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## IMPACT OF KEY ACCOUNT MANAGEMENT ORIENTATION ON COMPANY'S NON-FINANCIAL PERFORMANCE

### ABSTRACT:

*Key account management (KAM) in theory is described as a strategic approach distinguishable from account management or key account selling that should be used to endure long-term development and retention of strategic customers. This article presents the importance of key account management orientation in today's business and how it affects the non-financial performance of companies in Bosnia and Herzegovina. Also, we will present the results of ongoing research that aims to identify the influence of key account management orientation on company non-financial performance in different industry sectors. Data were collected from several companies in different industries considering a company as a unit of analysis. Research instrument – questionnaire comprised scales that had been validated and found reliable in previous research. Item total reliability and confirmatory factor analysis will be used to test the reliability and validity of the constructs. Furthermore, the structural equation modelling (SEM) technique will be employed to analyze the effects of key account management orientation on a company's non-financial performance. It is to be expected that the results of the conducted research show a statistically significant impact of key account management orientation on a company's non-financial performance in Bosnia and Herzegovina.*

**Keywords:** *key account management, non-financial performance, relationship marketing, Bosnia and Herzegovina*

**JEL:** *M30, M31*

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## 1. INTRODUCTION

The history of key account management (KAM) began with the industrial industry. KAM as a practice or a discipline within B2B marketing is not new; it has been around for more than 20 years (Pardo, 1997; Sharma, 1997; McDonald, Millman & Rogers, 1997). It is known that KAM became very important for companies in order to remain competitive. It allows companies to improve both value creation and value capturing with strategically important customers. Therefore, KAM has received interest in both academic research and management practice. These days, KAM programs are developed and implemented in many different industries (Ivens & Pardo, 2007; Ojasalo, 2001; Ryals & Humphries, 2007).

Key account management orientation (KAMO) is defined as an element that serves key customers with appropriate key account management (Davies & Ryals, 2014). KAMO is also defined as the ability of the organization structure to work towards sustaining and improvement of the selected clients who are believed to increase the financial performance of the company (Speakman & Ryals, 2012). However, KAMO is considered as identification of the most important client and developing strategies to fit those clients' needs hence ensuring that the client seeks services from your hence performance (Gounaris & Tzempelikos, 2013).

KAM is one of the relationship marketing approaches to manage strategic accounts (Wengler, Ehret & Saab, 2006). KAM refers to the management of those customer relationships which are strategically important, to the firms' long-term performance (Ivens & Pardo, 2007; Pardo, Ivens & Wilson, 2014).

Although many KAM studies have been done so far, there are very few that have researched the direct implications of KAMO on company performance. Performance drivers that have been identified are: financial, relational and technological (Kumar, Sharma & Salo, 2019). However, the purpose of this paper is to check the impact of KAMO on the non-financial performances of the companies in Bosnia and Herzegovina. We proposed a conceptual model which will show the relationship between KAMO and non-financial performances. We surveyed key account managers in medium and large companies in different industries. Therefore, we created multiple groups for companies where we have made analyses for manufacturing companies and service oriented companies.

The paper is laid out as follows. This section introduces the research. The next section will provide the literature review of key account management. The third section will describe the methodology used in this research. The fourth section presents the results of the research. The paper ends with concluding considerations.

## 2. Review of relevant literature

The term of key account management has previously several other names e.g. national account, key account, global account and strategic account. The national account term was first time used by Roger M. Pegram back in 1972 to address important customers to firms. The first definition of the above-mentioned terms was provided by Stevenson & Page (1979) with the following summation: “Special marketing procedures are followed in selling, servicing, and monitoring certain key customers considered important to the goal attainment selling company”. The main focus of KAM is to establish and manage long-term business relationships with important customers who offers a competitive advantage to companies (Tzempelikos & Gounaris, 2015). Having this in mind, companies have decided to choose key accounts for their business from the existing database following their potential to develop collaborative, long-surviving and mutually beneficial relationships (Ivens & Pardo, 2007; Workman, Homburg & Jensen, 2003).

McDonald (2000) has provided a framework for antecedents of KAM and KAM stages. The other influence to KAM has been provided by Homburg, Workman & Jensen (2002) when they have written an article about classifying KAM literature as research on key account managers, research on key account relationships, and research on KAM approaches. Jones, Dixon, Chonko & Cannon (2005) have provided a review, framework and research agenda for key accounts and teams selling with a focus on team selling dynamics. A review of KAM literature at that time has been done by Guesalaga & Johnston (2010) where they have reviewed all KAM related research topics (KAM adoption, KAM elements, KAM teamwork, and KAM relationships) from 1979 to 2009 in marketing and management journals.

Key account management orientation (KAMO) and its dimensions have been defined by Gounaris and Tzempelikos (2013) where they have created a multidimensional construct which has integrated attitude related and behavioral related sets of values toward KAM. In the same article, they have found that the implementation of KAMO has a direct influence on companies’ financial and non-financial performances. KAMO is defined as a system of values that reflect the supplier’s willingness and ability to adapt and meet the unique needs of key accounts.

Key account management (KAM) is increasingly important for companies. All changes that have been requested by customers, enhanced competitive conditions, as well as emerging disruptions, have made an impact on company strategies where KAM became more critical and KAM performances essential to any firms’ success (Guesalaga, Gabrielsson, Rogers, Ryals and Cuevas, 2018). KAM performances can be explained in two ways: performance drivers (financial, relational, behavioral, activities-related, resources-related, technology, environmental) and performance measures (firm-level, market-level, account level; dyad-level).

Based on current researches, we have noticed that performance drivers are: financial (costs), relational (Sharma, 2006; Sengupta, Krapfel & Pusateri, 1997; Barrett, 1986; Abratt & Kelly, 2002) and technological (Davies & Ryals, 2014; Salojärvi, Sainio & Tarkiainen, 2010). Also, there have been some papers that have mentioned organizational drivers (e.g., customer orientation, top management involvement, and selling orientation) (Davies & Ryals, 2014; Workman, Homburg & Jensen, 2003; Salojärvi, Sainio & Tarkiainen, 2010; Guenzi, Georges & Pardo, 2009) and behavioral drivers (e.g. intrapreneurial ability, selling skills and account managers' strategic ability) (Sengupta, Krapfel & Pusateri, 2000; Tzempelikos & Gounaris, 2015; Abratt & Kelly, 2002).

Although previous researches emphasize the impact of KAM on financial performances, there are also outcomes that KAM relationships can provide (Ivens & Pardo, 2007). Some of the KAM outcomes that are noneconomic are access to know-how or new markets (Millman & Wilson, 1999; Pels, 1992), the reference value (Ojasalo, 2001; McDonald et al., 1997), better business planning (Caspedes, 1993), better organization of processes (Ojasalo, 2001), joint product development (Boles, Johnston & Gardner, 1999), opportunity to internationalize (Millman, 1996) and facilitation of internal communication (Boles et al., 1999; Stevenson, 1981).

Even though some of these outcomes have been previously researched, it became standard that the most cited benefit is reference value. It is referred to the supplier's opportunity to increase its image and status in the market through a relationship with the key account. This means that suppliers can use customer's status as a reference in the companies' efforts to reach other customers (McDonald et al., 1999; Ojasalo, 2001). Know-how development seems to be another outcome for the supplier. When key accounts' request improved products and/or services, suppliers are forced to be updated with operations or product developments. This requires suppliers to proactively develop competencies and know-how (Pels 1992; Ojasalo 2001). Another important outcome is processes efficiency. If we can manage several customers it will help the company to manage internal processes such as business planning and evaluation of results (Cespedes, 1993). The last outcome would be an improvement in internal communication (Boles et al., 1999). It will involve the facilitation to direct, open and flexible communication of the various units that are basically results of coordination to respond effectively to the needs of all key accounts.

Taking into account the given literature review, the following hypotheses are set in the paper:

*H1: KAMO has a positive impact on the non-financial performance of the company.*

*H2: KAMO's influence on non-financial performance is determined by the industry the company operates in.*

### **3. Research methodology**

#### **3.1. Sample characteristics**

Data were collected using a structured questionnaire, over five months. A total of 86 usable questionnaires (response rate 46%) were collected from companies covering different sectors of production and service character. Given the nature of the research, we decided to contact the Key Account Management (KAM) managers within the company, as they are considered to have the best insight into the practices and benefits of KAM within the company (Homburg et al., 2002). The research was conducted online, and the application for participation in the research and the corresponding link to the questionnaire were submitted to the companies by e-mail.

#### **3.2. Research instrument**

The questionnaire consists of a total of 48 questions, mostly based on multidimensional scales, adapted from the existing literature and includes two basic parts (not including questions of a general nature). The questionnaire was previously tested by experts from the academic and business community, with the aim to increase the validity of the content and the clarity of the scales used. All questions in the questionnaire were measured using a seven-point Likert scale, ranging from 1 “strongly disagree” to 7 “strongly agree”.

The first part of the questionnaire refers to the degree of adoption of the orientation to key customers in the company (KAMO). KAMO is treated as a construct that defines six dimensions, including consumer orientation, top management commitment, inter-functional coordination, adaptability, involvement of top management, and inter-functional support. The scales used were taken and adapted from research conducted by Gounaris and Tzempelikos (2013).

The second part of the questionnaire refers to the non-financial performance of the company, which is also a multidimensional construct that includes four dimensions: reference value, knowledge development, process efficiency and communication within the company. Measurement scales were taken and adapted according to research conducted by Gounaris and Tzempelikos (2014).

## 4. Research results

### 4.1. Evaluation of measurement scales

Before testing hypotheses, it is necessary to assess the reliability and validity of the applied measurement scales (Gerbing and Anderson, 1988). Within Table 1, the results of the reliability and validity assessment are presented.

Convergent validity was first performed, based on an assessment of standardized factor loadings. Table 1 shows that the values of standardized factor loadings ( $\lambda$ ) for each observed variable are above the minimum required value of 0.5 and that they are all statistically significant ( $p < 0.01$ ), which provides evidence of satisfactory convergent validity.

Construct	Indicator (number of items)	Mean	Standard deviation	Cronbach alpha (N=86)	Item-total correlation	Standardised factor loading ( $\lambda$ )	CR	AVE	Squared correlation	Cronbach alpha	CR	AVE
Key account management orientation (KAMO)	Customer orientation (5)	5.753	.89	.869	.672-.788	.733-.832	.888	.614	.784	.862	.871	.538
	Top-management commitment (5)	4.307	1.28	.862	.553-.780	.888-.948	.874	.587	.766			
	Inter-functional coordination (4)	5.712	.98	.951	.873-.916	.898-.947	.954	.838	.915			
	Ability to customization (5)	4.881	1.16	.896	.602-.887	.656-.933	.905	.660	.812			
	Top-management involvement (5)	5.440	1.03	.863	.548-.805	.620-.850	.868	.572	.756			
Non-financial outcomes	Inter-functional support (3)	5.101	1.16	.921	.778-.906	.823-.964	.927	.809	.900			
	Reference value (4)	4.393	1.16	0.854	.611-.854	.698-.914	.869	.626	.791	.975	.871	.630
	Know-how development (4)	5.712	.98	.951	.873-.916	.904-.943	.954	.839	.916			
	Processes efficiency (3)	5.698	.94	.757	.492-.654	.618-.796	.775	.538	.733			
	Internal communication (4)	5.215	1.08	.861	.663-.817	.740-.882	.871	.629	.793			

Source: Analysis of data obtained by primary research

The next step analyzes the validity of the constructs, following the procedure proposed by Fornell and Larcker (1981). As shown in Table 1, the average extracted variance (AVE) of all constructs exceeds the minimum limit value (0.50). Additionally, the AVE for each construct is greater than the square correlation between that construct and any other construct in the model. This shows satisfactory discriminant validity.

The final step in the evaluation of measuring scales refers to testing the reliability of measuring scales and their internal consistency. For this purpose, reliability assessment was first performed by calculating the Composite Reliability (CR). It measures the internal consistency of the variables describing the latent construct and should be 0.7 or greater (Hair et al., 2009). Composite reliability values for the observed constructs range from 0.897 to 0.947. Reliability testing was also performed using Cronbach's alpha coefficient. As shown in Table 1, Cronbach's alpha coefficients are above the 0.7 thresholds (Nunnally, 1978), and it is evident that the measurement scales are also internally consistent.

Having in mind the sample size on the one hand and the number of questions in the questionnaire on the other, composite variables were formed to continue the analysis, certainly taking into account the psychometric characteristics of the measurement scales. For each of the six dimensions of the KAMO model, we calculated a simple arithmetic mean (average) of the observed variables, resulting in a latent variable KAMO, with six indicators (Homburg and Pflesser, 2000). The same procedure was performed in the case of the variable related to the non-financial performance of the company, given that both the theory (eg Walter and Ritter, 2003; Gounaris and Tzempelikos, 2014) and the previous evaluation of psychometric characteristics of measurement scales provide evidence that each indicator loads appropriately on the predicted latent variable.

## 4.2. Hypothesis testing

The analysis of the collected data is based on modelling through structural equations (SEM), using IBM's Amos 20.0 software package. Regarding the fit of the model, we rely on  $\chi^2 / df$  ratio, the comparative fit index (CFI), the root mean square error of approximation (RMSEA), the non-normed fit index (NNFI), and standardized root mean residual value (SRMR).

The ratio of  $\chi^2$  over the degrees of freedom (df) is a descriptive measure of overall fit. Values of this ratio less than 2 indicate acceptable model fit (Medsker, Williams, & Holahan, 1994). However,  $\chi^2$  was significantly determined by sample size as well as the number of observed variables (Hair et al., 2010).

In this sense, more modern alternative measures (CFI, RMSEA, NNFI, SRMS, etc.) are used to assess the fit of the model, more robust in terms of sample size or complexity of the model.

CFI is an incremental model fit index, suggested by Bentler (1990). The value of this index can range from 0 to 1, with values closer to 1 indicating a better fit. A value of 0.9 is taken as the usual lower limit for a good model fit (Hair et al., 2010). RMSEA (Root Mean Square Error of Approximation) as one of the absolute indices is a measure of the deviation between the observed covariance matrix and the covariance matrix obtained based on model estimation, according to the degree of freedom (Browne and Cudeck, 1993). Lower values of this index indicate better model fit. Although there is no single view on the upper limit to which this index should go, it can generally be accepted that values below 0.08 indicate a good model fit (MacCallum, Browne, & Sugawara, 1996). However, although the RMSEA is considered “one of the most informative fit indices” (Diamantopoulos and Siguaw, 2000), the sample size can significantly affect the size of this index (Tanaka, 1987). To avoid this problem, researchers can rely on NNFI (Bentler, 1990; Sharma, Mukherjee, Kumar, & Dillon, 2005). Values of this index greater than 0.95 are taken as indicators of adequate model fit (Hu and Bentler, 1999).

SRMR, as a standardized RMR index, represents the average of the standardized residues derived based on the difference between the observed covariance matrix and the covariance matrix obtained based on the model estimate. Lower values of these indices indicate a better fit. It is generally accepted that SRMR index values below 0.08 indicate good model fit (Hair et al., 2010).

The assessment of our model shows satisfactory fit:  $\chi^2_{gof}$  is significant ( $\chi^2 = 58.983$ ,  $N = 86$ ,  $df = 34$ ,  $p < 0.01$ ),  $\chi^2 / df = 1.73$ , CFI = 0.944, RMSEA = 0.081, NNFI = 0.96; SRMR = 0.0801. A detailed inspection of the modification indices did not identify potential changes that would have a significant impact on improving the fit of the measurement model.

**Table 2:** Standardized and unstandardized coefficients for the structural model

Exogenous variable	Endogenous variable	b	B	SE	p
KAMO ®	NFP (R2 =0.281)	0.530	.446	.111	0.000

**Source:** Analysis of data obtained by primary research

Notes: *b*-standardized coefficients, *B*-unstandardized coefficients, *SE* – standard error; Two-tailed *p*- value.

The basic results of hypothesis testing are shown in the previous table (Table 2). As for the effect of the company orientation on key customers (KAMO) on the non-financial performance of the company (NFP), it is evident that this impact is statisti-



cally significant and positive, which confirmed the first hypothesis of the research (H1). The second objective of this study was to analyze the impact of the type of industry (manufacturing and service) on the relationship between company orientation to key customers (KAMO) on the non-financial performance of the company (NFP). Therefore, group comparisons were made between manufacturing companies and service companies, using the modelling of structural equations. The difference test  $\chi^2$  showed that there is no statistically significant difference between the companies of the two observed industries ( $\chi^2 = 14.365$ ,  $df = 9$ ,  $p < 0.110$ ). Therefore, hypothesis H2 is not supported. This further confirms that the heterogeneous sample does not pose a problem regarding the validity of the research results.

### 4.3. Discussion

The results of the research first point to the conclusion that the degree of adoption of the orientation to key customers has a statistically significant and positive impact on non-financial performance in the analyzed companies in Bosnia and Herzegovina. In this way, the obtained results confirm the fact that the advantages of adopting KAM outweigh the financial benefits and synergistically enrich the relationship with consumers, creating an environment more suitable for increasing the overall performance of the company. This conclusion supports the first research hypothesis (H1), and is consistent with the results of previous research (Gounaris and Tzempelikos, 2013; Davies and Ryals, 2014). Also, in a recent study, Gounaris and Tzempelikos (2014) confirm the indirect orientation of key customers to the non-financial performance of companies.

In summary, a total of 28.1% of the variability of the non-financial performance construct can be explained with the key customer orientation construct. In other words, a higher perceived degree of adoption of key customer orientation by companies, including consumer orientation, top management commitment, inter-functional coordination, adaptability, top management involvement, and inter-functional support, leads to better non-financial performance related to the reference value, knowledge development, process efficiency and communication within the company.

In the context of industry impact, research results show that industry type does not have a statistically significant impact on non-financial efficiency measures. This is in accordance with the findings of a study conducted by Gounaris and Tzempelikos (2014). On the other hand, Davies and Ryals (2014) conclude that the type of industry has a statistically significant impact on certain performance measures. This is an important area for further research in terms of the need to diagnose the relative importance of KAM and the nature and form of KAM practice in different industries.

## 5. CONCLUSION AND RECOMMENDATIONS

The main goal of this study is to investigate the direct impact of key customer orientation on the non-financial performance of companies in Bosnia and Herzegovina. In addition, it is investigated whether the stated impact varies depending on the type of industry to which the companies belong. The research was conducted on the market of Bosnia and Herzegovina.

Previous research suggests that the degree of a company's focus on key customers is a significant determinant of a company's overall performance. The results of this research also confirm that the orientation to key customers has a significant and positive impact on the non-financial performance of the company (H1). On the other hand, the moderating influence of the industry type on the stated influence (H2) has not been confirmed. These research findings represent a significant contribution to KAM theory, as they demonstrate that the company's benefits from KAMO are not only related to financial performance, in terms of sales, market share, or profitability and ROI, but also to non-financial performance, in terms of the reference value, knowledge development or process efficiency.

This study is, in fact, a continuation and contribution to some previous studies approaching KAM from a relationship marketing perspective (e.g. McDonald et al., 1997; Pardo 1997; Sengupta, Krapfel, & Pusateri 1997; Gosselin and Bauwen 2006; Gounaris and Tzempelikos, 2013; Gounaris and Tzempelikos, 2014; Davies and Ryals, 2014), establishing and empirically examining KAMO, as a construct that reflects a set of values that a company needs to develop to effectively manage relationships with key customers.

In theoretical terms, the contributions are primarily reflected in the fact that this study proposes and empirically examines KAMO, as a multidimensional construct that combines behavioral and attitudinal factors, which reflect the ability of companies to develop effective KAM practices. Second, the study develops reliable and valid measures of KAMO, as well as the non-financial performance of the company, providing comprehensive, psychometrically correct and operationally valid construct measures. Third, viewed from the perspective of marketing relationship theory, the research findings show that the management of key customers as a whole represents a potential basis for the development of strategic competitive advantages of companies. Consistent with this, in the context of Resource-based theory, companies that have a higher degree of adoption of KAM, create opportunities to limit themselves to those customers who are of strategic importance to the company.

In addition to the theoretical contribution, this study has significant practical implications. The first important implication relates to the organizational consequences that the adoption of KAMO encourages.

For example, decentralizing decision-making is not always easy. Middle or even lower-level managers must be willing to take responsibility for decision-making and must have the necessary knowledge to be able to do so (Hurley and Hult, 1998). In this regard, a serious investment of both time and money is needed to train managers and promote KAM orientation. Another important practical implication is the nature of the benefits that top management can expect from the implementation of KAM. This research confirms that the adoption of KAMO enables companies to improve the quality of relationships with key customers. Along with improved relationship quality, there also come stronger reference values, knowledge development, better process efficiency and communication within the company. All these advantages together can be seen as a key strategic asset that enables a long-term relationship with the existing portfolio of key customers, and at the same time creates conditions for improving the company's attractiveness to other potential customers with whom the company currently has little or very limited relationship.

Of particular importance is the fact that this is a pioneering research of this type in Bosnia and Herzegovina. This is particularly important for two reasons: (1) the fact that key customer-oriented practices are insufficiently researched, taking into account the characteristics and specifics of the market of Bosnia and Herzegovina; (2) the fact that the modern strategy of marketing relations is mainly based on the successful implementation of KAM orientation.

### **5.1. Limitations and recommendations for future research**

Although this research makes a significant contribution to understanding the relationship between the degree of adoption of key customer orientation and the non-financial performance of companies, there are certainly some limitations that are important to emphasize. The main limitation of the work is primarily the possibility of generalizing the results, given that the survey is based on 86 companies, and that only one respondent from each company participated in the survey, which creates the possibility of bias and may jeopardize the validity of the survey.

One of the limitations of the research is the focus solely on the internal environment of the company. However, in order to gain a more comprehensive understanding of how KAM affects a company's performance, other variables, such as specific market characteristics, competition intensity, or customer characteristics, need to be considered at the same time, in terms of purchasing strategy. This is certainly an interesting entry point for future research.

The limitation of this research also relates to the use of research design that focuses only on companies, which is an obstacle in assessing the actual quality of customer relationships. Relationship quality represents the value created from the KAM relationship, but from the user's perspective. Future research should therefore include the perspectives of both the customer and the company, thus providing a more comprehensive overview of the outcomes of the KAM program.

Also, future research could be based on the use of different research techniques, in order to examine the model in different contexts. Of course, there is a need to involve potential moderators, who can significantly change the intensity of the surveyed relationships. Finally, conducting similar research in other countries, especially close countries from the group of transition or developing countries, opens the possibility of comparing the results, and bringing more general results in terms of development and future orientations for KAM practices.

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## UTICAJ KEY ACCOUNT MANAGEMENT ORIJENTACIJE NA NEFINANSIJSKE PERFORMANSE KOMPA NIJA

### SAŽETAK

*Key account management u teoriji se opisuje kao strateški pristup koji se razlikuje od upravljanja korisnicima ili prodaje ključnim kupcima koji bi se trebao koristiti da omogući dugotrajni razvoj i zadržavanje strateških kupaca. Ovaj članak govori o važnosti orijentacije na upravljanje ključnim kupcima u današnjem poslovanju te na koji način utiče na nefinansijske performanse kompanija u Bosni i Hercegovini. Također ćemo prezentirati rezultate istraživanja koje ima za cilj da identifikuje uticaj orijentacije na upravljanje ključnim kupcima na nefinansijske performanse u različitim industrijskim sektorima. Podaci su prikupljeni iz različitih kompanija u različitim industrijama, a gdje se svaka kompanija posmatrala kao jedinka u analizi. Instrument istraživanja – upitnik koristi skale koje su validirane i korištene kao pouzdane u prethodnim istraživanjima. Ukupna pouzdanost i konfirmatorna faktorska analiza će biti korištene kako bi se testirala pouzdanost i validnost konstrukata. Nadalje, tehnika modeliranja strukturalnih jednačina (SEM) će se koristiti za analizu efekata orijentacije na upravljanje ključnim kupcima na nefinansijske rezultate kompanija. Za očekivati je da će rezultati provedenog istraživanja pokazati da orijentacija na upravljanje ključnim kupcima značajno utiče na nefinansijske performanse kompanija u Bosni i Hercegovini.*

**Ključne riječi:** *key account management, nefinansijske performanse, marketing odnosa, Bosna i Hercegovina*

**JEL:** *M30, M31*