Cultural diversity has a positive impact on innovation

Cultural diversity offers valuable opportunities – such as helping companies increase their innovative power. As the study we conducted for the 2018 Reinhard Mohn Prize shows: Businesses that hire people of diverse cultural backgrounds are better positioned to develop ideas for new products, services and processes. Companies, however, are not yet living cultural diversity to the same degree.

In historical terms, Germany has long been a culturally diverse society. Yet the question has repeatedly been asked of how the country should deal with this diversity. The 2018 Reinhard Mohn Prize on “Living Diversity – Shaping Society” is bringing new momentum to this debate, for example with The
Diversity Factor, a study which shows that culturally diverse workforces have a positive impact on innovation.

To carry out the study, a team from VDI Technologiezentrum GmbH (VDI TZ) led by Dr. Silke Stahl-Rolf analyzed existing research on our behalf, then discussed the results with experts from academia, NGOs, businesses, public administration and civil society.

Cultural diversity makes a difference

The examined research reveals a moderately positive correlation between cultural diversity and innovation, showing that cultural diversity has a stronger impact on innovation than other diversity indicators such as age or gender.

Another key finding is that the diversity of an organization’s teams also plays a crucial role: The more varied a team's members are in terms of their countries of origin, the more positive the impact on its ability to innovate.

There are several possible explanations for why cultural diversity increases the innovative power of companies and regions. Employees with varied backgrounds have specific cultural knowledge which they use to assess and solve problems in different ways. Moreover, they are often more willing to take risks. Culturally diverse workforces, however, also pose challenges. These include language barriers and the possibility of conflict, since different cultural values or methods of interpretation can lead to misunderstandings that, at least initially, make cooperating more difficult.

One manager in two sees a link between cultural diversity and innovation

As part of the study, the opinion research organization YouGov surveyed 500 executives. Almost one respondent in two believes there is a correlation between cultural diversity and a company’s ability to innovate. At the same time, 42 percent say that their own organization does not focus on hiring a diverse workforce.

A comparison of midsized enterprises and major corporations reveals a clear difference between the two: While 56 percent of the respondents at large companies say their organization considers cultural diversity when hiring employees, only 46 percent at midsized companies express the same view.

When asked if there are obstacles to assembling a culturally diverse workforce, two out of three respondents say that no such problems exist in their own organization. Those who do perceive obstacles identify them, first
and foremost, as language barriers (76 percent), followed by extended periods of adjustment (62 percent) and difficulties recruiting employees (53 percent).

**Recommendations**

In order to promote workforce diversity and make optimal use of diversity’s ability to ensure innovative power, the study’s authors recommend that small and midsized enterprises in particular introduce diversity management measures which take cultural diversity into account, in addition to gender, age, sexual orientation and disabilities. Since resources are limited, communities and regions could play an important role here. Especially promising are multifaceted approaches that combine efforts to promote economic activity, community development and the education and training of potential employees, while also involving actors from business, the policy sphere, public administration and civil society. Midsized companies in particular would benefit if such activities were coordinated on a regional level, facilitating an exchange of experience.

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