the proportion of attorneys stationed the office to the total number of attorneys a law firm $f_i$ during a given year.

I include the <u>proportion of non-U.S. attorneys</u> in the model to control for the firm's actual resource allocation to global operation. I calculate the proportion of non-U.S. attorneys by dividing the total number of attorneys staffed in the law firm's non-U.S. branches by total number of attorneys all across the firm's existing branches. I also

control for <u>foreign branch experience</u> first by calculating each non-U.S. branch office's age as the difference between the observation year and its branch founding year. Second, I average the age of the branches into the firm-level and take the logarithm of the measure. Finally, I include <u>headquarters city dummies for six major U.S. cities</u> to ensure that it is not merely where the main office of the law firm is located, rather than the status level of that place, that may be associated with the firm's tendency to go global.

## 1.4. RESULT

Table 2.3 presents descriptive statistics and correlations among the variables included in the models. The correlation between the two different measures of social influence, structurally similar peers and HQ city sharing peers, is 0.57, indicating that U.S. firms sharing the same HQ city tends to have similar distribution of branch locations (not included in Table 2.3). Since my regression models contain interactions and a few notably high correlations, I compute variance inflation factor (VIF) for each model. All the maximum VIF statistics per model are well below the cutoff level of 10. (except for number of non-U.S office 10.34) Thus, throughout the estimation procedure, multicollinearity should not pose a serious statistical issue.

Table 2.4a analyzes the effects of city-based status on the adoption of a global identity by examining the events of the law firms' "first" foreign branch openings. The results of complementary log-log model on the likelihood of first foreign branch opening are consistent with hypothesis 1. The significantly positive coefficient of the city-based status (b=5.6128, p<0.01 ) and significantly negative coefficient (b=-4.312, p<0.01 ) of its squared term in Model 4 present curvilinear effects of city-based

status on the likelihood of the firm's first foreign branch opening.

Table 2.4b examines hypothesis 1 by examining the events of the law firms' "repeated" foreign branch opening. I structure the analyses as follows. First, separately run regression models with firm fixed-effects (Model 5 – 8) and random-effects (Model 9-12). Second, I test the effects of U.S. law firm' status on two different dependent variables: total non-U.S. branch openings in general and non-U.S. branch openings in a global financial city (London, Paris, Tokyo, and Hong Kong). I report the results related to the total non-U.S openings in Model 5, 6, 9, and 10 and I report the dependent variable related to the global financial city in Model 7, 8, 11 and 12. Model 10 and Model 12 report results of random-effect logit regression on two different variables. Regardless of the different dependent variables, the results show similar patterns; while the coefficient of the original status term remains positive and significant (Model 10, b=6.0592, p<0.01; Model 12, b= 8.0313, p<0.01), the coefficient of the squared term is negative and significant (Model 10, b=-5.018,p<0.01; Model 12, b=-5.684, p<0.01). Such configuration of coefficients implies that the effects of status upon the probability of going global follow an inverted u-shape pattern as shown in Figure 2.6. This implies that a law firm with mid-status has the most propensities to open non-U.S. branches. According to the parametric estimate, a law firm with status of 0.6037 (in case of general foreign branch openings) and a law firm with status of 0.7064 (in case of foreign branch openings in global financial cities) yield the maximum likelihood to adopt a global form.

## Table 2.3. Descriptive Statistics and Correlation Coefficients

| | | Mean | S.D. | Min | Max | 1 | 2 | 3 | 4 | 5 | 6 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 1 | DV - Foreign office opening | 0.09 | 0.29 | 0 | 1 | 1 | | | | | |
| 2 | DV - Foreign office opening in a global financial city (LPHT) | 0.03 | 0.17 | 0 | 1 | 0.55 | 1 | | | | |
| 3 | IV - City-based status (eigenvector centrality) | 0.3 | 0.26 | 0 | 1.19 | 0.16 | 0.09 | 1 | | | |
| 4 | IV - City-based status$^2$ (eigenvector centrality, squared) | 0.16 | 0.22 | 0 | 1.42 | 0.11 | 0.06 | 0.95 | 1 | | |
| 5 | IV - Recent foreign office openings by structurally similar peers | 18.75 | 21.27 | 0 | 75 | 0.24 | 0.08 | 0.45 | 0.32 | 1 | |
| 6 | IV - Recent foreign office openings in a global city by structurally similar peers | 6.16 | 7.31 | 0 | 29 | 0.23 | 0.1 | 0.46 | 0.34 | 0.89 | 1 |
| 7 | IV - Foreign Expansion Path Idiosyncrasy | 0.05 | 0.12 | 0 | 0.63 | 0.31 | 0.06 | 0.26 | 0.17 | 0.51 | 0.42 |
| 8 | Foreign office count | 1.33 | 3.89 | 0 | 53 | 0.32 | 0.02 | 0.23 | 0.16 | 0.42 | 0.34 |
| 9 | Regional coverage (count) | 1.32 | 0.75 | 1 | 6 | 0.34 | 0.05 | 0.26 | 0.18 | 0.47 | 0.39 |
| 10 | Recent foreign office openings (count, 3yrs) | 0.26 | 0.59 | 0 | 3 | 0.32 | 0.08 | 0.23 | 0.16 | 0.43 | 0.38 |
| 11 | Firm diversification (entropy index) | 0.55 | 0.24 | 0 | 1 | 0.12 | 0.05 | -0.15 | -0.25 | 0.18 | 0.11 |
| 12 | Proportion of non-US attorneys | 0.03 | 0.08 | 0 | 0.84 | 0.32 | 0.02 | 0.27 | 0.21 | 0.41 | 0.32 |
| 13 | Firm size (number of total attorneys) | 3.4 | 3.15 | 0 | 39.47 | 0.33 | 0.11 | 0.22 | 0.11 | 0.5 | 0.38 |
| 14 | Foreign branch experience (logged total years) | 0.93 | 1.49 | 0 | 7.19 | 0.32 | 0.06 | 0.41 | 0.31 | 0.63 | 0.53 |
| 15 | HQ city - New York | 0.18 | 0.38 | 0 | 1 | 0.1 | 0.05 | 0.59 | 0.52 | 0.37 | 0.42 |
| 16 | HQ city - Washington DC | 0.07 | 0.26 | 0 | 1 | 0.02 | 0 | 0.49 | 0.58 | 0.01 | -0.02 |
| 17 | HQ city – Chicago | 0.09 | 0.28 | 0 | 1 | 0.04 | 0.01 | 0.02 | -0.06 | 0.09 | 0.09 |
| 18 | HQ city - San Francisco | 0.04 | 0.19 | 0 | 1 | 0.04 | 0.04 | 0.02 | -0.04 | 0 | 0 |
| 19 | HQ city - Los Angeles | 0.05 | 0.21 | 0 | 1 | 0.02 | 0.03 | 0.09 | 0.02 | 0.07 | 0.07 |
| 20 | HQ city – Boston | 0.05 | 0.21 | 0 | 1 | -0.04 | 0 | -0.09 | -0.11 | -0.04 | -0.04 |

| | | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 7 | IV - Foreign Expansion Path Idiosyncrasy | 1 | | | | | | | | | |
| 8 | Foreign office count | 0.68 | 1 | | | | | | | | |
| 9 | Regional coverage (count) | 0.8 | 0.8 | 1 | | | | | | | |
| 10 | Recent foreign office openings (count, 3yrs) | 0.6 | 0.6 | 0.66 | 1 | | | | | | |
| 11 | Firm diversification (entropy index) | 0.18 | 0.18 | 0.18 | 0.16 | 1 | | | | | |
| 12 | Proportion of non-US attorneys | 0.61 | 0.91 | 0.75 | 0.55 | 0.18 | 1 | | | | |
| 13 | Firm size (number of total attorneys) | 0.6 | 0.76 | 0.61 | 0.5 | 0.35 | 0.65 | 1 | | | |
| 14 | Foreign branch experience (logged total years) | 0.73 | 0.7 | 0.74 | 0.55 | 0.15 | 0.69 | 0.62 | 1 | | |
| 15 | HQ city - New York | 0.23 | 0.2 | 0.26 | 0.16 | -0.16 | 0.26 | 0.1 | 0.37 | 1 | |
| 16 | HQ city - Washington DC | -0.02 | 0 | -0.02 | 0.03 | -0.13 | 0.01 | 0.01 | 0.02 | -0.13 | 1 |
| 17 | HQ city - Chicago | 0.03 | 0.12 | 0.02 | 0.06 | -0.02 | 0.1 | 0.14 | 0.01 | -0.14 | -0.09 |

## Table 2.3. Descriptive Statistics and Correlation Coefficients

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 18 | HQ city - San Francisco | 0 | 0.02 | 0.05 | 0.06 | 0.11 | 0 | 0.02 | 0.04 | -0.09 | -0.06 |
| 19 | HQ city - Los Angeles | 0.02 | -0.01 | 0 | 0.03 | 0.14 | -0.02 | 0.03 | 0 | -0.1 | -0.06 |
| 20 | HQ city - Boston | -0.09 | -0.06 | -0.08 | -0.06 | -0.15 | -0.05 | -0.04 | -0.08 | -0.1 | -0.06 |

| | | 17 | 18 | 19 | 20 |
|---|---|---|---|---|---|
| 17 | HQ city - Chicago | 1 | | | |
| 18 | HQ city - San Francisco | -0.06 | 1 | | |
| 19 | HQ city - Los Angeles | -0.07 | -0.04 | 1 | |
| 20 | HQ city – Boston | -0.07 | -0.04 | -0.05 | 1 |

## Table 2.4a. City-based Status and the Adoption of a Global Identity (First Foreign Office Opening)

| | First Foreign office opening | | | |
|---|---|---|---|---|
| | Model 1 | Model 2 | Model 3 | Model 4 |
| City-based status (eigenvector centrality) | | 0.7892***<br>(0.1907) | 2.8478***<br>(0.8701) | 5.6128***<br>(1.3153) |
| City-based status$^2$ (eigenvector centrality, squared) | | | -2.3998**<br>(0.9565) | -4.312***<br>(1.1898) |
| Firm size (number of total attorneys) | 0.0162<br>(0.0201) | | | -0.0337<br>(0.0242) |
| Firm age | 0.0011<br>(0.0017) | | | 0.0001<br>(0.0017) |
| HQ city - New York | 0.2696*<br>(0.1592) | | | -0.8330**<br>(0.3688) |
| HQ city - Washington DC | 0.4855***<br>(0.1588) | | | -0.4531<br>(0.3945) |
| HQ city - Chicago | 0.0115<br>(0.2430) | | | -0.6347**<br>(0.2710) |
| HQ city - San Francisco | 0.3051<br>(0.3104) | | | -0.4100<br>(0.3517) |
| HQ city - Los Angeles | 0.1943<br>(0.2767) | | | -0.7149**<br>(0.3202) |
| HQ city - Boston | 0.3750<br>(0.2640) | | | 0.1159<br>(0.2550) |
| Year fixed-effect | Yes | Yes | Yes | Yes |
| Constant | -5.075***<br>(0.7196) | -4.941***<br>(0.7156) | -5.150***<br>(0.7202) | -5.276***<br>(0.7215) |
| Observations | 6,806 | 6,595 | 6,595 | 6,595 |
| Log likelihood | -689.4 | -684.4 | -682.4 | -678.7 |
| Degree of freedom | 34 | 27 | 28 | 36 |

### Table 2.4a. City-based Status and the Adoption of a Global Identity (First Foreign Office Opening)

| | First Foreign office opening | | | |
| --- | --- | --- | --- | --- |
| | Model 1 | Model 2 | Model 3 | Model 4 |
| Wald Chi$^2$ | 60.81 | 59.83 | 64.95 | 78.01 |

Complimentary log-log models.
*** p<0.01, ** p<0.05, * p<0.1

### Table 2.4b. City-based Status and the Adoption of a Global Identity (Repeated Foreign Office Opening)

| | Firm fixed-effect model | | | | Random effect model | | | |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| | Foreign opening | office | Foreign office opening in a global financial city (LPHT) | | Foreign office opening | | Foreign office opening in a global financial city (LPHT) | |
| | Model 5 | Model 6 | Model 7 | Model 8 | Model 9 | Model 10 | Model 11 | Model 12 |
| City-based status | 9.1386*** | 7.3641*** | 15.3024*** | 10.1261** | 10.8659*** | 6.0592*** | 11.0760*** | 8.0313*** |
| | (2.2146) | (2.6068) | (3.2924) | (3.9408) | (1.1552) | (1.2589) | (1.3691) | (1.7476) |
| City-based status$^2$ | -8.030*** | -6.812*** | -11.008*** | -8.0343** | -9.7412*** | -5.018*** | -10.602*** | -5.684*** |
| | (1.9092) | (2.3111) | (2.7846) | (3.4222) | (1.3086) | (1.3098) | (1.5648) | (1.8030) |
| Foreign office count | | -0.293*** | | -0.564*** | | -0.217*** | | -0.509*** |
| | | (0.0416) | | (0.1159) | | (0.0330) | | (0.0869) |
| Regional coverage | | 0.3986*** | | 0.8715*** | | 0.4295*** | | 0.5357*** |
| | | (0.1171) | | (0.2287) | | (0.0982) | | (0.1653) |
| Recent foreign office openings | | 0.0228 | | 0.0120 | | 0.2874*** | | 0.4549*** |
| | | (0.0761) | | (0.1389) | | (0.0795) | | (0.1351) |
| Firm diversification | | 0.8260 | | 1.2887 | | 0.8236** | | 0.6948 |
| | | (0.7075) | | (1.1047) | | (0.3715) | | (0.4905) |
| Proportion of non-US attorneys | | 6.3109*** | | 3.4457 | | 5.7561*** | | 3.6005* |
| | | (1.5126) | | (3.0087) | | (1.1402) | | (1.8827) |
| Firm size | | 0.2824*** | | 0.4002*** | | 0.1878*** | | 0.2733*** |
| | | (0.0366) | | (0.0616) | | (0.0279) | | (0.0352) |
| Foreign branch experience | | -0.308*** | | -0.508*** | | 0.1937*** | | 0.1183 |
| | | (0.0867) | | (0.1553) | | (0.0560) | | (0.0884) |
| HQ city - New York | | | | | | -0.4511 | | -0.5780* |
| | | | | | | (0.2808) | | (0.3464) |
| HQ city - Washington DC | | | | | | -0.1121 | | -0.7619* |
| | | | | | | (0.3321) | | (0.4396) |
| HQ city - Chicago | | | | | | -0.2932 | | -0.5871* |
| | | | | | | (0.2557) | | (0.3076) |
| HQ city - San Francisco | | | | | | -0.0331 | | 0.1731 |
| | | | | | | (0.2956) | | (0.3208) |
| HQ city - Los Angeles | | | | | | -0.4331 | | -0.4810 |
| | | | | | | (0.3118) | | (0.3418) |
| HQ city - Boston | | | | | | -0.0717 | | 0.4637 |
| | | | | | | (0.3379) | | (0.3698) |
| Constant | | | | | -6.4126*** | -5.999*** | -6.2706*** | -7.012*** |
| | | | | | (0.4936) | (0.5051) | (6.2706***) | (-7.012***) |
| Year fixed-effect | Yes | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| Observations | 4,000 | 4,000 | 3,023 | 3,023 | 7,078 | 7,077 | 7,078 | 7,077 |
| Log likelihood | -1219 | -1169 | -539.7 | -491.6 | -1766 | -1674 | -845.7 | -785.5 |

**Table 2.4b. City-based Status and the Adoption of a Global Identity (Repeated Foreign Office Opening)**

| | Firm fixed-effect model | | | | Random effect model | | | |
|---|---|---|---|---|---|---|---|---|
| | Foreign           office opening | | Foreign office opening in a global financial city (LPHT) | | Foreign office opening | | Foreign office opening in a global financial city (LPHT) | |
| | Model 5 | Model 6 | Model 7 | Model 8 | Model 9 | Model 10 | Model 11 | Model 12 |
| Degree of freedom | 30 | 37 | 30 | 37 | 30 | 43 | 30 | 43 |
| Wald Chi$^2$ | 183.2 | 282.6 | 87.57 | 183.7 | 223.9 | 523.3 | 119.4 | 231.1 |

Conditional logit models and random-effects logit model.

*** p<0.01, ** p<0.05, * p<0.1

**Figure 2.6. Quadratic Effects of City-based Status**
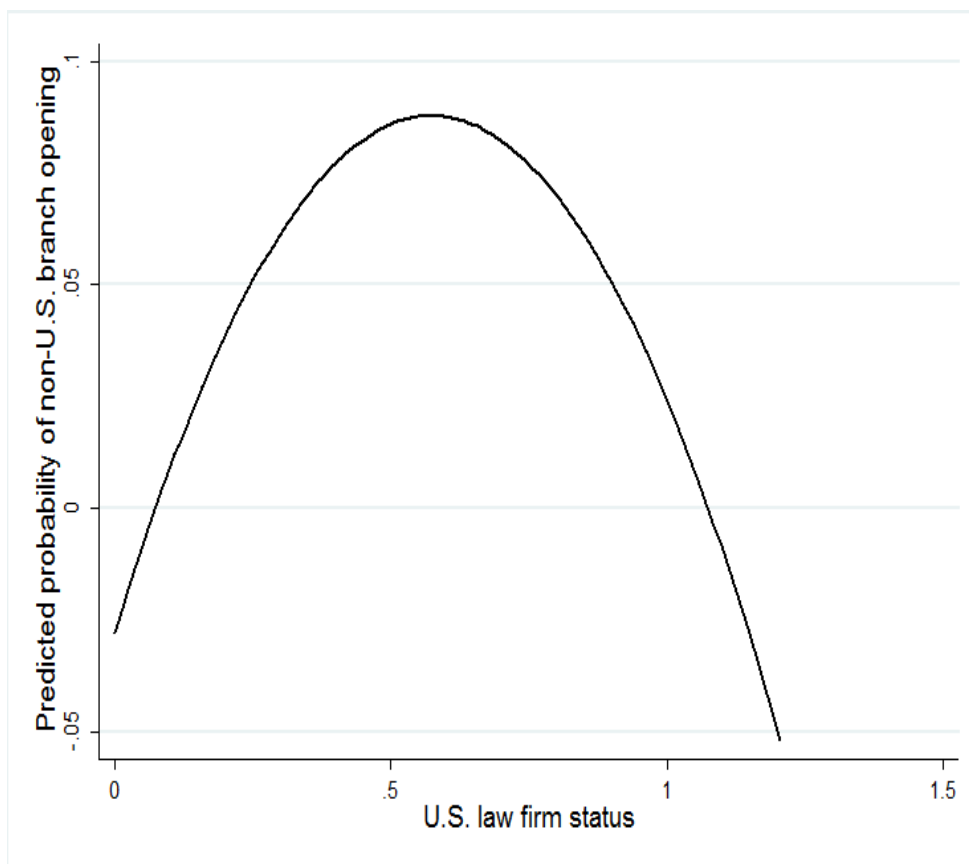


Table 2.5 and Table 2.6 report the results of both main and interaction models between the law firm's city-based status and peer influence to test hypothesis 2. The negatively moderating role of status on the effects of social influence on law firm's likelihood of going global is consistent throughout different models. The coefficients of the interaction terms between status and peer influence are negative regardless of the types of social influence (Model 9, b=-0.0317,p<0.01; Model 15, b=-0.6705, p<0.05) and regardless of different categories of dependent variables (Model 11, b= -0.0541; Model 13, b= -0.0558, p<0.01; Model 17, b=-0.3013; Model 19, b = -0.3684, p<0.1) except for Model 11 and 17 with insignificant coefficients. Such negative coefficients of the interaction terms clearly illustrate the negatively moderating role of

status on the effects of peer influence. For example, if a U.S. law firm with average number of structurally similar peers (18.76 [mean]) has a low status (0.086 [25th percentile]), then its status will contribute to the likelihood of opening non-U.S. branch by a multiplicative factor of 1.32 (exp (0.0179*18.76 +18.76*0.086*-0.0317)). However, when the same law firm maintains a high status (0.4677 [75th percentile]), the multiplicative factor drops to 1.05 (exp (0.0179*18.76 +18.76*0.4677*-0.0317)).

The first two graphs of Figure 2.7 graphically illustrate the moderating role of status on two different peer influences. The slope of line in the graph represents the social influence effect on the firm's likelihood of going global. Both pictures present stiff slope when status is low and flat slope when status is high. Therefore, the results suggest that low-status firms are more susceptible to peer influence.

Table 2.7 reports interaction models between social influence and global expansion path idiosyncrasy to test the validity of hypothesis 4. As predicted, the coefficients of interaction terms are consistently negative and significant throughout models with different types of social influences (Model 21, b= -0.0593, p<0.01; Model 22, b= -1.1771, p<0.01) and different categories of dependent variables (Model 24, b= -0.2210, p<0.01; Model 26, b= -0.646, p<0.05). To illustrate the interaction effects, suppose that there is a law firm with the mean logged number of HQ city sharing peers of 1.209 and low (25th percentile) global expansion path idiosyncrasy of 0.173. The effects of social influence on the likelihood of tie formation with new foreign clients can be quantified as a multiplicative factor of 1.014 (exp(0.2154*1.209 + (-1.1771*1.209*0.173))). If the same hypothetical law firm maintains high (75th percentile) idiosyncrasy of 0.367, the effects of social influence drops to 0.769 (exp(0.2154*1.209 + (-1.1771*1.209*0.367))). The last two graphs of Figure 2.7.

visualize such moderating role of international disconnectedness.

### Table 2.5. The Influence of Structurally Equivalent Peers on the Adoption of a Global Identity
### (Test for Main Effects and Interaction Effects)

| | Foreign opening | office | Foreign office opening in a global financial city (LPHT) | |
|---|---|---|---|---|
| | Model 13 | Model 14 | Model 15 | Model 16 |
| Recent foreign office openings by structurally similar peers | 0.0083** (0.0036) | 0.0179*** (0.0056) | | |
| Openings by structurally similar peers × City-based status | | -0.031*** (0.0117) | | |
| Recent foreign office openings in a global city by structural peers | | | 0.0388*** (0.0131) | 0.0453* (0.0243) |
| Openings (LPHT) by structurally similar peers × City-based status | | | | -0.054 (0.0479) |
| City-based status (eigenvector centrality) | | 1.7515*** (0.4912) | | 2.7533*** (0.7138) |
| Foreign office count | -0.236*** (0.0333) | -0.223*** (0.0324) | -0.554*** (0.0868) | -0.527*** (0.0876) |
| Regional coverage (count) | 0.4390*** (0.0983) | 0.4415*** (0.0958) | 0.5294*** (0.1671) | 0.5536*** (0.1669) |
| Recent foreign office openings (count, 3yrs) | 0.3145*** (0.0798) | 0.3243*** (0.0789) | 0.4854*** (0.1345) | 0.4657*** (0.1358) |
| Firm diversification (entropy index) | 1.2007*** (0.3424) | 1.2788*** (0.3411) | 0.9156** (0.4497) | 1.1648** (0.4652) |
| Proportion of non-U.S. attorneys | 5.5699*** (1.1315) | 5.5469*** (1.1119) | 3.7724** (1.8666) | 3.1879* (1.8881) |
| Firm size (number of total attorneys) | 0.2110*** (0.0278) | 0.1936*** (0.0270) | 0.3110*** (0.0342) | 0.2900*** (0.0348) |
| Foreign branch experience (logged total years) | 0.2095*** (0.0586) | 0.2058*** (0.0566) | 0.1556* (0.0900) | 0.1290 (0.0906) |
| HQ city - New York | 0.3619* (0.1960) | 0.0220 (0.2700) | 0.6116*** (0.2280) | -0.1847 (0.3441) |
| HQ city - Washington DC | 0.6446*** (0.2250) | 0.0130 (0.3277) | 0.5252* (0.2950) | -0.7956 (0.4915) |
| HQ city - Chicago | 0.2492 (0.2305) | 0.0591 (0.2301) | 0.0245 (0.2852) | -0.2991 (0.2971) |
| HQ city - San Francisco | 0.5512** (0.2739) | 0.3206 (0.2730) | 0.9182*** (0.2962) | 0.5341* (0.3136) |
| HQ city - Los Angeles | 0.2208 (0.2794) | -0.0473 (0.2892) | 0.3491 (0.3080) | -0.1515 (0.3344) |
| HQ city - Boston | 0.2039 (0.3309) | 0.1234 (0.3233) | 0.7127** (0.3601) | 0.6242* (0.3641) |
| Constant | -5.529*** (0.4932) | -5.971*** (0.5096) | -6.099*** (0.6478) | -6.784*** (0.6919) |
| Year fixed-effect | Yes | Yes | Yes | Yes |
| Observations | 7,077 | 7,077 | 7,077 | 7,077 |
| Number of law firms | 421 | 421 | 421 | 421 |
| Log likelihood | -1684 | -1677 | -796.8 | -789.2 |
| Degree of freedom | 42 | 44 | 42 | 44 |
| Wald Chi$^2$ | 519.5 | 553.9 | 233.2 | 235.5 |

Random-effects logit models.
*** p<0.01, ** p<0.05, * p<0.1

## Table 2.6. The Influence of Geographically Proximate Peers on the Adoption of a Global Identity
## (Test for Main Effects and Interaction Effects)

| | Foreign office opening | | Foreign office opening in a global financial city (LPHT) | | Foreign office opening in other city | |
|---|---|---|---|---|---|---|
| | Model 17 | Model 18 | Model 19 | Model 20 | Model 21 | Model 22 |
| City-based status (eigenvector centrality, t-1) | | 2.2879***<br>(0.5792) | | 3.9217***<br>(1.4220) | | 2.2692**<br>(1.0203) |
| Recent foreign office openings by others sharing HQ city (ln) | 0.1821<br>(0.1194) | 0.3461**<br>(0.1521) | | | | |
| Openings by others sharing HQ city × City-based status | | -0.6705**<br>(0.2903) | | | | |
| Recent foreign office openings in a global city by others sharing HQ city (ln) | | | 0.1700*<br>(0.0914) | 0.1256<br>(0.1139) | | |
| Openings (LPHT) by others sharing HQ city × City-based status | | | | -0.3013<br>(0.3072) | | |
| Recent foreign office openings in other city by others sharing HQ city (ln) | | | | | 0.1655**<br>(0.0721) | 0.1993**<br>(0.0807) |
| Openings (others city) by others sharing HQ city × City-based status | | | | | | -0.3684*<br>(0.1969) |
| Foreign office count (t-1) | -0.2403***<br>(0.0333) | -0.2224***<br>(0.0328) | -0.5509***<br>(0.0863) | -0.5220***<br>(0.0871) | -0.1879***<br>(0.0308) | -0.1837***<br>(0.0307) |
| Regional coverage (count, t-1) | 0.4418***<br>(0.0991) | 0.4311***<br>(0.0974) | 0.5349***<br>(0.1666) | 0.5483***<br>(0.1667) | 0.4559***<br>(0.0963) | 0.4487***<br>(0.0959) |
| Recent foreign office openings (count, 3yrs) | 0.2905***<br>(0.0826) | 0.2962***<br>(0.0819) | 0.5081***<br>(0.1336) | 0.4863***<br>(0.1353) | 0.4342***<br>(0.0830) | 0.4332***<br>(0.0828) |
| Regional diversity (entropy index) | 1.2431***<br>(0.3444) | 1.2869***<br>(0.3465) | 1.0542**<br>(0.4475) | 1.2548***<br>(0.4616) | 1.0715***<br>(0.3799) | 1.0679***<br>(0.3838) |
| Proportion of non-US attorneys (t-1) | 5.5550***<br>(1.1423) | 5.4170***<br>(1.1263) | 3.4142*<br>(1.8941) | 2.8756<br>(1.8865) | 5.4968***<br>(1.0948) | 5.5052***<br>(1.0906) |
| Firm size (number of total attorneys) | 0.2173***<br>(0.0276) | 0.1952***<br>(0.0274) | 0.3149***<br>(0.0342) | 0.2878***<br>(0.0352) | 0.1418***<br>(0.0248) | 0.1330***<br>(0.0249) |
| Foreign branch experience (logged total years) | 0.2457***<br>(0.0560) | 0.2331***<br>(0.0552) | 0.1927**<br>(0.0883) | 0.1573*<br>(0.0900) | 0.3151***<br>(0.0569) | 0.3200***<br>(0.0581) |
| HQ city - New York | 0.0947<br>(0.3296) | -0.1604<br>(0.3717) | 0.2691<br>(0.3809) | -0.1916<br>(0.4905) | -0.5343*<br>(0.2829) | -0.3056<br>(0.3885) |
| HQ city - Washington DC | 0.4867*<br>(0.2648) | -0.2052<br>(0.3428) | 0.2567<br>(0.3328) | -1.0048**<br>(0.4831) | 0.2733<br>(0.2441) | 0.1489<br>(0.3344) |
| HQ city - Chicago | 0.0914<br>(0.2895) | -0.1389<br>(0.2860) | -0.2110<br>(0.3517) | -0.3370<br>(0.3582) | -0.2372<br>(0.2716) | -0.1790<br>(0.2812) |
| HQ city - San Francisco | 0.4023<br>(0.3003) | 0.1116<br>(0.2977) | 0.6846**<br>(0.3141) | 0.3852<br>(0.3225) | -0.0511<br>(0.2793) | -0.1242<br>(0.2864) |
| HQ city - Los Angeles | 0.1711 | -0.2077 | 0.1851 | -0.2277 | -0.2171 | -0.2512 |

**Table 2.6. The Influence of Geographically Proximate Peers on the Adoption of a Global Identity**

**(Test for Main Effects and Interaction Effects)**

| | Foreign office opening | | Foreign office opening in a global financial city (LPHT) | | Foreign office opening in other city | |
|---|---|---|---|---|---|---|
| | Model 17 | Model 18 | Model 19 | Model 20 | Model 21 | Model 22 |
| | (0.2973) | (0.3063) | (0.3418) | (0.3546) | (0.2897) | (0.3068) |
| HQ city - Boston | 0.2937 | 0.1891 | 0.5649 | 0.5892 | -0.6006 | -0.5950 |
| | (0.3330) | (0.3296) | (0.3820) | (0.3866) | (0.4497) | (0.4491) |
| Constant | -5.6541*** | -6.0625*** | -6.5017*** | -7.1469*** | -6.3315*** | -6.7833*** |
| | (0.4937) | (0.5088) | (0.6707) | (0.7430) | (0.6689) | (0.7116) |
| | | | | | | |
| Year fixed-effects | Yes | Yes | Yes | Yes | Yes | Yes |
| | | | | | | |
| Observations | 7,077 | 7,077 | 7,077 | 7,077 | 7,077 | 7,077 |
| Number of law firms | 421 | 421 | 421 | 421 | 421 | 421 |
| Log likelihood | -1686 | -1679 | -799.3 | -790.4 | -1305 | -1302 |
| Degree of freedom | 42 | 44 | 42 | 44 | 42 | 44 |
| Wald Chi2 | 504.8 | 528.7 | 227.7 | 231.5 | 625.5 | 629.1 |

Standard errors in parentheses

*** $p<0.01$, ** $p<0.05$, * $p<0.1$

## Table 2.7. The Contingency of Peer Influence on Foreign Expansion Path Idiosyncrasy

|  | Foreign office opening Model 23 |
|---|---|
| Recent foreign office openings by structurally similar peers | 0.0147*** |
|  | (0.0040) |
| Foreign Expansion Path idiosyncrasy | 1.6382** |
|  | (0.8234) |
| Openings by structurally similar peers $\times$ Foreign Expansion Path Idiosyncrasy | -0.0593*** |
|  | (0.0170) |
| Foreign office count | -0.2115*** |
|  | (0.0328) |
| Regional coverage (count) | 0.5015*** |
|  | (0.1109) |
| Recent foreign office openings (count, 3yrs) | 0.2927*** |
|  | (0.0804) |
| Firm diversification (entropy index) | 1.1019*** |
|  | (0.3408) |
| Proportion of non-U.S. attorneys | 5.2279*** |
|  | (1.1271) |
| Firm size (number of total attorneys) | 0.2079*** |
|  | (0.0270) |
| Foreign branch experience (logged total years) | 0.2032*** |
|  | (0.0596) |
| HQ city - New York | 0.2680 |
|  | (0.1893) |
| HQ city - Washington DC | 0.5853*** |
|  | (0.2201) |
| HQ city - Chicago | 0.1373 |
|  | (0.2279) |
| HQ city - San Francisco | 0.4647* |
|  | (0.2696) |
| HQ city - Los Angeles | 0.1731 |
|  | (0.2728) |
| HQ city - Boston | 0.1285 |
|  | (0.3283) |
| Constant | -5.6040*** |
|  | (0.5007) |
| Year fixed-effects | Yes |
| Observations | 7,077 |
| Number of law firms | 421 |
| Log likelihood | -1678 |
| Degree of freedom | 44 |
| Wald Chi$^2$ | 540.8 |

Random-effects logit model.
*** p<0.01, ** p<0.05, * p<0.1

## **Figure 2.7. Contingent Effects of Peer Influence**
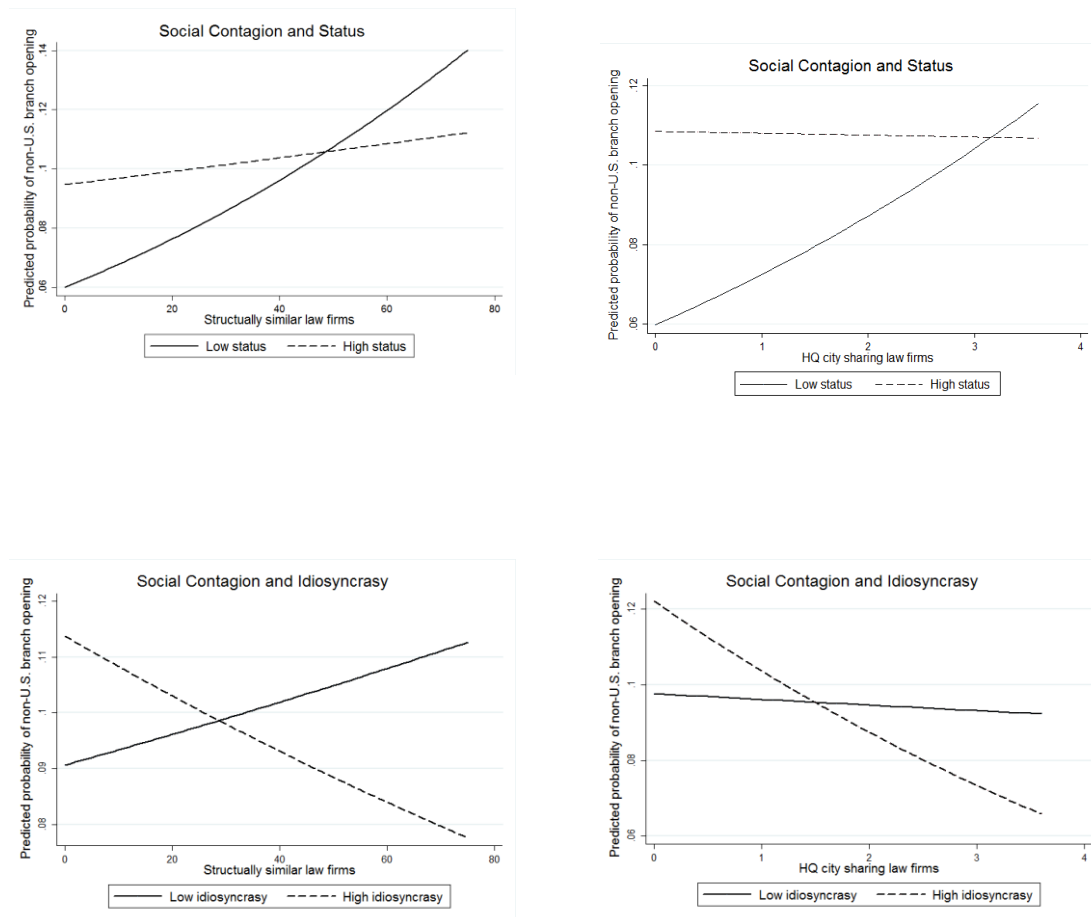
## 1.5. DISCUSSION AND CONCLUSION

This chapter starts by asking how the law firm's tendency to adopt a global form depends on its existing location affiliations and how this tendency becomes contagious among similar firms. Direct empirical examination of the law firm's foreign expansion beyond its home market has been a much needed task primarily because the legal services market is typically viewed as geographically delineated market. And while the market entry decision into a new geographic area is undoubtedly one of the most significant corporate-level decisions in the legal industry as it involves governance and profit-sharing issues for many law firms, little work has been done in this area by organizational scholars.

In this chapter I have developed and tested the hypotheses that highlight status-seeking and peer influence as micro mechanisms generating the diffusion of a global law firm. At the aggregate level, this micro behavior creates isomorphism among similar firms toward globalization. This study has also demonstrated that simultaneous consideration of social structural and historical conditions under which a firm's market identity diffuses is one way to connect time-varying, micro-level process to historical, macro-level change.

I have focused on "location-based status" among large corporate law firms mainly for two reasons. First, it is widely acknowledged that the spatial affiliations of the law firm, especially those of the principal office, functions as one of the most salient identity cues in the corporate legal services market that have a hierarchical component to them. Second, the location information is most easily and cheaply observable in tangible forms and yet triggers inferences about quality and prices of the offerings in the minds of audience members such as corporate clients. Explicit

consideration of location affiliations as important identity attributes in shaping organizational conduct and outcome is particularly essential in understanding the behavior of professional services firms.

This paper is expected to contribute to the organizational literature on market identities in the following three ways. First, my approach further extends the recent theorizing and research on identity in the field of organizational sociology and economic sociology (e.g., Zuckerman, 1999; Ruef, 2000; Hannan et al, 2005) that has engaged with the following two questions in the separate manner: (1) When does an organization change its existing identity and thereby construct a new market identity? (2) How does such a new identity diffuse within the population? The theory and findings presented here regarding specific social structural contexts under which one type of identity-oriented market action is triggered and diffused in the professional services market illustrates one instance in which organizational scholars can fruitfully integrate these two seemingly separate questions, generating further insight on the workings of identity in organizations and markets.

Second, my approach is complementary to the previous work on the formation of market identities that has predominantly emphasized cognitive processes. There has been a growing body of research that is broadly concerned with how the meanings and codes get to be shared by group members[12]. While this literature has explored

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12. Note that I have focused on "the signifier" of a firm's identity, rather than "the signified". "The signifier" refers to the symbols or images that represent "the signified", which, in turn, refers to the contents or meanings represented by "the signifier". The signifier and the signified are inextricably linked through the process of "signification". Although it is not the goal of this paper to delve deeply into the relationship between "the signifier" and "the signified", I find this distinction, made by Saussure (1922) who started the field of semiotics, useful to clear some of the confusion in the literature on market identity. In particular, bringing this distinction to the study of market identities is useful to understand how firms can engage in strategic employment or manipulation of the signifier of their identity. By contrast, shared meanings or agreed-upon codes of conduct, namely the signified of

various ways in which identity formation at the categorical level occurs illuminating the cognitive processes through which meanings and codes are attached to labels (Hsu, 2006), much less understood is under what structural circumstances individual actors are induced to construct such a new identity. As this paper is largely motivated by a theoretical interest in the social contexts of identity-oriented action, it generates further insight into the question about the situations under which identity formation process at the individual level involves social communication, or actor-audience attribution process (Padgett and Maclean, 2006). By distilling and integrating core insights from organizational theories and structural social psychological theories, an identity-based model of organizational change proposed here and its empirical test in the context of the U.S. corporate legal services market is an attempt to fill in the lacunae in the literature that I consider problematic for the formulation of an identity-based perspective on organizations and markets.

Third, sociological perspectives on organizations and markets have advanced our understanding of the role of identities in economic life (e.g., Zuckerman et al., 2003; Hannan et al, 2005; Baron, 2004) by making substantial progress in addressing the question of market consequences that different identity positions at a point in time bring about, the contemporary literature has yet to theorize on varied ways in which economic actors construct their identity over time. Furthermore, the extant theoretical framework poses a difficulty in incorporating the widespread empirical observation that most social actors are capable of, and sometimes do engage in actions that

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an identity, are less subject to strategic action by individual firms precisely because of their collective nature. However, the artifacts or symbols that embody certain identity are more easily manipulated although success depends on the legitimacy of such action.

oriented toward constructing new market identities (Swidler, 1986; Goffman, 1957; Padgett and Ansell, 1993; Phillips and Kim, 2009). Admittedly, the success of actions that entail manipulating or maneuvering one's identity depends on the credibility of the action in question and social structural characteristics in which the actor is embedded. In order to deepen our understanding of how identity plays out in the marketplace, I have advanced an in-depth treatment of several commonly deployed types of action that purport to affect the audience's perception of the identity of the focal actor.

Given the importance of explicit theoretical formulation of organizational change based on the construct of identity, further work is needed that expands the sociological notion of identity that highlights the social conditions of firms' identity change behavior. With ensued empirical verification of such theoretical work, organizational and strategic management scholars will be able to move beyond just pondering about performance consequences of the firm's market identity. Such efforts are likely to lead to a more complete understanding of the divergent workings of identity.

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