



Università Ca' Foscari – Venezia

L'ORGANIZZAZIONE FA LA DIFFERENZA?

IX Workshop dei Docenti e dei Ricercatori di Organizzazione Aziendale

7 – 8 Febbraio 2008

**Track: Il valore dell'organizzazione: l'impatto delle variabili organizzative sulle performance
di impresa (track Economia & Management)**

**THE IMPACT OF A “GREAT PLACE TO WORK”
ON ORGANIZATIONAL PERFORMANCE**

SILVIA BAGDADLI

Università Bocconi

silvia.bagdadli@unibocconi.it

QUINETTA ROBERSON

Cornell University

qmr3@cornell.edu

INTRODUCTION

More than 20 years ago, thanks to the development of theories such as the Resource Based View of the Firm (RBV) and the Human Capital (HC) theory, scholars began to recognize the importance of Human Resource Management (HRM) and Human Resources (HR) as a source of competitive advantage, due to their uniqueness and difficulty to imitate (Neal, West and Patterson, 2005). HR and HRM practices, as a system, can contribute to firm financial performance by motivating employee to adopt desired attitudes and behaviours that can help achieve firm's goals (Bowen and Ostroff, 2004).

Most of the research in the past 20 years which can be reconnected to the area of the Strategic Human Resource Management (SHRM) tried and succeeded in demonstrating the relation between HRM practices and organizational performance. We now can claim that HRM practices contribute to the creation of value and to increase organizational performance, although researchers are divided in those who are pushing theoretically universalistic models and those opting for contingent ones (Delery and Doty, 1996; Delery, 1998).

The influence of organizational climate on organizational performance has been a robust result too in the past 20 years (Schneider and Bowen, 1985). More recently (Bowen and Ostroff, 2004) it has been proposed a mediating role of organizational climate between HRM practices and organizational performance. HRM systems influence, as well as organizational outcomes, employee attitudes and behaviours, through employee interpretation of the work climate. If we define organizational climate as the attitude of individuals concerning the organization and the perceptions of all HR policies and practices, it's consequent that the HRM system plays a critical role in determining climate perceptions. Therefore, organizational climate is a mediating link between human resource management and performance (Burton, Lauridsen and Obel, 2004). A good organizational climate, according to empirical demonstrations, is related to higher-level behaviours and, consequently, to organizational performance indicators, such as customer satisfaction, organizational effectiveness, total quality management outcomes and financial performance (Bowen and Ostroff, 2004).

According to these theories and related empirical results, the objective of this research is twofold. To demonstrate that the share perception of a good organizational climate have an impact on the organizational performance and to understand if there are some factors in which the

organizational climate perception can be articulated which might have a greater impact on the organizational performance. In order to do so we will study the relationship between being a “Great Place to Work”, a survey which utilizes an organizational climate questionnaire, and having a good financial performance in context, Italy, never analyzed before.

CONCEPTUAL BACKGROUND AND HYPOTHESIS

The relation between HRM and performance

The relation between human resources (HR) and performance can be traced back to Adam Smith’s (1776) consideration for not merely quantitative labour inputs but also for abilities such as skills, dexterity, and judgement on how to work. From this incipit, two theories, Human Capital (HC) (Becker, 1964) and the Resource Based View (RBV) of the firm (Penrose, 1958;) put the ground for theoretically understanding the link between Human Resource Management (HRM) and organizational performance. The fundamental principle that underpins HC theory is the belief that people learning capabilities are of comparable value to other resources involved in goods and services production (Lucas 1988 and 1990). When a resource is effectively utilized, results are more profitable. Becker (1964:15) assigned an important role to investment in human capital in his studies: “schooling, a computer training course, expenditures on medical care, lectures on the virtues of punctuality and honesty are capital too, in the sense that they improve health, raise earnings, or add to a person’s appreciation of literature over much of his or her lifetime”. Therefore, it appeared to be ever more evident that people are a form of capital, and that investment in education produces economic growth (Schultz, 1963).

The importance of HR and of HRM is recognized by scholars of RBV theory too, with the seminal studies of Penrose in 1959. Penrose recognized that firm resources are threats and opportunities for firm development. She proposed that: “the availability of unused productive services within it creates the productive opportunity of a given firm. Unused productive services are, for the enterprising firm, at the same time a challenge to innovate, an incentive to expand, and a source of competitive advantage” (1959:85). These “unused productive services” are knowledge, skills and people behaviours. In this perspective, firm is considered as a set of productive resources, either tangible or intangible, and resources are valuable when they enable firms to take advantage of market opportunities or deal well with market threats. Sustained competitive advantage accrues to

firm as a result of the existence of idiosyncratic, rare, valuable, non substitutable and hard to imitate internal assets (Wernerfelt, 1984; Barney, 1991). This growing acceptance, in the last decades, of internal resources as sources of competitive advantage brought legitimacy to the assertion that people are strategically important to firm success (Wright, Dunford and Snell, 2001). Firms develop their competitive advantage by not only acquiring, but also developing, combining, and effectively deploying their physical, human and organizational resources, in way that add unique value (Porter, 1985, Barney, 1991; Colbert, 2004).

Human resources could grant a potential source of sustainable competitive advantage, since they are path dependent, causally ambiguous, and actually difficult to imitate, because of the complexity of their value creation process (Wright, Dunford and Snell, 2001); the systemic interrelation of HRM policies and practices provides their inimitability (Becker and Huselid, 1998). Becker and Gerhart (1996:785) suggested that it is difficult to copy an HR system by hiring few top managers from a competitor “because the understanding of the system is an organizational capability that is spread across many (not just a few) people”.

Human Capital and the RBV of the firm formed the theoretical ground for researchers in the Strategic Human Resource Management (SHRM) area over the past decades. SHRM is strictly connected to RBV, and this connection “serves the SHRM field in two ways: it foregrounds the role of human resources in question of strategy, raising the importance of research and practice in SHRM, and it encourages a more relevant focus for HRM, away from HR practices themselves and toward their effect on firm resources” (Colbert, 2004:343). The SHRM stream developed in the past 20 years with the Devanna, Fombrum and Thichy’s study (1984) concerning the link between business strategy and HR.

SHRM research grew progressively thanks to many other studies (i.e.: Wright and McMahan, 1992; Jackson and Schuler, 1995). Scholars focused their attention on demonstrating that not only people have an important value for strategies, but also that some HR practices can foster and develop this particular value, leading to superior performance. Four perspectives have been developed in the SHRM literature (Delery and Doty, 1996; Brewster, 1995 and 1999; Alcàzar, Fernández and Sánchez-Gardey, 2005a and 2005b): the universalistic, the contingent, the configurational and the contextual perspective. Researchers, although divided between different conceptions, tried and succeeded in demonstrate that HRM has a strong relationship with organizational performance, in particular when a set of HRM practices is considered and not a single one (MacDuffie, 1995; Youndt and colleagues, 1996; Huselid, 1995; Becker and Huselid,

1998). Similarly important is the alignment issue, both internal among HRM practices and external, with organizational policies and strategy (Snell and Youndt, 1995; Wright, Smart and McMahan, 1995; Koch and McGrath, 1996; Huselid, Jackson and Schuler 1997; Wright, McMahan, McCormick and Sherman, 1998; Wright and colleagues, 1999; Panayotopoulou, Bourantas and Papalexandris, 2003).

The Relation Between Organizational Climate And Firm Performance

The theories described above show a logical link between HRM and firm performance, but don't succeed in specifically articulate the processes through which this link occurs (Wright, Haggerty, 2005). Accordingly to researches described above, we can assert that “theoretically there is a strong foundations for the expectation that superior human capital strategies will be reflected in firm performance”. It is clear that “HR system is one important component that can help an organization become more effective and achieve a competitive advantage” (Bowen and Ostroff, 2004: 203). Empirically, however, scholars have only begun to understand the processes through which HRM add value to organizational performance (Becker and Huselid, 1998), even if is evident a “statistically significant and replicable effect of HR practices on corporate outcomes” (Rogg, and colleagues, 2001: 436). Mechanisms and processes through which this relationship works are not yet well known, “the features of HRM that are necessary to facilitate these linkages have not been well addressed.” (Bowen and Ostroff, 2004). Hence, scholars tried to find mediate linkage between HR system and firm performance, to address these limitations (Rogg, Schmidt, Shull, and Schmitt, 2001) and the investigated variable was organizational climate.

Organizational climate has been defined as the “shared perception of what organization is like in terms of practices, policies, procedures, routines” (Bowen and Ostroff, 2004:250); climate summarize “the attitude of the individuals concerning the organization” (Burton and colleagues, 2004: 69). Schneider and colleagues (1994:18) define climate as “the feeling in the air one gets from walking around a company”.

Recently has been proposed that organizational climate mediates the relationship between HRM practices and organizational performance (Burton and colleagues, 2004; Bowen and Ostroff, 2004; Neal and colleagues, 2005; West and Patterson, 2005). Ferris and colleagues (1998) suggested that climate, culture, and political considerations mediate the relation between HR systems and organizational effectiveness. Specifically, their theoretical model asserts that “cultural values influence the types of HR system that are developed or adopted by an organization and that

these systems, in turn, determine the organization's climate. Climate, in turn, affects employee attitudes and behaviour, and ultimately, organization effectiveness." (Rogg, Schmidt, Shull, and Schmitt, 2001: 433). "The conjecture here is that a progressive HRM practices foster a positive work climate, which increases employee well being and motivation", and this, in turn, leads to enhance organizational performance (Gelade and Ivery, 2003: 386). Researchers founded relationships between employees' perceptions of their work environment and outcomes such as job satisfaction, job involvement, organizational citizenship behaviour and job performance (Parker and colleagues, 2003). HRM systems can influence employee attitudes and behaviour, as well as organizational outcomes, through employee interpretation of the work climate (Bowen and Ostroff, 2004; Ericksen and Dyer, 2005). Organizational climate dimensions can "facilitate or inhibit the exhibition of certain behaviours" (Smith-Crowe, Burke and Landis, 2003: 861).

Many researchers tried to empirically demonstrate this mediating role of organizational climate and their findings supported the hypothesis (Rogg and colleagues, 2001, Gelade and Ivery, 2003, Smith-Crowe and colleagues, 2003, Neal and colleagues 2005). Scholars attempted to better understand and explain the direct influence of climate on organizational performance too. The influence of organizational climate on the organizational performance has been robust finding in the past 20 years (Schneider and Bowen, 1985). Researchers since 1970s realized many studies linking organizational climate to job performance (Meglino, 1976). Scholars examined different facet of organizational climate, such as climate for services (Schneider and colleagues, 2005), justice climate (Liao and Rupp, 2005) or ethical climate (Jaramillo and colleagues, 2006).

Benjamin Schneider (1980) carried out first seminal researches in service organizations. He studied the impact of climate in the banking industry, and his findings showed that climate is crucial for business performance (Schneider, 1980). Schneider intended to underline that organizational dynamics, and particularly organization climate, "have a direct impact on the people the organization serves, as well as on employee performance and attitudes." (Schneider, 1980: 53). Bowen and Schneider (1988) argued that "everything organization can do to enhance a service climate – from selection and training to reward system and leadership style – must be invoked to guide employee behaviour and ensure quality. The more elements of the situation that connote a need for service excellence, the stronger will be the service climate and the more likely will customers to be experience that service climate and quality" (Rogg and colleagues, 2001: 434). Therefore, "positive outcomes for both customer and employee are a direct function of the same set of organizational dynamics – namely, the extent to which the organization, through its practices and

procedures, demonstrates a climate for service and communicate service as a top priority” (Schneider, 1980: 54). Service organizations can not directly control the “service encounter, it is the climate and culture that determine high quality service” (Schneider and colleagues, 1994: 23).

Other scholars tried and succeeded in demonstrating the relationship between organizational climate and performance. Hansen and Wernerfelt (1989) examined three different models of firm profitability. The first model (economic model) considered the characteristics of the industry in which the firm competes and the quality or quantity of the firm’s resources; the second model (organizational model) included “measures ranging from employee satisfaction to shareholder wealth” (Hansen and Wernerfelt, 1989: 400). The third model was an integration of the other two. Hansen and Wernerfelt tested these models in a sample of “60 *Fortune* 1000 firms representing both dominant and lesser members of their respective industries” (Hansen and Wernerfelt, 1989: 402). To measure firm performance they selected 5-years average return on asset, and to measure organizational factors, authors used the Survey of Organizations, a questionnaire which “captures many dimension of organizational factors including characteristics of communication flow, emphasis on human resources, decision-making practices, etc.” (Hansen and Wernerfelt, 1989: 404). Their findings for the three models showed that “the organizational model alone explains substantially more of the profit variance than the economic model alone”, particularly, it explains “about twice as much variance in firm profit rates as economic factors”; and also the integrated model of firm performance is highly significant (Hansen and Wernerfelt, 1989: 406). Therefore, this study may suggest that “good organizational practices help a firm select good economic environments, or obtain relative advantage through the creation of intangible or invisible assets” (Hansen and Wernerfelt, 1989: 408).

Denison (1990), in a study with 34 firms in different industries found that a climate that encourages employee involvement in company decision making predicts company financial success in subsequent years. Similarly, Johnson (1996) studied the relationship between service climate and organizational performance in the banking industry too and showed that service climate was correlated with nine different measures of customer satisfaction and, because customer satisfaction in service organizations is such a performance index, with performance (Rogg and colleagues, 2001: 436). In 2005, Schneider and colleagues conducted a study to understand the antecedents of service climate and “focused on leadership that communicates a commitment to high levels of service quality”. They hypothesized that service leadership is “a proximal antecedent of service climate”, that in turn influence customer-focused organizational citizenship behaviour, which impact on

customer satisfaction, that finally conduct to sales (Schneider and colleagues, 2005:1018). The research was conducted in the department stores of a supermarket chain in the eastern United States.

Koys (2001) and Harter and colleagues (2002) found that employee satisfaction was significantly correlated with subsequent company profitability or productivity. Also, Potosky and Ramakrishna (2001:276) aimed to understand “the relationship between goal orientation and performance by examining the effects of organizational climate perceptions in this relationship as well as the mediating role of efficacy beliefs”. Research sample was composed by IS professional in a large software company in United States”. The results showed that organizational climate perceptions play an important role in firm performance; specifically, researchers found that “the positive effect of learning-goal orientation and self-efficacy on overall job performance applies to individuals who perceive a supportive organizational climate for updating; when these individual climate perceptions are not evident, despite a positive relationship between learning-goal orientation and efficacy beliefs, the modelled relationship with performance was not significant” (Potosky and Ramakrishna, 2001: 291).

Gelade and Ivery research (2003), mentioned above, showed significant relationship between organizational climate and firm performance. They examined this linkage in 137 branch director groups. Their finding showed that general climate correlates positively with measures such as sales against target, staff retention, clerical accuracy, customer satisfaction, and overall performance. This confirms that “favourable perceptions of the work environment are associated with elevated decision-making units performance” (Gelade and Ivery, 2003: 393). Results also indicated “a direct relationship between climate and performance, which is independent of HRM decisions” (Gelade and Ivery, 2003: 400).

Patterson, Warr and West (2004) studied the relationship between climate and performance, analyzing a sample of 42 manufacturing companies in the United Kingdom. They measured not only organizational climate and organizational performance, but also job satisfaction and organizational commitment. Specifically, organizational climate was measured with 17 items questionnaire, because authors identified from prior researches 17 important climate dimension. Their findings showed that “five aspect of organizational climate were significantly correlated with subsequent productivity: concern for employee welfare, skill development, reflexivity, innovation and flexibility and performance feedback. Companies that were perceived by employees to place more emphasis in those domains were more productive than others in the following year”. “Company productivity was in addition predicted by supervisor support, effort, quality, and

formalization; eight aspects of organizational climate were thus predictive after statistical control” (Patterson, Warr and West, 2004: 206). Findings showed that “those features of climate which predict later performance have their impact at least in part through associated levels of employee affect”, examined in this research in terms of overall job satisfaction (Patterson, Warr and West, 2004: 211). This research represents a first trial to analyze the impact of various climate dimensions on performance.

Other researchers studied particular facet of organizational climate, such as justice and ethical climate and their impact on organizational performance. Liao and Rupp (2005) studied the impact of justice climate and justice orientation on work outcomes (citizenship, satisfaction, and commitment) on a sample of 231 employees from 44 work groups representing nine organizations spanning seven different industries. They tested and demonstrated, in line with prior researches (Mossholder and colleagues 1998) that “justice context (the within work unit average of justice perceptions assigned to each unit member) predicted individual-level job satisfaction beyond the effects of individual-level procedural justice perceptions” (Liao and Rupp, 2005: 243). Colquitt and colleagues (2002) showed that team-level procedural justice climate significantly predicted team-level outcomes, including performance and absenteeism. Simons and Roberson (2003) found that “department-level PJ and IPJ predicted department-level employee affective commitment, satisfaction with supervision, discretionary service behavior, and intent to remain; when aggregated to the business unit level, predicted business-unit-level customer satisfaction and employee turnover” .

Mulki and colleagues (2006) have studied the impact of ethical climate on job satisfaction and organizational commitment. Similarly, the positive effect of ethical climate on organizational commitment can result in better job performance (Weeks and colleagues, 2004). Weeks and colleagues (2004:2007) found that, for salespersons, “additional benefits of enhanced individual commitment to quality, increased organizational commitment, and high performance might be gained by establishing higher levels of ethical climate”. Jaramillo and colleagues (2006) studied the impact of ethical climate on salesperson performance analyzing a sample of 138 salespeople who work for a large retailer in USA. They suggested that “ethical climate relates to the salesperson’s perceptions about the organization’s current practices, procedures, norms, and values with an ethical content that provides cues about acceptable behaviors”. Thus, ethical climate can reduce role conflict and role ambiguity, and this conduct to a better performance. Ethical climate is also “significantly related to customer orientation” (Jaramillo, Mulki and Solomon, 2006: 272).

Based on this review, we propose that there is a relationship between organizational climate and firm financial performance. Specifically, we hypothesize:

Hypothesis 1: Organizational climate has a positive impact on firm financial performance.

From the literature review above presented we can assert that there is a robust relationship between organizational climate and organizational performance indicators. Nevertheless, most of the studies present severe limitations. Many studies used only one company as source of sample (Schneider, 1980; Schneider and colleagues, 2005; Potosky and Ramakrishna, 2002; Gelade and Ivery, 2003; Jaramillo and colleagues, 2006; Solomon, 2006). Other studies used several companies, but all part of the same industry (Schneider, 1980; Johnson, 1996; Gelade and Ivery, 2003; Schneider and colleagues, 2005). Some others were conducted at aggregate level below the firm level, such as business units or branches within a firm (decision making units) (Koys, 2001; Harter, Schmidt, and Hayes, 2002; Gelade and Ivery, 2003).

Other researchers found that the relationship between climate and performance was indirect and mediated by employees affect or job satisfaction (Koys, 2001; Harter and colleagues, 2002; Patterson, Warr and West, 2004). Moreover, cross-sectional designs precluded conclusions about the causal ordering of the variables in the research model (Gelade and Ivery, 2003; Schneider and colleagues, 2005; Liao and Rupp, 2005; Jaramillo and colleagues, 2006). Those researches that tested different facets of organizational climate seldom showed “significant findings” (Liao and Rupp, 2005:253). Finally, almost all researches were conducted in the United States and never in Europe, which enhances the generalization problem.

Fulmer and colleagues (2003:966) did a first study aiming to investigate the relationship between being a “Great Place to Work” and firm performance. As they report in the study, “prior analysis, mostly in the popular press suggest that inclusion on 100 Best lists is associated with good relative financial and market performance” and most of these studies suffer severe limitations and were atheoretical. In their study they but could not have access to raw data from the companies and used six attitude measures which were not used to select the 100 Best companies. The sample was entirely composed by American companies or companies located in the USA.

In this study we were able for the first time to access raw data form the GPTW survey and use all items from the GPTW trust Index to measure organizational climate and to extract factors from the Index to measure the impact of different climate components. To test our hypothesis, we

used data from GPtW[®] surveys to verify if organizational climate have an impact on firm performance and if some of the factors in which the organizational climate can be articulated can have a different impact.

METHOD

Sample

The organizations included in this study were those that participated in the 2001 Great Place to Work[®] survey. Although 52 companies participated in the survey, we were only able to obtain complete data for approximately 33 companies. The average number of employees in an organization was 7,403, with a minimum of 5 and a maximum of 182,018. In addition, firms in the sample represented a variety of industries.

Procedures

The Great Place to Work[®] Institute's employee survey instrument, the Great Place to Work[®] Trust Index[®], measures the extent to which a company is considered to be a great workplace by its employees. GPtW[®] Model[®] is derived from the definition of *a great place to work* as one where employees *trust the people they work for, have pride in what they do, and enjoy the people they work with*. This definition implies that the heart of great workplaces is in the quality of the relationships that exist there, and identifies the workplace as composed of three interconnected relationships as represented by the five dimensions of the Model[®]. These relationships and their related dimensions are:

- between employees and management (Credibility, Respect, and Fairness);
- between employees and their jobs/company (Pride); and
- between employees and other employees (Camaraderie).

The survey statements are based on hundreds of employee interviews that Levering and colleagues conducted for their book, *The 100 Best Companies to Work for in America* (1984). Levering and Moskowitz (1994) used methods of observation and interviews, discussions with other workplace experts, and focus group sessions with employees in the USA to gather data to test their theory that good workplaces – perhaps even great ones – did exist. These interviews were

conducted with employees throughout the United States in companies representing a wide range of industries, sizes, and geographic regions within the USA.

The GPTW[®] questionnaire is composed by 57 statements, categorized into five dimensions of the Great Place to Work[®] Model[®]. The first three dimensions, Credibility, Respect and Fairness, measure employee trust in management, while the final two, Pride and Camaraderie, assess employees' feelings about their jobs and their enjoyment of the workplace. Each dimension of the Model[®] is divided into three sub-dimensions that further categorize the statements addressed in the standard Trust Index[®]. The questionnaire used in the European surveys is composed by 58 statements: European Union suggested the addition of one more statement concerning the fair treatment of disabled people, and this statement was maintained in questionnaires of all European Countries surveys. Employees are asked to provide ratings on a 1-5 scale (1 corresponds to “almost always untrue”; 5 corresponds to “almost always true”) for each statement, referring to the company as a whole.

General rules for selection of respondent employees are established by GPTW[®]: only in firms with less than 200 employees all employees are involved in the survey; while for firms with more employees, GPTW[®] set up the number of participants to the survey, and companies select randomly respondents, among a list of full and part time regular employees, according to GPTW[®] criteria. Statistical software calculates the exact number of responses required. Once identified the sample group, companies are responsible for distribution of questionnaire to employees. The survey has also two open-ended questions for collecting comment data, to capture employees' hints concerning organization climate and possible actions to improve it. Follow-up interviews to HR managers are also used to thoroughly examine HRM policies and concrete practices of firms. The questionnaires filled by employees have the major weight (2/3) in order to determine the final list of 35 Best firms, to ensure that employees' perceptions regarding organizational climate are the most important mean to define the final ranking. Every year the top 35 firms ranked in the survey, by means of employees' questionnaire, comments and HRM questionnaire scores, appear on *Il Sole 24 Ore*, one of the most important Italian media, as the winners of the year.

Independent Variables

Although the Great Place to Work[®] Institute has identified and included five dimensions in their model, we conducted a factor analysis to identify dimensions of organizational climate as perceived by employees. Specifically, an exploratory factor analysis with principal components and varimax rotation was conducted using all 57 items simultaneously. Although such analyses have

been shown to be susceptible to sample size effects (Schwab, 1980), research has found that a sample size of 150 observations should be sufficient to obtain an accurate solution as long as item intercorrelations are reasonable strong (Guadagnoli & Velicer, 1988). We used data from nine non-profits and cooperatives who participated in the GPtW[®] survey from 2001-2005, thus resulting in 3,197 responses. Further, inspection of the correlation matrix for all items revealed that over 50% of the correlations were significant at the .05-level, which provides an adequate basis for proceeding to an examination of the factors (Hair, Anderson, Tatham & Black, 1998).

A latent root criterion was used to determine the number of factors to be retained. Therefore, only those factors having eigenvalues greater than 1 were considered significant. We also examined the scree plot to identify the optimum number of factors that could be extracted before the amount of unique variance begins to dominate the common variance structure (Hair et al., 1998). In order to ensure that each item represented the construct underlying each factor, a factor weight of .40 was used as the minimum cutoff (Ford, MacCallum & Tait, 1986). In addition, a .10 difference between the weights for any given item across factors was maintained so that each item was clearly defined by only one factor (Ford et al., 1986).

In an initial factor analysis, seven factors, which explained 58.69% of the variance, were extracted. However, due to insufficient loadings and cross-loadings, the number of items were reduced to 42. A secondary factor analysis was conducted on these 42 items, resulting in the emergence of five factors, which accounted for 58.38% of the variance. The primary factor, which we labeled "Management Actions", had a Cronbach α of .96 and was shown to explain 43% of the variance. The second factor, "Equal Opportunity", had a Cronbach α of .90 and explained 6% of the variance, while the third factor, "Intrinsic Motivation", had a Cronbach α of .82 and explained 5% of the variance. The fourth and fifth factors, "Distributive Justice" and "Citizenship", each had Cronbach α values of .80 and explained 3% of the variance.

We constructed these five factors using the raw employee survey data from each company in the dataset. The number of employees responding to the survey within each company ranged from a minimum of 48 to a maximum of 1,293, with an average response level of 192 surveys per company. We used these factors as independent variables in the analyses.

Dependent variables

Financial data was collected using the AIDA database, which gathers company reports and financial ratios of Italian companies with revenues of at least 500,000 euros. Because firm

performance is multi-dimensional in nature, we collected two measures of financial performance – return on investment (ROI) and revenue per employee. Return on investment measures how effectively a business uses its capital to generate profit and is calculated as net income divided by long-term funds and invested capital. Revenue per employee was calculated by dividing revenues by the total number of employees. For all companies, we collected accounting data at time t (2001), that is, the year in which company participated to the survey, and also $t+1$ (2002), to control financial indicators during the period following the participation.

Control variables

To control for potential variability across firms due to non-hypothesized factors, we included a control, which was also collected from AIDA. Specifically, because firm performance and implementation of human resource management practices may vary based on the size of the firm, we controlled for firm size operationalized as the total number of employees.

Analyses

We tested our hypotheses using ordinary least squares (OLS) regression analysis. The control variable was entered in step 1, and the independent variables were entered in step 2. Separate regression analyses were run for each dependent variable. In addition, separate regressions were conducted for 2001 and 2002 financial performance to examine the correlational and predictive effects of organizational climate factors.

RESULTS

In Table 1, we present the means, standard deviations, and inter-correlations for all of the variables in the study. Tables 2 and 3 summarizes the results of the correlational and predictive analyses, respectively. We predicted that organizational climate would be positively associated with firm financial performance. As shown in Table 2, we found partial support for this prediction. Specifically, after controlling for firm size, the results showed that three dimensions of organizational climate – management actions, equal opportunity, and citizenship were related to return on investment. However, as shown by the direction of the coefficients, management actions was positively related to ROI, while equal opportunity and citizenship were negatively related. For revenue per employee, three dimensions of organizational climate were also significant. However, intrinsic motivation was positively related to revenue per employee, while distributive justice and

citizenship were negatively related. This pattern of results remained relatively constant in the analyses using 2002 performance variables (except for a non-significant relationship between citizenship and ROI).

DISCUSSION

In this study we aimed at examining the relationship between being a “great place to work” and firm financial performance – particularly, return on investment (ROI) and revenue per employee (RPE). Overall, the results demonstrated a link between being a “great place to work” and firm performance. Specifically, the results showed that perceived management actions positively influenced, while employee perceptions of equal opportunity and citizenship negatively impacted this measure of performance. The positive relation with the factor we called management actions¹ which explained the 43% of variance is an important result and the explanation of this result is rooted in the theory we reviewed in the paper. Management trustworthiness and ethicality, management capability to “walk the talk”, management ability to guide the organization, define

¹ *Factor 1: Management Actions* (alpha = .96, 43% of variance explained)

- Management makes its expectations clear (#7)
- I can ask management any reasonable question and get a straight answer (#8)
- Management shows appreciation for good work and extra effort (#10)
- Management is approachable, easy to talk with (#14)
- Management recognizes that honest mistakes are part of doing business (#15)
- Management genuinely seeks and responds to suggestions and ideas (#16)
- Management keeps me informed about important issues and changes (#18)
- Management has a clear view of where the organization is going and how to get there (#19)
- Management trusts people to do a good job without watching over their shoulder (#20)
- Management involves people in decisions that affect their jobs or work environment (#21)
- Managers avoid playing favorites (#22)
- Management does a good job of assigning and coordinating people (#24)
- Management delivers on its promises (#30)
- Management’s actions match its words (#33)
- Management is competent at running the business (#42)
- Management is honest and ethical in its business practices (#44)
- Management shows a sincere interest in me as a person, not just an employee (#45)
- I am given the resources and equipment to do my job (#2)
- Our facilities contribute to a good working environment (#49)
- I am treated as a full member here regardless of my position (#46)
- People are encouraged to balance their work life and personal life (#37)

objectives, assign resources to people, and communicate and involve people in decision making has always proven to be the strategic key to obtain from employees those aptitudes and behaviours required to implement the business strategy (O'Really III and Pfeffer, 2000); all these practices are well documented among SHRM scholars who opt for the universalistic approach (Delery and Doty, 1996). This is a robust result as our analyses could be considered a more conservative test of the relation, due to the small sample. Moreover, we conducted the test in a country, Italy, where the stock market exchange is not comparable in dimension with the US one and transparency has not yet reached the American level. Managers can be sure that the shared perception of the goodness of their actions has an impact on employees' satisfaction but also on the bottom line which might activate a virtual circle, as managers will increase the quality of their actions to increase the financial performance, which on turn will improve the quality of working lives and hence the organizational climate.

The other positive relation with financial performance is due to the factor we labelled "intrinsic motivation"² which accounts for the satisfaction people encounter in their job, the level of responsibility they get and the general sense of job engagement and commitment. This is a very important result too, as the relation between job satisfaction and job performance is more an ideal thought we hold since the 70's than a robust result in the literature (Christen and colleagues, 2006). Satisfied, committed and engaged employees appear to affect financial performance which implies that managers and firms need to make sure that their employees find intrinsic motivation in what they do if they want to achieve the competitive advantage.

In creating a Great Place to Work, the Institute suggests that when a firm's focuses on fair treatment and creating a family environment, there is a positive effect on being perceived as a great place to work. However, such factors may not enhance firm performance. As shown by the results, the citizenship³ factor, the equal opportunity⁴ factor and the distributive justice⁵ factors were all

² *Factor 3: Intrinsic Motivation* (alpha = .82; 4% of variance explained)

- My work has special meaning: this is not "just a job" (#12)
- When I look at what we accomplish, I feel a sense of pride (#17)
- I feel good about the ways we contribute to the community (#23)
- People here are given a lot of responsibility (#25)
- I'm proud to tell others I work here (#34)
- I feel I make a difference here (#47)

³ *Factor 5: Citizenship* (alpha = .80; 3% of variance explained)

- People here are willing to give extra to get the job done (#5)

associated with firm financial performance, but the relationships were negative. Thus, while a focus on fairness and a family environment may generate positive affect about the work environment, it may move a firm away from having a performance culture. With a focus on equality and creating a sense of community at work, employees may not be driven to compete or achieve higher levels of productivity, thus resulting in lower firm performance. However, further research is needed to understand if this negative relation is permanent or relates only to the initial years in which the company tries to enhance the HRM systems perceived equity as in the medium and long term we know from literature that the perception of equity induces positive attitudes and behaviours which in turn might enhance the firm's financial performance.

There are several limitations to this study. First, given the small sample size, we have little statistical power to fully examine the relationship between being a "Great Place to Work" and firm performance. While this small sample may have provided a conservative test of the study's hypothesis, additional financial data is needed to test the hypothesis among a wider sample of companies. In addition, financial data across years may allow panel analyses to explore trends in firm performance as a result of organizational climate. Although we selected financial measures for which the calculation should be relatively consistent across firms, future research should include a wider range of performance measures to better understand the bottom-line impact of organizational climate. Finally, although we were able to examine the relationship between organizational climate

-
- You can count on people to cooperate (#6)
 - People care about each other (#32)
 - There is a "family" or "team" feeling here (#35)
 - People avoid politicking and backstabbing as ways to get things done (#41)

⁴ *Factor 2: Equal Opportunity* (alpha = .90; 6% of variance explained)

- People here are treated fairly regardless of: age (#31)
- People here are treated fairly regardless of: ethnic origin
- People here are treated fairly regardless of: sex
- People here are treated fairly regardless of: sexual orientation
- People here are treated fairly regardless of: disability

⁵ *Factor 4: Distributive Justice* (alpha = .80; 3% of variance explained)

- Everyone has an opportunity to get special recognition (#4)
- I am offered training or development to further myself professionally (#9)
- People are paid fairly for the work they do (#11)
- Promotions go to those who deserve them (#27)
- We have special and unique benefits (#39)

and firm performance, it is important to highlight the perceptual nature of organizational climate. While our findings suggest that employee perceptions are related to firm performance, we have little understanding of the actual impact of HRM practices on firm performance. Additional research is needed to explore the relative influence of HRM practices and employee perceptions of such practices on firm performance, or the mediating role of climate between HRM practices and performance (Bowen and Ostroff, 2004).

Despite these limitations, this study makes several contributions. Although prior research has explored the relationship between being a “Great Place to Work” and organizational performance, our study is the first to explore the effects of employee perceptions of being a “Great Place to Work”. In general, our results provide evidence that organizational climate is related to, and can enhance, companies’ financial performance. Our study also provides an examination of the organizational climate-performance relationship within an international context. Specifically, because our sample included Italian companies across a range of industries, we are able to explore whether the findings of past research are generalizable outside of the US.

BIBLIOGRAPHY

Barney, J., 1991, Firm resources and sustained competitive advantage, *Journal of Management*, 17, 1: 99-120.

Becker, G.S., 1964, *Human capital: a theoretical and empirical analysis with special reference to education*, New York: Columbia University Press.

Becker, B.E., and Gerhart, B., 1996, The impact of human resource management on organizational performance: progress and prospects, *Academy of Management Journal*, 39: 779-801.

Becker, B.E. and Huselid, M.A., 1998, High Performance Work Systems and Firm Performance: a synthesis of research and managerial implications, *Research in Personnel and Human Resource Management*, 16: 53-101.

Bowen, D.E., and Ostroff, C., 2004, Understanding HRM-firm performance linkages: the role of the “strength” of the HRM system, *Academy of Management Review*, 29: 203-221.

Bowen, D.E., and Schneider, B., 1988, Services marketing and management: implications for organizational behavior, *Research in Organizational Behavior*, 10: 43-80.

Brewster, C., 1995, Towards a European model of human resource management, *Journal of International Business Studies*, first quarter, 1-21.

Brewster, C., 1999, Strategic human resource management: the value of different paradigms, *Management International Review*, 39(3): 45-64.

Burton, R.M., Lauridsen, J., and Obel, B., 2004, The impact of organizational climate and strategic fit on firm performance, *Human Resource Management*, 43: 67-82.

Christen, M., Iyer, G., and Soberman, D., 2006, Job satisfaction, job performance and effort: A re-examination using agency theory, *Journal of Marketing*, 70: 137-150.

Colbert, B.A., 2004, The complex resource-based view: implications for theory and practice in strategic human resource management, *Academy of Management Review*, 29: 341-358.

Colquitt, J.A., Noe, R.A., and Jackson, C.L., 2002, Justice in teams: antecedents and consequences of procedural justice climate, *Personnel Psychology*, 55: 83-109.

Delery, J.E., 1998, Issues of fit in strategic human resource management: implications for research, *Human Resource Management Review*, 8(3): 289-309.

Delery, J.E., and Doty, D.H., 1996, Modes of theorizing in strategic human resource management: tests of universalistic, contingency, and configurational performance predictions, *Academy of Management Journal*, 39: 802-835.

Denison, D.R., 1990, *Corporate culture and organizational effectiveness*, New York: Wiley.

Devanna, M., Fombrun, C., and Tichy, N., 1984, Chapter 3: A framework for strategic human resource management, *Strategic human resource management*, New York: Wiley.

Eriksen, J., and Dyer, L., 2005, Toward a strategic human resource management model of high reliability organization performance, *Journal of Human Resource Management*, 16: 907-928.

F. Martín-Alcàzar, P.M. Romero-Fernandez, and G. Sánchez-Gardey, 2005a, Strategic human resource management: integrating the universalistic, contingent, configurational and contextual perspectives, *International Journal of Human Resource Management*, 16: 633-659.

F. Martín-Alcàzar, P.M. Romero-Fernandez, and G. Sánchez-Gardey, 2005b, Researching on SHRM: an analysis of the debate over the role played by human resources in firm success, *Management Review*, 16: 213-241.

Ferris, G.R., Arthur, M.M., Berkson, H.M., Kaplan, D.M., Harrell-Cook, G., and Frink, D.D., 1998, Toward a social context theory of human resource management-organizational effectiveness relationship, *Human Resource Management Review*, 8: 235-264.

Ford, J. K., MacCallum, R. C., & Tait, M., 1986, The application of exploratory factor analysis in applied psychology: A critical review and analysis. *Personnel Psychology*, 39: 291-314.

Gelade, G.A., and Ivery, M., 2003, The impact of Human Resource Management and work climate on organizational performance, *Personnel Psychology*, 56: 383-404.

Guadagnoli, E., & Velicer, W. F., 1988, Relation of sample size to the stability of component patterns. *Psychological Bulletin*, 103: 265-275.

Hair, J. F., Jr., Anderson, R. E., Tatham, R. L., & Black, W. C., 1998, *Multivariate data analysis*. Upper Saddle River, NJ: Prentice Hall.

Hansen, G. S., and Wernerfelt, B., 1989, Determinants of firm performance: the relative importance of economic and organizational factors, *Strategic Management Journal*, 10: 399-411.

Harter, J.K., Schmidt, F.L., and Hayes, T.L., 2002, Business-unit relationship between employee satisfaction, employee engagement, and business outcomes: a meta-analysis, *Journal of Applied Psychology*, 87: 268-279.

Huselid, J.H., 1995, The impact of human resource management practices on turnover, productivity and corporate financial performance, *Academy of Management Journal*, 38: 635-672.

Huselid, M.A., Jackson, S.E., and Schuler, R.S., 1997, Technical and strategic human resource management effectiveness as determinants of firm performance, *Academy of Management Journal*, 40(1): 171-188.

Jackson, S.E., and Schuler, R.S., 1995, Understanding human resource management in the context of organizations and their environments, *Annual Review of Psychology*, 46: 237-264.

Jaramillo, F., Prakash Mulki, J., and Slomon, P., 2006, The role of ethical climate on salesperson's role stress, job attitudes, turnover intention, and job performance, *Journal of Personal Selling & Sales Management*, 26(3): 271-282.

Johnson, J., 1996, Linking employee perceptions of service climate to customer satisfaction, *Personnel Psychology*, 49: 831-851.

Koch, M.J., and McGrath, R.G., 1996, Improving labor productivity: human resource management policies do matter, *Strategic Management Journal*, 17: 335-354.

Koys, D.J., 2001, The effects of employee satisfaction, organizational citizenship behaviour, and turnover on organizational effectiveness: a unit-level, longitudinal study, *Personnel Psychology*, 54: 101-114.

Levering, R., Moskowitz, M., and Katz, M., 1984, *The 100 best companies to work for in America*, Reading, MA, Addison-Wesley.

Levering, R., and Moskowitz, M., 1994, *The 100 best companies to work for in America*, New York: Penguin Books.

Liao, H., and Rupp, D.E., 2005, The impact of justice climate and justice orientation on work outcomes: a cross-level multifoci framework, *Journal of Applied Psychology*, 90: 242-256.

Lucas, R., 1988, On the mechanism of economic development, *Journal of Monetary Economics*, 22: 3-42.

Lucas, R.E., 1990, Why doesn't capital flow from rich to poor countries?, *American Economic Review: Papers and Proceedings*: 92-6.

MacDuffie, J.P., 1995, Human resource bundles and manufacturing performance: organizational logic and flexible production systems in the world auto industry, *Industrial and Labour Relations Review*, 48: 197-221.

Meglino, B.M., 1976, A theoretical synthesis of job performance and the evaluative dimension of organizational climate: a social psychological perspective, *Academy of Management Review*, 1: 58-64.

Mossholder, K.W., Bennet, N., and Martin, C.L., 1998, A multilevel analysis of procedural justice context, *Journal of Organizational Behavior*, 19: 131-141.

Mulki, J.P., Jaramillo, F., and Locander, W.B., 2006, Effects of ethical climate and supervisory trust on salesperson's job attitudes and intentions to quit, *Journal of Personal Selling & Sales Management*, 20(4), 19-26.

Neal, A., West, M.A., and Patterson, M.G., 2005, Do Organizational Climate and Competitive Strategy Moderate the Relationship Between Human Resource Management and Productivity?, *Journal of Management*, 31: 495-512.

O'Reilly III, C.A. and Pfeffer, J., 2000, *Hidden value. How great companies achieve extraordinary results with ordinary people*, Harvard Business School Press, Boston, Ma.

Panayotopoulou, L., Bourantas, D., and Papalexandris, N., 2003, Strategic human resource management, and its effects on firm performance: an implementation of the competing values framework, *International Journal of Human Resource Management*, 14: 680-699.

Parker, C.P., Baltes, B.B., Young, S.A., Huff, J.W., Altmann, R.A., Lacost, H.A., and Roberts, J.E., 2003, Relationships between psychological climate perceptions and work outcomes: a meta-analytic review, *Journal of Organizational Behavior*, 24: 389-416.

Patterson, M., Warr, P., and West, M., 2004, Organizational climate and company productivity: The role of employee affect and employee level, *Journal of Occupational and Organizational Psychology*, 77: 193-216.

Patterson, M.G., West, M.A., Shackleton, V.J., Dawson, J.F., Lawthom, R., Maitlis, S., Robinson, D.L., and Wallace, A.M., 2005, Validating the organizational climate measure: links to managerial practices, productivity and innovation, *Journal of Organizational Behavior*, 26: 379-408.

Penrose, E., 1959, *The theory of the growth of the firm*, London: Basil Blackwell.

Porter, M.E., 1985, *Competitive advantage: creating and sustaining competitive advantage*, New York: Free Press.

Potosky, D., and Ramakrishna, H.V., 2002, The moderating role of updating climate perceptions in the relationship between goal orientation, self-efficacy, and job performance, *Human Performance*, 15: 275-297.

Rogg, K.L., Schmidt, D.B., Shull, C., and Schmitt, N., 2001, Human resources practices, organizational climate, and customer satisfaction, *Journal of Management*, 27: 431-449.

Schneider, B., 1980, The service organization: climate is crucial, *Organizational Dynamics*, 9: 52-65.

Schneider, B., and Bowen, D.E., 1985, Employee and customer perceptions of service in banks: replication and extension, *Journal of Applied Psychology*, 70: 423-433.

Schneider, B., Ehrhart, M.G., Mayer, D.M., Saltz, J.L., and Niles-Jolly, K., 2005, Understanding organization-customer links in service settings, *Academy of Management Journal*, 48: 1017-1032.

Schneider, B., Gunnarson, S.K., and Niles-Jolly, K., 1994, Creating the climate and culture of success, *Organizational Dynamics*, 23: 17-29.

Schultz, T.W., 1963, *The economic value of education*, New York: Columbia University Press.

Schwab, D. P., 1980, Construct validity in organization behavior. In B. B. Staw & L. L. Cummings (Eds.), *Research in organizational behavior*, Vol. 2 (pp. 3-43). Greenwich, CT: JAI Press.

Simons, T., and Roberson, Q., 2003, Why managers should care about fairness: the effects of aggregate justice perceptions on organizational outcomes, *Journal of Applied Psychology*, 88: 432-443.

Smith, A., 1776, *An inquiry into the nature and the causes of the wealth of the Nations*, The University of Chicago, Chicago Press.

Smith-Crowe, K., Burke, M. J., and Landis, R.S., 2003, Organizational climate as a moderator of safety knowledge-safety performance relationships, *Journal of Organizational Behavior*, 24: 861-876.

Smithey Fulmer, I., Gerhart, B., and Scott, K. S., 2003, Are the 100 best better? An empirical investigation of the relationship between being a “great place to work” and firm performance, *Personnel Psychology*, 56: 965-989.

Snell, S.A., and Youndt, M.A., 1995, Human resource management and firm performance: testing a contingency model of executive controls, *Journal of Management*, 21: 711-737.

Weeks, W.A., Loe, T.W., Chonko, L.B., and Wakefield, K., 2004, The effect of perceived ethical climate on the search for sales force excellence, *Journal of Personal Selling & Sales Management*, 24: 199-214.

Wernerfelt, B., 1984, A resource based view of the firm, *Strategic Management Journal*, 5: 171-180.

Wright, P.M., Dunford, B.B., and Snell, S.A., 2001, Human resources and the resource based view of the firm, *Journal of Management*, 27:701-721.

Wright, P.M., and Haggerty, J.J., 2005, Missing Variables in Theories of Strategic Human Resource Management: time, cause, and individuals, *Management Review*, 16: 164-173.

Wright, P.M., McCormick, B., Sherman, W.S., and McMahan, G.C., 1999, The role of human resources practices in petro-chemical refinery performance, *The International Journal of Human Resource Management*, 10: 551-571.

Wright, P.M., and McMahan, G.C., 1992, Theoretical perspective for strategic human resource management, *Journal of management*, 18(2): 295-320.

Wright, P.M., McMahan, G.C., McCormick, B., and Sherman, W.S., 1998, Strategy, core competence, and HR involvement as determinants of HR effectiveness and refinery performance, *Human Resource Management*, 37: 17-29.

Wright, P.M., Smart, D.L., and McMahan, G.C., 1995, Matches between human resource and strategy among NCAA basketball teams, *Academy of management Journal*, 38: 1052-1074.

Youndt, M.A., Snell, S.A., Dean, Jr., J.W., and Lepak, D.P., 1996, Human resource management, manufacturing strategy and firm performance, *Academy of Management Journal*, 39(4): 836-866.

TABLE 2
Means, Standard Deviations, and Correlations for All Variables

Variable	Mean	s.d.	1	2	3	4	5	6	7	8	9
1. Size	7,402	31,689									
2. Management Actions	3.42	.34	.36*								
3. Equal Opportunity	3.89	.35	.28	.89**							
4. Intrinsic Motivation	3.65	.31	.34	.90**	.82**						
5. Distributive Justice	2.98	.47	.32	.91**	.84**	.91**					
6. Citizenship	3.37	.37	.29	.88**	.87**	.86**	.85**				
7. ROI - 2001	.06	.07	.01	.16	-.18	.08	.07	-.12			
8. RPE - 2001	369.27	324.04	-.06	-.05	-.01	.02	-.21	-.21	.02		
9. ROI - 2002	.044	.09	-.11	.29	.08	.30	.32	.14	.74**	-.23	
10. RPE - 2002	301.86	243.62	-.01	.02	.01	.14	-.12	-.13	.21	.58**	.40*

* Correlation is significant at $p < .05$; ** correlation is significant at $p < .01$

TABLE 2
Regression Results for Relationships between Organizational Climate Factors and Firm
Financial Performance

	Model 1	Model 2
ROI (2001)		
Size	.01	-.19
Management Actions		1.65**
Equal Opportunity		-1.06**
Intrinsic Motivation		.03
Distributive Justice		.00
Citizenship		-.71*
N	27	27
F	.00	4.17**
ΔR^2	.00	.54**
RPE (2001)		
Size	-.06	-.04
Management Actions		.46
Equal Opportunity		.51
Intrinsic Motivation		1.21**
Distributive Justice		-1.40**
Citizenship		-.87*
N	32	32
F	.10	3.99**
ΔR^2	.00	.48**

* $p < .05$; ** $p < .01$

TABLE 3
Regression Results for Relationships between Organizational Climate Factors and Firm
Financial Performance

	Model 1	Model 2
ROI (2002)		
Size	-.11	-.36*
Management Actions		1.33*
Equal Opportunity		-.79*
Intrinsic Motivation		.27
Distributive Justice		.15
Citizenship		-.67
N	29	29
F	.35	2.95*
ΔR^2	.01	.42*
RPE (2002)		
Size	-.01	-.07
Management Actions		.74
Equal Opportunity		.27
Intrinsic Motivation		1.55**
Distributive Justice		-1.60**
Citizenship		-.99**
N	30	30
F	.00	7.19**
ΔR^2	.00	.64**

* $p < .05$; ** $p < .01$