

Law School Rankings and Big Firm Employment: The Effect of Law School Rankings on Corporate Hiring

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1. Introduction

Student loan debt is an issue politically and economically. In recent years, national student loan debt has surpassed credit card debt. However, there is a disproportionate amount of student loan debt that is owed by graduate students. Of particular interest is the amount owed by law students, which average over \$100,000 for three years of law school. Pertaining to this problem is the issue of law student loan repayment. A solution to this problem is receiving employment from big law firms that compensate well enough to begin repaying the debt.

Generally, it has been widely accepted by aspiring law students that attending a higher ranked law school is preferable to attending a lower ranked law school, regardless of the difference in cost, because graduating from a higher ranked law school will more likely result in a higher paying job. That is, the higher ranked the law school, the more likely it is that the graduates are to receive a job offer from a large firm. The market rate for current first year associates at “Big Firms” (defined as firms with 501 or more attorneys) according to the Cravath Scale is \$180,000 per year (Lat, 2016). Therefore, the economic incentives of attaining such associate positions are very high.

Furthermore, because this belief is so strongly held, aspiring law students have a tendency to ignore the cost of attendance the higher the rank of the school. For example, aspiring law students are likely to choose to attend a higher ranked school that cost hundreds of thousands of dollars more over a lower ranked school that provides them with a more generous scholarship. They reason that because the chances of attaining a high paying job is more likely at a higher ranked school, the student loan they borrow will be offset with a higher paying job later.

The reasoning above implies that if it is true, then aspiring law students should strive to be accepted to the highest ranked law school regardless of cost in order to service their student loan debt. With an average law student debt of \$100,000, it is reasonable to take on such a large student

loan if the chances of attaining an associate position with the starting salary of \$180,000 is high at a higher ranked school. However, conversely, students should not strive to attend the higher ranked law school regardless of debt only if the general belief regarding law school ranking and big law hiring is false. Otherwise, a student may take on more debt than necessary in order to achieve the same goal. Therefore, if the converse is true, this implies that a student will be economically better off in the long run by attending a lower ranked school with less debt rather than a higher ranked school with more debt.

In this research paper, I will explore the following question: what is the effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms? Specifically, I will look at law schools and big firm employment in the state of California. The law school rankings used in this study will be those published by *U.S. News & World Report Rankings*. As mentioned previously, big law firms in this study will be defined as those firms who have 501 or more attorneys working for the firm.

Previous literature related to this topic largely revolves around the validity of the *U.S. News & World Report Rankings* (USNWR Rankings). Namely, the issue at the center of previous literature attempts to answer the question: Does the USNWR Rankings accurately measure and rank the quality of legal education of each particular law school? However, it does not address the topic I explore regarding the effect of law school rankings and big firm employment. I suspect that this issue has not been fully developed in the existing literature because the debate regarding the proper role of USNWR Rankings has not been settled. Therefore, my paper will contribute to the existing literature by taking a look at a specific and particular effect of law school rankings on a subset of graduate law student employment.

The hypotheses I will test in this paper are as follows:

Null Hypothesis: There is no effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms.

Alternative Hypothesis: There is an effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms.

The remainder of the paper will be structured in the following: *Section 2* will briefly cover past literature that is pertinent law school rankings and quality of education. *Section 3* will address the assumptions of the economic model developed. *Section 4* will discuss the data used, problems with the data, and statistical technique to conduct the empirical analysis. *Section 5* will analyze the effects of law school rankings on the proportion of students of a given graduating class that is hired by a big law firm and possible implications of the study.

2. Literature Review

In order to explore the question regarding the effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms, it is important to critically examine the underlying assumption that a higher ranked law school will yield a higher percentage of a given graduating class that is hired by big law firms because it produces higher quality students. Therefore, it is important to understand the role *U.S. News & World Report* holds in the existing debate pertaining to law school rankings. The debate largely centers around the question of whether law school ranking is an indicator of the quality of education provided by the law school. That is to say, does the 100th ranked school provide a lower quality of education than the 75th ranked school? Is there a significant difference between the quality of education between the 50th ranked school versus the 25th ranked school? And further, how does the perceived differences in the quality of education by virtue of ranking effect big law firm hiring?

On the one hand, there are those like Anglade (2014) who criticize the *U.S. News & World Report* and argue that it is a poor indicator of the quality of education a law school can provide because it is based on faulty methodology. In her description, Anglade (2014) writes, “The USNWR ranking system collects and weighs data to make its annual evaluation of law schools. Some factors of the system are based on objective data, such as students’ median LSAT scores, graduates’ employment rates, and bar passage percentages; others are based on subjective assessments by peers and practitioners.” However, she believes that although objective data such as LSAT scores and bar passage rates can be homogenized, other factors such as employment rates and median starting salaries cannot. She maintains that because law schools are located in different environments (urban vs. suburban vs. rural), homogenizing employment rates and median starting salaries distort the analysis.

Other researchers tend to agree with Anglade (2014) on this point. For example, Anderson (1997) notes, “The ranking process produces other perverse incentives: U.S. News tells us that median starting salary of graduates is important. This favors schools in large cities, where salaries are higher.” That is to say, a law school may have a higher starting median salary for its graduates merely because it is located in Manhattan or San Francisco, and not because it provides a higher quality of education. However, this higher median salary will still be calculated for that school’s ranking. Furthermore, unlike Anglade (2014), Anderson (1997) takes the additional step of questioning whether even objective data such as LSAT scores can truly be homogenized. Anderson (1997) highlights that “An LSAT score doesn’t show whether a law student has determination, speaking and writing skills, integrity and commitment to public service,” arguing that perhaps even so called “objective scores” included in the methodology may not demonstrate the quality of graduates of the law school.

Additional researchers point out other flaws that exist with the *U.S. News & World Report* rankings. Due to the competitive nature of the rankings, “many law schools quickly discover ways to ‘game’ the rankings system” (Rothstein, 2006). Take, for example, the Illinois Law School and the factor of “total student expenditures” included in the rankings methodology. According to Rothstein (2006), “Illinois Law School calculated the fair market value of online search engines, Lexis and Westlaw, even though Illinois received these services at a flat fee. This inflated amount allowed Illinois to claim that it spent 80 times more on students boosting Illinois’s total student expenditures.” And because factors like this weigh heavily on a school’s ranking, it weakens the case that a school’s ranking is a reflection of the quality of its education. Other examples of “inflating the numbers” include law school practices such as hiring “their own graduates temporarily after graduation to pump up their statistics reported to U.S. News” (Rothstein, 2006). Clearly, then, these researchers present a strong case that the relationship between law school rankings and the quality of legal education of a law school may not be strongly correlated. Therefore, rankings should not be taken into account when determining the quality of education of a given law school.

On the other hand, there are those who support the rankings such as researcher Korobkin (1998). He acknowledges that “The criticism generally heard around the faculty coffee machine is that the rankings fail to measure accurately ‘quality’ among law schools... the critics attack ranking methodology because they believe the methodology fails to represent fairly the quality of education provided by the ranked institutions” (Korobkin, 1998). However, he argues that there is a fundamental disconnect between what the rankings stand for and what the rankings are perceived to stand for. Unlike his colleagues, he does not view the role of the rankings as evaluating the quality of education of any individual law school.

For Korobkin (1998), rankings act as “signals” from students to employers. He writes, “The primary purpose of rankings is to coordinate the placement of law students with legal employers, and how the rankings are determined is utterly irrelevant to this purpose” (Korobkin, 1998). That is to say, Korobkin (1998) adheres to the signaling theory of education. Therefore, the methodology of rankings—even when not accounting for factors that determine the quality of education—viewed from this perspective is a non-issue. Furthermore, “‘High quality’ students, therefore, need a way to signal their quality to employers that cannot be imitated by ‘lower quality’ students. They do this by responding to rankings. By choosing a school with a high ranking, the student sends an important signal to future employers: he is brainy or clever enough to be accepted by a more selective school” (Korobkin, 1998). Viewed through this lens, the rankings are not an evaluation of the quality of education a law school can provide. Rather, law school rankings are a reflection of the quality of the students that were admitted to the law school.

In order to study this relationship, Korobkin (1998) ran a “regression containing only a school’s ranking and the number of NALP [The National Association for Law Placement] recruits it boasts,” and found that “the ranking explains more than 70% of the variance in the number of NALP employers recruiting at each of the ‘top 50’ law schools—an extraordinary result for a single factor.” Therefore, Korobkin (1998) concludes that “...the most plausible inference to draw is that students and employers use rankings as an employment sorting mechanism: rankings channel the most desirable students into the most desirable jobs, the next most desirable students into the next most desirable jobs, and so on.” In other words, the role of the rankings is to establish a market “clearinghouse” of sorts in order to exchange information between law student and legal employer. Not, as critics would argue, as ordinal evaluations of the quality of education that a law school provides.

This paper will contribute to the existing debate and explore whether, as critics point out, rankings are a poor indicator of the quality of education and should be discounted when employers look to hire new associates. Alternatively, whether the supporters are correct, as Korobkin (1998) maintains, that rankings act as market clearinghouses for students and employers. This debate is reminiscent and parallel to the ongoing conversation regarding human capital theory and signaling theory of education. If the critics are correct, then we should expect that the human capital theory of education holds, and that the relationship between law school rankings and the proportion of big law hiring of a given graduating class should be weak because the rankings are not a good indicator of the quality of law graduates. However, if the supporters are correct, then we should expect that the signaling theory of education holds, and that the relationship between law school rankings and the proportion of big law hiring of a given graduating class should be strong because the rankings are a strong indicator of the quality of law graduates.

3. Methodology: Two-Way Fixed Effects Model

This research paper uses panel data from multiple universities in the time interval between 2011 to 2016. Therefore, to conduct the empirical analysis, the methodology used is the two-way fixed effects model. In this particular model, there is a dummy variable for each university and a dummy variable for each year (2011, 2012, 2013, 2014, 2015, 2016). According to Bailey (2016), the purpose of the two-way fixed effects model in this study is important for multiple reasons. One, fixed effects for each university is necessary in order to control for differences inherent to each university that are fixed over time. For example, university differences occur in whether they are public or private, relative size, library access, region, and geographic location. In order to control for these unmeasured factors, a dummy variable is assigned to each university for fixed effects in the model. Likewise, there are also unmeasured factors inherent in each particular year.

For example, large law firm hiring may be higher in some years and lower in others for all graduating classes in all universities as a result of unmeasured economic factors particular to that year. Therefore, the dummy variable for each year takes into account for differences in hiring for all universities in that particular year.

With this model, a positive fixed effect for a particular year would indicate that, controlling for unmeasured factors, big law firm hiring was higher for all graduating classes in all universities in that particular year. On the other hand, a negative fixed effect for a particular year would indicate that, controlling for all other unmeasured factors, big law firm hiring was lower for all graduating classes for all universities in that particular year (Bailey, 2016).

This model is different from previous literature because ranking is not naively regressed with employment. Specifically, in the study of Korobkin (1998), he ran a “regression containing only a school’s ranking and the number of NALP [The National Association for Law Placement] recruits it boasts.” There was no control for fixed effects for each university, nor was there control for fixed effects of a given year. In that way, this study improves upon Korobkin (1998) by taking into account unmeasured factors for differences in both each particular university and each particular year.

From this model, we can draw and test the following hypotheses:

Null Hypothesis: There is no effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms.

Alternative Hypothesis: There is an effect of law school rankings on the proportion of students of a given graduating class that is hired by big law firms.

These hypotheses and the conclusion of the test will be of particular importance to aspiring law students who tend to base their decisions solely on ranking with the belief that a higher ranking

will improve their chances of being hired by a big law firm. If the null hypothesis is true, then aspiring law students who aim to get hired by a big law firm would be wise to choose law schools based not entirely on ranking, but also location, scholarship consideration, and specialization in areas of law. In other words, the economic decision of attending a particular law school should be made more wholesomely by keeping other factors in mind. However, if the alternative hypothesis is true, then the conclusion of this study would support conventional wisdom that law students who aim to get hired by a big law firm should base their decision mainly on ranking alone.

4. Data and Empirical Analysis

This section of the paper will discuss how the empirical analysis was conducted. Namely, a brief discussion of the data collected and used, and problems with the data. Furthermore, there will be a discussion of the results and the interpretation of its meaning.

Table 1

Variable	Mean	Standard Deviation	Minimum	Maximum
Percent Hired by Big Firms	0.3224	0.1979	0.062	0.73
Ranking	34.9791	25.7115	2	95

The data for the proportion of a graduating law class hired by a large law firm was collected from The National Association for Law Placement (NALP) Report Database and summarized in the above table. This data was available for eight law schools in the state of California that were ranked within the top hundred in the years 2011, 2012, 2013, 2014, 2015, and 2016. The rankings used is the nationally reported rankings from *U.S. News and World Reports*. In this data set, as

shown in Table 1, the rankings range from number two to number ninety-five. Furthermore, included in Table 1 is the mean and standard deviation of the “Percent Hired by Big Firms” and “Ranking” variables. The data is collected from the following schools: UC Berkeley, Loyola Marymount University, UCLA, USC, Pepperdine University, Stanford, University of San Diego, and UC Hastings. Since the data from UCLA in 2011 was omitted from this study because it was not published, the sample size is forty-seven.

In choosing this data, there are a few notable trade-offs. Because the data is collected only from law schools in California, the result may not be the same in a different state or translatable nationally. This limitation can be attributed to differences in the sizes and specializations of the legal markets in each state and the legal market on the national level. Furthermore, because there are additional law schools in California that are not ranked nor publish data, the results may be further distorted.

After running the two-way fixed effects model on this data, the following is the result:

Table 2

Variable	Coefficient	t-stat	R-squared
Ranking	-0.0001789	-0.13	0.9625

The coefficient in Table 2 tells us that the relationship between ranking and the proportion of a graduating class that is hired by big law firms is negative. In other words, a fall in the rankings, interpreted as an increase in the numerical value of the “ranking” variable, of any particular university is associated with a decrease of the proportion of a graduating class that is hired by big law firms. Furthermore, the coefficient tells us that the effect of rankings on the proportion of a graduating class that is hired by big law firms is very small in magnitude. For example, a fall in

rankings by a particular university by ten spaces will only be associated with a decrease of 0.1789 percentage points on the proportion of the graduating class as whole—an extremely small percentage. Here, a fall in ten spaces in rankings will not even translate to a decrease of one percentage point of the proportion of a particular graduating class that is hired by big law firms.

Moreover, the -0.13 t-stat in Table 2 tells us that the effect of ranking on the proportion of a graduating class that is hired by big law firms is statistically insignificant. In other words, there is not enough evidence to show that ranking has a statistically significant effect on the proportion of graduating class that is hired by big law firms. Meaning, we lack evidence to reject the null hypothesis and therefore conclude that there is not enough statistical evidence to support an association between law school rankings and the proportion of students of a given graduating class that is hired by big law firms.

In addition, the analysis reveals that the model captures and fits very well the variation in the proportion of a particular graduating class that is hired by big law firms. Specifically, the R-squared statistic in Table 2 shows that the model explains 96.25% of the variation in the proportion of a particular graduating class that is hired by big law firms. Therefore, we have a very good model that explains the data.

The results conflict with the conventional wisdom of aspiring law students that says rankings are the determining factor on the proportion of a graduating class that is hired by big law firms. The results not only suggest that the correlation between ranking and big law hiring are extremely small in magnitude, but also statistically insignificant. Taken at face value, the analysis suggests that law school rankings play a very small role, if any role at all, in the proportion of a graduating class that is hired by big law firms.

5. Conclusion

The purpose of this study was to explore what effect law school rankings have on the proportion of a graduating class that is hired by big law firms. This study finds that law school ranking has a statistically insignificant effect on the proportion of a graduating class that is hired by big law firms. If taken at face value, the implications for this study reveal that aspiring law students may be better off reconsidering conventional wisdom and do additional research into a particular law school in addition to ranking before choosing a law school to attend.

If this study were to be repeated in the future, it would be suggested to include a greater number of observations in California when the data becomes available. Furthermore, this study can also be replicated by exploring the effects of ranking in other states with large legal markets and then comparing those results to the results in this study. For example, exploring the effect of rankings on the proportion of a graduating class that is hired by big law firms in New York. Additionally, it would also be useful to explore whether, perhaps, different sizes of legal markets in different states have an effect on the relationship between ranking and the proportion of law students hired by big law firms.

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Appendix A

% Hired 501+ Firm	Ranking	School	School Variable	Year
0.597	7	UC Berkeley	1	2011
0.653	9	UC Berkeley	1	2012
0.643	7	UC Berkeley	1	2013
0.718	9	UC Berkeley	1	2014
0.62	9	UC Berkeley	1	2015
0.73	8	UC Berkeley	1	2016
0.115	56	Loyola Marymount University	2	2011
0.165	54	Loyola Marymount University	2	2012
0.137	51	Loyola Marymount University	2	2013
0.167	68	Loyola Marymount University	2	2014
0.13	87	Loyola Marymount University	2	2015
0.108	75	Loyola Marymount University	2	2016
Not Available*	15	UCLA	3	2011
0.481	16	UCLA	3	2012
0.515	15	UCLA	3	2013
0.427	17	UCLA	3	2014
0.472	16	UCLA	3	2015
0.464	16	UCLA	3	2016
0.432	18	USC	4	2011
0.395	18	USC	4	2012
0.413	18	USC	4	2013
0.554	18	USC	4	2014
0.473	20	USC	4	2015
0.457	20	USC	4	2016
0.093	52	Pepperdine University	5	2011
0.065	54	Pepperdine University	5	2012
0.11	49	Pepperdine University	5	2013
0.066	61	Pepperdine University	5	2014
0.123	54	Pepperdine University	5	2015
0.062	52	Pepperdine University	5	2016
0.4	3	Stanford	6	2011
0.34	3	Stanford	6	2012
0.41	2	Stanford	6	2013

0.36	2	Stanford	6	2014
0.436	3	Stanford	6	2015
0.4318	2	Stanford	6	2016
0.101	56	University of San Diego	7	2011
0.116	67	University of San Diego	7	2012
0.143	65	University of San Diego	7	2013
0.16	68	University of San Diego	7	2014
0.102	79	University of San Diego	7	2015
0.141	71	University of San Diego	7	2016
0.186	42	UC Hastings	8	2011
0.191	42	UC Hastings	8	2012
0.325	44	UC Hastings	8	2013
0.252	48	UC Hastings	8	2014
0.271	54	UC Hastings	8	2015
0.405	59	UC Hastings	8	2016

2011 Variable	2012 Variable	2013 Variable	2014 Variable	2015 Variable	2016 Variable
1	0	0	0	0	0
0	1	0	0	0	0
0	0	1	0	0	0
0	0	0	1	0	0
0	0	0	0	1	0
0	0	0	0	0	1
1	0	0	0	0	0
0	1	0	0	0	0
0	0	1	0	0	0
0	0	0	1	0	0
0	0	0	0	1	0
0	0	0	0	0	1
1	0	0	0	0	0
0	1	0	0	0	0
0	0	1	0	0	0
0	0	0	1	0	0
0	0	0	0	1	0
0	0	0	0	0	1
1	0	0	0	0	0
0	1	0	0	0	0
0	0	1	0	0	0
0	0	0	1	0	0
0	0	0	0	1	0
0	0	0	0	0	1

1	0	0	0	0	0	0
0	1	0	0	0	0	0
0	0	1	0	0	0	0
0	0	0	1	0	0	0
0	0	0	0	1	0	0
0	0	0	0	0	1	0
1	0	0	0	0	0	0
0	1	0	0	0	0	0
0	0	1	0	0	0	0
0	0	0	1	0	0	0
0	0	0	0	1	0	0
0	0	0	0	0	1	0
1	0	0	0	0	0	0
0	1	0	0	0	0	0
0	0	1	0	0	0	0
0	0	0	1	0	0	0
0	0	0	0	1	0	0
0	0	0	0	0	1	0
1	0	0	0	0	0	0
0	1	0	0	0	0	0
0	0	1	0	0	0	0
0	0	0	1	0	0	0
0	0	0	0	1	0	0
0	0	0	0	0	1	0
0	0	0	0	0	0	1

*Data from UCLA in 2011 was omitted from this study because it was not published.