Corporate culture and financial performance: an empirical test of a UK retailer

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Abstract

Purpose – The purpose of this paper is to assess claims that culture is a significant factor in accounting for corporate financial performance (defined as sales intensity (SI)) in the retail sector at store level. The paper provides a critical analysis of the "strong culture-good performance" thesis.

Design/methodology/approach – Company data were used which included the annual employee survey (at store level), store characteristics data, and store sales data (SI per square foot). Multiple regression was used to predict SI. Stepwise cross-lagged regression analysis was used to infer cause and effect linkages.

Findings – Contrary to the strong culture thesis, the results show that a physical factor, store format, is the most important element in explaining SI. Employee morale is the most significant human cultural variable, followed by employee perception of manageable workloads. Interestingly, whilst job satisfaction is a significant predictor, it is in a negative direction. The more employees are satisfied, the more SI decreases.

Research limitations/implications – This is a very large study at store level, and the literature suggest the methods adopted are the best available. The key limitation of the research lies in the reliability of the inference that behavioural and managerial attributes are causally related to performance outcomes measured in sales data. Many other external factors also influence store sales in any given period (ranging from macroeconomic to store level promotion factors). The research accounts for 32.7 per cent of total variance, so other factors beyond the scope of this study are also likely to have significance.

Originality/value – This paper is one of the first contributions to empirically analyse corporate culture compared to other factors that explain store performance.

Keywords Organizational culture, Sales performance, Retailers

Paper type Research paper

Introduction

The CEOs of some of the leading retailers believe strong cultural values provide a key to successful performance. Sir Terry Leahy, the CEO of Tesco, said "Tesco success will be based on values [...] the values are Tesco – the way we work, the way we manage – it's everything we do and always will be" (Tesco, 2000). In the last annual report (Tesco, 2008, p. 13) it was said that "Looking after our staff so that they can look after our customers is one of the core values of the business".

Lee Scott, CEO of Wal-Mart said the success of the firm was a tribute to "Wal-Mart associates around the world, and the culture they live and carry forward every day". (Wal-Mart Annual Report, 2007, p. 10) At Wal-Mart this is a commitment that all employees are expected to practice: to save customers money so they can live better.

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The views of such influential leaders deserve serious analysis. If true, there may be valuable lessons, which others could learn from these firms. So the aim of this research was to investigate the suggestion that a strong corporate culture positively influenced performance in the retail industry.

Defining corporate culture

There are many different definitions of corporate culture. The most influential writers of the last 30 years who have established testable definitions of corporate culture are Deal and Kennedy (1982) and Kotter and Heskett (1992). They suggested, following Schein (1985), that corporate culture can be defined as the expressed values of the organisation. These may derive from the values of the founders, transmitted through management rules and practices, and seen in the corporately approved rituals and procedures that all members of the firm take part in.

This definition of corporate culture provides researchers with an understanding of where they need to look to investigate the phenomenon. First, at the expressed corporate values (these can often be seen explicitly in annual reports, especially in the reports from the founders or the CEOs where they directly address the issue of corporate culture). Second, the management policies and rules which provides the "glue" which holds the organisation together. Third, in organisational practices. These are the public front of the firm which customers see as they include all the public actions of the organisation. Not only customers, but regulators, government and competitors also see how the firm operates in its public practice.

In addition to knowing where to look to investigate corporate culture, the next key factor is to be able to understand the strength of the culture. A number of authors have written about the importance of the strength of corporate culture. Baker (1980), for example, suggested that companies demonstrating a set of strong values also developed a high sense of commitment to the organisation and its objectives. More recently authors such as Beach (1999), Gome (2002) and Darden (2004) have carried out investigations to explore the meaning and importance of a strong organisational culture.

Strength can be defined as the valency of the agreement between employees and the organisation on the importance of the key cultural values. The more the employee identifies with the values and the more importance that is attached to those values the stronger the cultural connection. Where this is a strong bond the benefits are that there are reduced internal transaction costs (reduced need to promote, police and enforce the core cultural values). In the retail industry, pay costs are the largest operating cost. So the idea of developing a management control tool which provides coordination through "cultural control" or self regulation based on a congruity of values, is likely to be attractive. Another benefit is assumed to be that external transaction costs are reduced, as employees will promote the organisational values to customers with little need for management control. Recruitment costs could also be reduced; existing employees support the values and communicate them to external potential employees, reducing the costs of recruitment.

Finally, it could be suggested that where there is a strong culture, customers have a clearer understanding of the total offer the firm presents in public.

As such a strong culture could provide significant benefits to the organisation where its values have significant valency with key customers. Clearly, however, if the organisations corporate culture does not strike a chord with customers, or is inimical in some way to customers, a strong culture could lead to a negative influence. The key point is that the advocates of the strong culture argument, such as Atkinson and Taylor (1995) suggest that either way it is important to investigate the strength of the culture and it valency.

Corporate culture and corporate performance

The main reason corporate culture research has attracted significant interest in both the academic and business world, is because of a tantalising promise: that culture may be a key to enhancing financial performance (Siehl and Martin, 1990). Other writers have argued that organisations can improve performance through adopting cultural values which create excitement, specify expected behaviours of employees and enhance their productivity (Ouchi and Theory, 1981; Pascale and Athos, 1983; Kilmann *et al.*, 1985; Rousseau, 1990). Criticisms have, however, been made that the link between culture and performance has not been substantiated (Siehl and Martin, 1990).

Most studies within the corporate culture-performance literature focus on financial indicators (Denison, 1990; Rousseau, 1990; Calori and Sarnin, 1991; Gordon and DiTomaso, 1992; Kotter and Heskett, 1992). Most of the larger previous research studies on corporate culture have compared the corporate cultures of several organisations, and so they use organisational level performance measures. Data comes from company accounts which are publicly available. For example, Denison (1990) studied 34 large US firms using return on sales, return on investment, and the income/sales ratio. Calori and Sarnin (1991) studied five French firms and used return on investment, return on sales and growth as performance measures. Gordon and DiTomaso (1992) studied 11 US insurance companies and used growth of assets and growth of premiums. Marcoulides and Heck (1993) studied 26 US firms and used gross revenue/product value ration, market share, profit, and return on investment.

Some previous studies have, however, focussed on the relationship between corporate culture and revenue generation. These studies have generally been single case studies of firms. One of the most interesting was conducted by Rousseau (1990). She studied the relationship between team- or satisfaction-orientated norms, security-orientated norms, and the amount of money raised for the community in 32 large units of a voluntary service organisation. Unlike the larger scale research, it focused on the perceptions of individual employees and linked this to a performance variable. The study provided insight of some of the types of relationship that may be involved in understanding cause and effect, but this was not taken further to identify other variables or other external factors that influenced performance.

One study that took the step further of trying to predict the relationship between culture and performance was conducted by Ouchi and Johnson (1978). They found that humanistic values (concern for people, collective decision making, and long-term employment) were good predictors of sales and profitability. The study was a comparison between one electronics company which exhibited these values and another which did not. The main limitation of the research was its small scale (sample size of only two organisational units, with 13 executives in one, and 16 in the other). The approach was, however, novel and signalled a way forward in understanding the dynamics of the relationship between culture and some performance variables which this research has built on.

A framework of the key influences on sales performance that might be expected to be found is shown Figure 1.

Research question and hypothesis

The implication of the majority of previous research is that it is possible to identify the key features of corporate culture directly from expressed values, organisational policies, and practices. A number of important writers have identified a link between corporate culture and organisational performance. But many of these studies have focussed on a simple link between financial outcomes and corporate culture. The problem is that for many firms quoted on the stock market the key financial outcome, profit, is a lagging indicator of culture and is often determined by a number of other factors which may not be related to culture at all, but to the economic environment of the firm and its plans for the future. In this research, therefore, instead of taking profit as the independent variable, it was decided that the most important indicator was sales. In order to compare stores on sales equally, the common measure of sales intensity (SI) (annual sales per square foot) was used. This also had the advantage of being able to look at each store and its performance compared to others. By doing this we can presume that, at the store level, top management policies are promoted and practiced in the same way and roughly to the same degree in all stores. If this is correct, then any local variance of management practices in each store is due to the way in

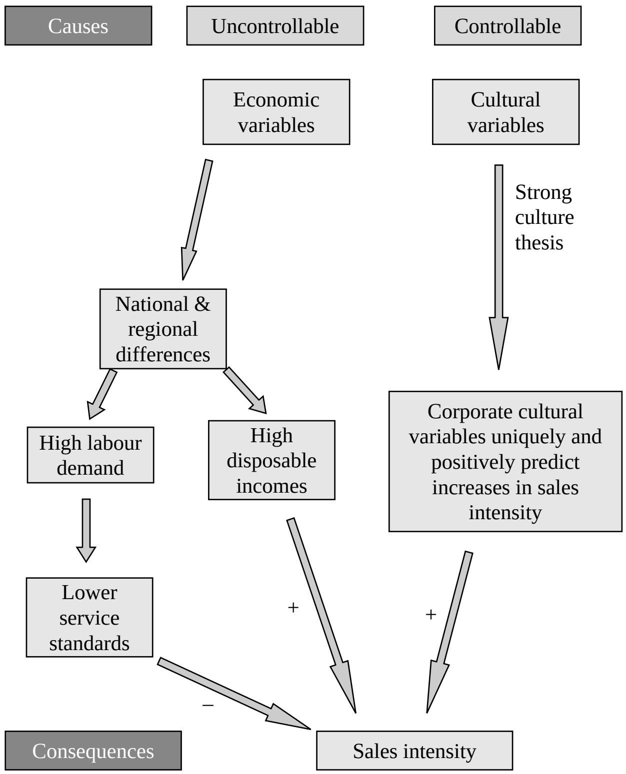

Figure 1.
Framework of the relationships between corporate culture, economic variables and sales performance

which individual store managers use their managerial discretion. We can see the way in the local behaviours and practices which managers adopt to try to achieve company objectives. Some of these may be found to be successful and others may be unsuccessful. It is this that we wish to investigate, as it is the strength of relationships at the store level between employees and management values and policies that reveals differences at the local level in the relationships between employees and management. So the research question which this research addresses is: How much variance is there in the strength of the corporate culture at store level and how does this impact on sales?

We specifically draw from the findings of Deal and Kennedy (1982), Peters and Waterman (1982) and Kotter and Heskett (1992), in developing the following hypothesis for testing:

H1. Branches which exhibit the strongest culture (based on employee agreement with organisational values) will significantly and positively predict sales performance (measured as SI).

This "strong culture" hypothesis is supported by a range of previous research (Atkinson and Taylor, 1995; Beach, 1999; Gome, 2002; Darden, 2004) and will be tested using data with retail branches as the unit of analysis.

Method

A company was chosen which had the characteristics which could overcome the methodological shortcomings of previous research. The company is a major retailer, with hundreds of locations across the UK. Its management believes that value-aligned employees are more likely to work harder and towards organisational aims, and in doing so enjoy their work and serve customers better. Thus, effective staff management can, indirectly, affect sales and profits (Barber *et al.*, 1999). There is a belief in a "virtuous circle", where committed and loyal staff work hard to make customers happy, which leads to good financial performance. This approach is adopted in many areas of popular management literature, specifically the service-profit-chain (Heskett *et al.*, 1997).

In this company, there is a strong top-down hierarchical approach to management. Sub-cultures in terms of variance to behaviours and practices to company standards are not permitted. In this company, stores showing higher morale in their responses, are in conformity to the company culture; stores with lower than expected scores are seen as out of conformity with company standards requiring specific managerial action.

Three main data sources were used: annual employee survey data (predictor variables), store characteristic data (control variables), and SI data (outcome variable). Detailed information on each of these is described below:

Annual employee survey data. A survey measuring the attitudes and perceptions of employees on factors which the company believed to be important drivers of company success. The response rate was over 88 per cent of employees in over 500 units in the UK, equating to well in excess of 100,000 valid survey responses. The questionnaires were completed in branch by all employees including managers over a four-week period. They were distributed through the line management structure, with employees given time within their working hours to complete confidentially. Forms were sealed in envelopes and placed by the employees into a survey post box. All forms were sent for central scanning at the end of the survey period. The response rates were similar across store formats.

The questionnaire asked employees the extent to which they agreed or disagreed to a set of statements. Each survey score used in the analysis was measured as the percentage of respondents who agreed (or strongly agreed) with the statements provided.

Employee responses were categorised under five themes:

(1) *Degree of commitment.* Questions are asked about their level of morale and how individuals felt about the firm.

(2) *Job satisfaction, trust and respect.* Questions here concerned to what extent employees agreed with statements regarding job satisfaction, whether their work is recognised and appreciated. In addition, questions seeking information on the degree to which the corporate values are practised fall in this category.

(3) *Management support.* The survey asked about the extent to which jobs have become simpler, the support they receive from their manager, the degree to which they receive clear direction, whether they understand the standards and objectives to be achieved in their work, whether work is manageable, whether individuals receive sufficient training, whether they have quality tools and equipment to do their job, and whether they have received information on corporate performance and if they have received sufficient information to do their job well. Factual questions regarding whether respondents have received a performance review or career discussion are also asked.

(4) *Career development and fairness.* The survey asked about employee levels of satisfaction with their career development and their perceptions of fairness towards the pay they receive.

(5) *Work conditions and improvements.* Questions are asked about employee views on whether improvements had been made since the previous survey.

As sales data was at the store level, we aggregated employee questionnaire responses to store level for comparison, adopting the approach taken by Smart and St John (1996) and Zammuto and Krakower (1991). This resulted in one score for each survey item for each store, represented as the percentage of positive responses, out of all responses.

Store characteristic data. Data on the region (based on standard regional codes, e.g. South East, South West), store format (four store formats determined by the product assortment and store size), and opening hours (whether a store operates 24 hours) were provided for each store. This provided information about the local business environment of each retail unit. Each variable was formatted into discrete dummy variables for inclusion in the regression. In the case of regions, "North" was used as a benchmark variable. Therefore, any regional variables identified as significant would be relative to the North region. Checks were made to ensure that these stores had not undergone any major alterations, e.g. a refit or change in opening hours, which may have had an effect on sales.

Sales data. Sales data for each store in the UK was extracted directly from the company's performance reporting system. The sales figures included all transactions through the checkouts, net of refunds. In order to measure sales performance comparatively, we used size of the store as a common denominator. Sales per square foot is a traditional measure used in retailing as space is generally the most fixed resource for retailers. Preliminary examination of the data showed that 77 per cent of the change in sales was accounted for by the size of store. Thus, in order to determine the effect of corporate culture variables in the prediction of sales, the most logical performance measure was sales per square foot. As store size was accounted for in the measure, this allowed us to identify the degree to which culture measures enhance or diminish revenue performance. We call this measure SI, as it measures the intensity (or level) of sales for a given space.

Analytic method

Multiple regression analysis was used to predict SI, to identify the unique contribution of each independent variable to the prediction. This method of analysis builds on the work of Silvestro and Cross (2000), whose statistical regression model provides an excellent approach to the analysis of large datasets. Multiple regression is appropriate where the relationship between two or more independent variables and one dependent variable is of interest (Kerr *et al.*, 2002) and is a reliable and widely used technique (Allison, 1999).

Stepwise cross-lagged regression analyses were conducted using sales data from one year after the survey was carried out. This is the preferred approach to establishing causality (Wilderom *et al.*, 2000); however this is used in just a few studies (Denison, 1990; Gordon and DiTomaso, 1992; Koys, 2001; Petty and Beadles, 1995; Silvestro and Cross, 2000). This research is among the few studies which are designed in such a way to allow inference of cause and effect linkages.

In order to identify significant cause and effect relationships, a detailed in-depth study over a short-term time horizon has been used successfully by researchers such as Iverson (1999), Lee and Mitchell (1994), Koys (2001), and this research builds upon that foundation.

Research findings

Any statistical analysis has its limitations in terms of the data sources, timing, meaning – it is not a controlled scientific experiment and does not provide deep insight into all of the causes leading to effects for the phenomenon of interest. The benefit of carrying out a statistical analysis is that large amounts of data can lead to greater understanding of the nature of some of the key relationships, and therefore provide a useful platform for future avenues of deeper research. This is the context in which this work has been undertaken, to stimulate further exploration of the type and nature of the relationship between culture and performance, taking the company's point of view as a point of reference. What we are actually doing in the study is measuring the differences between the managerial strong culture view and the extent to which employees confirm this. The statistical analysis provides interesting predictions based upon the limited number of variables in the model. It is, therefore, perfectly possible to challenge the number of variables and their importance, but a statistical design aims to identify the unique contribution of each of the variables included to predicting the outcome of interest, and such a deductive approach can be equally useful in the generation of ideas and knowledge as a traditional research design rooted in theory than data. Whilst accepting the weaknesses of a statistical design approach, this research does include the greatest variety of variables in such work in the retail sector. The combination of variables and size of the study is an important indicator of the significance of this work. No other published work has involved so many survey participants and retail sites.

A stepwise regression was employed using SPSS. All variables were entered into the equation, to identify which combination of variables best predicted SI in the UK stores.

The ANOVA table was examined to assess whether the model was a significant improvement over the mean. Table I shows that at each stage of the regression, the model was highly significant ($p < 0.001$). Model 10 represented the result of a stepwise regression, identifying all statistically significant predictor variables, having removed

Model		Sum of squares	df	Mean square	F	Sig.
ANOVA [a]						
1	Regression	5,310,356	1	5,310,356.285	59.393	0.000[b]
	Residual	51,410,743	575	89,409.987		
	Total	56,721,099	576			
2	Regression	8,496,160	2	4,248,080.232	50.563	0.000[c]
	Residual	48,224,939	574	84,015.572		
	Total	56,721,099	576			
3	Regression	10,773,467	3	3,591,155.520	44.784	0.000[d]
	Residual	45,947,633	573	80,187.840		
	Total	56,721,099	576			
4	Regression	11,612,405	4	2,903,101.158	36.813	0.000[e]
	Residual	45,108,694	572	78,861.354		
	Total	56,721,099	576			
5	Regression	12,158,311	5	2,431,662.294	31.158	0.000[f]
	Residual	44,562,788	571	78,043.411		
	Total	56,721,099	576			
6	Regression	13,560,182	6	2,260,030.372	29.847	0.000[g]
	Residual	43,160,917	570	75,720.907		
	Total	56,721,099	576			
7	Regression	15,157,844	7	2,165,406.226	29.644	0.000[h]
	Residual	41,563,255	569	73,046.143		
	Total	56,721,099	576			
8	Regression	15,838,407	8	1,979,800.827	27.506	0.000[i]
	Residual	40,882,692	568	71,976.571		
	Total	56,721,099	576			
9	Regression	17,909,014	9	1,989,890.496	29.070	0.000[j]
	Residual	38,812,085	567	68,451.648		
	Total	56,721,099	576			
10	Regression	18,571,131	10	1,857,113.069	27.552	0.000[k]
	Residual	38,149,968	566	67,402.771		
	Total	56,721,099	576			

Notes: [a]Dependent variable: SI. Predictors (constant): [b]South West; [c]South West, 24 hours trading indicator; [d]South West, 24 hours trading indicator, E format; [e]South West, 24 hours trading indicator, E format, South East; [f]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure; [g]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale; [h]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction; [i]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format; [j]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format, S format; [k]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format, S format, manageable workload

Table I.
ANOVA of multiple R compared to the mean: predicting SI

all variables no longer contributing to the prediction of SI at each stage. The model is statistically significant at $p < 0.001$.

Table II shows the model summary and the proportion of variance explained by each variable in the model. The model explains 32.7 per cent of the total variance in SI, so we can therefore be confident in making conclusions in respect of this amount of the variance in SI – the remainder remains unexplained. To improve the model further, future research may include other exogenous variables, which have not been included here.

Table III shows the β coefficients, standardised β values, standard error, *t*-statistic, and probability values for each variable in the final model and legend for the variable categories. There are a total of ten explanatory variables in the model. Four variables relate to survey items, four variables relate to store characteristics, and two variables relate to geographic location. Nine of the survey variables relate to the prescribed company values. The model identifies those variables, which provide a unique contribution to predicting SI. The other group of variables do not relate directly to the values which employees are expected to practice. These concern the regional location, physical format, and characteristics of the store. Having a format which provided more variety of goods than competitor stores in a local area could attract customers and increase SI. This research is the first to combine and evaluate the relative importance of both physical store attributes and employee perceptions.

Model	R	R^2	Adj. R^2	Std. error of the estimation	R^2 change	Change statistics *F*-change	df1	df2	Sig. *F*-change	Durbin-Watson
Model summary [a]										
1	0.306[b]	0.094	0.092	299.015	0.094	59.393	1	575	0.000	
2	0.387[c]	0.150	0.147	289.854	0.056	37.919	1	574	0.000	
3	0.436[d]	0.190	0.186	283.175	0.040	28.400	1	573	0.000	
4	0.452[e]	0.205	0.199	280.823	0.015	10.638	1	572	0.001	
5	0.463[f]	0.214	0.207	279.363	0.010	6.995	1	571	0.008	
6	0.489[g]	0.239	0.231	275.174	0.025	18.514	1	570	0.000	
7	0.517[h]	0.267	0.258	270.271	0.028	21.872	1	569	0.000	
8	0.528[i]	0.279	0.269	268.284	0.012	9.455	1	568	0.002	
9	0.562[j]	0.316	0.305	261.633	0.037	30.249	1	567	0.000	
10	0.572[k]	0.327	0.316	259.620	0.012	9.823	1	566	0.002	1.952

Notes: [a]Dependent variable: SI. Predictors (constant): [b]South West; [c]South West, 24 hours trading indicator; [d]South West, 24 hours trading indicator, E format; [e]South West, 24 hours trading indicator, E format, South East; [f]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure; [g]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale; [h]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction; [i]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format; [j]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format, S format; [k]South West, 24 hours trading indicator, E format, South East, tools and support infrastructure, morale, job satisfaction, M format, S format, manageable workload

Table II. Model of cultural and retail format characteristic variables predicting SI

Variables	*β*	*B*	*s.e.*	*t*	*p*
Morale	10.542	0.350	1.860	5.667	0.000
Job satisfaction	–11.476	–0.337	1.990	–5.767	0.000
Tools & support infrastructure	–6.012	–0.231	1.341	–4.483	0.000
Manageable workload	5.802	0.141	1.851	3.134	0.002
M format (yes = 1; no = 0)	331.702	0.461	50.159	6.613	0.000
S format (yes = 1; no = 0)	231.930	0.358	40.415	5.739	0.000
E format (yes = 1; no = 0)	522.405	0.312	74.894	6.975	0.000
24 hour opening indicator (yes = 1; no = 0)	189.853	0.302	27.958	6.791	0.000
South West (yes = 1; no = 0)	140.259	0.217	25.833	5.429	0.000
South East (yes = 1; no = 0)	99.819	0.098	37.300	2.676	0.008
R2	0.327				
Adjusted R2	0.316				

Cultural variables	(light shading)
Store characteristic variables	(dark shading)
Geographic variables	(medium shading)

Table III.
Coefficient values for the prediction of SI

The second column on Table III identifies the standardised coefficients. These indicate the most important coefficients on a common scale.

Format characteristics

Of all of the variables entered, format characteristic variables were the most important. There were four retail formats used in the UK. Format E were the smallest convenience outlets. Format M were larger in area but still with a fairly limited range of merchandise. Format ER were large outlets. Format S were large outlets with a full range of merchandise and other associated services.

The M format was the most important significant predictor of SI, followed by the S format. It could be deduced from the analysis that two variables, physical space and product (including service) range, were the most significant predictors of SI.

In addition, however, each format was identified as significant. SI was predicted to be higher in all formats against the benchmark variable of the ER format. The E format generated the highest differences in SI, with £522 more sales per square foot per year than in the ER format.

Indeed, it was found that the larger the format (controlling for all other variables), the less efficient the store in terms of sales related to space. Increases in space, therefore, were not associated with a proportional increase in sales. In terms of space efficiency, there was a diminishing return on assets. However, although there was a reduction in efficiency, the overall effect of the ER format on total sales performance was significant. Whilst the large-scale of the ER format accounted for a small proportion of the total number of retail outlets, they generated a disproportionate amount of total sales. The ER format accounted for under 10 per cent of the total number of retail units, but generated 16.7 per cent of total sales in 2001 increasing 17 per cent in 2003.

Another variable within format characteristics was opening hours. Retail units which operated on a 24-hour basis generated higher levels of sales per square foot than those that did not. Given that space remains static, the main aim of 24-hour trading was to provide a higher return on assets. Trading for 24 hours per day had little impact on the operational costs of running the store other than electricity and staffing costs. The statistical analysis showed that retail units which traded for 24 hours per day generated £189 per square foot per year more than those that did not. If all relevant formats could change to a 24-hour operation sales would have increased significantly.

Regional variation

The analysis showed that there was regional impact on sales. For example, compared with the Northern England, the South East and South West region were significant predictors of SI. Retail outlets in the South East generated £99.82 more than the North, and in the South West an additional £140.26 in sales per square foot was generated per year. The most likely explanation of this is that there the region reflected variation in economic conditions and spending patterns (Experian, 2004).

The role of corporate culture

There is great complexity in the variables that influence SI in the retail sector. We are evaluating a number of variables which the company believes are key influencers of sales. It is possible to make simplistic approximations of why sales increase or decrease on a daily or monthly basis, and management does this in retail continuously. As this research includes the whole population of the retailer, it provides a unique statistical portrait upon which to make conclusions. Given that this is one of the largest retailers in the UK and all stores were included, the results are statistically important, and practically important from the managerial perspective. It is worth emphasising that no previous study includes as many survey participants or company sites as this research.

Employee morale and its contribution to SI

The analysis found that corporate culture did play a role in predicting SI, but its significance was less important than the type of format.

The employees' level of morale is the most important statistically significant variable amongst the survey items. There is a positive relationship between the level of morale and SI, which means that the level of employee morale significantly changes with the SI figure. Hence, having already accounted for the other explanatory variables, we can report that if employee morale could be improved by 10 per cent, the analysis suggests that SI would increase by £105.42 per square foot per year. As this coefficient value is determined whilst all other variables are held constant, we can be confident that changes in this cultural variable can result in improvements in SI. Across the organisation as a whole, all things being equal, therefore, a 10 per cent improvement in employee morale should lead to an additional £1.8 billion in revenue and a profit of £188 million.

Employee perceptions of workload manageability

The degree to which employees considered they had a manageable workload was the next important predictor. In retail units where more employees agreed that they had a manageable workload, higher SI was found. If the firm could find a 10 per cent improvement in the manageable workload indicator this would have led to SI increasing by £58.02. If such an improvement could be spread out across the firm as a whole, this would equate to over £104 million in additional sales. The reasoning to explain this result is fairly obvious. If employees feel they have a manageable workload, are less pressured and less stressed, they can commit more time to customers, and the result is that SI grows. This suggests that where employees are available to help customers and answer queries, they will enjoy shopping and will be more likely to spend more. However, it is arguable that there may be both a bottom and a top limit in the "degrees of freedom" that staff would expect or be allowed to enjoy, for this effect to be triggered.

The analysis would suggest that the obverse should also be true. Where employees are under great pressure, they may be unable or unwilling to help customers; indeed they may even resent or ignore customer questions and demands. Customers who once find this may choose to shop elsewhere next time.

The deduction from this is that retailers should consider investing more in supporting employees in order to make workloads manageable and to help them respond to customer needs more effectively. Some retailers may feel that to invest more in employees could reduce profitability. The analysis shows, however, that there is a moderate but highly significant correlation between SI and operating profit as a percentage of sales (in 2001, $r = 0.485$, $p < 0.001$). However, when we correlate employees' perceptions of a manageable workload with profit, and profit as a per cent of sales over three years, only one set is statistically significant. Manageable workload is positively though weakly correlated with branch profit as a per cent of sales in 2003 ($r = 0.107$, $p < 0.01$). Consequently, whilst it is clear that there is hardly any direct relationship between manageable workload and profitability, improvements of 10 per cent of the former mitigates the increased cost through the generation of £104 million additional revenue.

Job satisfaction

The degree of job satisfaction amongst employees in stores was also a significant predictor of SI (Figure 2). Job satisfaction has been defined by Daft as "a positive attitude towards one's job" (Daft, 2003, p. 483). People are said to experience job satisfaction when their work matches their needs and interests, when working conditions and rewards (such as pay) are satisfactory, and when the employees like their co-workers (Daft, 2003). In practice is seems that employers' believe that employees who experience job satisfaction will show this in better customer service, higher sales and profits. This belief is not supported by our empirical evidence. On the contrary, the direction of the relationship is negative. As job satisfaction increases, SI decreases (although causation could be either way). This is also consistent with significant ($p < 0.001$) bivariate correlations between job satisfaction levels and total annual sales in 2001 ($r = -0.283$), 2002 ($r = -0.271$), and 2003 ($r = -0.264$).

The explanation of this may be found by considering more thoroughly what job satisfaction means. According to the definition given by Daft (2003), job satisfaction

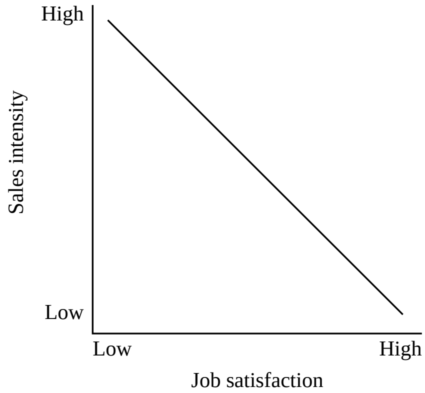

Figure 2.
Relationship between job satisfaction and sales intensity

relates to matching jobs to either employee needs, satisfaction with pay and conditions, or getting on with co-workers. It relates therefore to individual judgement of the personal benefits derived from work and is therefore a self-interested concept. In firms where employees take an instrumental approach to work they may be interested mainly in how the pay and other features of working life can do for them as individuals, and may not invest any emotional or social capital in the firm's practices, procedures, policies, or aims. It could be contended that retail units with a higher SI require more committed staff able and willing to work harder than in retail operations where there is much less intensity. The results of this study suggest that job satisfaction is lower in stores where more work is required and higher in stores where less work is required.

Therefore, when employees evaluate their employment situation in retail units where there is lower job satisfaction (required to do more work) employees tend to leave. This is consistent with McGregor's (1960) Theory X which suggests employees have an inherent dislike for work and will avoid it if possible. Additionally, it may be suggested that in retail units where there is high job satisfaction, the focus for employees is on their self-interest rather than the interests of customers, and hence customers may spend less in the store. Furthermore, a non-linear relationship may be suggested where job satisfaction is a function of either the stress or the boredom created by varying or different SI levels. Finally, this discussion has only skimmed the surface of this issue, and whilst the statistical design is the most appropriate to infer cause-and-effect, the causal directions are not clear, and therefore further research on this issue is required.

Corporate values and management policies

Employee morale is identified as a significant predictor of SI. The evidence suggests that the firm's espoused "strong values" play only a minor role in predicting SI. The tools provided by management and the support infrastructure that the organisation uses, is, however, a significant negative predictor of SI. Employees were asked to respond to the question: "How would you rate the quality of the tools/equipment provided for you to do your job?" As employees respond more positively to the quality of the tools and equipment provided, SI falls. A possible reason for this may be that as new technology and equipment are introduced, there is a delay in the upskilling or training of staff. Employees may rate the tools and equipment highly, but the impact on SI may only be evident later on, when they are fully operational and can be used by employees with ease and efficiency. Another possible reason is that expectations of equipment standards differ from unit to unit. For example, the first electronic barcode reading checkouts were installed in the early 1990s. This technology brought about a step change in productivity levels. It would be reasonable to suggest that this conversion was not seen by all employees as a good thing. It was accepted where employees were pressured to process goods at the checkout faster than was physically possible. In stores where there was not such intensity, the old systems were rated as being "good enough".

These employees may have felt that there was a loss of the "personal touch". Work become mechanised and both employees and customers felt part of an anonymous "transaction process".

Limitations

This study has provided a picture at the level of the store, of the degree to which employees conform to the espoused cultural values of the firm compared to a variety of other physical attributes. These have been linked to financial performance at store level. This was a very large and complex study which included hundreds of stores and well over 1,000 individuals. Despite this, there is a need for caution in interpreting the results. One methodological limitation derives from the use of inference: that employee behaviours and attitudes in one year are then inferred to have an affect on the financial performance in the subsequent year. There are of course, many reasons why such an inference can be doubted. Financial results could be affected by a host of other factors, including macroeconomic conditions, customer spending power, and changes in purchasing and pricing policy by the firms management. Nevertheless, this method has been advocated as the best possible way to account for performance (Iverson, 1999; Lee and Mitchell, 1994; Koys, 2001).

There is also a need for caution because the model explained 32.7 per cent of the total variance. Whilst this indicates that the study has managed to account for about one-third of the variance, clearly there are many other factors that are involved in being able to fully account for variance in SI. More data is needed to be able to identify the possible factors. The data in this study included the key variables that management felt best accounted for performance. In future, the firm's top management need to consider other variables in order to be able to account for more of the variance.

Furthermore, these findings cannot be generalised to other companies. The case study firm has a very specific approach to how they see company values cascading down through management and employees, and how they deal with deviation from expected practice. As a result it would be unwise to suggest that other firms could learn specific lessons from this firm. What other firms can learn is that it is possible to undertake useful research on the degree to which company values are adopted by employees and, in particular, to understand why they are not in specific locations and situations.

Conclusion

We have identified the nature of the relationships between corporate culture, location and retail unit characteristics in predicting SI. Deductions have been made on how management could make improvements, which would lead to tangible financial benefits. Four corporate culture variables were found to be statistically significant predictor variables of SI. The prediction was not, however, in a positive linear mode. We were able to quantify negative as well as positive directional relationships. The major empirical finding was that retail formats were most important in predicting SI. Therefore, the hypothesis we were testing was not found to be supported by the evidence. The null hypothesis is supported.

The key conclusion is that store format was more statistically significant in predicting SI than a strong culture. There are negative as well as positive relationships between corporate culture and organisational performance. The analysis of this evidence from one firm suggested that negative relationships may exist due to the self-interest of members of staff and their instrumental approach to work. In addition, despite the fact that the research design is a cross-lagged structure in order to infer cause and effect relationships, the causal direction may be operating in the other direction to what we might initially expect. These factors make a contribution to the literature (and help practicing managers) by identifying which cultural variables enhance and inhibit organisational performance. The coefficient values are also likely to be more reliable as they derive from a model which takes account of store differences and location. Therefore, the generally accepted proposition by authors such as Deal and Kennedy (1982), Trice and Beyer (1993), and Kotter and Heskett (1992), that strong culture automatically leads to enhanced business performance is not supported by this research.

The findings do not support the predictive ability of security orientated norms on SI, as found by Rousseau (1990). A number of variables in this research equated to the security norms outlined by Rousseau (for example: the corporate value of “Ask more than tell”, command and control philosophy, communication, sufficient information, and understood standards and objectives). None of these variables provided a statistically significant contribution in predicting SI. Therefore, given the scale of this study and the plethora of variables under examination, it can be said that this research contradicts Rousseau and suggests, in contrast, the relative insignificance of security orientated norms. In addition, when assessed in the presence of other variables, including geographic and economic variables, security-orientated norms were not rated as important.

The humanistic values of “concern for people” which were found to be positively related to sales (Ouchi and Johnson, 1978) were tested (for example, concern for people equated in our survey to questions such as “Management’s treatment of people” and “Trust and respect between employees”). Neither of these items provided a significant contribution to the prediction of SI. Ouchi and Johnson used a very small sample size, and it is likely that the research presented here is more reliable.

The evidence suggests, therefore, that the strong culture thesis is one dimensional and simplistic. This research suggests a much more complex picture which management needs consider. We have shown that the deductions of this work have clear implications for revenue generation. In the highly competitive retail industry in the UK, the key players must take account of the factors that influence the intensity of sales and adopt policies that improve their sales effectiveness, and this research provides a useful approach to understanding the relative importance of factors within a retailer’s control.

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