

**The secrets of the Magic Circle: an investigation into stable reputational groups and their effect on firm performance and stakeholder perceptions in elite UK law firms.**

A number of the major professions have reputational hierarchies which are category-based rather than continuous, forming clear segments in the minds of industry actors. The top tier of US investment banks are called ‘Wall Street’ firms, yet the label indicates their prestige rather than their location (virtually all are in mid-town Manhattan rather than Wall Street). The “Big Four” accounting firms are labeled as much for the quality of their services as for their huge geographic and workforce dimensions. The so-called ‘Ivy League’ of American universities is another stable reputational category, which remains ‘set’ despite the emergence of deserving, or better qualified, universities (Stanford, for example). These reputational labels appear to remove firms from the general ratings hierarchy: although industry rankings appear from year to year, a select group remain as enduring members of a perceived elite.

In the UK legal profession, the most prestigious law firms are a London-based group known as the ‘Magic Circle’, a label which is widely used and understood, thereby shaping individual and industry level sense-making processes. Using an approach grounded in neo-institutional theory and theories of interorganizational cognition, my research attempts to explain the genesis, institutionalization, diffusion, and persistence of stable reputational hierarchies in professional service industries, with a particular emphasis on the role of the media in these processes. I then consider the consequences of the categorization: how influential has it been on the perceptions, cognitions and behaviours of market actors?

In providing a historical account of the origin of the Magic Circle group of UK law firms, I examine the correspondence between observed events and current theoretical conceptualizations of institutionalization and institutional change, in order to test and extend existing theory. In particular, my research will contribute to the discussions begun by Phillips, Lawrence & Hardy (2004), who submit that (i) the processes underlying institutionalization have not been sufficiently investigated, and (ii) that institutions are created by an interaction between action, texts, and discourse. In addition, I hope to elaborate on the theoretical expositions proposed by Greenwood, Suddaby, & Hinings (2002), which focus on non-isomorphic institutional change, with a particular focus on ‘theorization’ processes – the conferring of legitimacy on new ideas - as first proposed by Strang & Meyer (1993).

I argue that there have been very few studies of professional elites, and none examining how they were formed, established and become persistent characteristics of an organizational field. There are no apparent explanations in contemporary institutional theory to explain their persistence: institutional research has mainly concerned itself with explaining why organizations tend towards similarity or, given this tendency, how they change. However, this study heeds the call of institutional scholars to study the durability of institutional beliefs such as categories (e.g. Clemens & Cook, 1999; Tolbert & Zucker, 1996), and the process of institutionalization (e.g. Greenwood & Hinings, 1996; Hoffman, 1999).

The theoretical accounts of institutionalization upon which I focus are concerned with the debate, endorsement and diffusion of ideas through discourse, yet they do not consider the role of the media in discourse development, hosting, and dissemination.

This is so, despite the fact that some researchers have requested that the media be given a more explicit role in institutional accounts (e.g. Pollock & Rindova, 2003; Lounsbury & Glynn, 2004). My thesis examines the proposition that the business and professional media are an important element of contemporary models of institutionalization, change, and cognition, and should be considered as significant institutional actors. Although some recent studies (Pollock & Rindova, 2003; Lounsbury & Rao, 2004) suggest that the media can be a powerful, meaning-making, and sense-making, force at the field level, this study examines the extent to which the media can be regarded as creating and/or promoting organizational change (or, alternatively, having the power to maintain the status quo). Can media actors be institutional entrepreneurs? I suggest that the significance of the media as a category-setter, legitimator and opinion leader may have been missed in accounts of the discursive processes of institutionalization and change.

The UK legal industry is a particularly compelling field in which to examine media influences on institutional processes, given that the lifting of recent legislative restrictions on the marketing of UK law firms has triggered a huge increase in industry media sources and market information, with a particular emphasis on how law firms rate against each other. Rankings, award ceremonies, and comparative directories have proliferated, which appear to have encouraged the establishment of reputational groupings, based on these evaluations.

My research also examines the *consequences* of reputational labels and groupings on elite UK law firms in terms of, e.g., their profits, strategies, recruitment patterns, ability to attract blue chip clients etc., and on the perceptions of key groups. Labels

and media opinion may have a significant influence on clients' choice of advisor(s), the quality of trainees and lateral hires recruited and retained, and the motivation and commitment of employees within these firms. If so, this may provide evidence of direct media influence upon the decision making and behaviours of industry actors (thus providing further legitimization of the importance of marketing and public relations functions within professional service firms).

Methodologically, this research uses a primarily qualitative, inductive approach, which is considered apposite to (i) an analysis of historical processes within the complex social setting of the UK legal industry and its associated media, where the motivations of actors and causal dynamics are not always immediately apparent (Elsbach & Kramer, 2003); and (ii) attempts at theory elaboration (Lee, Mitchell & Sabylinski, 1999), whereby existing models are compared with observed events in order to extend existing theory. The investigation is thus an instrumental case study.

The primary form of data is a series of recorded, semi-structured interviews with individuals within the legal industry, both within and beyond the Magic Circle group of law firms. These include partners, associates, trainees, senior support professionals, specialist legal journalists, clients, and law students. The interviews focus on subjects' perceptions of the Magic Circle in terms of its meaning, significance, origins, persistence and future prospects, as well as questions of media influence, the purpose and effect of media rankings and awards, the relationship between the legal press and law firms, and the power of the media to influence clients, employees, law graduates, and other relevant market actors.

As well as interview data, documentary and historical data about the Magic Circle term, and its members, is being gathered. This includes, *inter alia*, media articles and editorials, rankings, recruitment data, and other relevant documents obtained from participating law firms. I also intend to undertake a side-study, consisting of a quantitative, survey-based investigation of law students' attitudes to firm categorizations and media opinion, and how these might influence their choice of preferred employer. This part of my research has yet to be developed.

The qualitative data analysis will follow an iterative approach, traveling back and forth between the emerging theory, the existing literature, and the data (Glaser & Strauss, 1967; Eisenhardt, 1989). As data is collected it will be interpreted and coded using computer-aided qualitative analysis software, to form categories which can form a theoretical framework to explain the origin and persistence of the Magic Circle group of law firms, and the influence of the legal media on key stakeholder groups.

The analysis of documentary sources and media articles in respect of the Magic Circle term will take the form of content or discourse analysis of the texts, and the rhetoric they have employed, in framing and labeling this elite group. It will also be possible to quantify the use of the term 'Magic Circle', its application to specific firms, and their reputational rankings, over the time period during which the label came to prominence in the press.

Fieldwork is ongoing, and analysis is at a preliminary stage.

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