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LET THEM GO? HOW LOSING EMPLOYEES TO COMPETITORS CAN ENHANCE FIRM STATUS

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Research summary: *Because employees can provide a firm with human capital advantages over competitors, firms invest considerably in employee recruiting and retention. Departing from the retention imperative of strategic human capital management, we propose that certain employee departures can enhance a firm's competitiveness in the labor market. Specifically, increased rates of career-advancing departures by a firm's employees can signal to potential future employees that the firm offers a prestigious employment experience that enhances external mobility opportunities. Characterizing advancement based on subsequent employers and positions, we analyze data on U.S. law firm hiring and industry surveys of perceived firm status between 2004 and 2013. We find that increased rates of employee departures lead to increases in a firm's prestige when these departures are for promotions with high-status competitors.*

Managerial summary: *Firms often emphasize employee retention. Employee departures, especially as a result of being hired away by competitors, are often viewed as threats to a firm's competitive advantage. We propose, however, that employee retention need not be an unconditional strategic imperative. We argue that certain employee departures can enhance a firm's competitiveness in the market for human capital by signaling to potential employees that the firm offers a prestigious employment experience, which can help them obtain attractive positions with other employers. Analyzing data on U.S. law firm hiring and industry surveys of firm associates between 2004 and 2013, we find that increased rates of employee departures lead to increases in a firm's prestige when these departures are for promotions with high-status competitors.*

INTRODUCTION

In many industries, human capital is an important basis for competitive advantage. Yet, such advantages are tenuous because employees can depart to work elsewhere (Coff, 1997; Karim and Williams, 2012). Firms consequently compete intensely to hire and retain personnel. Hiring a competitor's employees can help firms develop new products (e.g., Boeker, 1997; Rao and Drazin, 2002), access technical knowledge (e.g., Rosenkopf and Almeida, 2003), form relationships (e.g., Dokko and Rosenkopf, 2010), and expand geographic scope (e.g., Song, Almeida, and Wu, 2003). Conversely, losing employees to competitors can diminish service quality (e.g., Hausknecht, Trevor, and Howard, 2009), lead to a loss of client business (e.g., Batt, 2002; Broschak, 2004; Rogan, 2014; Somaya, Williamson, and Lorinkova, 2008), encourage "talent wars" (e.g., Gardner, 2002, 2005; Somaya and Williamson, 2008), disrupt intrafirm coordination (Briscoe and Rogan, 2016), increase firm failure risks (e.g., Phillips, 2002; Wezel, Cattani, and Pennings, 2006), increase

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recruiting and training costs, and signal to potential employees that the firm is not a good employer (e.g., Backes-Gellner and Tuor, 2010).

Given these negative consequences of losing human capital, firms invest considerable resources in retaining employees (e.g., Agarwal, Ganco, and Ziedonis, 2009; Campbell, Coff, and Kryscynski, 2012; Carnahan, Agarwal, and Campbell, 2012; Marx, 2011). Such investments reflect two implicit imperatives of strategic human capital management: attract individuals who are likely to stay (e.g., Rynes, 1991), and discourage turnover (e.g., McEvoy and Cascio, 1985). Together, these two strategic imperatives suggest that it is disadvantageous for firms to become employee waypoints that serve as training grounds for rivals.

Against the backdrop of these strategic imperatives, some recent work has raised the provocative question of whether employee departures are necessarily entirely detrimental for firms. Evidence from knowledge-intensive industries suggests, for example, that while employee departures represent human capital losses, they can also result in the inflow of new ideas. When employee departures force firms to hire replacements, this can help refresh the talent pool with new areas of expertise (McKendrick, Wade, and Jaffee, 2009). Departures can also provide firms with access to new technical knowledge or new business opportunities via relationships that departed employees maintain with former colleagues (e.g., Carnahan and Somaya, 2013; Corredoira and Rosenkopf, 2010; Somaya *et al.,* 2008). This work highlights how individuals' interfirm employment transitions are not necessarily one-way outflows of human capital; a firm's human capital losses might be, at least partially, offset by the inflow of other kinds of assets.

Departing even more dramatically from the prevailing retention imperative of strategic human capital management, we argue that losing employees to rivals can actually enhance a firm's competitive position in the labor market. Depending on the kinds of rivals and positions that a firm's employees have departed to, increased rates of departure can potentially enhance a firm's appeal to potential future employees by indicating external mobility opportunities that open up as a result of working for the firm. Our argument draws inspiration from the literature on interorganizational careers, which documents how individuals' career paths are becoming less likely to progress from job to job within a firm's internal labor market and more likely to progress through employment spells at different firms (Arthur and Rousseau, 1996; Cappelli, 1999). Individuals accordingly recognize the likelihood of changing employers during their careers and increasingly favor jobs that provide future external mobility opportunities for career advancement (e.g., Bidwell and Briscoe, 2010; Bidwell *et al.,* 2015; Dokko, Wilk, and Rothbard, 2009; Groysberg and Lee, 2009; O'Mahony and Bechky, 2006; Williams, Agarwal, and Chen, 2013). This literature yields the insight that firms are more and more likely to appeal to prospective employees—especially those at early career stages—not only because of perceived internal opportunities to stay but because of perceived external opportunities to leave. For example, research suggests that firms whose employees leave to start successful ventures become known as attractive stepping stones for would-be entrepreneurs (Burton, Sørensen, and Beckman, 2002; McKendrick, Wade, and Jaffee, 2009).

Integrating research on strategic human capital management with organization theory, we theorize that under certain conditions, increased rates of employee departures may cast a firm in a more positive—rather than a negative—light in the eyes of potential future employees. By observing employees move from a focal firm to other employers, potential employees can infer possible mobility opportunities for the firm's employees. We posit that when these moves are more salient and more clearly indicative of career advancement, increased firm-level departure rates will enhance potential employees' perceptions of the focal firm as an employer. Specifically, we expect that the firm's perceived status among potential employees will be enhanced. Increased rates of departures that are either less salient or less clearly indicative of career advancement are not expected to be similarly status-enhancing.

We test these predictions using data on employee departures to competitors and survey measures of perceived employer status for the 200 highest-grossing U.S. law firms between 2004 and 2013 (i.e., the Am Law 200). Several features of our empirical design lend face validity to our test of the hypothesized mechanism linking departures to firm-level perceptions among potential employees. First, we analyze survey data that directly measure individuals' perceptions of a firm's status as an employer. The survey questionnaire asks individuals who are not affiliated with the firm to

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imagine working for the firm as an employee and to rate how prestigious this employment experience would be. Second, the survey respondents are all law firm associates, individuals in the early stages of their careers who are likely to value future mobility opportunities. These data allow us to identify employee departures that indicate career advancement for these respondents, that is, when a firm's associates are hired directly into partner positions by high-status competitors. Using dynamic panel models and instrumental variables to account for the potential endogeneity of employee departures with respect to a firm's status (Arellano and Bond, 1991), we show that, while generally profitability-diminishing, increases in a firm's rate of employee departures can also be status-enhancing when departures are consistent with career advancement.

Our study fruitfully integrates the literature on strategic human capital with the interorganizational careers literature. While serving as training grounds for competitors might seem at odds with the strategic impetus of capturing value from human capital through retention, our study reveals a channel through which losing employees can actually improve a firm's competitiveness in the labor market. We therefore contribute further insight to recent work on the potential benefits of losing employees (e.g., Carnahan and Somaya, 2013; Corredoira and Rosenkopf, 2010; Somaya *et al.,* 2008) and motivate a more systematic and balanced research agenda on the pros and cons of letting them go.

THEORY AND PREDICTIONS

Pros and cons of employee departures

Human capital is a basis for competitive advantage in many industries, especially knowledge-intensive ones (Argote and Ingram, 2000; Campbell *et al.,* 2012; Coff, 1997). Much of the strategy literature on human capital has therefore emphasized the potentially detrimental effects of losing valuable employees to competitors. For example, studies of advertising agencies show that managerial departures substantially increase an agency's risk of losing client relationships (Broschak, 2004; Rogan, 2014). Similarly, studies of law firms show that employee departures to competitors reduce average employee productivity (Campbell *et al.,* 2011), increase the risk of losing clients (Somaya *et al.,* 2008), and accelerate firm failure rates (Phillips, 2002). The loss of experienced employees, in particular, is disruptive to the coordination of complex knowledge among others in a firm (Briscoe and Rogan, 2016). Such studies clearly demonstrate that losing employees is typically detrimental to a firm's economic performance and support the presumed retention imperative.

As a result, firms often invest considerably in signaling to potential employees that the firm is a good place to work (Backes-Gellner and Tuor, 2010; Chatman, 1991). Firms invest directly in developing employees' human capital and encourage employees to make firm-specific investments so that they stay, allowing firms to capture returns on human capital investments (e.g., Hashimoto, 1981). Firms also actively discourage employees from moving to competitors by aggressively defending patents and enforcing noncompete agreements (Agarwal *et al.,* 2009; Marx, 2011; Starr, Prescott, and Bishara, 2015). Such practices reflect the prevailing strategic imperative to discourage employees from leaving and to hire employees who are less likely to leave.

Recent studies, however, have begun to explore the possibility that employee departures might provide offsetting benefits. For instance, evidence from the hard disk drive industry shows that firms become more innovative following spinoffs, suggesting that employee departures may contribute to the inflow of new ideas by forcing firms to hire replacements (McKendrick *et al..,* 2009). Evidence from law firms shows that companies are more likely to use law firms that previously employed their in-house attorneys, suggesting that corporate lawyers may steer business to former employers (Carnahan and Somaya, 2013; Somaya *et al.,* 2008). Finally, evidence from semiconductor firms shows that when a focal firm loses employees to a competitor, the firm subsequently cites the competitor's patents at higher rates than before, suggesting that departed employees may transfer knowledge back to their prior employer (Corredoira and Rosenkopf, 2010). A common thread in these studies is the idea that employee departures affiliate prior and current employers (e.g., Baty, Evan, and Rothermel, 1971; Sørensen, 1999), creating two-way conduits for the flow of knowledge and business opportunities.

We depart even more dramatically from the prevailing intuition in prior research and argue that increased rates of employee departure can actually enhance a firm's competitiveness in the labor

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market. Integrating insights from the organizational status literature, we propose that employee departures operate not only as pipes through which resources flow, as prior studies have argued, but also as prisms that shape audiences' perceptions of a firm's status (Podolny, 1993, 2001). In general, status refers to a firm's position in a rank-ordering based on its affiliations with others. For example, firms with which others are eager to affiliate are perceived to be higher in status than firms with which others are reluctant to affiliate (Jensen, 2006; Podolny, 1994; Stuart, Hoang, and Hybels, 1999). Similarly, a firm that tends to take a subordinate role in its relationships with others is perceived to be lower in status than a firm with which others are willing to accept a subordinate role (Benjamin and Podolny, 1999; Gould, 2002; Lynn, Podolny, and Tao, 2009 Podolny and Phillips, 1996).

At the heart of the status literature is the idea that affiliations serve as indicators of social validation: individuals are more willing to affiliate with a firm that others appear willing to affiliate with as well. High-status firms therefore have an advantage in securing partners. In various contexts—including investment banking, accounting, law, and winemaking—this advantage allows high-status firms to command higher prices and sell greater quantities in the product market (Benjamin and Podolny, 1999; Jensen and Roy, 2008; Podolny, 1993; Uzzi and Lancaster, 2004). In the context of entrepreneurial spinoffs, research suggests that when a firm's employees leave to start successful ventures the firm becomes known among potential hires as an attractive stepping stone for entrepreneurs (Burton *et al.,* 2002; McKendrick *et al.,* 2009).

Drawing on these insights, we propose that employee departures not only connect a firm to competing employers but also influence how a firm is perceived by potential future employees. As in other contexts where individuals judge a firm's status based on the willingness of others to affiliate with the firm (Podolny, 1993), potential employees infer a firm's status based on the willingness of others to hire the firm's current employees. In the next section, we first consider reasons why, in general, increased rates of employee departures may negatively affect potential employees' perceptions of a firm. We then consider specific conditions under which certain kinds of employee departures are likely to positively affect a firm's status in the eyes of potential employees.

Interorganizational career ladders and labor market competitiveness

Traditionally, increased rates of employee departures have been viewed as negative indicators of a firm's appeal as an employer. Numerous studies show that departures reflect dissatisfaction with pay, promotion opportunities, supervisors, coworkers, the nature of work, or firm culture (e.g. Mobley *et al.,* 1979; Porter *et al.,* 1974). From this perspective, the effects of increased departure rates on potential future employees' perceptions of a firm are likely to be negative: potential employees should be less eager to work for a firm when current employees appear increasingly eager to leave. Therefore, firms interested in signaling their appealing work climate (e.g., Backes-Gellner and Tuor, 2010) face incentives to retain employees so as to avoid increased departure rates.

Such expectations are most sensible, however, if one assumes that a potential employee's most desirable career path unfolds within a single firm. Traditionally, careers advanced based on progression from job to job with a single employer (Doeringer and Piore, 1971; Konda and Stewman, 1980; Rosenfeld, 1992; Schein, 1978; Spilerman, 1977; Stewman and Konda, 1983). But more recent research indicates that career advancement commonly occurs through employment spells at different firms (Arthur and Rousseau, 1996; Cappelli, 1999). For example, studies show that individuals apply knowledge gained at one employer to their work at subsequent employers (e.g., Dokko *et al.,* 2009; Groysberg and Lee, 2009; O'Mahony and Bechky, 2006) and that external moves are often associated with substantial increases in pay (Bidwell and Mollick, 2015).

Such findings inform the emerging view that individuals build "interorganizational career ladders" by strategically choosing to work at different kinds of organizations at different points in their careers (Bidwell and Briscoe, 2010). Motivated by labor market matching models (e.g., Heckman and Sedlacek, 1985; Jovanovic, 1979; Logan, 1996), this perspective suggests that in early career stages individuals prefer to work for organizations that enhance their future labor market bargaining power, which is then leveraged to gain positions at different organizations in later career stages (Bidwell *et al.,* 2015). For instance, individuals value employment affiliations that favorably shape how future employers will view them as job candidates (Spence, 1973;

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Waldman, 1990). For our purposes, the key insight from this perspective is that not only do individuals recognize the likelihood of changing employers during their careers, but they especially value employers that enhance their future external mobility prospects.

This perspective suggests that an increased employee departure rate might, counterintuitively, make a firm more appealing to potential employees. Some departures may serve not as signs of employee dissatisfaction but, instead, as indicators of expanding external opportunities available to those who work for the firm (Felps *et al.,* 2009; Gerhart, 1990). Such indicators are important because many aspects of the external labor market are not directly observable to individuals (e.g., Fernandez and Weinberg, 1997): how employers screen candidates, who applies and who is interviewed, which employment offers are extended, accepted, and rejected, or what the terms of employment are. Many external job offers are in fact unsolicited (Holtom *et al.,* 2005; Lee *et al.,* 1999, 2008). Therefore, when employees accept jobs with other firms, these moves provide observable indicators from which potential employees can assess the kinds of career mobility opportunities that arise from working for a firm. In this way, indications about future career advancement opportunities can potentially dominate, or at least offset, the countervailing baseline tendency for potential employees to infer employee dissatisfaction from increased rates of firm-level departures.

Perceived status among prospective employees

Our preceding arguments suggest that employee departures can affect perceptions about a firm in the labor market for prospective future employees. We now hypothesize two specific conditions under which increased rates of employee departures are likely to affect a firm's status positively. First, we hypothesize that past departures of a firm's employees must be sufficiently salient. To alter perceptions of firm status, employee departures must be noticed in the first place. We expect departures to be more salient when employees leave for jobs at high, rather than low-status competitors.

A central tenet of status theory is that the activities of high-status entities tend to receive more attention than those of low-status entities. Following from Merton's (1968) discussion of the 41st-chair effect, there is necessarily a limited number of positions at the top of any rank-ordering (Podolny, 1993). Those entities in the highest positions are more frequently noticed and figured into audience perceptions, while those in lower positions are more often overlooked. In the labor market context, hiring firms often publicize new hires through press releases and in website biographies (Roberts and Khaire, 2009). When a firm's employees are increasingly hired away by high-status competitors, these departures are more likely to be noticed by those outside the firm and, as a result, more salient in shaping status beliefs among potential employees. We, therefore, posit that employee departures are more salient when employees leave for high-status as opposed to low-status competitors.

Second, salience is a necessary but insufficient condition for firm status enhancement; to enhance a firm's status, employee departures must also be sufficiently positive in nature. Employee departures often appear ambiguous to external observers, potentially indicating the push of one's dissatisfaction with a current employer or perhaps also the pull of an attractive job offer from another employer. As we have argued, departures are more likely to enhance a firm's status when they are more clearly indicative of a firm's employees advancing their careers by accepting offers from competitors. We therefore expect departures to be perceived positively when departing employees experience a promotion in rank when moving to a competitor. Moves from junior to senior positions are often indicative of departures that are both voluntary and career advancing. The growing interorganizational careers literature suggests that individuals in early career stages will favor employers that enable their employees to make such moves.

Combining these two conditions, increased rates of employee departures involving rank promotions to high-status competitors are likely to result in firms being viewed more positively by potential future employees. These types of departures are indicative of a firm's employees receiving attractive external advancement opportunities. We therefore expect that after experiencing increased rates of such departures, a firm's perceived status in the eyes of potential employees will increase.

> *Hypothesis 1: A firm's perceived status among potential employees will increase with increases in the rate of employee departures to higher-ranking positions with high-status competitors.*

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Hypothesis 1 specifies that when a firm experiences increased rates of salient and positive employee departures, the firm will experience a subsequent increase in status, as opposed to a decrease or no change. Building on our preceding arguments, we also hypothesize that the positive effect of increased rates of such departures will be stronger than the effects of increased rates of departures that are less salient or less clearly positive. Increased rates of employee departures are unlikely to have status-enhancing effects when departures go unnoticed by potential employees. Increased departure rates are also unlikely to have status-enhancing effects when departures are ambiguous with respect to the reason employees left a firm.

Following this logic, departures to low-status competitors are less salient and also more ambiguous in terms of career advancement than departures to high-status competitors. Likewise, lateral departures for equivalent-rank positions with competitors are less clearly indicative of career advancement than departures involving promotions to higher-ranking positions. Increased rates of employee departures that fail to satisfy one or both of these conditions are less likely to have status-enhancing effects than are departures that are both highly salient and unambiguously career-advancing. We therefore expect the status-enhancing effects of increased rates of employee departures to higher-ranking positions with high-status competitors to be stronger than the effects of increased rates of departures that are not to high-status competitors or do not involve rank promotions.

Hypothesis 2: The positive effect of increased rates of employee departures for higher-ranking positions with high-status competitors will be stronger than the effects of increased rates of employee departures that are not to high-status competitors or do not involve rank promotions.

EMPIRICAL SETTING AND ANALYSIS

We test our predictions in the context of the U.S. legal services industry. Our sample consists of the 200 highest-grossing law firms in the United States between 2004 and 2013 (i.e., the Am Law 200). In 2013, these firms employed approximately 110,000 lawyers, of which about 45,000 were partners. These large, corporate-oriented firms typically follow an up-or-out system in which associates are hired out of law school, developed for six to eight years, and screened for promotion to partner (Galanter and Palay, 1991). Those who successfully advance to partner are retained, while those who do not advance must leave. While this system has traditionally emphasized career advancement through internal promotion, the erosion of historical norms against competitive hiring has rendered it increasingly common for lawyers to change firms over the course of their careers (Hillman, 2002). Additionally, for lawyers in the early stages of their careers, a major concern in considering employment opportunities is the opportunity to "add the name of a reputable firm to their resumes"—a concern that can outweigh internal career advancement concerns (Raasch, 2007). As in other professions, the appeal of working for a particular firm in this context is shaped by expectations about future interorganizational mobility opportunities.

Measures

Status

A unique advantage of this context is that we can measure firm status based on the perceptions of potential employees. We use data from Vault .com's annual survey of tens of thousands of U.S. law firm associates. This survey asks associates about their individual perceptions of a focal firm's status—"How prestigious do you think it would be to work for this firm?"—and specifically instructs associates to consider status from the standpoint of an employment experience. Associates' ratings reflect the perceptions of individuals in the early stages of their careers, when gaining labor market signals is an important consideration in evaluating employment opportunities. This prestige measure is also consistent with sociological measures of status that were designed to elicit the extent to which one defers to a focal entity by acknowledging its prestige (e.g., Knoke and Burt, 1983).

For the Vault survey, respondents individually rate firms on a scale of 1–10 based on how prestigious they think it would be to work for the firm (1 = least prestigious, 10 = most prestigious). Vault then averages all firm-level responses to create a firm prestige score that is updated annually. This provides a measure of the aggregate perception in the associate labor market about a given firm's status. Respondents do not rate their own firms and are

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Table 1. Descriptive statistics for firm status and employee departures

Year	Firms	Status			Departures to partner positions
		Mean	Min	Max	
2004	146	5.3	3.0	8.8	682
2005	147	5.3	3.1	8.8	1,069
2006	149	5.2	2.8	8.9	911
2007	159	5.1	2.4	8.8	1,177
2008	152	5.0	2.3	8.8	976
2009	159	4.7	2.2	8.7	1,202
2010	157	4.9	2.3	9.0	639
2011	155	4.9	2.3	9.0	1,280
2012	151	4.8	2.4	9.1	900
2013	138	5.0	3.1	9.0	947
Total	1,513	5.0	2.2	9.1	9,783

asked not to rate firms with which they are not familiar. Prestige ratings therefore reflect the perceptions of those not employed by the focal firm (e.g., potential employees). The number of firms that receive ratings in the Vault survey varies from year to year. Vault publishes the top 100 firms, but we obtained prestige scores directly from Vault so that we can include in our sample all Am Law 200 firms that received ratings in the Vault prestige survey, regardless of whether or not they were ranked in the top 100. The number of firms in our sample ranges from 146 in 2004 to 138 in 2013. Table 1 presents the number of firms in each year, as well as the average and range of prestige ratings in each year. In our analyses, we take the log of raw prestige scores to generate a centered and approximately normal distribution.

In addition to using the continuous status measures in our analyses, we also consider coarser status distinctions based on binary indicator variables for five status tiers. The highest tier consists of the top-25 firms, the next tiers contain firms ranked 26–50, 51–75, 76–100, and the last tier contains firms ranked below 100. These indicator variables allow for a more flexible functional form in state-dependence, including potential nonlinearity or non-monotonicity, between a firm's current status and subsequent changes in status.

Employee departures

The main independent variable in our analysis is the number of employees in a firm that depart for partner positions at other law firms. We normalize this by total number of lawyers at the focal firm in order to capture rate of departure. Data on lateral moves were obtained from Incisive Legal Intelligence's Lateral Partner Moves Database, which summarizes hiring information from *The American Lawyer*'s annual Lateral Partner Survey of Am Law 200 firms, industry publications, firm websites, and press releases. Between 2004 and 2013, there were 9,783 departures by employees from Am Law 200 firms to partner positions at other firms. Table 1 reports the total number of departures per year.

In our analysis we distinguish between departures that do and do not involve rank promotions and between departures to high- and low-status firms. To identify departures involving rank promotions, we distinguish between departures by associates to partner positions at other firms (i.e., promotions) and departures by partners to partner positions at other firms (i.e., not promotions). To identify departures to high- and low-status firms, we distinguish between departures to firms that are ranked in the Vault 100 and firms that are not ranked in the Vault 100. This dichotomous, as opposed to continuous, measure of status is required in order to test for statistical differences between the effects of departures to high- versus low-status firms. The Vault 100 distinction is one that is widely acknowledged as meaningful by industry professionals. This distinction also nicely captures Merton's (1968) 41st-chair idea. There is an artificially limited number of spots in the Vault 100 rankings, and Vault 100 firms tend to receive more attention to their activities than unranked firms. Statistically, it is approximately equivalent to setting a cutoff at the median: in our data, 58 percent of moves are to Vault 100 firms and 42 percent are to non-Vault 100 firms.

Our core argument is that employee departures that are both salient and clearly positive indicators of career advancement will enhance a firm's perceived status among prospective employees. *Hypothesis 1* therefore implies a positive coefficient for associate-to-partner departures to Vault 100 firms. Our arguments further imply that the status-enhancing effects of employee departures become weaker when either or both of these conditions are not met. Employee departures that are less salient or are more ambiguous with respect to career advancement should have weaker status-enhancing effects. *Hypothesis 2* therefore specifies that the positive effects of associate-to-partner departures to Vault 100 firms should be stronger than the effects of departures that are either not to Vault 100 firms or

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involve lateral partner-to-partner moves rather than rank promotions from associate to partner.

Controls

Our analysis includes a control for firm-level economic performance, measured as profits-per-equity-partner (PPEP). Each year, it is computed as total firm profits divided by the number of firm partners with residual claims. The measure is closely associated with the level of compensation for a typical firm partner. The measure is obtained from *American Lawyer* surveys and is generally considered the best profitability metric for the U.S. legal services industry. Our empirical specification also includes a control for firm size, measured as total number of lawyers in a firm and a control for partner-to-associate ratio, computed as the number of equity partners divided by number of associates. Finally, we control for the number of partners hired externally by a firm, normalized by total number of lawyers at the firm, and distinguish between hires from Vault 100 firms and those from non-Vault 100 firms. These controls capture the effects of other factors that may enhance the appeal of working for a firm. Table 2 reports descriptive statistics.

Empirical approach

Our main results are based on dynamic panel estimates of the effects of increased rates of employee departure on changes in firm status (Arellano and Bond, 1991). Because of the complexity of these models, we develop the intuition underlying our analyses in steps in order to demonstrate how the results are affected by the addition of increasingly complex estimation features. First, we show how our core predictions about the effects of increased rates of employee departure on firm status are observable in simple OLS and within-firm fixed-effects models. Next, to validate the causal effect of employee departures on status, we examine the robustness of these results using dynamic panel models that deflate coefficient estimates and significance levels to account for potential endogeneity and serial correlation. We include lagged values of the dependent and independent variables of interest in order to capture the temporal dynamics of status effects (Podolny, 1993; Podolny and Phillips, 1996), and we test our dynamic panel estimates for the absence of endogeneity (Arellano and Bond, 1991).

Table 2. Summary statistics and correlations

		Mean	*SD*	1	2	3	4	5	6	7	8	9
1	Status	5.00	1.47									
2	Lawyers	602	463	0.47								
3	PPEP (profits-per-equity-partner)	$1,109,560	$678,639	0.69	0.17							
4	Partner-associate ratio	0.51	0.24	−0.53	−0.37	−0.53						
5	Partners hired from Vault 100	3.81	5.59	0.23	0.51	0.06	−0.23					
6	Partners hired from non-Vault 100	4.08	7.14	−0.01	0.35	−0.16	−0.04	0.34				
7	Partner-to-partner departures to Vault 100	3.77	9.81	0.13	0.23	0.01	−0.15	0.16	0.06			
8	Partner-to-partner departures to non-Vault 100	2.43	4.03	−0.01	0.23	−0.19	−0.03	0.19	0.31	0.44		
9	Associate-to-partner departures to Vault 100	0.10	0.38	0.20	0.17	0.14	−0.15	0.11	−0.03	0.17	0.03	
10	Associate-to-partner departures to non-Vault 100	0.17	1.24	0.01	0.13	−0.02	−0.01	0.11	0.20	0.03	0.06	0.03

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The next section provides further details about each of these approaches.

RESULTS

We first examine our effects of interest within a straightforward OLS regression framework. The dependent variable in the OLS model is log status. We include PPEP, total number of lawyers, and counts of partners hired and employees lost, normalized by total number of lawyers. All models also include year fixed-effects and status tier dummies. Standard errors are clustered by firm. Results are reported in Table 3. Model 1 shows the baseline, which includes a variable for rate of all employee departures to partner positions at other firms, not distinguishing among different types of departures. This variable has a positive effect on firm status ($p = 0.005$).

Our predictions, however, specify conditions under which increased rates of employee departure are most likely to enhance firm status. We expect the overall status-enhancing effect of employee departures to be primarily driven by those departures that are both more salient to external observers and more clearly positive indicators of career advancement. Model 2 therefore splits the variable for overall rate of employee departure based on (1) whether an employee moves to a Vault 100 or a non-Vault firm and (2) whether the move is of the partner-to-partner type or associate-to-partner type. The differences across these types are pronounced. The status-enhancing effects of employee departures that are both visible and consistent with career advancement—i.e., associate-to-partner moves to Vault 100 firms—are positive and statistically strong ($p = 0.001$). This provides support for *Hypothesis 1*. Moreover, the magnitude of the effect is larger than the effect of every other type of departure that is either not to a Vault 100 firm or does not involve a promotion from associate to partner. This provides support for *Hypothesis 2*.

Prior research suggests that when modeling factors that affect status, it is important to account for dynamic effects over time. Factors that affect perceived status are thought to have some level of persistence over time (Podolny, 1993; Podolny and Phillips, 1996). In our context, for instance, memory of a prominent employee departure in the industry may affect respondent perceptions for more than just the next immediate prestige survey. If this is the case, then it is important to account for potential distributed lag structures in their effects.

Including lags is also important to allow enough time for news about employee moves to diffuse in the industry and be in the minds of respondents during the time window when the Vault survey is administered. Responses to the Vault survey are not collected at a single point in time but over the course of a year. The questionnaire is sent out to respondents in the first quarter of a year and remains open for most of the year. Because of this, not all news about employee moves from the prior calendar year may have fully diffused to all respondents by the time they submit their responses for a focal year's survey. For instance, news about departures that occurred toward the end of the prior year may not have diffused to respondents who answered the survey toward the beginning of the focal year. Including two- and three-year lags of our departure variables allows one or two years for news of departures to diffuse to survey respondents.

Finally, because of the potentially imperfect or slow diffusion of news about departures, including farther lags is important for avoiding potentially spurious results from reciprocal causality. A potential source of reciprocal causality, for instance, is that as a firm's status increases, its employees become more likely to attract external offers, leading to higher rates of departures. Given the long window over which the Vault survey remains open, a potential concern is that there is a delay between when perceptions about status actually change and when these are reflected in Vault's published ratings. For employee departures that occurred only shortly before a given year's survey, there is a greater potential risk that, instead of causing changes in status, these departures may be caused by latent changes in status that are subsequently reflected in that year's survey results. Using two- and three-year lags of employee departures provides greater assurance that these departures do in fact temporally precede changes in firm status.

Models 3 through 5 in Table 3 therefore include additional lags of our departure variables for one, two, and three years. In Models 3 through 5, as additional lags are included, the temporal structure of the relationship between increased rates of employee departure and status perceptions becomes clearer. Panel (a) of Figure 1 plots the marginal effects over time. The variable primarily responsible for driving departure effects, associate-to-partner departures to Vault 100 firms,

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Table 3. Linear regression models of firm status, ordinary least squares (OLS) estimates

	(1) OLS Coef.	p-Val.	(2) OLS Coef.	p-Val.	(3) OLS Coef.	p-Val.	(4) OLS Coef.	p-Val.	(5) OLS Coef.	p-Val.
ln(lawyers), *t*	0.224	0.000	0.224	0.000	0.009	0.888	0.046	0.467	0.066	0.401
	(0.007)		(0.007)		(0.067)		(0.064)		(0.078)	
t – 1					0.220	0.001	−0.005	0.935	−0.015	0.770
					(0.068)		(0.063)		(0.050)	
t – 2							0.192	0.006	0.061	0.365
							(0.069)		(0.067)	
t – 3									0.123	0.102
									(0.075)	
ln(PPEP), *t*	0.420	0.000	0.421	0.000	0.231	0.000	0.173	0.000	0.156	0.000
	(0.012)		(0.012)		(0.030)		(0.037)		(0.043)	
t – 1					0.207	0.000	0.120	0.000	0.089	0.002
					(0.031)		(0.027)		(0.028)	
t – 2							0.148	0.000	0.109	0.000
							(0.034)		(0.022)	
t – 3									0.085	0.060
									(0.045)	
Partner-associate ratio, *t*	0.144	0.000	0.147	0.000	−0.039	0.690	−0.090	0.351	−0.086	0.422
	(0.027)		(0.027)		(0.098)		(0.096)		(0.107)	
t – 1					0.227	0.011	0.112	0.041	0.066	0.264
					(0.088)		(0.054)		(0.059)	
t – 2							0.180	0.041	0.069	0.291
							(0.088)		(0.066)	
t – 3									0.165	0.071
									(0.091)	
Partners hired from V100, *t*	−0.107	0.843	−0.142	0.790	0.017	0.980	0.351	0.570	0.346	0.570
	(0.539)		(0.533)		(0.673)		(0.617)		(0.608)	
t – 1					0.323	0.606	0.556	0.324	0.820	0.154
					(0.624)		(0.563)		(0.573)	
t – 2							0.242	0.658	0.424	0.381
							(0.545)		(0.483)	
t – 3									−0.015	0.980
									(0.620)	
Partners hired from non-V100, *t*	−1.083	0.003	−1.073	0.003	−0.990	0.027	−1.219	0.015	−1.144	0.020
	(0.360)		(0.360)		(0.444)		(0.494)		(0.488)	
t – 1					−0.271	0.466	−0.329	0.371	−0.450	0.294
					(0.371)		(0.366)		(0.428)	
t – 2							−0.319	0.386	−0.376	0.312
							(0.367)		(0.371)	
t – 3									−0.485	0.190
									(0.369)	
Departures to partner positions, *t*	0.485	0.005								
	(0.173)									
Partner-to-partner departures to non-V100, *t*			0.947	0.018	0.420	0.225	0.020	0.937	0.204	0.457
			(0.398)		(0.345)		(0.246)		(0.274)	
t – 1					1.270	0.093	0.638	0.364	−0.226	0.798
					(0.752)		(0.700)		(0.880)	
t – 2							0.799	0.266	0.404	0.600
							(0.716)		(0.769)	
t – 3									0.687	0.366
									(0.758)	

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Table 3. Continued

	(1) OLS Coef.	p-Val.	(2) OLS Coef.	p-Val.	(3) OLS Coef.	p-Val.	(4) OLS Coef.	p-Val.	(5) OLS Coef.	p-Val.
Partner-to-partner departures to V100, *t*			0.336	0.060	0.040	0.733	−0.093	0.326	−0.139	0.160
			(0.179)		(0.119)		(0.095)		(0.098)	
t – 1					1.830	0.017	1.181	0.054	1.404	0.111
					(0.760)		(0.609)		(0.876)	
t – 2							1.109	0.087	0.508	0.334
							(0.644)		(0.524)	
t – 3									1.472	0.086
									(0.853)	
Associate-to-partner departures to non-V100, *t*			0.704	0.746	1.281	0.504	2.084	0.285	1.597	0.420
			(2.177)		(1.911)		(1.942)		(1.975)	
t – 1					0.745	0.729	1.259	0.514	1.563	0.420
					(2.143)		(1.926)		(1.934)	
t – 2							1.978	0.332	2.170	0.253
							(2.035)		(1.892)	
t – 3									9.010	0.264
									(8.048)	
Associate-to-partner departures to V100, *t*			16.248	0.001	14.852	0.005	13.843	0.008	12.868	0.023
			(4.856)		(5.256)		(5.126)		(5.619)	
t – 1					18.590	0.001	16.637	0.003	15.342	0.005
					(5.498)		(5.559)		(5.356)	
t – 2							19.618	0.001	18.291	0.003
							(5.982)		(6.098)	
t – 3									15.115	0.029
									(6.850)	
Constant	−5.480	0.000	−5.495	0.000	−5.811	0.000	−6.183	0.000	−6.176	0.000
	(0.173)		(0.174)		(0.417)		(0.453)		(0.494)	
Observations	1,499		1,499		1,334		1,165		994	
Log-likelihood	823.5		827.7		775.5		695.1		600.0	
R-squared	0.777		0.779		0.795		0.804		0.808	

Robust errors are in parentheses. All models include year fixed-effects.
PPEP = profits-per-equity-partner.

has the strongest effect at a two-year lag. The effect begins to weaken past two years and becomes insignificant if we add a four-year lag. This temporal structure is reassuring because it corroborates what we know about the way the Vault prestige survey is administered. The strongest effects from the two-year lag reflects those departures that have had at least a full year for news to diffuse by the time the first responses begin to come in for a focal year's survey. Beyond a two year lag, their effects begin to weaken, presumably as past events begin to fade from memory.

Panel (b) of Figure 1 compares the marginal effects of different types of moves at a 2-year lag. Consistent with *Hypothesis 2*, the effects of increased rates of departure that are both visible and consistent with career advancement—i.e., associate-to-partner moves to Vault 100 firms—are stronger than the effects of increased rates of any other type of departure.

Next, we add firm fixed-effects to the model. Our previous models include controls for various firm-level attributes. But there may be other unmeasured differences between firms that are driving variation in firm status and rates of employee departure. The addition of firm fixed-effects nets out any between-firm heterogeneity in firms' baseline levels of status. The estimated effects of increased rates of employee departure therefore reflect within-firm variation.

In addition to including firm fixed-effects to net out time-invariant differences between firms, we also include lagged values of the dependent variable to account for potential unmeasured, time-varying factors affecting firm status. In our context, including lagged values of status allows us to capture persistence in audience perceptions due to anchoring on a firm's past status. It helps us to avoid potentially spurious estimates for independent variables that are driven by and acting

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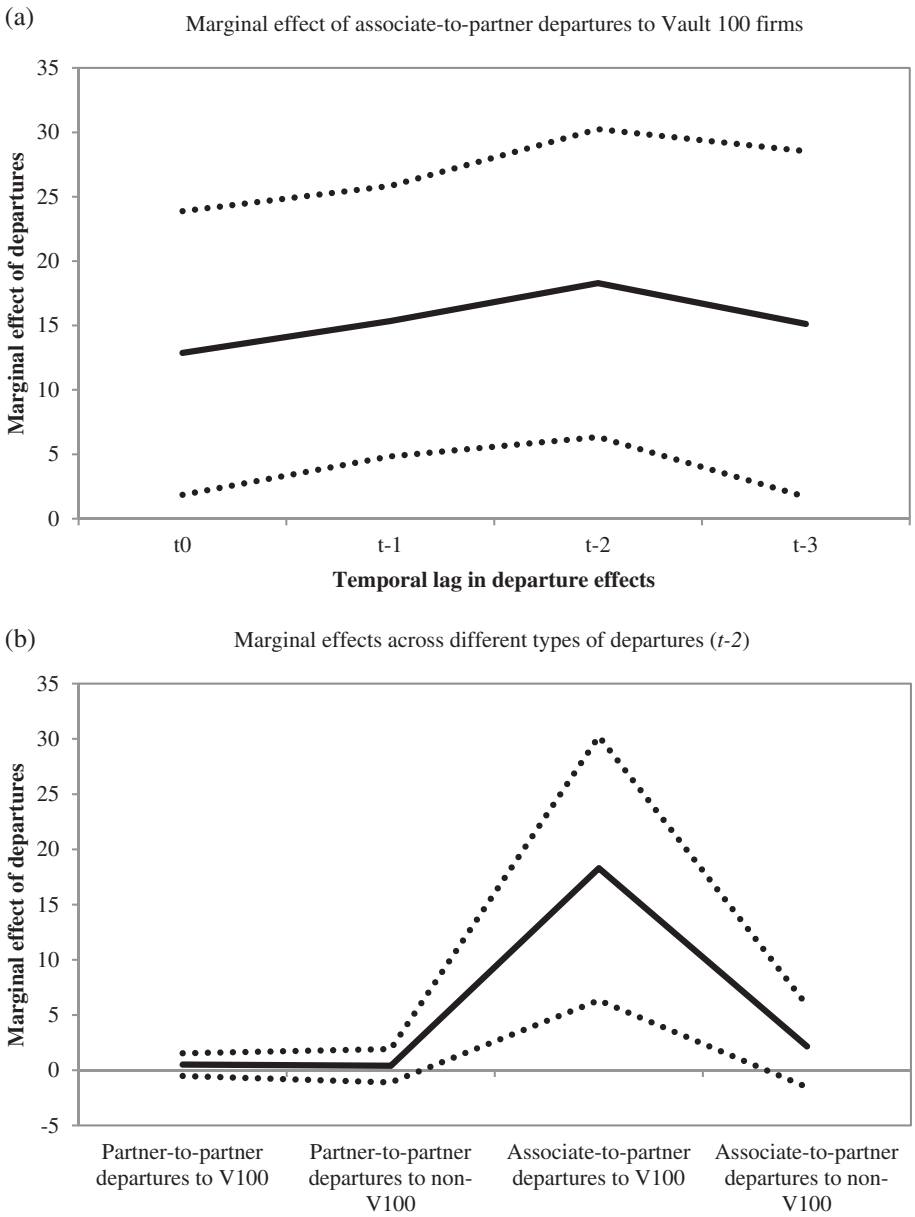

Figure 1. Marginal effects of employee departures on firm status, ordinary least squares (OLS) estimates. Solid lines show average marginal effects. Dashed lines show the 95 percent confidence interval around average effects. Panel (a) shows marginal effects of associate-to-partner departures to Vault 100 firms at different lags. Panel (b) shows marginal effects of different types of departures at a two-year lag

as proxies for past status. For instance, if employee departures are driven by a firm's past status, then their effects may act as proxies for the effects of past status if we do not include lagged values of the dependent variable. Including lagged dependent variables that cover the same time periods as the independent variables of interest helps to mitigate this. Because we include several lags of our employee departure variables, we also include lagged values of status for the same periods.[1]

[1] The effects of employee departures, in terms of both coefficient estimates and statistical significance, are robust to including more or fewer lags of the dependent variable, status. However, in our dynamic panel estimates below, the AB test for second-order serial correlation yields a p-value of 0.06 for models with only one lag of the dependent variable, which raises concerns about potential

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Additionally, lagged values of the dependent variable provide controls for other unobserved time-varying factors that affect status. A lagged dependent variable can be interpreted as a weighted summary measure reflecting the effects of all past factors that may affect the dependent variable. It will control for other past unobserved shocks due to time-varying omitted variables. A side effect of this is that lagged dependent variables have a well-known tendency to wipe out most effects that appear significant in other models (Achen, 2000). Results that include lagged dependent variables are therefore viewed as extremely (and sometimes excessively) conservative.

Results are reported in Model 1 of Table 4. In a model with firm fixed-effects, the effect of increased rates of employee departures that are both visible and consistent with career advancement—i.e., associate-to-partner moves to Vault 100 firms—continues to be positive and significant for the two-year lag ($t-2$, $p=0.023$). As in the previous OLS results, the effect is strongest for the two-year lag. The effects for earlier and later lags are weaker and not significant.[2] Additionally, the magnitude of the two-year lagged effect is larger than the corresponding two-year lagged effect of every other type of departure that is either not to a Vault 100 firm or does not involve a promotion from associate to partner. These are consistent with our previous results.

Dynamic panel estimates

A potential concern with the preceding OLS results is that the estimation approach does not account for serial correlation and endogeneity. The inclusion of a lagged dependent variable as a regressor introduces serial correlation in our preceding specification, which includes firm fixed effects and a relatively short panel. Treating such observations as independent will potentially result in underestimated standard errors and overstated effects.

To address these potential concerns, we check the robustness of our results in a dynamic panel model (Arellano and Bond, 1991). This approach has long been used in labor economics and other disciplines to account for potential cross-sectional and time-varying endogeneity in panel data. It has recently been introduced into strategy and management research to estimate the effects of network ties on outcomes such as innovativeness and status (Dokko and Gaba, 2012; Lee, 2010; Milanov and Shepard, 2013). In the case of network ties, the potential concern is that as individuals increase in innovativeness or status, this may have reciprocal effects on their subsequent network ties. The most common use of the dynamic panel approach is precisely to disentangle the effects of variables in the presence of such reciprocal causality. In our setting, using this estimator enables us to rule out the possibility that the OLS estimates reported above are capturing the effects of firm status on employee departures, instead of the other way around.

The model includes lagged values of independent variables and lagged values of the dependent variable. Additionally, Arellano and Bond's (1991) (hereafter AB) generalized method of moments (GMM) estimator takes first-differences, which accounts for unobserved firm-specific, time-invariant effects. We begin by treating all explanatory variables as potentially endogenous and using all prior values of these variables as instruments. In our sample, up to six lags can be used as instruments. We use one-step GMM estimation and report heteroscedasticity-robust standard errors. In subsequent analysis, we also show the robustness of our results to treating only our variables of interest as potentially endogenous, using two-step GMM estimation, and restricting the number of lags used as instruments. Arellano and Bond (1991) provide a test of serial correlation that we utilize to check the validity of lagged variables as instruments.

Model 2 of Table 4 reports results from this approach. The results show the number of instruments and Arellano-Bond tests for first- through third-order serial correlation. First-order serial correlation necessarily exists by construction because the AB estimator accounts for firm fixed-effects by taking first-differences. But the presence of higher-order serial correlation would suggest that the instruments may be invalid (Arellano and Bond, 1991). It is therefore important to check for the absence of second- and third-order serial correlation. In model 2, as expected, there is strong evidence of first-order serial correlation ($p=0.000$). But the test shows no significant higher-order serial correlation beyond the first-order ($p=0.626$ and

endogeneity. Models with more lags of status do not have this issue.

[2] This is likely due to the fact that these are within-firm effects, so they are estimated using less variation than the previous OLS results.

Table 4. Dynamic panel models of firm status and profitability

	(1) ln(status) Firm FE, OLS Coef	p-Val.	(2) ln(status) AB Coef.	p-Val.	(3) ln(status) AB, only mobility endogeneous Coef.	p-Val.	(4) ln(status) AB, 2-step Coef.	p-Val.	(5) ln(status) AB, restricted instruments Coef.	p-Val.	(6) ln(PPEP Coef.	p-Val.
ln(status), $t-1$	0.473	0.000	0.450	0.000	0.445	0.000	0.445	0.000	0.435	0.000		
	(0.047)		(0.090)		(0.099)		(0.120)		(0.122)			
$t-2$	−0.137	0.001	−0.109	0.047	−0.110	0.059	−0.109	0.083	−0.154	0.026		
	(0.040)		(0.055)		(0.058)		(0.063)		(0.069)			
$t-3$	−0.002	0.967	0.088	0.087	0.069	0.210	0.079	0.211	0.078	0.211		
	(0.045)		(0.051)		(0.055)		(0.063)		(0.063)			
ln(lawyers), t	0.036	0.034	0.058	0.028	0.006	0.818	0.004	0.889	0.022	0.535	−0.075	0.403
	(0.017)		(0.026)		(0.026)		(0.030)		(0.035)		(0.090)	
$t-1$	−0.007	0.724	0.030	0.232							−0.107	0.232
	(0.019)		(0.025)								(0.089)	
$t-2$	0.010	0.539	−0.018	0.515							0.002	0.987
	(0.017)		(0.028)								(0.094)	
$t-3$	−0.003	0.866	−0.059	0.193							0.052	0.714
	(0.016)		(0.045)								(0.142)	
ln(PPEP), t	0.006	0.671	0.091	0.007	0.040	0.231	0.039	0.206	0.041	0.272		
	(0.014)		(0.033)		(0.033)		(0.031)		(0.038)			
$t-1$	0.012	0.413	0.014	0.653							0.032	0.662
	(0.014)		(0.032)								(0.074)	
$t-2$	−0.018	0.073	−0.027	0.257							−0.039	0.469
	(0.010)		(0.024)								(0.053)	
$t-3$	−0.002	0.841	−0.015	0.568							−0.009	0.821
	(0.008)		(0.026)								(0.040)	
Partner-associate ratio, t	0.005	0.868	0.152	0.017	0.077	0.023	0.064	0.113	0.087	0.011	−0.056	0.775
	(0.030)		(0.064)		(0.034)		(0.041)		(0.034)		(0.195)	
$t-1$	−0.010	0.690	−0.007	0.866							−0.058	0.678
	(0.026)		(0.043)								(0.139)	
$t-2$	0.026	0.276	0.047	0.349							−0.042	0.771
	(0.024)		(0.050)								(0.145)	
$t-3$	−0.020	0.445	−0.018	0.687							−0.304	0.025
	(0.026)		(0.045)								(0.135)	
Partners hired from V100, t	−0.049	0.723	−0.382	0.337	−0.172	0.734	−0.290	0.602	0.142	0.846	−0.599	0.679
	(0.139)		(0.398)		(0.508)		(0.557)		(0.732)		(1.447)	
$t-1$	0.151	0.262	0.507	0.210	0.871	0.087	0.748	0.254	1.638	0.026	0.141	0.924
	(0.134)		(0.405)		(0.508)		(0.656)		(0.738)		(1.474)	

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Table 4. Continued

	(1) ln(status) Firm FE, OLS Coef	p-Val.	(2) ln(status) AB Coef.	p-Val.	(3) ln(status) AB, only mobility endogeneous Coef.	p-Val.	(4) ln(status) AB, 2-step Coef.	p-Val.	(5) ln(status) AB, restricted instruments Coef.	p-Val.	(6) ln(PPEP Coef.	p-Val.
$t-2$	−0.169	0.210	−0.539	0.187	−0.379	0.473	−0.436	0.456	−0.380	0.611	0.921	0.496
	(0.135)		(0.408)		(0.529)		(0.584)		(0.747)		(1.353)	
$t-3$	0.241	0.115	−0.031	0.938	0.024	0.950	0.015	0.974	0.709	0.268	−0.729	0.521
	(0.152)		(0.402)		(0.391)		(0.465)		(0.641)		(1.137)	
Partners hired from non-V100, t	−0.050	0.737	−1.392	0.004	−1.532	0.014	−1.318	0.074	−1.636	0.021	3.813	0.047
	(0.150)		(0.484)		(0.621)		(0.737)		(0.708)		(1.923)	
$t-1$	0.408	0.002	0.371	0.296	0.582	0.123	0.765	0.111	0.184	0.730	1.462	0.385
	(0.128)		(0.356)		(0.377)		(0.480)		(0.533)		(1.685)	
$t-2$	0.060	0.512	−0.320	0.287	0.215	0.530	0.290	0.421	−0.094	0.857	0.884	0.431
	(0.092)		(0.301)		(0.342)		(0.361)		(0.522)		(1.123)	
$t-3$	0.104	0.383	0.122	0.657	0.354	0.294	0.402	0.174	0.230	0.604	0.811	0.337
	(0.119)		(0.275)		(0.338)		(0.295)		(0.443)		(0.845)	
Partner-to-partner departures to non-V100, t	−0.238	0.000	−0.114	0.746	−0.317	0.376	−0.267	0.385	−0.345	0.458	−0.491	0.667
	(0.059)		(0.352)		(0.358)		(0.307)		(0.464)		(1.144)	
$t-1$	−0.559	0.021	−0.257	0.750	−1.212	0.218	−0.657	0.586	−1.309	0.317	−4.333	0.062
	(0.239)		(0.804)		(0.984)		(1.208)		(1.309)		(2.318)	
$t-2$	−0.172	0.318	−0.203	0.731	−0.586	0.453	−0.603	0.498	0.239	0.824	−4.668	0.118
	(0.172)		(0.591)		(0.780)		(0.890)		(1.078)		(2.986)	
$t-3$	0.066	0.673	−0.635	0.276	−0.233	0.742	0.071	0.932	0.322	0.739	0.529	0.780
	(0.155)		(0.583)		(0.709)		(0.835)		(0.967)		(1.889)	
Partner-to-partner departures to V100, t	0.045	0.553	0.831	0.031	0.730	0.030	0.623	0.173	0.843	0.020	−3.379	0.005
	(0.076)		(0.385)		(0.336)		(0.457)		(0.363)		(1.192)	
$t-1$	0.052	0.794	0.833	0.095	0.901	0.078	0.735	0.269	1.162	0.179	−3.831	0.036
	(0.199)		(0.499)		(0.511)		(0.666)		(0.865)		(1.822)	
$t-2$	0.064	0.709	0.305	0.530	−0.090	0.881	−0.363	0.626	0.006	0.995	−4.565	0.037
	(0.172)		(0.486)		(0.600)		(0.745)		(0.954)		(2.191)	
$t-3$	−0.062	0.688	0.878	0.097	1.254	0.014	1.011	0.177	1.762	0.027	−2.354	0.235
	(0.155)		(0.529)		(0.509)		(0.749)		(0.795)		(1.980)	
Associate-to-partner departures to non-V100, t	−0.043	0.841	1.048	0.314	0.997	0.452	1.017	0.588	2.981	0.190	0.074	0.981
	(0.214)		(1.041)		(1.324)		(1.878)		(2.272)		(3.170)	
$t-1$	−0.354	0.514	−0.317	0.728	−0.441	0.693	−0.807	0.589	1.459	0.574	−0.647	0.863
	(0.541)		(0.910)		(1.116)		(1.492)		(2.596)		(3.747)	

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Table 4. Continued

	(1) ln(status) Firm FE, OLS Coef	p-Val.	(2) ln(status) AB Coef.	p-Val.	(3) ln(status) AB, only mobility endogeneous Coef.	p-Val.	(4) ln(status) AB, 2-step Coef.	p-Val.	(5) ln(status) AB, restricted instruments Coef.	p-Val.	(6) ln(PPEP Coef.	p-Val.
$t-2$	0.104	0.818	0.949	0.473	0.088	0.951	0.287	0.872	2.887	0.345	−1.503	0.718
	(0.448)		(1.323)		(1.428)		(1.784)		(3.054)		(4.161)	
$t-3$	−0.093	0.959	4.833	0.394	−1.494	0.841	−3.744	0.695	−0.127	0.990	−5.930	0.769
	(1.785)		(5.673)		(7.443)		(9.536)		(9.692)		(20.222)	
Associate-to-partner departures to V100, t	−0.249	0.803	−0.795	0.793	4.017	0.350	3.517	0.473	5.680	0.394	7.380	0.480
	(0.995)		(3.027)		(4.297)		(4.898)		(6.662)		(10.459)	
$t-1$	−0.734	0.544	4.561	0.151	11.003	0.034	9.445	0.076	15.003	0.057	2.934	0.761
	(1.206)		(3.176)		(5.197)		(5.321)		(7.897)		(9.646)	
$t-2$	2.310	0.023	9.674	0.001	12.400	0.005	11.404	0.015	19.069	0.008	−9.578	0.349
	(1.004)		(3.025)		(4.439)		(4.701)		(7.211)		(10.237)	
$t-3$	−2.240	0.150	4.520	0.239	6.376	0.132	3.969	0.462	13.669	0.091	−24.125	0.031
	(1.548)		(3.839)		(4.234)		(5.397)		(8.084)		(11.216)	
Constant	0.816	0.009	−0.207	0.795	0.283	0.596	0.300	0.563	0.203	0.741	15.201	0.000
	(0.310)		(0.798)		(0.534)		(0.518)		(0.614)		(2.093)	
Observations	926		758		758		758		758		785	
log-likelihood	2,226											
R-squared	0.654											
df	48		49		36		36		36		41	
Chi-sqr			1,396	0.000	744	0.000	903	0.000	767	0.000	296	0.000
Number of instruments			178		132		132		96		160	
1st – order AB test			−4.228	0.000	−4.121	0.000	−2.957	0.003	−3.641	0.000	−3.305	0.001
2nd-order AB test			−0.487	0.626	−0.524	0.600	−0.212	0.832	0.618	0.537	−0.460	0.645
3rd-order AB test			0.678	0.498	0.405	0.686	0.152	0.879	−0.585	0.558	−0.113	0.910
Sargan test			127.700	0.490	101.100	0.316	100.800	0.323	61.800	0.376	80.660	0.997
Year FE	Y		Y		Y		Y		Y		Y	
Status tier FE	Y		Y		N		N		N		N	

Robust errors are in parentheses; chi-sqr refers to the Wald statistic of the null hypothesis that all coefficients except the constant are zero.
AB = Arellano and Bond's (1991) generalized method of moments (GMM) estimator; PPEP = profits-per-equity-partner; FE = fixed effects.

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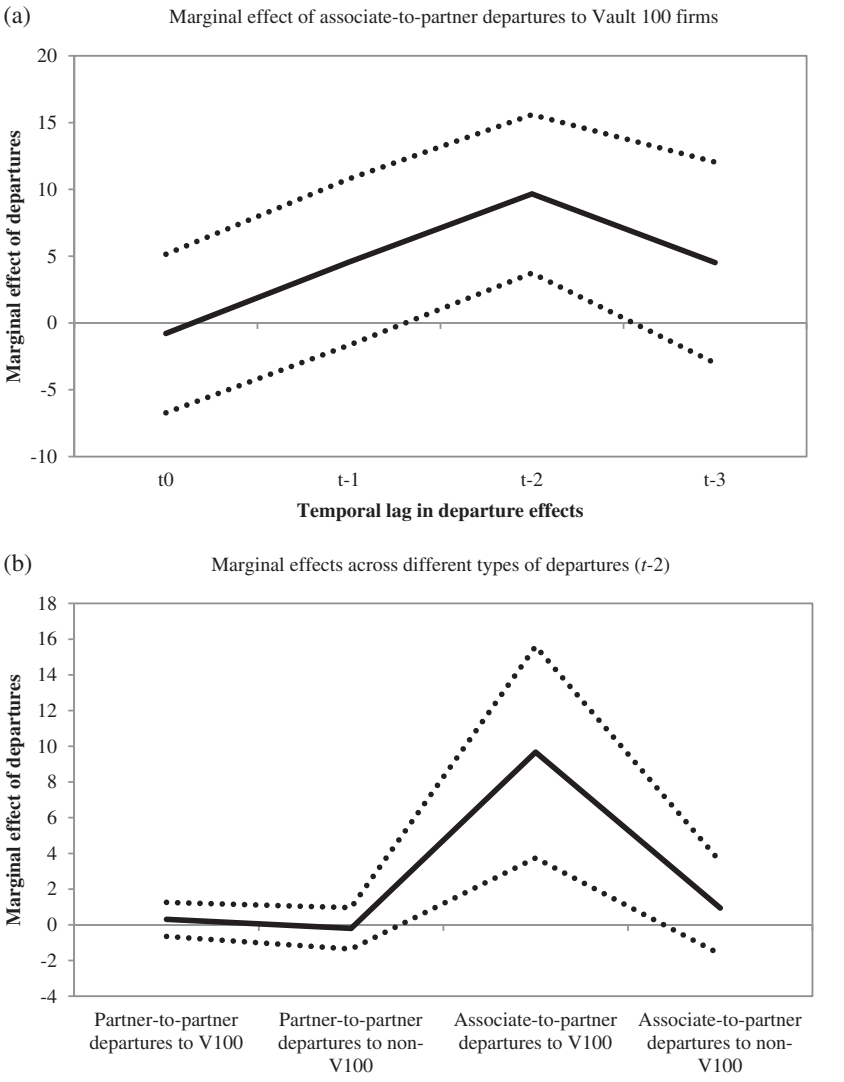

Figure 2. Marginal effects of employee departures on firm status, dynamic panel estimates. Solid lines show average marginal effects. Dashed lines show the 95 percent confidence interval around average effects. Panel (a) shows marginal effects of associate-to-partner departures to Vault 100 firms at different lags. Panel (b) shows marginal effects of different types of departures at a two-year lag

0.498, respectively, for second- and third-order serial correlation), providing assurance that the instruments used to estimate the effects of variables in the model are statistically valid. The Sargan test of overidentifying restrictions provides similar results. The high p-value ($p = 0.490$) indicates failure to reject the null that overidentifying restrictions are valid, which supports the validity of the instruments.

The estimated effects of employee departures in a dynamic panel model corroborate our prior results. As before, the two-year lagged effect of increased rates of employee departure is positive for associate-to-partner departures to Vault 100 firms ($t - 2$, $p = 0.001$) and larger than the corresponding two-year lagged effect of increased rates of any other type of departure. This provides further support for *Hypothesis 1* and *2*. The temporal structure of the effect is also the same as before, with the effect becoming strongest in the two-year lag and weakening beyond that.

These patterns can be seen in the marginal effect plots represented in Figure 2. The marginal effects are remarkably consistent between the OLS and AB

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results. The primary difference is that, as expected, the effect sizes and significance levels are smaller than in the OLS results. Such differences are usually the case with AB estimates, due to a combination of correcting for serial correlation, instrumenting for endogenous explanatory variables, and including lagged dependent variables. Lagged dependent variables, in particular, tend to be "greedy" in the sense of absorbing not just true persistence in the dependent variable but also any correlated effects that are actually due to the explanatory variables (Achen, 2000). The fact that associate-to-partner departures to Vault 100 firms continue to have strong effects in this specification provides an extremely conservative test of our prediction. Moreover, the robustness of our main findings is corroborated by the fact that both the temporal structure of the effects and the comparison across departure types remain the same between the OLS and AB models.

Following Dokko and Gaba (2012), we compute the long-run effect of increased rates of employee departure by adjusting the estimated coefficient based on the coefficients of the lagged dependent variables.[3] From model 2 of Table 4, the short-run marginal effect of increased rates of associate-to-partner departures to Vault 100 firms is 9.7. To illustrate the effect in practical terms, for the 50th ranked firm in 2013, the predicted increase in status from one additional departure would have been 3.2 percent, equivalent to the status difference between the 50th and 44th ranked firms.[4] Based on the estimates in this model, the long-run marginal effect on firm status is 17.6. This is reassuring, because it is every close to the estimated coefficient for the two-year lag of associate-to-partner moves to Vault 100 firms in model 5 of Table 3 ($t-2$, 18.3). Without lagged dependent variables, the OLS estimate is essentially showing the steady state effect. For the 50th ranked firm in 2013, the predicted long-run increase in status from one additional departure would have been 5.9 percent, equivalent to the status difference between the 50th and 39th ranked firms.

Next, we check the robustness of our results to different specification choices. First, we estimate a model that does not include status tier dummies and treats only our variables of interest as potentially endogenous. In our original specification, we included status tier dummies to provide additional flexibility in the functional form of past status effects on a firm's current status. In this specification, we rely on the lagged dependent variable to capture the effects of past status. Additionally, our original specification treated all independent variables in the model as potentially endogenous. In this specification, we treat as potentially endogenous only those variables associated with employee mobility. For instance, while we hypothesize a status-enhancing effect of employee departures, it may instead be that latent increases in a firm's status are generating more external mobility opportunities for its employees, leading to higher rates of departure. Model 3 of Table 4 reports results from this specification. Consistent with our previous results, the effect of increased rate of employee departure is positive for associate-to-partner departures to Vault 100 firms and larger than for any other type of departure.

Next, we estimate our model using two-step GMM and apply the Windmeijer (2005) correction for heteroscedasticity. Model 4 of Table 4 reports results. Consistent with our previous results, the two-year lagged effect of increased rate of employee departure is positive for associate-to-partner departures to Vault 100 firms and larger than for any other type of departure.

Finally, we estimate our model using only up to three lags as instruments. Model 5 of Table 4 reports results. Consistent with our previous results, the two-year lagged effect of increased rate of employee departure is positive for associate-to-partner departures to Vault 100 firms and larger than for any other type of departure. These results suggest that our effects of interest are robust to alternative specification choices.

Under the AB estimation approach, the remaining potential endogeneity concern is the possibility of shocks to status that are: (1) causal drivers of employee departures; (2) uncorrelated with prior years' changes in status; (3) uncorrelated with prior years' changes in firm size, profitability, and leverage; and (4) observable to us only indirectly through

[3] Our results are based on the model: $y_{it} = \alpha_1 y_{it-1} + \alpha_2 y_{it-2} + \alpha_3 y_{it-3} + \boldsymbol{\beta} \boldsymbol{X}_{it} + \epsilon_{it}$, where $\boldsymbol{X}_{it}$ is a vector of independent variables. If we assume that, in the long-run steady state, $y_{it} = y_{it-1} = y_{it-2} = y_{it-3} = y^*$, then this implies that $y^* = \alpha_1 y^* + \alpha_2 y^* + \alpha_3 y^* + \boldsymbol{\beta} \boldsymbol{X}_{it} + \epsilon_{it}$. The marginal effect of an independent variable on the long-run value of the dependent variable becomes $\delta y^* / \delta x_{it} = \beta / (1 - \alpha_1 - \alpha_2 - \alpha_3)$.

[4] The coefficient represents *δln(status)/δ(# of departures/# of lawyers)*. Recall that the dependent variable is ln(status) and the measure of departures is normalized by firm size (total number of lawyers at the firm). So for the 50th ranked firm in 2013, with 303 total lawyers, the marginal effect of one departure on firm status is computed as: $\exp.(9.7 \times 1/303) = 1.032$.

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their effects on employee departures (5) but directly observable by survey respondents independently of employee departures. The last condition is particularly important because there are few sources of information about private law firms that are observable and salient to survey respondents on a large scale outside the firm besides those included in our analysis.

While it is certainly plausible that some individuals possess soft information about a firm (e.g., rumors of partnership tensions), it is unlikely that such information is systematically available to all survey respondents around the country. Moreover, to account for the observed effects, it must be supposed that the perceived status of working for the firm is driven primarily by survey respondents' awareness of this information rather than by their awareness of employee moves between firms. As we have noted, lateral hires into partner positions are publicized through press releases, featured on firm websites, and covered by industry publications. Indeed, these are the sources from which our lateral moves data were collected. It is of course possible, but seems unlikely, that some other factor unknown to us is causally driving employee departures, satisfies all the above conditions, *and* is systematically more observable to survey respondents than employee departures. Employee departures therefore seem the most plausible underlying factor that can account for our observed empirical results.

Relative status

To further explore our main results, we consider how the status-enhancing effects of employee departures vary with the *relative* status of the hiring firm. Our main prediction is that employee departures are more likely to be status-enhancing when the hiring firm is high in absolute status, that is, in the Vault 100. In addition to this, it may be that departures are more likely to be status-enhancing when the hiring firm is relatively higher in status compared to the focal firm. To explore this possibility, model 1 in Table 5 categorizes employee departures based on whether the hiring firm is relatively higher or relatively lower in status compared to the focal firm. As we would expect, increased rates of associate-to-partner moves to relatively higher-status firms are status-enhancing ($t-2$, $p=0.066$).

The results also show that increased rates of associate-to-partner moves to relatively

Table 5. Dynamic panel models of firm status: Relative status of hiring firm

	(1) ln(status) Coef.	p-Val.	(2) ln(status) Coef.	p-Val.
ln(status), $t-1$	0.430	0.000	0.423	0.000
	(0.099)		(0.093)	
$t-2$	−0.099	0.135	−0.108	0.061
	(0.066)		(0.057)	
$t-3$	0.057	0.288	0.049	0.350
	(0.054)		(0.053)	
ln(lawyers)	0.012	0.652	0.011	0.659
	(0.026)		(0.024)	
ln(PPEP)	0.030	0.340	0.031	0.327
	(0.031)		(0.031)	
Partner-associate ratio	0.069	0.069	0.055	0.133
	(0.038)		(0.036)	
Partners hired from V100, t	0.042	0.936	−0.022	0.964
	(0.522)		(0.473)	
$t-1$	0.586	0.296	0.731	0.167
	(0.561)		(0.528)	
$t-2$	−0.460	0.431	−0.452	0.395
	(0.585)		(0.531)	
$t-3$	−0.222	0.602	−0.380	0.354
	(0.426)		(0.410)	
Partners hired from non-V100, t	−1.309	0.008	−1.369	0.006
	(0.493)		(0.503)	
$t-1$	0.594	0.164	0.530	0.159
	(0.427)		(0.376)	
$t-2$	0.028	0.930	−0.014	0.966
	(0.325)		(0.321)	
$t-3$	0.260	0.378	0.395	0.162
	(0.295)		(0.282)	
Partner-to-partner departures to higher status firms, t	0.518	0.069	0.527	0.049
	(0.285)		(0.268)	
$t-1$	1.189	0.129	0.896	0.233
	(0.784)		(0.751)	
$t-2$	0.482	0.540	0.334	0.635
	(0.786)		(0.705)	
$t-3$	1.504	0.032	1.082	0.080
	(0.700)		(0.617)	
Partner-to-partner departures to lower status firms, t	−0.925	0.278	−0.619	0.418
	(0.854)		(0.763)	
$t-1$	−0.346	0.669	−0.266	0.729
	(0.810)		(0.769)	
$t-2$	0.031	0.968	0.440	0.499
	(0.754)		(0.651)	
$t-3$	0.265	0.684	0.420	0.486
	(0.652)		(0.604)	
Associate-to-partner departures to t –hIgher status firms, t	1.651	0.726	−3.234	0.549
	(4.712)		(5.392)	
	7.565	0.257	4.201	0.511
	(6.675)		(6.397)	

Table 5. Continued

	(1) ln(status) Coef.	p-Val.	(2) ln(status) Coef.	p-Val.
$t-2$	12.908	0.066	8.104	0.214
	(7.029)		(6.524)	
$t-3$	18.629	0.069	18.476	0.062
	(10.240)		(9.883)	
Associate-to-partner departures to lower status firms, t	8.691	0.135		
	(5.813)			
$t-1$	18.065	0.010		
	(7.048)			
$t-2$	11.806	0.041		
	(5.783)			
$t-3$	5.143	0.211		
	(4.112)			
Associate-to-partner departures to lower status firms in V100, t			8.853	0.036
			(4.213)	
$t-1$			12.064	0.036
			(5.740)	
$t-2$			13.370	0.003
			(4.575)	
$t-3$			3.700	0.330
			(3.801)	
Associate-to-partner departures to lower status firms not in V100, t			−9.844	0.451
			(13.066)	
$t-1$			−1.224	0.930
			(13.842)	
$t-2$			−5.325	0.653
			(11.847)	
$t-3$			7.698	0.297
			(7.381)	
Constant	0.413	0.413	0.454	0.362
	(0.504)		(0.498)	
Observations	758		758	
df	36		40	
Chi-sqr	897	0.000	994	0.000
Number of instruments	132		147	
1st-order AB test	−4.202	0.000	−4.321	0.000
2nd-order AB test	−0.214	0.830	0.043	0.966
3rd-order AB test	−0.558	0.577	−0.623	0.533
Sargan test	105.900	0.210	114.300	0.274
Year FE	Y		Y	
Status tier FE	N		N	

Robust errors are in parentheses; chi-sqr refers to the Wald statistic of the null hypothesis that all coefficients except the constant are zero.
AB = Arellano and Bond's (1991) generalized method of moments (GMM) estimator; PPEP = profits-per-equity-partner; FE = fixed effects.

lower-status firms are status-enhancing as well ($t-2$, $p=0.041$). A potential explanation for this result based on our qualitative insights about this industry is that when associates are promoted into partner positions as part of a move, this is already an extraordinary event. The hiring firm may not necessarily need to be relatively higher in status compared to an associate's previous firm for this to be viewed as a favorable move. For instance, if the hiring firm is lower in status relative to an associate's previous firm but still high in absolute status, for example, still within the Vault 100, then this might still be perceived by associates in the industry as a favorable career move, given the extremely low odds of making partner in any Vault 100 firm. To examine this possibility, model 2 of Table 5 differentiates employee departures to relatively lower-status firms based on whether these are within the Vault 100 or outside the Vault 100. As expected, the status-enhancing effect of increased rates of employee departures to lower-status firms is driven by departures to firms within the Vault 100. Increased rates of associate-to-partner departures to lower-status firms in the Vault 100 have strong positive effects on focal firm status ($t-2$, $p=0.003$), while increased rates of associate-to-partner departures to lower-status firms outside the Vault 100 do not ($t-2$, $p=0.653$). This is consistent with qualitative insights about this industry, in which leaving for an unranked firm is often viewed as giving up on the stressful "Biglaw" career. Such departures are likely to be less salient and more ambiguous with respect to career advancement and therefore less likely to have status-enhancing effects.

Profitability

Much prior research on strategic human capital management has already established detrimental effects of employee departures on a firm's economic performance. To align our findings with this literature, we consider how increased rates of employee departures affect firm profitability, using dynamic panel models with firm PPEP, as opposed to firm status, as the dependent variable. Model 6 in Table 4 reports results. As before, we check for the absence of second- and third-order serial correlation. As expected, there is strong evidence of first-order serial correlation ($p=0.001$). But the test shows no significant higher-order serial correlation beyond the first-order, providing assurance that the

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instruments used to estimate the model are valid. In this model, increased rates of partner-to-partner departures to Vault 100 firms (t, $t-1$, $t-2$) and associate-to-partner departures to Vault 100 ($t-3$) show significant negative effects on firm profitability. These results reinforce the findings from past studies that employee departures tend to be detrimental to a firm's economic performance.

Associate-partner co-moves

In our main results, the status-enhancing effects of increased rates of employee departures primarily reflect associates departing to partner positions at Vault 100 firms. As a further step to explore these results, we examine whether the status-enhancing effects are due to associates departing by themselves or, alternatively, associates and partners moving together to new firms. When partners move laterally to other firms, they may persuade some associates who have worked closely with them to move as well, especially if they can negotiate promotions for these associates at their new firms. These are both forms of career advancement for junior employees but they reflect different mechanisms.

To explore this, we distinguish between associate departures that coincide with partners moving to the same firm and associate departures with no partners moving to the same firm. Model 1 in Table 6 reports results. As the results show, our main results are being driven primarily by associates moving without partners. Increasing rates of associate-to-partner departures to Vault 100 firms have strong positive effects on firm status for associate-only moves ($t-2$, $p=0.003$). Increased rates of associate-to-partner departures to Vault 100 firms that involve co-moves with partners also have positive, though weaker, effects ($t-2$, $p=0.391$; $t-3$, $p=0.56$) .

These results provide further insights about the mechanism behind our main results. When associates get promoted as part of a group hire (e.g., carve-outs), the hiring firm may rely in part on the partners leading the move to endorse the associates who join them. In contrast, when associates move to a new firm by themselves, the hiring firm must rely more on other signals of quality, such as the firm where these individuals previously worked or the educational prestige of their degree-granting institution (e.g., Rider, 2014). Associate-only moves are therefore relatively more

Table 6. Dynamic panel models of firm status: Associate-partner co-moves

	(1) ln(status) Coef.	p-Val.	(2) ln(PPEP) Coef.	p-Val.
ln(status), $t-1$	0.449	0.000		
	(0.089)			
$t-2$	−0.114	0.037		
	(0.055)			
$t-3$	0.103	0.045		
	(0.051)			
ln(lawyers), t	0.049	0.088	−0.106	0.237
	(0.029)		(0.090)	
$t-1$	0.033	0.270	−0.074	0.401
	(0.030)		(0.088)	
$t-2$	−0.004	0.912	−0.002	0.985
	(0.033)		(0.104)	
$t-3$	−0.062	0.163	0.057	0.682
	(0.044)		(0.140)	
ln(PPEP), t	0.083	0.014		
	(0.034)			
$t-1$	0.019	0.539	0.054	0.461
	(0.032)		(0.074)	
t − 2	−0.028	0.245	−0.023	0.658
	(0.024)		(0.051)	
$t-3$	−0.012	0.625	0.006	0.873
	(0.025)		(0.037)	
Partner-associate ratio, t	0.144	0.025	−0.054	0.776
	(0.064)		(0.190)	
$t-1$	−0.013	0.765	−0.052	0.697
	(0.044)		(0.133)	
$t-2$	0.066	0.191	0.004	0.976
	(0.050)		(0.148)	
$t-3$	−0.022	0.640	−0.349	0.009
	(0.046)		(0.134)	
Partners hired from V100, t	−0.257	0.521	−0.616	0.664
	(0.400)		(1.417)	
$t-1$	0.670	0.098	0.346	0.815
	(0.405)		(1.480)	
$t-2$	−0.434	0.271	0.919	0.518
	(0.394)		(1.422)	
$t-3$	−0.057	0.887	−0.915	0.434
	(0.404)		(1.169)	
Partners hired from non-V100, t	−1.349	0.005	3.731	0.043
	(0.476)		(1.848)	
$t-1$	0.342	0.308	1.404	0.388
	(0.336)		(1.628)	
$t-2$	−0.280	0.340	0.883	0.425
	(0.293)		(1.108)	
$t-3$	0.102	0.712	0.684	0.418
	(0.277)		(0.845)	
Partner-to-partner departures to V100, t	0.859	0.022	−3.144	0.009
	(0.375)		(1.207)	
$t-1$	0.834	0.084	−3.957	0.027
	(0.483)		(1.789)	
$t-2$	0.554	0.204	−4.177	0.035
	(0.436)		(1.980)	
$t-3$	0.862	0.084	−2.276	0.221
	(0.498)		(1.860)	

Table 6. Continued

	(1) ln(status) Coef.	p-Val.	(2) ln(PPEP) Coef.	p-Val.
Partner-to-partner departures to non-V100, *t*	−0.152	0.658	−0.420	0.716
	(0.343)		(1.152)	
t – 1	−0.316	0.689	−4.481	0.045
	(0.790)		(2.233)	
t – 2	−0.344	0.553	−4.593	0.124
	(0.580)		(2.984)	
t – 3	−0.705	0.212	1.268	0.494
	(0.565)		(1.854)	
Associate-to-partner departures to non-V100, *t*	1.132	0.276	1.011	0.767
	(1.038)		(3.410)	
t – 1	0.016	0.986	−0.736	0.843
	(0.916)		(3.706)	
t – 2	1.009	0.442	−0.480	0.907
	(1.312)		(4.089)	
t – 3	4.625	0.436	−3.493	0.869
	(5.936)		(21.123)	
Associate-to-partner departures to V100, associates only, *t*	1.892	0.669	15.623	0.296
	(4.431)		(14.964)	
t – 1	4.429	0.261	6.848	0.575
	(3.939)		(12.226)	
t – 2	10.689	0.003	−12.320	0.337
	(3.578)		(12.833)	
t – 3	−1.270	0.775	−33.025	0.037
	(4.441)		(15.812)	
Associate-to-partner departures to V100, with partners, *t*	−4.677	0.352	−14.262	0.395
	(5.021)		(16.766)	
t – 1	1.818	0.740	−17.809	0.305
	(5.470)		(17.350)	
t – 2	4.555	0.391	−7.439	0.741
	(5.310)		(22.498)	
t – 3	11.363	0.056	−2.720	0.894
	(5.952)		(20.368)	
Constant	−0.249	0.756	14.418	0.000
	(0.802)		(2.085)	
Observations	758		785	
df	53		49	
Chi-sqr	1,360	0.000	357	0.000
Number of instruments	186		172	
1st-order AB test	−4.248	0.000	−3.341	0.001
2nd-order AB test	−0.533	0.594	−0.722	0.470
3rd-order AB test	0.512	0.609	−0.085	0.933
Sargan test	131.800	0.488	72.670	1.000
Year FE	Y		Y	
Status tier FE	Y		Y	

Robust errors are in parentheses; chi-sqr refers to the Wald statistic of the null hypothesis that all coefficients except the constant are zero.

AB = Arellano and Bond's (1991) generalized method of moments (GMM) estimator; PPEP = profits-per-equity-partner; FE = fixed effects.

reflective of the signaling value of working for a firm, while joint associate-partner moves are relatively more reflective of other career benefits, such as the opportunity to work closely with and build ties with partners.

CONCLUDING DISCUSSION

We have theorized that even though firms incur economic losses when their employees leave to work for competitors, there may be an offsetting benefit because such moves indicate external mobility opportunities to potential employees. To the extent that firms are perceived to be effective stepping stones for external career advancement, they will be accorded higher status by potential employees. Using data on employee departures and survey-based measures of perceived status for the 200 highest-grossing U.S. law firms between 2004 and 2013 (i.e., the Am Law 200), we find evidence that employee departures that are detrimental to firm performance can, under certain circumstances, also be status-enhancing. In particular, we find that when more of a firm's employees accept promotions in rank and leave for high-status competitors, the firm is subsequently perceived as a more prestigious employer by the other junior employees in the industry. Dynamic panel models enable us to account for potential endogeneity in our estimates of departure effects on firm status and establish that increases in particular departure rates enhance a focal firm's status.

Our study is the first to show that, while employee departures are detrimental to a firm's economic performance, they may under certain circumstances improve a firm's labor market competitiveness. The strategy literature on human capital management has largely emphasized the detrimental effects of losing employees to competitors (e.g., Batt, 2002; Briscoe and Rogan, 2016; Broschak, 2004; Gardner, 2002, 2005; Hausknecht *et al.,* 2009; Phillips, 2002; Somaya and Williamson, 2008; Somaya *et al.,* 2008; Wezel *et al.,* 2006), and only a few recent studies have explored potential beneficial effects of employee departures on their former employers, such as access to new knowledge and business opportunities (e.g., Carnahan and Somaya, 2013; Corredoira and Rosenkopf, 2010; Somaya *et al.,* 2008). Departing from these studies, we argue that there are perceptual benefits that do not require the direct inflow of resources from former employees.

Moves that are highly visible to outside observers and appear consistent with career advancement can enhance a firm's status in the eyes of prospective hires. Our study therefore reveals a channel through which the loss of competitive assets actually enhances a firm's subsequent competitiveness in the labor market.

Our findings help to reconcile two perspectives on the role of interorganizational mobility in firm strategy. First, one line of research casts firms as "breeding grounds" that "produce" or "spawn" successful executives (e.g., Chatterji, 2009; Freeman, 1986; Higgins, 2005). These studies are consistent with the growing interorganizational careers literature in highlighting the role of interorganizational mobility as a way for individuals to advance their careers. Second, the literature on strategic human capital management highlights the importance of retaining valuable human capital (e.g., Campbell *et al.,* 2012; Coff, 1997). Within this perspective, the permeability of firm boundaries with respect to human capital threatens firms' interests in retaining and capturing value from employee labor.

Though serving as training grounds for competitors seems at odds with the strategic impetus of capturing value from human capital, our findings suggest that losing human capital can improve a firm's competitive position in the market for human capital. Given the increasingly interorganizational nature of individual careers, a firm's appeal—especially to individuals in the early stages of their careers—depends in part on future opportunities for external mobility. Losing employees to competitors may diminish performance, but enhanced status is advantageous in the recruitment and retention of future employees (e.g., Bidwell *et al.,* 2015; Rider and Tan, 2015; Waldman, 1984, 1990). Future research might investigate the potentially countervailing effects that employee departures may have, directly and indirectly, on long-term firm profitability. Such inquiries are necessary to address the question of under what conditions employee retention should be a strategic imperative.

Our study also contributes insights for the strategic management of human capital. Central to our argument is the recognition that individual careers are more likely to progress through employment spells at different firms over time (Arthur and Rousseau, 1996; Cappelli, 1999). Prior research largely emphasizes how this affects incentives and challenges at the individual level (e.g., Dokko *et al.,* 2009; Groysberg and Lee, 2009; O'Mahony and Bechky, 2006). In particular, prior research suggests that individuals build "interorganizational career ladders," whereby early career employment experiences shape later stage career opportunities (Bidwell and Briscoe, 2010). If so, then individuals should be expected not only to recognize the likelihood of changing employers during their careers but to explicitly value jobs that lead to future careers with other employers. Our results provide the first direct empirical evidence that expected external opportunities enhance a firm's appeal among prospective employees. Our study suggests that, in an era of interorganizational careers, a firm may appeal to prospective hires, especially those in early career stages, less so because of employees who stay and more so because of employees who leave.

Finally, our study provides the first empirical test of a fundamental assumption behind status theory: that interorganizational linkages affect *perceptions of status*. The original formulation of status theory argues that individuals form perceptions about a firm's status by observing how it is linked to other firms (Podolny, 1993). Many studies, including Podolny's (1993) original study of investment banking, have shown that a firm's linkages with others can affect its revenue, prices, strategic partnerships and other outcomes. Yet the underlying mechanism in these studies—that a firm's linkages affect economic outcomes by shaping audience perceptions of status—remains untested. As a consequence, interorganizational linkages are often treated as synonymous with firm status, rather than as independent drivers of perceived status, as originally theorized. Even more specifically, many studies have invoked Podolny's (1993, 1994) argument that, by looking at a firm's affiliations with others, individuals judge how they are likely to be perceived if they affiliate with that firm. This is a central tenet of status theory and one that is especially important for distinguishing status from other concepts, such as reputation, that are related to perceptions but do not involve the interorganizational affiliation mechanism (Podolny and Phillips, 1996).

Our empirical design offers several unique advantages for empirically testing these status mechanisms. First, our study is based on survey data that directly measure individual perceptions of a firm's status. In particular, the survey question asks individuals who are not affiliated with a firm to imagine being affiliated with the firm as an employee and to imagine how prestigious this would be. We then focus on a type of

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interorganizational linkage that is most relevant for these survey respondents in the context of the survey question. The survey respondents are all law firm associates, and we focus on how their perceptions about the prestige of working for a firm are shaped by the willingness of others to hire and promote the firm's associates. These features offer a unique level of face validity for testing the two underlying status mechanisms: that a firm's linkages shape individuals' perceptions of the firm's status, and in particular, individuals' views about how they will be perceived by others if they affiliate with the firm. We therefore contribute to the micro-foundations of firm status as a construct and to the understanding of mechanisms through which it affects economic outcomes.

Our findings yield a number of avenues for future follow-up research. The core insight is that, under certain conditions, high rates of employee departures can make a firm more appealing to potential junior employees. As a first step in establishing this effect, we examined two conditions: when employees depart to high-status competitors and when these departures involve rank promotions. A fruitful avenue for further research is to consider additional and more nuanced indicators of career advancement. For instance, future research could examine the number of years individuals had spent at a firm before departing. On the one hand, a firm with high rates of departure by recently hired employees could potentially be viewed as a fast stepping stone to other jobs. On the other hand, a firm with high rates of departure by long-tenured employees could potentially be viewed as a place where junior employees can expect to be developed. Examining when these effects arise and how they vary across different contexts could provide more nuanced insights about how individuals expect firms to enhance their future career advancement.

Future research could also examine the career stage of potential employees as a boundary condition on our predicted effects. For individuals at early career stages, opportunities for future external mobility may be more valuable than immediate monetary compensation or other internal benefits, whereas late-career stage employees may place greater value on monetary compensation or other benefits within a firm. We would therefore expect the status-enhancing effects of departures to be stronger for potential employees in early career stages than potential employees in late career stage employees.

Another avenue of research is to examine how departure rates affect a firm's subsequent recruiting activities. Our findings imply that when employees leave as a result of external advancement opportunities, a firm becomes more attractive to potential future employees. The expectation of future external advancement opportunities creates a non-monetary benefit of working for the firm as a junior employee. If this is the case, then there should be some observable impact on a firm's recruiting activities. For instance, employee departures may result in higher application rates for a firm's positions or higher levels of quality in their applicant pools. Employee departures may also allow a firm to offer lower levels of monetary compensation to attract applicants of a given quality.

As we have hypothesized, the boundary condition on these effects is that employee departures must be highly visible to potential employees and appear consistent with external career advancement. Future research might experimentally manipulate or identify natural experiments that manipulate salience and valence independently in order to isolate the two mechanisms behind our hypotheses. An important implication of doing so is that this could reveal ways in which certain kinds of departures are not just less status-enhancing but potentially also status-degrading. Prior research has argued that low-status entities receive less visibility (Merton, 1968). We have therefore theorized that departures to low-status firms are less status-enhancing than moves to high-status firms. But research suggests that, if linkages to low-status firms were visible, they could have status-degrading effects (Podolny, 1993, 1994). To examine this possibility, future research could identify settings in which visibility is held constant or experimentally manipulated, so that perceptions of status-degrading departures can be more directly measured.

A broader strategic implication of our study is that firms embracing a "stepping-stone" positioning in the market for human capital could have different cost and profitability profiles and different comparative advantages relative to competitors emphasizing retention. Such firms will likely have to engage in more frequent recruiting, which increases recruiting costs, but they may also be able to recruit more or better applicants and at lower wages, which reduces recruiting costs. A fruitful avenue for future research would be to not only examine the net impact of these offsetting effects on firm profitability but to examine how these may differentiate

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firms' recruiting and retention strategies or, more broadly, affect the fit with other aspects of firm strategy. More generally, the literature on strategic human capital management would benefit greatly from a comprehensive assessment of the various pros and cons of firms' investments in human capital and their efforts to retain it. Studies like ours add to the growing body of work suggesting that there is occasional merit in letting employees go and that a critical task for future strategy researchers is identifying a fuller set of conditions under which letting employees go is the appropriate strategy for managing human capital.

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