

How to facilitate the use of customer knowledge in key account management?

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Abstract

Although customer knowledge management has become a topic of growing interest in the literature during the last ten years, it is not yet understood how firms utilize customer-specific knowledge internally, and what organizational factors promote its utilization in the context of key account management. The collected survey data comprises 169 responses from 97 industrial firms in Finland. The results of the study show that the use of teams, top management involvement, KAM formalization, and investment in CRM systems are positively related to the utilization of customer knowledge.

Keywords: Customer knowledge, knowledge utilization, key account management

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Introduction

The utilization of customer knowledge is a 'stumbling block' for several firms. Despite the widespread adoption of CRM systems and other information platforms, previous studies indicate that firms seem to lack the capability to channel the acquired knowledge and to design customer-specific strategies, sales processes, and changes in products and services (e.g., Rigby, Reicheld and Schefter, 2002). In general, firms tend to be better at acquiring customer knowledge than at utilizing it (e.g., Campbell, 2003). The utilization of customer-specific knowledge is especially important in the management of strategically influential key account customers (e.g., Abratt and Kelly, 2002; Shi et al., 2005). Key account relationships typically involve multiple contact points between the supplier and the account, easily leading to the dispersion of customer knowledge inside the supplier firm. Frequently this may cause multiple selling efforts and contradictory service offerings, thus making activities at the customer frontline seem fragmented from the customer's view (e.g., Cespedes, 1992).

It is not yet understood how firms utilize customer-specific knowledge internally, and in particular what organizational factors promote its utilization. The existing research on intra-organizational aspects of key account management (KAM) is limited, being primarily conceptual and descriptive in nature (Gosselin and Bauwen, 2006; Piercy and Lane, 2006; Workman, Homburg and Jensen, 2003). This study contributes to existing literature by examining the antecedents of customer knowledge utilization in KAM context and thus enhancing the understanding of the factors that make some firms utilize customer knowledge more than others.

Background and hypotheses

Customer knowledge utilization reflects the capability of the firm to utilize existing knowledge about and from the customer in order to enhance the customer relationship. More precisely, according to Jayachandran et al. (2005) this means utilizing the knowledge both to learn about customer needs and behavior (knowledge-enhancing utilization), and in the development of customer-specific products and services (action-oriented utilization). Customer knowledge utilization lays the foundation for all strategic decision-making concerning the key account relationship. Customer knowledge is needed, for example, in order to construct customer profiles, design account-specific organizational structures and selling processes, identify new opportunities for customer value creation, and make changes in products and services. Given the high volumes typical in key account relationships and the dependency of suppliers on their key accounts (Ivens and Pardo, 2008), suppliers cannot afford to lose them. On the contrary, they need to learn to know them better and proactively to aim at identifying new opportunities for customer value creation, thereby raising the switching costs. This requires a thorough understanding of the key account's business, and active utilization of key account-related knowledge (Abratt and Kelly, 2002).

In the field of organizational research knowledge utilization has traditionally been regarded as a function of various organizational systems or processes, in addition to the activities of individual managers (Moorman 1995). The set of antecedents included in the present study was derived from the previous literature on key account management, market orientation, and customer relationship management. In line with the study conducted by Workman, Homburg

and Jensen (2003), the main interest lies in the intra-organizational aspects of KAM. We identified several organizational factors, such as the use of teams, the formalization of KAM operations, customer relationship orientation, and top management involvement that are assumed to play a role in the utilization of customer knowledge. We also wanted to investigate the role of investment in the CRM system as an antecedent of knowledge utilization.

Use of teams

It is now understood that companies can no longer manage their key account relationships in functional silos (Workman, Homburg and Jensen, 2003), as a single salesperson rarely holds the expertise and capacity to manage an extensive key account relationship alone (Moon and Gupta, 1997; Workman, Homburg and Jensen, 2003). Selling teams increase collaboration and relationship commitment in key account relationships (Arnett, Macy and Wilcox, 2005), which further results in increased sales (Wotruba, 1991). Several studies have reported a positive impact of teams on knowledge development and knowledge management activities. For example, Katzenbach and Smith (2005) argue that teams are an effective mechanism for integrating CRM activities and customer-specific knowledge. Sales teams also enable more efficient knowledge sharing among sales representatives, and improve the feeling of 'togetherness' (Geiger and Turley, 2005). Joshi and Sharma (2004) found that the use of teams was positively related to customer knowledge development. Thus, we hypothesize:

H1: The use of teams is positively related to customer knowledge utilization

Formalization of key account management

Formalization reflects the degree to which the firm has established standard operating procedures to coordinate activities and rules in order to define roles and authority (e.g., Argouslidis and Baltas, 2007; Olson, Walker and Ruekert, 1995). It often has a negative tone as rules may be detrimental in terms of adapting to external changes (Jaworski and Kohli, 1993), or they may restrict flexibility in information use (Deshpande, 1984). It has been found that formalization has a negative influence on KAM effectiveness in that it impedes flexibility and thus, prevents firms from giving special attention to their key accounts (Workman, Homburg and Jensen, 2003). However, it also has positive consequences, as noted especially in studies focusing on the processing of market knowledge. For example, Green et al. (2005) found that formalization was positively related to the generation and dissemination of and responsiveness to market knowledge, and Low and Mohr (2001) noted that it enhanced the use of market knowledge. In the context of KAM, formalization is defined as "*the extent to which the treatment of the most important customers is governed by formal rules and standard procedures*" (Workman, Homburg and Jensen, 2003, 45). Thus, in communicating the special status of key accounts it drives the firm to acquire, disseminate, and utilize knowledge about specific, strategically important customers in addition to knowledge about faceless, aggregate markets. Thus, we hypothesize:

H2: KAM formalization has a positive influence on customer knowledge utilization

Customer relationship orientation

An organization-wide priority in customer retention, a willingness to differentiate customer-specific treatment, an emphasis on customer's lifetime value and a sufficient freedom in customer-specific decision making are all characteristics for a high customer relationship orientation (Day, 2000). Previous research suggests that organizational culture and customer relationship oriented values deeply rooted in it (Day, 2000) may affect the level of customer knowledge processing in organizations. For example, Sinkula, Baker and Noordewier (1997) found that a market-based organizational learning orientation was positively related to the generation and dissemination of market knowledge. Jayachandran et al. (2005) found that a customer-relationship orientation had a positive impact on relational information processing (information reciprocity, capture, integration, access, and use). Thus, we hypothesize:

H3: Customer relationship orientation has a positive influence on customer knowledge utilization

Top management involvement

The importance of top management involvement has been addressed in the context of key account management, which extends across functional borders. Top management involvement is needed to empower the managers sufficiently (McDonald, Rogers and Woodburn, 2003), and also to strengthen cross-organizational commitment to the program (Workman, Homburg and Jensen, 2003). Napolitano (1997, 5) argued that “*top management involvement is the most critical indicator of success*” of key account management. Empirical support for this argument is provided by Workman, Homburg and Jensen (2003), who discovered that top management involvement was positively related to KAM effectiveness. Finally, Jaworski and Kohli (1993) found that it had a positive influence on the generation and dissemination of and responsiveness to market knowledge. Thus, we propose the following hypothesis:

H4: Top management involvement is positively related to customer knowledge utilization

Investment in CRM systems

The CRM system refers to the implementation of an integrated series of customer-oriented technology solutions, such as the necessary data repository and IT systems, analysis tools, and both front and back office applications that form the information-management process related to customers (Payne and Frow, 2005). The mere implementation of a CRM solution is not sufficient to create a “learning organization”. However, CRM systems do enable firms to acquire, warehouse, and analyze data about customer behavior and company actions more easily. Mithas, Krishnan and Fornell, (2005) found that the use of CRM applications was associated with increased customer knowledge, whereas Halonen-Rollins (2008) found that the more knowledge there was available, the more it was put to use. Thus, we propose the following hypothesis:

H5: CRM system investment has a positive influence on customer knowledge utilization

Methodology

The survey instrument was a structured print questionnaire. Key-informant technique was used in the data collection, and Finnish industrial firms with over 200 employees were the population of interest. Using the Amadeus database a total of 361 firms were identified, of which 171 were found eligible when contacted by telephone. The respondents were mainly key account managers or employees with corresponding positions. They were asked to respond from the perspective of their most important key account customer in terms of annual sales volume. 169 responses from 97 firms were received, resulting in a satisfactory effective response rate of 56.7 percent (97/171) on the company level, and 42.8 percent (169/395) when comparing the total number of sent and received questionnaires. Non-response bias and common method bias were checked according to Armstrong & Overton (1977) and using Harman's one-factor test. No biases were detected.

The constructs were measured on a seven-point Likert scale ranging from "strongly disagree" to "strongly agree" with the exception of using the categorical dummy variable yes/no to assess the use of teams. As there were no empirically validated scales focusing on *customer-specific knowledge utilization*, we modified the MARKOR scale developed by Kohli, Jaworski and Kumar (1993), the 'relational information processing' scale by Jayachandran et al. (2005) and Moorman's (1995) 'information use' scale. *Formalization* of KAM was measured with items by Workman, Homburg and Jensen (2003). *Customer relationship orientation* items are based on Jayachandran et al. (2005) and pre-test interviews with sales managers. *Top management involvement* scale was adapted from Workman, Homburg and Jensen (2003) and Jayachandran et al. (2005). *CRM investment* measure was adapted from Reinartz, Krafft and Hoyer (2004). Some of the original items were eliminated and new ones generated on the basis of previous research and pre-test interviews with sales managers. Principal component analysis with varimax rotation was used to develop composite measures for each construct. In order to assess the reliability of the scales we calculated Cronbach's alphas for each construct, and all coefficients were greater than .70.

Previous studies have indicated that customer power may be related to the actions of the supplier firm (e.g., Jayachandran, Hewett and Kaufman, 2004). Therefore, we controlled for the effect of supplier's dependency on the key account relationship. We expected that firms might be more motivated to use customer knowledge if they were highly dependent on their relationship with the key account. We also controlled for the effect of the key account's demand for a coordinated service, which we assumed would also encourage suppliers to utilize customer knowledge.

Results

Linear hierarchical regression analysis with two steps was used to test the hypotheses. The results are summarized in Table 1. Variance inflation factors (VIF) were estimated in order to assess the multicollinearity among the variables. The results were well below the cut-off figure of 10. The Normal Probability Plot of the Regression Standardized Residuals and the Scatterplot confirmed that there were no deviations from normality, and thus no violations of the regression analysis.

Table 1. Results of hierarchical regression

Dependent variable: customer knowledge utilization

Variable	Model 1 Standardized Coefficients	Model 2 Standardized Coefficients
Demand	0.100	-0.002
Dependency	0.134*	0.017
Top-management involvement		0.154**
Customer relationship orientation		0.078
Formalization		0.232***
CRM investment		0.287****
Use of teams		0.202***
R2	0.031*	0.357***
Change in R2		0.326***

* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$, **** $p < 0.001$ ($n = 168$)

The first model indicates that demand for a coordinated service, as a control variable, was not significantly related to customer knowledge utilization. Another control variable, supplier's dependency on the key account relationship, was positively related, however, thus indicating that the higher the dependency on the account, the higher the utilization of customer knowledge. In support of H1, the analysis revealed that the use of teams significantly and positively influenced customer knowledge utilization ($\beta = 0.202$, $p < 0.01$). H2 was also supported in that the effect of formalization was significant at the one-percent level. Contrary to expectations, Hypothesis 3, which posited that customer relationship orientation would be positively related to customer knowledge utilization, was not supported as the coefficient had only a slightly positive and not a significant sign. H4, that top management involvement would be positively related, was supported at the five-percent significance level. Finally, the CRM-investment coefficient was positive and highly significant ($p < 0.001$), thus supporting Hypothesis 5.

Discussion and conclusions

In line with the results of previous studies (e.g., Arnett, Macy and Wilcox, 2005), the results of our study suggest firstly, that the use of teams not only facilitates the coordination and integration of customer knowledge across functional and (geographical) borders, but also enables its more effective utilization organization-wide. Secondly, although previous studies have reported that formalization decreases flexibility (e.g., Deshpande and Zaltman, 1984), the findings of our study imply that it nevertheless provides a basis for customer-specific knowledge utilization. It signals the special status of KAM to the employees, and thus channels them to utilize customer-specific knowledge instead of knowledge about faceless markets. Thirdly, the findings clearly support prior assumptions regarding the importance of top management in key account management (e.g., McDonald, Rogers and Woodburn, 2003; Napolitano, 1997; Workman, Homburg and Jensen, 2003).

Despite the high incidence of unsuccessful CRM implementation, this study shows that investment in CRM leads to the more efficient use of customer knowledge. One reason for this is that the systems enable large amounts of data to be stored, and the more data there is

available, the more it is used (Halonen-Rollins, 2008). Thus, investment in the CRM system is a necessary but not a sufficient condition for knowledge utilization. Contrary to expectations we did not find any connection between customer relationship orientation and customer knowledge utilization. Thus, customer relationship oriented values among employees do not necessarily lead to the active and systematic utilization of customer-specific knowledge. This means that, despite the high relational orientation, relationship-related decision making may be more ad-hoc or intuition-based than reliant on the systematic use of knowledge. Moreover, customer relationship orientation may well be positively related to the earlier phases of the processing, acquisition and sharing of customer knowledge within the organization, but the organization may lack the capabilities for utilizing it.

The limitations of the study relate to single informant technique and KAM context as opposed to comparing key accounts to “regular” customers. Future studies should examine the relationship between customer knowledge utilization and KAM effectiveness. Also studying the effects of different team structures and KAM effectiveness would add to the knowledge on how to facilitate the efficient use of customer knowledge in B2B organizations.

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