INVESTIGATION OF STAKEHOLDER PRIORITIZATION TOWARDS ORGANIZATIONAL FINANCIAL PERFORMANCE IN MALAYSIA'S IT INDUSTRY

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Report submitted in partial fulfilment of the requirements
for the award of the degree of
Bachelor of Project Management with Honours

Faculty of Industrial Management
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NOV 2014

ABSTRACT

This research discusses about the stakeholder prioritization towards the organizational financial performance. However, to conceptualize the term of stakeholder prioritization, stakeholder orientation was applied. There are four types of stakeholder orientation, which are the employee, customer, competitor and shareholder orientation. Four hypotheses were formed based on the readings of previous reading. Relationships between each type of stakeholder orientation and the organizational financial performance were tested undergoing few analysis. The model was targeted on the finance personnel who has the financial knowledges and able to answer the questionnaire. IT companies which have been recognized as the MSC (Multimedia Super Corridor) status company were selected as the population in this research. The total usable samples of 60 questionnaires were collected through email. SPSS software (version 16.0) was applied to run the factor analysis, reliability analysis, correlation analysis as well as the multiple regression analysis. To have a better understanding on how the respondent companies are doing, their financial performance was evaluated by explaining on the mean score. Next, findings of multiple regression showed that there is positive significant relationship between the employee orientation and the organizational financial performance. However, the rest of the hypotheses (customer, competitor and shareholder orientation) were proven to have no significant relationship towards the organizational financial performance. Finally, the research indicated that the employee should be prioritized foremost as it impacts the financial performance of an organization the most.

ABSTRAK

Penyelidikan ini menbincangkan tentang pengutamaan pemegang taruh terhadap prestasi kewangan sesebuah organisai. Istilah pengutamaan pemegang taruh telah dikonsepsikan kepada orientasi pemegang taruh. Terdapat empat jenis orientasi pemegang taruh iaitu pekerja, pelanggan, pesaing and pemegang saham. Berdasarkan artikel-artikel yang dibaca, keempat-empat orientasi pemegang saham telah diaplikasi untuk membentuk empat hipotesis untuk mengkaj perhubungan dengan prestasi kewangan organisasi. Beberapa analisasi telah dijalankan untuk mengkaji hubungan antara pengutamaan pemegang taruh dengan prestasi kewangan organisasi. Penyelidikan ini menyasarkan pihak-pihak yang memegang jawatan yang berkaitan dengan urusan kewangan supaya responden mampu menjawab soalan-soalan yang terkandung dalam soal selidik. Populasi penyelidikan ini menumpu pada syarikat-syarikat IT yang dikenal sebagai 'syarikat berstatus MSC'. Jumlah soal-selidik yang dikutip melalui emel adalah sebanyak 60 set. Perisian SPSS (versi 16.0) telah digunakan untuk menjalankan pelbagai analisi misalnya analisis faktor, analisi korelasi dan lain-lain lagi. Untuk membekalkan pemahaman yang lebih teliti terhadap status kewangan syarikat yang terlibat dalam penyelidikan, skor min telah dikaji. Seterusnya, analisi telah menunjukkan bahawa orientasi pekerja dengan prestasi kewangan organisasi mempunyai hubungan yang positif serta penting. Walau bagaimanapun, hipotesis yang selebihnya, iaitu antara orientasi pelanggan, pesaing dan pemegang saham dengan prestasi kewangan organisasi tidak mempunyai hubungan yang penting. Akhir sekali, penyelidikan juga menunjukkan bahawa pekerja harus diberikan keutamaan yang tertinggi disebabkan kumpulan ini akan memberi impak yang besar pada prestasi kewangan sesebuah organisasi.

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CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

This research contains information to investigate the relationship of stakeholder prioritization towards organizational financial performance. The outcomes of this chapter would be the research problem background, problem statement, research objectives, research questions, research framework, research hypothesis, research scope, significance of study, and thesis organization.

1.1 PROBLEM BACKGROUND

As Malaysia ventures forward in the 21st century, IT is one of the industry that at the forefront of the nation to generate income. According to the news released by Business Vibes on its official website (2012), the IT industry in Malaysia is booming and prominently standing at the Asia where it has created over 98,000 jobs in more than 800 new IT companies in this country land. According to the report made by MSC Malaysia on 2011, IT industry in our country is recognized as a crucial player in supporting local's sustainable development. There are more than 1,900 IT companies operating within the MSC Malaysia area, ranging from Internet-based business solutions and services providers to software application and services providers.

However, to continue survive and challenge in today's globalized and borderless world, Saipol Bari et al. (2007) explained that organizations must better identify, analyze and manage their stakeholders. Organizations should relate to its stakeholders. Through efficient management of stakeholders, organizations will gain competitive advantage. Similarly, Luk et al. (2005) also mentioned that even for small business, it also needs to consider all the parties who have interest in the business, if the business want to survive in the long term and achieve its organizational goals. Stakeholders may or may not directly involve in the business operation but in fact they are the components make up an organization.

Regardless the type of organization and its business, stakeholders have the potential to influence and influenced by it. IT industry in spite of emphasizing the innovation and creativity, it must as well take a look back on its internal management, especially the relationship with its stakeholders. As mentioned by Boesso and Kumar (2009), influence of stakeholder to organization is significant. Stakeholder management has been discussed internationally due to the failures of organizations across several developed countries. “Simultaneously, global professional bodies attempt to elaborate guidelines for building and managing effective stakeholder management…”. The significant role played by stakeholders is so obviously shown when Clarkson (1995) affirmed that “If a primary stakeholder withdraws its support of an organization, the organization will cease to exist” (p. 106).

Organizations are constantly interacting with stakeholders and there is a strong bond between stakeholder management and project performance (Donaldson and Preston, 1995). Hence, stakeholders actually reflected in certain extend of a firm’s success. To add on, Holtbrugge et al. (2007) suggested that the success of a firm does not depend primarily on the efficient coordination and control of its operations, but on the establishment and maintenance of a cooperative dialogue with all relevant internal and external interest groups that may influence its activities in a positive and negative ways as mentioned by Clarkson, (1995), Frooman (1999) and Mitchell et al. (1997). Companies always have relationships with their stakeholders, which include share owners, customers, suppliers, employees, regulators, and local communities. In fact, it would be difficult for a company to stay in business if it did not operate with the interests of their key stakeholders.

Stakeholder’s concern and interests should be taken into account in order to improve the relationships with the organization, provide an easy way for company to operate. Eventually, addressing stakeholder's needs and with proper handling, company can indeed reduce cost and maximize the value.

1.2 PROBLEM STATEMENT

Stakeholder salience theory proposed by Mitchell et al.(1997) provides frameworks for managers to identify salient stakeholders and prioritize them afterwards (Boesso and Kumar, 2009). Further research on stakeholder prioritization claims is thus appeared to be interesting.

In service sectors such as financial, healthcare and media, the external stakeholder engagement is low; however, the engagement is relatively high in telecommunication, chemicals and insurance field (Ayuso et al., 2011). Research based on IT industry are limited. Despite the stakeholder prioritization as one of the essential elements in stakeholder engagement and has the potential to influence the success or failure of project, it has very little research on the topic, especially in Malaysia. Thus, the researcher is passionate to know the how will the relationship between stakeholder prioritization in IT industry and firm financial performance look like.

Besides, Rangarajan et al. (2013) denoted stakeholders are proved to have the ability to influence sustainable growth development and growth of technology and infrastructure. The study of stakeholder prioritization therefore is worthy of attention due to the technology driven projects' high failure rate.

1.3 RESEARCH OBJECTIVES

The objectives of this research are:

(i) To identify the level of financial performance of those investigated companies.

(ii) To examine the relationship between internal stakeholder prioritization and organizational financial performance.

(iii) To examine the relationship between external stakeholder prioritization and organizational financial performance.

(iv) To identify which stakeholder prioritization lead to higher organizational financial performance.

1.4 RESEARCH QUESTIONS

The research tries to answer these questions:

(i) What is the level of financial performance of those investigated companies?

(ii) What is the relationship between internal stakeholder prioritization and project financial performance?

(iii) What is the relationship between external stakeholder prioritization and project financial performance?

(iv) Which stakeholder prioritization lead to higher financial performance?

1.5 RESEARCH SCOPE

This study focuses on the relationships between stakeholder prioritization and organizational financial performance in Malaysia IT industry. Stakeholder prioritization is categorized into internal stakeholders prioritization (employees and shareholder) and external stakeholders prioritization (customers and competitors). The organizational financial performance is evaluated in term of the Return on Investment (ROI), Return on Asset (ROA) and profit growth.

Questionnaire is developed to conduct the research. Targeted respondents will be chosen from the IT companies register under the Multimedia Super Corridor Malaysia (MSC) as their status company.

Result of research is analyzed and generated by the SPSS version 16.0 to investigate if there is relationship between stakeholder prioritization and organizational financial performance.

1.6 SIGNIFICANCE OF STUDY

The main contribution of this research is to provide insights for managers to have further understanding on how the stakeholders prioritization in their company can influence the financial performance. As stakeholders are the significant assets in all types of organization, hence, stakeholder prioritization provides a framework for an organization to modify their strategic actions directed at the diverse interests and demands of different stakeholders. Stakeholder orientation is used to conceptualize the stakeholder prioritization.

In addition, the result gained from this research is helpful in providing organizations to what extent internal and external stakeholder should be prioritized to have better performance on the organizational financial. Employee orientation is proved in the analysis that it can positively influence the financial performance of an organization. Employees' needs should be concerned at all time, to assess their true feelings and attitudes about their jobs. Only by paying sincere attention to employees, organization can foster its profitability.

1.7 OPERATIONAL DEFINITIONOF TERMS

"Stakeholder" referred to a group or individual who can affect or is affected by the achievement of the firm's objectives. They can either contribute or be impacted by the project's outcomes. Stakeholders are varied in status and therefore will have different capabilities (Simpson, 2008).

"Stakeholder prioritization" is the attention or concern that emphasized on particular and crucial stakeholders due to their claims of interest and importance.

“Stakeholder orientation” is a proxy used to conceptualize stakeholder prioritization. It is defined in the aspect of an organization gives the attention to each of their key stakeholders.

“Internal stakeholder” is defined as the stakeholders who have the direct business link with the business and operate within the bounds of organization. In this research, they are referred to employees and shareholders.

“External stakeholder” is kind of non-business stakeholders who are not the formal members of the project coalition but they may still affect or be affected by the project. In this research, the external stakeholders are the customers and competitors.

“Employee orientation” is defined as the company’s intention to fulfill interests and satisfy employee’s needs.

“Shareholder orientation” represents how willing the management team is to take care of the interests of their shareholders. It is to what extent a firm focuses on its shareholders’ claims.

“Customer orientation” is explained as a firm’s focus on customer interests. It is the understanding of customers’ needs by firms to provide their customers with sustainable value.

“Competitor orientation” the understanding of the strengths, weaknesses, capabilities and strategies of competitors as well as being responsive to the actions of competitors. It is the extent of how an organization focuses on its competitors’ interests and respond appropriately.

“Organizational financial performance” is the evaluation of an organization’s profitability in terms of financial measurements. In this research, organizational financial performance will be evaluated in term of overall profit levels, Return of Investment (ROI), Return of Asset (ROA) and profit growth of the organization over the last twelve months.

1.8 THESIS ORGANIZATION

Chapter One starts with a general introduction of the research by stating the research problem, its significance, objectives and hypotheses of the research. It also outlines the research design and provides a chapter outline of the research. Chapter Two focuses on the literature review of stakeholder prioritization by explaining the theory of stakeholder and the related components under the topic. Relationship between variables are discussed in this chapter. Chapter Three presents the methodology for conducting the research. It will as well show the research design, procedures and some statistical analyses in order to run the research. Chapter Four focuses on data analyzing, interpretation and result of research using the SPSS (version 16.0). Chapter Five provides the conclusion of finding and research limitation. Finally, it provides recommendation as guidance for future researcher in the similar field.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter reviews relevant topics based on the research objectives. Information obtained was mainly from online resources such as journals, ebooks, other and relevant websites. This chapter kick starts by overviewing the stakeholder and its definitions. Then, focus moves to the discussion of stakeholder prioritization and its relevant attributes. Next, organizational financial performance and its measurement is discovered. Lastly, the last section in this chapter will relate and investigate the relationship between variables. Summary as well as the conclusion are included for this chapter.

2.1 OVERVIEW OF STAKEHOLDER

The classic term by Freeman (1984) in defining stakeholder is "any group or individual who can affect or is affected by the achievement of the firm's objectives". As the definition was too broad, Clarkson (1995) narrowed the meaning of stakeholder as " those who bear a level of risk as a result of having invested some form of capital, or those who are placed at risk as a result of the firm's activities''. Whereas, Bourne and Walker (2006) defined stakeholder as "individuals or groups who have an interest or some aspect of rights or ownership in the project, and can contribute to, or be impacted by, the outcomes of a project". Lately, Hillson and Simon (2012) simplified stakeholders as "any person or party with an interest in the outcome of the project and/or an ability to exert influence.''

Freeman provided a basic recognized stakeholder model of the firm (Figure 2.1). The model illustrates a firm is consisted and influenced by various stakeholders where they cannot be managed as one. Every single stakeholder has its respective demands and influence.

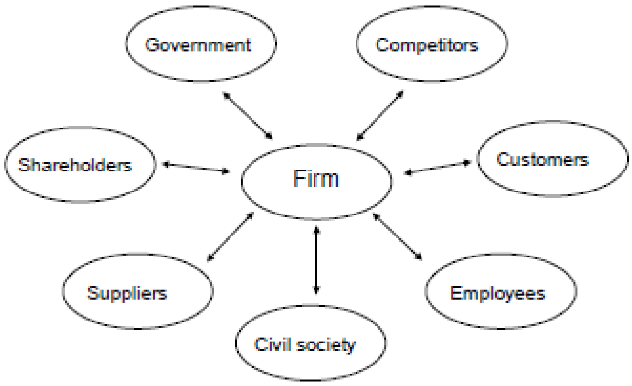

Figure 2.1: The original stakeholder model of Freeman
Adapted from: Freeman (1984)

Stakeholders are not permanent in status, they are varied and therefore will have different capabilities (Simpson, 2008). Also supported by Gil-Lafuente and Paula (2013), they mentioned stakeholder will change over time, so it is not possible to construct a permanent stakeholder list for any company.

Stakeholder have been recognized for its significance in project management field (Beringera et al., 2013; Jujagiri. L and Adlbrecht, 2010; Winter, et al., 2006). Different types of stakeholders play different role in the organization. Thus, while managing a project, stakeholder should always be involved throughout the entire project life cycle in order to achieve the project's goal and stakeholder's expectation.

2.1.1 Stakeholder Classification

According to Lim et al. (2005), in order to generate effective strategies, organizations need to category or group their stakeholders. As written early, different organizations may have different concerns on their stakeholders. Therefore, organizations can classify their stakeholders based on the condition or business nature. Initially, in the pioneer concept, Freeman (1984) divided stakeholders into internal and external stakeholder. Freeman also suggested classifying as primary and secondary stakeholders. Primary stakeholders, such as customers, shareholders and employees, have formal or official contractual relationships with the organization while secondary stakeholders, such as governments and local community, they do not hold contract with the organization. Besides that, stakeholders were grouped into direct and indirect by studying their market relationships with the enterprise (Frederick et al., 1992). Notwithstanding, Clarkson (1995) distinguished stakeholder as active and passive, depends on how they bear the business risk. Clarkson also claimed that according to the strength between stakeholder and firm, they are known as primary and secondary stakeholders as stated before by Freeman. Years after, stakeholders were more common to be recognized as the internal and external stakeholders (Nilso and Fagerstrom, 2006) as well as political stakeholders (Holtbrugge et al., 2007).

This research adopts Freeman's concept of stakeholder classification since it is the basic classification and simple to understand. Hence, internal and external stakeholders will be focused throughout this study.

2.1.2 Internal and External Stakeholders

Typical division is to divide stakeholders to two categories: internal and external. Internal stakeholders are individuals or groups within an organization and the significant types are shareholders and employees whereas external stakeholders are those individuals or groups outside a business. Morris (2004) in his book indicated that internal stakeholders are formally members of the project coalition and hence usually support the project. Internal stakeholder are often referred to as primary stakeholders. Morris also claimed that external stakeholders are not formal members of the project coalition but they may affect or be affected by the project. External stakeholders are often referred to as non-business stakeholders. In other words, internal stakeholder operating within the bounds of organization whereas external stakeholder is usually the other external groups or community of a firm (Fottler et al., 1989).

In this research, researcher will focus on internal and external stakeholder since these groups are commonly utilized in business firms. Kickul (2001), Kotey and Slade (2005) listed customer and employees as the internal and external stakeholder in their research on small business. As current business model and society require to know how to make value out of the interaction with different stakeholders (Im and Cho, 2013), thus internal and external stakeholder with direct and indirect business links with organization could contribute to benefiting business system, especially in some emerging industries (Rong et al., 2013). As such, researcher expects prioritization of these stakeholders to be a major source of influence with respect to organization as well as its performance. Components of internal and external stakeholders will be further explained in the next section.

Buysse and Verbeke (2003) distinguished internal primary stakeholder as employees, shareholders and financial institutions; external primary stakeholders are customers and suppliers. Similarly, Ferrell (2004) asserted organizational key internal stakeholders are employees and shareholders; key external stakeholders are customers and suppliers. Laczniak and Murphy (2006) in order to make it brief, identified a six basic stakeholder groups for most organization which are the shareholders (investors/ owners), employees, customers, suppliers/ distributors, regulators (government) and community.

There are many examples how organizations differentiate their stakeholders. Telia Sonera as a global IT company that provides network access and telecommunication services to its customer defines their key stakeholders as customers, owners and investors, employees, suppliers and business partners, authorities, civil society and lastly, the media. On the other hand, ConocoPhillips as one of largest oil and natural gas production corporation, lists employees, governments, shareholders, communities, customers, suppliers and contractors, and other organizations are their key stakeholders.

As stakeholder's position can never be fixed in any organization. How firms prioritize their stakeholder is different with other firms. Therefore, this research will opt for stakeholders as listed in Table 2.1 below due to prior researchers have identified the basic four essential stakeholder groups for business firms: customers, competitors, employees, and shareholders (Narver and Slater, 1990; Kotter and Heskett, 1992; Jaworski and Kohli, 1993; Payne et al., 2001; Greenley et al., 2004).

Table 2.1: Stakeholders chosen for the research

Internal Stakeholder	External Stakeholder
Employees	Customers
Shareholders	Competitors

2.2 OVERALL REVIEW OF STAKEHOLDER PRIORITIZATION

According to the Merriam-Webster Online Dictionary, the term "priority" means:

1. The state of being prior (given precedence in terms of date or time)
2. Given or meriting attention before competing alternatives
3. Given preference

Stakeholder prioritization is one of the components in overall stakeholder management. As mentioned by Boesso and Kumar (2009, p.65), "stakeholder management is a complex mix of different strategic tasks that include identifying, assessing, prioritizing, managing the relationship, communicating, negotiating, and contracting with various entities that may have relevance to the firm's economic interest". Unexpected problems may be arising in managing a diverse range of multiple stakeholder interests due to conflict among the interests of various stakeholder groups (Greenley et al., 2004) and scarcity of resources (Barney, 1991). Therefore, stakeholder prioritization is adopted to focus on crucial stakeholders where their claims are emphasized. Why prioritizing stakeholder? Mainardes et al. (2012) explained in the way that "while meeting every need is not always feasible, there is the necessity of paying greater attention to certain specific groups to the detriment of others". Nevertheless, PMBOK 5th Edition (2013) pointed the importance of stakeholder prioritization as "in large stakeholder communities, it is important to prioritize the stakeholders to ensure the efficient use of effort to communicate and manage their expectations…" (p. 396). As such, stakeholder prioritization is significant and depends on their relevance to an organization.

Mitchell et al. (1997) proposed a stakeholder salience model for stakeholder prioritization. Stakeholder salience is defined as "the degree, to which managers give priority to competing stakeholder claims," (p. 507). Stakeholder salience model uses power, legitimacy and urgency as a framework to guide the prioritization. For example, it has been noted that the prioritization made by a company to the interests of various stakeholder groups will be based on perceptions about a stakeholder group's power to influence the company (Ogden and Watson, 1999). Power is the stakeholder's ability to impact the company and to enforce its claims; legitimacy is the manager's perception that the actions of a stakeholder group were desirable or appropriate; urgency is the degree to which stakeholders' claim calls for immediate attention. A stakeholder with high salience combines all the three attributes. Therefore, manager has to give priority and attention to stakeholder's claim. Combining the three attributes generates 8 types of stakeholder: dormant. discretionary, demanding, dominant, dependent, dangerous, definitive, and non-stakeholder (Boonstra, 2006) as shown in Figure 2.2.

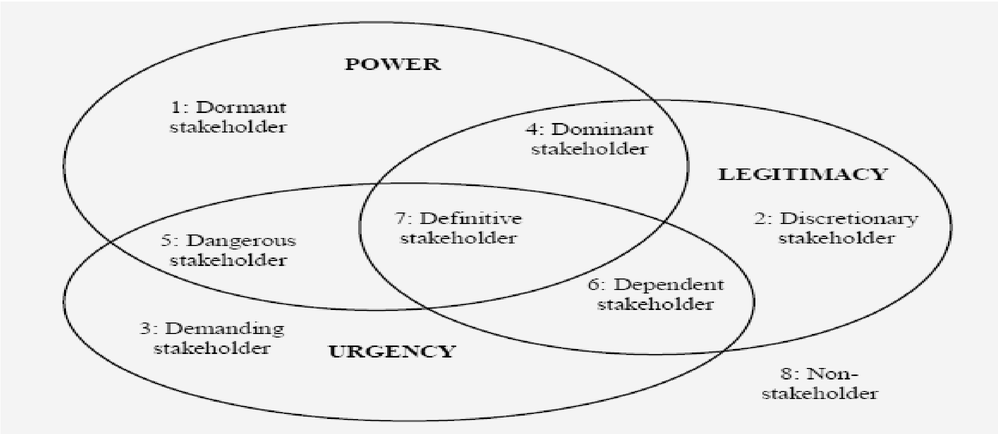

Figure 2.2: Stakeholder salience typology

Source: Boonstra (2006)

Another method to conceptualize stakeholder prioritization is through the stakeholder orientation (SO). SO is the attention a firm gives to each of their key stakeholders. SO denotes the stakeholders salient to management and the objectives that managers aim to achieve through engaging with stakeholders (Berman et al., 1999). There are four attributes for SO which shown in Figure 2.3. Stakeholder orientation is viewed as a more relevant and easier framework for understanding the stakeholder prioritization.

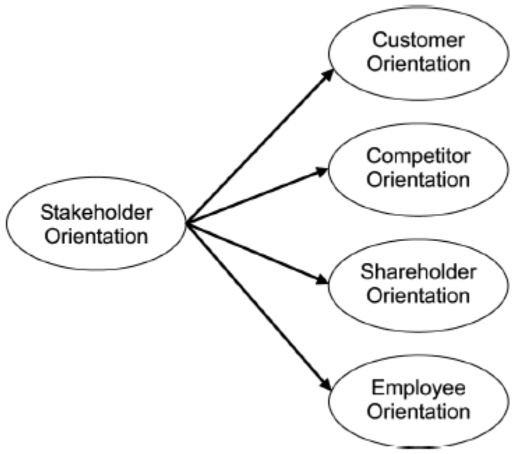

Figure 2.3: The four components of stakeholder orientation

Greenley and Foxall (1997) defined SO as the strategic attention that an organization directs to its diverse groups of stakeholders such as customers, shareholders, and employees. However, researchers have included competitors as a fourth dimension of stakeholder orientation (Narver and Slater 1990; Greenley et al. 2004; Payne et al. 2001). In addition, Greenley and Foxall (1998) claimed that orientation to key stakeholder groups is positively associated with performance. As SO helps to clarify corporate mission, culture and develop strategic planning, thus it is positively linked to organizational performance, such as sales growth, market share and new product success. Stakeholder orientation is not static.

The importance of a stakeholder varies over a firm's life cycle and influences the firm's responsiveness (Neill and Stovall, 2005). Yau et al. (2007) developed and tested a scientific scale to measure the influence of each stakeholder orientations allowing for the possibility of assessing the influence of each dimension on firm performance. In the development of organizational strategies, firms take into account the numerous internal and external stakeholders who affect the achievement of organizational goals in different ways. Post et al. (2002) identified stakeholder orientation as the means existence through which organizations create wealth.

2.2.1 Employee Orientation

Employee orientation can be explained as the company's intention to fulfil interests and satisfy employee's needs. (Lings et al., 2000). An employee-orientated firm's focuses on satisfying the needs of employees, who in turn, meet customers' needs and expectations (Plakoyiannaki et al., 2008). In service organizations especially, employees are the cornerstones to achieve success in any strategy. Bermen et al. (1999) pointed that employees tend to work hard and perform effectively when they are satisfied with their jobs. From research finding by Babin et al. (2000) and DeConinck (2010), firm could achieve better performance by providing their employees a low stress and high trust organizational climate.

Online Business Dictionary defines employees as "an individual who works part-time or full-time under a contract of employment, whether oral or written, express or implied, and has recognized rights and duties". Employees are the main resource that supports the entire organization and makes an organization run on its routine operation. They create and deliver the products or services for their organization.

Firms have interest in employees. According to Buzzelli (1991), employees are the reason for a firm to achieve successes. There is a close relationship between employees and organization. How a firm will be is how its employees act. Employees' behaviour and attitude are related to their organization's performance (Riordan et al., 1997). Organization cannot survive without employees thus they are indeed the most valuable stakeholders in business organizations (Bussy and Suprawan, 2012). This is the reason that successful firms highly valued and pay attention on their employees' interests.

2.2.2 Shareholder Orientation

Shareholder orientation represents how willing the management team is to take care of the interests of shareholders. Shareholders served as investors and risk money due to the company's operations. Institutions and banks deem shareholders as the source of capital and extended network of influencers (Brennan and Tamarowski, 2000). From the view of equity stake, shareholders referred to the firm owners who have the legitimate right of a company (Quinn and Jones, 1995). Due to their legitimate relationship with the organization, they are able to protect their interest and benefits by monitoring the organizational performance (Mitchell et al., 1997). When taking shareholders in terms of risk stake, they are investors. Shareholders have the authority to voice out their concern o even can sell their share (Henriques and Sadorsky, 1999). It is important to have regular and frequent communication with this group. Integrate shareholder input into organization plan able to enhance two side's relationship and reflected in overall firm performance. A firm's reputation and continuity are affected by the shareholder's behavior.

2.2.3 Customer Orientation

Customer orientation is how a firm focuses on the interests of its customer. Elliott and Boshoff (2005), Narver and Slater (1990) shared the same statement that they explained customer orientation as the understanding of customers' needs to provide them with sustainable value. To achieve this, Dawes (2000) suggested to conduct customer analysis and collect their feedback to respond is the best solution.

Customers are key stakeholders that help establish the firm's reputation and identification. For most organizations, the key to success is to understand their customers. Hence, many studies analyzed customers as the important stakeholder (Berman et al., 1999; Greenley and Gordon, 1996; Yau et al., 2007). The relationship between a customer and a firm exists because of mutual expectations built on trust, good faith, and fair dealing in their interaction. Yau et al. (2007) therefore affirmed that customer orientation is the firm's focus on customer interests.

Firms must understand and serve customers through monitoring customer feedback and their perception of superior value (Patel, 2012). Firms through commitments in increasing customer sales will continue to grow and lead to higher firm performance. According to Day and Wensley (1988), an organization in spite of creating superior customer value for the present, it must as well anicipates needs and