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TALENT FLIGHT AS A RUN ON THE FIRM: A STUDY OF POST-MERGER INTEGRATION AT THE DEWEY-LEBEOUF LAW FIRM

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We thank Chris Rider for generously allowing access to some of his data.

TALENT FLIGHT AS A RUN ON THE FIRM:
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ABSTRACT

Although collective turnover is widespread, its consequences have seldom been studied. We focus on an extreme case - collective turnover after a merger between privately held firms, and argue that a cascade of exits triggers a loss of confidence in the firm, leading to subsequent exits. We show that it is not the loss of proficient talent that is a key signal of the loss of confidence, instead, it is the polarization of exits between the employees of the acquiring and acquired firm that signals uncertainty and jumpstarts other exits. We suggest that the momentum of 'news' after a merger affects confidence in the firm, and distinguish between the momentum of 'bad news' and the momentum of 'good news. We find that the momentum of bad news intensifies the effect of polarization in prior exits.

For the most part, research on turnover assumes that the decisions of individuals to leave a firm are independent of each other, yet employees leave organizations in flocks. After an acquisition, top managers of the acquired firm leave in tandWeick,em (Walsh, 1988). Entire teams of computer programmers, investment bankers, physicians, and attorneys have been known to move between firms (Groysberg and Abrahams, 2006). In an early study, Krackhardt and Porter (1986: 50) found that an individual's turnover decision constituted an important cue for others who perceived themselves as similar to those who left. They showcased collective turnover, when two more individuals leave an organization in close temporal proximity. Such collective turnover undermines organizations even more than individual turnover; for instance, the 118-year-old San Francisco law office, Heller Ehrman, closed its doors after just 15 of its top intellectual property attorneys suddenly left the firm.

Yet, there is very little research on the causes and consequences of collective turnover. In a presciently early review, Pfeffer (1991:795) noted that "Virtually all of the dominant models of turnover conceptualize it as an individual decision, without considering the effect of social structure". A decade later, Dess and Shaw (2001), referred to the clustering of turnover as the 'Pied Piper' effect and urged that new theory be developed to understand how the actions of individuals become cues for others. Yet, another decade afterwards, Hausknecht and Trevor (2011:353) reviewed the literature on collective turnover and concluded that it lacks ". . . a rigorous analysis of its major antecedents and consequences". More recently, Hausknecht and Holberda (2013) suggest that collective turnover, the aggregate levels of employee departures that occur within groups, work units, or organizations, is fundamentally different that individual turnover, and therefore, cannot be explained by an extension of the theory that underlies individual level turnover.

A useful context to understand the consequence of collective turnover is during post-merger integration. Lee et al (1996) developed the unfolding turnover model to underscore how a variety of personal and organizational shocks trigger departures with job satisfaction being irrelevant in some cases. Holtom and Kenworthy (2005) characterize mergers as a negative shock that prompted 13% of the employees to reconsider their organizational attachment. Such precipitating shocks trigger more voluntary turnover than accumulated job dissatisfaction (Holtom, Mitchell, Lee and Eberly (2008). During acquisitions, one study found that an average of 24% of the top management team exits during the first year after the acquisition, and by the end of the third year, more than one half of the original team has left (Krug and Aguilera, 2005). However, executives of acquiring firms too may leave the organization. Smeets, Iereulli and Gibbs (2013) analyzed mergers in Denmark, and found that even with little mixing employees, 8% of employees from the acquiring firms, and 15% from the target firm left the workplace after the merger.

We suggest that collective turnover during post-merger integration is a 'run' on the firm. Merton (1968), proposed that bank runs ensue when bank customers look at the number of other customers withdrawing deposits, and follow suit because they erroneously conclude that the bank is insolvent. Similarly, collective turnover among employees also can initiate a 'run' on the firm, where, employees see others leave, and anticipate others to leave even further, and so jump ship, thereby, jumpstarting the collapse of the firm. In short, collective turnover triggers cascades of exits.

We adjudicate between two potential signals that initiate an employee run after the merger. On the one hand, the sheer loss of proficient talent is enough to jumpstart the process; here it is not the sheer number of exits, but exits weighted by expertise that comprise the signal that there is something wrong, and arouses concern and uncertainty, thereby, inducing others to jump ship. An alternative hypothesis is that it is the polarization of exits, that is the extent to which defectors fall into groups that become more and more homogenous within themselves, but more and more

heterogenous between each other. For example, polarization is high when members of the 'acquiring' and 'acquired' firm leave the enterprise in equal numbers. The greater the polarization of exits, the more the uncertainty faced by employees, and the more willing are they to reconsider their connection to the firm, and to leave.

Further, we suggest that a merger is not one big-bang event, but instead consist of many decisions made by the top management of the firm. It is the momentum of news during post-merger integration that matters. We separate the momentum of *'bad news'* from the momentum of *good news*. We suggest that the momentum of bad news (e.g. cutbacks on compensation) intensifies the loss of confidence, and accentuates the effect of both signals: the loss of proficiency, and the identity polarization of exits. By contrast, the momentum of good news(e.g. new lines of credit) dampens the effect of both signals.

We rely on an 'extreme case' (Eisenhardt and Graebner, 2007) strategy and focus on a single case study for its rich detail and revelatory value. An advantage of the extreme case design is that we can gather detailed data on the 'micro-shocks' of the merger process – pertaining to bad news(e.g. closure of offices), and good news (new lines of credit, or bonds). We focus on the consequences of collective turnover after the merger of two law firms. We do so because, as Krug, Wright, and Kroll (2013) note, research on turnover after mergers has focused on public firms instead of private firms such as partnerships where partners are owners. While partners can possibly negotiate better terms because they are owners of the firm, it is not always the case that they are informed. In any case, the retention of law firm partners is essential for client retention and the vitality of the enterprise.

We study collective turnover after the merger of two old-line law firms, Dewey Ballantine (founded in 1909) and LeBouef, Lamb, Green and Macrae (founded in 1929) in October, 2007. Dewey had a corporate defense practice and a cross-border transaction practice, and LeBeouf concentrated on the energy and insurance sectors. So the merger was complementary and depended

on revenue synergies between both firms Talent retention was essential. After the merger, the combined firm had more than 1000 lawyers, 300 partners, 26 offices, and revenue close to $950 million, By the end of May, 2012, two thirds of the partners had left, the firm declared a bankruptcy, and the Manhattan District attorney's office launched a criminal investigation of the management of the firm. In line with exhortations to understand the time path of collective turnover (Hausknecht and Holberda, 2013; Mitchell, Burch, & Lee, 2014), we hand collected event history for every partner in both firms before and after the merger. We construct hazard rate models to predict rates of departure.

We begin by testing whether the loss of proficient talent matters, or the polarization of exits between heritage Dewey employees, heritage LeBouf employees, and new comers. We find evidence that polarization matters more than the loss of expertise. We then show that the sheer number of bad news events creates negative momentum, heightens negative emotions and amplifies the effect of the identity polarization of exits. The number of good news events creates positive momentum and bolsters confidence in the firm, and dampens the effect.

We undertake a number of robustness tests to show that it is polarization and not diversity that matters, and rule out the explanation that polarization of exits at the office or practice level matters. We also rely on propensity score matching to show that effects of polarization persist even under this rigorous specification. We begin by drawing on research on collective turnover, and sensemaking to develop a theory of flight in the aftermath of a merger.

POST-MERGER TALENT FLIGHT AND THE LOSS OF CONFIDENCE

Mergers often create uncertainty for members of the acquired firm and the acquiring firm, and lead to employee exits. Holtom and Kenworthy (2005: 337) cast doubt on accumulated job dissatisfaction as the dominant trigger of turnover, and instead, show that precipitating events play a

more important role as a cause of turnover. They distinguish between foreseen and unforeseen shocks, and positive and negative shocks, and personal and organizational shocks. If a spouse getting a better job is an example of foreseen positive personal shock that leads a person to leave, mergers are an example of a negative, organizational shock that is seldom foreseen or anticipated.

In her study of the acquisition process, Graebner (2009) interviewed 80 executives of buying and selling firms and found that buyers were less trusting than sellers, and likely to misrepresent intentions, especially those pertaining to post-integration changes in direction or diminished roles for senior managers. Due to such buyer-seller asymmetries, post-merger integration is difficult because it requires changes that need to capture value and realize organizational synergies, and yet, these very changes create anxiety for employees, often, by jeopardizing their identities (Cording, Christman and King, 2008). Haunschild et al. (1994:1153) observe that mergers "involving more cohesive groups should thus be more problematic because group members will be reluctant to abandon their old identities". The tension between value and socio-political concerns is acute when close cooperation is required between both firms in order to realize revenue synergies. Such mergers are very sensitive to concerns about the justice of outcomes (Monin et al, 2013). shaw

Since Walsh (1988) showed that within five years, 60% of the executives of the acquired firm leave after the acquisition, a number of studies have replicated the results (See Krug, Wright, and Kroll, 2013). Executives leave when they entertain negative perceptions of the long-term effects of an acquisition (Hambrick and Canella, 1993; Lubatkin et al. 1999). As mentioned earlier, executives of the acquiring firm also leave after a merger even when there is little mixing of employees (Smeets, Ierulli and Gibbs, 2013). In his classic book, Hirschman (1970) characterized exit, voice and loyalty as substitutes for each other, and characterized exit is a "reaction of last resort" and noted that it signaled a loss of confidence in the firm.

Bartunek, Huang and Walsh (2008) inductively derive a process model of collective turnover that is applicable to the post-merger integration process. In their account, initial dissatisfaction among a few employees leads to complaints (a voice behavior) and when complaints are not addressed, these individuals leave. Their exits become cues for shared sensemaking among remaining employees: anxiety increases with each cluster of exits, and incites further defections from the firm. A striking feature of their approach is that sensemaking exaggerates the effects of individual events. Below, we extend this line of reasoning to suggest that collective exits can develop into a run on the firm.

Post-Merger Exit Cascades, and Shared Sensemaking: Mergers disrupt shared meanings, and are ambiguous events that spawn confusion among employees. In such cases, individuals rely on sensemaking to reduce confusion and anxiety, by bracketing cues from their environment, and connect these cues to establish a plausible definition of the situation (Weick, 2005). Shared sensemaking, as Maitlis and Sonenshein (2010) observe, is a social process in which individuals jointly create collective narratives from which they derive the meaning of organizational events. As individuals make inferences from the actions of individual members, they create group-level knowledge, which when objectified takes on a truth like character. Shared sensemaking, as Bartunek et al. (2006) note, also has an emotional substrate, where the process of making sense entails the sharing and spread of emotions among employees (Barsade (2002). Negative emotions such as anxiety or fear are more contagious than positive ones (Maitlis & Ozcelik, 2004).

After a merger, as clusters of individuals leave the firm, their actions become cues for other employees to make sense of the situation. Exit decisions are costly decisions, and therefore, more credible than verbal communications. Hausknecht and Trevor (2011) define collective turnover as the exits of turnover as the turnover of *two or more organization members* in *close temporal proximity* based on *shared social processes and decisions*. When employees observe a cluster of individuals leaving, they

construct narratives about why they left and what it means for the long-term prospects of the firm, and the process of building such narratives also spreads associated negative emotions such as the loss of confidence in the firm, and in turn, triggers further exits.

The shared sensemaking rests heavily on social proof. Cialdini (1993:95) observes that we "view a behavior as correct in a given situation to the degree to which we see others performing it." As a convenient cognitive shortcut, social proof enables actors to "cruise confidently through countless decisions without having to investigate the detailed pros and cons of each" (Cialdini, 1993:127). Social proof is most influential under two conditions: decision-makers observe the behavior of others when they are uncertain, and are inclined to follow the lead of others who are similar.

Shared sensemaking based on social proof produces information cascades when actions are sequential and decision-makers learn by observing the actions of others rather than through verbal communication (for instance, managers of competing firms; see Bhikchandani, Hirschleifer and Welch, 1992; Banerjee, 1992). Information cascades form when decisions are discrete: to invest or not to invest, or as in our case, to stay or to leave. Consider an actor, C, who sees decisions first by A and then B to leave. C is also likely to leave given the weight of accumulated decisions, even if C has a private signal that is contradictory. Thus, when C sees two adoptions of the same action he is in an informational cascade because his action relies very little on his private information (Rao, Greve and Davis, 2001).

The parable of the Last National Bank offered by Merton (1968) is instructive. When discussing bank runs, Merton (1968) describes (the fictional) Last National Bank whose president is Cartwright Millingville. The bank is well run, but one day a number of customers (for reasons not mentioned) come to withdraw their money. Other customers see this smell trouble and also get to the bank in a bid to withdraw money, and soon the bank collapses. Merton (1948) described

characterized it as a self-fulfilling prophecy when "in the beginning, a *false* definition of the situation evoking a new behavior which makes the original false conception come *true*".

Similarly, when the exits of individuals are clustered in time, they create trigger a sensemaking process that hinges on social proof which is not fool-proof. Cialdini (1993;131-132) states that the heuristic of social proof presumes that "if a lot of people are doing the same thing, they must know something we don't. Especially when we are uncertain, we are willing to place an enormous amount of trust in the collective knowledge of the crowd. Second, quite frequently the crowd is mistaken because they are not acting on the basis of any superior information but are reacting, themselves, to the principle of social proof". Indeed, the choices of others to exit are salient, and since people see people as causal agents, salient stimuli elicit extreme evaluations (Fiske and Taylor, 1991:251). Kagel and Levin (1986) found that inexperienced decision-makers in an auction experiment bid too much, and even experienced decision-makers had difficulty making correct bids if the environment changed, such as if a different number of bidders participated. Neeman and Orosel (1999) also showed that sequential-bid auctions produce cascades and winner's curses.

Clusters of individuals leaving firms provide information that is the feedstock for sensemaking by remaining employees. Such frequency-based imitation may be the purest form of social influence because it is the sheer number of events that influences adoption (Haunschild and Miner, 1997). Recent events after a merger are vivid and accessible and so likely to shape the evaluations of existing employees (Tversky and Kahneman, 1974). So recent exits after a merge are more likely to be be more potent sources of sensemaking than past exits.

But all individual employees need not be equally credible, and employees who exit can differ in terms of their expertise. Hauskencht and Holberda (2013) argue that proficiency matters, and suggest that it is the loss of expertise that is a stronger signal for shared sense-making by employees.

These arguments fit well with the resource-based perspective on the firm, which holds that resources are valuable when they are rare, causally ambiguous, tacit, and complex – all of which hold when they are embedded in people (Barney, 1991). Unlike other resources, talent can leave, and depletions of talent through exits imply both replacement costs and adjustment costs for the new incoming talent (Lepak and Shaw, 2008). Collective turnover also lowers organizational performance (Price, 1977; Shaw, Gupta, and Delerey, 2005). A more recent study suggests that human capital losses through collective turnover have the maximum effects when they increase from low to moderate levels and when the level of HRM investment is high (Shaw, Park, and Kim, 2013). Thus, as more expert employees leave the firm, there is greater disruption, and greater anxiety, and others too follow suit. Therefore:

H1)As the number of prior expertise-weighted exits increase after a merger, the greater is the hazard of exit for remaining employees.

An alternative hypothesis is that it is the identity of those who leave which is a strong cue for shared sensemaking. Hausknecht and Holberda (2013) suggest that positional distribution of leavers matters a lot, but they refer to roles that individuals hold in the organization. Even if the roles are similar, individuals may vary in their social positions or rather, their social identities – the group with which they identify and categorize themselves as members (Turner and Tajfel, 1979). Dutta, Rao and Skyrzypacz (2014) suggest that when individuals are faced with a high risk decision (such as whether to rebel, or whether to leave a firm), they are seeking to understand the probability distribution of the willingness of everyone in the population to do the same. Since they cannot observe the probability distribution, they infer it from available cues – the diversity of groups undertaking the action in question. In their game theoretic account, each social group undertakes an action because it receives a unique private shock. So the more diverse the groups that make a choice, the more

likely is it the shocks that induced each group to leave are negatively correlated with each other, and especially, with the observer and so, diversity conveys more information. By contrast, when a prospective decisionmaker sees people similar to his/her group leaving, the private shocks of those undertaking the action, and the observer are likely to be correlated, and so there is little 'news' provided about the underlying distribution of the willingness to do the same in the population.

Social groups matter during post-merger integration because employees classify themselves according to their 'heritage' – whether they were from an acquired firm, or an acquirer, or from a different organization. This is especially relevant to mergers where the size of social groups of employees from the acquiring firm and the acquired firm matters (Smeets et al. 2013). Sometimes, employees may also hail from a third employer or a fourth employee. What matters for sensemaking is polarization in the identity of those who leave the firm. During the case of a merger, when exits of employees from both firms (e.g. acquiring and acquired) are roughly in equal numbers, polarization is very high. The more polarized the exits from a firm after a merger, the more likely are people to equally leave from the acquirer and the acquire, and the greater is the loss of confidence in the firm, and so the more likely are others to leave the firm.

H1Alt) As prior exits become polarized, the greater is the hazard of exit for remaining employees.

The Momentum of Internal News and Exit Cascades: The exits of employees are not the only cues available to employees. They also can observe decisions made by the top management of the merged firm in the post-merger integration process. Indeed, each decision may be seen as a micro-shock for employees. While it is tempting to think of a merger as a one big-bang or mega shock for employees, the decisions of top managers who seek to 'give sense' to employees, become 'internal news events' for employees. Put another way, the post-merger decisions of top

management create disclosures, and these disclosures become 'news' that constitutes the raw material for sensemaking. Stinchcombe (1990:p3) observes "Information is "'news" for the organization when it is a first appearance of some sign of how the future is going to be in a respect crucial for the organization".

How news is processed in an organization hinges on whether it is 'bad news' or 'good news',a nd what also matter is the momentum of bad news and good news. Momentum has been conceived of as a tendency to evolve in the same direction (Miller and Friesen, 1980), the persistent pursuit of a goal (Gersick, 1994), or the level of effort and commitment top- level decision-makers are willing to devote to action designed to resolve an issue (Dutton and Duncan, 1987). In a related vein, Amburgey and Miner (1992:335) observed that "Inertia can mean remaining static, but it can also mean staying in uniform motion", and so emphasize repetitive momentum. Jansen (2004) in a mixed method longitudinal study of organizational change distinguished between stasis based momentum (the energy required to preserve a trajectory) from change-based momentum – the energy required to alter an existing trajectory).

George and Jones (2001) observed that the decisions or events during change trigger emotions that provide clues to shared sensemaking in organizations, and suggest that any organizational account of momentum be informed by an understanding of how individuals perceive the momentum of bad news and good news. The content of the news shapes the emotions of employees. Weick (1995) suggested that interruptions in ongoing activity (such as a merger and psot-merger events) constitute news, and arouse emotions, and in turn, felt emotions impede cognitive processing. During the post-merger integration, top managers in a bid to realize synergies or value from the merger, make decisions that cut cost or contract the firm (bad news events) and also make decisions to prolong the survival of the organization by arranging lines of credit (good news events).

So change-based momentum needs to recognize both possibilities and account for the effects of the momentum of bad news and good news.

Bad news events such as decisions to close offices, cut compensation, or impose financial burdens on employees, initially foster sadness and gloom, that can be ratcheted further into fear and panic as the momentum increases. Felt emotions not only impede cognitive processing but also provide information to participants (George and Jones, 2001; Sonnenshein, 2009). Additionally, expressed emotions of others also provide cues, and become the basis for narratives for other employees, and foster the spread of emotions. The greater the repetitive momentum of bad news events, the more negative emotions are felt and expressed, and the greater is the loss of confidence in the future prospects of the firm. In turn, the more amplified are the effects of exit cascades on subsequent exits, irrespective of whether the exits are weighted by expertise, or take into account polarization. Therefore:

H2) The greater the post-integration momentum of bad news, the greater is the hazard of exit for remaining employees.

H3) The greater the post-integration momentum of bad news and the greater the number of prior expertise-weighted exits, -the greater is the hazard of exit for remaining employees.

H3Alt) The greater the post-integration momentum of bad news and the greater the polarization of prior exits, the greater is the hazard of exit for remaining employees.

Post-merger integration also features 'good news' events to employees as new offices in new areas may be oepned, compensation may be increased or financial burdens are eased for employees. The greater the repetitive momentum of good news events, the more positive are the emotions that are felt and expressed, and the greater is the gain of confidence in the future prospects of the firm.

In turn, the more heightened are the effects of exit cascades on subsequent exits, irrespective of whether the exits are weighted by expertise, or take into account polarization. Therefore:

H4) The greater the post-integration momentum of good news, the lower is the hazard of exit for remaining employees.

H5) The greater the post-integration momentum of good news and the greater the number of prior expertise-weighted exits, the lower is the hazard of exit for remaining employees.

H5Alt) The greater the post-integration momentum of good news and the greater the polarization of prior exits, the lower is the hazard of exit for remaining employees.

RESEARCH SETTING: THE DEWEY-LEBOUEF MERGER

The merger of Dewey, with strengths in mergers and acquisitions, and LeBouef, which represented utilities and insurance firms in October, 2007 was noteworthy because it was the merger of two large new York based law firms. Since the story of the merger, and its eventual collapse have been widely chronicled in the business press, we will present a basic outline drawing on many of those sources.

In 2005, Dewey, sought to merge with Orrick, but the talks failed. The merger with LeBouef represented a bid to develop a global law firm with diversified clients. 38% of Dewey partners were overseas, and 35% of LeBouef partners were based abroad. Both were New York based law-firms, and had identical profits per partner, according to the American Lawyer, the average Dewey partner made $1.45 million and the average LeBouef partner made $1.43 million in 2006. If Dewey subscribed to the Cravath model of compensation which put the well being of the firm above the interests of individual partners, LeBouf paid partners according to their individual performance. The combined firm had revenues approaching $1billion, and more than 1300 attorneys spread across 26 offices. It was the largest such deal in the legal industry in New York, and some people characterized

it as "Dewey married money, and LeBeouf married up" (Stewart, 2013, New Yorker). It took the leaders of both firms 15 seconds to agree to the name 'Dewey & LeBouef' (Lattman, August 2007, WSJ).

The merger talks between both firms began in April 2007, and Stephen Davis, the Chairman of LeBouef reached out to Morton Pierce, the co-chairman of Dewey who in addition to managing the firm, also accounted for 10% of Dewey's revenues (Stewart, 2013). Piece wanted a compensation guarantee (since he had heard about LeBouef luring a promiment partner as a lateral hire with such a guarantee) and also wanted to Davis to run the combined firm. Davis, retained an outside advisor-McKinsey to due diligence, who concluded that there was little conflict of interest but advised Lebeouf that since the top 5% of partners at LeBeouf generated 42% of their revenues, their retention was critical.

Since both firms were private partnerships and owned by the partners, their consent was necessary for the merger. Prior to the vote, there was a cocktail party for partners, and one attendee likened it to a 'freshman mixer' (Triedman, Rendazzo and Baxter, American Lawyer, 2013). Since the lines of business were different, there was also little actual mixing of the partners in a social or physical sense. Eventually, the partners of both firms voted for the merger, but had minimal information about the financial status of both firms. Below, we outline contraction decisions and desperate decisions to expand the firm. People left the firm throughout the integration process, but the biggest increase in exits (214 exits) was after the announcement of criminal investigations in May 2012.

Bad News Events : The first shock was in March, 2008 when partners at LeBouef discovered that they had to pay $60 million in pensions to retired Dewey partners. Some reports suggest that LeBouef people were unaware of this, but Dewey partners insist that all facts were disclosed. Davis, who by then was the Chairman of the merged firm, also decided not to hold

compensation constant, but instead, decided to slot partners of both firms into higher compensation bands. The result was that the combined firm had to earn profits 25% greater than they had earned before, and partners were told of this on March 13,2008 – the day before Bear, Stearns folded. As the recession took hold, and other titans such as Lehman Brothers, or AIG fell, business dried up. Soon, a number of offices (Austin, Charlotte, Jacksonville, Hartford and Charlotte) were closed in a tranche of decisions. However, due to the recession, the profit pool to be divided among partners was $278 million below the projections anticipated in March, 2008 and the firm had to borrow ahainst 2009 revenues to pay partners. Yet, any partners were paid 30-40% less than what they had expected but Davis projected optimism about the future. A slow trickle of people began to leave the firm but it had not yet developed into an exodus.

In 2009, the revenues plummeted even further by 16% to $809 million, and profits shrank even further by 13% to $241 million and Davis exhorted his partners to get more business. He even learnt that Pierce was seeking to negotiate a rival offer, and so offered him more money to stay, and realized that 'golden handcuffs' were needed to retain talent. However, Davis could only promise his partners that they would be paid, and exhort them not to worry. As talent began to bleed, and as the downturn continued in 2010, Dewey and LeBeouf decided to defer payments, and owed $100 million in deferred payments to their partners. By 2012, the amount owed to partners rose $250 million, and an all partners meeting was delayed twice, and it was in January 2012, partners were told that no distributions would be made for 2011. Soon the head of of the insurance practice defected in early 2012 to DLA Piper, and then soon after, other members of the insurance practice left to go to Willkie, Far and Gallagher. As the departures began to rise, a group of partners sought to replace Davis with a five member office of the Chairman and confusion intensified.

Good News Events: Davis and his colleagues sought to raise money through a variety of ways to cope with the recession. Indeed, Davis hoped that the recession would end soon, and

sought to attract lateral hires who could get new lines of business, and lured three partners from Cooley in 2009. In 2012, the firm undertook the novel step of issuing medium term notes worth $150 million to eight investors. The notes were to be repaid in 2013. Additionally, the firm also negotiated a two year $100 million credit line with their bankers. In 2011, more lateral partners were recruited and new offices were opened/expanded in Moscow, Johannesburg and Sao Paolo, Brazil. By March, 2012, the firm was seeking to renegotiate the credit line from their bankers, and merger talks with Greenberg and Taurig were initiated – the Greenberg firm sought to acquire the Silicon Valley and Washington DC offices of Dewey and LeBouef. However, by April 2012, all of this came to a crashing halt, when the District Attorney's office in Manhattan announced a criminal investigation. In May 2012, 214 partners left, and the firm announced it was bankrupt in October, 2012. Since then criminal indictments have been issued against a number of top managers.

DATA

We manually created a dataset of all partner entries and exits from 2006, the year before the merger, until the demise of the merged entity in May of 2012. The main source of our data came from the Martindale-Hubbell law directory. Here, we collected background data for all partners of both Dewey Ballantine and LeBouef, Lamb, Green and Macrae in 2006 and then from the merged entity of Dewey LeBouef from 2007 onward. Specifically, from this publication, we hand coded for each partner, the year they made partner, their office location, their bar locations, practice areas, the school where they received their undergraduate degree as well as the school which granted their law degree. We focused on partners from the United States and matched this data with the lateral moves dataset from Incisive Legal Intelligence, which tracks all individual partner moves between firms each month. From this, we were able to identify the entry and exits of partners into either law firm or the merged entity. We collected information regarding the ranking of their law degree granting institution by relying on the Vault.com rankings from 2012. We then created a monthly time varying

dataset of partner entry and exits into Dewey Ballantine, LeBouef, Lamb, Green and Macrae, and Dewey LeBouef. In total we collected information on 417 partners, 90 exit events, yielding 16,186 monthly spells (average of 38.8 months each) from 23 offices in the US.

Because the exits of partners in 2012 occurred at an accelerated rate - we coded the day of their departure from the merged entity from the Wall Street Journal and the American Lawyer – which published detailed departure information. These exits occurred daily in 2012. Here, a separate dataset was comprised of daily observations of each partner until they exited the firm or until the firm went insolvent and declared bankruptcy on May 28, 2012. In this dataset, we have information on 322 partners, with 223 exits and 47,877 daily spells (average of 148.7 days).

Dependent Variable

The dependent variable of interest here is the exit of a partner. Because our dataset has multiple observations for each partner, we coded the variable Exit as a 1 on the month or day of departure for that partner and a 0 otherwise. Partners who did not exit the firm in the observation window were considered right censored in the data.

Independent Variables

We have four independent variables of interest. First, as identified in hypothesis 1, we calculated the expertise weighted density of exits by multiplying the number of exits in a moving 6-month period by the number of bar locations the exiting partner held. In essence, we weighted the importance of a partner by the number of locations he or she could practice law in. This variable was highly correlated with other measures of expertise, such as the number of practices a partner belonged to or the status of their degree granting institution. This variable ranged from 29 to 985, with a mean of 292, we logged this variable.

Second, as suggested in hypothesis 2, we wanted a variable which captures the polarization of the firm origins of the exiting partners. One possibility is to use a fractionalization index as a measure of the diversity of groups, such as the Simpson's Index. The index seeks to understand whether any two people at random will be from two different social groups. The index ranges from 0 (homogeneous) to 1(diverse), and is expressed as follows, where if we consider religious (or ethnic) diversity, π_i is the proportion of people who belongs to ethnic group i, fractionalization (FRAC) is:

$$FRAC = 1 - \sum_{i=1}^{N} \pi_i^2$$

The problem with the fractionalization measure is that it does not take into account the sizes of all identity groups. For example, if a country had three different social groups has a population share of 50 per cent for the largest group and 25 per cent each for the other two groups, it would have the same fractionalization measure as a country with three social groups whose share was 50 percent, 49 per cent, and 1 per cent. Montalvo and Reynal-Querol (2002) argue that the latter country would have a higher intensity of social conflict because there are two groups with roughly equal sizes.

Instead, we created a variable to indicate the amount of polarization of exiting partners as identified by their originating firm. Here we utilize the polarization measure proposed by Motalvo and Reynal-Querol (2002). Specifically, we identified the originating firms of each of the partners, either as a Dewey Ballentine, LeBouef, Lamb, Green and Macrae, or Dewey LeBouef. This gives us three 'groups' with which to calculate our measure of polarization. We operationalized polarization of partner exits as:

$$RQ = 4 \sum_{i=1}^{N} \pi_i^2 (1 - \pi_i)$$

where the Reynal-Querol (RQ) measure is a function of the proportion (π) of the 'i^{th}' originating firm's number of partner exits, N being 3 in this instance. We calculated this measure as a 6-month moving average. Our measure of polarization for partner exits between 2007 and 2011 ranged from 0 to 0.97, with a mean of 0.11 and a standard deviation of 0.28.

The polarization index considers, implicitly, that the distances are 0 (an individual belongs to the group) or 1 (it does not belong to the group). The main difference between both measures is that an index of polarization leads to the maximum level of tension, namely when there are two opposing social groups of the same size. In such cases, both groups are likely to perceive each other as a threat, negatively stereotype each other, and of course, group members are more likely to identify each other (See Mackie, Devos and Smith, 2000). Fractionalization indices, on the other hand, would put this situation at the low end of the conflict scale because of the minimal number of ethnic groups, paying no attention to the size.

Our third and fourth independent variable of interest is the amount of good and bad news momentum that is generated during the post-merger period. Here, we first identified from journalistic accounts of the detailed developments in the Dewey LeBouef merger each specific month a piece of specific news was released to the public. In all, from the period of 2007 to the end of 2011, we had 5 specific instances of bad news which were related to a contraction of the firm (i.e. closing of offices, layoff of staff) and 6 instances of good news related to the expansion of the firm (i.e. office expansions, large-scale hiring). A monthly counter which summed the number of bad and good news events (separately) was created and incremented by 1 each time a piece of news was announced. This variable ranged from 0 to 5 for the bad news momentum measure and from 0 to 6 for the good news momentum counter.

Control Variables

We also included several variables to control for the individual partner specific human capital they may possess. These variables included the number of bar locations a partner is qualified to practice law in, the number of practice areas they are involved with, the ranking of the law degree granting university (reversed and logged), the number of years they have held that degree, an indicator as to whether they were originally a Dewey Ballentine, LeBouef, Lamb, Green and Macrae, or Dewey LeBouef employee, and a variable indicating observations of their information was left-censored given our observation window. As a measure of external market opportunities, which should work to influence their likelihood of departure as well, we included the monthly closing price of the S&P 500 (the 500 largest stocks on the S&P index) as an indicator of how well the economy overall is performing[1]. See Tables 1 and 2 for summary statistics and correlations.

MODEL SPECIFICATION

Our dependent variable of interest is the hazard of a partner's exit from the firm. This is a discrete, one-time event, allowing us to model it as the instantaneous hazard of exit. We have monthly data from 2007-2011 and daily data from 2012, which we used to estimate the parametric hazard model of the basic form. We utilize a continuous time Weibull model to specify the underlying hazard rate. This takes the functional form of:

$$\frac{k}{\lambda}\left(\frac{x}{\lambda}\right)^{k-1} e^{-(x/\lambda)^k}$$

Where the time to exit is identified as x. Note, the specification includes both a shape parameter (k) and a scale parameter (λ) allowing us to flexibly estimate the underlying hazard rate as either decreasing over time (if the value of k<1) or increasing over time (if the value of k>1). A constant

[1] As a robustness check, we also included the number of bankruptcy filings in a partner's home office region as well as the unemployment rate in their metro region – results were unchanged.

hazard rate is also possible if k=1. Model specification with other underlying hazards (Gompertz and exponential forms) yielded comparable results.

RESULTS

We report results of our test of our hypotheses 1 and 1Alt in Table 3 below. Model 1 included the control variables. Here, we notice that the original employees of Dewey were also more likely to exit the firm over this time frame. Moreover, the S&P 500 index has a significant and negative effect on the hazard of exit, implying that when the economy is doing well, exits are likely to slow down.

[Insert Table 3 about here]

Model 2 includes the effects of expertise weighted density. The effects are significant and positive, implying that when valued talent leaves, exits increase along with it. Thus, H1 is supported suggesting that expertise weighted exits would signal a loss of confidence in the firm, and trigger further exits. Specifically, a one standard deviation increase in the expertise weighted density of exits increases the percent likelihood of exit by 53% (exp(0.95 x 0.45)-1) holding all other variables constant at the mean. Model 3 tests our alternative to hypothesis 1 which examines the effects of polarization in exits. Here we see that the effect is positive and significant, thereby supporting H1Alt which predicted that as exits become polarized between Dewey and LeBouef heritages, there is maximum uncertainty, anxiety and loss of confidence in the firm. Specifically, a one standard deviation increase in the polarization of exits by originating firm leads to a 168% (exp(0.28 x 3.53)-1) increase in the likelihood of additional exits by remaining partners.

In order to draw a conclusion as to whether expertise weighted density or polarization exerts a more pronounced effect, we examine the degree of improvement in model fit between Models 2 and 3 and compare it to the model fit improvement between Models 1 and 3. Here, we see that it is clear the improvement in the latter case is significantly more, thereby suggesting that the polarization

of previous exits serves as a better indicator as to subsequent exits than expertise weighted density. Model 4 is an omnibus model and the earlier pattern of results broadly holds.

[Insert Table 4 about here]

We test our contention that bad and good news shocks affect the likelihood of exits, in Table 4. Specifically, Model 5 includes the effects of bad news momentum and it is significant and positive, thereby, supporting H3 – so bad news magnifies the loss of confidence. As expected, the the of good news momentum is significant and negative, and supports H5: good ness stanches the loss of confidence. Model 6 interacts bad news momentum with expertise weighted density and polarization. The bad news x expertise weighted interaction is not significant, and there is no support for H4. Instead, the bad news x polarization interaction is significant and positive, thereby, supporting H4Alt. Model 7 interacts good news momentum with expertise weighted density and polarization, and both interactions do not work. So H5 and H5alt are unsupported. Model 8 is an omnibus model which generally reproduces the pattern of results observed beforehand.

We also wanted to ensure that the same pattern of results hold throughout the remainder of the existence of the merged entity, Dewey LeBouef during 2012. Recall the firm finally entered into bankruptcy proceedings in May of 2012. We collected daily departure data for all partners starting in January of 2012 through the firm's eventual failure. Our contention has been that the structure of the departures of partners affects subsequent decisions by partners to depart as well. However, in 2012, we have coded partner departures daily. We report results of our daily spells of partner departures in Table 9.

[Insert Table 5 about here]

Specifically, we wanted to see if the hypotheses regarding expertise weighted density and polarization still held during the last few months of the firm's demise. Model 9 estimates the effect

of Expertise weighted density of exits (a one week moving window was used to calculate exits). Here we see that our hypothesis 1 still holds – that is increased Expertise weighted exits continues to exacerbate more departures. In Model 10 we test the independent effect of Polarization on exits and find results which corroborate our Hypothesis 1 Alt, that is increased polarization of originating firm exits also accelerates subsequent exits as well. Finally, Model 11 includes both effects which continue to demonstrate consistent results.

Robustness checks: We recognize that our study uses observational data because we could not randomly assign partners to varying levels of the treatment – be it expertise weighted density and polarization. As a result, treatment status may be related to covariates that affect exits. Accordingly, we rely on treatment effect models developed by Rosenbaum and Robins (1983) and Robins et al. (2007). More specifically, we use the treatment effects estimator in Stata 13 (teffects) which utilizes the observable covariates to identify a propensity score for the likelihood that a partner with particular characteristics was exposed to this treatment. Note that our 'treatment' is a continuous variable, and not binary as often the case with selection adjusting methodologies. We account for this by using the multivalued treatment effects function. Here we partitioned the levels of Expertise weighted exits and Polarization exits into quartiles, but creating a multinomial variable for each quarter treatment level.

We estimated, using a propensity score, the likelihood a Dewey or Lebouef partner would be exposed to a particular quartile of treatment. This was then used to weight the observations, thereby attempting to balance out the differences between the partners who were exposed to the exits at varying rates. We used the inverse probability treatment weighted model (Robins et al. 2007). We then utilized this weighted model to estimate the effect on the months which the partner stayed at the firm as a function of the two variables of interest – Expertise weighted-density and Firm exit polarization.

[Insert Table 6 about here]

Note that our dependent variable is no longer the hazard of exit – instead it is the duration of employment or time to exit. The difference is that a variable that increases the hazard rate reduces the time to exit. Table 6 shows the effect of polarization and expertise weighted density as treatments. Model 12 shows that even holding constant the potential differences in the partners that have differing levels of exposure, polarization in firm exits significantly lowers the time to exit. Indeed, as the level of polarization increases from quartile 2 to 4, the effect of polarization on exits becomes even more intense. By contrast, Model 13 indicates that exposure to the second and third quartiles of the expertise weighted density measures has no effect on the time to exit. Indeed at quartile 4, the effect is positive and significant – thereby, implying that when proficient talent leaves, opportunities open up for insiders so they stay longer.

We conducted a number of robustness tests that are reported in Appendix 1. We begin by assessing whether conventional diversity measures provide a superior account than our measure of polarization in exits – results of which are reported in Table 7. We use a Simpson index of diversity which was a forerunner of the fractionalization index in ecology. Model 14 estimates the effect of Polarization while Model 15 estimates the effect of Diversity on subsequent firm exits. Both measures behave similarly by exerting a positive and significant effect on future exits. A comparison of the log-likelihoods shows that the Polarization measure marginally improves fit over the Diversity measure, -252.67 versus -253.21) both models have the same degrees of freedom. Subsequent models (16-17) show that the interactions with good and bad news momentum are broadly similar to those observed.

In Table 8, we address the question of whether polarization is better measured at the firm level or the office level or the practice level. Law firms have offices in cities where partners from different practice groups are located. We first report the original estimation of the Firm Polarization

measure in model 18. We then ask, does the polarization of exits within office matter? Model 18 includes this variable and the results suggest there is no significant effect. In Model 19 we include the measure of Polarization of exits by practices. Law firms have practice groups (e.g. corporate law, or insurance, or energy) and partner identities are often tied up with the industries they service. Here, Model 18 tests whether polarization of exits by practice matters in influencing subsequent exits. The results show that it does not. We conclude that what seems to matter is polarization between the Dewey and LeBouef heritages as indicated by Model 1 and the previous analyses of interactions.

DISCUSSION

We began this paper by noting the dearth of research on the consequences of collective turnover despite the widespread recognition that the value of firms resides in their employees. Our case study of collective turnover during post-merger integration in a law firm speaks to the literatures on collective turnover, post-merger integration and sensemaking. We discuss each of them below.

Our paper suggests that the decisions of individuals to leave the firm are not independent decisions but interdependent decisions. Collective turnover signals a loss of confidence in the firm, and represents a cue for individuals to make sense of what is happening in the firm. A central question with regard to collective turnover is whether proficiency or positional distribution that matters (Hausnechkt and Holberda, 2013).Our study shows that as prior expertise-weighted exits increased, the hazard of turnover declined. By contrast, the polarization of exits between the Dewey and LeBouef groups at law the firm significantly increased turnover. One interpretation of these findings is that when expertise leaves the firm, incumbent employees in the firm may perceive wider opportunities in the firm and therefore, choose to stay. Employees, however, pay close attention to the identities of those who leave – hence, the polarized exits, and the more evenly they were spread

between the Dewey and LeBouef camps in the firm, the greater was the uncertainty perceived by employees about the future of the firm, and the more likely were they to exit. When employee exits are polarized between two camps or social groups equally, then it implies that neither is winning the battle, and that both groups perceive problems with the firm. So polarized exits arouse anxiety, and create doubt about the future prospects of the firm.

Our results also speak to the literature on post-merger integration. Since Walsh's (1988) paper, a number of studies note that executives from the acquired firm leave the merged firm, but recent work also shows that executives from the acquiring firm also leave the enterprise (Smeets et al. 2013). Our study looks at exits from both sides of the house, and the findings reveal that a merger is not a one big mega event, but instead, is composed of micro-shocks. While earlier research has shown that mergers are mega events that create uncertainty and precipitate exits more than job satisfaction (Holtom et al. 2005), our study shows that it is the micro-events after a merger trigger employee exits. We differentiated between bad news events, and good news events, and find that bad news events significantly boost employee exits, but good news events dampen employee exits. Strikingly, we find that bad news events amplify the effects of polarization in employee exits: so as bad news events cumulate and exits are polarized between the Dewey and LeBouef camps, confidence in the firm is eroded, and other employees also flock to leave the firm. In dramatic contrast, good news events have a significant main effect, but do not dampen the effect of polarization in exits. It may well be that good news events are preceded by too many bad news events, and come too late in the process to stanch the flow of exits from the firm.

Our findings also add to the literature on sensemaking in organizations. Crisis situations lead to a breakdown in sensemaking, and induce individuals to pay attention to cues, and connect them into an overall story or narrative to understand what is going on. For the most part, research on sensemaking during mergers or spinoffs has consisted of qualitative case studies (Maitlis and

Sonnenshein, 2010). By contrast, our case of an extreme case – a merger of two privately held firms, relies on quantitative data and is attentive to the time path of exits. Notably, our study shows that employees pay attention to internal cues and external cues. One implication is that the cues that employees perceive may in fact be disjointed. So if internal cues such as polarization of exits, or bad news events weaken confidence in the firm, then internal cues such as good news stop the ebbing away of confidence in the firm. More importantly, our study also shows that external signals of economic well being, proxied by the S&P 500, also moderate the effect of internal cues. Thus, as the S&P 500 index goes up, and the economy improves, then the effect of internal cues such as polarization in exits, and expertise weighted exits is weakened. So employees combine internal and external cues in their bid to construct a narrative or story of the events, and then make choices about exit.

Our study also suggests a number of avenues for future work. One avenue for future work is to trace where employees left. A useful question is whether employee flight from a firm jumpstarts such a loss of confidence in the firm, that employees take jobs willingly in low status firms after the merger is completed. In a related vein, we were unable to gather data on the emotions of anxiety or panic that consume employees after a merger. While it is plausible that employee exits intensify anxiety about the future of the firm, the spread of negative emotions after a merger also merits attention as a driver of employee exits. In our case study, the efforts of the firm to retain talent did not work because compensation guarantees could not be honored, leading to a breach of trust. Future research can look at the effects of using retention policy to 'divide and rule' acquired firms, and stemming the leakage of confidence. Finally, we focused on one firm created through a merger, but future research needs to focus on multiple firms and study multiple merger events so that we can develop a more generalizable causal account of employee flight as a run on the firm. A mutli-firm and multi-merger study will help us dimensionalize different types of mergers (cost reducing,

skill retaining or scope enhancing) and look at how firms vary in the degree to which their assets are human capital oriented. The study of these and other related topics is essential to develop the scope conditions under which employee flight leads to a run on the firm.

Table 1 – Summary

Variable	**Obs**	**Mean**	**Std. Dev.**	**Min**	**Max**
Number of Bar Admits	16850	1.6886	1.0878	0	7
Number of Practice Areas	16850	2.0409	1.5046	0	8
Rank of University (logged)	16549	2.7836	1.4169	0	4.6151
Years Past JD	15777	3.1974	0.4075	1.6094	3.9889
LeBoeuf, Lamb, Greene & MacRae Employee	16850	0.0252	0.1568	0	1
Dewey Ballantine Employee	16850	0.0210	0.1434	0	1
Left Censored in Obs Window	16850	0.4490	0.4974	0	1
Closing Price of DJIA	16850	10800.06	1589.545	7063	13372
Bad News Momentum	16850	3.6659	1.8671	0	5
Good News Momentum	16850	1.5452	1.8170	0	6
Expertise Weighted Density	16850	2.6007	0.9525	1.0986	4.7004
Polarization Firm Exits	16850	0.1156	0.2771	0	0.9688581

Table 2 – Correlations

		(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)**
(1)	Number of Bar Admits	1					
(2)	Number of Practice Areas	-0.0265	1				
(3)	Rank of University (logged)	0.0303	-0.0841	1			
(4)	Years Past JD	-0.0013	0.1843	-0.0681	1		
(5)	LeBoeuf, Lamb, Greene & MacRae Employee	0.0077	-0.0526	-0.0114	0.0171	1	
(6)	Dewey Ballantine Employee	-0.0258	0.0492	0.0067	-0.0102	-0.0234	1
(7)	Left Censored in Obs Window	0.0657	-0.0585	-0.0120	0.3343	0.0324	-0.0485
(8)	Closing Price of DJIA	0.0076	0.0434	-0.0019	0.0059	0.2308	0.1192
(9)	Bad News Momentum	-0.0158	0.0972	0.0015	0.0550	-0.2947	-0.1540
(10)	Good News Momentum	-0.0084	0.1235	0.0029	0.0517	-0.1308	-0.0731
(11)	Expertise Weighted Density	0.0005	-0.0984	-0.0040	-0.0361	0.0969	0.0593
(12)	Polarization Firm Exits	0.0123	-0.0546	-0.0060	-0.0297	0.4213	0.2241

		(7)	**(8)**	**(9)**	**(10)**	**(11)**
(8)	Closing Price of DJIA	-0.0061	1			
(9)	Bad News Momentum	-0.0587	-0.2426	1		
(10)	Good News Momentum	-0.0635	0.3760	0.6082	1	

(11)	Expertise Weighted Density	0.0378	-0.4040	-0.1749	-0.7297	1
(12)	Polarization Firm Exits	0.0467	0.4167	-0.6696	-0.3550	0.1453

Table 3 – Weibull Models of Hazard of Exit 2007-201: Effects of Expertise Weight Density versus Firm Polarization Exits

	(1)	(2)	(3)	(4)
Number of Bar Admits	0.0326	0.0337	0.0241	0.0246
	(0.0670)	(0.0679)	(0.0688)	(0.0693)
Number of Practice Areas	-0.0539	-0.0378	-0.0557	-0.0406
	(0.0550)	(0.0567)	(0.0564)	(0.0586)
Rank of University (logged)	0.0668	0.0694	0.0769	0.0778
	(0.0773)	(0.0775)	(0.0761)	(0.0764)
Years Past JD	0.5120	0.5224	0.4702	0.4853
	(0.3344)	(0.3364)	(0.3430)	(0.3438)
LeBoeuf, Lamb, Greene & MacRae Employee	0.3234	0.1390	-0.2343	-0.3863
	(0.8002)	(0.9018)	(0.8806)	(0.9294)
Dewey Ballantine Employee	-12.9548***	-13.0978***	-13.5753***	-13.6862***
	(0.8268)	(0.7988)	(0.7901)	(0.7685)
Left Censored in Obs Window	-0.1464	-0.1659	-0.2422	-0.2435
	(0.1902)	(0.1915)	(0.1965)	(0.1970)
Closing Price of DJIA	-0.0004***	-0.0004***	-0.0006***	-0.0006***
	(0.0001)	(0.0001)	(0.0001)	(0.0001)
Expertise Weighted Density		0.4521***		0.4039***
		(0.0837)		(0.0837)
Polarization Firm Exits			3.5275*	3.2746*
			(1.4601)	(1.4325)
Constant	-2.2207*	-4.4266***	-3.1195**	-5.0175***
	(0.9824)	(1.0179)	(1.1841)	(1.2246)
ln_p				
Constant	-0.0465	-0.0116	0.5050	0.4892
	(0.1841)	(0.1849)	(0.3353)	(0.3276)
Observations	15725	15725	15725	15725
Number Offices	23.0000	23.0000	23.0000	23.0000
Log-likelihood	-270.3025	-262.5687	-258.4090	-252.6667
Chi^2	1262.3130	1833.0965	1640.9686	2168.4584

Note: Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 4 – Weibull Models of Hazard of Exit 2007-2011
Effects of News Momentum

	(5)	(6)	(7)	(8)
Number of Bar Admits	0.0263	0.0300	0.0264	0.0300
	(0.0681)	(0.0664)	(0.0682)	(0.0664)
Number of Practice Areas	-0.0278	-0.0178	-0.0247	-0.0175
	(0.0612)	(0.0641)	(0.0637)	(0.0649)
Rank of University (logged)	0.0773	0.0815	0.0772	0.0815
	(0.0725)	(0.0726)	(0.0723)	(0.0727)
Years Past JD	0.4711	0.4702	0.4712	0.4702
	(0.3420)	(0.3406)	(0.3417)	(0.3405)
LeBoeuf, Lamb, Greene & MacRae Employee	0.8365	2.2515***	0.8616	2.2508***
	(0.8444)	(0.4897)	(0.8314)	(0.4922)
Dewey Ballantine Employee	-12.6257***	-13.2143***	-12.6204***	-13.2194***
	(0.7903)	(0.8214)	(0.7911)	(0.8211)
Left Censored in Obs Window	-0.2445	-0.2581	-0.2431	-0.2579
	(0.1687)	(0.1685)	(0.1689)	(0.1688)
Closing Price of DJIA	0.0004*	0.0002	0.0004*	0.0002
	(0.0002)	(0.0001)	(0.0002)	(0.0001)
Bad News Momentum	1.0876**	-0.8897	1.1056**	-0.8917
	(0.3649)	(0.8589)	(0.3725)	(0.8548)
Good News Momentum	-2.6744***	-1.7295***	-2.3544***	-1.6703***
	(0.4899)	(0.3591)	(0.4752)	(0.4485)
Expertise Weighted Density	-1.6860***	-3.4843*	-1.7055***	-3.4849*
	(0.3886)	(1.3738)	(0.4230)	(1.3720)
Polarization Firm Exits	1.1302	-2.0523	1.0613	-2.0502
	(1.0563)	(1.7792)	(1.0882)	(1.7822)
Bad News X Expertise Weighted Density		0.4864		0.4874
		(0.2734)		(0.2702)
Bad News X Polarization of Firm Exits		1.8363***		1.8310***
		(0.4775)		(0.4862)
Good News X Expertise Weighted Density			-0.2147	-0.0337
			(0.2297)	(0.2007)
Good News X Polarization Firm Exits			0.0000	0.0000
			(.)	(.)
Constant	-10.4592***	-2.2924	-10.5693***	-2.2815
	(1.5950)	(4.7405)	(1.5765)	(4.7053)
Constant	0.5012	0.5293	0.4970	0.5279
	(0.5046)	(0.5182)	(0.4992)	(0.5156)
Number Spells	15725	15725	15725	15725
Number Offices	23.0000	23.0000	23.0000	23.0000
Log-likelihood	-219.0313	-209.8747	-218.7456	-209.8678
Chi^2	1776.2406	1505.7437	3900.7735	11240.6937

Note: Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 5 – Weibull Hazard of Exit 2012
Robustness check with 2012 Exits

	(9)	(10)	(11)
Number of Bar Admits	0.0139	0.0045	0.0039
	(0.0479)	(0.0364)	(0.0410)
Number of Practice Areas	-0.1028***	-0.0717**	-0.0766**
	(0.0258)	(0.0229)	(0.0248)
Rank of University (logged)	0.0443	0.0454	0.0425
	(0.0560)	(0.0465)	(0.0485)
Years Past JD	-1.3590***	-0.8098***	-1.3540***
	(0.2592)	(0.2061)	(0.2395)
LeBoeuf, Lamb, Greene & MacRae Employee	0.2615	0.2814	0.2771
	(0.2734)	(0.2222)	(0.2418)
Dewey Ballantine Employee	-0.1465	-0.1250	-0.1385
	(0.2445)	(0.2096)	(0.2275)
Left Censored in Obs Window	-0.0686	-0.0370	-0.0586
	(0.1394)	(0.1216)	(0.1342)
Expertise Weighted Density	0.0034***		0.0035***
	(0.0004)		(0.0004)
Polarization Firm Exits		1.5600***	1.2838***
		(0.1644)	(0.1672)
Constant	-2.3816**	-13.5325***	-4.3487**
	(0.7779)	(1.2922)	(1.3487)
ln_p			
Constant	0.0318	1.0708***	0.2200
	(0.0995)	(0.1063)	(0.2364)
Number Spells	46267	39669	39669
Number Offices	18.0000	18.0000	18.0000
Log-likelihood	-252.7576	-191.9870	-165.5160
Chi^2	530.4617	247.7330	830.1923

Note: Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 6 – Treatment Effects on Duration of Employment:
Inverse Probability Weighted Adjustment

	(12)		(13)
Polarization Quartiles		Diversity Quartiles	
Average Treatment Effect		Average Treatment Effect	
Quartile 2 – versus 1	-16.9041***	Quartile 2 – versus 1	-4.6118
	(5.9666)		(5.2720)
Quartile 3 – versus 1	-30.3976***	Quartile 3 – versus 1	-4.8772
	(5.5644)		(5.2137)
Quartile 4 – versus 1	-43.6755***	Quartile 4 – versus 1	18.4525**
	(5.9708)		(6.1318)
Potential Outcome Mean		Potential Outcome Mean	
Quartile 1	78.1071***	Quartile 1	49.7566***
	(5.4941)		(4.7511)
Number of Exits	366		366

Note: Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

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Appendix 1: Robustness Checks

Table 7 – Weibull Hazard of Exit 2007-2011

Robustness check of Diversity versus Polarization

	(14)	(15)	(16)	(17)
Number of Bar Admits	0.0246	0.0330	0.0281	0.0331
	(0.0693)	(0.0684)	(0.0678)	(0.0670)
Number of Practice Areas	-0.0406	-0.0352	-0.0245	-0.0366
	(0.0586)	(0.0582)	(0.0622)	(0.0574)
Rank of University (logged)	0.0778	0.0722	0.0729	0.0715
	(0.0764)	(0.0769)	(0.0731)	(0.0767)
Years Past JD	0.4853	0.5083	0.4918	0.4907
	(0.3438)	(0.3374)	(0.3362)	(0.3375)
LeBoeuf, Lamb, Greene & MacRae Employee	-0.3863	0.4490	1.0272	0.4722
	(0.9294)	(0.8807)	(1.1221)	(1.1621)
Dewey Ballantine Employee	-13.6862***	-12.9446***	-13.5694***	-13.1494***
	(0.7685)	(0.8017)	(0.7809)	(0.7508)
Left Censored in Obs Window	-0.2435	-0.1958	-0.2196	-0.1932
	(0.1970)	(0.1928)	(0.1703)	(0.1813)
Closing Price of DJIA	-0.0006***	-0.0002***	-0.0002*	-0.0004***
	(0.0001)	(0.0000)	(0.0001)	(0.0001)
Expertise Weighted Density	0.4039***	0.3790***	0.1724	0.2823**
	(0.0837)	(0.0851)	(0.1203)	(0.0946)
Polarization Firm Exits	3.2746*		-1.1709	2.9004
	(1.4325)		(1.4167)	(1.5508)
Diversity of Firm Exits		5.4424**	2.8572	11.2967*
		(1.8352)	(1.6192)	(5.0423)
Bad News Momentum			-0.2795	1.2481
			(0.1952)	(0.6712)
Bad News X Polarization Firm Exits			2.6014***	
			(0.3839)	
Good News X Diversity of Firm Exits				-1.6614
				(0.8890)
Constant	-5.0175***	-9.0605***	-7.9518***	-12.0833***
	(1.2246)	(1.6041)	(1.8591)	(3.5996)
ln_p				
Constant	0.4892	0.1223	0.3240	0.1319
	(0.3276)	(0.1745)	(0.3832)	(0.2911)
Number Spells	15725	15725	15725	15725
Number Offices	23.0000	23.0000	23.0000	23.0000
Log-likelihood	-252.6667	-253.2085	-222.8206	-243.7652
Chi^2	2168.4584	1679.7138	2791.1135	3220.4889

Note: Standard errors in parentheses; * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Table 8 – Weibull Hazard of Exit 2007-2011
Robustness check of Firm Polarization versus Practice and Office Polarization

	(18)	(19)
Number of Bar Admits	0.0842	0.0842
	(0.0952)	(0.0952)
Number of Practice Areas	-0.0860	-0.0860
	(0.0804)	(0.0804)
Rank of University (logged)	0.1201	0.1201
	(0.1188)	(0.1188)
Years Past JD	0.4726	0.4726
	(0.3827)	(0.3827)
LeBoeuf, Lamb, Greene & MacRae Employee	-14.0792***	-14.0792***
	(1.2962)	(1.2962)
Dewey Ballantine Employee	-14.0004***	-14.0004***
	(1.1187)	(1.1187)
Left Censored in Obs Window	-0.2943	-0.2943
	(0.2881)	(0.2881)
Closing Price of DJIA	-0.0002	-0.0002
	(0.0001)	(0.0001)
Expertise Weighted Density	0.0836	0.0836
	(0.1968)	(0.1968)
Diversity of Firm Exits		
Diversity of Practice Exits	0.7735	
	(0.5067)	
Diversity of Office Exits		0.0298
		(0.7120)
Constant	-3.7074*	-3.7074*
	(1.8745)	(1.8745)
ln_p		
Constant	-0.1854	-0.1854
	(0.1595)	(0.1595)
Number Spells	4211	4211
Number Offices	16.0000	16.0000
Log-likelihood	-144.9100	-144.9100
Chi^2	1303.3753	1303.3753

Note: Standard errors in parentheses, * $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$