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KEY ACCOUNT MANAGEMENT PRACTICES AND PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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Abstract

This study sought to determine the relationship between key account management practices and performance of commercial banks in Kenya. The hypothesis that there exists a statistically significant relationship between key account management practices and performance was tested. The study was a descriptive cross-sectional survey. All commercial banks in operation in Kenya as at 30th, April 2016 were used in the study. Data was analyzed using both descriptive and simple regression analysis. The findings indicate that people related practices were the most intensely used by commercial banks. Customer satisfaction was the most applied measure of non financial performance in commercial banks. The regression results indicate a statistically significant relationship between key account management practices and performance of commercial banks. The findings have implications for both practice and theory; It is reported that people related practices were rated highest by respondents implying that these KAM practices were found to have the greatest influence on performance. Managers of commercial banks therefore need to invest more in these people related practices. The findings also have implications for theory; the greatest theory in the key account management debate is the relationship marketing theory which postulates that firms invest in long term relationships with their customers since such relationships are likely to give rise to benefits for both supplying and buying firm.

Key Words: Key Account Management Practices, Firm Performance, People Related Practices

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1.0 Introduction

Key account management (KAM) is defined as managerial process that involves the identification of customers who are considered important to the survival of the business and the determination of programs that satisfy their specific needs (Guenzi et al., 2010). It is viewed as an offshoot from the greater relationship marketing theory. According to Milman and Wilson (1995) successful adoption of KAM is premised on the ability and willingness of individuals to build close long-term relationships. Campbell and Cunningham (1983) view a key account as a customer in a business to business market identified by a selling company as of strategic importance. This definition emphasizes the word strategic since not every important customer is of strategic importance. Pardo (1997) widens the definition of a key account as a customer who expects specific and personalized treatment from the supplier. Pardo's (1997) definition provides insights into the expectations of the customer in a KAM relationship.

Key accounts management can from the foregoing definitions be defined as a customer oriented co-ordination unit within the company in which activities associated with very important customer are consolidated and executed for long term mutual benefit to the supplier and buyer. This definition establishes that the focal point for the co-ordination of marketing tasks is a small number of selected customers who are of strategic significance to the company's survival. Key account management is the management of dedicated sales and or marketing processes including customer selection, customer satisfaction, channel management and relationship management, directed towards important customers is business and industrial markets (Gosselin & Heene, 2005). Key account management practices have been defined as the KAM programs that the firm has put in place to achieve objectives (Davies, 2014). Davies (2014) reports that the extent to which KAM practices are embedded within the organization influences financial and non financial performance. Key account management practices have been classified into organization wide, operational, target and performance, people related and procedural practices (Davies & Ryals, 2014).

Commercial banking in Kenya is regulated by the Central bank of Kenya. The ratio of commercial banks to population in Kenya is considered to be quite high. As a result therefore competition is quite high. The emergence of non commercial banking financial entities such as the micro finance institutions and other players such as mobile phone service providers exacerbates the situation.

2.0 Literature Review

Key account management is viewed as an offshoot of relationship marketing. Much of the advances in account management draws heavily from relationship marketing theory. Relationship marketing theory explains the motivations behind formation of relationships, the precedents and the antecedents (Berry, 1981). The Resource Dependence Theory (RDT) characterizes an open system which is dependent on contingencies in the external environment (Pfeffer & Salancik, 1978). This theory is premised on the view that an organization's behavior is affected by the context that behavior. It recognizes the influence of external factors on organizational behavior and holds that even though they may be constrained by their context, managers can

act to reduce environmental uncertainty and dependence. The RDT is also a basic theoretical perspective to understand joint ventures and other inter organizational relationships such as strategic alliances and, R & D agreements and buyer and seller relationships (Barringer & Harrison, 2000). Key account management may be viewed as an attempt to reduce environmental uncertainty. The dynamic capabilities theory is attributable to Teece et al. (1994). Like the resource based view, its focus is on core issues such as competencies and firm performance. It seeks to explain the relation(s) between a firm's exploration of its capabilities and its performance. The dynamic capabilities view accords with and complements the popular view of the external environment of firms as increasingly turbulent and hypercompetitive (Anderson & Tushman, 1990). Key account management is viewed as a marketing capability following Vorhies and Morgan (2000).

KAM confers both advantages and penalties to an organization. According to little and Marandi (2003) the supplier benefits from increased turnover, since the proper selection and development of accounts will lead to amongst other things lead to the cultivation of the high volume, high value customers. At the same time costs of winning new customers in time, marketing research and communication are reduced. Elram (1991) notes that long-term relationships give the supplier the opportunity to plan its production and logistics with greater certainty perfecting repetitive operations. The buyer will consequently benefit from lowered prices as a result of reduction in supplier's cost of doing business.

It is the mutual benefits however that brings the greatest strategic advantage to the parties involved. Little and Marandi (2003) argue that both parties enjoy reduced risk, alleviating the threat of both short-term crises in supply and demand and long-term planning uncertainty. When both supplier and buyer organization pool their resources, they are able to explore opportunities that individually would have proved too prohibitive. The two can share resources such as knowledge, brand image, information and competencies. Ojasalo (2001) notes that the benefits of KAM may occur at the individual as well as the organizational level through enhanced social interaction from the bonds that form between individuals in the two companies. Probably a summary justification for KAM arises from its relationship with firm performance.

The relationship between key accounts management and organizational performance has generated a lot of interest in recent times. KAM involves targeting important customers by providing them special treatment in the areas of marketing, administration and service (Banett, 1986). The implication is that the company has to define who its important customers are. There has to be distinction between key accounts and the rest of the company's customers who do not represent a priority in strategic terms. According to the resource-based view (RBV) of the firm (Barney, 1991) companies use scarce resources and superior capabilities to improve competitiveness and derive superior performance.

There is substantial evidence linking customer service quality to organizational profitability and effectiveness (Buzzell & Gale, 1987; Reichfield & Sasser, 1990;

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Zeithaml & Parasuraman, 1985). Delivering superior customer service quality has been indicated as a desired outcome of key accounts management. The performance of KAM can be objective or subjective (Sengupta et al., 1997). KAM subjective performance is what the KAM accomplishes for the customer in terms of meeting their objectives, conformity, cooperation and satisfaction. KAM objective performance is what the KAM achieves for the selling firm.

In order to relate key account management activities to firm performance there needs to be agreement on how firm performance is measured and how practices in customer relationships contribute to the development of these measures. Barney (1991), Dunn (2002) and Eisenhardt & Martin (2000) a firm's resources are the physical (for example; specialized equipment, geographic location), human (for example; skills and knowledge) structural (for example; routines, practices and processes) and relational (for example: relationship to suppliers, partners, alliances and customers) assets that can be used to implement value creating strategies. According to Davies and Ryals (2014) key account management practices can be classified into organization wide, operational, target and performance, people related and procedural practices. This classification is consistent with a broad spectrum of literature on key account management. This study is based on the operationalization of key account management practices following Davies and Ryals (2014).

3.0 Methodology

The study was a descriptive cross-sectional survey. Data was collected from the forty two (42) commercial banks in operation in Kenya as at 30th April 2017. Before analysis, data was tested for reliability using Cronbach's alpha and the score was 0.987, which is well above the threshold of 0.7 (Nunally, 2003). Homoscedasticity and Multicollinearity were tested using scatter diagrams for ZRESID and ZPRED values. Data was analyzed by use of descriptive statistics and simple regression analysis.

4.0 Findings of the Study

Data was first analyzed using descriptive analysis i.e Mean and standard deviation. The findings are presented in Table 4.1

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Table 4.1 Summary of Descriptive Statistics for Key Account Management Practices

Dimensions of Key Account Management practices	Mean	Std. Deviation	
People Related	4.05	.849	
Procedural practices	3.95	.935	
Overall Score	3.79	.986	
Target Practices	3.74	.969	
Organization wide Practices	3.61	1.09	
Operational Practices	3.58	1.089	

Table 3.1 above shows that people related Key account management practices are most intensely applied (mean= 4.05, Std. Dev= .849). The items for this dimension included: appointment of key account managers, establishment of cross functional teams, consideration of key customers relationships with competitors and the existence of motivational and reward schemes for key account personnel. Procedural practices, organization wide practices and target practices were also rated fairly highly (Mean ≥ 3.61). Operational practices whose items included the determination of key account plans for each customer and the nature of the customer feedback process was averagely implemented.

Table 3.4: Summary of Descriptive statistics for Performance

Dimension of Performance	Mean	Std. Deviation
Internal Business process	4.02	.812
Learning and growth	4.01	.782
Return on Investment	3.99	.675
Customer satisfaction	4.12	.756
Average	**4.05**	**.783**

Performance was measured on three dimensions: customer satisfaction, internal business process and learning and growth. This operationalization of performance follows Kaplan and Norton (1992). Table 3.4 shows that customer satisfaction was the greatest reward upon a company's implementation of key account management practices (Mean= 4.12, Std. Dev= .756). It is noteworthy that indeed the results above that all dimensions of performance were rated highly as outcomes of key account management practices with Mean of 3.99.

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Table 3.5: Regression results for Key Account Management Practices and Performance

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.516[a]	.266	.243	.50376

a. Predictors: (Constant), KAMP

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.944	1	2.944	11.601	.002[b]
	Residual	8.121	32	.254		
	Total	11.065	33			

a. Dependent Variable: OP
b. Predictors: (Constant), KAMP

Coefficients

Model		Un standardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.102	.892		.114	.910
	KAMP	.847	.249	.516	3.406	.002

a. Dependent Variable: Organizational Performance

The results in Table 3.5 indicate that key account management practices have a statistically significant influence on organizational performance and explain 26.6 % of variance (R^2=0.266). The standardized regression coefficients (β) of the composite scores of key account management practices was 0.516 with a t-test of 3.406 and a significance level p-value of .002. The results imply a linear relationship between bank performance and key account management practices.

5.0 Discussion of findings

The findings indicate that people related practices are the most intensely implemented in commercial banks. Literature supports the fact that an organization that intends to excel in key account management ought to put people- related systems in place to support the strategy (Natti & Pallo, 2012). Other dimensions of key account management such as organization wide practices, target practices, operational and procedural practices were given a high rating indicating that they are also important in key account management. The results generally indicate

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that most of the measurements of performance used were rated highly. Customers satisfaction was the most highly rated indicator. This is in conformity with general literature on marketing and the foremost business of an enterprise i.e customer satisfaction.

The findings further indicate that key account management practices influence performance. This finding is supported by Davies and Ryals (2014). The intensity with which an organization pursues key account management is linearly related to performance. This linear dependence implies that organizations that invest more in key account management are more likely to report increased performance.

6.0 Conclusion

The following conclusions can be made from the findings of the study;

Key account management practices have been found to influence the performance of commercial banks in Kenya. The implication is that when a commercial bank puts in place practices for managing key accounts, such investment is likely to contribute to enhanced performance. However, not all practices were given equal weighting implying that certain practices are more important than others. People related practices were found to be the most highly rated practices, implying that they had the greatest influence on performance.

Implementation of key account management practices was found to result in increased customer satisfaction. Customer satisfaction was used as one of the measures of performance. The conclusion is that when companies invest in key account management, their customers are likely to be more satisfied.

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