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The Mediation Role of Key Account Management Effectiveness on Key Account Management Practices and Market Performance

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Absract: The implementation of KAM (KAM) increase market performance of organisations and achieve effectiveness. Nevertheless, the arguments on what determines KAM effectiveness and market performance are unresolved due to inconclusive literature evidences. Thus, this study aims to propose a conceptual framework of the determinants that affect the KAM effectiveness and market performance. It has been confirmed that top management involvement, inter-functional coordination and formalization play an important role. Therefore, this paper extends the existing literature by introducing these dimensions to the framework of KAM. It is recommended that future survey can be conducted to investigate the significance of these factors.

Key words: Key account management, top management involvement, inter-functional coordination, formalization, resource based view of the firm, market orientation

INTRODUCTION

The Pareto effect paradigm, also known as 80-20 rule indicates that 80% of returns come from 20% of key customers (Wengler *et al*., 2006). Hence, selling efforts should be focused on key customers who generate the majority of returns and the formal KAM programmes focusing on treating key customers differently. KAM is a marketing approach adopted by companies aimed at building a portfolio of loyal key accounts by offering them, on continuing basis, a product or service package tailored to their individual needs (Workman *et al*., 2003).

Despite the growing interest in KAM, much of the literature describes the whole customer portfolio (Gummesson, 1994; Johnson and Selnes, 2004) potentially obstructing a view of key customers. Thus, this research attempts to answer the question "What practices motivate the adoption of KAM in companies. The final goal is to provide a conceptual framework that links KAM practices KAM effectiveness and market performance. The main contribution of this study is the introduction of KAM effectiveness as mediator on the relationship between KAM practices and market performance. To examine the framework, surveys are suggested to be carried out where data are collected through questionnaire. The data could then be analyzed by using quantitative analysis which involves normality test, descriptive analysis and multivariate data analysis (PLS-SEM).

LITERATURE REVIEW

KAM effectiveness refers to the extent to which organisational goals are met. Previous studies have identified several practices affecting KAM effectiveness and market performance However, these studies showed inconclusive evidences relating to the KAM practices as summarized in Table 1. The summary of the KAM practices concludes that dimensions affecting KAM effectiveness is dependent upon many factors which have yet to be consent upon by academicians. Nevertheless, top management involvement, inter-functional coordination and formalization are considered critically importance to KAM effectiveness based on Resource based view of the firm (RBV) and market orientation theory. Hence, the next subsection explores the argument that these practices have had an impact on KAM.

Top management involvement: One of the main practices of KAM is to obtain support from the top management to manage KAM programme effectively for the purpose of channelling company resources to key customers. Top management involvement is the extent to which top management participates in KAM (Workman *et al*., 2003). Since, KAM involves many functional units of the companies, it is crucial that top manager of the company shows commitment to KAM programme. By setting an example of greater involvement, top managers are able to encourage cross organisational responsiveness and motivate the rest of the organisation towards the achieving of effective KAM.

Research papers on KAM and the director of Strategic Account Management Association (SAMA) have regularly named top management involvement as one of the most critical factors contributing to an effective key relationship (Napolitano, 1997; Tzempelikos and Gounaris, 2015). Consequently, KAM programme is only

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Table 1: Collection of KAM practices

Researchers	KAM practices
Stevenson (1981)	Top management involvement, coordination, customer orientation and KAM formalization
Platzer (1984)	Key account manager, use of teams, customisation and information technology
Moriarty and Sharpiro (1984)	Support systems, top management involvement and direction
Wotruba and Castleberry (1993)	Selection of key account manager
Sengupta *et al.* (1997)	Use of teams, key account manager, number of key accounts, sales resources allocation and use of information technologies
Montgomery *et al.* (1998)	Coordination, key account manager, formalization and characteristic of the markets
Birkinshaw *et al.* (2001)	Scope of account, communication, support systems, centralization and customer dependence
Workman *et al.* (2003)	Activity intensity, activity pro-activeness, top management involvement, teams use, esprit de corps, access to sales resources and KAM formalization
Salojarvi *et al.* (2010)	Top management involvement, use of teams, customer relationship orientation, Customer Relationship Management (CRM) technology and KAM formalization
Guesalaga and Jhonston (2010)	Strategic customer contact, tactical customer contact, social customer contact, strategic decision-making, tactical decision-making and organisational alignment
Gounaris and Tzempelikos (2013)	Top management commitment, customer orientation, inter-functional coordination, top management involvement, customization and inter-functional support
Davies and Ryals (2014)	Organisation practices, operational practices, target and performance practices, people-related practices and procedural practices

Table 2: Summary of KAM practices

Practices	Description	Researchers
Top Management Involvement	Refer to the participation of top management in KAM	Salojarvi *et al.* (2010), Woodburn (2011), Alejandro *et al.*(2011), Gounaris and Tzempelikos (2013), Tzempelikos and Gounaris (2015), Davies and Ryals (2014)
Inter-functional Coordination	Refer to the coordination effort across departments in KAM	Gounaris and Tzempelikos (2013), Tzempelikos and Gounaris (2015), Davies and Ryals (2014)
Formalisation	Establishment of standard policies and procedures for handling recurring KAM activities	Stevenson (1981), Workman *et al.* (2003), Guesalaga and Johnston (2010)

taken seriously when top management shows their commitment. Last, senior management should show to the whole company that KAM should not be seen as a competition among departments; instead, all inter functional departments should contribute to the KAM programme and work together to solve problems (Gounaris and Tzempelikos, 2013).

Inter-functional coordination: Inter-functional coordination is the coordinated exercise of company resources in producing superior value for identified customers as strategic importance in KAM programme. An effective key account selling requires the participation of many people from the cross-functional teams, hence coordination is particularly important for KAM relationships (Workman *et al.*, 2003; Gounaris and Tzempelikos, 2013; Davies and Ryals, 2014). A company with inter-functional coordination is more flexible compared to competitors. This is important as many KAM relationships tend to be more complicated than other marketing approaches; it involves alignment of the whole organisation and needs adaptation to offer effective services to key customer's unique needs (Davies and Ryals, 2014). In this study, inter-functional coordination is comprised of information sharing, contribution and delivery of superior value, problem solving and integration of different functional teams.

Formalization: KAM approach is a design parameter emphasised in the KAM. KAM approach formalisation refers to the degree to which an organisation establishes policies and procedures for handling recurring activities in KAM. Empirical study found that formalisation has positive effects in the development of KAM. Much of the KAM research implied that KAM programme will be more successful with the establishment of a formal programme to serve key customers (Workman *et al.*, 2003; Guesalaga and Johnston, 2010; Stevenson, 1981). KAM approach formalization is measured through selection of key accounts, internal communication, standard operating procedures (SOP) and developing guidelines. Summary of KAM practices is shown in Table 2.

KAM effectiveness: KAM effectiveness is the extent to which a firm achieves better marketing-related goals for key accounts in comparison with normal accounts (Workman *et al.*, 2003). RM literature has identified a number of goals that organisations seek to achieve through partnership. In this study, these organisational goals include mutual trust, information sharing, a reputation for fairness, relationship investment, maintaining long-term relationships, reducing conflict and meeting sales targets (Workman *et al.*, 2003).

Market performance: KAM Market performance represents the effect of KAM practices and its influence on KAM effectiveness (Workman *et al*., 2003). In this study, it measures value added products or services, business growth, market share, product development, customer retention and new customer development.

THEORETICAL BACKGROUND

The proposed framework is derived from the review of theoretical and empirical studies of previous KAM research (Workman *et al*., 2003; Tzempelikos and Gounaris, 2015; Davies and Ryals, 2014; Stevenson, 1981; Birkinshaw *et al*., 2001; Montgomer *et al*., 1998; Platzer, 1984; Salojarvi *et al*., 2010; Moriarty and Sharpiro, 1998; Wotruba and Castleberry, 1993). These studies adopted the perspective that the relationship between KAM practices and market performance is direct. The finding of these studies also indicated that there is a direct relationship between KAM effectiveness and market performance. Two prominent theoretical foundations of KAM have been identified for the development of the proposed framework. The first theoretical foundation is based on the RBV and the second is related market orientation. Each of the theoretical foundations is reviewed in the next section.

Resource based view of the firm: According to RBV, four attributes of organisational resources contribute to sustainable competitive advantage: value, rareness, imitability and substitutability (Barney, 1991, 2001). These resources are viewed as bundles of tangible and intangible assets for firm in the theory. The first attribute proposed that valuable resources allow firms to implement strategies that improve market performance. In addition, resources are valuable when the resources support a firm to implement strategies that enhance its efficiency and effectiveness. The characteristic of the second attribute is that the valuable resources must be rare and difficult for industry competitors to obtain. Generally, resources have the potential to achieve sustainable competitive advantage when the number of firms that acquire the valuable resources is limited. The third attribute of organisational resources is imperfect imitability. It can be observed that valuable and rare organisational resources can only be sources of sustained competitive advantage if other firms cannot obtain it. The theory explains how KAM practices affect KAM effectiveness, hence improve market performance.

There are three sources of the imperfect imitability of firm resources. The first resource is the unique historical conditions and imperfectly imitable resources. It is the ability of a firm to acquire a resource which is dependent upon the unique history of the firm. These unique histories are not relevant to understanding a firm's performance (Alejandro *et al*., 2011). The second resource refers to casual ambiguity and imperfectly imitable resources. The relationship between the firm's resources and its sustained competitive advantage is ambiguous and poorly understood. It is difficult for imitating firms to duplicate a successful firm's strategies. The final reason for the imperfect imitability of firm resource is social complexity. The firm's resources are socially complex and beyond the ability of firms to manage. Inter-personal relations social relations, culture and traditions are socially complex and the ability of other firms to duplicate these resources is limited. Firm's resources are considered to be imperfectly imitable for one reason or combination of the above reasons.

The last attribute of a firm's resources of sustained competitive advantage is substitutability. The firm's resources must not have strategically equivalent valuable sources. A firm with valuable, rare and imperfectly imitable resources will be able to implement certain business strategies with sustained competitive advantage. There are two forms of substitutability. First, it may be able to substitute a similar resource that allows it to implement the same strategies. For instance, top management team can be strategically equivalent and be substitutes for one another. Second, very different firm resources can also be strategic substitutes. Managers with clear vision of the firm can be substituted by competing firms with common vision of the firm's systematic and company-wide strategic planning process (Pearce *et al*., 1987).

Market orientation: Market orientation is driven by both executive decisions and corporate culture. Employees have shared culture that delivers superior value to customers is identified as one of the keys for business success and sustainable competitive advantage. Evidence has shown that market orientation is a culture based concept that explains strategy and strategy-performance relationship (Tzempelikos and Gounaris, 2015). Market orientation is a corporate culture that is characterised by a firm's disposition to continuously deliver superior value to customers (Slater and Narver, 1994). The culture-based dimensions of market orientation encompass the focus on competitors, the focus on customers and inter-functional coordination. The marketing concept is related to organisation's culture, whereas market orientation is the development of the marketing concept. Based on this logic, market orientation is at the core of the organisation (Workman *et al*., 2003). Fundamentally, market orientation bridges the linkage between a business strategy and corporate performance. Market orientation is comprised of three components, intelligence generation, intelligence dissemination and responsiveness (Jaworski and Kohli, 1993; Woodburn, 2011). Additionally, there are three sets of antecedents pertaining to top management, inter-departmental factors and organisational systems. The antecedents allow organisations to be market-oriented (Dobni and Luffman, 2000; Homburg *et al*., 2002; Marcos *et al*., 2014; Morgan and Hunt, 1994). Furthermore, market orientation is related to market performance and employees' organisational commitment and esprit de corps. Last, the relationship between market orientation and performance is moderated by environmental factors.

PROPOSED CONCEPTUAL FRAMEWORK

Based on the theoretical framework discussion, the conceptual framework of this study is developed to cover 4 main relationships: KAM practices' influence on market performance, KAM practices' influence on KAM effectiveness, KAM effectiveness's influence on market performance, Mediation effect of KAM effectiveness on the relationship between KAM practices and market performance. This study develops a conceptual model of KAM effectiveness with establishment of new relationships and tests hypotheses using data collected from senior management. The conceptualization of this study is based on market orientation. This study adopts a structure with antecedents and consequences of market orientation and a key mediating variable. In addition, the study uses the concept of a key mediating variable that convey the effects of KAM practices on to the KAM market performance. The model suggests that an effective KAM is based on KAM practices. Additionally, this study considers the effect of KAM effectiveness on related performance outcome measures. The conceptual model of determinants of KAM effectiveness is shown in Fig. 1.

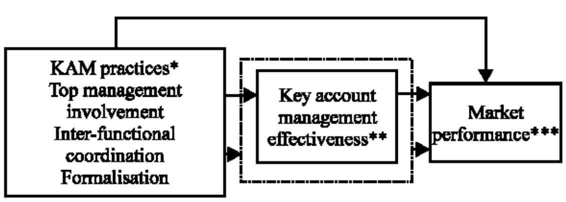

Fig. 1: Determinants of KAM effectiveness: A conceptual model , denotes mediating construct. *(Jaworski and Kohli, 1993; Workman *et al*., 2003; Gounaris and Tzempelikos, 2013); **(Workman *et al*., 2003); ***(Workman *et al*., 2013)

CONCLUSION

This study has reviewed the theoretical background of the study and explained the development of the conceptual framework. The framework indicates that the independent variables of KAM practices and KAM effectiveness as a mediating variable has a link with market performance. The related theoretical backgrounds including the RBV of the firm and market orientation are used to support the relationship of KAM practices-KAM effectiveness-market performance.

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