

# Effects of the Perceived Quality of the Bonus Compensation System on the Key Account Manager Job Performance

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## Abstract

Bonus compensation systems are widely used in organizations operating in business-to-business markets. Studies have been conducted on bonus compensation systems and their effects on the sales performance of individuals and organizations. Still, there is a lack of empirical research on the effects of bonus compensation systems in key account management (KAM) context. The current research examines the relationship of the perceived quality of the bonus compensation system and key account manager job performance. The results reveal that, surprisingly, no statistically significant relationship can be found between key account manager job performance and the perceived quality of the bonus compensation system. The result raises questions about the benefits and usability of bonus compensations systems in key account management context.

Keywords: Bonus compensation systems, key account management, job performance

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## **Introduction**

A key account manager is the person responsible for at least one strategically important customer relationship. Key account managers must initiate, develop and sustain relationships with customers and within the firm (Hutt and Walker, 2006). The great importance of these strategic relationships justifies the research interest in these managers.

Even though the role of the key account managers is very important, very little research has focused on identifying the factors that affect the job performance of key account managers (Guenzi et al., 2007; Hutt and Walker, 2006; Sengupta et al., 2000; Zupancic, 2008). Some exceptions exist; Sengupta et al. (2000) developed and tested a model of key account salespersons' effectiveness, though the model focused on only individual abilities, particularly on managers' strategic and intrapreneurial abilities. Hutt and Walker (2006) studied the performance of key account managers from a network perspective, such as how the social network of a manager affected his or her work performance.

While the research on key account management (KAM) has increasingly focused on performance-related aspects (Wengler, 2006, p. 250), the focus has remained at the organizational level (Homburg, et al., 2002; Ryals and Holt, 2007; Shi et al., 2004; Workman et al., 2003). Still, a strong belief exists that there is demand for research focusing on the individual key account manager. According to Zupancic (2008), there is consensus about the tools and practices for managing KAM relationships; what is neglected though is that KAM is also about human contact. With these aspects in mind it is clear that the key account manager job performance and the aspects influencing that performance deserve more research attention.

Bonus pay as a part of sales force compensation has been found to contribute to performance at the individual and organizational levels (Banker et al., 1996; Kissan and Kalwani, 1998). Bonus compensation is a common topic, especially in selling organizations in the business-to-business market context. According to the current key account manager study, more than 83 percent of the organizations having a key account manager program use some sort of bonus compensation system. The goal of this paper is to examine the relationships between the perceived quality of a bonus compensation system and key account manager job performance. The paper continues with the introduction of the theoretical background. Next, the research methods are explained. Finally, the results are presented and discussed.

## **Theoretical Background**

In this chapter, the theoretical background of the studied themes are covered. First, key account management, key account manager roles, responsibilities and job performance are examined in more detail. Finally the bonus compensation systems are discussed.

## **Key Account Management and Key Account Manager**

Key account management (KAM) is a highly evolved form of customer relationship management. Whereas the goal of customer relationship management is to serve customers individually in a coordinated way, the goal of KAM is to identify the company's strategically important customers and to manage those important, key accounts (Homburg et al., 2002; McDonald et al., 1997; Srivastava et al., 1999). The fulfilment of the KAM strategy culminates in the key account manager, who is the person responsible for a key account. The theoretical background on key account managers focuses mainly on the roles and tasks of these managers (McDonald et al., 1997; McDonald and Rogers, 1998, p. 120; McDonald and Woodburn, 2007, p. 289).

During the past two decades, KAM programs have become more and more common. Homburg et al. (2000) went as far as stating that the change toward KAM is one of the most significant organizational changes in our time. Many factors influence companies' increased motivation for developing KAM programs. Increased competition, a company's internal factors (such as increased selling costs) and pressure from customers are some of the reasons why companies adopt KAM strategies (Capon, 2001, pp. 7-9). Brehmer and Rehme (2009) analyzed the drivers for KAM programs. The authors identified three main drivers, sales opportunity, customer demand and a belief in customer-centric organizational units.

Pardo et al. (2006) studied the meaning of value in KAM. They found that the value of KAM consisted of three different types of value: exchange value, proprietary value and relational value. Exchange value means the value that is created by the selling company and enjoyed by the key account. Proprietary value is the value that the selling company creates for itself with KAM programs. The value can be determined with the help of a cost/benefit analysis of the KAM program. Relational value means the value that is co-created by the selling company and the key account. The relational value can be a product of, e.g., joint research and development projects or joint marketing intelligence gathering.

### **Roles of the Key Account Manager**

McDonald and Woodburn (2007, p. 289) divided the role of key account managers into implementation and facilitation roles. The implementation role includes tasks that are related to the selection of the relationship tactics and the fulfilment of those tactics. The implementation role can be further divided into three subcategories. The expert on the customer understands the customer's business. The value developer helps the company create value for the customer. The value developer anticipates future customer needs and works continuously to add value to the customer. The point of accountability ensures that the customer gets things that are promised to it delivered. The role requires defining, briefing and coordinating commitments on the company's side. The facilitation role is about developing the customer relationship to a cross-functional level. The facilitation role can also be divided into three subcategories. The boundary spanner expands the customer relationship within the key account. The boundary spanner can seek out cross-selling opportunities in the customer organization. The conduit is a role in which the key account manager represents the customer in the manager's own organization and works as an ambassador. The conduit also works in the other direction building up the company brand in the customer organization. The focal point of contact acts as a single contact point for the customer. For the manager's own organization, the focal point of contact role works as a reference point.

Hannah (1997) sheds more light on the matter by reporting a study in which national account managers and their supervisors identified five critical success factors in the account manager's job: 1) managing account relationships, 2) understanding the account's business, 3) ensuring action and responsiveness to the customer, 4) involving others with the account and 5) ensuring commitment to the national account program.

Cheverton (2008, p. 317) described the general skill set required for the KAM tasks. This skill set includes strategic thinking, strategic influencing, business management, project management, team leadership, teamwork, innovation and creativity, coordination, managing change, managing diversity, coaching and political entrepreneurship. KAM tasks are sometimes mistakenly considered an extension of traditional sales tasks (Cheverton, 2008, p. 316). Still, selling skills should not be forgotten.

This sub chapter described in detail the different roles the key account manager can face in the process of serving the key account. Also the skill set that is required in fulfilling the roles and tasks of key account managers were identified. The critical success factors defined by Hannah (1997) are close to the core when the key account manager job performance is considered, but the other roles and required skill sets of key account managers must also be considered when the key account manager job performance is defined.

### **Key Account Manager Job Performance**

A limited number of studies exist on the job performance of the key account manager or closely related topics. Sengupta et al. (2000) created a model of key account salesperson performance. Their model consisted of strategic ability, communication quality, intrapreneurial ability and customer trust as factors that affect key account salesperson perceived effectiveness. In the model, the communication quality and customer trust had direct influence on perceived effectiveness. In a different study, Wotruba and Castleberry (1993) used a performance scale for national account management (NAM) managers and salespeople. The scale consisted of nine questions that asked the NAM persons to evaluate their performance compared to other national account salespeople. The questions concerned sales performance, quality and execution of account plans, development of customer relationships, competitive account conversations and overall performance.

Three major groups of influences or criteria must be taken into account when defining the key account manager job performance. First, defining the job performance of key account managers must draw on the roles, tasks and priorities of the tasks that were presented earlier. Second, the nature of the targeted sample must also be considered. The targeted sample is individuals with the key account manager title. The model of key account manager job performance must therefore be applicable to key account managers with very different responsibilities. For example, some key account managers do not have key account teams to manage because the managers are solely responsible for delivering value to the key account. Third, the definition should be something that is suitable to assess with the help of statistical surveys. The definition should be able to be measured by using a relatively small number of questionnaire items. A small number of items should also contribute to better response rates.

With these influences and criteria in mind, the key account manager job performance is defined as consisting of two broad but distinct dimensions, namely, sales performance and relationship performance. **Sales performance** is quite easy to define. It includes such aspects as closing deals, closing profitable deals and meeting sales goals. **Relationship performance** is bit more complex than sales performance. Relationship performance includes aspects such

as the successful management of customer relationships and building relationships that will have a good future potential. Sharma (2006) identified that the social and personal bond between the selling and buying companies increases the success of key account management. Relationship performance as a concept holds the creation of these social and personal bonds. Hutt and Walker (2006) also hypothesized that relationship-building within the organization and toward customers is influential in key account manager performance.

### **Target Population, Sample, Data Collection and Measures**

The goal of this research is to clarify the relationship between the perceived quality of the bonus compensation system, well-being at work and personality and key account manager job performance. It was therefore logical that key account managers were considered the target population. Finnish key account managers were chosen mainly for pragmatic reasons. Because it is almost impossible to identify all the key account managers in Finland, thus making the size of the population unclear, a nonprobability sample was used.

The data collection procedure started with mail-in questionnaires. Letters containing the questionnaires, cover letters and return envelopes were sent to all of the more than 700 key account managers whose contact information was obtained. Follow-up contact has been proved to increase the response rate (Edwards et al., 2009; Heberlein and Baumgartner, 1978; Larson, 2005). Therefore, letters were sent to remind potential respondents to complete and return the questionnaires. The reminder letters were sent three weeks after the first letters were sent. Altogether 151 usable responses were received. From the respondent Finnish key account managers 34 percent (N=51) were women, and 66 percent were men (N=101). The average female key account manager is slightly younger than her male counterpart. The average age for female key account managers was 42.6 years while the average for men was 44.3 years. The youngest key account manager was 26, and the oldest was 63 years old.

Next, the different measures used in the analysis are introduced. The dependent variables is the key account manager job performance. The independent variable is the perceived quality of the bonus compensation system. The key account manager job performance was measured using six items. Three of the items measured relationship performance, and three items measured sales performance. The three relationship performance items were originally developed and validated by Sengupta et al. (2000). Even though Sengupta et al. (2000) named the construct “key account salesperson perceived effectiveness,” it clearly concentrates on the performance of relationship management. The scale items were originally measured using a 5-point Likert scale going from 1 = Strongly disagree to 5 = Strongly agree. The same scale was used in the current research. The three items measuring sales performance were adapted from the performance scale originally developed by Sujan et al. (1994). The original scale went from -5, much worse, to +5, much better. To have more coherent measures Likert scales were used in this study. The original scale consisted of seven items. In order to have a scale applicable to all types of industries, companies of all sizes and all types of markets, four of the items were omitted. For example, the item “assisting your sales supervisor to meet his or her goals” could have been difficult to answer for the employee of a very small company, where no sales supervisors exist. Wording was slightly modified to better suit the different answer choices, Finnish environment and the key account management context.

The perceived quality of the bonus compensation system was measured with a four-item measure that was developed for this research. The measure consisted of the following items: 1) Our bonus compensation system is fair, 2) Our bonus compensation system is clear, 3) Our

bonus compensation system works well in our organization, 4) I have enough ability to affect my own bonus compensation. The scale had a coefficient alpha of .84, so the internal reliability can be considered to be good. Before statistical analysis normality of both the perceived quality of the bonus compensation system and the key account manager job performance was analysed. Graph plots were drawn and analysed. In addition the distributions were checked for kurtosis and skewness. The job performance measure was slightly negatively skewed and both measures had slight negative kurtosis, but all the levels were considered to be acceptable.

## Results and Discussion

The following table (Table 1) shows the correlation between the perceived quality of the bonus compensation system and key account manager job performance. The correlation is positive, but it is not statistically significant even at the .05 level. The significance level was measured as .07. This means that statistically no relationship exists between the perceived quality of the bonus compensation system and job performance. This does not necessarily mean that a bonus compensation system (for example the existence compared to nonexistence of a bonus compensation system) does not affect the job performance of a key account manager. What the result means is that even if the key account manager thinks that the existing bonus compensation system is ill designed and otherwise poor it does not have an effect on that key account manager's job performance.

**Table 1. Correlation between Perceived Quality of the Bonus Compensation System and Job Performance**

Correlation (N=151)	Job performance
Pearson Correlation	.15
Significance	.0727
Prob. >  r  under H0: Rho=0	

To have a better picture of the relationship a regressions analysis was also conducted. Linear regression  $Y = 0.1025x + 24.693$  with an  $R^2$  value of 0.0215 gives more evidence that the perceived quality of the bonus compensation system does not have a strong effect on the job performance of key account managers.

Theoretical implications of the results are twofold. First, the results show that the perceived quality of the bonus compensation system is not an explaining factor in key account manager job performance. It therefore raises questions about the overall benefits and usability of bonus compensation system in key account management context. Are typical bonus compensation systems, that commonly focus on short term profitability, suitable in situations where long term customer relationships are sought after? If not, then how could an optimal bonus compensation system be developed for the KAM context? The second theoretical implication concerns the definition of key account manager job performance. The current research addressed the lack of definition by creating a simplified model of key account manager job performance for the use of statistical research. But when an individual key account manager becomes the subject of research a more comprehensive model should be developed and empirically tested.

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