



Law and (Re)Order: Impact of Category-Stretching Strategies on Firms' Performance and Evaluation. The Case of the Corporate Legal Services Market (2000-2010)

Lionel Paolella

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ECOLE DES HAUTES ETUDES COMMERCIALES DE PARIS
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Gestion Organisation Décision Information

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THE CASE OF THE CORPORATE LEGAL SERVICES MARKET (2000-2010)**

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présentée et soutenue publiquement le 17 décembre 2014
en vue de l'obtention du
DOCTORAT EN SCIENCES DE GESTION
Par

Lionel PAOLELLA

JURY

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RESUME

Cette thèse examine comment les catégories de marché - ensembles qui partagent des similarités cognitives et culturelles – impactent la performance et l'évaluation des entreprises. Le consensus répandu dans la littérature indique que les organisations qui évoluent dans plus d'une catégorie sont sanctionnées tant au plan économique que social. Remettant en cause ce consensus actuel sur 'l'impératif catégorique', cette thèse avance l'idée que les acteurs d'un marché ont un rôle plus complexe que simplement réprimer toute violation des catégories établies. Aussi dans ce contexte, être engagée dans plusieurs catégories de marché pour une organisation à la fois améliore son évaluation sociale mais réduit sa performance en cas de perceptions divergentes de ses affiliations catégorielles. Les données empiriques de cette thèse portent sur les cabinets d'avocats d'affaires dans trois grandes métropoles (New York, Paris et Londres) au cours d'une décennie (2000-2010). Les cabinets d'avocats multi-services – ceux qui exercent dans plusieurs domaines du droit – obtiennent une meilleure évaluation de la part des clients tant au niveau global du cabinet que pour chacune de leurs spécialités juridiques. Toutefois, les désaccords entre clients en termes d'évaluation portant sur chacune des spécialités juridiques offertes détériorent la performance financière des cabinets. Cette thèse approfondit notre compréhension du rôle que jouent les catégories sur les marchés et les stratégies d'extensions catégorielles que les entreprises mettent en œuvre. Ce travail contribue également aux études sur le champ juridique et a des implications pour la conduite stratégique des cabinets d'avocats d'affaires.

Questions de recherche et positionnement.

Cette thèse porte sur les organisations affiliées à une ou plusieurs catégories d'un même champ ou d'un même marché. La littérature encore émergente portant sur la catégorisation

développe l'idée selon laquelle les firmes généralistes ("*multiple category memberships*") subissent automatiquement des sanctions de la part des critiques et évaluateurs externes, et sont dès lors évaluées négativement et sont moins performantes que leurs concurrents spécialistes ou mono catégoriels. Trois arguments sous-tendent cette idée :

_du côté des *producteurs* : les organisations généralistes développent moins de compétences et expertises que les firmes spécialistes (Freeman & Hannan, 1983). Par exemple, Zuckerman et *al.* (2003) démontrent que les acteurs jouant le même type de rôle réussissent mieux en terme de carrière à Hollywood que les acteurs aux multiples facettes et personnages variés. Dans la même veine, Hsu et *al.* (2009) analysant des enchères sur le site Ebay parmi 23 catégories, notent que les produits labélisés dans plusieurs catégories ont une probabilité plus faible de ce vendre, puisque les vendeurs utilisent moins d'indicateurs de qualité que les objets mono catégoriels.

_du côté des *intermédiaires* : les organisations membres de plusieurs catégories troublent et perturbent les principes et schémas d'évaluation des critiques, qui par conséquent soit ne les notent pas (Zuckerman, 1999 ; Hsu, 2006b), soit déprécient leurs notations, à l'instar du Guide Michelin. En effet, le célèbre guide gastronomique note plus sévèrement un restaurant proposant deux types de cuisine (ancienne cuisine et nouvelle cuisine) qu'un restaurant servant un seul type de cuisine (Rao, Durand, Monin, 2005).

_ du côté des *clients*: les organisations généralistes collent moins aux goûts et aux attentes de l'audience (Negro & Leung, 2010 ; Negro, Hannan, Rao, 2010), définis par un prototype dans chaque catégorie (Rosch & Mervis, 1975). Ainsi, toujours dans l'industrie cinématographique, Hsu (2006a) démontre qu'un film labélisé dans plusieurs genres (comédie, western, drame, etc.) répond moins parfaitement aux standards de tous ces genres

qu'un film dans une seule et unique catégorie, et dès lors obtient un résultat inférieur au box office.

Il est cependant possible (et souhaitable) de discuter chacun de ces arguments en évoquant :

_ les *synergies de compétences* : développer des compétences dans une catégorie peut servir à exceller dans une autre catégorie connexe. De plus, les synergies réputationnelles sont possibles, avec un transfert de réputation inter-catégories. Par exemple, pour un cabinet hybride, sa réputation d'avocat de qualité dans la catégorie droit des contrats peut constituer un signal positif a priori pour la catégorie droit social.

_ les critiques et évaluateurs externes sont autant structurés par le champ organisationnel qu'elles contribuent à le structurer (aspects sujet/objet) : elles vont donc prendre en compte ces nouvelles formes hybrides pour conserver et étendre leur légitimité de critiques (Durand et *al.*, 2007 ; Glynn et Lounsbury, 2005 ; Fleischer, 2009).

_ selon le modèle de prototypicalité de Rosch et Mervis (1975), les firmes hybrides vont être sanctionnées par l'audience comme trop éloignées des prototypes de leurs catégories. Mais l'audience peut redessiner et remodeler les frontières de ces catégories selon leur finalité et leur but. Il existe donc des *catégories ad hoc* (Barsalou, 1983). Par exemple, un client qui doit mener une opération de Fusion-Acquisition (qui nécessite du droit des sociétés/droit social/ propriété intellectuelle) ne va pas découper son dossier pour embaucher le meilleur cabinet dans chaque catégorie mais souhaite du « full service ». Par la finalité des clients, des catégories saillantes et étanches deviennent ainsi fongibles et perméables. Les firmes hybrides disposent alors d'un avantage par son offre plus large (elles couvrent plusieurs disciplines juridiques).

Ainsi, la plupart des recherches actuelles ne prennent en compte qu'une appréciation globale des firmes généralistes, et non une évaluation pour chaque catégorie dans laquelle elles sont engagées. De plus, elles négligent nombre de situations dans lesquelles existe une pluralité d'intermédiaires, aux avis souvent divergents. Cette recherche tente de combler ce vide en analysant les différentes évaluations intra-catégories et l'impact de leur hétérogénéité sur le statut global des firmes, ainsi que l'interaction de plusieurs critiques divergentes et les effets induits sur les acteurs organisationnels.

Le premier volet de la thèse se concentre sur la dynamique de catégorisation des organisations et l'effet sur leur évaluation globale. Le deuxième volet s'attarde sur la diffusion de l'évaluation des clients d'une catégorie à une autre au sein d'une même firme. Le troisième volet, enfin, évalue l'impact de classements intra-catégories hétérogènes et divergents sur la performance des organisations. Le cas des cabinets d'avocats d'affaires est utilisé, à travers la comparaison de trois guides évaluant ces organisations, sur la période 2000-2010.

Choix du terrain empirique.

Le contexte de la thèse est le marché des cabinets d'avocats d'affaires. L'analyse porte sur trois guides (*Chambers Global* ; *Legal500* and *PLCwhichlawyer*) classant les cabinets d'avocats, à la fois par spécialités juridiques et par localité. Afin de mener une comparaison internationale au fil du temps, j'ai choisi trois localités (Paris, Londres et New York) et huit disciplines juridiques (Competition/Antitrust ; Litigation ; Intellectual Property ; Real estate ; Tax ; Corporate/M&A ; Restructuring & Insolvency ; Employment), sur la période 2000-2010.

Pour hiérarchiser les cabinets d'avocats, ces guides utilisent un système de "bands" (allant de 1 à 4 ou 1 à 8 selon les guides, 1 étant le meilleur classement). Ils procèdent selon une méthodologie en trois temps : d'abord en envoyant un questionnaire directement aux cabinets

sur leurs plus grosses transactions, leurs montages juridiques les plus compliqués; ensuite en menant de nombreuses interviews des avocats eux-mêmes ; et enfin par de nombreuses interviews des clients de ces cabinets.

Le choix de ce terrain est justifié par ses aspects novateurs :

_ très peu d'articles portant sur la catégorisation étudient un secteur des affaires dit classique (un seul article dans le domaine de la finance de Zuckerman). La plupart des articles étudient des champs culturels très spécifiques : haute cuisine, producteurs de vins, industrie cinématographique, etc.

_ aucun article n'analyse l'effet d'une pluralité de critiques et d'évaluateurs externes sur les organisations dans un champ donné ; il n'y a toujours qu'une seule critique dominante (par exemple le Guide Michelin), et toujours dans un seul pays.

_ ces données offrent la possibilité de décomposer l'évaluation organisationnelle : à une firme correspond jusqu'à huit notes (8 disciplines juridiques) alors que dans la littérature existante les firmes même hybrides n'ont qu'une seule note globale inter-catégories.

Ces données principales sont complétées par d'autres informations, notamment le nombre d'avocats, le nombre de bureaux, le chiffre d'affaires, le profit, la nationalité de la firme, etc., trouvées dans *La radiographie des cabinets d'avocats de Paris* (pour Paris), *The Lawyer* (pour Londres), et *The American Lawyer* (pour New York).

Methodologie.

La méthodologie est principalement quantitative (recueil et constitution d'une base de données, tests statistiques), secondée par une démarche qualitative (des entretiens ont été menés auprès d'avocats associés, de directeurs de communication et marketing de cabinets d'avocats, et enfin auprès de personnes réalisant les classements étudiés.

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INTRODUCTION

Sociology of markets has developed a corpus of knowledge showing that economic action is embedded in social world (Bourdieu, 2001; Granovetter, 1985; Polanyi, 1944). Economic activity both shapes and is shaped by cultural values (Zelizer, 1979), political context (Fligstein, 1990), and social ties (Burt, 2009; Granovetter, 1973). Recently, organization theory added a fourth facet: the cognitive dimension. Research has considered cognition and especially categorization processes as a fundamental component of the understanding of organizational evolution in markets (Zerubavel, 1997). Sociologists thus decompose the social and economic world into sub-components that share cognitive and cultural similarities. Drawing upon findings in cognitive psychology (Rosch, 1973), the organizational literature on categorization no longer considers an economic market as a continuous and indistinct space – but rather as one that is segmented into different categories that shape, limit and affect the success of organizations (Zuckerman, 1999). From these commonalities, scholars derive explanations and predictions of behaviors from members of given categories in markets (White, 1981; Baker and Faulkner, 1991; Rosa et al, 1999).

Categories represent a meaningful consensus about some entities' features (Hannan, Polos, and Carroll, 2007) as shared by actors grouped together as an audience – a set of actors that interact with organizations (Hsu and Hannan, 2005). For instance, from a statement of membership in the category 'Business school' for a University, students can infer that this organization offers different programs in Economics, Finance, Accounting, Marketing, Strategy, and other related disciplines taught by professors. Every move organizations make is in turn categorized: product launches, environmental policy, outsourcing, diversification, internationalization, to cite a few instances. Market categories play significant roles in economic life; they both simplify complex situations and drive beliefs and expectations about organizations' characteristics and behaviors (Hsu, 2006). While the complexity of making

comparisons between organizations increases in line with their numbers and features, categories enable actors to restrict their consideration sets to a smaller number of identifiable entities. Acting as lenses, categories enable producers to recognize competitors (Clark and Montgomery, 1999; Porac et al., 1995), consumers to compare offerings (Shrum, 1991), and critics to classify products and firms (Dimaggio, 1987; Fleisher, 2009). Audiences agree on representing entities that share similar attributes under common labels. They form and use categories to make sense of a perceived reality and to simplify their decision-making. In the context of markets and organizations, categories therefore provide a cognitive infrastructure that enables evaluations of organizations and their products, drive expectations, and leads to material and symbolic exchanges. For instance, entering a public hospital as a patient, you expect some treatments – from administrative to medical – to differ from those you experience when entering through a private clinic's door. Categories more generally act as resources for action and coordination among economic actors who share cognitive models. Different market categories carry unequal obligations, expectations and rewards, which will affect the range of strategic opportunities they face in the market. The extent to which market categories impact such organizations' opportunities and by which mechanisms is however open questions. To tackle these issues, the first section defines the set of concepts used in this dissertation. Then the second section sheds light on three assumptions and three gaps in organization theory that underpin theses general questions. The last section introduces the empirical context of this dissertation as well as the three essays that are subsequently developed in Chapters 2, 3 and 4.

1 Logics of Categories and Organizations

After presenting the concept of category in economic markets (1.1), I review the literature arguing that these categories influence firm outcomes in a unique way (1.2)

1.1 Categories in Market

In organizational theory, Hannan et al. (2007) define categories as an audience's collective agreement that members of a set belong to it based on the extent to which they share similarities. For this vein of research, a category is *"a class about whose meaning an audience segment has reached a high level of intentional semantic consensus"* (Hannan et al., 2007: 69). For instance, the corporate legal services market is divided into different categories of law (e.g., 'intellectual property', 'bankruptcy', 'litigation', etc.) which general counsels use to make sense of complex organizational landscapes and to choose the right services they need. Categories thus make possible the operation of mediating and connecting actors over time and through space by assuring each type of actors that other types share the same meaning and expectations. Meanings are materialized by codes¹ and the similar features category members share. These social codes *"specify the properties that an entity can legitimately possess"* (Polos et al., 2002: 85) and so guide behaviors in recognizable ways by developing audiences' expectations – indeed, *"the formation of consensus among audiences on which label to apply to sets of producers or offers is the seed of categorization systems"* (Negro et al., 2010: 14). At the core of this approach lies the idea that a high degree of similarity with a categorical prototype (i.e. the best exemplar) assists organizations in their founding, legitimacy, and effectiveness (Hannan et al., 2007; Hsu et al., 2009). Categories contrast with each other, and are separated (to greater or lesser extents) by fairly 'thick'

¹It is noteworthy that Parsons already used this notion of *"operative code"* of organizations in a similar fashion: *"This code will have to an essential basis in the value system which governs the organization. In the case of mobilization of resources, this basis concerns the problem of the "claims" of the organization to the resources it needs and hence the settlement of the terms on which they would be available to it. In the operative case it concerns the manner of their utilization within the organization and the relation to its beneficiaries."* (1965: 29)

boundaries. Collective identities therefore develop around common dimensions, and audience recognition defines, or sets, which traits are common to which categorical identity and organize their expectations and evaluations of how well members of the set perform along these dimensions. In general therefore, audiences can be said to recognize categories' characteristics and boundaries automatically and thus make their categorical attributions consistently.

Based on these ideas, organizations are affiliated with or belong to some categories, and their production fit (or not) into identified product categories and (on average) audiences give greater support to crisp identities, i.e. to 'purer' category members. Indeed, multiple category organizations appear less appealing for audiences and then suffer economic and social disadvantages: "membership in multiple (nonnested) categories likely confuses the audience and makes a producer appear to fit poorly to any of the schemata that an agent applies to the categories" (Hannan, Carroll, and Polos 2007: 108). Because of their cognitive limitations, audiences navigate better across markets and social worlds when category membership of organizations is clearly marked and unambiguous: violating the assumptions identified with a simple prototype (by for instance belonging concurrently to multiple categories) can lead organizations to experience lower outcomes in terms of audience appeal and performance, compared to 'purer' players. Hence, the dominant view in research sees market actors as imposing categorical imperatives on firms (Zuckerman, 1999; Hannan, 2010).

1.2 Disciplining Organizations: the "Categorical Imperative"

To date, empirical studies have established that entities with multiple category affiliations fare worse on the market – in terms of social evaluation and audience appeal – than do full members of crisp categories. Three main reasons explain the penalties hybrid

entities attract. First, category spanners align less well with audience expectations than do category specialists (Hsu et al., 2009). Producers affiliated to only one category are more likely to have a clear and meaningful identity, so they are easier for audiences and critics to evaluate, and thus gain superior evaluations. Hence (according to a prototypical view) a film that spans multiple movie industry genres (e.g., ‘comedy’, ‘drama’, and ‘western’) cannot fit neatly into any one of them, and will therefore be less appealing to audiences (Hsu, 2006). Hybrid firms in a market category cause the appeal of the whole category to decrease (Negro et al., 2010) – they blur the meaning and boundaries of the category and then audiences generally react negatively to such reductions in clarity. Producers have little interest in belonging to fuzzy categories, where confusion and ambiguity make comparisons between offerings harder.

Second, hybrid organizations develop less expertise and capabilities than pure players, and risk over-diversifying their resources (Hannan et al., 2003). Specialized learning from experience in a unique category can increase the appeal of offerings (Negro et al., 2010). Looking again, at the film industry, Zuckerman and colleagues (2003) also emphasize the benefits of typecasting in movie actors’ labor markets: actors who stay closer to a given genre increase their chances of being cast in future roles. Indeed, it is easier for actors with focused identities to acquire highly specialized skills and especially to signal them to the market. In the same vein, analyzing a sample of auctions distributed across 23 different categories, Hsu et al. (2009) observed that sellers engaged in more than one category were less likely to use acronyms and quality indicators (which normally increase the likelihood of achieving sales) as they tend to choose wide and unspecified terms to try to target several audiences attached to different categories. As a result, they do not give the quality signals needed to appeal to the specific audiences of each category and so are less likely to sell their items.

Third, the complex identities of multiple category members overwhelm the monitoring capacities of critics, who respond by paying them less attention (Zuckerman, 1999, 2000) or by downgrading their ratings (Rao et al., 2005). Critics' prevailing cognitive schemas are not adapted to assess category bridgers and they therefore penalize them: the more a firm spans category boundaries, the more negative an evaluation it earns. Furthermore, there is interdependence in belonging partly to one category and partly to another. The better an entity fits the critics' schemas for one category, the less likely it is that it will fit another category. However, the generalization of these results can be discussed as they are based on strong assumptions developed in the following section.

2 The Problem of Categorical Boundaries

After highlighting some underlying assumptions in the literature (2.1), I put forward the main idea of this dissertation (2.2) that addresses three major gaps in organization theory (2.3).

2.1 Three Theoretical Assumptions in Organizational Literature

Some results are so widespread in the organization literature that they are taken-for-granted. Their external validity and boundary conditions are not discussed anymore and they become therefore underlying assumptions for future research. The following sections highlight three behavioral assumptions behind most extant research on organizations and categorization: the prototypical view (2.1.1), the cognitive confusion of audiences (2.1.2), and the prescriptive power of critics (2.1.3).

2.1.1 Prototypical view of categorization

Following the original Greek word *katègorein* – which means to accuse publicly (Bourdieu, 1996: 297) – most available research has considered categories as functioning according to a disciplining logic (Hannan, 2010). The dominant view of categories (Hannan et al., 2007) relies on family resemblances and prototypes (Rosch and Mervis, 1975). The prototype view underpins the behavioral assumptions behind most extant research on ‘organizations and categorization’. Drawing on Wittgenstein’s (1953) principle of family resemblances, Rosch (1975) conducted several experiments demonstrating that some exemplars (e.g. robins as a member of the category ‘bird’) are treated as ‘better’ members of a category, that is, as being more *typical*, more representative, of that category, than others (e.g. penguins or eagles). She argues that, when categorizing an object, people rely less on abstract category definitions than on the comparison between a given object and one they deem to best represent a category: a prototype. Prototypes are seen as ‘pure’ types that possess all the coding clues of one – and only one – category, and thus enable an audience to define categories and differentiate them easily from one another. Audience members thus prefer objects that are highly prototypical because they fit squarely within their background cognitive expectations.

While animals, objects or organizations are classified as members of a category (e.g. ‘birds’, ‘chairs’ or ‘e-retailers’) by comparing them to their prototype, every feature of a prototype is not equally significant. Indeed, in most prototype-based research (Hampton, 1979; Rosch, 1973; Rosch et al., 1976), the features of a prototype are weighted both in terms of their salience to their category and of the frequency with which they occur in category members. These mechanisms create what are called *typicality effects*. Thus, items that show many salient similarities with the prototype will be widely recognized as belonging to the category in question. But similarity to *all* a prototype’s features are not necessarily required

for category membership – in fact similarity to only a few typical features may be sufficient to assure membership, in particular if they are among the prototype’s most salient features. But such a member will be less typical of the category than others, and its affiliation to that category less taken-for-granted. For example, a salient feature of the prototype defining the category ‘fruit’ could be defined as ‘a sweet taste’, which explains why it is easier to classify a banana as a fruit than a tomato, and why a banana is considered a more typical fruit than a tomato.

Therefore, features or elements that entities hold in common with one or more others constitute category prototypes (i.e. typical members) for audiences. Possessing more (or fewer) of these features or elements in common with the prototype makes it possible to categorize an entity more (or less) securely in that category. For an organization, being prototypical brings about advantages in terms of acceptability, comprehensibility, and valuation. However, one may cast doubt on this universal and unique way of addressing market categories. First, while the prototypical view is well suited to explain similarity of physical properties among objects (like a banana, a chair, etc), it might be not the case for social entities like organizations. What do organizations look like? Do audience members know the (physical) features of organizations when they interact with them? Second, people do not have a single way of thinking and social context can influence and determine the *modus operandi* of categorization process. “*After all, one would not expect an art dealer, a cook, and a travel agent to share the same stock of professional knowledge, just as one would not expect the cognitive skills of police detectives to resemble those of baseball players or mechanical engineers*” (Zerubavel, 1997: 18).

2.1.2 Cognitive confusion of category-spanners

Anchored in prototype theory, recent approaches to categorization in the context of organizational theory consider that audiences tend to respond better to purer category members, i.e. those more similar to the prototype. For instance, where firms differentiate their activities too much, their offers lack clarity and attractiveness, and so are reviewed less often and less positively by market analysts than those that are more focused. Most of the research thus invokes cognitive confusion to explain the associations between boundary spanning and penalties. Multi-category memberships straddling identifiable categories lead to categorical fuzziness and misattributed properties and expectations from of audiences.

However, audiences are not simple gatekeepers and boundary patrollers, whose function is confined to rewarding pure players and penalizing hybrid actors. They may have different worldviews and make sense of the same features and of ordered combinations of features in different ways. They may have divergent goals or knowledge that significantly alter their attention about candidate organizations and their ensuing judgment. As Rehder observes (2003: 1155), “*category membership is not just a matter of observing a category’s most probable features, but also the most probable configuration of those features*”, both in itself and in relation to other configurations. Hence, it is not the fact of spanning categories *per se* (i.e. increasing the total cognitive distance relative to established prototypes) that might matter to audiences, but their capacity to make coherent sense of the category combinations they observe. Depending on their causal reasoning, audiences would expect some sorts of spanning to be more likely to occur than others. If audiences can assemble the causal associations entailed by multiple categories into a coherent model, organizations that bridge categories could be at an advantage relative to purists from each independent category. Whereas over-diversification generally leads to suboptimal outcomes, some categorical combinations are likely to offer certain organization advantages in the eyes of some

audiences. From this perspective, instead of ensuing automatic penalties, multi membership of more than one category may be consistent or inconsistent from an audience's viewpoint. Through new theoretical perspectives and cognitive mechanisms of attention, studying categorical spanning (Rao et al., 2005) is likely, therefore, to be a potentially fruitful challenge for research.

2.1.3 Critics as hierarchy-makers

Critics and external evaluators are “*crucial agents that help to maintain or change what is considered authentic*” (Glynn and Lounsbury, 2005: 1035). To that end, they have three levers: coverage, categorization, and evaluation. They may cover different segments of actors in market, they may cover the same segments but classify actors differently into categories, and they may also evaluate actors differently. In doing so, critics play a crucial role in structuring markets. Because of a high uncertainty about a product quality, raters, critics and guides test and taste the products and establish a social order among producers (Rao, Monin, Durand, 2003; Hsu, 2006; Negro, Hannan, Rao, 2011). Basing their judgments on expertise, knowledge, and direct experience, these market evaluators are legitimate surrogates for final clients. Accordingly, they set cultural and cognitive constraints on both field and organizational levels. Regarding the field level, market mediators enable categorization and comparison between firms and products (Rao et al., 2003), and serve as gatekeepers and source of pervasive change over the field (Sauder, 2008). At the organizational level, they drive firms to conform to socially accepted standards (Sauder and Espeland, 2009), by impacting their outcomes (Zuckerman, 1999; Hsu, 2006), and by determining penalties in case of deviance (Durand, Rao and Monin, 2007; Rao et al., 2005). They entrench hierarchy through product recommendations and endorsements (Rao, 1998).

Past scholars have thus highlighted this nature of hierarchy maker of market mediators: they both greatly impact evaluated entities and audiences' perceptions. This position assumes strong abilities of critics to discipline markets actors. However, there exist multiple situations where evaluators do not experience directly suppliers' offerings, and where their knowledge and expertise is not worth more than those of clients. For instance, in ranking colleges and universities, *US News & World Report* does not try all educational programs but reflect assessments of students, recruiters, and peers (Sauder and Espeland, 2009). Therefore, in high-value service industries, such as education and counsel, the evaluators' role changes. In these cases, from hierarchy makers, evaluators become market reflectors, i.e. they mirror informed opinion from markets' actors. Therefore, we collectively know little about the alternate side of intermediaries when see as market reflectors. Relaxing the assumption of disciplining nature of evaluators might have profound consequences for research on market categories and mediation.

2.2 Thesis: Beyond a Model of Category Constraint

Economic life cannot be comprehended without studying actors' *classificatory function* (Durkheim and Mauss, 1963: 4), which stems both from their mental representations and from the social structures. In order to comprehend the infinite reality, people have to limit its multiplicity and reduce its complexity by thinking with categories. Categorizing a market is introducing discontinuities and continuities over an indistinct space, and perceiving similarities and variations among organizations. This dissertation takes stock of a decade of research that conceives categories as disciplinary devices and expands it radically (Schneiberg and Berk, 2010: 255). I advocate for more tolerance in the manner we collectively address categories and categorization in our research. By stretching the existing straightjacket of

scholarship on categories, the three chapters approach categorizing as a phenomenon that is often more complex and less mechanical than a similarity-based calculus.

Moving beyond a model of category constraint, the theoretical framework draws upon alternative models in cognitive sociology to take into account both heterogeneity of audience members and their plurality of needs. In addition, whereas the dominant perspective does not distinguish between different types of multiple category affiliations, I also study the impact of each affiliation with a category for hybrid firms by unpacking their overall status in specific status judgments received in each category. As this dissertation challenges the main results of the extant research, the three essays focus successively on the more widespread outcomes of strategic value: performance and external evaluations of organizations and products.

This dissertation thus seeks to deepen our understanding of the use of categories as interface between organizations and their audiences. An individual is not a “cultural dope” (Garfinkel, 1967: 68). Nor is he a *cognitive dope*. The ‘cultural dope’ would be the one that conforms mechanically to a set of predetermined legitimate actions, and whose the behavior is deduced from full compliance with institutional, political, and structural rules. The ethnomethodological research has shown that is not the case in social world. The ‘cognitive dope’ would be the one that conforms mechanically to a set of predetermined legitimate categories, and whose the behavior is deduced from full compliance with categorical boundaries. This dissertation tries to show that is not the case on economic markets. Audiences have a more active and complex role than simply patrolling the boundaries and sanctioning any infringement of established categories. They can screen the categories of a market in various ways depending on their needs. They can infer some characteristics of firms from one category membership to another. They can even diverge about the category memberships and evaluation of firms. These considerations enrich the socio-cognitive

repertoire of audience members and may impact organization outcomes. Therefore, the overall question this dissertation addresses is:

**How and to what extent do categorical structures of markets impact firm's
performance and evaluation?**

2.3 Gaps: Inside the Black Box of Audience

The next sections present the three gaps that this dissertation addresses successively.

2.3.1. Multiple needs

The burgeoning literature on categorization has shown that straddling multiple categories leads to blurred identities and lower audience evaluations. A consensus built around the idea that organizations that do not fall into a single category suffer economic and social disadvantages as compared to full-fledged category members (Hannan, 2010).

However, multiple category members still exist, and new producers even penetrate markets with hybrid offerings: if such entities were always devaluated or illegitimate, there would be no room for socio-cultural innovation in markets and for firm strategizing. Rather, firms would all gather around their respective category prototypes and seek similarity and conformance, and all offers would eventually tend to be identical.

To tackle these shortcomings, one important step might be to switch from respecting the blanket assumption of many current works – e.g. “*When all audiences hold the same expectations and enforce the same codes for organizational identity, violations and standards are met with particularly sharp deviations*” (Hsu and Hannan, 2005: 476) – to studying the features and dimensions that audiences actually use to interact with organizations. Indeed, the literature posits that audiences agree uniformly about what typical features are, and that their

category attention is rather fixed in time. However, a homogeneous set of actors – an audience – can have the same *focused* goals (i.e. composed by only one dimension) or the same *multiple* goals (i.e. with complex and multiple dimensions at the same time). To date, most of the studies have not shed light the different structure of audience’s goals but have implicitly assumed the same uni-dimensional goals (e.g., in the movie industry: “crying” or “laughing”). Research is therefore needed into the structuring of the plural dimensions that drive audiences’ perceptions on markets.

Attention to organizations would accordingly be more accurately inferred from audiences’ goals than from any similarity in their features (Barsalou, 1983). When audience members interact with organizations, they do not do so in an intentional vacuum. In a goal-based perspective, category perceptions are considered as contextual and driven by goals’ pursuit of individuals. In this line, perceptions of audience members with complex needs can thus override market categories. An audience may see multiple category membership as being more sensible than simpler, ‘purer’ categorical membership. For example, in the field of corporate law, clients expecting full-service representation have various motivations like ‘Legal advice to achieve the merger of two firms’ or ‘Legal advice on an acquisition abroad’, and so blend many different types of law service that more classical categorizations might keep apart.

Gap 1. When audience members have multiple needs, is category spanning detrimental in terms of organization’s evaluation and why?

2.3.2. Multiple Inferences

Recent works in organization literature have examined cognitive mechanisms operating in a wide array of topics and empirical settings, showing how audiences comply with market categories and how they store and retrieve

information (Hsu and Elsbach, 2013; Kaplan, 2011; Fiske, 1993). However, despite the vast interest and research in this area, less is understood about the relationships between the categories being studied. If categories are the socio-cognitive constructs they are identified as being, then the relationships among them require examination. Audience members can infer some properties from a set of categories to a focal one. More specifically, the perception of a multiple category firm in a focal category triggers retrieving general information about this firm from its other category memberships. Audiences mobilize past knowledge about this entity based on perceptions and judgments from its other or past category memberships.

To date, most of the studies in categorization literature only take into account an overall evaluation of multiple category members, but not an evaluation for each category that firms span. Everything takes place as if a firm receives a unique and all-encompassing evaluation. Yet, a multi-category firm gets several evaluations: one for each category spanned. This is a major gap in the literature on categorization: no article unpacks the overall evaluation of a multi-category organization into a set of specific evaluations (one per category membership). For multiple category members, inference is an important mechanism to understand social evaluation spillovers. In making inductions from known category memberships, clients generalize their beliefs about an organization in the focal category from all the others market categories. Due to the inference-based reasoning, the evaluation of an organization in a focal category is likely to be affected by its previous evaluation from non-focal categories.

Gap 2. Does an evaluation in non-focal categories at time T influence a multiple category organization's evaluation in a focal category at time $T+1$ and why?

2.3.3. Multiple Perceptions

Based on the assumptions of prototypical view of categorization endorsed by disciplining critics, the literature in organization theory and strategy has addressed the question of multi-category membership through the lens of specialism vs. generalism, specialists being less ambiguous than generalists. This perspective posits that all members of an audience concur on the category affiliation applied to firms' activities and fully share the same views. Indeed, to enable communication and exchange, categories have to be shared by all involved actors. Thompson (1967: 28) already noticed this condition of agreement about classification system: "The specific categories of exchange vary from one type of organization to another, but in each case, [...] exchange agreements rest upon *prior consensus regarding domain*". Therefore, if market actors identically recognize the categories that guide firms' behavior, it is because a consensus has emerged on both the definition and attached expectations of these categories.

Most research has thus assumed *a priori* the existence of consensus among unitary or homogeneous audience, for example substituting experts such as food critics or financial analysts as proxies for a mass audience. The sociology of markets presupposes that individuals share evaluative schemas, common understandings and same interests to typecast organizations. However, on economic markets, audience members' evaluations about organizations may vary widely in many respects. There is no reason to assume any perfect symmetry in perceptions of organizations' category memberships between market actors. Research is therefore needed to account for how assessments of audience members may differ about category affiliations of organizations and to what extent such differences affect organizations' performance. The third chapter of my dissertation will address this question:

Gap 3. *When audience members evaluate differently category affiliations of an organization, how and why does it impact its performance?*

3 Introduction to the three Essays

This dissertation follows a three-essay format (3.2) and uses a unique dataset on corporate law firms in three different cities: Paris, London and New York (3.1).

3.1 Empirical Context: World leading Corporate Law Firms

I use original data on corporate legal services collected in three professional legal directories (*The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*) that rank law firms both by categories – i.e. by practice areas – and by location (Paris, London, and New York City). The choice of empirical setting was guided by several factors. First, the plurality of guides allows me to capture the impact of their divergence in terms of coverage and ranking on organizations' performance. Second, corporate clients of law firms have plural goals not fixed in time (Edelman and Suchman, 1997). They have several cases that successively change and therefore they perceive law firms differently according to their temporary goals. For instance, they can successively proceed to a merger or acquisition, need to fix litigation cases, invest in foreign countries, etc. Even for a single transaction, clients have multifaceted complex needs that legal providers have to meet (cf. Figure 1 for an example). As their goals vary, their attention to market categories change as well. Third, contrary to an overall evaluation of multiple category membership, the data on law firms allow me to gather several grades for a given firm (one grade per practice area). Then I can unpack multi-category firms' evaluation to study the spillover effect of rating from one practice area to another.

Figure 1- What does a Law firm actually do?

What does a law firm actually do?



In addition, this empirical context allows me to relax the three assumptions held by the literature described in the previous section. First, unlike the dominant view of prototype model in literature, the perception of law firms' categories hinges more on audiences' goals than on any similarity in their features. Expecting full range of services, corporate clients express multi-dimensional motivations that span many different practice areas of law.

Second, the 'cognitive confusion' hypothesis does not hold in the corporate legal field. Clients are much less expert than lawyers to identify and classify their legal issues. They face difficult-to-categorize legal problems and so they are less focused on the disciplining framework of category structures than the abilities of law firms to provide a good service. Clients refer less to the label of the services provided than the professionals providing them. In addition, internal structure of big law firms divided into departments specialized in one practice area of law allows them to be clearly identified as experts in each activity. That said, multi-specialists do not create cognitive confusion as some category spanners do.

Third, these guides reflect market perceptions and clients feedback about law firms: they are like a snapshot of the market. They cannot be hierarchy-makers because they do not directly buy legal services; they are not the consumers of the product (like *Michelin* Guide, wine tasting, etc.). Therefore, in order to assess law firms, they are compelled to ask clients and other lawyers' opinions and reflect them. For example, the two guides *Chambers* and *Legal500* publish snippets of comments from lawyers and clients to enhance this 'market mirror' feature. In this same line, the results of a survey conducted by a professional journal (International In-house Counsel Journal) over 200 companies from around the world (60 countries) in the end of 2009 indicate that General counsels do not take into account legal directories to both choose outside law firms and discuss the conditions of transactions: "Legal directories and law firm web sites are it appears of little interest to in-house counsel, despite the effort and cost involved by law firms" (p. 3) (see Figure 2).

Figure 2- Survey from *International In-House Counsel Journal* (2010): key factors to considers when selecting a law firm.



Besides, most of the published studies have chosen peculiar empirical settings with sharp cultural and geographical features (winemaking industry, restaurants, movie industry in specific regions – California – or countries). The particularity of these cultural-oriented settings raises questions about boundary conditions and validity of reliability generalization for more business-oriented industries. In this regard, that reinforces the interest to test our hypotheses in a global sector with multiple critics evaluating firms in various settings and across several practices.

Over a decade (2000-2010), I collected data from three professional guides on eight practice categories (competition-antitrust, litigation, tax, employment, corporate, intellectual property, real estate, and bankruptcy) in three different locations (London, Paris, and New York city). These practice areas not only cover conveniently all the scope of business law firms but are also at the top of the list of work usually sent externally by clients and in-house counsels. The choice of locations is motivated to carry out an international comparison between the major cities both in the United States and Europe regarding markets of legal advice. Furthermore, this choice allows us to make a comparison between places with Common Law tradition (New York City and London) and with Civil Law tradition (Paris).

These major directories share exactly the same definition for each category and adopt the same standards for classification, which makes possible comparisons. Based on extensive independent research, they provide rankings and analysis of the best business law firms operating in a specific practice area. They track the most important trends in the legal profession and their findings are based on independent research. They are the most widespread over the business legal market. In September 2008, The *International In-House Counsel Journal* conducted a survey of over 20,000 in-house counsels from around the world. They were asked: *If you use guides to identify law firms/individuals, which one/s do you use?* Their answers gave the following distribution:

Chambers & Partners	51%
Legal 500	22%
Martindale-Hubbell	14%
Practical Law Company	7%
Who's Who Legal	6%

I have selected the *Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*, because they have the same methodology for their research and the two others directories mentioned in the table do not rank law firms but only lawyers.

These guides adopt a similar three step-procedure to carry out an in-depth study of experts in the various fields of law. First, at the beginning of each research cycle, they invite firms to send them a submission about their important deals of the year. The main focus of the submission is on the track record of the firm and its team of lawyers in the particular practice area. For each deal, submissions detail the clients' needs, the groundbreaking and complex legal elements supplied by the law firm, and the most significant features of the transaction. Second, drawn from regular contacts with in-house lawyers and client referees provided by

firms, guides' research teams conduct interviews with many clients of all the different law firms that submitted their application. This gives the opportunity to clients to comment on the firms they have dealt with worldwide on a regular basis. Interviewers ask in-house legal departments what work is outsourced; which outside lawyers are instructed; and what is the quality of the legal services outside firms provide to them. Third and final step, guides' research teams interview leading lawyers about their peers to know their view on the market and their competitors. All feedback are executed with all due confidentiality. Law firms are ranked in bands from 1 to n (the number of bands can vary over practice areas), with 1 being the best (cf. Figure 3 next page).

In addition, I collected complementary worldwide data on ranked law firms (turnover, revenue per partner, total number of partners and lawyers, number of offices, etc.) using three professional journals that publish every year "The 200 largest law firms": *The Lawyer* (for London), *American lawyer* (for New-York), and *Juristes et Associés* (for Paris). I also led exploratory interviews with key actors of the field about their work, their insight and opinion on the trends in corporate legal market: five partners among largest UK and US law firms; four General Counsels of Fortune 500 companies; four researchers working for one of the three directories, and five chief marketing officers in largest UK and US law firms. In interviews with guides' researchers, questions focused on their methodology and criteria to rank organizations, on their interactions with law firms and general counsels, and their opinion on the other guides. Interviews with marketing department of law firms were about how they respond to these guides, how they perceive them, and what is the feedback of their own clients about these publications. Interviews with General Counsels focused on the process to select outside legal services, the use of primary and secondary sources of information.

Figure 3- Examples of Rankings of Corporate law firms.

The Chambers and Partners

Corporate/M&A Leading Firms	
1	BREDIN PRAT Paris CLEARY GOTTlieb STEEN & HAMILTON LLP Paris DARROIS VILLEY MAILLOT BROCHIER Paris LINKLATERS Paris
2	CLIFFORD CHANCE EUROPE LLP Paris FRESHFIELDS BRUCKHAUS DERINGER Paris GIDE LOYRETTE NOUËL Paris SKADDEN, ARPS, SLATE, MEAGHER & FLOM LLP Paris SULLIVAN & CROMWELL LLP Paris WEIL, GÖTSHAL & MANGES LLP Paris WILLKIE FARR & GALLAGHER LLP Paris
3	ALLEN & OVERY LLP Paris ASHURST Paris BRANDFORD-GRIFFITH & ASSOCIÉS Paris DAVIS POLK & WARDWELL Paris DE PARDIEU BROCAS MAFFEI Paris DEBEVOISE & PLIMPTON Paris FRIED, FRANK, HARRIS, SHRIVER & JACOBSON Paris JONES DAY Paris LATHAM & WATKINS LLP Paris ORRICK RAMBAUD MARTEL Paris SHEARMAN & STERLING Paris
4	BAKER & MCKENZIE Paris HERBERT SMITH Paris HOGAN & HARTSON MNP Paris JEANTET ASSOCIÉS Paris LOVELLS Paris NORTON ROSE Paris PAUL, HASTINGS, JANOFFSKY & WALKER LLP Paris PROSKAUER ROSE Paris SALANS Paris VEIL JOURDÉ Paris VIGUË SCHMIDT Paris WHITE & CASE LLP Paris

Alphabetical within each band. Band 1 = highest.

The PLC Whichlawyer

Competition/anti-trust	
LEADING FIRMS Bredin Prat Cleary Gottlieb Steen & Hamilton LLP Clifford Chance Vogel & Vogel HIGHLY RECOMMENDED FIRMS Darrois Villey Maillot Brochier Gide Loyrette Nouel Latham & Watkins LLP Linklaters LLP White & Case LLP Willkie Farr & Gallagher LLP RECOMMENDED FIRMS Allen & Overy LLP Baker & McKenzie De Pardieu Brocas Maffei Freshfields Bruckhaus Deringer Hogan & Hartson MNP Jeantet Associés Jones Day Orrick Rambaud Martel Salans Shearman & Sterling LLP Vivien & Juvigny RECOGNISED FIRMS Avers Lehman & Associés Bird & Bird Brandford-Griffith & Associés CMS Bureau Francis Lefebvre Coutrelis & Associés Denton Wilde Sapte DS Avocats Herbert Smith Norton Rose Proskauer Rose SENIOR FIGURES Dominique Brault, Herbert Smith LEADING INDIVIDUALS Hugues Carivet, Bredin Prat Olivier d'Ormesson, Linklaters LLP Jacques-Philippe Gunther, Willkie Farr & Gallagher LLP Claude Lazarus, Clifford Chance Robert Saint-Esteben, Bredin Prat Antoine Winkler, Cleary Gottlieb Steen & Hamilton LLP HIGHLY RECOMMENDED INDIVIDUALS Antoine Choffel, Gide Loyrette Nouel Christophe Claron, Latham & Watkins LLP Michel Debrous, Hogan & Hartson MNP Olivier de Juvigny, Vivien & Juvigny Jean-Patrice de La Laurencie, White & Case LLP Olivier Fréget, Allen & Overy LLP Alain Georges, Latham & Watkins LLP Eric Morgan de Rivery, Jones Day Didier Théophile, Darrois Villey Maillot Brochier Louis Vogel, Vogel & Vogel Anne Wachsmann, Linklaters LLP	
Corporate real estate	
RECOMMENDED INDIVIDUALS François Brunel, Cleary Gottlieb Steen & Hamilton LLP Jean-Mathieu Cot, Shearman & Sterling LLP Mireille Dany, Proskauer Rose Laurence Darnedieu de Vabres-Trainet, Jeantet Associés Philippe Guibert, De Pardieu Brocas Maffei Claude Lucas de Leyssac, DS Avocats Jérôme Philippot, Freshfields Bruckhaus Deringer Philippe Rincosaux, Orrick Rambaud Martel Joëlle Salomon, Gide Loyrette Nouel Melanie Thivi-Tayara, Salans Jean-Paul Tran Thiet, White & Case LLP Joseph Vogel, Vogel & Vogel RECOGNISED INDIVIDUALS Olivier Billard, Bredin Prat Nicole Coutrelis, Coutrelis & Associés Laure Giry, De Pardieu Brocas Maffei Florence Ninane, Allen & Overy LLP Florent Prunet, Brandford-Griffith & Associés Igor Simic, Darrois Villey Maillot Brochier David Tajar, Willkie Farr & Gallagher LLP Alain L. Vincent, Denton Wilde Sapte LEADING FIRMS Clifford Chance De Pardieu Brocas Maffei Gide Loyrette Nouel Lefebvre Pelletier & Associés HIGHLY RECOMMENDED FIRMS Baker & McKenzie Freshfields Bruckhaus Deringer Herbert Smith Jones Day Lacourte Balas & Associés Linklaters LLP White & Case LLP RECOMMENDED FIRMS Ashurst Salans RECOGNISED FIRMS Lovells Orrick Rambaud Martel Simmons & Simmons SJ Berwin LLP LEADING INDIVIDUALS François Brunel, Clifford Chance Emmanuel Fatôme, De Pardieu Brocas Maffei Philippe Lefebvre, Lefebvre Pelletier & Associés Frédéric Nouel, Gide Loyrette Nouel HIGHLY RECOMMENDED INDIVIDUALS Ronald Austin, Clifford Chance Jacques Henrot, De Pardieu Brocas Maffei Françoise Magnien, Linklaters LLP Benoît Marcilhacy, Freshfields Bruckhaus Deringer Jean-Louis Martin, Jones Day Philippe Pelletier, Lefebvre Pelletier & Associés Paul Talbourdet, De Pardieu Brocas Maffei	

The Legal 500

TAX
CMS BUREAU FRANCIS LEFEBVRE ◊ BREDIN PRAT ◊ CLEARY, GOTTlieb, STEEN & HAMILTON LLP ◊ LINKLATERS ◊ Clifford Chance Freshfields Bruckhaus Deringer Willkie Farr & Gallagher LLP ◊ Allen & Overy LLP ◊ Arsons Baker & McKenzie SCP ◊ Gide Loyrette Nouel ◊ Latham & Watkins Shearman & Sterling LLP Sullivan & Cromwell LLP White & Case LLP Ashurst ◊ August & Debacqz Brandford-Griffith & Associés ◊ De Pardieu Brocas Maffei ◊ Dedering ◊ Jeantet Associés ◊ Jones Day ◊ Lefebvre Pelletier & Associés ◊ Morgan Lewis ◊ Paul, Hastings, Jarboley & Walker (Europe) LLP ◊ Orrick, Harrington & Sutcliffe ◊ Salans Veil Jourde ◊ Alonso Avocats Bird & Bird Bignon Lebray & Associés Bird & Bird ◊ Denton Wilde Sapte ◊ Everheds-Frederic Chausseley Franklin ◊ Gloria Magellan Peley Vincent ◊ Hammann Messersmith ◊ Herbert Smith LLP ◊ Kilham Latham & Watkins ◊ Lovells ◊ Mayer, Brown, Rowe & Maw LLP ◊ Moteston Smith & Associés Nomos ◊ Norton Rose P.D.G.B. ◊ SJ Berwin ◊ Sarrau Thomas Godeaux Stancu & Stancu ◊ Sokolow, Carreres & Associés ◊ Stebbin & Associés Taylor Wessing ◊ Thierry & Associés USOC & Associés ◊ Watson, Farley & Williams LLP ◊ Well, Göttschal & Manges ◊

◊ First time listed A-Z in this table are ranked in order of priority.
◊ Indicators from 1 to 500 are ranked in order of priority.

Based on this unique series of data, the dissertation is structured into three chapters addressing how categorical structures of markets impinge on firm's performance and evaluation in corporate legal services.

3.2 Essay 1- The Social Evaluation and Performance Consequences of Category Spanning

The first essay, by taking into account situations where market actors lead complex transactions, relaxes one assumption of the literature that audience members hold homogenous and fixed needs. When clients' transactions are complex, their evaluation of organizations providing multiple and sophisticated services (via category spanning) will be higher than their evaluation of more focused suppliers. In that case, category spanning as indicative of multiple expertise and as signaling capability improves social evaluations but not necessarily performance. Further, this positive relationship is enhanced when the arrangement of spanned categories is more frequent in the industry, and when producers commit more resources to satisfying the clients – but none of these factors moderates the relationship between category spanning and performance. This chapter enriches our understanding of how audiences apprehend a whole market category system and multi-practice organizations.

3.3 Essay 2- The Strength of Weak Boundaries: Category Inferences and Stickiness of Evaluation Spillovers

The idea of the second essay stemmed from an empirical observation. Most of the studies in categorization literature only take into account an overall evaluation of multiple category members, but not an evaluation for each category spanned. Everything takes place as if a multi-category firm receives a unique and all-encompassing evaluation. Yet, a multi-category firm gets several audience evaluations – one for each category spanned – that affect each other. Specifically in this line, at the theoretical level, by showing that multi-membership firms may cloud an audience (Hannan, Polos, and Carroll, 2007:108), literature assumes that

this audience makes a connection between the multiple memberships of firms. As such, there is a gap between the empirical tests (one unique overall evaluation for multi-category members) and the theoretical assumption (several specific evaluations connected by audiences leading to confusion). Therefore, relationships between specific evaluations received by multi-category member for each category spanned require both empirical and theoretical examination.

In the corporate legal services industry, an organization's evaluation in a focal category will be influenced by how appealing audiences perceive the organization to be in other categories. In other words, audiences use a firm's evaluation in non-focal categories to infer its capabilities in the focal category. This study then develops a more nuanced understanding of how cognitive processes may impact this type of evaluation stickiness. First, the strength of the inferences conveyed by past evaluations in non-focal categories impacts a firm's evaluation in a focal category. Second when firm's evaluations across different categories are more dispersed or unclear, a firm is more likely to receive a lower evaluation in the focal category. Third, a firm's evaluation in a focal category is likely to be lower affected by non-focal categories' evaluation when the latter are more similar to each other.

3.4 Essay 3- Intermediaries as Market Reflectors: The Impact of Disagreements in Categorizations and Ratings on Performance

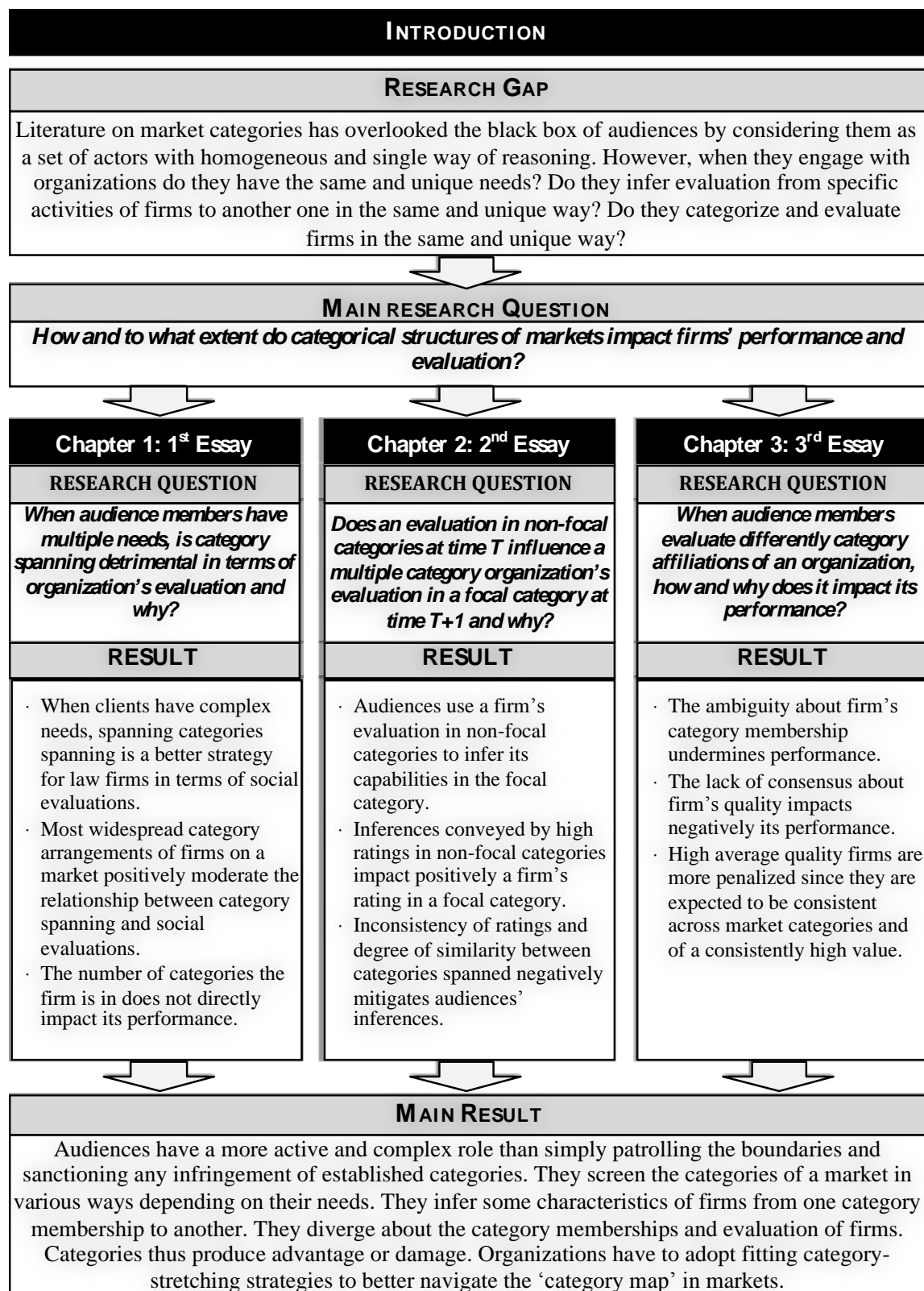
Organizational literature considers that focused organizations have higher fitness with evaluative schemas of audiences relative to category spanners they compete with, and then receive better external evaluations. After seeing in the first chapter that the category scope of firms does not have an impact on performance, the third chapter explores the determinants of law firm performance. In doing so, this second essay starts from the underlying assumption of such results: audience members concur on where the firm belongs, either to a unique category (i.e. specialists) or to multiple (i.e. generalists). However, different clients may disagree on

category memberships, raising doubts and concerns about an organization's identity. Clients may disagree in how well a firm performs its tasks in each category as well. Their experiences may not converge and lead to divergent evaluations as a result, raising doubts and concerns about an organization's real value in its profession. In this case, this essay emphasizes that ambiguity in both membership and quality undermines performance. This paper theorizes that organizations with a high identity dissonance (i.e. where audiences independently categorize the organizations differently) and quality inconsistency (i.e. organizations for which audiences experience different levels of output quality) will fare less well than those organizations for which they audiences agree about their membership and service quality, independent of their presence across a single or multiple categories of offering. Further, all organizations do not suffer equally from identity dissonance and quality inconsistency, those with high quality of services suffering more. Findings of this chapter advance research on the consequences of multi-category membership that has too often conflated membership and quality evaluations as well as undervalued the role of institutional environments on categorization and evaluation processes.

It is useful to think at the three essays as addressing different elements of the objective pursued in this dissertation: deepening our understanding of the role that categorical structures of markets play in firms' appeal and performance and the strategies adopted by firms to better navigate the 'category map'. As illustrated by Figure 4, the argument is structured as follows. The first chapter focuses on the category-spanning strategies of firms first and explores how they impact differently both social evaluation and performance at the firm level. Then the second chapter narrows the focus at the product level and considers to what extent the evaluation of firms in a given set of categories spills over into another category. Lastly the last chapter turns to the risks of this type of category-stretching strategies and examines how

the disagreement in terms of categorization and evaluation among audience members affect firms' performance.

4 Figure 4- Structure of the Dissertation



CHAPTER 1- THE SOCIAL EVALUATION AND PERFORMANCE CONSEQUENCES OF CATEGORY SPANNING²

ABSTRACT

Two arguments posit conflicting outcomes for category spanning. The cognitive argument points to negative social evaluations and reduced performance for category spanners, whereas economies of scope argument suggest they benefit from positive outcomes. In the general context where transactions are complex, we argue that category spanning as indicative of multiple expertise and as signaling capability improves social evaluations but not necessarily performance. This relationship between category spanning and positive evaluations is enhanced when the arrangement of spanned categories is more frequent in the industry, and when producers commit more resources to satisfying the clients – but none of these factors moderates the relationship between category spanning and performance. We test and find strong support for our hypotheses using original data on international corporate legal services in three markets (London, New York City, and Paris) over a decade (2000–2010). This study enriches our understanding of whole market category systems and category-spanning organizations.

Key words: category spanning, social evaluations, performance, economies of scope, law firms.

² This chapter was developed in collaboration with Rodolphe Durand

INTRODUCTION

Is category spanning detrimental to organizations? Category spanners are organizations which are involved in several activities that are classified in distinct cognitive sets; in this context, detrimental means leading to either damaged social evaluations or reduced profits. A first line of argument is that category spanners confuse evaluators, are less acknowledged and less rewarded, and so are penalized by being accorded lower social evaluations and enjoying poorer performance than their ‘purer’ rivals (Hannan, 2010; Hsu, 2006; Hsu, Koçak, & Hannan, 2009; Leung & Sharkey, 2014; Negro & Leung, 2013; Zuckerman, 1999). A second line of argument suggests that category spanning is not random, but is motivated by existing or sought after economies of scope or relatedness that can compensate for the costs associated with bundling together diverse activities and so yield positive results to organizations (Berger & Ofek, 1995; Teece, 1980; Teece, Rumelt, Dosi, & Winter, 1994; Villalonga, 2004). Thus, the crux of determining the consequences of category spanning lies at the intersection of these cognitive (first line of argument) and economic approaches (second line) to the phenomenon.

Part of the problem resides in the fact that past studies have dealt with simple product level transactions for testing the cognitive argument (Hsu et al., 2009; Negro, Hannan, & Rao, 2011), whereas those testing the economic argument have relied on industry classifications (Palich, Cardinal, & Miller, 2000; Teece et al., 1994). We therefore need a more general theory of the consequences of category spanning at the organization level that empirically tests both types of consequences at that same level of analysis (Wry, Lounsbury, & Jennings, 2013). Hence, we relax the assumption that organizations deal only in simple product level transactions, and consider that they engage in complex transactions with their clients, mostly understood as other firms. Complex transactions are specific deals with unique characteristics, which require organizations to combine multiple expertise. Our conjecture is that, when

relaxing the ‘simple product level transaction’ assumption, category spanners can gain superior social evaluations than more focused suppliers, all other things accounted for (e.g., categorical contrast or categorization consensus). In this general case, clients refer first to the firm before considering its products viewed in isolation and thus value positively suppliers that span categories and signal their multiple expertise. However, this positive social evaluation does not necessarily transfer into better profitability, since relatedness and synergies do not materialize easily when combining activities as they do for simpler, recurrent activities. Probing further, if this conjecture holds, the effect of category spanning on social evaluation should be reinforced (1) when categories’ arrangements are more frequent in the industry and (2) when suppliers undertake client-centric investments. Indeed, the former factor – frequency of a firm’s category spanning – anchors the benefits for firm evaluation of the most commonly found category arrangements, whereas the latter – client-centric investments – expresses firms’ commitments toward their clients’ special needs in material terms. Therefore, both factors enhance the positive effects that can be expected of category spanning on firms’ social evaluation. However, neither factor is necessarily a positive moderator of the relationship between category spanning and profit.

The setting for our study is the international corporate legal services market. Corporate legal services involve complex transactions and have significant economic consequences, as their costs do not amount to hundreds of dollars – as might a meal in top restaurant, or buying fine wines (settings which have been used in past research) – but potentially to hundreds of thousands or millions of dollars. Corporate legal transactions are case-specific on each occasion, and involve the use of multiple established categories i.e. practice areas of law (Chatain, 2011; Edelman & Suchman, 1997; Kor & Leblebici, 2005). For instance, a client who proceeds with mergers or acquisitions, or invests in foreign countries, may need to consult expertise in multiple areas of law (like corporate, tax, or employment law)

simultaneously. Clients therefore must evaluate and choose to work with corporate law firms that offer one expertise or which span multiple categories. We test our predictions on a unique dataset of clients' evaluations of eight practice categories (Competition-Antitrust, Litigation, Intellectual Property, Real Estate, Tax, Corporate-M&A, Bankruptcy, and Employment) over a decade (2000–2010) in three different locations (London, New York City, and Paris). Our results support our conjecture that category spanning is positively associated with social evaluation, but not with profit. Both the frequency of the categories spanned and the level of client-centric investments reinforce the main effect, but do not influence the relationship between category spanning and profit.

This paper expands research on category spanning at two levels. First, we propose a more general theory of the consequences of category spanning that reconciles diverse research threads (Hsu et al., 2009; Negro & Leung, 2013 on the one hand; Alexy & George, 2013; Kennedy, Lo, & Lounsbury, 2010; Khaire & Wadhvani, 2010; Vergne, 2012; Vergne & Wry, 2014; Wry & Lounsbury, 2013 on the other). In particular, our research concerns firm-to-firm relationships at the international scale, rather than evaluations at the local and individual level, which helps us identify the validity domain of these and past results. Second, by studying two outcomes (social evaluations and performance), we tease out the cognitive and economic mechanisms underlying the association between category spanning and beneficial outcomes, and therefore contribute to economic and strategic approaches to understanding organizational boundaries (Santos & Eisenhardt, 2009). This study, therefore, raises further questions about the balance of the negative and positive consequences of category spanning (Wry et al., 2013) and the lingering problem of its evaluative and performance consequences.

THEORY BACKGROUND

The functioning of markets relies on the existence of common references for reciprocal understanding between actors. Categories act as cognitive classification apparatus

shared among market actors (Hannan, Polos, & Carroll, 2007; Kaplan, 2011; Porac & Thomas, 1990; Rosa, Porac, Runser-Spanjol, & Saxon, 1999). As collection points for information, categories streamline markets' interactions and transactions, and synthesize regularities between organizations and group entities based on their similarity with prototypical features (Hampton, 1979). A prototype (i.e., the best typical exemplar) constitutes the cognitive reference point for defining category membership based on organizations' possession of certain attributes (Durand & Paoletta, 2013; Hannan et al., 2007; Rosch & Mervis, 1975). As such, categories foster understanding between actors and guide behaviors in recognizable ways by developing expectations of and for participants (Hsu, Roberts, & Swaminathan, 2012).

In this sense, categories are mainly understood as a vector of prohibitions or prescribed obligations: due to the expectations tied to prototypes, they can be seen as disciplining frameworks that restrict organizations' leeway by limiting what they can and must do. In this perspective, the notion of category is grounded on features of similarity (i.e., to prototypes) and is relatively independent from clients' needs and transaction specifics. Categories enable the identification of firms, and those firms that do not fall into a single recognizable category confuse clients, so risk being ignored or penalized (Hannan et al., 2007; Hsu et al., 2009; Negro & Leung, 2013). Market participants who are members of multiple categories are disadvantaged, whereas firms that fit neatly into a category receive better evaluations and gain higher audience consensus (Hsu, 2006). For example, Zuckerman (1999) argues that the coverage mismatch (i.e., the difference between the categories claimed by a firm and categories in which third parties assess that firm) is greater for category spanning organizations. There is therefore a logical correspondence between category spanning – understood as misfit – lowered social evaluations, and in turn, firm performance.

When studying the economic consequences to category spanners, past research has tended to demonstrate a benefit for spanners when the multiple categories in which a firm acts exhibit a degree of relatedness (Rumelt, 1982; Villalonga, 2004). Delivering products and services from distinct market categories is likely to require complementary knowledge and know how that makes it advantageous to offer them together. Fixed costs can be spread over a wider set of assets when categories are combined, which lightens the economic burden per unit sold – hence, due to synergies and economies of scope, category spanners exhibit greater profitability than those who are more focused or are over-diversified (Palich et al., 2000).

While these two relationships (cognitive and economic arguments) are likely to be true for simple transactions about products, we question whether their predictions will always apply in general cases involving more complex transactions, i.e. specific deals with unique characteristics that necessitate the producer deploying a combination of multiple types of expertise. Complex transactions – extremely prevalent in BtoB economic exchanges – violate some of the assumptions underlying the commonly accepted relationships noted above.

First, in terms of involving multiple types of expertise, complex transactions do not fit precisely prototypes, so we can question whether category spanners necessarily suffer from the negative social evaluation that prevails for typical cases where clients buy simpler products (a bottle of wine, a meal, a movie, an object on eBay, etc.). What matters to the clients more than the mere fact of violating pure categories is their ability to identify and comprehend the category arrangements involved. Thus Wry and colleagues (2013) find that, depending on the category header – the dominant category used for identification – category spanning produces distinct effects: science startups adding technology patents fare better than technology startups adding science patents because the former associates cutting-edge advancements with a will to reach market whereas the latter gives venture capitalists the impression the venture aims to move upwards and away from the market. Second, as

Durkheim (2008: 145) has argued “When a classification is reduced to two classes, these are almost necessarily conceived as antitheses”, accentuating the cognitive confusion brought about by category spanning, as in the wine studies on *Barolo* vs. *Barbaresco*, or in the *classical* vs. *nouvelle* categories of the haute cuisine context. Hence, both theorizing and empirical investigations need to be less restrictive, and portray industries with a broader system of categories not limited to oppositional cases. Third, firms handling complex transactions via category spanning does not necessarily benefit from the classical economies of scope associated with relatedness, since the cost of coordination and capability maintenance may override the benefits of in-house value capture of potential synergies. Fourth, most studies about category spanning are at the product level (e.g., movies, auctions, wines), but the results are generalized at the organizational level. Yet, the results of social sanctions for category-spanners seems to be more disputed at the level of organizations and producers allowing that we might consider a false inference: that if clients perceive the firm as the first, dominant entity and the products as secondary, the fact that some products do not appear to fit preexisting categories may be seen as secondary to whether the firm possesses a consistent, coherent market identity (Alexy & George, 2013; Glynn, 2000; Granqvist, Grodal, & Woolley, 2013; Jensen & Kim, 2013; Rindova, Dalpiaz, & Ravasi, 2011; Wry et al., 2013). This prompts the question: what are the fundamental relationships that link category spanning, social evaluation, and performance?

CATEGORY SPANNING, SOCIAL EVALUATIONS AND PERFORMANCE

Whereas the cognitive argument assumes that category spanning leads to lower social evaluations than do cases of simpler offerings, two reasons make us suggest that there will be positive associations between category spanning and social evaluations in the general case of complex transactions. First, when dealing with complex transactions involving multiple expertise or tasks, organizations which span broad categories receive better social evaluation

as they are likely to attend better to clients' needs and the specifics of transaction (Ratneshwar, Barsalou, Pechmann, & Moore, 2001). In this general case, the union of specialists at the organizational level transfers neither vagueness of identity nor doubts about competence to clients requiring complex transactions (Pontikes, 2012; Scott & Lane, 2000). Category-spanners are identified as experts in the activity categories they offer, and are more capable of tackling the variety of specificities within and across categories involved by the transaction – and so receive higher evaluations (Durand et al., 2007; Rindova et al., 2011).

Second, firms that span categories will aim to signal they possess greater knowledge and capacities to handle specific and non-recurrent transactions. Thus Rosa and Porac (2002) found that motorcycle manufacturers whose various products represented multiple categories (e.g., cruisers and roadsters) had greater appeal than makers of motorcycles that represented only one category. Similarly, in their historical case study about a household product manufacturer, Rindova and colleagues (2011) describe precisely how an organization can draw on multiple market categories to build its identity and be appreciated by its clients. Therefore, category spanning signals a supplier's capacity to handle complex deals. In response, clients value category spanners more highly. For instance, opera critics cover more unconventional repertoire choices when opera house span categories (conventional and unconventional repertoires) in a salient way (Kim and Jensen, 2011).

However, neither of these reasons – multiple expertise nor capacity signaling – are obvious drivers of profit. First, as complex transactions are specific, the marginal cost of employing multiple expertise is not reduced as a function of new cases. The traditional advantages of scale – cross-activity savings, and learning economies – do not materialize as they do with scalable products, recoverable investments, and inter-activity knowledge transfers. While organizations spanning multiple categories are perceived as more capable of handling complex cases and hence are positively valued by clients, there is no immediate

economic benefit of category spanning, and there may even be some drawbacks. Multiple areas of expertise sum up risks across the diverse categories of activities, which, on average, will lower category spanners' profitability. In addition, the cost of coordination across expertise domains will have to be borne from the revenues stemming from complex transactions. Second, signaling special capabilities does not necessarily yield greater revenues. The costs of maintaining multiple capacities and a convincing market identity are likely to eat into the potential revenues generated by the actual deals. Maintaining separate expertise domains in-house is revealed as often being less profitable than sourcing them from specialists when required (e.g., Teece, 1980). As a result, whereas clients well value category spanners positively, category spanning is unlikely to translate into superior performance.

Thus:

Hypothesis 1a. *Social evaluation is positively associated with broader category spanning.*

Hypothesis 1b. *Profit is either negatively or not significantly associated with broader category spanning.*

Category spanning is positively associated with social evaluations, but arrangements of categories are probably not all equivalent; some are perceived as making more sense than others (Phillips, Turco, & Zuckerman, 2013). Indeed, category arrangements have been found to matter as much as or even more than grade of membership in each category (Meyers-Levy & Tybout, 1989). Producers can operate in combinations, recombinations, or subsumptions of different categories, with various degrees of acceptability (Kennedy et al., 2010; Rao, Monin, & Durand, 2005; Wry et al., 2013). Indeed, clients do not adopt analytical and isolated perceptions of each category independently of others – they perceive several categories simultaneously as forming the cognitive infrastructure of markets (Schneiberg & Berk, 2010) and will value more those arrangements which they find more cognitively acceptable (Carroll & Hannan, 1989: 525-526), as the examples of orchestras presenting various programs and

venture capitalists preferring to invest in startups that move their focus from science to technology demonstrate (Kim & Jensen, 2011; Wry et al., 2013). Moreover, when category spanners are plentiful, audiences modify their judgments and behavior over time, (e.g., Glynn & Lounsbury, 2005; Vergne, 2012). For instance, in French restaurants, the *Michelin* Guide initially penalized chefs who spanned the categorical boundaries of classical cuisine and introduced aspects of nouvelle cuisine, but these penalties decreased as such boundary straddling became more common (Rao et al., 2005), and as time reduced both the advantages of category specialization and the penalties for spanners (Negro et al., 2011). It follows that the disadvantages related to category spanning are less absolute than relative – and that they depend on the category arrangements which prevail in the market (Durand et al., 2007). Arrangements of categories which occur more frequently ‘make more sense’ and so constitute thematic relations that are viewed as being more acceptable and valuable (Lin & Murphy, 2001; Deephouse, 1996).³ Ruef and Patterson (2009) show evidence of this effect in the early days of Dun’s credit-rating schema back in the 1870–1900 period.

In short, the frequency of a supplier’s category spanning matters for a client’s social evaluation. The higher that frequency, the more the category spanning is associated positively with social evaluation. First, clients value suppliers whose categorical spanning occurs more often in the industry more than those that offer unheard-of categorical arrangements. Frequency makes the category-spanning supplier appear both more acceptable and more expert. Second, suppliers exhibiting more frequent category spanning suffer less from identity discrepancies than those that add categories to their portfolios indiscriminately. Broad category spans are not uniformly rewarded, as organizations that adopt marginal category arrangements will be viewed as less identifiable, less meaningful, and less capable than those

³To make an analogy, people understand an adjective-noun phrase more easily when the adjective is frequently associated with this noun than when the combination is unusual (Murphy, 1990; Osherson & Smith, 1981). For example, the expression “loud museum” is more difficult to understand than “quiet museum” because the adjective “loud” does not match with the expectations attached to the word “museum” (Murphy, 2004: 398).

that offer more frequently observed categorical arrangements. Therefore:

Hypothesis 2. *The positive relationship between category spanning and social evaluation increases as firms adopt more frequent category arrangements.*

Social evaluations will be more positive as organizations attend to their clients' needs and are more ready and able to service them than are their rivals. We refer to client-centric investments as the actions undertaken by organizations to respond to the necessities involved in complex transactions, independent of the degree of category spanning. Examples include degrees of technological advancement, bespoke after-sales services, and degrees of internationalization. Client-centric investments are therefore likely to be directly related to social evaluations, but also serve to strengthen the existing rationales for category spanners' superior social evaluations. Indeed, the more efforts category spanning organizations undertake to cater to their clients' needs – independent of the degree of their spanning – the more clients will positively appreciate their multiple expertise. For example, presence in multiple countries can reinforce clients' positive evaluations of a firm's full range of services (Thomas, Schwab, & Hansen, 2001). In addition, of two organizations with the same degree of category spanning, the one that makes more client-centric investments is likely to receive the higher social evaluations, as the level of its investments will magnify its signaling of its capacity. It follows that:

Hypothesis 3. *The positive relationship between category spanning and social evaluation increases as firms engage more in client-centric investments.*

We have just argued that frequency of categorical arrangements and client-centric investments positively moderate the relationship between category spanning and social evaluation. If our theory is correct, category spanners' access to economies of scope and synergies is not guaranteed, and so cannot be improved by these moderators. The second part of our hypothesis 1 (H1b) expected a negative or non-significant effect of category spanning

on profitability. Whereas the frequency of category arrangements acts to reinforce the drivers of positive social evaluations, it does not really affect the P&L structure of firms engaged in complex transactions. Even if some category spanning is more commonly found, it does not imply that an organization with this arrangement of categories will save on production costs or generate supplemental sales at a marginal benefit. We therefore do not expect any additional benefit of frequency on profit, neither directly nor by moderating the relationship between category spanning and profit. By the same token, client-centric investments will probably enable firms to generate more deals, but the costs associated with being more technological advanced or having greater global presence and landing more complex deals as a result of these investments does not necessarily improve organization's performance, nor reinforce the association between category spanning and profit. If our theory that category spanners can gain social rewards, but not necessarily economies of scope is accurate, we expect that:

***Hypothesis 4.** There is no positive and significant reinforcement of the relationship between an organization's category spanning and its profit due to it offering more frequent category arrangements or making greater client-centric investments.*

EMPIRICAL CONTEXT AND DATA

Our empirical context is the international corporate legal services market, an industry that deals with complex non-recurrent transactions between firms: e.g. tax issues, acquisitions, intellectual property cases, etc. Corporate clients have complex legal needs that often encompass different law practice areas (Wilkins, 2009). The trend toward the judicialization of the economic world and the emergence of an international corporate legal services market based on the American model are leading to a complete redefinition both of the production of law and of its implementation (Galanter & Henderson, 2008). In today's legal arena, bigger is often considered better, and law firms across countries are mushrooming into large legal 'department stores' offering a panoply of services delivered by many lawyers

(Galanter & Palay, 1994; Harper, 2013). Such firms try to build global brands that are “a system of meanings that delineates a desirable world and, thereby, expands the number of clients and strengthens the intensity of client-brand relations” (Karpik, 2010: 164). Given that law firms are normally structured by practice disciplines (often regarded as “silos”), corporate law firms have been offering combinations of their various competencies, acting as ‘one-stop shops’ rather than offering them each independently (Chayes & Chayes, 1985; Harper, 2013). Clients have less need for a lawyer who can act exclusively for their litigation cases, preferring instead a partner who can intervene in their complex legal life (e.g., addressing both social and fiscal dimensions) and advise on major corporate events (e.g., mergers or acquisitions, or the creation of foreign subsidiaries):

“Our firm has historically understood our clients’ needs and how we can best help them address those needs. Our clients want sophisticated and responsive legal service [and] are looking for a full package of services. We need to offer a set of diversified practices in different regional areas.” (Interview with a UK law firm partner, London office)

“If we want to develop our more profitable practice [areas], which are corporate/M&A or litigation, we need skills in tax, intellectual property, real estate, employment, occasionally in environmental law and so on. To close the deal, you generally need expertise in diverse areas. So, having partners and teams in these areas helps us to enhance our core practice to attract clients and make deals. That is generally true because otherwise, our competitors would say to clients ‘don’t give them this case because they won’t be able to handle this aspect of the deal, or this issue in, for example, intellectual property, tax, or employment.’ So for us, being a multi-practice firm is necessary to close the deal.” (Interview with a US law firm partner, Paris office)

Clients confirm that corporate law firms “take so much the stress out of even the complex deals, anticipating our needs before they arise” (*The Chambers and Partners*, London, 2010: 1352, about the Ashurt company); or: “Davis Polk and Wardwell are top-tier advisers and the firm as a whole is a tremendous resource. You can rely on its advice in any difficult or high-profile situation” (*The Chambers and Partners*, New York City, 2010: 1682). Therefore, corporate law services involve complex transactions at the firm level, where

several expertise categories are represented, and involve substantial amounts of money – all characteristics that make it suitable for testing our conjectures.

We collected data on corporate law firms over a decade (2000–2010), from the three most recognized guides in the profession: *The Chambers and Partners*, *The Legal 500*, and *PLC Which lawyer*. We coded eight law practice categories (Competition-Antitrust, Litigation, Intellectual Property, Real Estate, Tax, Corporate-M&A, Bankruptcy, and Employment) in three different locations (London, New York City, and Paris), areas which, according to the experts and lawyers that we interviewed in preparing this study, covered the main scope of business law firms. These three legal guides rank law firms for each practice and each location. Each section of the three guides (which corresponds to a location) contains two parts: an editorial section (rankings and comments) and a directory section. The editorial section – which is based largely on the opinions of law firm clients who cooperated in the research in each country – presents a mixture of factual information and commentary, consisting of a general review of which firms do what type of work, and which firms are generally regarded by clients as having ‘a good name’ or offering ‘best practice’ within the national and international legal communities. The directory section consists of full-page professional cards placed by firms within each jurisdiction, which include profiles based on information provided by the participating firms. The two sections (editorial – ranking and comments – and directory – advertising) are completely independent, and, according to the guides, firms cannot pay to ensure inclusion in the former.

These guides reflect market opinions by collecting informed feedback from lawyers and clients (*International In-house Counsel Journal*, 2010: 21; Coates, DeStefano, Nanda, & Wilkins, 2011). They do not assess legal services directly, but rather conduct interviews, and their rankings reflect the opinions of various audience members. Their research is based on the combined analysis of deals or reported contentious issues, commentary from clients, and

opinions of the lawyers interviewed in each jurisdiction. At the beginning of each research cycle, they invite firms to send submissions about their important deals of the year, with the main focus on the track record of the firm and its teams of lawyers in the firm's particular practice area. For each deal thus described, the submissions detail the clients' needs, the groundbreaking and complex legal elements supplied by the law firm, and the most significant features of the transaction.

“There is no difference. They have the same research process, we send the same submissions. The main difference is that *Chambers* conduct interviews in all the practice areas in which we have sent a submission, whereas the Legal 500 only hold a limited number of interviews. That's why we prefer the *Chambers*. For example, we have sent about ten submissions this year, but only had six interviews with *Legal 500*. But for next year, *Chambers* has decided to limit the number of interviews as well.” (Interview with a Marketing Director, UK law firm)

Second, drawing from client referees provided by law firms as well as their regular contacts with in-house lawyers, press releases, or past cases, the guides' research teams interview many clients of the law firms, not just those mentioned in firms' submissions, but trying to be as thorough as possible. For example, *The Chambers and Partners* conducted more than 7,000 in-depth interviews with clients for the U.S guide in 2010. These interviews provide clients with the opportunity to comment on the firms they deal with worldwide on a regular basis. Interviewers ask in-house legal departments what type of work is outsourced, which outside lawyers are instructed, and the quality of the legal services provided by outside firms.

“The guides are similar, they adopt the same process for their survey: submissions, interviews with clients and lawyers. And we send the same submissions for all guides...with the same kind of interviews with the lawyers. I think you can definitely compare them. Maybe the differences are in the quality of the researcher, the time they spend to call clients and gather all relevant information.” (Interview with a Marketing Communication Advisor, US law firm)

In the third and final step, the guides' research teams interview leading lawyers regarding their peers to gather their views on the market and their competitors. These major

guides are the most widely consulted in the business legal market, and use similar methodology and same definition for every category:

“As I told you, the illustration that I used to give was that *Legal 500* was a picture of the market at the given moment, and the market’s impressions about firms in each section.” (Interview with a deputy editor of *Guide X*, Paris section)

Our dataset is all law firms that have been ranked in at least one practice area by at least one of the three guides over a decade (2000–2010), and our level of analysis is the law firms’ branch office – the firm-location dyad. Thus, in our dataset, *Linklaters*-London, *Linklaters*-New York, and *Linklaters*-Paris represent three distinct entities. For each guide, when a given entity is covered in all eight practice categories in one location, it receives eight ratings (one per category) – if it is covered in all the categories in one location in every guide, it gathers a total of 24 ratings. The ranking scale differs slightly across critics. In the of the guides – *The Chambers and Partners* and *Legal 500* – law firms are ranked in bands but the grading scale changes randomly across the categories – for example, the practice of ‘Employment’ is ranked in five bands, but nine bands are used to rank ‘Intellectual Property’. The third guide – *PLC WhichLawyer* – differs in using a four-point grading scale – leading, highly recommended, recommended, and recognized – for all categories.

In addition, we collected complementary worldwide data on law firms ranked by the guides (turnover, revenue per partner, total number of partners and lawyers, number of offices, etc.) using three professional journals that report such data: *The Lawyer* (for London), *American Lawyer* (for New York City), and *Juristes et Associés* (for Paris).

MEASURES

Dependent variables. *Social Evaluation.* The three guides adopt an ordered scale from 1 to n bands, 1 being the best rank. Both the total number of bands used and the number of firms covered vary from practice to practice over time. The number of bands is therefore

not meaningful in itself – for example, the ranking of a firm in band 2 depends on whether the guide uses four or seven (or another number) of bands. Contrary to a system that uses a constant number of stars (Durand et al., 2007; Negro, Hannan, & Rao, 2010; Negro et al., 2011), we cannot take only the figure of the band in which the firm is located. For each guide g , we thus propose the following calculation to rate a firm x in a given practice p :

$$Rating_{g,p} x = 1 - \frac{band\ of\ firm\ x_{g,p} - 1}{total\ bands\ in\ ranking_{g,p}}$$

As a result, ratings ranged in a decreasing value order from 1 to 0: the best firms always gained rating 1, and those at the bottom of their classification gained ratings closer to zero. We first calculated the average rating each firm gained in each practice area over the three guides. Thus, a firm ranked in ‘Tax’ in two guides (with the ratings 1 and 0.8) and in ‘Real Estate’ in three guides (with the ratings 0.5, 0.2, and 0.2) will get an average rating of 0.9 for its ‘Tax’ practice, and 0.3 for in ‘Real Estate’. Next, we computed the social evaluation over all the practice areas in which the firm was ranked. Following the former example, the final value of our dependent variable for this firm is 0.6 – i.e., $(0.9+0.3)/2$. We therefore calculated our dependent variable for the firm x as follows:

$$Social\ evaluation\ x_t = \frac{1}{p} \sum_{g=1}^p r_{g,p}$$

where p is the number of practice areas in which firm x is covered by at least one guide, and r the rating obtained in the guide g for each practice area that the firm x covered at time t .

Performance. Our second dependent variable is the worldwide performance of law firms, computed as its gross revenue divided by the number of its partners worldwide. We collected this information mainly from the three professional journals noted above. To avoid distortions between locations, we used financial figures in international dollars adjusted for purchasing power parity using World Bank estimates. The gross revenue is provided in

\$millions and is divided by 1,000,000, so that a value of 1.0 equals \$1 million. Although this measure includes regions beyond London, New York City and Paris, it is a good proxy of the revenue generated in these locations since New York City is the biggest legal services market around the world (in terms of volumes and values of transactions) and London and Paris are the two main European hubs for corporate law firms.

Independent variables. *Category spanning.* First, in the same fashion as used in previous studies (e.g., Negro et al., 2010), we calculated for each firm the function $\mu(p, x, t)$, that indicates the Grade of Membership (GoM) of an organization x in the practice area p (in at least one guide) at time t . An organization's practice portfolio is the set of GoMs: $[\mu(\text{competition}, x, t), \mu(\text{litigation}, x, t), \mu(\text{ip}, x, t), \mu(\text{real estate}, x, t), \mu(\text{tax}, x, t), \mu(\text{corporate}, x, t), \mu(\text{bankruptcy}, x, t), \mu(\text{employment}, x, t)]$. For example, for a specialist law firm in 'Real Estate', its GoM vector can be represented by [0,0,0,1,0,0,0,0]. For a full-service law firm covered in the eight practice areas, it is [0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125]. We then computed category spanning as 1 minus the Simpson's index of its GoM vector:

$$\text{Category spanning} [m(p, x, t)] = 1 - \frac{1}{\sum_{p \in P} m^2(p, x, t)}$$

i.e., 1 minus the squared GoM of each firm x at time t , with p is the set of practice areas in which the firm operates. The minimum value for *category spanning* is zero (for specialists engaged in only one practice area), and the maximum 0.984 (for generalist law firms covering the eight practice areas). Figure 1 shows the evolution of the average levels of the category spanning variable over the observed years (2000-2010). Over the period, we see that firms' average category spanning across practice areas has grown slightly. Note that these values are higher than in previous studies that used product-level data in simpler BtoC transactions (e.g., Negro et al., 2010: 1407; in which the average category spanning is between 0 and 0.15 over the period of observation). As an alternative measure, for each guide, we first calculated an organization's category spanning in the individual guides which the firm is present and then

averaged the values to obtain the average *category spanning* across the three guides. This measure correlated highly with the measure we adopted and led to the same results.

-----*Insert Figure 1 about here*-----

Frequency. We approach *frequency* by the annual count of category arrangements in the entire population of firm. For each firm-location in our dataset, a set of eight dummy variables flag their coverage (or lack of) in the eight categories in at least one guide (1 = presence and 0 = absence). First, we concatenated this ordered set of categories to obtain a vector reflecting the organizational form of each law firm. For example, if a firm is affiliated with category 1 (‘Competition/Antitrust’) and category 3 (‘Intellectual Property’), its organizational vector is 1010000, whereas a small boutique firm which only covers category 4 (‘Real Estate’) has a vector of 0001000. Next, we counted the number of times each vector appears for that year in each location. Our variable *frequency* is the logged number of times any vector is present in each year in each location. The category arrangements that appear most frequently are assumed to reflect the highest coherence with the evaluative schemas and needs of clients. Figure 2 shows examples of some pairwise categories and their evolution of frequency over time: for example, we see that the association between ‘Corporate/M&A’ and ‘Tax’ is three times more frequent than ‘Corporate/M&A’ and ‘Real Estate.’

-----*Insert Figure 2 about here*-----

Client-centric investments (Internationalization degree). The global expansion of law firms has been a remarkable trend over the last three decades in corporate legal services markets (Dezalay & Garth, 2004). The basic reason for a law firm going global is to follow its clients abroad, leading to greater needs to tackle legislation and legal risks in foreign jurisdictions that many companies lack the resources or expertise to handle in-house (Heinz, Nelson, & Laumann, 2001; Silver, 2000; Thomas et al., 2001). Companies’ continued expansion abroad means increasingly demanding legal services that can cover more of their

business around the globe. We thus chose to reflect the client-centric investments of corporate law firms through their degrees of internationalization – thus the variable *Internationalization degree* is the logged number of countries in which the firm has a branch office. We also ran additional models with the alternative measure as the percentage of lawyers the firms employed from outside their firm’s home countries, and obtained similar results (tables not reported).

Control variables. We controlled for other factors that might influence our dependent variables. Most research in this field invokes a cognitive confusion mechanism to explain the associations between category spanning and lower evaluation, as “membership in multiple (non-nested) categories likely confuses the audience and makes a producer appear to fit poorly to any of the schemata that an agent applies to the categories” (Hannan et al., 2007: 108). Multi-category memberships that straddle identifiable categories therefore lead to audience confusion, and to clients misattributing both properties and expectations. To capture the clarity of a focal firm in the eyes of its clients, we included the variable *categorization consensus* between the three guides to measure their agreement as to firms’ areas of practice coverage. We calculated the average similarity between each pair of guides that cover a firm and, following previous studies (Hsu, 2006), used the Jaccard similarity index to capture similarity between the coverage of firm’s practice areas in each pair of guides. The Jaccard coefficient takes the following form: $J(A, B) = \frac{A \cap B}{A \cup B}$ where $A \cap B$ indicates the cardinality of the set of practice areas in which the firm is covered in both guides A and B, and $A \cup B$ the cardinality of the set of practice areas in which the firm is covered in guides A and/or B. For example, in 2001, the firm-location dyad *Sullivan and Cromwell* in Paris is covered in the areas ‘Corporate/M&A’ and ‘Tax’ in both *PLC Which Lawyer* and the *Legal 500* but only in ‘Corporate/M&A’ in the *Chambers and Partners*. Here, the values of each pairwise comparison are 1 (for the pair *PLC Which Lawyer/ Legal 500*), 1/2 (for the pair *PLC Which*

Lawyer/ Chambers and Partners), and 1/2 (for the pair *Legal 500/ Chambers and Partners*).

The average value of the three pairwise comparisons is $(1+1/2+1/2)/3 = 0.67$. The range of the variable consensus is between 0 and 1 – some firms show no consensus at all, whereas others reach partial or full consensus on their coverage.

Previous research has also shown that clarity regarding the meaning of a category increases the appeal of all its members (Kovacs & Hannan, 2010; Kuilman & Li, 2009). Multi-category firms blur the saliency of the categories to which they are affiliated, leading to audiences reacting negatively to such lack of clarity. We therefore controlled for the average *categorical contrast* of categories that firms spanned. Based on the previous literature (e.g., Kovacs and Hannan, 2010: 184-185), we measured the contrast of a category as the sum of the grades of membership of the category members divided by the total number of members belonging to the category. As an example, if there are 3 members in the category ‘Litigation’ with respectively a grade of membership equals to 0.2, 1, and 0.6: the categorical contrast of the ‘Litigation’ category equals $(0.2+1+0.6)/3=0.6$. We also included the average *tenure* of the firm’s coverage across the three guides (Pontikes, 2012) to measure the duration since the firm was first registered by any of the three guides. We first calculated the cumulative number of years for the firm’s successive presence in each guide and then computed the firm’s average number of years over the three guides. At the firm level, independent of its category spanning, the law firm’s visibility on the market may increase its social evaluation (Karpik, 2010: 163), so we controlled for the local *size* of the firm, using the log of the total number of lawyers it employed in each location. We also controlled for the *age* of the firm-location, i.e. the number of years since it opened an office in London, New York City and Paris.

Regarding their independence and objectivity of research, all the guides state that law firms cannot buy their way into the rankings – for instance, *Chambers and Partners*’ editorial introduction claims: “inclusion in sections of the guide is based solely on the research team’s

findings. No-one can buy their way in”. However, in case the purchase of a full-page profile may influence the guides’ decisions, we therefore controlled for the potential effect of *advertisement* by counting the average number of page profiles purchased in each guide covering the firms. As some practice areas of law are more prestigious and profitable than others, firms’ presence in a particular category may affect clients’ evaluations and firm performance. We therefore included dummy variables for *coverage in a focal category* to signal the presence or absence of firms in each practice area. Finally, to account for the possible effect of firms’ *nationality* on the dependent variables, we added dummy variables to signal the location of a firm’s HQ. To capture guide-specific effects and the possibility of measurement errors in reflecting clients’ opinions that might influence ratings of firms, we included dummy variables for the presence in each guide. We also captured *time effects* and *location effects* by including a set of dummy variables in our models. Finally, for the performance regression models, we included firm’s *social evaluation* as a control variable, as research has shown that social standings of legal service providers positively impact their billing rates (Uzzi & Lancaster, 2004).

Statistical Methodology. We opted for random effects generalized least squares (GLS) estimations for several reasons. First, our theoretical argument explains the differences between firms in social evaluation and performance, conditional on their category spanning, category arrangements and degree of internationalization, so we used analyses that estimate between-firm differences over years. Second, by decomposing the variance of our regressors (with the STATA command *xtsum*), we observed that the variance across firms was very low, so it was preferable not to use fixed-effects models for which the coefficients of regressors with little within variation are imprecisely estimated (Cameron & Trivedi, 2010: 244). Third, random-effects regressions allow for time-invariant variables to play roles as explanatory variables, which is the case in our setting (e.g., the variable location or the category

dummies). We confirmed that random-effects regression was appropriate by applying the Breusch-Pagan Lagrange multiplier test to confirm that variances across entities differed from zero ($p < .001$). However, the error terms of regressions with time-series data may not be independent – errors are often serially correlated and not identically distributed. Both the Durbin-Watson and Wooldridge tests indicated the presence of autocorrelation in our data, and the likelihood ratio test for heteroskedasticity was significant. To ensure valid statistical inferences, despite these two violations of the regression model's assumptions, we used clustered-robust standard errors, which controlled for errors not distributed identically across firms (i.e., heteroskedasticity), and correlated within firms across time periods (i.e., serial correlation) (Petersen, 2009: 465). We therefore computed clustered-robust standard errors at the firm-worldwide level – that is, one level above our unit of analysis (Pepper, 2002) – to correct for the lack of independence of evaluations obtained by the same firm.

We rejected potential issues related to multicollinearity among the explanatory variables by using a variance inflation factor test and standardizing all variables before creating the interaction terms. To mitigate the reverse causality issue, all independent variables and control variables were lagged by one year: we collected data from the 2000 edition of the three guides to construct lagged independent variables for the first year of observing our dependent variables (2001).

RESULTS

Our dataset contains 597 firm-location dyads and 3615 observations over 10 years for models on *social evaluation* and 407 firm-location dyads and 2448 observations for models on *performance*. Missing values in the *performance* variable explain this difference in the observation numbers. We ran alternative regressions (on the smallest sample of data, replacing missing data using multiple imputation method on STATA) and obtained same patterns of results. We present below the most conservative results, i.e. regression estimates

on the two dependent variables for each full set of available observations. Tables 1 and 2 present descriptive statistics and pairwise correlations for the variables used. The variable *categorization consensus* is highly correlated with the dependent variable *social evaluation* (0.61), which might raise concerns about multicollinearity, so we ran separate estimations without this control variable: the results reported below are robust and similar to those reported in Tables 3 and 4.

-----Insert Tables 1, 2, 3 and 4 about here-----

Model 1a (Table 3) and Model 1b (Table 4) contain controls only. The *categorization consensus* variable is positive and highly significant across models, both on social evaluation ($\beta = 0.10, p < .001$) and on performance ($\beta = 0.19, p < .001$). Echoing the findings of previous studies (Hsu, 2006), we find that social evaluation and performance are higher when clients have greater consensus regarding firms' practice areas. The average *categorical contrast* of categories spanned by firms has a significant positive impact on social evaluation ($\beta = 0.15, p < .001$): the higher the contrast of the categories, the greater the audience's evaluation of firms. The estimated coefficient of this variable is negative but non-significant on performance. The average firm's *tenure* of coverage across the three guides positively affects the dependent variables ($\beta = 0.02, p < .001$; $\beta = 0.05, p < .001$), meaning that the longer the guides have tracked the organizations, the greater their social evaluation and performance. The *advertisement* variable has a positive and significant effect on social evaluation ($\beta = 0.01, p < .05$), which seems to indicate that buying full profile advertisement pages in the three guides does, in fact, increase the evaluations they give to such firms. It has also a positive but only weakly significant effect on firm's performance ($p < .1$). As expected, both clients' evaluations and performance are enhanced by the control variable *size*, which relates to law firms' visibility in the market. While the variable *age* is also positive both on social evaluation and performance across models, it only reaches statistical significance for

models on performance ($\beta = 0.002, p < .01$). Regarding the regression analyses on performance (Model 1b), we find that *social evaluation* has a positive impact on organization performance ($\beta = 0.22, p < .01$) which points to some status-related benefits (Benjamin & Podolny, 1999; Uzzi & Lancaster, 2004). Note that adding past performance in models on social evaluation (not reported) does not alter the structure of results (past performance is positive and marginally significant).

Model 2a includes the first independent variable *category spanning* and tests hypothesis 1a, i.e. a positive association between category spanning and social evaluation. The results support this hypothesis, with firms' *category spanning* having a significant and positive coefficient ($\beta = 0.03, p < .01$) – suggesting that law firms which span a broader range of categories are more likely to obtain higher social assessments. Regarding controls, coefficient estimates and significance levels are robust compared to Model 1a. Hypothesis 1b expects a negative or non-significant coefficient for the effect of category spanning on performance – the results from Model 2b (Table 4) support this hypothesis, since the *category spanning* coefficient is negative, but is not significant.

Models 3a and 4a test the direct and indirect effect of *frequency*. The direct effect is positive and significant at the .01 level (Model 3a), suggesting that the frequency of a firm's category arrangement favors higher social evaluation. In Model 4a, both the direct and interaction effects with category spanning are positive and significant, supporting H2. To probe this moderation effect on the full range of observations, we computed and represented graphically the marginal effect of category spanning on social evaluation at various levels of the variable *frequency*. Figure 3 shows that the marginal effect of category spanning on social evaluation increases in line with its frequency.

-----Insert Figure 3 about here-----

Model 5a adds *internationalization degree* and Model 6a is the full model, including the interaction between *internationalization degree* and *category spanning*. In both models, the estimated coefficient for *internationalization degree* is positive and significant, which indicates that clients favor law firms that invest in providing a broader scope of international operations. The full model (Model 6a) gives evidence that the positive relationship between category spanning and social evaluation increases as firms engage in more client-centric investments, as the interaction coefficient *category spanning* \times *internationalization degree* is positive and significant, hence supporting hypothesis 3. Thus, law firms' capacity to provide multiple services across a wide range of countries is both sought after and rewarded by clients. The Figure 4 graphical representation shows that category spanning has an increasing positive marginal impact on social evaluation as internationalization degree increases.

-----*Insert Figure 4 about here*-----

Hypothesis 4 proposed that frequency and client-centric investments do not reinforce the direct relationship between category spanning and profit – Models 3b-6b in Table 4 support these expectations. *Frequency* has a direct negative and significant effect on performance but its interaction with category spanning is not significant. The direct effect may be explained by competition – a great number of competitors adopting the same categorical arrangement driving performance downwards. *Internationalization degree* does not impact firm's performance: coefficients for its direct and interaction effects are non-significant. Overall, the evidence confirms our expectations (and thus Hypothesis 4): what drives clients' social evaluation does not necessarily lead to a greater firm performance.

Robustness Checks. As predicted, our results show that category spanners enjoy higher social evaluations. However, this result could be due to the inclusion of both focused firms and category spanners in our sample; for our theory to hold, our hypotheses should remain supported when analyzing category spanners only. We therefore ran a separate model

which only included category spanning firms – those firms that cover at least in two practice areas. Results do not change significantly (Model 7), and so support Hypotheses 1a, 2 and 3.⁴

We wondered whether the effects we observed were linear or curvilinear. In unreported models, we tested for curvilinear effects without success: we found categorical spanning had a curvilinear effect neither on social evaluation nor on performance.

To ensure the validity of the results on social evaluation – in spite of relaxing the assumption that the residuals of the panel model are correlated within clusters over time – we used an unequally spaced panel data regression model, which fits when the disturbance term is first-order autoregressive (Baltagi & Wu, 1999). This approach offers parameter estimates for random-effects GLS models that are potentially more efficient. Results did not change significantly, as Model 8 (Table 5) shows. We might also assume that residuals are correlated both between and within groups, so we conducted panel-corrected standard error (PCSE) estimates for linear panel models where the parameters were calculated by Prais-Winsten regression (Beck & Katz, 1995), which provides robust standard error estimates in cases of heteroskedasticity, contemporaneously cross-sectional correlation, and first-order autoregression (Model 9). We found a similar pattern of positive and significant effects of the category spanning variable and the interaction terms with *frequency* and *internationalization degree*.

We tested for endogeneity in our variables of interest, since the GLS estimator assumes that the firm-specific effects are uncorrelated with the error term. For instance, variations in category spanning could be associated with unobserved firm effects, such as an organization's marketing resources allowing it to enhance its visibility on the legal services market. To address this possible issue, we ran a two-way fixed-effects regression analysis by time and by firm-location to control for potential omitted variables that are constant over time

⁴The main difference in Model 7 is the non-significance of the variable *categorical contrast* compared with the full-sample models. As all firms span categorical boundaries, the average of partial membership of categories is no longer relevant for clients, and thus does not affect their evaluation.

but vary across entities – so capturing both unspecified correlations between observations of the same and of different entities in the same year. This fixed-effects model (Model 10) produced virtually the same results. The within-estimator provides the same pattern of results for control variables, except for *advertisement* that is no longer significant: the estimated coefficients for our three independent variables remain positive and significant.

As current realizations of the dependent variable may be influenced by past ones, we also ran a linear dynamic panel data model (Model 11) that allowed us to include the lagged dependent variable as a regressor. In doing so, we used a System GMM estimator (Arellano & Bond, 1991; Blundell & Bond, 1998) to avoid weak instrument issues because of the persistence of the dependent variable (Uotila, Maula, Keil, & Zahra, 2009). This regression estimator is designed for small-T large-N panels such as those used in our study. The Blundell-Bond estimator removes unobserved firm-specific heterogeneity and endogeneity issues by using past levels of regressors instrumented with first-differences or orthogonal deviations (Roodman, 2009: 114). We used orthogonal deviations that maximize sample size in unbalanced panel data, and then estimated System GMM using the `xtabond2` STATA module. As in previous models, we clustered robust standard errors at the worldwide firm level to mitigate heteroskedasticity. The lagged dependent variable was treated as an endogenous variable and the independent variables (already lagged in our models) as predetermined (i.e. weakly exogeneous). All other control variables were treated as exogeneous. We computed a test of over-identifying restrictions after running regression analyses, but failed to reject the null hypothesis of exogeneity of instrument subsets: the estimated coefficients and significance level were virtually the same for our variables of interests. In line with previous studies (Durand et al., 2007; Pontikes, 2012), we found that past audience evaluation levels significantly increased future audience evaluations ($\beta = 0.59$, $p < .001$).

Finally, the two regressions (on social evaluation and on performance) may be related, because the errors terms associated with the two dependent variables may be correlated. Hence, we used seemingly unrelated regression models (Zellner, 1962) to provide joint estimates from the two regression models on the same set of observations (n=2448), each with its own error term. The Breusch-Pagan test indicates statistically significant correlation between the errors in the two equations ($\chi^2 = 150.37, p < .001$). However, the correlation is not particularly strong (0.23), so the efficiency gains to seemingly unrelated regression estimation are low in our case (Cameron & Trivedi, 2010: 166). Table 6 shows the results, which, for our variable of interest, are again similar to those of the main models as shown in Tables 3 and 4.

-----*Insert Tables 5 and 6 about here*-----

Alternative mechanisms. What other factors beyond multiple expertise and competence signaling could explain why category spanning organizations receive superior social evaluations? One alternative explanation could be that corporate clients may choose to work with only one legal services provider to minimize the transaction costs of searching, bargaining, and policing the exchange (e.g., Chatain, 2011). But there is little evidence for this alternative explanation. First, the results of a 2009 survey of 200 companies from 60 countries (*International In-house Counsel Journal*, 2010), indicate that 56% of the clients reported using up to 10 multi-practice law firms. Second, other academic work on corporate law firms tends to reject transaction cost saving and risk reduction interpretations (e.g., Garicano & Hubbard, 2009). Third, if correct, this mechanism would have been aligned with an improved performance for category spanners – which we did not find (Table 4).

Second, as economies of scope do not materialize (since there is no positive effect on performance), there might be economies of scale that would benefit clients, leading them to favor larger law firms. Although the corporate law industry gives no evidence of any

economies of scale benefits for law firms (Harper, 2013; Heinz et al., 2001; Pearlstein, 2004), corporate clients would favor category-spanners for advantages related to size. We tested this explanation by including the interaction term of the two variables *category spanning* and *size* in the additional Models 7–12 in Table 5. We found a positive estimated coefficient (model 12: $\beta = 0.01$, $p < .01$), suggesting that law firms that are both large and multi-practice absorb uncertainties about legal cases, making them more appealing to clients. In these additional models, the main effects keep providing further evidence in favor of our hypotheses.

Third, category spanning could be a strategy led by high-status corporate law firms, and higher social evaluations would result from a conflated effect between category spanning per se and high status. To disentangle this potential confusion, we calculated the difference between each individual firm's vector of presence/absence of a practice and the average of the top 10 firms' practice portfolios in each location: the greater the distance, the less a focal firm's category spanning resembled that of the top 10 firms. Testing the effect of this distance, we found it had a negative and non-significant effect on social evaluation and a positive and significant effect on performance (Table 7). Thus, there is no evidence of a 'status effect' on social evaluation (clients do not refer to high status players to assess a focal firm's portfolio), but firms that are more distant from the top 10 do fare better in financial terms.

Finally, as some recent works (e.g., Wry et al., 2013) and our variable *frequency* show, spanning categories is not entirely independent of the categories that are spanned. We looked first (in unreported models) at whether adding any category in a firm's portfolio contributed to its social evaluation and performance. We found similar structures of results (positive and significant coefficients for all direct effects and interaction terms on social evaluation; only negative and significant coefficients for *frequency* on performance) as in our models in Tables 3 and 4. This supports our theory that multiple expertise and capability signaling contribute to

a firm's social evaluation but not to its performance. Further, anecdotal evidence from our interviews, other works (Galanter & Henderson, 2008; Garicano & Hubbard, 2009), and coefficients of practice dummies in our models single out 'Corporate-M&A' as a practice that is particularly influencing. We therefore tested whether (1) adding this practice in portfolio or (2) having this practice in portfolio for a longer time contributed to social evaluation. In Table 8, we present also the results for the practice 'Competition-Antitrust'. Contrary to the addition of 'Competition-Antitrust', the addition of 'Corporate M&A' does not contribute immediately to social evaluation whereas does; in both cases, we found positive and significant effects for having a practice for a longer time. Effects on performance materialize also as time passes but firms do not benefit immediately from the addition of a practice. These results are consistent across the eight practices. Therefore, it is correct to argue that, in general, adding a practice contributes to a better social evaluation, but that some practices tend to contribute more than others. For instance, in our setting, the practice 'Litigation' contributed the less on social evaluation (not reported), and 'Competition-Antitrust' the most. We see this as an important refinement of our general argument.

-----*Insert Tables 7 and 8 about here*-----

DISCUSSION

Is category spanning detrimental to an organization? In addressing this question, this paper first reconciles diverse streams of research in organization theory and strategy studies. In the general context of complex transactions, we found (at the firm level) that, due to multiple expertise and capacity signaling, category spanners obtain better social evaluations than more focused firms. However, category spanners do not outperform more focused rivals, indicating the absence of scope economies. Our general conjecture that – all other things being equal – category spanning is well perceived by the client audience, independently of scope, scale, and transaction economies, finds support. Before their products, firms are valued

for the coherence of their categorical identity that modifies audience expectations (as the header-modifier in Wry et al., 2013).

Second, this paper gives evidence that social evaluations are informed by both the frequency of a firm's categorical arrangements and the efforts it deploys to satisfy its clients. As the frequency of the categorical arrangement increases, so does the positive association between category spanning and audience evaluation. Also, firms that commit more to satisfying their clients' needs gain superior social evaluations for a same level of category spanning. Also important as supplemental analyses show, is that the categories firms combine pertain to a system which is in itself meaningful: not all categories, nor not all arrangements of categories benefit provider firms' social evaluations identically. These considerations enrich our understanding of how audiences apprehend markets' category systems and category spanners relative to each other.

As we consider higher or lower levels of analysis (i.e. firms or products), the conception of categories and categorization differs, as do the consequences of category spanning. At lower levels of analysis, the typicality perspective assumes that a product's features contain information and act as stimuli to which an audience responds by comparing current features to an abstract prototype (Mervis & Rosch, 1981). In contrast, at higher levels of analysis, the audience pursues goals such as 'fixing my legal issues' when assessing and exchanging with organizations. According to this goal-based approach to categorization (Barsalou, 1991; Barsalou & Hale, 1993; Durand & Paolella, 2013), those organizations that fulfill these objectives better will be deemed more attractive. Hence, at the organization level, categorization does not really operate on a similarity basis, but rather according to criteria that depend on the context of the exchange. Therefore, a corollary of our findings would be that, as transactions become simpler, more local, less expensive, and at lower levels of analysis (e.g. dealing with products instead of with firms), the prototypical view will tend to prevail

over the goal-based view of categorization. As we move to finer levels of analysis, category spanning is likely to lose its social evaluation benefits and its detrimental effect on performance will become more evident (in our models, the effect of category spanning on performance is negative but not significant). We suggest this argument identifies the domain in which past results on the negative effects of category spanning based on a cognitive argument are valid.

At a higher (firm-) level of analysis, producers are assessed based on the signals they send out about the range of their expertise and capabilities. Broader category spanning is viewed positively as indicating “the skill or ability to produce a wide variety of situated conceptualizations that support goal achievement in specific contexts” (Barsalou, 2005: 626). Thus, independent of the economic or strategic rationale related to diversification benefits, category spanners are likely to gain better evaluations in the market (although not achieve better performance). Interestingly, this study exemplifies a paradox of diversification: that it leads to better evaluations at a general level but does not necessarily improve performance. As such, this paper contributes to the study of firm diversification by suggesting that the relatedness between activities can be of different kinds: strategic (rent-accruing through economies of scope), and economic (reducing unit costs by economies of scale) as seen in past research, but also cognitive in the cases of category spanning as in the context we have studied. Note that, if category arrangements are not equivalent to each other in terms of external evaluation, in corporate law services market categories are additive and compatible, and do not necessarily create ambiguity, confusion, and fuzziness as may be the case in other empirical settings, where market categories are seen as exclusive or as rivals. Producers should therefore take audiences’ evaluative schemas into account when planning their category-spanning strategies: in absolute terms (more or less categories of activities) as well

as in relative terms since our additional tests (see ‘Alternative mechanisms’ section above) indicated that not all categorical arrangements provide the same evaluation benefits.

More broadly, this paper contributes to research exploring the determinants that affect both the reputation and performance of professional service firms (Greenwood, Li, Prakash, & Deephouse, 2005). As their clients’ demands are more complex and spread on a global basis, professional service organizations array multiple types of expertise and client-centric investments in order to gain recognition but without reaching greater levels of performance as additional factors must be mobilized to increase profits (Hitt, Bierman, Uhlenbruck & Shimizu, 2006).

The limitations of our paper suggest promising opportunities for future research. For example, the emergence and taken-for-grantedness of categories in the international law firm market deserves more scrutiny. The underlying sociological reasons for this market being categorized in one way or another depend chiefly both on historical events and on the social positioning of audiences, neither of which we explore. We also consider clients in a homogenous way, and it may well be important to tease out the significance of client heterogeneity on their appreciation of category spanners. Second, we suggest that less frequent category spanning is less understood by clients, but another source of identity fuzziness exists – discrepant ratings per category – which needs to be studied per se (see Alexy & George, 2013; Vergne, 2012). Third, more fine-grained measures of category spanning could be used, particular weighted measures of spanning that would account for the respective value of each practice in a firm’s portfolio – unfortunately, we did not have the data available with which to calculate this variable. Fourth, our tests of the importance of practice composition remained simple: adding a practice, and the study of the presence of some remarkable ones such as ‘Corporate-M&A’. However, a more thorough study of the constitution of practice portfolios is in order, both in itself and in relation to the whole system

of market categories (Wry & Lounsbury, 2013). Together, these future works will complement both extant studies and this one, and move us further towards a more refined understanding of the consequences of category spanning and of the importance of the cognitive structure of markets.

TABLES

Table 1. Descriptive Statistics and Pairwise Correlations. Effects on Social Evaluation.

Descriptive Statistics and Pairwise Correlations (n=3615)																
Variables	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	
1. Social evaluation	0.385	0.199	0.059	1												
2. Category spanning	0.43	0.415	0	0.984	0.12											
3. Frequency	1.673	1.135	0	3.526	0.16	-0.45										
4. Spanning*Frequency	-0.446	0.893	-1.953	2.029	0.08	0.18	0.18									
5. Internationalization degree (logged)	0.893	1.025	0	3.664	0.17	0.48	-0.18	0.27								
6. Spanning*Internationalization degree	0.508	1.05	-3.211	4.057	0.33	0.30	0.16	0.15	0.40							
7. Categorical consensus	0.353	0.381	0	1	0.61	0.30	0.00	0.21	0.30	0.36						
8. Categorical contrast	0.489	0.097	0.260	0.826	0.21	-0.39	0.32	-0.41	-0.26	-0.11	-0.13					
9. Tenure in guides	4.006	2.475	0	10	0.19	0.33	-0.05	0.07	0.15	0.22	0.30	-0.30				
10. Size (logged)	4.675	1.057	0	7.476	0.26	0.30	0.06	0.21	0.22	0.30	0.25	-0.08	0.16			
11. Age	46.987	55.736	0	361	0.03	0.18	0.01	0.01	0.04	0.08	0.08	-0.09	0.14	0.25		
12. Advertisement in guides	0.516	0.528	0	3.25	0.15	0.42	-0.14	0.24	0.40	0.15	0.27	-0.30	0.05	0.22	0.23	

Table 2. Descriptive Statistics and Pairwise Correlations. Effects on Performance.

Descriptive Statistics and Pairwise Correlations (n=2448)																	
Variables	Mean	Std. Dev.	Min	Max	1	2	3	4	5	6	7	8	9	10	11	12	
1. Performance	2.099	1.216	0.359	6.3													
2. Category spanning	0.556	0.397	0	0.984	0.11												
3. Frequency	1.441	1.123	0	3.526	-0.10	-0.29											
4. Spanning*Frequency	-0.340	0.954	-1.953	2.029	0.06	0.10	0.47										
5. Internationalization degree (logged)	1.250	1.026	0	3.664	0.40	0.35	-0.02	0.23									
6. Spanning*Internationalization degree	0.540	1.205	-3.211	4.057	0.20	0.48	0.12	0.18	0.50								
7. Categorical consensus	0.411	0.372	0	1	0.39	0.33	0.10	0.21	0.27	0.43							
8. Categorical contrast	0.472	0.088	0.260	0.826	-0.14	-0.39	0.16	-0.33	-0.20	-0.18	-0.11						
9. Tenure in guides	4.201	2.531	1	10	0.23	0.37	0.00	0.06	0.12	0.27	0.33	-0.31					
10. Size (logged)	4.785	1.032	1.386	7.476	0.17	0.39	0.10	0.28	0.22	0.36	0.32	-0.18	0.19				
11. Age	49.990	57.875	0	308	0.05	0.19	-0.01	0.00	-0.01	0.11	0.13	-0.14	0.16	0.35			
12. Advertisement in guides	0.658	0.552	0	3.25	0.12	0.30	0.02	0.19	0.26	0.20	0.24	-0.25	0.01	0.32	0.21		
13. Social evaluation	0.403	0.196	0.059	1	0.38	0.19	0.18	0.17	0.20	0.32	0.62	0.12	0.18	0.27	0.10	0.22	

Table 3. Random effects GLS estimations: Effect on Social Evaluation.

Variables	Model 1a Control	Model 2a H1	Model 3a	Model 4a H2	Model 5a	Model 6a H3
Category spanning		0.03** (0.010)	0.05*** (0.011)	0.05*** (0.011)	0.05*** (0.011)	0.04*** (0.011)
Frequency			0.01** (0.003)	0.01+ (0.004)	0.01+ (0.004)	0.001 (0.004)
Spanning*Frequency				0.01* (0.004)	0.01* (0.004)	0.01** (0.004)
Internationalization degree					0.02* (0.007)	0.01* (0.007)
Spanning*Internationalization degree						0.01** (0.003)
Categorical consensus	0.10*** (0.012)	0.10*** (0.012)	0.09*** (0.012)	0.09*** (0.012)	0.09*** (0.012)	0.09*** (0.012)
Categorical contrast	0.15** (0.056)	0.18** (0.058)	0.13* (0.059)	0.18** (0.063)	0.19** (0.063)	0.20** (0.063)
Tenure in guides	0.02*** (0.002)	0.02*** (0.002)	0.02*** (0.002)	0.02*** (0.002)	0.01*** (0.002)	0.02*** (0.002)
Size	0.02** (0.006)	0.01** (0.006)	0.01* (0.006)	0.01* (0.006)	0.01* (0.006)	0.01* (0.006)
Age	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)	0.001 (0.001)
Advertisement in guides	0.01* (0.006)	0.01+ (0.006)	0.01* (0.006)	0.01* (0.006)	0.01* (0.006)	0.01* (0.006)
Constant	0.13** (0.043)	0.12** (0.043)	0.13** (0.043)	0.12** (0.043)	0.09* (0.044)	0.10* (0.044)
Category dummies	Yes	Yes	Yes	Yes	Yes	Yes
Nationality dummies	Yes	Yes	Yes	Yes	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	3615	3615	3615	3615	3615	3615
Number of firm-location	597	597	597	597	597	597
Number of firm-worldwide	500	500	500	500	500	500
Wald chi ²	2710.35	2713.35	2779.38	2762.61	2839.3	2851.36

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, +p<0.1

Table 4. Random effects GLS estimations: Effect on Performance.

Variables	Model 1b Control	Model 2b H1b	Model 3b	Model 4b H4	Model 5b	Model 6b H4
Category spanning		-0.05 (0.042)	-0.01 (0.043)	-0.01 (0.043)	-0.01 (0.043)	-0.06 (0.047)
Frequency			-0.04** (0.016)	-0.04** (0.016)	-0.04** (0.016)	-0.05** (0.016)
Spanning*Frequency				0.00 (0.016)	0.00 (0.016)	0.01 (0.016)
Internationalization degree					0.04 (0.043)	0.02 (0.042)
Spanning*Internationalization degree						0.03 (0.016)
Categorical consensus	0.19*** (0.056)	0.19*** (0.056)	0.19*** (0.056)	0.19*** (0.056)	0.19*** (0.057)	0.18** (0.057)
Categorical contrast	-0.30 (0.187)	-0.25 (0.195)	-0.08 (0.198)	-0.06 (0.222)	-0.05 (0.221)	-0.03 (0.218)
Tenure in guides	0.05*** (0.013)	0.05*** (0.013)	0.06*** (0.014)	0.06*** (0.014)	0.06*** (0.014)	0.06*** (0.014)
Size	0.08* (0.040)	0.08* (0.040)	0.09* (0.040)	0.08* (0.040)	0.08* (0.041)	0.08* (0.041)
Age	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)	0.002* (0.001)
Advertisement in guides	0.07+ (0.038)	0.07+ (0.038)	0.06+ (0.038)	0.06+ (0.037)	0.06+ (0.037)	0.07+ (0.037)
Social evaluation	0.22* (0.111)	0.23* (0.111)	0.25* (0.113)	0.25* (0.113)	0.25* (0.113)	0.26* (0.112)
Constant	2.33*** (0.219)	2.31*** (0.220)	2.25*** (0.222)	2.24*** (0.223)	2.18*** (0.220)	2.23*** (0.222)
Category dummies	Yes	Yes	Yes	Yes	Yes	Yes
Nationality dummies	Yes	Yes	Yes	Yes	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	Yes	Yes	Yes
Observations	2448	2448	2448	2448	2448	2448
Number of firm-location	407	407	407	407	407	407
Number of firm-worldwide	310	310	310	310	310	310
Wald chi ²	788.39	785.83	787.94	806.58	821.26	822.28

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, +p<0.1

Table 5. Robustness Checks. Effect on Social Evaluation.

Variables	Model 7 Only spanners	Model 8 Random- effects AR(1)	Model 9 Prais-Winsten estimation	Model 10 Fixed- effects	Model 11 GMM (BB)	Model 12 Random- effects GLS
Category spanning	0.02** (0.009)	0.03*** (0.009)	0.04*** (0.008)	0.03* (0.012)	0.03* (0.014)	0.04** (0.011)
Frequency	-0.003 (0.003)	-0.001 (0.003)	0.004 (0.003)	-0.002 (0.004)	-0.01 (0.005)	0.002 (0.004)
Spanning*Frequency	0.01*** (0.003)	0.01*** (0.003)	0.01*** (0.003)	0.01* (0.004)	0.01* (0.005)	0.01** (0.004)
Internationalization degree	0.02** (0.007)	0.01* (0.006)	0.01+ (0.004)	0.01 (0.010)	0.001 (0.005)	0.01* (0.006)
Spanning*Internation° degree	0.01** (0.003)	0.01*** (0.003)	0.01*** (0.002)	0.01* (0.004)	0.01** (0.003)	0.01** (0.004)
Categorical consensus	0.09*** (0.012)	0.09*** (0.007)	0.12*** (0.009)	0.05*** (0.012)	0.09*** (0.020)	0.09*** (0.012)
Categorical contrast	0.01 (0.068)	0.17*** (0.042)	0.22*** (0.045)	0.16* (0.073)	0.22*** (0.068)	0.21*** (0.063)
Tenure in guides	0.02*** (0.003)	0.01*** (0.002)	0.01*** (0.002)	0.01* (0.004)	0.002* (0.001)	0.01*** (0.002)
Size	0.03*** (0.006)	0.02*** (0.003)	0.02*** (0.003)	0.01+ (0.007)	0.01* (0.004)	0.02*** (0.005)
Age	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	0.001 (0.000)	-0.00 (0.000)	0.001 (0.000)
Advertisement in guides	0.01* (0.006)	0.01* (0.005)	0.02*** (0.005)	0.00 (0.006)	0.02** (0.006)	0.01* (0.006)
Category spanning*Size		0.01*** (0.003)	0.01*** (0.003)	0.01+ (0.004)	0.01* (0.003)	0.01** (0.004)
Lagged Social evaluation					0.59*** (0.043)	
Constant	0.12* (0.055)	0.12*** (0.032)	n/a n/a	0.19** (0.074)	0.04 (0.040)	0.09* (0.044)
Category dummies	Yes	Yes	Yes	Yes	Yes	Yes
Nationality dummies	Yes	Yes	Yes	No	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	No	Yes	Yes
Observations	2145	3615	3615	3615	3615	3615
Number of firm-location	358	597	597	597	597	597
Number of firm-worldwide	276	500	500	500	500	500
Wald chi ²	.	1008.91	18672.13	.	2808.18	2929.01
Baltagi-Wu LBI test	.	1.33
F-statistics	.	.	.	5.36	.	.

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, +p<0.1

Table 6. Seemingly Unrelated Regression OLS estimations: Effect on Social Evaluation and Performance.

Variables	Model 13 Social Evaluation	Model 14 Performance
Category spanning	0.07*** (0.013)	0.10 (0.081)
Frequency	0.02*** (0.003)	-0.03 (0.022)
Spanning*Frequency	0.004* (0.004)	0.02 (0.023)
Internationalization degree	0.001 (0.004)	0.07** (0.023)
Spanning*Internationalization degree	0.01*** (0.003)	-0.03+ (0.018)
Categorical consensus	0.23*** (0.011)	0.69*** (0.073)
Categorical contrast	0.08+ (0.054)	-1.08** (0.351)
Tenure in guides	0.01*** (0.002)	0.07*** (0.010)
Size	0.01+ (0.004)	0.08** (0.026)
Age	0.00 (0.000)	0.001*** (0.000)
Advertisement in guides	0.04*** (0.005)	0.10** (0.035)
Social evaluation		0.26* (0.120)
Category dummies	Yes	Yes
Nationality dummies	Yes	Yes
Guide dummies	Yes	Yes
Year dummies	Yes	Yes
Location area dummies	Yes	Yes
Observations	2448	2448
Number of firm-location	407	407
Number of firm-worldwide	310	310
Wald chi ²	30875.49	22749.71

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, +p<0.1

Table 7. Random effects GLS estimations: Effect of Status on Social Evaluation and Performance.

Variables	Model 15 Social evaluation	Model 16 Social evaluation	Model 17 Performance	Model 18 Performance
Category spanning	0.03* (0.011)	0.03** (0.011)	-0.001 (0.047)	-0.002 (0.046)
Distance with top 10 firms' category portfolio	-0.03 (0.022)	-0.04 (0.024)	0.16* (0.075)	0.17* (0.082)
Spanning*Distance		0.01* (0.003)		-0.004 (0.013)
Internationalization degree	0.02* (0.007)	0.02* (0.007)	0.02 (0.042)	0.02 (0.042)
Spanning*Internationalization degree	0.01*** (0.003)	0.01** (0.003)	0.03 (0.017)	0.03 (0.017)
Categorical consensus	0.09*** (0.012)	0.09*** (0.012)	0.18** (0.056)	0.18** (0.056)
Categorical contrast	0.17** (0.056)	0.15** (0.056)	-0.21 (0.195)	-0.21 (0.198)
Tenure in guides	0.02*** (0.002)	0.01*** (0.002)	0.05*** (0.013)	0.05*** (0.013)
Size	0.01* (0.006)	0.01* (0.006)	0.08* (0.041)	0.08* (0.041)
Age	0.00 (0.000)	0.00 (0.000)	0.002* (0.001)	0.002* (0.001)
Advertisement in guides	0.01* (0.007)	0.01* (0.006)	0.07+ (0.038)	0.07+ (0.038)
Social evaluation			0.23* (0.111)	0.23* (0.111)
Constant	0.11* (0.043)	0.12** (0.043)	2.23*** (0.225)	2.22*** (0.225)
Category dummies	Yes	Yes	Yes	Yes
Nationality dummies	Yes	Yes	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	Yes
Observations	3615	3615	2448	2448
Number of firm-location	597	597	407	407
Number of firm-worldwide	500	500	310	310
Wald chi ²	2764.07	2808.47	804.09	807.23

Clustered-Robust standard errors in parentheses

*** $p < 0.001$, ** $p < 0.01$, * $p < 0.05$, + $p < 0.1$

Table 8. Random effects GLS estimations: Effect of Time of presence in Corporate-M&A and Competition-Antitrust on Social Evaluation and Performance.

Variables	Corporate-M&A		Competition-Antitrust	
	Model 19	Model 20	Model 21	Model 22
	Social Evaluation	Performance	Social Evaluation	Performance
Category spanning	0.04*** (0.011)	-0.07 (0.051)	0.04*** (0.011)	-0.02 (0.047)
Frequency	0.01** -0.003	-0.04** (0.015)	0.01* (0.004)	-0.05** (0.016)
Spanning*Frequency	0.01* (0.003)	0.01 (0.016)	0.01* (0.003)	0.01 (0.015)
Internationalization degree	0.01 (0.007)	0.01 (0.039)	0.01 (0.007)	0.01 (0.040)
Spanning*Internationalization degree	0.01*** (0.004)	0.03 (0.017)	0.01** (0.004)	0.03 (0.016)
Add 'Corporate-M&A'	-0.00 (0.006)	0.03 (0.023)		
Time since entry in 'Corporate-M&A'	0.01*** (0.002)	0.04** (0.012)		
Add 'Competition-Antitrust'			0.02** (0.006)	0.03 (0.032)
Time since entry in 'Comp.-Antitrust'			0.004* (0.002)	0.03** (0.010)
Controls included	Yes	Yes	Yes	Yes
Other category dummies	Yes	Yes	Yes	Yes
Nationality dummies	Yes	Yes	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes
Year dummies	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	Yes
Observations	3329	2256	3329	2256
Number of firm-location	590	396	590	396
Number of firm-worldwide	493	299	493	299
Wald chi ²	3490.39	815.35	2964.23	776.22

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, +p<0.1

FIGURES

Figure 5- Level of Average Category spanning over Observation Period

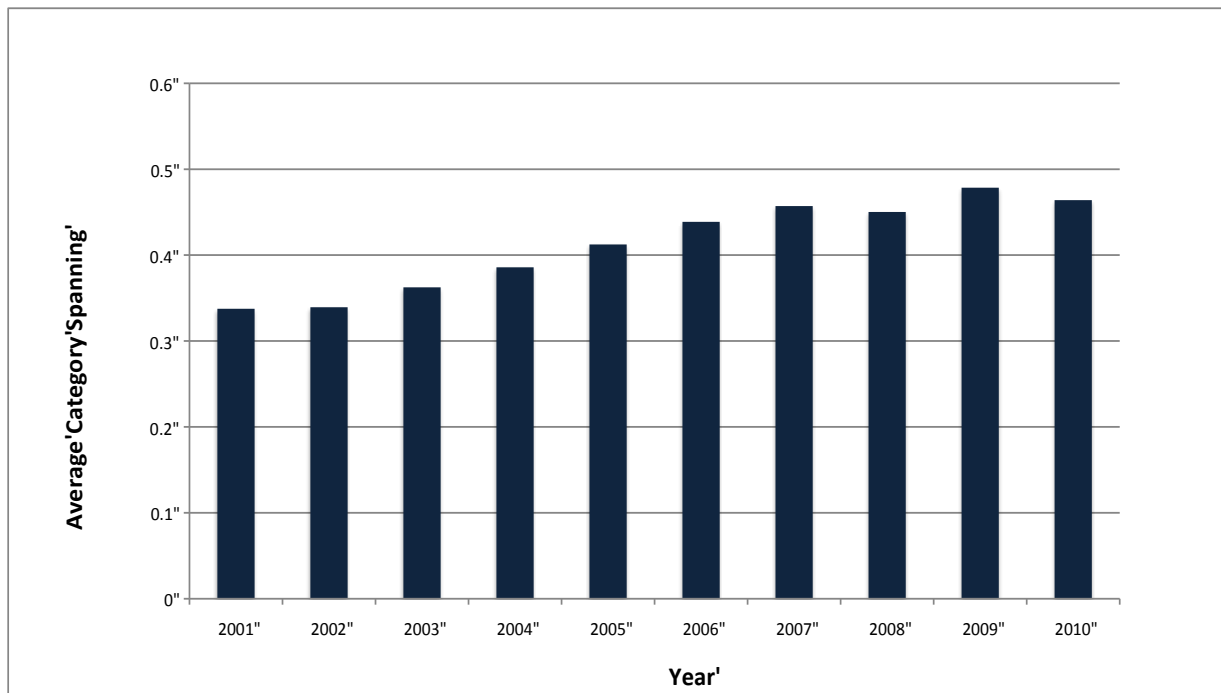


Figure 6- Comparative Acceptability of different Category Arrangements

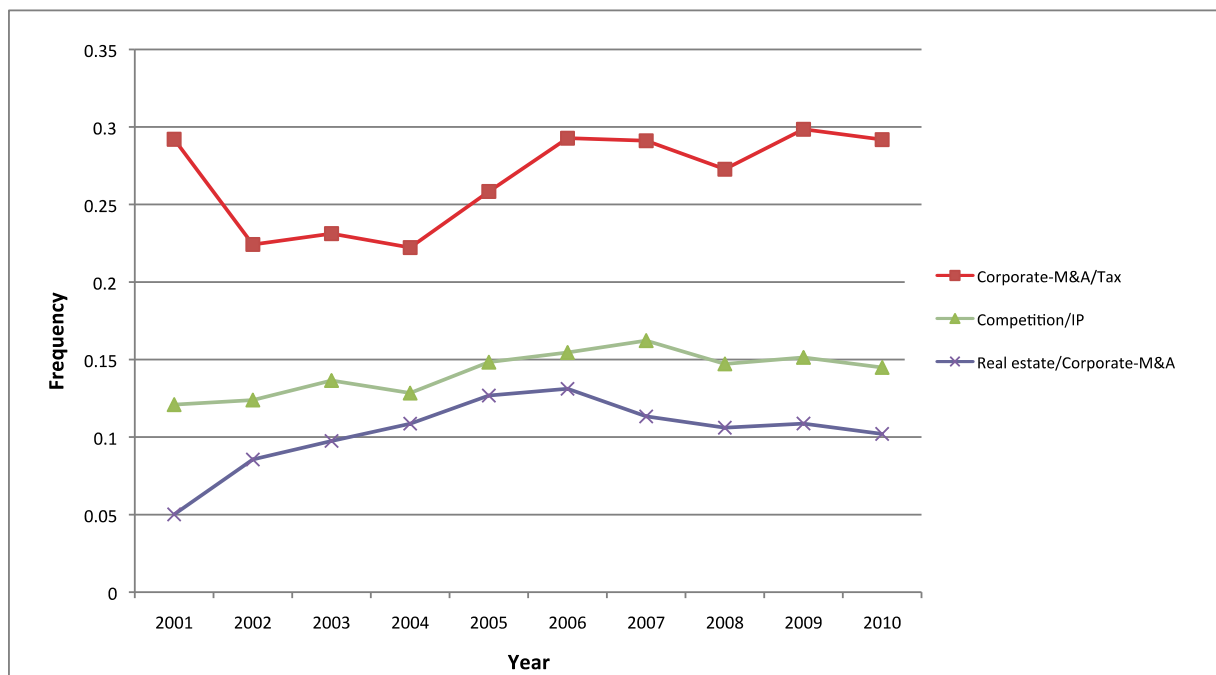


Figure 7- Marginal Effect of Category spanning on Social Evaluation Conditional on Frequency

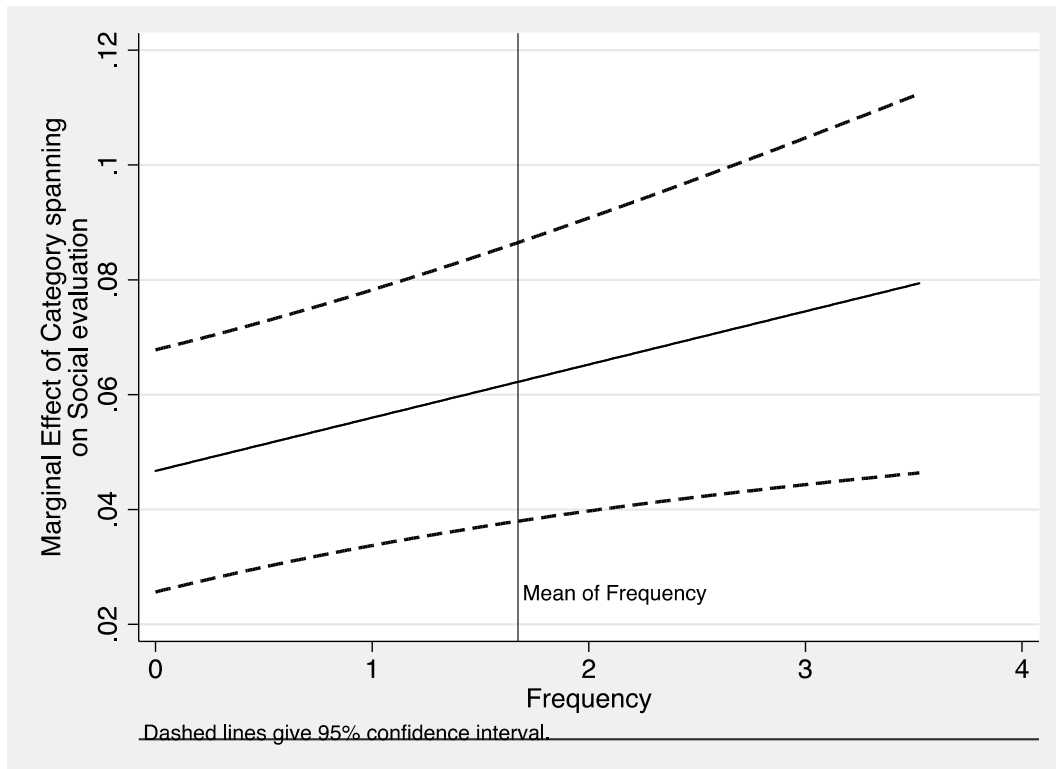
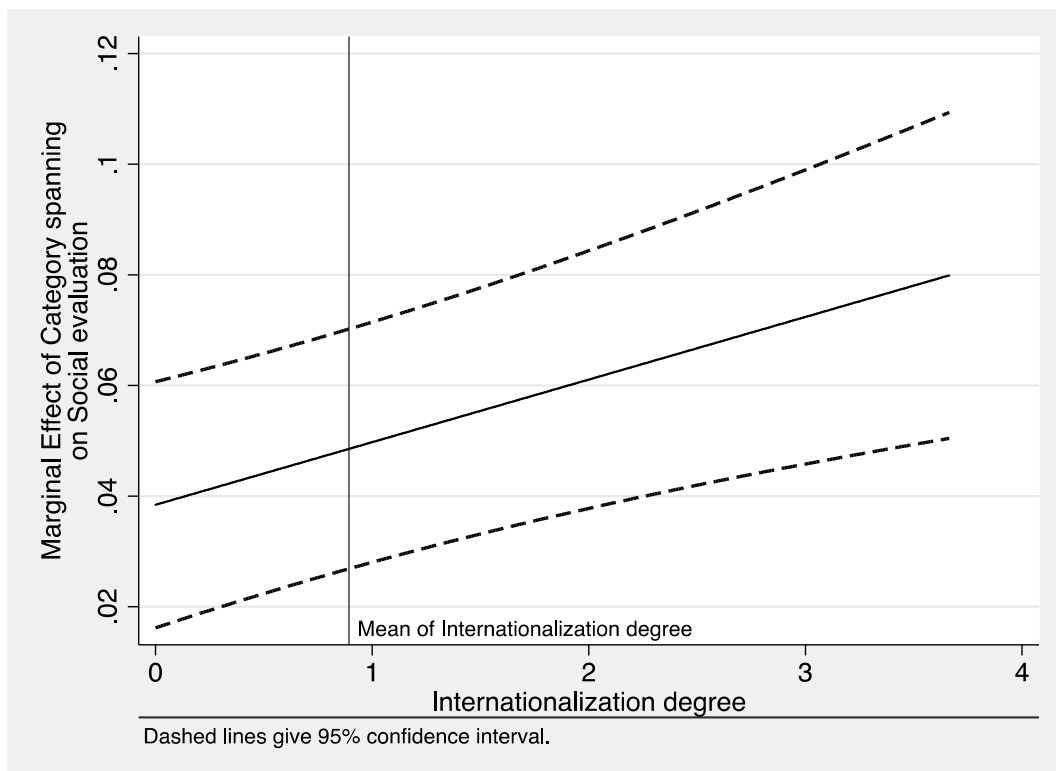


Figure 8- Marginal Effect of Category Spanning on Social Evaluation Conditional on Internationalization Degree



CHAPTER 2- THE STRENGTH OF WEAK BOUNDARIES: CATEGORY INFERENCES AND EVALUATION SPILLOVERS IN INTERNATIONAL LEGAL SERVICES MARKET

ABSTRACT

To explore the consequences of category spanning on audience appeal, most of the studies only take into account an overall evaluation of multiple category members, but not an evaluation for each category spanned. Everything takes place as if a multi-category firm receives a unique and all-encompassing evaluation. Yet, a multi-category firm gets several audience evaluations – one for each category spanned – that affect each other. This paper fills this gap between the empirical tests (1 unique overall evaluation for multi-category members) and the theoretical assumption in the literature (several specific evaluations connected by audiences leading to confusion). In the corporate legal services industry, this paper explores to what extent an organizations' evaluation in a focal category is influenced by how appealing audiences perceive the organization to be in other categories. First, I present empirical evidence that the strength of the inferences conveyed by past evaluations in non-focal categories impacts a firm's evaluation in a focal category. Second when firm's evaluations across different categories are more dispersed or unclear, a firm is more likely to receive a lower evaluation in the focal category. Third, I suggest that a firm's evaluation in a focal category is likely to be lower affected by non-focal categories' evaluation when the latter are more similar to each other.

Key words: categories, inferences, external evaluation, law firm, signal.

INTRODUCTION

How firm outcomes are affected by social categories is one of the recent questions of organization theory. As consensual labels attached to similar organizations, categories have been proved to be fertile to explain a wide array of phenomena such as audience appeal (Hsu, 2006; Negro, Hannan, Rao, 2010; Pontikes, 2012), definition of competitors (Porac et al., 1995), institutional change (Rao et al., 2003), evaluative schemas of raters (Durand et al., 2007; Fleisher, 2009; Ruef and Patterson, 2009), strategic positioning opportunities (Granqvist, Grodal, Woolley, 2013; Durand and Vergne, 2014), survival rates of organizations (Bogaert et al. 2010; Carroll et al. 2010), and variation in identity perceptions (Hsu and Elsbach, 2013). Thus categories in economic settings delineate different spaces with specific expectations. Audiences allocate some properties to firms that fall into recognizable categories (Polos et al., 2002). When an organization is a member of a given category, it is expected to behave in certain ways in compliance with codes of the category. If categorical boundaries assist audiences in lumping together similar organizations and separating different ones, then does an organization's evaluation also remain similarly bounded? In other words, when an organization spans categories, are there any spillover effects across categorical boundaries?

Pervasive consensus in literature indicates that audiences prefer dealing with entities with clear category membership. Category spanners suffer economic and social disadvantages as their offerings and activities confuse audiences (Hannan, Polos, and Carroll, 2007: 108). Many studies established that organizations or individuals belonging to a plurality of categories attract less attention (Zuckerman, 1999), and send signals of a lesser competence across categories than focused rivals (Hsu et al., 2009). For example, Zuckerman *et al.* demonstrated that typecast movie actors obtain more role offers than non-typecast actors who have played parts across multiple specialties (Zuckerman et al., 2003). In the winemaking

industry, producers who combine different styles face downgrades (Negro, Hannan, and Rao, 2010). Therefore, by showing that multi-membership firms can cloud an audience when they infringe category boundaries, literature assumes that this audience makes a connection between the multiple memberships of firms. However, despite the vast interest and research in this area, less is understood about such a connection in audience's perceptions and the relationships between the categories spanned by organizations. To date, most of the studies in literature only take into account an overall evaluation of multiple category members, but not an evaluation for each category spanned. Everything takes place as if a multi-category firm receives a unique and all-encompassing evaluation. Yet, a multi-category firm gets several evaluations – one for each category spanned – that affect each other. In parallel, a stream of research has recently proposed theoretical explanation for cross-firm spillovers based on categorization literature. The wrongdoing behavior of an organization in given category is likely to taint the other organizations in the same category (Barnett and King, 2008; Jonsson et al., 2009; Yu et al., 2008). For instance, further to one firm suffers a toxic chemical accident with an input, investors will punish other users of that input by discounting their stocks (Diestre and Rajagopalan, 2014). What scholars do less effectively is to account for within-firm spillovers beyond category boundaries. Thus inter-category spillover effects represent a case where current knowledge needs amending. We know little about the relationships between categorical boundaries and specifically how evaluation in one category can override boundaries and percolates onto another category. How and to what extent a multi-category organization's evaluation in non-focal categories can influence its evaluation in a focal category?

This paper furthers the literature on the role of categories and evaluation's spillovers in organizational life by exploring cognitive mechanisms by which an audience extends into a focal category the firm's evaluation gathered from other non-focal categories. Rather than

starting from scratch when interacting with a multiple category organization, audience members benefit from past information by making inferences from one category membership to another. As inferring “is to transform a piece of information into another piece of information, to go from one category to another”(Robert, 2005: 701), the evaluation of an organization in a given category is likely to be affected by its previous evaluation from another categories. Audience members will infer some properties and generate some predetermined judgments about a firm by extending their feedback about this firm from its non-focal category memberships to a focal one (Hampton, 1987). Further, this paper discusses several factors that mitigate these spillover effects as the consistency of a firm’s average evaluation in non-focal categories or the degree of similarity between categories spanned.

These ideas are investigated in a longitudinal analysis of a unique dataset on the corporate legal services industry, including information on the evaluation of law firms’ practice areas between 2000 and 2010. I collected data from three professional guides (*The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*) that reflect clients’ opinions about corporate law firms over eight practice areas of law in three different locations (New York City, London, and Paris). The international corporate legal services market meets all the conditions to test the theory. First, categorization and evaluation of law firms stem from external parties (Hsu and Hannan, 2005: 477): several guides rate law firms across distinct practice areas. Second, these data enable me to unfold the overall evaluation of multi-practice law firms into a series of evaluations for each of their practice areas (at most eight ratings for the same firm: one rating per practice area). Finally, category-based inferences play only in contexts of imperfect information (Shapiro, 1983) and unobservable quality (Podolny, 1993). In legal industry, asymmetries of information between clients and law firms as well as difficult-to-assess quality of legal services force clients to rely on signals to infer firms’ attributes.

THEORY BACKGROUND

Market Categories as Source of Inferences

Audience members – a set of homogenous actors who control material and symbolic resources (Hsu & Hannan, 2005) – in markets do not possess perfect information on the quality and value of the commodities potentially exchanged (Podolny, 1993). As such, they try to gather as much information as possible to make decisions when they engage in the selection of an exchange partner. In so doing, actors rely their decision on cues that allow them to substitute “complex tasks of assessing probabilities and predicting values” into “simpler judgmental operations” (Tversky and Kahneman, 1974: 1124). By extracting regularities from some items (products, organizations) and dividing them into clusters based on their similarity (Rosch, 1973), categories offer such cues and information content. A category is a label with evaluative schemas attached for a set of entities that share one or more properties. For example, if an audience labels a movie as ‘comedy’, it is expecting to laugh. Market categories condense information and predictions about candidates’ properties and make possible connection between producers and buyers over time and through space. They encompass all the necessary and definite features to engage in transactions and exchange. Category membership assures that this firm will respect some codes (Polos et al., 2002) and will pursue certain types of actions in commonly known directions. For example, when clients taste a brand new restaurant of the category Nouvelle cuisine, they know what to expect. They anticipate some cooking rules, ingredients, and a certain menu organization (Rao, Durand, Monin, 2003).

Thus categories help audiences to cope with uncertainty on markets. As a cognitive shortcut, category membership allows audiences to identify new entity (e.g., an organization) and then to infer unknown properties and make predictions based on the definitional attributes of the category. That said, a category “delivers specialized packages of inferences to guide an

agent's interactions with particular category members in specific situations" (Barsalou, 2005: 626). Inferences consist in the process of applying category knowledge to a new object (Murphy, 2004). Category-based inferences describe the mechanism by which audience members are making judgments about firms' unknown properties based on their known properties. By virtue of a logical association with the observation of firm's features, audiences derive a conclusion about the other firm's features unknown. As such, audiences judge what a new member is worth by inferring on already-known properties of the category affiliation and relying on them. They compare candidates' features to the category prototype's properties (Durand and Paoletta, 2013) and high matching between them increases audience appeal (Hsu, 2006) since inferences occurs more readily for candidates sharing a lot of commonalities with the definitional features of the category. Intra-category inferences depend then on organization-level properties and on how prototypical organizations are of the category as a whole. Based upon the extent to which an organization is associated with a category, audiences formulate predictions applicable in the given category.

Further, while categories are useful to make predictions about novel members, they are also meaningful to retrieve some features about its members perceived in another category. This type of inferences across categories carries within-firm evaluations of audiences from one known domain of firm's activities to another unknown domain. Inter-category inferences depend then more on boundary-level properties and on how associated categories are to one another. Based upon the accuracy and the coverage of category-based evaluations, audiences formulate predictions applicable in another category. Specifically, this paper develops a series of hypotheses on how evaluation in one category can override boundaries and percolates onto another category.

Category-Based Inferences and Spillover Effects

The need to predict the likelihood of an unknown property (e.g., quality in one domain) given some known properties (e.g., quality in another domain) confronts actors on markets. Category-based evaluation can be used to guide such predictions. Good or bad category evaluation is respectively a positive or negative signal (Spence, 1973; Shapiro, 1983) that gives information on firm attributes and reduces uncertainty for potential partners. For audiences inspecting a multi-category firm, an assessment made in one category enjoys some relevancy in another category. Therefore, the signal of category evaluation is likely to cross boundaries as long as firms span categories. The perception of a category-spanner in a focal category triggers retrieving general information about it from its other memberships. Due to the inference-based mechanism, the evaluation of an organization in a given category is thus likely to be affected by its evaluation from other categories. In that case, an organizations' evaluation in a focal category will be influenced by how appealing audiences perceive the organization to be in other categories.

Inter-category inferences made by audience members generate an *a priori* – positive or negative – about the organization that drives some expectations (Corter and Gluck, 1992). Audiences derive expectations via inferences from a category membership to another one and thus extend some features of an organization. For a highly valued organization in some activities, features and information retrieved by clients are likely to bolster the appeal of the organization in another domain of activity. For instance, the firm reputation in category “tax” will provide a signal for audience members of the category “real estate” regarding firm skills and quality in its practice area. Drawing positive (or negative) conclusions about one category membership of an organization based on knowledge of its memberships in another categories will be as great as the signal be strongly positive (or negative). For a multi-category

organization, a positive average evaluation among several practice areas fuels audiences' inferences and increases the evaluation in a focal practice area. Therefore:

***Hypothesis 1.** The higher the evaluation about an organization in non-focal categories, the higher will be its evaluation in a focal category.*

Category-based inferences are characterized by the generalization of a finite series of specific observations into a constant rule. If the evaluations about a category-spanner are consistent with each other, generalization will be stronger. Inter-category inferences are thus favored by higher but also homogeneous prior evaluation in given activities. The strength of inferences achieved by the common category system that economic actors share hinges on the ability for the audience to develop in mind a single and univocal evaluation about organizations. Conversely, category-based inferences may be complicated by plural and dissonant category evaluations of organizations. For multiple category members, divergences in evaluation across different categories could fade the inferences made by audiences. Divergent evaluations across the source categories do not provide clients with accurate and relevant information but with contradictory cues about firm's potential quality services in the target category. If the assessment of an organization is unclear, that is, divergent, audiences will not be able to generate consistent inferences. Thus inconsistent evaluations across categories prevent audience members from making "generalizations sufficiently strong that they seem like laws" (Hacking, 1995: 352). Let us assume a law firm that provides legal services in three practice areas such as litigation, bankruptcy, and corporate. If this law firm receives in the meantime a positive evaluation in litigation, but a poor evaluation in corporate, what could clients predict for its practice in bankruptcy? That is, a discrepant evaluation of firm in some activities prevents audience members from making strong inferences about this firm in other activities. In presence of divergent signals, clients cannot make robust inferences. Furthermore, divergent evaluations will be interpreted as a negative cue from adverse-risk

clients. Therefore, inter-category inferences will be as poor as previous evaluations in non-focal categories are disparate.

***Hypothesis 2.** The greater the inconsistency of evaluation about an organization in non-focal categories, the poorer will be its evaluation in a focal category.*

Categories on markets delineate distinctive spaces that are interrelated. Similarity varies along with the different interrelated categories in which a firm operates. Indeed, it is difficult to assume that all structural relationships between categories spanned by a firm are equal. Thus audiences' inter-category inferences will not be initiated in identical manners. The richness of information on which inferences are based matters (Osherson et al., 1990). Research in psychology shows that people rely on multiple categories to make inferences when they face with uncertainty (Heit, 1988, Anderson, 1991) in order to gather as much information as possible. Taking multiple categories into account is likely to increase the range of information and thus the inferences' accuracy. Inter-category inferences will be more reliable based on a broader range of information than on focused and redundant (i.e. similar) information. Therefore, the greater the range of information retrieved from the source categories, the greater the inferences are likely to affect the target category. Further, beyond the mere number of non-focal categories the inferences are based upon, they will be lower if grounded on two similar non-focal categories than two dissimilar ones. The latter provide richer information than the former. For instance, in corporate legal market, the practice area 'Competition/Antitrust' is more similar with the practice 'Corporate/M&A' than the practice 'Intellectual Property' as the two first practice areas share many firms in common and less with the third one. I hypothesize that inter-category inferences between 'Competition/Antitrust' and 'Corporate/M&A' will be lower and so have a weaker impact on a third practice area's evaluation. In the same line of thought, if a general counsel knows that a firm *x* offers good legal services in "Corporate/M&A" and "Litigation" – quite distant areas

of law – he would be confident that this firm x is doing well in “Real Estate”. In contrast, suppose the same client knows that the firm y offers legal services in “Corporate/M&A” and “Tax” – quite similar areas of law – he would be probably less confident that the firm y is doing well in “Real Estate” as he gets much less information about the firm (or more precisely two information quite redundant). Therefore:

***Hypothesis 3.** The greater the similarity between an organization’s non-focal categories, the poorer will be its evaluation in a focal category.*

DATA AND METHODS

Empirical Setting: the leading corporate law firms in New York City, London and Paris

To test my hypotheses, I needed an industry where quality of service is difficult to assess, uncertainty is high, and transactions occur repeatedly. These three conditions strengthen the key role of inter-category inferences in economic settings. The international corporate legal service market meets all these requirements. First, as law firms’ ability to deliver quality services is difficult and costly to observe, clients rely on social evaluation in lieu of actual quality observations to economize on search costs (Podolny, 1993). In this line, the results of a 2009 survey of 200 general counsels from 60 countries, conducted by a professional journal (*International In-house Counsel Journal*, 2010), confirmed that “market reputation” is the first choice selection criteria of legal providers. Law firms thus have to establish their reputation and market credibility being known as expert in their practice areas. Second, clients are much less expert than lawyers to identify and classify their legal issues. They face difficult-to-categorize legal problems and they cannot foresee all the issues their legal cases cover. In that case, they are likely to use their past evaluations of legal providers about a specific case to select them for a new issue. Third, inter-category inferences imply memory retrieval as the basis for judgments in repeated transactions with same economic

entities. As the occasion to predict the likelihood of an unknown property given some known properties occurs very often on legal services market, my setting is well suited for studying this mechanism in this regard. Clients have a pool of privileged providers but they face new legal problems and groundbreaking cases. For example, clients in M&A, Litigation or Intellectual Property will be potential clients in Tax, Real Estate, or Employment and vice versa as its outside legal needs will evolve along its activities. Overall, under these three conditions, clients are likely to spread their evaluation of one practice area to another to assess service quality, reduce uncertainty, and engage in new transactions.

I use original data on corporate legal services collected in three professional legal directories (*The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*) that rank law firms both by categories – i.e. by practice areas – and by location. These directories are the most widespread over the business legal market. Based on extensive independent research, they track the most important trends in the legal profession and provide rankings of corporate law firms operating in various practice areas. These guides reflect the market's opinions by collecting informed feedback from lawyers and clients (*International In-house Counsel Journal*, 2010: 21; Coates et al., 2011). They do not directly assess legal services; they conduct interviews and their publications reflect the opinions of various audiences. Thus these rankings provide with a snapshot of activities and position of law firms in the market over a year. The research coverage reflects market conditions in each location taking into account on several factors and considerations. Law firms are ranked in their practice-area on the basis of their “technical legal ability, professional conduct, client service, commercial astuteness, diligence, commitment, and other qualities most valued by the client” (*Chambers and Partners Editorial*). A ranking in a given practice area relates to the firm's department in this specific practice area, not to the firm as a whole. When a firm has several departments

specializing in different areas of law, some of its departments may be ranked and some others not.

The legal directories adopt the same research methodology to identify the leading law firms and lawyers across the three jurisdictions. They judge effectiveness and capability of each department first by assessing the actual work done – deals, cases, reported contentious issues – via law firms’ submissions and second by interviews with those active in the market – mainly clients, in-house lawyers and peers. First, submissions provided by the law firms contain factual information which, when used in conjunction with other sources, help the directories to determine whether a firm’s department should be covered or not. Submissions provide the type and volume of deals achieved during the year. Second, the most important part of the methodology is feedback from clients. These legal directories have large team of researchers that contact lawyers and clients directly. They conduct thousands of interviews with clients, market commentators, lawyers, judges and others. Interviewees are selected on the basis of submissions put forward by law firms and extensive database of law firms’ clients. Throughout the interviews, they explore the main qualities valued by clients (value for money, professional conduct, commercial astuteness, service delivery, diligence, industry knowledge, commitment, technical ability) and assess recent work done. Confidential client interviews are given priority, as they tell whether lawyers truly provide the services clients want.

Data

I collected rankings from 2000 to 2010 for 3 locations (New York City, London, and Paris) in eight different practice areas: Competition-Antitrust, Litigation, Intellectual Property, Real Estate, Tax, Corporate-M&A, Bankruptcy, and Employment. Contrary to an overall evaluation of multiple category membership, this dataset provides several grades for a given firm (one grade per practice area). Thus I can unpack multi-category firms’ evaluation

to study the spillover effects of evaluation from one practice area to another one. The risk set includes all the law firms that have been ranked at least in two practice areas in each guide. The level of analysis is the triad ‘firm-practice-guide’ in each location. For instance, ‘*Linklaters-Chambers-real estate*’ and ‘*Linklaters-Legal500-real estate*’ are two distinct entities in the dataset. In addition, ‘*Linklaters-Legal500-real estate*’ in Paris is distinct from ‘*Linklaters-Legal500-real estate*’ in London as well as in New York City.

Dependent Variable. *Evaluation in the focal practice.* Every practice of law firms covered by the three guides is placed in ranking bands. These bands range from 1 to n, with 1 being the best. However, in the two guides *Chambers* and *Legal 500*, law firms are ranked in band but the grading scale can change across practice areas. For example, 4 bands can be used to rank the practice “Tax”, and 6 bands to rank “Real Estate” (band 1 being always the best). Instead, the guide *PLC* uses a four-point grading scale: leading; highly recommended; recommended; recognized. Therefore, I took into account the position of the firm-practice-guide triad compared to its competitors by calculating for each guide g the evaluation of a firm x in a given practice p as follows:

$$\text{Evaluation } x_{g,p} = 1 - \frac{\text{number of firms ahead } x_{g,p}}{\text{total firms ranked}_{g,p}}$$

As such, best firm-practice-guide triads obtain always 1 as an evaluation that is in a decreasing order. Those firms at the bottom of their classification gain ratings closer to zero.

Independent Variables. *Average evaluation in the non-focal practice areas.* To test the first hypothesis, I calculated the average evaluation in the non-focal categories as follows:

$$\text{Average evaluation in non focal practices } x_{g,p} = \frac{1}{n} \sum_{n=1}^7 x_n$$

where x is a firm covered in guide g both in a focal practice p and non-focal practices n .

Take as an example the firm *Linklaters* in Paris covered by the *Chambers and Partners* in three practice areas ‘Litigation’, ‘Tax’, and ‘Employment’ respectively with the evaluations 1, 0.7, 0.3. The values of the independent variable for the three distinct triads ‘*Linklaters-Litigation-Chambers*’, ‘*Linklaters-Tax-Chambers*’ and ‘*Linklaters-Employment-Chambers*’ will be respectively 0,5; 0,65; and 0,85 (e.g., $0,5 = (0.7+0.3)/2$). I computed the variable in a similar way for the two other guides.

Standard deviation of evaluation in the non-focal practice areas. To test the second hypothesis and based on the first independent variable, I computed the standard deviation of evaluations obtained in the non-focal practice areas. Turning back to the previous example of the firm *Linklaters* covered by the directory *Chambers and Partners* in ‘Litigation’ (score: 1), ‘Tax (score: 0.7) and ‘Employment’ (score: 0.3), the values of the standard deviation for ‘*Linklaters-Litigation-Chambers*’, ‘*Linklaters-Tax-Chambers*’ and ‘*Linklaters-Employment-Chambers*’ will be respectively 0.2; 0.35; and 0.15.

Similarity of the non-focal practice areas. To test the third hypothesis, I calculated the average similarity between each pair of non-focal practice areas a firm is engaged. Following previous studies (Hsu, 2006; Hannan and Kovacs, 2011), I used the Jaccard similarity index to capture the similarity in terms of members between each pair of non-focal practice areas.

The Jaccard coefficient takes the following form: $J(A, B) = \frac{A \cap B}{A \cup B}$ where $A \cap B$ indicates the cardinality of the set of firms covered in both practice areas A and B, and $A \cup B$ the cardinality of the set of firms covered in A and/or B. The range of the independent variable is between 0 and 1. Some practice areas show no similarity, whereas others reach partial or full similarity in their members. For example, in the year 2001 in Paris the two practice areas ‘Tax’ and ‘Employment’ in *Chambers and Partners* count 9 firms in common for a total number of covered firms equal to 30. The degree of similarity in terms of members between these two categories is thus equal to $9/(30-9) = 0.428$. As the firm *Linklaters* is only engaged

in three categories ‘Litigation’, ‘Tax’ and ‘Employment’, the value of the independent variable for the firm-practice-guide triad ‘*Linklaters-Litigation-Chambers*’ in Paris will be 0.428. I reproduced the same calculation for the two other locations.

Control Variables. Previous research has shown that clarity regarding the meaning of categories increases the appeal of all members (Kovacs & Hannan, 2010; Kuilman & Li, 2009) and the signaling effect (Negro, Hannan and Fassiotto, 2014). Multi-category firms blur the saliency of the categories they are affiliated with, leading to audiences reacting negatively to such dissolution in clarity. I therefore controlled for the *contrast* of the focal category. Based on previous literature (e.g., Kovacs and Hannan, 2010: 184-185), I measured the contrast of a category as the sum of the grades of membership of the category members divided by the total number of members belonging to the category. The grade of membership is equal to the ratio: 1/number of categories the firm is in. For example, the grade of membership of ‘*Linklaters-Litigation-Chambers*’ engaged in the three categories “Litigation”, “Tax” and “Employment” is then equal to 1/3. As an example of *categorical contrast*, if there are 3 members in the category ‘Litigation’ with respectively a grade of membership equals to 0.2, 1, and 0.6: the categorical contrast of the ‘Litigation’ category is equal to $(0.2+1+0.6)/3=0.6$. I also included the *tenure* of coverage of the firm in the focal practice (Pontikes, 2012) by calculating the cumulative number of years for successive presence in the guide that covers the firm-practice. I expect a positive relationship because the longer firms are engaged in the focal category, the closer they are to its core definitional attributes (Navis and Glynn, 2010).

At the firm level, I controlled for the *scope* of the firm, measured by the number of categories in which the firm-location dyad is covered by a guide, divided by the total number of categories covered by the guide (Phillips and Zuckerman, 2001). The visibility of law firms on the market may increase their audience appeal and evaluation (Karpik, 2010: 163). I

therefore controlled for the local *size* of the firm, using the log of the total number of partners in each location. Due to globalization, clients expect their lawyers to provide services across many countries in which they have deals or cases and so are more likely to value highly internationalized law firms. I captured this effect of *internationalization* with the percentage of lawyers outside home country of the firm.

These directories contain a section where firms can buy professional cards within each jurisdiction. The full-page profiles are based on information provided by the participating firms. This profile has been approved by the firms prior to publication, and is completely separate and different from the editorial section (ranking and comment). However, to control for any ‘pay per play’ bias, I therefore controlled for the potential effect of *advertisement* by counting the average number of page profile purchased in each guide covering the firms. I also included dummies to control for the *nationality* of firms (i.e. headquarter’s location).

As some practice areas of law are more prestigious than others, their presence in category portfolio of firms may affect clients’ evaluation. I therefore created 8 dummy variables for the coverage of the firm in the given practice area in at least one guide. To capture guide-specific effects and some potential measurement errors in reflecting clients’ opinions that may influence evaluation of firms, I included dummy variables to flag the firm-practice’s presence in each guide. I also captured time effects and location effects by including a set of dummy variables in our models. The descriptive statistics and correlations for the variables used in the analysis of evaluation’s spillovers can be found in Tables 13 and 14.

-----*Insert Tables 13 and 14 about here*-----

Models

To explore the relationship between my predictors and the dependent variable within each entity (i.e. firm-practice-guide), I used fixed-effects linear models. Fixed-effects

regression model estimates the within variation of the regressors for each entity over time. It allows a limited form of endogeneity as the regressors may be correlated with the unobserved entity-level effect. I used a robust version of the Hausman test proposed by Wooldridge (Wooldridge, 2002: 290-291) to see if the random effects would be consistent. The test rejected the null hypothesis ($p < .001$) and so confirmed that fixed effects regression model is appropriate. In addition, I ran a test that shows the time effects were jointly significant. Accordingly, I ran a two way fixed effect model (i.e. within entity and time effect). A likelihood-ratio test comparing the homoskedastic and heteroskedastic error term models concluded the presence of groupwise heteroskedasticity. I also tested the potential for serial correlation in the idiosyncratic error of the full model (Drukker, 2003; Wooldridge, 2002), showing the presence of autocorrelation. A last test (Pasaran Cross sectional dependence) was used to explore whether the residuals are correlated across entities since cross sectional dependence can lead to bias in tests results. This test failed to reject the null hypothesis that residuals are not correlated. For these three traditional issues in time-series panel data, I performed a fixed effects within regression with Driscoll and Kraay standard errors (1998) which is robust to general forms of heteroskedasticity, cross sectional as well as temporal dependence, independently of the number of observations and time periods (Hoechle, 2007: 286). All independent and control variables are lagged to enhance causal inference.

RESULTS

Table 15 shows fixed-effects regression results on the predicted evaluation in the focal practice. Model 1 includes controls only. Consistent with previous literature on categorization (Negro, Hannan, and Rao, 2010), the *contrast of the focal practice* has a significant positive impact on the evaluation, meaning that the clarity of practice area in which firms operate matter in the eye of clients. The *tenure* of coverage in the focal practice area affects positively the dependent variable ($\beta = 0.015, p < .001$), meaning that the longer the organizations have

been covered by the directories, the higher their evaluation. I also find that firms with a broader scope (i.e. covered in multiple practice areas) received a better evaluation than focused firms. This result confirms my preliminary qualitative findings that clients favor “full service” law firms, i.e. with a large range of practice areas. *Size* and *internationalization* of firms as well as *advertisement* pages bought in the directories do not significantly impact the focal practice’s evaluation.

In Model 2, I introduce the first independent variable. From hypothesis 1, based upon the category inferences mechanism, I expect that the higher the average evaluation about a firm’s non-focal practice, the higher will be the evaluation of its focal practice. The results from model 2 support the hypothesis. The coefficient is positively significant ($\beta = 0.124, p < .001$) over all the models and provides evidence that clients rely on past evaluation of firms to assess its current value in another domain.

Model 3 estimates the impact of the standard deviation of non-focal practice areas’ evaluation. The negative and significant coefficient ($\beta = -0.140, p < .001$) confirms Hypothesis 2, which posits that the inconsistency of evaluation about a firm’s non-focal practice areas will fade the focal practice’s score. A greater inconsistency of evaluation prevents audience members from inferring firms’ properties from categories to another and acts as a bad signal related to its consistency and future capacities in the focal category.

Hypothesis 3 states that the similarity in terms of members between non-focal practice areas offers poorer information to audience members in order to infer firms’ properties from a source domain to a target domain. The full model provides evidence that redundant information of two similar categories impact negatively the focal category’s evaluation ($\beta = -0.031, p < .001$). The coefficients of the first two independent variables remain consistent with the previous models’ results.

As robustness checks, I ran supplementary models with alternative measures of our independent variables. Regarding the first independent variable, instead of taking the average evaluation in non-focal practice areas, I used the highest score obtained by a firm in one of its practice portfolio. I obtained the same results (Model 5). Second, to ensure validity of statistical methods, I ran generalized estimating equation (GEE) models that provide robust estimation of standard errors by using the observed variability in the data rather than the variability predicted by an underlying probability model (Negro and Leung, 2013). Results are similar (Model 6) for the variables of interest. Third, to mitigate the reverse causality issue, I reduced the sample to the focal practice areas newly covered at time t for a given firm ($N=1646$). As such, I looked at the impact of the average and the standard deviation of evaluation, and the similarity of existing non-focal practices at time $t-1$ on the focal practice area newly included at time t . Results in Model 7 support my hypotheses.

DISCUSSION

Insights into categorization mechanisms have improved the understanding of economic and organizational life. Market categories shape what audiences perceive, how they store and retrieve information, and how they organize experience. The operation of categorization consists for audience members to assign a particular organization into a category “so that they can understand and draw inferences about it” (Loken, Barsalou and Joiner, 2008: 133). This paper advances the literature on categories and classification processes by highlighting the role of inference mechanisms. Most research to date has ignored the relationships among the categories being studied. Here, I explored the line of demarcation of category systems exploring evaluation spillovers via inferences. I show that inference-based judgments are grounded on the observation of an organization’s past evaluation in source categories weighted by its homogeneity and its distance with target category. Audiences make a connection between multi-category memberships and are confident with

organizations whose they are familiar with and they already know properties. By transferring known features from a source category to the domain of a target category, audiences are able to extend conventional knowledge and instantiating new insights about organizations (Lakoff & Johnson, 1980). As such, audience members collect reliable information by relying on categories which are the basis for imputing knowledge, rights, obligations, and typical activities conventionally associated with these categories.

This study makes a broader contribution to research on category spanning. I support the idea that lower appeal due to cognitive confusion arises for category-spanners that external evaluators rate divergently among categories. The variance of multiple evaluations across various market categories dilutes and weakens the whole social evaluation of firms. In that case, several conflicting perceptions of firms exist and divergently drive inferences and expectations of audiences. It is less the number of category memberships in and of itself that matters than the propensity of audiences to apply category knowledge to make predictions. In this line of research, Loken, Barsalou and Joiner (2008) have shown that audience members do not focus on the entire information contained in a category, but on a portion of the available knowledge therein. This selection is influenced by both the accessibility of information in memory or in the environment and the relevance of information in achieving specific goals. This selection bias reinforces the importance of being viewed concordantly across categories organizations span.

The study also offers a perspective on category dynamics. While scholarship in this line of thought has amply demonstrated the importance of fitness with cognitive representations, in regularly shaping a variety of economic behaviors and outcomes, there remains many circumstances in which the impact of cognition on organizations and markets is much more than just linear and static. Here I described what factors lead to a better evaluation and how such process, in turn, trigger self-reinforcing dynamics in a given domain.

This paper also provides insight into the relationship between categories and social evaluation. It connects the cognitive foundations of categories with their market outcomes through the prism of social evaluation hierarchies. Social evaluation or status of firms are mainly studied in only one domain or market category in which firms are engaged. To one firm corresponds a single and one-dimensional evaluation. Here, I examine organizations that evolve among various categories at the same time and then receive different levels of social evaluation. To one firm corresponds a plural evaluation. This paper highlights that audiences attribute to a new activity the privilege associated with high past evaluation received in another domain. That said, both within and across various domains, the inertia of the actor's social position does not result from stable intrinsic differences (in terms of skills for example) but from a self-reinforcing process and self-validating expectations (Gould, 2002).

Finally, this investigation also adds to the literature on diversification by providing a complementary cognitive explanation to the benefits of related diversification (Greenwood et al., 2005; Montgomery and Wernerfelt, 1988; Rumelt, 1974). Law firms contain many specializations and exhibit great variety since each internal department displays its own codes. Each practice area (e.g., banking, intellectual property, employment) has its specific routines, rules of working, professional reviews and role models. Managing multiple practice areas in order to level them and enhance their cognitive complementarity is a strategic issue for organizations (Elsbach and Kramer, 1996; Peteraf and Shanley, 1997). In order to signal sharp and consistent category affiliations, law firms have to reconcile and homogenize the ratings of their subunits. They have to bring their multiple category memberships to the same level and forge linkages between them to leverage practice diversification and become a global brand.

The primary goal of this paper is to advance the line of research on the role of categories and classification processes in markets by establishing inferences mechanisms. I

assume that audience knows all the category membership of firms and they don't operate any distinction between these categories. Ross and Murphy (1996) showed that there is no cognitive limit or inability to use multiple categories in inferences. However, some practice areas of law may be more highly valued than others. Some categories might be more informative than others, based on knowledge of clients, etc. How many categories are used in induction? Does it exist primary/auxiliary categories regarding inference-based mechanisms? More broadly speaking, it would be fruitful to examine whether there are differences in logical competences and capacities of actor to schematize information and make inferences. Audience members can make fallacies and errors due to abusive or too extensional generalization (Robert, 2005: 709). Future research could explore the role of knowledge, expertise, and the influence of social position in inference-based mechanisms.

Table 9. Descriptive Statistics.

Descriptive Statistics (N=16741)				
Variable	Mean	Std. Dev.	Min	Max
evaluation in focal practice	0.664	0.234	0.054	1
avg. evaluation other practice	0.810	0.203	0.034	1
std. dev. other practice	0.124	0.081	0	0.417
similarity between other practice	0.367	0.160	0	1
contrast focal practice	0.342	0.104	0.128	0.875
tenure in focal practice	5.064	2.794	1	11
firm scope	0.639	0.293	0.143	1
size	5.020	1.081	0	6.802
internationalization degree	27.433	22.901	0	85.995
advertisement in guide	0.858	0.862	0	4.5

Table 10. Pairwise Correlations.

Pairwise Correlations (n=16741)									
Variables	1	2	3	4	5	6	7	8	9
1 evaluation in focal practice									
2 avg. evaluation in other practice	0.42								
3 std. dev. other practice	0.03	0.01							
4 similarity between other practice	0.06	0.08	0.44						
5 firm scope	0.10	0.03	-0.12	-0.25					
6 contrast focal practice	0.33	0.21	0.05	0.03	-0.13				
7 tenure in focal practice	0.33	0.43	0.44	0.47	-0.17	0.25			
8 size	0.26	0.33	0.13	0.07	-0.01	0.11	0.35		
9 internationalization degree	0.24	0.30	0.13	0.13	-0.04	0.13	0.40	0.54	
10 advertisement in guide	0.11	0.13	0.09	0.09	-0.06	-0.02	0.13	0.00	0.06

Table 11. Two-way Fixed Effects estimations: Effect on Focal practice's evaluation.

VARIABLES	Model 1 Control	Model 2 H1	Model 3 H2	Model 4 H3
avg. evaluation non-focal practice		0.124*** (0.021)	0.153*** (0.020)	0.151*** (0.020)
std. dev. non-focal practice			-0.140*** (0.027)	-0.127*** (0.028)
similarity between other practice				-0.031* (0.016)
contrast focal practice	0.384*** (0.047)	0.366*** (0.045)	0.373*** (0.045)	0.370*** (0.045)
tenure in focal practice	0.015*** (0.003)	0.015*** (0.003)	0.014*** (0.003)	0.014*** (0.003)
firm scope	0.041*** (0.011)	0.034* (0.011)	0.033** (0.012)	0.039** (0.012)
size	0.009 (0.007)	0.007 (0.007)	0.008 (0.006)	0.008 (0.006)
internationalization degree	0.002 (0.007)	0.003 (0.006)	0.002 (0.005)	0.002 (0.005)
advertisement in guide	0.001 (0.005)	0.001 (0.005)	0.000 (0.004)	0.000 (0.004)
guide dummies	no	no	no	no
practice dummies	no	no	no	no
year dummies	yes	yes	yes	yes
location dummies	no	no	no	no
nationality dummies	no	no	no	no
Constant	0.251*** (0.043)	0.173*** (0.040)	0.164*** (0.036)	0.167*** (0.036)
Observations	16741	16741	16741	16741
Number of firm-practice-guide triad	2940	2940	2940	2940

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

Table 12. Robustness Checks. Effect on Focal practice's evaluation.

VARIABLES	Model 5 highest score	Model 6 GEE	Model 7 new focal practice at time <i>t</i>
avg. evaluation non-focal practice		0.201***	0.272**
		(0.016)	(0.162)
highest evaluation in non-focal practice	0.165***		
	(0.022)		
std. dev. non-focal practice	-0.064*	-0.197**	-0.467*
	(0.027)	(0.024)	(0.290)
similarity between other practice	-0.036*	-0.022*	-0.853**
	(0.016)	(0.014)	(0.307)
contrast focal practice	0.355***	0.320***	0.146
	(0.044)	(0.035)	(0.36)
tenure in focal practice	0.014***	0.026***	
	(0.003)	(0.001)	
firm scope	0.056***	0.069***	0.017*
	(0.011)	(0.011)	(0.005)
size	0.008	0.010*	0.221
	(0.006)	(0.004)	(0.140)
internationalization degree	0.003	0.014***	0.345*
	(0.010)	(0.004)	(0.104)
advertisement in guide	0.001	0.007	0.077
	(0.004)	(0.004)	(0.061)
guide dummies	no	no	no
practice dummies	no	no	no
year dummies	yes	yes	yes
location dummies	no	no	no
nationality dummies	no	no	no
Constant	0.273***	0.073+	0.56
	(0.048)	(0.028)	(0.066)
Observations	16741	16741	1646
Number of firm-practice-guide triad	2940	2940	253

Clustered-Robust standard errors in parentheses

*** p<0.001, ** p<0.01, * p<0.05, + p<0.1

CHAPTER 3- INTERMEDIARIES AS MARKET REFLECTORS: THE IMPACT OF DISAGREEMENTS IN CATEGORIZATION AND RATINGS ON PERFORMANCE⁵

ABSTRACT

In this paper, we theorize that organizations with a high identity dissonance (i.e. where audiences independently categorize the organizations differently) and quality inconsistency (i.e. organizations for which audiences experience different levels of output quality) will fare less well than those organizations for which they audiences agree about their membership and service quality, independent of their presence across a single or multiple categories of offering. We reason further that all organizations do not suffer equally from identity dissonance and quality inconsistency, those with high quality of services suffering more. Results from a decade-long panel study of 329 international corporate law firms across three markets and eight law practices support our theory. These findings are fundamental for enriching the research on the role of market intermediaries as not only hierarchy makers but also market reflectors. We also advance research on the consequences of multi-category membership that has too often conflated membership and quality evaluations as well as undervalued the role of institutional environments on categorization and evaluation processes.

Key words: categorization, identity, quality, ratings, law firms.

⁵ This chapter was developed in collaboration with Rodolphe Durand and Damon Phillips

INTRODUCTION

Despite a flowering of research on market categories over the last fifteen years, business and organization scholars have little prescriptively to say to a manager who wishes to decide between (a) allocating resources toward streamlining the organization's memberships in categories or (b) instead investing to improve the quality of the outputs in that organization's current categories of membership. The careful scholar will note that this cannot be resolved trivially, as the evaluation of producers occurs as two distinct but interrelated decisions. One key decision involves whether a producer fits to a market category – typically but not necessarily the category that the producer wishes to be placed in (Zuckerman, 1999; Hannan, Polos, and Carroll, 2007; Phillips, 2013: 149-151). For example, if a law firm makes a claim that it does bankruptcy law, it is assessed on observables (e.g., the kind of legal work has it done in the past) to determine the veracity of that claim. Conceptually, this first decision is distinct from a second decision, i.e. an evaluation of a producer's quality. That is, a law firm can be legitimately categorized as a bankruptcy law firm quite separately from whether one evaluates that law firm as a good or bad bankruptcy law firm.

This distinction is critical for two reasons. First, the empirical reality represented by both the data typically available to scholars as well as what managers see is often noisy and opaque. Where we observe indicators of a producer's performance, we cannot tell how much of that success is driven by the organization's categorical memberships (e.g., we really don't believe the firm has a proper bankruptcy group) or the quality of the output (e.g., the firm has a poor performing bankruptcy group). Second, across many studies of markets that have both intermediaries (e.g., critics) and audiences (e.g., clients), the roles and relative import of these two parties are inconsistently conceptualized and operationalized, often showing a stark contrast of the intermediary role. On one end of the continuum, critics dominate both the

categorization process and assessment of quality (Rao, Monin, and Durand, 2003; Glynn, and Lounsbury, 2005; Ruef, and Patterson, 2009; Negro, Hannan, and Rao, 2011). On the other end critics are nonexistent and audiences alone make the assessments of categorical membership and quality (Phillips, and Zuckerman, 2001; Khaire, and Wadhvani, 2010; Pontikes, 2012). However, most concrete situations do not separate entirely the respective roles of intermediaries and audiences. Ideally, to yield a greater understanding one would examine an empirical setting where the decisions by critics on categorical membership are modeled and estimated separately from the decisions of (end-user) audiences. In such situations, where critics are not proxies for a unitary or homogenous mass audience, audience members may vary widely in their evaluations, which ultimately impact firm's performance.

In this paper, we examine the international market for legal services to better understand these forces in a single research setting. We build a theoretical model based on a series of interviews with international law firms and law firm guide editors: *The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*. These three publications are the most well-known and widespread rankings in the legal profession (*International In-house Counsel Journal*, 2010). To identify plausible hypotheses, we conducted open-ended interviews (one hour on average) with representatives of each of the legal directories as well as marketing directors and business developers of five law firms. In our interviews with guides' researchers, questions focused on their methodology and criteria to rank organizations, on their interactions with law firms and general counsels, and their opinion on the other guides. In interviews with marketing department of law firms, we asked how they respond to these guides, how they perceive them, and what is the feedback of their own clients about these publications. We collected data from the three professional guides on eight practice categories covering 329 corporate law firms over a decade (2000-2010) in three locations (New York, London, and Paris).

We define *identity dissonance* as the degree with which intermediaries disagree on an organization's category memberships and non-memberships, and *quality inconsistency* as the extent of discrepancy in quality evaluations. In our analysis of large international law firms (producers), their clients (audiences), and the guides (intermediaries) that categorize and rank them, we theorize and find that a producer's identity dissonance and quality inconsistency lower its performance, but that these operate independently. That is, holding identity dissonance constant, client disagreements of quality hurt performance, especially for the highest quality law firms in our sample. Similarly, holding client disagreements of quality constant, one also finds that discrepant judgments about the law firm's identity by intermediaries reduce performance.

Our results call into question whether past studies have misidentified the causal mechanism for penalties associated with generalism as disagreements on quality, independent of the categorical mismatch or agreement by intermediaries. That is, even when the categorization of a firm is unproblematic (i.e. low identity dissonance), audience members can disagree over quality, and these inconsistent quality judgments can lead to lower performance. We find that these effects are independent of firm scope,⁶ which is advantageous in and of itself. Rather, with respect to our sample of law firms, penalties are associated with disagreements with what types of law the firm practices and the quality of its work in each practice area independent of the number of categories an organization is a member of (its scope). For example, occupying six categories versus three categories is advantageous, but either firm is penalized if audiences disagree on which categories they occupy or about how well they perform within the categories.

This research also contributes to the theory of intermediaries. Most studies consider intermediaries as hierarchy makers and enforcers. We emphasize that in our setting, any

⁶ Scope and niche width are interchangeable in this paper.

influence by intermediaries (the professional law firm guides) is most critical at the categorization stage. These guides have some latitude on how to represent a law firm with respect to its practice areas. In contrast, the guides have very little to say on the quality ratings of law firms, as they primarily aggregate the results from client and lawyer surveys. Therefore, we stress another role, quite prevalent in the evaluation of quality as experienced and expressed by audiences, and rather ignored in previous research, that of *market reflectors*. In this way the professional guides capture the experiences that other audience members have with producers, and make these experiences available to all industry members.

INTERMEDIARIES, IDENTITY DISSONANCE AND QUALITY INCONSISTENCY

Roles of intermediaries and audiences. Prior research on market intermediaries has often defined them as hierarchy makers who test and taste producer outputs, combining assessments on categorical fit and quality to establish a social order among producers (Rao, Monin, and Durand, 2003; Hsu, 2006; Negro, Hannan, and Rao, 2011). Representing one end of the continuum of research in which market intermediaries drive evaluations, these intermediaries (e.g., critics) use expertise, knowledge, and direct experience as surrogates and interpreters for audiences (e.g., clients). While scholars recognize that the other end of the continuum exists – where the role of intermediaries is minimized to reflect rather than influence audiences – research on this end of the continuum is underrepresented despite great number of markets with weak or nonexistent intermediaries (Phillips, and Zuckerman, 2001; Khaire, and Wadhvani, 2010; Pontikes, 2012). For instance, in ranking colleges and universities, *US News & World Report* does not evaluate educational programs as a wine critic would, but instead (claims to) reflect the assessments of students, recruiters, and peers in a way more akin to a polling service (Sauder, and Espeland, 2009).

That said, the role of *US News & World Report* is critical in which institutions it considers legitimate to poll in the first place. For example, *US News & World Report* clarifies

that its full ranking data is collected for “the National Universities and National Liberal Arts Colleges categories *only* [emphasis added]”⁷. Other educational institutions, such as online universities, are not included. So while the *US News & World Report* does not evaluate the quality of educational institutions per se, their role in determining who is a proper educational institution in the first place is critical⁸. In many markets, especially those in high-value service industries such as education and law, the meaning of a legitimate evaluator often differs for the assessment of categorization versus quality. In these markets, whereas rating guides (intermediaries) set the category memberships, they more often serve as *market reflectors* when it comes to evaluating quality, i.e. they mirror audience’s informed opinions.

Implications of separate roles and judgments. One implication of separate roles and judgments is that the disciplinary role of evaluators as enforcers of categories may at times be misidentified in the literatures on categories and market mediation. There exist many situations where evaluators are not first-hand testers of products, where their knowledge and expertise is not greater than that of end-users. Whereas film critics, wine tasters, and restaurant testers do qualify as expert judges, in a broad number of sectors such as higher education, strategic counseling, and legal services, evaluators cannot pretend to authoritatively evaluate the quality of producer outputs. Even in the aforementioned contexts such as restaurants, markets consist of both intermediaries who assume dominance over the evaluation process (e.g. Michelin) and those who serve more as market reflectors who influence categorization but not assessments of quality (e.g., Yelp, OpenTable). Market reflectors operate in uncertain, complex, or dynamic fields, in part because they lack the time,

⁷ National Universities are defined as, “Schools ...such as Columbia University and Stanford University, [which] offer a full range of undergraduate majors, plus master's and Ph.D. programs. These colleges also are committed to producing groundbreaking research.” See: <http://colleges.usnews.rankingsandreviews.com/best-colleges/rankings/national-universities>. National Liberal Arts Colleges are “... emphasize undergraduate education and award at least half of their degrees in the liberal arts fields of study.” See: <http://colleges.usnews.rankingsandreviews.com/best-colleges/rankings/national-liberal-arts-colleges>

⁸ Guides that rank publications also affect the evaluation process by allocating weights to different audience members. Thus, for BusinessWeek’s ranking of Business Schools a substantially greater weight is given to recruiters than US News and World Report’s ranking methodology.

ability, and legitimacy to experiment all services claimed or offered by suppliers. In these cases, instead of consuming or probing each and every service offered by producers, market reflectors rely on collecting informed opinions (e.g., Sauder, and Espeland, 2009; Chatterji, and Toffel, 2010) and often casting a broad net to capture as much of the market as possible to minimize a distorted reflection of that market.

Based on the implications of separating intermediaries and end audiences' roles, we study first the degree to which intermediaries disagree on an organization's category memberships and non-memberships, what we term as *identity dissonance*. In essence, identity dissonance amounts to a disagreement of a producer's properties (Polos, Hannan, and Carroll, 2002) or capabilities (Phillips, Turco, and Zuckerman, 2013). Rather than focusing on the intrinsic advantages related to belonging to a unique category prototype or to multiple categories (Durand, and Paoletta, 2013), we emphasize the performance implications of consistent and homogeneous categorical perceptions across market actors.

Second, independently of their (dis)agreement on category memberships, audiences may disagree about how well a firm performs its tasks in each category. If different clients give divergent evaluations of a law firm's actual work and delivery, doubts and concerns are raised about that firm's real value (Uzzi, and Lancaster, 2004; Phillips, Turco, and Zuckerman, 2013). We capture *quality inconsistency* as the extent of intra-category discrepancy in grades given by audiences. We reason that *ceteris paribus*, when a firm is characterized by quality inconsistency, the inferences about its expertise, quality, and service lead to a decline in performance.

HYPOTHESES

Identity dissonance results from the level of disagreement between intermediaries on rules of inclusion and exclusion related to a product category. Intermediaries categorize an organization as a member or a non-member of a product category by assessing whether that

producer has legitimate products that match the category. Disagreement between intermediaries occurs for one of two reasons. First, intermediaries may have different criteria, rules, or depth of due diligence for inclusion. For example, most law firms in our international sample claim to practice multiple types of law. Thus, with this claim a law firm might be recognized as having practicing bankruptcy law by one law firm guide, but not another if the first guide has information that convinces it that the law firm's claim is accurate, but the second guide does not. A former editor-in-chief ("Guide A Editor") of one of the major international law firm guides interviewed, stated:

"When you asked them [law firms] 'Did you do this, did you do that, did you do this practice? They always say yes!'. So they give you a lot of information just to impress you. And sometimes you could feel that there was a gap between their discourse and the reality. For example, let's assume that you ask a firm 'Do you do Environment law?', the firm says 'Yes we did that, we have two partners in charge of this area'. And if you check and look into more details, you realize that actually the partners are in real estate and they did very few times environment cases. So you have to be careful, not to be too much influenced by the marketing of the firm." [Former Editor-in-chief, Guide A]

An interviewee in a large law firm's marketing department ("Law Firm X") concurred when asked if their law firm's practice areas was ever excluded in a guide:

"Yes it happens sometimes. So in this case, we contact the editor to understand why we are not covered, and then either he is convinced and he adopts our position or we are not still covered and it means that we don't have enough visibility on the market in this practice area to be covered." [Marketing Manager, Law Firm X]

While less common in our interviews, a second reason given for disagreement between intermediaries was that a law firm guide may actively assign a law firm in a product category even if the law firm does not make a claim that it practiced the form of law (see also Granqvist, Grodal, and Woolley, 2013 in nanotechnology; and Phillips, 2013: 149-151 in cultural markets). As Guide A Editor explained:

"...some firms used to not send any submissions, and usually French firms, small firms, especially boutique firms. Even without getting information from the firm itself, if competitors and clients mention the firms saying that this is a really good lawyer we ranked the firm." [Former Editor-in-chief, Guide A]

The guides as intermediaries therefore can complement the information received from law firms (i.e., their identity claims) based on information the guides themselves collected. Indeed, important to us is the fact that while the intermediary decides upon inclusion,

“competitors and clients” are consulted during this categorization phase. An interview with the research head of another law firm guide, Guide B Editor, agreed with Guide A Editor that they also categorize law firms “in a number of instances” if they “are getting feedback from the market.” In these cases, the intermediary’s discretion in the categorization process is much less than the contexts often examined by scholars in which critics wield substantial influence at the categorization stage.

Our theory focuses on differences in how intermediaries categorize and how these differences create an identity dissonance. Thus, when Guide A Editor was finally asked to explain differences between how guides categorize, two reasons emerged. First, there might be subjective differences in perception or taste between intermediaries:

“I think it is due to the differences of perceptions and judgments of the researcher. They can have a different opinion from ours. Yes, as I told you before it is just a question of perceptions.” [Former Editor-in-chief, Guide A]

Second, intermediaries can have different methodologies and research practices:

“The differences might be due to the differences between clients that guides interview. It is also due to the differences of the research process.” [Former Editor-in-chief, Guide A]

Another guide (“Guide B Editor”) explains their methodology as different than other guides:

“...we are seeking to highlight firms that can work with international clients (the rationale being that only those unfamiliar with the jurisdiction would be looking at a directory for a shortlist of firms). If the submission does not show evidence of work from a client who is not based in that country, we are unlikely to rank them.” [Head of Research and General Editor, Guide B]

Interestingly, none of our interviews of law firms suggested that they resisted situations when all three of the major guides refused to list them in a practice area they claimed to be working in. However, when there was disagreement, such as a guide omitting the firm from a practice area, the law firm would actively lobby the guide for inclusion (see the quote above: *“...in this case, we contact the editor to understand why we are not covered, and then either he is convinced and he adopts our position or we are not still covered”*). In other words, identity dissonance, represented by different categorizations made by law firm guides, is problematic as it makes future exchange and market coordination more difficult

(Kim, and Jensen, 2011). When the (product) category affiliations of a given supplier are shared and fully accepted among audience members (e.g. clients and peers), there is less doubt in the market that this organization has a robustly clear market identity with a predictable value of offerings. What matters in this line of thought is not just being a recognized member of several categories, but also that actors and intermediaries agree on the fact that an organization is *not* a member of the other categories. Therefore it is not just spanning categories that matter, but whether market participants categorize consistently the focal organization across the range of possible category memberships.

Identity dissonance thus indicates audience expectations and predictions diverge (Verde, Murphy, and Ross, 2005: 479) reducing its appeal. As a result, when clients face an organization with a high identity dissonance, they are more reluctant to exchange with it because these discrepancies prove to be a source of uncertainty about its characteristics and a source of relative inefficacy in transaction. The value of an organization facing identity dissonance is more volatile (Zuckerman, 2004), the cost for justifying its identity and competence bearing on the organization is higher and its performance is likely to be poorer on average. Therefore:

Hypothesis 1. *The greater an organization's identity dissonance, the lower its performance.*

In addition to identity dissonance, quality inconsistency, or disagreements over quality by audiences, is a distinct construct that is also likely to decrease performance. While guides as intermediaries exercise some discretion at the categorization phase, they completely mirror the audience as market reflectors at the quality rating stage. Our interviews suggest that law firms uniformly see the ratings in the guides as reflecting the market. As one law firm marketing manager ("Law Firm Y") put it, with respect to ratings the guides represent "*the mirror of the market, based chiefly on the opinion of the clients and lawyers/competitors.*"

This is similar to how the guides see their roles with respect to ratings, such as Guide A Editor, who stated that with respect to determining the quality of service, “...*the idea is to be as much as we can the reflection of the market impression, thanks to all the data we gathered from clients and people we talked with during the process.*”

We argue that, controlling for niche width (i.e., scope) and categorical membership, quality inconsistency results from divergent reflections about the perceived quality of an organization’s activities for each of the categories to which it belongs. Similar to a university, film, or restaurant receiving high rankings by one publication but low ranking by another, a law firm with a high variance of ratings signals that the law firm’s audience had varied experiences with a firm’s product. Consequently the average pricing of a producer with inconsistent ratings will tend to be lower compared peers with a greater rating consistency. For example, in the California wine industry, Zhao and Zhou (2011) showed that inconsistency between multidimensional indicators such as tasting score, appellation category, or organizational status lowers the price per bottle. Similarly, in the cultural field of popular art, Shrum (1996) has underscored that inconsistent ratings have “greater effects on artists than simply negativity” (p. 19). Therefore, independently of how many categories an organization is affiliated with, we suggest that organizations with high variance of intra-category quality ratings fare worse than those with low quality inconsistency problems:

Hypothesis 2. *The greater an organization’s quality inconsistency, the lower its performance.*

Our final hypothesis provides a means of gaining more insight into our central thesis by taking advantage of the average quality rating of the law firm. In particular, we argue that the higher the average quality of the law firm the greater its vulnerability to identity and quality disagreements since in this market firms with a reputation of high quality are intimately linked to a generalist identity. In other words, a law firm that has high average

quality ratings only benefits from those ratings if intermediaries (guides) and audiences (clients) agree on the law firm's identity and quality. Within our legal market, the prototypical international law firm is one that advertises itself and is evaluated according to whether it is a full service law firm that does high quality work in each of its practice areas. For example, Cravath, Swain, and Moore's website begins with a statement that "Cravath has been known as one of the premier U.S. law firms for nearly two centuries. Each of our practice areas is highly regarded, and our lawyers are recognized around the world for their commitment to the representation of our clients' interests"⁹. Another top firm, Linklaters, states on its website that "We believe that the strength and depth of our practices, our client relationships, our sector approach, the quality of our people and our global platform give us significant competitive advantage. Our work is divided into three broad divisions for management purposes: Corporate; Finance and Projects; and Commercial. In practice, advising our clients usually involves more than one division". Striking a similar tone, Clifford Chance defines itself as having "...unrivalled scale and depth of legal resources across the key markets of Africa, the Americas, Asia Pacific, Europe and the Middle East and in the core areas of commercial activity...".

Indeed, one reason why guides conduct due diligence on product categorical membership is that law firms, especially those with traditionally high quality ratings, project the image of highly regarded generalists. As one of our interviewees (Guide C Editor) explained:

"Yes, of course, if you meet people from a big firm like Linklaters, Clifford Chance, and the other big names, they want to appear as full service law firms, they want to be the number one in all the sections. They all have the same strategy to sell full range of services. So they always try to sell us the fact that they do every practice in the very best way of course." [Former Editor-in-chief, Guide C]

Successfully making this identity claim maximizes the law firm's ability to compete in the global market for clients and talent. Evidence inconsistent with the claim in the form of

⁹ These law firm identity claims were accessed on August 9, 2013 from <http://www.cravath.com/>; <http://www.linklaters.com/WhoWeAre/AboutUs/Pages/Aboutourbusiness.aspx>; and http://www.cliffordchance.com/about_us.html, respectively.

identity dissonance and quality inconsistency are evidence that the firm does not fit the idealized role that couples scope and quality (Hsu, Roberts, and Swaminathan, 2012).

Firms that typically receive highly divergent ratings should be particularly unattractive to the General Counsel of multinational corporate clients responsible for hiring them who often justify their decision on which law firm to hire based on that law firm's robust and unquestioned quality (Uzzi, and Lancaster, 2004: 238). Indeed, choosing a law firm with inconsistent quality is challenging when stakes are high as is commonplace with corporate deals. Close relations between clients and law firms that traditionally drove a law firm's business are having a diminishing role, and "on the back burner with a tougher stance being adopted. Poor performance and high costs are simply not being tolerated". Rather, the market rule is "Deliver on price and service or lose the business" (*International In-house Counsel Journal*, 2010, p. 17). Selecting a law firm – especially in an international arena – involves several parties: board level executives, managing directors, in-house lawyers, and purchasing officers (Coates, et al., 2011). Not only does the general counsel seek the input from multiple constituents, but they also need to justify their decision (Heinz, Nelson, and Laumann, 2001: 346). As a consequence, a generalist law firm with unquestioned high quality plays the important role of buffering the uncertainty in choosing a law firm. Reciprocally, penalties for identity dissonance and quality inconsistency will be higher for firms with higher quality:

***Hypothesis 3.** The higher a law firm's quality ratings, the more negative the effects of identity dissonance and quality inconsistency on performance.*

DATA AND METHOD

Empirical Context: Top international corporate law firms

Three leading guides, our intermediaries and the organizations for which some of our interviewees worked, rate law firms both by practice areas and by location: *The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*. These major directories are the most

widespread over the business legal market. Based on extensive independent research, they track the most important trends in the legal profession and provide rankings of business law firms operating in a variety of practice areas. These guides adopt a similar two step-procedure to carry out their in-depth study. First, each year at a given time, they invite firms to submit a form about their important deals of the year in each practice area. For each deal, submissions detail the clients' needs, the groundbreaking and complex legal elements supplied by the law firm, and the most significant features of the transaction. Note that to guarantee independence and objectivity, law firms cannot buy their way into the guides. Second, guides' research teams conduct many interviews from market participants. They contact clients of all the different law firms that submitted a form. Guides use their own base of in-house lawyers and client referees provided by law firms. Clients comment on firms they deal with worldwide. In this intensive phase of information collection, researchers ask in-house legal departments what work they outsource; which outside lawyers are instructed; and what quality the law firms provided for significant one-shot and recurrent deals. Researchers also interview leading lawyers in their field about their peers to update their view on the market and competitors.

Once a law firm is categorized, each guide obtains the peers' and clients' perceptions of law firms' quality of service based on the interview phase. These guides are not 'hierarchy-makers' because they do not directly consume legal services (cf. food critics or wine tasting). They instead reflect what clients think of producers ex post. Then for their publications, the three guides reflect all the feedback gathered from interviews, and even publish snippets of comments. This market reflection role is taken very seriously as confirmed during interviews:

"What it was really important and that you have to understand is that every partner and client have to tell you that this firm is really good. The consensus of the market impressions about one firm or partner was the key point to know that this firm is one of the top in the practice. [...] The idea is to be as much as we can the reflection of the market impression, thanks to all the data we gathered from clients and people we talked with during the process. I always used to say that we took a picture of the market at a specific moment to reflect what people think, the reputation on the market." (Former Editor-in-Chief, Guide B)

We thus consider discrepancies between guides as reflections in how market participants evaluate law firms to examine whether identity dissonance and quality inconsistency will impact law firms' performance.

Data collection and measures

We collected data from the three guides: *The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer* on eight different practices: Competition-Antitrust, Litigation, Intellectual Property, Real Estate, Tax, Corporate-M&A, Bankruptcy, and Employment. These practices cover all the scope of business law firms' activities and are the most frequently cited by law firms, in-house counsels and our interviewees. They do not pose particular identification problems and the three guides share a same definition for each category, which allows comparisons. We selected three geographical settings (the markets based in London, Paris, and New York) to carry out an international comparison between the three most important markets in corporate legal services as well as different types of law (Common Law vs. Civil Law). Our risk set is all law firms that have been ranked in at least one practice area by at least one of the three guides over a decade (2000–2010), which is the period for which we can have coverage for all practices in the three locations. Our level of analysis is the branch office of law firms, the firm-location dyad. For instance, in our dataset, *Linklaters-London*, *Linklaters-Paris*, and *Linklaters-New York* represent three distinct entities. For each guide, when a given entity is affiliated with the all eight practice categories in one location, it receives eight grades (one per category).

Dependent Variable. Our dependent variable is the worldwide performance of law firms, computed as the gross revenue divided by the number of lawyers worldwide. We collected this information using three professional journals that publish every year “The 200 largest law firms”: *The Lawyer* (for London), *American lawyer* (for New-York City), and *Juristes et Associés* (for Paris). To avoid distortions between locations, we used financial

figures in international dollars that have been adjusted for purchasing power parity with World Bank estimates. The gross revenue is provided in millions and is divided by 1,000,000 such that a value of 1.0 equals \$1 million. While this measure includes regions beyond London, Paris and New York, it is a good proxy of the revenue generated in these locations since New York City is the biggest legal services market around the world (in terms of volume and values of transactions) and London and Paris the two main European hubs for corporate law firms.

Independent Variables. *Identity dissonance.* To test our first hypothesis, we calculated the variable *identity dissonance* as the average disagreement between each pair of guides about the practice areas covered *and* not covered by a firm. We took into account the disagreement about the non-coverage of firms in practice areas because a firm's identity is defined as much by what a firm does as what it does not do. The variable *identity dissonance* measures therefore identity differences and not just visibility differences as when only coverage is accounted for. We calculated our independent variable for the firm x at time t over the eight practice areas as follows:

$$Identity\ dissonance\ x_t = \frac{1}{3} \cdot \frac{\sum_{p=1}^8 (disagreement_{(a,b),p} + disagreement_{(a,c),p} + disagreement_{(b,c),p})}{8}$$

where p is the practice areas in which the firm x is covered or not by the three guides a , b and c and *disagreement* the dissimilarity between the coverage of firm's practice areas in each pair of guides. For each pair of guides, when guide a covers the firm whereas guide b does not, disagreement is equal to 1, otherwise the value is 0. Finally, we calculated the average value of the three pairwise comparisons. For example, for 2001 in Paris the law firm *Allen and Overy* was covered in the areas 'Corporate/M&A' and 'Tax' both by the guide a and the guide b , but only in 'Corporate/M&A' by the guide c . Here, the values of each pairwise disagreement across the eight market categories are 0/8 (for the pair a/b), 1/8 (for the pair

a/c), and $1/8$ (for the pair b/c). Thus, the average value of the three pairwise comparisons is $(0/8+1/8+1/8)/3 = 0.083$. The range of the variable *identity dissonance* is then comprised between 0 and 1 with an average of .209 (see Table 9).

Quality inconsistency. To construct this variable, we calculated the average difference between the highest and lowest rating given by the guides for each practice area where the firm is present. Note that the quality ratings differ slightly across critics. In the two guides *Chambers* and *Legal 500*, law firms are rated in band but the grading scale can change across practice areas. For example, 5 bands can be used to rate the practice “Employment”, and 9 bands to rate “Intellectual Property” (band 1 being always the best). Instead, the guide *PLC* uses a four-point grading scale: Leading; highly recommended; recommended; recognized. Therefore, we preferred to take into account the position of the firm compared to its competitors so we calculated for each guide g the rating of a firm x in a given practice p as follows:

$$Rating_{g,p} x = 1 - \frac{\text{number of firms ahead } x_{g,p}}{\text{total firms rated}_{g,p}}$$

As such, best firms obtain always 1 as a rating that is in a decreasing order. When a firm is at the bottom of the classification, the value of rating gets closer to zero. We then computed the *quality inconsistency* as the average difference of the maximum and minimum ratings obtained by a firm over the practice areas in which it is covered:

$$Quality\ inconsistency\ x_t = \frac{\sum_{p=1}^8 \max(r_a, r_b, r_c)_p - \min(r_a, r_b, r_c)_p}{p - 1}$$

where r is the rating obtained respectively in the three guides a, b, c in the practice area p .

Average Quality. To measure firm service quality and test the two interaction effects of hypothesis 3, we first calculated the sum of $Rating_{g,p} x$ as defined above, obtained in each guide g for the firm x . Higher sums of $Rating_{g,p}$ signal prominence of a firm in a guide across

practices. To obtain *average quality*, we average the sums of *Rating*_{g,p} *x* for the guides *g* in which the firm *x* is present. For example, the law firm *Ashurt* is ranked by the *Chambers and Partners* in three practice areas (with the ratings 1, 0.7, 0.3), by the *Legal500* in two practice areas (with the ratings 0.9 and 0.5) but not by the third guide *PLC WhichLawyer*. For *Ashurt* the three sums of ratings for each guide are equal to 2 for *Chambers and Partners*, 1.4 for *Legal500* and 0 for *PLC*. Then, we compute the average of these three values. In this example, the value of our independent variable *average quality* is (2+1.4)/3= 1.7. More generally, we computed *average quality* for the firm *x* at time *t* as follows:

$$Average\ Quality\ x_t = \sum_{g=1}^3 \left(\frac{1}{g} \times \sum_{p=1}^8 r_{p,g} \right)$$

Following Uzzi and Lancaster's paper (2004) that showed that social standings of legal service providers impact positively the billing rates, our variable *average quality* of firm also serves as a control in our models that examine identity dissonance and quality inconsistency.¹⁰

Control Variables. We also used a series of control variables in our models to account for other factors that may influence the dependent variable and potentially thwart our main effect. Past studies established that entities with multiple category memberships fare worse on markets than those with single category membership, and we control for the *niche width* of the firm (Hsu, 2006; Hsu, Koçak, and Hannan, 2009; Negro, Hannan, and Rao, 2010). We reproduced the measure used in prior studies by first calculating the Grade of

¹⁰ We expect that many readers will note a similarity between our use of average quality and research on the role of status and markets (Podolny 1993). However, there are important differences. First, the concepts are distinct. Whereas status is relatively stable over time, our use of average quality allows for important variance from year to year. In addition, whereas a change in status impacts market identity, changes in average quality do not to the same extent. Second, our dataset only includes the "world leading law firms for business" and thus it would not be accurate to distinguish between high, middle or low status law firms. Third, our concept of average quality of legal services is closely related to the legal complexity of deals and operations that law firms were in charge of more than to the prestige of their lawyers' graduate schools – an indicator of status often used (Phillips, and Zuckerman, 2001).

Membership of an organization x in the practice area p at time t . An organization's practice portfolio is the set of GoMs: $[\mu(\text{competition}, x, t), \mu(\text{litigation}, x, t), \mu(\text{ip}, x, t), \mu(\text{real estate}, x, t), \mu(\text{tax}, x, t), \mu(\text{corporate}, x, t), \mu(\text{bankruptcy}, x, t), \mu(\text{employment}, x, t)]$. For a specialist law firm in 'Litigation' for example, its GoM vector can be represented by $[0, 1, 0, 0, 0, 0, 0, 0]$. For a full-service law firm covered in the eight practice areas, it is $[0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125, 0.125]$. For each firm-location, we then computed niche width as 1 minus the Simpson's index of its GoM vector: $Niche\ width[m(p, x, t)] = 1 - \frac{1}{\sum_{p \in P} m^2(p, x, t)}$, which is 1 minus the squared GoM of each firm x at time t , and P is the set of practice areas. The minimum value of niche width is zero (for specialists engaged in only one practice area) and the maximum value is 0.984 (for generalist law firms covering the eight practice areas). The higher the value of niche width, the broader the presence of a law firm across practices in a given location.

At the category level, past research has shown that clarity about meanings of the category increases the valuations of category members (Negro, Hannan, and Rao, 2010) and so might impact their performance. Accordingly, we controlled for the average *categorical contrast* of categories that a firm spans. The categorical contrast of a focal category is measured as the average grade of membership of its members. We also controlled for the *density* as the logged average number of rival organizations covered in practices where the focal firm is present since the number of competitors can drive the performance down. We included also the quadratic measure of density to check the presence of any curvilinear effect.

At the firm level, to control for the duration of presence in guides, we included a firm's *tenure* (Pontikes, 2012) calculated as the cumulative number of years for successive presence in each guide that covers the firm and we calculated the average over the three raters. As larger firms are more likely to generate higher revenues (Sherer, and Lee, 2002), we controlled for the *worldwide size* of the firm, with the log of the total number of partners

worldwide. Due to globalization, clients expect their lawyers to provide services across many countries in which they have deals or cases and so are more likely to value highly internationalized law firms. We captured this effect of *internationalization* with the percentage of lawyers outside home country of the firm. We also included dummies to control for the *nationality* of firms (i.e. headquarter's location). As some practices are more profitable than others, their presence in a firm's practice portfolio will tend to improve performance. We therefore created 8 dummy variables for the coverage of the firm in the given practice in at least one guide. To capture guide-specific effects and some potential measurement errors in reflecting clients' opinions that may influence ratings of firms, we included dummy variables for a firm's presence in each guide. We also captured time effects and location effects by including a set of dummy variables in our models.

Statistical Methodology

We used random effects generalized least squares regression analysis to estimate between-firm differences across years. This method allows us to estimate variation of the dependent variable and regressors across organizations as well as higher-level, time-invariant parameters. We ran a Breusch-Pagan Lagrange multiplier which indicated at $p < .001$ that random effects regression should be used. Following Nichols (2007) for which clustering of robust standard error is de rigueur in panel dataset, and Pepper (Pepper, 2002) and Cameron, Gelbach, and Miller (2011) that require to cluster at the highest level of aggregation, we cluster at the firm worldwide level. The clustered-robust standard errors estimation allows us to control for heteroskedasticity and autocorrelation of our panel dataset (Petersen, 2009: 465). In addition, we ran a test that shows the time effects were jointly significant. Following these recommendations, we run a two-way random effect clustering by time and by firm. We thus capture both the unspecified correlation between observations within the same group (firm) and the between-firm variations across years. We used lagged independent and control

variables to reinforce causal inference. To construct lagged independent variables for the first year of observation of our dependent variable (in 2001), we collected data from the 2000 edition of the three guides. We excluded multicollinearity issues among the explanatory variables by using a variance inflation factor test and standardized variables for interaction terms.

RESULTS

Descriptive statistics are presented in Table 9, and correlations are presented in Table 10.

-----*Insert Tables 9 and 10 about here*-----

Results testing hypotheses are reported in Table 11. Model 1 contains controls only. In accordance with a stream of research (e.g., Benjamin, and Podolny, 1999; Uzzi, and Lancaster, 2004), we find a positive impact of *average quality* on organization performance ($p < .001$). We also find that organizations with wider niche do not have lower performance than focused organizations (coefficient for *niche width* is positive but not significant). While law firms that have a wider niche can attract more clients and have access to greater potential revenue (Hsu, 2006: 444), they often combine profitable practice areas with very low-profit specialties that drop the average revenue per lawyer. Consistent with previous literature on categorization (Negro, Hannan, and Rao, 2010), *categorical contrast* has a significant positive impact on performance, meaning that the clarity of practice areas in which firms operate matter in the eye of clients. This finding suggests an absence of category code clashes between the different legal practice areas covered by hybrid firms (Kovacs, and Hannan, 2010). Generalist law firms provide services in a set of specialized areas; they are multi-specialists, and high contrast category memberships does not preclude these firms from getting market appeal and reaching high levels of performance. The variable *density of categories* exhibits the traditional curvilinear effect often found in ecological studies. Tenure, size and internationalization do not significantly impact performance. Finally, we found that

U.S. law firms outperform UK firms and French law firms, corresponding to the size of their markets.

-----*Insert Table 11 about here*-----

Model 2 supports our first hypothesis: the coefficient of *identity dissonance* is negative and significant, which indicates a strong negative effect of *identity dissonance* on performance. Testing hypothesis 2, model 3 shows also a negative and significant effect of *quality inconsistency* on firm performance. Therefore, identity dissonance and quality inconsistency have an independent and negative affect on an organizations' performance. Figure 9 represents how these effects independently and together reduce performance. The lowest performance level corresponds to the highest value of both identity dissonance and quality inconsistency.

Models 4 and 5 include the moderator effect of firm average quality on *identity dissonance* and *quality inconsistency* and test hypothesis 3, that as the average quality of an organization increases, so do the negative effects of identity dissonance and quality inconsistency on performance. Coefficients of direct effects remain unchanged and both interaction coefficients are negative. Interaction coefficient with identity dissonance is marginally significant ($p < .1$) and that with quality inconsistency clearly significant ($p < .01$). Graphical representations show that each factor has an increasing negative marginal impact on performance as average quality increases (negative slope for a negative Y axis on Figures 10 and 11). These findings support hypothesis 3 and suggest that the effect of identity dissonance being less penalizing for high average quality players than the effect of quality inconsistency. The finding for quality inconsistency in particular concurs with qualitative evidence about the fact that law firms are under increasing scrutiny about price and service delivery as their service quality increases.

-----*Insert Figures 9, 10 and 11 about here*-----

Supplementary Analysis: Robustness Checks

We ran different robustness checks. First, we checked for alternative measures of our dependent and independent variables. Regarding our dependent variable *performance* and independent variable *quality inconsistency*, we tried two different measures: for *performance*, gross revenue worldwide divided by the total number of partners worldwide (instead of number of lawyers worldwide); and standard deviation of grades for *quality inconsistency*. We obtained the same results. We also included the additional control variable *lowest rating obtained by the firm* across practice areas to disentangle the impact of quality inconsistency with a potential ‘stigma effect’ (Pontikes, Negro, Rao, 2010) but our results remained similar (table not reported).

Second, the random-effects estimator makes the assumption that observed variables (regressors) are uncorrelated with the unobserved variables (error term). To correct for such potential correlation, we used the Mundlak’s procedure (1978), extended by Wooldridge (2002), that estimates random-effects regression models adding entity-means of variables (Greene, and Hensher, 2010: 71). For each entity (here firm-location), we computed the time-averaged values of every variable and we ran random-effects models with all these time-invariant variables. We obtained the same results in terms of significance but coefficients of variables of interest are lower since time-averaged values of these variables partially capture the effect (Table 12 Model 6).

Third, following Negro and Leung (2013: 693), we also addressed the empirical concern that “clustered standard errors can still be subject to misspecification of the correlation structure between observations affecting the consistency of our estimates”. Therefore we ran panel-data models by using generalized estimation equations (GEE) with the option robust and exchangeable error structure at the firm level. This method estimates robust estimation of standard errors to allow for clustering at the firm level by using the

observed variability in the data rather than the variability predicted by an underlying probability model. Model 7 both confirms the negative impact of identity dissonance and quality inconsistency on firm's performance and adds support for our hypothesis 3 about high quality actors suffering more.

As random effects rest on the strong assumption that unobserved effects are uncorrelated with the explanatory variables, we also ran fixed effects models as supplementary analyses to control for endogeneity due to potential omitted variables that are constant over time but vary across entities. The advantage of this method is that it captures the effect of any unobservable firm characteristics (e.g., skills of lawyers) that can bias the impact on our dependent variable. Estimated coefficients in fixed effects continue to support our hypotheses that identity dissonance and quality inconsistency undermine firm's performance (Table 12, Model 8).

DISCUSSION

This paper and its findings contribute to three main areas: research on categories and market identity, on the important distinction between category spanning, identity and quality assessments, and on market intermediaries.

Categories and identity dissonance. Market categories foster interoperability between market participants, by eliciting mutual comprehension, coordination, as well as facilitating transactions and exchange (Hannan, Polos, and Carroll, 2007; Schneiberg, and Berk, 2010). Indeed, by establishing a common set of evaluative schemas and expectations, categories allow the exchange of information and elaboration of meaning. Much of the current literature suggests that category memberships are easily identifiable and observable (Hannan, Polos, and Carroll, 2007). We relax this condition and consider multiple evaluators that assess category membership independently. Category membership results from an investigation process, and evaluators can disagree about a firm's market identity. As a result, our study and

findings paint a cautionary tale for scholars who find a statistically significant association between firm scope (niche width) and performance as it suggests that without more fine-grained evidence one cannot accurately interpret basic statistical results. What appears to be a penalty for being a generalist may actually be due to audience dissonance or inconsistency.

When a producer faces varied opinions on its membership across a set of categories, it becomes a less reliable future exchange partner or collaborator. This is especially true in our context, where firms commonly make identity claims of having high quality outputs in multiple categories. In this way our theory has similarities with other works that investigated the negative consequences of multiple category membership (Hsu, Koçak, and Hannan, 2009; Negro, Hannan, and Rao, 2011). However, our departure is in the mechanism rather than the effect. Participants in the market for legal services can successfully exchange and coordinate with a law firm practicing bankruptcy and intellectual property as easily as a firm that specializes in intellectual property law – as long as there is wide agreement that the firm indeed practices both types of law. We make a stronger and more specific claim: that for many markets, such as that for legal services, identity dissonance trumps any costs associated with categorical spanning. That is, it is unproblematic and possibly advantageous for a law firm to practice a wide range of practice areas (Phillips, Turco, and Zuckerman, 2013) unless it leads third parties to form different opinions about the law firm's identity. Note that empirically, identity dissonance should not account for how many categories a firm combines but for the agreement among evaluators about what a firm does and does not do. By taking into account both the memberships and the non-memberships, our variable *identity dissonance* relates deeply to an identity-based argument. Identity is defined by what the firm both does and does not do. The three guides thus determine the identity of a law firm by placing it in certain activities but also by not categorizing it in some others.

Distinguishing identity and quality assessments from cognitive confusion. Not only do identity dissonance and quality inconsistency both lower performance, but they do so independently of the other. This finding suggests that many past studies, such as those concerning multi-category membership, may be confounding the mechanism driving any negative effects of audience disagreements. For example, while categorization research has focused on the consequences for organizations of single and multiple category membership, a more precise set of questions may be [a] Do audiences disagree on the identity of the focal organization? [b] Do audiences disagree about the quality of services provided? [c] Is any disagreement a function of the number of categories that organizational is a member of? Important to our study is that we find that not only are disagreements in identity and quality independent of the number of categorical memberships, but the independent effects of the number of memberships is positive. Thus, with respect to the market for international law firms, being a generalist improves the firm performance – a contrast from the modal finding in research on market categories. Rather, disagreements in identity and quality (correlated with niche width at .47 and .19 respectively) are negatively associated with performance. Moreover, the results of our interviews and examination of comments by market participants concur with the Phillips, Turco, and Zuckerman (2013) finding that cognitive confusion does not drive the negative effects. Confusion was not the source of problems for law firms. Instead, international law firms suffered when different decisions were made by intermediaries on categorization, and different experience by corporate clients.

Market reflectors. It is therefore our claim that intermediaries such as these guides are theoretically important not only in the first stage of categorizing firms but also when they reflect the quality opinions rather than influence directly the decisions of corporate clients. Market reflectors provide an important aggregation function for the scholar studying market categories as reflectors mirror differences in audience member assessments (cf., Pontikes,

2012). Our thesis also draws attention to the important role of intermediaries as market reflectors of quality – even though they do not dominate the evaluation process as critics do. We also highlight the different role of audiences in the context of market reflectors, as well as how intermediaries and audiences interact in these settings. For example, whereas clients and consumers follow evaluators' advice when evaluators are legitimate hierarchy makers, these audience members behave differently when evaluators mirror market's opinions. In this latter case, ratings and rankings support audience choices, they are not at the root of the choices.

For that reason, we expected that organizations with high service quality would suffer more from identity dissonance and quality inconsistency than lower quality firms. We found corroborating evidence for these expectations, which sheds light on the distinct susceptibility of actors relatively to either effect and informs recent views on status in the market for legal services. Phillips, Turco, and Zuckerman (2013) reinterpret high status diversification with the lens of membership and loyalty norms, where high status actors are sanctioned when serving clients perceived as incompatible by audiences. We show that intermediaries' disagreement on quality plays a parallel role in influencing organizations' performance. Lowered performance for high-quality firms when the guides diverge on their reflection of firms' quality indicates that higher expectations bear on these firms in terms of commitment and loyalty. Identity dissonance and quality inconsistency could be considered as a violation of expectations resulting in heightened financial penalties. Because an organization's social position largely determines opportunities and constraints it faces, market reflectors participate in the maintenance of social orders within industries.

Managerial Implications. We began our investigation with a question of how to advise a manager considering a tradeoff between (a) allocating resources toward streamlining the organization's memberships in categories or (b) instead investing to improve the quality of the outputs in that organization's current categories of membership. Our findings suggest

that, with respect to large international law firms, the social structure of the market requires that the highest performing firms focus first on categorical fit so that intermediaries similarly categorize the firm. While it is also important to have corporate clients who consistently rate the quality of the law firm, our analyses suggest that the detriment for quality inconsistency is at least half of the penalty for identity dissonance. In other words, we are providing support for the intuition that a robust organizational identity is a critical organizational asset, even more than producing outputs of consistent quality.

More generally, our research's implication for managerial decisions also provides an opportunity to consider scope conditions to our study. First, understanding the role of identity dissonance and quality inconsistency requires a relatively deep understanding of the organization of the firm's market. For example, markets vary by the role of intermediaries, from being nonexistent to influencing both the categorization and evaluation of outputs. Second, a manager's resource allocations are naturally linked to the organizational identity claims. One reason why identity dissonance and quality inconsistency are so problematic for our sample of law firms is because they make strong claims to supply a wide range of products, and offer them at high quality. In settings where the dominant organizational identity claims stress a different organizational form (such as a specialist), or do not make any strong claims at all, we would not expect our findings to exhibit the same statistical strength. Finally, further research needs to explore what types of actions firms undertake when they face performance declines due to identity dissonance or quality inconsistency, and how effective they are in restoring their market identity and offering quality.

Table 13. Descriptive Statistics

Descriptive Statistics (N=2549)				
Variable	Mean	Std. Dev.	Min	Max
performance	0.609	0.289	0.141	2.6
identity dissonance	0.209	0.160	0	1
quality inconsistency	0.088	0.099	0	0.678
quality inconsistency * average quality	0.242	0.865	-5.228	5.325
identity dissonance * average quality	0.042	1.152	-4.391	14.839
average quality	1.845	1.614	0.073	7.278
niche width	0.652	0.416	0	0.984
categorical contrast	0.459	0.086	0.253	0.805
density of categories	4.011	0.467	2.303	4.875
density squared of categories	16.304	3.633	5.302	23.768
average tenure in affiliated guides	3.783	2.285	1	10
size (partners worldwide; mean-centered)	0.000	1.210	-4.024	2.085
internationalization	15.747	19.767	0	85.995
french firms	0.159	0.366	0	1
uk firms	0.367	0.482	0	1
us firms	0.474	0.499	0	1
coverage in antitrust	0.364	0.481	0	1
coverage in litigation	0.509	0.500	0	1
coverage in intellectual prop.	0.375	0.484	0	1
coverage in real estate	0.492	0.500	0	1
coverage in tax	0.443	0.497	0	1
coverage in corporate	0.678	0.468	0	1
coverage in bankruptcy	0.399	0.490	0	1
coverage in employment	0.435	0.496	0	1

Table 14. Correlation Table

Pairwise Correlations (n=2549)																								
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)	(19)	(20)	(21)	(22)	(23)
performance	(1)																							
identity dissonance	(2)	-0.22																						
quality inconsistency	(3)	0.01	-0.16																					
quality inconsistency*avg. quality	(4)	-0.09	-0.06	-0.28																				
identity dissonance*avg. quality	(5)	-0.15	0.35	-0.04	-0.26																			
average quality	(6)	0.16	0.04	0.24	0.19	-0.44																		
niche width	(7)	0.09	0.47	0.19	0.04	-0.29	0.59																	
categorical contrast	(8)	-0.16	-0.17	-0.10	-0.04	0.09	-0.33	-0.39																
density of categories	(9)	-0.24	0.13	0.08	0.06	-0.05	-0.03	0.11	-0.31															
density squared of categories	(10)	-0.24	0.12	0.07	0.06	-0.05	-0.05	0.09	-0.29	1.00														
tenure	(11)	0.15	-0.11	0.21	0.00	-0.20	0.34	0.19	-0.17	0.20	0.20													
size (partners worldwide)	(12)	0.42	-0.01	0.12	0.07	-0.15	0.27	0.18	-0.20	-0.19	-0.19	0.03												
internationalization	(13)	0.10	0.01	0.17	0.14	-0.27	0.47	0.31	-0.17	-0.01	-0.02	0.14	0.51											
french firms	(14)	-0.39	0.03	-0.06	-0.03	0.07	-0.07	-0.07	0.25	0.03	0.02	0.04	-0.64	-0.21										
uk firms	(15)	-0.40	0.12	0.12	0.12	-0.17	0.19	0.19	-0.22	0.44	0.44	0.07	-0.05	0.13	-0.33									
us firms	(16)	0.67	-0.14	-0.07	-0.10	0.11	-0.13	-0.13	0.02	-0.45	-0.44	-0.09	0.52	0.03	-0.41	-0.72								
coverage in antitrust	(17)	0.14	0.15	0.21	0.17	-0.25	0.67	0.50	-0.30	-0.07	-0.09	0.25	0.20	0.37	0.00	0.08	-0.08							
coverage in litigation	(18)	0.02	0.21	0.19	0.09	-0.15	0.58	0.59	-0.34	0.12	0.09	0.18	0.10	0.31	-0.01	0.21	-0.20	0.43						
coverage in intellectual prop.	(19)	-0.07	0.23	0.11	0.16	-0.15	0.47	0.34	0.03	-0.03	-0.04	0.17	0.11	0.23	-0.01	0.13	-0.12	0.33	0.28					
coverage in real estate	(20)	-0.07	0.24	0.23	0.08	-0.19	0.49	0.47	-0.29	0.23	0.23	0.23	0.14	0.19	-0.23	0.40	-0.21	0.30	0.33	0.21				
coverage in tax	(21)	0.13	0.26	0.24	0.10	-0.23	0.64	0.57	-0.32	-0.02	-0.04	0.21	0.22	0.38	-0.01	0.08	-0.07	0.52	0.44	0.27	0.28			
coverage in corporate	(22)	0.19	0.41	0.17	0.05	-0.24	0.49	0.69	-0.36	0.21	0.20	0.11	0.25	0.33	-0.17	0.14	-0.02	0.37	0.39	0.18	0.32	0.45		
coverage in bankruptcy	(23)	0.17	0.14	0.18	0.15	-0.22	0.57	0.43	-0.31	-0.09	-0.11	0.21	0.23	0.28	-0.10	0.07	0.00	0.37	0.38	0.19	0.34	0.36	0.33	
coverage in employment	(24)	-0.29	0.29	0.18	0.14	-0.11	0.47	0.40	-0.12	0.07	0.06	0.18	0.05	0.19	0.10	0.27	-0.33	0.28	0.33	0.35	0.30	0.33	0.23	0.20

Table 15. Random Effects GLS regression estimations of Performance worldwide.

VARIABLES	(1) Model 1	(2) Model 2	(3) Model 3	(4) Model 4	(5) Model 5
Identity dissonance		-0.104*** (0.021)	-0.117*** (0.023)	-0.145*** (0.024)	-0.126*** (0.028)
Quality inconsistency			-0.045* (0.023)	-0.091** (0.027)	-0.087** (0.027)
Quality inconsistency*avg. quality				-0.010** (0.003)	-0.011** (0.003)
Identity dissonance* avg. quality					-0.004+ (0.003)
Average Quality	0.024*** (0.006)	0.021*** (0.006)	0.020*** (0.006)	0.020*** (0.006)	0.021*** (0.006)
Niche width	0.027 (0.010)	0.031 (0.010)	0.032 (0.011)	0.031 (0.011)	0.026 (0.011)
Categorical contrast	0.196*** (0.045)	0.177*** (0.043)	0.175*** (0.043)	0.174*** (0.043)	0.166*** (0.045)
Density of categories	0.471*** (0.092)	0.457*** (0.089)	0.455*** (0.087)	0.446*** (0.087)	0.435*** (0.090)
Density squared of categories	-0.064*** (0.012)	-0.061*** (0.011)	-0.061*** (0.011)	-0.059*** (0.011)	-0.058*** (0.011)
Tenure	0.001 (0.002)	0.000 (0.002)	0.000 (0.002)	-0.000 (0.002)	-0.000 (0.002)
Size	-0.005 (0.008)	-0.007 (0.008)	-0.007 (0.008)	-0.007 (0.008)	-0.007 (0.008)
Internationalization	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)	0.000 (0.000)
French law firms	-0.321*** (0.025)	-0.326*** (0.025)	-0.323*** (0.025)	-0.326*** (0.025)	-0.329*** (0.025)
UK law firms	-0.165*** (0.024)	-0.171*** (0.024)	-0.167*** (0.024)	-0.169*** (0.024)	-0.171*** (0.023)
US law firms	0.160*** (0.026)	0.157*** (0.026)	0.161*** (0.027)	0.158*** (0.027)	0.157*** (0.027)
Constant	-0.500** (0.184)	-0.456* (0.179)	-0.452** (0.174)	-0.428* (0.175)	-0.401* (0.182)
Year dummies	Yes	Yes	Yes	Yes	Yes
Location area dummies	Yes	Yes	Yes	Yes	Yes
Guide dummies	Yes	Yes	Yes	Yes	Yes
Category dummies	Yes	Yes	Yes	Yes	Yes
Observations	2549	2549	2549	2549	2549
Number of firm-location	431	431	431	431	431
Number of firm-worldwide	329	329	329	329	329
Wald chi ²	1144.39	1201.76	1209.91	1255.66	1291.11

Clustered-Robust standard errors in parentheses

*** p<.001, ** p<.01, * p<.05, + p<.1

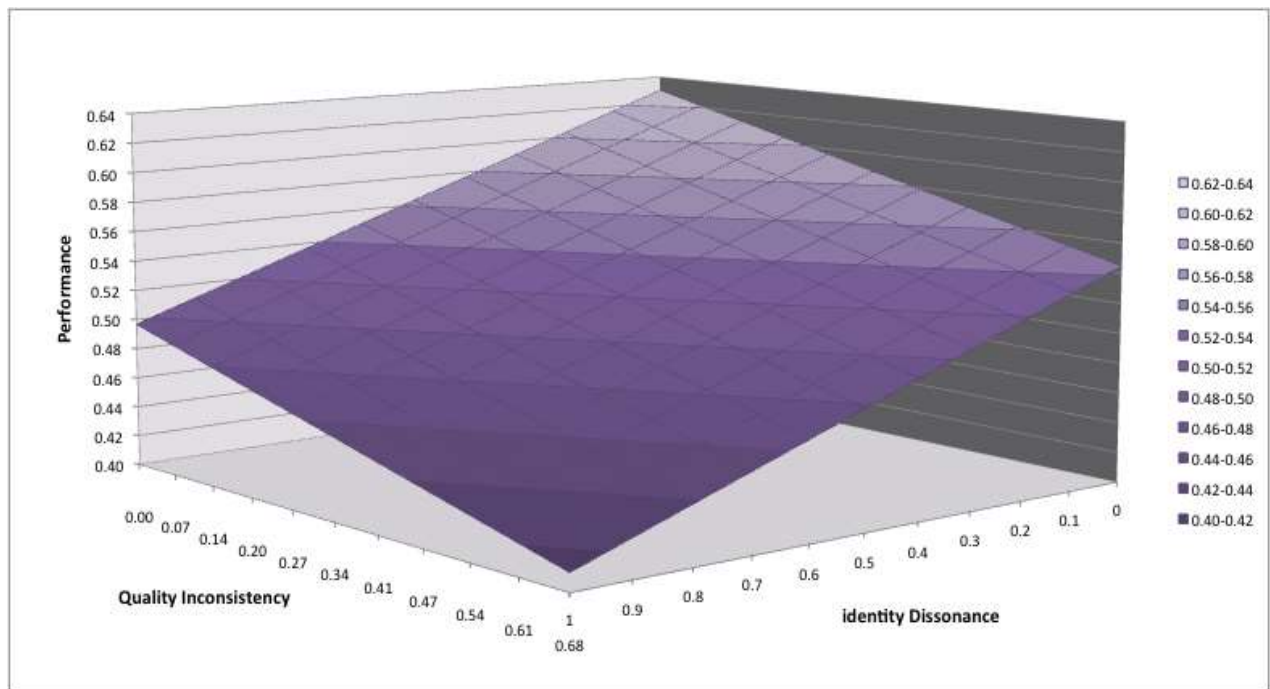
Table 16. Robustness checks.

VARIABLES	RE GLS Mundlak Model 7	GEE Model 8	Fixed effects Model 9
Identity dissonance	-0.092** (0.029)	-0.098** (0.032)	-0.081** (0.029)
Quality inconsistency	-0.081** (0.027)	-0.078** (0.029)	-0.076** (0.027)
Quality inconsistency*avg. quality	-0.008* (0.003)	-0.009** (0.003)	-0.008* (0.003)
Identity dissonance* avg. quality	-0.002+ (0.003)	-0.004+ (0.003)	-0.003+ (0.003)
Average Quality	0.016** (0.006)	0.018** (0.006)	0.016** (0.006)
Niche width	0.019 (0.011)	0.025 (0.012)	0.024 (0.012)
Categorical contrast	0.187*** (0.049)	0.185*** (0.054)	0.194*** (0.050)
Density of categories	0.434*** (0.101)	0.443*** (0.108)	0.439*** (0.103)
Density squared of categories	-0.057*** (0.013)	-0.059*** (0.014)	-0.058*** (0.013)
Tenure	-0.004 (0.003)	-0.003 (0.003)	-0.006+ (0.003)
Size	-0.004 (0.011)	-0.005 (0.009)	-0.005 (0.012)
Internationalization	-0.000 (0.000)	0.000 (0.000)	-0.000 (0.000)
French law firms	-0.395*** (0.038)	-0.339*** (0.026)	
UK law firms	-0.219*** (0.034)	-0.176*** (0.027)	
US law firms	0.099** (0.036)	0.151*** (0.026)	
Constant	0.096 (0.772)	-0.422* (0.214)	-0.210 (0.219)
Year dummies	Yes	Yes	Yes
Location area dummies	Yes	Yes	No
Guide dummies	Yes	Yes	Yes
Category dummies	Yes	Yes	Yes
Mundlak's correction	Yes	No	No
Observations	2549	2549	2549
Number of firm-location	431	431	431
Number of firm-worldwide	329	329	329
Wald chi ²	1657.93	1539.59	.
F-statistics	.	.	18.11

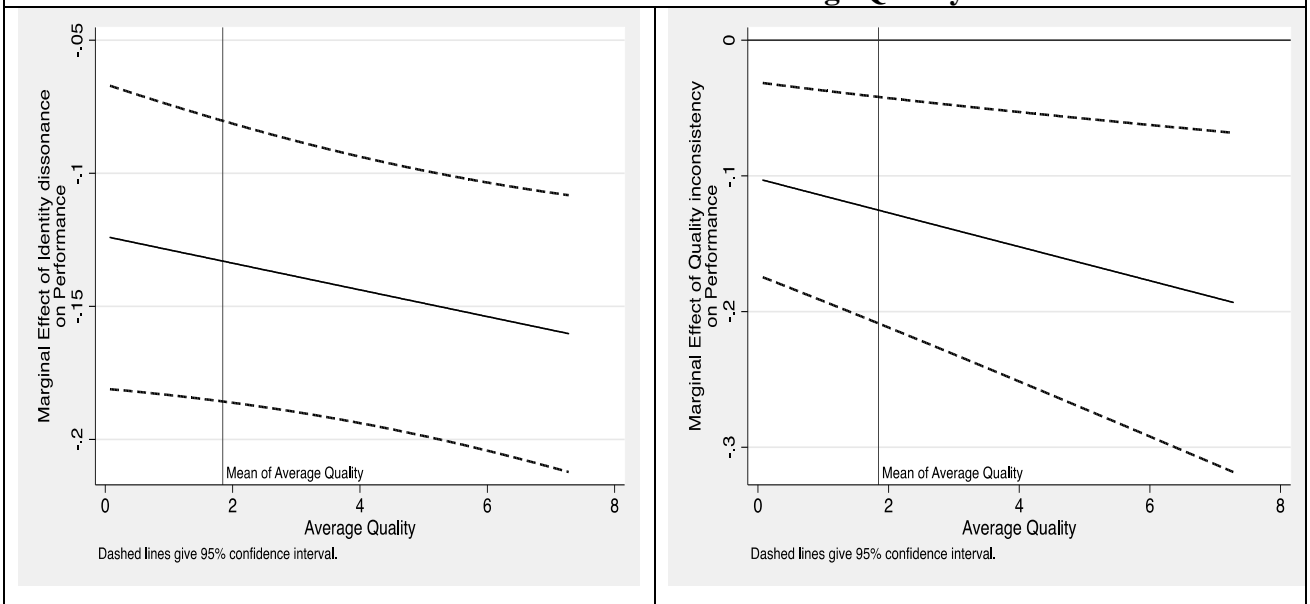
Clustered-Robust standard errors in parentheses

*** p<.001, ** p<.01, * p<.05, + p<.1

Figure 9- Effect of Identity dissonance and Quality inconsistency on Performance



Figures 10 and 11- Marginal Effect of Identity dissonance and Quality inconsistency on Performance Conditional on Average Quality



CONCLUSION

Differentiating firms on the basis of their category membership has become a central issue in strategy, organization theory, and economic sociology. Categories are ubiquitous in economic life. When we buy something, contract with a firm, engage exchange on markets, we rely on categories to help us navigate into markets. To comprehend the infinite reality of economic markets, people have to limit its multiplicity and reduce its complexity by thinking with categories. The objective of this dissertation was to investigate how categories underlay economic markets and delineate different spaces with specific expectations. In particular, I sought to understand how categories in market are important components of competition, as they aid participants to position their products and services vis-à-vis others, thereby providing a basis for evaluation and comparison for offerings (Hsu, 2006; Zuckerman 1999).

Pervasive consensus in literature indicates that audience members assent about what categories are and prefer dealing with organizations with clear category membership. Firms belonging to a plurality of categories blur their identity, attract less attention from critics, and send signals of a lesser competence across categories than focused rivals. Unsettling this current consensus about categorical imperatives and market discipline, this dissertation advocates for more tolerance in the manner scholars collectively address categories and categorization in their research. Drawing on the prototype view, organizational scholars have provided a ‘disciplining’ framework to explain how category membership shapes, impacts and limits organizational success. By discussing the assumptions of the literature and finding an original empirical setting, I tried to answer my research question and make contributions at both empirical and theoretical levels following Murphy’s advice (2004: 445): “If a prototype model, for example, cannot explain conceptual combination, then it may have to be given up in favor of a model that can explain it.”

Those readers who have struggled along through the whole dissertation deserve to hear the answer now about the research question formulated in the introduction: *How and to what extent do categorical structures of markets impact firm's performance and evaluation?* Based on the case of Corporate Legal market from 2000 to 2010, chapter 1 suggests that audience members with multiple needs evaluate positively organizations that blend categories. In addition, as important as or perhaps more important than belonging to multiple categories, organizations that exhibit both coherent and legitimate category arrangements are more likely to obtain better audience evaluations. As such, as the cognitive legitimacy of the categorical arrangement increases, so does the positive association between category spanning and audience evaluation.

Chapter 2 explores how an organization's evaluation in a focal category may be influenced by how appealing audiences perceive the organization to be in other categories. As a baseline, this study proposes that evaluating audiences may use a firm's assessment in non-focal categories to infer its capabilities in the focal category. Then, I develop a more nuanced understanding of how cognitive processes impact this type of evaluation spillover. Audience members who evaluate organizations on market use the other category affiliations of the organizations as cues to simplify their decision-making process. These inference-based judgments are grounded on the observation of an organization's past evaluation weighted by its consistency and category distance. This second essay contributes to a better understanding of the cognitive mechanisms whereby different components of a firm's identity are related such that firm's record of distinguishing itself in multiple lines of business may influence how it is perceived in a focal area.

While most studies have addressed the issue of multi-category membership with the lens of specialism vs. generalism (specialists being less ambiguous than generalists), chapter 3 contends that multi-critic consensus complements prior literature and helps establish the

relationship between multi-category membership and performance. Multi-critic consensus consists of both low categorization and rating ambiguities, i.e. whether critics categorize identically organizations across multiple categories and whether per category they converge in their ratings. Capturing the twofold ambiguity of firms along these two dimensions, this chapter provides evidence that categorization and rating ambiguities reduce performance, and more so for high-status firms. This essay advances research on the consequences of multi-category membership that has too often conflated membership and quality evaluations as well as undervalued the role of institutional environments on categorization and evaluation processes.

Categories produce advantage or damage. This dissertation explores the scaffolding of category-stretching strategies to better navigate the ‘category map’ in markets. Rather than studying a strict categorical discipline, the three essays aim at addressing a bigger picture view – of how categories in markets affect organizations’ value when the assessment of products and services is problematic. In that case, the first stage of the valuation process of audiences is to determine category membership based on their theories of value. That means categories are endogenous to the theories of value that audiences will act upon (Lamont, 2012; Zucherman, 1999: 1431-1432). Contrary to the classical studies in organization theory and strategy, the empirical setting of the corporate legal services market offers the case where the theory of value of clients implies specific relationships among categories (i.e., favoring multi-practice firms). I hope the arguments that were developed reinvigorate the somewhat stale treatment of categories in organizational and ecological theory. Bringing in a dynamic dimension, new approaches of categorization enrich our views on multi-category membership in markets and provide the potential for stronger interconnections with different areas of research.

Contributions to Research Streams

Categorization literature. The first broad contribution of this dissertation is related to categorization research. By stretching the existing straightjacket in categories' studies in strategy and organization theory, I suggest that at the organization level, categorization does not operate only on a similarity basis but rather from criteria that depend on the nature of audiences' needs and on the social context of exchange. Following a top-down process, the similarity perspective assumes that an organization's features contain information and act as stimuli to which an audience responds by comparing current features to an abstract prototype. In contrast, the evaluation of social objects (e.g., a need or demand such as 'finding the best place' or 'getting the best service') follows the bottom-up logic of information processing: from the audience's goals to the social object's features (Durand & Paoletta, 2013). According to this goal-based conception of categorization and evaluation, audiences pursue objectives when assessing and exchanging with organizations; the organizations that fulfill these objectives will be deemed more appealing. Also of importance, the categories pertain to a system of interdependence between categories, which is in itself meaningful. All combinations or arrangements of categories do not possess the same cognitive legitimacy. Neither the evaluation inferences are identical over categorical boundaries. These considerations enrich our understanding of how audiences apprehend a whole market category system and multi-practice organizations.

The importance of consensus about the category structure of markets is also demonstrated by a careful examination of the consequences of disagreement in terms of categorization and ratings. Instead of considering social categories as a set of dispositions homogeneously internalized by actors, chapter 3 focuses on the case when audience members locate organizations in different clusters and delineate divergent standards for evaluation. Thus, this essay highlights that to be effective and enable exchange, market categories have to

be shared by all involved actors. Inferences from a category membership are as powerful as this membership is clear and taken-for-granted by the great majority. If market actors identically recognize the categories that guide firms' behavior, it is because a consensus has emerged on both the definition and valuation of these categories. In the opposite situation, for an actor in a market, deciding about organizations with highly discrepant ratings is difficult. In his famous essay *The Metropolis and Mental Life* (1903), Simmel emphasized the confusion in people's mind that could stem from conflicting signals: "If all clocks and watches in Berlin would suddenly go wrong in different ways, even if only by one hour, all economic life and communication of the city would be disrupted for a long time" (2002: 13). That means complex systems of coordination as economic markets need an impersonal apparatus that actors fully share.

Diversification literature. This dissertation adds to the diversification literature by focusing on the socio-cognitive dimensions of corporate legal market and by depicting multi-practice organizations. I draw attention to the fact that synergies can be not only based on shared resources and complementary skills but also driven by the evaluative schemas of audiences. Synergies lead to a situation in which the whole evaluation of a multi-practice organization is greater than the sum of its evaluation in every single category. Synergies occur with complementary competencies and with creation of a more efficient transacting environment (Coase, 1937; Martin & Eisenhardt, 2001). That situation usually arises either when firm's practices are rooted in common core competencies (Prahalad & Hamel, 1990) or when the required competences involved in any categories are complementary. In the first case, generalist firms develop a set of competences that can be allocated and distributed in more than one category. They spread out similar competences across several categories and share common resources. In the second case, synergy effects stem from categorical

combination which allows hybrid organizations to reach higher performance than if they had been a member of only one category. For doing so, firms trade off between potential synergetic benefits and coordination costs of multiples subunits (Zhou, 2011). In this line of research, whereas over-diversification generally leads to suboptimal outcomes, some category combinations are likely to offer certain organization advantages in the eyes of some audiences (at the cognitive level). For instance, a firm may persist with unrelated activities because their main clients associate them with these activities – a car manufacturer may feel obliged to continue producing engines or running a team in major competitions so as to go on being considered a real producer of cars – or retain them in their domestic portfolios to avoid being politically penalized in local markets for divesting them (e.g. Renault or Peugeot-Citroen in France). This argument amounts to overturning the current grievances against diversification and categorical spanners. It is not the fact of spanning categories *per se* (i.e. increasing the total cognitive distance relative to established prototypes) that might matter to audiences, but their capacity to make coherent sense of the categorical combinations they observe. If audiences can assemble the causal associations entailed by multiple categories (e.g. corporate law/banking or auto producer/auto retailer/insurer) into a coherent model, organizations that bridge categories could offer a better fit from audiences' viewpoint relative to purists from each independent category. Thus, hybrids could be seen as advantageous when category combinations are more sensible and cohere better with audiences' evaluative schemas, and may even be superior to typical specialists when considering multiple audiences' purposefulness. That also echoes 'decoupling' as a way of matching rationalized myths about what a specific organization should do to be seen as legitimate (Meyer and Rowan, 1977). While an organization is mainly focused in one activity and has a poor presence in other ancillary activities, it can identify itself as a multi-category spanner to be appealing towards some audiences.

Intermediaries and external evaluators. Another important contribution of this dissertation is to research on intermediaries and external evaluators. External evaluators set cultural and cognitive structures on both field and organizational levels (Dimaggio & Powell, 1983; Meyer & Rowan, 1977). Regarding the field level, they enable categorization and comparison between firms and products (Rao et al., 2003). They entrench hierarchy through product recommendations and endorsements (Phillips & Zuckerman, 2001; Rao, 1998), and act as gatekeepers and an impetus for pervasive change across the field (Sauder, 2008). At the organizational level, they drive firms to conform to socially accepted standards (Sauder & Espeland, 2009) by impacting their outcomes (Hsu, 2006b; Zuckerman, 1999) and by determining penalties in case of deviance (Durand et al., 2007). Past scholars have thus highlighted this feature of *order-maker* of intermediaries but much less the aspect of *order-taker*. On this latter aspect, the data from the three legal directories shed light on an important aggregation function of intermediaries which mirror differences in audience member assessments. Research on this kind of settings – where the role of intermediaries is minimized to reflect rather than influence audiences – is underrepresented despite great number of markets with weak or nonexistent intermediaries (Phillips, and Zuckerman, 2001; Khaire, and Wadhwani, 2010; Pontikes, 2012). There exist many situations where evaluators are not first-hand testers of products, where their knowledge and expertise is not greater than that of end-users. Whereas film critics, wine tasters, and restaurant testers do qualify as expert judges, the three guides (*The Chambers and Partners*, *The Legal 500*, and *PLC Whichlawyer*) in the corporate legal services market cannot pretend to authoritatively evaluate the quality of producer outputs. In this context, I highlight how these intermediaries and audiences interact. Whereas clients and consumers follow evaluators' advice when evaluators are legitimate hierarchy makers (e.g. *Michelin Guide*, *Robert Parker Guide*), audience members behave differently when evaluators mirror market's opinions. In this case, ratings and rankings

support audience choices – they are not at the root of the choices – and serve as an assurance and a justification *ex post* for audience. This dissertation furthers our understanding on social valuation and its strategic implications for organizations by studying a situation where the power of prescription is reversed. Competition between several prescribers undermines their influence to such an extent that evaluated firms (re)gain the reputational control over the market. Multiple rankers in competition for the critical opinion become more *order-taker* than *order-maker* in the organizational field, and the outcomes of external evaluation are therefore more lenient.

Organizational status literature. This dissertation also provides new insight into literature that has previously explained stability and reproduction of social ordering (Gould 2002; Podolny, 2005; Bourdieu, 1984; Phillips and Zuckerman, 2001; Phillips, Turco, and Zuckerman, 2013). Gould (2002) suggests that inertia of the actor's social position does not result from stable intrinsic differences but from a self-reinforcing process. As such, status begets status and higher status players benefit from greater rewards than their lower-status peers (Merton, 1968). However, status is chiefly studied in only one field or category in which the organization operates. To one firm corresponds a single and one-dimensional status. This dissertation sheds light on organizations evolving across several categories at the same time. Thus to one category spanner corresponds a plural and multi-dimensional status, that is, one by category spanned. The second essay refines this self-fulfilling mechanism showing that status homology matters because discrepancies among sub-activities' statuses are problematic for firms. By carrying a blurry signal, an organization with divergent statuses across categories will benefit less of self-validating judgments than an organization with a homogeneous status. It also provides evidence that the initial domain where the accumulation

of status is achieved matters. The status signal will be more or less extended across categories according to their distance and similarities.

In this literature, Phillips *et al.* (2013) reinterpret also high status diversification with the lens of membership and loyalty norms, high status actors being sanctioned when serving clients perceived as incompatible by audiences. Chapter 3, by finding that high-status actors suffer much greater penalty from ambiguous evaluations than lower status peers, informs this view in two ways: critic consensus plays a role in ascribing identity to organizations that influence their performance and in turn the social ordering of markets; critics express by their divergent evaluations about high status players that higher expectations bear on these organizations in terms of quality and commitment. Because an organization's social position largely determines opportunities and constraints they face, critics as a collective participate in the maintenance of social orders.

Avenues of Research

Fine-grained measures of Category membership. A promising avenue for research would consist to better capture the category memberships at the organizational level. Most studies to date account for an organization's grade of membership (in a restrictive binary fashion) by aggregating the relative proportions of products belonging to pre-fixed categories and adjusting for the number of categories. Moving down to the level of categorical dimensions or features would generate new measures of proximity and similarity based on the influence of various features with variable causal and classificatory power. Future studies along this line could help refine our knowledge of the extent and the meaning to be a multi-category organization for both audiences and the organizations themselves. Scholars also face challenges to determine multi-category membership's antecedents, like for instance audiences' 'omnivorousness' that characterizes consumption of goods belonging to opposed

socially ordered categories such as listening to opera and blue grass, or eating at McDonalds and three-star Michelin restaurants (Peterson and Kern, 1996). Recent techniques such as relational class analysis enable researchers to evaluate schematic similarities across vectors of scaled variables, thus taking account of the direction of the differences across values in the scale (Goldberg, 2011: 1406). This method allows one to proxy patterns of causal associations across various audiences and uses them as variables in models exploring the antecedents of categories. Even situated goals attached to audience members could then be identified, enabling the creation of subgroups which share understandings about the goals they pursue. New research area could thus connect various degrees of individualistic categorization (by a lay person, an employee, a client, an activist) with both organizations' self-categorization (i.e. its strategy in terms of identification and positioning (Foreman and Whetten, 2002; Rindova et al., 2011)) and with social categorization by expert legitimating agencies (such as critics, accreditation agencies, rating agencies, awarding entities and so forth – e.g., Durand and McGuire, 2005; Sauder, 2008).

Strategic (Self-) Categorization. There is also room to explore socio-cultural innovation and firm strategizing in terms of category affiliation. The current state of literature has overemphasized the stability of categories and the inertia of classificatory systems, overlooking category dynamics and their evolution. Organizations seem to be passive and have no total control over how audiences categorize them. However, in some cases, organizations purposefully attempt to induce classification in a category that has nothing to do with their actual activities, in order to manipulate audience perceptions. Organizations co-construct competition through categorization processes that exclude rivals as being outside their environment and reinforce prior stereotypes about the rules of the game (Porac et al., 1989). That said, strategic self-categorization of firms occurs and has an impact on the

category development. Thus, we should understand organizations and firms as driving forces behind audiences' categorizations by developing strategies. For example, in their study on chefs, Durand et al. (2007) showed how producers (restaurants) could respect the categorical discipline of traditional cuisine and innovate within and beyond the category. They can be innovative while still respecting the category (by making changes that preserve established codes) or they can introduce code-violating changes: such tinkering with selection criteria and categorization processes is the very essence of strategy (Durand, 2006). This perspective enables us to explore how and why producers may decide to extol their offerings under differing identities to various audiences, blending categories, and whether they adjust to or anticipate how audiences structure their causal schemas and perceptions across markets. In the entrepreneurship literature also, reinvigorated approaches to categorization could contribute to understanding when and how entrepreneurs' and decision makers' inductive recombination of features and the elaboration of associated narratives align successfully with audiences' categorization processes. By definition, entrepreneurs bring novelty and span, blend and recombine features from existing entities which are more or less prototypical of existing categories. Integrating fresh perspectives on audiences' categorization and active role of producers could enable us to explore the success of novel offerings in the sense that they respect or challenge audiences' causal models and/or match their goals more squarely (Hiatt, Sine, and Tolbert, 2009; Russo, 2001).

Contention for critical opinion. An interesting avenue for research would also be to further develop the effects of the competition between several external evaluators. Since the last decade, most scholars have analyzed the critic-customer dyad (evaluators-audience) and its impacts on different outcomes: box-office success (Hsu, 2006b; Reinstein & Snyder, 2005; Zuckerman & Kim, 2003), eBay auctions (Hsu et al., 2009), and student applications to

schools (Sauder & Lancaster, 2006). Another part of the literature has paid attention to the producer-critic dyad (evaluated-evaluator) and its influence on organizational practices in different fields: stock market value (Zuckerman, 1999), Haute cuisine (Durand et al., 2007), winemaking industry (Negro et al., 2011), and Law schools (Espeland & Sauder, 2007; Sauder, 2008). What scholars do less effectively is to account for the critic-critic relationship through situations where multiple critics are in competition. Critics have three levers: coverage, categorization, and evaluation. In the process of the contention for critical opinion, do critics diverge in their evaluation to entrench their uniqueness of judgment? Does the overlap of coverage or categorization increase between rival critics to comply with a domain consensus – the boundaries of field – that they cannot violate (Thompson, 1967)?

Implications at the Society level. Finally, one area unexplored yet is the consequences of the classification schemata at the macro level. Very few studies explore the social, political or institutional effects of the category structures. For an exception, Fourcade and Healy (2013) analyzed the stratifying effects of economic classifications through specifically the credit score techniques and institutions on credit market that sort individuals into classification situations that shape their life-chances. Throughout the example of the official national statistics, Alain Desrosières and Laurent Thevenot (1988) showed how the introduction of new methods to conduct census with new ‘categories’ have changed the perceptions of social classes in France. In Organization Theory, categorization studies might be fruitfully combined with institutional logics of action or even ideological justifications for action (Tetlock, 2000; Thornton and Ocasio, 1999). Institutionalization is the habitual repetition and objectification (at the community level; e.g., Tolbert and Zucker, 1997) of a pattern of actions that becomes associated with a category of actors, creating some ‘if-then’ chains of expectations and actions. Some scholars have started to try to determine how

instantiating a certain institutional logic may condition audiences' cognitions and behaviors (Marquis and Lounsbury, 2007; Thornton and Ocasio, 1999). Others have shown how personal epistemologies and political ideologies can influence managers' evaluation of decisions, and so impact on how an organization accounts for its collective actions and outcomes (Tetlock, 2000). We should pursue and cross-fertilize these two streams of research.

The Next Leap: Toward a Sociology of Culture and Cognition

This dissertation departs from and complements works in the categorization literature by focusing on the conditions and consequences of category spanning, in a socio-cognitive perspective. Relatively new, this literature benefitted greatly from theoretical imports from cognitive psychology, logic, and linguistics (Hannan et al., 2007). Considering that social actors are naturally wired for categorization process, category studies have accented that economic actions cannot be comprehended without studying actors' *classificatory function* (Durkheim and Mauss, 1963: 4). As such, categories are deemed central to strategy and management because they structure markets by connecting actors to each other and by enabling valuation of products and services.

However, there is another way to think about categories. Originally in sociology, the concept of category has been studied by Durkheim and Mauss as part of their sociology of knowledge (1963). It was a definitional apparatus to describe conceptual thinking of actors and the principles and processes of their cognitive activity. Hence, categories "constitute the common field where all minds meet." (Durkheim, 2008: 13). But Durkheim and Mauss sociologized these traditional philosophical questions by giving a social basis for categories and treating them as social institutions. They emphasize the social origins of classifications as they do not think that the human mind innately classifies things in its environment (1963: 7). Instead, they believe that people mind needs guidelines and these guidelines are given by the

society. If the society is organized in a certain way, then the rest was to be divided similarly and linked to categories socially established.

Future paradigms should reconnect and expand the classical authors' view by supporting and extending sociological studies of both culture and cognition. Culture as shared understandings of meaning is embedded in complex relational networks (Goldberg, 2011), institutions (Douglas, 1986), as well as social categories. Parsons already intertwined ideas on culture and cognition: "Each functional category is "governed" at the highest level by a value-system, which is a *specification* at the relevant level of generalization and of situational reference, of the general societal value system" (Parsons, 1965: 165). As such, categorization is largely a cultural endeavor, centered on shared understandings of an audience. For instance, Zelizer (1979; 1985) shows that cultural representations are crucial either to reject or to accept that 'business' categories are present within intimate relationships (e.g., about death with life insurance; 'baby markets') and how cultural/normative rules and economic activities interact.

I hope that this cross-fertilization could fuel further developments in the current literature and a more fine-grained examination of the category dynamics and meaning construction. A future trend might explore the context and conditions that influence and determine the *modus operandi* of categorization process by considering categories as the cultural containers "in which social interests are defined and classified, argued, negotiated, and fought out." (Douglas, 1982: 12). For example, category studies have focused on observable similarities among organizations. But what are the implications of considering similarity as "an institution" (Douglas, 1986: 55)? How the embeddedness of various cultural elements of styles may lead to similarity/conformity?

In the current state of the literature, the concept of category is timeless, while the drivers of audiences' perception (goals, knowledge, experience) have a dynamic dimension. Even though a given architecture of categories shape the organization at any point in time and

set limits for the organizations, a different configuration of categories may always emerged for the future. A cultural perspective would favor studies that examine dynamic process of category construction, emergence and change of meaning attached to the category boundaries (Kennedy and Fiss, 2013). Cultural features and their association with history, politics, and traditions may matter significantly more than is currently acknowledged in explaining both audiences' and producers' categorizations and behaviors. Here, new avenues for categorization research may better connect the existing sociological and ecological work on categories with other institutional and cultural approaches that aim to describe and understand not just the discipline involved in markets' cognitive infrastructures but also the networks of meaning that emerge, propagate, and self-justify themselves via sequences of categorizations and actions. More generally, explicitly recognizing sociocultural foundations of categories opens opportunities to better understand the dynamic and long-term evolution of markets, and will illustrate the ways in which cognitive processes stem from cultural dimensions and vary across different cultural contexts.

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Law and (Re)Order: Impact of Category-Stretching Strategies on Firms' Performance and Evaluation. The Case of the Corporate Legal Services Market (2000-2010)

Abstract. This dissertation explores how market categories – clusters that share cognitive and cultural similarities – impact firms' performance and evaluation. Pervasive consensus in literature indicates organizations that do not fall into a single category suffer economic and social disadvantages. Unsettling this current consensus about the categorical imperative, this dissertation advocates that external audiences have a more complex role than simply patrolling the boundaries and sanctioning any infringement of established categories. They scrutinize categories in various ways depending on their needs. They infer some characteristics of firms from one category membership to another. They diverge about the category memberships and evaluation of firms. This dissertation provides evidence that in such cases, spanning categories both leads to positive social evaluations for organizations, but decreases performance in case of inconsistency across categories. Empirically I study the corporate legal services market in three major financial locations (New York City, Paris, and London) over a decade (2000-2010). My findings are twofold: (i) multi-category law firms – those that are engaged in several practice areas of law – receive better social evaluation from clients both at the firm level and at the practice area level; (ii) disagreement among clients' evaluation about law firms' practice areas undermines their financial performance. This dissertation deepens our understanding of the role that categorical structures play in markets and the category-stretching strategies firms implement to better navigate the 'category map'. This work contributes also to research in legal studies and has implications for law firms' business development.

Keywords. Categories, category-spanning, external evaluation, performance, critics, law firms.

Le Droit et le (Dés)Ordre: L'Impact des Stratégies d'Extensions Categorielles sur la Performance et l'Evaluation des Entreprises. Le Cas du Marché des Cabinets d'Avocats d'Affaires (2000-2010)

Résumé. Cette thèse examine comment les catégories de marché - ensembles qui partagent des similarités cognitives et culturelles – impactent la performance et l'évaluation des entreprises. Le consensus répandu dans la littérature indique que les organisations qui évoluent dans plus d'une catégorie sont sanctionnées tant au plan économique que social. Remettant en cause ce consensus actuel sur 'l'impératif catégorique', cette thèse avance l'idée que les acteurs d'un marché ont un rôle plus complexe que simplement réprimer toute violation des catégories établies. Aussi dans ce contexte, être engagée dans plusieurs catégories de marché pour une organisation à la fois améliore son évaluation sociale mais réduit sa performance en cas de perceptions divergentes de ses affiliations catégorielles. Les données empiriques de cette thèse portent sur les cabinets d'avocats d'affaires dans trois grandes métropoles (New York, Paris et Londres) au cours d'une décennie (2000-2010). Les cabinets d'avocats multi-services – ceux qui exercent dans plusieurs domaines du droit – obtiennent une meilleure évaluation de la part des clients tant au niveau global du cabinet que pour chacune de leurs spécialités juridiques. Toutefois, les désaccords entre clients en termes d'évaluation portant sur chacune des spécialités juridiques offertes détériorent la performance financière des cabinets. Cette thèse approfondit notre compréhension du rôle que jouent les catégories sur les marchés et les stratégies d'extensions catégorielles que les entreprises mettent en œuvre. Ce travail contribue également aux études sur le champ juridique et a des implications pour la conduite stratégique des cabinets d'avocats d'affaires.

Mots clés. Catégories, évaluation externe, performance, critiques, cabinets d'avocats.