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DEGREE OF CONFORMITY ACROSS INSTITUTIONAL FIELDS AND ITS MODERATING EFFECT ON THE RELATIONSHIP BETWEEN ORGANIZATIONAL DIVERSITY AND FIRM PERFORMANCE

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DEGREE OF CONFORMITY ACROSS INSTITUTIONAL FIELDS AND ITS MODERATING EFFECT ON THE RELATIONSHIP BETWEEN ORGANIZATIONAL DIVERSITY AND FIRM PERFORMANCE

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ABSTRACT & KEY WORDS

Decades of empirical work have produced mixed results and no proven direct link between diversity and performance at the group, business, or organizational level (Jehn & Bezrukova, 2004). Prior research has not yet explored the impact of a firm's institutional context as an important influence on the relationship between diversity and firm performance. In this thesis, I develop theoretical arguments on how an organizational field can weaken or amplify this relationship. I integrate conceptual arguments and empirical findings from the literatures on organizational diversity, institutional theory, and the Resource-Based View to offer a multilevel framework of organizational diversity and performance. My analysis is based on Employment Equity data for the time period 1997 to 2007 on the representation of Canada's four designated groups that is published by the Government of Canada. I test my hypotheses using Hierarchical Linear Modeling (HLM) to analyze Employment Equity data of 550 federally regulated private and public Canadian firms. These firms are grouped into four broad categories: banking, telecommunications, transportation, and other. Results show that categories differ significantly in their levels of firm diversity and the degree of conformity around these levels. My analysis supports arguments for a curvilinear relationship between organizational diversity and firm performance that is moderated by a field's degree of conformity. My thesis highlights the importance of the interface between firm and field, and contributes to the strategy literature the insight that a firm's performance outcomes from organizational diversity depend on broader institutional factors.

Key words: Firm Performance, Organizational Diversity, Degree of Conformity, Employment Equity in Canada

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INTRODUCTION

The management of organizational diversity has risen from HR departments to the strategic agenda of many organizations. Organizational diversity is an issue of strategic importance that can affect long-term processes and outcomes of the entire organization (Milliken & Martins, 1996). Yet, debate continues on the central question: does organizational diversity improve organizational performance? Despite many years of government interventions that stress the fairness and equity aspect of organizational diversity and compelling arguments for the strategic and economic benefits of diversity from the "Business Case for Diversity" (Cox & Blake, 1991; Robinson & Dechant, 1997), organizations have not been increasing their diversity as much as would be expected (Linnehan & Konrad, 1999). Many organizations are still even resisting diversity outright (Dass and Parker, 1999). Hence, the continuing trend of increasingly diverse labor pools in most developed countries presents simultaneously a promise and a challenge to organizations.

Decades of empirical work have produced mixed results and no proven direct link between diversity and performance at the group, business, or organizational level (Jehn & Bezrukova, 2004). At the group level, "diversity [...] appears to be a double-edged-sword, increasing the opportunity for creativity as well as the likelihood that group members will be dissatisfied and fail to identify with the group" (Milliken & Martins, 1996: 403). At the organizational level, there is still insufficiently clear empirical evidence on the relationship between diversity and organizational performance (e.g. Frink, Robinson, Reithel, Arthur, Ammeter, Ferris, Kaplan, & Morrisette, 2003). Hence, there is a significant need for theorizing about the relationship between organizational diversity and organizational performance (Frink, et al 2003; Konrad, Yang, & Maurer, 2006).

Recent studies have focused less on the question of whether or not diversity is associated with positive firm outcomes but more on the question of when and how it can produce organizational benefits. These studies have been identifying variables inside the organization, such as organizational culture or HRM policies and practices (Kochan, Bezrukova, Ely, Jackson, Joshi, Jehn, Leonard, Levine, & Thomas, 2003), and entrepreneurial orientation (Richard, Barnett, Dwyer, & Chadwick, 2004), as well as outside the organization, including operating in a service industry (Frink, et al, 2003), and in an industry that is munificent and stable (Richard, Murthi, & Ismail, 2007). However, a firm's external context from an institutional perspective has not been examined as an influence on the firm level relationship between diversity and performance. To address this gap and to develop needed theory on diversity at the firm level of analysis, I turn my focus on the moderating effect of organizational field. Organizational field is rooted in the institutional theory literature where it is defined as "a community of organizations that partakes of a common meaning system and whose participants interact more frequently and fatefully with one another than with actors outside the field" (Scott, 2008: 86). I examine the extent to which the degree of conformity of an organizational field represents a condition that weakens or amplifies the relationship between organizational diversity and firm performance. Degree of conformity is defined as a field's similarity or dissimilarity in the adoption of organizational diversity. The central argument of this thesis is that the performance implications of organizational diversity for a firm depend on the organizational field surrounding the firm.

This dissertation research integrates conceptual arguments and empirical findings from the literatures on organizational diversity, institutional theory, and the Resource-Based View (RBV) to offer a multilevel framework of organizational diversity and performance (see Figure 1). This thesis develops and tests hypotheses about 1) how fields are likely to vary in their approach to organizational diversity over time; 2) the performance of late versus early adopters of organizational diversity; and 3) the moderating effect of degree of conformity at the field level on the relationship between organizational diversity and organizational performance at the firm level. Hence, the central contribution that I seek to make in my thesis is to highlight the importance of the interface between firm and field. My thesis is guided by the following overarching research question:

Research Question

How does a field's approach towards organizational diversity moderate the relationship between organizational diversity and performance, at the firm and field level?

In this thesis, I address this research question conceptually and empirically. My general aim is to develop theory with supporting empirical evidence to make a substantive and interesting contribution to existing literature. Figure 2 provides a map of the dissertation that depicts how my research fits within the nomonological net of the literatures on organizational diversity, the Resource-Based View, and institutional theory.

Research Design

The research design of my thesis is a quantitative study based on longitudinal archival data of eleven years of organizational diversity data for Canada's four designated groups[1] of federally regulated organizations that are regulated under the Legislated Employment Equity Program (LEEP). For the publicly traded firms in the dataset, the Government data is supplemented with archival data on firm financial performance. I empirically test the hypotheses and the cross-level model through Hierarchical Linear Modeling (HLM) (Raudenbush & Bryk,

[1] Women, Aboriginal Peoples, Disabled Persons, and Visible Minorities

2002).

Multilevel Theory and Method

This thesis takes a multilevel approach towards theory building and testing. Multilevel theory and research views organizations as hierarchical nested systems such that, for example, years may be nested within groups, groups nested within firms, firms nested within industries, and industries nested within societies (Kozlowski & Klein, 2000). As I will illustrate in the literature review, organizational diversity is inherently a multi-level phenomenon (Harrison & Klein, 2007) that benefits from deeper understanding of how factors at higher levels impact diversity processes at lower levels of analysis. The use of HLM is motivated by the violation of the assumption of independence of observations. Specifically, for this thesis, we cannot assume that the effects of an organization's diversity on its performance are independent of the conditions that a field provides for a firm. Hence, the variance related to diversity at the firm level needs to be treated separately from the variance at the field or context level and OLS is not an appropriate method.

While multi-level theories are complex and complicated, they also offer important benefits. "Multi-level theories...bridge the micro-macro divide, integrating the micro-domain's focus on individuals and groups with the macro domain's focus on organizations, environment, and strategy" (Klein, Tosi, & Canella, 1999: 243). Multi-level theories help organizational actors understand when and where interactive processes between organizational units and their context occur and what steps individuals and the collective need to take to achieve organizational benefits (Klein, et al, 1999: 243). Higher-level factors provide the context for individual factors, while lower level phenomena give rise to higher-level phenomena (Kozlowski & Klein, 2000).

Hence, multi-level thinking and testing is highly applicable to my theoretical model of the firm level relationship between organizational diversity and performance (lower level) that is moderated by a field level construct (higher-level).

One of the noted barriers of multilevel research is the required integration of insights from multiple disciplines, such as organizational theory, psychology, sociology, economics, anthropology, and political science (Klein et al, 1999). Such a multidisciplinary approach can be daunting for an individual researcher. However, the depth of understanding is expected to compensate for this cost, especially since ignoring cross-level issues in organizational research results in incomplete or misspecified models (Raudenbush & Bryk, 2002; Kozlowski & Klein, 2000).

To address my research question, I will first probe the nature and development of organizational fields over time. Here, years of firms are nested within firms, with these firms nested in organizational fields. I will use growth models (Raudenbush & Bryk, 2002) to explore possible performance differences between early versus late adopters of organizational diversity where a multilevel structure is comprised of years of firms nested within firms. The question, if there exists a moderating effect of field level degrees of conformity on the firm level relationship between diversity and performance, implies a cross-level model that requires explicit multi-level theorizing and testing (Raudenbush & Bryk, 2002). In a cross-level model, the dependent variable is at a different level of analysis than both the independent variable and the interaction term (Kozlowski & Klein, 2000; Raudenbush & Bryk, 2002). My cross-level theoretic model spans three levels where the first level examines the relationship between organizational diversity and firm performance over time (intrafirm, or years nested within firms), the second level controls for other important firm level variables, and the third level introduces degrees of conformity at the field level as a moderator (firms nested within categories). The full cross-level model is depicted in Figure 1.

Most organizational cross-level theories examine the impact of group or organizational factors on behavior and attitudes of individuals (Klein, Dansereau, & Hall, 1994). My model is unique because it examines a second order construct at a level of analysis that is higher than common models, i.e. at the organizational field level. The extension of multi-level models from group and individual research to the firm level is important, in order to inform research and theory in the area of general management (Hitt, Beamish, Jackson, & Mathieu, 2007). Multilevel theorizing for strategic management is likely to include variables at higher levels than the firm, such as industry, institutional field, and country (Hitt, et al, 2007).

Thesis Structure

This dissertation thesis proceeds as follows. Following a review of the literature on organizational diversity and motivations for increasing diversity, I will review briefly the mixed effects of diversity that empirical studies have observed at different levels of analysis. Next, I elaborate on the need to identify appropriate moderators on the diversity – performance relationship, with special attention to a firm's external context. I then introduce the institutional perspective with special focus on organizational field. I offer hypotheses about how organizational fields may differ in terms of their degree of variance versus conformity, and about how these differences at the field level moderate the relationship between organizational diversity and organizational performance at the firm level. After developing the conceptual underpinnings, I describe the methodology and the results. I explain the implications of my findings and how they contribute to the literature in the discussion section, and conclude with the limitations of my thesis, and my expectations for future research.

CHAPTER I
LITERATURE REVIEW

Definition of Organizational Diversity

The traditional Equal Employment Opportunity Commission (EEOC) in the U.S. defined diversity as limited to gender, racial-ethnicity, and age, but more recent definitions have broadened to include physical abilities, sexual orientation, as well as differences in attitudes, skills, perspectives, and backgrounds (Robinson & Dechant, 1997). Any group of two or more members may be described in terms of its diversity (Ely & Thomas, 2001).

A common categorization of diversity is observable versus non-observable differences. "Observable characteristics such as race, ethnicity, gender, and age are readily detectible and are particularly likely to evoke responses that are due directly to biases, prejudices, and stereotypes" (Milliken & Martins, 1996: 404). Non-observable characteristics such as education, technical abilities, functional background, organizational tenure, socio-economic status, education, and values are often difficult to observe and measure but tend to be closer than observable characteristics to the types of differences that organizations ultimately seek, such as unique information, skills, cognitive styles, and perspectives. Several meta-analyses provide evidence that surface level differences are associated with deeper level differences. Specifically, there are small to moderate gender differences in preferences and personality traits (Feingold, 1994; Powell & Ansic, 1997), and surface-level differences in ethnicity and nationality can be linked to deeper-level differences in values, assumptions and beliefs (e.g. Fiske, 1993). Several studies have linked the Big Five dimensions of personality with attitudinal diversity or other measures of deeper level diversity (e.g. Barrick, Stewart, Neubert & Mount, 1998; Harrison, Price, Gavin & Florey, 2002). I argue that an organization with a high degree of surface level differences is more likely to have higher degrees of deep level differences than an organization that largely lacks surface level differences. This implies that an organization with more surface level diversity is more likely to experience more of the effects that are generally associated with diversity. Diversity brings benefits as well as costs, for example trade-offs between creativity and conflict. The mixed empirical findings of diversity research will be reviewed in a later section.

In its broadest form, diversity can stand for *all the ways that we differ from another*. Such definitions open the gates to endless research opportunities but they also steer our focus away from those differences that are of greatest significance to organizations and society. A focus on individual traits "downplays identity group memberships in favor of a focus on individual trait differences" (Konrad, 2003:7). The danger with a focus on individual traits is that it threatens to dilute the concept of diversity and makes the construct less meaningful since individuals differ in so many ways that any group of individuals could be considered diverse (Konrad, 2003). Identity group membership has been noted as a source of debilitating processes for organizational diversity (Milliken & Martins, 1996). Powerful "fault lines" along identity membership lines can create isolated subgroups (Lau & Murnighan, 2005), running counter to efforts toward an inclusive workplace. Hence, instead of including all possible individual level differences it appears to be preferable to include group level differences that are socially significant.

Following the insights of Harrison and Klein (2007), I define diversity as the "distribution of differences among the members of a unit (e.g. group, firm, field) with respect to a common attribute, such as X" (Harrison & Klein, 2007: 1200). "X" could be any diversity variable, such as gender, race, ethnicity, attitude, tenure, age, or pay. In this thesis, I examine surface level differences of four types of diversity within a firm: women, aboriginal peoples, persons with disabilities, and members of visible minorities[2]. The Employment Equity Act of Canada targets these four groups because they have historically faced systemic discrimination in the workplace and hence need special attention and support to achieve equitable employment. Therefore, in this thesis, the operationalization of organizational diversity focuses on surface level differences that are socially significant. Further, measuring diversity as the stated surface level differences allows for hypothesis testing of the relationship between firm level organizational diversity and firm performance. To my knowledge, no study exists currently that has collected detailed surface level diversity measures for a large number of firms and subsequently linked them to measures of firm performance. The majority of diversity studies is at the individual or group level, and those at the firm level tend to focus on a single industry (e.g. Richard, 2000). Hence, the thesis is positioned well to make a unique contribution to the literature. Collecting deeper level differences, such as values, for a large number of organizations would be very challenging due to the sensitive nature of diversity issues.

Since I am testing my hypotheses with diversity data that are collected by the Canadian government from organizations that are covered by binding legislation of the Employment Equity Act, I will provide a detailed description of the background and history of the Act in the following section. A deeper understanding of Employment Equity in Canada is also essential to the hypotheses development in later parts of this thesis. To foreshadow my arguments in the later conceptual development section, differences within and across organizational fields are important to firm performance. As I will argue in detail later, the Employment Equity Act provides organizations with a common legislative starting place. However, the Act provides

[2] Visible minorities include Blacks, Chinese, Japanese, Korean, Filipino, Indo-Pakistani, West-Asian & Arab, Southeast Asian, Latin American, and Indonesian & Pacific Islanders.

sufficient flexibility and liberty to generate significant variation in the adoption of organizational diversity at the firm and field level.

The History of Canada's Employment Equity Act

The House of Commons first passed the Employment Equity Act (EEA) into legislation on April 23, 1986. It is sometimes also referred to as "an act respecting employment equity" or Bill C-62. A copy of the Act is reproduced in Appendix 1 and a copy of the regulations is reproduced in Appendix 2.

> The purpose of this Act is to achieve equality in the work place so that no person shall be denied employment opportunities or benefits for reasons unrelated to ability and in the fulfillment of that goal, to correct the conditions of disadvantage in employment experienced by (the four groups) by giving effect to the principle that employment equity means more than treating persons in the same way but also requires special measures and the accommodation of differences. (Bill C62: 2).

The EEA requires all federally regulated employers with at least 100 employees to implement Employment Equity and to submit detailed annual reports on their results to the Government of Canada (Human Resources and Skills Development Canada, HRSDC). The annual reports for each employer are publicly available through the HRSDC website (http://www.hrsdc.gc.ca/en/home). A sample of an individual employer report is reproduced in Appendix 3.

The companies' EE annual reports detail the representation of members of the four designated groups throughout an organization, including information on occupational membership, pay level, and promotions. The four designated groups are women, aboriginal peoples, disabled persons, and visible minorities. Aboriginal peoples are defined as status and non-status Indians, Metis, and Inuit. A disabled person is defined as "any person whose physical or mental disability would appear to limit his or her access to employment opportunities" (Appendix D page 341, "Equality in Employment"). A visible minority refers to a non-white person other than an aboriginal individual.

The roots of the current EEA go back in time to June 1983, when the Governor General of Canada commissioned Judge Rosalie Silberman Abella to produce a report on equality in employment. The government noted that obstacles to equitable employment existed for the four designated groups due to systemic discrimination, and wanted to show "leadership in ensuring the equitable and rational management of human resources" (Terms of Reference", ii).

Hence, the Royal Commission Report was set up to "inquire into the most efficient, effective, and equitable means of promoting employment opportunities, eliminating systemic discrimination and assisting all individuals to compete for employment opportunities on an equal basis, by a) examining the employment practices of 11 major corporations[3], and b) inquiring into means to respond to deficiencies in employment practices...such as an enhanced voluntary program, possibly linked with mandatory reporting requirements and a mandatory affirmative action program " (pg ii; "Equality in Employment").

In order to examine the complex issues involved and to estimate the financial and non-financial tradeoffs between options, the Royal Commission under Judge Abella launched a research program with submissions from history, sociology, economics, industrial relations, law, demography, philosophy, and education. However, the commission spent most of its time and effort on taking into account the views of the management of the 11 corporations, their employees, the associations representing the employees of the mentioned corporations as well as

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[3] Petro-Canada, Air Canada, Canadian National Railway Company, Canada Mortgage and Housing Corporation, Canada Post Corporation, Canadian Broadcasting Corporation, Atomic Energy of Canada Limited, Export Development Corporation, Teleglobe Canada, de Havilland Aircraft of Canada, Federal Business Development Bank

any other interested individuals or groups. To invite participation and submissions, the Commission sent out the Terms of Reference (Abella, 1984: i – iv) and a letter to almost 1,000 individuals and organizations. In the letter, the commission suggested 16 possible employment practices to understand how desirable and necessary certain practices such as flexible work hours, childcare benefits, training and development, recruitment, hiring, and promotion were. Mentioned were also possible barriers to employment equity such as the "economic climate" in an organization, conflicts with existing union arrangements, or physical, technical, educational, and social obstacles. Submissions from the general public were also invited through advertisements in 60 newspapers, journals, and magazines across 23 Canadian centers. Subsequently, the commissioner met with 1,100 individuals from the four designated groups, with associations and interested groups, as well as with the president or chief executive of the 11 corporations listed in the terms of reference. The 11 corporations were required to respond to a two part questionnaire; the first part requested workforce participation data for the four designated groups within 12 occupational categories[4] and the second part requested firm specific employment practices and systems. Hence, the task of the commission was difficult because of the complexity of the issue as well as the number of interested and affected individuals and groups, each with unique and likely conflicting objectives.

The final report of the Royal Commission, tabled in October 1986, called for "a massive policy response to systemic discrimination" (Abella, 1984: 254). The report defined systemic discrimination as "a general employment condition, specific practice, or approach to hiring or promotion that applies equally to everyone at a workplace but that negatively affects employment opportunity or advancement for specific groups of people" (Abella, 1984, Appendix

[4] Upper-level managers, middle managers, professionals, semi-professionals and technicians, supervisors, foremen/women, clerical workers, sales workers, service workers, skilled crafts & tradesmen/women, semi-skilled manual workers, unskilled manual workers.

D: 341). The sources of systemic discrimination were seen to "flow from the structure of systems designed for a homogenous constituency" [and] "from practices based on stereotypical characteristics ascribed to an individual because of the characteristics ascribed to the group of which he or she is a member" (Abella, 1984: 9). The report notes that the roots of such discrimination can be found in discriminatory attitudes and practices that were allowed to predominate (Abella, 19984: 2). Inequitable practices were viewed as the source of existing under representation of the four designed groups. "It is important to look at the results of a system. In these results, one may find evidence that barriers which are inequitable impede individual opportunity" (Abella, 1984: 2).

Canadian employers had taken measures to increase the employability and productivity of women, native people, disabled persons, and visible minorities before the time of the commission. However, these were considered as not yet having resulted in nearly enough change in the employment practices so that a high number of members of the designated groups had been screened out of opportunity for hiring and promotion (Terms of Reference in Abella, 1984: ii). Specifically noted symptoms of inequality in employment for members of the four designated groups were inadequate participation, high unemployment rates, low income levels and occupational segregation (Abella, 1984: 19).

In total, the Abella report contained 117 recommendations that went beyond procedures and results in the 11 named corporations, to extend to all levels of Canadian education and training. It suggested a nationally funded childcare system, and recommended fair lending practices for financial institutions. In contrast to the 117 recommendations of the Abella report, the actual Employment Equity Act under Bill C-62 is much less far reaching with fewer requirements for employers and with limited enforcement mechanisms.

The core recommendations outlined that all federally regulated employers are required to a) implement employment equity, b) collect and annually file data, by designated group, about participation rates, occupational distribution and income levels of all employees, and c) that an enforcement mechanism exists. Employers are required to develop and maintain employment practices to eliminate discriminatory barriers. However, they are also given flexibility in their development of practices. No quotas should be imposed. (Abella, 1984: 255).

Since the Abella report, Employment Equity legislation has gone through a considerable time of development and change. The Act calls for a full review every five years. The Act was revised during the 1996 review to reach its current form. Since then, calls for changes to the Act have been made during each review. Some of the recurring issues are: should more industries and/ or corporations be made subject to the Act; should more designated groups be included, such as immigrants, differences stemming from age, religion, or sexual orientation; should the monitoring and penalizing mechanism be strengthened; should self-identification be made mandatory? At the time of this thesis, August 2009, none of these changes had been made to the Act. However, the Act is still undergoing a review that started in 2001.

Approaches to Organizational Diversity

In general, organizational responses to changing demographics have been found to range from only meeting legal minima to making diversity a strategic imperative (Ely & Thomas, 1996), or from generally resisting diversity to fully embracing diversity as a strategic resource that can potentially contribute to firm performance (Dass & Parker, 1999). The range of firm responses can be linked to differences in the underlying rationales about why to adopt diversity (Dass & Parker, 1999; Ely & Thomas, 2001). Based on a qualitative study of three culturally diverse professional service firms, Ely and Thomas (2001) identified three diversity perspectives at the workgroup level that distract or enhance the impact of the diversity of cultural identities on work group functioning: the discrimination-and-fairness perspective, the access-and-legitimacy perspective, and the integration-and-learning perspective. Dass and Parker (1999), in their conceptual work on human resource diversity also identified these three perspectives in addition to a fourth perspective – resisting diversity. All four perspectives are reviewed in detail in the following section.

Although there are several links between my thesis research and the study by Ely and Thomas (2001), there are significant differences that preclude a full extension of the three identified diversity perspectives to my study: First, the group level of analysis that is the basis of the Ely and Thomas study (2001) is different from the firm level of analysis of this thesis, and while a certain diversity perspective may dominate at the workgroup level a very different perspective may be at play at the strategic management level or for the firm as a whole. Second, the Canadian experience with diversity is different from the US experience so that Canadian diversity perspectives may be distinct from US perspectives (the focus of the Ely and Thomas (2001) and the Dass and Parker (1999) studies). Only an in-depth qualitative study in the Canadian context could determine the extent to which perspectives on diversity are similar or different between Canada and the USA. Such a qualitative study is beyond the scope of this thesis and offers a future research opportunity. Third, the design of the study by Ely and Thomas (2001) likely excludes the perspective of diversity that one would find in an organizations that meets only legal minima and is in effect resisting diversity (Dass & Parker, 1999). The four diversity perspectives that Dass and Parker (1999) theoretically argued for have not yet been demonstrated empirically. However, a thorough review of the four perspectives identified by Ely and Thomas (2001) and Dass and Parker (1999) is included in this research to add insights and richness to my study and to connect my work to the extant literature. The four identified perspectives offer me a point of departure and reference point as I take a closer look at the Canadian context that is part of my firm level study. Further, the Ely and Thomas (2001) study demonstrates that different perspectives on diversity can and do exist, giving support to my argument that differences in diversity perspectives are likely to exist in the Canadian context. In this thesis, I will not attempt to link specific industrial sectors or even individual firms to one particular diversity perspective.

The next section describes the four perspectives in detail. Despite some overlap in their advocated outcomes, the four perspectives differ significantly in their underlying motivations.

The Discrimination-and-Fairness Perspective

At the core of a discrimination-and-fairness perspective rests the belief that organizational diversity is a "moral imperative to ensure justice and the fair treatment of all members of society" (Ely & Thomas, 2001: 245). The focus of an organization with this perspective is on providing equal opportunity in its hiring and promotion, to suppress prejudice, and to combat discrimination. Critically missing from this perspective is an instrumental link between a group's diversity and its work, so that diversity-based differences are not permitted to enter into work processes. Conflict is viewed as potentially dangerous and should therefore be avoided. "Color-blindness" means that differences are oppressed in favor of norms that are based on standards by the dominant group. Dass and Parker (1999) characterized this perspective as one that views diversity as the root of many problems. The emphasis is placed on historically disadvantaged groups, and according to this perspective, individuals from these groups should be assimilated so that differences are no longer visible in the hope that problems linked to diversity also disappear. The strategic response based on this perspective is defensive. The desired overall outcome of organizational activities is to "level the playing field for members of protected groups" (Dass & Parker, 1999: 70). The danger with this perspective is that defensive attitudes may take hold in the organization as individuals that are not part of the legislation see affirmative action or equal employment opportunity as a barrier to advancement. I argue that the discrimination-and-fairness perspective is consistent with the rationale towards increased diversity underlying liberal governmental regulations and legislation. Governments of many developed nations have diversity-related legislation in place such as Employment Equity in Canada, or Equal Employment Opportunity in the U.S. The "discrimination-and-fairness-perspective" has been linked to Equal Employment Opportunity legislation for the US example and appears also highly related to Canadian Employment Equity Act Legislation (Dass & Parker, 1999).

The Access-and-Legitimacy Perspective

"While the discrimination and fairness perspective is typically adopted because of social and legal mandates organizations following the access and legitimacy perspective usually do so by choice" (Dass & Parker, 1999: 71).

At the core of an access-and-legitimacy perspective is the recognition of the need for diversity inside the organization if the organization faces culturally diverse markets and constituencies externally. This perspective, "therefore behooves the organization to match that diversity in parts of its own workforce as a way of gaining access to and legitimacy with those markets and constituent groups" (Ely & Thomas, 2001: 243). This perspective is at the core of the Business Case for Diversity.

The Business Case for Diversity, also termed the "value-in-diversity-hypothesis" (Cox & Blake, 1991; Robinson & Dechant, 1997) was initially sparked by the *Workforce 2000: Work and Workers in the 21st century* report (Johnston & Packer, 1987). The report highlighted changes in the demographic composition of the U.S. labor force that spelled out the need for organizations to adapt to these changes for competitive reasons. However, building a strong Business Case for Diversity, that includes a strategy for how to manage a diverse organization, is often challenging because expected benefits are difficult to predict and largely intangible (Robinson & Dechant, 1997).

According to the logic of the Business Case for Diversity, organizations that successfully recruit, hire, and retain a demographically diverse workforce are expected to see increased competitiveness and performance for three reasons: First, hiring from a more diverse pool of applicants increases access to the best talent compared to hiring exclusively from a shrinking labor pool of white, male applicants. Second, a more diverse workforce is a better match with an increasingly global marketplace of high diversity. Third, diverse groups are able to outperform homogeneous groups in terms of creativity and better problem solving since they contain a greater variety of information, perspectives, and cognitive styles. With its focus on access to more talent and more markets, the Business Case for Diversity is reflective of the access-and-legitimacy perspective (Ely & Thomas, 2001). Even its focus on improved problem solving and creativity is argued to be most applicable to firms operating under special conditions, such as under an innovation strategy (Richard, 2000) or in a service industry (Frink, et al, 2003; Richard, et al, 2007).

Ely and Thomas (2001) note important limitations of the access and legitimacy perspective that point to general concerns about the Business Case for Diversity. Under the access-and-legitimacy perspective, work groups are inclined to use "their diversity only at the margins" (Ely & Thomas: 2001: 243) in order to form commercially obvious connections with more diverse markets. Missing are deeper connections inside the organization that would integrate the full set of cultural competencies of the diverse workforces into the core functions of the organization (Ely & Thomas, 2001). Such connections are at the heart of the integration-and-learning perspective which is described in the next section. Overall, the integration-and-learning perspective includes the ideas and rationale of the access-and-legitimacy perspective yet is more inclusive and less marginalizing in its treatment of diversity.

The Integration-and-Learning Perspective

A firm with an integration-and-learning perspective values the insights, skills, and experiences that employees have developed as members of various cultural identity groups. These insights, skills and experiences represent potentially valuable resources that the work group can utilize to rethink and redefine its task and strategies related to markets, products and business practices. Organizational diversity under this perspective is linked to work processes and business goals. At the core of this perspective is a focus on process that allows for sufficient time to explore and integrate individual points of views without fear that individual differences will likely also bring conflict (Ely & Thomas, 2001). This perspective provides an explanation for why an organization may increase its organizational diversity more than is obviously necessary for reasons of either legal compliance (fairness-and-discrimination) or for reasons of matching diverse markets and constituencies (access-and-legitimacy). Under the learning-and-integration perspective, organizational diversity can provide benefits to any organization, regardless of the type of industry it operates in or the diversity of its markets and constituents. Dass and Parker (1999) describe this perspective as one where diversity is seen as a source of opportunity, so that all differences should be celebrated, in contrast to an access and legitimacy perspective that is only accommodative in order to gain access to employees and consumers (Dass & Parker, 1999).

While all three perspectives provide motivation to organizations to increase their diversity, only the integration-and-learning perspective provides sufficient motivation and guidance to organizations to generate lasting strategic benefits from diversity (Ely & Thomas, 2001). The rationale for this statement can be found in Dass and Parker's (1999) description of the integration-and-learning perspective as one where differences and similarities bring opportunities and costs, so that acculturation and pluralism with respect to important differences should be strived for. The strategic response is proactive with the desired outcome of "individuals and the organization learning for long-term effects" (Dass & Parker, 1999: 70). This perspective has three aspects that are worth pointing out: 1) it recognizes that diversity consists of differences and similarities simultaneously 2) "it seeks multiple objectives from diversity, such as efficiency, innovation, customer satisfaction, employee development, and social responsibility" (1999: 72); and 3) it recognizes that diversity has short-term and long-term effects.

Resisting diversity

The qualitative study by Ely and Thomas (1991) was designed to uncover motivations for adopting and managing diversity (see the three perspectives discussed above). Missing from this study design is the perspective of resisting diversity. This view of diversity is much more difficult to document especially because of social desirability biases. In Canada, diversity and employment equity has become so pervasive that it may be considered inappropriate to speak and act out against diversity, in addition to being against legal code. In their conceptual work, Dass and Parker (1999) identified resistance to diversity as an important fourth perspective.

Dass and Parker (1999) describe this perspective as one where diversity (those that are "not - us") is seen as a non-issue or a threat, along with the desire to sustain homogeneity. The strategic response is reactive and the desired outcome is to protect the status quo. A reactive response includes denial, avoidance, defiance, or manipulation (Dass & Parker, 1999). These authors (Dass & Parker, 1999) introduce a framework that links the perspectives and priorities of executives to the management of diversity, organizational structures and performance. According to both Dass and Parker (1999) and Ely and Thomas (2001), the motivation towards diversity that an organization or workgroup takes has short-term and long-term effects. For example, the organization's diversity perspective or motivation will shape not only the level of representation of members of the four designated groups, but also at which organizational levels, in which positions, and at what pay levels they are represented, and how all employees interact with each other.

How an organization views and treats diversity matters because an underlying motivation can be expected to shape the strategic potential of organizational diversity as a unique and valuable firm resource. The Resource-Based View (Barney, 1991, 2001; Wernerfelt, 1984, 1995), which is increasingly referred to as the Resource-Based Theory (Barney & Clark, 2007; Barney & Peteraf, 2003), has become a dominant theory in strategy (Barney & Clark, 2007; Hoskisson, Hitt, Wan, Yiu, 1999). It explains firm heterogeneity with firms' idiosyncratic resources and capabilities that allow for competitive differentiation (Barney, 1991, 2001; Peteraf & Barney, 2003). Organizational diversity provides a firm with strategic resources and capabilities that can provide it with a unique advantage. Since such resources can vary significantly from firm to firm, for example, in terms of how much diversity of different types (e.g. women, aboriginal peoples, persons with disabilities, or visible minorities) is adopted, subsequent differences in performance are also possible. In the next section, I will provide a brief review of the RBV.

Review of the Resource-Based View

According to the logic of the RBV, firms can expect lasting performance differences (as long as there are no exogenous shocks) due to the heterogeneity of the resources and capabilities they possess which allow firms to implement valuable strategies in contrast to their competition (Barney & Clark, 2007). A firm that successfully exploits its valuable, rare, and inimitable resources and capabilities, and organizes them for exploitation may create a sustained competitive advantage that reduces competitive pressures and allows for the creation of above-normal returns, or rents (Barney, 1991, 2001). More generally within the strategy literature, a differentiation strategy is defined as "differentiating the product or service offering of the firm, [by] creating something that is perceived industry wide as being unique" (Porter, 1980: 37). Such differentiation can be across a number of dimensions, including design, brand image, technology, customer service, or distribution networks (Porter, 1980) as well as overall firm reputation (Barney, 2001).

The terms *resources* and *capabilities* can be used interchangeably, and refer to the tangible and intangible assets that a firm uses to develop and implement its strategies" (Ray, Barney, Muhanna, 2004). A resource or capability is valuable if it enables a firm to exploit an environmental opportunity and/or to neutralize an environmental threat, which is measured as the impact on revenues or costs (Barney, 1991, 2001). Rarity implies that the resources or capabilities are different from the endowments of competitors. Inimitability refers to how protected a resource or capability is from competitive imitation, while *organized to be exploited* captures the need to integrate a resource with internal systems.

Wright and McMahan (1992) made the initial case for human resources (HR) or human capital as a strategic resource. Since then, the argument has been used frequently for human resource management (HRM), for example by Huselid (1995) and Huselid, Jackson, and Schuler (1997), as well as for organizational diversity (e.g. Richard, 2000; Richard et al, 2007). If human capital is to provide a sustained competitive advantage, four conditions need to be in place: performance at the level of the individual has an impact on firm performance, the skills of the individuals that the firm seeks are rare, the combined investment of the firm in firm specific capital is not easily replicated, and human capital is not subject to replacement by technical advances (Wright and McMahan, 1992).

The Business Case for Diversity has been largely constructed on the assumptions and arguments of the RBV. The arguments in favor of increased organizational diversity are similar to the earlier arguments for human capital in general. However, some of the nuances are worth pointing out. Diversity may be considered valuable because it provides an increased range of perspectives and greater creativity (Cox & Blake, 1991; McLeod, Lobel, & Cox, 1996; Watson, Kumar, Michaelson, 1993). It is often rare because it is inimitable, because it may be easy to hire a more diverse workforce initially, but it is more complex and time intensive to manage such diversity successfully. Hence, diversity can be a rare strategic resource because of the difficulty of imitating a successful diverse organization and organizing diversity for subsequent exploitation.

Huselid (1995) noted that the central question that remains about the value of HR is whether the firm can in fact capture the potential competitive advantage that resides in its human capital or whether this capital will remain underutilized. Generally, a resource or capability is considered valuable if it enables a firm to exploit an environmental opportunity and/or to neutralize an environmental threat which is measured as the impact on revenues or costs (Barney, 1991, 2001). Hence, resources or capabilities that generate less revenue than they require in acquisition or development costs will no longer be valuable. The concern about costs versus benefits is especially relevant for organizational diversity since empirical studies have demonstrated the mixed effects that diversity brings. These are reviewed in the next section. Diversity is a complex, and hence, costly resource to manage so that the balance can easily tilt from valuable to not valuable.

Mixed Effects of Diversity

Generally, differences are defined as the "distribution of differences among members of a unit with respect to a common attribute" (Harrison & Klein, 2007: 1200). Diversity is a complex construct that can exist at several levels. In order to advance diversity research, the nature of diversity that exists at various levels needs to be dealt with more consistently and carefully (Harrison & Klein, 2007). Instead of treating all differences in the same way, it is important to distinguish between *separation*, *variation*, and *disparity* as unique types of differences that are distinguished through "substance, pattern, operationalizations, and likely consequences" (Harrison and Klein, 2007: 1200). Any difference can be described as (1) relating to one specific value (i.e. an attribute) and as (2) operating within a specified unit (e.g. group, organization, industry, institutional field) (Harrison and Klein, 2007). The review of the mixed effects of diversity on important outcome measures is organized by these three categories in order to differentiate between types of diversity that Harrison and Klein (2007) stress.

Diversity as Separation

Diversity as separation describes differences among unit members in their position on a horizontal continuum (Harrison and Klein, 2007). Separation emphasizes distance between individuals, which tends to lead to negative effects. The dominant theoretical explanation for the debilitating effects of diversity draws on social categorization or social identity theory (Tajfel, 1981; Turner, 1982; Tajfel & Turner, 1986) as well as similarity attraction theory (Byrne, 1971). According to the theories of social categorization and social identity, individuals create social identities that are based on social categorizations. Because individuals want to maintain positive self-identities, they value members of their own social category higher than others and devalue those that belong to categories different from their own. This positive assessment of "self" and devaluation of "others", negatively affects group processes such as communication, cohesion, and conflict (Milliken & Martins, 1996). Since these processes are critical to effective group functioning, the overall effect of diversity on performance measures tends to be negative as well. The outcomes that are typically associated with diversity as separation are lower within unit cohesiveness, increased interpersonal conflict, and lower task performance (Harrison & Klein, 2007).

Numerous studies point toward negative effects and outcomes of diversity (reviewed by Milliken & Martins, 1996; Williams & O'Reilly, 1998). Communication between diverse individuals and within groups is likely not free of conflict and other negative processes that harm social relationships (Milliken & Martins, 1996; Williams & O'Reilly, 1998). Minority members in diverse groups may experience lower social integration (O'Reilly, Caldwell, & Barnett, 1989) and increased conflict (Jehn, 1996; Pelled, 1996), which may lead to lower organizational attachment and higher intention to turnover (Tsui, Egan, & O'Reilly, 1992).

Diversity as Variety

Diversity as variety refers to differences in a category, such as information, knowledge, or experience among unit members (Harrison & Klein, 2007). The outcomes that are typically associated with diversity as variety are greater creativity, increased task related conflict, better decision quality, and higher flexibility (Harrison & Klein, 2007). The theoretical foundation of this type of diversity is in the law of requisite variety (Ashby, 1960), variation-selection-and-retention models (e.g. Weick, 1979, 1995), and improved information processing under heterogeneity (Harrison & Klein, 2007).

Heterogeneous work groups have the potential to outperform homogeneous groups in terms of their cognitive ability. Specifically, groups with differences in ethnicity or nationality hold multiple perspectives, consider a greater number of alternatives, and produce higher quality ideas and solutions (Cox et Blake, 1991; McLeod, Lobel, & Cox, 1992; Watson, Kumar, Michaelson, 1993). Gender diversity can also facilitate greater group creativity (Hoffman & Maier, 1961). The heterogeneity of top management teams has been argued and empirically supported to have a link to firm performance (Finkelstein & Hambrick, 1997; Hambrick & Mason, 1984). Differences in individuals' background characteristics can increase the range of available interpretations. In general, new ideas and creativity tend to originate at the individual level (Nonaka & Takeuchi, 1995) so that an organization ultimately relies on the cognitive differences at the individual level for its creativity and innovation. Consistent with the Business Case for Diversity arguments, the value of diversity is seen as rooted in the idiosyncratic differences that individuals bring to the larger group (Webber & Donahue, 2001). Such exchange and debate work against tendencies of organizational groupthink (Janis, 1982) and inertia, which are harmful for competitiveness, especially in changing environments.

Diversity as Disparity

Diversity as disparity describes differences in the concentration of valued resources or assets among unit members, for example, pay or status (Harrison & Klein, 2007). Traditionally, sociologists have used the term disparity to assess social inequalities such as the relative distribution of valued resources, including income or power. It is a powerful conception of distributions in general within a unit. The outcomes that are typically associated with this type of diversity are higher competition within a unit, deviance, lower member input into the unit, and withdrawal (Harrison & Klein, 2007). The theoretical basis of this type of diversity is in literatures on distributive justice and equity, status hierarchy, and social stratification (Harrison & Klein, 2007). In contrast to the other two types of diversity, diversity as disparity has received relatively little attention in the diversity literature (Harrison & Klein, 2007). As I will explain more fully in this thesis, my research includes a disparity-type construct - the degree of conformity.

All three types of diversity (Harrison & Klein, 2007) reflect that organizational diversity involves complex combinations of affective, cognitive, communication, and symbolic processes (Milliken & Martins, 1996) that make it difficult to find consistent effects between diversity at the group level and important outcome variables. The inconsistent results of diversity research imply more complex relationships between diversity and performance than previously assumed (Jehn & Bezrukova, 2004). Specifically, the relationships between diversity and firm performance may not be simple and linear, but, for example, curvilinear, as in the case for organizational race diversity and firm performance (Richard, et al, 2004). Inconsistent empirical findings generally point to the need to identify previously ignored moderators (Aiken & West, 1991). Hence, there is a need in the literature for a deeper investigation of context and intervention variables at all levels of analysis that may impact the relationship between diversity and performance (Dwyer, Richard, & Chadwick, 2003; Jehn & Bezrukova, 2004). Instead of continuing to investigate the direct effects of diversity, it is at this point more useful to examine *when and how* diversity can contribute to performance (Jehn & Bezrukova, 2004). The following section summarizes the main studies on the moderated effect of organizational diversity on firm performance.

Context Moderators of the Diversity – Performance Relationship

While I will focus my review of moderating variables on those studies that are closely linked to effects at the organizational level, there are a few studies at the group level that are worth noting, because they provide insight into the nature and mechanism of context moderators regardless of the level of analysis.

Group Level Studies

It has been demonstrated that organizational context influences diversity processes at the group level, such that diversity in race or ethnicity at the group level has stronger negative effects on its members' experiences in more homogeneous organizational contexts than in more heterogeneous ones (Martins, Milliken, Wiesenfeld, & Salgado, 2003). The underlying explanation of this finding is that the extent of racioethnic differences in the organization determines if group members pay attention and react to surface level differences (racial ethnicity) or if they focus instead on deeper level differences in values and attitudes (Martins, et al 2003). The study (Martins et al, 2003) is consistent with prior work that points out that the demographic composition of an organization influences and shapes the social context of the organization which in turn influences how an organization operates (Pfeffer, 1997). For example, at least one study found that organizations with low proportions of senior women had organizational climates in which sex roles were more stereotypical and problematic (Ely, 1995).

Another set of studies at the group level of analysis also found that context matters for race and gender diversity (Jackson and Joshi, 2002). A study of service teams revealed that the positive relationship between team gender diversity and team cooperation was stronger in geographic regions with high gender diversity (Jackson and Joshi, 2002). The explanation for this moderated effect notes that female service technicians and female managers may be able to draw beneficial support from relationships with other women in more diverse regions (Jackson & Joshi, 2002). However, the attempt to replicate this empirical relationship for race diversity did not produce the expected results. Instead, a study of sales teams found that in regions with higher diversity, there was a negative relationship between team ethnic diversity and team performance. The authors themselves found these conflicting results difficult to explain, but note that both studies still provide evidence that context variables influence diversity – performance relationships (Jackson & Joshi, 2002).

Firm Level Studies

The studies of the relationship between diversity at the firm level and firm performance are summarized in Table 1. Evidence has also been produced for an interactive effect of business strategy and racial diversity on firm performance (Richard, 2000). Race and gender diversity are linked to firm performance in a non-linear fashion, and are marginally moderated by innovativeness (positively) and risk-taking (negatively) (Richard, et al, 2004). The explanations for these results by the authors (Richard, et al, 2004) appear theoretically thin. The association between lower diversity and lower performance is explained as homogeneous work groups simply not fairing well in environments that require high decision speed and aggressive competitive behavior. The association between moderate diversity and performance is explained with higher creativity from work group diversity without serious out-group processes that are essential for a firm pursuing an innovation strategy. The association between higher diversity and lower performance is explained as higher diversity leading to cognitive biases and communication problems.

The study by Frink and his colleagues (Frink, et al, 2003) found support for an inverted U-shaped relationship between gender representation and firm performance only in service, wholesale, and retail industry sectors. The direct effect (the inverted U-shape) is supported by the argument that both a very low and a very high representation of women in an organization's workforce signify homogeneity. Only at a midpoint does heterogeneity exist which is linked to higher firm performance due to the advantages of high variety in the composition of the workforce, such as higher creativity and better problem solving ability (Cox & Blake, 1991; McLeod, Lobel, & Cox, 1992; Watson, Kumar, & Michaelson, 1993). The moderating effect is explained by the presumed inability of some industries to take advantage of demographic diversity (Frink et al, 2003). The authors speculate on the reasons for these industry effects. For example, in the manufacturing, utilities, and financial institutions sectors, the degree of gender segregation may be higher, which means that a high proportion of women in the organization overall does not mean that there is interaction between genders. Interaction is viewed as essential for generating the beneficial effects of diversity (e.g. higher creativity). As well, the skill set of physical attributes (strength, endurance, dexterity) that is required in manufacturing sectors makes gender diversity less applicable (Frink et al, 2003). Further theoretical guidance is needed.

Kochan and colleagues (2003) also find no support for direct effects between diversity and firm performance, but a positive effect of gender diversity on group processes and a negative effect of race diversity on group process. Positive group processes in turn had a positive impact on performance ratings and group bonuses. Diversity-focused HR practices improved the positive effects of gender diversity on group processes, supporting the notion that managerial intervention is critical for a positive diversity-performance link. Further, organizational culture, business strategy, and diversity-focused HR practices do improve the diversity – performance relationship (Kochan, et al, 2003).

Roberson and Park (2007) find a positive relationship between diversity reputation and book-to-market equity, as well as a curvilinear U-shaped relationship between *leader racial diversity* and revenue, net income, and book-to-market equity.

Richard and his colleagues (Richard, et al, 2007) find evidence for a U-shaped relationship between racial diversity and productivity that is stronger in service than in manufacturing industries. The authors (Richard, et al, 2007) explain these findings with a Business Case for Diversity rationale by emphasizing that diverse firms are better able to match diverse market demographics, and possess a more creative and more capable human capital

(Richard, et al 2007). Further, the results reveal a more direct positive relationship between racial diversity and market performance that is stronger in munificent environments. Industry munificence, which is the opposite of resource scarcity, was captured by the growth rates in an industry. The authors generally "posit that racial diversity among personnel proves advantageous under such conditions" (Richard, et al, 2007: 1220). More detailed explanations about how and why this positive association exists are lacking, and researchers recognize the need for more theorizing (e.g. Frink et al, 2003).

What is it specifically about a firm's external context that can make it a powerful moderator of the diversity-performance relationship? The review of prior studies provides empirical evidence for the importance of contextual variables, inside and outside the firm. One implication of these findings is that the business case for diversity cannot be expected to hold under all conditions, but needs to be considered in a nuanced way (Kochan, et al, 2003). The existing empirical studies offer limited theoretical explanation about why and how context impacts the organizational diversity – firm performance relationship.

As a first step, more clarity is needed about what diversity research is referring to when describing "context." My thesis offers a definition of context as organizational field, which is rooted in institutional theory and is highly applicable to examining diversity at the level of the firm. More explicit theorizing and testing of the nested or multi-level nature of relationships involving context is needed. Except for the study by Jackson and Joshi (2002) that used Hierarchical Linear Modeling, studies involving context are not modeling the relationships of interest in explicitly multilevel terms. In the next section, I will review the traditional approach to external context, which focuses on the task or technical aspects of an environment before turning to an exploration of context as organizational field.

The Traditional View of Organizational Context

My review of studies linking organizational diversity to firm performance illustrated that there is general support in the literature for the notion that context matters to the diversity – performance relationship. Unfortunately, in the management literature at large, there is no agreement on the meaning of context. As long as no widely accepted constructs and measures are available, the building of a comprehensive literature on the impact of the environment on the firm is hindered (Sharfman & Dean, 1991). Three of the most common conceptualizations of context are complexity, instability, and resource availability advanced by Dess and Beard (1984). Sharfman and Dean (1991) offer a comprehensive table of major works on environment that is reproduced in Table 2.

Aldrich (1979) started the research on context with his initial typology of environmental conditions that offers six dimensions. Aldrich's six dimensions were later reduced through factor analysis by Dess & Beard (1984) to three factors – complexity, dynamism, and munificence. These three have become the standard dimensions for assessing external environment, and have been used in studies examining the relationship between firm and environment (e.g. Keats & Hitt, 1988; Lawless & Finch, 1989). However, the drive for parsimony in this process may have lead to an unnecessarily narrow and thus, incomplete, conception of organizational environment (Sharfman & Dean, 1991). In its full conception, complexity refers to the sophistication in cognitive ability needed for comprehending context. The Dess and Beard measure (1984) is limited to an environment's geographic concentration, but other important aspects to complexity that have been deleted are market diversity (Mintzberg, 1979) or heterogeneity (Aldrich, 1979; Thompson, 1967). Dynamism refers to the difficulty of predicting the future of a given environment. Resource availability addresses whether or not the environment provides sufficient resources for the firms in it. Missing from the Dess and Beard (1984) conception are dimensions such as competition for resources (Sharfman & Dean, 1991), which may include human resource and diverse talent.

While the development of the measures of external context dates back in time, the measures are still consistently relied on in strategy research (e.g. Branzei & Thornhill, 2006, McEvily & Chakravarthy, 2002, Spanos & Lioukas, 2001) and are beginning to be included in diversity research (Richard, et al, 2007). These dimensions may have become the taken-for-granted approach to conceptualizing environment, which in itself requires one to take a closer look at this approach.

The thesis does not claim the common conceptions of environment to be incorrect but rather incomplete and under-socialized. I argue that an institutional perspective adds important insights to the conceptualization of context that the traditional dimensions are not able to capture. Two central assumptions underlying the traditional dimensions of external environment are that the environment can be objectively assessed, and that it acts as an independent force on a focal firm that operates within this context. Others have argued that an external environment is less objective and more subjective, and open to selective perception and interpretation (Weick, 1979). Even if we assume an objective environment, decision makers subjectively interpret and enact such environments. They form strategic choices that depend on their subjective perception of the environment along important dimensions, such as uncertainty (Dutton & Jackson, 1987; Lawrence & Lorsch, 1967). For social issues, such as organizational diversity, social construction and sense-making processes about the value and desirability of related practices are especially important, since organizational diversity tends to involve mixed emotions and opinions partly because of the inconclusive results on diversity's benefits versus downsides.

The traditional approach to external context (e.g. Dess & Beard, 1984) has been criticized for viewing the external environment as "a disembodied set of dimensions – such as complexity, stability, and munificence – whose states could impact the organization" (Scott, 2008: 182). Ignored by the traditional approach is the fact that "any economy rests on an institutional bedrock" (Ingram & Silverman, 2002: 1), so that "organizations, and the individuals who populate them, are suspended in a web of values, norms, rules, beliefs, and taken-for-granted assumptions" (Barley, & Tolbert, 1997: 93).

These limitations are also reflected in the criticism of the RBV about its primary focus on the internal attributes of the firm without sufficient attention to the firm's external context (Priem & Butler, 2001). Since the logic of the RBV is relied on heavily to inform the strategic value of organizational diversity, this limitation is highly relevant to diversity research. External context is critical; after all, the actors in the external context determine ultimately if a firm's resources or capabilities are valued positively (Maurer, Bansal, & Crossan, 2008 working paper). Since all "economic behavior resides in a social environment" (De Cremer, Zeelenberg, & Murninghan, 2006: 6), it is also appropriate and necessary to include a more socialized perspective into RBV thinking for a more complete understanding. The three common dimensions of context - complexity, dynamism, munificence (Dess & Beard, 1984) also do not capture the interactive dynamic between the focal firm and its institutional context. The surrounding environment significantly influences an organization (e.g. DiMaggio & Powell, 1983; Hannan & Freeman, 1989; Meyer & Rowan, 1977); however, there is also evidence that an organization can affect its environment (Mizruchi, 1992).

As I will explore in detail in the next section of this thesis, institutional thinking about context as an "organizational field" (Scott, 1991) offers an exciting opportunity for cross–level theorizing and testing that cannot be captured sufficiently by traditional conceptions of external environment. There are only a few studies about field dynamics despite the central role of field in institutional theory (Wooten & Hoffman, 2008; Scott, 2008).

Review of the Institutional Theory Perspective

Definitions of Institutionalization and Institution

Institutional thinking is so rich and diverse that multiple definitions of institutionalization and institution co-exist (Scott, 2008, 1987). There have been a few excellent reviews of institutional theory (Greenwood, Oliver, Sahlin, & Suddaby, 2008; Scott, 2008; Tolbert & Zucker, 1999). My focus in this thesis is on that part of the literature that is concerned with institutional influences on organizations and in particular those influences that are common to a defined group of organizations.

In order to achieve their performance goals and interests, including short-term profits, market share, growth of employment, and long-term survival (Ingram & Silverman, 2002), "organizations must accommodate institutional expectations even though theses expectations may have little to do with technical notions of performance accomplishment" (Greenwood & Hinings, 1996: 1025). Hence, institutional theory has increased our understanding of organizational action that cannot be attributed to competitive market pressure (Scott & Meyer, 1994) and a fully rational approach. Instead, new institutionalism assumes bounded-rationality and path dependency that allow myths to develop about the efficiency of particular practices even if actual evidence of such efficiency is missing (Meyer & Rowan, 1977). Organizational action within neo-institutionalism views institutional actors as able to make choices consistent with their interests within a system of institutional constraints (Ingram & Silverman, 2002).

Organizations may also pursue their interests even if they conflict with institutional demands (Oliver, 1991). Actors can be individuals, organizations, and states, and they each generate unique institutional constraints that limit their range of action. Actors have therefore a dual role – one active, one passive – since they are viewed as "pursuing their own interests within constraints, while producing constraints for other actors" (Ingram & Silverman, 2002: 8).

Institutionalization can be viewed as both a process and a property variable (Zucker, 1977; DiMaggio, 1988). According to one of the early and most influential researchers in this tradition, Phillip Selznick (1957), institutionalization can be conceptualized as a process that gives meaning to organizational tasks.

> Institutionalization is a process. It is something that happens to an organization over time, reflecting the organization's own distinctive history, the people who have been in it, the groups it embodies and the vested interests they have created, and the way it has adapted to its environment...In what is perhaps its most significant meaning, "to institutionalize" is to *infuse with value* beyond the technical requirements of the task at hand (Selznick, 1957: 16-17).

In contrast, institutionalization as a property variable refers to something that is a) external, b) objective and non-personal, and c) an objective social fact that can the transmitted (Zucker, 1977). Thus, once a social behavior is institutionalized, it becomes a fact that is part of objective reality. An institution refers also to a system of rules or programs that are socially constructed and are reproduced through routine action (Jepperson, 1991).

Institutional pressures can arise within the organization and from forces external to the organization (Zucker, 1987). Scott (2008) refers to these forces as the three pillars of institutions. The three pillars of institutions are regulative, normative, and cultural cognitive. The regulative pillar provides rules and laws, the normative pillar provides accreditation and certification, and the cultural-cognitive pillar provides common beliefs and shared logics about action (Scott, 2008), all of which may lead to isomorphism in form and function (DiMaggio & Powell, 1983). Each of the three pillars is linked to unique defining processes or underlying mechanisms (DiMaggio & Powell, 1983): the regulative pillar consists of coercive pressures, especially from governments and regulatory agencies. The normative pillar hinges on the normative transmission of social facts, mainly through the professions. The cultural-cognitive pillar captures mimicry or imitation of elements that are used successfully by others, especially in times of uncertainty.

The basis of compliance in the regulative pillar is expedience, while in the normative pillar it is social obligation, and in the cultural-cognitive it is taken-for-grantedness or shared understanding (Scott, 2008). The underlying rationale and basis of legitimacy also differ across the three pillars. The regulative pillar is based on a rationale of instrumentality and a legally sanctioned basis of legitimacy. The normative pillar is based on a rationale of appropriateness and a morally governed basis of legitimacy. The cultural-cognitive pillar is based on logic of orthodoxy and a culturally supported basis of legitimacy (Scott, 2008: 51). All three pillars emphasize the importance of social processes and the strong influence exerted by the external environment on thinking and action.

One of the early organizational institutionalists, Talcott Parsons (1960), focused especially on the connection between organization and external environment. His treatment of *institutional* refers to a layer of organizational activity that is added to *technical* (production activities), and *managerial* (control and coordination activities) layers. The institutional layer addresses how the organization relates to the norms and conventions of the external environments. Parsons viewed an organization as part of a broader social system that provides understanding, meaning, legitimacy, and support, all of which are essential for the achievement of organizational goals (Parsons, 1960). This early understanding of the external environment is still reflected by contemporary treatments of organizational field, which I review in detail in the next section.

Definition of Organizational Field

While the focus in institutional theory has been traditionally on an organization *in* an environment, the emphasis has shifted to the organization *of* an environment (Scott, 2008: 216). In comparison to strategic approaches to external environment (Dess & Beard, 1983), the notion of field emphasizes the fact that firms do not just face common external pressures but are also collectively organized.

Organizational field refers to an organization's external environment that is shaped by institutional forces (DiMaggio & Powell, 1983; Meyer and Rowan, 1977). Earlier labels of this central unit of analysis include institutional sphere, institutional field, societal sector and institutional environment (Wooten & Hoffman, 2008). Organizational field (Scott, 1991) has become the most generally accepted label (Wooten & Hoffman, 2008), and is the term that I use in my thesis. The central interest of field research is on understanding the institutional processes that guide field behavior some of which may be unconscious in nature (Wooten & Hoffman, 2008). Relating the last point back to my phenomenon of interest, motivations to diversity, such as resisting diversity, are often systemic yet unconscious (Dass & Parker, 1999). Judge Abella notes in her Royal Commission Report that systemic discrimination cannot be excused and tolerated simply because it often occurs unconsciously (Abella, 1984).

The construct of field, which often represents industry or sector, is essential to the examination of organizations. Within the boundaries of a field, firms compete, influence and mimic each other, set common guidelines for behavior, form best practices and are exposed to common regulations and laws set by agencies and governments which are also part of the field

(DiMaggio, 1991).

Organizational field comprises a set of organizations, which interact more frequently with each other than with organizations outside the field, and share therefore, a common system of institutions, such as practices, rules, understandings, and meanings (Phillips, Lawrence, & Hardy, 2004; Scott, 1991, 2008; Scott & Meyer, 1994). The organizational field is made up of a collective of organizations that form a "recognized area of institutional life" such as suppliers, consumers, regulatory agencies, and competitors (DiMaggio & Powell, 1983: 148).

Organizational fields exist at "an intermediate level between organization and society" (Greenwood, Suddaby, & Hinings, 2002: 58), at a higher level than the firm, which emphasizes the "meso-level of organizing" (Fligstein: 2001: 107). Organizational and field level factors are interconnected in a reciprocal relationship (Wooten & Hoffman, 2008: 141) which points to a need for explicit multilevel theorizing of relationships under investigation, including my thesis.

Where to draw the boundary around a field is somewhat arbitrary (Scott, 2008). Most often, a field is defined by common technology or industry (i.e. SIC code) (Wooten & Hoffman, 2008). However, a field can also be viewed as forming around an issue that becomes important to a specific set of organizations (Hoffman, 1999). For my thesis, I could conceptualize field as the collection of all organizations that are governed by EEA since they are all subject to the same legislation and linked by a common issue (Hoffman, 1999). However, this conceptualization neglects important fine-grained differences, since the initial field is further divided into collections of organizations that interact more closely along sector lines to create their idiosyncratic understanding about how to approach the EEA. Hence, for the purpose of the thesis, I define organizational field as industrial sector.

So far, field level research has provided an explanation for how interactions at the field level lead to changes in structures and cultures at the *field* level. Needed now is more examination of how interactions at the *field* level lead to changes at the *organizational* level (Wooten & Hoffman, 2008). The latter is more consistent with my cross-level model about the moderating effect of factors at the field level on the relationship between organizational diversity and firm performance.

Review of Institutional Change

While the traditional emphasis of institutional theory has been on stability, homogeneity, and isomorphism (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), more recent work by institutional theorists emphasizes change and variation (Greenwood & Hinings, 1988; Kondra & Hinings, 1998; Oliver, 1991; Suddaby & Greenwood, 2005; Tolbert & Zucker, 1983).

Despite institutional constraints, a range of strategic behavior is available to organizations, which allows for organizational agency and active shaping of institutional environments (Oliver, 1991). Specifically, Oliver (1991) describes five strategies that are available to an individual organization given institutional constraints: acquiescence, compromise, avoidance, defiance, and manipulation. Which options are truly open to a firm depends on the nature of the institutional context and the pressures within it (Oliver, 1991). While these strategic responses refer to the actions of the individual firm at the firm level, they can also relate to the broader notion of institutional change at the field level.

Institutional change has been defined as "the process by which alternative models of collective action are contested" (Suddaby & Greenwood, 2005: 35). The conceptualization of institutionalization as a process cuts across the three pillars of institutionalization and relates to how institutions are constructed, maintained and changed (Scott, 2008).

One of the groundbreaking studies that established that institutional change does occur was the case of the Niagara Falls Hotels (Ingram & Inman, 1996). It had become an institutionalized norm to use the space around Niagara Falls in a way that maximized everyone's self-interest, which ultimately let to a "tragedy of the commons" problem. A group of hotels cooperated to initiate change of this practice through establishing a new institution in the form of shared understanding that the space around Niagara Falls should be protected for public non-commercial parkland, which allowed the hotels to protect their valuable common resource. The new institution was ultimately of benefit to all Niagara Falls hotels.

Three fundamental institutional mechanisms explain institutional change and the emergence of new institutional forms (Suddaby & Greenwood, 2005): an increase in legitimacy for a new form or practice, a shift in institutional logics, or the purposeful use of rhetoric.

Institutional Change through Increasing Legitimacy

"Legitimacy is a general perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions" (Suchman, 1995: 574) Since organizations depend on social acceptability and credibility in addition to material and technical requirements, legitimacy is a critical ingredient to organizational success and survival (Scott, 2008). Therefore, a new form and practice cannot rely on technical or operational superiority alone but needs to acquire and build legitimacy from institutional actors. As discussed by Suddaby and Greenwood (2005) empirical studies have demonstrated the need for increasing legitimacy for example in the case of new technologies (Hargadon & Douglas, 2001) and new organizational practices (Kostova & Roth, 2002).

In their historical analysis of Thomas Edison's system of electric lighting, (Hargadon & Douglas, 2001), the authors demonstrate that a technical innovation needs to be connected to the existing understandings of the established institutional systems. Edison's system was objectively cleaner, cheaper, and easier to transport than gas, but in order to successfully introduce his new electrical system, Edison needed to overthrow the established institutions by gaining acceptance from the players of the existing system. Instead of focusing on the new system's indisputable technological superiority, Edison emphasized minimal differences between the upstart technology and the existing system by initially masking the innovation's novelty and focusing on the resemblance of established institutions (Hargadon & Douglas, 2001). When Edison introduced his competing system of electric lighting, gas lighting was more than an incumbent technology; it was deeply embedded in a web of suppliers, consumers, regulatory agencies, competing firms, and contributory technologies. From an institutional perspective it is difficult to understand how Edison was able to introduce his innovation and how he was able, in such a short period of time, to overthrow the existing system and institutionalize his own, yet he did (Silverberg, 1967, cited in Hargadon & Douglas, 2001: 481).

Edison masked the electric system within the established old gas system despite direct costs to him and his company. For example, for billing his new customers, Edison wanted to use the same type of meters that had been long used for billing gas even though he did not yet have a meter available that was able to read electrical consumption. Hence, for several months he did not collect any money from his customers until an electrical consumption meter was devised (2001: 490). Further, he founded a gas company in order to gain license to dig beneath the ground and to lay copper wires which he would eventually need for his new system. Had he applied to the city as an electrical company, he would not have been granted the permission to dig (Hargadon & Douglas, 2001). Instead of emphasizing the distinctiveness and newness of his electrical system, Edison deliberately deemphasized such differences so that the new system was on the outside hardly distinguishable from the existing system (Hargadon & Douglas, 2002). The introduction of Edison's electric lighting system was successful because of the details of the new design that were able to "evoke the public's familiarity with the technical artifacts and social structures of the existing gas and water utilities, telegraphy, and arc lighting" (2001: 477). What appears most brilliant about Edison's introduction of the electrical light system is not the technical innovation per se but his ability to weave it successfully into the established system of suppliers, systems, and existing understandings and beliefs.

Generally then, a radically new technology may be granted sufficient legitimacy if its attributes are well understood and are clearly enough linked to accepted technical conventions. This concept is succinctly summarized as "understanding design as designing understanding" (Hargadon & Douglas, 2001: 491).

The need for sufficient legitimacy does not only include technological issues but also social issues such as organizational forms or practices. A study by Kostova & Roth (2002) demonstrates that new organizational practices also depend on a growing sense of legitimacy. The adoption of an organizational practice (quality management) by the subsidiaries of a multinational corporation (MNC) was influenced by two factors: the institutional profile of a host country, which is the "issue-specific set of regulatory, cognitive, and normative institutions in a given country" (Kostova & Roth, 2002: 217), as well as the relational context within which the MNC had to comply with a given mandate. As in the Edison example provided in detail above, the Kostova and Roth (2002) study highlights the importance of acquiring sufficient legitimacy for a new technology or new organizational practice. Both examples also illustrate how powerful the interplay between a focal organization and the institutional requirements of its surrounding system.

The importance of sufficient legitimacy is highly relevant to the thesis on the relationship between organizational diversity and firm performance. If organizational diversity is introduced or significantly increased in an organizational field, the initial legitimacy is likely low. However, if organizational diversity is well understood and closely linked to established priorities in a field, the legitimacy is likely to increase. The Business Case for Diversity appears to be a strong example of this principle, in that it advanced the conceptual link between diversity and higher firm performance which is arguably more persuasive to a for profit organization than the link between diversity and social fairness.

Institutional Change through Shifts in Logics

A second mechanism for institutional change is based on shifts in institutional logics, which are used by actors within an institutional field to assess legitimacy (Friedland & Alford, 1991; Rao, et al, 2003; Lounsbury, 2002). The founding conception of logics was advanced as "a set of material practices and symbolic constructions which constitutes its organizing principles and which is available to organizations and individuals to elaborate" (Friedland and Alford, 1991: 248). This definition is based on the understanding that mutual awareness develops "among participants in a set of organizations that are all involved in a common enterprise" (DiMaggio & Powell, 1983: 148). Later definitions noted more specifically, that this set of organizations is defined as a field, and that a field develops unique logics. Specifically, logics are described as "belief systems and associated practices that predominate in an organizational field" (Scott, Ruef, Mendel, Caronna, 2000: 170).

Firms comply with institutional logics in order to gain and retain legitimacy, and subsequently, to achieve positive economic performance and survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Hence, institutional logics set the limits within which strategic behavior is permissible (Scott, 2008) and thinkable. The logics that operate in a field govern the thinking and behavior of field members (Friedland & Alford, 1991, Scott, 2008; Thornton & Ocasio, 1999).

While logics have not yet been assessed for organizational diversity, they have been studied in other domains, using quantitative approaches (e.g. Carroll and Hannan, 1989) as well as qualitative ones (e.g. Hoffman, 1999). The study by Carroll and Hannan (1989) assessed taken-for-grantedness, a deep cultural-cognitive construct, through the number of firms that operate within a field (density). Qualitative approaches have been able to tap the nature of logics in more proximate ways (Hoffman, 1999; Lounsbury, 2002; Thornton and Ocasio, 1999).

Field logics, which are associated with the cultural-cognitive pillar of institutions (Scott, 2008) provide a field with varying templates for organizing (Friedland & Alford, 1991). In a study of the industry of higher education, differences in acquisition patterns could be linked back to differences in the dominant logics in the industry (Thornton, 2001). In fields governed by a market-logic, publishers that pursued an imprint strategy and those that held distribution contracts were at a higher risk of being acquired than other publishers. In fields governed by an editorial logic, the likelihood of being acquired was not affected by imprint and distribution strategies. Hence, the acquisition behavior of organizations is expected to change when field logics change.

Logics likely play a key role in how fields of firms approach organizational diversity. For example, one could argue that the three perspectives on diversity (Ely & Thomas, 2001) and the four motivations for diversity (Dass & Parker, 1999) closely resemble logics about diversity. Diversity logics would be taken-for-granted, and collectively shared cognitive prescriptions about how to interpret, value, and organize organizational diversity. For example, if a field had a strong logic that calls for resisting diversity, a firm that increases its organizational diversity will risk some loss of legitimacy.

Institutional Change through Rhetoric

A third stream of research bases institutional change on rhetoric, which is defined as "the strategic use of pervasive language" (Suddaby & Greenwood, 2005). Rhetoric can alter underlying logics through conscious and directed agency (Suddaby & Greenwood, 2005). A recent definition views logics as "taken-for-granted, resilient social prescriptions" (Greenwood & Suddaby, 2006: 28) that act towards a shared understanding of a particular issue. Logics, in turn, are used to assess a firm's or practice's legitimacy (Friedland & Alford, 1991; Rao, Monin, & Durand, 2003).

Especially social movement theory has highlighted the importance of connecting new logics to core values that reside within a field in order to dislodge established institutional logics (Rao, et al, 2003; Lounsbury, 2002). For example, deliberate rhetoric was used to alter the underlying logic that assessed the legitimacy of the emerging nouvelle cuisine relative to the classical haute cuisine in France from 1970 to 1997 (Rao, et al, 2003). The two logics of classical and nouvelle cuisine represent two categories or codes of conduct that directly oppose each other. Specifically, haute cuisine had very stringent rules on what ingredients and what cooking techniques may be used for a long list of traditional dishes that even carried the names of well known places or noblemen. The role of the chef was to conform to these traditional routines and to stay in the background. Nouvelle cuisine broke all of these rules with its innovative dishes full of unusual ingredients that placed the chef at the center of attention. Critical to the success of this change was the use of rhetoric by several actors in the field, including the newspaper media, which use language to reframe the role of the chef as "an innovator, creator, and owner" (Rao, et al, 2003: 807). This reframing linked the new role of the chefs and their dishes with the general preferences of the general society for less conformity and authority (Rao, et al, 2003).

Ultimately, rhetoric offers a window into understanding more clearly how active agency can result in new organizational forms and practices (Suddaby & Greenwood, 2005). For the case of Employment Equity, the Abella report provides an example of how an individual agent, Judge Abella used rhetoric to warn of the dangers of letting systemic discrimination and resistance to diversity persist and argued passionately for equality in employment because it is the fair and socially correct goal to pursue.

As the federally regulated industries have developed, their logics and rhetoric about diversity and the associated legitimacy for diversity have likely changed and varied. My thesis does not try to access these important elements (logics, rhetoric, and legitimacy) directly but only speculates on them as potential mechanisms for observed change and variation in the organizational diversity of the federally regulated organizations.

The next section describes some of the general changes in the Employment Equity Act over time and the variation in approaches that it allows for.

Change Over Time in Employment Equity Legislation

The development of Employment Equity in Canada could be assessed in terms of the four perspectives identified by Ely and Thomas (2001) and Dass and Parker (1999). A full qualitative assessment of all documents that are available from 1984 to 2008 could potentially reveal how similar or dissimilar Canadian Employment Equity is from the perspectives and motivations towards diversity in the US that prior studies have identified (i.e. Ely & Thomas, 2001; Dass & Parker, 1999). However, such an analysis is outside the scope of the dissertation, and may be addressed by future research. My present aim is to provide empirical evidence for variation in the actual representation of the four designated groups across the 37 federally regulated industrial sectors, and to demonstrate that such variation has a moderating effect on the relationship between organizational diversity and firm performance. Hence, I will draw on the historic documents only in an illustrative manner to provide a conceptual basis for my expectation to find variation across industrial sectors and within industrial sectors over time.

The EE documents (e.g. Abella report, the Employment Equity Act, Parliamentary debates on the Act, and reviews of the Act every 5 years) indicate a gradual change from resisting diversity as a systemic condition that the Abella report notes, to the discrimination-and-fairness perspective of the Abella report and the EEA, to more recently the access-and legitimacy and the integration-and-learning perspectives. However, it would be too simplistic to claim that along this process, one perspective becomes abandoned in favor of another. Instead, it is more likely that a prior perspective becomes partially replaced with new perspectives while some individuals and groups retain earlier perspectives. This argument is supported by the level of disagreement and the contentious nature of the EEA, which was apparent from the beginning and has remained to this day. Below is a selection of materials that illustrates the change over time in the underlying motivation for diversity in the EEA.

Specifically, the Abella report reflects most strongly a regard for fairness and social justice, which appears most closely aligned with a discrimination-and-fairness perspective (Ely & Thomas, 2001). For example, Judge Abella states that the act "appeals to our collective sense of fairness" (Abella, 1984: 2), and that "the effect (of EE) may be to end the hegemony of one group over the economic spoils, but the end of exclusivity is not reverse discrimination, it is the beginning of equality" (Abella, 1984: 10). The step towards fairness and equality advocated by the Abella report was viewed as necessary to end the reigning systemic discrimination, reflected in the "..long penalization in the form of under-training, underemployment, underpayment, and outright exclusion from the labor force....The most positive way to prevent further irreversible human and financial costs to these four groups from accumulating is to impose employment equity" (Abella, 1984: 17). Reference to notions of a discrimination-and-fairness perspective is also reflected, albeit in a more subtle way, in the actual Employment Equity Act from 1986. In more recent years, the "Business Case for Diversity" has increased steadily in emphasis. Reviews of the EEA in 1996 and 2001 and more recent parliamentary debates note that EE provides specific economic benefits to employers, thereby reflecting the "access-and-legitimacy" perspective.

Institutional Variation and Degree of Conformity

Institutional variation is an important antecedent to institutional change (Kondra & Hinings, 1998). In order for change to occur, firms need to act in ways that depart from the set of behaviors that are institutionally prescribed for their specific context. If no deviations occurred or persisted, "change would never occur; organizations would be frozen in time. "Diversity (in organizational forms and behavior) is the *sine qua non* of change" (Kondra & Hinings, 1998: 750, italics in original). Variation implies that multiple, often conflicting, institutional demands are present. Conflicts and contradictions in institutional demands have been argued to drive institutional change (Seo & Creed, 2002). Hence, a deeper understanding of variation is a critical element for a better understanding of institutional change.

As Tolbert and Zucker (1999) point out in the following quote, the traditional conception of institutionalization is one of either yes or no, with less emphasis on variation.

> Institutionalization is almost always treated as a qualitative state: structures are institutionalized or they are not. Consequently important questions of the determinants of variation in levels of institutionalization, and of how such variation might affect the degree of similarity among sets of organizations, have largely been neglected (Tolbert & Zucker, 1999: 176).

Many of the forms and practices studied lend themselves to a conceptualization of institutionalization as a dichotomous construct. For example, a firm either adopts TQM or it chooses not to, it either has an M-form or it does not. Instead of institutionalization as either yes or no, a tri-stage conceptualization has also been advanced (Tolbert & Zucker, 1999). It notes that an organizational practice can exist in one of three phases: pre-institutionalization, semi-institutionalization, and full institutionalization. In the pre-institutionalization phase, there is limited knowledge about the benefits and costs of the practice and there are only few adopters. Under full institutionalization, the practice is highly diffused across most organizations and it has become taken for granted as technically useful and necessary. In the semi-institutionalization phase, some normative acceptance exists and the practice is fairly diffused but there is not yet a substantial history (Tolbert & Zucker, 1999).

The phenomenon of organizational diversity challenges institutional theory to consider that a practice can be adopted with varying degrees, instead of a practice either being fully accepted or not accepted. If institutionalization is understood in terms of varying degrees, we move from a yes or no conceptualization, or even from a tri-stage conceptualization, to one that conceptually varies continuously. In this thesis, the unit that is at the centre of such continuous variation is the degree of conformity in a field on the adoption of organizational diversity. Others have also noted that there has been too much emphasis in the research on diffusion and not enough focus on variation (Lounsbury & Ventresca, 2003).

The EEA is primarily an example of regulatory influence. The governmental act does not specify firm quotas or specific employment targets but only encourages increased representation of historically underrepresented groups based on rationales of equity and fairness by requiring firms to report their representation of designated groups. The absence of quotas or firm targets makes the EEA flexible and somewhat unspecific and uncertain. All goals are generated by the organizations themselves and provide the reference points for subsequent audits by the government. Fines for non-compliance with EE are threatened in the Act with a maximum of $50,000 but have so far never been used to punish low performing or late filing organizations (personal conversation with Ms. Lindsay Beatty, Manager of Employment Equity, September, 2008). The flexibility of the EEA allows employers to respond to EE differently with varying degrees of representation of the four designated groups. The act does allow for a high degree of flexibility and autonomy in how much diversity is included in an organization and at what levels. The reason that employers may react differently may very well lie in the institutional forces that act on the members of a particular organizational field. Within these organizational fields, or industrial sectors, the government and collections of organizations operate as actors that are likely to interact more frequently. This interaction combines governmental regulations about Employment Equity with rules and meanings about the EEA that organizations establish collectively for their field. The EEA provides a common base line goal and initial impetus, but the extent of the actual goal implementation hinges on how organizations interpret the impact and necessary management of demographic changes on their economic interests.

The next section defines the term degree of conformity and explains how such a higher level construct can emerge from processes within the firm.

Definition of Degree of Conformity

Degree of conformity captures the dispersion of an organizational practice (Hoffman, & Klein, 2070), in this case organizational diversity. Underlying this construct are varying degrees of institutional pressure towards isomorphism. A field with a high degree of conformity will exert more institutional pressure on its members to conform and will be characterized by member organizations with very similar diversity. A field with a low degree of conformity will have less institutional pressure and therefore, will be composed of field members that, on the aggregate, have a higher variation in the range of their organizational diversity indices. Degree of conformity will be operationalized as the variation in the aggregated diversity index in a field.

Degree of conformity offers a more nuanced approach to assessing diffusion of a practice than firm counts (e.g. Carroll & Hannan, 1989). According to the logic of firm counts, all firms within federally regulated industries could be counted as having implemented EE, since all of them do show some level of representation of the four designated groups. However, important detail would be lost with such an approach since there are important differences across organizations in their *degree* of representation of the designated groups which signals how far institutionalization has actually progressed in the field.

Field conformity is a higher level (second-order) construct at the level of analysis of the field, sector, or industry, that arises from processes at the firm level (first order). Hence, a degree of conformity in the field is created by bottom up processes. Bottom-up processes have received relatively less attention than top down processes (Kozlowski & Klein, 2000). Bottom-up processes describe phenomena with a theoretical origin at a lower level but emergent properties at a higher level, for example, organizational culture, team effectiveness, or organizational learning (Kozlowski & Klein, 2000). Bottom-up processes are consistent with the view in institutional theory that change can originate from within a field rather than from external forces (Wooten & Hoffman, 2008). There are generally two types of bottom-up processes that have been conceptualized: isomorphic composition and discontinuous compilation (Kozlowski & Klein, 2000). Isomorphic composition describes processes of emergence where individual elements are essentially the same as higher elements. Discontinuous compilation describes emergence processes where individual elements have a common domain but are distinctly different as they emerge across levels (Koslowski & Klein, 2000). I conceptualize the emergence of degree of conformity as an isomorphic composition and a bottom-up process. This process is described in more detail in the next section.

Bottom-up Composition of Diversity Indices to the Field Level

The diversity indices of individual firms emerge from the bottom up by a process of isomorphic composition to give rise to the degree of conformity at the field level. Many organizational phenomena, such as organizational culture or organizational learning have their origins in the cognition, affect, or behavior of individuals, and have also emergent properties that manifest at higher levels (Kozlowski & Klein, 2000). As individuals interact and exchange, a higher level unit emerges. Following this logic, I root the theoretical origins of the degree of conformity in the three general mechanisms for variation and change that have been identified by the institutional theory literature (reviewed above) (see Figure 3). As members of a field interact frequently and faithfully with each other to exchange their beliefs, expectations, and experiences about organizational diversity, they are expected to develop a common system of practices, rules, understandings, and meanings (Phillips, et al, 2004; Scott, 2008; Scott & Meyer, 1994). This interaction will determine if and in which way a field will value diversity. For example, a field may resist diversity or it may see adopting diversity as a moral and social obligation or it may see it as a strategic business opportunity. A higher degree of conformity emerges if the members in a field behave more closely to each other, while a lower degree of conformity means that there is more variation in the field possibly coupled with more discussion about the application and motivation for diversity as well as different ways of interpreting diversity.

Top-down Contextual Influences of Degree of Conformity on Firm level Relationships

Once created, the field level unit (degree of conformity) exerts a contextual influence on the individual firms within the field (see Figure 3). There are generally two ways in which a higher level unit can influence lower level units: either via a direct effect on a lower level unit or as a moderator of lower level relationships or processes (Kozlowski & Klein, 2000). In my theoretical model, the field level unit (degree of conformity) acts as a moderator that influences the firm level relationship between organizational diversity and firm performance (see Figure 1).

In terms of the three types of diversity, degree of conformity refers to diversity as disparity

(Harrison & Klein, 2007) since it describes the distribution of diversity within a field.

So far, the literature has not yet assessed whether or not fields differ in their degree of conformity on a form or practice. We do know already that fields differ in terms of which practices they adopt (e.g. Bansal & Penner, 2002). Not established has been that a field can differ in terms of the degree of adoption of a common practice, which indicates the degree of institutionalization of the practice. It is important to assess institutionalization from such a more nuanced perspective because a practice can appear diffused in a field but only to relatively low degrees, indicating lower degrees of institutionalization. Such degrees of institutionalization at the field level are captured by the degree of conformity.

CHAPTER II
Conceptual development and hypotheses

Firms that are regulated by the EEA are all subject to common regulation, which is a powerful institutional force towards isomorphism in form and function (DiMaggio & Powell, 1983). A study of organizations subject to affirmative action and equal employment opportunity (AA/EEO) legislation that required organizations to include members from historically underrepresented groups in US organizations (Edelman,1992), is consistent with this prediction. Common regulations and mimetic processes between firms fuelled widespread adoption of AA/EEO, so much so that the practice was considered fully institutionalized (Edelman, 1992). The population of firms governed by the law is considered to belong to the same unit. Hence, the firms subject to Employment Equity regulation in this thesis have in common a strong regulatory pressure that is missing for those firms not covered by EE. This common regulatory pressure could be an antecedent to isomorphic adoption of organizational diversity across all of the regulated firms.

However, the notion of organizational field (Scott, 1991) challenges such an expectation of isomorphism with respect to diversity for these organizations. Further, more recent work in institutional theory has highlighted that fields are more fragmented than previously thought (Wooten & Hoffman, 2008).

The firms that are subject to EE regulation belong to different fields or industrial sectors with distinct technical and business requirements. Not only are these firms subject to regulatory pressures, but are also governed by normative and cultural-cognitive institutions that exist within the field to provide shared meaning to social behavior and stability (Scott, 1991, 2008). Given common institutional pressures within a field, organizations within a field are expected to be more homogeneous than organizations outside the field (Scott, 2008). Within-field homogeneity is also attributed to the more frequent interaction between members of the field that generates shared understanding, interpretation, and evaluation of important issues (Phillips, et al, 2004; Scott, 2008; Scott & Meyer, 1994). Due to the common understanding about issues that confront a field, for example organizational diversity, the responses of the collection of firms in the field are likely more homogeneous than in comparison to the responses of other fields. Within a field, firms imitate or mimic each other, set common guidelines to behavior, form best practices and are all exposed to regulations and laws set by agencies and governments that are part of the field (DiMaggio, 1991).

Hence, despite common EEA regulations, there are likely important differences across fields as firms within fields elaborate and make sense of EE for their specific case, independent of such processes within other fields. Variations can be rooted in "differences in space and time in the strength of cognitive beliefs or normative controls" (Scott, 2008: 161). While all of the regulated firms are expected to comply with regulatory requirements by including *some* diversity in their organizations, there remains discretion about *how much diversity* will be included in the organizations. The introduction of the Employment Equity Act in 1986 represents an initial spark to the lasting debate on the benefits of organizational diversity. It represented an institutional impetus stemming from the regulative pillar (DiMaggio & Powell, 1983). The subsequent dialogue between government and the regulated industries as well as within the organizations within an industry likely created a more nuanced and more experience-based understanding about the Act and how to value diversity. The following statement by a senior executive of one of the regulated industries supports the above argument:

> The [EE] legislation provides the bare minimum; it's the minimum starting point that people need to be considering. I think the only difference is that successful

> companies go way outside of that (Bohdan Bodnar, Vice President Human Resources, Spectra Energy, HRDSC website September 2008).

The choice about the degree of organizational diversity could be explained with deeper level factors such as prevailing legitimacy for diversity, type of logic or perspective on diversity, and dominant rhetoric about diversity.

Fields will respond differently when confronted with a common challenge, because they differ in their histories, structural features, and capacities (Scott, 2008). These different histories, structural features, and capacities create unique logics for each field over time. One cross-national study by Biggart and Guillen (1999) supports this general argument about important differences across fields. Auto industries in four countries (South Korea, Taiwan, Spain, and Argentina) responded differently to increasing competitive pressures from the global environment that placed local producers in direct competition with often more powerful, distant global producers. The auto industries of each country (which served as the definition of field) reacted differently to these common competitive pressures. These differences in responses were traced back to differences in logics. Firms from each country held idiosyncratic logics that were rooted in country differences, such as typical firm size, the degree of vertical integration, and the strength of links between firms and state.

More recent conceptualizations about how institutions spread or diffuse at the field level help explain further why variation can exist. Earlier conceptualizations "imply that organizational practices spread through fields like wildfires, with members succumbing to pressures to adopt these practices" (Wooten & Hoffman, 2008: 142). More recent work views a field as a "highly interactive relational spaces" (Wooten & Hoffman, 2008: 142). In contrast to mimesis and taken for granted forces in the diffusion model, this alternative mechanism focuses on translation of organizational practices from the field level to the organizational level (Zilber, 2006). As the organization translates a practice to apply to the organizational level, it "bends and shapes an organizational practice such that it will hold meaning for their own organization" (Wooten & Hoffman, 2008: 142). The interpretation and sensemaking that are part of this process have been found to play an important role in general (Weick, 1995). For example, interpretive processes can provide an explanation for differences in field-level behavior as demonstrated by a study of four newspaper publishers (Bansal & Penner, 2002). Here, the interpretation of the need and the feasibility for recycling by distinct networks resulted in variation in the publishers' responses.

Despite being constrained by institutional forces, individual organizations and by extension fields of firms have room for strategic agency (Oliver, 1991). However, organizational action involves typically not a choice among unlimited possibilities but rather a choice among a more narrow set of options that are defined as legitimate (Scott, 2001; Wooten & Hoffman, 2008). Organizations deliberating which approach to take towards organizational diversity are therefore less likely to assess an endless set of alternatives, than to choose among options that have been established as legitimate approaches towards organizational diversity. Specifically, firms and fields have the option to react differently to organizational diversity, for example, they may resist it as much as possible, they may treat it as a means to unlock new markets and gain larger employee pools, they may see it as a matter of social fairness in response to a historic injustice, or they may see an opportunity for unspecific learning. While the noted possibilities have been well established by prior work (Dass & Parker, 1999; Ely & Thomas, 2001) and are consistent with the Canadian case of EE, there may be further conceptualizations and approaches that future work could uncover.

Dass and Parker (1999) point out that there is not one ideal way to deal with diversity because circumstances and contexts differ: "pressures for diversity can vary and even conflict; hence, ideal approaches are particular instead of universal" (Dass & Parker, 1999). Since internal and external pressures towards diversity vary and since different firms may exhibit distinct strategic responses to diversity, such as reactive, defensive, accommodative, or proactive (Dass & Parker, 1999), we can expect differences to exist between and within fields. Such responses imply different underlying recipes for how to understand, value, and manage diversity.

Choosing among available approaches to diversity is viewed as a largely discretionary process that will include an assessment of whether or not a particular approach is seen as applicable given the specific business requirements of the field. Consistent with a stronger agency assumption about the actions of organizations despite institutional constraints (Oliver, 1991), organizations are less likely to adopt high levels of diversity then necessary for regulatory compliance if it is seen as inconsistent with the technical and tasks requirements.

I argue that fields differ in two key attributes related to their organizational diversity: first, they will differ in terms of the net benefit of diversity they perceive, and second, they may differ in terms of how similar the members of a field are in their perception of this mentioned net benefit. The first attribute determines the mean level of adopted diversity, while the second attribute determines the field's degree of conformity. Fields are conceptualized to vary along two continuous and independent dimensions of organizational diversity, first the level of diversity and second the degree of conformity on diversity. To simplify the endless combinations of level and degree of diversity, I offer four generalized types of fields: 1) a field with low levels of diversity and a low degree of conformity, 2) a field with low levels of diversity and a high degree of conformity, 3) a field with high levels of diversity and low degrees of conformity, and 4) a field with high levels of diversity and high degrees of conformity. These four types are depicted in Table 3 and described in the next section. Due to the design of my study, I am not able to demonstrate the underlying reasons for why a field has its particular attributes. Any links to underlying reasons are speculative but nevertheless included to give the reader a sense of why a field *may* have its particular characteristics.

Typology of Fields

Conformity at High Levels of Diversity

Theoretically, a field may exhibit a high degree of conformity at a high level of organizational diversity. In this case, most members of the field have adopted higher levels of organizational diversity and view diversity as contributing positively to the achievement of strategic business goals. The extent of contestation about practices is likely low since the majority of members of the field have adopted similar levels of organizational diversity. The field likely has task characteristics that fit with the Business Case for Diversity argument, for example, a service industry or an industry with diverse customers and constituents (Frink et al, 2003; Richard et al, 2007). In terms of Oliver's (1991) strategic responses to institutional pressures, the field can be viewed as acquiescing to institutional pressures towards diversity. This type of field may assume that it knows how to best manage diversity and is likely sharing best practices. Hence, there are institutional and task reasons at the root of this high degree of conformity at a high level of diversity. In other words, organizational diversity is considered a legitimate and technically applicable organizational practice. Due to the strong pressure towards conformity, field members are less likely to adopt significantly higher or lower levels of diversity than the rest of the field. In terms of stages of institutionalization, this field can be described as having organizational diversity fully institutionalized (Tolbert & Zucker, 1999).

Conformity at Low Levels of Diversity

A field may exhibit a high degree of conformity around organizational diversity but at lower levels. I speculate that in this case, most members of the field have adopted low levels of diversity and are less likely to view diversity as contributing positively to the achievement of strategic business goals. Such a field may be one of those industries that have been found previously to be unable to find a way to manage diversity (Kochan, et al, 2003). This field may have task characteristics that do not fit with the Business Case for Diversity argument, for example, being a manufacturing industry, that faces resource-scarcity and high volatility (Frink et al, 2003; Richard et al, 2007). This type of field is not likely to go beyond minimum levels of diversity that are encouraged by the EE regulation. Hence, there are institutional and technical reasons for the high degree of conformity, but in this case, the conformity occurs at a low level of diversity. In other words, low levels of organizational diversity are considered the legitimate and technically applicable approach. Due to the strong institutional pressure towards conformity on low diversity levels in addition to the low task relevance, field members are less likely to adopt significantly higher levels of diversity. If such a field is indeed resisting diversity, even lower levels of diversity may appear attractive for task reasons but are constrained by regulatory pressures. In terms of stages of institutionalization, this field can also be described as having organizational diversity fully institutionalized (Tolbert & Zucker, 1999), since there is a high degree of conformity.

Full institutionalization at low levels of organizational diversity can be further subdivided into two cases that differ in the preceding history and underlying reason for conforming at low levels. A field with these two characteristics can either be slow or unwilling to adopt higher levels of diversity, or it may have considered diversity as an option, experimented with it, and found it to be less applicable to its specific business needs and without expected net benefit. This more nuanced argument is only foreshadowed here, but will be explored in detail later in the thesis.

The above discussion suggests a dichotomous nature of organizational diversity at full institutionalization. While institutional theory in general would expect that full institutionalization may occur at different levels of a practice, full institutionalization is typically seen at high levels. For the specific case of organizational diversity, no study to date has examined at which levels full institutionalization of this practice may occur. I note that the following hypothesis makes a more incremental contribution to the institutional literature, since the theory allows for full institutionalization at any theoretical level of adoption of a practice. However, empirical evidence of fields arriving at different levels of organizational diversity after over 10 years of interaction, despite general pressures towards isomorphism, does offer an interesting nuance worth probing. Further, this hypothesis does have the potential to make an important contribution to the diversity literature since no study to date has offered such a detailed look inside diverse organizations. From the outside, all firms regulated under the Employment Equity Act look the same, yet detailed data about the actual levels of diversity may reveal important differences across organizations and fields. The first three hypotheses are important building blocks for my later arguments.

Hypothesis 1:

Fields will differ such that a high degree of conformity will exist at high or low levels of organizational diversity.

Variety at Low Levels of Diversity

A field may exhibit a low degree of conformity around low levels of organizational diversity. The field will be made up of members that vary in their level of adoption of organizational diversity, some will have low levels of diversity, some will have medium levels of diversity, and a few will have high levels of diversity. The Business Case for Diversity will likely not apply to this field, because industry characteristics that are typically stressed as critical for the Business Case (service industry, industry munificence) do not exist. There will be fewer or unclear guidelines and prescriptions for how to manage diversity. Hence, there will be lower pressure towards conformity and a greater opportunity to pursue diversity for different reasons and in different ways. In terms of stages of institutionalization, this field can be described as having organizational diversity semi-institutionalized (Tolbert & Zucker, 1999).

Variety at High Levels of Diversity

This type of field generally values diversity but does not have strong institutional pressures towards conformity. If the aggregated level of diversity in the field is high, it is less likely that the majority of members of the field resists diversity, but is more likely to value diversity positively, out of several possible motivations, such as for reasons of social farness, of market or labor pool access, or of learning. With institutional pressures low, individual firms are more free to develop unique approaches to diversity that the field considers legitimate. In terms of stages of institutionalization, this field can be described as having organizational diversity semi-institutionalized (Tolbert & Zucker, 1999).

In sum, even though all the organizational fields (industrial sectors) are governed by the same EE legislation, differences in how much and for what reasons a field values diversity are likely to exist. Each field will develop a shared approach that is more consistent within the field than with approaches of other fields. I argue that these differences in understanding and valuing diversity will be visible in the actual levels of organizational diversity. In addition to differences in level, there will likely be differences in the shape of the fields' distribution. Some fields are expected to have a wider distribution, while others will have a more narrow distribution, reflecting their degree of conformity. A more narrow distribution indicates that there is a higher degree of conformity around a certain level of organizational diversity, while a wider distribution indicates that there is lower degree of conformity around a certain level of organizational diversity. Institutional theory would likely predict that a field develops an approach to an organizational practice that is unique to the field and distinct from the approaches of other fields. However, it is less certain that this would be the case for organizational diversity since Employment Equity legislation is the same across all fields so that isomorphism of all firms across fields would be a plausible expectation. I expect that field differences due to interpretation of the Act outweigh isomorphic pressures due to the common legislation. Hence, I offer the following hypothesis.

Hypothesis 2:

There will be differences across fields in the level of organizational diversity and the degree of conformity at such levels of organizational diversity.

These differences can be assessed at any point in time but will be most visible over time in the form of growth trajectories. I posit that individual growth trajectories will be more dissimilar for firms from different fields than in comparison to trajectories of firms from the same field. Differences in growth trajectories are able to detect differences in the rate of growth of organizational diversity, or a field's rate of adoption. The understanding and evaluation for the particular needs of a field is viewed to impact not only the level of adopted diversity but also the rate of this adoption.

Hypothesis 3:

The organizational diversity growth trajectories of firms within fields with high degrees of conformity will be similar to each other and dissimilar from the trajectories of other fields.

The preceding section has summarized possible differences in the shared approaches towards organizational diversity between fields that lay the foundation for the following arguments which are not directly deducible from prior theory. The next section will focus on building theory about how such field level differences, especially in degree of conformity, matter to firm performance.

Performance Effects of Low versus High Degrees of Conformity

According to the dominant thinking in institutional theory, higher degrees of conformity are desirable, for the firm as well as the field. The firm gains and retains legitimacy if it conforms to standard approaches, which will subsequently lead to positive economic performance and survival (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Firms that conform to the standard approach of the field to diversity will have access to important resources, such as new recruits, and best practices shared by the field. Fields with few, complementary approaches to diversity are more stable and more consistent in the normative prescriptions about diversity. Past research has found that there is a more positive relationship between race diversity and performance in stable environments (Richard, et al, 2007). High degrees of conformity are consistent with full institutionalization (Tolbert & Zucker, 1999) which is generally considered a more advanced outcome, than pre-institutionalization or semi-institutionalization, that imply that the process of institutionalization has not progressed sufficiently to fully establish a form or practice. Generally in the institutional literature, low institutionalization and variance imply confusion, while high institutionalization means clarity and stability (Scott, 2008). The presence of multiple institutional frameworks that are based on conflicting organizational field logics are viewed as reducing the coherence and stability of a field's structure (Scott, 2008: 204).

However, is greater clarity as reflected in higher degrees of conformity always more desirable? Is it indeed generally true that a field with clarity rather than confusion is preferable regardless what the clarity is referring to? I argue that it is useful to differentiate between automatic and less rationalized assumptions of conformity that are implicit in terms such as mimesis, myth, taken-for-grantedness, ceremonial, or superficial conformity from the conception of a "collective rationality" that provides informed clarity and rational similarity based on field member interaction (Scott, 2008: 217).

For the case of organizational diversity, high degrees of conformity may reflect two underlying conditions: a sense of informed clarity or one of myth and blind mimicry. A low degree of conformity can mean either a state of confusion, or a sense of experimentation and exploration. Exploration, an essential part of learning and innovation, is generally associated with activities that increase variance (Smith & Tushman, 2005). Variance, or a low degree of conformity, is essential to the performance effects a field can expect from any form or practice, including organizational diversity. Before discussing performance effects rooted in field level degrees of conformity, I will discuss when and why degrees of conformity may be high versus low. I posit in the next section that phases with both types of conformity may exist along a field's path over time.

A Field's Path from Lower to Higher Levels of Organizational Diversity

The starting point of a new form or practice, including organizational diversity, is the pre-institutionalization phase (Tolbert & Zucker, 1999). For the case of organizational diversity, this stage of institutionalization will be reflected by a fairly high degree of conformity around a low mean of the aggregated diversity.

In the next phase, a field may conform swiftly around lower levels of diversity without full exploration of the potential benefits of organizational diversity beyond the Business Case for Diversity. I have argued earlier that in a field with high degrees of conformity at low levels of diversity, the pressures towards conformity will be strong and the Business Case for Diversity is perceived to not apply. Under such conditions, it is less likely that any single firm will defy these pressures (Oliver, 1991) and will initiate a step towards increased variation, which would ultimately move the field to higher levels of diversity.

Despite general isomorphism and rigid stability for most members of a field, some firms are able to respond strategically to institutional pressures (Oliver, 1991), and to initiate change

(DiMaggio, 1988). This behavior of a small number of field members will initiate change for the entire field. Others have advanced the argument that firms can be motivated to deviate from institutional norms by a desire to improve their performance (Kondra & Hinings, 1998). In comparison to firms that conform to the established rules of the field, these early adopters of a new level of diversity face more uncertainty and ambiguity. In a study of the defense industry, Scully and Meyerson (1996) demonstrate that a state of high ambiguity existed before practices emerged that were more isomorphic. Hence, as a field shifts from a new practice or form that is just emerging, to institutionalization of the practice, it moves through a stage of higher variance that reflects a greater degree of uncertainty and ambiguity. Early adopters of higher levels of diversity are defined by a small number of firms that increase levels of organizational diversity despite prevailing conformity in the field on a lower level of diversity. Due to the actions of these early adopters, higher levels of diversity are becoming more legitimate for institutional reasons as well as technical reasons.

Variation is generally considered a critical antecedent of exploration (Smith & Tushman, 2005) and change (Kondra & Hinings, 1998). As a few leaders in the field move towards higher diversity indices, thereby defying prevailing institutional pressures (Oliver, 1991), the field at large is expected to follow. Hence, the field moves to a higher level of diversity. (Empirically, this will be reflected in an increase in the aggregated diversity index, a decreasing degree of conformity, and a distribution that is skewed to the right).

According to the logic of institutional theory, other firms in the field will mimic the early adopters by also increasing their levels of diversity. Subsequently, the level of diversity will increase and the degree of conformity will decrease again as a higher percentage of firms in the field will have similar levels of diversity, that are higher than they were previously. The trend is expected to be generally upward due to the underlying Canadian EE legislation and a Canadian public that is generally supportive of improving social fairness and equality. The preceding discussion is summarized in the following hypothesis that predicts that the degree of conformity will oscillate between high levels and low levels of organizational diversity, as a field moves from pre-institutionalization to full institutionalization.

Hypothesis 4:

A field's level of organizational diversity will have an upward trending cyclical pattern of high and low degrees of conformity.

Up to this point, the conceptual development has focused on the field rather than on the firm. These previous sections were necessary to establish the foundation for the central point of interest in the remainder of the thesis. This central concern is the performance of the individual firm as it is situated within a field. Instead of assuming that a focal firm is independent of the approaches to diversity of members in the same fields, I aim to model this interface between firm and field explicitly. Such explicit treatment is important as I will argue that the type of field (high/low level of organizational diversity and high/low degree of conformity) will impact the size of the performance benefit a firm can generate from its adoption of organizational diversity.

Firm – Field Interface

According to the Resource-Based View, organizational diversity can be considered a strategic resource that has the potential to improve firm performance (e.g. Richard, 2000; Richard et al, 2007). The underlying mechanism that links a strategic resource such as organizational diversity to higher firm performance is the strategic differentiation from competing firms. The RBV has been described as a theory that does not focus on averages but outliers since those firms that are different enough from the competition gain a competitive advantage (Hansen, Perry, & Reese, 2004). According to the economic logic of the RBV (Barney, 1991, 2001; Peteraf, 1993, Wernerfelt, 1984), idiosyncratic resources and capabilities that form the basis of competitive differentiation can explain the heterogeneity of firms. If a firm is able to organize for exploitation its valuable, rare, inimitable, and non-substitutable resources, it can create a competitive advantage that reduces competitive pressures and allows it to reap economic value (Barney, 1991, 2001). Hence, if a firm possesses organizational diversity in a quantity or quality that is significantly different from the diversity of its competitors, without threats of rapid imitation, it can expect a positive performance effect.

The strategic literature has treated differentiation consistently as a way to higher price premiums and firm rents (Porter, 1980; Barney, 1991). To earn above-normal returns, the firm's strategy has to offer perceived value (Porter, 1980; Barney, 1991). The RBV specifically places heavy emphasis on the notion of value: a firm can expect above-normal performance if its internal idiosyncratic and sticky resources or capabilities, that are tied to its strategy (Peteraf, 1993; Wernerfelt, 1984) are valuable, rare, inimitable, and organized to be exploited (Barney, 1991). A resource or capability is considered "valuable" if it enables a firm to exploit an environmental opportunity and/or to neutralize an environmental threat which is measured as the impact of a firm's resources and capabilities on its revenues or its costs (Barney, 1991, 2001). Thus, the strategic notion of value is succinct but lacks explanatory and predictive power, such that a resource or capability can be assessed as valuable *post hoc* but not predicted *ex ante*.

Although RBV research speculates on firm actions, it is within the firm's larger context (for example, an organizational field) that the value of the firm's resources and capabilities is based. Valuable resources and capabilities are inputs to valuable differentiation strategies. And it is ultimately the firm's strategy in relative comparison to its competitors' that determines if the strategy is indeed unique or differentiated.

In contrast to the RBV, the socialized perspective of institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977; Scott, 2001, 1995), offers opposing prediction regarding the potential of differentiation for firm success and survival. Institutional theory warns that a firm looses legitimacy if it deviates from the generally accepted structures and behaviors of other players in its institutional field, including its competitors (Meyer & Rowan, 1977; Scott, 2001, 1995). Strategic differentiation represents a possible instance for such loss of legitimacy due to deviation from field norms. Institutional forces may, in fact, impede firms from developing and exploiting unique resources in a field that does not encourage and reward such actions (Meyer & Rowan, 1977).

The sociological perspective of institutional theory notes that what is perceived as valuable is socially constructed; that there is no objective notion of value (Scott, 1995; Meyer & Rowan, 1977). For the case of organizational diversity, social construction of value means that diversity can be valued differently, ranging possibly from outright resistance of diversity (hence, a highly negative evaluation), to a focus on aspects of social fairness, marketability, and learning, which implies a generally positive evaluation.

While the two theories are at odds on the trade-off between conformity and deviance through differentiation, they are the same time perfectly suited for integration: institutional theory highlights forces that speak to the field or context level of analysis which contributes overlooked moderators to the firm-level pursuits of RBV.

In sum, it is the institutional field that ultimately determines the success of a firm's strategy based on organizational diversity. The next section offers specific hypotheses about how the interface between firm and field impacts firm performance. The main focus is on the degree of field conformity as a moderator of the organizational diversity – performance link.

Field Level Performance

In the institutional literature there are two studies that assessed differences between early and late adopters and the diffusion of institutions over time (Tolbert & Zucker, 1983; Westphal, Gulati, & Shortell, 1997). These studies (Tolbert & Zucker, 1983; Westphal, 1997) also provide important insights into how organizational fields differ in terms of their degrees of conformity at different stages of institutionalization and how a given degree of conformity will impact performance. Early adopters are more likely to use a rational and deliberate assessment of a new form or practice that includes a customized application to their specific technical and business requirements, while later adopters are more likely to adopt a practice for mimetic reasons (Tolbert & Zucker, 1983; Westphal, et al, 1997). Hence, the logic of action for early adopters is one of *instrumentality,* while the logic of action for later adopters is one of *appropriateness* (Scott, 2008: 163).

Specifically, in the study of the diffusion of civil service reforms (Tolbert & Zucker, 1983), there were significant differences between adopters and non-adopters during the earliest period of adoption (1885-1904). Larger cities with a higher proportion of immigrants and a higher proportion of white-collar to blue-collar inhabitants were more likely to adopt the civil service reform. Smaller cities were less likely to adopt the reforms during the early time, arguably because they faced different issues and constraints than larger cities, which made it more beneficial for them to adopt different reforms. At later times, differences between adopters and non-adopters were no longer significant, providing evidence for an increase in normative and cultural-cognitive pressures towards adoption (Tolbert & Zucker, 1983). Hence, later adopters faced stronger institutional pressures to adopt practices even if it did not provide an ideal fit with their specific needs. In contrast, early adopters were faced with less institutional pressure so that they likely had a choice in their actions. Hence, in fields with a lower degree of conformity around diversity, firms are able and motivated to make more rational assessments of how to include diversity in their organizations. In fields with a higher degree of conformity, firms will be less able and less inclined to use a more rational approach rather than a more mimetic approach towards diversity.

In addition to increased rationality in fields with lower degrees of conformity, firms are also more likely to explore customized approaches to organizational diversity that fit their specific organizational needs. In a study of over 2,700 U.S. hospitals, later adopters of a recommended total quality management system (TQM) conformed more highly to the standards that had evolved than did the early adopters (Westphal, et al, 1997). Also in comparison to the early adopters, the late adopters showed a lower level of customization of the TQM practices to their specific organizational needs. Overall, all late adopting hospitals increased their legitimacy, but only some improved their performance (Westphal, et al, 1997). In sum, late adopters tended to act out of concern for external legitimacy, which likely requires trade-offs with technical rational requirements.

While laws and regulations, such as the EEA, impose institutional pressures on organizations, these are often ambiguous enough to allow for social interpretation (e.g. Edelman, 1992). A field has the opportunity to construct collectively what it means to be in compliance

(Edelman, 1992). Demands and requirements are selectively perceived, interpreted, negotiated, and enacted (Weick, 1995). Collective interpretation and sense-making emphasize that there is an opportunity for active agency despite institutional pressures (Oliver, 1991), for the firm as well as for the field.

> Demands or requirements trigger not automatic conformity, but multiple questions: Does this apply to us? Who says so? Is this something to which we should respond? What might we do about it? Who else may be in the same situation? What are they doing? (Scott, 2008: 167).

If a field engages in such interpretation and questioning of an emerging field practice, it is more likely that the new form is not blindly adopted but is instead carefully assessed for its task-related applicability. Organizational fields that late adopters face are clearer but also more constraining than environments early adopters face. Late adopters are pressured to comply with a narrower set of choices and face loss or decrease of legitimacy for non-conformity (Tolbert & Zucker, 1983; Westphal, et al, 1997)

The above set of insights can be applied to the case of organizational diversity. Lower degrees of conformity encourage more rational and more customized approaches to organizational diversity. While it creates more uncertainty and ambiguity to operate without clear guidelines on how to deal with organizational diversity, lower degrees of conformity allow also for more choice and freedom. There is less pressure to adopt a form or practice that does not fit with the technical requirements of a specific organization. Adoption without clear field standards constitutes a type of defiance that is possible but requires more deliberate thought and analysis than acquiescence (Oliver, 1991). This type of due diligence assesses if a new practice or form will make sense strategically and can be appropriately integrated.

Reaching full institutionalization at lower levels of diversity without a prior phase of exploration may signal premature closure such that a collective myth has forced about organizational diversity as not desirable to business goals. It is possible that organizational diversity cannot provide significant benefits to a field; however, if the field has never *explored* the option of integrating and customizing diversity for its specific demands, there is less credibility to this argument.

Diversity at any adoption level is difficult to manage and hence costly. A field that includes diversity in order to comply with social expectations of fairness and equality may face higher costs without increased benefits. For example, introducing low levels of diversity, just to conform to institutional pressures, can potentially lower performance. Specifically, one study warns that just increasing the number of employees from traditionally underrepresented groups without addressing likely power differentials between dominant and non-dominant groups will not substantially improve the situation of the underrepresented group (Konrad, Winter, Gutek, 1992). Instead, such power differentials emphasize diversity as separation (Harrison & Klein, 2007) which may lead to unproductive conflict (Jehn, 1995), lower integration, lower productivity, or higher turnover (Milliken & Martins, 1996).

A field's boundary is set by the institutional rules, norms, and beliefs within which a firm may choose from a range of repertoires (Hoffman, 1999). The more a field is able to keep the contest alive between different perspectives about diversity, the broader is the range of repertoires that exist in a field. The broader the range of the repertoire, the more likely it is that a firm can select a repertoire that fits with its specific organizational needs and goals. For the case of diversity, high field variance means that the members of the field are less alike in how much diversity they have and out of what motivation.

In contrast, lower degrees of conformity present several benefits for a field since a more rational and more customized approach is possible. Therefore, firms are permitted to choose from a broader range of approaches towards diversity without risking loss of legitimacy. Hence, a more customized and more rational approach to diversity is possible and likely. Lower degrees of conformity are expected to lead to higher performance for the field. The field has learned more about how to include more diversity within its organizations and to manage it well. Hence, fields previously described as collectively exploring diversity (low conformity on high levels of diversity), can be expected to perform better than fields described as holding a collective myth about diversity (high conformity on low levels).

In contrast, higher degrees of conformity mean that there is more pressure towards adopting standardized diversity practices. These practices had a good fit with the business requirements of the early adopters, who developed them, but not necessarily the later adopters (Westphal, et a, 1997). Such fields may be limited by cognitive biases, such as selective perception of all possible solutions to including more diversity in their organizations (Weick, 1995). Lower variety at the group level has been linked to more selective perception (Hambrick & Mason, 1984) which narrows the number of alternatives that are assessed. Lower variety will limit the depth and width of the interpretation of an issue (Daft & Weick, 1984). These limitations will negatively affect performance in fields with high conformity on low levels of diversity.

Hypothesis 5:

A field will exhibit a more positive relationship between average organizational diversity and average field performance during a phase of low degrees of conformity than in a phase of high degrees of conformity.

This general hypothesis can be made more nuanced if the path of the field to full institutionalization is taken into account. The path that a field takes through phases of low and high conformity matters to its performance. A field that closes off exploration of and learning from diversity too quickly is argued to limit its search for alternative applications of organizational diversity too quickly. Such a field will have a high tendency towards mimicry without sufficient attention to experimentation and customization.

> Many activities in firms (e.g., approaches to managing, routines for assigning resources) are so taken for granted or so strongly endorsed by the firm's prevailing culture or power structure that decision-makers no longer even question the appropriateness or rationality of these activities (Oliver, 1997: 700).

High degrees of conformity are expected to be limiting to the performance of the field in comparison to fields that are experimenting with diversity. More exploration, which is associated with higher variety (Smith & Tushman, 2005), will allow fields to discover novel approaches to diversity that go beyond established approaches to diversity. It can be expected that a field performs best at high degrees of conformity on high levels of diversity. This field has gone through a phase of semi-institutionalization (Tolbert & Zucker, 1999), which has been argued (Hypothesis 3) to have lower degrees of conformity than pre-institutionalization and full institutionalization. The majority of field members had the opportunity to assess rationally in which way to apply diversity to their organizations. Field members will have established the legitimacy of organizational diversity in the field during interaction and interpretation, and the field will have developed best practices about how to manage organizational diversity.

Hypothesis 6:

A field's performance effect associated with organizational diversity will be higher if the firm's field has gone through some phase of low conformity than a field that has generally experienced high conformity.

Early adopters of higher diversity are more likely to have taken a rational, customized approach, including learning about how to manage diversity effectively. They are, therefore, likely to experience positive performance effects. However, the field as a whole did not engage in the same cognition and behavior as the early adopters and will therefore be less likely to reap the benefits of diversity.

The expectations of external institutional agents, who include government and professional organizations, tend to be similar for all firms, so that common pressures toward conformity are at play, which leads to the diffusion of these practices (Huselid, et al, 1997). As my review of the moderated relationship between diversity and performance emphasized, the benefits of diversity do not hold under all conditions. Hence, institutional pressures to conform to a common set of diversity or HR practices instead of selectively adopting relevant practices for a customized approach may have negative or neutral effects on performance. For the case of the thesis, the adoption of a more diverse workforce is partly motivated by mandatory reporting of diversity numbers through government regulation; however, the full extent of the adoption is left to the discretion of individual organizations. Firms in fields with higher degrees of conformity face more pressure to adopt diversity at a level similar to other firms in the same environment. Organizational diversity could potentially not offer any net benefit for a field beyond compliance with EE regulation. However, a field may close off experimentation with diversity for a competitive advantage too early.

Hence, there is more risk of lowered performance for fields that adopt organizational diversity out of a compliance motivation, and are expected to conform closely at low levels, unless the field has gone through a phase of lower degrees of conformity previously that allowed it to explore whether or not there are any applications of diversity for the specific needs of the field.

For a focal firm, organizational diversity represents generally a strategic resource with a high potential for profitable differentiation from competition and a potential for above-average performance. However, the relationship between organizational diversity and firm performance is less likely linear and direct, based on the mixed effects that the diversity literature has demonstrated. Consistent with prior research that found evidence of a curvilinear relationship between race and gender diversity (Richard, et al 2007; Frink et al, 2003), I postulate that there will be a U-shaped relationship between organizational diversity and organizational performance.

Low levels of diversity can be associated with high performance since a more homogeneous organization is less complex to manage, and therefore, less costly than a diverse one. There are fewer communication and integration problems that arise in an organization that is fairly homogeneous (Milliken & Martins, 1996; Williams & O'Reilly, 1998). As a firm moves to medium levels of diversity, it gains better information processing ability at the cost of higher integration difficulties. Diversity as variety (Harrison & Klein, 2007) is expected to provide greater creativity, innovation, and better decisions (Cox & Blake, 1991; Hambrick & Mason, 1984; McLeod, et al 1992; Watson et al, 1993). However, these benefits may be eclipsed at this point by negative processes that can be linked back to a conceptualization of diversity as separation and disparity (Harrison & Klein, 2007). Especially a firm with medium levels of diversity can be expected to face increased problems of communication and conflict (Jehn, 1996; Pelled, 1996) and poorer social integration (O'Reilly, et al, 1989), both of which may lead to lower organizational attachment and higher turnover (Tsui, et al, 1992). Such negative processes and outcomes add to the complexity and cost involved in managing this strategic resource. A firm with high levels of diversity is expected to have found ways to manage its diversity, minimizing the negative effects (diversity as separation) while maximizing the positive effects related to better information processing (diversity as variety).

Prior work has hypothesized this curvilinear, U-shaped effect already (Richard, et al, 2004, 2007), so that I will not offer a hypothesis in my thesis on the curvilinear effect directly. My line of argument is mainly concerned with how this relationship is moderated. Hence, I postulate further that this U-shaped relationship is moderated by the degree of conformity in the field the focal firm resides in. The best potential for above-average performance can be expected under field conditions of low degrees of conformity. There are two main reasons for this expectation: the lower institutional pressure towards conformity allows for a more rational and therefore, more customized approach to organizational diversity. Second, a lower degree of institutionalization of diversity allows for differentiation from competitors through diversity, according to the logic of the RBV. In fields with a high degree of conformity on high levels of diversity, the potential for profitable differentiation based on organizational diversity is limited. The high degree of conformity at high levels of diversity means that diversity is considered a valuable resource, but one that is not rare. Both conditions are needed to provide for a competitive advantage from a resource (Barney, 1991, 2001).

Huselid and his colleagues (Huselid, et al, 1997) demonstrated that technical HRM activities (i.e. standard approaches toward human capital recruitment, selection, performance measurement, training, compensation, and benefits) were not significantly related to firm performance while strategic HRM practices that were less commonly adopted, had a significant positive relationship with firm performance. These authors (Huselid, et al, 1997) argue that when an HRM practice is commonly held, or fully institutionalized, it can no longer provide a source of competitive advantage. Hence, fields with lower degrees of conformity on high levels of diversity provide the most promising forum for a firm to base a differentiation strategy on its organizational diversity.

This argument about the firm level relationship between organizational diversity and firm performance that is shaped by the degree of conformity at the field level is stated in hypothesis form below and depicted in Figure 4.

Hypothesis 7:

There will be a U-shaped relationship between organizational diversity and firm performance that is moderated by the degree of conformity at the field level. The U-shape will be steeper under conditions of lower degrees of field conformity and performance will be higher across different levels of organizational diversity.

Now, that I have established the important moderating role that the degree of conformity at the field level may play for the expected performance effects of organizational diversity, I want to return briefly to the advantages of early versus late adoption. As reviewed in an earlier section of this thesis, it has been established that early adopters of an organizational practice are more likely to act out of rational reasons while later adopters are more likely to act out of institutional reasons (Tolbert & Zucker, 1983). With institutional pressures acting on the early adopter generally low, these firms have the opportunity to customize their adoption of a practice to their organizational requirements (Westphal, et al, 1997) and to translate practices such that they have meaning to the organization (Zilber, 2006). Increased rationality, customization, and meaning, provide ideal conditions for higher performance from early adoption. Further, the generally positive performance prediction for early adopters is consistent with the insights of the RBV, which predicts above average performance for firms with rare resource endowments (that may be at the base of an early adopter). However, the degree of conformity at the field level challenges us to fine-tune this generally positive prediction. The early adopter in the context of the thesis is an organization that moves first to adopt higher levels of organizational diversity. If this focal organization is situated in a field with a low degree of conformity and therefore, low levels of constraining institutional pressures, it can indeed expect above average performance, since it stands out from its competitors through its idiosyncratic resource without strain on its legitimate position. Hence,

Hypothesis 8:

Early adopters of higher levels of organizational diversity will have higher performance than later adopters in fields with lower degrees of conformity.

However, if the early adopter of higher levels of diversity is located in a field with high degrees of conformity, it is less likely to gain a performance advantage because it stands out from its competitors but not in a manner that is considered appropriate and legitimate. Hence,

Hypothesis 9:

Early adopters of higher levels of organizational diversity will have lower performance than later adopters in fields with high degrees of conformity.

CHAPTER III
METHODS

Data

The analysis of this study was based on quantitative longitudinal archival data on Employment Equity in Canada. In 2007, four hundred (400), private and public firms from 37 federally regulated industrial sectors were governed under the Legislated Employment Equity Program (LEEP). These firms are required to compile and submit EE Reports every year on June 1 to the government to trace their progress on the inclusion of the four designated groups (women, aboriginal peoples, disabled people, and visible minorities). Each firm is a member of one of four groups: banking, telecom, transportation, and other. Within these four categories, firms are members of the 37 industrial sectors, for example, of three firms that are in the "transportation" category, one may be in the industrial sector "scheduled air transport", a second in the industrial sector "rail transportation", and the third in the industrial sector of "truck transportation". I assessed the data as nested within the four broad categories, banking, telecommunication, transportation, and other, since these are the categories that are used by the Canadian Government to group the firms and to provide relative performance ratings.

The employment equity reports are publicly available as multiple PDF forms through the website of the ministry of labor the Government of Canada (www.hrsdc.gc.ca). It took approximately 745 hours to extract the data from the website. I collected data for the entire time period that is available through the website (1997 to 2007). Employment Equity reports have been collected by the Canadian Government since 1986, but the data between 1986 and 1997 is not available through the website or any other archives. I had requested more direct access to the data from the national director of Employment Equity reporting and analysis but was assured that the files on the website is the only form of access available.

I believe the data to be reliable and accurate, especially in comparison to other secondary data that comes from less credible sources than the Canadian government. Since the information contained in the reports are linked to public policy, the government ensures accuracy and regularity in the filing of the reports. The Canadian government routinely audits a random sample of the regulated companies, to ensure accuracy and to follow up with any companies that are filing late. There is no reason for regulated firms to misrepresent intentionally their progress in the representation of the four designated groups because the firms are not required to meet any specific quota and because there will be no punishment of slow or no improvements except for any follow up inquiries from the department of labour.

The final dataset contained 550 firms over 11 years, which would have resulted theoretically in 6050 firm years. Instead, my final dataset contained 4000 firm years, which makes it an unbalanced panel because of missing firm reports. Firm reports may be missing for four reasons. First, a firm may have been reporting since 1997 but is no longer reporting in 2007, because it went out of business or because it dropped below 100 employees, which is a criterion for reporting requirements. Firms going out of business were common, while those dropping below 100 employees appear to be a minor factor looking at firm sizes in the sample. Second, a firm may have started only some time after 1997 and was still reporting in 2007. This was a common pattern, as new firms with 100 or more employees entered the federally regulated industries. Third, a firm may have started after 1997 and then dropped out of the list after a few years, before 2007. Fourth, a firm may have been included in the list for the entire time period between 1997 and 2007 but failed to submit an Employment Equity report for certain years. This pattern appears to be very rare, and the information about failed reporting, along with late reporting is captured by the reporting compliance index, which is one of the included control variables.

Of the 4000 firm years, 253 firm years are from the banking category (6.3%), 743 firm years from the telecommunications category (18.6%), 2399 firm years from the transportation category (60%), and 605 firm years from the other category (15%). While HLM is able to analyze data that is nested in groups of unequal size, sample size may at times be the reason for type II errors, i.e. where an existing effect is not detected.

The government website prominently lists those firms that are currently reporting. However, firms that used to report but are no longer reporting are only available for view if one searches for an entire industrial sector so that all surviving and non-surviving firms are displayed. I included all current and archived firm reports to avoid a survivor bias in my dataset.

From the employment equity reports, I collected data on the total number of employees (part-time and full-time), the number of employees who are currently included in each of the four designated groups (women, aboriginal peoples, persons with disabilities, and visible minorities), and the total number of employees hired and terminated during the same year.

Variables

Dependent Variable: Organizational Performance

The dependent variable of interest is firm performance. Past studies have examined several measures to assess the impact of diversity on firm performance (Table 1). One general limitation of all studies on the diversity – firm performance link is that the contribution of human or social capital, such as diversity, is quite distal to firm performance (Hillman, Shropshire, &

Cannella, 2007), which may be part of the reason that the expected positive relationship has been difficult to demonstrate for typical measures of firm performance, such as net income, return on equity, or Tobin's q.

The main measure of firm performance for this study was turnover, which I collected for all the public and private firms for the entire 11 year time period. Turnover was calculated as the total number of full-time and part-time employees who were terminated during a particular year divided by the total number of employees. Turnover has been used as a measure of firm performance (Glebbeek & Bax, 2004; Gómez-Mejía, Balkin, & Cardy, 1995; Huselid, 1995). It is an appropriate measure of firm performance for this study because of its proximity to the independent variable, a human resource variable (Huselid, 1995). Prior work suggests an inverse U-shaped relationship between turnover and firm performance (Huselid, 1995). However, more recent work found that high turnover is not harmful to firm financial performance (Glebbeek & Bax, 2004). Hence, the relationship between turnover and firm performance appears to be best described by a positive, downward sloping curve.

For the public firms, I collected three additional measures of firm performance: 1) revenue growth, as percentage change in revenue divided by the previous year's revenue, 2) productivity, expressed as a ratio of total revenue or sales divided by the total number of employees, and 3) profitability, return on equity (ROE), expressed as net income divided by the prior year's equity. Return on Equity (ROE) was calculated as fiscal year net income (after preferred stock dividends but before common stock dividends) divided by total equity (excluding preferred shares). While these three measures of firm performance were readily available for the 56 publicly traded firms in the dataset, they were not available for the privately held firms. I contacted the CEO and/ or HR manager of about 65 of the private firms to request information about sales and profits, but none of the contacted firms were willing to share this information. These measures vary in terms of proximity to the independent variable of interest, making it more likely that an effect of diversity on performance is detected, assuming that it exists.

Growth measures, along with accounting returns and stock market performance, represent general dimensions of organizational performance (Combs, Crook, & Shook, 2005). Growth in revenue generally reflects an improvement in performance. However, the cost side would have to be included for a complete assessment of firm performance.

Revenue per employees is a productivity measure of organizational effectiveness that has been used recently in a study of the relationship between race diversity and firm performance as moderated by external context (Richard et al, 2007). Measures of organizational effectiveness are of high importance to strategic management since they ultimately lead to firm financial performance (Venkatraman & Ramanujam, 1986). Productivity is considered a valid and useful measure of strategic human resources management (Huselid, 1995). It is ideal for assessing the performance of human capital, including organizational diversity, which takes place inside the organization since it taps less directly into market effects (as, for example, Tobin's q could measure) or product effects (as for example, sales growth could) (Huselid, 1995; Huselid, et al, 1997). While the concreteness of this measure represents strength, it is also a limitation, since productivity is only a partial measure of firm performance.

Return on equity (ROE) measures a firm's ability to generate profitability growth from its net assets (assets less liabilities). The strength of this measure is that it taps directly into firm performance. Its main weakness for the thesis is that it is more distal to human resources diversity. However, if an effect can be detected, it would constitute a very important contribution to the strategy and diversity literatures.

I collected the firm financial data through Mergent Online which is available through the library system of the University of Western Ontario (Richard Ivey School of Business). I chose this provider because it emphasizes Canadian firms, which are not always included in US or international databases, and because information is available for actively traded firms as well as those that have become inactive. I collected the financial information for the time period 1997 to 2008.

Primary Independent Variable: Organizational Diversity Index

In this thesis, I operationalize organizational diversity as an aggregate index that includes diversity with respect to women, aboriginal peoples, persons with disability, and members of visible minorities). This index represents a highly inclusive measure of organizational diversity. Past studies have focused on either gender or race diversity (e.g. Frink et al, 2003; Kochan, et al, 2003; Richard, et al, 2007), and I am not aware of any study that has analyzed such an inclusive measure of overall firm diversity. A firm's diversity index assesses the construct "level of diversity" that I have hypothesized about in the conceptual part of this thesis.

I computed an overall diversity index for each firm for each year that assesses the organization's aggregate diversity in terms of its women, aboriginal peoples, people with disabilities, and visible minorities relative to all employees. I used an adjusted Blau's index of heterogeneity (Blau, 1977), which is a measure of entropy that has been used in many diversity studies including those at the firm level (e.g. Richard, et al, 2004, 2007; Roberson& Park, 2007). Generally, the closer to one the Blau's index of heterogeneity is, the more homogeneous the organization, or the less diversity it has throughout. The index of heterogeneity is expressed as one minus the sum of the squared proportions of each of the four diversity types in the organization, i.e. 1 - $\sum x_i^2$. To make the outcome of the measure more intuitive and to ease comprehensibility of results, I calculated my diversity index simply as $\sum x_i^2$, so that an increasing index means increasing organizational diversity. Specifically, the diversity index was calculated as follows:

((number of full-time women + number of part-time women)/ total employees)^2 + ((number of full-time aboriginal peoples + number of part-time aboriginal peoples)/ total employees)^2 + ((number of full-time people with disabilities + number of part-time people with disabilities)/ total employees)^2 + ((number of full-time visible minorities + number of part-time visible minorities)/ total employees)^2

The resulting diversity index is a highly detailed measure of multiple types of diversity, and represents the level of organizational diversity at the firm level. For the hypotheses that postulate field level effects, I aggregated the diversity index for all firms within a category for each year. I also calculated the squared term of the diversity index, $(\sum x_i^2)^2$, to test for the hypothesis that diversity has a curvilinear relationship with firm performance.

Secondary Independent Variable: First Movers

To test hypothesis 8 and 9, I coded those firms as 1 that had been included from the beginning of the 11 year time period and survived to close to the end. Specifically, I coded as one all firms that were submitting Employment Equity reports in 1997 or 1998, and continued to do so until 2006 or 2007. Firms that started in 1999 and later were coded as 0. Firms that started in 1997 or 1998 but dropped off before 2006 were also coded as 0.

Moderating Variable: Coefficient of Variation of Organizational Diversity Indices

Organizational field is a broad and inclusive concept, so that many operationalizations are potentially valid. For this study, I operationalized field as the type of category of which a firm is a member (banking, telecommunications, transportation, other). I used these broad categories because the government uses these categories for employment equity reporting and for performance assessments of all firms. Specifically, every year, the government compares each firm's progress in the representation of the four designated groups against the available labour pool and against the progress of all other firms within the same category, and summarizes these assessments in letter grade form (A, B, C, D, F) on its website. Firms are then able, and as I argue likely, to assess their performance in comparison to their peers with in a category. Hence, I posit that the categorization into the four groups is consistent with the theoretical argument that firms will look to other firms within their own category to shape their understanding and adoption of organizational diversity.

The moderating variable, degree of conformity, is operationalized as the variation in the aggregated diversity index in a field. To measure the variation in the field index, I used the coefficient of variation of all firm level organizational diversity indices in a category. The coefficient of variance is recommended to assess a disparity-type difference (Harrison & Klein, 2007), such as the distribution of the diversity indices in a field.

The coefficient of variation is a normalized measure of dispersion that is expressed as the standard deviation of an attribute within a group divided by the mean of that same attribute within that group. Specifically for this research, I calculated the coefficient of variation to operationalize a field's degree of conformity as follows:

$$\text{COV} = \frac{\text{Standard deviation} \quad \text{(average field diversity index)}}{\text{Mean} \quad \text{(average field diversity index)}}$$

Conceptually, degree of conformity captures the range of observed adoption of organizational diversity by all the firms of a category (organizational field). Categories with a broad range of diversity levels have large or larger coefficients of variation, and therefore, lower degrees of conformity. Categories with a tight range of diversity levels have small or smaller coefficients of variation, and therefore, higher degrees of conformity. Figure 5 illustrates the four types of firms that I expect to observe, fields with high degrees of conformity and high levels of diversity, fields with high degrees of conformity and low levels of diversity, fields with low degrees of conformity and high levels of diversity, and fields with low degrees of conformity and low levels of diversity.

Control Variables

I included six control variables in this study: firm size, firm year, category membership, private versus public firm, service versus manufacturing, and the reporting compliance index.

Firm Size

To control for firm size, I included the log-transformed total number of employees that varied over time for each firm. The number of employees across firms ranges from 8[5] to 75,068 with an average of 1,917 employees. Firm size, as the log of total employees has been used by prior studies of the diversity – performance relationship where it was found not to correlate significantly ($p>0.05$) with the productivity measure (DV) for current or past years (Richard et al, 2007).

[5] Firms less than 100 employees are not required to report but in some cases (91 firm years) firms continued to report after they had decreased their total employee count to less than 100.

Firm Year

The time period of this thesis includes all years from 1997 to 2008, which I coded from 0 to 11, i.e. 1997 = 0, 1998 = 1, 1999 = 2, …, 2007 = 11.

Category Membership

Firms are exclusive members of one of four categories, i.e. banking, telecom, transportation, or other, that are used by the government of Canada for Employment Equity reporting. Each category is comprised of often multiple industrial sectors; for example, the transportation industry contains rail, air, truck, and water transportation. Table 6 shows the number of firms within each industrial sector. The total count of firms for all industrial sectors is higher than the 550 firms in the sample, since some firms operate within more than one industrial sector within a category. For example, a firm in the transportation category may be listed as a member of the truck and rail transportation.

For descriptive and regression analysis, I coded category membership as 1 for banking, 2 for telecommunications, 3 for transportation, and 4 for other. For HLM analysis, I calculated 4 dummy variables, where banking = 1 (non-banking = 0), telecommunications = 1 (non-telecom = 0), transportation = 1 (non-transportation = 0), and other = 1 (non-other = 0).

In the full dataset, there were 35 firms in the banking category, 106 firms in the telecommunication category, 311 firms in the transportation category, and 98 firms in the other category. In the dataset that contained only the publicly traded firms, 10 were in banking, 20 in telecommunication, 16 in transportation, and 10 in the other category. Hence, the dataset of the public firms contained 29% (10/35) of all firms from the banking category, 19% (20/106) of all firms from the telecommunication category, 5% (16/311) of all firms in the transportation category, and 10% of the other category. Hence, the composition of the dataset for the publicly traded firms differs substantially from the composition of the dataset for the entire sample.

Private Versus Public

I coded public firms as 1 and private firms as 0. The dataset contained 494 private firms and 56 public firms.

Service Versus Manufacturing

I coded service providing firms as 1 and manufacturers as 0. Past studies found that organizational diversity had generally more positive effects in service oriented firms than in manufacturing firms (e.g. Frink et al, 2003; Richard, et al, 2007). Most of the firms regulated under the Employment Equity Act are service providers. Not surprisingly, 3719 firm years out of the 4000 total firm years represented service providers (281 firm years for manufacturing).

Reporting Compliance Index

I included a measure of reporting compliance (RCI) as a control variable. The index is produced by the department of labor at the government of Canada to assess how promptly a firm submits its employment equity report relative to the annual deadline of June 1. The RCI ranges from 1 for poor reporting performance to 5 for excellent reporting performance. There was only small variation in the RCI's for a firm over time, so that I decided to use the average RCI of a firm's score in 1997 and 2007. I included this control variable because those firms that are achieving better performance outcomes from their organizational diversity may also be more likely to report promptly.

normality, homoscedasticity (Raudenbush & Bryk, 2002)). These assumptions are easily violated because firms in the same field are likely to be more similar than firms in different fields.

I centered all independent variables before entering them into HLM. Centering of the independent variables is essential as it eases interpretation of results, especially of coefficients at level 2 that could otherwise not meaningfully be interpreted (Raudenbush & Bryk, 2002). Centering is also advised when level 1 linear and quadratic terms are present as it reduces non-essential multicollinearity between them (Aiken & West, 1991). The following variables were centered on the grand mean: diversity index, diversity index^2, firm size, First Mover, and the reporting compliance index (RCI). Year ID was centered on year 4 (2001), so that the centered year id ranged from -4 to 6. The dummy variable for private versus public firms and the dummy for service versus manufacturing firms were not centered since they can already be meaningfully interpreted in their original form.

I prepared two datasets, one larger one that contained the entire sample of 550 private and public firms (4,000 firm years), and one smaller dataset that contained only the restricted sample of 56 public firms (500 firm years). The variables across the two datasets were the same except that the smaller dataset contained the three variables on firm performance (revenue growth, productivity, and ROE). Based on the larger dataset, I ran the majority of tests, with turnover as the dependent variable. The smaller dataset was used to test correlations between turnover and the other measures of firm performance (Table 14), and to test the link between organizational diversity and sales growth, productivity, and ROE.

The data were arranged in two "tall and skinny"[6] SPSS files, one for each level of analysis, in order to prepare for the requirements of HLM (version 6.0) analysis. Each level file was uploaded separately into the HLM model. Variables were entered horizontally and cases

[6] Tall and skinny files are characterized by a small number of variables and a large number of cases.

vertically. The level-1 file contained the unique firm identifier (ranging from 1 to 550), which is the variable that linked the level 1 file to the level 2 file. All time variant, random effects variables were included in the level 1 file. The variables in the level 1 file were the diversity index, the squared diversity index, the coefficient of variation, firm size, year, and turnover. Testing for moderation in a cross-level model does not require the multiplication of the independent variable of interest and the moderator (Raudenbusch & Bryk, 2002) so that I did not include the product term of diversity index and category coefficient of moderation. The final level 1 HLM file contained 4000 cases, representing 550 firms over 11 years. The level-2 file contained the unique firm identifier and all the non-time variant, fixed effects variables: four dummy variables to indicate category membership (banking, telecommunications, transportation, other), service versus manufacturing, public versus private, and the reporting compliance index. The final level-2 file contained 550 cases, one for each firm that is fixed over time.

HLM is able to account for any missing data (cases) in an unbalanced dataset automatically. Hence, no further adjustments were required to be made to the present dataset. This feature was one of the main reasons that HLM became highly popular since traditional structural equation models were not able to deal effectively with unbalanced models.

CHAPTER IV
RESULTS AND DISCUSSION

Results

Before starting the model building in HLM, I assessed the means, standard deviations, and correlations among the study variables. These results are shown in the correlation matrix in Table 5. Table 6 shows the number of firms in each industrial sector. Out of the collection of study variables, I assessed the diversity index and the coefficient of variation in more detail. Specifically, I traced the mean diversity index and the coefficient of variation over time for each of the four categories, banking, telecommunications, transportation, and other. These results are shown in Table 7.

In Hypothesis 1, I posited that fields will differ such that a high degree of conformity will exist at high or low levels of organizational diversity. The data in Table 7 show that a high mean diversity index (high level of diversity) exists at a low coefficient of variation (high degrees of conformity). Specifically, the banking category in 2005 had a mean diversity index of 0.42 and a coefficient of variation of 0.20, i.e. a high level of diversity with a high degree of conformity. The data for the other categories do not reveal levels of diversity as high as in banking. The telecommunications category in the same year had a mean diversity index of 0.14, and a coefficient of variation of 0.60, i.e. a medium level of diversity with a medium degree of conformity. The other category, also in 2005, had a mean diversity index of 0.10 and a coefficient of variation of 0.89, i.e. a low level of diversity paired with a high degree of variation. In the transportation category, in 2005, the mean diversity index was 0.08 with a coefficient of variation of 1.57, i.e. a low level of diversity with a high degree of conformity. These patters remain constant over the 11 year time period, so that any year between 1997 and 2007 yields consistent results. The data support part of Hypothesis 1, in that a high level of diversity was found at a low degree of variation in the banking category. The data did not support an occurrence of a high level of diversity at a high degree of variation, i.e. a low coefficient of variation. Since the banking category was the only category with a high level of diversity, the condition of high diversity under high degree of variation may exist but was not observed in the data at hand. Therefore, Hypothesis 1 is partially supported. This means that I was able to empirically identify three out of the four field types I had expected. Table 3 shows the expected types of fields and Table 4 shows the actual types of fields.

Hypothesis 2 posited that there will be differences across fields in the level of organizational diversity and the degree of conformity at such levels of organizational diversity. The four sets of box plots of the diversity index over time for each of the four categories (Figures 6a to 6d) show graphically that there are strong differences in the mean diversity indices between groups. These figures also show that the spread of these mean diversity indices (between the 25th and 75th percentile of the data) is visibly different between the four categories. These box plots illustrate the finding that there is little change in the mean diversity index and the coefficient of variation *within* each category over time (Table 7). I used one-way ANOVA tests to discern statistically significant differences in the diversity index and the coefficient of variation between the four categories. The data show that over the 11-year time span the mean diversity index and the coefficient of variation do not change significantly *within* any given category. I probed further for the *between* category differences posited in Hypothesis 2 with four one-sample t-tests. The results of these t-tests are summarized in Table 8 as differences in the diversity indices and differences in the coefficient of variation between categories. As shown in Table 8, both the diversity index and the coefficient of variation are statistically significant between each of the four groups ($p < .000$). Therefore, Hypothesis 2 is fully supported.

These initial assessments of the data provided the point of departure for the HLM analysis. In HLM, model building and hypotheses testing typically begins with unconditional models and then moves to progressively more complex conditional models (Raudenbush & Bryk, 2002). I started the model building process with a fully unconditional model (Model 1, shown in Table 9) with turnover as the dependent variable. The fully unconditional model is similar to a one-way ANOVA with random effects. It is a random effects model because the group effects are not assigned but assessed at random. The HLM Model 1 is expressed as follows:

Level-1: $Y = P_0 + E$
Level-2: $P_0 = B_{00} + R_{0,}$

where P_{00} and B_{00} are the coefficients of the fixed and the random effects, respectively, and E and R_0 are the error terms associated with the fixed and random effects, respectively.

Table 9 shows the fixed effect as the mean initial turnover, and the random effect, which is the rate of change in turnover over time. This unconditional model assesses whether or not there is sufficient amount of variation to be explained at level 2. The random effect is significant ($p < .000$) providing justification for further probing of the significant variance at level 2. Consistent with the significant random effect, the model shows a high reliability of the level 1 regression coefficient estimate ($P_0 = 0.886$).

I used the output of the unconditional model to estimate the Intraclass Correlation Coefficient (ICC). In longitudinal studies, the ICC is used to assess the total amount of variance in the dependent variable that can be attributed to between-group rather than within-group differences over time (Hausknecht, Hiller, & Vance, 2008; Raudenbush & Bryk, 2002). Higher ICC values indicate that observations are less likely independent, making traditional regression techniques inappropriate, and provide justification for choosing a random effects or hierarchical modeling technique such as HLM. The formula for the ICC is as follows:

$$P = \tau 00 / (\tau 00 + \sigma^2),$$

where tau ($\tau 00$) indicates the total variance and sigma squared (σ^2) indicates the between-group differences. The ICC value for turnover was .64, indicating that about two-thirds of the total variance was attributable to between-group differences and only one-third was explained by within-group differences.

Next, I added conditions to the initial model. For Model 2, I added the linear term of the diversity index as well as the quadratic term as conditions to Model 1. Model 2 is expressed as follows:

$$\begin{array}{ll} \textit{Level-1:} & Y = P_0 + P_1 * (\textit{diversity index}) + P_2 * (\textit{diversity index}^{\,2}) + E \\ \textit{Level-2:} & P_0 = B_{00} + R_0 \\ & P_1 = B_{10} + R_1 \\ & P_2 = B_{20} + R_2 \end{array}$$

Table 10 shows the results for the Model 2 estimation. The random effects for both the mean diversity index and the mean diversity index squared are highly significant ($p <. 000$). These results reveal a statistically significant relationship between diversity index and turnover that takes the form of a predominantly negative, upward sloping curve ($b1$ = negative, $p < .000$, $b2$ = positive, $p < .000$)[7]. The results in Table 10 show that there are statistically significant differences in the intercepts of the diversity index and the squared term between groups, which are at this point randomly assigned, and will be specified as category membership in a subsequent model. In addition, the random effects, indicate that both the slopes or rate of change of the diversity index (growth rate, r_1) and the rate of change of the squared term of the diversity

[7] For a detailed description of the mentioned curves, see Aiken & West (1991: 66).

index (acceleration, r_2) are statistically highly significant ($p<.000$). For Model 3, I added the coefficient of variation as a further condition on the model. Model 3 is expressed as follows:

Level-1: $Y = P_0 + P_1$*(coefficient of variation) + P2*(diversity index) + P3*(diversity index^2) + E*

Level-2: $P_0 = B_{00} + R_0$

$P_1 = B_{10} + R_1$

$P_2 = B_{20} + R_2$

$P_3 = B_{30} + R_3$

The results in Table 10 show that the intercepts and slopes for diversity index are highly significant and that the predominantly negative, upward sloping curve that describes the relationship between diversity index and turnover is still significant (b1 = negative, $p< .000$; b2 = positive, $p< .000$). There are statistically significant differences in the intercept of the mean coefficient of variation ($p< .05$), indicating that depending on the level of the coefficient of variation, the curve that is a function of the diversity index and turnover will vary in its intercept. These results provide initial support for the expectation that the coefficient of variation moderates the diversity- performance relationship. The data do not show significant differences in the slope of the coefficient of variation ($p> .05$) between randomly assigned groups. However, the intercepts differ between groups. Since the category dummies have not yet been added to the model, it is not clear how the four categories differ from each other. Once the four dummies are added as further constraints to the model, I expected differences between the four categories in terms of the intercept but not the slope of the curve that is a function of diversity index and turnover.

In Model 4 (Table 12), I paused with adding more constraints to Model 3, but instead, focused on assessing the growth trajectories of the coefficient of variation of the four categories. I used the coefficient of variation as the dependent variable and added the variable for "year" as well as the dummy variables for banking, transportation, and other as conditions to assess the growth curves of the coefficient of variation for the categories. Since telecommunications was used as the reference point, it was kept outside of the model. Any differences indicated for the dummies would then refer to differences from the telecommunications category. Model 4 is expressed as follows:

Level-1: $Y = P_0 + P_1*(YEAR) + E$

Level-2: $P_0 = B_{00} + B_{01}*(BANKING) + B_{02}*(TRANSPORTATION) + B_{03}*(OTHER) + R_0$

$P_1 = B_{10}$

Table 12 shows the results for Model 4. The mean intercepts for the coefficient of variation growth curves for the banking, transportation, and other categories are all significantly different from the intercepts of curve for the telecommunications category ($p < .000$). In addition, the year variable is significant ($p < .000$) indicating that in the year 2001, which is the centering point for the year variable, the intercepts for the categories are different ($p < .000$), supporting earlier graphical and simple t-test results.

Hypothesis 3 stated that the growth trajectories of firms within fields with high degrees of conformity will be similar to each other and dissimilar from the trajectories of other fields, but for fields with low degrees of conformity this will not necessarily be true. Figure 7 shows that the growth trajectory of the diversity index in the banking categories is distinctly higher than the growth trajectories of the other categories. Further in Figure 7, banking stood out from the other categories with a lower coefficient of variation, i.e. higher degree of conformity (Table 7). The other and transport categories had similar coefficients of variation that were significantly higher than those of the banking category (Table 7). Consistently, the other and transport categories have visibly similar growth trajectories in their diversity index (Figure 7). Therefore, Hypothesis 3 is fully supported.

Hypothesis 4 posited that a field's level of organizational diversity will have an upward trending cyclical pattern of high and low degrees of conformity. As Table 7 showed, there were only minor or no increases in the diversity index within each category over the 11 years from 1997 to 2007. These results are illustrated visually in Figure 8, which shows the growth trajectories of the coefficient of variation over time for the four categories. Figure 9 shows the linear variability in category-level coefficient over time, indicating that there are differences variability between the four categories over time. The coefficients of variation for each category had much smaller up and down movements than expected. In some of the categories, the coefficient of variation was somewhat higher in 2007 than in 1997, for example, in the transportation and the telecommunications industries. In some other categories, the coefficient was lower in 2007 than in 1997, for example, in the other and banking categories. While the data support a cyclical pattern of the coefficient of variation, the expected upward trend in the diversity index was not detected, neither graphically, nor with a subsequent test in HLM, where the model with diversity index as the dependent variable and time as the independent variable was not significant ($p>.05$). Hence, hypothesis 4 is partially supported.

Hypothesis 5 posited that a field will exhibit a more positive relationship between average organizational diversity and average field performance during a phase of low degrees of conformity than in a phase of high degrees of conformity. This Hypothesis was difficult to test since the data did not support the expected marked cyclical pattern in the coefficient of variation. Comparisons across categories with different degrees of conformity showed differences in performance outcomes that I attributed to industry differences, i.e. banking profitability relative to telecommunications profitability. Comparisons within an industry over time are more likely due to other factors, e.g. macroeconomic factors, than the diversity index. Hence, Hypothesis 5 is not supported.

Hypothesis 6 stated that a field's performance effect associated with organizational diversity will be higher if the field has gone through some phase of low conformity than a field that has generally experienced high conformity. Similar to Hypothesis 5, it was not possible to meaningfully assess differences in the diversity-performance relationship after a phase of low conformity, since the analysis did not provide support for significant fluctuations in the coefficient of variation (degree of conformity). Hence, Hypothesis 6 is not supported.

Hypothesis 7 posited a U-shaped relationship between organizational diversity and firm performance that is moderated by the degree of conformity at the field level. The U-shape will be steeper under conditions of lower degrees of field conformity. To test this hypothesis, I initially used the full dataset with 4,000 firm years of data on the diversity indices and annual turnover for the 550 private and public firms. For this hypothesis, I returned to Model 3 with turnover as the dependent variable, and added the three category dummy variables as well as three control variables (private/ public, service/ manufacturing, reporting compliance index) as further conditions. The resultant Model 6 is expressed as follows:

Level-1: $Y = P_0 + P_1$*(coefficient of variation) + P_2*(year) + P_3*(size) + P_4*(diversity index) + P_5*(diversity index^2) + E

Level-2: $P_0 = B_{00} + B_{01}$*(private/ public) + B_{02}*(service/ manufacturing) + B_{03}*(reporting compliance) + R_0

$P_1 = B_{10} + B_{11}$*(banking) + B_{12}*(transportation) + B_{13}*(other)

$P_2 = B_{20}$

$P_3 = B_{30}$

$P_4 = B_{40} + R_4$

$P_5 = B_{50} + R_5$

Results in Table 13 show that the data support a predominantly negative, upward sloping curve to describe the relationship between diversity index and turnover (b1 = negative and significant, b2 = positive and significant). A full U-shape would have been supported by data with b1 insignificant and b2 positive and significant (Aiken & West, 1991). The resultant regression equation with turnover as the dependent variable is as follows:

Y = 0.155 - 0.027 (public/ private) + 0.105 (service/ manufacturing) - 0.014 (mean coefficient of variation) - 0.015 (banking) -0.069 (transport) - 0.010 (other) + 0.004 (year) - 0.042 (size) - 0.863 (diversity index) + 1.354 (diversity index squared)

The control variable "public versus private firm" was highly significant ($p<.000$) with a negative coefficient of -.027, indicating that the curve for public firms is lower than the curve for private firms. Therefore, for the same level of diversity, public firms have lower turnover than private firms. The control variable "service versus manufacturing" was also highly significant ($p<.000$) with a positive coefficient, indicating that the diversity – turnover curve for service providers is higher than the curve for manufacturers. Thus, service providers have higher turnover for the same level of diversity. The control variable for year was highly significant ($p<.000$) with a positive coefficient of .004, indicating that in year 2001 (center point for the year variable) the curve was higher than for other years. The control for firm size was marginally significant ($p<.1$) with a negative coefficient of -.042, meaning that for a firm of mean size, the diversity – turnover curve was lower than for other firms. The control for the reporting compliance index was not significant ($p>.05$) and was therefore no longer included in subsequent models.

The intercept of the organizational diversity – turnover curve due to the coefficient of variation was not significantly different from the intercept of the telecommunications category for the banking and the other category ($p>.05$). However, the comparison between the telecommunications and the transportation category showed significant differences ($p <.05$). The coefficient of variation for transportation was -.069, indicating that the predominantly negative, downward sloping organizational diversity – turnover curve was significantly lower in the transportation category than in the telecommunications category. Hence, for the same level of diversity, transportation had lower turnover than telecommunications did. Table 6 shows that transportation had a consistently higher coefficient of variation than telecommunications, indicating that transportation has a lower degree of conformity than telecommunications. Therefore, there is support for the argument that under conditions of lower degrees of conformity, a firm will have lower levels of turnover.

While the link between diversity and turnover is of interest in itself, I wanted to explore more directly how an increasing diversity index would be related to other measures of firm performance, such as ROE, productivity, and sales growth. Therefore, I turned to analyzing the smaller dataset consisting of 56 public firms for which I had information on turnover as well as the mentioned measures of firm performance. The correlations between turnover and the other three measures of firm performance are shown in Table 14. The correlation between turnover and ROE was negative and significant, which is consistent with earlier studies that reported an inverse relationship between turnover and firm financial performance (e.g. Huselid, 1995).

I tested the moderated diversity – firm performance model using HLM. The coefficient of variation was not statistically significant, with $p>.1$. The results of the HLM analysis indicated also that there was not enough variance to be explained in the coefficient of variation variable. I had to delete those firm years that were missing data on firm financial performance. The final dataset for analysis contained 385 firm years of which 102 were in banking (all service), 97 were in Telecommunications (9 manufacturing, 88 service), 115 were in Transportation, and 71 were in the Other category (63 manufacturing, 8 service). Table 6 shows the number of firms within each industrial sector. I speculate that the moderated effect was not detected in this analysis due to insufficient observations, which made the representation of the four categories too small. Therefore, I turned to traditional regression to test the relationship between organizational diversity and firm performance (ROE, sales growth, productivity), since the multilevel modeling was no longer required due to the insufficient amount of variation in the coefficient of variation at the field level.

First, I tested the relationship between organizational diversity and turnover with the smaller dataset to ensure that results would be consistent and therefore comparable between the smaller and the larger dataset. I found inconsistencies, which I speculate, are due to the smaller sample size in the dataset for the public firms only and due to the different representation of categories in the two datasets. For most years, the relationship between organizational diversity and turnover was not significant. However, the relationship was significant in some of the categories some of the time (Table 16). Specifically, the data supported a predominantly positive, downward sloping curve for the banking category in year 0 and 4 (b1= positive, significant; b2= negative, significant). The same predominantly positive, downward sloping curve was supported for the telecommunications category in year 3 and 4, for the transportation category in year 6, as well as for the other category. However, in year 6 for the banking category, a predominantly negative, upward sloping curve was supported. Overall, the regression analyses based on the dataset that contained only the public firms, a predominantly positive, downward sloping curve appears to best describe the relationship between organizational diversity and turnover.

Since my analysis of the link between organizational diversity and turnover in the larger dataset were consistent between regression analyses and HLM analysis, the inconsistencies in the results between the larger and the smaller dataset are less likely due to the two different methods. However, there were marked differences between the larger dataset and the smaller dataset in terms of the relative representation of the four categories. For example, the banking category was represented with about 6% of total firm years in the larger dataset, compared with about 30% in the smaller dataset. The transportation category was represented with about 60% of total firm years in the larger dataset but only 5% in the smaller dataset. Differences between categories were in general significant, as per the high ICC value, so that I expect that the changed composition of firms in the smaller datasets accounted for the inconsistent results.

Since this set of results based on the smaller dataset that probed the relationship between organizational diversity and turnover were inconsistent in themselves and inconsistent from the results of the HLM analysis based on the full dataset, I am cautious to use the results from the smaller dataset that assessed the link between organizational diversity and measures of firm performance, such as ROE, productivity, and sales growth.

However, I systematically ran the regression tests to assess these focal relationships for each category and each year (Table 17). Based on the analysis of the public firms only, the relationship between organizational diversity and productivity as well as sales growth was not supported ($p>.05$). The relationship between organizational diversity and ROE was not significant for the majority of years. However, for some categories for some years I found significant relationships. The relationship between organizational diversity and ROE was not significant in the banking category. In the telecommunications category, the relationship was significant in year 2, indicating a predominantly negative, upward sloping curve. In the transportation category, there was support for a predominantly positive, downward sloping curve, while in year 7 for that category, the data indicated a predominantly negative, upward sloping curve. For the other category, I found a predominantly negative, upward sloping curve for year 8.

Due to the inconsistencies in results, I was cautious in connect the results from the HLM analysis with those of the regression analyses. The HLM results described the diversity – turnover relationship as a negative, upward sloping curve. This relationship was moderated by the field's degree of conformity (coefficient of variation) such that for lower degrees of conformity (e.g. transport category), the curve was lower than under conditions of higher degrees of conformity (e.g. telecom category). Hence, for the same level of diversity, under conditions of lower degrees of conformity, a firm can expect lower turnover than under conditions of higher degrees of conformity. Lower turnover represents reduced costs to an organization so that I conclude that under conditions of lower degrees of conformity, the relationship between organizational diversity and firm performance is improved or heightened. The results of the regression analysis indicate a predominantly positive, downward sloping curve between organizational diversity and ROE. This result implies that ROE increases with rising levels of organizational diversity up to some point when ROE decreases with higher levels of organizational diversity. Thus, while I found support for a curvilinear relationship between organizational diversity and firm performance, the curve is inverse to how I had hypothesized. Also, I did find support for degrees of conformity moderating the relationship between organizational diversity and turnover, I am hesitant to claim that the moderation would hold for the diversity – performance link and act in the expected direction. Therefore, Hypothesis 7 is partially supported. In the discussion section, I speculate more freely on the implications of the combined results from HLM and the regression analysis.

Hypothesis 8 stated that early adopters of higher levels of organizational diversity will have higher firm performance than later adopters of organizational diversity in fields with lower degrees of conformity. Hypothesis 9 stated that early adopters of higher levels of diversity will have lower performance than later adopters in fields with high degrees of conformity. I introduced the variable "First Mover" into a partially constrained model to test of performance differences between early and late adopters of diversity would surface. Model 6 is expressed as follows:

Level-1: $Y = P_0 + P_1*(\textit{coefficient of variation}) + P_2*(\textit{diversity index}) + P_3*(\textit{diversity index}^2) + E$

Level-2: $P_0 = B_{00} + B_{01}*(\textit{first mover}) + B_{02}*(\textit{private/public}) + B_{03}*(\textit{service/manufacturing}) + R_0$

$P_1 = B_{10} + B_{11}*(\textit{banking}) + B_{12}*(\textit{transportation}) + B_{13}*(\textit{other})$

$P_2 = B_{20} + R_2$

$P_3 = B3_0 + R_3$

Being a "first mover" was not statistically significant ($p>.05$). Therefore, Hypothesis 8 was not supported.

In sum, the testing of my hypotheses produced the following results: Hypothesis 1 was partially supported, Hypotheses 2 and 3 were fully supported, Hypothesis 4 was partially supported, Hypotheses 5 and 6 were not supported, Hypothesis 7 was partially supported, and neither Hypothesis 8 nor 9 were supported.

In the following section, I draw implications from these findings and discuss the contributions my research makes to the strategy, institutional theory, and organizational diversity literatures.

Discussion

My central aim in this thesis has been to propose and test the construct "degree of conformity" and its role as a moderator of the relationship between organizational diversity and firm performance. The degree of conformity assesses how closely or loosely firms within a field cluster around a focal variable, in this case the level of a firm's organizational diversity. Employment Equity data from 550 firms for the 11 years between 1997 and 2007 show that the degree of conformity differs significantly between the four categories of banking, telecommunications, transportation, and other. The data support a cyclical pattern of the degree of conformity over time. This cyclical pattern did not exhibit as significant amplitudes as I had expected (Figure 8).

Fields with a high degree of conformity, which I operationalized as a low coefficient of variation of the field's mean diversity index, had higher levels of diversity. The banking category was an example of a field with a high degree of conformity. Fields with a low degree of conformity, operationalized as high coefficients of variation of the field's mean diversity index, had generally lower levels of diversity. For example, the transportation category was an example of a field with low degrees of conformity. A lower degree of conformity moderated the relationship between organizational diversity and firm performance such that it shifted the predominantly negative, upward sloping curve between diversity and turnover down. A higher degree of conformity shifted the curve up.

Contributions to the organizational diversity literature

The size of my dataset, which spans eleven years and includes 550 firms, provided the needed power to detect a curvilinear relationship between diversity and firm performance that I had hypothesized. Prior studies had focused on one type of diversity, such as race (Richard, 2000; Richard, et al., 2007). My study contributes to the literature an empirical test of the effects of a comprehensive aggregate measure of organizational diversity that includes gender, race, and disability. Partially consistent with prior research that found a U-shaped relationship between certain types of diversity and firm performance (e.g. Richard, 2000; Roberson & Par, 2007; Richard et al., 2007), I found a negative, upward sloping relationship between organizational diversity and turnover.

My thesis adds to the diversity literature support for a complex relationship between organizational diversity and performance that continues to steer away from the debate of whether diversity is good or bad for firm performance but focuses instead on enabling versus buffering conditions. This research contributes to the growing body of research that investigates contextual factors, which moderate the relationship between diversity and performance (e.g. Frink, et al. 2003; Richard, et al 2004; Richard et al, 2007). My thesis uniquely contributes to the collection of prior work on the moderated relationship between diversity and firm performance conceptual arguments and empirical support for an important institutional condition that moderates the diversity – performance relationship: the degree of a field's conformity in organizational diversity.

My analysis of the data showed that firms were not independent of the categories they are situated in, which is consistent with a view of organizational diversity as an inherently multi-level phenomenon (Harrison & Klein, 2007). Thus, studies of organizational diversity require a multilevel empirical approach, which, to my knowledge, prior diversity literature has not yet provided. Others have identified the need to include context level moderators in the diversity – performance relationship (Dwyer, et al, 2003; Jehn & Bezrukova, 2003). However, I am not aware of any study that tests such cross-level theories explicitly with multilevel methods. The study by Richard, et al (2007) uses traditional regression, which assumes independence of observations. I used Hierarchical Linear Modeling (Raudenbush & Bryk, 2001) to model and test explicitly the multilevel nature of the relationship between organizational diversity and firm performance, which is moderated by a field's degree of conformity. My thesis offers a unique opportunity to answer the call for cross-level moderation of the diversity – performance relationship (Dwyer, et al, 2003; Jehn & Bezrukova, 2003) and responds in general to the call for more multi-level research of organizations that assesses important constructs at higher levels of analysis than the firm (Hitt, et al, 2007).

In collecting the data, I was often surprised to find that it was difficult and time-intensive to access firm records of Employment Equity data even though they are a matter of public record. It seems paradoxical that the annual Reports on Employment Equity that are published annually on the Canadian Government website are regularly celebrating the successes of increased diversity in firms and better diversity practices (www.hrsdc.gc.ca), while my analysis does not show a significant upward trend in the diversity indices in each of the four categories (Figure 7 and Table 6). Perhaps it is the lack of real teeth in the employment equity legislation (Abella, 1984) and possibly persistent perspectives of resisting diversity (Dass & Parker, 1999) that have hindered diversity indices from rising more significantly during the last decade. The ideals that are expressed in the Abella report about achieving more balanced representation of members of the designated groups appear to be a long way from today's actual representation and progress.

Results reveal somewhat cyclical patterns of degree of conformity but the amplitudes were not as sizeable as I had expected. Instead, it appears that fields establish a certain degree of conformity and subsequently maintain it over a long period of time. A field's shared approach that has been developed and entrenched over a decade or more may in fact be a significant hurdle for firms to adopt higher levels of diversity. Drawing on my arguments about the benefits for firms situated in field's with low degrees of conformity, I speculate that the absence of phases of low degrees of conformity may have also hindered the levels of organizational diversity to rise more significantly over time. Phases of low degrees of conformity might have stimulated firms to experiment with higher diversity and to develop customized approaches.

Contributions to the strategy literature

My thesis contributes to the strategy literature by establishing organizational diversity more firmly as a construct of strategic importance instead of viewing it as relevant only to the organizational behavior literature. My study suggests an important interplay between the firm and the field level that needs to be taken into account to probe more fully the relationship between organizational diversity and firm performance. This multilevel approach has the potential to move the study of organizational diversity research further into the domain of strategy as an important explanation of performance differences.

I contribute to the strategy literature a conceptualization of organizational context that is informed by institutional thinking, and therefore, more socialized than traditional approaches that commonly rely on the dimensions of complexity, stability, and munificence (e.g. Dess & Beard, 1984; Sharfman & Dean, 1991). I offer to the strategy literature the conceptualization of context as organizational field (Scott, 1991), which is rooted in the institutional theory literature and has been noted as highly relevant to organization studies (Wooten & Hoffman, 2008). My thesis provides enough empirical support of the importance of a field's degree of diversity to warrant attention in future research work, which looks at the relationship between organizational diversity and performance. The notion of organizational field introduces rich insights from institutional theory that offers a more socialized understanding about cultural cognitive processes at multiple levels of analysis, which play a critical role to the phenomenon of organizational diversity.

> A distinctive advantage of field level designs is that they widen the lens, allowing researchers to observe the rise of new forms that challenge and sometime replace existing forms. Although it appears that we are interested primarily in structural and relational changes - merely counting organizations - we are in fact attending to the constitutive work of changing cultural-cognitive beliefs" (Scott, 2008: 203).

In this thesis, I have provided integrated arguments that draw on insights from institutional theory and the RBV to explore the likely benefits of lower degrees of field conformity. In fields with lower degrees of conformity, firms operate under conditions of lower institutional pressure, which provides more room for experimenting with organizational diversity and developing more customized approaches to managing diversity. While the RBV stresses the importance of uniqueness and differentiation, institutional theory warns that too little conformity with institutional demands may lead to loss of legitimacy and reduced access to resources (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). My thesis provides an integrated view of these two opposing, yet complementary, perspectives, and explains that firms have more freedom to develop unique solutions that promise to lead to higher performance, under conditions of lower degrees of conformity. I provide support for positive performance effects, especially lower turnover under conditions of lower degrees of field conformity. Fields with lower degrees of conformity may be better able to allow for multiple, even contradicting approaches to diversity to exist. Uncertainty about institutional demands is more likely to produce institutional change (Seo & Creed, 2002), and with it perhaps novel ways to manage organizational diversity for improved firm performance.

This research offers support for the argument that firm resources and capabilities are not valuable and rare in isolation but are dependent on their context. Specifically, the RBV is about resources and capabilities of a firm among a group of competitors. My thesis supports this theory by demonstrating that the competitive potential of organizational diversity depends on the overall approach of the field towards diversity. This argument may be able to explain the lack of a significant link between diversity and ROE in the banking category. Banking had high degrees of conformity paired with high levels of diversity throughout the 11 year time period. Due to the high degree of conformity, firms in the banking category may have less opportunity to differentiate themselves from other banking organizations to achieve significant performance benefits through organizational diversity. In some of the other categories, for example the transportation and other category, with their lower levels of diversity, opportunities exist to reap performance benefits from adopting higher levels of diversity. The greatest opportunity may be for those firms in fields with low degrees of conformity that are willing and able to access knowledge from firms in fields with high degrees of conformity at high levels of diversity about how to manage diversity successfully. This knowledge may provide a critical advantage for a firm that adopts higher levels of diversity in its own field, which has lower degrees of conformity and therefore less competitive pressure around diversity as a strategic resource and therefore, greater opportunity for successful and profitable differentiation.

Contributions to the institutional theory literature

My thesis offers empirical arguments for the importance of differentiating between the adoption of a policy at a superficial versus a deeper level. I had unique firm level data that provided me with a look inside 550 organizations over an 11 year time span to assess the actual representation of four designated groups (women, aboriginal peoples, persons with disabilities, and visible minorities) in those firms that are regulated under the Employment Equity Act. Superficially, all 550 firms may be considered as adhering to the Act since they are submitting annual reports of designated group representation. However, a deeper look inside reveals significant differences between fields as well as firms. A conceptualization of institutionalization as yes or no misses these differences, while a conceptualization of institutionalization as a continuous variable captures them (Tolbert & Zucker, 1999). This thesis provides empirical evidence that institutionalization can exist in degrees, in contrast to the view that institutionalization is either a yes or no condition, and that such degrees of institutionalization matter for firm performance. The study also contributes to the institutional theory literature insights on the idiosyncratic process of institutionalization across different fields, which has been given surprisingly little attention (Tolbert & Zucker, 1999). Instead of a view on diffusion as a mass spread of a practice, I provide support for the argument that fields of firms adopt an organizational practices to different degrees possibly reflecting differences in diversity perspectives. Further, "the theory of the field is a generic theory of social organization in modernity" (Fligstein, 2001: 29), that has not yet been studied sufficiently, although "it is an important and promising area of inquiry" (Scott, 2008: 218).

My data provide support for the power of conformity and strong tendencies towards isomorphism over time. As mentioned, I was surprised to find only minor differences in the level of diversity and degree of conformity over time. I had hypothesized that there would be significant fluctuations in the degree of conformity of a field as the field gradually increases its level of diversity over time. Instead, I found that the degree of conformity remained fairly constant over the 11 year time span assessed. If employment data from 1986 to 1997 could be retrieved and analyzed, they might perhaps reveal stronger fluctuations in patterns, since 1986 marks the beginning of the Employment Act. However, eleven years of data are likely a very sound basis on which to draw conclusions about patterns of levels of organizational diversity and degrees of conformity over time. My overall conclusion is that the Canadian firms in the federally regulated industries have not nearly adopted as much diversity as they could have given that the diversity in the overall Canadian population has been increasing steadily over the last decade (Report on Employment Equity, 2008, Ministry of Labor website). This assessment of adoption of organizational diversity in the Canadian context is consistent with an earlier finding in the US context (Linnehan & Konrad, 1999).

The design of my thesis does not allow me to probe if and how the four approaches to organizational diversity ("discrimination-and-fairness perspective", "access-and-legitimacy perspective", "integration-and-learning perspective", and "resisting diversity") are present in the four categories. I speculate, however, that the notion of "resisting diversity' and the "access-and-legitimacy perspective" are still a lot more prevalent than generally assumed, since there were no substantial increases in the mean level of diversity in any of the four categories over the 11 year time period. Very low levels of diversity, i.e. close to zero, were still frequent (280 firm years with a diversity index of zero). I speculate that many firms are still concerned with the higher costs and complexity of managing a more diverse workforce, which is an established downside to diversity (Dass & Parker, 1999; Ely & Thomas, 2001). Firms may therefore be resisting higher diversity or keeping diversity only in small numbers at the margin of the organizations.

An integration-and-learning perspective (Dass & Parker, 1999) recognizes that diversity has short-term and long-term effects that bring opportunities as well as costs. The perspective aims at multiple objectives, including increased efficiency and innovation, better customer access and employee development, and improved social responsibility (Dass & Parker, 1999). My study supports a curvilinear relationship between diversity and different measures of firm performance that recognizes that diversity may bring increased costs especially as a firm is beginning to introduce very low numbers of diversity. However, as firms increase their level of diversity, the positive performance effects also increase.

I speculate that some of the inconsistent results between categories and years suggest the importance of learning effects for the successful management of organizational diversity as a strategic resource. Organizational learning has been established as a multilevel process that ranges from the individual level of analysis over the group level to the firm and institutional levels (Crossan, White, & Lane, 1999). Drawing on this conceptualization, I expect that there are important learning effects with respect to organizational diversity not only at the firm level of analysis, which has been the primary focus of my thesis, but also at the field level of analysis, which I expect to be the focus of my future work.

Limitations

Like any study, my thesis has limitations. The main limitation is that I did not have access to data on firm performance such as sales growth, productivity, and ROE for the privately held firms. If I had been able to include this data in my analysis, I may have been able to demonstrate more convincingly that the hypothesized relationship between organizational diversity and firm performance has the same shape for measures of firm financial performance as for turnover, and that this relationship is moderated by the degree of a field's conformity. Since I did not have access to such data and since I was constrained by some of the inconsistent results between the public firms dataset and the full dataset, I was not able to fully test my hypothesized effect of organizational diversity on firm performance.

Of concern was also the dominance of service firms in the total dataset. Out of the 4,000 firm years, 3,792 were from service providers. Hence, the control variable "service versus manufacturing" was able to account for a large portion of the total variance, possibly overpowering the effects of other variables.

My study could have benefited from inclusion of Employment Equity data for the time period between 1986 and 1997. Since 1986 was the beginning of the reporting requirements, the growth trajectories for the diversity index may have shown a strong upward trend as I had hypothesized, and the coefficient of variation may have shown a stronger cyclical pattern. A stronger cyclical pattern with repeatedly strong amplitudes may have allowed me to validly test and find support for Hypotheses 5 and 6.

It would have been very interesting to complement the quantitative date with qualitative data. Qualitative data from multiple organizational respondents would provide insights into which diversity logics govern a field's attitudes towards organizational diversity. However, there would likely be complications with such research: diversity is a highly sensitive issue for which it is difficult to elicit organizational responses (Cox & Blake, 1991). Even if responses are obtained, they may exhibit a strong positive bias since organizational diversity has been for some time a "buzz topic", meaning that many companies desire to be viewed as leading, or at least fully complying in this area. Observation based on longitudinal work would promise to produce the best results yet such access is very difficult to secure. A limitation of a case-based qualitative approach is that the small sample size of such a study would not allow subsequent quantitative analysis that spans a large number of firms across several sectors which is one of the main advantages of this thesis.

Future Research

I will continue to collect Employment Equity reports as they are published annually in June to be able to trace the growth of the four types of diversity over time.

I am planning on separating the data into more than four categories to test if my results hold, and perhaps are amplified, if a narrower criterion is selected to define groups of firms. In this way, I may also detect more than one group of firms that show high levels of diversity to assess if high levels of diversity can be observed under conditions of low degrees of conformity and not only high degrees which was shown to be the case in the banking category.

There is great importance in assessing the development of levels of diversity and degrees of conformity from the very beginning of legislation (1986). Hence, I will continue my efforts to locate this archival data, and rerun the analysis that is described in this thesis should I be able to collect this early data.

In my future research, I will further develop the insights gained from the thesis to challenge contingency theory on the assertion that there needs to be a one to one match between the complexity inside the organization and that outside the organization. An ideal match between internal and external complexity is generally taken as an important antecedent of firm survival. Empirical evidence, possibly based on survival analysis, may show that instead, there is a curvilinear relationship between the complexity inside the firm, expressed as organizational diversity at the firm level, and the complexity outside the firm, expressed as the organizational diversity or conformity at the field level.

A promising subsequent research project that builds on the data that I have already collected is to propose and test conceptual arguments about the likely learning effects about organizational diversity at the firm and the field level of analysis. A study may combine the existing quantitative data with additional interview data at the firm and field level.

FIGURE 1

THEORETICAL MODEL

Theoretical and Measurement Models of the Moderating Effect of the Degree of Conformity on the Organizational Diversity-Firm Performance Relationship

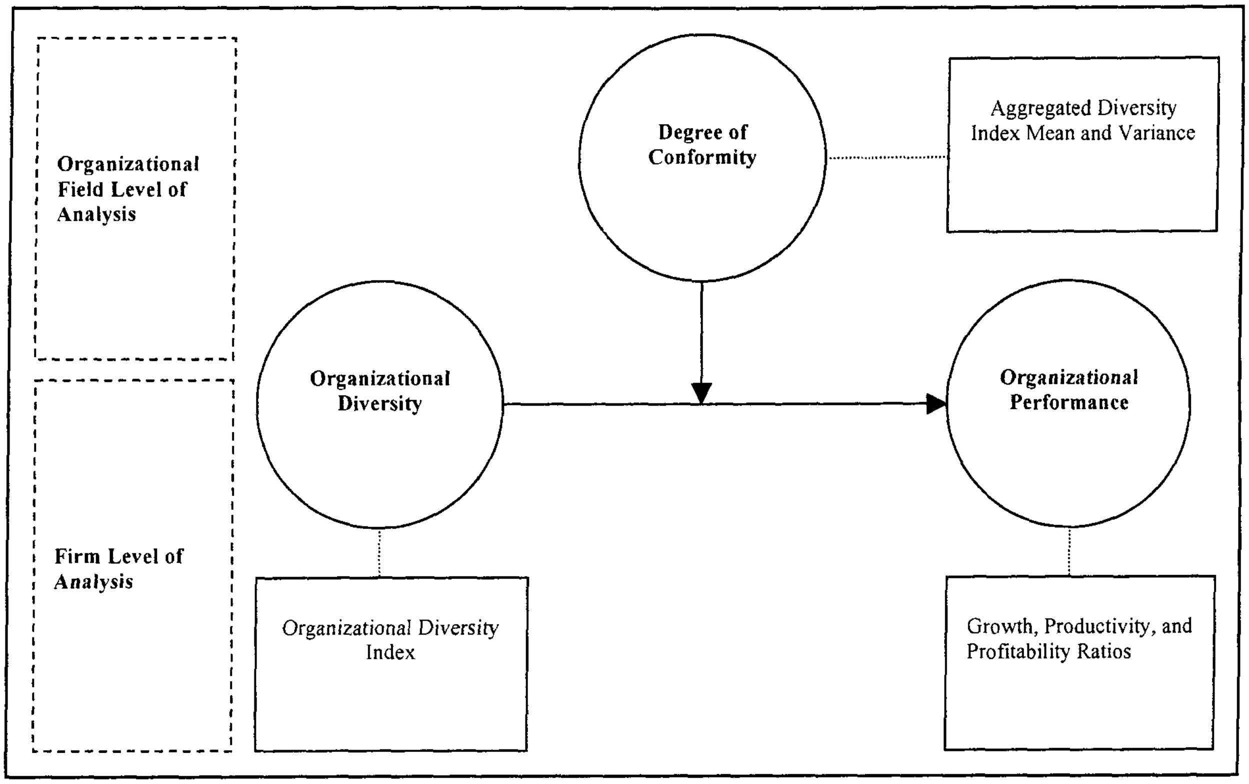


FIGURE 2

Placement of Thesis Within Its Nomonological Net

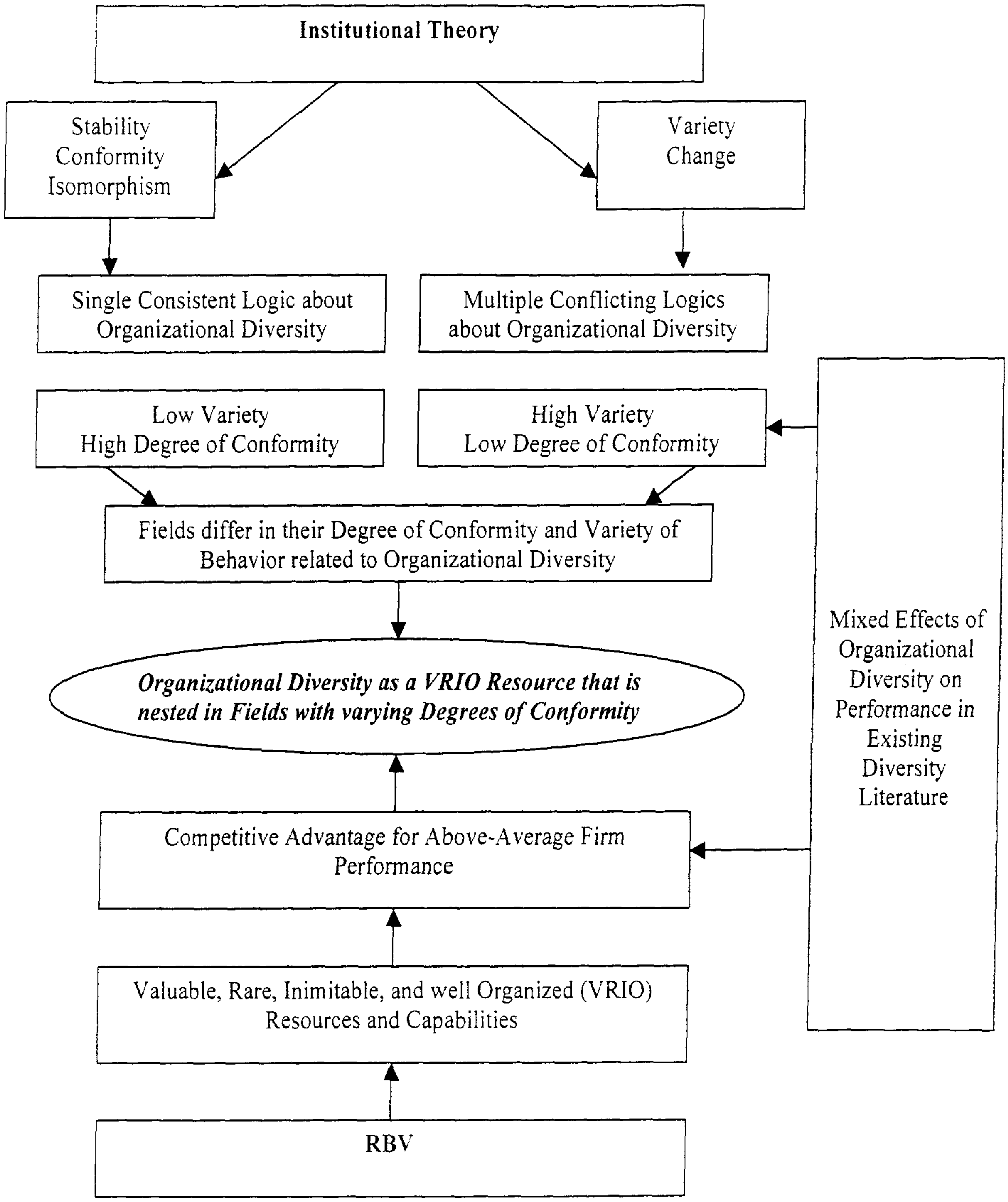


FIGURE 3

Bottom-up and Top-down Processes
Between Firm Level Organizational Diversity and Field Level Degrees of Conformity

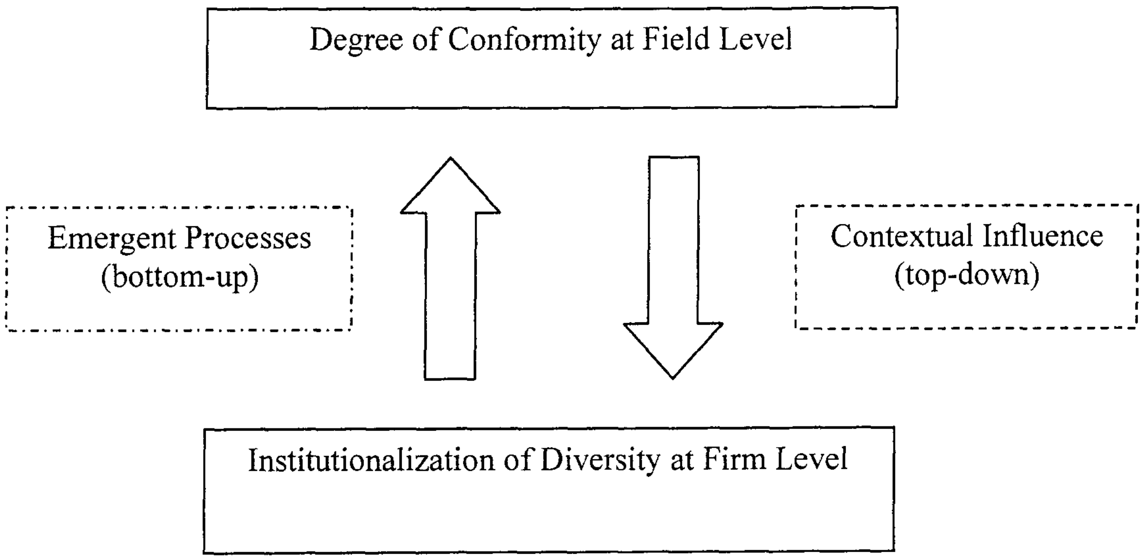


FIGURE 4

Moderated U-Shaped Relationship
Between Organizational Diversity and Firm Performance

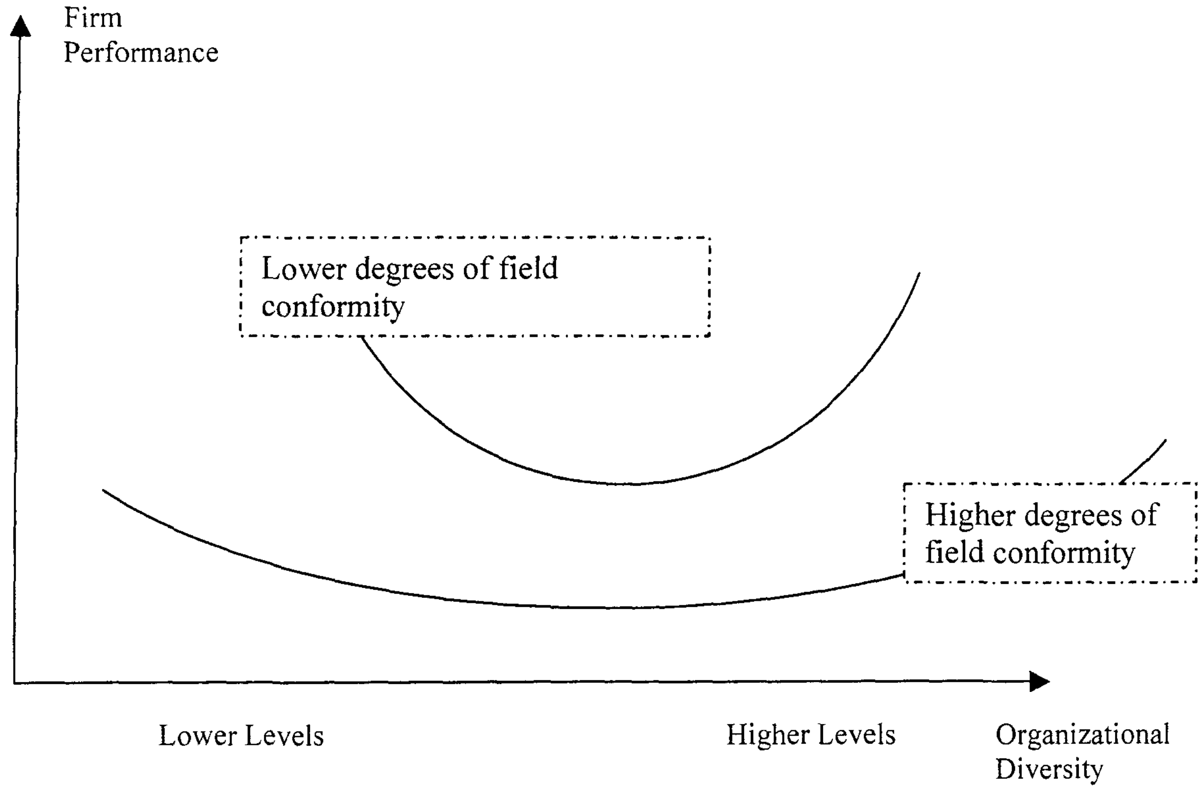


FIGURE 5

Comparison of the Expected Types of Fields

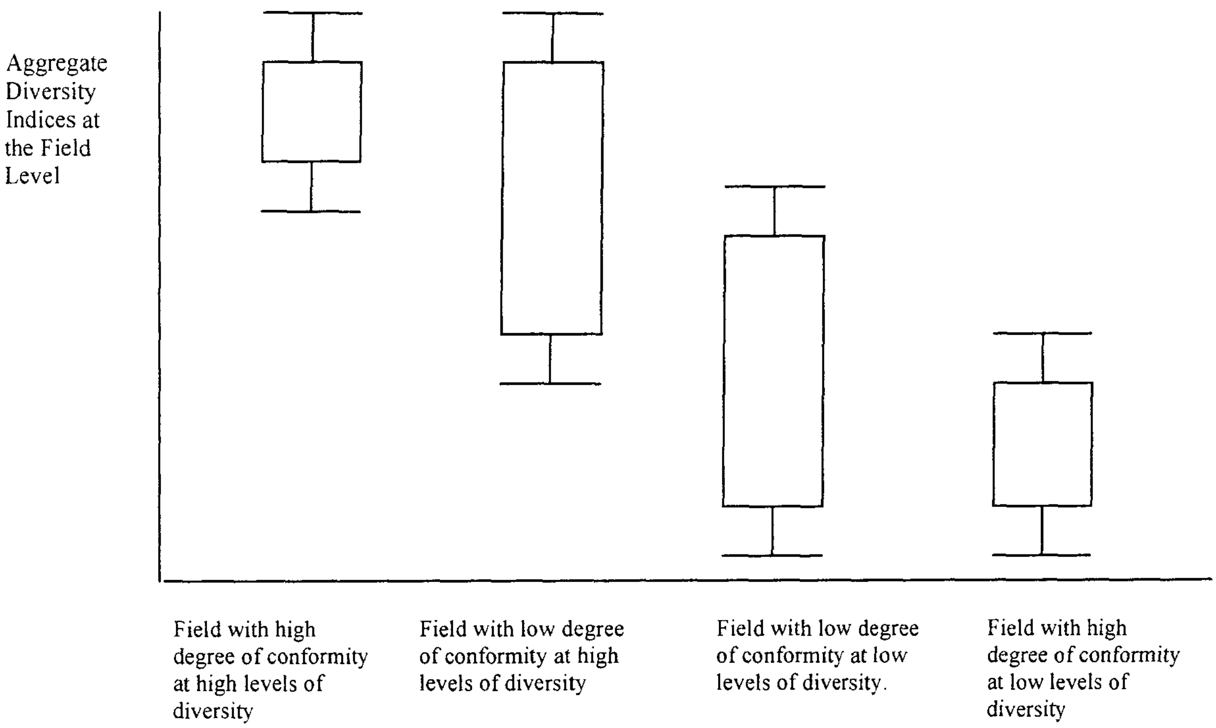


FIGURE 6a

Diversity Index Box plot over Time
Banking Category
(High Diversity Index, High Degree of Conformity)

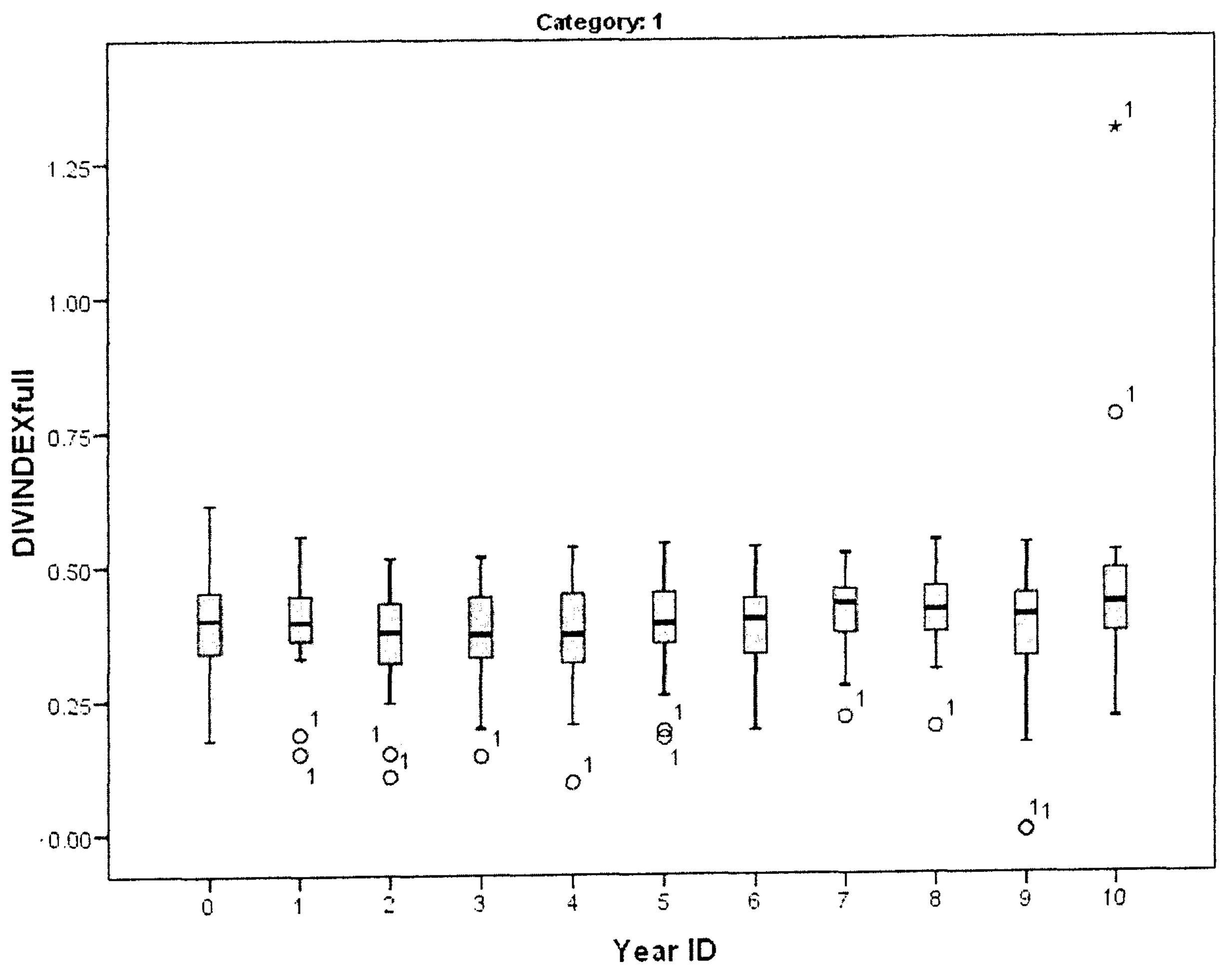


FIGURE 6b

Diversity Index Box plot over Time
Telecommunications Category
(Low - Medium Diversity Index, Medium - High Degrees of Conformity)

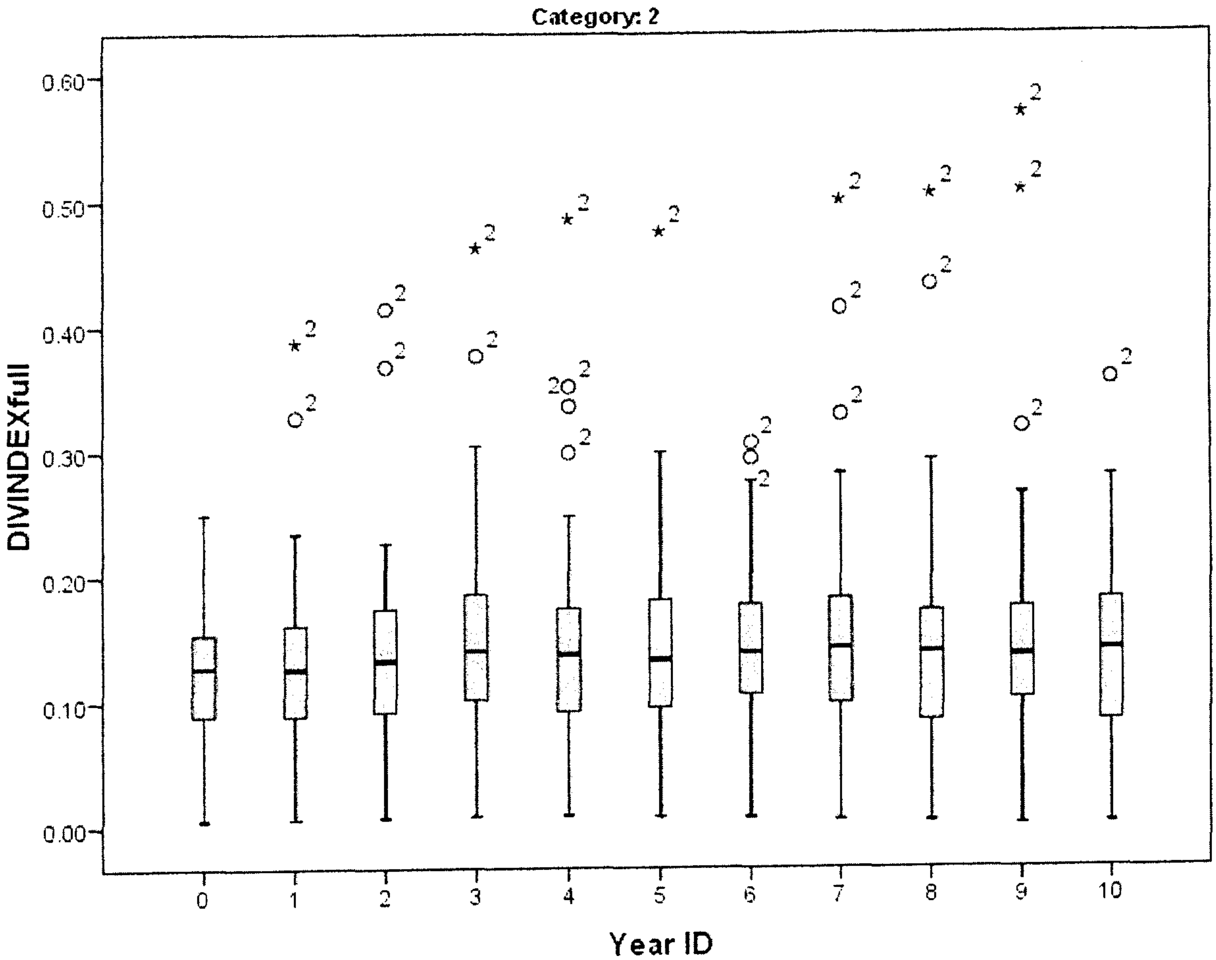


FIGURE 6c

Diversity Index Box plot over Time
Transportation Category
(Low Diversity Index, Low Degrees of Conformity)

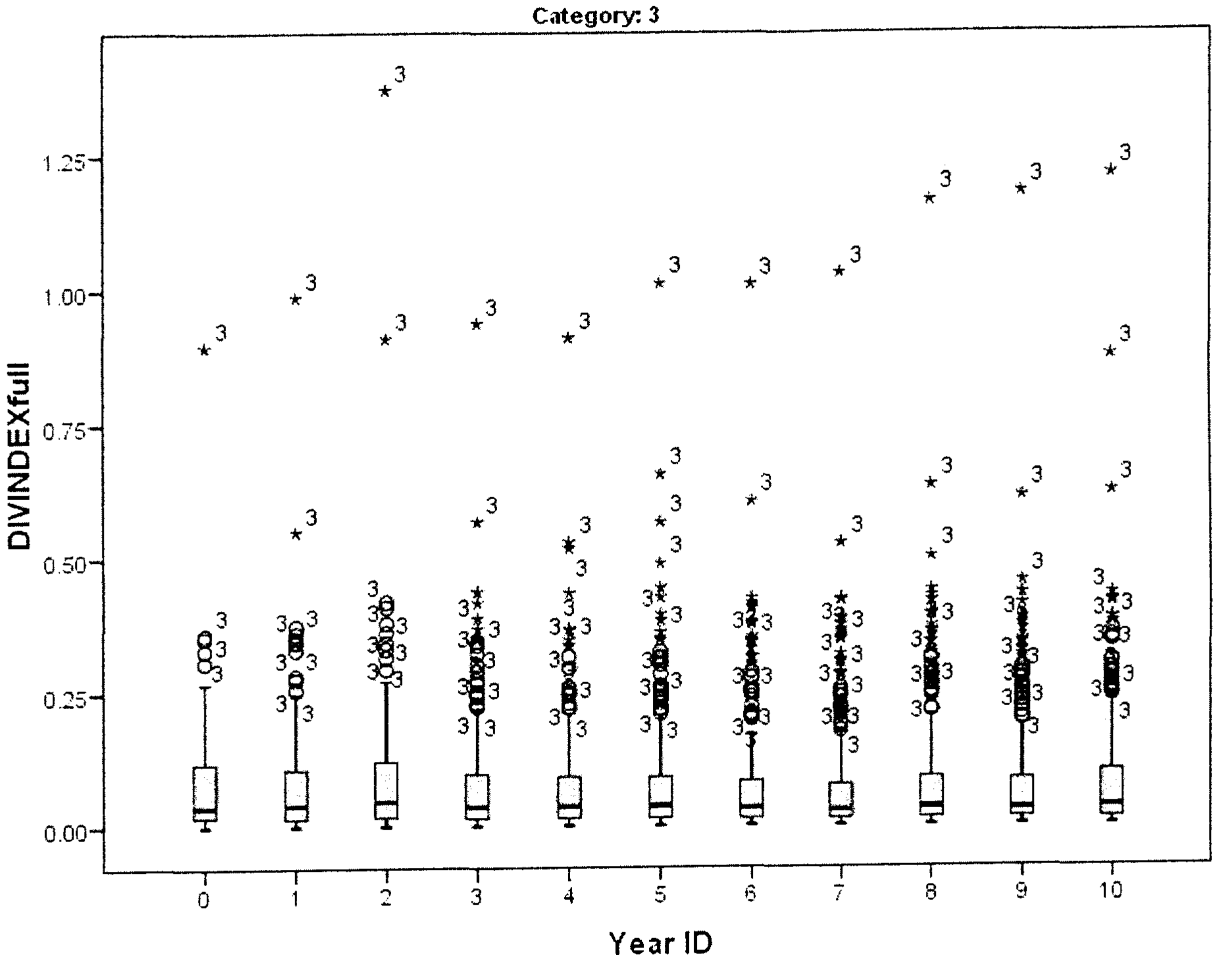


FIGURE 6d

Diversity Index Box plot over Time
Other Category
(Low Diversity Index, Low Degree of Conformity)

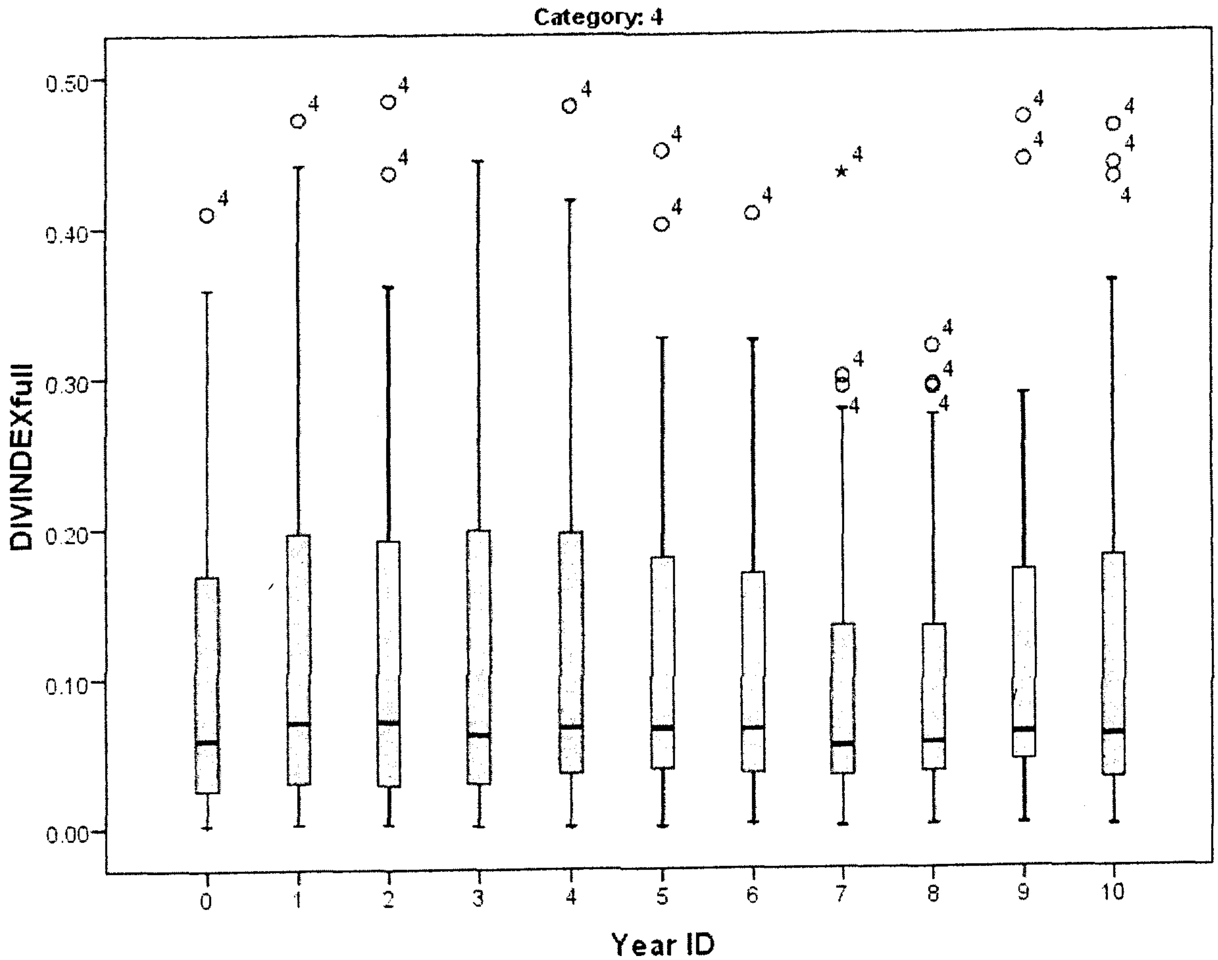


FIGURE 7

Growth of Diversity Index by Category

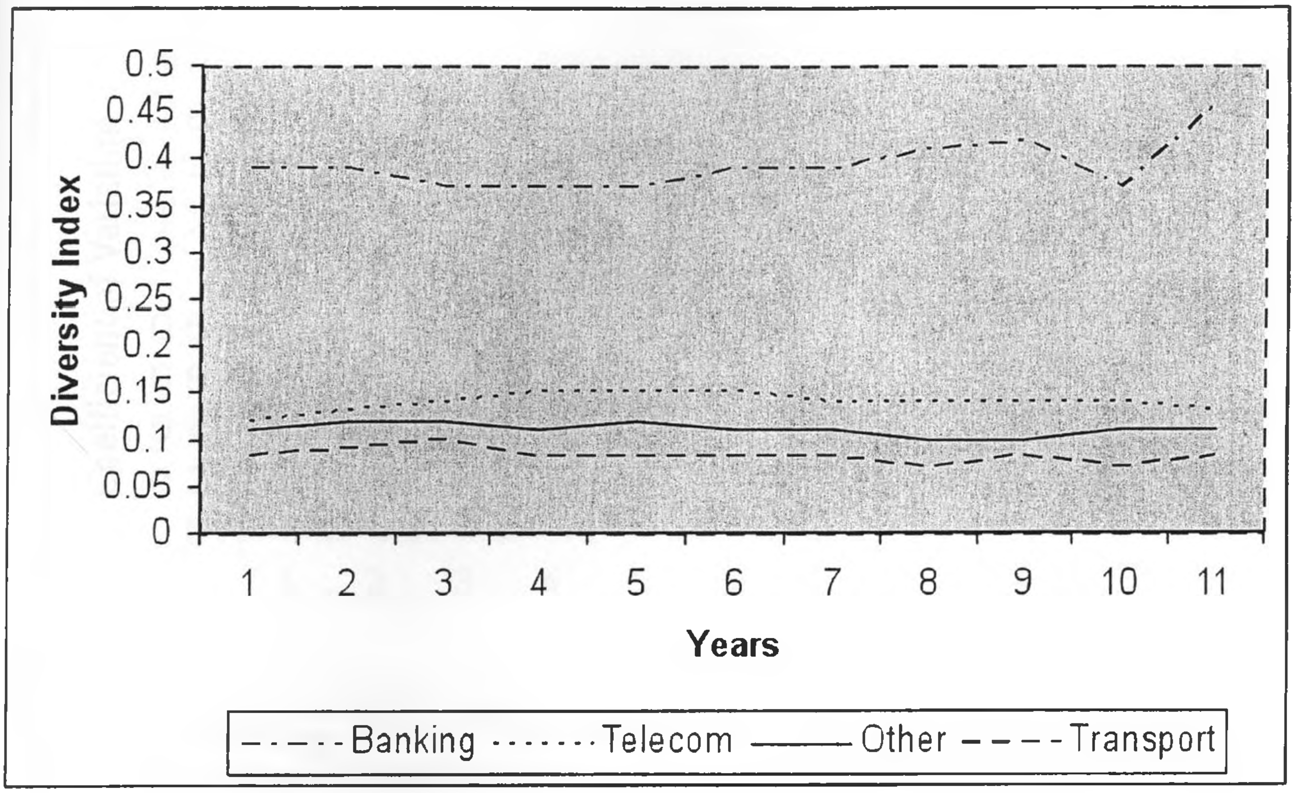


FIGURE 8

Growth of Coefficient of Variation by Category

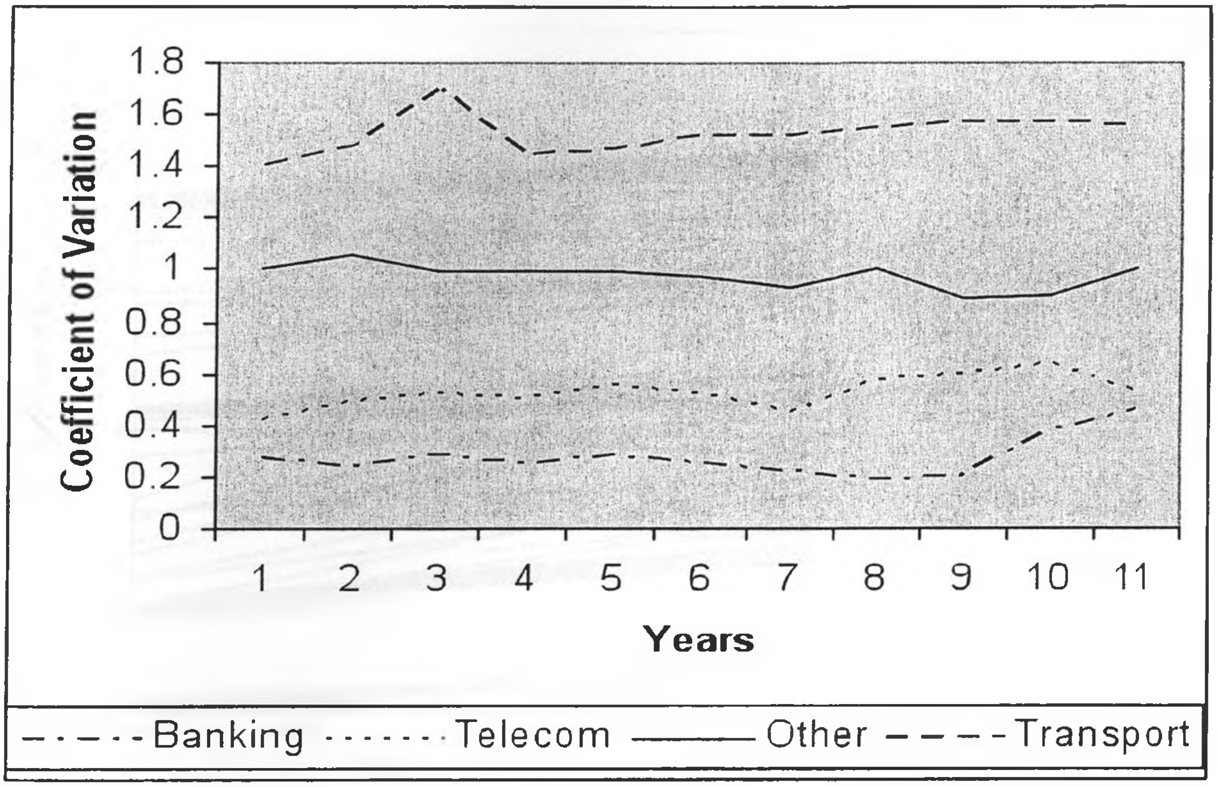
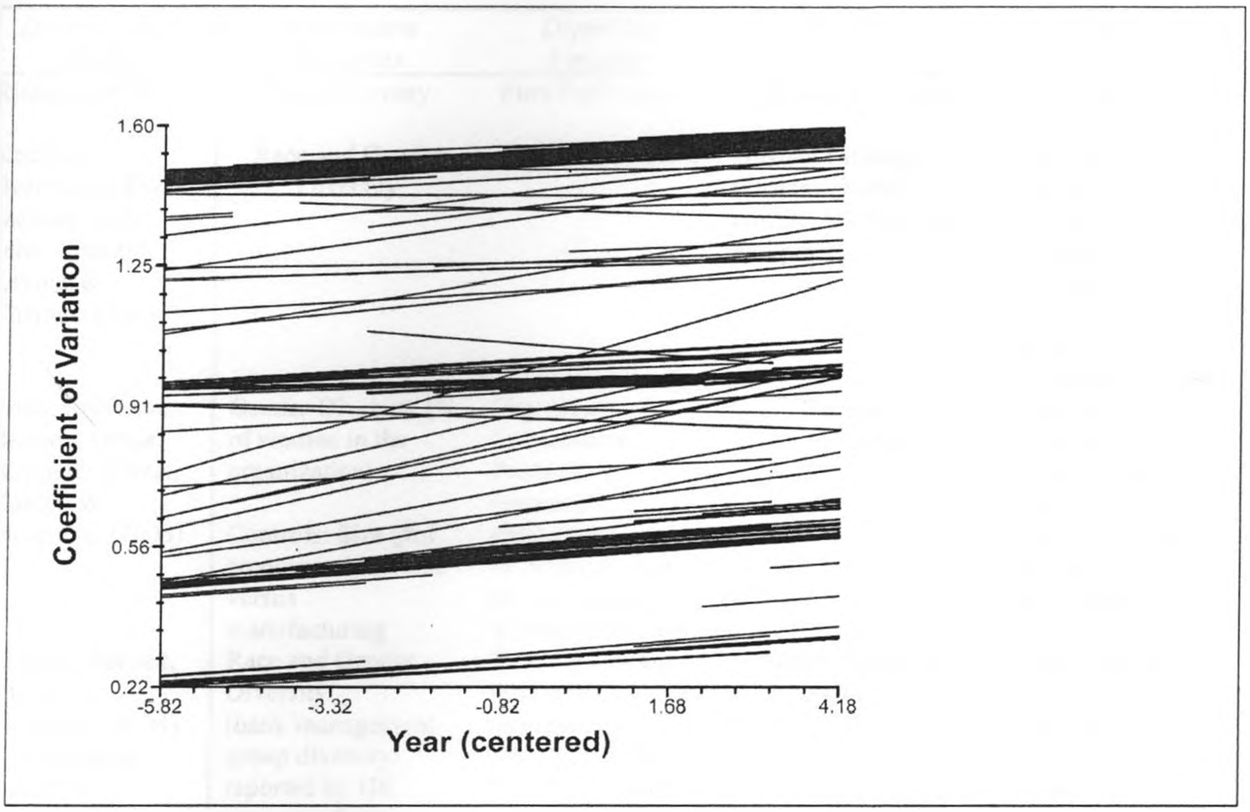


FIGURE 9

Linear Variability in Category-level Coefficient of Variation over Time[a]



[a]**Average category growth trajectories from bottom to top: banking, transportation, other, telecommunications.**

TABLE 1

Overview of Prior Empirical Research on the Relationship between Organizational Diversity and Firm Performance

Description of Study	*Independent Variables*	*Dependent Variables*	*Moderators*	*Significant Findings*
Richard (2000)	Race Diversity	Firm Performance	Business strategy	U-shaped, moderated relationship
Kochan, Bezrukova, Ely, Jackson, Joshi, Jehn, Leonard, Levine, & Thomas, (2003)	Race and Gender Diversity	Firm Performance	Business strategy, (Organizational culture, HRM policies and practices)	Few direct positive or negative effects; some indirect effects on group processes; Diversity focused HR practices improved the diversity – performance relationship
Frink, Robinson, Reithel, Arthur, Ammeter, Ferris, Kaplan, & Morrisette (2003)	Gender Diversity (% of women in the organization) Controls: Size (#of employees); service versus manufacturing	Organizational Performance: Productivity (revenue/ employees) Profitability (net income before interest and taxes)	Service vs. Manufacturing	Support for an inverted U-shaped relationship between gender composition and profitability only in the service/ wholesale/ retail industry sector
Richard, Barnett, Dwyer, & Chadwick (2004) (only banking industry)	Race and Gender Diversity (bank management group diversity; reported by HR manager; Blau's (1977) measure of racial heterogeneity; sample size: 153 firms)	Firm Performance Productivity (revenue/ employees) and Return on Equity	Entrepreneurial orientation	Non-linear relationships moderated positively by innovativeness and negatively by risk-taking
Roberson & Park, (2007)	Diversity Reputation and Leader Racial Diversity (Rank on Fortune's list of best companies to work for minorities; Blau's (1977) index of heterogeneity; sample size: 97 firms);	Firm Performance (revenue, net income, book-to-market equity)		Positive relationship between diversity reputation and book-to-market equity; curvilinear, U-shaped relationship between Leader Racial Diversity and revenue, net income, and book-to-market equity
Richard, Murthi, & Ismail (2007) (longitudinal study)	Race Diversity (Blau's (1977) measure of racial heterogeneity)	Firm Performance Short-term as productivity (revenue/ employees) Long-term as market performance	Industry context: 1) Service vs. Manufacturing 2) Munificence 3) Stability (Measures: SIC codes, Percentage change in industry	U-shaped relationship between race diversity and productivity; stronger in service than in manufacturing industries; More direct positive relationship between

		(Tobin's q)	revenue from the previous year; Coefficient of variation of changes in market power over time)	racial diversity and market performance; stronger in munificent environments

TABLE 2

Review of Traditional Dimensions of External Environment

Major works on External Environment / Context	*Complexity*	*Dynamism and Stability*	*Resource Availability*
March & Simon (1958)	-	-	Munificence
Emery & Trist (1965)	Complexity Routineity	Instability	-
Thompson (1967)	Heterogeneity	Dynamism	-
Child (1972)	Complexity	Variability	Illiberality
Mintzberg (1979)	Complexity Diversity	Stability	Hostility
Aldrich (1979)	Concentration Heterogeneity	Stability Turbulence	Capacity Consensus
Tung (1979)	Complexity Routineity	Instability	-
Dess & Beard (1984)	Complexity	Dynamism	Munificence

Adopted from Sharfman & Dean, 1991: 683

TABLE 3

Expected Types of Fields

	Low Levels of Organizational Diversity	*High levels of Organizational Diversity*
High degrees of Conformity	Field conforms to low levels of Diversity (Case A)	Field conforms to high levels of Diversity (Case B)
Low Degrees of Conformity	Field varies at low levels of Diversity (Case C)	Field varies at high levels of Diversity (Case D)

TABLE 4

Actual Types of Fields

	Low Levels of Organizational Diversity	*High levels of Organizational Diversity*
High degrees of Conformity	Telecom Category	Banking Category
Low Degrees of Conformity	Transportation Category Other Category	–

TABLE 5

Sample size, Means, Standard deviations, and Correlations among Study Variables

Variable	*Mean*	*sd*	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
1.Turnover	.20	.18												
2.Diversity Index	.12	.14	-.176**											
3.Diversity Index^2	.03	.09	-.103**	.852**										
4.COV	1.18		.187**	-.417**	-.216**									
5.Year	5.81	3.07	.125**	-.050**	-.020	.135**								
6.Private/ public	-	-	-.217**	.281**	.170**	-.332**	-.095**							
7. Service/ Mfrg.	-	-	.111**	.115**	.078**	.092**	.029	-.092**						
8.RCI	13.68	95.23	-.005	.038*	.005	-.001	-.070**	.050**	-.032*					
9.First Movers	.56	.49	-.200**	.145**	.075**	-.202**	-.304**	.172**	-.060**	-.044**				
10.dummy (Banking)	-	-	-.098**	.535**	.406**	-.508**	-.052**	.244**	.070**	-.024	.165**			
11.dummy (Transport)	-	-	-.061**	.088**	-.034*	-.668**	-.056**	.030	.129**	.016	.097**	-.124**		
12.dummy (Telecom)	-	-	.204**	-.322**	-.144**	.927**	.077**	-.389**	.276**	-.002	-.160**	-.318**	-.585**	
13.dummy (Other)	-	-	-.145**	-.019	-.041**	-.197**	-.009	.335**	-.567**	.003	.002	-.110**	-.202**	-.517**

n = 4,000 firm years, where 11 years are nested within 550 firms, nested within 4 categories (dummies)

* $p<.05$

** $p<.01$

*** $p<.000$

TABLE 6

Number of Firms per Industrial Sector

Industrial Sector Name	*Number of Firms*
Truck Transportation	144
Air Transport	48
Non-Scheduled Air Transport	45
Telecom Broadcasting	45
Service Incidental to Air Transport	31
Rail Transport	23
Telecom Carriers	23
Chartered Banks	21
Water Transport Industries	19
Public Passenger Transit Service	16
Service Incidental to Water Transport	15
Flour, Cereal, Feed	11
General Freight Trucking	10
Postal and Courier Services	10
Specialized Freight Trucking	10
Grain Elevators	9
Railway Transport and Related Services	9
Other Business Services	8
Other Transportation	5
Pipeline Transport	5
Scheduled Air Transport	5
Industrial Chemicals	4
Inland Water Transport	4
Museums and Archives	4
Other Telecom	4
Deep Sea, Coastal, and Great Lakes Water Transportation	4
Business Financing	3
Heritage Industries	3
HR Administration, Federal Government	3
Metal Mines	3
Electric Power Systems	2
Meat and Poultry	2
Other Investment intermediaries	2
Other Services for Transportation	2
Postal Service	2
Project Management/ Construction	2
Total: 37 Sectors	Counts 596

TABLE 7

Mean Diversity Indices and Coefficients of Variation

Category	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
Mean diversity Index											
Banking	0.39	0.39	0.37	0.37	0.37	0.39	0.39	0.41	0.42	0.37	0.46
Telecom	0.12	0.13	0.14	0.15	0.15	0.15	0.14	0.14	0.14	0.14	0.13
Other	0.11	0.12	0.12	0.11	0.12	0.11	0.11	0.10	0.10	0.11	0.11
Transport	0.08	0.09	0.10	0.08	0.08	0.08	0.08	0.07	0.08	0.07	0.08
Coefficient of Variation											
Transport	1.40	1.48	1.70	1.44	1.46	1.52	1.52	1.55	1.57	1.57	1.56
Other	1.00	1.06	0.99	0.99	0.99	0.97	0.93	1.00	0.89	0.90	1.00
Telecom	0.42	0.49	0.52	0.50	0.55	0.52	0.45	0.58	0.60	0.64	0.53
Banking	0.27	0.24	0.28	0.25	0.28	0.25	0.22	0.19	0.20	0.38	0.46

Standard deviations											
Transport	0.12	0.13	0.16	0.12	0.11	0.13	0.12	0.11	0.12	0.12	0.13
Banking	0.11	0.10	0.10	0.09	0.10	0.10	0.09	0.08	0.08	0.14	0.21
Other	0.11	0.12	0.12	0.11	0.12	0.11	0.10	0.10	0.09	0.10	0.11
Telecom	0.05	0.07	0.07	0.08	0.08	0.08	0.06	0.08	0.08	0.09	0.07

TABLE 8

Differences in Diversity and Coefficient of Variation between Categories

Differences in Diversity Index between Categories

	Banking Telecom	Banking Transport	Banking Other	Telecom Transport	Telecom Other	Transport Other
p-value	**.000**	**.000**	**.000**	**.000**	**.000**	**.000**
t-values	32.50	40.73	33.61	16.20	6.03	-5.98
df	327.62	313.72	434.07	2017.96	1063.78	1051.43

Analysis is based on the following number of firm years in each category: Banking (253), Telecom (743), Transportation (2399), other (605).

Differences in Coefficient of Variation between Categories

	Banking Telecom	Banking Transport	Banking Other	Telecom Transport	Telecom Other	Transport Other
p-value	**.000**	**.000**	**.000**	**.000**	**.000**	**.000**
t-values	-47.41	-245.73	-129.40	-377.38	-141.67	237.19
df	366.90	288.41	337.351	1260.05	1344.21	1178.35

Analysis is based on the following number of firm years in each category: Banking (253), Telecom (743), Transportation (2399), other (605).

TABLE 9

Model 1: Turnover, unconditional

Fixed Effect	*Coefficient*	*se*	*t*	
Mean initial turnover, B_{00}	0.215	0.007	30.44	
Random Effect	***Variance Component***	***df***	***χ2***	***p Value***
Initial Turnover, r_0	0.024	542	6475.04	***
Level 1 error, e	0.013			
Reliability of level 1 Regression Coefficient Estimate				
Initial Turnover, P_0	0.886			
Deviance	-4579.23			
# of parameters	2			

TABLE 10

Model 2: Turnover over Time, conditional on Diversity Index

Fixed Effect	*Coefficient*	*se*	*t Ratio*	*p Value*
Mean initial turnover, B00	0.225	0.007	30.995	
Mean diversity index, B10	-0.934	0.163	-5.720	***
Mean diversity index^2, B20	1.432	0.366	3.910	***
Random Effect	***Variance Component***	***df***	***$\chi 2$***	***p Value***
Initial Turnover, r_0	0.019	89	445.990	***
Growth rate, r_1	6.914	89	370.043	***
Acceleration rate, r_2	31.388	89	252.626	***
Level 1 error, e	0.010			
Deviance	-5151.15			
# of parameters	7			

TABLE 11

Model 3: Turnover over Time, conditional on Diversity Index and COV

Fixed Effect	*Coefficient*	*se*	*t Ratio*	*p Value*
Mean initial turnover, B_{00}	0.188	0.0169	11.131	
Mean COV, B_{10}	0.027	0.014	1.973	*
Mean diversity index, B_{20}	-0.846	0.178	-4.752	***
Mean diversity index^2, B_{30}	1.344	0.408	3.290	***
Random Effect	***Variance Component***	*df*	$\chi 2$	*p Value*
Initial turnover, r_0	0.037	56	75.55	*
COV growth rate, r_1	0.027	56	66.11	> .05
Diversity index growth rate, r_2	8.083	56	267.114	***
Acceleration, r_3	38.057	56	178.096	***
Level 1 error, e	0.0096			
Deviance	-5242.05			
# of parameters in model	11			

TABLE 12

Model 4: COV over time, conditional on category

Fixed Effect	*Coefficient*	*se*	*t Ratio*	*p Value*
Mean initial COV, B_{00}	1.514	0.004	363.44	
COV growth banking, B_{01}	-1.151	0.037	-31.52	***
COV growth transport, B_{02}	-0.907	0.017	-52.10	***
COV growth other, B_{03}	-0.554	0.006	-92.45	***
Year, B_{10}	0.010	0.001	9.034	***

Random Effect	***Variance Component***	***df***	***$\chi 2$***	***p Value***
Initial COV, r_0	0.008	539	2342.42	***
Level 1 error, e	0.026			
Deviance	-2599.87			
# of parameters in model	4			

TABLE 13

Model 5: Turnover over Time, conditional on Diversity Index, COV and Category dummy Variables

Fixed Effect	*Coefficient*	*se*	*t Ratio*	*p Value*
Mean initial turnover, B_{00}	0.247	0.024	10.16	
Mean COV, B_{10}	-0.009	0.019	-0.46	>.05
COV, Banking, B_{11}	-0.035	0.029	-1.20	>.05
COV, Transport, B_{12}	-0.072	0.028	-2.56	**
COV, Other, B_{13}	-0.052	0.022	-2.34	*
Mean Year, B_{20}	0.004	0.001	4.89	***
Mean Size, B_{30}	-0.047	0.025	-1.92	*
Mean diversity index, B_{40}	-0.884	0.174	-5.08	***
Mean diversity index^2, B_{50}	1.399	0.395	3.55	**
Random Effect	***Variance Component***	***df***	***$\chi 2$***	***p Value***
Initial turnover, r_0	0.018	89	418.85	
Diversity index growth rate, r_2	7.227	89	362.65	***
Diversity index acceleration, r_3	33.19	89	241.742	***
Level 1 error, e	0.010			
Deviance	-5190.25			
# of parameters in model	7			

TABLE 14

Model 6: Turnover over Time, conditional on Diversity Index and COV, dummy variables and controls

Fixed Effect	*Coefficient*	*se*	*t Ratio*	*p Value*
Mean initial turnover, B_{00}	0.155	0.036	4.32	
Public (1) vs. Private (0)	-0.027	0.011	-2.58	*
Service (1) vs. Mfrg. (0)	0.105	0.029	3.59	**
Mean COV, B_{10}	-0.014	0.019	-0.74	>.05
COV, Banking, B_{11}	-0.015	0.027	-0.56	>.05
COV, Transport, B_{12}	-0.069	0.028	-2.44	*
COV, Other, B_{13}	-0.010	0.026	-0.38	>.05
Mean year, B_{20}	0.004	0.000	4.84	***
Mean size, B_{30}	-0.042	0.025	-1.69	<.1
Mean diversity index, B_{40}	-0.863	0.174	-4.96	***
Mean diversity index ^{2}, B_{30}	1.354	0.391	3.46	**
Random Effect	***Variance Component***	***df***	***$\chi 2$***	***p Value***
Initial turnover, r_0	0.017	87	413.494	
Diversity index growth rate, r_4	7.258	89	366.865	***
Diversity Index Acceleration, r_5	33.334	89	245.729	***
Level 1 error, e	0.010			
Deviance	-5190.73			
# of parameters in model	7			

TABLE 15

Correlations between Turnover and other Measures of Financial Performance

	1	*2*	*3*	*4*	*5*
1. Turnover					
2. Net income	-.201**				
3. Revenue	-.232**	.854**			
4. Revenue growth	-.010	-.028	-.030		
5. ROE	-.123*	.297**	.175**	-.286**	
6. Productivity	-0.039	.283**	.474**	-.009	.058

n = based on 500 firm years, representing 56 private firms over 11 years

* $p < 0.05$

** $p < .01$

** $p < .000$

TABLE 16

Diversity – Turnover by Category and Year (Public firms only)

Category	n	Year	Variable	Coefficient	se	t	P value
Banking	102	1	Diversity index	10.88	2.31	4.72	**
			Diversity index ^{2}	-12.21	2.64	-4.62	**
		4	Diversity index	7.61	2.26	9.54	*
			Diversity index ^{2}	-8.33	2.54	-3.28	*
		6	Diversity index	-5.57	2.62	-2.13	<.1
			Diversity index ^{2}	6.27	3.08	2.04	<.1
Telecom	159	3	Diversity index	15.03	5.47	2.75	*
			Diversity index ^{2}	-37.60	13.51	-2.78	*
		4	Diversity index	5.46	2.73	2.00	<.1
			Diversity index ^{2}	-12.13	6.973	-1.74	>.1
Transport	139	6	Diversity index	1.23	0.285	4.32	**
			Diversity index ^{2}	-3.08	0.79	-3.87	**
Other	95	1	Diversity index	7.68	2.08	3.69	*
			Diversity index ^{2}	-80.95	22.70	-3.57	*
		8		4.49	1.33	3.38	*
				-32.39	10.49	-3.09	*

TABLE 17

Diversity – ROE by Category and Year (Public firms only)

Category	n	Year	Variable	Coefficient	se	t	P value
Banking	102						>.1
Telecom	159	2	Diversity index	-4876.90	1768.64	-2.76	*
			Diversity index ^{2}	16609.86	5449.90	3.048	*
Transport	139	6	Diversity index	164.82	46.31	3.56	*
			Diversity index ^{2}	-460.77	131.51	-3.50	*
		7	Diversity index	-243.156	116.66	-2.08	<.1
			Diversity index ^{2}	963.246	415.15	2.32	*
Other	95	8	Diversity index	-2241.97	762.10	-2.94	*
			Diversity index ^{2}	19813.502	7759.15	2.55	<.1

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APPENDIX 1

Copy of the Employment Equity Act

Employment Equity Act (1995, c. 44)

Act current to October 21st, 2009

Attention: See coming into force provision and notes, where applicable.

Employment Equity Act

1995, c. 44

[Assented to December 15th, 1995]

An Act respecting employment equity

Her Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:

SHORT TITLE

Short title

1. This Act may be cited as the *Employment Equity Act*.

PURPOSE OF ACT

Purpose of Act

2. The purpose of this Act is to achieve equality in the workplace so that no person shall be denied employment opportunities or benefits for reasons unrelated to ability and, in the fulfillment of that goal, to correct the conditions of disadvantage in employment experienced by women, aboriginal peoples, persons with disabilities and members of visible minorities by giving effect to the principle that employment equity means more than treating persons in the same way but also requires special measures and the accommodation of differences.

INTERPRETATION

Definitions

3. In this Act,

"aboriginal peoples", « *autochtones* », means persons who are Indians, Inuit or Métis;

"Canadian workforce", « *population apte au travail* », means all persons in Canada of working age who are willing and able to work;

"Chairperson", « *président* », means the chairperson of the Canadian Human Rights Tribunal;

"Commission", « *Commission* », means the Canadian Human Rights Commission established under section 26 of the *Canadian Human Rights Act*;

"compliance officer", « *agent d'application* », "compliance officer" means a person designated as an employment equity compliance review officer pursuant to subsection 22(3);

"designated groups", « *groupes désignés* », means women, aboriginal peoples, persons with disabilities and members of visible minorities;

"members of visible minorities", « *minorités visibles* », means persons, other than aboriginal peoples, who are non-Caucasian in race or non-white in colour;

"Minister", « *ministre* », means such member of the Queen's Privy Council for Canada as is designated by the Governor in Council as the Minister for the purposes of this Act;

"Panel" [Repealed, 1998, c. 9, s. 37]

"persons with disabilities", « *personnes handicapées* », means persons who have a long-term or recurring physical, mental, sensory, psychiatric or learning impairment and who

(*a*) consider themselves to be disadvantaged in employment by reason of that impairment, or

(*b*) believe that a employer or potential employer is likely to consider them to be disadvantaged in employment by reason of that impairment,

and includes persons whose functional limitations owing to their impairment have been accommodated in their current job or workplace;

"prescribed", « *Version anglaise seulement* », means prescribed by the regulations;

"private sector employer", « *employeur du secteur privé* », means any person who employs one hundred or more employees on or in connection with a federal work, undertaking or business as defined in section 2 of the *Canada Labour Code* and includes any corporation established to perform any function or duty on behalf of the Government of Canada that employs one hundred or more employees, but does not include

(*a*) a person who employs employees on or in connection with a work, undertaking or business of a local or private nature in Yukon, the Northwest Territories or Nunavut, or

(*b*) a departmental corporation as defined in section 2 of the *Financial Administration Act*;

"representatives", « *représentants* », means

(*a*) those persons who have been designated by employees to act as their representatives, or

(*b*) bargaining agents, where bargaining agents represent the employees;

"Tribunal", « *tribunal* », means an Employment Equity Review Tribunal established by subsection 28(1).

1993, c. 28, s. 78; 1995, c. 44, s. 3; 1998, c. 9, s. 37, c. 15, s. 25; 2002, c. 7, s. 162(E).

APPLICATION

Application

4. (1) This Act applies to

(*a*) private sector employers;

(*b*) the portions of the federal public administration set out in Schedule I or IV to the *Financial Administration Act*;

(*c*) the portions of the federal public administration set out in of Schedule V to the *Financial Administration Act* that employ one hundred or more employees; and

(*d*) such other portion of the public sector employing one hundred or more employees, including the Canadian Forces and the Royal Canadian Mounted Police, as may be specified by order of the Governor in Council on the recommendation of the Treasury Board, in consultation with the minister responsible for the specified portion.

Royal Canadian Mounted Police

(2) For the purposes of this Act,

(*a*) the Royal Canadian Mounted Police is deemed to consist only of its members within the meaning of subsection 2(1) of the *Royal Canadian Mounted Police Act*;

(*b*) the Royal Canadian Mounted Police is deemed not to be included in Schedule IV to the *Financial Administration Act*; and

(*c*) civilian employees appointed or employed in accordance with section 10 of the *Royal Canadian Mounted Police Act* are deemed to be included in Schedule IV to the *Financial Administration Act*.

Canadian Forces and Royal Canadian Mounted Police

(3) Members of the Canadian Forces and the Royal Canadian Mounted Police are deemed to be employees for the purposes of this Act.

Responsibilities of Treasury Board and Public Service Commission

(4) The Treasury Board and the Public Service Commission, each acting within the scope of its powers, duties and functions under the *Financial Administration Act* and the *Public Service Employment Act*, are responsible for carrying out the obligations of an employer under this Act in relation to employees employed in those portions of the federal public administration referred to in paragraph (1)(*b*).

Deemed employer

(5) Every portion of the public sector referred to in paragraphs (1)(*c*) and (*d*) is deemed to be an employer for the purposes of this Act in relation to employees employed in that portion except that, with respect to any of those portions for which the Public Service Commission exercises

any power or performs any function under the *Public Service Employment Act*, the Public Service Commission and that portion are responsible for carrying out the obligations of an employer under this Act.

References to employer

(6) In this Act, a reference to an employer is deemed, in relation to those portions of the public sector referred to in

(*a*) paragraph (1)(*b*), to be a reference to the Treasury Board and the Public Service Commission, each acting within the scope of its powers and functions under the *Financial Administration Act* and the *Public Service Employment Act*; and

(*b*) paragraphs (1)(*c*) and (*d*) for which the Public Service Commission exercises any power or performs any function under the *Public Service Employment Act*, to be a reference to the employer and the Public Service Commission.

Delegation by Treasury Board and Public Service Commission

(7) The Treasury Board and the Public Service Commission may, for the purpose of carrying out their obligations under this Act in relation to a portion of the federal public administration or other portion of the public sector referred to in subsection (1), authorize the chief executive officer or deputy head concerned to exercise, in relation to that portion, any of the powers and perform any of the functions of the Treasury Board or the Public Service Commission, as the case may be, referred to in this section.

Delegation by chief executive officer or deputy head

(8) Any chief executive officer or deputy head authorized under subsection (7) to exercise any of the powers and perform any of the duties and functions of the Treasury Board or Public Service Commission may, subject to and in accordance with the authorization given to that officer or deputy head, authorize one or more persons to exercise any of those powers and perform any of those duties and functions.

1995, c. 44, s. 4; 2001, c. 34, s. 40(F); 2003, c. 22, ss. 163, 236(E).

PART I

EMPLOYMENT EQUITY

Employer Obligations
Employer's duty

5. Every employer shall implement employment equity by

(*a*) identifying and eliminating employment barriers against persons in designated groups that result from the employer's employment systems, policies and practices that are not authorized by law; and (*b*) instituting such positive policies and practices and making such reasonable accommodations as will ensure that persons in designated groups achieve a degree of representation in each occupational group in the employer's workforce that reflects their representation in

(i) the Canadian workforce, or

(ii) those segments of the Canadian workforce that are identifiable by qualification, eligibility or geography and from which the employer may reasonably be expected to draw employees.

Employer not required to take certain measures

6. The obligation to implement employment equity does not require an employer

(*a*) to take a particular measure to implement employment equity where the taking of that measure would cause undue hardship to the employer;

(*b*) to hire or promote persons who do not meet the essential qualifications for the work to be performed;

(*c*) with respect to the public sector, to hire or promote persons without basing the hiring or promotion on merit in cases where the *Public Service Employment Act* requires that hiring or promotion be based on merit; or

(*d*) to create new positions in its workforce.

1995, c. 44, s. 6; 2003, c. 22, s. 237.

Employment of aboriginal peoples

7. Notwithstanding any other provision of this Act, where a private sector employer is engaged primarily in promoting or serving the interests of aboriginal peoples, the employer may give preference in employment to aboriginal peoples or employ only aboriginal peoples, unless that preference or employment would constitute a discriminatory practice under the *Canadian Human Rights Act*.

Certain rights not employment barriers

8. (1) Employee seniority rights with respect to a layoff or recall under a collective agreement or pursuant to the established practices of an employer are deemed not to be employment barriers within the meaning of this Act.

Other seniority rights

(2) Unless they are found to constitute a discriminatory practice under the *Canadian Human Rights Act*, employee seniority rights other than those referred to in subsection (1), including rights acquired under workforce adjustment policies implemented when an employer is downsizing or restructuring, under a collective agreement or pursuant to an established practice, are deemed not to be employment barriers within the meaning of this Act.

Adverse impact on employment opportunities

(3) Notwithstanding subsections (1) and (2), where, after a review under paragraph 9(1)(*b*), it appears that a right referred to in either of those subsections that is provided for under a collective agreement may have an adverse impact on the employment opportunities of persons in designated groups, the employer and its employees' representatives shall consult with each other concerning measures that may be taken to minimize the adverse impact.

Public sector

(4) The following are not, in relation to the public sector, employment barriers within the meaning of the Act, namely,

(*a*) priorities for appointment under the *Public Service Employment Act* or regulations made by the Public Service Commission; and

(*b*) workforce adjustment measures established by the Treasury Board, including measures set out in agreements relating to workforce adjustment, or by the Public Service Commission or any other portion of the public sector referred to in paragraphs 4(1)(*c*) and (*d*).

1995, c. 44, s. 8; 2003, c. 22, s. 164.

Analysis and review

9. (1) For the purpose of implementing employment equity, every employer shall

(*a*) collect information and conduct an analysis of the employer's workforce, in accordance with the regulations, in order to determine the degree of the underrepresentation of persons in designated groups in each occupational group in that workforce; and

(*b*) conduct a review of the employer's employment systems, policies and practices, in accordance with the regulations, in order to identify employment barriers against persons in designated groups that result from those systems, policies and practices.

Self-identification

(2) Only those employees who identify themselves to an employer, or agree to be identified by an employer, as aboriginal peoples, members of visible minorities or persons with disabilities are to be counted as members of those designated groups for the purposes of implementing employment equity.

Confidentiality of information

(3) Information collected by an employer under paragraph (1)(*a*) is confidential and shall be used only for the purpose of implementing the employer's obligations under this Act.

Employment equity plan

10. (1) The employer shall prepare an employment equity plan that

(*a*) specifies the positive policies and practices that are to be instituted by the employer in the short term for the hiring, training, promotion and retention of persons in designated groups and for the making of reasonable accommodations for those persons, to correct the underrepresentation of those persons identified by the analysis under paragraph 9(1)(*a*);

(*b*) specifies the measures to be taken by the employer in the short term for the elimination of any employment barriers identified by the review under paragraph 9(1)(*b*);

(*c*) establishes a timetable for the implementation of the matters referred to in paragraphs (*a*) and (*b*);

(*d*) where underrepresentation has been identified by the analysis, establishes short term numerical goals for the hiring and promotion of persons in designated groups in order to increase their representation in each occupational group in the workforce in which underrepresentation has been identified and sets out measures to be taken in each year to meet those goals;

(*e*) sets out the employer's longer term goals for increasing the representation of persons in designated groups in the employer's workforce and the employer's strategy for achieving those goals; and

(*f*) provides for any other matter that may be prescribed.

Establishment of numerical goals

(2) In establishing the short term numerical goals referred to in paragraph (1)(*d*), every employer shall consider

(*a*) the degree of underrepresentation of persons in each designated group in each occupational group within the employer's workforce;

(*b*) the availability of qualified persons in designated groups within the employer's workforce and in the Canadian workforce;

(*c*) the anticipated growth or reduction of the employer's workforce during the period in respect of which the numerical goals apply;

(*d*) the anticipated turnover of employees within the employer's workforce during the period in respect of which the numerical goals apply; and

(*e*) any other factor that may be prescribed.

Definitions

(3) In this section, "short term" means a period of not less than one year and not more than three years, and "longer term" means a period of more than three years.

Reasonable progress

11. Every employer shall ensure that its employment equity plan would, if implemented, constitute reasonable progress toward implementing employment equity as required by this Act.

Implementation and monitoring of plan

12. Every employer shall

(*a*) make all reasonable efforts to implement its employment equity plan; and

(*b*) monitor implementation of its plan on a regular basis to assess whether reasonable progress toward implementing employment equity is being made.

Periodic review and revision of plan

13. Every employer shall, at least once during the period in respect of which the short term numerical goals referred to in paragraph 10(1)(*d*) are established, review its employment equity plan and revise it by

(*a*) updating the numerical goals, taking into account the factors referred to in subsection 10(2); and

(*b*) making any other changes that are necessary as a result of an assessment made pursuant to paragraph 12(*b*) or as a result of changing circumstances.

Information about employment equity

14. Every employer shall provide information to its employees explaining the purpose of employment equity and shall keep its employees informed about measures the employer has undertaken or is planning to undertake to implement employment equity and the progress the employer has made in implementing employment equity.

Consultation with employee representatives

15. (1) Every employer shall consult with its employees' representatives by inviting the representatives to provide their views concerning

(*a*) the assistance that the representatives could provide to the employer to facilitate the implementation of employment equity in its workplace and the communication to its employees of matters relating to employment equity; and

(*b*) the preparation, implementation and revision of the employer's employment equity plan.

Where employees represented by bargaining agents

(2) Where employees are represented by a bargaining agent, the bargaining agent shall participate in a consultation under subsection (1).

Collaboration

(3) Every employer and its employees' representatives shall collaborate in the preparation, implementation and revision of the employer's employment equity plan.

Rule of interpretation

(4) Consultation under subsection (1) and collaboration under subsection (3) are not forms of co-management.

New employers

16. (1) A person who becomes an employer after the day on which this section comes into force shall, within eighteen months after becoming an employer, comply with sections 9 and 10.

Compliance audit

(2) The Commission may not conduct a compliance audit of the discharge of the obligations of a person referred to in subsection (1) within two years after the day on which that person becomes an employer.

Records and Reports
Employment equity records

17. Every employer shall, in accordance with the regulations, establish and maintain employment equity records in respect of the employer's workforce, the employer's employment equity plan and the implementation of employment equity by the employer.

Reports of private sector employers

18. (1) Every private sector employer shall, on or before June 1 in each year, file with the Minister a report in respect of the immediately preceding calendar year containing information in accordance with prescribed instructions, indicating, in the prescribed manner and form,

(*a*) the industrial sector in which its employees are employed, the location of the employer and its employees, the number of its employees and the number of those employees who are members of designated groups;

(*b*) the occupational groups in which its employees are employed and the degree of representation of persons who are members of designated groups in each occupational group;

(*c*) the salary ranges of its employees and the degree of representation of persons who are members of designated groups in each range and in each prescribed subdivision of the range; and

(*d*) the number of its employees hired, promoted and terminated and the degree of representation in those numbers of persons who are members of designated groups.

Interpretation

(2) For the purposes of subsection (1), an employer is the person who or organization that was the employer on December 31 in the immediately preceding year.

Electronic filing

(3) An employer may file a report using electronic media in a manner specified in writing by the Minister and, in such a case, the report is deemed to have been filed on the day that the Minister acknowledges receipt of it.

Self-identification

(4) Only those employees who identify themselves to their employer, or agree to be identified by their employer, as aboriginal peoples, members of visible minorities and persons with disabilities are to be counted as members of those designated groups for the purposes of the report.

Certificate required

(5) A report shall be certified, in the prescribed manner, as to the accuracy of the information contained in it and shall be signed by the employer or, where the employer is a corporation, by a prescribed person on behalf of the corporation.

Additional information

(6) An employer shall include in a report a description of

(*a*) the measures taken by the employer during the reporting period to implement employment equity and the results achieved; and

(*b*) the consultations between the employer and its employees' representatives during the reporting period concerning the implementation of employment equity.

Consolidated reports

(7) Where, in the opinion of the Minister, associated or related federal works, undertakings or businesses are operated by two or more employers having common control or direction, the Minister may, on the application of the employers, authorize them to file a consolidated report with respect to employees employed by them on or in connection with those works, undertakings or businesses.

Exemption for private sector employers

(8) The Minister may, on the application of an employer, exempt the employer from any or all of the requirements of this section for a period not exceeding one year if, in the opinion of the Minister, special circumstances warrant the exemption.

Copy to employees' representatives

(9) An employer shall, on filing a report with the Minister under this section, provide its employees' representatives with a copy of the report.

Copy to Commission

(10) The Minister shall, on receipt of a report, send a copy of it to the Commission.

Availability of reports of private sector employers

19. (1) Subject to subsection (2), every report filed under subsection 18(1) shall be available for public inspection at such places as may be designated, and in such form as may be determined, by the Minister, and any person may, on payment of a prescribed fee, not to exceed the costs of furnishing a copy, obtain from the Minister a copy of any of the reports.

Withholding of report

(2) The Minister may, on the application of an employer, withhold the employer's report from public inspection for a period not exceeding one year if, in the opinion of the Minister, special circumstances warrant the withholding.

Consolidation to be tabled

20. The Minister shall in each year prepare a report consisting of a consolidation of the reports filed under subsection 18(1) together with an analysis of those reports and shall cause the report to be laid before each House of Parliament not later than the fifteenth sitting day that that House of Parliament is sitting after the report is completed.

Report of Treasury Board

21. (1) The President of the Treasury Board shall, in each fiscal year, cause to be laid before each House of Parliament a report in respect of the state of employment equity in the portions of the federal public administration referred to in paragraph 4(1)(*b*) during the immediately preceding fiscal year.

Contents of report

(2) The report referred to in subsection (1) shall consist of

(*a*) a consolidation and analysis of

(i) the number of employees employed in each portion of the federal public administration referred to in paragraph 4(1)(*b*) and the number of persons who are members of each designated group so employed,

(ii) the total number of employees employed in all portions of the federal public administration referred to in paragraph 4(1)(*b*) in each province and in the National Capital Region and the number of persons who are members of each designated group so employed,

(iii) the occupational groups of employees and the degree of representation of persons who are members of each designated group in each occupational group,

(iv) the salary ranges of employees and the degree of representation of persons who are members of each designated group in each range and in any subdivision of the range, and

(v) the numbers of employees hired, promoted and terminated and the degree of representation, in those numbers, of persons who are members of each designated group;

(*b*) a description of the principal measures taken by the Treasury Board during the reporting period to implement employment equity and the results achieved;

(*c*) a description of the consultations between the Treasury Board and its employees' representatives during the reporting period concerning the implementation of employment equity; and

(*d*) any other information that the President of the Treasury Board considers relevant.

Requirement to provide information

(3) Each portion of the public sector referred to in paragraphs 4(1)(*c*) and (*d*), other than the Canadian Security Intelligence Service, shall, within six months after the end of each fiscal year, provide to the President of the Treasury Board a report containing the information referred to in subsection (4) in relation to that portion during that fiscal year and the President shall cause the reports, together with the report referred to in subsection (1), to be laid before each House of Parliament.

Contents of report

(4) A report referred to in subsection (3) shall consist of

(*a*) the information referred to in subparagraphs (2)(*a*)(i) to (v) in relation to that portion;

(*b*) an analysis of the information referred to in paragraph (*a*); and

(*c*) the information referred to in paragraphs (2)(*b*) to (*d*) in relation to that portion.

Requirement to provide information

(5) The Canadian Security Intelligence Service shall, within six months after the end of each fiscal year, provide to the President of the Treasury Board a report containing the information referred to in subsection (6) in relation to that portion during that fiscal year and the President shall cause the report, together with the report referred to in subsection (1), to be laid before each House of Parliament.

Contents of report

(6) A report referred to in subsection (5) shall consist of

(*a*) the percentage of employees employed in that portion who are members of each designated group;

(*b*) the occupational groups of employees in that portion and the percentage of persons who are members of each designated group in each occupational group;

(*c*) the salary ranges of employees in that portion and the percentage of persons who are members of each designated group in each range and in any subdivision of the range;

(*d*) the percentage of employees hired, promoted and terminated in that portion who are members of each designated group;

(*e*) an analysis of the information referred to in paragraphs (*a*) to (*d*); and

(*f*) the information referred to in paragraphs (2)(*b*) to (*d*) in relation to that portion.

Copy to Commission

(7) The President of the Treasury Board shall, as soon as possible after a report referred to in any of subsections (1), (3) and (5) is laid before each House of Parliament, send a copy of the report to the Commission.

Copies to employees' representatives

(8) As soon as possible after a report referred to in this section is laid before each House of Parliament,

(*a*) in the case of a report referred to in subsection (1), the President of the Treasury Board,

(*b*) in the case of a report referred to in subsection (3), each portion of the public sector referred to in that subsection, and

(*c*) in the case of a report referred to in subsection (5), the Canadian Security Intelligence Service,

shall send a copy of the report to its employees' representatives.

1995, c. 44, s. 21; 2003, c. 22, s. 165.

PART II

COMPLIANCE

Compliance Audits
Compliance audits

22. (1) The Commission is responsible for the enforcement of the obligations imposed on employers by sections 5, 9 to 15 and 17.

Guiding policy

(2) The Commission shall, in discharging its responsibility under subsection (1), be guided by the policy that, wherever possible, cases of non-compliance be resolved through persuasion and the negotiation of written undertakings pursuant to subsection 25(1) and that directions be issued under subsection 25(2) or (3) and applications for orders be made under subsection 27(2) only as a last resort.

Compliance officers designated

(3) The Commission may designate any person or category of persons as employment equity compliance review officers for the purposes of conducting compliance audits of employers.

Where compliance officer may not act

(4) No person who has been designated as an investigator under section 43 of the *Canadian Human Rights Act* to investigate a complaint under that Act in respect of an employer may, during the investigation, conduct a compliance audit of that employer.

Delegation by Commission

(5) The Commission may authorize any officer or employee of the Commission whom the Commission considers appropriate to exercise any power and perform any duty or function of the

satisfy any security requirements applicable to, and take any oath of secrecy required to be taken by, persons who normally have access to and use of that information.

Undertakings and Directions
Employer undertaking

25. (1) Where a compliance officer is of the opinion that an employer

(*a*) has not collected information or conducted an analysis referred to in paragraph 9(1)(*a*) or conducted a review referred to in paragraph 9(1)(*b*),

(*b*) has not prepared an employment equity plan referred to in section 10,

(*c*) has prepared an employment equity plan that does not meet the requirements of sections 10 and 11,

(*d*) has not made all reasonable efforts to implement its employment equity plan in accordance with section 12,

(*e*) has failed to review and revise its employment equity plan in accordance with section 13,

(*f*) has failed to provide information to its employees in accordance with section 14,

(*g*) has failed to consult with its employees' representatives in accordance with section 15, or

(*h*) has failed to establish and maintain employment equity records as required by section 17,

the compliance officer shall inform the employer of the non-compliance and shall attempt to negotiate a written undertaking from the employer to take specified measures to remedy the non-compliance.

Information re underrepresentation

(1.1) Where

(*a*) an employer has been informed of a non-compliance by a compliance officer under subsection (1) and the finding of non-compliance is based, in whole or in part, on the apparent underrepresentation of aboriginal peoples, members of visible minorities or persons with disabilities in the employer's work force, as reflected in the employer's work force analysis conducted pursuant to paragraph 9(1)(*a*), and

(*b*) the employer believes that the apparent underrepresentation is attributable to the decision of employees who may be members of the designated groups concerned not to identify themselves as such or not to agree to be identified by the employer as such under subsection 9(2),

the employer may inform the compliance officer of such belief.

Reason for underrepresentation to be considered

(1.2) Where the employer satisfies the compliance officer that the finding of non-compliance is attributable, in whole or in part, to the reason described in paragraph (1.1)(*b*) and that the employer has made all reasonable efforts to implement employment equity, the compliance officer shall take the reason into account in exercising any powers under this section.

No employer identification of individual employees

(1.3) In satisfying the compliance officer under subsection (1.2) that the finding of non-compliance is attributable, in whole or in part, to the reason mentioned in paragraph (1.1)(*b*), the employer must do so by means other than the identification of individual employees in its work force that the employer believes are members of designated groups who have not identified themselves as such, or agreed to be identified by the employer as such, under subsection 9(2).

Direction

(2) Where a compliance officer fails to obtain a written undertaking that, in the opinion of the compliance officer, would be sufficient to remedy the non-compliance, the compliance officer shall notify the Commission of the non-compliance and the Commission may issue and send, by registered mail, a direction to the employer

(*a*) setting out the facts on which the officer's finding of non-compliance is based; and

(*b*) requiring the employer to take such actions as are specified in the direction to remedy the non-compliance.

Breach of undertaking

(3) Where a compliance officer obtains a written undertaking and the compliance officer is of the opinion that the employer has breached the undertaking, the compliance officer shall notify the Commission of the non-compliance and the Commission may issue and send, by registered mail, a direction to the employer requiring the employer to take such actions as are specified in the direction to remedy the non-compliance.

Amendment of direction

(4) The Commission may rescind or amend a direction issued by the Commission pursuant to subsection (2) or (3) on the presentation of new facts or on being satisfied that the direction was issued without knowledge of, or was based on a mistake as to, a material fact.

Direction of Commission

26. (1) Where a compliance officer is of the opinion that an employer has failed to give reasonable assistance or to provide information as required by subsection 23(4), the compliance officer shall notify the Commission of the non-compliance and the Commission may issue and send, by registered mail, a direction to the employer

(*a*) setting out the facts on which the officer's finding of non-compliance is based; and

(*b*) requiring the employer to take such actions as are specified in the direction to remedy the non-compliance.

Amendment of direction

(2) The Commission may rescind or amend a direction issued pursuant to subsection (1) on the presentation of new facts or on being satisfied that the direction was issued without knowledge of, or was based on a mistake as to, a material fact.

Requests for Review or Order
Employer's request for review

27. (1) An employer to whom a direction is issued under subsection 25(2) or (3) or 26(1) may make a request to the Chairperson for a review of the direction

(*a*) in the case of a direction issued under subsection 25(2) or (3), within sixty days after the day on which it is issued; and

(*b*) in the case of a direction issued under subsection 26(1), within thirty days after the day on which it is issued.

Commission may apply

(2) If the Commission is of the opinion that an employer has failed to comply with a direction issued by the Commission, the Commission may apply to the Chairperson for an order confirming the direction.

Limitation

(3) No application may be made pursuant to subsection (2) where the employer has requested a review in accordance with subsection (1).

1995, c. 44, s. 27; 1998, c. 9, s. 38.

Employment Equity Review Tribunals
Establishment of Tribunals

28. (1) If an employer makes a request under subsection 27(1) or the Commission makes an application under subsection 27(2), the Chairperson shall establish an Employment Equity Review Tribunal to consider the request or application.

Composition

(2) The Chairperson shall appoint a Tribunal consisting of one member of the Canadian Human Rights Tribunal, but the Chairperson may appoint a Tribunal of three members if the Chairperson considers that the complexity or precedential significance of the request or application requires a Tribunal of three members.

Qualifications of members

(3) The Chairperson shall, in appointing members of the Tribunal, take into consideration their knowledge and experience in employment equity matters.

Presiding

(4) If a Tribunal consists of more than one member, the Chairperson shall designate one of the members to preside over the hearings of the Tribunal.

Acting after expiration of appointment

(4.1) A member whose appointment expires may, with the approval of the Chairperson, conclude any hearing that the member has begun, and a person performing duties under this section is deemed to be a part-time member for the purposes of section 48.3 of the *Canadian Human Rights Act*.

Remuneration

(5) The members of a Tribunal shall be paid such remuneration as may be provided for under subsection 48.6(1) of the *Canadian Human Rights Act*.

Travel expenses

(6) Members are entitled to be paid any travel and living expenses incurred in carrying out duties as members of the Tribunal while absent from their ordinary place of residence that may be provided for under subsection 48.6(2) of the *Canadian Human Rights Act*.

Technical experts

(7) The Chairperson may engage and, subject to the approval of the Treasury Board, fix the remuneration of persons having technical or special knowledge to assist or advise a Tribunal in any matter.

Government services and facilities

(8) In performing its duties and functions, a Tribunal shall, where available, make use of the services and facilities of departments, boards and agencies of the Government of Canada.

Rules

(9) The Chairperson may make rules governing the practice and procedure of Tribunals.

Security requirements

(10) Every member or other person acting on behalf of or under the direction of a Tribunal who receives or obtains information relating to a request or application referred to in subsection (1) shall, with respect to access to and use of that information by that member or other person, satisfy any security requirements applicable to, and take any oath of secrecy required to be taken by, persons who normally have access to and use of that information.

1995, c. 44, s. 28; 1998, c. 9, s. 39.

Powers of Tribunal

29. (1) A Tribunal may

(*a*) in the same manner and to the same extent as a superior court of record, summon and enforce the attendance of witnesses and compel them to give oral and written evidence on oath and to produce such documents and things as the Tribunal considers necessary for a full review;

(*b*) administer oaths; and

(*c*) receive and accept such evidence and other information, whether on oath or by affidavit or otherwise, as the Tribunal sees fit, whether or not that evidence or information would be admissible in a court of law.

How matters to be dealt with

(2) A Tribunal shall conduct any matter that comes before it as informally and expeditiously as the circumstances and considerations of fairness and natural justice permit.

Hearings to be public

(3) Subject to subsection (4), a hearing before a Tribunal shall be conducted in public.

Hearings may be *in camera*

(4) A hearing before a Tribunal may, on the request of an employer, be held *in camera* if the employer establishes to the satisfaction of the Tribunal that the circumstances of the case so require.

Reasons for decision

(5) A Tribunal shall provide the parties to a proceeding before the Tribunal with written reasons for its decision.

Reasons for decision

(6) A Tribunal shall, on request by any person, provide the person with a copy of any decision of the Tribunal, including a decision under subsection (4) to hold a hearing *in camera*, together with the written reasons for the decision.

Decision of Tribunal

30. (1) A Tribunal may, after hearing a request made under subsection 27(1) or an application made under subsection 27(2),

(*a*) by order, confirm, vary or rescind the Commission's direction; and

(*b*) make any other order it considers appropriate and reasonable in the circumstances to remedy the non-compliance.

Board may vary or rescind

(2) A Tribunal may vary or rescind any order made by it.

Orders are final

(3) An order of a Tribunal is final and, except for judicial review under the *Federal Courts Act*, is not subject to appeal or review by any court.

1995, c. 44, s. 30; 2002, c. 8, s. 182.

Enforcement of orders

31. (1) Any order of a Tribunal made under section 30 may, for the purposes of its enforcement, be made an order of the Federal Court and is enforceable in the same manner as an order of that Court.

Procedure

(2) To make an order of a Tribunal an order of the Federal Court, the usual practice and procedure of the Court may be followed or a certified copy of the order may be filed with the registrar of the Court, and from the time of filing the order becomes an order of the Court.

Report of activities of Human Rights Commission

32. The Commission shall include in its annual report referred to in section 61 of the *Canadian Human Rights Act* a report of its activities, including an assessment of their effectiveness, under this Act during the year.

Limitations respecting Directions and Orders
Limitation

33. (1) The Commission may not give a direction under section 25 or 26 and no Tribunal may make an order under section 30 where that direction or order would

(*a*) cause undue hardship on an employer;

(*b*) require an employer to hire or promote persons who do not meet the essential qualifications for the work to be performed;

(*c*) with respect to the public sector, require an employer to hire or promote persons without basing the hiring or promotion on merit in cases where the *Public Service Employment Act* requires that hiring or promotion be based on merit, or impose on the Public Service Commission an obligation to exercise its discretion regarding exclusion orders or regulations;

(*d*) require an employer to create new positions in its workforce;

(*e*) impose a quota on an employer; or

(*f*) in the case of a direction or order respecting the establishment of short term numerical goals, fail to take into account the factors set out in subsection 10(2).

Meaning of "quota"

(2) In paragraph (1)(*e*), "quota" means a requirement to hire or promote a fixed and arbitrary number of persons during a given period.

Public sector

(3) In making a direction or order that applies to the public sector, the Commission, in the case of a direction, and a Tribunal, in the case of an order, shall take into account the respective roles and responsibilities of

(*a*) the Public Service Commission and the Treasury Board under the *Public Service Employment Act* and the *Financial Administration Act*; or

(*b*) a portion of the public sector referred to in paragraph 4(1)(*c*) or (*d*) under any other Act of Parliament.

1995, c. 44, s. 33; 2003, c. 22, s. 238.

Privileged Information
Privileged information

34. (1) Information obtained by the Commission under this Act is privileged and shall not knowingly be, or be permitted to be, communicated, disclosed or made available without the written consent of the person from whom it was obtained.

Evidence and production of documents

(2) No member of the Commission or person employed by it who obtains information that is privileged under subsection (1) shall be required, in connection with any legal proceedings, other than proceedings relating to the administration or enforcement of this Act, to give evidence relating to that information or to produce any statement or other writing containing that information.

Communication or disclosure of information

(3) Information that is privileged under subsection (1) may, on any terms and conditions that the Commission considers appropriate, be communicated or disclosed to a minister of the Crown in right of Canada or to any officer or employee of Her Majesty in right of Canada for any purpose relating to the administration or enforcement of this Act.

Exception

(4) Nothing in this section prohibits the communication or disclosure of information for the purposes of legal proceedings relating to the administration or enforcement of this Act.

Employer's consent required

(5) No information obtained by the Commission or a Tribunal under this Act may be used in any proceedings under any other Act without the consent of the employer concerned.

PART III

ASSESSMENT OF MONETARY PENALTIES

Violations

(*c*) specify the place where the employer may pay the monetary penalty.

Options
Employer's options

38. (1) An employer may, not later than thirty days after receiving a notice of assessment of a monetary penalty,

(*a*) comply with the notice; or

(*b*) contest the assessment of the monetary penalty by making a written application to the Minister for a review, by a Tribunal, of that assessment.

Copy of application

(2) If the Minister receives a written application, the Minister shall send a copy of it to the Chairperson.

Copy of notice of assessment

(3) If an employer who is issued a notice of assessment of a monetary penalty fails to exercise one of the options set out in subsection (1) within the period referred to in that subsection, the Minister shall send a copy of the notice to the Chairperson.

1995, c. 44, s. 38; 1998, c. 9, s. 40.

Review by Tribunal

39. (1) On receipt of a copy of a written application or a copy of a notice of assessment, the Chairperson shall establish a Tribunal consisting of one member selected from the Canadian Human Rights Tribunal to review the assessment and shall

(*a*) send, by registered mail, a request that the employer appear before the Tribunal at the time and place set out in the request to hear the allegations against the employer in respect of the alleged violation; and

(*b*) in writing, advise the Minister who issued the notice of assessment of the time and place set out in the request.

Failure to appear before Tribunal

(2) Where an employer to whom a request is sent fails to appear before a Tribunal at the time and place set out in the request, the Tribunal shall consider all the information that is presented to it by the Minister in relation to the alleged violation.

Opportunity to make representations

(3) In conducting its review, a Tribunal shall provide the Minister and the employer with a full opportunity consistent with procedural fairness and natural justice to present evidence and make representations to it with respect to the alleged violation.

Determination of Tribunal

(4) Where at the conclusion of its proceedings a Tribunal determines that the employer

(*a*) has not committed the alleged violation, the Tribunal shall immediately inform the employer and the Minister of its determination and no further proceedings shall be taken against the employer in respect of the alleged violation; or

(*b*) has committed the alleged violation, the Tribunal shall immediately

(i) issue to the Minister a certificate, in the prescribed form, of its determination that sets out an amount, not exceeding the applicable amount set out in subsection 36(2), determined by the Tribunal to be payable by the employer in respect of the violation, and

(ii) send a copy of the certificate to the employer by registered mail.

Factors to be considered

(5) In determining an amount under subparagraph (4)(*b*)(i), a Tribunal shall take into account the factors set out in subsection 36(3).

Burden of proof

(6) In proceedings under this section, the Minister has the burden of proving, on a balance of probabilities, that an employer has committed the alleged violation.

Certificate

(7) A certificate that purports to have been issued by a Tribunal under subparagraph (4)(*b*)(i) is evidence of the facts stated in the certificate, without proof of the signature or official character of the person appearing to have signed the certificate.

Determinations are final

(8) A determination of a Tribunal under this section is final and, except for judicial review under the *Federal Courts Act*, is not subject to appeal or review by any court.

1995, c. 44, s. 39; 1998, c. 9, s. 41; 2002, c. 8, s. 182.

Enforcement of Monetary Penalties
Registration of certificate

40. (1) A certificate issued under subparagraph 39(4)(*b*)(i) may be registered in the Federal Court and when registered has the same force and effect, and all proceedings may be taken on the certificate, as if the certificate were a judgment in that Court obtained by Her Majesty in right of Canada against the employer named in the certificate for a debt in the amount set out in the certificate.

Recovery of costs and charges

(2) All reasonable costs and charges associated with registration of the certificate are recoverable in like manner as if they were part of the amount determined by the Tribunal under subparagraph 39(4)(*b*)(i).

PART IV

GENERAL

Regulations

41. (1) The Governor in Council may make regulations

(*a*) defining, for the purposes of the Act, the expressions "employee", "hired", "occupational group", "promoted", "salary" and "terminated";

(*b*) prescribing the manner of calculating the number of employees employed by an employer for the purpose of determining when an employer is considered to employ one hundred or more employees;

(*c*) governing the collection of information and the conduct of analyses referred to in paragraph 9(1)(*a*) and the conduct of reviews referred to in paragraph 9(1)(*b*);

(*d*) governing the establishment and maintenance of employment equity records referred to in section 17;

(*e*) prescribing anything that is to be prescribed by this Act; and

(*f*) generally, for carrying out the purposes and provisions of this Act.

Application

(2) A regulation made pursuant to subsection (1) may be of general application or may apply to a particular employer or group of employers.

Where regulations apply to public sector

(3) No regulation may be made under subsection (1) that applies to the public sector without prior consultation with the Treasury Board.

Inconsistent meanings

(4) No expression defined pursuant to paragraph (1)(*a*) that applies to the public sector shall be given a meaning that is inconsistent with the meaning that that expression or any similar expression is given under the *Public Service Employment Act*.

Adaptation of Act to certain portions

(5) The Governor in Council may, taking into account the operational effectiveness of the appropriate portion of the public sector referred to in paragraph (*a*) or (*b*), make any regulation that the Governor in Council considers necessary to adapt this Act or the regulations or any provision of this Act or the regulations to accommodate

(*a*) the Canadian Security Intelligence Service; or

(*b*) where an order is made under paragraph 4(1)(*d*) in relation to the Canadian Forces or the Royal Canadian Mounted Police, the Canadian Forces or the Royal Canadian Mounted Police.

Requirements

(6) A regulation made under subsection (5) shall be made on the recommendation of the Treasury Board after consultation with

(*a*) in the case of a regulation respecting the Canadian Security Intelligence Service, or the Royal Canadian Mounted Police, the Minister of Public Safety and Emergency Preparedness; and

(*b*) in the case of a regulation respecting the Canadian Forces, the Minister of National Defence.

Requirements may differ

(7) The effect of a regulation made under subsection (5) with respect to any matter may differ from the effect of the Act or the regulations or of any provision of the Act or the regulations with respect to that matter.

1995, c. 44, s. 41; 2005, c. 10, s. 34.

Powers, duties and functions of Minister

42. (1) The Minister is responsible for

(*a*) developing and conducting information programs to foster public understanding of this Act and to foster public recognition of the purpose of this Act;

(*b*) undertaking research related to the purpose of this Act;

(*c*) promoting, by any means that the Minister considers appropriate, the purpose of this Act;

(*d*) publishing and disseminating information, issuing guidelines and providing advice to private sector employers and employee representatives regarding the implementation of employment equity; and

(*e*) developing and conducting programs to recognize private sector employers for outstanding achievement in implementing employment equity.

Federal Contractors Program

(2) The Minister is responsible for the administration of the Federal Contractors Program for Employment Equity and shall, in discharging that responsibility, ensure that the requirements of that Program with respect to the implementation of employment equity by contractors to whom the Program applies are equivalent to the requirements with respect to the implementation of employment equity by an employer under this Act.

Labour market information

(3) The Minister shall make available to employers any relevant labour market information that the Minister has respecting designated groups in the Canadian workforce in order to assist employers in fulfilling their obligations under this Act.

Delegation

43. The Minister may authorize those persons employed in the federal public administration whom the Minister considers to be appropriate to exercise any of the powers and perform any of the duties and functions that may be or are required to be exercised or performed by the Minister under this Act or the regulations, and any power exercised or duty or function performed by any person so authorized shall be deemed to have been exercised or performed by the Minister.

1995, c. 44, s. 43; 2003, c. 22, s. 224(E).

Review of operation of Act

44. (1) Five years after the coming into force of this Act, and at the end of every five year period thereafter, a comprehensive review of the provisions and operation of this Act including the effect of those provisions shall be undertaken by such committee of the House of Commons as may be designated or established by the House for that purpose.

Tabling of report

(2) A committee shall, within six months after the completion of a review referred to in subsection (1), submit a report on its review to the House of Commons including a statement of any changes the committee would recommend.

TRANSITIONAL PROVISION

Compliance with certain provisions

45. The Treasury Board, the Public Service Commission and any person who is an employer to whom the *Employment Equity Act*, R.S., c. 23 (2nd Supp.), applied shall, within one year after the coming into force of this section, comply with sections 9 and 10 of this Act.

CONSEQUENTIAL AMENDMENTS

46. to 53. [Amendments]

REPEAL

54. [Repeal]

COMING INTO FORCE

Coming into force

***55.** This Act or any provision of this Act comes into force on a day or days to be fixed by order of the Governor in Council.

APPENDIX 2

Employment Equity Regulations (SOR/96-470)

Enabling Statute: Employment Equity Act
Regulation current to October 21st, 2009
Attention: See coming into force provision and notes, where applicable.
Table of Contents

INTERPRETATION

1. (1) The definitions in this subsection apply in these Regulations.
"Act" means the *Employment Equity Act.* (*Loi*)
"designated CMA" means a census metropolitan area referred to in Schedule I and set out in the Statistics Canada publication entitled *Standard Geographical Classification SGC 2001*, published in March 2002, as amended from time to time. (*RMR désignée*)
"employment equity report" means a report that a private sector employer is required to file under section 18 of the Act. (*rapport sur l'équité en matière d'emploi*)
"former Regulations" means the *Employment Equity Regulations* made pursuant to the *Employment Equity Act*, R.S., c. 23 (2nd Supp.). (*ancien règlement*)
"permanent full-time employee" means a person who is employed for an indeterminate period by a private sector employer to regularly work the standard number of hours fixed by the employer for employees in the occupational group in which the person is employed. (*salarié permanent à plein temps*)
"permanent part-time employee" means a person who is employed for an indeterminate period by a private sector employer to regularly work fewer than the standard number of hours fixed by the employer for employees in the occupational group in which the person is employed. (*salarié permanent à temps partiel*)
"reporting period" means the calendar year in respect of which an employment equity report is filed. (*période de rapport*)
"temporary employee" means a person who is employed on a temporary basis by a private sector employer for any number of hours within a fixed period or periods totalling 12 weeks or more during a calendar year, but does not include a person in full-time attendance at a secondary or post-secondary educational institution who is employed during a school break. (*salarié temporaire*)
(2) For the purposes of the Act,
"employee", in respect of
(*a*) a private sector employer, means a person who is employed by the employer, but does not include a person employed on a temporary or casual basis for fewer than 12 weeks in a calendar year;
(*b*) a portion of the public service of Canada referred to in paragraph 4(1)(*b*) or (*c*) of the Act to which the *Public Service Employment Act* applies, means a person who has been appointed or deployed to that portion pursuant to that Act, but does not include
(i) a person appointed on a casual basis pursuant to section 21.2 of that Act, or
(ii) a person appointed for a period of less than three months; and
(*c*) a portion of the public service of Canada referred to in paragraph 4(1)(*b*) or (*c*) of the Act to which the *Public Service Employment Act* does not apply, means a person appointed to that portion in accordance with the enactment establishing that portion, but does not include a person employed on a temporary or casual basis for a period of less than three months. (*salarié*)

PART I
GENERAL
Calculation of Number of Employees

2. For the purpose of determining when an employer is considered to employ 100 or more employees,

(*a*) the number of employees of a private sector employer shall be calculated on the basis of the number at the time in a calendar year when the number of employees is the greatest; and

(*b*) the number of employees employed in a portion of the public service of Canada referred to in paragraph 4(1)(*c*) of the Act shall be calculated on the basis of the number at the time in a fiscal year when the number of employees employed in that portion is the greatest.

Collection of Workforce Information

3. (1) Subject to subsections (8) and (9), before preparing an employment equity plan referred to in section 10 of the Act, an employer shall conduct a workforce survey by providing to each employee a workforce survey questionnaire that asks the employee whether the employee is

(*a*) a member of a visible minority;

(*b*) a person with a disability; or

(*c*) an aboriginal person.

(2) The questionnaire shall contain the definitions "members of visible minorities", "persons with disabilities" and "aboriginal peoples" set out in section 3 of the Act, or a description of those expressions that is consistent with those definitions, to assist the employee in responding to the questionnaire.

(3) A questionnaire that contains questions and definitions substantially in the form set out in Schedule IV shall be considered to satisfy the requirements of subsection (2).

(4) The employer shall inform each employee, either on the questionnaire or in a notice accompanying the questionnaire, that a person may be a member of more than one designated group.

(5) The questionnaire may include additional questions relating to employment equity.

(6) The questionnaire shall indicate that

(*a*) responses to the questions on the questionnaire are voluntary; and

(*b*) the information collected in the questionnaire is confidential and will only be used by or be disclosed to other persons within the employer's organization in order for the employer to carry out its obligations under the Act.

(7) Paragraph (6)(*a*) shall not be construed as precluding an employer from requiring each employee to return the questionnaire to the employer.

(8) An employer is not required to conduct a workforce survey in respect of all or part of its workforce under subsection (1) if

(*a*) before the coming into force of these Regulations, the employer has already conducted a survey in respect of all or that part of its workforce to determine whether the employees belong to any of the designated groups referred to in that subsection;

(*b*) the previous survey had questions and was conducted in a manner that achieved results that are likely to be as accurate as the results that would be achieved using a workforce survey questionnaire under this section;

(*c*) responses to the questions in the previous survey were voluntary; and

(*d*) the survey results have been kept up to date in accordance with section 5.

(9) Where an employer replaces its employment equity plan with a new plan, the employer is not required to conduct a new workforce survey if the previous survey results have been kept up to

date in accordance with section 5.

4. The employer shall ensure that there is a means of identifying, on the workforce survey questionnaire, the employee who returns it, whether by name or otherwise.

5. The employer shall keep the workforce survey results up to date by

(*a*) providing a workforce survey questionnaire

(i) to an employee when the employee begins employment,

(ii) to an employee who wishes to change any information previously submitted on a questionnaire, or

(iii) to an employee who requests it;

(*b*) making necessary adjustments to the survey results to take into account the responses to the questionnaires referred to in paragraph (*a*); and

(*c*) making necessary adjustments to the survey results to take into account members of designated groups who have been terminated.

Workforce Analysis

6. (1) Based on the information collected under sections 3 to 5, and on relevant information contained in any other employment records maintained by the employer, the employer shall conduct an analysis of its workforce in order to

(*a*) determine the following for each occupational group of the employer's workforce, namely,

(i) the number of persons who are aboriginal peoples,

(ii) the number of persons who are persons with disabilities,

(iii) the number of persons who are members of visible minorities, and

(iv) the number of women; and

(*b*) determine the degree of underrepresentation of the persons referred to in paragraph (*a*) by comparing the representation of each designated group in each occupational group of the employer's workforce to their representation in each occupational group in whichever of the following is the most appropriate as a basis of comparison, namely,

(i) the Canadian workforce as a whole, or

(ii) those segments of the Canadian workforce that are identifiable by qualification, eligibility or geography, and from which the employer may reasonably be expected to draw employees.

(2) In making a determination under paragraph (1)(*b*), the employer shall use the labour market information made available by the Minister under section 42(3) of the Act, or information from other sources that is determined by the Minister to be relevant labour market information, in order to determine the representation, in the geographic area or areas from which the employer may reasonably be expected to draw employees, of workers who are members of designated groups and who are qualified or eligible for the jobs within each occupational group of the employer's workforce.

(3) An employer who has already conducted an analysis of all or part of its workforce before the coming into force of these Regulations is not required to conduct another analysis of all or that part of its workforce, if

(*a*) the results of the previous analysis are up to date as a result of periodic revisions that have taken into account the updating of the workforce survey results in accordance with section 5; and

(*b*) the results of the previous analysis are likely to be the same as the results that would be achieved by an analysis undertaken pursuant to subsections (1) and (2).

(4) Where an employer replaces its employment equity plan with a new plan, the employer is not required to conduct a new workforce analysis if the results of the previous analysis have been kept up to date by means of periodic revisions that have taken into account the updating of the

workforce survey results in accordance with section 5.
7. The employer shall prepare a summary of the results of its workforce analysis for use in the preparation of its employment equity plan.

Review of Employment Systems, Policies and Practices

8. Where, based on the workforce analysis conducted pursuant to section 6, underrepresentation of persons in designated groups has been identified in any occupational group of the employer's workforce, the employer shall conduct a review of its employment systems, policies and practices in order to determine whether any of those employment systems, policies and practices is an employment barrier against persons in designated groups.
9. (1) Subject to section 10, for the purposes of making a determination referred to in section 8, the employer shall, in relation to each occupational group in which underrepresentation referred to in section 8 has been identified, review its employment systems, policies and practices with respect to
(*a*) the recruitment, selection and hiring of employees;
(*b*) the development and training of employees;
(*c*) the promotion of employees;
(*d*) the retention and termination of employees; and
(*e*) the reasonable accommodation of the special needs of members of designated groups.
(2) Where, following a review under subsection (1), new employment systems, policies or practices relating to the matters referred to in that subsection are implemented by the employer, the employer shall also review the new employment systems, policies or practices with respect to those matters.
10. An employer who, before the coming into force of these Regulations, has conducted a review of its employment systems, policies and practices with respect to the matters referred to in subsection 9(1) in relation to all or part of its workforce is not required to conduct another review with respect to the matters already reviewed if the results of the previous review are likely to be the same as the results that would be achieved by a review undertaken pursuant to subsection 9(1).

Employment Equity Records

11. An employer shall establish and maintain the following records:
(*a*) a record of each employee's designated group membership, if any;
(*b*) a record of each employee's occupational group classification;
(*c*) a record of each employee's salary and salary increases;
(*d*) a record of each employee's promotions;
(*e*) a copy of the workforce survey questionnaire that was provided to the employees and any other information used by the employer in conducting its workforce analysis;
(*f*) the summary of the results of the workforce analysis required by section 7;
(*g*) a description of the activities undertaken by the employer in conducting its employment systems review;
(*h*) the employer's employment equity plan;
(*i*) a record of the employer's monitoring of the implementation of its employment equity plan, undertaken in accordance with paragraph 12(*b*) of the Act; and
(*j*) a record of activities undertaken by the employer and information provided to employees in accordance with section 14 of the Act.
12. (1) Records referred to in paragraphs 11(*a*) to (*d*) in respect of terminated employees shall be kept for two years after the date of their termination.

(2) Records referred to in paragraphs 11(*e*) to (*j*) shall be kept for two years after the period covered by the employment equity plan to which the records relate.
(3) Where a private sector employer has generated its annual employment equity report required by subsection 18(1) of the Act using specially designed computer software such as Employment Equity Computerized Reporting System (EECRS), the employer shall maintain a copy of the database or other computer record used to generate the report for two years after the year in respect of which the report is filed.

Tribunal Certificate

13. The form set out in Schedule V is the prescribed form of the Tribunal certificate for the purpose of subparagraph 39(4)(*b*)(i) of the Act.

APPENDIX 3

Sample Employment Equity Individual Employer Report
(next three pages)

CANADA Human Resources Development Canada
Developpement des ressources humaines Canada

SCHEDULE VI / ANNEXE VI
(Subsection 15(1) / paragraphe 15(1))
EMPLOYMENT EQUITY: EMPLOYER IDENTIFICATION, REPORT SUMMARY AND CERTIFICATION OF ACCURACY
EQUITE EN MATIERE D'EMPLOI: IDENTIFICATION DE L'EMPLOYEUR, SOMMAIRE DU RAPPORT ET ATTESTATION D'EXACTITUDE

Form
Formulaire 1

IDENTIFICATION / IDENTIFICATION

NAME OF EMPLOYER / NOM DE L'EMPLOYEUR	1- FULL LEGAL NAME - NOM LEGAL AU COMPLET: Air Canada	2- COMMON OR BUSINESS NAME - NOM USUEL OU COMMERCIAL: Air Canada
ADDRESS / ADRESSE	3- ADDRESS OF PRINCIPAL PLACE OF BUSINESS - ADRESSE DU PRINCIPAL ETABLISSEMENT: 7373 Cote-Vertu Ouest	4- MAILING ADDRESS - ADRESSE POSTALE: Air Canada CP 3000, ZIP 1230
OFFICERS / AGENTS	5- NAME OF CHIEF EXECUTIVE OFFICIER OF EMPLOYEUR - NOM DU PREMIER DIRIGEANT DE L'ENTREPRISE: Montie Brewer	7- NAME OF OFFICIER RESPONSIBLE FOR EMPLOYMENT EQUITY - NOM DE L'AGENT RESPONSABLE DE L'EQUITE EN MATIERE D'EMPLOI: Duncan Dee
POSITION / FONCTION	6- POSITION TITLE - TITRE OU FONCTION: Chief Executive Officer	8- POSITION TITLE - TITRE OU FONCTION: Sr. VP Corporate Affairs ACE; 9- AREA CODE TELEPHONE NUMBER / IND. REG. NUMERO DE TELEPHONE: 514-205-7860

REPORT SUMMARY / SOMMAIRE DU RAPPORT

INDUSTRIAL SECTOR(S) / BRANCHE(S) D'ACTIVITE

	NO. OF EMPLOYEES / NOMBRE DE SALARIES
10- INDUSTRIAL SECTOR 1 - BRANCHE D'ACTIVITE 1: 4811 Scheduled Air Transportation	32,119
11- INDUSTRIAL SECTOR 2 - BRANCHE D'ACTIVITE 2	
12- INDUSTRIAL SECTOR 3 - BRANCHE D'ACTIVITE 3	
13- INDUSTRIAL SECTOR 4 - BRANCHE D'ACTIVITE 4	

GEOGRAPHICAL AREAS (INDICATE NUMBER OF EMPLOYEES LOCATED IN EACH AREA) / SECTEURS GEOGRAPHIQUES (INDIQUE LE NOMBRE DE SALARIES DANS CHAQUE SECTEUR)

17-DESIGNATED C M A s / R M R DESIGNEES	
CALGARY	1,727
EDMONTON	359
HALIFAX	673
MONTREAL	7,313
REGINA	41
TORONTO	11,844
VANCOUVER	7,263
WINNIPEG	2,073

18-PROVINCES/TERRITORIES / PROVINCES/TERRITOIRES	
ONT.-ONT.	11,848
QUE.-QC	7,461
N.S. - N.-E.	674
N.B. - N.-B.	395
MAN. - MAN.	2,101
B.C.-C.-B.	7,266
P.E.I. -I.-P.-E.	29
SASK.-SASK.	86
ALTA.-ALB.	2,086
NFLD.-T.-N.	139
Y.T.-YUK	26
N.W.T.-T.N.-O.	8
NU.-NU.	0

19- TOTAL EMPLOYEES IN CANADA / NOMBRE TOTAL DE SALARIES AU CANADA: 32,119

CERTIFICATION / ATTESTATION

EMPLOYMENT STATUS CATEGORIES / CATEGORIES DE SALARIES

14- NUMBER OF PERMANENT FULL-TIME EMPLOYEES / NOMBRE DE SALARIES PERMANENTS A PLEIN TEMPS	15- NUMBER OF PERMANENT PART-TIME EMPLOYEES / NOMBRE DE SALARIES PERMANENTS A PLEIN PARTIEL	16- NUMBER OF TEMPORARY EMPLOYEES / NOMBRE DE SALARIES TEMPORAIRES
25,119	2,390	198

NOTE: SEE INSTRUCTIONS TO COMPLETE ALL FORMS
NOTA: VOIR INSTRUCTIONS POUR REMPLIR TOUS LES FORMULAIRES

CANADA

Human Resources Development Canada Developpement des ressources humaines Canada

OCCUPATIONAL GROUPS: PERMANENT FULL-TIME EMPLOYEES *
CATEGORIES PROFESSIONNELLES: SALARIES PERMANENTS A PLEIN TEMPS *

NOTE: See instructions
NOTA : Voir instructions

Form / Formulaire 2 Part A / Partie A Page 1

Name of Business: / Nom de l'entreprise : Air Canada

Industrial Sector: / Branche d'activite : Air Transport Industries

Location-Endroit: National

Reporting Period: / Periode de rapport : 2005

OCCUPATIONAL GROUPS / CATEGORIES PROFESSIONNELLES	Top and bottom of salary range / Maximum et minimum de l'echelle de remuneration	** Quarter / Quart	All Employees / Tous les salaries			Aboriginal Peoples / Autochtones			Persons with Disabilities / Personnes handicapees			Members of Visible Minorities / Membres des minorites visibles		
			Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes
	Col. 1		Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	Col. 12	Col. 13
Senior Managers	$100,000 and over	4	2	2	0	0	0	0	0	0	0	0	0	0
		3	0	0	0	0	0	0	0	0	0	0	0	0
Cadres supérieurs	$ 55,000 - $59,999	2	8	7	1	0	0	0	0	0	0	1	1	0
		1	150	110	40	1	1	0	1	1	0	6	5	1
Middle and Other Managers	$100,000 and over	4	2	2	0	0	0	0	0	0	0	0	0	0
		3	9	9	0	0	0	0	0	0	0	0	0	0
Cadres intermediaires et autres administrateurs	$ 20,000 - $24,999	2	35	26	9	0	0	0	0	0	0	1	1	0
		1	1,288	755	533	5	3	2	14	11	3	123	64	59
Professionals	$100,000 and over	4	4	2	2	0	0	0	0	0	0	0	0	0
		3	7	3	4	0	0	0	0	0	0	0	0	0
Professionnels	$ 20,000 - $24,999	2	160	121	39	2	0	2	4	2	2	17	14	3
		1	165	66	99	3	1	2	2	0	2	22	11	11
Semi-Professionals and Technicians	$100,000 and over	4	205	205	0	1	1	0	0	0	0	1	1	0
		3	904	900	4	11	11	0	10	10	0	14	14	0
Personnel semi-professionnel et technique	$ 35,000 - $39,999	2	1,516	1,454	62	18	17	1	3	3	0	38	37	1
		1	567	510	57	4	4	0	10	9	1	41	37	4
Supervisors	$ 65,000 - $69,999	4	31	22	9	0	0	0	0	0	0	3	2	1
		3	186	104	82	3	1	2	1	1	0	18	14	4
Surveillants	$ 25,000 - $29,999	2	31	15	16	0	0	0	0	0	0	2	2	0
		1	11	7	4	1	0	1	0	0	0	4	3	1
Supervisors: Crafts and Trades	$ 85,000 - $89,999	4	9	9	0	0	0	0	0	0	0	1	1	0
		3	88	88	0	1	1	0	0	0	0	15	15	0
Contremaitres	$ 40,000 - $44,999	2	21	18	3	0	0	0	0	0	0	3	3	0
		1	4	3	1	0	0	0	0	0	0	0	0	0
Administrative and Senior Clerical Personnel	$ 60,000 - $64,999	4	13	4	9	0	0	0	0	0	0	0	0	0
		3	110	32	78	3	1	2	2	0	2	12	3	9
Personnel administratif et de bureau principal	$ 20,000 - $24,999	2	82	9	73	1	0	1	2	1	1	6	0	6
		1	27	6	21	0	0	0	1	0	1	5	2	3

LAB 1111 (07-97) B

* USE THE OTHER PARTS FOR PERMANENT PART-TIME AND TEMPORARY EMPLOYEES
UTILISER LES AUTRES PARTIES POUR LES SALARIES PERMANENTS A TEMPS PARTIEL ET LES SALARIES TEMPORAIRES

** 1 REFERS TO THE LOWEST SALARY QUARTER; 4 REFERS TO THE HIGHEST SALARY QUARTER
1 REPRESENTE LE QUART LE MOINS ELEVE DE L'ECHELLE DE REMUNERATION; 4 REPRESENTE LE PLUS ELEVE

CANADA

Human Resources Development Canada Developpement des ressources humaines Canada

OCCUPATIONAL GROUPS: PERMANENT FULL-TIME EMPLOYEES *
CATEGORIES PROFESSIONNELLES: SALARIES PERMANENTS A PLEIN TEMPS *

NOTE: See instructions
NOTA : Voir instructions

Form / Formulaire 2 Part A / Partie A Page 2

Name of Business: / Nom de l'entreprise : Air Canada

Industrial Sector: / Branche d'activite : Air Transport Industries

Location-Endroit: National

Reporting Period: / Periode de rapport : 2005

OCCUPATIONAL GROUPS / CATEGORIES PROFESSIONNELLES	Top and bottom of salary range / Maximum et minimum de l'echelle de remuneration	** Quarter / Quart	All Employees / Tous les salaries			Aboriginal Peoples / Autochtones			Persons with Disabilities / Personnes handicapees			Members of Visible Minorities / Membres des minorites visibles		
			Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes	Total Number / Nombre Total	Men / Hommes	Women / Femmes
	Col. 1		Col. 2	Col. 3	Col. 4	Col. 5	Col. 6	Col. 7	Col. 8	Col. 9	Col. 10	Col. 11	Col. 12	Col. 13
Skilled Sales and Service Personnel / Personnel spécialisé de la vente et des services	$ 45,000 - $49,999	4	3	0	3	0	0	0	0	0	0	1	0	1
		3	0	0	0	0	0	0	0	0	0	0	0	0
	$ 35,000 - $39,999	2	0	0	0	0	0	0	0	0	0	0	0	0
		1	2	0	2	0	0	0	0	0	0	0	0	0
Skilled Crafts and Trades Workers / Travailleurs qualifiés et artisans	$ 60,000 - $64,999	4	1,832	1,819	13	17	17	0	59	58	1	319	319	0
		3	2,040	1,991	49	17	17	0	48	47	1	241	236	5
	$ 20,000 - $24,999	2	494	405	89	8	6	2	10	7	3	100	73	27
		1	10	7	3	0	0	0	0	0	0	1	1	0
Clerical Personnel / Personnel de bureau	$ 60,000 - $64,999	4	142	98	44	1	1	0	1	0	1	10	10	0
		3	689	313	376	14	6	8	20	15	5	53	26	27
	$ 15,000 - $19,999	2	323	64	259	18	2	16	7	2	5	65	13	52
		1	61	20	41	2	0	2	5	3	2	11	3	8
Intermediate Sales and Service Personnel / Personnel intermédiaire de la vente et des services	$ 80,000 - $84,999	4	64	49	15	0	0	0	2	2	0	8	7	1
		3	1,041	526	515	2	0	2	15	10	5	133	73	60
	$ 20,000 - $24,999	2	8,148	2,321	5,827	99	31	68	108	33	75	1,121	329	792
		1	897	223	674	14	4	10	7	3	4	294	64	230
Semi-Skilled Manual Workers / Travailleurs manuels spécialisés	$ 60,000 - $64,999	4	64	64	0	0	0	0	0	0	0	4	4	0
		3	2,880	2,791	89	25	25	0	48	47	1	208	193	15
	$ 15,000 - $19,999	2	595	495	100	13	7	6	12	6	6	126	112	14
		1	172	156	16	5	4	1	3	3	0	45	41	4
Other Sales and Service Personnel / Autre personnel de la vente et des services	$ 40,000 - $44,999	4	2	2	0	0	0	0	0	0	0	1	1	0
		3	1	1	0	0	0	0	0	0	0	0	0	0
	$ 35,000 - $39,999	2	16	14	2	0	0	0	1	1	0	3	3	0
		1	8	6	2	0	0	0	0	0	0	4	3	1
Other Manual Workers / Autres travailleurs manuels		4	0	0	0	0	0	0	0	0	0	0	0	0
		3	0	0	0	0	0	0	0	0	0	0	0	0
		2	0	0	0	0	0	0	0	0	0	0	0	0
		1	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL NUMBER OF EMPLOYEES HIRED / NOMBRE TOTAL DE RECRUTEMENTS			25,119	15,854	9,265	289	161	128	396	275	121	3,081	1,741	1,340

LAB 1111 (07-97) B

* USE THE OTHER PARTS FOR PERMANENT PART-TIME AND TEMPORARY EMPLOYEES
UTILISER LES AUTRES PARTIES POUR LES SALARIES PERMANENTS A TEMPS PARTIEL ET LES SALARIES TEMPORAIRES

** 1 REFERS TO THE LOWEST SALARY QUARTER; 4 REFERS TO THE HIGHEST SALARY QUARTER
1 REPRESENTE LE QUART LE MOINS ELEVE DE L'ECHELLE DE REMUNERATION; 4 REPRESENTE LE PLUS ELEVE

CANADA