**There is a Price to Growing Up:**
**How the Principle of Exclusivity Shapes**
**High-status Firms' Revenue Growth Strategies**

by

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## Abstract

This dissertation provides a framework to understand the relationship between firm status and revenue growth. High-status firms are motivated to protect their status position, yet doing so requires them to maintain exclusivity in affiliations, otherwise known as the principle of exclusivity. While prior status literature suggests that this relational constraint can limit growth opportunities and thus implies a negative status-growth relationship, empirical evidence shows that high-status firms often expand their business faster than low-status rivals, making it difficult to reconcile this observation within the conventional status framework.

I address this challenge by systematically examining different growth strategies and their impact on maintaining status, with the guiding principle that high-status firms will pursue options that helps them grow revenue and maintain status, while avoiding options less effective in achieving either revenue growth or status maintenance. In the context of two types of revenue growth, increasing product prices and increasing sales volume, I argue that high-status firms are more likely to raise prices than low-status firms because they can leverage their price-inelastic elite consumers and status-based legitimacy to better justify price increases and grow revenue. Additionally, price increases help high-status firms maintain exclusive affiliations with elite consumers and high-status producers, thus reinforcing their status position. On the other hand, I argue that high-status firms are less likely to increase sales volume than low-status firms. This is because, with their primary focus on a narrow pool of elite consumers, it may be inherently difficult for high-status firms to expand sales volume. Moreover, even if they manage to increase

sales, doing so would risk diluting their exclusivity and compromising their status, making such growth option less appealing to high-status firms.

Regarding the two directions of revenue growth, consumer base expansion and horizontal scope expansion, I argue that high-status firms are less likely than low-status firms to expand consumer base while more likely to expand horizontal scope. First, I argue that high-status firms are unlikely to expand their consumer base because their operations are centered around elite consumers and thus, are less appealing to non-elite consumers. Moreover, broadening the consumer base would dilute exclusivity and undermine their status, further constraining high-status firms from growing in the direction. On the other hand, I argue that expanding horizontal scope, such as expanding into different markets and regions, enables high-status firms to grow revenue without compromising exclusivity or status. Specifically, horizontal scope expansion helps high-status firms: 1) enhance their status by increasing professional purity and advancing the knowledge frontier, 2) boost revenue from elite consumers by offering a one-stop service, and 3) reach a greater number of elite consumers. Given these benefits for maintaining status and growing revenue within a narrow elite pool, I argue that high-status firms are thus more likely to pursue horizontal scope expansion than low-status firms.

Analyzing U.S. law firms from 2012 to 2022, I find that high-status law firms are more likely than low-status firms to increase profit margins and diversify legal engagements across different practice areas and legal jurisdictions. On the other hand, I show that high-status law firms are less likely than low-status rivals to increase litigation volume or acquire new clients. These results, together, suggest that high-status firms are not constrained in overall growth, but in the types and directions of growth they can pursue.

# Chapter 1 Introduction

A well-established tenet in status literature is that social status, or the relative position of a focal firm within a social system (Gould 2002, Jensen et al. 2011), can constrain firm growth. Status leaks through relationships (Podolny 1994), because audiences tend to infer status from its network of affiliations (Podolny 1993). Accordingly, high-status firms are incentivized to affiliate exclusively with high-status actors to maintain their high status, henceforth the principle of exclusivity, which in turn undermines their ability to grow their business. Indeed, prior empirical research supports different parts of this argument. Studies show that status confers enduring benefits to organizations (Podolny 2005), that high-status firms emphasize status maintenance in decision-making to reap the status benefits (Chung et al. 2000, Jensen 2006, Podolny 1993), and that high-status firms are constrained from engaging in market expansion due to status maintenance considerations (Podolny 1994). Despite the empirical evidence, however, we often observe instances where high-status organizations actively pursue firm growth – for example, LVMH Moët Hennessy Louis Vuitton SE or LVMH, one of the most prestigious fashion powerhouses, has maintained a remarkable record of rapid business expansion, at a rate far above its low-status peers[1]. This phenomenon raises an important question: How can we reconcile the pursuit of growth by high-status firms within the confines of the established status framework?

[1] Apart from the year 2020, heavily impacted by the COVID-19 pandemic, LVMH consistently achieved double-digit growth, averaging around 11% over the past decade.

To address the question of how high-status firms choose their growth strategies, I identify the types and directions of growth that a firm can undertake. Different forms of growth have varying implications for high-status firms in increasing revenue or maintaining status. Accordingly, by identifying how each growth option impacts high-status firms' revenue growth and status maintenance, we can understand the specific growth choices they are likely to pursue or avoid. Throughout this dissertation, I focus specifically on revenue growth, as it is the primary indicator of growth that both firms and audiences consider a key business objective (Lev et al. 2010). Revenue growth involves different dimensions of decision-making, including the types of growth like price / sales volume increase, and the directions of growth like consumer base / horizontal scope expansion. I examine each of these dimensions to predict how high-status firms' growth strategies differ from those of their low-status counterparts.

In Chapter Two, I discuss how high-status firms decide between raising prices and increasing sales volume, the two types of revenue growth. I argue that high-status firms prefer raising prices because it allows them to effectively increase revenue while maintaining their status. They can justify price increases easily, as their elite, price-inelastic consumers are less sensitive to price changes, and because their status lends legitimacy (Phillips and Zuckerman 2001) to these price hikes. Additionally, price increases enhance exclusivity both at the consumer and producer levels by reducing the number of affordable consumers and strengthening associations with high-status peers (Askin and Bothner 2016). Conversely, I argue that high-status firms would avoid increasing sales volume. Because high-status firms tend to center their strategies around elite consumers with specific needs and preferences (Daloz 2009), they may face challenges attracting non-elite consumers whose preferences may not align with elite consumers. Additionally, I argue that increasing sales volume may violate exclusivity and high-quality expectation attached to high-status firms (Podolny 1994), which in turn can compromise the privileged status of these firms. Given the influence of firm status in encouraging price increases and discouraging volume increases, I argue that high-status firms are more likely than low-status firms to raise prices but less likely to increase sales volume.

In Chapter Three, I examine how high-status firms choose their directions of growth to balance expansion with the need to maintain high status. Building upon the Ansoff Matrix, a conventional strategic framework for evaluating different expansion options (Ansoff 1965), I categorize firms' expansion choices based on the two key dimensions: consumer base expansion, which involves the decision to acquire new consumers or to cater to existing consumers, and horizontal scope expansion, which involves the decision to expand into different markets / geographical regions or to remain focused in existing markets / regions. I first argue that high-status firms are less likely than low-status firms to engage in consumer base expansion. Due to the inherent scarcity of elite consumers (Hirsch 1977) and the associated concerns about preserving exclusivity (Podolny 1994), high-status firms face particular difficulties in acquiring new consumers relative to low-status peers. On the other hand, I argue that high-status firms are more likely than low-status firms to engage in horizontal scope expansion, as it enables them to increase revenue while preserving exclusivity. Specifically, I argue that horizontal scope expansion offers high-status firms three key benefits: reinforcing their high-status position, boosting per-elite revenue through cross-selling, and expanding their reach to more elite consumers—advantages that are particularly relevant and valuable to high-status firms compared to low-status firms.

I believe that my theory applies broadly under three key conditions. First, there must be substantial status benefits, prompting high-status firms to prioritize maintaining their status. This is particularly relevant for products with challenging ex-ante or ex-post quality identification, and in markets where a mature status hierarchy serves as a benchmark of quality (Malter 2014, Podolny 2005). For example, in the luxury goods sector, consumers often rely on the brand status as a proxy for quality, since it can be difficult to assess the true value of items like high-end fashion, jewelry, or watches before purchase. Likewise, in the cultural industry, such as art galleries or elite performance venues, the established status of the institution would serve as a key indicator of the work's value and quality (Ertug et al. 2016), guiding consumer decisions where quality is not immediately apparent. Second, affiliations between firms and consumers must be easily observable, allowing non-exclusive associations to impact subsequent status perceptions. Accordingly, my arguments would be stronger in contexts like wearable goods or professional services, where connections between consumers and firms are readily noticed. Finally, firms must be motivated to grow their revenue, a common condition met as revenue growth is widely recognized as an indicator of success. This is exemplified by the Fortune 500 list, which uses gross revenue to benchmark the success of Large U.S. corporations (Bermiss et al. 2014). This motivation drives high-status firms to seek strategies that balance maintaining their exclusive status while pursuing revenue growth.

The U.S. legal services industry meets these three conditions, making it an appropriate context to test my arguments. First, there are substantial status benefits in the legal services industry. The complex nature of legal disputes makes it difficult for consumers to assess the quality of legal services (Phillips and Zuckerman 2001, Uzzi and Lancaster 2004). Consequently, consumers heavily rely on law firm prestige when making decisions, leading firms to prioritize status maintenance. Second, affiliations between law firms and their clients are easily observable. Public legal dockets provide transparency, allowing anyone to see which firms are representing which clients. Additionally, media coverage of major legal disputes and the representation of high-profile corporate clients further highlights these affiliations. This visibility ensures that firm-client relationships are widely noticed and significantly impact the public perception of the firm's status. Last but not least, the tournament promotion system as well as the reward structure in the legal services sector creates a strong growth imperative for the law firms (Galanter and Palay 1994). First, the tournament promotion system requires associate lawyers to compete intensely to advance to the partner level (Malcomson 1984). Because law firms assess associates based on their high-quality legal work and their ability to generate valuable deals (Galanter and Palay 1990), associates are under constant pressure to seek their own stream of legal work that can help boost firm revenue. Moreover, the reward system ties equity partners' compensation to their contributions and the firm's profitability, creating a strong financial incentive to pursue growth. This alignment of personal rewards with firm performance drives partners to seize every opportunity to generate more deals. Together, these systems foster a competitive environment that motivates high-status firms to continuously pursue revenue growth.

Using an observation window from 2012 to 2022, my results reveal several key findings. I find that high-status law firms raise their profit margins more than low-status firms, indicating a preference for increasing prices to grow revenue. Conversely, high-status firms increase their legal engagements and number of lawyers less than low-status firms, confirming that they are less likely to focus on sales volume increase for revenue growth. In choosing their directions for revenue growth, I find that high-status firms are less likely to acquire new clients compared to low-status firms. Instead, they are more likely than low-status firms to broaden their operations horizontally, either by diversifying their practice areas or legal jurisdictions they engage in.

Throughout my dissertation, I challenge the conventional view that emphasizes the growth constraints imposed by firm status (Podolny, 2005). Previous status literature suggests that high-status firms face a dilemma between preserving their status and pursuing growth, as penetrating into lower-status consumer segment may damage their status and associated benefits (Podolny 1994; Delmestri and Greenwood 2016). However, I argue that high-status firms can still achieve growth without acquiring new consumers. I show that they can increase revenue by raising prices and, more importantly, grow revenue from their elite consumers by offering a diversified product portfolio and operating across various geographical areas. By expanding their horizontal scope of operation, high-status firms can increase the number of elites they can reach out to while also increasing revenue they can extract per elite consumer by offering a bundle of products and services. Additionally, horizontal scope expansion allows high-status firms to bolster their privileged status, as it helps them increase professional purity and push the knowledge frontier to stay at the forefront of the industry.

Moreover, I contribute to the diversification literature by identifying consumer exclusivity as a crucial factor shaping firm boundaries. While prior studies on diversification have emphasized that operating efficiencies govern firm decisions to expand or diversify (Ahuja and Novelli 2017), I argue that status concerns can arise independently of, and even take precedence over, efficiency considerations. Specifically, I show that high-status firms avoid revenue growth through volume increase or consumer base expansion relative to low-status firms, despite the apparent cost efficiencies gained from greater scale economies (Qian et al., 2010), because such moves can dilute consumer exclusivity and damage their status. Conversely, high-status firms actively expand their horizontal scope of operation to boost revenue under the principle of exclusivity. By cross-selling a wide range of products and services to their elite consumer base, these firms can grow their business and maintain their exclusive status. By showing how consumer exclusivity drives diversification decisions in addition to operating efficiencies, I introduce a status-focused perspective to the traditional understanding of boundary decisions and diversification.

## Chapter 2 Firm Status and Types of Revenue Growth: Why High-status Firms Pursue Price Increase and Avoid Sales Volume Increase to Grow Revenue

### 2.1 Two Types of Revenue Growth: Price and Sales Volume Increase

To provide a comprehensive framework for examining high-status firms' growth strategies, I first lay out the baseline equation of firm revenue to identify the types of revenue growth a firm can engage in. The first component of revenue is product price, whereas the second component is sales volume[2]. This can also be represented by the following equation[3]:

$$\mathrm{TR} = \mathrm{P} \times \mathrm{V} \cdots\cdots\cdots\cdots\cdots\cdots\cdots (1)$$

where TR refers to gross revenue, P refers to product price, and V refers to sales volume. Accordingly, a firm can grow revenue by increasing price, by increasing sales volume, or both. Throughout the section, I examine how the principle of exclusivity may shape high-status firms' decision to increase their product/service prices or sales volume to grow their revenue.

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[2] While I focus on sales volume in my arguments, the same logic applies to high-status firms deciding to increase production volume. As legitimate and qualified market players, high-status firms are likely to sell out their products. Thus, when they focus less on sales, they will likely produce less to maintain exclusivity and scarcity.

[3] I acknowledge that there may be additional determinants of firm revenue, such as industry profitability (Hansen and Wernerfelt 1989) and R&D intensity (Lichtenberg and Siegel 1991). Using, however, a simplified revenue equation and showing how organizational status critically shapes the two core components of revenue, product price and sales volume, I add focus and clarity to our understanding on the relationship between organizational status and revenue growth.

## 2.2 High-Status Firms and Their Propensity to Raise Prices

### *2.2.1 Rational Choice and Capability: High-Status Firms Leveraging Their Price-Inelastic Elite Consumers and Status-Based Legitimacy*

High-status firms are known to charge higher prices for their products than lower-status firms (Benjamin and Podolny 1999, Uzzi and Lancaster 2004). Firm status, or the relative position of a focal firm within a social system (Gould 2002, Jensen et al. 2011), functions as a signal of quality (Podolny 1994) as well as a symbol of prestige (Malter 2014). Accordingly, status increases the desirability of firms' products[4], allowing these firms to command a price premium. Given their premium pricing, I argue that high-status firms tend to invite high-status consumers, henceforth referred to as elite consumers[5], as their primary consumers. While there may be general preference for premium goods, consumers vary in their affordability and willingness-to-pay, with elite consumers exceeding non-elite consumers in both dimensions. First, elite consumers tend to accumulate economic and social capital flowing from their high-status position (Merton 1968), and accordingly, have greater purchasing power relative to non-elite consumers. Moreover, elite consumers tend to derive greater utility from purchasing high-priced products. Prior studies on social distinction notes that elites often leverage cultural and economic consumption to exclude non-elites and reinforce the social hierarchy (Bourdieu 1984). Because premium products are often not affordable to non-elites, I argue that elite consumers

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[4] Producer status may not equate to the perceived prestige of its products. For example, Walmart is a high-status firm, consistently ranking at the top of the Fortune 500 list, yet it primarily sells commodities rather than prestigious products. This apparent disconnect highlights the difference between firm status and product status. Firm status refers to a company's relative position within a social system, such as a market or product category. Thus, the comparison is between firms selling similar products. As a result, even though Walmart sells everyday items, its high status within the discount retail category leads consumers to perceive its products as higher quality and more prestigious compared to those of other discount stores.

[5] I take the broad definition of elite consumers, which are individual consumers or corporate clients occupying high-status positions within a society. Examples would include family descendants from the royals or corporations listed in the Fortune 500.

may be motivated to consume these products to distinguish themselves from non-elites and assert social precedence over them.

With elite consumers constituting the primary consumer base for high-status firms, it naturally follows that these firms face a demand that is inelastic to price increases. As argued above, elite consumers, with their substantial economic and social capital, are less sensitive to both high product prices and price increases. Moreover, their focus on social distinction ensures that their purchasing decisions are less affected by price fluctuations. For instance, in the legal services context, recent reports highlight how prestigious law firms have been hiking up their fees on top of already high base rates (Penton 2024). Despite these price increases, however, these firms have maintained strong client demand and revenue growth (Coe 2024), as elite clients remain willing and able to pay for their premium services. This includes examples such as Twitter paying $90 million to Wachtell, a prestigious big law firm, for three months of legal work, and Hollywood stars hiring top law firms to address cybersecurity and privacy issues, including their recent problems with deepfake videos (Siegel 2024). Given the price inelasticity of their elite consumers, I argue that it is rational for high-status firms to use price increase as a growth strategy.

In addition to leveraging the price inelasticity of elite consumer demand, I argue that high-status firms can capitalize on their prestigious status position to justify raising prices. First, because status functions as a signal of quality (Podolny 1994), I argue that it becomes relatively easier for high-status firms to argue that their price increase is a byproduct of quality increase. That is, for high-status firms that consistently produce high-quality offerings, the explanation that price increases result from quality control and strict measures to maintain high standards becomes convincing. Furthermore, because high-status firms are already legitimate players in their field (Phillips and Zuckerman 2001), there is little ambiguity about their standing or their capabilities. As a result, their actions become "taken for granted" by consumers, who, due to the firms' legitimacy and familiarity, are less likely to scrutinize their strategies (Hsu and Grodal 2015). This trust and acceptance provide high-status firms with a distinct advantage, enabling them to use price increases as an effective revenue growth strategy.

In short, I argue that high-status firms benefit from both the inelastic demand of their elite consumer base and their established legitimacy in the market, which reduces consumer skepticism about their pricing strategies. These unique advantages make it more rational and likely for high-status firms to use price increases as a strategy for revenue growth, compared to low-status firms that do not enjoy these benefits when attempting price increases.

### *2.2.2 Status Anxiety: High-Status Firms Raising Prices to Maintain Exclusivity*

Whereas I theorized above how high-status firms may choose price increase as a rational choice that allows them to capitalize on price-inelastic demand and status-based legitimacy, I introduce in this section another reason why high-status firms may attempt revenue growth via price increase: status anxiety concerns. I argue that, because high-status firms are anxious about protecting their high-status position, they may increase product prices to preserve exclusivity in affiliations, a precondition to maintaining their high-status position (Podolny 1994).

High-status firms are often anxious about protecting their status position (Jensen 2006, Podolny 1994), as status provides firms substantive benefits including better-quality evaluation and enhanced prestige (Malter 2014, Podolny 2005). A necessary condition to maintaining high status, however, is that firms maintain selectivity in associations, also known as the principle of exclusivity (Podolny 1994). Because audiences tend to assume that the two parties linked together have similar attributes, often regardless of the causes of and reasons for the associations (Kim and Kim 2021), unverified associations may cause status leakage from high-status firms to the connected parties (Podolny 1994). Consequently, high-status firms are pressured to associate exclusively with equivalently high-status actors, which narrows the range of affiliations they can engage in, including direct alliances or competition (Guler 2007, Podolny 1994, Tan and Rider 2017), supplier relationships (Castellucci and Ertug 2010), and even consumer exchange (Accominotti et al. 2018). Studies have also demonstrated that high-status firms abide by the principle of exclusivity across diverse contexts, including professional services (Chung et al. 2000, Podolny 1993, 1994, Rider and Tan 2015), high culture (Accominotti et al. 2018, Daloz 2009), and wine (Delmestri and Greenwood 2016). In summary, status anxiety is a well-documented phenomenon among high-status firms, driving their exclusive association practices to maintain their prestigious position.

Given their orientation toward maintaining exclusivity, I argue that high-status firms would be motivated to grow revenue via price increases, which can enhance exclusivity at both the consumer and producer level. First, since elite consumers tend to be inelastic to price increases relative to non-elite consumers, high-status firms can retain a greater proportion of elite consumers by increasing prices, thereby strengthening exclusive affiliations with the elites. Moreover, price increase helps these firms strengthen exclusivity at the producer level. Because status functions as a signal of quality (Podolny 2005), high-status firms can command greater prices for their products or services than low-status rivals (Benjamin and Podolny 1999). As a result, the perceived linkage between price and producer status becomes tightly connected, making high prices a signal of high producer status (Askin and Bothner 2016). Accordingly, increasing prices can help fortify this association with high-status peers, thereby signaling exclusivity at the producer level. The Cravath Scale in the legal sector exemplifies the strong price-status association. Named after the distinguished law firm Cravath, Swaine & Moore LLP, this well-known salary structure for associate lawyers at major law firms has become a symbol of prestige (Galanter and Henderson 2007), and other firms often try to match this benchmark to associate themselves with Cravath's esteemed position and enhance their own status. While the Cravath Scale pertains to compensation rather than product price, it illustrates the close link between firm status and price, demonstrating how high-status firms can increase price to bolster producer exclusivity.

To summarize the section, I argued that high-status firms may use price increases to grow revenue, as their price-inelastic elite consumers and status-based legitimacy enable them to raise prices and justify these increases. Additionally, I argued that they may be motivated to use price increases to protect their high status by enhancing consumer and producer exclusivity. Both factors suggest that high-status firms have a greater propensity to raise prices compared to low-status firms, which lack both the capability to increase prices and the motivation to preserve their low-status position offering minute benefits.

Based on the arguments, I lay out hypothesis 1 as follows:

Hypothesis 1. *High-status firms are more likely than low-status firms to increase prices.*

## 2.3 High-status Firms and Their Propensity to Avoid Sales Volume Increases

### *2.3.1 Constraints to Increasing Sales Volume Due to Their Focus on Elite Consumers*

As shown earlier, elite consumers constitute the primary consumer base of high-status firms. This focus on elite consumers may naturally lead high-status firms to center their strategies around the preference and needs of elite consumers, which I argue may constrain them from attracting non-elite consumers. To begin with, elites are known to foster cultural tastes that are distinct from those of non-elites (Bourdieu 1984, Daloz 2009). For instance, they were known to champion highbrow cultural elements such as *haute couture* fashion and abstract expression (Friedman and Reeves 2020), which may encourage high-status firms to incorporate such elements to satisfy their preferences. This approach, however, may not resonate as well with non-elite consumers without the preferences, thus making it challenging for high-status firms to draw in non-elite consumers.

Moreover, I argue that differences in willingness-to-pay lead elite consumers to seek attributes and functions not prioritized by non-elite consumers. That is, elite consumers may emphasize high-quality, premium functions, whereas non-elite consumers may focus on other aspects. For example, in the legal services industry, corporate clients frequently bring law firms "bet-the-company" deals that are extremely challenging and complex to resolve (Heinz 2009). These deals involve high stakes and require an extensive depth of expertise and resources. Consequently, top law firms catering to the elite corporate clients maintain specialized expert groups to handle complex cases (Galanter and Palay 1990). For these firms, the mission is to deliver results, not to cut costs. On the other hand, non-elite clients typically prioritize routine legal services with a focus on affordability and speed. They seek legal advice that is cost-effective and does not require the extensive resources or specialized expertise demanded by elite clients, which they might consider too expensive or unnecessary. This difference in elite and non-elite client needs has led to the U.S. legal market having “a sharp division between a high-status corporate hemisphere and a low-status personal-plight hemisphere” (Phillips, Turco, and Zuckerman, 2013: 1025). As illustrated in the example, for high-status firms tailoring their operations and strategies to elite consumers, it may be challenging to provide attributes or functions that appeal to non-elite consumers.

In short, high-status firms focusing on elite consumers may struggle to attract non-elite clients due to differing preferences and needs. This challenge limits their potential for growth through increased sales volume, as they miss out on the consumer base that makes up the majority of the market (Hirsch 1977).

#### *2.3.2 Status Anxiety: Increasing Sales Volume Violating Exclusivity and High-Quality Expectation for High-Status Firms*

I have argued above how difficult it is for high-status firms to increase sales volume. I argue in this section that, even if they manage to achieve higher sales, they may end up undermining their high status because increasing sales volume can violate the exclusivity and high-quality expectations associated with high-status firms. Thus, I argue that this anticipated status penalty may make high-status firms even less likely to pursue revenue growth via increasing sales volume.

First, given the limited number of elite consumers within a society (Hirsch 1977), increasing sales volume may often accompany bringing in non-elite consumers to purchase the products, which in turn dilutes exclusivity in consumer affiliations. For instance, prior studies on consumer marketing have shown that high-status firms may engage in downward brand extensions to penetrate untapped revenue stream (Goetz et al. 2014). Specifically, they could acquire other firms (e.g. Daimler-Benz acquiring Chrysler to form DaimlerChrysler Ag), introduce their own sub-brands (e.g. Polo Ralph Lauren introducing different color labels), or team up with other brands (e.g. Versace collaborating with H&M to launch new collections; cf.

Quamina et al. 2023) to introduce lower-status brands/products that cater to non-elite consumers. I argue that such extensions, by definition, undermine exclusive firm-consumer affiliations by bringing non-elites into the consumer base. Moreover, status inconsistencies between different brands may raise skepticism about the firm's overall status (Jensen and Wang 2018), which can lead consumers to rely less on their status as a quality signal and diminish their prestige and exclusivity that consumers once took for granted. Given the potential consequences of increasing sales volume on diluting exclusivity, I argue that status-anxious high-status firms may avoid this type of growth to maintain their high status.

Moreover, I argue that sales volume increase may violate the high-quality expectation attached to high-status firms. I first argue that increasing sales volume may undermine actual product quality of high-status firms. Scaling up production to boost sales makes it harder for these firms to maintain their high-quality standards, as superior resources and capabilities needed for maintaining high quality—such as managerial talent and attention (Zhou and Park 2020)—are often non-scale-free and must be acquired additionally to produce equivalent results. (Levinthal and Wu 2010). Since these resources are rare, however, high-status firms may struggle to secure them and end up compromising product quality as they expand production volume. Second, large-scale production is often perceived as lower quality due to its association with standardization and automation, which can be seen as less authentic and inferior (Carroll and Swaminathan 2000, Hahl et al. 2017, Verhaal et al. 2015, Woolley et al. 2022). Consequently, high-status firms that increase sales volume may be viewed as compromising on quality, further violating the high-quality expectations tied to their status. Given that violating high-quality expectations can undermine their coveted high status, I argue that high-status firms will be further motivated to avoid growth through increased sales volume.

To summarize the section, I argued that high-status firms focusing on elite consumers struggle to attract non-elite consumers, limiting their growth potential through increased sales volume. I additionally argued that, even if they were to increase volume, it can violate status expectations and undermine their status, making them less motivated to do so due to anticipated status penalties. The challenges and risks of increasing sales volume make high-status firms less likely to increase sales volume compared to low-status firms, which neither face the challenges arising from elite consumer focus nor suffer significantly from the potential risk of status loss.

Based on the arguments, I lay out hypothesis 2 as follows:

Hypothesis 2. *High-status firms are less likely than low-status firms to increase sales volume.*

**2.4 Boundary Condition of the Arguments**

In addition to the three general boundary conditions of my dissertation – 1) the existence of substantial status benefits, motivating high-status firms to protect their status; 2) the observability of firm-consumer affiliations, which necessitates maintaining exclusivity in these affiliations; and 3) the growth imperative, driving high-status firms to engage in growth-enhancing strategies – I argue that the additional boundary condition for arguments in this section is that firms must operate in product or service categories where demand is not completely inelastic to price. This is because the core mechanism making high-status firms more likely to increase prices than low-status firms is the difference in the price elasticity of demand between elite and non-elite consumers. To elaborate, while I have laid out my arguments based on the notion that elite consumers are generally more price-inelastic than non-elite consumers, this distinction may be muted in markets where the product itself is price-inelastic. In such cases, both elite and non-elite consumers may continue consuming despite price increases, which could diminish the relevance of my proposed arguments on differential price elasticity between consumer groups as well as its impact on high-status firms' distinct revenue-growth strategies.

For example, consider the market for gasoline, a core commodity. In this market, demand is very inelastic, meaning that consumers, regardless of their status, continue to purchase products despite price increases (Hamilton 2009) – no matter how expensive oil prices may become, consumers need gasoline for essential daily activities like driving to work, taking their kids to school, or buying groceries. Therefore, I would expect little difference in the price elasticity of demand between elite and non-elite consumers in the market. Accordingly, I would not expect high-status firms and low-status firms to differ significantly in their ability to increase prices, as the price sensitivity of elite and non-elite consumers would be equally low.

In conclusion, my arguments will be relevant in markets with substantial price elasticity of demand, such as luxury products and high-end services. Moreover, given the significant price elasticity of demand in the legal services sector, where cheaper alternatives like online legal help or paralegals exist, I would expect my arguments to be particularly relevant and applicable.

## Chapter 3 Firm Status and Directions of Revenue Growth: Why High-status Firms Avoid Consumer Base Expansion and Pursue Horizontal Scope Expansion to Grow Revenue

### 3.1 Directions of Revenue Growth: Consumer Base Expansion and Horizontal Scope Expansion

Building upon the Ansoff Matrix, a conventional strategic framework for evaluating different expansion options (Ansoff 1965), a firm can increase sales volume along the two dimensions. The first dimension is consumer base expansion, which involves the decision to focus on its existing consumer base or to acquire new consumers to increase sales volume. The second dimension is horizontal scope expansion, which involves the decision to maintain focus on existing markets or to venture into new markets or regions to enhance sales volume. Figure 1 illustrates the decision tree for revenue growth, and Table 1 summarizes the two different dimensions for increasing sales volume.

**Figure 1. Decision Tree for Revenue Growth**

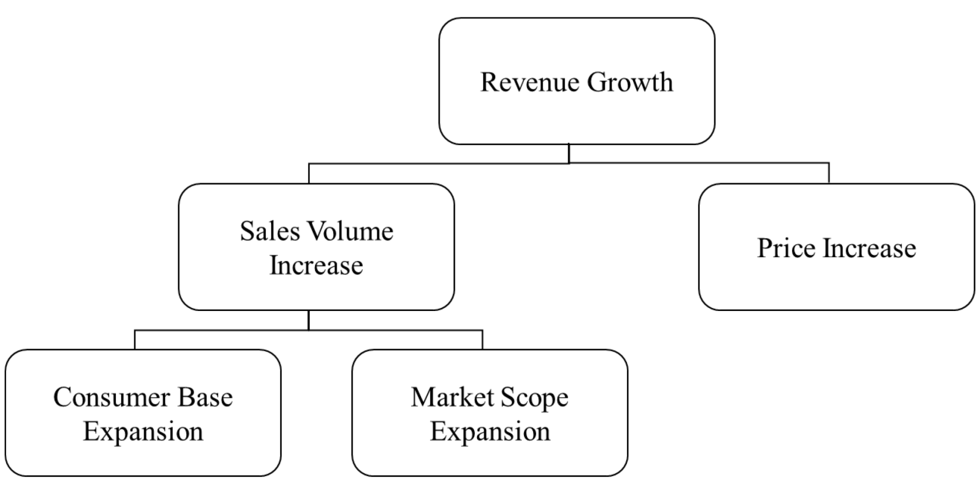

**Table 1. Tactics for Increasing Sales Volume and Examples**

| | | |
|---|---|---|
| Consumer Base Expansion | Downward market expansion / brand extension | Banks entering cryptocurrency |
| Existing Consumer Focus | Repeat purchases / new product introduction | Luxury fashion-house acquiring luxury watchmaker |
| Consumer / Market | Existing Market Focus | Horizontal Scope Expansion |

In summary, there are four different tactics for increasing sales volume, distinguished based on the two dimensions of consumer base and market scope expansion. Having established a framework for analyzing different directions of revenue growth, I explore next how high-status firms evaluate and selectively pursue these strategies to effectively grow revenue while maintaining their high status.

## 3.2 High-Status Firms and Their Propensity to Avoid Consumer Base Expansion

Expanding the consumer base to increase sales volume involves two distinct approaches for high-status firms: attracting non-elite consumers or adding more elite consumers. I discuss below how both approaches pose challenges for high-status firms in growing revenue and maintaining their status, thus leading them to avoid growth via consumer base expansion.

### *3.2.1 Attracting Non-Elite Consumers as a Clear Breach of Exclusivity*

First, I argue that recruiting non-elite consumers constitutes a direct violation of exclusivity (Accominotti et al. 2018, Podolny 1994) which makes high-status firms reluctant to acquire non-elite consumers to grow. Consumer exchange serves as an affiliation through which people infer firm status (Accominotti et al. 2018), thus making the sale of products to non-elites detrimental to perceptions of exclusivity and overall firm status. Moreover, including non-elite consumers may compromise the status of existing elite consumers, the primary consumer group, potentially leading to their withdrawal from the consumer base. A notable example is evident in the case of hip-hop musicians referencing elite Swiss watches in their lyrics. The musicians incorporating mentions of the watches sparked discontent among traditional elites, as they found themselves grouped alongside a broader audience in the consumption of luxury watches (The Fader.com 2023). The exclusivity that had long been associated with these timepieces was eroded, causing a perceived dilution of the elite status previously enjoyed by the elite consumer base. This phenomenon exemplifies how associations with non-elites in consumer exchange can not only undermine the exclusivity linked to high-status firms but also create tensions and dissatisfaction among the traditional elite consumers who care about protecting their own individual status. Considering the risks of diluting firm status and causing discontent among high-status consumers, it is well-established that high-status firms would likely refrain from acquiring non-elite consumers.

### *3.2.2 Obstacles in Attracting Elite Clients: Limited Pool and Internal Elite Divergence*

Given the strong disincentives for high-status firms to acquire non-elite consumers, the only viable alternative may be to acquire additional elite consumers. Because the number of available elite consumers is simply limited (Hirsch 1977), however, high-status firms may struggle to find new elites to add to their consumer pool. Adding to this difficulty, elite consumers may diverge in their preferences, which further prevents high-status firms from capitalizing on a full breadth of elite consumers. For instance, the distinction between the 'nouveau riche' and 'old money' illustrates how rising elites often differ from traditional elites in terms of economic, cultural, and symbolic capital (Harvey and Maclean 2008). Given the differences, they may seek to adopt different modes of economic or cultural consumption to distinguish themselves from others and claim elite status - prior research on British elites, for example, has shown how the new generation of British elites managed to "claim their inherent value of their own tastes and recreations… by championing a set of emerging high cultural forms." (Friedman and Reeves 2020, p. 324). As such, I argue that the divergence in elite preferences may make it difficult for high-status firms to attract a full breadth of elites.

Moreover, given the tendency for elites to interact with each other (Podolny 1994), I argue that direct disputes and conflicts of interest between them can arise frequently, which makes it even more challenging for high-status firms to acquire new elite consumers. In the legal services sector, for instance, corporations actively sue each other over intellectual property disputes, negligence, and breach of contract. The long-standing legal battles between Apple and Samsung, for example, illustrate how commonly and persistently such disputes arise (France-Presse, 2022). Such internal disputes between corporations, however, can be problematic for lawyers trying to secure new corporate clients, as they cannot represent both sides in a dispute for ethical and legal reasons. Relatedly, problems may arise between lawyers in the same firm, where one lawyer represents a client that another lawyer in the same firm opposes (Galanter and Palay, 1990). As illustrated above, the frequent disputes and conflicts of interest between elite consumers constitute another reason why high-status firms may struggle to acquire elite consumers.

### *3.2.3 Concerns of Maintaining Scarcity for High-Status Firms*

In addition to the distinct challenges associated with acquiring either non-elite or elite consumer groups, I argue that the concern of scarcity further restricts high-status firms from expanding their consumer base—regardless of the elite or non-elite status of the acquired consumers. Consumers emphasize scarcity when consuming high-status goods (Goode 1978), as they find utility in distinguishing themselves from the rest through high-status consumption (Daloz 2009). Accordingly, if high-status firms were to increase the number of consumers to the extent that they become commonplace or commoditized, the goods would no longer function as a distinguishing factor, thus decreasing the value that high-status firms offer. The scarcity imperative for high-status firms is well-exemplified by Michael Kors, a luxury fashion house valued at $3.6 billion during its 2011 IPO, which lost prestige in less than a decade due to its rapid consumer outreach (Miligan 2012, Schlossberg 2016). Specifically, speculations on its demise suggest that the main factor is the loss of perceived scarcity and prestige, as the skyrocketing number of people wearing Michael Kors on the street diminished its exclusivity and desirability, making Michael Kors "no longer cool anymore" (Schlossberg, 2016).

To summarize the section, I provided three reasons why high-status firms may struggle to grow by expanding their consumer base: adding non-elites dilutes exclusivity, attracting more elites is difficult, and concerns about scarcity further reduce the appeal of acquiring new consumers. Consequently, high-status firms are inclined to avoid revenue growth via consumer base expansion. In contrast, low-status firms, not bound by the principle of exclusivity, are not as constrained or disincentivized to expand their consumer base. Because the benefits flowing into their status position are minimal, low-status firms can expand their consumer base without worrying about the decision negatively influencing exclusivity and their status perceptions.

Based on the arguments, I lay out hypotheses 3 as follows:

Hypothesis 3. *High-status firms are less likely than low-status firms to acquire new consumers.*

### 3.3 High-Status Firms and Their Propensity to Expand Horizontal Scope

Horizontal scope expansion refers to the extent to which a firm broadens its operations across different market categories or geographical regions. This can be achieved through across-market diversification, where the firm diversifies its operation across various markets and industries, or through geographical diversification, where the firm expands its presence into different regions. In this section, I explain how different types of horizontal scope expansion enable high-status firms to boost revenue and maintain status, leading them to actively pursue this growth strategy.

#### *3.3.1 Across-Market Diversification: Preserving High Status by Increasing Professional Purity and Pushing the Knowledge Frontier*

I argue that high-status firms can strengthen their high-status position by expanding into different market categories. Prior studies on profession have argued that actors can enhance their professional status through the stages of professional purification (Abbott 1981). That is, by staying away from routine work that involves real human problems such as "professionals entering the emergency room [to handle frontline patient care]" (Abbott 1981, p. 825) and instead, by practicing tasks that are more abstract, complex, and technical, or in short, at the "deeper level" (Abbott 1981, p. 827), actors can enhance professional purity and claim high status. Similar to professionals increasing status by involving in abstract and complex work, I argue that high-status firms can strengthen their status position by operating across different markets. First, because each market category entails distinct norms, conventions, and competitive rules (Rao et al. 2005), operating across multiple markets inherently signals the complexity involved in managing these diverse environments. Moreover, by spanning market categories and serving diverse functions, high-status firms can reinforce their image as operating on a higher level of abstraction, further detaching themselves from frontline, specific practices. As a result, diversification can increase high-status firms' professional purity, which allows them to bolster their already high status and associated benefits.

In addition to increasing professional purity, I argue that high-status firms can push their knowledge frontier by recombining knowledge from different markets. Literature on market diversification has shown that diversified firms can share resources across different markets, including the transfer and recombination of knowledge (Miller 2006, Zahavi and Lavie 2013). Since knowledge recombination is key to achieving innovation (Xiao et al. 2021), as emphasized by the Schumpeterian view that innovation arises from finding new components or carrying out new combinations (Schumpeter 1939), I argue that high-status firms can, through across-market diversification, better achieve innovation and continue to provide top-notch products and services necessary to maintain their high-status position. For example, LVMH, one of the most influential fashion powerhouses, has been able to stay as the leading luxury conglomerate for decades, leveraging insights gained from operating in multiple businesses. Its diverse portfolio spans categories such as perfume, clothing, and spirits, and the knowledge drawn from these varied operations has enabled Bernard Arnault, the CEO of LVMH, to better understand the desires of elite consumers, and succeed in creating his "empire of desirability" (Alderman and Friedman 2023).

In summary, across-market diversification helps high-status firms bolster their high-status position in two different ways: by signaling professional purity through operating at a higher level of complexity and abstraction, and by pushing their knowledge frontier and innovating, which enables them to continue producing quality products expected of high-status firms. Accordingly, because the benefits of status preservation are greater for high-status firms, which receive disproportionate status benefits (Merton 1968), I argue that high-status firms would be more likely than low-status firms to expand into different markets.

### *3.3.2 Across-Market Diversification: Maximizing Revenue from Elite Consumers through One-Stop Service*

In addition to preserving their high-status position, high-status firms can increase revenue from elite consumers by diversifying across different markets and providing one-stop service. Specifically, by offering a bundle of products and services at once, I argue that high-status firms can 1) increase sales volume by providing a wider range of products for elite consumers, and 2) reduce transaction costs by minimizing uncertainty and the frequency of exchanges.

The first argument is straightforward: firms can sell more per consumer by offering a wider range of products. Consumers typically avoid buying redundant products, especially for high-status products that are priced high (Benjamin and Podolny 1999, Malter 2014). Accordingly, high-status firms operating in one product category would have limited opportunities for repeat sales. However, by diversifying across different market categories and offering a variety of non-redundant products and services, firms significantly increase the likelihood of multiple sales to the same consumer. In the legal services context, for example, big law firms often group attorneys with distinct expertise in areas such as corporate law, intellectual property, litigation, and real estate (Robbins 2014) when catering to corporate clients. This is because offering a broad portfolio of services increases the likelihood of generating more revenue per client, especially for corporate clients with high purchasing power and diverse legal needs.

Secondly, firms can reduce transaction costs by offering a one-stop service where consumers can address all their needs within a single firm. Prior transaction cost studies have shown that the uncertainty involved in transactions, as well as the frequency of making arrangements, increases the transaction cost for both parties (Williamson 1979). However, by providing a one-stop service where consumers can engage with a single rather than multiple firms, these costs are naturally reduced. Specifically, this approach alleviates the uncertainties associated with finding and understanding several firms. Continuous engagement with a single firm allows for the building of rapport and trust, which further reduces uncertainty over time. Additionally, purchasing a bundle of products rather than separate items multiple times reduces the frequency of exchanges, further allowing consumers to economize on transaction costs. For example, studies in the legal context point out that one of the main reasons why corporate clients use law firms, despite having their own corporate law departments, is because of the efficiency and reduced transaction costs offered by law firms. Specifically, "one-stop shopping benefits the corporate buyer by reducing not only the search costs but the transaction costs of additional quality checks, dealing with different systems of billing, and so forth." (Galanter and Palay 1994, p. 50). As illustrated in the example, offering bundled products helps high-status firms reduce transaction costs with consumers, which in turn can increase product appeal and translate into greater revenue extracted from their elite consumers.

### *3.3.3 Geographical Diversification: Increasing Outreach to Elite Consumers*

As a final benefit of horizontal scope expansion for high-status firms, I argue that geographical diversification specifically can help the firms increase outreach to elite consumers. The number of elites within a specific social system, namely a geographical region, are limited (Hirsch 1977), making it challenging for firms to grow their elite consumer base within that region. By expanding into different regions, however, high-status firms can access these rare consumers residing in each area, effectively increasing their elite consumer reach. This strategy applies to firms seeking to globalize (Hassan et al. 2015) as well as those expanding across different states or regions. For example, a local law firm headquartered in Texas might struggle to serve elite clients in other states, as clients may prefer close proximity to producers for easier interaction and communication (Hinzmann et al. 2019). By introducing new branches in other states, however, the firm can tap into elite clients in those areas. This strategy not only increases outreach but also maintains the firm's status by serving elite consumers in multiple locations. Thus, geographical diversification can help high-status firms boost revenue by accessing a greater number of elites while preserving the exclusivity that defines their high status.

To summarize the section, I have outlined three distinct benefits of horizontal scope expansion that enable high-status firms to grow their revenue from their elite consumers and to further bolster their high status. I argue that these benefits primarily appeal to high-status firms due to their strong motives for status preservation and the pressure to focus on elite consumers. Consequently, I argue that high-status firms are more likely than low-status firms to expand their horizontal scope of operation.

Based on the arguments, I lay out hypothesis 4 as follows:

Hypothesis 4. *High-status firms are more likely than low-status firms to engage in horizontal scope expansion*

### *3.3.4 Potential Diversification Discount: How High-Status Firms Mitigate Risks and Justify Expansion*

The argument that high-status firms will be more likely than low-status firms to expand horizontal scope does not mean that the growth strategy will be unilaterally beneficial for them. Prior studies on market categories have demonstrated that operating across different markets may lead to a discount in firm evaluation, henceforth diversification discount, in two respects (Hsu et al. 2009, Leung and Sharkey 2014, Zuckerman 1999): The first discount relates to the perceived difficulty of evaluating multi-category firms, also known as the categorical imperative (Zuckerman 1999) - because the multi-category membership intensifies the difficulty of classifying the firm into a category or evaluating it across other products, diversified firms are at the risk of being excluded from the consideration set. The second discount relates to the potential capability concerns arising from the multi-category membership. Given the finite resources one can expend, a firm that spreads their resources and capabilities over multiple categories are generally thought to be inferior to single-market specialists, which results in lower evaluation on diversified firms relative to non-diversified firms.

That said, while the two types of diversification discount may apply to high-status firms, I argue that they may still pursue horizontal scope expansion more actively relative to low-status firms. First, horizontal diversification not only confers high-status firms far greater benefits than low-status firms, as discussed earlier, but it is also often their only viable growth option: unlike low-status firms, high-status firms cannot easily expand their consumer base to increase revenue.

Thus, they may be willing to engage in horizontal expansion despite the potential diversification discount arising from the strategy. Second, I argue that high-status firms are better positioned to justify their decision to diversify their business. Their legitimacy as qualified players (Phillips and Zuckerman 2001) makes stakeholders less likely to question their capability to manage multi-category operations. Furthermore, due to their high resource and capability profiles, stakeholders often assume they can understand and manage the interdependencies between different market categories (Durand and Kremp 2016), leading to a more positive evaluation of their diversification efforts.

# Chapter 4 Empirical Analysis

## 4.1 Empirical Context

The US legal services industry is the context to test my arguments. I mentioned earlier that my arguments are generally applicable if the three boundary conditions – existence of significant status benefits, observability of firm-customer affiliations, and salient growth imperative within the industry – are met. I argue that the US legal services industry satisfies the three conditions. First, given the complicated nature of legal matters, clients often value and rely on firm status to estimate the quality of its legal services (Carnahan et al. 2022, Tan and Rider 2017). Second, law firms' legal engagement information is well documented and publicly available: because courts maintain dockets, or "a log containing the complete history of each case in the form of brief chronological entries summarizing the court proceedings" (United States Courts) for most litigation cases, one can easily identify whom a focal law firm have represented and accordingly, assess exclusivity in its client representation. Finally, there is a strong growth imperative within the legal services sector. Specifically, the growth imperative in each law firm is heavily influenced by the tournament promotion system and reward structure (Galanter and Palay 1994). The tournament promotion system, for instance, incurs intense competition among associate lawyers aiming for partner status (Malcomson 1984). Associates are judged on the quality of their legal work and their ability to secure lucrative deals (Galanter and Palay 1990), resulting in relentless pressure to seek revenue-generating opportunities that enhance the firm's overall revenue. Additionally, equity partners' earnings are linked to their contributions and the firm's overall profitability, creating strong financial incentives to pursue growth. The two mechanisms, as a result, cultivate a competitive atmosphere that compels law firms to engage in revenue growth.

### 4.2 Data and Sample

I took several procedures to construct the final sample. First, I set the observation period from 2012 to 2022, the most recent period for available data access. Second, I restrict the sample to firms listed in the Am Law 200 database, which annually collects a comprehensive list of financial variables on the 200 largest grossing law firms based in the United States, including profit margin and gross revenue. Third, I combine established databases on legal services, including Vault 100, NLJ 500, Bloomberg Litigation Analytics, and ALM Legal Intelligence, to collect relevant variables. Vault 100 annually lists the top 100 U.S.-based law firms by prestige, and accordingly, is widely used as a measure of law firm status (Carnahan et al. 2022, Rider and Tan 2015, Tan and Rider 2017). The NLJ 500 surveys the 500 largest U.S. law firms by the number of full-time equivalent attorneys (FTE), thus providing data on employee counts, including the number of partners and associate lawyers. The Bloomberg Litigation Analytics database offers detailed information on firms' legal engagements, including their practice areas, jurisdiction cases, and clients served each year. Finally, ALM Intelligence by Law.com offers a portfolio of surveys on various attributes of law firms. Specifically, I use Lateral Partner Movements to examine partner-level movements between firms, and Law Firm Mergers, Acquisitions, and Closure charts for M&A information.

Some of these databases report information from the previous calendar year, while others provide data for the current year. To ensure consistency across all databases, I align the information by adjusting the data points accordingly, such as subtracting one year from databases that publish previous calendar year information.

## 4.3 Variables

### *4.3.1 Dependent Variables*

***Profit margin increase*** Hypothesis 1 examines whether high-status firms are more likely to increase prices than low-status firms. Direct price information, namely a law firm's hourly billing rates for its partners and associates, is not widely available since law firms often do not disclose their rates. Therefore, I use profit margin as a proxy, calculated by Am Law 200 as "the percentage of gross revenue devoted to net income." Although it is difficult to separate profit margin into price and cost components, it generally reflects a firm's profitability and thus indirectly indicates how much they charge their clients. I measure profit margin increase by comparing the profit margin in the following year (t+1) to the focal year (t).

***Sales volume increase*** Hypothesis 2 examines whether high-status firms are less likely to increase sales volume than low-status firms. I measure sales volume in two different ways. First, I calculate the increase in the number of lawyers at the focal firm – undoubtedly the most important input that translates into the amount of legal services delivered – from the focal year (t) to the following year (t+1) as a measure of change in sales input volume. Second, I calculate the increase in the number of legal engagements that a focal firm handles from the focal year (t) to the following year (t+1) as a measure of change in sales output volume.

A clear limitation of using the number of legal engagements as a firm's sales output is that it does not capture a firm's outside-the-court services, such as its counseling services offered to corporate clients. While I acknowledge this limitation, however, I claim that litigation services are a crucial part of a law firm's offerings, and the decision to increase litigation volume generally reflects its emphasis on sales volume. In support of my claim, recent trend in the legal services sector shows that, while law firms previously derived much of their revenue from office work, they have recently seen a surge in litigation and other high-stakes, risk-prone transactions (Galanter and Palay, 1994). Reports likewise document that half of all legal fees paid to outside lawyers are now for litigation (Nelson, 1988).

***New client acquisition*** Hypothesis 3 examines whether high-status firms are less likely to acquire new clients than low-status firms. To measure new client acquisition, I first define 'client' and specify criteria for distinguishing between new and existing clients. I define a client as one that uses a focal law firm to handle at least one litigation case within a given year. An existing client is identified as one that has previously utilized the focal firm's services within the prior five years. Similarly, a new client is one that has not used any legal services from a focal firm within the prior five years. With this definition of a new client established, I measure new client acquisition by the number of newly added clients in the following year (t+1).

In choosing a five-year window to define existing relationships, I take account of the fact that relationships erode over time, and that lack of firm-client representation within a five-year period indicates the lack of attachment between the two. I nonetheless use a three-year window as a robustness check and find that results are fundamentally the same.

***Horizontal scope expansion*** Hypothesis 4 examines whether high-status firms are more likely than low-status firms to expand their horizontal scope of operation, either by expanding into diverse markets or into diverse geographic regions.

To measure horizontal scope expansion across different markets, I calculate the change in the scope of practice areas that a law firm offers clients, or in other words, the increase in practice area diversification. In the legal services industry, a practice area is regarded as a distinct service category. To serve in a different practice area, one needs to be cognizant of the whole body of law specific to the practice and additionally familiarize oneself with a different court system or even a different legal culture ” (Thomson Reuters 2023). Thus, the set of skills and knowledge required for each practice area is highly specialized and distinguished. Accordingly, offering legal services over multiple practice areas can be regarded as engaging in scope expansion across different legal service markets (Kor and Leblebici 2005). Second, I examine the change in the geographical scope of a law firm's operations, or geographical diversification. Each jurisdiction has its own laws, court systems, and legal cultures that primarily serve the residents of that region, so a firm's decision to operate across multiple jurisdictions reflects its commitment to expanding its reach and serving different regional populations

For both practice area diversification and geographical diversification, I do not examine the simple count of practice areas or jurisdictions that a law firm serves each year, because I believe such a measure would inaccurately equate a single litigation case with extensive practice in an area. For example, under this measure, if a law firm handles just one case in a particular area or jurisdiction, it would be counted the same as a firm handling numerous cases, failing to capture the depth of the firm's engagement and specialization. Thus, instead of using a simple count measure, I use the Herfindahl-Hirschman Index (HHI), a commonly accepted measure of market concentration, to assess practice area or geographical diversification. The HHI is calculated by squaring the market share of a law firm in each practice area or jurisdiction and summing the results. For example, for a law firm servicing four practice areas with shares of 0.1, 0.2, 0.3, and 0.4, the HHI would be 0.30 ($0.1^2 + 0.2^2 + 0.3^2 + 0.4^2 = 0.30$). A high HHI value indicates high concentration, while a low HHI value indicates high diversification. This method accurately reflects the depth of a firm's engagement and specialization in various practice areas or jurisdictions.

I use Bloomberg's Litigation Analytics database, which collects information from "U.S. District Court and Court of Appeals dockets from 2007 onward, excluding criminal dockets and prisoner petitions" (bloomberglaw.com). The Bloomberg database assigns each docket a Civil Nature of Suit Code for categorizing case types, resulting in 17 general categories and 83 specialized categories. Using this classification, I calculate the HHI index based on general categories and specialized subcategories to measure practice area concentration. To analyze how high-status law firms change their level of practice area diversification, I measure the change in these HHI indices. The precise case type categorization is shown in Table 2, as described below:

**Table 2. 17 General Practice Area / 83 Specialized Practice Area Classification**

| General Practice Area | NOS Codes | Specialized Practice Area |
|---|---|---|
| Antitrust | 410 | Antitrust |
| Bankruptcy | 422, 423 | Bankruptcy Appeal; Withdrawal of Reference |
| Civil Rights | 440, 441, 442, 443, 445, 446, 448 | Other Civil Rights; Voting; Employment; Housing/Accommodations; Americans With Disabilities - Employment; Americans With Disabilities - Other; Education |
| Contract | 110, 120, 150, 151, 152, 153, 160, 190, 195, 196 | Insurance; Marine; Recovery of Overpayment & Enforcement Judgment; Recovery of Defaulted Student Loans; Medicare; Recovery of Overpayment of Veterans' Benefits; Stockholders' Suits ; Other Contract; Contract Product Liability; Franchise |
| Federal Tax Suits | 870, 871 | Taxes (U.S. Plaintiff or Defendant); IRS-Third Party |
| Forfeiture/Penalty | 625, 690 | Drug Related Seizure of Property 21; Other |
| Immigration | 465 | Other Immigration Actions |
| Intellectual Property Rights | 820, 840, 880 | Copyright, Defend Trade Secrets Act of 2016 (DTSA), Trademark |
| Labor | 710, 720, 740, 751, 790, 791 | Employee Retirement Income Security Act; Fair Labor Standards Act (Non-Union); Family and Medical Leave Act, Labor/Management Relations (Union); Other Labor Litigation; Railway Labor Act |

| | | |
|---|---|---|
| Other statutes | 375, 400, 430, 450, 460, 470, 480, 485, 490, 890, 891, 893, 895, 896, 899, 950, N/A | Administrative Procedure Act/Review or Appeal of Agency Decision, Agricultural Acts, Arbitration, Banks and Banking, Cable/Satellite TV, Commerce, Constitutionality of State Statutes, Consumer Credit, Deportation, Environmental Matters, False Claims Act; Freedom of Information Act; Other Statutory Actions, Racketeer Influenced and Corrupt Organizations; State Reapportionment; Telephone Consumer Protection Act (TCPA) |
| Patent Prosecution | 830, 835 | Patent; Patent - Abbreviated New Drug Application (ANDA) |
| Personal Property | 370, 385 | Property Damage Product Liability; Other Fraud (Excludes any property that is not real property) |
| Real Property | 210, 220, 230, 240, 245, 290 | All Other Real Property; Foreclosure; Land Condemnation; Rent Lease & Ejectment; Tort Product Liability; Torts to Land |
| Securities/Commodities/ Exchange | 850 | Securities/Commodities/Exchange |
| Social Security | 861, 862, 863, 864, 865 | Black Lung (923), DIWC/DIWW (405(g)), HIA (1395ff), RSI (405(g)), SSID Title XVI |
| Torts/Personal Injury | 310, 315, 340, 345, 350, 355, 360, 362, 365, 367, 368 | Airplane (excludes airplane product liability claims); Airplane Product Liability; Asbestos Personal Injury Product Liability; Health Care/Pharmaceutical Personal Injury Product Liability; Marine (excludes marine product liability claims); Marine Product Liability; Motor Vehicle; Motor Vehicle Product Liability; Other Personal Injury; Personal Injury - Medical Malpractice; Personal Injury - Product Liability (excludes a marine or airplane product) |
| Unknown | | |

For geographical diversification, I use Bloomberg data on federal court case dockets. I first calculate HHI based on the number of cases the firm handled in each of the 89 district jurisdictions, then measure the change in HHI from the focal year (t) to the following year (t+1).

### *4.3.2 Independent Variable*

The independent variable is the status of a focal law firm. I measure firm status as the prestige scores provided by the Vault Law 100, the database that annually ranks the top 100 most renowned law firms in United States. The ranking assessment is peer-based, where more than 20,000 associate lawyers are asked to rate the prestige of law firms excluding their own on a scale of 1 to 10, which is then combined to rank the top 100 law firms. The database explicitly mentions that the ranking is based on firm prestige, not on "profit, size, lifestyle, number of deals, or quality of service" (Vault.com).

Firms outside the Vault 100 list are regarded as low-status firms and accordingly, are assigned a value of one, the lowest prestige score a firm can possibly receive. Given the skewed nature of the status scores, I then take the natural log of the variable. In the sample, the logged measure of status takes the value between 0 and 2.21.

### *4.3.3 Control Variables*

There could be several firm-level factors, aside from organizational status, that may affect firm strategies to increase revenue. First, I control for the location choices of each law firm that could shape its revenue-seeking model. I use the AmLaw 200 classification to categorize each law firm into four groups: international (over 40% of lawyers located outside the U.S.), national (no more than 45% of lawyers in one region), verein (organized as a Swiss verein), and regional (all others, serving as the baseline category). Second, I control for equity partner-to-associate ratio, as the number of associates a partner on average works with could influence how they generate revenue. Another critical determinant may be firm size, as large sized firms may differ from mid to small-sized firms in terms of their growth strategies. I control for firm size by including the number of lawyers working for the firm and taking the natural log of the measure to control for the skewed nature of lawyer count. Fourth, I control for the number of partners gained and lost, as partners are key employees who can significantly influence the firm's revenue.

In addition to the control variables above, I account for a firm's growth choices in the focal year t, as they may impact subsequent strategies to increase revenue. Specifically, I control for each law firm's number of general and specialized practice areas, as well as its concentration HHI indices. I control for the number of jurisdictions each firm operates in a given year, as well as its HHI index. I also control for the number of clients they serve, as well as the number of new consumers they have acquired in a given year. Finally, I control for each firm's profit margin and gross revenue in given year.

Table 3 provides descriptive statistics and Table 4 provides bivariate correlation coefficients for the key variables.

**Table 3. Descriptive Statistics**

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|---|---|---|---|---|---|
| 1. Firm Status (logged) | 2079 | .83 | .88 | 0 | 2.21 |
| 2. Location: National | 2079 | .25 | .43 | 0 | 1 |
| 3. Location: Verein | 2079 | .03 | .16 | 0 | 1 |
| 4. Location: International | 2079 | .03 | .18 | 0 | 1 |
| 5. Equity partner-to-Associate Ratio | 2079 | .76 | .5 | .01 | 3.66 |
| 6. Number of Lawyers (logged) | 2079 | 6.17 | .73 | 4.41 | 8.48 |
| 7. Profit Margin | 2079 | 37.79 | 10.22 | 6 | 72 |
| 8. Gross Revenue (logged) | 2079 | 19.76 | .86 | 18.28 | 22.52 |
| 9. Number of Mergers and Acquisitions | 2079 | .13 | .4 | 0 | 4 |
| 10. Number of Partners Gained | 2079 | 9.28 | 12.39 | 0 | 251 |
| 11. Number of Partner Movements | 2079 | 6.65 | 8.62 | 0 | 73 |
| 12. Number of General Practice Areas | 2079 | 12.83 | 2.28 | 1 | 17 |
| 13. Number of Specialized Practice Areas | 2079 | 34 | 12.12 | 1 | 61 |
| 14. Total Number of Clients | 2079 | 186.03 | 175.42 | 1 | 1354 |
| 15. General Practice Area Concentration | 2079 | .21 | .14 | .09 | 1 |
| 16. Special Practice Area Concentration | 2079 | .14 | .12 | .04 | 1 |
| 17. Number of Jurisdictions | 2079 | 43.54 | 22.12 | 1 | 103 |
| 18. Jurisdiction Concentration | 2079 | .15 | .13 | .02 | 1 |
| 19. Number of Litigation Cases | 2079 | 499.86 | 737.42 | 1 | 10272 |
| 20. Number of New Clients | 2079 | 103.55 | 98.28 | 0 | 803 |
| 21. Year | 2079 | 2017.08 | 3.16 | 2012 | 2022 |

**Table 4. Pairwise Correlation Matrix**

| Variables | (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) | (10) | (11) | (12) | (13) | (14) | (15) | (16) | (17) | (18) | (19) | (20) | (21) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Firm Status (logged) | 1.00 | | | | | | | | | | | | | | | | | | | | |
| 2. Location: National | 0.33 | 1.00 | | | | | | | | | | | | | | | | | | | |
| 3. Location: Verein | 0.14 | -0.09 | 1.00 | | | | | | | | | | | | | | | | | | |
| 4. Location: International | 0.12 | -0.11 | -0.03 | 1.00 | | | | | | | | | | | | | | | | | |
| 5. Equity partner-to-Associate Ratio | -0.58 | -0.21 | -0.16 | -0.18 | 1.00 | | | | | | | | | | | | | | | | |
| 6. Number of Lawyers (logged) | 0.63 | 0.43 | 0.39 | 0.19 | -0.47 | 1.00 | | | | | | | | | | | | | | | |
| 7. Profit Margin | 0.23 | -0.03 | -0.15 | -0.07 | 0.22 | -0.09 | 1.00 | | | | | | | | | | | | | | |
| 8. Gross Revenue (logged) | 0.81 | 0.43 | 0.29 | 0.18 | -0.59 | 0.91 | 0.14 | 1.00 | | | | | | | | | | | | | |
| 9. Number of Mergers and Acquisitions | -0.07 | 0.00 | 0.18 | -0.05 | 0.07 | 0.10 | -0.15 | -0.01 | 1.00 | | | | | | | | | | | | |
| 10. Number of Partners Gained | 0.25 | 0.28 | 0.28 | 0.04 | -0.20 | 0.54 | -0.16 | 0.44 | 0.20 | 1.00 | | | | | | | | | | | |
| 11. Number of Partner Movements | 0.38 | 0.31 | 0.40 | 0.09 | -0.29 | 0.62 | -0.17 | 0.56 | 0.12 | 0.57 | 1.00 | | | | | | | | | | |
| 12. Number of General Practice Areas | 0.16 | 0.22 | 0.09 | -0.12 | -0.02 | 0.44 | -0.20 | 0.28 | 0.11 | 0.33 | 0.30 | 1.00 | | | | | | | | | |
| 13. Number of Specialized Practice Areas | -0.03 | 0.26 | 0.11 | -0.15 | 0.09 | 0.46 | -0.34 | 0.21 | 0.21 | 0.39 | 0.32 | 0.79 | 1.00 | | | | | | | | |
| 14. Total Number of Clients | 0.05 | 0.42 | 0.05 | -0.08 | -0.06 | 0.47 | -0.23 | 0.29 | 0.20 | 0.34 | 0.27 | 0.36 | 0.60 | 1.00 | | | | | | | |
| 15. General Practice Area Concentration | -0.09 | 0.06 | 0.04 | -0.02 | 0.04 | 0.00 | 0.02 | -0.01 | 0.05 | -0.08 | -0.07 | -0.21 | -0.05 | 0.19 | 1.00 | | | | | | |
| 16. Special Practice Area Concentration | 0.02 | 0.02 | 0.03 | 0.03 | -0.06 | -0.01 | 0.07 | 0.05 | 0.00 | -0.10 | -0.07 | -0.29 | -0.20 | 0.03 | 0.92 | 1.00 | | | | | |
| 17. Number of Jurisdictions | 0.16 | 0.45 | 0.09 | -0.09 | -0.12 | 0.60 | -0.27 | 0.41 | 0.19 | 0.43 | 0.38 | 0.58 | 0.79 | 0.82 | 0.14 | 0.00 | 1.00 | | | | |
| 18. Jurisdiction Concentration | -0.14 | -0.21 | 0.01 | 0.03 | 0.15 | -0.23 | 0.15 | -0.18 | -0.05 | -0.20 | -0.19 | -0.29 | -0.28 | -0.26 | 0.65 | 0.67 | -0.37 | 1.00 | | | |
| 19. Number of Litigation Cases | -0.01 | 0.21 | 0.04 | -0.07 | 0.00 | 0.31 | -0.14 | 0.18 | 0.15 | 0.19 | 0.16 | 0.28 | 0.47 | 0.60 | 0.61 | 0.52 | 0.60 | 0.29 | 1.00 | | |
| 20. Number of New Clients | 0.02 | 0.41 | 0.06 | -0.09 | -0.05 | 0.44 | -0.25 | 0.25 | 0.20 | 0.35 | 0.25 | 0.35 | 0.58 | 0.98 | 0.16 | 0.01 | 0.79 | -0.26 | 0.56 | 1.00 | |
| 21. Year | -0.02 | 0.05 | -0.02 | 0.02 | -0.01 | 0.05 | 0.05 | 0.13 | -0.03 | 0.02 | 0.09 | -0.08 | 0.00 | -0.06 | -0.02 | -0.07 | -0.01 | -0.10 | -0.07 | -0.07 | 1.00 |

### 4.4 Results

I use the random-effects OLS models to test the hypotheses. Because my theory examines how high-status firms pursue revenue growth differently from low-status firms, it is appropriate to use the random-effects analyses that can address differences between firms. Before running regression models to test the hypotheses, however, I examine the relationship between law firm status and different indicators of revenue growth through descriptive statistics, as presented by the four panels in Figure 2 below. Panel A, for instance, shows that law firm status is positively associated with the rate of revenue growth, which suggests that high-status firms are not more constrained than their low-status counterparts regarding how fast they can grow. Panel B to Panel D, however, show that they may be constrained in terms of what types of growth they can pursue – the negative association between firm status and new client acquisition in Panel B, contrasted with the positive association between firm status and market scope expansion in Panel C (a decrease in practice area HHI can be interpreted as an increase in horizontal scope expansion) and the positive association between firm status and profit margin increase in Panel D, suggest that high-status firms are particularly constrained in their client base expansion relative to low-status firms and accordingly, governed by the principle of exclusivity when pursuing firm growth.

**Figure 2. Correlation between Firm Status and Different Indicators of Revenue Growth**

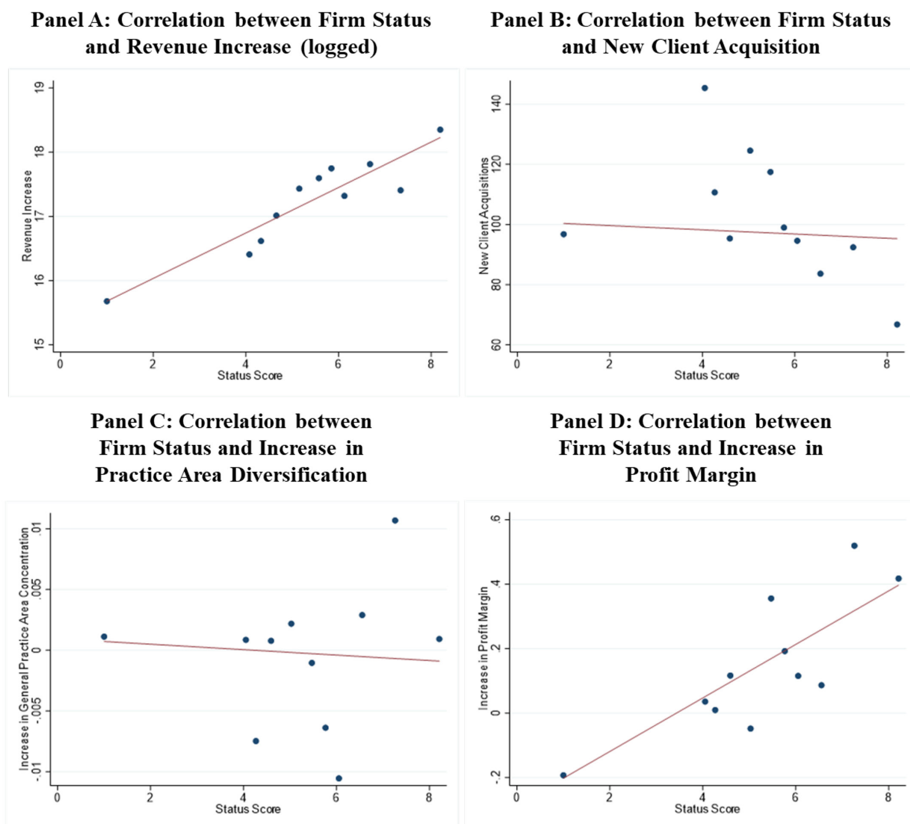


Table 5 examines the effect of firm status on price and sales volume increase. Hypothesis 1 argues that high-status firms are more likely to increase prices than low-status firms. Model 1 shows that law firm status is positively associated with an increase in profit margin, with marginal significance ($\beta = 0.31$; $p < 0.1$). Hypothesis 2 argues that high-status firms are less likely to increase sales volume than low-status firms. Model 2 shows that the relationship between status and the increase in the number of lawyers (logged) is negative and significant ($\beta = -0.01$; $p < 0.05$), suggesting that high-status firms increase their lawyer count, an input for sales volume, less than their low-status peers. Model 3, likewise, shows a negative and significant relationship between status and the number of litigation cases ($\beta = -48.48$; $p < 0.05$), further confirming that high-status firms focus less on sales volume increase than low-status rivals. Thus, I find marginal support for hypothesis 1 and strong support for hypothesis 2.

**Table 5. Firm Status and Types of Revenue Growth: Price / Sales Volume Increase**

| | Model 1 | Model 2 | Model 3 |
|---|---|---|---|
| | Profit Margin Increase (t+1) | Number of Lawyers Increase (t+1) | Litigation Volume Increase (t+1) |
| Firm Status (logged) | $0.31^{+}$ | $-0.01^{*}$ | $-48.48^{*}$ |
| | (0.17) | (0.00) | (22.33) |
| Location: National | -0.14 | -0.00 | -35.27 |
| | (0.23) | (0.01) | (28.17) |
| Location: Verein | -0.46 | $0.04^{*}$ | -49.19 |
| | (0.65) | (0.02) | (78.60) |
| Location: International | $-0.89^{+}$ | 0.00 | -14.33 |
| | (0.51) | (0.01) | (61.88) |
| Equity partner-to-Associate Ratio | $0.77^{**}$ | $-0.01^{+}$ | -21.34 |
| | (0.25) | (0.01) | (31.14) |
| Number of Lawyers (logged) | -0.67 | $0.97^{***}$ | -90.78 |
| | (0.50) | (0.01) | (62.82) |
| Profit Margin | $0.90^{***}$ | $0.00^{*}$ | 1.34 |
| | (0.01) | (0.00) | (1.44) |
| Gross Revenue (logged) | $1.12^{*}$ | $0.03^{**}$ | $104.06^{+}$ |
| | (0.47) | (0.01) | (59.95) |
| Number of Mergers and Acquisitions | -0.22 | 0.00 | 2.73 |
| | (0.17) | (0.00) | (24.97) |
| Partners Gained | -0.00 | $0.00^{***}$ | -0.59 |
| | (0.01) | (0.00) | (1.03) |
| Partners Lost | $-0.02^{+}$ | $-0.00^{***}$ | 0.80 |
| | (0.01) | (0.00) | (1.63) |
| Number of General Practice Areas | 0.02 | -0.00 | -10.37 |
| | (0.06) | (0.00) | (7.72) |
| Number of Specialized Practice Areas | $-0.03^{+}$ | 0.00 | 3.58 |
| | (0.02) | (0.00) | (2.22) |
| Total Number of Clients | 0.00 | $-0.00^{***}$ | $0.97^{**}$ |
| | (0.00) | (0.00) | (0.34) |
| General Practice Area Concentration | 0.01 | -0.02 | 359.76 |
| | (1.63) | (0.04) | (225.22) |
| Special Practice Area Concentration | -0.72 | -0.01 | -211.48 |
| | (1.79) | (0.04) | (248.86) |
| Number of Jurisdictions | 0.00 | $0.00^{*}$ | $4.00^{**}$ |
| | (0.01) | (0.00) | (1.30) |
| Jurisdiction Concentration | 0.35 | 0.03 | 217.87 |
| | (0.97) | (0.02) | (135.25) |
| Number of Litigation Cases | 0.00 | 0.00 | $0.58^{***}$ |
| | (0.00) | (0.00) | (0.02) |
| Number of New Clients | -0.01 | $0.00^{***}$ | -0.68 |
| | (0.00) | (0.00) | (0.57) |
| Constant | $-14.15^{*}$ | $-0.38^{*}$ | $-1612.57^{+}$ |
| | (6.55) | (0.15) | (833.27) |
| Overall R-squared | 0.92 | 0.99 | 0.66 |
| Year Fixed Effects | Yes | Yes | Yes |
| Observations | 2079 | 2079 | 2079 |

Standard errors in parentheses; $^{+}$ $p < 0.10$, $^{*}$ $p < 0.05$, $^{**}$ $p < 0.01$, $^{***}$ $p < 0.001$

Table 6 examines the effect of firm status on the two revenue growth directions: consumer base expansion and horizontal scope expansion. Hypothesis 3 argues that high-status firms are less likely to acquire new consumers than low-status firms to grow revenue. Model 4 shows that status is negatively related to the number of new clients acquired in the following year ($\beta = -4.32$; $p < 0.01$), thus supporting the hypothesis. Hypothesis 4 argues that high-status firms are more likely than low-status firms to engage in horizontal scope expansion. Model 5 shows a negative relationship between firm status and general practice area concentration ($\beta = -0.02$; $p < 0.01$). This negative effect on concentration translates to a positive effect on diversification, suggesting that high-status firms are more likely than low-status firms to broaden their practice areas to grow revenue. Model 6 using the specialized practice area concentration measure yields identical results ($\beta = -0.01$; $p < 0.01$) to Model 5, further providing support for hypothesis 4. Finally, Model 7 shows the negative relationship between firm status and the increase in geographical concentration ($\beta = -0.02$; $p < 0.01$), thereby suggesting that high-status firms are more likely than low-status firms to expand their geographical scope of operation to grow revenue. In sum, analyses using all three measures of diversification show that high-status firms are more likely than low-status firms to engage in horizontal scope expansion. Therefore, I find support for hypothesis 3 and hypothesis 4.

**Table 6. Firm Status and Directions of Growth:**
**Consumer Base Expansion and Horizontal Scope Expansion**

| | Model 4 | Model 5 | Model 6 | Model 7 |
|---|---|---|---|---|
| | New Client Acquisitions (t+1) | Increase in General Practice Area Concentration (t+1) | Increase in Specialized Practice Area Concentration (t+1) | Increase in Jurisdiction Concentration (t+1) |
| Firm Status (logged) | $-4.32^{**}$ | $-0.02^{**}$ | $-0.01^{**}$ | $-0.01^{**}$ |
| | (1.51) | (0.00) | (0.00) | (0.00) |
| Location: National | 1.96 | $0.01^{+}$ | 0.01 | -0.00 |
| | (1.90) | (0.01) | (0.01) | (0.01) |
| Location: Verein | -3.56 | 0.02 | 0.02 | 0.01 |
| | (5.30) | (0.02) | (0.02) | (0.02) |
| Location: International | $-8.36^{*}$ | 0.01 | 0.01 | 0.00 |
| | (4.19) | (0.01) | (0.01) | (0.01) |
| Equity partner-to-Associate Ratio | $-3.58^{+}$ | 0.00 | 0.00 | 0.01 |
| | (2.09) | (0.01) | (0.01) | (0.01) |
| Number of Lawyers (logged) | $12.80^{**}$ | $-0.03^{*}$ | $-0.05^{***}$ | $-0.03^{*}$ |
| | (4.25) | (0.01) | (0.01) | (0.01) |
| Profit Margin | -0.03 | 0.00 | -0.00 | 0.00 |
| | (0.10) | (0.00) | (0.00) | (0.00) |
| Gross Revenue (logged) | $-7.91^{+}$ | $0.04^{**}$ | $0.06^{***}$ | $0.04^{**}$ |
| | (4.05) | (0.01) | (0.01) | (0.01) |
| Number of Mergers and Acquisitions | 0.71 | 0.01 | 0.01 | 0.00 |
| | (1.68) | (0.01) | (0.01) | (0.01) |
| Partners Gained | 0.02 | -0.00 | -0.00 | 0.00 |
| | (0.07) | (0.00) | (0.00) | (0.00) |
| Partners Lost | $-0.24^{*}$ | -0.00 | -0.00 | 0.00 |
| | (0.11) | (0.00) | (0.00) | (0.00) |
| Number of General Practice Areas | -0.12 | $-0.01^{***}$ | $-0.01^{***}$ | $-0.01^{***}$ |
| | (0.52) | (0.00) | (0.00) | (0.00) |
| Number of Specialized Practice Areas | $-0.43^{**}$ | -0.00 | 0.00 | $0.00^{+}$ |
| | (0.15) | (0.00) | (0.00) | (0.00) |
| Total Number of Clients | $0.22^{***}$ | 0.00 | 0.00 | 0.00 |
| | (0.02) | (0.00) | (0.00) | (0.00) |
| General Practice Area Concentration | 18.30 | $0.89^{***}$ | $0.24^{***}$ | $0.29^{***}$ |
| | (15.18) | (0.05) | (0.05) | (0.05) |
| Special Practice Area Concentration | -26.92 | $-0.26^{***}$ | $0.35^{***}$ | $-0.32^{***}$ |
| | (16.87) | (0.06) | (0.05) | (0.05) |
| Number of Jurisdictions | $0.22^{*}$ | 0.00 | 0.00 | $-0.00^{***}$ |
| | (0.09) | (0.00) | (0.00) | (0.00) |
| Jurisdiction Concentration | -5.40 | -0.05 | $-0.07^{*}$ | $0.56^{***}$ |
| | (9.14) | (0.03) | (0.03) | (0.03) |
| Number of Litigation Cases | -0.00 | 0.00 | 0.00 | 0.00 |
| | (0.00) | (0.00) | (0.00) | (0.00) |
| Number of New Clients | $0.52^{***}$ | -0.00 | -0.00 | $-0.00^{+}$ |
| | (0.04) | (0.00) | (0.00) | (0.00) |
| Constant | 91.48 | $-0.35^{+}$ | $-0.64^{***}$ | $-0.43^{*}$ |
| | (56.26) | (0.18) | (0.19) | (0.18) |
| Overall R-squared | 0.66 | 0.91 | 0.46 | 0.49 |
| Year Fixed Effects | Yes | Yes | Yes | Yes |
| Observations | 2076 | 2079 | 2079 | 2079 |

Standard errors in parentheses; $^{+}$ $p < 0.10$, $^{*}$ $p < 0.05$, $^{**}$ $p < 0.01$, $^{***}$ $p < 0.001$

### 4.5 Interpretation of Marginal Findings

For hypothesis 1, which posits that high-status firms are more likely to increase prices than low-status firms, the findings indicated only marginal support. I propose that this may be due to the price ceiling preventing high-status firms from raising prices continuously. Specifically, because there are explicit benchmarks for how much a product or service should cost within a given market, namely the 'industry average', high-status firms' rate increases on top of their already premium prices can often ignite resistance from even their elite consumers. For example, the elite law firm Wachtell, Lipton, Rosen & Katz faced significant backlash over their $90 million fee for representing Twitter (now X) in litigation against Elon Musk (Thomas and Scarcella 2023). Musk's lawsuit highlighted the firm's extremely high billing rates, with one lawyer charging over $2,000 per hour. Despite being able to afford these prices as a top economic elite, Musk called the $90 million fee "unconscionable," arguing it was simply disproportionate to the work performed. This case illustrates the perception that high-status firms can hit a pricing bubble, where further increases are deemed excessive. Accordingly, even wealthy clients like Musk may resist higher fees, reinforcing a price ceiling that high-status firms struggle to surpass.

# Chapter 5 Discussion and Conclusion

## 5.1 Conclusion and Contribution

In my dissertation, I examined the specific types and directions of revenue growth that high-status firms would pursue and avoid. I argued that high-status firms would sort into strategies that allow them to effectively grow revenue while maintaining exclusivity and their high status. Specifically, I contended that high-status firms would be more likely than low-status firms to increase prices and engage in horizontal scope expansion, while being less likely to increase sales volume or acquire new consumers to grow revenue. By analyzing a sample of U.S. law firms from 2012 to 2022, I find evidence that high-status firms indeed align their revenue growth strategies with the principle of exclusivity: they increase profit margins and expand into different practice areas and jurisdictions more than low-status firms while acquiring new clients and increasing legal engagements less than their low-status counterparts. This suggests that high-status firms are not constrained in the overall rate of growth, but rather in the specific types and directions of revenue growth they may attempt.

Throughout my research, I reconcile the tension between prior status literature highlighting growth constraints imposed by the principle of exclusivity and the prevalent high-status expansion across luxury and professional services sectors. The principle of exclusivity indeed poses a significant constraint to expanding different types of affiliations, and prior status studies have likewise identified the growth challenges that high-status firms face in broadening the consumer base (Accominotti et al. 2018) or engaging in downward market expansion (Podolny 1994) due to the relational constraint. However, I argue that high-status firms can still employ growth strategies that do not rely on expanding affiliations, namely price increases and horizontal scope expansion, thus achieving both status maintenance and revenue growth simultaneously. Moreover, I theorize on how these growth strategies synergize with high-status firms' narrow elite consumer base, providing additional rationale for them to selectively pursue the two strategies relative to their low-status counterparts. Findings likewise reveal that status does not constrain growth overall, but instead dictates growth avenues that emphasize exclusivity.

Second, I contribute to the literature on corporate diversification. Prior diversification literature has identified production synergy as the main benefit of firm diversification, where firms can operate more efficiently by sharing skills, knowledge, and input resources across related industries (Hitt et al. 2001, Penrose 1959, Wernerfelt and Montgomery 1988). I argue that there can also be status-related benefits to increasing horizontal market scope, that is, high-status firms can choose to expand market scope as a means to increase revenue without broadening affiliations, thus preserving exclusivity and their status position. Moreover, because high-status firms engage in horizontal scope expansion to increase revenue from elite consumers, their expansion choices are likely based on the preferences and expectations of these consumers. Accordingly, high-status firms' scope expansion may not prioritize incurring production synergy but instead focuses on achieving consumer synergy. The remark by Bernard Arnault, CEO of LVMH, about creating a luxury empire of desirability for their high-end consumers, similarly highlights the consumer-side advantages that high-status firms seek through horizontal scope diversification (Alderman and Friedman 2023). By exploring how high-status firms engage in horizontal scope expansion to realize status maintenance and consumer-based synergies, this research broadens understanding of the demand-side benefits of engaging in corporate diversification (Ye et al. 2012).

### 5.2 Limitations and Avenues for Future Research

This study is not without limitations. First, my arguments rest on the assumption that high-status firms prioritize maintaining their status when making revenue growth decisions. While firm status is known to bring enduring benefits like signaling quality (Podolny 2005) and thus is likely to drive firm decisions, there are instances where status considerations are secondary to other strategic priorities. For example, in platform competition, firms must focus on expanding their consumer base to survive (Cennamo and Santalo 2013). The priority stems from the competitive environment, where maximizing network effects is crucial for enhancing the value of their service with each additional user. In such contexts, the influence of status on driving growth may be less pronounced. Furthermore, elite consumers may not exhibit a substantial willingness to pay for certain products, as in the case of commoditized goods like pencils and paper. In such scenarios where there is little room to charge a price premium, high-status firms may choose to focus on increasing sales volume at the cost of compromising their high status.

Second, while I draw the main contrast between high-status and low-status firms, there could be differential effects within the high-status group. For example, although high-status firms generally prioritize status maintenance due to the significant benefits conferred to high-status positions (Podolny 2005), those hovering just above the high-status benchmark, such as firms ranked close to 100th place in the Vault 100 list, may be particularly anxious about preserving their status due because they face the immediate fear of falling into a low-status category even with a small decline in status. Prior research on status-aspirational pricing similarly suggests that firms with unstable high-status positions, rather than the very top firms whose high status is rarely questioned, are more likely to engage in strategies to maintain their status (Askin and Bothner 2016, Phillips and Zuckerman 2001). Future research could explore this differential effect more deeply, examining how various subgroups within high-status firms place different emphasis on status maintenance when pursuing revenue growth.

Third, firm status is significantly correlated with firm size, as indicated in Table 4 where we can find high correlation between firm status and different indicators of firm size (correlation of 0.63 between status and the logged number of lawyers; correlation of 0.81 between status and logged gross revenue). While including firm size as a control variable is one approach to tease out the effect of size, simply controlling for size may not adequately tease apart the effects of size and status. Moreover, this study falls short of explaining in theory how firm status may play a role independent of firm size. Future research could alleviate this problem by employing statistical techniques to disentangle the effects of status from those of firm size, as well as developing theoretical frameworks that better isolate the unique effects of status on firm behavior and outcomes.

Fourth, while I have argued the positive relationship between status and horizontal scope expansion based on the benefits it brings to high-status firms, it could also be that these firms engage in horizontal scope expansion because they have exhausted available scale options. This possibility is challenging to address directly due to the ambiguity in measuring the exhaustion of scale options. However, the compulsion to expand horizontally due to limited scale opportunities is an important aspect and a viable alternative mechanism underlying the status-horizontal scope expansion relationship that warrants further investigation.

Fifth, there is a potential disconnect between theoretical constructs and operationalized measures. For instance, using profit margin as a proxy for price is imperfect since profit margin accounts for both price and cost components. Similarly, the Herfindahl-Hirschman Index, used here to measure horizontal scope expansion, does not fully capture different aspects of such expansion, such as advancing the knowledge frontier by entering new markets. Future research could address this issue by finding alternative data sources that more directly align theoretical constructs with measures used.

Finally, while I have examined how status induces firms to diversify their geographical operations and areas of expertise, I did not delve into the nuances involved in their diversification strategies, specifically the relatedness between the areas being diversified. The concept of relatedness is crucial, as it can significantly impact the success and efficiency of diversification efforts. Although there are no clear rules to determine what legal expertise is related or unrelated, developing a relatedness measure would be highly beneficial. Future research could develop a measure of relatedness between diversified practice areas based on qualitative evidence and their co-practices among firms. Analyzing how often different legal practice areas are handled together within the same firms could provide insights into their relatedness. Additionally, interviews with industry experts and reviews of case studies could offer qualitative evidence to refine this measure further.

Despite the limitations, the dissertation clarifies the relationship between firm status and revenue growth by categorizing growth options and assessing the propensity of high-status firms to adopt them, based on the potential of each option to help firms to achieve growth under the principle of exclusivity.

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