

**DETERMINANTS OF KEY ACCOUNT MANAGEMENT EFFECTIVENESS
IN CHEMICALS INDUSTRY MALAYSIA**

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requirements for the award of the degree of
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To my beloved family and friends

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ABSTRACT

Key Account Management (KAM) has been described as a relationship oriented marketing approach to deal with major customers in business-to-business (B2) markets. Increasing emphasis on KAM is one of the most fundamental changes in marketing organizations, yet is under-researched and not fully understood. The objectives of this study is to explore the relationships between top management involvement, use of teams, esprit de corps, access to sales and marketing resources and KAM effectiveness. This research was conducted in chemicals companies located in Johore, Malaysia. 150 questionnaires were distributed to the companies as published in the Federation of Malaysian Manufacturers (FMM) & Malaysia External Trade Development Corporation (MATRADE)'s directory and 60 returned usable questionnaires were analyzed. Using measurement scale adopted from the previous studies, principle component analysis and cronbach's alpha were employed to test the validity and reliability of the measurement scale. In addition, normality was examined and pearson correlation was employed to test the relationships between variables. Two multiple regression analyses were employed to test research hypotheses. First regression model was found not significant and predictors have no influences in the organizational performance. Second regression model found that 85.9% of the variance had been significantly explained by the predictors. This study further concludes with conclusion and recommendations for forward research.

ABSTRAK

Pengurusan Akaun Utama (KAM) telah disifatkan sebagai satu hubungan yang mengasaskan pendekatan pemasaran untuk melayani pelanggan utama di pasaran perniagaan. Peningkatan penekanan KAM merupakan salah satu perubahan asas yang ketara di dalam organisasi pemasaran. Namun, KAM masih dibawah kajian dan belum difahami dengan sepenuhnya. Objektif kajian ini bertujuan untuk menyelidik hubungan di antara penglibatan pengurusan atasan, penggunaan kumpulan, “esprit de corps”, akses sumber jualan dan pemasaran terhadap keberkesanan KAM. Kajian ini dijalankan di syarikat pembuatan bahan kimia yang beroperasi di negeri Johor, Malaysia. Sebanyak 150 kertas soal-selidik telah diedarkan kepada syarikat yang tersenarai dalam direktori FMM & MATRADE. 60 kertas soal-selidik telah berjaya dikutip semula untuk analisis kajian ini. Kajian ini menggunakan skala pengukuran daripada kajian yang sebelumnya. Analisis komponen utama dan Cronbach alpha telah digunakan untuk menguji kesahihan dan kebolehpercayaan skala pengukuran tersebut. Di samping itu, ujian normaliti dan korelasi Pearson telah digunakan untuk menguji hubungan di antara pembolehubah. Dua model analisis regresi berganda telah digunakan untuk menguji hipotesis kajian ini. Hasil model regresi pertama menunjukkan keputusan tidak nyata dan mempamerkan pembolehubah tidak bersandar dalam kajian ini tidak mempengaruhi prestasi organisasi. Model kedua mendapati bahawa 85.9% variasi pembolehubah bersandar boleh diterangkan oleh pembolehubah tidak bersandar. Kajian ini diakhiri dengan kesimpulan dan cadangan yang bernas untuk para penyelidik membuat kajian selanjutnya pada masa hadapan.

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LIST OF ABBREVIATIONS

B2B	-	Business-to-business
B2C	-	Business-to-consumer
BMI	-	Business Monitor International
CAM	-	Corporate Account Management
CFA	-	Confirmatory Factor Analysis
EFA	-	Exploratory Factor Analysis
FMM	-	Federation of Malaysian Manufacturers
GAM	-	Global Account Management
IAM	-	International Account Management
KAM	-	Key Account Management
NAM	-	National Account Management
NAMA	-	National Accounts Management Association
SEM	-	Structural Equation Modeling
SPSS	-	Statistical Package for Social Sciences
PCA	-	Principle Component Analysis
SMEs	-	Small and Medium Enterprises
WTO	-	World Trade Organization
y-o-y	-	year-over-year

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CHAPTER 1

INTRODUCTION

This chapter describes the context of the work, presents the thesis statement, and provides an overview of the chapter. The chapter introduces Key Account Management (KAM) in general, which provides background and some notable previous works that is related. Later, the study identifies the problem statement, lists the objectives, explains the scope, and finally discusses the contribution to study and limitation of the research.

1.1 Introduction

Malaysia Chemicals Report 2009 (Business Monitor International, 2009) reports that the chemicals industry is one of Malaysia's key industries, catering not only for its own national requirements but also exporting to a number of countries worldwide. The Malaysian chemicals and chemical products industry has become the second largest contributor to the manufactured exports sector, after the electrical and electronics industry. Rich palm oil, petroleum and natural resources have enabled Malaysia to establish itself at the leading of chemical export. The Department of Statistics Malaysia (2009) reported that Malaysia exported RM64,808 million worth of palm oil and palm oil based products in 2008. At the same time, Rm28,635 million worth of other petroleum based products, and Rm43,698 worth of

crude petroleum were exported, bringing a large part of Malaysia's RM663,494 million export total for 2008.

The report also shows that the chemical and chemical products industry is mainly dominated by Small and Medium Enterprises (SMEs). In view of the significant contribution to the Malaysia's total export, the chemicals industry has been obtaining attention in the country. The major segments are industrial gases, industrial chemicals, petrochemicals, and petroleum products. The plastic resins sub-segment has evolved a number of upstream investments to manufacture monomers and other intermediaries. For instance, Idemitsu PS's website (2009) shows that Idemitsu SM (Malaysia) Sdn. Bhd. commenced commercial production of its 200,000 metric ton Styrene Monomer (SM) plant in Pasir Gudang, Malaysia in 1997. The group now owns a huge industrial park of 274 acres as well as jetty facilities for future development and expansion. Additionally, there is also a direction to produce various downstream petrochemical derivatives such as resins, acetic, and polyvinyl acetate for the global market. The structure of the Malaysia's Chemicals industry is shown in Figure 1.1 below.

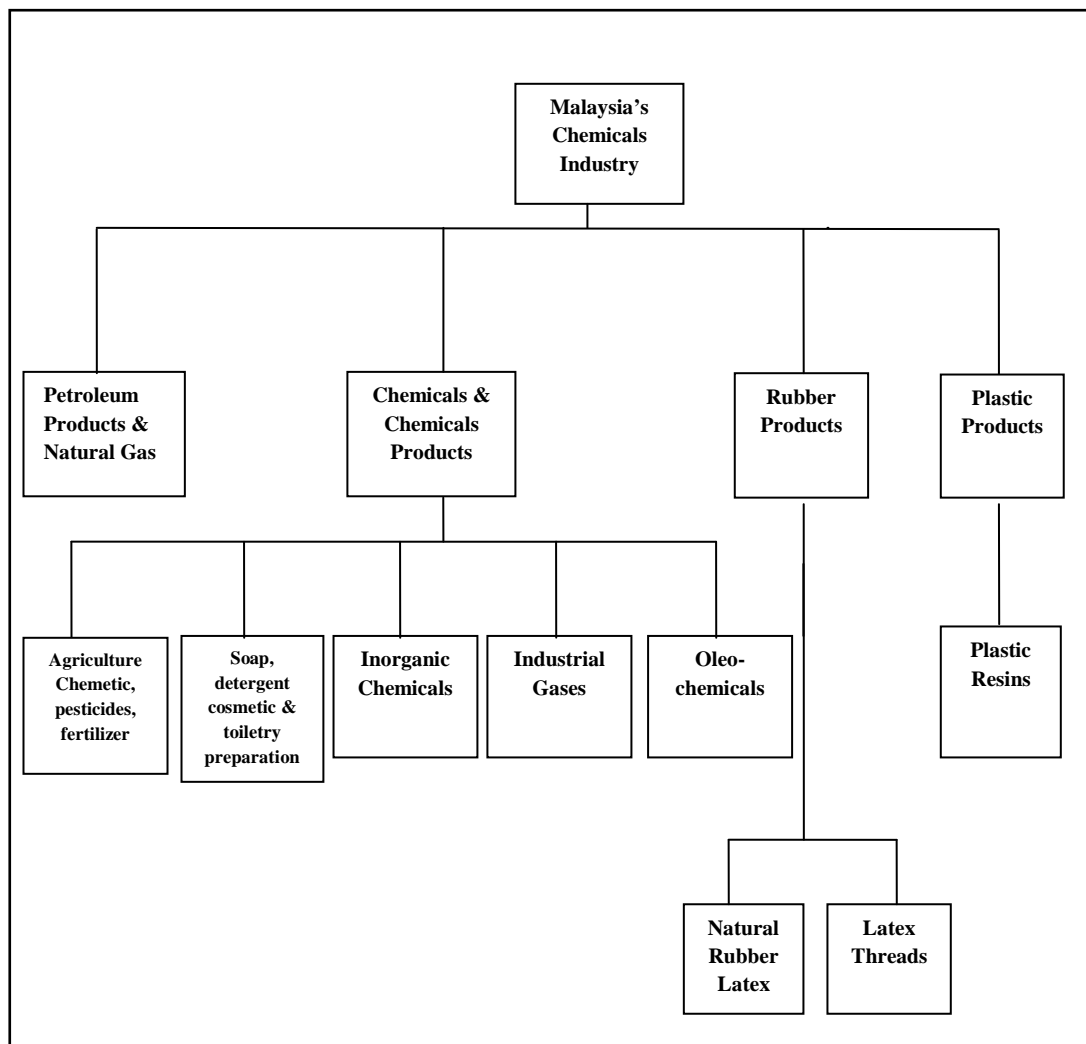


Figure 1.1 The Structure of Malaysia's Chemicals Industry (BMI 2009, p.12)

In general, Malaysia's chemicals industry can be classified into four segments. The first segment is the Petroleum Products and Natural Gas, which are well-developed oil and gas sector and growing petrochemical industry. The main activities in this sector includes: liquefaction of natural gas, separation of gas fractions for chemical feed stocks, petroleum refining and blending of lubricants. Over half of the country's oil production comes from the Tapis field. According to the Malaysian Department of Statistics (2009), crude petroleum exports amounted to RM43,698 million for 2008. Natural gas has also seen an increase in export revenue. Liquefied natural gas exports totaled RM40,732 for 2008 and reached RM8,050

million for the period January-February 2009, up from RM5,330 million year-over-year (y-o-y).

Second segment is the Chemicals and Chemical Products, in which the output of this segment has increased over the past few years. The chemicals and chemical products category can be further grouped into eight product groups: Petrochemicals, agricultural chemetic, such as pesticides and fertilizers, soap, detergent, cosmetic and toiletry preparations, inorganic chemicals, pharmaceuticals, industrial gases, paint and paint products and oleochemicals. Primary commodities such as rubber, palm oil, tin, petroleum and timber are processed into secondary products for export. The major export markets include Thailand, Hong Kong, Singapore, Japan, China, the US.

Malaysia is the largest palm-oil based oleochemicals producer and exporter in the world. About 80% of the palm oil is used for food products, leaving about 20% for non-food applications in the manufacture of oleochemicals and soaps. Among the oleochemicals and soaps producers in Johor are Pacific Oleochemicals Sdn. Bhd., IOI Oleochemicals Industries Berhad, and Iffco (Malaysia) Sdn. Bhd. Palm oil and palm oil based product exports totaled RM64,808 million in 2008.

The third segment is the rubber products segment. Malaysia is the fourth largest producer of rubber in the world, the fifth largest rubber consumer and among the world's largest exporters of rubber products. Malaysia produces 1 million tonnes of rubber annually. The main rubber-based products are latex threads, catheters, and gloves. According to the Department of Statistics Malaysia (2009), 1.072 million tonnes of rubber were produced in the country in 2008. As regards exports, RM8,111 million worth of rubber was exported in the same year.

There are more than 300 manufacturing plants producing a range of rubber products. These producers export their products to more than 60 countries and the

US is the largest market, followed by Japan. The formation of the International Tripartite Rubber Corporation, which represents Thailand, Indonesia, and Malaysia shows the effort of the Malaysian government to grow the rubber segments.

Lastly, Malaysia's Vision 2020 has established new goals for the Malaysian rubber industry to improve productivity and competitiveness, and to modernize the largely smallholder segment to maximize the industry's contribution to the national economy. The industry will be further consolidated and integrated to cover a wide range of activities, with forward and backward linkages in both upstream and downstream rubber operations.

The last segment is the plastic products segment. This industry can be extensively categorized into resin manufacturers, intermediate raw material processors, and the end product fabricators. The plastic products industry has three main sub-divisions: plastic packaging, plastic components and other plastic products such as consumer/industrial plastic products, and plastic compounds. The average growth of the plastic industry over the past 10 years has been in the region of 15% annually.

In order to attract investments from overseas, the Malaysian government has introduced various attractive investment policies, incentives and infrastructure improvements to draw investors' attention. As a results, investors from Japan, the US and Germany have invested and built large raisin-production facilities in the nation. The plastic producing and manufacturing industry generate growth potential. Malaysia is able to product high-quality products in the plastic packaging sector and export to emerging markets such as China, Vietnam, and Thailand at competitive prices.

The Malaysian plastics industry has also been strengthened by discoveries of oil and gas resources. Malaysia's plastics industry is likely to benefit from the trade liberalization initiated by the World Trade Organization (WTO). According to some experts, the pace of liberalization is expected to accelerate for select markets through bilateral FTAs between Malaysia and its major trading partners.

In view of the new projects, expansions and rich growth potential of the Malaysian Chemicals Industry as well as the chemicals companies' sustainability and competitiveness, it can be observed that there is a need to examine the ways in which companies organize their selling process and how it affects effectiveness of key accounts. Marchetti (1999) conducted a survey and noticed that fifty percent of the respondents mentioned the major challenge is to create a new position to serve key customers effectively. Smith and Barclay (1993), Narus and Anderson (1995) and Moon and Armstrong (1994) study the conceptual articles about team selling, Craven (1995), Leigh and Marshall (2001), Weitz and Bradford (1999) and Wotrube (1991)'s articles study on trends in selling. Bauer et al. (1998) have shown the way Procter and Gamble reorganized its sales organization to improve customer relationships. However, there is little quantitative empirical research on KAM that can be found in the literature. The research on key account management is primarily conceptual and descriptive. The research has not related outcomes of the program to program dimensions. This study focuses on the context of sales to key accounts, develop and test hypotheses of how organizational aspects of a KAM approach affect KAM effectiveness in the Malaysian Chemicals Industry context.

1.2 Research Background

Most of the research on sales is very much focused on the performance of individual salespeople (Weitz, 1981; Churchill et al. 1985). The research has used theories, frameworks, and constructs from economics and social psychology (e.g.

rewards, ambiguity, role stress, motivation) with a focus on sales personnel (Bush and Grant, 1994). However, an effective key account selling requires the participation of many people from the cross-functional teams (Cespedes, 1992; Cravens, 1995; Narus and Anderson, 1995; Weitz and Bradford, 1999; Wotruba, 1991).

According to the Pareto principle (also known as 80-20 rule), 80% of the returns come from 20% of key customers. Hence, selling efforts should be focused to key customers who generate majority of return. In other word, key customers are the most valuable set of customers for a firm. Therefore, formal key account management program with the participation of many people is recommended to treat key customers differently.

In addition, many industrial companies have implemented programs such as just in time, efficient customer response, supply chain management and reduced their supply base. These companies require closer linkages with suppliers. However, due to the large pool of customer base, suppliers can only provide specific approaches to the most important set of key customers. Therefore, KAM approaches are often used by sales organization since the selling process involves team selling at functional and divisional levels.

Piercy and Lane (2005) (cited in Murray, 2006) explored that many new business model provide alternative ways of achieving functions traditionally placed in the sales organization, the relevance of KAM regarding its roles, its benefits, its organization and impact on sales organizations as one of these business models is criticized. Relationship marketing is a framework where KAM derived and has come under criticize as many authors (Grayson, 1999; Yau et al., 1999; Robson, Skarmeas and Spyropoulou, 2005; Welch and Zolkiewski, 2005; Lindgreen et al., 2006; Ploetner and Ehret, 2006) are questioning its relevance for everyone (particular in respect of business-to-consumer (B2C) relationships and talk more of 'the dark

side' of relationships. Relationship marketing as a concept for understanding business-to-business (B2B) relationships developed when the Industrial Marketing and Purchasing Group originally adopted a network approach to describe and explain the structure of inter-company relationships, which exist, (Hakansson, 1982; Hakansson and Snehota, 1995). They believed the simple adaptations of consumer product marketing based on the '4 P's model were inadequate when looking at the realities of B2B markets. Bretherton (2003) supports the view that the management of inter-organizational relationships has become one of the most important industrial marketing and purchasing strategies and there are some authors, (Pardo, 1999; McDonald, Rogers, and Woodburn, 2000; Ojassalo, 2001a and 2002; Workman, Homburg and Jensen, 2003; Buttle, 2004; Cheverton et al., 2004) for example who continue to support the successful development of KAM as a means of gaining competitive leverage.

KAM has been described as a relationship oriented marketing management approach to deal with major customers in B2B markets (Pardo, Salle and Spencer, 1995; Millman 1996; McDonald, Millman and Rogers, 1997; McDonald and Rogers, 1998; McDonald, 2000; Buttle, 2004 cited in Murray, 2006). Homburg, Workman and Jensen (2002) argue that increasing emphasis on KAM is one of the most fundamental changes in marketing organizations, yet is under-researched and not really understood. Piercy and Lance (2005) admit there is a need to establish the conditions under which KAM will grow and study in new contexts. Furthermore, to the best of researcher knowledge, there is lack of discussion on specific context (Homburg, Workman and Jensen, 2002; Piercy and Lane, 2005; Murray, 2006; Brehmer and Rehme, 2009; Salojarvi, Sainio and Tarkianen, 2010), for example study in chemical industry Malaysia.

1.3 Problem Statement

Literature has confirmed that there are a number of determinants of KAM effectiveness (Shapiro and Moriarty, 1984; Caplan, 1997; Napolitano, 1997; Pardo, 1997; Sengupta, Krapfel and Pusateri, 1997; Hannah, 1998; Abratt and Kelly, 2002; Homburg, Workman and Jensen, 2002; Workman, Homburg and Jensen, 2003; Pillai and Sharma, 2003; Brehmer and Rehme, 2009; Salojarvi, Sainio and Tarkianen, 2010).

Shapiro and Moriarty (1984) and Napolitano (1997) viewed top management involvement as the most critical indicators of success. Furthermore, Napolitano (1997) suggested that the selection process of key customers, and the level mutuality affect KAM success. Sengupta, Krapfel and Pusateri (1997) identify the elements that affect the KAM success. These elements are the performance of the key account manager, the use of the latest information technology to access sales and marketing resources (Caplan, 1997), and the reward systems. Pardo (1997) found that the buying decisions, environmental constraints, and openmindedness may affect KAM success. There are five factors that are important to KAM success: understanding key account business, managing key relationships, and ensuring action and responsiveness to key account customers, involving others in the key account, and ensuring commitment to the KAM program (Hannah, 1998).

In most recent KAM research, Abratt and Kelly (2002) found that the commitment, suitability of the key account manager, formalization of the KAM program, and trust are importance in developing of KAM relationships. Homburg, Workman and Jensen (2002) develop a conceptual model of factors that affect KAM effectiveness: activity intensity, activity pro-activeness, top management involvement, team use, esprit de corps, control over marketing and sales resources and KAM approach formalization. In a conceptual framework developed by Pillai and Sharma (2003), they identify marketers' relational assets, buyer's relational

assets, quality of alternatives, buyer's knowledge of key account personnel, lack of innovation, dissatisfaction, social/personal bonds and changes in the environment as the success factors in KAM. Salojarvi, Sainio and Tarkianen's (2010) study also shows that the top management involvement and team use are importance factor in KAM.

In addition, Hunt, Johnson and Ronchetto's 1985 study (cited in Homburg, Workman and Jensen, 2002) indicate that the increasing evidence of coordinated teams to manage key accounts is in response to the use of purchasing teams on the buyer side (Hutt, Johnson, Ronchetto, 1985). The literature shows the use of teams to coordinate between internal actors and resources (Workman, Homburg and Jensen, 2003). Much of the KAM literature supports the need for top management involvement in securing internal support for KAM, and Homburg, Workman and Jensen (2002) shows that this is linked to better KAM performance. A common complaint by buying organizations according to McDonald et al., (2000) is that key account managers are not given enough authority to access marketing and sales resources. Internal cooperation requires an 'esprit de corps' according to Fisher, Maltz and Jaworski (cited in Homburg, Workman and Jensen, 2002). Various relationship marketing researchers have also emphasized the importance of internal support, corporate citizenship in B2B relationships (Piercy and Lane, 2003; 2005). Morgan and Hunt (1997) stated that the organization culture and climate is an important resource in obtaining cooperation and support.

From the discussion, it can be observed that past studies have provided a wide range of determinants that affect KAM effectiveness in B2B market and focus in particular, has been given to determinants such as top management involvement, team engagement, KAM team esprit de corps and access to sales and marketing resources, and this has become the rationale for selecting the above determinants for this study (Shapiro and Moriarty, 1984; Napolitano, 1997; Sengupta, Krapfel and Pusateri, 1997; Caplan, 1997; Hannah, 1998; Homburg, Workman and Jensen, 2002; Salojarvi, Sainio and Tarkianen, 2010). Secondly, Workman, Homburg and Jensen

(2003)'s study has also used the above determinants to examine the KAM effectiveness in the United States of America and Germany. Subsequently, the generalizability of the determinants has also been proven in other countries. Summarizing it, top management involvement and use of teams are the actors in the KAM relationships, and resources are referred to KAM team esprit de corps, access to sales and marketing resources and the determinants are the center and focus of this study.

Despite the dramatic increase in the importance of key account customers during the current decades, the study of the key account management in Malaysia continues to be lack, suggesting a glass ceiling effect that organizations currently face. Given the new projects, expansions and rich growth potential of the chemicals industry (BSI, 2009), it becomes important to examine the determinants that would affect the KAM effectiveness. This study is an effort to identify the determinants that currently impede organizations' effort to promote KAM in organizations.

Business Monitor International (2009) also reported that the Malaysian chemicals industry witnessed 37% growth in domestic sales value in 2004 and sustained solid growth up until mid-2008. It expanded rapidly and has been forecast to reach sales figures of RM60, 816 million by 2009. In view of the vast market potential, KAM has become an important approach or strategy for a firm to sustain and growth further. However, to the best of researcher knowledge, there is lack of literature of KAM on handling key customers in Malaysia's Chemicals Industry. Meanwhile, the determinants of effective KAM have not been identified and evaluated in Malaysia context. This shows the importance of study to be conducted in this context.

1.4 Research Objectives

It can be concluded that it is crucial to understand the determinants that contribute to the effectiveness KAM in Malaysia chemicals industry. The objectives of this study are to:

- (1) examine the relationships between top management involvement and organizational performance.
- (2) examine the relationships between use of teams and organizational performance.
- (3) examine the relationships between esprit de corps and organizational performance.
- (4) examine the relationships between access to sales and marketing resources and organizational performance.
- (5) examine the relationships between top management involvement and trust.
- (6) examine the relationships between use of teams and trust.
- (7) examine the relationships between esprit de corps and trust.
- (8) examine the relationships between access to sales and marketing resources and trust.

1.5 Significance of Study

This study considers selling in an environment that requires intra-organizational coordination and extensive teamwork, hence contributes to the literature on selling effectiveness. This study does not only focus buyer-seller relationships at personal selling level, but on an overall intra-organizational approach for managing the firm's key customers. Thus, this study makes contributions to the relationship marketing, sales effectiveness, KAM literature and sales team selling by evaluating the organizational factors involved in successfully managing the firm's sales resources and marketing. By testing the hypotheses, the most relevant set of determinants of effective KAM can be identified and its can be used by managers to manage the key customers effectively and efficiently.

In addition, the research framework of actors and activities provides a systematic way to think about KAM and ultimately this study also contributes to greater understanding of KAM programs and will be particularly useful for managers in Malaysia Chemicals Industry involved in key account relationships by confirming the conditions under which KAM will prosper and the requirements for relevant and successful KAM programs.

1.6 Research Scope

In order to achieve the objectives stated above, the scope of study has been limited to the following: the population of the study is the chemical companies located in Johor; respondents were the key account professional in the chemical companies registered in Johor, Malaysia; the sample frame was constructed using industry directory published in the FMM & MATRADE's 1st edition of chemical

directory: Chemicals 2008/2009; the companies were taken from the chemicals industry with no restriction on size of organization; the intra-organizational determinants of KAM effectiveness were used throughout the study and the unit of analysis for this study is at the organizational level.

1.7 Limitation

This study is only examined the chemicals companies in Johore state. Thus, the results are not necessary generalizable to other industries in Malaysia especially the organizations that might apply different marketing approach and strategy to sustain and growth in the competitive marketplace. Additionally, this study only investigates four dimensions of KAM effectiveness and there are other dimensions which may also influence the KAM effectiveness statistically and practically.

1.8 Organization of Thesis

This study is organized in five chapters whereby each chapter is interrelated with each others.

Chapter 1 provides an overview of the chapter. Chapter 2 describes and reviews the main theories of the KAM approach. This is followed by Chapter 3, which presents the research methodology used in the study. Data collection is analyzed in Chapter 4, and lastly conclusion and recommendations is drawn at the end of the study.

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