

A CONCEPTUAL AND EMPIRICAL EXAMINATION OF KEY ACCOUNT MANAGEMENT ORIENTATION AND ITS IMPLICATIONS – THE ROLE OF TRUST

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ABSTRACT

The importance of Key Account Management (KAM) in building long-term relationships between buying and selling firms is widely acknowledged in the literature. However, this relationship-oriented perspective of KAM lacks appropriate empirical examination. To fill this gap, the present study uses data from 304 personal interviews to empirically examine the impact of Key Account Management Orientation (KAMO), a set of values that reflect supplier's attitude and behavior towards KAM, on supplier's performance. The study also examines how the trust between the two parties relates to this relationship. Findings confirm the positive influence of KAMO on both financial and non-financial performance and the mediating role of trust in the KAMO – performance relationship. Academic and managerial implications are discussed.

INTRODUCTION

The importance of building long-term relationships between buying and selling firms has been widely recognized in literature (e.g. Webster 1992). A marketing approach aimed at building relationships with a loyal customer base in business markets is Key Account Management (KAM) (McDonald et al. 1997). KAM involves targeting important customers by providing them special treatment in the areas of marketing, administration and service (Barrett 1986).

The topic of what drives KAM success has received a lot of attention by both academics and practitioners. Prior research regarding this issue is mainly normative and revolves around the organizational aspects of a KAM program. This is probably due to the fact that researchers traditionally mainly treated KAM as an applied in nature, sales management aspect (Gosselin and Bauwen 2006). However, KAM represents an application of Relationship Marketing in business markets (McDonald et al. 1997) and, therefore, the factors that enable suppliers to develop long-term relationships with key accounts is of utmost importance (Millman and Wilson 1999). Interestingly, empirical research addressing the relational aspects of a KAM program is very slim.

Along these lines, this study attempts to make a contribution by conceptually developing and empirically validating a framework capturing a system of values that reflect the supplier's willingness and ability to respond effectively to key accounts' needs. This framework is called Key Account Management Orientation (KAMO). Consistently, as literature suggests, in addition to the appropriate orientation towards KAM, effective KAM relationships involve building trust between the two parties (Ivens and Pardo 2007; Millman and Wilson 1999; Homburg et al. 2002).

Therefore, the purpose of this study is: 1. to conceptualize and empirically validate KAMO, 2. to examine the impact of KAMO on supplier's performance, and 3. to explore the potential mediating effect of trust on the relationship between KAMO and performance.

The next sections of the paper are organized as follows. First we present the theoretical background of our study. Then we develop the conceptual framework and research hypotheses based on the reviewed literature. Next, we present the methodology of research we conducted. We then proceed with the data analysis and the testing of the hypotheses. Finally, we present the discussion of the findings, the limitations of the study as well as the suggestions for future research.

LITERATURE REVIEW, CONCEPTUAL FRAMEWORK AND RESEARCH HYPOTHESES

The Notion of Key Account Management Orientation (KAMO)

A recent stream of research concerning the nature of KAM suggests that KAM is an application of relationship marketing in business markets (e.g. McDonald et al., 1997; Pardo, 1997; Sengupta et al. 1997; Lambe and Spekman 1997). According to this approach, KAM should be examined within the broader context of relationship marketing and, therefore, the focus should shift from short-term, transactional exchanges to more long-term, strategic and collaborative relationships (Lambe and Spekman 1997). Therefore, when examining the drivers of KAM effectiveness, in addition to the various

designing/organizational options of the sales force that have extensively examined in the literature (for a review see Workman et al. 2003), is important to address the presence of various values that reflect supplier's willingness and ability to develop long-term relationships with key accounts (Millman and Wilson 1999).

In an attempt to capture these factors, Shapiro and Moriarty (1984) first introduced the concept of National Account Management Orientation. From this approach is evident that there are values pertaining to the supplier's attitude towards the strategic significance of key accounts and values pertaining to the actions related to the implementation of a KAM program. However, no comprehensive empirical examination incorporating these elements has reported so far.

On these grounds, based on the KAM (Shapiro and Moriarty 1984; Millman and Wilson 1999; Homburg et al. 2002), Market Orientation (Narver and Slater 1990; Kohli and Jaworski 1990) and Relationship Marketing literature (Palmatier et al. 2006), we propose the notion of Key Account Management Orientation (KAMO). KAMO is defined as the extent a supplier adopts KAM as part of the company's culture and the subsequent behaviors.

KAMO is a multi-dimensional construct that integrates an attitude-related and behavior-related set of values that a supplier should develop in order to manage effectively relationships with key accounts. Specifically, customer orientation, top-management commitment and inter-functional coordination suggest the first set of values that represent the supplier's attitude towards KAM and the willingness to respond to key accounts' individual needs. The second set of values involves the supplier's actions in relation to KAM implementation. These behavior-related values include commitment to customization, top-management involvement and inter-functional support.

Conceptual Framework and Research Hypotheses

Figure 1 portrays the conceptual framework of the study. Following from Figure 1, the study investigates the direct influence of KAMO on company's financial and non-financial performance. In addition, the study examines the mediating effect of trust on the relationship between KAMO and company performance.

KAMO Adoption and Company's Performance

Literature suggests that KAM positively affect supplier's performance both at the key account and at the organization level (Homburg et al. 2002). Specifically, developing a customer orientation will lead suppliers to customize their offerings to their key accounts in order to satisfy their needs something that will have a positive influence on financial performance (Narver and Slater 1990; Deshpandé et al. 1993; Cannon and Perreault 1999). Similarly, top-management involvement and interfunctional coordination also influence the economic outcomes from a KAM relationship (Homburg et al. 2002; Workman et al. 2003; Ivens and Pardo 2008). Therefore, the company's overall financial performance, as it is determined by sales, profitability, market share and return of investment (ROI), is likely to improve when a supplier adopts KAMO. On these grounds, we propose the following research hypothesis:

H₁: *KAMO has a positive impact on the supplier's financial performance*

While prior research emphasizes the impact of a KAM program on financial performance, the outcomes of a KAM relationship can be wider (Ivens and Pardo 2007). In fact, literature suggests a number of potential non-economic outcomes as a result of an effective KAM relationship including reference value (McDonald et al. 1997; Ojasalo 2001), know-how development (Pels 1992; Ojasalo 2001), processes' efficiency (Caspedes 1993) and improvement of internal communication (Boles et al. 1999; Stevenson 1981).

Suppliers can achieve these non-economic KAM outcomes provided they satisfy effectively key account's needs. Specifically, the emphasis that a supplier puts on getting truly close with a key account, as a result of KAMO adoption, improves the effectiveness of the partnering effort and, thus, the achievement of non-financial performance objectives (McDonald et al. 1997; Boles et al. 1999; Stevenson 1981; Ojasalo 2001). On these grounds, we propose the following hypothesis:

H₂: *KAMO has a positive impact on the supplier's non-financial performance*

The Mediating Role of Trust

Relationship marketing literature (e.g. Morgan and Hunt 1994; Ganesan 1994) as well as KAM literature (e.g. Homburg et al. 2002) has provided a number of potential outcomes from a buyer-seller relationship. Many studies consider building trust in the exchange partner a key factor of success in inter-firm relationships (e.g. Morgan and Hunt 1994; Moorman et al. 1992).

Trust is usually described as the customer's perception of the supplier's credibility and benevolence (e.g. Doney and Cannon 1997; Kumar et al. 1995; Morgan and Hunt 1994; Moorman et al. 1992). Trust is seen by several authors as a necessary ingredient for long-term relationships (Doney and Cannon 1997; Ganesan 1994), however, the direct influence of trust on supplier's positive outcomes has been questioned by recent empirical studies (e.g. Grayson and Ambler 1999). In fact, the success of a buyer-seller relationship is likely the result of the interplay between a plurality of constructs (Hennig-Thurau et al. 2002) suggesting that trust may represent a key mediating variable for developing successful buyer-seller relationships (Morgan and Hunt 1994).

Specifically, it appears that suppliers who are customer oriented (Geyskens et al. 1998; Morgan and Hunt 1994; Ivens and Pardo 2007), with top-management being committed and involved in the KAM program (Millman and Wilson 1999; Homburg et al. 2002) and ensure inter-functional support for the management of key accounts (Ganesan 1994; Anderson and Weitz 1989), will be more likely to achieve customer's trust. However, at the same time, building trust influences the supplier's financial (Workman et al. 2003; Jap 1999; Leuthesser 1997) and non-financial performance (Walter and Ritter 2003), raising thus the possibility that trust mediates the impact of KAMO on company performance. On these grounds, we propose the following research hypotheses:

- H₃:** *Trust mediates the relationship between KAMO and financial performance*
H₄: *Trust mediates the relationship between KAMO and non-financial performance*

METHODOLOGY

The research objectives of the study were assessed by analyzing data from a wider examination of KAM attitudes and practices in Greece. In order to increase the validity of the findings, the application of a preliminary investigation preceded the main study.

Preliminary Investigation

Firstly, given the centrality of the KAMO scale, ten personally administrated pilot interviews were conducted, five with academics and five with practitioners. The respondents were asked to suggest any item that they think would determine the level of KAMO as well as to comment on the clarity on the initially developed pool of items and indicate any ambiguity they experienced in responding to the items. Based on the feedback of this pre-test, some items were developed, others were modified and others were deleted.

This phase was followed by another set of qualitative in nature interviews. Particularly, sixteen in-depth semi-structured interviews were conducted with managers responsible for the KAM function in selling organizations. The purpose of the interviews was twofold: first, to obtain face validity for the structure of the study; second, to get a deeper understanding of how suppliers determine the components of KAMO as well as its implications. All interviews were conducted on the firm's premises and, on average, ranged from 45' to 60'.

The result of this phase was that managers confirmed the conceptualization of KAMO as well as its implications. Therefore, we are confident to have obtained some preliminary evidence of the questions our study aims to address.

Main Study and Data Collection

Data were collected by means of personal interviews. The sample consisted of firms from different sectors including fast consuming goods, chemical and pharmaceutical products, computer and electronics, banks and insurances, telecommunications, metals, furniture, medical equipments and professional services. The data collection was completed over a twelve months period.

In doing so, we contacted by telephone 800 randomly selected companies explaining the objectives of the study and asking for their participation. For those agreed to participate in the study, an appointment at the firm's premises was set. Overall, 304 companies participated, providing an effective response rate of 38%.

With regard to sample unit, the key informant approach was employed. Traditionally, the unit of analysis of KAM surveys was exclusively key account managers. However, this suggested a concern regarding our aim to capture the dimensions of KAMO and the potential qualitative aspects of KAM effectiveness, since key account managers use to have a more short-term and profit oriented approach towards the KAM relationships, comparing to higher level managers. Therefore, we decided to contact supervisors of the KAM function within the company (the titles of the respondents include national account manager, key account manager, head marketing manager and head of the sales department) because they are considered to have a broader view over the KAM practices and benefits within the company (Homburg et al. 2002).

Research Instrument and Variables Measurement of the Main Study

The review of the relevant literature and the findings from the preliminary investigation provided the basis for the structured questionnaire that was used to collect the data of the main study. The questionnaire was pre-tested prior the main study with three marketing academics and ten practitioners from the population under investigation in order to increase content validity and clarity of the variables employed.

More specifically, concerning the construct of *KAMO*, we first relied on the work of Narver and Slater (1990) for the dimensions of customer orientation and inter-functional coordination. For the other four dimensions (top management commitment, customer-oriented activities, top-management involvement and support from other units) we generated multi-item scales on the basis of the in depth-interviews and literature review. For the measurement of *trust* we based on the scale of Doney and Cannon (1997).

The assessment of the company's *financial performance* relies on self-evaluations of organizational sales, profitability, market share and return of investment (ROI), while *non-financial performance* assessment, following the results of the preliminary investigation, draws upon multi-item scales that capture reference value, know-how development, processes' efficiency and intra-firm communication. All measures were conducted with a seven-point rating scale.

DATA ANALYSIS

Data analysis involves two phases: the evaluation of the measures and the testing of the research hypotheses. In doing so, we performed structural equation modeling using Amos.

Measures Purification and Psychometric Attributes

With regards to the psychometric attributes of the measures, reliability and validity were assessed by means of Confirmatory Factor Analysis (CFA). Composite reliability for all measures exceeded the threshold value of 0.6 (Bagozzi and Yi 1988; Fornell and Larcker 1981). Furthermore, Cronbach's alpha coefficient for all measures surpassed the threshold that Nunnally (1978) suggests as satisfactory (0.70) ranging from 0.75 to 0.95 (see [Table 2](#), in the Appendix).

Next, CFA was used in order to examine the construct validity of the measures. In all the measures, Average Variance Extracted (AVE) exceeds 0.50 providing evidence of convergent validity (Fornell and Larcker 1981). Additionally, the AVE for each construct is higher than the squared correlation between that construct and any other construct in the model. Hence, discriminant validity holds for all constructs used in the study (Fornell and Larcker 1981).

The next step involves examining the psychometric attributes of KAMO, the central construct of our study. Because KAMO suggests a multidimensional, hierarchical construct, a second-order factor analysis was conducted.

As results suggest, all factor loadings on both the first and the second order level are significant, while the analysis of the AVE (above 0.5) suggests that the first order dimensions are unidimensional. Moreover, results reveal that the fit indices of the second-order factor model suggest a good fit with superior (compared to the first order model) predictive validity.

Hence, as all requirements are satisfied, subsequent analyses aggregates the items of each construct by calculating the scale mean. Scale properties are presented in [Table 2](#), in the Appendix.

Hypotheses Testing

Having established the quality of the measures, the examination of the hypotheses follows. With regard to the impact of KAMO on company's performance, the overall fit measures provide a good fit for the data ($\chi^2(76)=656.2$, GFI=0.908, CFI=0.949, RMSEA=0.085). Results, also, suggest a positive influence of KAMO on financial ($\beta=.25$, $p<0.01$) and non-financial performance ($\beta=.46$, $p<0.01$). Therefore, **H₁** and **H₂** are confirmed.

To test the mediating role of trust in the relationship between KAMO and performance, we followed Baron and Kenny's (1986) recommendations and estimated two models: Model 1 without trust and Model 2 with trust as the mediating variable (i.e. the original conceptual model in Figure 1). According to Baron and Kenny (1986), when the mediator (trust) enters the model, the contribution of a previously significant independent variable (in Model 1) should drop significantly (in Model 2) for partial mediation and become insignificant for full mediation.

Results of the study, as shown in Table 1, posit the positive direct influence of KAMO on financial ($\beta=.25$, $p<0.01$) and non-financial performance ($\beta=.46$, $p<0.01$). After trust enters the model, KAMO strongly influences trust ($\beta=.51$, $p<0.01$), while trust influences both financial ($\beta=.30$, $p<0.01$) and non-financial performance ($\beta=.33$, $p<0.01$). Results also show that the impact of KAMO on financial and non-financial performance becomes weaker ($\beta=.18$, $p<0.01$ and $\beta=.27$, $p<0.01$, respectively). It appears therefore that trust partially mediate the impact of KAMO on financial performance and non-financial performance. As a consequence, **H₃** and **H₄** are confirmed.

DISCUSSION AND IMPLICATIONS

This study contributes to the stream of research that approaches KAM from a relationship marketing perspective (e.g. McDonald et al. 1997; Pardo 1997; Sengupta et al. 1997; Lambe and Spekman 1997) by proposing and empirically examines KAMO, a construct that reflects a set of values that a supplier should develop in order to manage effectively KAM relationships. This is important since prior research has focused on the organizational aspects of a KAM program and has failed to address relational elements into an integrated model as well as to develop a valid measure of it.

However, adopting KAMO cannot alone explain the total effect on supplier's performance. In fact, responding to key accounts' individual needs and delivering value to them will increase the level of customer's trust in the supplier something that enables the supplier to achieve long-term benefits from the KAM relationship. Trust ultimately mediates the direct effect of KAMO on supplier's performance and, thus, suggests an additional condition under which KAM effectiveness can be achieved.

Furthermore, the study examines various aspects of KAM effectiveness, and not merely financial, as it has traditionally been the case in KAM research.

The study has also some managerial applications. Firstly, suppliers who adopt KAMO are likely to achieve superior business performance. This implies that suppliers should shift from the traditional, sales grounded view of KAM to a more relationship-oriented perspective in managing key accounts if they seek to enjoy full benefits from a KAM relationship

A second implication for practitioners derives from the mediating role of trust in the relationship between KAMO and performance. A supplier's trustworthy behavior will signal that the supplier is interested in both parties welfare (Ganesan 1994). This will strengthen the bond between supplier and key account and, as a result, improves supplier's performance. In other words, building trust with key accounts should be a priority for suppliers since it represents a first step towards KAM effectiveness.

LIMITATIONS AND FUTURE RESEARCH

This study is not free from limitations, which, nonetheless, future research can tackle. Firstly, potential moderators (e.g. competitive intensity) that affect the strength of the relationships identified in this study are neglected. This direction is an interesting route for future research.

Another limitation involves the use of a single-informant design which focuses on suppliers. Future research incorporating perspectives from both sides of the buyer-seller dyad will offer a clearer picture on the consequences of a KAM program.

Another limitation refers to the static nature of this investigation and the fact that the KAMO dimensions may actually develop as a consequence of KAM programs implementation. The issue does not diminish the contribution of the study since

deriving a primary understanding of the relationships among the variables under investigation is necessary before moving to more complex research designs of longitudinal investigations. Future research towards this direction is, therefore, highly recommended.

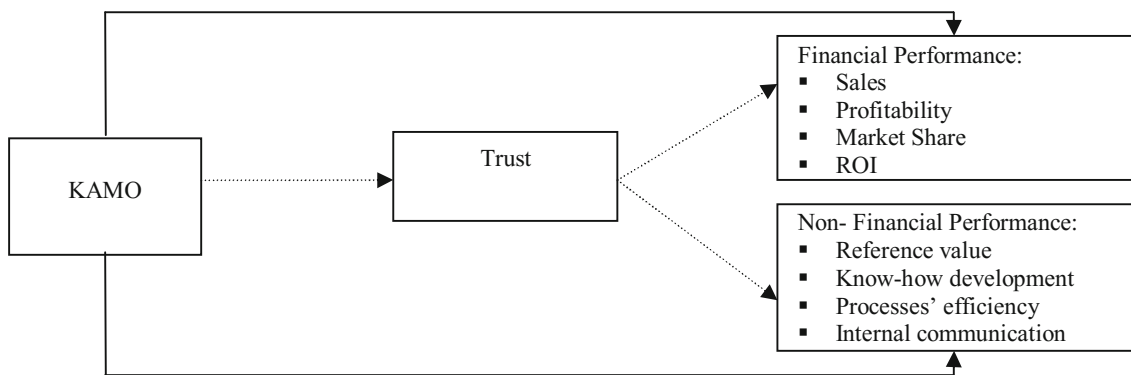
Finally, the implications of KAM that were eventually included in this study are not exhaustive. Future research might enlarge the research agenda by incorporating additional dimensions, especially with respect to the relational outcomes given the increasing attention the topic has received in the KAM and relationship marketing literature.

Table 1: Hypotheses Testing

| Research hypotheses | The direct effect model (Model 1) | The mediated model (Model 2) |
|-----------------------------------|-----------------------------------|------------------------------|
| Financial Performance ← KAMO | .25* | .18* |
| Non-financial Performance ← KAMO | .46* | .27* |
| Trust ← KAMO | Non applicable | .51* |
| Financial performance ← Trust | Non applicable | .30* |
| Non-financial performance ← Trust | Non applicable | .33* |
| χ^2 / df | 656.2 / 76 | 865.3 / 148 |
| P | .000 | .000 |
| CFI | 0.949 | 0.971 |
| GFI | 0.908 | 0.934 |
| RMSEA | 0.085 | 0.058 |

*coefficient is significant at the 0.01 level

Figure 1: Conceptual model



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Appendix

Table 2: Measures properties

| Construct | Indicator (number of items ^a) | Mean | Standard Deviation | Cronbach Alpha | Item-total correlation | Standardized factor loading | Composite Reliability ^c | Average Variance Extracted ^d | Squared correlation | Cronbach Alpha | Composite Reliability ^c | Average Variance Extracted ^d |
|---|---|------|--------------------|----------------|------------------------|-----------------------------|------------------------------------|---|---------------------|----------------|------------------------------------|---|
| <i>Key Account Management Orientation</i> | Customer orientation (5) | 5.42 | 1.05 | 0.83 | .41 - .76 | .56 - .87 | 0.84 | 0.52 | .012 - .446 | 0.91 | 0.92 | 0.57 |
| | Top-management commitment (5) | 5.46 | 0.99 | 0.90 | .71 - .82 | .81 - .89 | 0.92 | 0.64 | .012 - .465 | | | |
| | Inter-functional coordination (4) | 5.14 | 1.11 | 0.89 | .70 - .78 | .83 - .89 | 0.90 | 0.66 | .028 - .492 | | | |
| | Commitment to customization (6) | 5.40 | 0.79 | 0.75 | .45 - .57 | .65 - .77 | 0.76 | 0.51 | .024 - .416 | | | |
| | top-management involvement (5) | 5.36 | 0.87 | 0.84 | .58 - .71 | .73 - .83 | 0.87 | 0.52 | .017 - .465 | | | |
| | Inter-functional support (3) | 5.16 | 1.06 | 0.79 | .56 - .69 | .79 - .87 | 0.81 | 0.57 | .030 - .492 | | | |
| | Trust (5) | 5.89 | 0.73 | 0.86 | .63 - .75 | .77 - .85 | 0.88 | 0.54 | .012 - .506 | | | |
| <i>Financial Performance</i> | Sales (1) | 5.38 | 1.11 | | | | | | | 0.89 | 0.92 | 0.68 |
| | Profitability (1) | 5.12 | 1.27 | | | | | | | | | |
| | Market share (1) | 5.16 | 1.18 | | | | | | | | | |
| | ROI (1) | 5.05 | 1.19 | | | | | | | | | |
| <i>Non-financial Performance</i> | Reference value (4) | 5.92 | 0.92 | 0.87 | .62 - .80 | .76 - .90 | 0.91 | 0.67 | .020 - .321 | 0.81 | 0.83 | 0.54 |
| | Know-how development (4) | 5.76 | 0.96 | 0.89 | .64 - .83 | .78 - .92 | 0.92 | 0.69 | .012 - .321 | | | |
| | Processes' Efficiency (3) | 5.13 | 1.07 | 0.84 | .66 - .73 | .84 - .89 | 0.87 | 0.64 | .028 - .512 | | | |
| | Internal communication (4) | 4.47 | 1.23 | 0.95 | .82 - .91 | .90 - .95 | 0.96 | 0.81 | .016 - .512 | | | |

^a Items with item-total correlations less than .30 and factor loadings less than .50 have been omitted

^b Reports coefficient alpha (if more than one item)

^c Reports composite reliability (if more than two items)

^d Average Variance Extracted is reported when there are more than two items

Notes: detailed scale items are available by the authors upon request