

HUMAN RESOURCE STRATEGY AND CAREER MOBILITY IN  
PROFESSIONAL SERVICE FIRMS: TEST OF AN OPTIONS-BASED MODEL

STANLEY B. MALOS

College of Business

San Jose State University

San Jose, CA 95192-0070

(408) 924-1342

MICHAEL A. CAMPION

Krannert Graduate School of Management

Purdue University

West Lafayette, IN 47907-1310

(765) 494-5909

Forthcoming in the **Academy of Management Journal**

Human resource strategy and career mobility practices ... 2

HUMAN RESOURCE STRATEGY AND CAREER MOBILITY IN

PROFESSIONAL SERVICE FIRMS: TEST OF AN OPTIONS-BASED MODEL

ABSTRACT

This study provides a partial test of Malos and Campion's (1995) options-based model of career mobility in professional service firms. After clustering a sample of 117 high-grossing U.S. law firms into two configurations suggested by strategic options analysis, we found internally consistent relationships among career mobility practices and career-related outcomes.

---

Portions of this study were presented at the 1996 Annual Meetings of the Academy of Management in Cincinnati, OH. Correspondence may be directed to the first author at the College of Business, San Jose State University, San Jose, CA 95192-0070.

Despite the ongoing growth of professional service industries and emergence of the U.S. as a service-oriented economy in general (Maister, 1993), professional service firms (PSFs) remain an underresearched organizational form. In particular, the up-or-out promotional system, which continues to prevail in PSFs such as law firms, accounting firms, consulting firms, and others, persists as a career phenomenon about which little is known (O'Flaherty & Siow, 1992). Recent research in the PSF context has examined early resignation (Robson, Wholey, & Barefield, 1996), perceived advancement opportunity (Wallace, 1995), and firm human capital structure (Sherer, 1995). However, no empirical research has explored overall relationships among indicators of PSF human resource (HR) strategy such as starting salaries, mentoring and career development, promotional practices such as up-or-out rules, and related mobility phenomena.

In this paper, we investigate relationships among indicators of HR strategy and career mobility practices in PSFs suggested by Malos and Campion's (1995) options-based model. We first summarize their theoretical framework, and propose an operational model with indicator variables for key constructs. Using a subset of these indicators, we cluster firms into one of two configurations of HR practices consistent with a strategic options approach. Based on internally consistent relationships among these variables, we find overall support for the model. We also discuss practical implications for HR and career development in PSFs and other types of firms.

#### STRATEGIC OPTIONS THEORY AND CAREER MOBILITY IN PSFs

In their article on PSF career mobility, Malos and Campion pointed out the limited analytic usefulness of previous mobility models from the firm point of view. In particular, they noted the inability of these theories to account for up-or-out promotional systems, in which organizations typically dismiss competent employees who are at least as productive as their replacements. Building on the work of Hurry and his associates (Hurry, 1994; Hurry & Jackofsky, 1992; Hurry, Miller, & Bowman, 1992), they developed an options-based model that views the hiring of associates (salaried professional employees) as an investment of resources to acquire options on associates' future partnership potential. The firm then utilizes training and mentoring, as well as deferred compensation (the promise of possible

partnership), to hold these options open by bonding associates to the firm while their professional development is assessed. Disposition of associate options, that is, their exercise (“up”) or abandonment (“out”), will depend on partnership qualifications at the end of the apprenticeship period, or partnership track.

Although most large PSFs hire associates on a regular basis, firms may differ in their hiring emphases and related career mobility practices (starting salaries, mentoring and career development, length of apprenticeship period, promotional opportunities, and the strictness of up-or-out rules). A firm “will choose a competitive strategy based on decisionmakers’ perceptions of which options are most valuable given its unique configuration of internal resources and external opportunities” (Hurry, 1994: 231). For example, firms whose partners are competent in training and mentoring may seek to compete by “making” their own partners, and hire associates with emphasis on their option value (long-term partnership potential). Such firms would be expected to attract and select associates interested in and amenable to long-term development, and to invest greater amounts of mentoring, challenging work opportunities, and overall support to hold associate options open while deciding whether to exercise or abandon them. Conversely, firms whose partners are more competent in rainmaking, or that have achieved ongoing demand for services from long-time clients, may seek to compete by “buying” partners if and when a particular expertise is needed (e.g., to add a new practice area required by existing clients), and hire associates with emphasis on their project value (short-term productive capacity). Such firms may see less need to dilute *pro rata* capital shares by adding new partners via promotions on a regular basis, and may attract and select associates primarily for their willingness and ability to handle routine work assignments with minimal supervision.

This overview provides the basis for an operational model linking prior indicators of HR strategy with career mobility practices and related outcomes in PSFs. While the starting point is arbitrary for a going concern, and the precise nature of causal relationships among particular variables is not addressed here, Figure 1 shows how selected measures for which data are available might correspond to the constructs in Malos and Campion's (1995) conceptual model.

-----  
Figure 1 about here  
-----

#### INTERNAL CONSISTENCY AMONG INDICATORS OF OPTIONS-BASED STRATEGY

The extent to which PSFs engage in comprehensive strategic planning has remained somewhat unclear (Buller, Beck-Dudley, & McEvoy, 1990). However, it is well known that large law firms set target ratios of associates per partner (leverage ratios) and target levels of billable hours that are closely monitored because of their implications for financial performance (Sherer, 1995; Wholey, 1985). These strategic indicators investigated in prior research reflect the extent to which partners' client-getting ability can be leveraged by having salaried associates do a larger share of routine legal work (Galanter & Palay, 1991; Gilson & Mnookin, 1989). While these indicators are important, we believe that overall HR strategies in PSFs are more richly reflected by internally consistent bundles of career mobility practices (hiring, bonding and development, apprenticeship, frequency of promotion, and up-or-out rules) whose relative levels are logically related and reinforce one another. Because the limited research in this area has focused almost exclusively on leverage ratios and billable hours, we use options analysis to conceptually relate these indicators to career mobility practices in PSFs. We then explore in more detail the logical correspondence among hiring, bonding and development, apprenticeship and promotional practices, and career-related outcomes suggested by this approach.

#### Prior HR Strategy Indicators and Hiring and Promotional Practices

According to Malos and Campion (1995), options-based firms are those that invest in associates' future partnership potential. Such firms would be expected to have lower leverage ratios, because promoting an associate both reduces the numerator (number of associates) and increases the denominator (number of partners) of the ratio. These firms should be able to offer lower starting salaries, because they offer greater chances for future promotion to partner status. This emphasis on the present value of expected possible promotion represents a deferred compensation component consistent with the future orientation of options-based firms. In other words, promotion to partnership

denotes joint ownership status and a claim to firm assets. Though deferred and uncertain, partner status provides the opportunity for compensation far in excess of that received as a salaried employee. Meanwhile, associates are paid only a portion of revenues generated by their labor, and the difference is retained as surplus by the firm (Wholey, 1985). If an associate develops into “partner material,” part of this sum is returned as a residual share of firm profits (Lazear, 1990; Main, 1990).

Conversely, associates in project-based firms, which achieve and maintain higher leverage ratios by promoting fewer associates, would be expected to accept positions only if they are paid more at the outset (Sherer, 1995). Such associates also might be expected to bill more hours to account for these higher salaries, thus affording the firm the benefits of both increased revenues and fewer partners among whom residual profits must be divided. The firm would be expected to retain as “rents” a substantial portion of the extra revenues generated by these additional billable hours (see generally Carr and Matthewson, 1990; Gilson and Mnookin, 1989).

Similarly, project-based firms may be willing to utilize less strict up-or-out practices, and to retain a number of non-promoted associates (Galanter & Palay, 1991; Siow, 1994). These firms are interested primarily in associates’ billable work product, and might well allow them to remain with the firm indefinitely even if they do not make partner. Particularly where associates do routine or specialized work and do not interact much with clients, the knowledge and experience of “permanent” associates may be useful to the firm, but not useful enough to justify promotion (Wholey, 1985). Associates in firms with less strict up-or-out rules thus may receive higher salaries, perhaps due to their greater experience and lesser need for supervision, or perhaps of necessity because extra compensation is not deferred pending possible promotion.

#### Hiring, Bonding and Development, Apprenticeship, and Promotional Practices

Options theory also helps to paint a picture of internally consistent relationships among career mobility practices that add to prior indicators in describing strategic HR systems in PSFs. For example, another reason that associates’ early salaries could be lower in firms that tend to promote is that such firms would be expected to offer more mentoring, developmental work experience, and overall support

than more highly leveraged project-based firms, in which there are more associates to supervise per partner. Starting salary, training and development, and the expected value of future possible promotion thus all may be thought of as components of a firm's overall incentive and reward system over time. In options-based firms, lower starting salaries are offset by mentoring, development, promotional opportunities, and overall support (Gilson & Mnookin, 1989; Malos, 1996). For these reasons, we consider hiring, bonding, and promotional practices to be the key indicators that distinguish options- from project-based firms.

In addition to offsetting lower starting salaries, developmental and promotional opportunities in options-based firms serve as bonding and incentive mechanisms in their own right (Siow, 1994). Developmental opportunities (e.g., training, mentoring, challenging work assignments) provide incentives for associates in less leveraged, more options-based PSFs to remain with the firm while their professional acumen increases, as does their corresponding ability to make partner (Gilson & Mnookin, 1989). The guidance, feedback, and knowledge about partnership that come with higher levels of mentoring provide a vehicle for developing firm-specific human capital such as knowledge of firm practice specialties, relationships with firm partners or clients, and shared firm reputation (Carr & Mathewson, 1990; Wholey, 1985). The non-transferable nature of such capital provides constraints on leaving the firm to which it is specific (Gilson & Mnookin, 1989; Siow, 1994), reducing the odds that associates will depart prior to partnership consideration. This commitment to developing human capital also keeps leverage ratios low, because each partner can devote only so much time to mentoring activities.

As for apprenticeship practices, project-based firms that seek to promote less would be expected to establish longer partnership tracks. It makes sense to expect such PSFs, which offer more money to start, to require longer periods of service for associates to “pay their dues” and accumulate adequate buy-ins for their share of firm assets if and when they are promoted. Such firms would be expected to allow more variability in their partnership tracks, because they have an incentive to continue to utilize an associate beyond expiration of a minimum apprenticeship period. These firms are less

concerned with clearing the partnership pipeline for new hires with more promotion potential. Here, variability in the time until partnership consideration allows not only a further return on long-time (potentially permanent) associates, but also a profitable extension of time during which possible late bloomers can make partner (or leave if they do not). The converse would be true for options-based firms. Because such firms give their associates substantial resources with which to develop into partners (i.e., by offering higher levels of mentoring, developmental work experience, and overall support), they would be expected to expedite their partnership tracks. Limiting variability in partnership tracks also helps maintain the efficacy of firms' career development systems, facilitates reallocation of resources toward associates with the most promotion potential, allows dismissal of associates who do not make partner, and makes way for developing new associates that have the potential to do so.

Furthermore, recipients of mentoring and developmental work experience in options-based firms should be more likely to be promoted, due to the greater opportunity to achieve positive relationships with mentoring partners and the professional skills needed to fulfill a partner role. Options-based PSFs whose strategies emphasize "making" new partners also would be expected to terminate those associates who, despite receiving developmental resources, still do not appear to have partner qualifications. By maintaining stricter up-or-out rules, successful associates can be brought into the partnership to allow the firm to capitalize on its investments in training and development (Koch & McGrath, 1996), while others can be dismissed to make way for potentially promotable (and less costly) new hires. Correspondingly shorter, less variable partnership tracks also should provide more condensed, intensified apprenticeship experiences for associates, suggesting both higher percentages of promotable associates and stricter up-or-out treatment (less tolerance of failure) for those who remain unpromotable nonetheless.

#### Career Mobility Practices and Related Bonding Effectiveness Outcomes

All of these career mobility practices would be expected to correspond with career-related bonding effectiveness outcomes. For example, less mentoring and more lengthy partnership tracks, as well as the more generic human capital gained from routine work assignments, will likely correspond

with lower intentions to stay and higher turnover. Longer delays until possible partnership reduce the expected present value of the potential deferred compensation to be received upon admission to partner status. The same will be true for partnership track variability; firms that do not consider associates for promotion directly upon expiration of an explicit partnership track may be seen as failing to reward associates who deserve to be promoted (Gilson & Mnookin, 1989), further reducing the incentive value of staying with the firm. Conversely, options-based firms that historically have mentored, developed firm-specific human capital, and promoted a high percentage of associates imply that current associates have similar chances, increasing intentions to stay and lowering turnover prior to possible partnership and recovery of retained surplus. The same is true for stricter up-or-out rules; like explicit partnership tracks, such rules represent a fairness guarantee against the “moral hazard” that the firm could exploit indefinitely as associates those who are in fact partner material (Gilson & Mnookin, 1989).

Hypothesis 1A: PSFs such as law firms will exhibit options- or project-based strategies, based on relationships among indicators of hiring, bonding and development, and promotional practices; specifically, options-based firms will have lower starting salaries but higher levels of mentoring, development, and overall support, higher promotion percentages, and stricter up-or-out rules when compared with project-based firms.

Hypothesis 1B: Options-based firms will tend to be smaller and will have lower leverage ratios, lower target billable hours, higher expectations for future partnership, shorter and less variable partnership tracks, higher intentions to stay, and lower turnover than project-based firms.

## METHOD

### Data Collection

In order to use objective indicators of career mobility constructs to the greatest extent possible, we obtained data from three archival sources. Data on hiring, apprenticeship, and promotional practices were obtained from the National Association for Law Placement (NALP); data on mentoring, career development, and support were obtained from the American Lawyer Midlevel Associates Survey (ALMAS); data on financial performance were obtained from the American Lawyer’s “Am Law 100.”

Multiple archival sources also reduced the potential for common method variance and retrospective biases, which might have been of more concern were all data from perceptual sources such as the opinions or recollections of managing partners.

NALP. The NALP was organized to promote the timely exchange of recruitment information among law schools, employee candidates, and employers in the legal profession. Employers provide standardized information about firm size, demographics, past promotions, and typical time to partnership. A duty of full and accurate disclosure and the relatively objective nature of the information reduced the potential impact of reporting biases. Data from 1986 to 1992 proved usable; differences in reporting conventions before and after those years precluded their use in calculating historical promotion percentages and the strictness of up-or-out rules.

ALMAS. The American Lawyer has investigated perceptions of third- and fourth-year associates regarding training, professional development, and related matters biennially since 1986. Questionnaires are sent to the country's largest law firms seeking associate reports of how interesting work was, hours billed, client contact, feedback from partners, knowledge regarding partnership, training and guidance, intentions to stay, and other matters. Each survey reports aggregated data for those firms from whom responses were received for at least half of the firm's eligible associates, or from whom at least ten responses were received. Response rates of 47-50% have been typical. Although respondent-level data could not be obtained, it appears to have been carefully collected on behalf of a respected professional publication, assesses a large number of relevant items, represents a large sample, and permits examination of reliability over time. The data also make conceptual sense at the aggregate level (e.g., the amount of mentoring a firm does overall, rather than with respect to a particular partner or associate), and show reliable between-firm differences, supporting aggregation (e.g., James, 1992). Surveys from 1986-1994 were used.

Am Law 100. The Am Law 100 provided usable information for the years 1990, 1992, and 1994 on revenues per lawyer, profits per partner, and a relative "profitability index" (the ratio of profits per partner to revenues per lawyer) for America's 100 highest-grossing firms in those years. The index

provides a measure of effectiveness in using associates to generate profits for the firm's owners, and accounts in part for the impact of firm size and market factors (e.g., larger firms, higher billing rates in areas like New York City) on raw revenue and profit figures.

#### Sample

We investigated 117 of the largest, highest-grossing firms in the United States (names and locations available upon request). Firms were chosen for geographic dispersion and completeness of data. Because the Am Law 100 selects firms in part based on gross revenues that tend to be higher in large cities, the sample decreased to 78 for financial performance analyses.

We acknowledge that this sample is one of convenience. In addition, although collected over a substantial period of time, the data are still cross-sectional and can support no inferences regarding causal relationships. Further, although a nation-wide sample, it is biased toward large firms in major metropolitan areas. Nevertheless, larger firms have a substantial influence on the practice of law in the U.S. (Wholey, 1985), and represent an increasing share of the industry's market (Curran & Carson, 1991), factors which support the study's relevance. Furthermore, these firms are those that tend to recruit regularly enough to participate in the NALP survey, thus facilitating a meaningful examination of their career practices and emergent HR strategies. Finally, the sample allows us to control for market factors that may cause large firms in the same city to maintain similar hiring strategies (e.g., with respect to starting salaries) in order to compete locally for new associates. Although systemic differences in HR and career practices across markets may be of interest in their own right, we focus on differences across firms within the same market to avoid overstating our results.

#### Measures

Each NALP survey contains promotion and related mobility statistics (e.g., number hired, number considered for partnership) for the five previous entering classes whose tenure had permitted their consideration for partnership by the time the survey was completed. Using this information, promotion percentage was calculated as a ratio of the number of promoted associates to the number originally hired into each entering class. Up-or-out strictness was calculated as a ratio of the number of

*non-promoted* associates leaving the firm to the number of associates actually *considered* for partnership in each entering class. Partnership track length, average starting salary, and firm size (number of attorneys) were determined directly from the data. Partnership track variability (variation in the time until consideration for promotion to partner) was calculated as the ratio of the track's range to its lower bound.

ALMAS listings provided associate perceptual measures of work-related experiences in their firm. Responses were provided on anchored Likert-type scales of 1 to 5, and aggregated within firm prior to publication. Items worded inconsistently across surveys, or which were not collected across at least four of the five survey years, were excluded. A total of 14 items (available upon request) were suitable for subsequent analyses. Am Law 100 listings provided the financial performance measures (revenues per lawyer, profits per partner, and the relative profitability index). The relative expected value of partnership was estimated as a firm's average profits per partner, multiplied (discounted) by the historical chances of making partner, divided by the partnership track (longer partnership tracks reduce the present value of future partnership).

## RESULTS

### Reliabilities, Scale Development, and Simple Statistics

Reliabilities across years of mean values for the ALMAS items, based on one-way ANOVAs where the factor is the firm and variance due to years is in the error term, ranged from .61 to .92 and averaged .79. Because the results indicated reliable between-firm differences compared to across-year differences, we considered aggregation across years to be appropriate.

The items were intercorrelated, so we reduced them to scales using exploratory factor-analysis. Three items which were interpretable as stand-alone measures (relative compensation, intention to stay, and target billable hours) were excluded from the factor analysis. The remaining 11 items were submitted to principal components analysis with oblique rotation, which yielded a 3-factor solution based on the number of eigenvalues greater than 1.0 and a scree plot. Resulting subscales were labeled mentoring, developmental work experience, and office and support services, and used as indicators of

bonding, development, and overall support (see Figure 1). Internal consistency and reliabilities across years were high, and intercorrelations among the scales suggested their relative independence (Table 1).

Means, standard deviations, and intercorrelations among the measures are presented in Table 2. Many of the relationships that would be expected among the measures for internally consistent firms were present in the sample at the zero-order level. Mentoring, developmental work experience, and office and support services, the bonding and development measures, were positively related to one another and to intentions to stay, negatively related to turnover (except for office and support services), and negatively related to starting salary. As would be expected, intentions to stay and turnover, the two bonding outcomes, were negatively correlated, and expected value of partnership was positively related to intention to stay and negatively related to turnover. Starting salary and expected value of partnership were not significantly related, nor were partnership track length and variability, but partnership track length was negatively related to promotion percentage and up-or-out strictness as expected. Historical promotion percentage and up-or-out strictness, the two promotional practices examined, exhibited a moderate positive intercorrelation, and were positively related to intention to stay and negatively related to turnover. Leverage ratio exhibited a strong positive correlation with firm size, as well as a negative relationship with intention to stay and a positive relationship with turnover. Firm size and target billable hours were positively intercorrelated, and positively related to financial performance. Consistent with prior research (e.g., Sherer, 1995; Wholey, 1985), leverage ratio was positively correlated with all three financial performance measures.

-----  
Tables 1 and 2 about here  
-----

#### Approach to Multivariate Analyses

We hypothesized, based on strategic options theory, that internally consistent differences in levels of key indicators of career mobility practices could be used to classify firms as relatively options- or project-based in their exhibited HR strategies. The principal hiring, bonding and development, and

promotional practices measures (starting salary, mentoring, developmental work experience, office and support services, promotion percentage, and up-or-out strictness) were therefore used to cluster the sample into two groups (expected value of partnership was omitted from the clustering procedure because of its algebraic redundancy with other variables and the limited number of firms for which this measure was available). We expected that one group would represent relatively options-based firms, while the other would represent project-based firms. We also noted that “in the absence of statistical tests for the ‘right’ number of clusters, [cluster analysis results] must be judged primarily on their usefulness in predicting outcomes of variables not used in the clustering procedure” (Arthur 1994: 667). We were thus prepared to infer support for options analysis only if significant mean differences occurred in the expected directions both for the clustering and the other (validation) variables.

Because the continuous measures used to cluster were from a sample of fairly similar firms (particularly when standardized by city), the data might not have been amenable to replication based on a well-separated cluster structure. We therefore used the k-means algorithm (MacQueen, 1967), which has been shown to effectively recover poorly separated clusters in artificial data sets of 100 or more observations (Milligan & Cooper, 1985; Pollard, 1981).

#### Results of Multivariate Analyses

Firms in the sample were clustered after standardizing the data by city, in order to provide a more conservative picture of firms’ relative options-versus-project character compared with other firms in their own market. This procedure yielded a two-cluster solution with 53 options firms and 64 project firms. The viability of this solution was supported by significant mean differences across clusters on the clustering variables, and by linear discriminant function analysis, in which an optimal linear combination of the clustering variables achieved an overall correct classification rate of 97% (98% for the options firms; 95% for the project firms). In addition, canonical discriminant function analysis on the clustering variables, using cluster membership as the class variable, yielded a highly significant canonical correlation of .80.

Table 3 shows the mean differences between clusters on all variables, with the clustering variables shown first and the validation variables shown second. Because each measure was standardized by city to a standard normal distribution, cluster mean values represent the number of standard deviations from within-market group means (set to zero). As would be expected, significant mean differences occurred in the predicted directions for all six of the variables used to cluster. Most importantly, seven of the eight remaining variables for which differences were predicted (all but target billable hours) exhibited significant mean differences in the expected directions. The clustering procedure thus yielded two distinct groups of firms that clearly resembled either options- or project-based firms, providing strong support for Hypothesis 1A.

As also predicted, firms in the group that averaged significantly lower starting salaries but had higher levels of mentoring, development, and overall support, higher promotion percentages, and stricter up-or-out rules (options-based firms) also were smaller, and had lower leverage ratios, higher expected partnership values, shorter and less variable partnership tracks, higher intentions to stay, and lower turnover than the other (project-based) firms. These results provide strong support for Hypothesis 1B; only billable hours did not vary significantly across clusters.

-----  
Table 3 about here  
-----

## DISCUSSION

In this study, we found support for the overall viability of Malos and Campion's (1995) options-based model of career mobility in PSFs. Although most firms are probably hybrids that appear somewhere along an options/project continuum, the categorical classification achieved by clustering these firms creates a clear picture of firms that may be considered relatively options- versus project-based in their exhibited strategies. That such firms do appear to emerge with one of the two strategic bundles of HR and career mobility practices suggested by options analysis is an interesting finding in and of itself, particularly when considering the relative homogeneity of this sample of large, high-grossing

firms. These results suggest the possibility that the internal consistency exhibited by these highly successful PSFs could be used as a diagnostic to align firms' personnel practices into one of the desired strategic bundles suggested by options analysis.

Notwithstanding this general support for options analysis overall, there are of course limitations. First, there are potential limitations in the data. For example, while most NALP information appears relatively objective, this may not be the case for all variables. Promotion statistics for past entering classes may not always be easy to obtain due to passage of time or the difficulty of classifying lateral transfers or former judicial clerks into a particular entering class. Firm representatives also may provide presumed figures that are accepted in good faith as typical in the firm (and perceived as acceptable to potential new associates), but which may be less accurate than a systematic accounting over time. In addition, our data do not disclose whether non-promoted associates who leave do so because they are explicitly asked to, implicitly expected to, or could have stayed (perhaps as permanent associates) but chose to seek opportunities elsewhere. Further, a few of the zero-order relationships could have been inflated by common method variance (e.g., the mentoring, developmental work experience, and intention to stay measures all were obtained from ALMAS surveys), although this problem would seem limited because most measures come from different sources (e.g., ALMAS vs. NALP) or are derived from highly objective data (e.g., revenues, number of attorneys hired or promoted). Finally, the operational model developed in this study represents a limited subset of indicators for which we had data, and which may arguably relate to more than one conceptual viewpoint. For example, our mentoring composite includes items that assess associates' knowledge regarding partnership, feedback from partners, treatment by partners, and so on (Table 1). It is thus reasonable to speculate that the bundles of HR and career mobility practices suggested by our options-based model evolve and persist over time as elements of firm reputation or culture, as partners and associates with similar values, personalities, and practice styles self-select in and out of the two types of firms and word gets around through recruiting media within local markets. However, although consistent with an options framework, this analysis does not rule out alternative theoretical perspectives (see, e.g., Judge & Cable, 1997;

Schneider, 1987). It remains for further research to compare other models and examine relational causality.

#### Practical Implications For Firm Mobility Strategies and Associate Career Development

The results of this study suggest that there are differing, internally consistent HR and career mobility strategies in PSFs that may be equally effective, depending on a firm's market and desired outcomes (Doty, et al., 1993). For example, it appears that firms that prefer to focus greater attention on treating their professional employees developmentally and supportively from an organizational culture or quality of life point of view still can manage to succeed in terms of financial performance. In addition, rather than limiting strategic planning to targeting and monitoring leverage ratios and billable hours as appears from prior research may have been the case in the past, PSFs might consider that effective configurations tend to take shape in the form of patterns or bundles of career mobility, career development, and related human resource practices. In essence, such configurations, consistent with the practices of these highly successful firms, represent strategies that organizations could adopt proactively if they chose to do so.

Specifically, we suggest that firms could use these results to match their HR strategies with the strengths and weaknesses or desired cultures of firm partners in terms of managing, coaching, mentoring, rainmaking, or leveraging abilities and firm growth (see, e.g., Wright, Smart, & McMahan, 1995). Even among this relatively homogeneous sample of high-grossing, highly profitable firms, for the 25 options firms (and only those firms) for which we had financial performance data, mentoring and overall support were positively related to both revenues per lawyer ( $r = .65$ ;  $r = .55$ ) and profits per partner ( $r = .45$ ;  $r = .50$ ) at the  $p < .01$  significance level, while for the 53 project firms for which we had such data, firm size was positively related to the same two financial performance measures ( $r = .55$ ;  $r = .33$ ). These findings suggest that once you know what form you are (or want to be) in, you can decide whether greater investments in, e.g., mentoring or growth should be associated with desired outcomes. Understanding such factors may help to achieve a better correspondence among the skills of partners, the associates hired, and effectiveness criteria valued by the firm.

REFERENCES

American Lawyer, 1986-1994. Midlevel Associates Survey. New York: The American Lawyer.

American Lawyer, 1986-1994. The Am Law 100. New York: The American Lawyer.

Arthur, J. B. 1994. Effects of human resource systems on manufacturing performance and turnover. Academy of Management Journal, 37: 670-687.

Buller, P. F., Beck-Dudley, D., & McEvoy, G. M. 1990. Competitive strategy and human resource management in a professional service environment. Human Resource Planning, 12: 27-35.

Carr, J., & Matthewson, F. 1990. The economics of law firms: A study in the legal organization of the firm. Journal of Law and Economics, 33: 307-330.

Curran, B. A., & Carson, C. N. 1991. Supplement to the lawyer statistical report: The U.S. legal profession in 1988. American Bar Foundation. Chicago, IL.

Doty, D. H., Glick, W. H., & Huber, G. P. 1993. Fit, equifinality, and organizational effectiveness: A test of two configurational theories. Academy of Management Journal, 36: 1196-1250.

Galanter, M., & Palay, T. 1991. Tournament of lawyers: The transformation of the big law firm. Chicago: University of Chicago Press.

Gilson, R. J., & Mnookin, R. H. 1989. Coming of age in a corporate law firm: The economics of associate career patterns. Stanford Law Review, 41: 567-595.

Hurry, D. 1994. Shadow options and global exploration strategies. Advances in Strategic

- Hurry, D., & Jackofsky, E. 1992. Future potential and option choices in matching career development to organizational strategy. Paper presented at the 52nd meeting of the Academy of Management, Las Vegas, NV.
- Hurry, D., Miller, A. T., & Bowman, E. H. 1992. Calls on high-technology: Japanese exploration of venture capital investments in the United States. Strategic Management Journal, 13: 85-101.
- James, L. R. (1982). Aggregation bias in estimates of perceptual agreement. Journal of Applied Psychology, 76: 219-229.
- Judge, T. A., & Cable, D. M. 1997. Applicant personality, organizational culture, and organization attraction. Personnel Psychology, 50: 359-394.
- Koch, M. J., & McGrath, R. G. (1996). Improving labor productivity: Human resource management policies do matter. Strategic Management Journal, 17: 335-354.
- Lazear, E. P. 1990. Pensions and deferred benefits as strategic compensation. Industrial Relations, 29: 263-280.
- MacDuffie, J. P. 1995. Human resource bundles and manufacturing performance: Organizational logic and flexible production systems in the world auto industry. Industrial and Labor Relations Review, 48: 197-221.
- MacQueen, J. B. 1967. Methods for classification and analysis of multivariate observations. Proceedings of the 5th Berkeley Symposium on Statistics and Probability, 1: 281-297.

Main, B. G. M. 1990. The new economics of personnel. Journal of General Management, 16: 91-

103.

Maister, D. H. 1993. Managing the professional service firm. New York: The Free Press.

Malos, S. B. (1996). Strategic compensation systems in large law firms. Paper presented at Society for Industrial and Organizational Psychology Annual Meetings, San Diego, CA.

Malos, S. B., & Campion, M. A. 1995. An options-based model of career mobility in professional service firms. Academy of Management Review, 20: 611-644.

Milligan, G. W., & Cooper, M. C. 1985. An examination of procedures for determining the number of clusters in a data set. Psychometrika, 50: 159-179.

National Association for Law Placement, 1984-1994. Directory of Legal Employers.

Washington, D.C.: NALP

O'Flaherty, B., & Siow, A. 1992. On the job screening, up or out rules, and firm growth.

Canadian Journal of Economics, 25: 346-368.

Pollard, D. 1981. Strong consistency of k-means clustering. Annals of Statistics, 9: 135-140.

Robson, G. S., Wholey, D. R., & Barefield, R. M. 1996. Institutional determinants of individual mobility: Bringing professions back in. Academy of Management Journal, 39: 397-420.

Schneider, B. 1987. The people make the place. Personnel Psychology, 40: 437-453.

Sherer, P. D. 1995. Leveraging human assets in law firms: Human capital structures and organizational capabilities. Industrial and Labor Relations Review, 48: 671-691.

Siow, A. 1994. Hierarchical careers. Industrial Relations, 33: 83-105.

Wallace, J. E. 1995. Organizational and professional commitment in professional and

Forthcoming in the **Academy of Management Journal**

Human resource strategy and career mobility practices ... 21  
nonprofessional organizations. Administrative Science Quarterly, 40: 228-255.

Wholey, D. R. 1985. Determinants of firm internal labor markets in large law firms.

Administrative Science Quarterly, 30: 318-335.

Wright, P. M., Smart, D. L., & McMahan, G. C. 1995. Matches between human resources and

strategy among NCAA basketball teams. Academy of Management Journal, 38: 1052-74.

TABLE 1

Principal Components Analysis (with Oblique Rotation) of Midlevel Associate Perceptual Measures and  
Intercorrelations Among Subscales

---

| <u>Measure and related items</u>          | <u>Factor Loadings</u> |            |            | <u>Internal Consistency</u> | <u>Correlation with Subscale</u> |            |
|---|------------------------|------------|------------|-----------------------------|----------------------------------|------------|
|   | <b>i</b>               | <b>ii</b>  | <b>iii</b> |                             | <b>(2)</b>                       | <b>(3)</b> |
| <b>(1) Mentoring:</b>                     |                        |            |            | .88                         | .47**                            | .28**      |
| Feedback from partners                    | <b>.96</b>             | -.15       | -.14       |                             |                                  |            |
| Knowledge re: partnership                 | <b>.75</b>             | .24        | -.12       |                             |                                  |            |
| Treatment by partners                     | <b>.73</b>             | -.01       | .31        |                             |                                  |            |
| Training and guidance                     | <b>.67</b>             | .01        | .32        |                             |                                  |            |
| How interesting work was                  | <b>.55</b>             | .09        | .41        |                             |                                  |            |
| <b>(2) Developmental Work Experience:</b> |                        |            |            | .81                         |                                  | .17**      |
| Dealmaking responsibility                 | -.32                   | <b>.89</b> | .14        |                             |                                  |            |
| Client contact                            | .13                    | <b>.75</b> | .08        |                             |                                  |            |
| Role in client matters                    | .36                    | <b>.67</b> | -.04       |                             |                                  |            |
| Appearances before a judge                | .29                    | <b>.65</b> | -.24       |                             |                                  |            |
| <b>(3) Office and Support Services:</b>   |                        |            |            | .87                         |                                  | ---        |
| Office space                              | -.07                   | .01        | <b>.91</b> |                             |                                  |            |
| Support services                          | .10                    | -.02       | <b>.89</b> |                             |                                  |            |

---

n = 117. Internal consistencies based on coefficient alpha. Correlations among subscales all significant; \*\*p < .01.

TABLE 2

Means, Standard Deviations, and Intercorrelations Among the Measures

| Measures                              |         | <u>Mean</u> | <u>SD</u> | 1          | 2      | 3          | 4          | 5          | 6          |
|---------------------------------------|---------|-------------|-----------|------------|--------|------------|------------|------------|------------|
| 1. Mentoring                          |         | 3.32        | .20       | <b>.80</b> |        |            |            |            |            |
| 2. Developmental Work Experience      | 3.66    | .32         | .57**     | <b>.90</b> |        |            |            |            |            |
| 3. Office & Support Services          |         | 3.72        | .42       | .38**      | .15    | <b>.87</b> |            |            |            |
| 4. Starting Salary (\$thousands)      |         | 60.05       | 8.78      | -.54**     | -.46** | -.29**     | <b>.80</b> |            |            |
| 5. Expected Value of Partnership      |         | 16.55       | 13.01     | .60**      | .23*   | .30**      | -.05       | <b>.91</b> |            |
| 6. Intention to Stay                  |         | 3.29        | .33       | .80**      | .66**  | .25**      | -.63**     | .41**      | <b>.71</b> |
| 7. Turnover                           |         | .59         | .16       | -.39**     | -.42** | -.11       | .49**      | -.37**     | -.58**     |
| 8. Partnership Track Length (years)   | 7.50    | .75         | -.47**    | -.36**     | -.25** | .25**      | -.53**     | -.33**     |            |
| 9. Partnership Track Variability      |         | .06         | .08       | -.16†      | .04    | -.01       | .15        | -.12       | -.14       |
| 10. Promotion Percentage              |         | .31         | .15       | .55**      | .51**  | .13        | -.62**     | .50**      | .69**      |
| 11. Up-or-out Strictness              |         | .89         | .10       | .37**      | .27**  | .17†       | -.22**     | .31**      | .30**      |
| 12. Firm Size (number of attorneys)   | 207.59  | 85.80       |           | -.32**     | -.15†  | .02        | .38**      | .01        | -.27**     |
| 13. Leverage Ratio                    |         | 1.52        | .64       | -.56**     | -.39** | -.12       | .74**      | -.13       | -.65**     |
| 14. Billable Hours (firm-reported)    | 1844.64 | 103.22      |           | -.05       | -.06   | -.13       | .46**      | .47**      | -.03       |
| 15. Revenues Per Lawyer (\$thousands) | 395.47  | 121.36      |           | .06        | -.12   | .25*       | .58*       | .62**      | -.20†      |
| 16. Profits Per Partner (\$thousands) | 471.56  | 257.23      |           | -.05       | -.11   | .13        | .62**      | .50**      | -.28**     |
| 17. Relative Profitability Index      |         | 1.14        | .28       | -.17       | -.09   | .01        | .54**      | .30**      | -.31**     |

n = 117, except for up-or-out strictness (n = 115); promotion percentage, billable hours, and turnover (n = 112); and revenues per lawyer, profits per partner, relative profitability, and expected value of partnership (n = 78). †p < .10; \*p < .05; \*\*p < .01 (one-tailed tests). Reliabilities across years (on the diagonal) are based on intraclass correlations.

Human resource strategy and career mobility practices ... 24  
TABLE 2 (continued)

---



---

|    | 7          | 8          | 9          | 10         | 11         | 12         | 13         | 14         | 15         | 16         | 17         |
|----|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| 1  |            |            |            |            |            |            |            |            |            |            |            |
| 2  |            |            |            |            |            |            |            |            |            |            |            |
| 3  |            |            |            |            |            |            |            |            |            |            |            |
| 4  |            |            |            |            |            |            |            |            |            |            |            |
| 5  |            |            |            |            |            |            |            |            |            |            |            |
| 6  |            |            |            |            |            |            |            |            |            |            |            |
| 7  | <b>.75</b> |            |            |            |            |            |            |            |            |            |            |
| 8  | .26**      | <b>.96</b> |            |            |            |            |            |            |            |            |            |
| 9  | .19*       | -.02       | <b>.92</b> |            |            |            |            |            |            |            |            |
| 10 | -.79**     | -.31**     | -.21*      | <b>.87</b> |            |            |            |            |            |            |            |
| 11 | -.16†      | -.24**     | -.13       | .35**      | <b>.63</b> |            |            |            |            |            |            |
| 12 | .15†       | .11        | .10        | -.25**     | -.05       | <b>.98</b> |            |            |            |            |            |
| 13 | .52**      | .32**      | .19*       | -.64**     | -.13       | .54**      | <b>.92</b> |            |            |            |            |
| 14 | .02        | -.11       | .07        | -.05       | -.01       | .30**      | .29**      | <b>.74</b> |            |            |            |
| 15 | .25*       | -.21†      | .05        | -.24*      | .07        | .27**      | .46**      | .49**      | <b>.97</b> |            |            |
| 16 | .30**      | -.17       | .10        | -.30**     | .13        | .34**      | .62**      | .57**      | .89**      | <b>.91</b> |            |
| 17 | .26*       | -.10       | .11        | -.27*      | .15        | .39**      | .66**      | .50**      | .57**      | .86**      | <b>.98</b> |

---



---

TABLE 3

Cluster Analysis Results (Data Standardized by City): Comparisons of Means for Options- vs. Project-based Firms

| Variable                       | <u>Option-based Firms</u> |      | <u>Project-based Firms</u> |      | t       |
|--------------------------------|---------------------------|------|----------------------------|------|---------|
|                                | Mean                      | s.d. | Mean                       | s.d. |         |
| <u>Clustering Variables:</u>   |                           |      |                            |      |         |
| Starting Salary                | -.46                      | .95  | .38                        | .88  | -4.94** |
| Mentoring                      | .63                       | 1.01 | -.52                       | .61  | 7.30**  |
| Developmental Work Experience  | .68                       | .88  | -.56                       | .70  | 8.25**  |
| Office & Support Services      | .22                       | .96  | -.18                       | .99  | 2.17*   |
| Promotion Percentage           | .61                       | 1.05 | -.48                       | .64  | 6.39**  |
| Up-or-out Strictness           | .48                       | .72  | -.40                       | 1.03 | 5.37**  |
| <u>Validation Variables:</u>   |                           |      |                            |      |         |
| Expected Value of Partnership  | .45                       | 1.43 | -.19                       | .67  | 2.07*   |
| Partnership Track Length       | -.31                      | 1.01 | .26                        | .92  | -3.17** |
| Partnership Track Variability  | -.22                      | .92  | .18                        | 1.03 | -2.22*  |
| Intention to Stay              | .55                       | 1.06 | -.46                       | .66  | 6.03**  |
| Turnover                       | -.47                      | .93  | .36                        | .89  | -4.77** |
| Firm Size                      | -.25                      | .98  | .21                        | .98  | -2.56** |
| Leverage Ratio                 | -.41                      | .94  | .34                        | .92  | -4.38** |
| Billable Hours (firm-reported) | .01                       | .97  | -.01                       | 1.03 | .13     |
| Revenues Per Lawyer            | .08                       | 1.27 | -.04                       | .85  | .45     |
| Profits Per Partner            | -.05                      | 1.24 | .02                        | .88  | -.28    |
| Relative Profitability Index   | -.13                      | 1.12 | .06                        | .94  | -.79    |

n = 53 for options-based firms, 64 for project-based firms, except for promotion percentage, billable hours, and turnover (49, 63); up-or-out strictness (52, 63); and expected value of partnership, revenues per lawyer, profits per

**Human resource strategy and career mobility practices ... 26**

partner, and relative profitability (25, 53). Clusters were generated using the standardized-by-city data; cluster means represent standard deviations from within-city group means. † $p < .10$ ; \* $p < .05$ ; \*\* $p < .01$  (one-tailed tests).