Honesty Incorporated: Can the Development of a Trust Culture Create Sustainable Competitive Advantage?

Philip Walsh and Cinla Akinci
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Philip Walsh, Ryerson University, Ontario, Canada
Cinla Akinci, University of Surrey, Surrey, UK

Abstract: Companies all over the world are trying to become better places to work because they realise that it is essential for their survival. A work environment supportive of trust and good employee relations at all levels clearly brings the best performance out of the employees which in turn benefits the organisation as a whole. Employees who are committed to their work will exhibit higher productivity, establish stronger relationships with customers, and provide better services, thus creating customer loyalty in the long-term. This in turn will provide higher returns for the company. Creating a culture of trust and positive employee relations is not an easy job. However, it tends to be stable and difficult to copy, thus providing a sustainable competitive advantage for the companies who are successful in creating such an environment. This study is an investigation of this relationship by statistically testing the firm performance of eight multinational companies which show up repeatedly on Fortune’s “100 Best Companies to Work for in America” list in 1998-2005, against their global-based competitors, over a five-year period. The paper serves to measure the influence of trust on financial performance by establishing firstly, whether or not there is a statistically significant relationship between organisational trust and financial performance, and secondly, whether those companies which employ a culture of trust possess a sustained competitive advantage in their industry. The findings of this research indicate that the companies that have continuously been on the “100 Best” list were significantly better performers, outperforming the competition in 80% of the qualifying comparative performance measures applied. The results provide evidence that the superior financial performance of the “100 Best” companies are attributable to the culture of trust that each of them had developed, and strongly support the notion of sustainable competitive advantage for those companies over their competition.

Keywords: Corporate Culture, Trust, Sustainable Competitive Advantage, America's Most Trusted Companies, 100 Best Companies to Work For

Introduction

THE PRESSURES OF global competition and changing market contexts are driving the development of new ways of organising and controlling work. Companies all over the world are trying to become better places to work because they realise that it is essential for the survival of their businesses. Current conventional wisdom states that the only truly sustainable competitive advantage a company may have is its people (Folan, 1998). In order to achieve and maintain a competitive advantage, successful organisations share a fundamental philosophy to value and invest in their employees through strategic alignment of human resource management policies, effective communication, employee empowerment and involvement, training and development, as well as reviewing continuous improvement (Oakland, 2003).

In recent years, the way in which people are managed and developed at work has come to be recognised as one of the primary keys to improved organisational performance. Recent attempts to explain the financial performance of firms have focused on the managerial values and beliefs embodied in organisational cultures. Explanations suggest that firms with sustained superior financial performance typically are characterised by a strong set of core managerial values that define the ways they conduct business (Barney, 1986). It is these core values that foster innovativeness and flexibility in firms and, when they are linked with management control, they are thought to lead to superior financial performance.

Every year, Fortune magazine publishes a list of the “100 Best Companies to Work For”. The selection method of this list is based on a survey which measures the trust between managers and employees as the primary defining characteristic of the best workplaces. According to Robert Levering (1996: 3) – co-founder of the Great Place to Work Institute and co-author of The 100 Best Companies to Work For in America - “A great place to work is one where you trust the people you work for; have pride in what you do, and enjoy the people you work with.” Under these assumptions, positive employee relations are beneficial for companies and are related to improved firm performance. In literature, this relationship has been a focus of great attention by various researchers, however studies relating organisational culture to
performance tend to differ in terms of the performance measures that are used.

There are two major purposes to this paper. The primary purpose is to investigate the concept of honesty and trust within the corporate culture and to examine its influence on financial performance. An attempt to measure the influence of honesty and trust on financial performance will be undertaken by establishing whether or not there is a statistically significant relationship between organisational trust and financial performance. The second purpose is to investigate whether the companies under investigation possess a competitive advantage in the industry when compared to their competitors. Accordingly, this paper will attempt to achieve the following objectives:

- To provide an understanding of what corporate culture is, including different approaches to, and definitions of, culture.
- To frame the perspective taken on corporate culture as it is the main “effect” concept of the research summarised by this paper.
- To explore whether a culture of honesty, trust and related superior firm-level employee relations effectively serve as an enduring resource that is associated with better financial performance relative to other firms in the industry.
- To test whether companies that promote a culture of honesty, trust and positive employee relations have a competitive advantage over those that do not.

The investigation of the corporate culture aspect will be achieved through the review of the literature, while the examination of the influence of a corporate trust culture on organisational performance will be done by gathering secondary data (financial information of the companies under investigation and their competitors) for comparison purposes and then by hypothesis testing.

The research sample comprises eight companies that were repeatedly listed on the “100 Best Companies to Work for in America” in 1998-2005, representing global-based, publicly traded organisations. These companies are known to have excellent employee relations. Numerous studies also show that these companies outperform their competitors by delivering higher returns. The main interest of this study is to investigate this relationship by hypothesis testing. The result of the research will then be analysed and presented in an attempt to show that companies with a culture of trust and positive employee relations have a competitive advantage which is reflected in their financial performance.

**Corporate Culture as a Competitive Advantage**

There is no shortage of definitions for corporate culture. It has been defined in many ways by various authors and researchers. However, many would agree that corporate culture can be referred to as a set of values, beliefs, and behaviour patterns that form the core identity of the organisations, and help shape the employees’ behaviour (Rashid et al, 2003).

Schulz (2001) states that all companies have cultures, however most end up with their culture by default, not by design. He argues that companies that know how to develop their cultures effectively enjoy significant advantages in both the productivity of their organisations and the quality of work life (QWL) for employees. Robbins (1989) defined QWL as a process by which an organisation responds to employee needs by developing mechanisms to allow them to share fully in making the decisions that design their lives at work. The key concepts captured and discussed in the existing literature include job security, better reward systems, higher pay, opportunity for growth, participative groups, and increased organisational productivity. Positive results of QWL have been supported by a number of previous studies including reduced absenteeism, lower turnover, and improved job satisfaction. Not only does QWL contribute to a company’s ability to recruit quality people, but also it enhances a company’s competitiveness. Common beliefs support the contention that QWL will positively nurture a more flexible, loyal, and motivated workforce, which are essential in determining the company’s competitiveness (May et al, 1999).

Brown (1996) indicates that excellent companies have a vested interest in maintaining good relationships with their employees. Since positive employee relations tend to be stable and difficult to copy, they provide a unique and sustainable competitive advantage for companies (Romero, 2004).

**The Importance of a Culture of Honesty and Trust**

An important factor that provides an inimitable competitive edge to companies is the management’s ability to establish a culture with a high level of trust. It happens that companies that pay attention to developing a trusting relationship with employees are precisely the ones that tend to be the most successful.

What is the relationship between honesty and trust? Trust has been described by the Cambridge Advanced Learners Dictionary (2005) as “to have belief or confidence in the honesty, goodness, skill or safety of a person, organisation or thing” and honesty has been described as “truthful or able to be trusted”. But the application of honesty in creating
trust is not well understood by management academics nor is there a plethora of management research related to its application. When honesty has been addressed in the literature, one finds contrary views regarding its significance. Atkinson and Butcher (2003) dismiss honesty as a virtue subject to the manipulation of organisational politics while Scamati (1997) argues that trust cannot exist without honesty.

Lyman (2003: 24) describes trust as “the critical factor that supports effective communication, an ability to collaborate across departments and hierarchies, the willingness to seek fair resolutions to difficult situations, and the overall ability of employees to have confidence in management’s vision for the future.”

She explains that trust is found in three characteristics of workplace relationships. First, trust grows out of the ability to perceive others (management in particular) as credible – that what they say is true, that their actions are consistent with their words, and that they will be ethical in their business practices. Second, trust depends on how much employees experience respect – through support provided for professional growth, the inclusion of employees’ ideas in decision making, and through care, both within the workplace and in life outside work. Finally, trust grows out of a sense that one will be treated fairly by others – that regardless of position or personal characteristics, one can expect a certain level of fair and equitable treatment by people within the organisation in terms of pay and benefits, career development opportunities, and the just resolution of problems or concerns.

It is obvious that establishing such a culture in the organisation requires an overt commitment by management to be honest to themselves and to their organisation, a value implicit to the genesis of trust in workplace relationships. The fundamental point is that such an environment in the organisation creates a ‘win-win’ situation for both management and employees. The quality of the work life will have a positive impact on employees’ productivity and efficiency; happy and motivated employees will provide superior service to the customers and/or produce superior products, which in turn will result in higher returns for the company.

**Perspectives of Culture – Performance Relationship**

It has been acknowledged long ago that corporate culture has a significant effect on organisational performance. The first systematic attempt to understand this relationship occurred in the late 1920s with the well known Hawthorne studies. Specific findings from this research stressed the importance of the culture of a work group, especially norms regarding productivity and the attitude of workers towards management (Van der Post, 1998). Likert (1961), in ‘New Patterns of Management’, emphasised the importance of a corporate culture of cooperation and found a significant correlation between employee attitudes and performance.

One of the earliest quantitative studies examining the relationship between culture and performance was conducted by Denison (1984). He collected data on 34 American firms over a five-year period. Firms with more positive perceptions of work organisation were found to be constantly better in performance than were firms with less positive views. In addition, a 12-year study by Denison (1990) shows that corporate culture, a company’s mission, values and goals, can affect sales, growth, and business performance.

Probably the most extensive study of the relationship between culture and performance was by Kotter and Heskett (1992), who conducted a number of related studies using 207 firms, over a five-year period. The conclusions to be drawn from their findings can be summarised as follows: corporate culture has an impact on a firm’s long-term financial performance; corporate culture will probably be an even more important factor in determining the success or failure of firms in the next decade; corporate cultures that inhibit long-term financial performance are not rare and they develop easily; and corporate cultures, although difficult to change, can be made more performance enhancing.

Peters and Waterman (1982) studied 62 American companies with outstanding performance. They suggested that good systems within which employees work determined the productivity. They drew attention to cultural factors as attributes of organisational excellence, as people are aware of what is expected from them because values are clearly set out.

Van der Post et al (1998) established the statistical relationship between organisational culture and financial performance. 15 dimensions of culture emerged from their study, namely; conflict resolution, culture management, customer orientation, disposition towards change, employee participation, goal clarity, human resource orientation, identification with the organisation, locus of authority, management style, organisation focus, organisation integration, performance orientation, reward orientation, and task structure. The conclusion arrived is that organisations are likely to be financially more successful if their members experience the organisational culture dimensions mentioned above.
A Culture of Trust and Financial Performance

Empirical evidence has supported the application of trust in reinforcing key processes such as belief of information, organisational commitment, decision commitment, organisational citizenship behaviour, job satisfaction, satisfaction with leaders, team satisfaction, leader-member exchange, intention to stay, team commitment, voice, loyalty and low neglect, acceptance of decisions, acceptance of influence, mutual learning, high levels of cooperation and performance (Dirks and Ferrin, 2002; Tyler and Degoeij, 1996; Nonaka and Takeuchi, 1995; Boisot, 1995; Bijlsma et al, 1999; Janowicz and Noorderhaven, 2002; Morgan and Hunt, 1994; Gambetta, 1988; Costa et al, 2001).

More recent studies investigating the relationship between culture and performance have turned their focal point of interest to Fortune’s list of Best Companies to Work For (Lau and May, 1998; Fulmer et al, 2003). To determine who makes Fortune’s list of the Best Companies to Work For, Fortune requests written statements from each organisation describing its policies, programs, and procedures, which are evaluated as part of a ‘cultural’ audit. But employees’ opinions about their employers are the most important factor in making the list. In fact, two-thirds of the total score is based on surveys distributed to randomly selected employees. The survey instruments are developed and administered by the San Francisco-based Great Place to Work Institute. This instrument is referred to as the Great Place to Work Trust Index. According to the Institute, trust is the essential ingredient for the primary workplace relationship between the employee and the employer. Based on this premise, the Institute developed the following model that details the dimensions of trust:

- **Credibility** means managers regularly communicate with employees about the company’s direction and plans – and solicit their ideas. It involves coordinating people and resources efficiently and effectively, so that employees know how their work relates to the company’s goals. It is the integrity that management brings to the business. To be credible, words must be followed by action.

- **Respect** involves providing employees with the equipment, resources, and training they need to do their job. It means appreciating good work and extra effort. It includes reaching out to employees and making them partners in the company’s activities, fostering a spirit of collaboration across departments and creating a work environment that is safe and healthy. Respect means that work-life balance is a practice, not a slogan.

- **Fairness** at an organisation means that economic success is shared equitably through compensation and benefit programs. Everybody receives equitable opportunity for recognition. Decisions on hiring and promotions are made impartially, and the workplace seeks to free itself of discrimination, with clear processes for appealing and adjudicating disputes.

- **Pride** relates to workplace relationships between employees and their jobs or company, and shows that employees are proud of individual contributions, work produced by one’s team or work group, and organisation’s products and standing in the community.

- **Camaraderie** in the organisation means that the employees have the ability to be oneself as well as having the sense of ‘family’ or ‘team’. Also they enjoy working in a socially friendly and welcoming atmosphere.

Lau and May (1998) compared a sample of 58 companies identified by Fortune as the best companies to work for in the United States to 88 companies of Standard and Poor’s one hundred (S&P 100). Their research presented empirical evidence supporting the concept that companies who ranked highly on the Great Place to Work Trust Index were companies that exhibited a higher quality of work life and enjoyed exceptional growth (measured by five-year asset growth and sales growth trend data) and profitability (measured by five-year return on assets and return on equity data).

Most recently, Fulmer et al (2003) argued that firms with positive employee relations should have more productive employees at all levels. According to them, this should produce higher company income which should be reflected in a higher return on assets and market-to-book ratio (Romero, 2004; Fulmer et al, 2003). In order to test for this relationship, they compared the 100 Best in America list of 1998 to peer firms which were not on the list, selected according to industry, size, and operating performance in the matching year. They found that the companies from the 1998 “100 Best” list performed better than other companies and suggested that this provides the strongest evidence to date of a direct positive link between employee relations, employee attitude and financial performance at the firm level. They concluded that being an attractive employer may create an important intangible asset - positive employee relations - that differentiates firms in a value-producing way.

The literature has raised some important points. These include the relationship between corporate culture and organisational performance with regards to organisational trust, positive employee relations, and superior financial performance. But can a culture of trust and superior firm-level employee relations effectively serve as an enduring resource that is associated with better financial performance relative to other firms in the industry?
Research Methodology

Sample and Sampling Method

The target population of interest for this study was Fortune’s list of “100 Best Companies to Work For in America”. Because a high level of trust is deemed to be the most important defining characteristic of good workplaces, the Great Place to Work Institute’s employee survey measures trust in the workplace. An important assumption in this research is that the companies on the “100 Best” list have been identified by their employees as a “trusted company” and that they exhibit a culture of positive employee relations. Accordingly, this study does not seek to specifically examine the corporate culture dimension of the companies under investigation. Therefore, the trust culture variable will be solely based on the dimensions created by the Great Place to Work Institute which were explained in the previous section.

The sampling method was based on selecting the companies which showed up repeatedly on the list during the 1998-2005 period. There are eight companies identified by this criterion, namely, Adobe Systems, Cisco Systems, Goldman Sachs, JM Smucker, MBNA, Nordstrom, Synovus Financial, and Valassis. This particular group was selected out of 100 companies listed every year.

For comparison purposes, a control firm matching procedure has been adapted. Abell (1980) states that “it is important to identify not only those competitors who mirror your particular approach to the market, but also all the others that intersect you in a market but approach the market from a different perspective”. Competitor analysis is thus conceptualised as the study of two vital firm-specific factors: market commonality and resource similarity (Tvorik and McGivern, 1997). For the purpose of the research, three firms were matched for each “100 Best” company that are the closest in terms of industry, market capitalisation, and number of employees. These firms were identified as competitors by industry analysts. These competitor firms may also be listed in the “100 Best” list, however they did not show up repeatedly during the selected period of time. All companies investigated in this research are presented in Figure 1.
"Best Companies" and Matching Competitor Firms

<table>
<thead>
<tr>
<th>Company</th>
<th>Competitor Firms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe Systems</td>
<td>Oracle</td>
</tr>
<tr>
<td></td>
<td>SAP</td>
</tr>
<tr>
<td></td>
<td>Electronic Arts</td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>3Com</td>
</tr>
<tr>
<td></td>
<td>Qualcomm</td>
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<td></td>
<td>Nortel</td>
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<tr>
<td>Goldman Sachs</td>
<td>Merrill Lynch</td>
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<tr>
<td></td>
<td>Morgan Stanley</td>
</tr>
<tr>
<td></td>
<td>Lehman Brothers</td>
</tr>
<tr>
<td>JM Smucker</td>
<td>Del Monte</td>
</tr>
<tr>
<td></td>
<td>Tyson</td>
</tr>
<tr>
<td></td>
<td>H.J. Heinz</td>
</tr>
<tr>
<td>MBNA</td>
<td>Capital One</td>
</tr>
<tr>
<td></td>
<td>Fifth Third Bancorp</td>
</tr>
<tr>
<td></td>
<td>State Street</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>Limited Brands</td>
</tr>
<tr>
<td></td>
<td>May Department Stores</td>
</tr>
<tr>
<td></td>
<td>Dillard's</td>
</tr>
<tr>
<td>Synovus Financial</td>
<td>BB &amp; T Corp</td>
</tr>
<tr>
<td></td>
<td>Sun Trust</td>
</tr>
<tr>
<td></td>
<td>AmSouth Bancorp</td>
</tr>
<tr>
<td>Valassis</td>
<td>Advo</td>
</tr>
<tr>
<td></td>
<td>Catalina Marketing</td>
</tr>
<tr>
<td></td>
<td>Double Click Inc.</td>
</tr>
</tbody>
</table>

Figure 1: List of Best Companies and their Competitors

Data Collection

This study uses secondary data gathered from the balance sheets and income statements of the companies contained within the company’s annual reports and the 10-K Forms filed with the United States Securities and Exchange Commission.

Profitability or financial performance of a firm can vary from year to year due to changes in economic conditions, management tactics, or accounting practices. For this reason, the financial performance of a company was measured over a period of time. Buzzell and Gale (1987) suggest an average of four years to observe the profitability of a firm. In this research, financial performance of all 32 companies over a five-year period during 2000-2004 was studied. Since the companies selected for this study are global based, the financial performance data is derived from global revenues.

Financial Performance Measures

In literature, there is little agreement on how organisational performance should be measured and no one criterion or set of criteria dominates (Jashapara, 2003). The outcome variables selected mostly reflect the preferences of the researchers involved.

Ratio analysis is one of the most commonly used tools for measuring performance. For example, in their study, Fulmer and her colleagues (2003) used both stock market and accounting data in order to compare the firm performance of the “100 Best” companies with the selected competitor firms. Stock returns, ratio of market to book value of equity, and return on assets were used to measure performance.
In another study, Watson et al (2004) used a matrix approach to measure the levels of profitability and to make comparisons of financial performance in the industry. They tested performance for each of the following financial indicators: price to earnings ratio, market to book ratio, return on invested capital, return on assets, profit margin, operating margin, and beta. Therefore for the purpose of this study, the financial performance of the firms was assessed by using ratio analyses.

**Ratio Analysis**

Ratio analysis is an important area of performance review. It is a useful tool to interpret and compare financial reports within and between companies (Glautier and Underdown, 1986; Brealey et al, 2001). Hass et al (2005) state that ratios used as performance measures to evaluate the financial operations of an entity have been widely accepted and used for analysis of historical financial statements.

As stated before, the main objective of this study was to explore whether a culture of trust and related superior firm-level employee relations effectively serve as an enduring resource that is associated with better financial performance relative to other firms in the industry. Therefore, the financial performance indicators used in this study are measures that would reflect the influence of positive employee relations in the company. These are, return per employee (R/Empl), return on capital employed (ROCE), return on assets (ROA), and return on sales (ROS).

**Calculation of Ratios**

\[
\begin{align*}
\text{ROCE} &= \frac{\text{EBITDA}}{\text{Capital Employed}} \\
\text{R/Empl} &= \frac{\text{EBITDA}}{\text{Number of Employees}} \\
\text{ROA} &= \frac{\text{EBITDA}}{\text{Total Assets}} \\
\text{ROS} &= \frac{\text{EBITDA}}{\text{Sales}}
\end{align*}
\]

Figure 2: Calculation of the Profitability Ratios

**Statistics Used**

In order to investigate whether the companies who promote a culture of trust have a competitive advantage in terms of financial performance, over those that do not, the Wilcoxon signed-rank test has been chosen as the statistical test to analyse the data. This test is widely used to analyse paired data when the normality assumption is not satisfied and the paired samples t test is inappropriate (Zimmerman, 1996). In this case, the distribution of both the “100 Best” companies and the respective competitive firms are unknown, requiring the application of a non-parametric test. Strictly speaking, use of the non-parametric statistics is the most appropriate in this study because they are designed to use scores turned into ranks, testing whether the ranks of one group are typically larger or smaller than the ranks in the other group (Sullivan and Gilbert, 2004). In this respect, the Wilcoxon signed-rank test is used to determine whether there is a significant difference between the financial performance of the “100 Best” companies versus their competitors. In other words, the hypothesis proposition stating that “the companies who promote a culture of trust have a competitive advantage, over those that do not” will be tested.

**Analysis of Findings**

To test the hypothesis, each “100 Best” company was matched with three competitor firms within its respective industry based on the opinion of industry analysts. The figures of R/Empl, ROCE, ROA, and ROS were computed for all 32 firms and the average of competitor firms’ ratios was treated as the industry average. The data was analysed using the Wilcoxon signed-rank test. The industry average of each ratio was paired with the “100 Best” company’s figure and tested for significant difference with 95% confidence level. This indicates that any difference in the financial performance of these two groups will be represented with a probability less than 0.05, and will be treated as statistically significant (Saunders et al, 2003).

The output of the tests have categorised the ranks as negative, positive, and ties. The negative ranks indicate the number of times the “100 Best” companies have outperformed their competitors over the five-year period from 2000 to 2004. On the other hand, the positive ranks indicate the number of times the competitors in the industry have outperformed the “100 Best” companies during the same period. Finally, ties indicate the number of times both the industry average ratios and the “100 Best” company
ratios are equal to each other. The results are summarised in Figure 3.

<table>
<thead>
<tr>
<th>Companies</th>
<th>ROCE</th>
<th>R/Empl</th>
<th>ROA</th>
<th>ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe Systems</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Industry</td>
<td>1</td>
<td>0</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Industry</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>5</td>
<td>5</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Industry</td>
<td>0</td>
<td>0</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Tie</td>
<td></td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>JM Smucker</td>
<td>2</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Industry</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>MENA</td>
<td>4</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Industry</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>0</td>
</tr>
<tr>
<td>Industry</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>Synovus Financial</td>
<td>5</td>
<td>0</td>
<td>5</td>
<td>0</td>
</tr>
<tr>
<td>Industry</td>
<td>0</td>
<td>5</td>
<td>0</td>
<td>5</td>
</tr>
<tr>
<td>Valassis</td>
<td>5</td>
<td>5</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>Industry</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Figure 3: Summary of Wilcoxon Signed-Ranks Output

The output of the Wilcoxon test statistics is summarised in Figure 4 presenting the significance levels of the differences. The variables represent the sig. 2-tailed values (significance levels) for each ratio indicating the probability of significant difference in the profitability measures of the two groups. Since the Wilcoxon signed-rank test uses a confidence level of 95%, any value less than 0.05 indicates significant difference.

Figure 5 provides a summary of which ratio comparisons resulted in the “100 Best” companies significantly outperforming their competition.

<table>
<thead>
<tr>
<th>Companies</th>
<th>ROCE</th>
<th>R/Empl</th>
<th>ROA</th>
<th>ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe Systems</td>
<td>0.225</td>
<td>0.043</td>
<td>0.080</td>
<td>0.043</td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>0.043</td>
<td>0.043</td>
<td>0.345</td>
<td>0.068</td>
</tr>
<tr>
<td>JM Smucker</td>
<td>0.345</td>
<td>0.225</td>
<td>0.686</td>
<td>0.686</td>
</tr>
<tr>
<td>MENA</td>
<td>0.080</td>
<td>0.043</td>
<td>0.804</td>
<td>0.043</td>
</tr>
<tr>
<td>Nordstrom</td>
<td>0.138</td>
<td>0.138</td>
<td>0.138</td>
<td>0.043</td>
</tr>
<tr>
<td>Synovus Financial</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
</tr>
<tr>
<td>Valassis</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
<td>0.043</td>
</tr>
</tbody>
</table>

Note: sig. 2-tailed values less than 0.05 indicate significant difference.
Summary of Findings

With respect to financial performance measured by the performance ratios used in this study, the “100 Best” companies were significantly better performers during the 2000-2004 period. Compared to their competitors in the industry, the “100 Best” companies showed statistically significant differences in financial performance at the 95% confidence level, outperforming the competition in 16 of 20 qualifying comparative ratios. Financial performance as measured by return per employee indicated that the “100 Best” companies performed better (5 out of 6 significant comparative ratios) than their matched competitors. As for return on capital employed and return on assets, where the data was significantly different, the “100 Best” companies are observed to outperform their competitors in every case. In the return on sales ratio comparison, the financial performance results are less one sided with the “100 Best” companies outperforming the competition in 50% of the statistically significant ratio comparisons.

In summary, the results of the Wilcoxon signed-rank test show that in most of the financial performance measures the “100 Best” companies exhibit significant differences in outperforming the competition, thus supporting the hypothesis. Therefore it could be concluded that the hypothesis stating that “companies who promote a culture of trust have a competitive advantage, which is reflected in their financial performance, over those that do not” is accepted.

Discussion

This study proved by empirical evidence that companies which show up repeatedly in the “100 Best” list generally outperform their competition and the results suggest that they have a competitive advant-

<table>
<thead>
<tr>
<th>Companies</th>
<th>ROCE</th>
<th>R/Empl</th>
<th>ROA</th>
<th>ROS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adobe Systems</td>
<td>✓</td>
<td>✓</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cisco Systems</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>✓</td>
<td>✓</td>
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<tr>
<td>JM Smucker</td>
<td>✓</td>
<td></td>
<td>✓</td>
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<tr>
<td>MBNA</td>
<td>✓</td>
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<tr>
<td>Nordstrom</td>
<td>✓</td>
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<tr>
<td>Synovus Financial</td>
<td>✓</td>
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<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Valassis</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
</tbody>
</table>

Note: ✓ indicates significant outperformance of the competition in at least 4 out of 5 years at 95% confidence level; X indicates significant outperformance by the competition in at least 4 out of 5 years at 95% confidence level. A blank space indicates a lack of a statistically significant response.

Figure 5: Summary of Wilcoxon Test Statistics

age due to an established corporate culture of trust and positive employee relations at the firm level.

If the findings of the ratio analysis are taken into consideration, there are some interesting results. For example, three out of eight “100 Best” companies (namely, Cisco Systems, Synovus Financial, and Valassis) showed statistically significant difference at 0.043 level in all of the performance ratios measured by R/Empl, ROCE, ROA, and ROS. However, although JM Smucker is observed to outperform the competitor average in many years during 2000-2004 period, it is notable that this company is the only one which did not show any statistically significant difference in any of the performance ratios.

These findings have significant implications for the literature. Most importantly, 80% of the significantly comparative performance measures strongly suggest that the culture of trust and positive employee relations have significantly influenced the financial performance of these firms.

Strictly speaking, it was expected that all of the “100 Best” companies would show significant differences in all of the performance ratios. However, the results of the components which show no significant difference can be explained and supported by several factors. For instance, with respect to better performance ratios of competitors in some cases, it is possible that although these companies did not show up repeatedly on the “100 Best” list, they might have been listed in some years which indicated that they might promote the same characteristics as the “100 Best” companies in regards to culture of trust and positive employee relations. Another possibility is that these companies could be successful imitators of the “100 Best” companies' corporate culture model, thus achieving superior financial performance but not having been a participant in the survey.
Conclusions

Corporate culture has received much attention in the last two decades due to its effects and potential impact on organisational performance. In literature, this relationship has been a focus of great attention by researchers. Various studies showed that positive employee relations are beneficial for companies and are related to improved performance (Peters and Waterman, 1982; Barney, 1986; Denison, 1984, 1990; Kotter and Heskett, 1992; Lau and May, 1998; Van der Post et al, 1998; Fulmer et al, 2003).

To address this issue, this study attempted to investigate whether there is a statistically significant relationship between organisational trust and financial performance of the “100 Best” companies identified by the Great Place to Work Institute compared to their matched competitors in the industry. The results found are in support to the previous literature, especially the work carried out by Fulmer et al (2003) which establishes a direct positive link between employee relations and financial performance at the firm level.

In order to provide empirical evidence, ratio analysis has been carried out and the hypothesis was tested by using the Wilcoxon signed-rank test. The findings indicate that certain financial performance ratios (R/Empl, ROCE, ROA, and ROS) of the “100 Best” companies are generally greater than their competitors in the industry. These results suggest that the “100 Best” companies have a competitive advantage over their competitors as reflected in their comparative financial performance.

Recommendations for Further Research

An important assumption in this study was that the companies on the “100 Best” list do have positive employee relations and that they do promote a culture of trust in the organisation. In this regard, this study did not examine directly the corporate culture dimension of the companies under investigation. The corporate culture variable was solely based on the dimensions created by the Great Place to Work Institute. Further research should attempt to create its own instruments in order to validate whether the companies on the “100 Best” list do indeed promote a culture of trust and positive employee relations.

References


About the Authors

Dr Philip Walsh
Dr. Phil Walsh is an Associate Professor of Strategy in the School of Business Management, Faculty of Business, Ryerson University, Toronto, Canada. Phil has also practiced for the past 26 years as a strategic planning consultant and professional geoscientist working with many of Canada’s top energy companies and provincial energy ministries. His research over the past few years has focused on sustainable development in the energy industry both from a management and technical perspective. He has published papers in the field of strategic change management with an emphasis on scenario planning, networks and sustainable competitive advantage. Dr. Walsh holds a B.Sc. in Geological Sciences from Queen’s University, Canada, an MBA from the Ivey School of Business, Canada and a Ph.D. in Strategic Management from the University of Bradford, UK. Prior to joining Ryerson, he was the MBA Programme Director and a Lecturer in Corporate Strategy at the University of Surrey, U.K.

Cinla Akinci
Cinla Akinci is currently working as Business Development Analyst on a Knowledge Transfer Partnership (KTP) project at University of Surrey, UK. Previously, she has worked on various UN projects as Project Coordinator in Cyprus. Cinla holds a BA in Business Administration and Economics from Trent University, Canada, and an MSc in International Business Management from University of Surrey, UK.
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