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Organizational Factors that Influence Diversity in Management

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Abstract for
Organizational Factors that Influence Diversity in Management

Using data from the National Organizations Survey, this paper offers a statistical analysis of the organizational characteristics, working conditions, and employment practices that increase the racial and ethnic diversity of managers in business organizations. Results from the analysis showed that organizations with less public accountability, that were established before the 1970s, and are involved in delivering tangible goods rather than services were generally less diverse in the make-up of their management teams. The results also suggest that managerial diversity is higher in businesses with “easy to fill” positions. But it is also greater in those businesses that offer formal job training, those that usually promote from within, and those that encourage their employees to keep their skills current. The findings also show that companies are more diverse in their management teams when they have affirmative action departments, offer job security, provide group incentives to their employees, allow employees to participate in job rotation, provide incentives for employees to keep their skills current, and offer daycare facilities to their employees. The availability of flexible work hours is associated with lower rates of racial and ethnic diversity in management. There appear to be tangible recruitment and retention strategies that companies can employ (or avoid) that make a difference. The results are consistent with the idea that organizations that foster climates that are inviting to managers of color and actively seek to promote them have more success in retaining them. Many of these recruitment and retention efforts go hand-in-hand with signaling the importance of fairness in employment practices and the provision of job benefits that make it easier for establishments to be inclusive.

Organizational Factors that Influence Diversity in Management

Increasingly, the recruitment, promotion, and retention of managers of color is important to success in business organizations (e.g., Richard, 2000; and Ely and Thomas, 2001). Although there are several moral and social arguments for recruiting diverse managers, the most compelling reasons to pursue diversity for many businesses is that excellence in diversity recruiting relates to more customers, better service, and better performance. Such arguments resonate with business organizations of all sizes and industries. And recent research on the link between diversity and the bottom line has provided evidence supporting such thinking (e.g., Herring, 2006; Richard, 2000; Goncalo and Staw, 2006; Ely and Thomas, 2001; Chicago United, 2005; and van der Vegt, Bunderson, and Oosterhof, 2006).

Proponents of diversity suggest that in the corporate setting, diversity represents a compelling interest that will help meet customers' needs, enrich understanding of the pulse of the marketplace, and improve the quality of products and services offered (Hubbard, 2004). With respect to management, diversity brings with it different perspectives. Because of the putative competitive advantages of diversity, business organizations increasingly have relied on heterogeneous management teams to improve their performance. Because diversity provides fresh ideas, strong growth, positive company images, fewer discrimination lawsuits, and an enhanced ability to hire qualified workers, businesses should be aggressive about managerial diversity (Williams and O'Reilly, 1998; and Florida and Gates, 2001, 2002).

Diversity is not just about hiring minorities. It also involves cultivating and retaining talent from as broad a talent pool as possible. Successful organizations place

emphasis on getting talented people and then providing the working conditions and best practices that will allow them to flourish within supportive environments. Although there are several case studies that document best practices that have worked within particular firms (e.g., Cole, 2002; and Conklin, 2001), there is little quantitative work that shows which organizational factors, working conditions, and employment practices lend themselves to recruiting and retaining racially diverse management.

This paper offers an examination of some of the factors that matter in attempts to increase racial and ethnic diversity in management in organizations. Using data from the National Organizations Survey, it offers an examination of the organizational factors, recruitment and retention factors, and employment practices that are associated with the racial and ethnic composition of management in business organizations in the U.S.

Literature Review

There is no consensus about the factors that are important to achieving racial and ethnic diversity in management in organizations. Indeed, little empirical research is available to guide organizations on how to become more diverse. There are reasons, however, to believe that there are organizational factors, recruitment and retention strategies, and employment practices and procedures that make a difference in the racial and ethnic composition of management in business establishments.

Some Organizational Factors

Several organizational characteristics potentially affect the amount of racial and ethnic diversity of organizations. According to the institutional perspective in organizational theory, for example, organizational behavior is a response to pressures from the institutional environment (Stainback, Robinson, and Tomaskovic-Devey, 2005).

The institutional environment of an organization is the regulative, normative, and cultural-cognitive institutions affecting the organization, such as the current law and social attitudes (Scott, 2003). According to this formulation of organizational behavior, adoption of new organizational practices is often an attempt to gain legitimacy in the eyes of important constituents and not necessarily an attempt to gain greater efficiency (DiMaggio and Powell, 2003). Based on institutional theory, nonprofit organizations and for-profit businesses that are accountable to a larger public may be more sensitive to public opinion on what constitutes legitimate organizational behavior. Thus, publicly held businesses have employment practices that are more subject to public scrutiny. They should employ relatively more minorities in management than employers without such public accountability to the degree that they are under greater pressure to achieve racial and ethnic diversity, as public sentiment views such policies as a necessary element of legitimate organizational governance (Edelman, 1990).

Stinchcombe (1965) also introduced reasons for the age of an organization to matter. In particular, he proposed the concept of “liability of newness” that states that organizational mortality rates decrease with organizational age. Thus, younger organizations are more prone to mortality than older organizations, and they will approach threats to their existence differently. It is possible, therefore, that organizations of different ages will vary in their responses to racial and ethnic diversity concerns. Moreover, it is plausible that organizations that were founded during periods of EEO (Equal Employment Opportunity) enforcement, i.e., the post 1960s era, are more prone to be concerned about issues of diversity (Tomaskovic-Devey and Skaggs, 1999).

Similarly, there are reasons to believe that organizations in the service sector will be more proactive with regard to racial and ethnic diversity than those that produce tangible goods, as their performance depends on public good will to a greater extent. But there are also reasons to believe that service-sector establishments are more likely than manufacturing and public service establishments to exclude blacks, especially black men by utilizing personality traits and appearance as job qualifications (Moss and Tilly, 1996).

Recruitment and Retention Factors

There are several reasons to believe that the racial and ethnic composition of establishments is related to their recruitment and retention practices. Tomaskovic-Devey and Skaggs (1999) suggest that gender composition of establishments is a function of the result of a series of organizational changes involving new approaches to recruitment, selection, promotion, career development, and job analysis and classification. They found that organizational social divisions of labor moved from gender-segregated to marginally integrated when organizations have difficulty finding sufficient employees for jobs with many incumbents. By extension, it is likely that employers that use progressive recruitment practices and consequently hire greater percentages of women may also achieve greater racial and ethnic diversity. But employers that are openly reluctant to hire women will probably also be averse to hiring racial and ethnic minorities (Neckerman and Kirschenman, 1991; and Kennelly, 1998).

Recruitment through informal networks reproduces an establishment's composition because workers usually tell people who are similar to them about jobs (Kalleberg et al., 1996). So employers that make their recruitment efforts more transparent and open by publicizing job vacancies are likely to have greater levels of

racial and ethnic diversity. More generally, any recruitment and retention practices that alert racial and ethnic minorities about job vacancies should serve to increase their representation within establishments that try to insure that such groups are actively included in such information dissemination.

Establishments that have successfully recruited diverse workers are frequently faced with the additional challenge of retaining them. An organization's "culture" of promoting from within could be related to its ability to retain racial and ethnic minority managers. Organizations that actively seek to promote racial and ethnic minorities from within their establishment should also have relatively more success in retaining them. Moreover, practices such as offering opportunities for employees to keep their skills current so that they can advance should also be appealing to racial and ethnic minorities. Such practices not only help in retention efforts, they also serve to cultivate and broaden the internal talent pool that might serve as a basis for expanding diversity.

Employment Practices and Job Benefits

Organizations that are concerned about due process and employment practices will institute specific offices and procedures for handling employee complaints (Gwartney-Gibbs and Lach, 1993; and Welsh, Dawson and Nierobisz, 2002). These establishments will also make greater efforts at prevention and redress because there are direct legal obligations on them. Antidiscrimination laws make discrimination against minorities and women potentially costly, but not all establishments are subject to these laws. Federal law banning race and sex discrimination in employment exempts firms with fewer than 15 workers, and enforcement efforts have often targeted large firms (Reskin et al., 1999). Moreover, affirmative action regulations apply only to firms that do

at least \$50,000 worth of business with the federal government and have at least 50 employees (Reskin, 1998). Thus, establishment size may be related to vulnerability to equal employment opportunity and affirmative action regulations, which in turn should be related to increased racial and ethnic diversity. Indeed, research by Holzer (1996) has shown that affirmative action implementation has led to gains in the representation of African Americans and white women in firms required to practice affirmative action.

More generally, an organization's culture can either encourage inclusion and diversity or undermine it. Employers can create work environments that signal their commitment to diversity. For example, perceptions that job promotions are implemented fairly are likely to be associated with higher proportions of racial and ethnic minorities (who would avoid employers who have negative reputations in this regard). Such even-handed practices can be signaled by the availability of written job descriptions and formal job performance evaluations. Also, Narcisse (2006) has shown that jobs that offer stability and security are often more attractive to racial and ethnic minorities. These characteristics are associated with employers that offer due process rather than arbitrariness and unpredictability.

In addition to these traits, it is possible that incentives to learn new skills, the ability to participate in job rotation, and the opportunity to share in group-based incentives will be attractive options that will increase the levels of racial and diversity within establishments.

Finally, there are additional job benefits that should be attractive to most employees, but especially female employees: the availability of onsite or employer-subsidized childcare and the option of employees working flexible work hours. Again,

employers who use such progressive practices to recruit and retain women may also hire and retain greater percentages of racial and ethnic minorities.

Below, this paper reports the results from analysis of the relationship of racial and ethnic diversity to organizational factors, recruitment and retention factors, and employment practices and job benefits with data from the National Organizations Survey. First, however, it provides a brief discussion of the data and methods used.

Data and Methods

Data Sources

The data used in the analysis come from the 1996-1997 National Organizations Survey (NOS). The 1996-1997 NOS (Kalleberg, Knoke, and Marsden, 2001) consists of data from 1,002 United States work establishments from a stratified random sample of approximately 15 million work establishments in Dun and Bradstreet's Information Services data file. This paper utilizes data from the for-profit business organizations that provided information about the racial composition of their managers. The NOS concentrated on United States work establishments' employment contracts, staffing methods, work organization, job training programs, and employee benefits and incentives. Additional items gathered basic information about each organization's formal structure, social demography, environmental situation, and productivity and performance. The resulting sample is representative of U.S. profit-making work organizations.

Dependent Variable

RACIAL/ETHNIC DIVERSITY IN MANAGEMENT. This variable was measured by asking respondents what percentages of their management employees were white,

and their responses were coded. To determine percentage minority management, the percentage white was subtracted from 100. Resulting scores ranged from 0-100.

Independent Variables

Responses to other questions in the National Organizations Survey were used to measure legal form of organization, organization age, whether the company produced goods or services, how difficult it was for the company to fill vacancies, whether the company provided formal job training, whether the company encouraged internal promotions, whether employees are encouraged and rewarded to keep their skills current, the affirmative action climate of the organization, levels of job security for employees, whether the company offered group incentives , whether employees engage in job rotation, whether employees received incentives to learn new skills, whether the company offered daycare facilities, and whether employees were given the option of working flexible work schedules. The specific wording for the survey questions for these indicators is located in Appendix A.

Results

Are organizational factors, recruitment and retention factors, and employment practices associated with the racial and ethnic composition of management teams for business organizations? Figures 1-3 illustrate how organizational characteristics, recruitment and retention factors, and employment practices and job benefits are related to the racial and ethnic composition of managers in establishments. The overall percentage of racial and ethnic minorities working in management for all businesses is 14%. As a rule of thumb, any factor that is associated with 15% or more minorities in management might be thought of as being associated with higher racial and ethnic

diversity; any factor that is associated with 13% or less minorities in management might be thought of as being associated with lower levels of racial and ethnic diversity.

Figure 1 shows that there are apparent differences in levels of racial and ethnic diversity among managers in different types of businesses. In particular, racial and ethnic minorities comprise 12% of managers in sole proprietorships, 13% of managers in partnerships, and 11% of managers in private corporations. Consistent with the idea of publicly held corporations being more accountable to the public, racial and ethnic minorities make up 15% of publicly held corporations. These patterns are fully consistent with the argument that publicly held for-profit businesses have employment practices that are more subject to public scrutiny and, thus, more likely to achieve racial and ethnic diversity.

Achieving Managerial Diversity: Some Organizational Factors

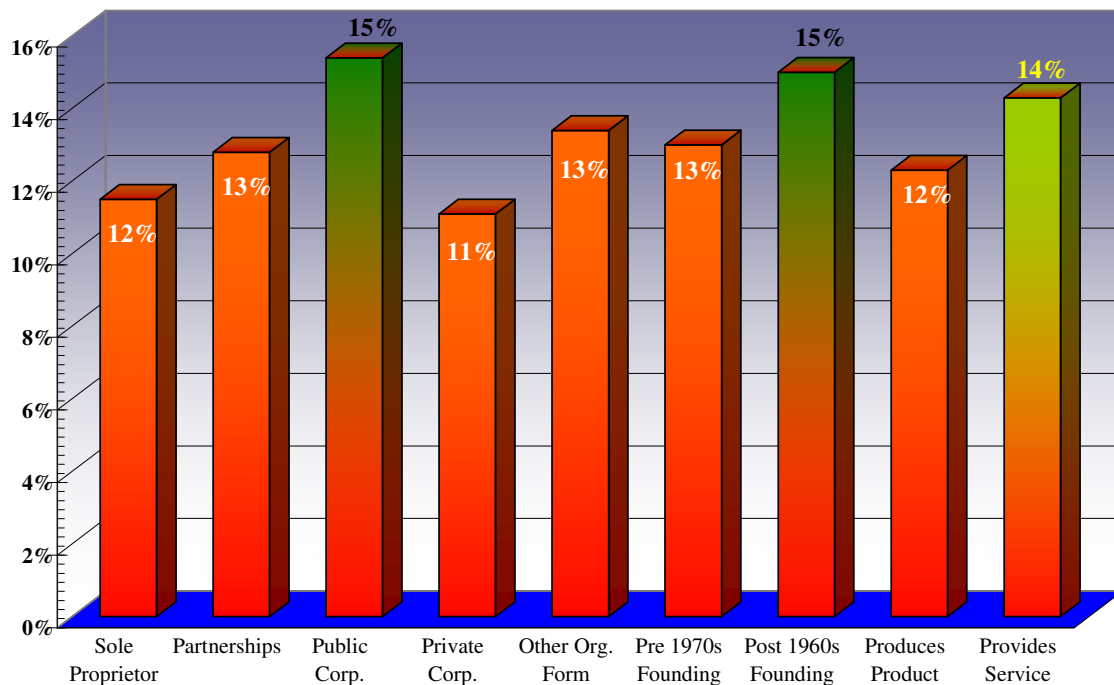


Figure 1 also shows that businesses that were founded before the 1970s have a slightly lower percentage of minority managers (13%) than do those founded in the 1970s and later (15%). Establishments with labor unions have higher levels of racial and ethnic diversity than those without such unions (28% versus 22%). This pattern is consistent with the idea that organizations that were founded during periods of EEO enforcement are more prone to be concerned about issues of diversity. Finally, this chart suggests that companies that produce goods have slightly lower percentages of minority managers (12%) than do their service providing counterparts (14%).

Figure 2 presents the relationship between racial and ethnic diversity and various recruitment and retention factors. It shows that establishments with “easy to fill” positions have management teams that are more diverse than do those with “hard to fill” positions (17% versus 11%). This finding is contrary to the expectation that organizations that have difficulty finding sufficient employees for jobs are more likely to turn to minority employees. But the results are consistent with the proposition that practices such as offering job-training opportunities for employees and encouraging them to keep their skills current so that they can advance would be appealing to racial and ethnic minorities. Establishments that offer formal job training are more managerially diverse than those that do not offer such opportunities (18% versus 10%). Establishments that usually promote from within also have higher rates of managerial diversity than do those that rarely promote from within (19% versus 10%). And those employers that encourage employees to keep their skills current are more diverse in their management teams than are those that do not encourage skills currency (21% versus 13%). Generally, these results are consistent with the idea that organizations

that actively seek to promote racial and ethnic minorities from within their establishments should also have relatively more success in retaining them.

Achieving Managerial Diversity: Some Recruitment and Retention Factors

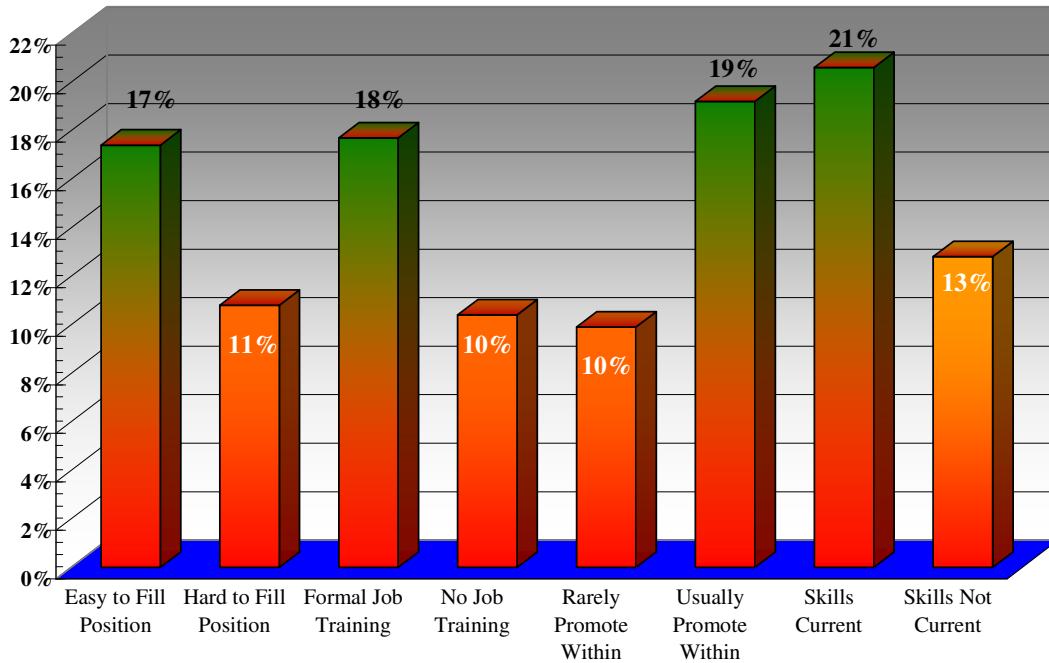
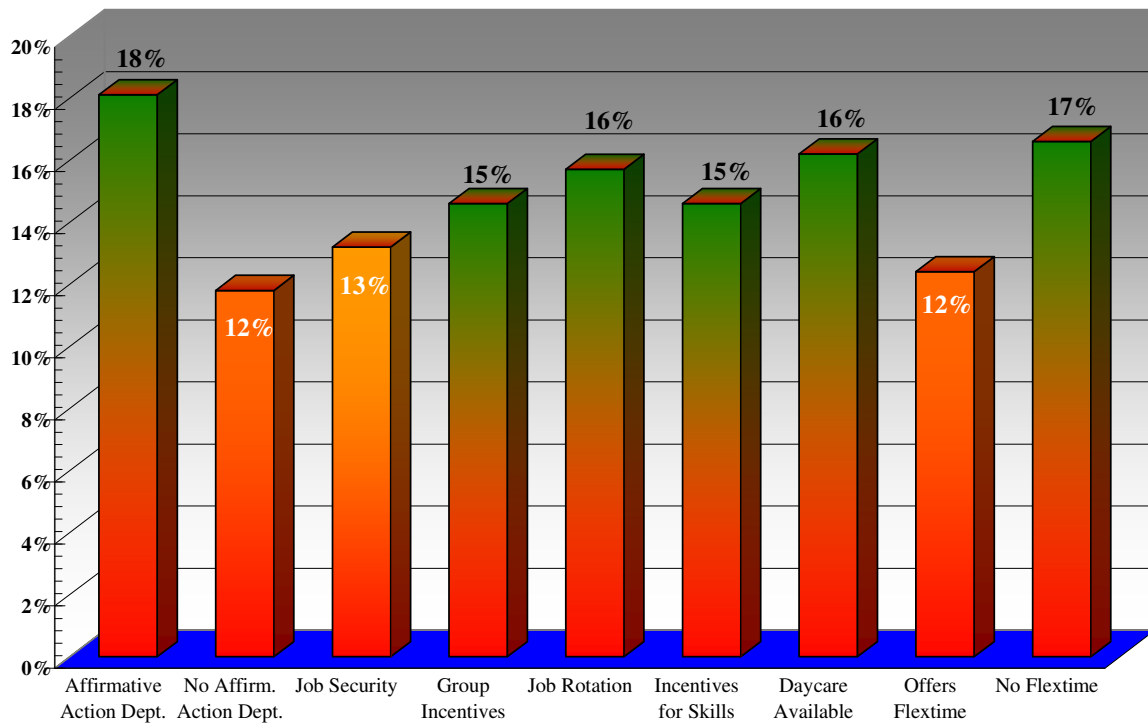


Figure 3 illustrates the relationship between racial and ethnic diversity and various employment practices and job benefits. This chart suggests that establishments that have affirmative action or EEO departments are generally more diverse than are those organizations without such entities (18% versus 12%). It also shows that establishments that offer job security are slightly more diverse than average (15%) those that do not offer such job security. This graph also shows that group incentives (15%), the ability to participate in job rotation (16%), and financial incentives to learn new skills (15%) are associated with higher than average levels of racial diversity in management within establishments. It also shows that the provision of daycare facilities

(16%) is associated with greater racial and ethnic diversity. Contrary to expectations, it shows that establishments that offer flexible work hours have lower levels of diversity than those that do not offer such flexibility (12% versus 17%).

Achieving Managerial Diversity: Some Employment Practices and Jobs Benefits



Summary and Conclusions

This paper began with the observation that the recruitment, promotion, and retention of employees of color in management positions is increasingly important to success in business organizations but that little research shows which organizational factors, recruitment and retention factors, and employment practices lend themselves to recruiting and retaining diverse management teams. It provided a review of the literature in order to identify some of the factors that matter in attempts to increase racial and

ethnic diversity in management within business organizations. This effort analyzed data from the National Organizations Survey (NOS).

The data analysis showed that organizations with less public accountability, that were established before the 1970s, and were involved in delivering tangible goods rather than services were generally less diverse in the make-up of their management teams. The results also suggest that managerial diversity is higher in businesses with “easy to fill” positions. But it is also greater in those businesses that offer formal job training, those that usually promote from within, and those that encourage their employees to keep their skills current. The findings also show that companies are more diverse in their management teams when they have affirmative action departments, offer job security, provide group incentives to their employees, allow employees to participate in job rotation, provide incentives for employees to keep their skills current, and offer daycare facilities to their employees. The availability of flexible work hours is associated with lower rates of racial and ethnic diversity in management.

So what are the factors that prevent organizations from achieving managerial diversity? This paper moves us closer to understanding some of the constraints that hinder business organizations from becoming diverse in their management teams. Several “hard to change” organizational characteristics matter to an establishment’s racial and ethnic diversity: an organization’s legal form of incorporation and the era of incorporation. There is little that organizations can do about such things to make themselves more attractive to recruiting or retaining people of color. Still, they can realize that they are probably similar to their competitors who will often find themselves similarly situated.

There do appear, however, to be tangible recruitment and retention strategies that companies can employ (or avoid) that make a difference. Offering job training opportunities for employees of color and encouraging them to keep their skills current so that they can advance appears to pay dividends. Establishments that offer formal job training have more diverse management teams than those that do not offer such opportunities. And those establishments that reward people of color to keep their skills current have the opportunity to do even better, as employers that encourage employees to keep their skills current are more diverse than those that do not pursue such efforts. Also, establishments can take advantage of transparency. The results show that establishments that do things as simple as use internal promotion strategies are more diverse. Again, establishments can use such strategies, especially with employees of color to enhance their diversity. These results are consistent with the idea that organizations that foster climates that are inviting to racial and ethnic minorities and actively seek to promote them have more success in retaining them.

Many of these recruitment and retention efforts go hand-in-hand with signaling the importance of fairness in employment practices and the provision of job benefits that make it easier for establishments to be inclusive. Several due process issues and working conditions matter to a company's racial/ethnic diversity: The presence of affirmative action department; job security; group incentives; job rotation; and incentives to learn new skills, and the availability of daycare facilities appear to pay dividends in terms of achieving racial and ethnic diversity in management.

In short, an important key to achieving managerial diversity appears to be creating attractive positions and opportunities for professional development. Minority

candidates, like their majority counterparts, place utmost emphasis on the opportunity itself. Putting employment practices and benefits in place that clearly signal a concern for opportunity and commitment to diversity does matter.

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Appendix A

Survey Question Wording used in Indicators

Organizational Factors

Respondents were asked whether their establishment was a for-profit or not-for-profit organization. Those that responded nonprofit were coded 1 and others were coded 0. Those in for-profit organizations were also asked whether the legal form of their organization was a “sole proprietorship, partnership or limited partnership, public corporation with publicly held stock, a private corporation with privately held stock, or something else?” Responses were dummy variable coded.

In order to determine the organization’s age, respondents were asked, “In what year did the organization start operations?” The difference between the year of the survey and the year of establishment yielded the organization age, ranging from 1 to 222 years old. They were further dummy coded to indicate whether they were founded in the post 1960s era.

Respondents were asked about the kind of work that takes place at their business. They were asked, “Does the organization produce a product, deliver a service, or both?” Responses were dummy variable coded.

Recruitment and Retention Factors

Several key variables were used to measure the establishments’ recruitment and retention practices. To determine how difficult it is for the establishment to fill positions, respondents were asked: “How easy is it for (Establishment Name) to hire (Managers) with the necessary skills . . . very easy, somewhat easy, not too easy, or not at all easy?”

Those responding “not too easy” or “not at all easy” were coded 1 for hard to fill positions, and others were coded 0.

In order to determine whether the employer provided formal job training, respondents were asked: “In the past two years, did (Establishment Name) provide any (Managers) with formal job training?” Organizations that provided such training were coded 1, and others were coded 0. In addition, respondents were asked: “In selecting (Managers) for formal training, do employees mostly volunteer, or does (Establishment Name) decide who participates?” Those organizations that select who will be given access to training were coded 1, and others were coded 0. To determine whether the organization encourages employees to keep their skills up to date, they were asked: “To what extent does (Establishment Name) train its (Managers) to keep their skills current . . . not at all, to some extent, or to a great extent?” Those that responded to some extent or to a great extent were coded 1, and others were coded 0.

Respondents were also asked about how they filled job openings: “Do you inform current employees of (Management) vacancies by posting or circulating a vacancy notice?” Those that responded yes were coded 1, and others were coded 0. They were also asked: “Do you sometimes fill (Management) vacancies with people already employed at (Establishment Name)?” Those that responded yes were coded 1, and others were coded 0.

Employment Practices and Job Benefits

The affirmative action climate of the organization was measured by asking whether the organization had separate department or section responsible for Equal

Employment Opportunity or Affirmative Action matters. Organizations having a separate affirmative action office were coded as 1, and others were coded 0.

Job security was measured by comparing the establishments' levels of job security to other organizations doing similar work. Respondents were asked: "what about your establishment's performance on job security? Is that a lot better than average, better than average, about average for establishments doing this kind of work, below average, or a lot below average?" Those that were said to be doing "a lot better than average" or "better than average" were coded 1. Others were coded 0.

To measure group incentives, respondents were asked whether Management employees were paid using group incentives, such as gain sharing. Those who said yes were coded 1, and others were coded 0. Similarly, they were asked whether Management employees were involved in job rotation (yes =1), or received pay for learning new skills (yes = 1).

Respondents were asked whether their company offered daycare facilities and/or childcare subsidies to their employees. Those who said yes were coded 1, and others were code 0. Finally, respondents were asked whether their establishment offered flexible hours or flextime scheduling. Those who said yes were coded 1, and others were coded 0. And they were asked whether the establishment provided a day care program for employees' children, either on-site or elsewhere. Those that responded yes were coded 1, and others were coded 0.

