De client in beeld. Een onderzoek naar loyaliteit van mkb-cliënten in de advocatuur
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Summary

Focus on the customer. A study of customer loyalty among SME clients in the legal services sector

In the legal profession, investing in existing clientele is the most common way of continuing or expanding business. This is an attractive business strategy for lawyers because it reduces the amount of effort dedicated to marketing, and because they have already developed expertise and knowledge of the sector for their existing customer segments. It is also an effective strategy from the client’s perspective: existing clients already have confidence in the lawyer and therefore experience a lower purchasing risk. The same applies for new clients in the same market segments who find their way to a law firm on recommendations from existing clients.

More than ever before, the market for legal services in the Netherlands is in a state of flux, putting pressure on competitiveness between law firms. Small and medium-sized enterprises (SME) in particular increasingly make use of the legal knowledge that is available on the internet, and other providers expand their legal advisory services. Consequently, holding on to existing SME clients has become an urgent issue for lawyers, which is reflected in the following action-oriented question: ‘How can lawyers optimise their service to the SME sector from the clients’ perspective?’

In the literature, retaining existing clients is allied to the concept of loyalty. Loyal clients perpetuate the business relationship by buying repeatedly, buying more and/or recommending the supplier to others. So in order to answer the action-oriented question, it is necessary to determine what is important to SME clients in order to ensure their loyalty. That question has therefore been translated into the following research question, which forms the core of this study: How does loyalty among SME clients who use the services of lawyers come about? Since little research has been carried out on this issue in this context, leading to a ‘research gap’, we started by conducting two consecutive exploratory studies: a literature review and a multiple case study. The literature review involved explores earlier research on this subject, and its perspectives on loyalty and its most important antecedent, customer value. The influence of information asymmetry in this regard was also examined. The literature review led to designing our research model and to breaking the research question into sub-questions. In the case study, we used in-depth interviews with lawyers and SME clients to identify indicators for the variables in the research model and then formulated hypotheses concerning the relationships between them (for an overview of these, see Section 4.4). Subsequently, we tested these hypotheses about the relationships between the variables in the research model by means of a survey among SME clients. The progressive insight gained from this mixed-method approach is evident in the research model, which we adjusted after each sub-study, and in a composite analysis in which results are discussed in combination with each research sub-question (see below in this summary).

Findings of the literature review

In this study, loyalty is defined as action loyalty – the final stage of the ‘four-stage loyalty model’, which describes the various stages of loyalty that clients go through in time. Action loyalty refers to (deferred) loyal behaviour in the sense of supporting the provider, for example by recommending him to others, engaging his services again, and overcoming obstacles that might prevent this.

Earlier research into customer loyalty in the legal profession shows that a broad package of service factors is required for this, for instance expertise, communication, the lawyer’s ability to empathise and a good reputation. The effect of these factors on loyalty is in turn influenced by the characteristics of clients and their SMEs, i.e. customer characteristics. The most important customer characteristic is the degree of information asymmetry between lawyer and client, being the ultimate characteristic of credence services – services which provide credence goods.

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1 Credence goods are complex services that require specialised knowledge. Clients use these services when they have a problem that they cannot solve on their own.
That which produces a factor for the client – namely customer value – is largely the reason why the client remains loyal to the lawyer. Customer value therefore turns out to be the most important antecedent of customer loyalty. As there is no consensus in the literature about what customer value actually means, we adopted the following working definition for this study: customer value is a positive user experience on the part of the legal services client; this can be a functional, social and/or emotional experience. There are a number of recent marketing theories about how customer value is created: both the ‘Service dominant logic’ and the ‘Service logic’ state that in the case of services, it is not about the service as such, but about the level of focus on the effect on or solution for the client. In other words, it is about creating customer value primarily through the interaction between the service provider and the customer. Both of these theories are at odds with the older ‘goods-dominant logic’, which assumed that customer value was embedded in goods and released at the point of transaction. The most recent theory – ‘Customer-dominant logic’ – suggests that the customer’s life is the essential factor and ways in which the service provider can support the formation of customer value within this.

Based on the literature review, our main research question was broken down into specific sub-questions:

1. What forms of loyal behaviour do SME clients show?
2. In the case of legal services, what service factors contribute to customer loyalty?
3. What customer values are provided and what role does customer value play in the creation of customer loyalty?
4. How do information asymmetry and other customer characteristics influence the creation of customer loyalty?

Re 1: What forms of loyal behaviour do SME clients show?

The case study identified six forms of customer loyalty among SME clients that fit within the definition of action loyalty, namely SME clients’ high level of willingness: 1. to return to the lawyer, 2. to return despite obstacles such as mistakes made by the lawyer or disappointing outcomes of previous cases, 3. to support the lawyer by recommending him/her to others, 4. to express appreciation, and 5. to enter into some form of partnership or 6. to even act as business partner. These forms of customer loyalty were included in the survey in a measurement scale for loyalty that has been validated and found to be reliable. The survey also shows that 60 - 75% of clients are almost certain that they will actually show these forms of loyalty. This is because action loyalty is associated with deferred loyal behaviour because a client’s personal situation does not always invite immediate action, despite a high degree of willingness to do so.

Re 2: In the case of legal services, what service factors contribute to customer loyalty?

Relevant service aspects observed in the case study were largely in line with loyalty factors identified in previous research on this subject. They were categorised in a cluster: ‘professional actions’, ‘customer focus’ and ‘reputation’ of the lawyer which, following validation in the survey, were re-categorised according to the factor ‘professional behaviour within the handling of the case’ – incorporating professional actions and customer focus aspects – and a new factor ‘professional actions outside the handling of the case’, which includes aspects such as proactive advice. The factor ‘the lawyer’s reputation’ includes the same service aspects as in the case study.

Therefore, although customer focus aspects within the handling of the case are the most highly valued by clients, they have not been shown to be a distinguishing factor for clients, as we expected to see on the basis of the case study. What is relevant for clients is a combination of professional actions and customer focus on the part of the lawyer.

The survey shows that clients who value the professional behaviour of their lawyer within the handling of the case and who have a good impression of his or her reputation will also show loyalty to their lawyer. Moreover, where clients value the professional behaviour of the lawyer outside the handling of the case, this will positively affect their loyalty if it is not demonstrated together with the handling of a case. These ancillary services are therefore primarily useful for maintaining the loyalty of ‘sleeping’ clients.
Re 3: What customer values are provided and what role does customer value play in the creation of customer loyalty?
The distinction between functional, social and emotional customer values noted in the case study, was not shown in the survey. They were re-categorised into three specific customer values in this context (partially supports hypothesis 1). A good outcome of the case contains functional (e.g. ‘my case was successfully resolved’), social (e.g. ‘I had a stronger position when negotiating with my opponent’) and emotional (e.g. ‘my worries were dispelled’) customer values. Confidence in the lawyer and client’s self-esteem consist of mainly emotional customer values.
If clients feel positive about how the lawyer handles the case, they will also feel positive about its outcome, they will also have confidence in the lawyer and a higher sense of self-esteem (supports hypothesis 2abc). If clients have a good impression of the lawyer’s reputation, they also have confidence in the lawyer (supports hypothesis 4). Valuing the lawyer’s ancillary activities can give ‘sleeping’ clients confidence in the lawyer (supports hypothesis 3). These customer values are in turn linked to loyal customer behaviour (supports hypothesis 5abc).

Customer values play a central role in achieving loyalty: the strong cohesion between customer loyalty and customers’ appreciation of the aforementioned service factors is largely thanks to customer values engendered by the lawyer’s behaviour and his or her reputation (supports hypothesis 6abc).

Clients’ loyalty is chiefly dependent on the good outcome of the case and their confidence in the lawyer, because the feeling of self-esteem does not have any effect if the lawyer’s reputation and the way the lawyer handles the case play a role for the client at the same time. It is highly likely that this is almost always the case in practice.

Re 4: How do information asymmetry and other customer characteristics influence the creation of customer loyalty?
In the case study, the client characteristics on which lawyers differentiate their services were categorised as business, personal and case-related characteristics. These three categories fit into the distinction between individual and situational client characteristics used in the literature. The effects of three relevant client characteristics were explored further in the survey.

1. The influence of information asymmetry.
In the literature, it is assumed that customers who make use of credence services find the process more important than the outcome of the services since they are not able to effectively assess the outcome due to information asymmetry. However, the survey showed that a good outcome of the case has the most weight when it comes to the loyalty of all SME clients, and that this effect is the strongest among clients with a low degree of information asymmetry. At the same time, confidence in the lawyer is very important for the loyalty of clients with a high degree of information asymmetry.

Nor was it proven that process factors such as the lawyer’s level of customer focus are more important to clients for their loyalty. Customer focus factors are part of the lawyers’ behaviour that have an effect in the handling of the case, but are not of distinct consequence.

2. The influence of the type of client.
We investigated the influence of the type of client by using a typology of decision-characteristics of SME entrepreneurs. Two client types are shown to have an effect. Among pro-active deciders, confidence in the lawyer played a greater role in the creation of loyalty than among clients who do not see themselves as pro-active. For the latter clients, a good outcome in the case played a greater role in the creation of loyalty. Clients who consider alternatives are less likely to be loyal than those who do not. Among the former, all the customer values have less influence on their loyalty.

3. The influence of the intended goal of bringing the case.
For clients who want to settle, confidence in the lawyer is a more important loyalty factor than for clients who want to litigate.

We conclude this study with a description of the consequences of these research results for further
development of theories in this field. We also translate the research results into possible solutions for the previously mentioned action-oriented question: lawyers can optimise their services from a client perspective by strengthening the loyalty of their SME clients. To achieve this, they need to regard their services as a service rather than a product. The focus should therefore lie on the effect of the services (= delivering customer value) and on optimising interaction with clients by:

- not seeing marketing as a business function but as an overall strategy in which the business is operated through ‘the eyes of the client’;
- not simply aiming for good legal solutions (= functional customer values), but also directing the client towards positive feelings and satisfaction concerning his or her position in relation to the counterparty (= emotional and social customer values);
- investing in relationships with clients;
- taking account of differences between clients.

This study provides fragmented indications that the legal profession can achieve success in the SME sector by adopting a 'customer-dominant' perspective on marketing. In concrete terms, this means that lawyers’ services should be aimed at ensuring the continuity of clients’ businesses, through proactive support and strategic thinking together.

In closing, we reflect on some limitations of this study and make recommendations for further research.