

# ARE SMALL FIRMS MORE BEAUTIFUL OR IS BIGGER BETTER? A Study of Compensating Differentials and Law Firm Internal Labor Markets

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Research on the size–job rewards relationship emphasizes extrinsic rewards that are typically more prevalent in large, complex organizations. We examine whether certain intrinsic rewards are more characteristic of small firms and shift the focus from manufacturing industries to professional service (law) firms. We find that small is not entirely beautiful. Smaller firms offer more autonomy but no more challenging work or better coworker relations, whereas larger firms offer lucrative salaries, enhanced benefits, and greater promotional opportunities. Our results challenge the *compensating differential* explanation whereby large firms offer superior extrinsic rewards to compensate for a shortfall of intrinsic job rewards.

Organization size is often included in studies of job rewards because it links variables and theory from the fields of stratification and organizations (Stolzenberg 1978; Villemez and Bridges 1988). Much of the research on the size–job rewards relationship is grounded in the stratification and labor markets literature that emphasizes extrinsic rewards, with particular attention devoted to the size–pay relationship (Kalleberg and Van Buren 1996; Hollister 2004). This literature tends to focus on the favorable organizational characteristics and outcomes that are found in large firms (Granovetter 1984; Kalleberg et al. 2006), where, for example, the positive relationship between size and earnings has been clearly established (Stolzenberg 1978; Hodson 1984; Brown and Medoff 1989; Brown, Hamilton, and Medoff 1990; Kalleberg and Van Buren 1992; 1996; Troske 1999; Hollister 2004). Further, the study of organizations is often treated as synonymous with studying large, complex organizations, while small, simpler organizations are overlooked (though see Ram 1999; Barrett and Rainnie 2002). In contrast, Granovetter (1984) suggests, small firms are certainly bountiful, making them worthy of research, but the question remains as to whether or not “small is beautiful” (Schumacher 1973).

According to the labor markets literature, large “core” firms tend to offer higher wages, more benefits, and greater career opportunities compared with small “periphery”

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firms (Baron, Davis-Blake, and Bielby 1986; Kalleberg et al. 1996, 2006; Hollister 2004). In contrast, organizational researchers have argued that there must be some desirable job rewards offered by small firms because studies show that workers in large firms are not always more satisfied than those in small firms (Hodson 1984; Hodson and Sullivan 1985; Zipp 1991). In smaller firms, because the divisions of labor and authority are necessarily less complex, employees tend to be less specialized in their work tasks, thereby experiencing greater diversity and autonomy in performing their work. While initially these two approaches may appear incompatible, it has been argued that large firms may compensate for the lower levels of intrinsic and social rewards available to workers by offering greater extrinsic rewards (Ingham 1970; Hodson and Sullivan 1985; Jacobs and Steinberg 1990; Zipp 1991). That is, workers in large firms trade off interesting, autonomous, and socially rewarding work for more pay, benefits, and promotional opportunities. In contrast, workers in small firms sacrifice these extrinsic rewards in order to have more intrinsically and socially rewarding work (Hodson and Sullivan 1985). This argument is consistent with the economic theory of compensating differentials used in explaining pay disparities across different work settings. The main goal of this article is to examine whether large firms offer lucrative extrinsic rewards while small firms afford enhanced intrinsic rewards. More specifically, do large firms compensate their employees for diminished intrinsic rewards by appeasing them with greater extrinsic rewards?

This study differs from past investigations of the size–job rewards relationship in a number of fundamental ways. First, the data set contains detailed information on employee characteristics, organizational structure, and job characteristics that are generally not available in secondary, general population data sets such as those often analyzed by economists (Groschen 1991). For example, many studies control for basic employee (e.g., gender, age, and education) and job characteristics (e.g., work hours, position), and some include occupation and/or industry, most of which are indirect proxies for the important concepts they are intended to measure (Hollister 2004). Our measures allow us to control for heterogeneity in job, organizational, and employee characteristics that may account for the size–job rewards relationship (Evans and Leighton 1989; Hollister 2004).

Second and relatedly, the data set allows us to consider a wider range of job rewards in relation to firm size than other studies have examined in the past. Most studies focus on the relationship between firm size and earnings (e.g., Dunn 1986; Villemez and Bridges 1988; Brown and Medoff 1989; Evans and Leighton 1989; Rebitzer and Taylor 1995; Van der Meer and Wielers 1998; Bayard and Troske 1999; Troske 1999), and some also examine firm size and benefits (e.g., Mellow 1982; Oi 1990; Hollister 2004). Very few include intrinsic rewards, such as satisfaction with the intellectual challenge of work or collegiality in the workplace, as their focus is on investigations of firm size and extrinsic job rewards. Of the few studies that do, Kalleberg and Van Buren (1996) found that larger firms offer more earnings, benefits, and promotional opportunities but less autonomy or control over one's job. Zipp (1991) similarly reported that while large firms offer higher wages, more benefits, and greater job stability, small firms offer jobs

with more creativity, interesting work, autonomy, and overall satisfaction. An important contribution of this study is exploring whether intrinsic rewards have a different relationship to firm size than extrinsic rewards.

Third, professional organizations are generally smaller than manufacturing firms and other typical bureaucratic employers. As Brown et al. (1990) note, the relative meaning of “small” and “large” depends on the industries under study and the measure of size. For example, following the *Small Business Administration’s* definition, they classify firms with 500 or more workers as “big business” and those with fewer than 500 as “small business” when they may include more than one location. In terms of the size of an actual single workplace, small locations generally refer to those that employ less than 100 people (Brown et al. 1990:9). In contrast, some scholars who study the legal profession consider law firms to be “large” if they consist of 20 or more lawyers (e.g., Adam and Baer 1984; Hagan and Kay 1995), whereas those who study manufacturing organizations may exclude establishments with less than 20 employees from their analysis (e.g., Evans and Leighton 1989; Bayard and Troske 1999). It is also important then to examine whether the size–job rewards relationship holds when examining relatively smaller firms that tend to be almost exclusively single establishment structures.

Fourth, whether the size arguments are generalizable beyond manufacturing establishments is also important. The organizations studied here are professional service organizations, specifically law firms, which primarily employ professional workers. This sample allows us to examine whether the size–job rewards relationship documented for blue-collar and white-collar workers also holds for professionals. Also, by narrowing our focus to a single industry and organizational form, we minimize the effects of extraneous influences (Groschen 1991). As Granovetter (1984) noted 25 years ago, despite the steady decline in employment in manufacturing and the steady increase in employment in services, much of the past research focuses on manufacturing workers and neglects those employed in service occupations in general and in professional occupations in particular (e.g., Mellow 1982; Dunn 1986; Oi 1990; Troske 1999). Not only are relatively smaller firms increasingly representing a greater proportion of employment settings, they are also increasingly found in the service sector (Ram 1999). Hollister (2004) suggests further that we should pay particular attention to the workers who hold “good jobs” (p. 660), such as professional service jobs, in our efforts to better understand the firm size–wage effect. Ram (1999) also argues that small businesses, and particularly the small professional service enterprise, is important in extending our understanding of employment relations in small firms. While research has clearly established a positive relationship between job rewards and firm size in manufacturing industries, few studies have examined the relationship in service industries. Moreover, the few that have examined service industries report inconsistent associations between wages and firm size that range from almost no relationship (e.g., Granovetter 1984) to quite large positive relationships, comparable to those reported in manufacturing industries (e.g., Bayard and Troske 1999). We examine whether the findings reported in the broader literature on the size–rewards relationship are relevant to professional workers in professional service organizations, and more specifically, to lawyers working in law firms.

## THEORY OF COMPENSATING DIFFERENTIALS

The theory of compensating differentials is based on Adam Smith's (1937) basic argument that wages differ for the same job across different work settings because some workers have to be compensated with higher wages for poorer quality working conditions. That is, holding worker characteristics constant, employees in less desirable jobs will receive higher wages than those working in firms with more pleasant conditions (Dunn 1986; Ehrenberg and Smith 1996). The logic of this argument is based on the assumption that workers seek to maximize the subjective utility of their job, not just maximize their earnings. In doing so, workers balance monetary and nonmonetary, or extrinsic and intrinsic rewards, that are important to them in choosing and deciding to stay in a job. For example, workers who gain utility (i.e., value) from working in firms that offer autonomy and challenging work will be content if these conditions do not exist but if they are compensated in some other way (e.g., by higher pay, benefits, or promotions) (Mueller and McDuff 2002). Similarly, workers may choose to work in certain jobs that pay less because they have other characteristics or rewards (e.g., autonomy, challenging work) that maximize their subjective utilities and compensate for lower earnings (Ross and Mirowsky 1996).

Much of the earlier compensating differentials literature in economics examined the trade-offs firms offered to workers in high-risk, uncomfortable, or dangerous jobs, usually located in the manufacturing sector, that typically included compensation via higher wages and benefits (e.g., Smith 1979; Brown 1980; Dorsey and Walzer 1983; Dorman and Hagstrom 1998). More recently, sociologists have applied this theory to explain gender differences in earnings where it is proposed that perhaps women earn less than men because they are compensated by other rewards that they value more such as more flexible hours, family-friendly conditions, or more interpersonal rewards (e.g., Kilbourne et al. 1994; Ross and Mirowsky 1996; England 1999; McDuff and Mueller 1999; McCrate 2005). A much smaller body of literature has adopted the compensating differentials approach to examine the relationship between job rewards and firm size (e.g., Dunn 1986; Rebitzer and Taylor 1995).

As indicated above, the literature on firm size generally reports that while earnings tend to increase with firm size, job satisfaction tends to decline. One possible explanation for this paradox is that larger firms are intrinsically less pleasant places to work as a result of greater specialization and a more impersonal atmosphere. As a result, larger firms must offer compensating differentials, usually in the form of pecuniary rewards, to offset the greater unattractiveness of their jobs in order to attract and retain desirable workers (Dunn 1986; Ehrenberg and Smith 1996). Alternatively, smaller firms may compensate for their relatively lower wages by providing more intrinsically rewarding working conditions (Dunn 1986; Idson 1990; Rebitzer and Taylor 1995).

A critique of the compensating differentials argument is that larger firms, where people tend to be paid the most, may also be the best jobs in terms of their overall working conditions and other rewards that they offer (Jacobs and Steinberg 1990). That is, jobs that offer greater extrinsic rewards also offer the most intrinsic rewards. Large

firms may be characterized as “good” jobs where they are better places to work in terms of all job rewards and working conditions, whereas small firms are characterized as undesirable or “bad” in that they are worse on all characteristics (Mueller and McDuff 2002).

In this study, three extrinsic rewards, typically at the core of stratification and labor markets literatures and which are also consistently demonstrated to be more prevalent in large organizations, are examined, namely earnings, benefits, and perceived promotion opportunities. In addition, we examine three intrinsic rewards that the organizational literature suggests small organizations may offer as a way of compensating for the fewer economic rewards that they can provide to their employees (Jacobs and Steinberg 1990; Zipp 1991; Ram 1999). These include autonomy, challenging work, and supportive working relationships with coworkers. By incorporating a broader set of intrinsic rewards, we aim to capture a clearer picture of the “total package” of job rewards offered across firm sizes. The little research that has examined compensating differentials tends to rely on monetary wages being the only compensation for undesirable job conditions (Groschen 1991), which may explain the lack of evidence for this theoretical explanation of the size–rewards relationship.

## DATA AND METHODS

### Sample

The data come from a longitudinal survey of lawyers in the province of Ontario during 1990 and 1996. In 1990, we selected a disproportionately stratified random sample from the membership records of the Law Society of Upper Canada. The questionnaires were mailed directly to the respondents’ places of employment. The sample was stratified by gender to include equal numbers of men and women called to the Ontario Bar between 1975 and 1990. The survey, with one reminder, received a 68-percent response rate ( $N = 1,582$ ). In 1996, we created a panel design, following up with this same sample of lawyers. Through a single reminder, we obtained a response rate of 70 percent ( $N = 1,087$ ) after adjusting for undeliverable or unusable surveys. This panel study documents the work experiences of a 15-year cohort of lawyers who, by 1996, were 6–21 years along in their careers. Ontario is an ideal setting for a study of law firms. The province is host to the largest population of lawyers in Canada: 41 percent of Canada’s lawyers practice law in Ontario (Kay and Hagan 2005:288), and the province is home to both the federal government (Ottawa) and Canada’s largest financial center (Toronto).

We limit the analysis to 361 lawyers working in law firms at the time of the 1996 survey. The 1996 panel was selected for the recency and completion of work history data. The sample excludes lawyers employed in legal clinics or who are self-employed, as well as lawyers employed in government, private corporations, legal aid, private associations, or in education. Only law firm lawyers are included because there are considerably fewer uniformities and commonalities in the organizational structure and job characteristics of lawyers employed in work settings other than law firms (Wallace 1995).

TABLE 1. Distribution of Number of Employees\*

Number of employees	N	Percent
2–25	161	44.6
26–49	31	8.6
50–99	30	8.3
100–199	61	16.9
200–299	19	5.3
300+	59	16.3
Total	361	100

\*Employees includes all lawyers (including self), paralegals, and office staff employed at one's law firm.

Table 1 presents the distribution of the law firms included in this analysis by number of employees. The average size of law firms included in this analysis is 140 employees (SD = 218). The law firms range in size from 2 to over 300 employees. Approximately 84 percent of the firms have less than 300 employees, and 62 percent have less than 100. About half (53 percent) of law firm lawyers work in firms of less than 50 employees, and 45 percent work in small firms of 25 or fewer employees.

### Firm Size

*Firm size* is measured by the number of employees that includes lawyers, paralegals, and secretarial and other office staff who are working at the respondent's firm. Number of employees is a common measure of organization size (Kalleberg and Van Buren 1996).<sup>1</sup> We used the natural logarithm of the number of employees because the size distribution is highly skewed (refer to Table 1) and the logarithmic transformation produces a distribution that is more compatible with the assumptions underlying multivariate analyses (Bielby and Baron 1983; Hollister 2004). In addition, the logarithm of firm size captures the curvilinear relationship between size and structure (Kimberly 1976). In this study of law firms, "establishments" are not distinguished from "firms" because multiple-firm establishments are restricted to such a tiny fraction of the very largest law firms (Abel 1989). It is important to note that the term "firm size" rather than "establishment size" is used in this article because it is more consistent with reference to law firms.

### Measures

Unless otherwise indicated, the responses for the Likert items include strongly agree (5), agree (4), neither agree nor disagree (3), disagree (2), and strongly disagree (1). Table 2 contains descriptive statistics for all of the variables included in the analysis.

*Earnings* is the respondent's reported annual income from the practice of law for the year prior to the survey, before taxes and other deductions are made (Mean = \$98,019.96, SD = \$60,988.58).<sup>2</sup> *Fringe benefits* is the proportion of six

TABLE 2. Descriptive Statistics for All Variables Included in the Analysis (N = 361)

	Mean	Standard deviation	Min.	Max.
Earnings	98,019.964	60,998.583	1.000	475,000.000
Benefits	0.552	0.306	0.000	1.000
Promotions	2.762	1.238	1.000	5.000
Autonomy	17.136	2.903	5.000	21.000
Challenge	3.781	0.859	1.000	5.000
Coworker	3.687	0.995	1.000	5.000
Size (log)	3.721	1.730	0.000	7.340
Gender (male)	0.510	0.501	0.000	1.000
Elite education	0.377	0.485	0.000	1.000
Experience	12.607	4.044	7.000	21.000
Productivity (billable hours)	1,379.344	354.414	74.000	2,750.000
Internal locus of control	2.040	0.524	1.000	3.500
Specialization	0.449	0.498	0.000	1.000
Job security	3.091	1.218	1.000	5.000
Firm-specific skills	3.432	1.063	1.000	5.000
Supervisory intensity	0.653	1.999	0.010	17.500
Fairness	3.317	1.089	1.000	5.000
Prestige (corporate clients)	0.615	0.487	0.000	1.000
Position (partner)	0.673	0.470	0.000	1.000

“personal” fringe benefits following Kalleberg and Van Buren (1996) (i.e., medical, dental, disability income support, sick leave, maternity/paternity leave, and pension) provided by the firm that the respondents report are offered by their firm (Mean = 0.55, SD = 0.31). *Perceived promotion opportunities* is measured by a single Likert item: the extent respondents feel they have opportunities for promotions in this organization (Mean = 2.76, SD = 1.24). *Autonomy* is measured by the cumulative score of five items tapping the extent to which respondents have discretion over: (1) what they do in their job; (2) important aspects of their work; (3) which clients and specific cases to take on; (4) what areas of law in which to work; and (5) are free from supervision (Mean = 17.14, SD = 2.90,  $\alpha = 0.72$ ). *Challenging work* is measured by the mean score of two Likert items tapping the degree to which respondents’ work is intellectually challenging and gives them a feeling of accomplishment (Mean = 3.78, SD = .86,  $\alpha = 0.78$ ). *Coworker relations* is measured by the mean score of two Likert items from Caplan, Cobb, and French (1975) that assess the degree to which colleagues can be relied upon when things get tough on the job and coworkers are helpful in getting their work done (Mean = 3.69, SD = 0.99,  $\alpha = 0.88$ ).<sup>3</sup>

We include four measures of *organizational structure* as control variables. According to the labor markets literature, large “core” firms tend to offer higher wages, more benefits, and greater career opportunities compared with small “periphery” firms (Baron et al. 1986; Kalleberg et al. 1996, 2006). The critical distinction between large,

core firms and small, periphery firms is tied to firm internal labor markets (FILMs), which are typically present in large firms and less prevalent in small firms (Villemez and Bridges 1988; Van Buren 1992; Kalleberg and Van Buren 1996; Hollister 2004). Employees of large firms are expected to report higher degrees of specialization, job security, and firm-specific skills than employees of smaller firms (Groschen 1991; Troske 1999). Lawyers in larger firms are pressured to develop highly specialized legal skills and expertise essential to a large firm's complex division of labor (Wholey 1985; Nelson 1988). *Specialization* was coded 1 for specialized areas of practice (e.g., real estate, family, taxation) and 0 for the most general areas (e.g., general practice, civil litigation, corporate/commercial) (Mean = 0.45, SD = 0.50). Larger firms are more likely to have a FILM that results in a greater sense of job security and provides enhanced opportunities for on-the-job training and skill acquisition in the form of firm-specific skills (Mellow 1982; Pfeffer and Cohen 1984; Evans and Leighton 1989; Van Buren 1992; Troske 1999). *Job security* was measured by a Likert item from Oldham et al. (1986), tapping whether respondents feel that their job security is good (Mean = 3.09, SD = 1.22). *Firm-specific skills* was measured by a single Likert item that reflects the degree to which respondents' skills and knowledge learned on the job in this organization would transfer easily to most other organizations (reverse coded) (Mean = 3.43, SD = 1.06). In the organizations literature, the ratio or percentage of supervisors to subordinates is referred to as "administrative intensity" (Marsden, Cook, and Kalleberg 1994) or "supervisory intensity" (Rebitzer and Taylor 1995; Van der Meer and Wielers 1998). Larger firms and organizations are more bureaucratic, typically more decentralized and more formalized, reducing administrative intensity (Marsden et al. 1994). *Supervisory intensity (percentage partners)* is the number of partners in the firm divided by the total number of employees (Mean = 0.65, SD = 2.00).

Three *job characteristics* are also examined: lawyers' perceptions of the fairness in allocating rewards in return for their work, the prestige of their work that is tied to their client base, and their position of authority in the firm. Economists suggest that larger firms pay a wage premium because it is more difficult for employers in these large firms to monitor each individual employee's productivity (Mellow 1982; Oi 1990; Groschen 1991; Kalleberg and Van Buren 1996; Rebitzer and Taylor 1995). It is expected that in large firms, lawyers will report greater fairness in the distribution of rewards in return for their output because of these monitoring and efficiency wage premiums. *Fairness* in the allocation of rewards is the mean score of three Likert items from Price and Mueller (1981) and McFarlin and Sweeney (1992), tapping whether respondents feel they are fairly rewarded for the amount of experience they have, the amount of effort they put in, and the responsibilities they have (Mean = 3.32, SD = 1.09,  $\alpha = 0.91$ ). It is also hypothesized that lawyers holding more prestigious jobs will be employed in large firms. Lawyers whose job involves serving primarily corporate clients are generally regarded as holding the most prestigious jobs compared with, for example, lawyers serving small businesses or individual clients (Heinz and Laumann 1978; Kay and Hagan 1999; Sandefur 2001; Beckman and Phillips 2005). *Prestige (corporate clients)* was coded

1 for respondents who spend more than 50 percent of their time working with corporate clients and coded 0 for those who spend 50 percent of their time or less (Mean = 0.61, SD = 0.49). The authority position in law firms is fairly basic in terms of the critical associate–partner distinction. Associates are salaried lawyers who are paid employees of the law firm. Partners are not salaried but rather owners of the firm, as opposed to employees. In law firms, jobs are usually structured so that there is a greater number of associates than partners in order to generate profits, and therefore, lawyers working in large firms are less likely to be partners (Galanter and Palay 1991; Kay and Hagan 1998). We therefore expect a negative relationship between firm size and partnership status. *Position (partner)* was coded 1 for partners and 0 for associates (Mean = 0.67, SD = 0.47).

In addition, we include *employee characteristics* as a set of control variables in our model. These variables include gender, training, experience, worker productivity, and internal locus of control. A large body of literature on gender and employment patterns in the legal profession suggests that female lawyers are underrepresented in law firm practice in general and in large firms more specifically (Kay and Hagan 2005; Sandefur 2007). This literature also indicates that male lawyers receive more pay and promotional opportunities, are granted greater autonomy in their work, and receive more interesting and challenging files (Epstein et al. 1995; Reichman and Sterling 2002; Kay and Hagan 2003). *Gender (male)* is coded 1 for males and 0 for females. Large organizations tend to have higher quality labor in that employees have better training, have vast work experience, and are more productive (Stolzenberg 1978; Brown and Medoff 1989; Kalleberg and Van Buren 1996; Troske 1999). Since all lawyers have essentially the same credential (i.e., a Bachelors of Law degree), we include a measure of *elite education* where lawyers who graduated from the law schools at University of Toronto or Osgoode Hall (Kay and Hagan 2003) were coded 1 and all other law schools were coded 0. *Experience* is measured by the year called to the Bar subtracted from the year of the survey. We also include a measure of *productivity (billable hours)* tapped through the average number of hours the lawyer billed per year. Law firms monitor intensely billable hours and use these hours as a proxy for effort and productivity (Daniels 1992; Wallace and Young 2008). It is expected that lawyers in larger law firms will bill longer hours because of the competitive culture of large law firms and the greater complexity of cases handled (Nelson 1983; Heinz et al. 2005). Last, we control for internal locus of control, which reflects the extent to which individuals feel they have control over life events. The organizations literature suggests that individuals working in large firms exhibit a strong internal locus of control, an asset to navigating professional roles within large and intensely competitive bureaucracies (Halaby 2003). *Locus of control* is measured by the mean score of eight Likert items (e.g., “I am responsible for my own successes” and “Most of my problems are due to bad breaks” [reverse coded]) ( $\alpha = 0.74$ ) from Levenson [1973], Hagan et al. [1999], and Wallace [2001]). Recent research on the legal profession (Hagan and Kay 2007) suggests that locus of control is an important variable that shapes emotional responses to occupational power with important consequences for job satisfaction.<sup>4</sup>

### Analytic Strategy

We examine the relationships between firm size and various job rewards, accounting for employee characteristics, organizational structure, and job characteristics. We begin with the intrinsic rewards (autonomy, challenging legal work, and coworker support) offered across firm settings (Table 3). We then shift to examine the variation in extrinsic rewards (earnings, benefit packages, and promotion opportunities) (Table 4). This analytic strategy allows us to examine the extent to which intrinsic and extrinsic rewards are related to firm size. We assess the underlying mechanisms that generate both intrinsic and extrinsic job rewards across firm sizes. Next, we test the compensating differentials theory most simply by adding the intrinsic rewards (autonomy, challenge of work, and coworker support) to the bivariate relationships between firm size and job rewards. We also test a more elaborate model of the compensating differentials theory by adding intrinsic rewards to the multivariate regression equations predicting extrinsic rewards (earnings, benefits, and promotions) in Table 4 (see Equations 1 and 2). If the firm size coefficient is significantly reduced with the addition of the intrinsic rewards then we have direct evidence that large firms offer more extrinsic rewards in order to compensate for fewer intrinsic rewards associated with large firms (see Baron and Kenny 1986:1176; McGloin and Pratt 2003:260).

TABLE 3. Ordinary Least Squares (OLS) Regression Results for Intrinsic Job Rewards (N = 361)

	Autonomy b( $\beta$ )	Challenge b( $\beta$ )	Coworker b( $\beta$ )
Firm size (log)	-0.302 (-0.180)***	0.010 (0.020)	-0.029 (-0.051)
Employee characteristics			
Gender (male)	0.009 (0.002)	-0.144 (-0.084)*	-0.080 (-0.040)
Elite education	-0.193 (-0.032)	0.120 (0.068)*	-0.014 (-0.007)
Experience	0.066 (0.092)*	-0.009 (-0.042)	-0.005 (-0.021)
Productivity (billable hours)	0.000 (-0.029)	0.000 (0.086)*	0.000 (0.085)*
Internal locus of control	-0.925 (-0.167)***	-0.046 (-0.028)	-0.232 (-0.122)**
Organizational structure			
Specialization	-0.682 (-0.117)**	-.112 (-0.065)*	-0.135 (-0.067)*
Job security	0.399 (0.167)***	0.133 (0.188)***	0.109 (0.134)**
Firm-specific skills	0.133 (0.049)	0.196 (0.243)***	0.090 (0.096)*
Supervisory intensity	0.124 (0.086)*	-0.002 (-0.005)	0.041 (0.082)*
Job characteristics			
Fairness	0.357 (0.134)**	0.189 (0.240)***	0.312 (0.341)***
Prestige (corporate clients)	-0.491 (-0.082)*	-0.082 (-0.047)	0.020 (0.010)
Position (partner)	1.479 (0.239)***	0.152 (0.083)*	0.085 (0.040)
Constant	16.376***	1.981***	2.334***
R <sup>2</sup>	0.289	0.300	0.268
F-test	10.827***	11.445***	9.777***

\* $p < 0.05$ , \*\* $p < 0.01$ , \*\*\* $p < 0.001$  (one-tailed test).

TABLE 4. Ordinary Least Squares (OLS) Regression Results for Extrinsic Job Rewards (N = 361)

	Earnings		Benefits		Promotions	
	Equation 1 b( $\beta$ )	Equation 2 b( $\beta$ )	Equation 1 b( $\beta$ )	Equation 2 b( $\beta$ )	Equation 1 b( $\beta$ )	Equation 2 b( $\beta$ )
Firm size (log)	8,541.25 (0.275)***	8,223.19 (0.265)***	0.078 (0.440)***	0.075 (0.424)***	0.120 (0.168)***	0.126 (0.176)***
Employee characteristics						
Gender (male)	24,581.27 (0.229)***	24,532.09 (0.229)***	0.042 (0.069)	0.047 (0.078)	0.099 (0.040)	0.144 (0.058)
Elite education	9,237.26 (0.083)**	8,828.02 (0.080)*	0.019 (0.031)	0.015 (0.024)	-0.056 (-0.022)	-0.088 (-0.035)
Experience	2,102.91 (0.158)***	2,135.66 (0.161)***	-0.010 (-0.129)**	-0.009 (-0.115)**	-0.006 (-0.019)	-0.005 (-0.016)
Productivity (billable hours)	15.98 (0.105)**	16.45 (0.109)**	0.000 (0.030)	0.000 (0.015)	0.000 (0.050)	0.000 (0.034)
Internal locus of control	-4,476.10 (-0.044)	-5,906.97 (-0.058)	0.003 (0.005)	0.000 (0.000)	-0.137 (-0.058)	-0.097 (-0.041)
Organizational structure						
Specialization	1,092.17 (0.010)	347.88 (0.003)	0.029 (0.047)	0.027 (0.044)	0.105 (0.042)	0.159 (0.064)
Job security	2,642.80 (0.060)	3,075.89 (0.070)	0.019 (0.076)	0.018 (0.072)	0.374 (0.368)***	0.322 (0.317)***
Firm-specific skills	1,074.43 (0.021)	1,146.94 (0.023)	0.011 (0.039)	0.006 (0.022)	0.078 (0.067)	0.013 (0.012)
Supervisory intensity	1,246.97 (0.046)	1,496.60 (0.056)	0.011 (0.071)	0.011 (0.073)	0.024 (0.039)	0.021 (0.034)
Job characteristics						
Fairness	5,019.85 (0.102)*	6,181.95 (0.125)*	0.052 (0.186)***	0.044 (0.015)**	0.298 (0.262)***	0.229 (0.202)***
Prestige (corporate clients)	11,226.72 (0.102)**	11,193.06 (0.102)*	-0.010 (-0.016)	-0.015 (-0.024)	-0.001 (0.000)	0.038 (0.015)
Position (partner)	29,090.49 (0.254)***	29,999.11 (0.262)***	0.100 (0.153)***	0.112 (0.171)***	0.010 (0.004)	-0.079 (-0.030)
Intrinsic job rewards						
Autonomy	-47,317.820**	-572.81 (-0.031)	-0.039	-0.012 (-0.110)*	-0.086	0.029 (0.067)
Challenge	0.446	1,987.30 (0.032)	0.353	0.020 (0.056)	0.416	0.309 (0.214)***
Coworker		-4,280.86 (-0.079)		0.027 (0.089)*		0.000 (0.000)
Constant		-31,882.359		0.047		-1.164*
R <sup>2</sup>		0.452		0.368		0.428
F-test		21.488***		12.534***		17.826***

\* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$  (one-tailed test).

## RESULTS

Firm size is clearly correlated with earnings ( $r = 0.339$ ), benefits ( $r = 0.492$ ), perceived promotional opportunities ( $r = 0.269$ ), and challenging work ( $r = 0.101$ ) (see Appendix). However, firm size is also negatively associated with levels of autonomy and appears unrelated to coworker collegiality. These zero-order relationships provide preliminary support for the compensating differentials argument. We turn next to Tables 3 and 4 that present Ordinary Least Squares (OLS) estimates obtained from the regressions of each job reward on firm size, employee characteristics, organization structure, and job characteristics. After controlling for these three sets of variables, firm size is negatively related to autonomy ( $\beta = -0.180$ ) (Table 3) and positively related to earnings ( $\beta = 0.259$ ), benefits ( $\beta = 0.440$ ) and perceived promotion opportunities ( $\beta = 0.168$ ) (Equation 1, Table 4). These findings provide further support for the compensating differentials argument where larger firms may offer various extrinsic rewards to compensate for workers' lack of autonomy. For the other two intrinsic rewards, contrary to what was expected, firm size fails to have a significant impact on opportunities for challenging work after controlling for organizational structure and employee and job characteristics (see Table 3). Similarly, the degree of coworker support appears unrelated to firm size.

Several interesting findings emerge among the intrinsic rewards offered across firm sizes (Table 3). In terms of organization structure, job security is positively related to all three intrinsic rewards: autonomy, challenging work, and coworker support. Possession of firm-specific skills is related to more challenging work assignments and quality relations with colleagues, while high supervisory intensity is associated with more collegial working relations. Lawyers working under intense supervision report a greater sense of autonomy—suggesting that small and medium-sized firms may, despite supervisory intensity, offer considerable autonomy to employees. Turning next to the job characteristics, law firm partners report more workplace autonomy and available challenging work than associates—perhaps both inherent to the design of partnership status within firm hierarchies, although interestingly, coworker support was unrelated to partnership status. Not surprisingly, jobs perceived by lawyers to offer fairness of reward dispensation also offer greater autonomy, challenge, and collegiality. Last, the control variables show that more experience is related to greater autonomy, and greater productivity (i.e., billable hours) is positively related to more challenging work assignments and better opportunity for collegial relationships. Elite education also delivers more interesting and challenging work assignments.

Yet not all the relationships with the intrinsic rewards are as we expected. For example, a high degree of specialization is negatively related to all three intrinsic rewards. To the extent that lawyers working in legal specializations operate in narrowly defined areas of law, they may not have the freedom to select cases or to manage all aspects of cases, nor to engage with various colleagues on a diversity of cases. In addition, working with prestigious corporate clients is negatively related to autonomy. This finding may reflect a recruitment and service of corporate clients that typically involves a team of legal talent within the firm. The results for the control variables show

that men report less challenging work assignments, although this could possibly reflect a gendered valuation of work assignments. That is, women may assess more favorably work assignments based on different reference groups or reference jobs (Hodson 1989). In addition, a strong internal locus of control is negatively associated with autonomy and coworker support. Perhaps high internal locus of control does not relate to highly motivated and cooperative team players but rather to edgy-self interest that undermines effective coworker relations.

We turn next to the extrinsic rewards (see Table 4). Larger law firms offer a significant boost to annual earnings ( $\beta = 0.275$ ), benefit packages ( $\beta = 0.440$ ), and perceptions of a promising career ladder ( $\beta = 0.176$ ).<sup>5</sup> Organizational structure does not appear particularly relevant to the extrinsic job rewards where only job security is positively related to perceived promotional opportunities ( $\beta = 0.368$ ). The characteristics of the job itself, including partnership status, elite corporate clientele, and perceived fairness are positively related to sizable income returns. Partnership is associated with an enhanced package of benefits, and greater job security is related to a greater sense of opportunities for promotions, net of other organizational and employee factors. Not surprisingly, jobs that are perceived to offer fair rewards are correlated with jobs that also offer higher earnings, better benefits, and perceived promotion chances. A host of employee characteristics, consistent with the human capital literature, also yield enhanced earnings within firms. For example, graduation from an elite law school, having more years of practice experience, and tangible evidence of strong productivity through high billable hours are related to sizeable income gains.

How do intrinsic rewards figure into the package of extrinsic rewards? Are lawyers working in larger firms offered superior earnings, benefits, or promotion opportunities to compensate for lower autonomy, less interesting and diverse work assignments, or reduced collegiality, as the theory of compensating differentials suggests?

We directly tested this theory by regressing firm size on each of the extrinsic rewards (earnings, benefits, and perceived promotion opportunities) (refer to Appendix for zero-order correlations) and then introducing the intrinsic rewards (autonomy, challenge, and coworker support) as control variables in the regression equations (results not shown). If the firm size coefficients were to disappear with the addition of intrinsic rewards, then we could say that large firms have to pay higher wages or offer more benefits in order to compensate for lower autonomy and other intrinsic job rewards. However, in each case, we found that firm size retained its original level of statistical significance. This pattern of results refutes the central hypothesis of compensating differential theory.

Yet this simple test of the theory fails to consider a more elaborate model whereby organizational structure, and job and employee characteristics are also related to the range and magnitude of professional rewards. We suggest that a further layer of mediating variables may exist such that firm size shapes various organizational, job, and employee characteristics that in turn directly impact upon available intrinsic job rewards, leading to compensating extrinsic job rewards. In other words, large law firms are composed of a constellation of organizational contexts, job types, and employee

attributes that unfortunately lead to lower intrinsic job rewards (compared with small firms), but employees are then compensated through more enviable extrinsic job rewards. Comparing Equations 1 and 2 of Table 4, we directly test this additional layer of mediating variables. Across all three models for Equation 2 (e.g., earnings, benefits, or promotions), the firm size coefficient fails to disappear or even decline significantly with the addition of intrinsic reward variables. In other words, intrinsic rewards do not fully or partially mediate the effects of firm size on the delivery of extrinsic rewards. This evidence challenges the idea that larger law firms have to pay higher wages or offer more benefits in order to compensate for lower autonomy or otherwise intrinsically unrewarding workplaces.

## DISCUSSION AND CONCLUSIONS

The first goal of this article was to examine whether certain intrinsic job rewards are more prevalent in small firms while extrinsic rewards prevail in large firms. The results show that large firms offer more extrinsic rewards (wages, benefits, and perceived promotional opportunities) when compared with small firms. Small firms offer more intrinsic rewards than large firms in the form of autonomy but similar amounts of intrinsic rewards in terms of challenging work and coworker relations. That is, larger firms do not appear on the surface to offer more extrinsic rewards in order to compensate for fewer intrinsic rewards—only one of the three intrinsic rewards examined in this study made small firms more beautiful than large firms. These findings are inconsistent with the compensating differentials explanation of the observed gap in extrinsic rewards between small and large firms.

We then went on to test the compensating differentials argument by integrating the three intrinsic rewards into our regression analyses predicting extrinsic rewards. We also tested the compensating differential explanation with more sophisticated models of the mediating processes (through employee characteristics, organizational structure, and job features) to reveal how disadvantaged intrinsic rewards are generated and, in turn, are then compensated for with enhanced extrinsic job rewards. However, in none of the models, across all three extrinsic rewards, was the coefficient of firm size reduced to nonsignificance with the addition of the intrinsic reward variables. These results refute the idea that large firms dole out enhanced extrinsic rewards in compensation for their inferior intrinsic reward offerings.

Our findings suggest that the presence of a FILM is consistently and positively related to job rewards. Two variables were found to be particularly important: job security and perceived fairness in the distribution of rewards. Job security was positively related to firm size (see Appendix) and positively related to each of the intrinsic job rewards and to perceived opportunities for promotions, which suggests that the presence of a FILM is clearly related to law firm size. Fairness was positively related to firm size (see Appendix) and again to all six of the job rewards. Both variables reflect the extent to which employees trust their employer to maintain and reward the employment relationship. These workplace characteristics reflect the normative codes or perceived

legitimacy of the employer's authority and governance practices, and FILMs are often held responsible for bringing legitimacy to the authority system to the workplace (Doeringer and Piore 1971; Williamson 1975).

Consistent with Kalleberg and Van Buren (1996), we found that the size–autonomy relationship was only partially mediated by the job characteristics variables. They conclude that employees have less autonomy in large organizations and when FILMs are present. In our study, the positive relationship between firm size and challenging work was mediated by specialization, job security, and fairness, three variables tapping the presence of a FILM. We recommend that future research develop more precise measures to assess FILMs not only in terms of their presence but also in terms of the actual way in which they operate within an organization to affect the distribution of job rewards (Kalleberg and Van Buren 1996).

A surprising finding is that coworker relations appear unrelated to firm size. Much of the organizations literature describes the alienating nature of larger firms and how supportive and collegial the working relationships are in smaller settings (Ingham 1970; Granovetter 1984; Hodson and Sullivan 1985; Zipp 1991; Ram 1999). Our findings do not support such claims. One possible explanation may be because of the measure used in this study, which refers to whether *colleagues* can be relied upon when things get tough on the job and to what extent *coworkers* are helpful in getting the job done. Reference to colleagues and coworkers might have been interpreted in terms of respondents' immediate work group regardless of firm size. The immediate work group is the most proximate unit where the most frequent and direct interaction occur and likely represents those whom respondents identify as coworkers or colleagues. Lawyers may have equally supportive coworkers in their immediate work group of 4 or 5 coworkers regardless of whether they work in a firm of 4 or 5 lawyers or one consisting of 40 or 100. In small firms, the immediate work group and the members of the firm may be one and the same, such that their collegial ties may actually reflect the strength of ties lawyers have with members of their entire firm. In large law firms, however, the immediate work group working on a particular client file is located within a multitude of specialized teams that make up the large firm. Consequently, the strength of coworker relations, as they permeate throughout lawyers of the entire firm, may not be accurately tapped. It is also important to note that a lawyer's coworkers within a law firm are generally members of the same professional occupation. In professional organizations (such as law firms), collegiality may be largely determined by the fact that all organizational members belong to the same occupation as much or more so than by the way their work is structured and organized.

Overall, the findings of this study generally support Kalleberg and Van Buren's (1996) conclusion that "bigger is better." While they found that larger firms offer more benefits and promotions, we found that larger law firms also offer higher wages after controlling for a host of organizational features. Kalleberg and Van Buren concluded that "small is beautiful" if workers desire autonomy and control over their work, which our findings also suggest. Yet smaller firms are not necessarily more attractive in terms of the two other intrinsic rewards, challenging work, and coworker relations. Future

research should examine hypotheses of compensating differentials across individuals' careers. Recall that our sample consists of lawyers who are well along in their careers, with at least 6–21 years of practice experience. One possibility is that lawyers select jobs in large law firms, at least initially in their careers, perhaps to pay off loans from rising law school tuition. It is conceivable that initial wage rates compensate for differences in intrinsic rewards but then level off over time. There may also be considerable movement across firms of different sizes by lawyers to achieve equitable (or desirable) balance between extrinsic and intrinsic rewards. In this sense, compensating differentials may operate in a dynamic labor market whereby different ratios are required for recruitment versus retention or lateral hiring. Future research that spans the entire duration of professionals' careers may better capture these career shifts.

In closing, we draw three conclusions from our study. First, we know relatively little about the organizational factors responsible for the array of intrinsic rewards employees receive regardless of firm size. Note that our regression models operate better to explain extrinsic than intrinsic rewards across firm sizes.<sup>6</sup> For example, labor market dynamics, product market (concentration of legal services and the "industry" of law), and institutional forces may shape the growth, merging, and shrinkage of law firms and their concordant dispensations to lawyers within firms. Similarly, our understanding of labor markets internal to firms (FILMs) remains ambiguous. The presence of an internal labor market does not equate with all lawyers having equal access to promotion ladders.

Second, we do not have a good understanding of small firms and what they have to offer to their employees as rewards or incentives (Ram 1999; O'Regan and Ghobadian 2004). We propose that small firms may be attractive to workers because they perhaps offer greater opportunity for individualized choices in terms of schedules, clientele, pace of work (billables), and autonomy in the management of cases, although admittedly with a deflation of earnings and prestige. The possibility that small firms offer more autonomy in one's legal work merits further investigation, especially as we know that small firms also face constraints of limited staffing, profits, and diversity of clientele, which constrain individuals' freedom of action. "Small is beautiful" certainly holds true if lawyers desire to exercise autonomy and control over their legal tasks.

Third, we are unable to *fully* explain why large firms offer more of these extrinsic rewards compared with small firms. The persistence of this puzzle is consistent with Kalleberg and Van Buren's (1996) analysis of the *National Organizations Survey*, where characteristics of FILMs (e.g., job security and fairness, in particular) *do appear* important in understanding the distribution of both intrinsic and extrinsic rewards. Firms that offer internal labor markets with job security and perceived fairness in the distribution of rewards are likely to retain productive and talented lawyers and will benefit through the dedication and quality of work these lawyers produce for the firm. As Marcelle and Strobl (2003) note:

The fact that larger firms appear to pay higher wages than smaller firms for equally productive workers was noted almost a century ago by Moore [1911]. However, despite a reemergence of interest in this aspect of the labour market in the late 1980s,

the availability of more and richer data sets, and the use of more sophisticated statistical techniques, there has been little consensus on the causes of this empirical artifact. (P.181)

Further research is needed to unpack the organizational processes underlying the relationship between size of firm and the rewards meted out to professionals as employees.

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## NOTES

<sup>1</sup>In order to be consistent with the general literature on firm size and job rewards, we used the number of *employees* working at one's firm (including lawyers, legal secretaries, and paralegals) as a measure of firm size. However, law firm size is commonly understood by lawyers to mean the number of *lawyers* rather than the number of employees or total persons working at the respondent's place of employment. The zero-order correlation between measures of firm size based on the number of lawyers versus the number of employees is 0.988. We also estimated the models for each job reward in Table 3 (results not shown) using firm size measured as the number of lawyers in one's firm, and the pattern of results did not differ substantially from those reported in this article. The same coefficients were statistically significant, and the individual coefficients and R<sup>2</sup>s were virtually identical.

<sup>2</sup>Earnings analyses often employ a logarithmic transformation (natural log) to address a skewed distribution or diminishing returns to scale (Roth 2003; Huffman and Cohen 2004). Yet other research uses raw earnings, noting that skewness will not bias estimates of regression coefficients nor greatly increase their variances (Ornstein 1983:47), and the results are more easily interpretable as dollar figures (Kay and Hagan 1995; Dwyer 2004). Recall that our sample consists of lawyers from wave 2 (1996) of a longitudinal study. These lawyers are well along in their careers, with at least 6–21 years of practice experience. Hence, the earnings distribution is not characterized by the strong positive skew often exhibited in cross-section surveys of the profession. We have opted to report our analyses based on raw earnings as a result of the distribution characteristics and ease of interpretation. We further calculated regression estimates using both raw earnings scores and a logged earnings function. Results were robust and effects consistent in size and significance across the two regression estimations.

<sup>3</sup>Among the Likert-scaled dependent variables, there is a satisfactory distribution of cases across all items of the scales for justifying the use of OLS (as opposed to a binary distribution that would suggest that logistic regression might be more appropriate). The cohorts included in this study are well established in their careers and likely have greater homogeneity than those in the broader profession, which might explain the normal distributions for these variables.

<sup>4</sup>Locus of control has been demonstrated to be an important variable in studies on gender and careers. For example, Hagan and Kay (2007), in their study of the legal profession, reveal how lower occupational power produces feelings of general powerlessness, which in turn lead to reduced job satisfaction. Our work draws on measures of powerlessness designed by Mirowsky and Ross in their studies of gender and depression. An interesting dilemma is to consider whether locus of control is a stable personality trait, as Hagan et al. (1999) suggest, or formed through work experience. As a stable personality trait, one might expect that individuals possessing these global orientations seek out particular work settings at the outset of their career. However, it is also possible that across careers, job conditions such as challenging work portfolios or dissolution of partnerships might impact upon these personality traits (e.g., building self-reliance or undermining confidence).

<sup>5</sup>The log of firm size is utilized because of the skewed distribution. Although the logged distribution is appropriate given the skewed distribution across firm sizes, some interesting dynamics exist across different sizes of firms, including the possibility of threshold effects. We explored this possibility using earnings as the dependent variable (and subsequently each of the other job rewards as dependent variables) and coding firm size in terms of (1) 25 or fewer employees, (2) 26–49, (3) 50–99, (4) 100–199, (5) 200–99, and (6) 300 or more employees. We treated 50–99 employees as mid-sized law firms and as a comparison category in the regression analyses. Our analyses (available from authors) revealed that while smaller firms face an income disadvantage relative to mid-sized firms, it is really only the very large firms (over 200 lawyers) that offer the potential for truly lucrative earnings (and this income advantage levels off with firms over 300 lawyers). This sort of threshold effect also applies to promotion opportunities (greatest in firms of 200–300 but falling off beyond 300 lawyers). The superior benefits packages are in the large firms over 300 lawyers; meanwhile, autonomy and variety of work decline in larger firms at more consistent rates.

<sup>6</sup>For instance, our models explain from 27 to 30 percent of the variance in autonomy, challenging work, and coworker support. In contrast, parallel models explain 42 percent of the variation in earnings and promotions and 37 percent of the variation in benefits across firms.

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Appendix. Correlation Matrix for Covariates (N = 361)

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
1. Earnings	—																	
2. Benefits	.290**	—																
3. Promotions	.286**	.369**	—															
4. Autonomy	.081	-.078	.193**	—														
5. Challenge	.148**	.225**	.450**	.226**	—													
6. Coworker	.095*	.210**	.310**	.262**	.373**	—												
7. Size (log)	.339**	.492**	.269**	-.231**	.101*	.025	—											
8. Gender (male)	.357**	.108*	.102*	.107*	-.034	.012	.007	—										
9. Elite education	.198**	.136**	.057	-.034	.112*	.023	.178**	.019	—									
10. Experience	.315**	-.081	-.006	.203**	-.032	.001	-.062	.298**	.071	—								
11. Productivity	.279**	.211**	.251**	.037	.201**	.197**	.192**	.192**	-.066	.019	—							
12. Locus of control	-.134**	-.050	-.180**	-.239**	-.152**	-.218**	.016	-.080	.005	-.064	-.064	—						
13. Specialization	.117*	.154**	.106*	-.158**	-.043	-.041	.185**	.161**	.069	-.053	.088*	-.075	—					
14. Job security	.217**	.225**	.532**	.252**	.364**	.333**	.093*	.069	.045	-.019	.218**	-.157**	-.008	—				
15. Firm-specific skills	.066	.102*	.212**	.124**	.350**	.233**	.012	-.029	.060	-.037	.117*	-.230**	.026	.173**	—			
16. Supervisory intensity	-.095*	-.123**	-.074	.097*	-.064	.037	-.321**	-.029	-.079	-.040	-.067	.065	-.017	-.060	.016	—		
17. Fairness	.291**	.365**	.506**	.199**	.414**	.440**	.245**	.085	.126**	.012	.251**	-.172**	.079	.448**	.229**	-.114*	—	
18. Prestige (corporate)	.197**	.158**	.105*	-.159**	.001	.026	.360**	-.081	.110*	-.024	.118*	.018	.062	.074	-.043	-.040	.079	—
19. Position (partner)	.362**	.153**	.076	.308**	.108*	.090*	-.007	.273**	.079	.323**	.149**	-.073	-.060	.096*	-.056	-.104*	.127**	-.042

\* $p < .05$ , \*\* $p < .01$ , \*\*\* $p < .001$  (one-tailed test).