ORGANIZATIONS OF PROFESSIONALS: GOVERNANCE STRUCTURES IN LARGE LAW FIRMS

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Abstract

Despite the growing number of studies of professionals in organizations, surprisingly little attention has been given to the way in which professions shape organizations. This research addresses this issue by examining the determinants of formal structures in large law firms for decision making in two areas: compensation and promotion. We argue that the structures for compensation decisions are strongly influenced by contemporary business strategies adopted by law firms, as indicated by a number of organizational characteristics. Because promotion decisions are closely tied to the institution of professional authority, however, structures for these decisions are largely unaffected by such strategies. The implications of this study for a number of lines of organizational research are suggested.

Most studies of organizations and professions have focused on the way in which standard features of bureaucratic organization impinge on the autonomy of professionals. This literature reflects a long-standing debate over the existence of an inherent tension between bureaucratic authority, derived from organizational position, and professional authority, based on specialized, technical expertise. A number of early theorists (Parsons 1947; Scott 1965) suggested that these two types of authority necessarily conflicted in organizations. More recent work, however, has questioned the validity of this argument on both theoretical and empirical grounds (Hall 1968; Engel 1970; Engel and Hall 1973; Ritzer 1975). While not often recognized, the concern of this literature with the effects of organizational characteristics on professionals' control of work has important parallels in studies of organizational democracy.[1]

A current variant of the debate over the impact of organizations on professionals' work is found in studies of deprofessionalization (Toren 1969; Rothman 1984; Derber 1982). Discussions of deprofessionalization are implicitly or explicitly premised on the assumption of conflict between professional and bureaucratic control. It is argued that in recent years, professionals' traditional rights to control of work have been stripped away by organizational employers. Thus, the current increase in the number of professionals working as salaried members of organizations is seen as an important element in deprofessionalization at the occupational level (Toren 1969; Derber 1982).

While a large literature has been devoted to examination of the effect of organizations on professions, surprisingly little work has addressed the reverse question: How do professions affect organizations? Professional authority represents an important institution in our society (see Torres 1991), one that is likely to importantly shape organizations dominated by members of professional occupations. Meyer and Rowan's (1977) analysis of institutional processes, and particularly DiMaggio and Powell's (1983) discussion of normative isomorphism, provide important insights into the processes through which this occurs. However, the question of what aspects of organizations are most vulnerable to such institutional forces has been left largely unanswered.

We address this issue by investigating the effects of a number of organizational characteristics that are associated with the business strategies of corporate law firms on the firms' formal structures for making decisions in two areas: compensation and promotions. We argue that promotion decisions are closely tied to the institution of professional authority, while compensation decisions are not. As a consequence, characteristics that are linked to strategy are expected to be less predictive of structures for making promotion decisions than they are of those for making compensation decisions. In the following section we describe some of the major changes that have affected large legal practices in recent years, and the concommitant changes that have occurred in the business strategies of many firms. We then discuss the effect of different business strategies on partner relationships, and in particular, on formal structures for decision making by the partnership. Based on this discussion, we propose a number of hypotheses, linking specific organizational characteristics to decision-making structures. These hypotheses are then examined using a sample of major corporate law firms. In the final section, we consider some of the general implications of this research for studies of professionals and organizations.

Growth and Change in Corporate Law Firms

Paul Cravath, a partner in a New York law firm, is traditionally credited with developing the model of organization that dominated the practice of corporate law during the first half of the twentieth century (Hoffman 1973). In this model, a few dominant partners ran the firm, developing and utilizing the skills of carefully selected associates to provide a variety of legal services to a stable clientele of large business corporations. Partners were drawn from the ranks of associates who, after nearly a decade of service to the firm, had proven themselves; those who were not promoted ultimately found (or were found) positions in other organizations. Promoted associates and those who left the firm were replaced by new cohorts of associates.

Firms varied in terms of the degree to which power was distributed among the partners, although the notion of the firm as a "company of equals" dominated in most (Smigel 1964; Spangler 1986). The majority of firms concentrated on serving clients in the same city or region as the firm, dispatching temporary "teams" from the home base to handle clients' problems in more distant locations if necessary (Stevens 1987). Stable relationships with clients fostered a placid, lucrative environment conducive to steady growth.

Within the last twenty years, however, the environment of corporate law practice has changed radically, leading to dramatic changes in the organization of many firms and in their business strategy (Nelson 1981, 1988). One major environmental change has been the decreasing dependence of corporate clients on law firms. The long-term, stable relationships between firms and clients that characterized corporate practice in the past are becoming rare commodities, as businesses increasingly have demonstrated a willingness to "shop around" for legal services. This is attributed, at least in part, to a greater sophistication among corporate clients and their in-house counsel (Nelson 1988). Spiraling legal costs have led many business firms to create and expand their own legal staff to handle routine legal problems, and to broker relationships with the large corporate law firms that handle more specialized, nonroutine problems. This trend has been associated with a greater propensity among business firms to search for and demand better, more cost-efficient legal services (Stevens 1987). Consequently, corporate law firms have faced an increasingly competitive market for their services.

A second major change has been an unprecedented growth in the size of corporate law firms over the last two decades. Both the average number of lawyers in a firm and the number of firms with more than 100 lawyers have increased dramatically (Galanter and Palay 1988). For instance, between 1960 and 1986, the number of firms employing more than 100 lawyers grew from less than a dozen to over 250. It has been argued that such growth reflects the logic of transaction costs associated with traditional law firm structure, which require the continual expansion of firm practice (Gilson and Mnookin 1985; Galanter and Palay 1988).

The pattern of growth also reflects the rise of new national and international law firms, with multiple offices in different cities and countries. Such spatial differentiation has typically been accomplished through law firm mergers. The creation of multi-office law firms has sometimes followed the geographical expansion of corporate clients, as firms have sought to accommodate client demands for ready access to legal advice for specialized problems. In other cases, geographical expansion has been consciously aimed at reducing dependence on a limited set of clients (Stevens 1987). Finally, the growth of some law firms provided the impetus for expansion in others—simply to remain competitive.

Such changes are associated with the abandonment by some firms of the traditional law firm business strategy, involving the cultivation of strong ties to, and high dependence on, a few major corporate clients. Such a strategy requires providing legal counsel in a variety of areas in order to meet the clients' range of needs. In contrast, an increasing number of firms have adopted an alternative strategy, relying on the aggressive pursuit of a wide range of corporate clientele and providing specialized legal counseling on a limited-term basis (Stevens 1987; Nelson 1988; Spangler 1986).

Changes in the context of legal practice have often been identified with changes in traditional policies and practices involving legal personnel. In particular, much attention has been given to the impact of such changes on the status of associates in the firms (Wholey 1985; Brill 1982b; Nelson 1988). Firm growth has been linked to increases in the number of associates relative to the number of partners and to declining chances for promotion to partner (Lavine 1979; Wholey 1985). The shift in the traditional view of associates as would-be partners to associates as sources of revenue is underscored by recent, frank discussions in law journals of the relationship between the partner/associate ratio and firm profitability (e.g., Brill 1982b).

Associates' status in many firms has also been affected by the increased use of lateral hires, partners or higher-level associates hired from other firms. While enabling firms to quickly expand and acquire specialized expertise in a given area, lateral hiring often limits chances of promotion from within. In addition, many firms have increased vertical differentiation by creating new career positions, such as permanent associates, and junior or nonequity partners. These positions typically are accorded higher status and salaries than those of associates, but lack the full rights and privileges granted to senior or equity partners.

In the face of a growing body of studies on associates in contemporary corporate law firms, there is little debate that traditional relations between law partners and associates have been altered greatly over the last two decades. In contrast, while there has been considerable speculation and anecdotal discussion of the way in which recent changes in law firms have affected relations among the partnership, relatively little systematic evidence is available.

Organizational Change, Partner Relations, and Decision-Making Structures

Some commentators have suggested that a sharp decline in egalitarian participation by partners in organization decision making has accompanied recent strategic changes in corporate firms. As corporate clients' loyalties to long-term relationships with particular firms have disintegrated, the role of individual partners in attracting new business has increased in importance (Nelson 1988). Clients are more likely to be viewed as the property of individual lawyers than of the firm in general. Those partners whose client-attracting skills significantly affect the success or failure of a firm have sometimes sought greater control, as well as larger financial rewards. Moreover, the slowness and inefficiency of collegial decision making may threaten firms' survival in the increasingly competitive environment of corporate legal practice. According to Brill (1982b, p. 49), "The most widespread...reaction to the realization that law is a business has been to replace democratic aspects of governance with near autocracy."

As this quotation suggests, the recent rationalization of traditional legal practice is usually seen as undermining traditionally egalitarian partner relations, and sharply conflicting with professional norms of collegial control. However, the apparent conflict may be moderated by the fact that not all organizational decisions are considered to be within the domain of professional control. Indeed, we argue that only a few areas of decision making are tied to professional authority, and that firms' decision-making structures in these areas are unlikely to have been affected by changes in corporate legal practice in the way that Brill suggests. This argument rests on a specific conceptualization of professional authority: We treat it as a major institution in contemporary society that has a profound, but delimited, influence on work relationships.[2]

A variety of efforts have been made to identify the central components of professionalism (see, for example, Cogan 1953; Greenwood 1955; Cullen 1978; Berlant 1975; Larson 1977), resulting in a fairly lengthy and strongly debated catalogue of traits. Despite the degree of contention surrounding these efforts, an emergent consensus in this work underscores the importance of two defining components of professionalism, both of which involve institutionalized "rules" concerning rights to control of work by occupational members (see Meyer and Rowan 1977). One is the right of individual members to make independent decisions concerning the appropriate procedures for carrying out tasks and activities related to their expertise (Parsons 1954). The second is the exclusive right of occupational members to evaluate the competence of any given member with respect to the execution of those tasks and activities (Freidson 1970; Waters 1989).

Note that the nature of control of work entailed by each of these is specific and may be quite limited, depending on the jurisdiction of the occupation (Abbott 1988). If the set of tasks that constitutes the occupation's exclusive domain is very narrowly defined, the range of activities over which a practitioner has complete, legitimate control will also be restricted, and these may in fact constitute only a fraction of the individual's daily work tasks. Likewise, the professional group retains only the specific right to ascertain and enforce relevant occupational competence.

In the case of law firms, these arguments suggest that the recent adoption of a more rationalized approach to practice by many firms is likely to have greater impact on some aspects of firms' decision making than on other aspects. While both promotion decisions and compensation decisions represent important elements of work control, they are differentially related to professional authority, and thus differentially affected by firms' strategy. Because promotion decisions, resting on the evaluation of new members' professional skills and abilities, are closely linked to this institution, attempts to impose a hierarchical structure on such decisions on the basis of business considerations is apt to be met with considerable resistance (see Zucker 1977; Meyer and Rowan 1977). Hence, characteristics identified with a more aggressive, nontraditional business strategy among law firms should be poor predictors of structure in this area of decision making. On the average, firms should retain a collegial structure for promotion decisions.

However, there is some evidence that institutionalized structures and practices typically exhibit a certain amount of variability across networks of organizations (DiMaggio and Romo 1984; DiMaggio 1984). Such variations may stem from differences in the political and economic conditions that once faced particular organizations in a network (see Tolbert and Zucker 1983; Fligstein 1985). Whatever the initial source of such variation, normative and mimetic processes of isomorphism are expected to produce similar structures among organizations within a network (DiMaggio and Powell 1983; Meyer and Rowan 1977; Zucker 1983), especially with regard to those attributes that are viewed as appropriately driven by professional rather than technical considerations.

In contrast, decisions related to financial concerns are generally viewed as irrelevant to the institution of professional authority, as evidenced by extant patterns in a wide variety of occupations. For example, the decision-making structures for hiring and promotion of faculty in colleges and universities normally entail the formal right of participation by all tenured departmental members (Parsons and Piatt 1973). However, there are few, if any, instances of broad-based faculty control over salaries. A study of decision making among physicians in group practice also indicates that decisions directly related to patient care are typically characterized by a collegial structure, while decisions involving financial expenditures are not (Kralewski, Pitt, and Shatin 1985). Similarly, among large accounting firms, decisions about compensation are typically made by a small number of partners, while decisions to promote members are made by the partnership at large (Stevens 1981; Montagna 1974).[3]

Thus, because financial decisions are largely independent of the institution of professional authority, structures for setting compensation policies in law firms are likely to reflect changes in legal practice and strategy. In contrast, structures for making promotion decisions are apt to be largely unaffected by such factors. In the following section, a number of organizational characteristics associated with law firm business strategy and conditions associated with institutional variations are discussed. In this context, we suggest specific hypotheses regarding determinants of the form of decision- making structure.

Organizational Determinants of Decision-Making Structures

Large size, an emphasis on specialization, increased spatial differentation, and a diversified clientele base are associated with the adoption of a rationalized business strategy by corporate firms. In the following set of hypotheses, we expect characteristics of firms' strategy to affect only compensation decisions. Promotion decisions, insulated by professional authority, are not expected to be affected by these variables and should reflect the influence of professional network relations.

Size

A variety of studies of contemporary law firms have identified growth as a critical component of a more competitive strategy (Glauberson 1986; Stevens 1987; Stewart 1983). Larger organizations are viewed as better-positioned to attract and maintain a wide client base (Stevens 1987). The adverse effects of increasing size on democratic forms of organization have often been observed. Waters (1989), for example, has argued that collegial structures are not well suited to the "minutiae of purchasing, personnel management, accounting and so on", and that exigencies of size, therefore, lead to the dominance of bureaucracy even in organizations of professionals. Problems of management associated with increasing firm size, and particularly the problem of maintaining collegial relations, are often explicitly acknowledged by members of large law firms; however, such problems are treated as necessary tradeoffs for higher levels of profitability (Glauberson 1986; Spangler 1986).

Hypothesis 1. Larger firms will be less likely to have collegial structures for compensation decisions.

Specialization

By offering a greater number of areas of specialization, firms are able to appeal to a wider range of clients; this is an important component of a nontraditional strategy. However, specialization is also often associated with a decline in democratic decision making. By decreasing general knowledge of the workings of the firm among the partners, specialism is likely to seriously impede the development of consensus in decision making, making collegial structures both inefficient and ineffective (see Russell 1985).

Hypothesis 2. Firms with higher levels of formal specialization will be less likely to have collegial structures for compensation decisions.

Spatial Differentiation

Spatial differentiation, occurring through mergers or the creation of new offices in different geographical locations, typically reduces the firm's dependence on a limited set of clients and is thus also an important part of a nontraditional strategy. According to some evidence, differentiation also impedes collective decision making. Problems of coordination and standardization that accompany such differentiation have, in practice, frequently led to more centralized control by a few dominant partners (Stevens 1987, p. 165).

Hypothesis 3. Firms with greater spatial differentiation will be less likely to have collegial structures for compensation decisions.

Diversified Clientele

The traditional strategy is associated with a "team" structure within the firm, whereby a number of partners and associates concentrate on serving the needs of a single large client (Smigel 1964). Such collaborative effort typically makes assessment of the individual contributions of lawyers working on an account problematic, and hence, assignment of appropriate rewards difficult. Proponents of a transactions cost approach have argued that under such conditions, organizations are generally more likely to adopt more collegial decision-making structures (Alchian and Demsetz 1972; Jones 1983), both because participative control is motivating, thereby reducing shirking, and because decisions based on the internal feedback of team members are more appropriate than those based on other systems.

With a nontraditional strategy, in contrast, compensation practices are often specifically established to encourage partners to contribute to the firm by bringing in their own set of clients. These practices (graphically described as "eat what you kill") may involve the development of compensation formulas based on the percentage of business generated by clients that each partner recruits or serves. Even in firms without strict formulas, compensation is generally based on some measure of the amount of business generated by the partners: Collegial structures are neither needed nor usually seen as desirable (Stewart 1983).

Hypothesis 4. Firms with a more concentrated clientele base will be more likely to have a collegial structure for compensation decisions.

Network Boundaries

A number of studies suggest that clusters in networks of law firms mirror geographical boundaries.[4] We expect that critical factors associated with such clustering are those involving recruitment of firm members and competition for clients. A strong pattern of regional recruitment by law firms has often been found (e.g., Heinz and

Laumann 1982), a pattern that is also evident in our data.[5] Likewise, the descriptions of clientele supplied by the law offices in this study suggest that they typically represent either locally-based clients or the regional interests of larger national and international firms. As noted, law firms pursuing a national clientele frequently establish separate offices in locations near major clients. Thus, variations that exist among firms in structural arrangements for promotion decisions would be expected to be strongly linked to the regional location of the firms. These arguments suggest two hypotheses about the determinants of structural arrangements for promotion decisions.

Hypothesis 5. Structures for promotion decisions are more likely to be collegial than those for compensation decisions.

Hypothesis 6. There will be regional differences among firms in the structures for promotion decisions.

Sample, Measures, and Methods

Sample

These hypotheses are examined using data collected from the *American Lawyer Guide to Leading Law Firms* (Brill 1982a), a published survey of the central offices of major law firms in 20 metropolitan areas in the United States, and from a similar survey carried out by the National Association of Law Placement Officers (1983). To be included in the survey conducted by the *American Lawyer,* at least 50 lawyers had to be employed in an office.[6] The NALP survey was sent to over 1,000 legal employers, based upon lists of recruiters supplied by law schools from a variety of geographical areas.

We collected information on all firms listed by both surveys, a total of 202 firms. These firms are among the larger, more elite firms in the nation; therefore, they are *not* necessarily representative of a typical law firm and the results should be interpreted accordingly. However, these firms evince the variations in business strategy that are of interest here and, thus, are a relevant group for the testing of the proposed hypotheses.

Measures

As part of the *American Lawyer* survey, firms were asked to describe their governance systems, responding to a number of specific questions concerning procedures for the promotion of associates to partner and for the establishment of compensation policies. We developed a coding scheme to collect information from these descriptions on the form of participation by partners in a firm.

The original codes were collapsed into three main categories of participation: all partners have an equal vote (2); only share partners vote and/or partners vote their shares (1); and only executive committee or special subcommittee members vote (0). These categories represent a progressive restriction on direct and equal participation by all partners. An alternative measure of decision-making structure, in which the last two categories were collapsed into a single category representing a noncollegial structure, was also examined. The results using each measure are shown in the analyses reported below.

Size was measured by the total number of partners and associates in a firm, as reported in the *American Lawyer Guide.* The number of lawyers in the firms ranged from 50 to 347. A logarithmic transformation of this variable was used to correct for skewness.

The NALP directory lists the areas in which firms reported specializing and the number of lawyers working in each area. We constructed our measure of specialization by summing the number of specialities. Firms that reported no formal areas of specialization were coded as zero. The values of this variable ranged from 0 to 32.

The *American Lawyer Guide* lists all branch offices of the firm, in addition to the main office. Our measure of spatial differentiation consisted of the total number of branch offices reported by each firm. If a firm did not have any branch offices, it was assigned a value of zero. The range of this variable was 0 to 16.

A measure of the degree to which a firm concentrates on serving a narrow set of clients was constructed by dividing the number of key clients listed by the firm in the *Guide* by the number of partners. The lower this measure, the more the firm is likely to depend on a few major clients who are served by teams of partners and associates.

Four geographical regions were defined: East, South, Midwest, and West. Firms were distributed fairly evenly among these regions; 35% were located in the East, 20% in the South, 21% in the Midwest, and 23% in the West. We assigned separate dummy variables for each region to firms in the South, Midwest, and West, making Eastern firms the comparison group.

Because other research has found that firms in New York City and Washington, D.C. are significantly different from other firms, two additional dummy variables were constructed: one denoting whether a firm was located in New York City, and the other denoting a Washington location. Analyses revealed no significant effects for either of these variables. While firms in these cities may be unique in other respects, they do not appear to differ from others in terms of the relationships that are of interest here. Thus, these variables were not included in the analyses reported below.

In addition, we constructed and examined a measure designed to tap the degree to which the firm was characterized by representative governance. As organizations grow and become more complex, direct democratic structures are sometimes replaced by representative structures, in which decision-making power is delegated to a subset of members (Lipset, Trow, and Coleman, 1956). Thus, while members retain control via leadership elections, day-to-day organizational decisions are the responsibility of the elected leaders. This suggests that firms characterized by hierarchical structures for pay and compensation decisions may have simply created representative structures for selecting committee members.

We constructed the measure of representative structure by summing two items. The first item involved procedures for selecting members of the executive committee and contained three levels: members chosen through election (2), through a mix of election and appointments (1), or through appointment only (0). The second item measured whether members of the executive committee held fixed terms of office (1) or indefinite appointments (0). A high score on the combined measure indicated a more representative structure for the executive committee. Based on the assumption that firms establish representative structures for selecting the executive committee to compensate for more hierarchical structures in other decision areas, we expected to find negative correlations between this measure and the measures of compensation and promotion decision structures.

In contrast, this measure was uncorrelated with the measure for compensation decisions ($r = .07$, n.s.) and positively, but weakly, correlated with promotion decisions ($r = .13$, $p < .06$). It had no significant predictive power when included in the analyses of compensation and promotion structures and was also dropped for the sake of parsimony.

Analysis

Because of the restricted range of the measures of decision-making structure, we used two logistic regression models, one designed for dichotomous dependent variables and the other adapted for use with ordinal dependent variables (see Winship and Mare 1984). Because Eastern firms constitute the omitted category of the regional variables, coefficients of the other three measures of region represent the differences between firms in these regions and those in the East.

Results

The distribution of decision-making structures by type of decision is shown in Table 1. Consistent with the Hypothesis 5, firms are generally much more likely to have a collegial structure for promotion decisions than for compensation decisions. In over one-half the firms, formal responsibility for setting compensation policies was vested in the executive committee or a separate compensation committee. In only about a one-quarter of the cases did partners have an equal vote in such decisions. In sharp contrast, over 60% percent of the firms gave equal voting rights to all partners for promotion decisions. Thus, as in other types of autonomous organizations, law firms are likely to create more collegial structures for decisions involving issues directly linked to professional authority. However, even in this decision area, there is still a surprising amount of variation in structure among firms.

Correlations, means, and standard deviations of the independent variables are shown in Table 2. It is worth noting that there are relatively small differences by region in the predictor variables. Eastern firms are slightly larger (the average number of lawyers in a firm is 133) while Southern firms are smaller (averaging 91 lawyers) than firms in other regions, but this was the only variable for which significant regional differences were found.

Table 1. Distribution of Decision-Making Structures ($N = 209$)

Decision-Making Members	*Compensation Decisions* (%)	*Promotion Decisions* (%)
(1) Executive committee or subcommittee	53.6	13.3
(2) Share partners	20.1	**25.7**
(3) All partners equal votes	26.3	**61.0**
	100.0	**100.0**

Table 2. Correlations, Means, and Standard Deviations of Predictor Variables

	X_1	X_2	X_3	X_4	X_5	X_6	X_7
X_1 Size (log)	1.000	.019	.423	-.538	-.232	.017	-.078
X_2 Specialities		1.000	-.072	-.063	-.015	.083	-.065
X_3 Branches			1.000	-.336	-.184	.091	.098
X_4 Client/Partner Ratio				1.000	.129	-.119	.093
X_5 South					1.000	-.261	-.275
X_6 Midwest						1.000	-.283
X_7 West							1.000
Mean	4.619	7.374	2.185	.758	.203	.212	.230
S.D.	.535	3.668	2.583	.416	.403	.409	.422

A modest positive correlation ($r = .28$) between the dependent variables, measuring compensation and promotion decision structures, suggests that there is a general tendency among firms to use similar structures across decision domains. This is consistent with the analysis of the structural arrangements for selecting executive committee members, described above. However, the size of the correlation indicates that there is neither a strong nor necessary correspondence between the structures for making different types of decisions.

Table 3 presents the results of our analysis of compensation decision structures, which were expected to be largely affected by measures related to firms' business strategies. Model 1 is based on the three-category measure of structure. In Model 2, the dependent variable is collapsed into two categories, distinguishing firms that provide all partners with an equal vote and those that formally limit voting rights in some fashion. As expected, increasing size has a significant negative effect on collegial structure. Firms with a greater number of specializations are also less likely to have a collegial structure, although this variable is significant only in the model with the dichotomous measure. The coefficient for the measure of client dependency is also negative, indicating that firms which have a relatively large number of clients per partner are less likely to have a collegial structure for compensation decisions. On the other hand, the effect of spatial differentiation, indicated by the number of branch offices, is negligible.

Table 3. Coefficients of Logistic Regression of Compensation Decision Structure on Predictor Variables[a]

Model 1 (*Ordinal Measure*)		*Model 2* (*Dichotomous Measure*)	
Alpha 1	6.555 (2.317)***	Intercept	5.348 (2.756)**
Alpha 2	5.603 (2.305)***		
Size (log)	-1.236 (.432)***	Size (log)	-1.164 (.514)**
Number of specializations	- .048 (.039)	Number of specializations	- .087 (.053)*
Number of branch offices	- .007 (.067)	Number of branch offices	.056 (.066)
Major client/partner ratio	- .920 (.494)*	Major client/partner ratio	- .687 (.403)*
South	.239 (.388)	South	- .086 (.468)
Midwest	- .448 (.408)	Midwest	- .520 (.495)
West	.348 (.371)	West	.119 (.434)
Model Chi Square 17.05***		Model Chi Square 12.45*	

Notes: [a] Standard errors in parentheses.
*** $p < .01$
** $p < .05$
* $p < .10$

Thus, Hypotheses 1, 2, and 4 are supported in these analyses. The likelihood of a hierarchical structure for compensation decisions is greatest in firms that have largely abandoned the traditional business strategy for corporate law practice, and have adopted a more aggressive, competitive strategy. As Brill (1982b) suggested, such a strategy leads to more centralized control over compensation decisions in firms. Regional variables have no impact once other variables are controlled.

Table 4. Coefficients of Logistic Regression of Promotion Decision Structure on Predictor Variables[a]

Model 1 (*Ordinal Measure*)		*Model 2* (*Dichotomous Measure*)	
Alpha 1	5.168 (2.433)**	Intercept	3.837 (2.540)
Alpha 2	3.651 (2.420)		
Size (log)	- .652 (.453)	Size (log)	- .654 (.476)
Number of specializations	.045 (.042)	Number of specializations	.024 (.042)
Number of branch offices	.034 (.086)	Number of branch offices	.024 (.091)
Major client/partner ratio	- .100 (.547)	Major client/partner ratio	- .056 (.560)
South	-1.290 (.395)***	South	-1.454 (.424)***
Midwest	- .934 (.393)***	Midwest	- .953 (.409)***
West	.052 (.439)	West	.044 (.444)
Model Chi Square 17.64***		Model Chi Square 18.13***	

Notes: [a] Standard errors in parentheses.
*** $p < .01$
** $p < .05$
* $p < .10$

Table 4 shows the effects of these variables on structures for promotion decisions. As noted in the discussion of Table 1, the distribution of structures by type of decision area is consistent with Hypothesis 5: Promotion decisions are much more likely to be characterized by collegial structure than are compensation decisions. None of the indicators of a more rationalized approach to corporate practice significantly predicts the structure used for making promotion decisions. Net of all other variables, the regional locations of firms do have a strong impact on the type of structure for promotions, as suggested in Hypothesis 6. Firms in the South and Midwest are much less likely to have a collegial structure for making promotion decisions than firms in the East, while Western firms have similar structures as those in the East. This pattern shows up clearly in the cross-tabulation of decision structure by region. Nearly three-quarters of the firms in the East and West have structures granting all partners equal voting rights in promotion decisions, while only about one-half of the firms in the Midwest and less than one-half of the Southern firms have such structures.

The effects of region are consistent with the arguments that geographical boundaries importantly define network linkages among law firms, and that the impact of professional authority on organizational structure may vary in different networks. The questions of how such differences are generated and institutionalized cannot be directly addressed by these data. However, the persistence of regional effects, after controlling for variables that current research indicates are important determinants of structure, provides evidence of the role that networks play in influencing organizational structure (see DiMaggio and Powell 1983). Such influences are particularly likely to affect those aspects of structure that are associated with professional authority, or more generally, that are viewed as being within the legitimate domain of some extraorganizational constituency.

Summary and Conclusions

While there has been much speculation on the way in which recent economic and structural changes in many professional organizations are likely to affect members' control of work, little systematic research has addressed the relationship between organizational characteristics and forms of decision making in such organizations. The aim of this research has been to shed some light on this question. Based upon a sample of approximately 200 corporate law firms in the United States, we have examined a number of determinants of the formal governance structures involved in two types of decisions, compensation and promotion. It is important to underscore the point that collegial structures do not guarantee equal influence in decision making in practice. However, they do potentially provide partners with a ready mechanism for checking the more autocratic exercise of power by colleagues.

The results of the analyses indicate that changes in contemporary corporate law practice have not uniformly affected decision-making structures. Formal arrangements for making promotion decisions are generally unrelated to the organizational characteristics associated with such changes, including increasing size, specialization, spatial differentiation, and a less concentrated clientele base. Structures for compensation decisions, on the other hand, are closely linked to these characteristics.

Our explanation of these differential effects emphasizes the importance and the limits of professional authority. Promotion decisions are identified with an essential aspect of professional authority, the ability and right of fellow professionals to evaluate the technical competence of individuals as a basis for their admission into the collegium (Freidson 1970, 1984). Because of this identification, structures for promotion decisions in most large law firms have not been substantially affected by changes in business strategy, or the rationalization of legal practice. Consistent with professional norms of collegial control, a sizeable majority of firms in our study were characterized by a collegial structure, in which all partners had equal votes, for decision making in this area.

In contrast, compensation decisions involve not only evaluation of the adequacy of an individual's work, but more importantly, the assignment of the individual's relative financial worth to the firm. Such decisions go beyond the bounds of professional authority and are instead tied directly to organizational concerns of profitability. In line with this claim, our research shows that collegial structures for compensation decisions are relatively rare. Because compensation decisions are *not* part of the domain of professional authority, formal structures for making these decisions are much more likely to reflect the particular economic constraints and business strategies of individual firms.

A number of current studies of law firms are based on theories that emphasize the role of economic factors as determinants of firm structure (Jones 1983; Gilson and Mnookin 1985; Galanter and Palay 1988). While such an approach provides important insights into many of the changes that are occurring in legal organizations, one implication of this research is that institutional constraints must also be taken into account to fully understand firms' practices and policies (Meyer and Rowan 1977; Zucker 1983; DiMaggio and Powell 1983). Professional authority represents a dominant institution in our society: Its impact, especially in autonomous organizations, cannot be ignored.

Along the same lines, this research also suggests that debates over the deprofessionalization of occupations must pay closer attention to the specification of professional authority in assessing the impact of organizational factors on professionals' control of work (Tolbert and Stern 1991). The notion of deprofessionalization fundamentally implies the degeneration of professional authority. We argue that such authority is, in fact, quite specific, confined primarily to decisions about procedures for executing professional tasks and evaluation of work in terms of acceptable professional standards. Thus, in order to show that deprofessionalization has occurred or is occurring in an occupation, it is necessary to demonstrate that a sizeable proportion of its members have lost the formal or informal right to control particular types of decisions. Much of the work in this area has focused on enumerating social changes that may affect professional authority (e.g., Toren 1969; Rothman 1984), but little empirical evidence has been mustered to document the extent to which professional authority has, in fact, been altered.

In addition, to the extent that law firms meet the criteria of employee ownership (i.e., owners are working members of the organization, and owners represent a substantial part of the labor force; see Russell 1985), the results address a central issue in work on employee owned firms. Classifying such firms in a unitary way as democratic or nondemocratic is inappropriate, as some areas of decision making are structured to permit a greater degree of member participation than others. Studies of organizational democracy (e.g., Bernstein 1976) have argued that the analysis of member participation requires specification of the degree of democracy for different types of issues within the organization. Consistent with this argument are findings by Hammer and Stern (1980) that levels of perceived influence vary by issue within employee owned firms. The present results show that such differences may be an institutionalized part of the decision-making process.

Finally, along the same lines, this research has implications for classic formulations of the degeneration of organizational democracy, which suggest that size (Michels 1949) and status differences (Lipset et al. 1956) inevitably result in decreasing democracy in organizations. Russell (1985) identifies the same factors in his analysis of the degeneration of democratic forms among employee owned and worker controlled firms. This work indicates that as size increases and status differentiation occurs, membership interests diverge and consensual decision-making forms are difficult to sustain. Most work in this tradition fails to consider the impact of instutionalized occupational control on organizational decision making, which may limit the scope of administrative prerogatives. Our research suggests that the boundary between occupational and organizational control (Freidson 1970) critically limits the impact of size and status differentiation on the degeneration of democratic decision processes.

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Notes

1. A large literature has been devoted to examination of organizational sources of democratic control (e.g., Michels 1949; Weber 1946; Lipset, Trow, and Coleman 1956; Edelstein and Warner 1967; Jackson 1982), but this work has focused largely on political parties or labor unions; little attention has been given to this problem in professional organizations (see Russell 1985). There also have been a number of studies of democracy in professional associations (Gilb 1966; Halliday and Cappell 1979; Heinz and Laumann 1982), but these have not dealt with the work organizations of professionals. Most studies of the organizational characteristics that affect professional control of work have focused on heteronomous organizations or units, those managed by nonprofessionals (e.g., Scott 1965; Hall 1968), rather than autonomous organizations.

2. An institution, in this sense, is constituted by a "set of shared rules and typifications defining categories of actors and their appropriate activities and relationships" (Barley and Tolbert 1988).

3. The patterns may reflect the fact that an emphasis on financial concerns is inconsistent with altruistic motivation that is frequently a part of the ideology of professional occupations (Parsons 1954; Greenwood 1955; Cullen 1978). Such ideological neglect of financial matters often rests on pragmatic as well as idealistic concerns. First, denial of self-interest is normally an integral part of a strategy for persuading the public to grant an

occupational group the rights and privileges of professional status (Haug and Sussman 1971). Second, a strong concern with the distribution of material rewards is apt to be divisive for a professional group and hence, to undercut the profession's ability to mobilize members to promote their collective interests (Berlant 1975).

4. Geographical boundaries have also been shown to be important influences on organizational networks in studies of other types of organizations as well (see, for example, DiMaggio and Romo 1984).

5. Our data show that 89% of the East Coast firms indicate that key schools for recruiting associates are in the same region; 93% of the firms in the South recruit from Southern schools; 84% of the firms in the Midwest recruit primarily from schools in that region; and law schools in the West are the major sources of new associates for 53% of the firms in the West. The highest percentage of firms recruiting from schools in areas outside of their region were also in the West. Nineteen percent of these firms indicated that they recruited primarily from Eastern schools, including Harvard, NYU, University of Pennsylvania, and Yale.

6. This was reported in personal communications with the *American Lawyer* staff.

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