

Will There Be a Changing of the Guard? Law Firm Lessons from the Great Depression

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Firm Positional Standing

- **Sociology = Organizational Status**
- **Strategy and Management – Leading Firms, Reputation, Size, Profitability**
- **Legal Press**
 - **AmLaw 100/200**
 - **NLJ 250**
- **League Tables**
- **Vault.com**

Why So Much Interest in Positional Standing?

- **Signaling to Clients** (Spence, 1974)
 - Perceptions about Quality (Podolny, 1993; White, 1981)
 - Firm Capabilities (Rao, 1994)
- **Rivalry and Strategic Groups**
 - Which firms are in a competitive set (Caves & Porter, 1977; Porter, 1979; Porter, 1980; Sherer, 2008, 2009)
- **Organizational Identity**
 - How individuals inside the firm view the firm *and* themselves (Albert & Whetten, 1985; Dutton & Dukerich, 1991; Elsbach & Kramer, 1996; Sherer, 2009)

Changes in Positional Standing

- Evolutionary
- Revolutionary
 - Technological Change/Firm Competences
 - Institutional/Social Changes
 - Economic Changes

Implications to Present

- **“It’s times like these when tremendous competitive success can be achieved. It’s times like these where companies can shift positions in the marketplace. It’s times like these when leaders can become followers, and followers can become leaders, because we are in a period where everything is now going to open and unfreeze.”¹**

¹ M. Porter (2009), Sound long-term strategy is key, particularly in a crisis: Harvard’s Michael Porter. Insead Knowledge, <http://knowledge.insead.edu/StrategyCrisisMPortero81011.cfm>

The Great Depression

- Stock Market Crash of October 29, 1929
- 1930-1933 – Negative GDP growth
 - US GDP goes from 103.6 to 56.4 billion

Seen through the eyes of law firm....

- “...the consequences were disastrous.....They included wholesale closings of banks and other financial institutions, insolvency and bankruptcy of many substantial business organizations;...curtailment of credit,...-to the point where industry and commerce were more or less prostrate.”²

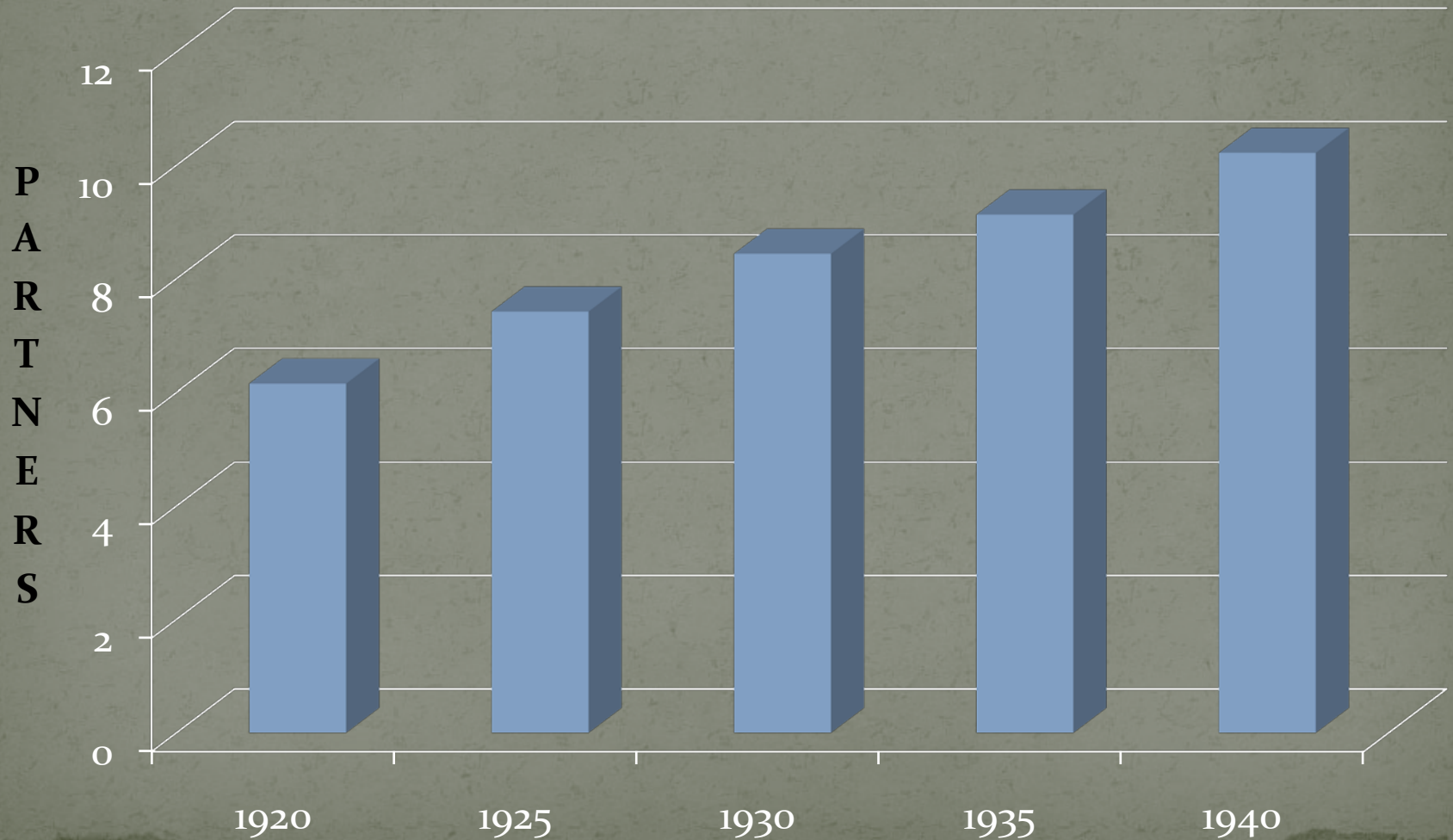
² K. Earle (1963), *Mr. Shearman and Mr. Sterling and How They Grew*. USA: Carl Purington Rollins Printing Office of the Yale University Press, p. 236.

The Research

- **Depth, Duration, and *Differential* Effects on Top 250 Law Firms, 1920-1940**
- **Data**
 - **Partner Numbers for Top 250 US Firms using Martindale-Hubbell Directories, 1920-1940 in five-year intervals for largest US cities (+ 1929)**
 - **+ Firm Histories**

Depth and Duration

**Average Number of Partners:
Top 250 Law Firms, 1920-1940**



Growth Rates for Top 250

1920-1925	3.8
1925-1930	2.6
1930-1935	1.6
1935-1940	2.3

Differential Effects

- Show changes in firms' positional standing, nowhere more evident than in NYC

Top 20 (in Partners) NYC Firms, 1920

Firm Name	# of Partners
O'Brien, Boardman, Parker & Fox	14
Shearman & Sterling	12
Stetson, Jennings & Russell (Davis Polk)	11
Curtis, Mallet-Prevost & Colt	10
Barry, Wainwright, Thacher & Symmers	9
Burlingham, Veeder, Masten & Fearey	9
Cadwalader, Wickersham & Taft	9
Geller, Rolston & Horan	9
Haight, Sandford, Smith & Griffen	9
Hornblower, Miller, Garrison & Potter	9
Hughes, Rounds, Schurman & Dwight	9
Masten & Nichols (later part of Milbank Tweed)	9
Rounds, Hatch, Dillingham & Debevoise	9
Simpson, Thacher & Barlett	9
Storey, Thorndike, Palmer & Dodge	9
White & Case	9
Alexander & Green	8
Beekman, Menken & Griscom	8
Carter, Ledyard & Milburn	8
Davies, Anerbach & Cornell	8
Winthrop & Stimson	8

Top 20 (in Partners) NYC Firms, 1925

Firm Name	# of Partners
Stetson, Jennings & Russell (Davis Polk)	14
Shearman & Sterling	13
Beekman, Bogue, Clark & Griscom	12
Gleason, McLanahan, Merritt & Ingraham	12
Larkin, Rathbone & Perry	12
O'Brien, Boardman, Parker & Fox	12
Cadwalader, Wickersham & Taft	11
Sullivan & Cromwell	11
Breed, Abbott & Morgan	10
Curtis, Mallet-Prevost & Colt	10
Geller, Rolston & Blanc	10
Hornblower, Miller & Garrison	10
Kirlin, Woolsey, Campbell, Hickox & Keating	10
Rounds, Schurman & Dwight	10
White & Case	10
Carter, Ledyard & Milburn	9
Haight, Smith, Griffin & Deming	9
Masten & Nichols (later part of Milbank Tweed)	9
Merril, Rogers, Gifford & Woody	9
Rushmore, Bisbee & Stern	9

Top 20 (in Partners) NYC Firms, 1930

Firm Name	# of Partners
Sullivan & Cromwell	16
Simpson, Thacher & Bartlett	15
Taylor, Blanc, Capron & Marsh	15
Cadwalader, Wickersham & Taft	14
Cravath, de Gersdorff, Swaine & Wood	14
Shearman & Sterling	14
White & Case	14
Chadbourne, Stanchfield & Levy	13
Davis, Polk, Wardwell, Gardiner & Reed	13
Breed, Abbott & Morgan	12
Lord, Day & Lord	12
Murray, Aldrich & Webb (later part of Milbank Tweed)	12
O'Brien, Boardman, Conboy, Memhard & Early	12
Rushmore, Bisbee & Stern	12
Burlingham, Veedr, Fearey, Clark & Hupper	11
Coudert Brothers	11
Hardin, Hess, Eder & Freschi	11
Larkin, Rathbone & Perry	11
Root, Clark, Buckner, Howland & Ballantine	11

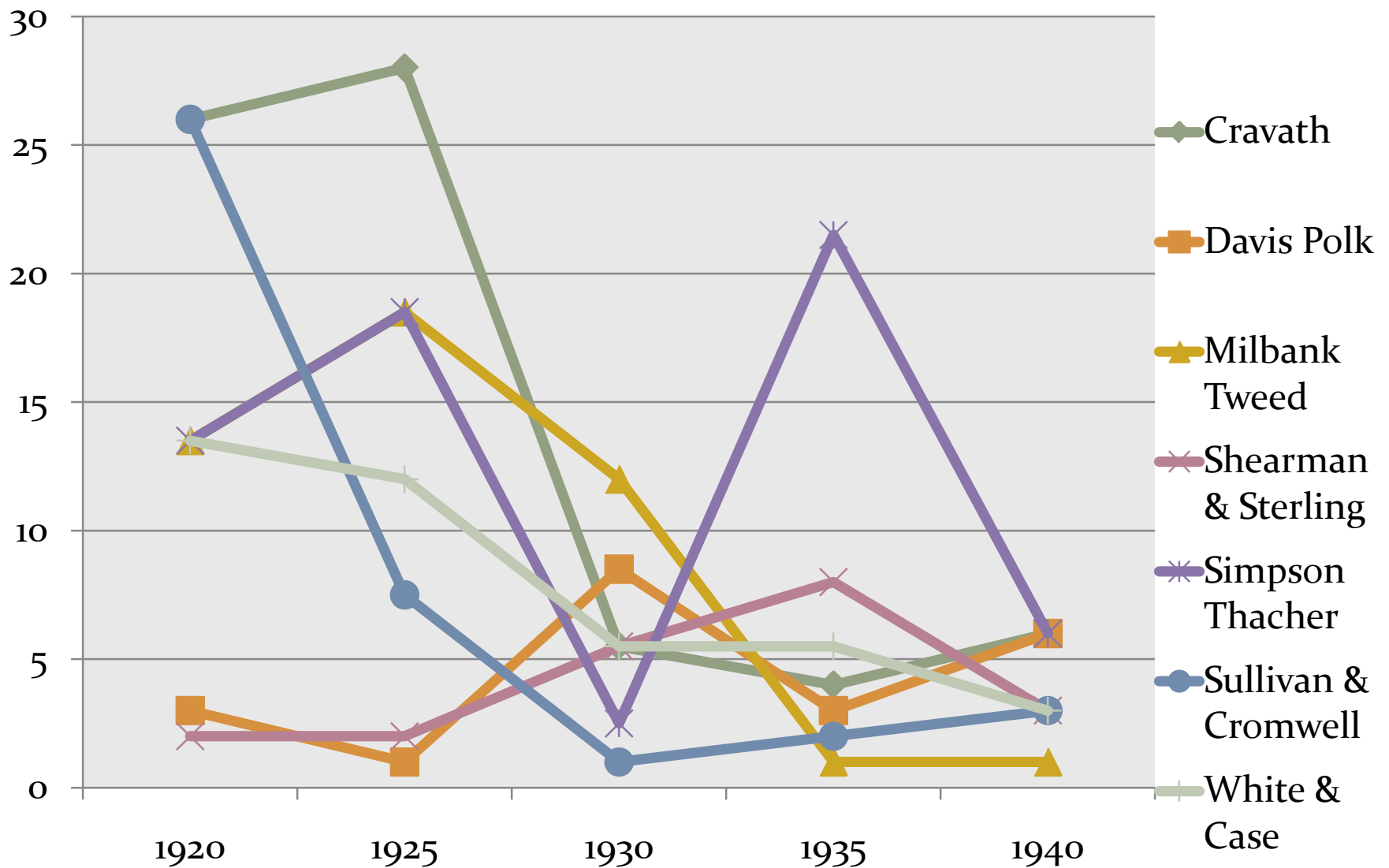
Top 20 (in Partners) NYC Firms, 1935

Firm Name	# of Partners
Milbank, Tweed, Hope & Webb	22
Sullivan & Cromwell	20
Davis, Polk, Wardwell, Gardiner & Reed	18
Cravath, de Gersdorff, Swaine & Wood	17
Mitchell, Taylor, Capron & Marsh	16
White & Case	16
Larkin, Rathbone & Perry	15
Mudge, Stern, Williams & Tucker	15
Shearman & Sterling	15
Chadbourne, Hunt, Jaeckel & Brown	14
Chadbourne, Stanchfield & Levy	14
Breed, Abbot & Morgan	13
Curtis, Mallet-Prevost, Colt & Mosle	13
Davies, Auerbach & Cornell	13
Lord, Day & Lord	13
Cotton, Franklin, Wright & Gordon	12
Hornblower, Miller, Miller & Boston	12
Hughes, Schurman & Dwight	12
Root, Clark, Buckner & Ballantine	12
Coudert Brothers	11
Hawkins, Delafield & Longfellow	11
Merrill, Rogers, Gifford & Woody	11
Simpson, Thacher & Bartlett	11

Top 20 (in Partners) NYC Firms, 1940

Firm Name	# of Partners
Milbank, Tweed & Hope	27
Sullivan & Cromwell	20
Shearman & Sterling	20
White & Case	20
Cravath, de Gersdorff, Swaine & Wood	19
Davis, Polk, Wardwell, Gardiner & Reed	19
Simpson, Thacher & Bartlett	19
Mitchell, Taylor, Capron & Marsh	18
Mudge, Stern, Williams & Tucker	17
Breed, Abbott & Morgan	16
Chadbourne, Wallace, Parke & Whiteside	16
Wright, Gordon, Zachry & Parlin	16
Curtis, Mallet-Prevost, Colt & Mosle	15
Larkin, Rathbone & Perry	15
Bigham, Englar, Jones & Houston	14
Davies, Auerbach, Cornell & Hardy	14
Miller, Owen, Otis & Bailly	14
Beekman, Bogue, Stephens & Black	13
Cadwalader, Wickersham & Taft	13
Chadbourne, Hunt, Jaeckel & Brown	13

Ranks for 7 NYC Firms, 1920-1940*



*Fractional Ranking, wherein tied values get an averaged ranking, was used.

Growth Rates for 7 NYC Firms and Comparators

	7 NYC Firms	ALL NYC Firms	Top 250
1920-1925	3.6	2.4	3.8
1925-1930	5.8	3.0	2.6
1930-1935	4	1.8	1.6
1935-1940	3.9	3.0	2.3

What Explains the Ascendance of 7 NYC Firms?

- Momentum
- Critical Mass of Young Partners
- Remaking of Firm Competences
- Flight to Quality by Clients

Link to Today (with Caveats)

- **Conditions Favoring Innovation:**
 - Momentum
 - Critical Mass of Young Partners
- **Execution³**
 - Remaking of Firm Competences
- **Clients**
 - Flight to Quality by Clients

Conclusions

- Firms that emerged as leaders did worse than before *but* relatively better than their rivals
- Innovation + Execution³
- Firms' positional standing carried forward for quite some time.