How do firms match their resources to projects? Evidence from M&A legal advisors

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Abstract  
The matching of resources to projects is one of the most fundamental decisions in modern organizations, and the outcome of this decision critically impacts on performance. Yet comparatively little evidence exists on the factors that determine a firm’s decision to match its resources to projects. This paper examines factors that govern a firm’s decision to match its most valuable resources to projects. We empirically study how UK M&A law firms allocate their best lawyers to M&A mandates. Our dataset on lawyers (individual-level resources) and M&A mandates (projects) allows us to observe which lawyers have and which have not been staffed on particular mandates. We find that law firms leverage the value-add of their best lawyers across more projects to effectively manage the capacity constraint inherent in them. Further we find that law firms are more likely to deploy their best lawyers in higher value mandates and mandates which are more likely to generate future income. However, interestingly we find that more capable law firms are more likely to engage in such resource deployment strategies than less capable law firms; this supports the idea that heterogeneity in firm performance is also due to differences in resource deployment strategies. We also find that law firms are less likely to use their best lawyers in mandates by existing clients as these clients are already “locked-in” by the law firm, and law firms use these resources to win over potential new clients. Finally, we find that if firms are “busier” than their competitors, they are more likely to deploy their best resources to new incoming deals, suggesting that resource constrained law firms rely on their best resources to compensate for their unattractive resource constraint in order to attract new clients. Overall, this paper makes a contribution to RBV literature and is amongst few papers that empirically show how firms deploy their most valuable resources to generate economic rents.

Key words: Resource Deployment; Resources; Capabilities; Capacity Constraint; Mergers and Acquisitions; Legal Advisors