

# A rivalry-based theory of gender diversity

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## Abstract

**Research Summary:** We offer a rivalry-based perspective of gender diversity as a form of competitive action. We theorize that a firm adjusts its senior-level female representation when they identify business opportunities that may be seized by demonstrating alignment to gender parity expectations. Examining U.S. corporate law firms and potential buyers of their services, we theorize and find that when the buyers of rivals of the focal firm increase their gender diversity, the focal firm responds by increasing its female partner representation. Reinforcing the strategic approach to managing gender diversity, we also show that a focal firm reduces its gender-related response to rivals' buyers as the opportunity to attract those buyers decreases, and when the focal firm can use racial diversity as a credible substitute for gender diversity.

**Managerial Summary:** Do firms increase senior level gender diversity for normative or competitive reasons? We examine this question and test whether firms adjust their gender diversity to align with the gender diversity values of their competitors' clients. Our study shows that U.S. corporate law firms increase their level of female partners when the clients of their stronger competitors increase gender diversity in their executive rank. We also show that firms' gender diversity response weakens when there is a lower probability of luring those clients and when firms can offer racial diversity as a credible alternative signal of pro-diversity values. Our competitive-based view of gender diversity

encourages managers to consider how and when proactive gender diversity improvement can be a mechanism for improving their firms' market position.

#### KEY WORDS

buyer-supplier relationships, gender diversity, professional service firms, rivalry, strategic human capital

## 1 | INTRODUCTION

Knowledge, skills, and other abilities that constitute individuals' human capital are central to firms' competitive advantage (Carnahan, Agarwal, & Campbell, 2012; Coff, 1997; Crook, Todd, Combs, Woehr, & Ketchen, 2011) and are critical dimensions through which firms compete (e.g., Campbell, Coff, & Kryscynski, 2012; Gardner, 2005; Mawdsley & Somaya, 2016; Ployhart, Nyberg, Reilly, & Maltarich, 2014). Over the last couple of decades, the demographic profile of employees—for example, gender and race—has taken on increasing importance as firms face mounting pressures to address workplace inequality (Kalev, Dobbin, & Kelly, 2006). As a result, firms face both an institutional and human capital challenge. They must give due consideration to achieving a workforce that approaches societal expectations for diversity while simultaneously ensuring that employees with the right mix of skills are in place to remain competitive. In this article, we suggest that firms are not just reactive to these challenges but may be proactive in recognizing the competitive value of demographic diversity<sup>1</sup> and use it as a lever to gain advantages over rivals. More specifically, we propose and test a rivalry-based theory of diversity whereby supplier firms increase diversity among their senior ranks as a way to align themselves with the diversity values of buyers that currently transact with market rivals. Our theory specifically associates such adjustments with the aim of luring those buyers.

An abundant literature describes how senior-level diversity can provide firms with human capital-based advantages, such as improved decision-making, leadership, innovation, and firm performance (Dahlin, Weingart, & Hinds, 2005; Dezsö & Ross, 2012; Eagly, 2007; Miller & Del Carmen Triana, 2009; Torchia, Calabrò, & Huse, 2011; see also Martins & Sohn, 2022, for a review). Research also outlines how institutional pressures can explain why firms adopt emergent norms and practices (Chang, Milkman, Chugh, & Akinola, 2019; Lee & Pennings, 2002), such as those related to diversity, to maintain legitimacy or improve status (Dobbin, Kim, & Kalev, 2011; Williams, Kilanski, & Muller, 2014). However, human capital and institutional approaches do not consider that firms' adjustments to diversity practices may be proactive strategic behavior to improve their market position to the detriment of their rivals.

Moreover, extant explanations offer a theory that associates diversity with pressure from firms' direct stakeholders, be they regulators, shareholders, existing buyers, or competitors (Beckman & Phillips, 2005; Hawn & Ioannou, 2016; McDonnell, King, & Soule, 2015). However, such research has overlooked how stakeholders that are *indirectly* related to the firm (Ahuja, 2000)—such as the potential buyers of a firm's products and services—may affect its

<sup>1</sup>Diversity can take many forms, for example, gender, race, age, religion, and knowledge. In this article, we are focused on demographic diversity which we define as gender and racial (non-White) diversity. Our primary theorizing and measurement center upon gender diversity; however, in our hypothesis tests, we also incorporate racial diversity.

choice to adopt emergent norms and practices. For example, since the early 2000s, buyers of knowledge-based professional services have increasingly identified diversity as an important differentiating factor for selecting suppliers (e.g., see Wilkins, 2007, and Wilkins & Kim, 2016, in regard to corporate legal services). As such, firms may respond to the diversity preferences of *rivals' buyers* should they perceive there to be valuable strategic opportunities from doing so, above and beyond direct stakeholder pressures or human capital-based advantages.

In this article, we offer a rivalry-based theory of gender diversity. Our case in point is that female representation at the senior organizational level is a growing trend in society, including in our empirical context of U.S. knowledge-based professional services. Our study investigates whether female representation in the senior ranks of knowledge-based professional service firms is associated with gender diversity in the executive ranks of potential buyers of their services. We distinguish between competitors offering broadly comparable services and other competitors that would be considered as more direct rivals: that is, those competitors that a firm considers as worthy of greater strategic attention and with which service substitutability is the highest (Cool & Dierickx, 1993; Porac, Thomas, Wilson, Paton, & Kanfer, 1995; Porter, 1985). Rivals and competitors are not starkly separated; on the continuum that defines different types of competitors, rivals are stronger competitors as they target the same buyers and offer a similar range and quality of service categories to the focal firm (Chen, 1996; Lieberman & Asaba, 2006).<sup>2</sup> We posit that when the buyers of a focal firm's rivals (i.e., *rivals' buyers*) increase their gender diversity at the executive level, the focal firm has a strategic interest to respond correspondingly and increase its female representation in their senior rank (i.e., increase gender diversity). We suggest that the focal firm responds this way to signal that their practices align with the preferences and values held by those buyers and, in a competitive environment, may help the firm poach them from their rivals.

To corroborate our theory that a focal firm strategically adjusts its senior-level female representation due to rivalry considerations, and does not simply react to direct conformity pressures, we sought to identify conditions where the firm may *not* respond as strongly to increases in diversity among *rivals' buyers*. Accordingly, we reason that contrary to what institutional and strategic human capital theories propose, an increase in senior-level gender diversity at a focal firm's rivals attenuates the predicted positive association between gender diversity in *rivals' buyers* and gender diversity in the focal firm. We suggest this weaker response is due to a lower probability of luring those buyers from rivals and, therefore, a lower economic return from adjusting their diversity practices. Similarly, we posit that gender diversity and racial diversity may have a substitutive effect, rather than a complementary effect that institutional and strategic human capital perspectives may predict. Specifically, when a focal firm exhibits greater racial diversity in its senior rank, there is a lower propensity to increase gender diversity in response to increased gender diversity in *rivals' buyers* because the signaling effect from racial diversity may be considered sufficient to demonstrate their practices are congruent with *rivals' buyers' diversity expectations*.

We contextualize our theory within the sector of U.S. corporate legal services. We test our hypotheses using a longitudinal sample of the largest U.S. corporate law firms and their corporate buyers, a context characterized by high levels of competition, market segmentation, and

<sup>2</sup>While we make a distinction between rivals and competitors, firms broadly consider their degree of rivalry between different competitors along a continuum. Our theory, therefore, should be interpreted as some competitors being "stronger rivals" than others, as opposed to a rival versus not-rival dichotomy. In the empirical section and Online Appendix 1, we outline how we measure rivalry along a continuum.

potential competitive opportunities from greater gender diversity (Brayley & Nguyen, 2009; Wilkins, 2007). Our findings corroborate our prediction of a positive association between gender diversity at the executive level of the buyers of rival law firms and gender diversity in the focal law firm: thus, firms respond to rivals' buyers' gender-related preferences.<sup>3</sup> Further, consistent with our rivalry-based theory of diversity, we find this relationship to attenuate when the focal firm's rivals increase their degree of partner-level gender diversity and when the focal firm has increased its own level of racial diversity in its partnership rank.

Our study makes two main contributions. First, we bridge the literatures on competitive strategy and institutional theory by offering a rivalry-based explanation of diversity. Beyond mimetic reasons, we show that the degree of opportunity for luring rivals' buyers helps explain why firms proactively increase their gender diversity. We also reveal that firms' actions in behaviors that reflect societal-related institutional pressures are partially explained by rivalry effects. Second, we contribute to strategic human capital research by posing the external appeal of demographic diversity as an antecedent of competition through human capital.

## 2 | THEORETICAL BACKGROUND

A substantial body of prior research associates human capital's intrinsic specificities with firm competitive advantage (Carnahan et al., 2012; Coates, DeStefano, Nanda, & Wilkins, 2011; Hitt, Bierman, Shimizu, & Kochhar, 2001). Strategic human capital scholars have sought to differentiate the different aspects of human capital that are important to firm performance, identifying various human capital dimensions such as occupational, industry, managerial, and firm-specific knowledge (e.g., Campbell et al., 2012; Castanias & Helfat, 1991; Mayer, Somaya, & Williamson, 2012; Wang, He, & Mahoney, 2009). Extant research has also differentiated human capital in terms of quality—for example, individuals with superior knowledge and skills who contribute disproportionately to firm competitive advantage (Kehoe, Lepak, & Bentley, 2018; Teece, 2003)—and has detailed the ways in which value can be created and captured from team and firm- (unit-) level aggregations of individual human capital (Groysberg, Lee, & Nanda, 2008; Ployhart et al., 2014). Consequently, most organizations devise internal processes for developing the human capital of their employees and compete intensively with rivals to attract talented individuals (Gardner, 2005; Mawdsley & Somaya, 2016).

Recently, however, scholars have drawn attention to other factors, external to the firm, that can influence the composition and management of human assets within the organization (Bonet, Cappelli, & Hamori, 2020; Knippen, Shen, & Zhu, 2019; Kogut, Colomer, & Belinky, 2014). For example, recent studies indicate that pressure for improving the proportion of females in leadership roles has contributed to women breaking through the “glass ceiling” that historically limited female career and earnings progression (Bonet et al., 2020; Leslie, Manchester, & Dahm, 2017). In corporate legal services, Beckman and Phillips (2005) show how female-led buyers can pressure their existing legal service suppliers to increase their number of female partners, while Leslie et al. (2017) provide evidence that high-potential female executives enjoy a wage premium in customer-facing industries that have stronger diversity-orientated goals. Although such improvements in career and wage outcomes for females may be considered a reactive rather than strategic (i.e., proactive) response, recent

<sup>3</sup>We emphasize that the interpretation of our empirical results is based on the correlational evidence from our regression models. We do not make claims of a causal relationship. We discuss this further in our limitations section.

findings suggest that firms may take a calculative approach to their human capital management (Burbano, Mamer, & Snyder, 2018) and seek to reap benefits by diversifying their human resource (HR) pool, that is, by improving on team diversity management (Leslie et al., 2017).

Existing accounts for an increase in senior-level diversity have mostly overlooked the rivalry-based theory that we put forward in this article. Rather, they associate gender diversity promotion with capability and institutional (legitimacy-based) factors. First, a strategic human capital perspective associates diversity with a richer and more adaptive sets of skills that enable firms to be more innovative and improve performance, and also to be more reactive and better positioned in markets (Dezsö & Ross, 2012; Martins & Sohn, 2022; Miller & del Carmen Triana, 2009; Torchia et al., 2011). Second, institutional scholars explain the growth in diversity observable in firms' upper hierarchy as mimetic adoption of a perceived legitimate behavior (Chang et al., 2019; Hillman, Shropshire, & Cannella, 2007; Knippen et al., 2019; Terjesen, Sealy, & Singh, 2009). Yet, these explanations concern reactive behaviors by firms to direct connections with competitors: a firm aims to improve on its performance and market position relative to competition or it mimics peers' behavior. There are, however, extremely few instances in the extant research literature that consider diversity as proactive strategic behavior associated with the potential opportunities from outside of direct influences, such as the buyers of market competitors.

## 2.1 | Competitors and rivals

In markets, firms face competitors. These are the relevant set of other firms that produce broadly comparable and substitutable products or services (Porter, 1985). However, the intensity of competitive action between different firms is typically heterogeneous such that not every competitor may be equally considered as a rival of a focal firm (Chen, 1996; Cool & Dierickx, 1993). Some competitors will be considered as stronger rivals than others due to similar organizational attributes, an analogous range of product or service offerings, and the same targeted buyers, that lead them to be recurrent market opponents and tightly connected competitive-network members (Gimeno, 2004; Peteraf & Shanley, 1997). Stronger rivals are a key focus of firms' strategic attention and action, which can lead to some firms attending less to industry trends (Porac et al., 1995), and firms' decision makers engaging in unethical behavior to obtain a rivalry advantage (Kilduff, Galinsky, Gallo, & Reade, 2016).

Traditional models of competition tend to represent buyers' expectations for technical and material features of products and services as critical for competitive behavior and outcomes (Peteraf, 1993; Priem & Butler, 2001), such as the connection between firms' technological innovation and competitive advantage (Adner & Zemsky, 2006) or the tailoring of service specifications to the idiosyncratic needs of buyers (Chatain, 2011). However, there are often supplementary dimensions that are requested by buyers that pertain to distinct expectations about the product or service features and/or the process leading to production that suppliers may need to comply with or pay heed to if not transcribed into regulation (McDonnell & King, 2013; Vergne, 2012). Examples include respect for animal rights, fair treatment of employees, and reduction of carbon emissions (e.g., Reid & Toffel, 2009; York, Vedula, & Lenox, 2018).

Of increasing importance in buyer-facing (e.g., services) industries is performance along dimensions of diversity and inclusion (Beckman & Phillips, 2005; Wilkins & Kim, 2016). Responding to buyers' diversity expectations may not only be necessary for retaining existing

buyers, but may provide valuable opportunities for attracting *potential* (i.e., new) buyers from rivals. Since achieving a competitive advantage may involve the focal firm aiming to reduce rivals' economic gains as much as improving their own performance, poaching a rival's buyers fulfills a dual incentive: it lowers a rival's revenues (from that buyer) and accrues them to the focal firm. Accordingly, our study elaborates a rivalry-based theory of diversity that proposes a focal firm strategically adjusts its senior-level female representation to correspond with increases in female representation in the executive of rivals' buyers. Building on the distinction between competitors and rivals described above, we contend that increases in gender diversity in buyers belonging to competitors that are stronger rivals will have the strongest influence on corresponding behavior in the focal firm.

### 3 | HYPOTHESES

We elaborate a rivalry-based theory of diversity to explain and predict why and when a focal firm's strategy varies in increasing gender diversity at the senior level. Specifically, in our setting, we examine whether rivals' buyers that exhibit preferences for gender diversity in their organizations have an impact on the focal firm's decision to manifest its alignment of gender parity values by appointing additional female partners (while controlling for the total number of partners). Partners are critical strategic resources for professional service providers, such as law firms, accounting firms, and management consultancies (Greenwood, Li, Prakash, & Deephouse, 2005a; Greenwood, Li, Prakash, & Deephouse, 2005b; Teece, 2003), and partner attributes, such as gender, are important for projecting an image of the firm to the market, including the firm's position on equality or the congruence with its claims (Abraham & Burbano, 2022; Giesel, 1993).

While buyer diversity preferences may pressure their current suppliers to adopt new diversity-related practices (Beckman & Phillips, 2005), a firm may also recognize that it can gain advantages for capturing the business of new buyers when communicating adherence to similar social values. Of strategic interest are the buyers of a focal firm's stronger rivals. Poaching buyers from a rival reduces that rival's revenues (and presumably its profitability) as much as it increases the focal firm's revenues (and presumably its profitability). For example, we asked partners of large professional service suppliers<sup>4</sup> whether aligning with buyers' diversity values and expectations is one means for capturing buyers' business from rivals. One partner stated: "Yes, certainly. We are all constantly seeking to attract clients [buyers] from each other. It goes with the territory. We try to better understand the client and their mindset and we seek to attract them by delivering what others don't have. We sell our global presence and diversity of our team." A partner from a different firm concurred: "Certainly. If we are aware that diversity is a high priority for a particular client, for example, then it will be even more important than it normally is to put a diverse team in front of them," while a partner from a third firm simply commented: "Absolutely."

<sup>4</sup>To gather practitioner insights into key aspects of our paper, we contacted partners at four different corporate law firms (one partner per firm), and asked each partner the same open questions pertaining to how their firm determines and measures rivalry, and the extent to which their firm (a) can observe the buyers of rival firms, (b) understands the values and expectations of rivals' buyers, and (c) aligns with rivals' buyers' values and expectations with the aim of poaching those buyers. The goal of gathering this qualitative evidence was to clarify that our theoretical mechanisms and measures have real-word validity.

Firms identify their stronger rivals (e.g., based on similar characteristics, service range, and targeted buyers (Lieberman & Asaba, 2006; Peteraf & Shanley, 1997; Porac et al., 1995)) and track their strategic moves, the evolution of offerings, and who buys from them. As such, our rivalry-based approach of diversity supposes a sufficient transparency and diffusion of information in the market. Given the raft of diversity statements and statistics published in reports to investors, documented on company websites, and commented on by industry analysts, information on rivals' buyers' diversity commitment is easily accessible for professional service suppliers.<sup>5</sup> A larger presence of women in a rivals' buyer's executive rank signals the socially related attributes that are preferred by that corporation (see also Abraham & Burbano, 2022; Solal & Snellman, 2019). Reciprocally, as partners are the core human assets of professional service suppliers, they too have substantial external visibility. For instance, firms' level of gender diversity is easily observed within professional networks and through annually published industry ranking tables. Moreover, firms are likely to proactively communicate their gender diversity performance when soliciting for buyers' business.

Thus, our rivalry-based theory expands beyond the direct pressure of market competitors and existing buyers that could incite a focal firm to demonstrate a pro-diversity promotion proclivity. It involves the current buyers of a focal firm's rivals and considers the signals emitted by these buyers as revealing expectations (Abraham & Burbano, 2022; Solal & Snellman, 2019). When these signals indicate an increase in their preferences for greater gender diversity, this can represent a competitive opportunity for those firms that provide a credible, reciprocal, signal of their own commitment to gender diversity. In particular, beyond words or claims, the decisions that materialize lived, rather than stated, values such as positive adjustments to diversity (e.g., promoting women to executive-level positions) rather than simply publishing diversity statements, make the signals more credible and authentic to audiences (Pamphile & Ruttan, 2022). We hypothesize that when rivals' buyers instantiate pro-diversity behaviors, specifically, an increase in their level of gender diversity at the executive level, the strategic relevance of a firm's conforming diversity behavior—growing the representation of female partners—increases. When preferences for gender diversity are expressed by rivals' buyers, a firm has rivalry-related incentives to proactively increase gender diversity in its partnership rank. By doing so, the firm increases its visibility for, and congruence with, values with rivals' buyers by providing a credible signal of commitment to gender parity (Fernandez-Mateo & Kaplan, 2018; Pamphile & Ruttan, 2022). Increasing female representation in the partnership is, therefore, a means to attract rivals' buyers' attention by expressing shared values and engage in market transactions that simultaneously increase the revenues of the focal firm and reduce the revenues of rivals. Hence:

<sup>5</sup>The partners we contacted detailed several mechanisms that create market transparency. For example, in terms of observing other firms' buyers: “[I]t’s pretty well known who a firm’s biggest/main clients are, particularly in a given practice area. We see the [law] firms against us in court, we see them listed in court papers, on various clients’ ‘panels’ of approved law firms, through word of mouth, from laterals, etc. And some of that information is published, at least for firms’ biggest clients.” Similarly, for understanding the importance of diversity to buyers: “[T]his would come mostly from meeting with those clients (when they are interviewing firms for a given matter), from word of mouth, or from intel somehow gathered regarding the client through various connections...there are lots of ways both to make connections with those organizations and to learn about what sort of priorities they may have in choosing external counsel”; and: “We do a lot of market research and we gather intel from speaking to our competitors. For example, the managing partners of all major firms in the US gather once a month to compare notes. So, there is communication, and we generally know and understand what the growth strategy of other firms is.”

**Hypothesis (H1).** *An increase in gender diversity in the executive level of rivals' buyers will be associated with a subsequent increase in female partner representation in the focal firm (controlling for the focal firm's total number of partners).*

### 3.1 | Opportunity reduction: Gender diversity in rivals

To establish that the relationship predicted in the previous hypothesis is not merely driven by the direct effects of a general trend that makes all firms—suppliers and their buyers—increase female representation in the senior organizational ranks but may, instead, be proactive, and rivalry/geared behavior, we must account for the actions of a focal firm's rivals. Indeed, our argument states that the focal firm's pro-diversity behavior corresponds to a credible signal of value congruity to lure buyers away from rivals. To be an effective strategy, the strength of this effect should be influenced by the extent of the potential to attract rivals' buyers, which, in turn, may depend on the diversity-related behavior of those rivals.

Hence, a focal firm's willingness to send a congruent and credible signal to rivals' buyers may be affected by the extent to which its competitors will engage with a similar behavior, with stronger rivals having a greater influence due to the higher strategic attention they receive from the focal firm. If the underlying mechanism for increasing gender diversity was institutional—that is, reactive and mimetic—as rivals increase their proportion of female representation in the partnership, on average, the focal firm would follow suit and the effect of rivals' buyers' pro-diversity behavior on the focal firm's own diversity behavior (per Hypothesis H1) would be strengthened (Lee & Pennings, 2002; Meyer & Rowan, 1977). Likewise, if the mechanism was based on gaining human capital-based advantages, the focal firm should replicate its key rivals (Chen, 1996) to match and nullify the supposed knowledge, skill, and other kinds of advantages procured by a more diverse senior management (Dezsö & Ross, 2012; Miller & del Carmen Triana, 2009). Indeed, following these two theoretical approaches, a focal firm must improve diversity to maintain legitimacy or competitiveness (because rivals are increasing diversity) and needs to go over and above rivals' actions to appeal to rivals' buyers.

However, from a rivalry-based explanation of diversity, a strategic response considers the likelihood that potential buyers respond favorably to the focal firm's signal of congruence to diversity values by including the firm in their pool of preferred suppliers. Specifically, for a focal firm adopting greater female representation to match the gender-related preferences of rivals' buyers, the effectiveness of the signal of conforming to those preferences needs to be considered in light of whether there is a reasonable opportunity for luring these buyers away from rivals. Thus, if there is a strategic rationale for adopting behavior consistent with gender parity, a focal firm's response will vary with the opportunity to attract new buyers. From the rivalry-based theory of diversity that we develop here, the possibility to emit a signal of value congruence between the focal firm and rivals' buyers that is superior to that emitted by rivals diminishes as more rivals adopt the expected behavior. Thus, as rivals increase gender diversity in their senior organizational rank, a focal firm's possibility to lure potential buyers decreases, as does the economic return for the corresponding effort in addressing gender disparity. In addition, to the extent that rivals also tactically adjust their gender diversity, rivals may engage in defensive competitive moves to strategically disincentivize the focal firm from responding to the diversity preferences of their buyers by increasing the competitive barriers

for poaching buyers. Hence, all else equal, when a focal firm's rivals demonstrate increasing alignment to their buyers' gender-related expectations, the focal firm will strategically adjust its gender-related behavior and offer a weaker response to the increase in gender diversity in those buyers. Therefore:

**Hypothesis (H2).** *An increase in gender diversity in a focal firm's rivals will weaken the positive relationship between gender diversity in the executive level of rivals' buyers and the female partner representation in that firm (controlling for the focal firm's total number of partners).*

### 3.2 | Complement or substitute: Racial diversity in the focal firm

Our rivalry rationale for diversity is distinct from institutional and strategic human capital theories not only when considering the actions of rivals, but also when considering other diversity characteristics of the focal firm. From an institutional perspective, the normative and cognitive forces pushing firms to adopt practices that promote underrepresented groups and increase diversity extend to any kind of diversity. For instance, racial and gender diversity may have a complementary effect on firm performance (Joshi, Liao, & Jackson, 2006) and thus expand the rhetoric that diversity along multiple dimensions is beneficial for business (Edelman, Fuller, & Mara-Drita, 2001). From a strategic human capital perspective, if firms can achieve benefits from diverse aggregations of knowledge, experiences, and cognition of its workforce (Ployart et al., 2014; Rindova, 1999), and if an individual's demographic profile is important for shaping human capital and decision-making (Martins & Sohn, 2022) then it is logical that firms may seek to increase diversity along multiple dimensions, rather than just one, to reap benefits from greater overall diversity (Gorman, 2005; Lorenzo & Reeves, 2018). Therefore, both viewpoints indicate, although for different reasons, that a complementary effect may exist between the promotion of different underrepresented groups.

However, in line with recent research, a rivalry-based theory of diversity appears to be more aligned with a substitution-type effect across different underrepresented populations. Evidence shows that group composition can depend on threshold effects, and that firms may reduce overall diversity efforts when a threshold has been reached on one of the underrepresented dimensions (Chang et al., 2019; Dezső, Ross, & Uribe, 2016). According to the rivalry-based approach we outline, a firm improves its diversity when observing rivals' buyers' pro-diversity preferences. As noted above, actual increases in diversity have greater credibility and substance than diversity statements, and thus contribute more strongly to establishing value congruence (Abraham & Burbano, 2022; Pamphile & Ruttan, 2022). It is possible, therefore, that when a focal firm has increased its level of one underrepresented group, it will consider that it has, at least partially, met rivals' buyers' diversity expectations and achieved its goal to emit the expected and visible signal. Based on this logic, we offer the following hypothesis:

**Hypothesis (H3).** *An increase in racial diversity in a focal firm will weaken the positive relationship between gender diversity in the executive level of rivals' buyers and the female partner representation in that firm (controlling for the focal firm's total number of partners).*

## 4 | EMPIRICAL SETTING: U.S. CORPORATE LEGAL SERVICES

To develop and test our theory we need a context in which firms are expected to respond to diversity expectations of buyers and gain competitive benefits for doing so. The U.S. corporate legal service sector meets these requirements (Wilkins & Kim, 2016). Most corporate buyers select their panel of preferred “go-to” law firms by assessing detailed criteria such as industry expertise, technical legal knowledge, track record, and market reputation (Coates et al., 2011; Paolella & Durand, 2016). Given that law firms are dependent on buyers for revenues, market reputation, and competitive advantage (Greenwood et al., 2005a; Greenwood et al., 2005b; Maister, 1993), changes in the preferences of buyers can have significant competitive implications for law firms (Mawdsley & Somaya, 2021; Priem, 2007).

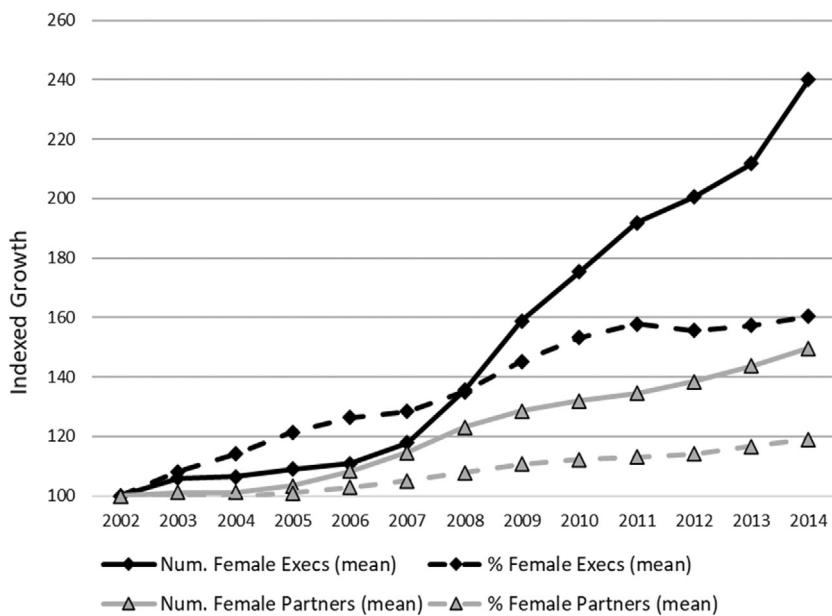
One important change that has occurred in the past 20 years is that buyers increasingly demand a commitment to diversity among their legal service providers (Wilkins, 2007). Buyers themselves are subject to societal expectations for diversity and inclusion in their organizations and, as a result, they face pressure to use business partners that also value diversity and inclusion. In 2004, prominent corporate buyers leveraged their substantial purchasing power by jointly publishing a “Call to Action” statement<sup>6</sup> aimed at improving diversity in the legal profession. In this document, buyers made clear that they intend to direct their legal spending primarily to firms that take diversity seriously.<sup>7</sup> Consequently, scholars in legal service studies note that law firms have a clear, competitive motivation—and an instrumental benefit—to value diversity (Brayley & Nguyen, 2009; Wilkins, 2007). For example, Wilkins states: “*Traditionally, those advocating for greater attention to diversity in law firms have grounded their arguments on the legal profession’s moral obligation to rectify the effects of its exclusionary past...In recent years, however, this social justice paradigm has been joined, and in many aspects supplanted, by a new justification paying attention to diversity. According to this new account, diversity is not simply ‘the right thing to do’. It is also ‘good for business.’*” (2007: pp. 37-38). Furthermore, research by Wilkins and Kim (2016) revealed that a buyer’s General Counsel (the buyer’s most senior in-house lawyer) places 50% more importance on diversity when selecting an external law firm when the buyer has two or more female directors (compared to one or zero female directors).

Figure 1 provides a growth index of both the number and percentage female executives in buyers<sup>8</sup> and female partners in our sample of law firms (values normalized in year 2002). We observe the number and percentage of female executives in buyers growing by around 140 and 40%, respectively, while in corporate law firms the respective number and percentage growth rates of female partners are around 50 and 20%. This index illustrates the potential strategic opportunity available to law firms, as the substantially higher growth in female executives in buyers arguably signals a sharp increase over time in buyers’ diversity expectations (Wilkins & Kim, 2016). In contrast, the growth over time in female partners in our sample of law firms is lower, although it also suggests firms are converging over time to the diversity-related expectations of buyers and of society, generally.

<sup>6</sup>See <https://www.acc.com/resource-library/call-action-diversity-legal-profession> (accessed March 24, 2022).

<sup>7</sup>“We [the undersigned corporate legal department representatives] further intend to end or limit our relationships with firms whose performance consistently evidences a lack of meaningful interest in being diverse.”

<sup>8</sup>We include female executives from all U.S. corporations listed in BoardEx each year.



**FIGURE 1** Aggregate growth index of female executives in buyers and female partners in the largest U.S. corporate law firms (base year = 2002)

Beyond the strength of the phenomenon and its observability over the years, diversity strategies in corporate law firms are a well-suited terrain for testing our theory for another reason. The legal industry, as with most other corporate professional services, is segmented by firms' economic performance, geographic market presence, and practice portfolio, which allows us to differentiate, along a continuum, mere competitors from stronger rivals. Our discussions with law firm partners helped determine what makes one competitor a stronger rival over another. Responses included: "*I am unlikely to see as rivals other firms that are very different from mine. So, I would say, what drives rivalry is...shared geography...practices... and similarities with the other firm in terms of prestige/legacy, profitability, directory rankings.*" Another partner stated: "*Profits per Partner*"; "*size of transactions handled*"; "*pitching for the same clients (i.e., competing for the same client's attention)*." Accordingly, we can identify the degree of rivalry between a focal firm and each competitor (within the relevant set of competitors) and, correspondingly, the buyers of those competitors.

## 5 | SAMPLE AND METHODS

We test our predictions using a longitudinal panel dataset comprising the largest U.S. corporate law firms and their corporate buyers between 2002 and 2014, a period that reflects an upward trend in corporate legal services' diversity improvement, but with substantial heterogeneity between law firms in their diversity strategies. We identified our sample of law firms from the annual American Lawyer "Amlaw 200" surveys published by ALM Intelligence ("ALM"). These tables identify and rank the highest grossing 200 U.S. corporate law firms per year. The widespread industry reporting of the Amlaw 200 rankings, and their use by the legal services

industry, buyers, and law school graduates for benchmarking means inclusion provides firms with substantial reputational capital.<sup>9</sup>

We supplemented the AmLaw 200 law firm data with data from additional sources. We obtained demographic data (gender and race) on our law firm sample from annual surveys administered by [Vault.com](#) and the MCCA (Minority Corporate Counsel Association). We linked our sample of law firms to their buyers using the Corporate Representation (Who Counsels Who) files published annually by ALM. These files report the output of numerous surveys to corporations regarding the law firms they use for their different legal service needs. ALM augments these surveys through the continual tracking of press releases, company announcements, and court records.<sup>10</sup> We sourced data on the gender of the executives of buyers from BoardEx, manually coding any missing executive gender fields. Firm-office-level data reporting the number of firm attorneys in each of its branch offices per year was obtained from the *National Law Journal*. Our matched sample used in our primary empirical analyses consists of 167 law firms, approximately 1,400 buyers,<sup>11</sup> and 1,506 firm-year observations.

## 5.1 | Dependent variable

Our dependent variable, *Female Partner Representation*, is a count of the number of female partners listed as employed by a focal law firm  $i$  in year  $t$ . In all our models, we control for the total number of firm partners. Thus, a change in the firm's number of female partners can be directly interpreted as a change in the firm's gender diversity. In our robustness tests, we use a percentage-based (ratio) measure of gender diversity as an alternative dependent variable. However, reported statistical issues with ratio-dependent variables, especially when independent or control variables are also ratios (Certo, Busenbark, Kalm, & LePine, [2020](#)), and less intuitive interpretation of coefficients, lead us to prefer a count dependent variable.

## 5.2 | Independent variables

*Gender Diversity in Rivals' Buyers* is the weighted and averaged percentage of female executives in the buyers that bought legal services from a focal firm's competitors but not the focal firm in year  $t$ . There are two key elements of our *Gender Diversity in Rivals' Buyers* measure: (a) the gender diversity in rivals' buyers' executive level and (b) the extent of rivalry between the focal firm and the rival firms that currently serve rivals' buyers. We use the extent of rivalry between the law firms to weight the impact of any rival buyer's gender diversity on our measure for the focal

<sup>9</sup>The AmLaw 200 rankings are the “law’s version of the Oscars. It is highly anticipated, widely viewed, and the subject of considerable discussion.” See <https://www.forbes.com/sites/markcohen1/2017/05/08/the-amlaw200-is-down-to-50-maybe-20-what-does-it-mean/> (accessed 24, March 2022).

<sup>10</sup>Changes in the information reported in the Corporate Representation files post 2014 resulted in significantly fewer firm-buyer observations. We end our observation period in 2014 to avoid underrepresentation of firm-buyer relationships in our sample. We return to this point in our limitations and future research section.

<sup>11</sup>The Corporate Representation files contain many foreign and smaller buyers that at some point engaged a U.S. corporate law firm in our sample. These are not relevant buyers for our purposes. We restricted the Corporate Representation data to only those buyers who are listed in Compustat (to ensure these buyers have established U.S. business operations). Cross referencing our buyers from BoardEx with the buyers listed in both the Corporate Representation files and Compustat, we achieve 87.4% data coverage.

firm, using the similarity in profits-per-partner (PPP) to determine the extent of rivalry. Please see Online Appendix 1 for specific details on how this measure is constructed for each focal firm in our sample.

*Gender Diversity in Rivals* is measured as the rivalry-weighted average percentage of female partners in the competitors of the focal firm. We first computed the percentage of female partners (to all partners) in each competitor  $j$  of focal firm  $i$  and multiplied these female partner percentages by the corresponding rival weight described above (and outlined in Online Appendix 1). We then summed the weighted female partner percentages and divided by the number of competitors, before finally multiplying by 100.

$$\text{Gender Diversity in Rivals}_{it} = \frac{\sum_{j=1}^n (\text{FP}_{jt} \times W_{ijt})}{C_{it}} \times 100$$

where  $\text{FP}_{jt}$  is the fraction of female partners in competitor  $j$ ,  $W_{ijt}$  is the rival weight described above and in Online Appendix 1, and  $C_{it}$  is the total number of competitors for the focal firm  $i$ .

*Racial Diversity in Focal Firm* (“Racial Diversity”) is computed as the percentage of partners in focal firm  $i$  in year  $t$  that are not identified as “white.” Racial minority (non-White) partners are identified through the surveys administered by Vault, described above.<sup>12</sup>

### 5.3 | Control variables

As well as the direct effects of our moderating variables *Gender Diversity in Rivals* and *Racial Diversity*, we include several control variables, which we describe in Online Appendix 2.

### 5.4 | Econometric model

To test our predictions, we employ time-series estimation techniques suitable for panel data in which the dependent variable is a count variable. As we are interested in examining how the number of female partners in a firm changes over time in response to changes in the proportion of female executives in rivals' buyers, we employ fixed effects count data models that capture within-firm changes in our dependent variable, while controlling for time-invariant between-firm heterogeneity. Count data models can follow Poisson or Negative Binomial distributions, however there are known issues in computing the fixed effect in Negative Binomial models (Allison & Waterman, 2002) which make it unsuitable for fixed effects estimation (Carnahan & Somaya, 2013). We, therefore, prefer fixed effects Poisson (i.e., quasi-maximum likelihood Poisson) over Negative Binomial estimation (our results are corroborated when using Negative Binomial estimation). Although Poisson imposes a distributional assumption of equal mean and variance, violation of this assumption can be remedied by estimating fixed effects Poisson with robust Huber-White standard errors (Hall, Griliches, & Hausman, 1986), which produces consistent coefficient and standard error estimates (Wooldridge, 1997). Thus, to estimate our

<sup>12</sup>Data limitations prevented the decomposition of racial minority into subcategories (e.g., Black, Hispanic, Asian, or other races).

main models we use a fixed effects Poisson model with robust standard errors clustered by firm, and year indicator variables.

One feature of count data models is the modeling of the dependent variable as an exponential function  $E(y_{it}) = \exp(X_{it-n}\beta)$ , where  $X$  is the vector of independent and control variables and  $\beta$  is the vector of their coefficients. This modeling imposes an exponential relationship with the dependent variable and the independent and control variables. To avoid this possibly unrealistic assumption, we follow recommended practice (Hausman, Hall, & Griliches, 1984) and log our nonproportional covariates. Finally, we are measuring the response of firms to changes in rivals' buyers' executives, which means we need a relevant lag structure between the dependent variable and the covariates that allows sufficient time for firms to respond. Theoretically and practically, a 1-year lag seems less appropriate than a 2-year lag.<sup>13</sup> Thus, we employ a 2-year lag in our main models, but our results are also generally robust (albeit weaker) to a 1-year lag. Our lagged covariates also mitigate potential reverse causality, although this is unlikely in our setting.

## 6 | RESULTS

Table 1 reports the summary statistics and correlations between variables, respectively. A variance inflation factor test (Welsch, 1982) confirmed we do not need to be concerned about multicollinearity in our data.

Table 2 reports the main results from our fixed effects Poisson models with year indicators. Model 1 reports the main effects of our moderator variables and control variables. Within the control variables, a greater number of total partners, a higher percentage of female associates, higher gross revenues, a greater presence in U.S. States which are politically liberal (rather than conservative), and greater relational endurance of rivals' buyers with their current firms have a positive and statistically meaningful association with female partner representation in the focal firm. A higher percentage of male partners, higher PPP, and greater pro bono hours, in contrast, are associated with a meaningful decrease in female partner representation.

Model 2 of Table 2 reports the test for Hypothesis H1, which predicted a positive relationship between gender diversity in rivals' buyers and female partner representation in the focal firm. We find that *Gender Diversity in Rivals' Buyers* is positively associated with *Female Partner Representation* ( $\beta = 5.9429$ ,  $p < .001$ ), suggesting firms respond to increases in gender diversity in rivals' buyers by increasing gender diversity in their partnership ranks. A 1 SD increase from the mean level of *Gender Diversity in Rivals' Buyers* corresponds to a 10.6% increase in female partner representation in the focal firm. From the mean value of *Female Partner Representation*, this is an increase of 4.6 female partners (while holding constant the total number of partners). Corroboration for Hypothesis H1 remains consistent across Models 3–5 of Table 2. Models 3 and 4 report the tests of our moderating hypotheses (Hypothesis H2 and hypothesis H3, respectively). The negative interaction terms of our moderating hypotheses (respectively,

<sup>13</sup>On top of the initial time for a focal firm to receive the gender diversity signal from rivals' buyers, practitioner insight indicates that hiring a new partner can take up to 12 months, and sometimes longer. The promotion process from associate to partner is similarly long (assuming a female associate ready for promotion is in the firm). Thus, a 2-year lag allows sufficient time for an effect to be observed in our data. A lower Bayesian Information Criterion (BIC) statistic for the 2-year lag model (compared to a 1-year lag) provides objective empirical confirmation (respectively, a BIC of 8,578.8 vs. 9,592.8).

TABLE 1 Summary statistics and correlations

	Variables	Mean	SD	1	2	3	4	5	6	7	8	9	10
1	Female partner representation	43.4	26.9	1									
2	Gender diversity in rivals' buyers	0.07	0.02	0.03	1								
3	Gender diversity in rivals	12.25	1.57	0.21	0.30	1							
4	Racial diversity	6.37	3.77	0.16	0.11	0.17	1						
5	Gender diversity in existing buyers	4.13	6.42	0.02	0.01	0.00	0.02	1					
6	Existing buyer commitment	0.43	0.16	-0.07	0.05	-0.14	-0.08	-0.05	1				
7	Relationship endurance (existing buyers) (log)	0.96	0.17	0.00	0.15	-0.08	-0.04	0.01	-0.07	1			
8	Relationship endurance (rivals' buyers) (log)	0.69	0.12	-0.03	0.66	0.26	0.07	0.03	0.13	0.30	1		
9	Ave. revenue growth of rivals' buyers	0.02	0.28	-0.06	0.15	-0.12	-0.12	-0.06	0.00	-0.02	0.00	1	
10	Total number of partners (log)	5.21	0.67	0.63	0.07	0.28	0.09	0.04	-0.03	-0.04	-0.13	0.02	1
11	Percentage male partners	81.66	3.92	-0.45	0.17	-0.14	-0.23	0.04	0.12	0.04	0.25	0.11	-0.23
12	Percentage female associates	44.62	6.32	0.25	-0.10	0.12	-0.02	0.03	-0.10	-0.01	-0.17	-0.01	0.20
13	Profits per-partner (log)	2.29	0.50	-0.06	0.46	-0.14	0.23	0.03	0.06	0.07	0.50	-0.11	-0.11
14	Gross revenue (log)	19.65	0.72	0.49	0.39	0.01	0.23	0.05	0.05	0.09	0.41	-0.07	0.29
15	Geographic scope	0.37	0.23	-0.58	0.13	-0.25	-0.16	-0.05	0.10	0.06	0.21	0.04	-0.49
16	Geographic overlap	0.85	0.12	-0.17	-0.35	0.08	-0.25	-0.09	-0.01	-0.01	-0.42	0.05	0.01
17	Pro bono	48.11	31.14	-0.04	0.24	-0.05	0.06	-0.01	0.03	0.09	0.27	0.00	-0.03
18	Percentage female population	0.50	0.06	0.00	0.24	0.12	0.08	0.03	-0.02	0.03	0.28	-0.01	-0.03
19	Liberal states (log)	1.07	0.60	0.52	-0.05	0.25	0.15	0.08	-0.13	-0.04	-0.12	-0.09	0.39
20	Missing pro bono	0.05	0.22	-0.04	-0.05	-0.05	-0.01	-0.05	-0.08	-0.03	-0.07	0.05	-0.06

TABLE 1 (Continued)

	11	12	13	14	15	16	17	18	19	20
11	Percentage male partners	1								
12	Percentage female associates	-0.29	1							
13	Profits-per-partner (log)	0.23	-0.20	1						
14	Gross revenue (log)	0.06	0.03	0.68	1					
15	Geographic scope	0.24	-0.20	0.38	-0.14	1				
16	Geographic overlap	-0.08	-0.01	-0.64	-0.65	-0.03	1			
17	Pro bono	0.07	0.46	0.43	0.29	-0.28	1			
18	Percentage female population	0.01	0.00	0.24	0.16	0.10	-0.20	1		
19	Liberal states (log)	-0.28	0.26	-0.14	0.21	-0.59	-0.18	0.17	1	
20	Missing pro bono	-0.01	-0.07	-0.03	-0.11	0.06	0.02	-0.16	0.02	1

TABLE 2 Main results predicting female partner representation

<b>Independent and control variables</b>	<b>Model 1</b>		<b>Model 2</b>		<b>Model 3</b>		<b>Model 4</b>		<b>Model 5</b>		<b>Model 6</b>	
	<b>QML Poisson</b>	<b>OLS</b>	<b>OLS</b>									
Gender diversity in rivals' buyers	H1	5.9429 (.0001)	6.6038 (.0001)	6.1666 (.0000)	6.8106 (.0000)	6.1063 (.0000)						
Gender diversity in rivals' buyers × gender diversity in rivals	H2		-0.5809 (.0116)		-0.5667 (.0122)		-0.5780 (.0024)					
Gender diversity in rivals' buyers × racial diversity	H3			-0.3221 (.0020)		-0.3175 (.0018)		-0.2140 (.0096)				
Gender diversity in rivals		0.0046 (.7691)	-0.0143 (.3423)	-0.0205 (.1940)	-0.0146 (.3183)	-0.0206 (.1823)		-0.0112 (.4638)				
Racial diversity		-0.0012 (.6117)	-0.0009 (.6832)	-0.0009 (.6949)	-0.0014 (.5460)	-0.0013 (.5576)		0.0001 (.9751)				
Gender diversity in existing buyers		0.0008 (.2500)	0.0012 (.0618)	0.0013 (.0409)	0.0012 (.0507)	0.0013 (.0338)		0.0012 (.0830)				
Existing buyer commitment		-0.0192 (.5832)	-0.0272 (.4170)	-0.0297 (.3783)	-0.0275 (.4132)	-0.0298 (.3765)		-0.0434 (.1811)				
Relationship endurance (existing buyers) (log)		0.0554 (.1368)	0.0567 (.1261)	0.0603 (.1015)	0.0622 (.0876)	0.0657 (.0698)		0.0891 (.0209)				
Relationship endurance (rivals' buyers) (log)		0.3986 (.0907)	0.0694 (.7825)	0.0213 (.9333)	0.0579 (.8172)	0.0114 (.9640)		-0.2112 (.3741)				
Ave. revenue growth of rivals' buyers		-0.0807 (.1794)	-0.0800 (.1763)	-0.0744 (.2125)	-0.0717 (.2386)	-0.0665 (.2793)		-0.0609 (.1877)				
Total number of partners (log)		0.0186 (.0423)	0.0196 (.0316)	0.0206 (.0251)	0.0201 (.0253)	0.0211 (.0204)		0.0227 (.0179)				
Percentage male partners		-0.0151 (.0000)	-0.0148 (.0000)	-0.0149 (.0000)	-0.0139 (.0000)	-0.0140 (.0000)		-0.0161 (.0000)				
Percentage female associates		0.0030 (.0698)	0.0028 (.0869)	0.0028 (.0891)	0.0029 (.0762)	0.0028 (.0781)		0.0024 (.1494)				
Profits-per-partner (log)		-0.1520 (.0592)	-0.2075 (.0083)	-0.2234 (.0052)	-0.2012 (.0077)	-0.2110 (.0050)		-0.1508 (.0690)				
Gross revenue (log)		0.3676 (.0003)	0.3602 (.0002)	0.3544 (.0003)	0.3613 (.0002)	0.3556 (.0002)		0.2918 (.0018)				
Geographic scope		-0.0425 (.7917)	-0.0231 (.8820)	-0.0160 (.9169)	-0.0427 (.7779)	-0.0354 (.8122)		-0.0234 (.8367)				
Geographic overlap		0.6028 (.1802)	0.5346 (.2263)	0.4703 (.2841)	0.5132 (.2392)	0.4505 (.3003)		0.0769 (.8615)				

TABLE 2 (Continued)

Independent and control variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	QML Poisson	OLS	OLS									
Pro bono	-0.0012 (.0119)	-0.0010 (.0351)	-0.0009 (.0565)	-0.0009 (.0484)	-0.0008 (.0761)	-0.0008 (.0761)	-0.0008 (.0761)	-0.0008 (.0761)	-0.0007 (.0943)			
Percentage female population	0.5455 (.1219)	0.4699 (.1994)	0.4611 (.2065)	0.4609 (.1828)	0.4525 (.1902)	0.4525 (.1902)	0.4525 (.1902)	0.4525 (.1902)	0.4336 (.0608)			
Liberal states (log)	0.0912 (.0012)	0.0943 (.0009)	0.0962 (.0008)	0.0891 (.0014)	0.0911 (.0013)	0.0911 (.0013)	0.0911 (.0013)	0.0911 (.0013)	0.0767 (.0030)			
Missing pro bono	0.0553 (.1214)	0.0619 (.0854)	0.0620 (.0802)	0.0644 (.0683)	0.0644 (.0646)	0.0644 (.0646)	0.0644 (.0646)	0.0644 (.0646)	0.0443 (.1499)			
Constant										-0.9668 (.5842)		
Number of observations	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	1,506	
Number of firms	167	167	167	167	167	167	167	167	167	167	167	
Fixed effects	Yes	Yes										
Year dummies	Yes	Yes										

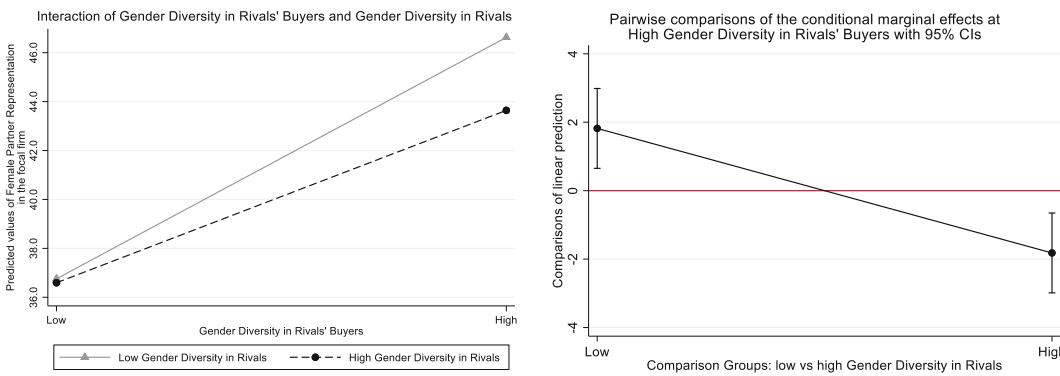
Note: *p*-Values in parentheses. Estimated with robust SEs clustered by firm. Two-tailed tests; Models 1–5 estimated with fixed effects Poisson (QML Poisson), Model 6 estimated with OLS; Interaction variables were mean-centered prior to interacting.

hypothesis H2:  $\beta = -.5809, p = .0116$ ; hypothesis H3:  $\beta = -.3221, p > .01$ ) are in line with our predictions and remain corroborated in the full model (Model 5).

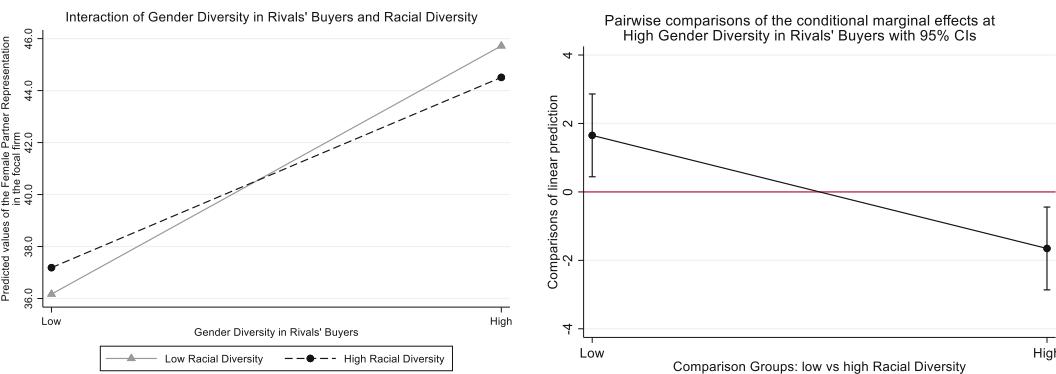
We follow recommended practice for reporting interaction effects by providing graphical analyses of our moderating hypotheses plotted at meaningful values (Ai & Norton, 2003; Hoetker, 2007). However, in fixed effects Poisson models (as with conditional logit) the fixed effect is not estimated, resulting in inaccurate marginal effects. To mitigate this issue, we plot our interactions using estimates from fixed effect ordinary least squares (OLS) regression in which our dependent variable is logged. This OLS specification closely resembles our fixed effects Poisson specification and computes accurate post-estimation marginal effects and predicted values. As shown in Model 6 of Table 2, OLS produces near identical estimates to the Poisson estimates in Model 5. Furthermore, the linear properties of the OLS model provide a second key advantage when plotting interactions as the effect size of the coefficient, and statistical meaningfulness of the interaction variable can be interpreted as the same at different values of the interacted variables, thus circumventing the interpretation issues associated with interactions in non-linear models (Ai & Norton, 2003).

Hypothesis H2 proposed that gender diversity in the partnership ranks of rival law firms may attenuate the positive relationship between gender diversity in rivals' buyers and female partner representation in the focal firm. Figure 2a plots our findings for Hypothesis H2 at values of the interacted variables that are plus and minus 1 SD from the mean. We observe at high levels of *Gender Diversity in Rivals* (1 SD above the mean), *Female Partner Representation* grows at a slower rate—from 36.59 to 43.64 female partners—compared to the slope at low levels of *Gender Diversity in Rivals*, which grows from 36.76 to 46.63 female partners, a difference of 29% (or almost three female partners). For additional confirmation of Hypothesis H2, we analyzed whether the conditional marginal effects at low and high levels of *Gender Diversity in Rivals* are meaningfully different when *Gender Diversity in Rivals' Buyers* is high. The pairwise comparison of the conditional marginal effects is statistically meaningful ( $p < .01$ ), and we plot this test in Figure 2b.

A similar pattern is observed in Figure 3a, which plots Hypothesis H3. Hypothesis H3 predicted the positive relationship between gender diversity in rivals' buyers and female partner representation in the focal firm weakens when the focal firm increases its proportion of racial minority partners. As shown in Figure 3a, the positive slope increases more sharply when *Racial Diversity* is low (1 SD below the mean)—from 36.12 to 45.72 female partners—compared to when *Racial Diversity* is high (1 SD above the mean)—from 37.19 to 44.51 female partners—,



**FIGURE 2** (a) Interaction plot of Hypothesis H2 and (b) pairwise comparison of the conditional marginal effects



**FIGURE 3** Interaction plot of Hypothesis H3 (a) and pairwise comparison of the conditional marginal effects (b).

Figures 2a and 3a plot, respectively, the interaction effect of Hypotheses H2 and H3. We omit the confidence intervals from these plots for visual clarity, as they overlap. Importantly, however, in linear regression, such as the ordinary least squares (OLS) model from which Figures 2a and 3a derive (Model 6 of Table 2), the confidence intervals on the point estimates relate to whether each point estimate is significantly different from zero. Overlapping confidence intervals do not imply statistical insignificance of the interaction. Instead, we show the pairwise comparison of the conditional marginal effects of Hypotheses H2 and H3 in Figures 2b and 3b, respectively. Here, we are interested in the difference in conditional marginal effects at low ( $-1 SD$ ) and high ( $+1 SD$ ) values of each moderating variable when the main effect of *Gender Diversity in Rivals' Buyers* is high ( $+1 SD$ ). For the difference in conditional marginal effects to be statistically meaningful, the displayed confidence intervals should not overlap or cross the zero threshold, which is the case in Figures 2b and 3b.

a difference of 23.8% (or 2.3 female partners). A pairwise test of the conditional marginal effects at low and high levels of *Racial Diversity* when *Gender Diversity in Rivals' Buyers* is high (plotted in Figure 3b) confirmed these conditional marginal effects are statistically different ( $p < .01$ ).

Together, our regression analyses, interaction plots, and pairwise tests of the conditional marginal effects are in line with our theory that a firm increases its senior-level female representation as a response to perceived competitive opportunities associated with a preference for gender diversity in rivals' buyers, and that the firm's response weakens when there is a credible rationale for focusing less strategic attention on their level of female representation.

## 6.1 | Robustness tests

We performed several robustness tests to determine the sensitivity of our findings. First, to ensure our results are not due to overfitting, we ran our models with omitted control variables. As shown in Models 1 and 2 of Table 3, our findings are materially unchanged.<sup>14</sup> Second, our theory and findings rely on the different treatment of competitors, which we compute as the relative PPP ranking between our sample firms. Our interactions with law firm partners indicated practice area and geographic overlap as other indicators of rivalry. We control for geographic overlap in all our models, but we conducted additional tests on practice areas. We gathered practice area data for the firms in our sample from the NALP Directory of Legal Employers.

<sup>14</sup>We ran additional models, which are available on request, that omitted different groups of control variables. Our main findings are unaffected.

TABLE 3 Robustness tests

Independent and control variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9		Model 10	
	Control variables omitted		Weight: PPP × practice area		Weight: PPP × practice area		Weight: PPP × practice area		Weight: Amlaw rank		Weight: Amlaw rank		Unweighted		Unweighted		DV: female partners		DV: female partners	
Gender diversity in rivals' buyers	H1	5.9638 (.0000)	6.4817 (.0000)	6.7396 (.0007)	7.7856 (.0005)	4.9330 (.0044)	4.7253 (.0059)	-0.0869 (.4714)	-0.0743 (.5397)	2.1206 (.0558)	2.7818 (.0204)									
Gender diversity in rivals' buyers × gender diversity in rivals	H2	-0.5616 (.0164)		-0.5874 (.0617)		-0.4570 (.1028)		6.0884 (.5442)		-0.4320 (.0053)										
Gender diversity in buyers × racial diversity	H3	-0.4461 (.0006)		-0.1950 (.0671)		-0.1350 (.0360)		-0.0025 (.0910)		-0.1587 (.0052)										
Gender diversity in existing buyers		-0.0270 (.0706)	-0.0330 (.0313)	-0.0038 (.8439)	-0.0053 (.7828)	-0.0198 (.3686)	-0.0222 (.3222)	-90.0511 (.2561)	-91.3036 (.2554)	0.0198 (.1679)	0.0138 (.3444)									
Racial diversity		0.0045 (.1949)	0.0037 (.2403)	-0.0009 (.7009)	-0.0007 (.7837)	-0.0010 (.6621)	-0.0013 (.5829)	-0.0005 (.8266)	-0.0006 (.7949)	-0.0009 (.4084)	-0.0008 (.5330)									
Existing buyer commitment		0.0012 (.0741)	0.0013 (.0548)	0.0010 (.1247)	0.0010 (.1510)	0.0006 (.4745)	0.0006 (.5161)	0.0005 (.1219)	0.0007 (.0765)											
Relationship endurance (existing buyers) (log)		-0.0237 (.4992)	-0.0256 (.4670)	-0.0218 (.5203)	-0.0278 (.4065)	-0.0150 (.6704)	-0.0136 (.6973)	-0.0136 (.2549)	-0.0385 (.2186)	-0.0415 (.2186)										
Relationship endurance (rivals' buyers) (log)		0.0514 (.1680)	0.0553 (.1291)	0.0549 (.1392)	0.0505 (.1812)	0.0445 (.2866)	0.0447 (.2923)	0.0270 (.4528)	0.0270 (.3682)	0.0329 (.4528)										
	0.0846 (.7760)	-0.0176 (.9538)	-0.1578 (.7216)	-0.2558 (.5842)	-1.3044 (.6702)	-1.4380 (.6371)	-0.4737 (.0090)	-0.5039 (.0057)												

TABLE 3 (Continued)

Independent and control variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9		Model 10		
	Control variables omitted		Weight: PPP × practice area		Weight: PPP × practice area		Weight: Amlaw rank		Weight: Amlaw rank		Weight: Amlaw rank		DV: Perc. female partners								
	Control variables omitted	Weight: PPP × practice area	Weight: Amlaw rank	Weight: Amlaw rank	Weight: Amlaw rank	Weight: Amlaw rank	Unweighted	Unweighted	Unweighted	Unweighted	Unweighted	Unweighted	DV: Perc. female partners	DV: Perc. female partners							
Ave. revenue growth of rivals' buyers		-0.0631 (.3365)	-0.0510 (.4351)	-0.0558	-0.0644	0.0911	0.0907	-0.0415	-0.0374												
Total number of partners (log)		0.0206 (.0239)	0.0210 (.0207)	0.0215	0.0220	0.0211	0.0555	0.0558	(.5440)	(.5452)	(.5440)	(.5440)	(.0375)	(.0375)	(.0375)	(.0375)	(.0375)	(.0375)	(.0626)	(.0626)	
Percentage male partners		-0.0144 (.0000)	-0.0142 (.0000)	-0.0151	-0.0149	-0.0083	-0.0082	0.0008	0.0013												
Percentage female associates		0.0030 (.0797)	0.0031 (.0696)	0.0026	0.0025	0.0032	0.0032	-0.0002	-0.0002												
Profits-per-partner (log)		-0.1535 (.0466)	-0.1565 (.0451)	-0.0842	-0.0753	-0.0889	-0.0889	-0.0187	-0.0362												
Gross revenue (log)		0.3722 (.0007)	0.3735 (.0007)	0.3133	0.3108	0.3605	0.3609	-0.0802	-0.0840												
Geographic scope		-0.0200 (.9025)	-0.0194 (.9046)	-0.0060	0.0127	-0.0597	-0.0591	-0.3688	-0.3715												
Geographic overlap		0.6443 (.1607)	0.5976 (.1934)	0.5442	0.4721	0.5960	0.5909	1.1966	1.1448												
Pro bono		-0.0008 (.0962)	-0.0007 (.1552)	-0.0010	-0.0009	-0.0011	-0.0011	-0.0013	-0.0012												
Percentage female population		0.6702 (.0247)	0.6444 (.0288)	0.5065	0.5055	0.5808	0.5731	-0.0552	-0.0747												
Liberal states (log)		0.0818 (.0029)	0.0796 (.0039)	0.0951	0.0964	0.0893	0.0889	0.0109	0.0096												
Missing pro bono		0.0303 (.4299)	0.0301 (.4474)	0.0594	0.0578	0.0504	0.0502	-0.0578	-0.0576												

TABLE 3 (Continued)

Independent and control variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6		Model 7		Model 8		Model 9		Model 10	
	Control		Control		Weight: PPP × practice area		Weight: PPP × practice area		Weight: Amlaw rank		Weight: Amlaw rank		DV: Perc. female		DV: Perc. female		DV: Perc. female		DV: Perc. female	
	variables omitted	variables omitted	variables omitted	variables omitted	area	area	rank	rank	rank	rank	rank	rank	partners	partners	partners	partners	partners	partners	partners	partners
Constant																				
Number of observations	1,506	1,506	1,444		1,444		1,506		1,506		1,506		1,506		1,506		1,506		1,506	
Number of firms	167	167	160		160		167		167		167		167		167		167		167	
Fixed effects	Yes	Yes	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	
Year dummies	Yes	Yes	Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes		Yes	

Note: *p*-Values in parentheses. Estimated with robust SEs clustered by firm. Two-tailed tests; Models 1–8 estimated with fixed effects Poisson (QML Poisson); Models 9–10 estimated with OLS, interaction variables were mean-centered prior to interacting. Seven firms dropped in Models 3–4 due to missing practice area data.

Most large corporate law firms offer a similar, and stable, range of legal services, thus there is a high overlap of practice areas across firms. This stability is useful as we had to impute missing NALP practice area values. We constructed the cosine distance in practice areas between a focal firm and each other firm in the sample and applied this to the PPP rival-weight that we outline in Online Appendix 1 ( $W_{ij}$ ). In effect, this alternative rival-weight computes the degree of firm-to-firm similarity in both PPP and business scope. As shown in Models 3 and 4 of Table 3, our main findings are corroborated.

Third, we constructed a further alternative rival weight using the main ranking of the AmLaw 200 tables, which is determined by firms' annual gross revenue. Effectively, it is a ranking of firm size. We report the estimates that use the AmLaw 200 rank rival weight in Models 5 and 6 of Table 3 and these findings are generally consistent with our main results, although weaker in magnitude. This suggests that while firms may consider firm size as one metric of rivalry, profitability is most evidently a more salient rivalry metric (as confirmed by the law firm partners).

Fourth, we ran our models using measures without any rival weighting, presented in Models 7 and 8 of Table 3. Unsurprisingly, we were unable to corroborate all our primary findings (H3 is marginally supported), which lends both theoretical and empirical justification to our rival-weighting approach. Should we have corroborated our predictions without rival-weighted measures, it would indicate that firms likely do not follow a rivalry-based approach when identifying rivals' buyers. If every rival's buyer was considered equal in terms of strategic value (*ceteris paribus*), then we would need to rely on the assumption that firms view the market for buyers as homogeneous, which is not the case.

Fifth, we reestimated our main models using OLS and a dependent variable computed as the percentage of female partners in the focal firm. These results, reported in Models 9 and 10 of Table 3, are also in line with our main findings.

Finally, we performed analyses to determine the extent to which our results may be influenced by variation in unobserved variables. An impact threshold for a confounding variable (ITCV) test (Frank, 2000) indicated that 53.51% of our sample (807 observations) would have to be replaced with an effect size of zero to invalidate our findings, which seems unlikely (Hill, Recendes, & Ridge, 2019). Moreover, an omitted variable would need to jointly exhibit correlation with our *Gender Diversity in Rival's Buyers* variable and our dependent variable at a level observed by only four of our covariates. Taken together, these two elements indicate that our results are robust to the omission of unobservables. First, our sample would need to change substantially to compromise our findings, and second, the explanatory power of an omitted factor (which remains to be identified) would have to be among the strongest of all the variables we included in our models. While we cannot conclusively rule out the influence of an omitted variable, the results of the ITCV test, alongside our robustness tests, give reasonable confidence that our findings are not driven by unobserved variation.<sup>15</sup>

<sup>15</sup>We performed several other tests, available on request. We ran models (a) using a 3-year lag; (b) using a stricter racial diversity measure of the percentage of female racial minorities; (c) excluding the percentage of male partners control variable; and (d) including a control for the (logged) number of US States in which a firm is present that had enacted an anti-gender-discrimination workplace law (correlated at 0.7 with *Liberal States*). Our main findings are not meaningfully affected. We also ran unweighted models whereby rivals' buyers were identified as any buyer (in BoardEx) that was not an existing buyer of the focal firm in the prior 3 years (and possibly not a buyer of any of our sample firms), that is, the set of *potential* buyers. Results are similar to the unweighted estimates reported in Models 7 and 8 of Table 3, which, again, provides additional support for our rivalry-based theory.

## 6.2 | Supplementary analysis: Exploring alternative mechanisms

We conducted supplementary empirical analysis to delve deeper into our findings and to help rule out alternative explanations. These analyses examine if a firm makes similar (i.e., proportionate) diversity adjustments across the hierarchical tiers of the organization, possible mimetic effects with rivals, and the influence of the labor market for female partners.

### 6.2.1 | (Dis)proportionate diversity promotion throughout the organization

One question is whether firms increase gender diversity proportionately throughout the organization in response to rivals' buyers increases in gender diversity, or if they focus more within a particular organizational level. We performed additional analyses for the position females may obtain within the partnership hierarchy when a firm responds to the gender diversity preferences of rivals' buyers. Many corporate law firms split their partnership rank into two tiers: equity and non-equity partners. Equity partners (senior partners) are part-owners of the firm and share in the distribution of firm profits. Admission to this prestigious rank of the partnership is usually based on demonstratable productivity and consistent contribution to the profits of the firm. Non-equity partners (junior partners) do not participate in profit-sharing and are typically those partners who have recently been hired or promoted from the associate level. Non-equity partners, while being admitted to the partnership rank and marketed (and billed) to buyers as partners, need to further demonstrate (to the senior partners) their ability to bring in profitable buyer business before being made an equity partner. We may expect, therefore, some heterogeneity in female representation across tiers of partnerships.

To understand the partnership rank to which females are more likely to be admitted, we created a subsample of firms that have both equity and non-equity partnership ranks and ran models using the dependent variables of *Female Non-Equity Partner Representation* and *Female Equity Partner Representation*. Models 1–4 of Table 4, respectively, present these findings. As can be observed, in these “two-tier” law firms, the predicted effects are almost entirely associated with non-equity partners. Comparing Models 1 and 3, a 1 SD increase from the mean of *Gender Diversity in Rivals' Buyers* results in a 24.5% increase in the representation of female non-equity partners (which translates to the addition of 5.5 female non-equity partners) while there is essentially no effect on the representation of female equity partners. Our moderating hypotheses are also statistically meaningful for female non-equity partners but have no meaningful effect on female equity partners. These findings provide suggestive evidence that, at least in a two-tier partnership structure, firms may seek to use gender diversity to improve their competitive position through bolstering the lower rung of the partnership tiers, which offers a congruent signal of diversity to potential buyers but does not disrupt the highest echelons of the partnership.

In addition to the partner-level analysis, we examined whether a firm's response to an increase in gender diversity in rivals' buyers permeates below the partnership level: that is, at the associate level. In Model 5 of Table 4, we observe a positive relationship between the proportion of *Gender Diversity in Rivals' Buyers* and number of female associates ( $p = .0139$ ), which we might expect. However, the effect of a 1 SD increase in *Gender Diversity in Rivals' Buyers* is 18% weaker for female associates than for female partners, which makes sense as partners are those organizational members with greater visibility to buyers while the gender imbalance is usually much less prominent at the associate level (in our sample, females account for 44.62%

TABLE 4 Additional analyses

Independent and control variables	Model 1		Model 2		Model 3		Model 4		Model 5		Model 6	
	DV: Female non-equity partners		DV: Female non-equity partners		DV: Female equity partners		DV: Female equity partners		DV: Female associates		DV: Female associates	
	H1	12.6447 (.0083)	H2	15.6705 (.0017)		-0.0970 (.9783)		-2.2204 (.5849)	4.9013 (.0139)		5.3160 (.0128)	
Gender diversity in rivals' buyers				-1.8697 (.0237)				1.0200 (.1727)		-0.3339		
Gender diversity in rivals' buyers × gender diversity in rivals										(.1878)		
Gender diversity in rivals' buyers × racial diversity			H3	-0.9126 (.0000)			0.2476 (.2517)				-0.0992	
Gender diversity in rivals		-0.0878 (.0591)		-0.1052 (.0267)		0.0884 (.0272)	0.1010 (.0242)		-0.0446		(.3448)	
Racial diversity		-0.0062 (.2762)		-0.0092 (.0935)		0.0035 (.3954)	0.0033 (.4154)		-0.0008		-0.0463	
Gender diversity in existing buyers		0.0009 (.6707)		0.0012 (.5478)		0.0006 (.7022)	0.0004 (.7965)		0.0012 (.2064)		0.0013 (.1761)	
Existing buyer commitment		-0.0137 (.8535)		-0.0407 (.5709)		-0.0170 (.8502)	-0.0043 (.9607)		-0.0391		-0.0394	
Relationship endurance (existing buyers) (log)		0.0912 (.3320)		0.1058 (.2622)		0.0597 (.4928)	0.0596 (.4973)		(.3765)		(.3752)	
Relationship endurance (rivals' buyers) (log)		0.9702 (.3586)		0.9795 (.3395)		-1.6051 (.0045)	-1.4816 (.0058)		-0.0714		-0.1227	
Ave. revenue growth of rivals' buyers		0.0181 (.8867)		0.0432 (.7357)		-0.0304 (.7840)	-0.0441 (.6902)		(.8037)		(.6785)	
Total number of partners (log)		-0.0327 (.2948)		-0.0199 (.4931)		0.0617 (.0128)	0.0574 (.0178)		-0.0017		-0.0012	
Percentage male partners		-0.0191 (.0260)		-0.0158 (.0489)		-0.0127 (.1585)	-0.0137 (.1355)		(.8766)		(.9124)	
Percentage female associates		0.0100 (.0045)		0.0099 (.0054)		-0.0035 (.2197)	-0.0034 (.2323)		-0.0010		-0.0010	

TABLE 4 (Continued)

<b>Independent and control variables</b>	<b>Model 1</b>		<b>Model 2</b>		<b>Model 3</b>		<b>Model 4</b>		<b>Model 5</b>		<b>Model 6</b>	
	DV: Female non-equity partners	DV: Female non-equity partners	DV: Female non-equity partners	DV: Female equity partners	DV: Female associates	DV: Female associates	DV: Female associates	DV: Female associates				
Profits-per-partner (log)	-0.4098 (.0380)	-0.4691 (.0159)	0.0634 (.7054)	0.1046 (.5111)	-0.0392 (.6598)	-0.0427 (.6310)						
Gross revenue (log)	0.2552 (.1555)	0.1958 (.2612)	0.4847 (.0310)	0.5044 (.0339)	0.2471 (.0078)	0.2460 (.0076)						
Geographic scope	-0.3944 (.3794)	-0.5501 (.2075)	0.3035 (.4861)	0.3315 (.4474)	-0.0269 (.9001)	-0.0270 (.8933)						
Geographic overlap	1.9173 (.2468)	1.6469 (.3278)	-0.6071 (.6567)	-0.4642 (.7400)	-0.1564 (.7673)	-0.1782 (.7351)						
Pro bono	0.0022 (.2597)	0.0028 (.1487)	-0.0026 (.0588)	-0.0029 (.0289)	-0.0005 (.4186)	-0.0004 (.4539)						
Percentage female population	1.2742 (.1016)	1.1847 (.1206)	0.1233 (.7407)	0.1418 (.7117)	0.5262 (.0429)	0.5102 (.0498)						
Liberal states (log)	0.1003 (.1712)	0.0978 (.1832)	0.1019 (.2259)	0.1030 (.2172)	0.0493 (.1144)	0.0493 (.1157)						
Missing pro bono	0.0838 (.1035)	0.0729 (.1579)	0.0818 (.0885)	0.0905 (.0694)	-0.0365 (.5426)	-0.0349 (.5546)						
Number of observations	878	878	878	878	1,506	1,506						
Number of firms	113	113	113	113	167	167						
Fixed effects	Yes	Yes	Yes	Yes	Yes	Yes						
Year dummies	Yes	Yes	Yes	Yes	Yes	Yes						

Note: *p*-Values in parentheses; fixed effect Poisson models (QML Poisson) estimated with robust SEs clustered by firm. Two-tailed tests; interaction variables were mean-centered prior to interacting.

of associates in a firm, on average). Additionally, we observe from Model 6 of Table 4 that there are no meaningful moderating effects of *Gender Diversity in Rivals* or *Racial Diversity*. Likewise, these additional findings support the idea that female presence at the partnership level is an echo of what rivals' buyers value, rather than a fully-fledged human capital management policy benefitting female professionals throughout the organization.

### 6.2.2 | Unpacking mimetic effects

While we offer complementary theory and findings for an institutional explanation of diversity, we explored further for a potential mimetic effect of firms responding to rivals increasing gender diversity in their partnership ranks. In Table 2, the direct effect of *Gender Diversity in Rivals* is not a meaningful predictor of female partner representation in the focal firm. Yet, in Models 3 and 4 of Table 4, there is a positive and statistically meaningful coefficient on the *Gender Diversity in Rivals* variable (suggesting that as rivals increase gender diversity in their partnership rank, the focal firm increases its female *equity* partner representation) while Models 1 and 2 of Table 4 indicate a negative relationship between gender diversity in rivals and a focal firm's female *non-equity* partners. To untangle this result, we decomposed our *Gender Diversity in Rivals* variable into (a) gender diversity in the non-equity partnership rank of rivals and (b) gender diversity in the equity partnership rank of rivals and re-ran Models 1–4 of Table 4 using these variables as the respective direct effects of *Gender Diversity in Rivals*. We find (results available on request) an increase in gender diversity in rivals' non-equity partnership rank has no impact on a focal firm's level of female non-equity partners, while our hypotheses remain corroborated. In contrast, we find evidence of a possible mimetic effect at the *equity* partnership level. When rivals increase gender diversity in their equity partnership rank, a focal firm responds by increasing its female equity partner representation, and, as per Models 3 and 4 of Table 4, we do not corroborate our hypotheses. Taken together, firms seem to respond differently to the preferences of their rivals' buyers and the corresponding competitive opportunities depending on the tier of partnership and their rivals' own diversity policies. On the one hand, the addition of females to the lower, non-equity tier of partnership appears to be strategic and proactive, and driven by the desire to signal gender parity values and attract rivals' buyers rather than mimetic pressures to emulate rivals. On the other hand, if a mimetic (peer) effect exists, it is to be found in the senior tier of the partnership rank, with the equity partners. Here, firms may mimic rivals to ensure they are aligned to emerging trends at the top of the organization, possibly to ensure some degree of legitimacy. This is in line with existing theory on responding to direct connections. Overall, the effect of rivals' diversity actions not only moderates a focal firm's diversity policy in respect to responding to rivals' buyers (as per the support for Hypothesis H2) but may directly influence a firm's diversity actions at the top of the organization.

### 6.2.3 | Labor market for female partners

One important alternative explanation for Hypothesis H2 is that a thin labor market for female partners (compared to male partners) may be driving our results. Thus, the negative moderating effect of rivals increasing their level of gender diversity (Hypothesis H2) could be a mechanical effect of fewer female partners being available for the focal firm to hire. While we note, below,

the study of labor market competition as an area for future research, our equity versus non-equity partner analysis acts against a thin labor market explanation. As we explain above, a possible mimetic effect exists at the equity partner level. Yet, in our context, female equity partners are the scarcest labor market population (Brodherson, McGee, & Pired dos Reis, 2017). If labor market shortages were driving our results for Hypothesis H2 then we would *not* expect to have empirical findings indicating that a focal firm adds female equity partners when its rivals add female equity partners. Therefore, while we cannot satisfactorily perform a direct empirical test of the female partner labor market (due to data limitations), nor can we conclusively rule out this alternative explanation, we can be reasonably confident that any labor market effect is likely to be small.

## 7 | DISCUSSION

In this article, we provide a rivalry-based theory of diversity that advances firms' strategic use of gender diversity as a form of competitive action. We develop the rationale that increases in gender diversity in the buyers of a focal firm's rivals (i.e., rivals' buyers) represent a competitive opportunity for a focal firm to capture the business of those buyers by correspondingly adjusting the female representation in its senior organizational rank. We theorize that increases in gender diversity in rivals' buyers provide cues of those buyers' commitment to gender parity and simultaneously create an expectation that their suppliers will be similarly committed. Accordingly, a focal firm may respond to diversity cues from rivals' buyers by offering plausible evidence of its commitment for gender parity, with the goal of luring those buyers away from rivals. Underpinning our rivalry-based theory are the ideas that a focal firm (a) assigns greater strategic value to buyers of competitors they consider stronger rivals, and (b) negatively adjusts its gender diversity effort when the opportunity to capture rivals' buyers is lower, and when it can offer rivals' buyers credible alternative signals of gender diversity commitment (in this case, racial diversity). Using a longitudinal sample of the largest U.S. corporate law firms and their corporate buyers, we find empirical evidence consistent with our predictions.

### 7.1 | Contributions

Our paper makes three main contributions. First, whereas institutional pressures can push firms to increase diversity, this explanation does not adequately account for the preemptive content of diversity; specifically, competitive positioning by the firm to increase its likelihood of transacting with a new buyer. Broadly stated, our study provides empirical evidence consistent with the idea that firms adopt emerging norms and trends not only as a reaction to external triggers (e.g., social movements, adoption by competitors) but also as a way to capture new business from relevant competitors via new commitments and expectations emanating from the buyers of those competitors. Building upon the distinction between competitors and rivals (Chen, 1996; Lieberman & Asaba, 2006), and the increasing expectations of buyers that their suppliers improve workforce diversity (Wilkins & Kim, 2016), our study offers a rivalry-based theory of diversity that explains the increase of female representation in the senior organizational rank.

Further, extant theory would suggest that firms may increase gender diversity to demonstrably align with normative requirements for greater overall diversity (Chang et al., 2019). Following this logic, as a firm's market competitors increase female representation in the senior rank

of their organizations, we would expect the focal firm to follow this industry trend. Similarly, as representation of racial minorities increases in the focal firm, we would expect this to be complemented by increased female representation so that a stronger signal of conformity to normative expectations can be emitted, thus strengthening the market legitimacy of the firm. However, our findings reveal that as rivals increase gender diversity in their partnership rank, a focal firm is less likely to respond to increases in gender diversity in the executive level of rivals' buyers; thus, when rivals mirror their own buyers' diversity expectations, there is a lower probability of the focal firm being able to lure those buyers away and, therefore, weaker incentives for the firm to upwardly adjust their gender diversity. Similarly, if rivals engage in diversity as a defensive-competitive move, then a focal firm may face additional (and costly) competitive barriers to attracting rivals' buyers and, thus, may reduce its diversity efforts. In the same vein, our findings suggest racial diversity may substitute for gender diversity when the firm intends to emit diversity-conforming signals for rivals' buyers. Again, this behavior is aligned with a strategic approach to diversity, which lends support to our rivalry-based theory. Thus, our study adds to the institutional literature by theorizing a complementary relationship: from a business opportunity perspective, a firm may not conform to normative industry trends when there are lower expected economic benefits from doing so.

Additional analyses further corroborate our rivalry-based theory. Rather than increasing female representation at similar levels throughout the organization, firms appear to target specific areas when responding to expectations of gender parity from rivals' buyers. We show that those firms with a two-tiered partnership are more likely to increase female representation in the lower (non-equity) partnership tier. This is likely sufficient to emit the gender-related signal to rivals' buyers, without causing disruption and potential political conflict within the leadership of the organization (Empson, 2017). Indeed, promoting senior female associates to non-equity partners is a low-cost way to increase female representation. Furthermore, we found the increase in female lawyers to be significantly weaker outside of the partnership rank: while firms do increase their representation of female associates (junior organizational members) as rivals' buyers increase their gender diversity, the response at associate level is lower than for partners. Overall, these findings support a proactive and instrumental explanation of diversity management by firms. As such, our study bridges the institutional and competitive strategy literatures by evidencing that firms (a) focus on indirect actors (i.e., rivals' buyers), and the degree of rivalry with the direct market competitors to whom rivals' buyers are connected, to inform their behaviors, and (b) modulate gender diversity engagement as a function of the business opportunity it represents.

Second, our study contributes to strategic human capital research by providing insights into how firms may use human capital to compete with rivals outside of the traditional focus on specific worker attributes. Most of the prior strategic human capital research has sought to understand how different dimensions of human capital affect firm (and worker) performance, such as through the specificity of workers' human capital (e.g., firm-specific, industry-specific) or if a focal individual holds superior knowledge and skills (e.g., Castanias & Helfat, 1991; Crook et al., 2011; Hatch & Dyer, 2004; Teece, 2003; Wang et al., 2009). In turn, firms compete intensively in the labor market for the most valuable talent (Gardner, 2005; Mawdsley & Somaya, 2016) and devise strategic human capital management processes to attract, motivate, and retain workers (Coff & Kryscynski, 2011).

Instead, our paper draws attention to the importance of diversity as a key dimension through which firms may perceive they can capture new business opportunities: specifically, when diversity is a way to align with the preferences of those actors who provide business

opportunities, in our case the buyers of rival firms (e.g., Abraham & Burbano, 2022; Pamphine & Ruttan, 2022). Whereas strategic human capital theory may predict that firms would increase their female representation in line with rivals to capture (along with rivals) the advantages of a more diverse workforce, our theorizing suggests that firms may use diversity strategically to lure new buyers. Our finding that a firm reduces its response to increases in gender diversity in rivals' buyers as rival firms also increase their gender diversity lends support to the idea that firms' diversity actions may not be driven only by the objective of securing traditional (knowledge-related) human capital-based competitive advantages. Furthermore, we offer theory and empirical evidence suggesting a substitution-type effect between racial and gender diversity, which is arguably contrary to the perspective that a firm may increase diversity along multiple dimensions to reap complementary value-creation effects from a more diverse workforce.

Our theory and results point distinctively toward an explanation that changes in human capital at the helm of firms result not only from human capital dimensions (and its associated advantages) but also from a strategic motivation for capturing potential business by mirroring the gender diversity commitment that rivals' buyers seem to value. Indeed, by developing a rivalry-based explanation of diversity, our study directly underscores the strategic value of female senior managers for potentially increasing the business opportunities available to firms. As such, we offer a new explanation for the increased presence of females in the senior organization rank, beyond those offered in extant studies.

Finally, our study is particularly valuable for scholarship that seeks to understand how demand-side factors (i.e., downstream actors such as customers and buyers) interact with supply side factors (i.e., upstream actors, such as suppliers) to influence the strategy and performance of firms (e.g., Byun, Frake, & Agarwal, 2018; Mawdsley & Somaya, 2018; Priem, 2007; Priem & Butler, 2001). Thus, we also bridge the research literatures between strategic human capital and the demand-side view and encourage further work that examines how buyer preferences influence the strategic value of firms' human capital resources.

## 7.2 | Limitations and future research

While our paper offers several contributions to the research literature, it does have limitations. First, our findings may not generalize outside of the empirical context of professional service firms. In settings that are less human capital intensive, such as the manufacturing or high-technology sectors, workforce diversity of a supplier may be of less concern to a buyer. Here, a buyer may place higher value on a supplier's sustainable practices for sourcing raw materials, commitment to lowering carbon emissions, or using factories that treat employees ethically. It is also possible that our theory and findings may not hold when considering larger firms and different organizational structures. For instance, our sample of suppliers have a simple partnership structure (associates and partners) whereby partners are close to buyers (and so can observe and respond to buyer preferences), and make crucial business decisions, such as to improve demographic diversity in the partnership. Multidivisional organizations or organizations with multiple hierarchical levels may have different decision-making processes and may respond differently to buyers' preferences. Thus, we also suggest examining firms with different organizational governance structures (e.g., partnerships vs. private and publicly listed companies) which could affect career promotion and hiring rules and the stakeholders to whom firms assign their propensity for proactive gender diversity actions (Greenwood & Empson, 2003). Furthermore, we assumed that gender diversity, as a signal, is observable and meaningful. This

may not be the case in other contexts. Hence, we urge scholars to test our claims in other empirical settings to establish some boundary conditions to our theory, and also within other professional services contexts, as there exists heterogeneity between different types of professional services and their interactions with buyers (Malhotra & Morris, 2009). In management consulting or audit and accounting settings, for example, a buyer may interact more frequently with a project team composed of associates managed by a single partner. Therefore, it is possible that in these professional service contexts, we may observe firms strategically adjusting demographic diversity below the partnership level to a greater extent than corporate legal services.

Second, while our study offers a complementary, rivalry-based explanation for diversity, we were not able to conclusively rule out whether focal firms or competitors adjust their level of gender diversity as a defensive or offensive move. We understand from research in strategic human capital that firms engage in such competitive behavior when competing for high-caliber employees (Gardner, 2005), and these competitive dynamics may exist in our setting as firms simultaneously compete for new buyers and seek to retain their existing buyers. We, therefore, suggest that future research should examine possible defensive versus offensive competitive dynamics of diversity. Similarly, we did not consider if our findings may be associated with differentiated HR policies across firms. While it is likely that our covariates (which control for the level of gender and racial minority partners, as well as the percentage of female associates, and the amount of pro bono hours lawyers undertake on average) and the firm fixed effect empirically account for the outcomes of HR policies, we nevertheless encourage scholars to examine this area further, perhaps through in-depth qualitative study.

Third, due to the data limitations outlined earlier, our observation period ends in 2014. However, in our data, we observe that by 2014 the corporate legal services sector appears to be converging on improving diversity (i.e., all firms making meaningful diversity efforts). It is possible that the rivalry-based mechanism we theorize and test will be weaker and possibly overtaken by other, institutional-based, mechanisms beyond 2014. Thus, we do not see our observation period ending in 2014 as a limitation per se, as we believe we capture the period in which our rivalry-based theory has the greatest relevance in our context. Nevertheless, scholars may examine if, and under what conditions, our rivalry-based theory of diversity still holds (or changes) under stronger institutional conditions.

Our study also offers additional avenues for further research. First, scholars may examine the consequences of strategic actions connected with gender diversity. As the focus of our paper is on the antecedents of female representation in the senior organizational rank, we did not consider whether firms are successful in obtaining new buyers and/or whether they increase their performance via gender diversity. We suggest this as the next logical step for scholars.

Second, researchers may extend our gender diversity investigation to additional dimensions of diversity (e.g., race, nationality, religion). Such investigations could establish boundary conditions regarding the dimensions along which suppliers are proactive in responding to the preferences of rivals' buyers. While we expect our rivalry-based theory and findings to hold when expectations concern other forms of diversity, we encourage scholars to investigate this conjecture.

Third, future research may explore the mode through which firms increase their level of female partner representation: that is, through promotion of female associates or hiring of female partners from other firms. Similarly, scholars may examine the relationship between labor market competition for scarce demographic profiles and firms' ability to improve their diversity performance, and in turn, whether and how labor market competition forces firms to trade off diversity improvement for improvement along other dimensions.

Fourth, and relatedly, our findings indicate that firms may substitute between gender and racial diversity when signaling value congruence to rivals' buyers, which suggests firms act strategically regarding diversity management. In addition, the negative coefficient on our pro bono control variable indicates another possible substitution effect. Diversity and pro bono are both mechanisms that signal alignment to societal norms and buyers' preferences. However, both are costly to firms. Increasing diversity often involves additional recruitment costs to target, attract, and integrate underrepresented groups (Dobbin & Kalev, 2013; Kalev et al., 2006). Pro bono incurs costs because lawyers' time is given to legal matters that do not generate revenues. Thus, a firm acting instrumentally may only increase commitment along one dimension while reducing commitment on the other. While speculative, this interpretation of our findings raises the interesting question, which we encourage scholars to pursue, of how firms may use (bundle or trade off) the different policies available to them to signal to actors their alignment to societal norms.

Finally, our robustness tests and ITCV test give reasonable confidence that our findings are not driven by unobserved variation. Nevertheless, our findings remain correlational. Future research may examine our theoretical propositions with a research design that allows the identification of causal relationships.

In summary, our study developed and empirically tested a rivalry-based view to explain why and when firms increase gender diversity in the senior level of the organization. Our findings support the idea that firms manipulate their level of gender diversity as a competitive move that signals alignment to values espoused by rivals' buyers, with the goal of capturing the business of those buyers. Scholars could use our study as a foundation for future research that expands our understanding of diversity.

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## DATA AVAILABILITY STATEMENT

Research data are not shared.

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## SUPPORTING INFORMATION

Additional supporting information can be found online in the Supporting Information section at the end of this article.

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