

Influence of Regain Management Practices and Cultural Framework Conditions on Customer Recovery Success in Professional Service Firms

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Abstract

This paper presents the results of a study on regain management (RM) of professional service firms (PSFs). A preliminary exploratory study first confirmed the relevance of the research gap and obtained initial insight into the methods of PSFs to regain customer relationships. The subsequent main study examined the effects of regain actions and PSF-specific framework conditions on customer recovery success. The assumed correlations were analysed based on a survey of 112 PSFs and using the Partial Least Squares (PLS) Approach. The results show that setting up concrete targets, identifying and analysing lost customers, and the regain offer affect the RM quality and determine the regaining success. Furthermore, the results highlight the importance of the recovery management culture paid little attention to so far, which in PSFs is primarily determined by the attitudes and behaviours of the owners. We can derive concrete recommendations to help increase the professionalism in RM of PSFs.

Keywords: regain management, customer recovery culture, professional service firm

Track: Business-To-Business Marketing & Supply Chain Management

1. Introduction

Although professional service firms (PSFs) strive to establish long-term customer relationships (Amonini, McCall-Kennedy, Southar, and Sweeney, 2010), the business relationships between PSFs and their clients are becoming more unstable (Willamowski, 2014). In addition to disruptions within the mandate, this is due to increased cost, consolidation, financing, and regulatory pressure (Grewe, 2008). The loss of clients weighs heavily on PSFs because they serve a limited customer base (Shamma, Dyer, and Liebrez-Himes, 2011). PSFs must acquire new clients or regain lost clients to compensate for this loss (Pick & Krafft, 2009).

Customer win-back still is an unexplored area (Kumar, Bhagwat, and Zhang, 2015; Homburg, Hoyer, and Stock, 2007). So far, research has not focused on examining the regain management of PSFs. This paper intends to close this gap.

PSFs are companies organized within partnerships or partnership-like structures (Hings, Brown, and Greenwood, 1991). They render knowledge-intensive services with highly qualified employees (Alvesson, 2001) in constant interaction with clients (Løwendahl, Revang, and Fosstenløyken, 2016; Nordenflycht, 2010) with little use of capital in the process (Greenwood & Suddaby, 2006). Despite these characteristics, the group of PSFs is rather diverse. In order to carry out a more consistent analysis, this study focuses on law firms, tax advisory firms, and accounting firms, which represent a very homogeneous part of the PSFs. In addition, these trades are considered exemplary samples for PSFs, whose analysis can generally yield useful findings (Covaleski, Dirsmith, Heian, and Samuel, 1998).

Regain management includes planning, executing, and controlling a company's processes to win back customers (Stauss & Friege, 1999). The target group includes former and current customers, identified as at risk of leaving, for example, because they have reduced their demand. The study considers that the collaboration with PSFs can also be project-based, i.e., limited in time, without the need for an explicit termination of a customer-firm relationship.

Against this background, the objective of this study is to:

1. review the practical relevance of the identified research gap,
2. gain an initial insight into the regain management of PSFs and
3. identify factors that (positively) influence regain successes.

2. Preliminary Exploratory Study

The preliminary exploratory study aimed to verify the practical relevance of the identified research gap, provides an initial insight into the regain management of PSFs, and incorporates these findings into the design of the primary quantitative study (Kuckartz, 2014). For the preliminary study, a total of 30 qualitative, guideline-based expert interviews were conducted with representatives of PSFs in Germany. The preliminary is based on a theoretical frame of reference which looks at both the process and the general conditions of the company's regain management (Stauss & Friege, 1999).

The results of the preliminary study confirm the practical relevance of the topic for PSFs. Furthermore, the results show great potential for improvement in all phases of recovery management (Pick & Schleus, 2018).

The preliminary study results were able to enrich the study's progress in terms of conceptual content. For instance, there were indications that the owners are critical in PSFs, especially their attitudes and behaviours. These include (1) raising their awareness of the topic of customer win-back, (2) their handling of (their own) mistakes in the completion of mandates, (3) their support for the employees responsible for planning and managing the regain measures, and (4) their leeway in decision making. The theoretical frame of reference for the main quantitative study was extended to include these aspects, collectively referred to as "Customer Recovery Culture".

3. Main Quantitative Study

The main quantitative study aims to analyse the influence of regain activities and PSF-specific framework conditions on the success of customer recovery and to review the expected cause-effect relationships. Between 2019 and 2020, a total of 112 partners or managing directors as well as business development and marketing managers from PSFs based in Germany were surveyed on procedures, framework conditions and successes in customer recovery management in two waves of surveys. The sample consists of 36 mono- and 76 multi-disciplinary companies. All respondents, except for two, were involved in planning, implementing, and controlling regain measures at the time of the survey. The study was conducted as a structured online survey. Seven-point Likert scales were mainly used to measure the individual constructs, e.g., regain success of PSFs surveyed compared to competitors (Gwinner, 2019) or average recovery rate (Seidl, 2010) as indicators of success.

4. Data Analysis and Results

Structural equation modelling (SEM) using the SmartPLS software was used to analyse and present the data (Ringle, Wende, and Becker, 2015). This variance-based approach was chosen because it has a more exploratory character (Hair, Hult, Ringle, and Sarstedt, 2017) than confirmatory covariance-based approaches. Thus, it seems well suited to the so-far unexplored approaches and effects in regain management of PSFs. This work also aims to provide PSFs with a basis for decision-making in the design of their regain management by identifying factors that positively affect the regain success. The PLS approach follows this objective in that changes in the target variables can be explained by determining their determinants (Herrmann, Huber, and Kressmann, 2006). Furthermore, the PLS approach also enables reliable results for smaller samples (Chin & Newstedt, 1999).

To evaluate the reflective measurement models, the indicator loadings were examined first (Hair et al., 2017). In four measurement models, a total of eight indicators with factor loadings below 0.70 were eliminated. This process will confirm acceptable indicator reliability (> 0.50) for the remaining indicators. The internal consistency reliability check exceeded the recommended composite reliability, Cronbach's Alpha, and Dijkstra-Henselers ρ_A (each > 0.7) thresholds for all constructs. Furthermore, the average variance extracted (AVE) for all constructs is over 0.50, confirming convergence validity. Finally, discriminant validity was assessed using the Fornell-Larcker criterion, the Heterotrait-Monotrait (HTMT) ratio, and the HTMT confidence interval. All constructs (except two, i.e., "Identification of lost clients" (IDENT) and "Analysis of reasons for client loss" (ABWANA) that were merged into a new construct, "Identification and Analysis of lost clients" (IDANA), based on their content) meet the required criteria and can be considered suitable for the PLS SEM analysis.

The driver constructs were first checked for collinearity using the VIF values to evaluate the structural model (Hair et al., 2017). All VIF values are below the threshold of 5, so there is no critical level of collinearity. Subsequently, the statistical significance and relevance of the path coefficients, as well as the R^2 value, were examined (see Figure 1).

In addition, the predictive relevance Q^2 was examined based on the blindfolding procedure. Here, the Q^2 values of all endogenous constructs are significantly higher than 0 so that the predictive relevance of the model for the latent dependent variables can be confirmed. In summary, taking into account the R^2 value, the level and significance of the path coefficients, and the predictive relevance Q^2 , a moderate to good suitability of the present model for representing the expected cause-effect relationships between the constructs can be determined.

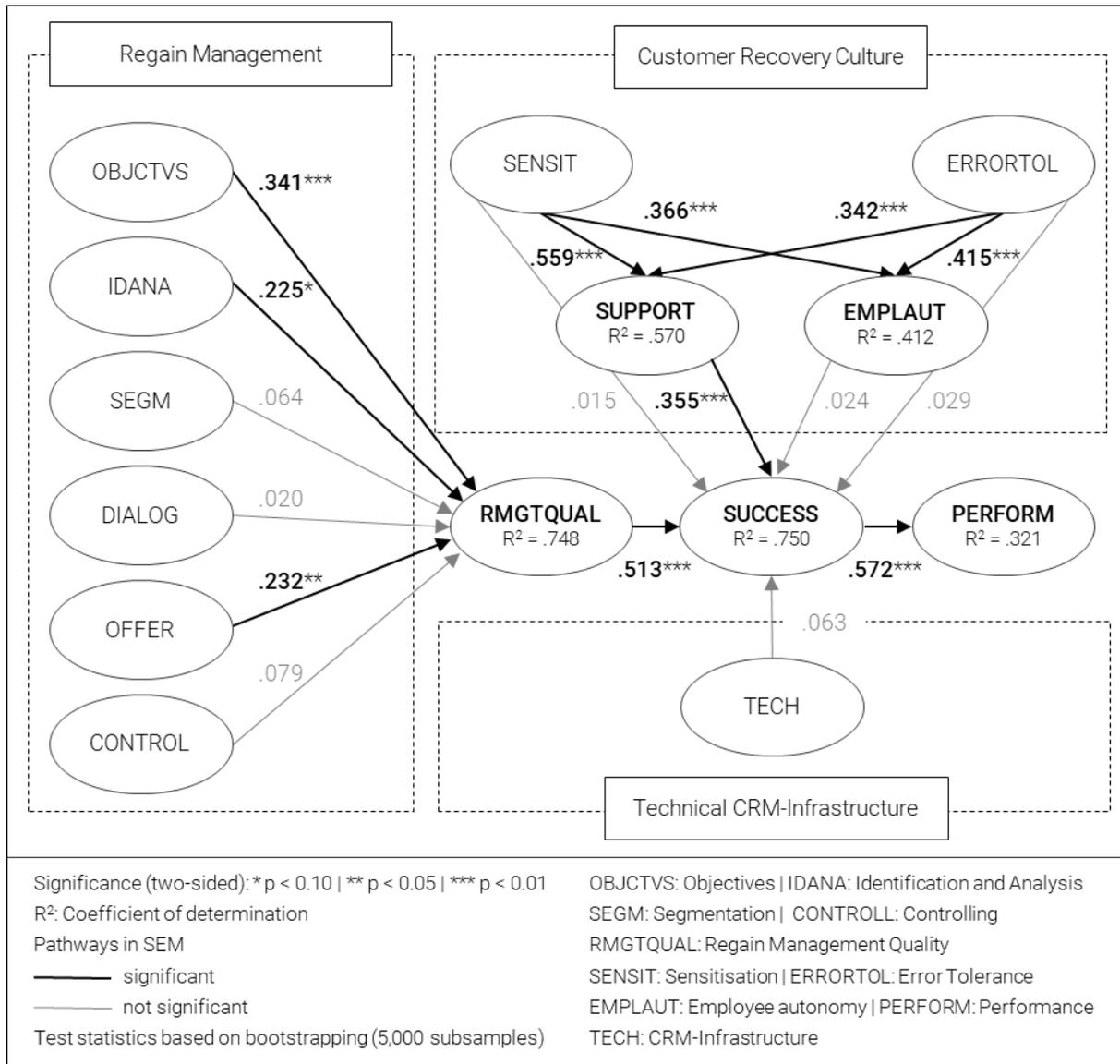


Figure 1: Structural model

The results of this study show that (1) the **definition of concrete regain targets** (OBJECTVS¹; $\beta = 0.341$; $t = 3.888$; $p < 0.01$), (2) the **identification and analysis of lost and inactive clients** (IDANA; $\beta = 0.225$; $t = 1.796$; $p < 0.10$) and (3) the **regain offer** (OFFER; $\beta = 0.232$; $t = 2.213$; $p < 0.05$) affect the regain management quality. Hence, not all hypothesised regain measures influence the regain management quality. As expected, win-back quality (RMGTQUAL; $\beta = 0.513$; $t = 6.756$; $p < 0.01$) strongly influences the regain success. In addition, (4) the mediating effect of **partner support** was identified; both for SENSIT→SUPPORT→SUCCESS ($\beta = 0.199$; $t = 4.041$; $p < 0.01$) and for ERRORTOL→SUPPORT→SUCCESS ($\beta = 1.222$; $t = 2.781$; $p < 0.10$). Accordingly, recovery culture has an influence on regain

¹ See figure 1 legend for constructs abbreviations

success. This result is of particular importance, as the influence of owners or partners on recovery success has hardly been considered in research so far. To sum up, our study provides important findings on main drivers of regain management success.

5. Practical Implications

From the results shown (1) – (4), various practical implications can be derived to increase the regain successes of PSFs:

Re. (1): Our results confirm assumptions that clearly defined goals result in better outcomes than vague goals (Locke & Latham, 2002). PSFs should therefore set specific regain management goals and communicate them throughout the company. These goals can consist of securing or increasing specific performance figures by regaining clients, avoiding negative word-of-mouth communication, preventing image damage by regaining (dissatisfied) customers, or improving the quality of CRM systems. Such targets can be formulated using appropriate Key Performance Indicators (KPIs), such as a Customer Regain Scorecard (Seidl, 2009).

Re. (2): The results show that PSFs lack clear criteria on whom to identify as a lost or vulnerable client. The need for PSFs to develop individual criteria or early warning indicators is apparent. Their application requires that PSFs continuously monitor the status of customer relationships (Reinartz, Krafft, and Hoyer, 2004). In addition, PSFs should identify the reasons that led to the leaving of clients (Seidl, 2010; Liu, Leach, and Chough, 2015). Using the framework developed by Stauss and Friege (1999) to analyse lost customers can be helpful. When analysing the causes, PSFs should not just look for the most recent and triggering event. Instead, hone the view for the entire process of customer churn, i.e., also for seemingly insignificant but critical events (Hollmann, Jarvis, and Bitner, 2015). At best, resulting findings should be documented and made available throughout the company.

Re. (3): PSFs should use the analysis findings for customer churn causes to develop individual regain offers (Stauss & Friege, 1999). PSFs can offer intangible and financial incentives to revive the business relationship (Homburg & Schäfer, 1999). Intangible incentives could include restaffing project teams, eliminating quality defects, or providing value-added services. Financial incentives can consist of accommodating the client in price negotiations or putting price increases on hold. PSFs should also consider bundling these incentives to increase the likelihood of regaining the customer (Kumar et al., 2015).

Re. (4): In addition to the possible actions within each phase of regain management, PSFs should also critically reflect on and adapt their customer recovery culture. Despite their

usual marketing aversion (Kaiser & Ringlstetter, 2011), the owners should open themselves to the topic of regaining the customer, to become aware of the adverse effects of customer churn, and should more frequently exchange ideas on the owner/partner level. The more sensitive owners become to regain management, the more likely they are willing and able to effectively support employees in marketing and business development departments in regain activities. Their level of support strongly influences the success of the regain management. Therefore, owners should ask themselves how they can support their employees with their regain activities, such as providing necessary financial and human resources, promoting the exchange of customer knowledge, and giving early information on disruptions to business relationships and reasons for customer churn. The results suggest, and not only in this context, that PSFs should establish an error culture in which all employees are encouraged to openly address errors and use them to initiate learning processes (Weinzimmer & Esken, 2017). However, the implementation of this recommendation seems to be anything but trivial since errors in PSFs often pose a career risk at an individual level or at an organizational level an image or reputational risk (Greenwood & Empson, 2003). Note that this recommendation is not to be seen as an encouragement to make mistakes or to tolerate them without exception, which will also have a negative impact on the customer recovery success (Vomberg, Homburg, and Gwinner, 2020). It is about choosing an adequate level of error tolerance.

6. Directions for Future Research

These results reveal approaches for future research: For instance, it is suggested to examine the extent to which the results can transfer to other PSFs or countries. Efforts should also be made to define criteria for customer churn and customers at risk of leaving, taking into account the specificities of PSFs. Using that as a foundation, adequate regain measures and offers should be developed that consider the current customer status.

The results show which customer recovery practices make an important contribution to the quality of regain management and that this quality determines recovery success. The practices identified are representative of individual phases of recovery management. These reflectively specified measurement models do not allow any conclusions to be drawn about the influence of individual activities on customer recovery success. It should therefore be clarified which factors or individual measures within the respective phases influence recovery success.

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