

Necessity and Opportunity Entrepreneurs in Legal Professional Service Firms

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I. Abstract

- This research examines certain characteristics of opportunity and necessity entrepreneurs (Reynolds et al., 2003; derived from, Shane et al., 1991; Reynolds and Miller, 1992; Krueger and Brazeal, 1994) in the legal services industry.
- Certain proprietors of law firms entered the profession with the *intent* to become proprietors of their own firms. These are characterized as Opportunity Entrepreneurs. Others did not achieve partnership in large and mid-sized firms and were forced into self-employment. These are described as Necessity Entrepreneurs.
- Based on Regulatory Focus Theory (Higgins, 1997, Crowe and Higgins, 1997; Shah & Higgins, 1997), Opportunity Entrepreneurs are promotion focused and Necessity Entrepreneurs prevention focused.
- Under Market Orientation Theory (Narver and Slater, 1990), Opportunity Entrepreneurs are focused on customer orientation, while Necessity Entrepreneurs concentrate on internal or competitor considerations.

II. BACKGROUND

a. Why is the Service Industry is Important?

EMPLOYMENT:

30% of the population in 1900 (Cronin and Taylor, 1992).
67.7 % in 2014 (Dept. of Labor, 2015).

ECONOMIC CONTRIBUTION:

77.6% of U.S. GDP in 2015 (CIA World Fact Book, 2016).
58% of total worldwide GNP (Cronin and Taylor, 1992).

SERVICE SECTOR DOMINANCE:

Add nearly 9.3 million jobs – 2014-2024.
Reach over 129.9 million jobs in 2024.
≈ 95 percent of all the jobs added from 2014 to 2024.
Employment growth: 0.7 percent annually 2014 to 2024.
Context: 0.6-percent for entire economy.

b. Competitive Hostility in the Legal Industry

NEW ENTRANTS:

- Law school graduations increased by almost 10,000 lawyers annually (e.g. from 35,604 in 1980-1981, to 44, 495 in 2010-2011). (ABA Report on Degrees Awarded, 2011).
- 46,776 in 2013 (Statista, 2013).
- Receded to 34,922 in 2017.



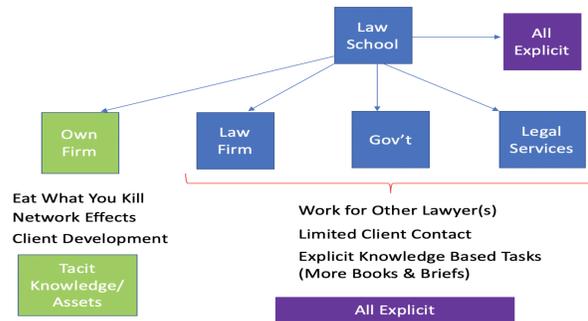
DECREASED EMPLOYMENT:

- "[I]ndustry is down more than 40,000 jobs" (Fitzgerald, 2014).
- Clients disaggregate matters – combining the services of several different service providers in order to achieve increased efficiencies.
- Non-traditional service providers (including non-law firms) provide a wide range of services. previously obtained almost exclusively from law firms.
- More likely today to retain work in-house.

"Competition for [legal services jobs] jobs over the next 10 years is expected to be strong because more students graduate from law school each year than there are jobs available." U.S. Bureau of Labor and Statistics (BLS) (2020), Occupational Outlook Handbook, Lawyers, <https://www.bls.gov/ooh/legal/lawyers.htm> (last visited on June 10, 2020).

c. The Career Path for an Attorney

- A subsection of lawyers attend law school with the goal of starting their own firm. 30% of lawyers are self-employed (i.e. are entrepreneurs) (BLS, 2020) .
- Another subsection attend law school with the goal of becoming an associate at a pre-existing firm or commercial entity, and thereafter working for promotions.



After approximately 7 Years:

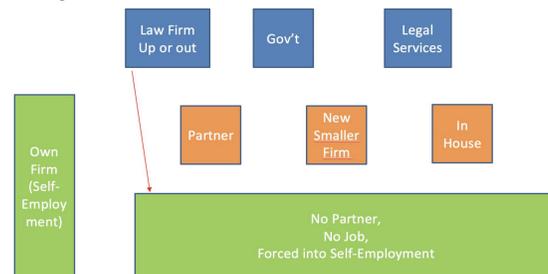
- Associates either make partner or are separated from the firm.
- A portion separated are unable to find acceptable subsequent employment and begin to accept cases in self-employment.

III. Literature Review



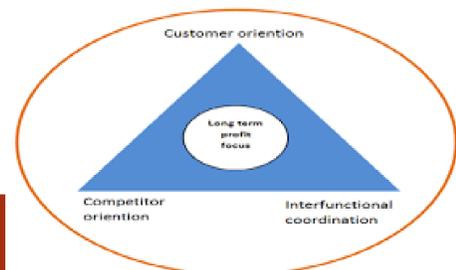
a. Necessity/Opportunity Entrepreneur Theory

- Proposed by Reynolds et al. (2003), and derived from Shane et al. (1991); Reynolds and Miller (1992); Krueger and Brazeal (1994).
- Necessity Entrepreneurs are forced into self-employment due to the absence of other opportunities. This corresponds to attorneys that failed to make partner, found no other attractive employment opportunities, and thereby formed their own firms.
- Opportunity Entrepreneurs have the goal of forming new organizations. This corresponds to those who attended law school with the goal of founding their own firms.



b. Market Orientation

Developed by Narver and Slater (1990)
A behavioral model comprised of three core dimensions:

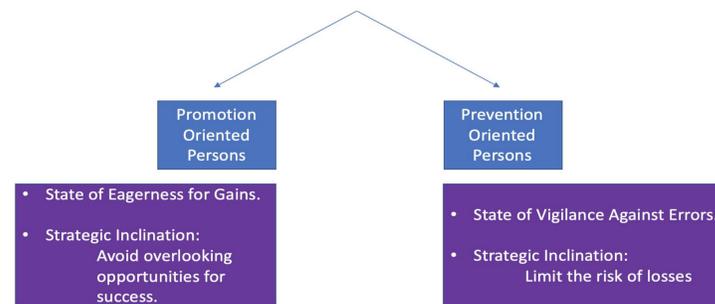


III. Literature Review (cont.)

c. Regulatory Focus Theory

Proposed by Higgins (1997) – further developed by Crowe and Higgins (1997); Shah & Higgins (1997).

- Opportunity Entrepreneurs are promotion focused (oriented to not missing opportunities to secure gains).
- Necessity Entrepreneurs are prevention focused (oriented to avoid committing errors).



Regulatory Focus Positions are Predominately Fixed and Invariable with No Environmental or External Causation (Shah & Higgins, 1997; Higgins, 2000; Scholer, Kentaro, Zou, Stroessner, and Higgins, 2010).

Chronic Promotion Focus Or A Chronic Prevention Focus (Shah, J., Higgins, T., & Friedman, R. S., 1998).

IV. Hypotheses

- H 1: Opportunity Entrepreneurs are promotion oriented under Regulatory Focus Theory.
- H 2: Necessity Entrepreneurs are prevention oriented under Regulatory Focus Theory.
- H 3: Opportunity Entrepreneurs are more client or customer focused under Market Orientation Theory.
- H 4: Necessity Entrepreneurs are less client or consumer focused under Market Orientation Theory.

V. Research Design

a. Sample

- Massachusetts Attorneys admitted to the bar since 2009.
- Data gathered through survey instrument.
- Certain self-report points of data cross-referenced to BBO registration data.



V. Research Design (Cont.)

b. Measures

1. Opportunity vs. Necessity Entrepreneurs:

- Opportunity Entrepreneurs – Commenced own firms or self-employment within 3 years of graduating from law school.
- Necessity Entrepreneurs – Commenced own firms after working for other firms more than 3 years after graduating from law school.

2. Customer Orientation:

- 8-item scale developed by Lockwood et al. (2002) (applied to entrepreneurship in Mitteness et al., 2012).
- Calculated by averaging the items from Promotion/Prevention subscales.
 - Promotion orientation: Subtract prevention from promotion score.
 - + Positive scores reflect greater promotion focus.
 - Create Binary Category – High/Low.

3. Regulatory Focus Theory:

- Measured using 2 separate instruments:
 - Narver and Slater (1990) – Market Orientation;
 - Adapted from Affective Customer Orientation (Peccei & Rosenthal, 2000).

c. Proposed Analytical Approach

H1 & H2: Opportunity Entrepreneurs = Promotion Oriented
Method: Logit or Probit Model

H3 & H4: Opportunity entrepreneurs = Higher Market Orientation
Method: Multinomial Logit Model

VI. Contributions



a. Theoretical Implications:

- Extends knowledge and models of how highly educated persons in Professional Services Industries function & perform as entrepreneurs.
- How intransigent strategic orientations affect probabilities of success in entrepreneurship.

b. Practice Implications:

- In context of PSF, issues re fitness for entrepreneurship.
- Awareness of how characteristics impact choice of work activities and, therefore, their success.

VII. Limitations



- Only Boston, Massachusetts – Issue: Similar results with different samples?
- Only PSF in Legal Profession - Issue: Similar results in other PSF professions?
- Data Derived from Survey Completed by Sample Attorneys – Issue: Self-report problems.