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Linking key account management practices to performance outcomes

Nektarios Tzempelikos [a,*], Spiros Gounaris [b,1]

[a] Anglia Ruskin University, Lord Ashcroft International Business School, East Road, Cambridge CB1 1PT, United Kingdom
[b] University of Strathclyde Business School, Department of Marketing, Sir William Dunkan Building, 130 Rottenrow, Glasgow G4 0GE, United Kingdom

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ABSTRACT

Many suppliers practice relational strategies that aim to achieve competitive advantage through a collaborative business relationship with their customers. Key account management (KAM) is one such relational strategy that suppliers rely upon to manage their relationships with strategically important customers. Yet suppliers still struggle to put such programs into practice effectively, most likely because academic investigation has yet to report on what actions explain the performance of KAM initiatives. Aiming to fill this gap, we first identify a set of key KAM practices at the strategic, organizational, tactical and control levels of management. Next, we examine how these practices explain the performance of KAM through the mediating effect of the supplier's relational capabilities and the relational outputs that such capabilities produce. The results provide support for most of the hypothesized relationships, showing that the identified practices positively affect performance and dyadic outcomes through the mediation coming from the variables examined. From a theoretical perspective, the study adds to our understanding of the factors underlying effective KAM practices. From a managerial perspective, the results provide insights into how suppliers can achieve KAM effectiveness through relationship-oriented activities, skills and outcomes.

1. Introduction

Literature widely recognizes the importance of a relationship marketing approach in managing customer relationships (Morgan & Hunt, 1994), particularly in the business-to-business (B2B) markets where customers are fewer and more powerful, markets are rather stable and buyer–seller relationships are complex and interdependent (Heide & John, 1992). This shift from transactional to relationship marketing sparked a new philosophy in managing the relationship with certain strategically important accounts (Millman & Wilson, 1995): "Key Account Management" (KAM) (Abratt & Kelly, 2002). A key account (KA) is a customer identified by the supplier as being of strategic importance (Millman & Wilson, 1995). In essence, KAM involves customization of products and services to meet the needs of the KA, while customers not classified as KA receive little, if any, customization (Salojärvi, Sainio, & Tarkiainen, 2010). As such, KAM is the implementation of relationship marketing in business markets (cf. Guenzi, Pardo, & Georges, 2007; Ivens & Pardo, 2007) allowing a shift from short-term, transactional orientation to more long-term, strategic, mutually beneficial and collaborative relationships (Ryals & Humphries, 2007).

To achieve this shift, though, certain significant changes are necessary that will affect not only procedures but also the practical and organizational configuration of the supplier (Homburg, Workman, & Jensen, 2000). While previous studies report on the significant effect that the transition to more customer-centric organization has on company performance (Homburg, Workman, & Jensen, 2002; Workman, Homburg, & Jensen, 2003), the implementation process remains surprisingly overlooked (Davies & Ryals, 2009; Wengler, Ehret, & Saab, 2006).

Hence, to fill this gap, this study seeks to discuss and empirically examine a model of performance outcomes in relation to specific aspects of KAM practices. Drawing on a systematic review of the extant literature, we identify four pertinent dimensions of KAM practices (Strategic, Organizational, Tactical and Evaluative) that capture key aspects of every KAM initiative. We then examine their impact on the performance of the KAM program through the mediating effect of specific relational capabilities and outcomes. In doing so we examine both the financial and the dyadic facets of KAM performance.

This study seeks to contribute to the extant literature by identifying an empirically derived set of specific salient KAM practices that explain the supplier's performance in practicing KAM. A second contribution comes from the investigation of the mediating role that relational capabilities and outcomes have in explaining the relationship between KAM practices and KAM performance. As a result, it is possible to produce a comprehensive framework to describe in a holistic manner the antecedents of two significant aspects (financial and dyadic) of KAM performance. This is the third contribution that this manuscript

* Corresponding author. Tel.: +44 845 196 2664.
E-mail addresses: nektarios.tzempelikos@anglia.ac.uk (N. Tzempelikos), spiros.gounaris@strath.ac.uk (S. Gounaris).
[1] Tel.: +44 141 5483233.

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seeks to make. In addition, these theoretical contributions are also relevant for practitioners as demonstrating how specific dimensions of KAM implementation relate to the success of KAM can inform the implementation of the KAM initiatives.

The rest of the manuscript is organized as follows: First, we review the extant literature to develop pertinent hypotheses to lead the examination of the research model underlying this investigation. Next, the methodology and the results from the data analysis follow. The discussion and implications and then the limitations and directions for future research conclude this manuscript.

2. Literature review, research model and hypotheses

2.1. Carrying through the KAM initiatives across different levels of implementation

The configuration of a KAM program depends on internal practices (Storbacka, 2012), which, like any other managerial practice, extend at four levels: strategy formation, organizational structuring, tactical implementation, and evaluation and control (Davies & Ryals, 2009).

On the strategy formation level, a crucial parameter of the KAM program is account planning and selection, which can be considered equivalent to the "segmentation and targeting" process but applied at the individual account level. While the concept of KAM has emerged from that of "National Account Management" (cf. Shapiro & Moriarty, 1984), using the actual or potential size of orders that an account can generate is no longer considered to be an appropriate way to identify a KA. Planning ahead for the future and deciding on the use of the limited resources available to the supplier requires identification of the KA on the grounds of their ability to facilitate the supplier's effort to attain specific strategic goals and objectives, which underlie the process of KA identification and targeting (Woodburn & McDonald, 2011). Based on a specific set of account selection criteria that reflect the supplier's strategic objectives (cf. Ryals & McDonald, 2008), the supplier will need to assess the (strategic) attractiveness of different accounts and ensure a balance between the resources available to the firm and the number of KAs that the supplier can sustainably maintain in the long run.

In addition to appropriate account planning, the implementation of a KAM initiative at the strategic level requires increased involvement of the top management since their intervention in decision making is critical for the performance of the firm (Workman et al., 2003). Through this intervention, the top management helps to improve the company's alignment with the environment in general (Carpenter, Geletkanycz, & Sanders, 2004). When it comes to the company's relationship with the KA, top management will get involved to provide direction, ensure commitment across the organization and align the organization's innovativeness with the needs of the KA (Millman & Wilson, 1999). The KAM program also benefits from the involvement of the top management at the strategic level because through their intervention resources needed to meet the needs of the KA become available and are allocated among different KAs according to the strategic relevance of the account (Gounaris & Tzempelikos, 2013). Not surprisingly, recent empirical research demonstrates the benefit of having the top management involved with the KAM program at the strategic level (Guesalaga, 2014) as, in addition to all the above, KA managers very often lack authority over the other departments of the firm (Homburg et al., 2002). Hence the more the top management gets involved at this higher, strategic level the easier it becomes to achieve cross-functional coordination (Salojärvi & Saarenketo, 2013).

Moreover, because coordination across the different departments is such an important issue, the implementation of the KAM program also requires action at the organizational level. Such action ensures that the configuration of the supplier's organization facilitates the response to the needs of the KA and the implementation of the various initiatives that the program includes (Davies & Ryals, 2009). To this end, the first step is ensuring the necessary cross-functional awareness and understanding of the significance that KAs have for the supplier in attaining specific strategic goals, while generating the required interdepartmental cooperation and commitment in serving their needs (Workman et al., 2003; Zupancic, 2008). Establishing a "KAM *esprit de corps*", defined as the effort to get people (from different departments) involved in (responding to) the management of the KA and feeling obligated to the common goals and to each other (Workman et al., 2003, p. 10), is a necessary quality of the supplier's organizational configuration. A strong sense of KAM *esprit de corps* thus reflects the actions taken at the organizational level to ensure that managers and employees are willing to cooperate in serving the KA beyond the boundaries of departmental responsibility or departmental tribalism (Guesalaga & Johnston, 2010; Salojärvi & Saarenketo, 2013).

However, in addition to the *esprit de corps*, organizing the monitoring of the KAM program and the supplier's reaction around interdepartmental teams is an additional organizational prerequisite for aligning the supplier's offering with the needs of the KA. A single KA manager is unlikely to hold the necessary expertise and capacity to manage the KA alone (Salojärvi et al., 2010). In contrast, a team allows the supplier to draw upon a set of diverse skills (Salojärvi & Saarenketo, 2013) while at the same time enabling the coordination of a complex value-generation process that cuts across the supplier's different product categories and functional units (Moon & Armstrong, 1994). Consequently, a consistent customer experience can be delivered (Harvey, Novisevic, Hench, & Myers, 2003).

The next level to consider is the tactical one. KAM initiatives are designed not only to manage strategic accounts but, more importantly, to increase the value that the KA derives from the relationship with the supplier (Pardo, Henneberg, Mouzas, & Naudè, 2006). KAM requires strong relational capabilities and allocation of resources to the most strategically important customers (Storbacka, 2012). As such, KAM is a way to implement the principles of relationship marketing, of which the most important is customization (Aijo, 1996) in the B2B context (Guenzi et al., 2007; Ivens & Pardo, 2007). Consequently, the key facet of KAM implementation at the tactical level is the supplier's willingness and ability to produce an offering for the KA that is tailored to the individual needs of this specific account (Wengler et al., 2006).

Finally, the evaluation and control level captures the formal monitoring of the KAM initiatives and assesses whether the relationship with the KA serves both the financial and the strategic objectives of the supplier. While formality in general has been acknowledged to reduce flexibility and time of reaction (Jaworski & Kohli, 1993), when it comes to monitoring and control, formal tracking systems allow the management a regular and consistent picture of company performance (Kirca, Jayachandran, & Bearden, 2005). Hence, a formal performance monitoring system improves the company's reaction time when performance deviates from objectives. This is particularly important for both the financial and the relational performance objectives of the KAM program at the account level since, while the latter are clearly important from the relationship marketing perspective, the former are equally crucial if KAs are to be held financially responsible, as they ought to be (Woodburn & McDonald, 2011).

2.2. Relational capabilities

While the practices discussed in the previous section of the manuscript may well have an impact on the outcome of the KAM program, a resource-based view of the firm (Wernerfelt, 1984) provides the theoretical background to understand more precisely how such practices generate value for the KA and, consequently, translate into specific performance benefits for the supplier (Barney, Wright, & Ketchen, 2001). Although any company or manager can try to adopt such KAM