

DIVERSITY AND INNOVATION

A BUSINESS OPPORTUNITY FOR ALL



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The seven-year Programme targets all stakeholders who can help shape the development of appropriate and effective employment and social legislation and policies, across the EU-27, EFTA and EU candidate and pre-candidate countries.

The Programme has six general objectives. These are:

- (1) to improve the knowledge and understanding of the situation prevailing in the Member States (and in other participating countries) through analysis, evaluation and close monitoring of policies;*
- (2) to support the development of statistical tools and methods and common indicators, where appropriate broken down by gender and age group, in the areas covered by the programme;*
- (3) to support and monitor the implementation of Community law, where applicable, and policy objectives in the Member States, and assess their effectiveness and impact;*
- (4) to promote networking, mutual learning, identification and dissemination of good practice and innovative approaches at EU level;*
- (5) to enhance the awareness of the stakeholders and the general public about the EU policies and objectives pursued under each of the policy sections;*
- (6) to boost the capacity of key EU networks to promote, support and further develop EU policies and objectives, where applicable.*

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CONTENTS

Executive Summary	4
1 Introduction	5
1.1 Background	5
1.2 Structure of the report	6
2. Understanding the relationship between diversity and innovation	7
2.1 Defining Diversity and Innovation	7
2.1.1 Diversity	7
2.1.2 Innovation	8
2.2 The Theoretical and Empirical Background	8
2.2.1 There is a positive link between diversity and innovation!	9
2.2.2 The linkage between diversity and innovation is a function of different mindsets, perspectives and individual resources	10
2.2.3 The main challenges and barriers are overcome through good management	10
3. Investigating the link between Diversity and Innovation	12
3.1 Methodological Approach	12
3.1.1 EBTP Survey	12
3.1.2 Innovation and Diversity Survey	13
3.1.3 CSR Diversity Laboratory	13
3.2 Diversity is good for business!	13
3.3 Diversity can lead to innovation	14
3.4 Business areas of diversity led innovation	16
3.5 The benefits of diversity for innovation	20
3.6 Overcoming barriers to diversity led innovation	21
3.7 Summary	23
4. Managing Diversity to Achieve Innovation	24
Appendix Case Studies	26

EXECUTIVE SUMMARY

Regardless of a company's size or its market reach, innovation is a driver for productivity. This finding not only emerged from the Innovation and Diversity (I&D) survey, but it also surfaced in the focus group held in June 2008 around the subject of innovation and productivity.

As innovation processes depend on harnessing creativity, and while dynamic as well as supportive systems of management can elicit the best from staff, like-minded people will usually produce like-minded results. Diversity in the workforce can, however, help companies to break this mould and the cycle of limited unilateral thinking and, in so doing, set them free to discover new products, markets, and ways of doing or leading business. The research here indicates that increasing numbers of companies are, indeed, recognising this.

1 INTRODUCTION

1.1 Background

The European Union Member State governments have always had a desire to promote economic growth and cohesive societies, which provide equal opportunities to all citizens and which avoid major conflict or disturbances between different groups within society. Indeed, the objectives of promoting economic and social progress and a high level of employment through the increase of economic and social cohesion were reflected in the EU's Lisbon Strategy for Growth and Jobs¹. This identified the employment of "priority categories, such as the young, women, older workers, persons with disabilities and legal migrants and minorities" as a key priority.

The Lisbon Strategy also made explicit the aim of higher EU economic growth which was to be made possible through increases in productivity. In a 2006 communication, "Putting knowledge into practice: A broad-based innovation strategy for the EU" (Sept 2006), the European Commission underlined that Europe has to become a truly knowledge based and innovation friendly society in order to achieve the aim of higher economic growth. The linkage is made between innovation, higher productivity and increased economic growth. The theoretical, empirical and business evidence for this linkage is well articulated in a large body of literature and in organisational business practice.²

In today's highly competitive environment and faced with the danger of an economic downturn, businesses are increasingly aware of the importance of knowledge and innovation as a source of competitive advantage. For this reason, they are seeking strategies and structural changes that will improve their learning and knowledge management capabilities, and facilitate innovation. Some have come to recognise that to understand and generate innovation, they must focus on workplace diversity as well as ability. The 2005 study, "The Business Case for Diversity; Good Practices in the Workplace", argued that the promotion of equality and diversity within all areas of business activity can bring companies substantial operational and financial benefits. Moreover, some 26% of survey respondents identified great innovation as a key benefit of having corporate equality and diversity policies and practices. In other words, the linkage between innovation, productivity and increased

¹ At the Lisbon Summit in March 2000, EU leaders set out a new strategy, based on a consensus among Member States, to make Europe more dynamic and competitive

² For examples please see: Castellani, D. & Zanfei, A. (2006) *Multinational firms, innovation and productivity*, Northampton, MA, USA: Edward Elgar Publishing; Janz, N., Löff, H. & Peters, B. (2003) *Firm Level Innovation and Productivity – Is There a Common Story Across Countries?* Centre for European Economic Research Discussion Paper No. 03-26 (available at: <ftp://ftp.zew.de/pub/zew-docs/dp/dp0326.pdf>)

economic growth that the EU is seeking to leverage, can now be extended to workplace diversity being a key driver in the process.

Several current trends impact the need for productivity, innovation, and creativity that leverages diversity in the workplace:

- Customers, both consumer and business, are becoming more diverse, educated, and demanding.
- Companies need a steady stream of products, services, marketing strategies, and sales plans that exceed their existing and prospective customers' expectations.
- They must do this more quickly and better than their competitors.

Research shows that innovation provides the seeds for economic growth. Innovation in a corporate context is about transforming an idea into a new process, product or service to generate a competitive advantage. For that innovation to happen depends as much on collective difference as on aggregate ability. If people think alike then no matter how smart they are, they most likely will get stuck at the same locally optimal solutions. Finding new and better solutions, innovating, requires thinking differently. If you bring many different perspectives to a problem, you end up with more creative solutions. Workplace diversity can ensure there is a large pool of knowledge, skills, life experience, perspectives, and expertise. That's why diversity powers innovation.

This report aims to assess the interplay between diversity and innovation in a business organisational context, and in so doing examine whether diversity is ultimately a productivity driver through increased innovation. It explicitly examines the link between diversity and innovation. It assumes that such a relationship flows through to increased productivity and economic growth as this has long been understood in the literature.

1.2 Structure of the report

In Part 2, the inter-relationship between diversity and innovation is explored based on a review of existing literature and business practices. The terms “diversity” and “innovation” will be defined, and evidence for the linkage between the two will be outlined. In addition, the rationale for why there is a link will be presented, along with what the main challenges and barriers are said to be in exploiting this relationship. In Part 3, a presentation and discussion of original empirical research with a cross section of companies from across Europe will be used to evaluate the degree to which the link between diversity and innovation is recognised and how companies understand its potential benefits and challenges.

2. UNDERSTANDING THE RELATIONSHIP BETWEEN DIVERSITY AND INNOVATION

The interplay between diversity and innovation in organisational settings is a complex and at times challenging one. This section of the report explores the way in which innovation and diversity are defined and the nature of the evidence of previous research into the inter-relationship between them. The intention is to arrive at a clear working definition, an understanding of the key themes and issues, and to reveal the multifaceted contribution that effective management of diversity makes to improved innovation in a business setting.

2.1 *Defining Diversity and Innovation*

Innovation and diversity are both multidimensional terms and definitions for them are as varied as the number of academic disciplines, policy makers, and business leaders that specialise in them. The confusing and divergent nature of these definitions has added to the challenge of understanding the linkages between diversity and innovation. Nevertheless, for the purposes of this study, it is important to have a clear framework that captures the core of the academic definitions and matches this with the reality of business practices. This is drawn out from the literature as follows.

2.1.1 *Diversity*

Diversity can be defined from a policy and legal perspective across 6 clear demographic strands: gender, age, race & ethnicity, sexual orientation, religion & beliefs, and disability. This demographic and non-cognitive definition has now become broadly accepted as the core legal understanding across the European Union. For businesses, large and small across Europe, this definition is to greater or lesser extent embraced in their policies and practices dependent on the specific legislation in each country and their own willingness to engage with diversity as an issue in its own right. Many will also add other non-cognitive considerations, most commonly nationality, to this definition.

Yet, in understanding the significance of diversity for innovation it is also important to go beyond the purely demographic definition, to get under the surface of this strand specific approach and consider the learned aspects of difference. The learning styles and attributes of individuals and even communities include different knowledge acquisition, and communication styles, educational history, personal skills, professional abilities and functional expertise. Businesses also recognise this dimension to diversity, particularly in

relation to innovation, as for example some will seek to bring together “cross-functional” teams to encourage the generation of new ideas.

In reviewing the literature as well as the policies of successful companies what is revealed is a complex interplay between the different dimensions of diversity as defined above and the understanding of diversity’s role in innovation. While the focus of this study will be on the demographic definition, this is not to the exclusion of the ‘cognitive’/learned dimension.

2.1.2 Innovation

Innovation, meanwhile, is also a multidimensional term, displaying “subjective” and “objective” traits. Subjective traits of innovation include the processes of creativity and original thinking, the communication of creative and original thinking to others, and the uptake of those ideas by others. Here thinking relates to all areas of company activity, including everyday operations and problems, through the research and development of new or existing products, to the sourcing of new suppliers and expansion into new markets. Objective traits of innovation include the structures within which such ideas are thought about, transmitted to, and taken up by others, and the output and outcome in terms of definable benefits. The success that a company has with encouraging innovation depends upon the ways in which the subjective “raw materials” of innovation – creative thinking by individuals or groups – can be harnessed by the objective structures of innovation.

For the purposes of this study, innovation is best defined as the generation and introduction of new ideas, which lead to the development of new products and services, processes, and systems in all areas of business activity.

In relation to diversity, then, subjective innovation might be said to stem from the cognitive diversity that visible and non-visible forms of diversity imply. However, the ability of diverse individuals to communicate creative and original thinking to others, and the willingness of those others to listen and respond to such ideas, might be constrained by institutional and non-institutional forms of discrimination, including the degree to which the company has a culture of “inclusion” and the objective structures of organisations within which creative and innovative thinking takes place. As such, any attempt at encouraging “latent” creativity and innovation within and through diverse workforces must be linked with wider management processes and practices in the businesses of themselves.

2.2 The Theoretical and Empirical Background

The relationship between diversity and innovation has been the subject of a large number of studies over the years. In the main, these studies have been conceptual papers advocating

a link between diversity and innovation, with those that examine this phenomenon and provide empirical evidence relatively rare. A list of key studies is provided in Appendix Case Studies.

The literature and company experience also shows that high productivity increasingly depends on effective functioning teams. A team that encompasses a variety of diverse characteristics individually, which comes together collectively, can spark creativity and innovation, and may have a greater capacity to tackle more complex problems and produce better solutions. They outperform homogenous workplaces as they draw on a greater pool of ideas and because their interaction will produce better solutions. The challenge for business is to manage this diversity effectively so as to harness these outcomes.

While a proper review of these studies is beyond the scope of this report, some main themes may be identified.

2.2.1 There is a positive link between diversity and innovation!

Previous research and indeed commentary from business leaders suggests that there can be a positive relationship between diversity and innovation in a business context. For example:

- Adler (2002) notes that diversity in multicultural teams is associated with positive group outcomes such as increased levels of innovation, creativity and problem solving.
- Hennessey & Amabile (1998) suggest that diversity, when combined with an understanding of individual strengths and weaknesses, and working relationships that are founded upon sensitivity and trust, enhances creativity and problem solving capability.
- Niebuhr (2006) found higher levels of research and development and innovation in regions of Germany that had higher levels of cultural diversity than regions with lower levels of diversity.
- In a most comprehensive study of 1000 international teams, Gratton (2007) found that innovation was positively correlated with equal gender ratio within work teams and negatively correlated with an unequal ratio.
- Moreover, the internationalisation of innovation renders cultural diversity a reality for innovative teams.

*One example of this is the **Hewlett Packard's Latex Printing Technology** - an Innovation Driven by Diversity. The technology is a new solution that offers print service providers a compelling printing alternative for a wide variety of applications. It provides durable, sharp, vivid image quality while reducing the total impact of printing on the environment. The innovation was*

the result of consciously assembling a diverse team of 120 engineers across 4 different countries. Issues of cultural and other forms of diversity were effectively managed in order to release the creative potential of different individuals.

2.2.2 The linkage between diversity and innovation is a function of different mindsets, perspectives and individual resources

There are a number of ways in which diversity contributes to innovation.

- i) Flexibility, creativity, and the ability to innovate are enhanced by the existence of dissimilar mind sets, that is to say that like-minded people make like-minded decisions, [limiting] the breadth and depth of innovative and creative thinking (Ozbilgin 2208).
- ii) While situations where individuals and groups find their existing mindsets, beliefs and knowledge sets challenged will produce effective learning, this is more likely to happen when there is diverse mix of participants and an environment in which all individuals feel their views are valued.
- iii) Diversity can contribute to more effective decision-making and problem solving capability by providing a diverse range of perspectives, a broader spectrum of expertise, and more robust critical evaluation (Bassett-Jones, 2005).
- iv) Teams characterised by diversity have the capability to access broader networks of relationships, cultural capital and bicultural competence and bring these assets into the innovation process. Increased productivity, innovation, and creativity are about making effective use of this capacity.

2.2.3 The main challenges and barriers are overcome through good management

DiStefano and Maznevski (2003)³ carried out research on 73 teams in companies from six different countries. Their findings suggest that “diverse teams tend to perform either better or worse than homogeneous ones, with more performing worse than better. They set out to determine what distinguished the poor performers from the high performers and to develop ways of helping culturally diverse teams at the bottom of the performance graph leapfrog the homogeneous teams and create value.

Reviewing both the literature and business practices suggests that the main challenge to linking diversity and innovation is that differences between members of teams in organisations may lead to reduced cohesion, increased conflict, problems of communication and participation, and employment relations problems, creating a negative impact on the

³ DiStefano, J.J. & Maznevski, M.L. (2000) “Creating value with diverse teams in global management,” *Organizational Dynamics*, 29, 1: 45-63.

value chain. These problems may also in turn erect certain forms of “cultural dominance” that can lead members of non-dominant groups to remain “voiceless.” In this way, the innovation potential of diverse workforces remains dormant.

The key determinant of success is the effective management of diversity. Not only, then, does the application of equality and diversity policies in such contexts reduce the negative effects of cultural dominance, but they also help to release the latent innovation potential of diverse staff. In other words, the innovation potential of diversity are best harnessed when efforts to maximise such potential is coordinated with more general approaches to equality and diversity management. The application of strategies that are designed to foster good equality practices, trust and inclusiveness through effective leadership, when combined with creativity and innovation techniques that capitalise on diversity to deliver innovation, provide a basis for increased business and economic productivity and competitive advantage.

3. INVESTIGATING THE LINK BETWEEN DIVERSITY AND INNOVATION

The background review identified that in the academic and business spheres there is an acceptance of the linkage between diversity, innovation and productivity, a rationale for the existence of this relationship, and recognition of some of the barriers and how they can be overcome. To increase our understanding, this study undertook empirical research of a wide cross section of companies in Europe.

3.1 Methodological Approach

There were three elements to the methodological approach:

3.1.1 EBTP Survey

Firstly, a survey was conducted by the European Commission Directorate General for Enterprise and Industry of the European Business Test Panel. The EBTP constitutes a direct link between European businesses, drawn from a wide range of sectors and sizes, and the European Commission, with a view to providing an opportunity for consultation and input to the development of various business initiatives and issues under study by the Commission. The EBTP survey was a follow up to the survey conducted for the 2005 Business Case for Diversity Research. This time, specific questions relating to the relationship between diversity and innovation were included within the survey.

A total of 335 companies completed the questionnaire, of which 64 percent were SMEs⁴ (0 to 249 employees), 12 percent were “large” companies (250 to 499 employees), and 25 percent were “very large” companies (+500 staff). By country the largest groups of companies were based in Germany, Poland, Denmark, and the UK. All other European Member States were represented, along with two EFTA-EEA States, Norway and Iceland. By sector the largest groups of companies were involved in manufacturing, real estate and renting, and wholesale/retail trade. Annex * contains detailed information on the EBTP sample.

Of the 335 companies surveyed, 188 (56 percent) said that they had some kind of E&D agenda in their company. Around half of SMEs and large companies said they had an E&D agenda, compared with 75 percent of very large companies. In companies that had some kind of an agenda, the most common included a focus on staff recruitment, retention, and management. Others included a focus on organisational culture, work-life balance, and training and awareness raising. Around a half included a focus on supplier diversity and

⁴ Small to medium-sized enterprise: a company with up to 249 staff (Commission Recommendation of 06/05/2003 concerning the definition of micro, small and medium-sized enterprises)

measuring or evaluating levels and effects of diversity. This result provided confirmation that over the years, for an increasing number of companies, diversity activities and initiatives have gone beyond a mere HR function to become a comprehensive strategy which includes communication, education, recruitment, and vendor/supplier relationships.

3.1.2 Innovation and Diversity Survey

Secondly, a stand-alone Innovation and Diversity (I&D) survey was initiated for a smaller group of over 300 companies that had already indicated some awareness of diversity issues. While the objective of the EBTP survey was to obtain broad data on diversity-led innovation across European businesses of all sizes and sectors, the objective of the I&D survey was to obtain detailed qualitative evidence in support of and explaining the link between diversity and innovation.

Of the companies contacted, 35 completed and returned the questionnaire. With regards to size, 88 percent were large or very large companies and 12 percent were SMEs. There was broad sector distribution of companies, with 24 percent representing business and professional services, 18 percent financial and insurance activities, 15 percent industrial manufacturing, and 9 percent transportation and storage. Other sectors represented included information, broadcasting, and communications, information technology manufacturing, consumer manufacturing, health care and social work, and other service activities.

3.1.3 CSR Diversity Laboratory

Finally, a focus group was held in June 2008 (hosted by CSR Europe) attended by a sample of companies that had been involved in the research, in order to refine the initial findings of the study. The focus group, while partly discursive, was also solution orientated to identify specific ways in which companies can improve their diversity management to increase the benefits of greater innovation and productivity.

The key findings of the research are now outlined below.

3.2 Diversity is good for business!

The Business Case for Diversity Study (2005) and many other studies have argued strongly and provided evidence that diversity is good for business. The 2008 EBTP survey further

supported these arguments.⁵ Of the 188 companies with some kind of diversity agenda, 59 percent suggested it had a positive impact upon their business, while 28 percent did not know.

Figure 1 illustrates the level of significance companies felt that diversity had in different areas of business operation. Across the areas surveyed, a minimum of 80% of respondents suggested that diversity had at least some significance in each area of business operation. Diversity was felt to make the most significant impact upon company image and reputation, through the attraction of higher quality employees, and improved stakeholder relationships. Diversity was felt to make the least impact upon creating a wider customer base.

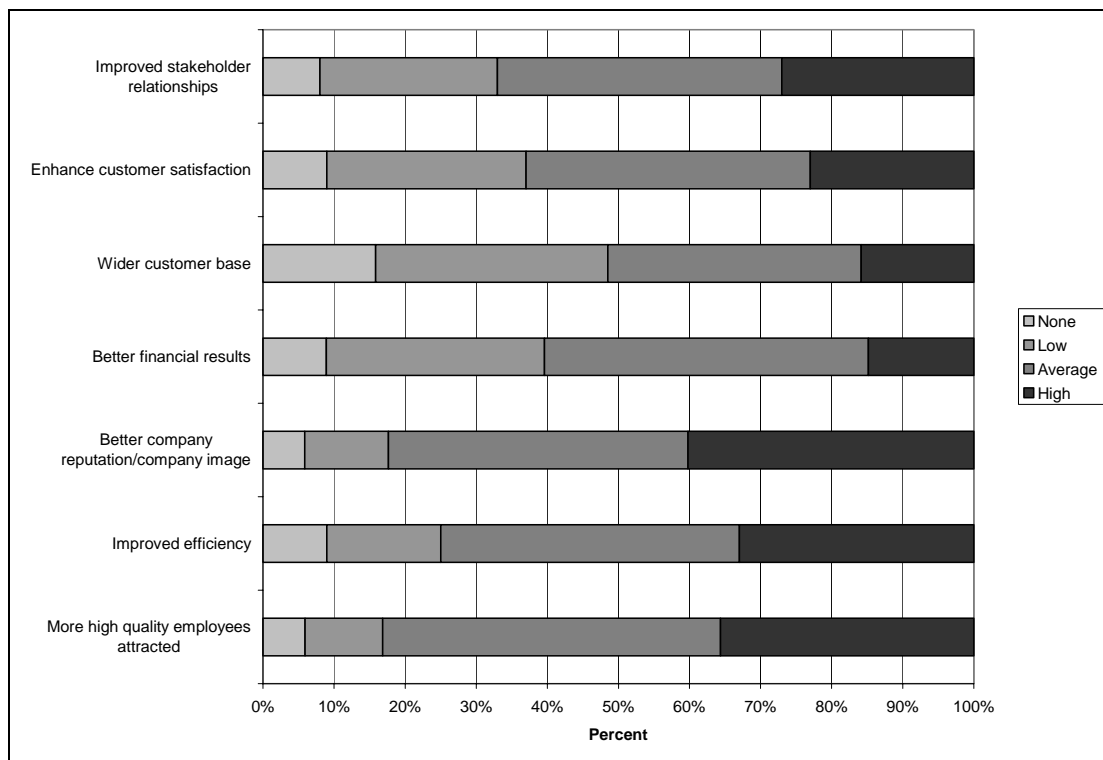


Figure 1: Impact of E&D benefits on company activity

(Source: 2008 EBTP diversity survey)⁶

3.3 Diversity can lead to innovation

⁵ See the report *The State of Diversity in 2008: Research with the European Business Test Panel* for full details. Available from Focus Consultancy upon request

⁶ Ibid

The results of the surveys show that businesses generally believe there is a link between diversity and innovation. The EBTP survey provided an overall view on how companies across Europe perceive the relationship between diversity and innovation. For most of those with some kind of diversity agenda the relationship exists, and has a real impact upon their business. In the survey, companies with some kind of E&D agenda were asked whether they thought diversity had contributed towards innovation and creativity. Some 63 percent of respondent thought that it had, with 20 percent responding that they did not know.

In the specialised I&D survey, overall, the large majority of companies that participated did recognise some link between diversity and innovation: some 85 percent. Given the targeted nature of the sample this would be expected. Five companies – two SMEs, two large companies, and one very large company – did not recognise the link in their own company. (These companies were contacted to participate via separate means and were not selected due to a prior recognition of the link.)

Furthermore, the benefits of increased innovation were seen as a key argument in promoting workplace diversity. Of those that recognised there was a link, 32 percent suggested that diversity-led innovation was one of many equal arguments for diversity, while half suggested that it was among the top three drivers. One company – an SME – suggested that it was not important. Two large companies suggested that diversity-led innovation was the single-most important driver.

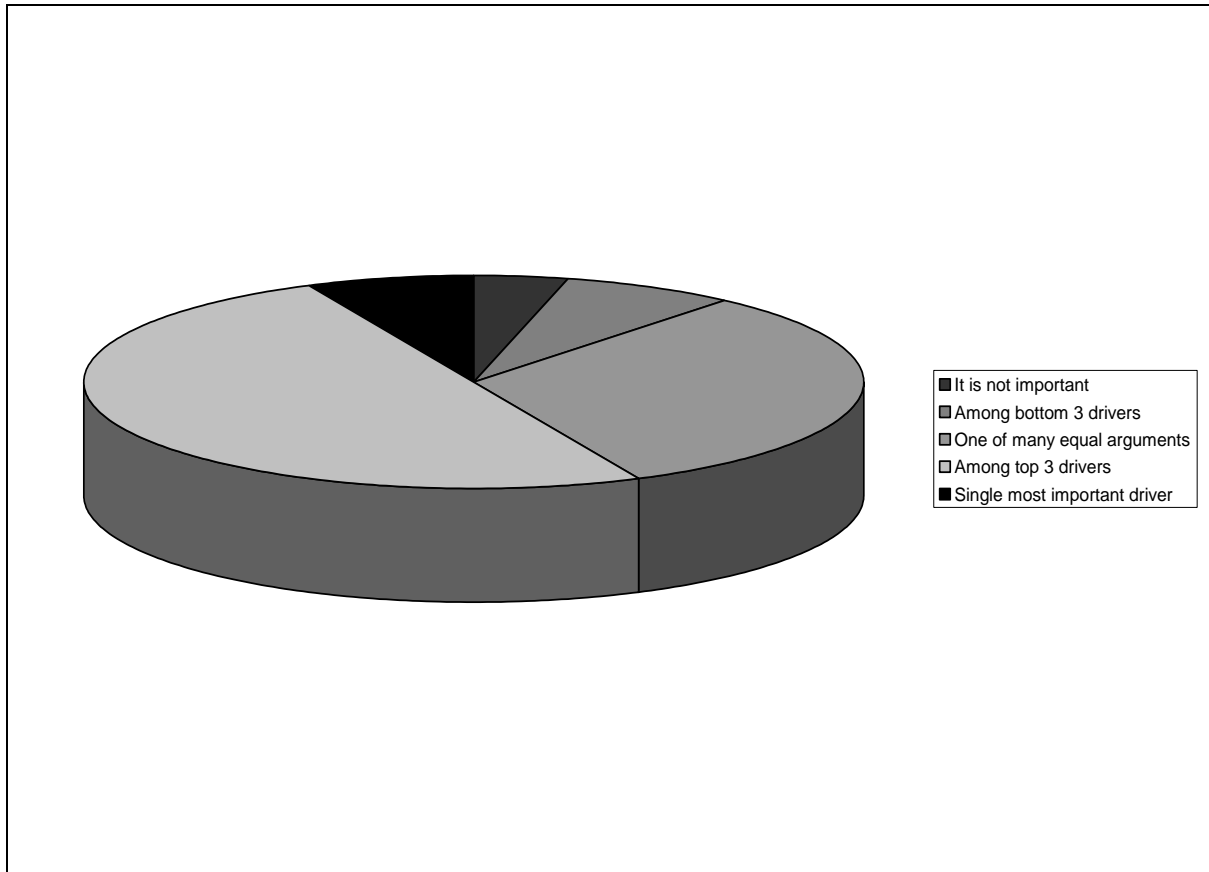


Figure 2: Importance of innovation as a driver for having a diversity policy

(Source: 2008 innovation and diversity survey)

However, of those that recognised the link, just less than one-third monitored and/or measured the innovation benefits of diversity. This is a common challenge in assessing the impact of diversity generally as determining the causality and connectivity between a diversity initiative and its outcomes, and separating it out from other factors, can be a complex problem.

3.4 Business areas of diversity led innovation

Analysis of the EBTP responses suggest that the most common areas of company activity that are assumed to benefit from diversity-led innovation include customer service, human resources and recruitment, and product development.

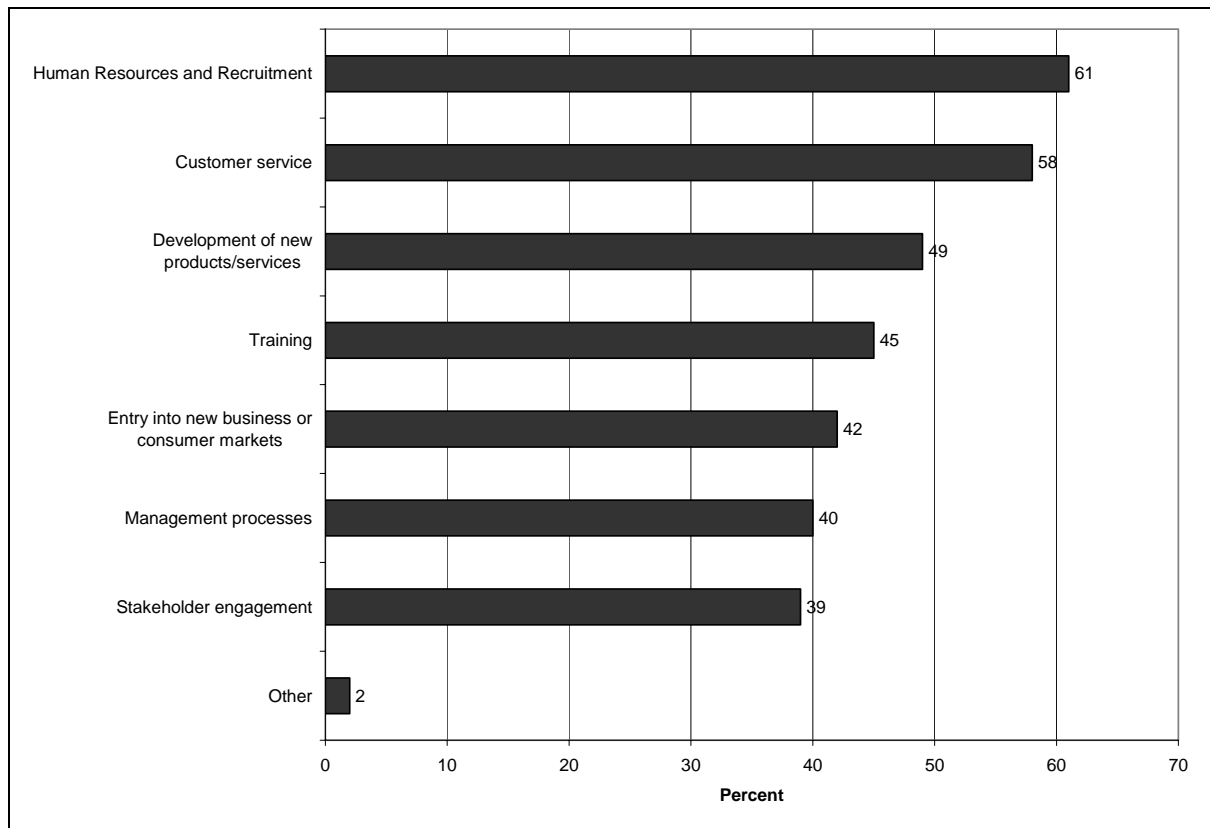


Figure 3: Areas of business activity that benefit from diversity-led innovation

(Source: 2008 EBTP diversity survey)

These results are further refined and expanded upon by the I&D survey. Figures 4 to 6 below illustrate how respondents in the survey thought diversity contributed to innovation in different areas of company activity. These included what have been broadly categorised as product innovation, sales innovation, and operational innovation.

In relation to product innovation, participants were asked whether they thought diversity led to innovation in new and existing products, for new and existing customers. In total, 82 percent of respondents thought that diversity led to the development of new products. One-quarter of these thought that diversity led to products for only new customers, and half for both new and existing customers. Just 7 percent thought that diversity led to new products for existing customers only. Over one-quarter did not think that diversity led to new product innovation at all. Broadly similar results were obtained when the question was put whether diversity led to the adaptation of existing products.

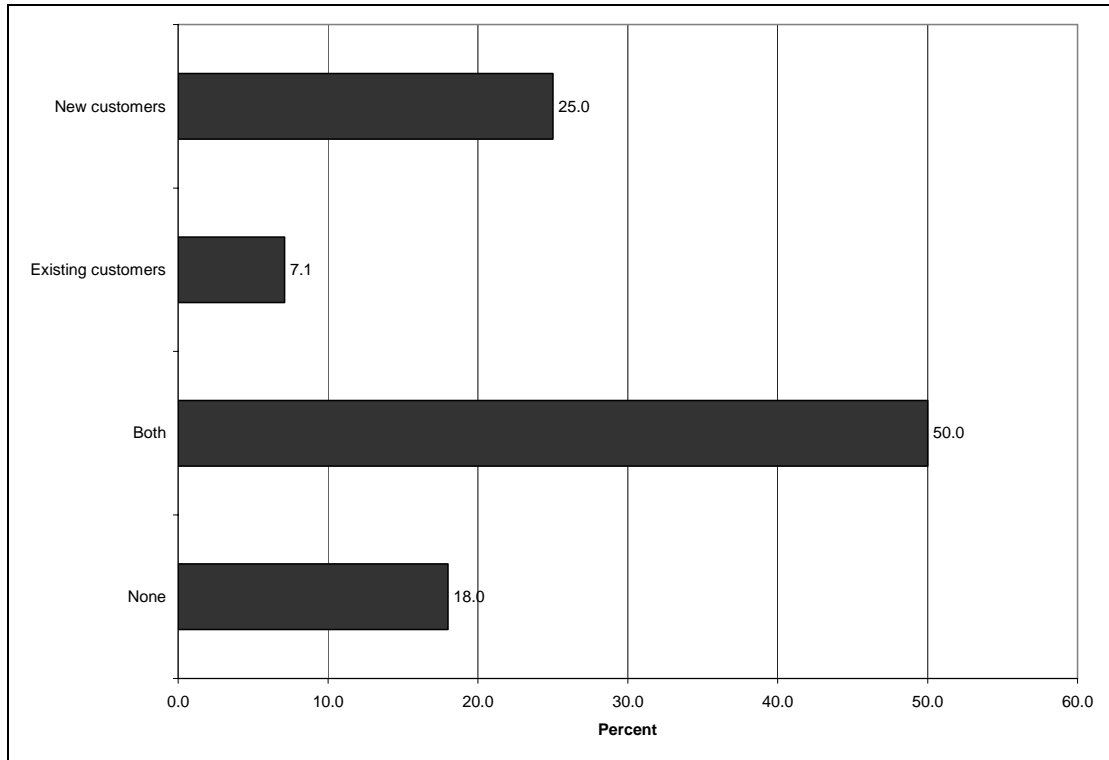


Figure 4: Diversity-led innovation leading to new products for new and/or existing customers
(Source: 2008 innovation and diversity survey)

Novartis has developed an external advisory council to act as an independent and objective body to put pressure on Novartis' executive teams to follow through with diversity commitments. Following pressure from the council research was conducted into the gender make up of its agricultural customer base that subsequently led to the development of specific products for women.

In relation to sales innovation, participants were asked to evaluate the relationship between diversity and sales and marketing, procurement, and the development of business opportunities with diverse customers. Just over half of respondents thought that diversity led to innovation in sales and marketing, and half agreed that business opportunities could be created with diverse customers. However, only one-third thought that diversity led to innovation in procurement. Attitudes in relation to customer service and engagement were more divided. Half agreed that diversity led to innovation in this field, while half disagreed.

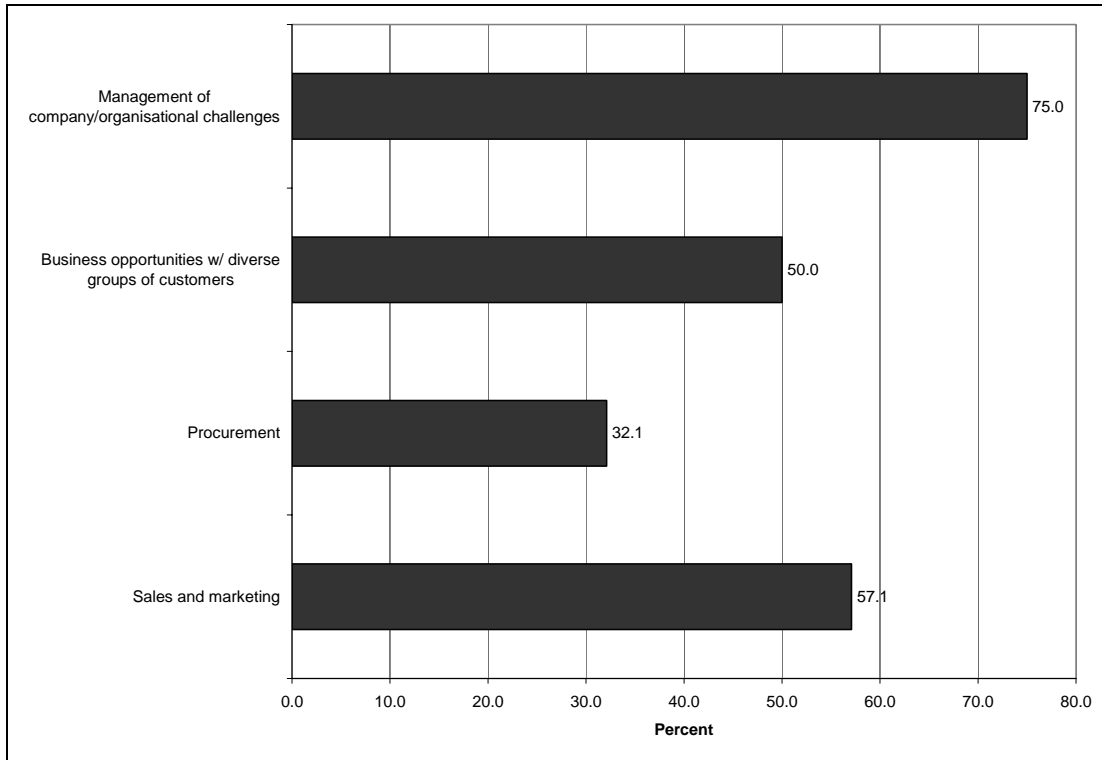


Figure 5: Diversity-led innovation leading to innovation in sales, marketing, and procurement strategies

(Source: 2008 diversity and innovation survey)

L’Oreal noticed that no specialist products existed for Muslim women who wear a veil. Following a consultation process with these women, L’Oreal developed a range of skin-care products that suited their needs.

Finally, participants were asked to evaluate the relationship between diversity and operational innovation. Three-quarters of all participants thought that a relationship existed with the management of company and organisational challenges. More than 92 percent thought that diversity led to innovation in human resource management and staff recruitment and development practices. Just 18 percent suggested that this related to initiatives specifically for diverse employees, suggesting that the innovative value of processes developed with equality and diversity in mind had value for all staff regardless their background.

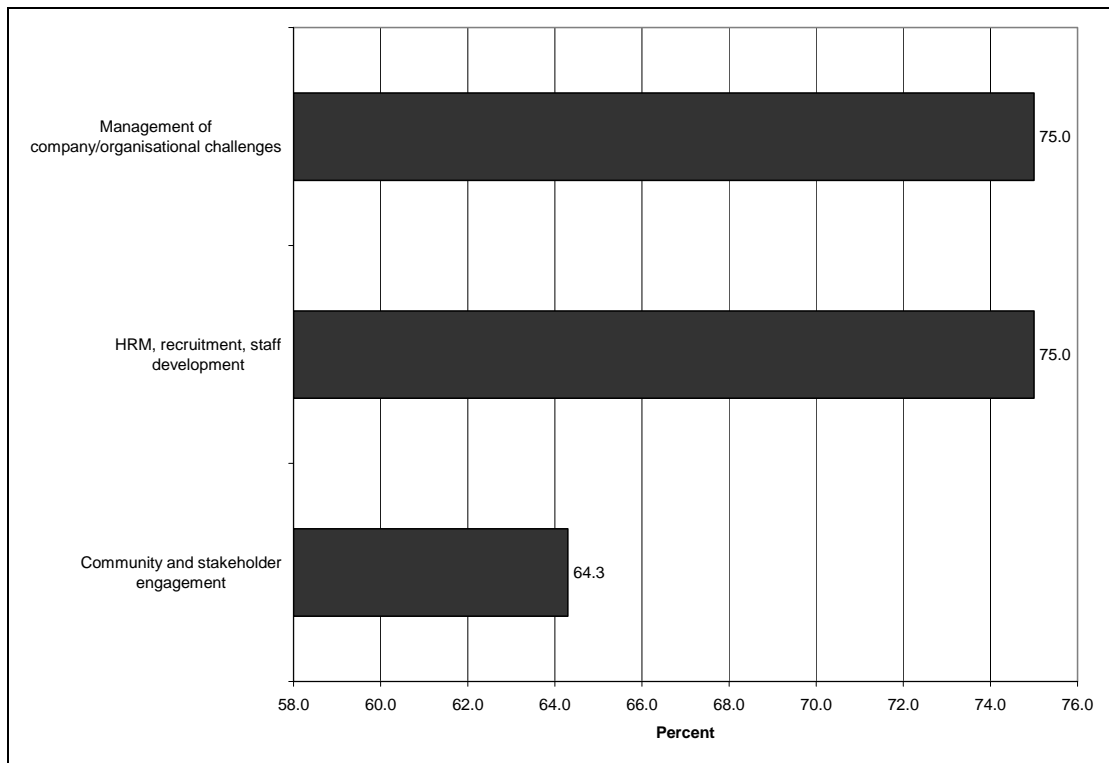


Figure 6: Diversity-led operational innovation

(Source: 2008 innovation and diversity survey)

Overall, respondents strongly associated diversity-led innovation with product innovation and operational innovation, particularly HR issues. Customer service and sales innovation, on the other hand, were less well recognised.

3.5 The benefits of diversity for innovation

In the I&D survey, participants were also asked to evaluate how they perceived the benefits of diversity-led innovation. Questions focused on the benefits of cognitive operational innovation and their effects in terms of organisational efficiency and corporate profit. The large majority of respondents agreed with the benefits suggested to them. These included the provision of multiple perspectives to address strategic and operational issues and challenges, greater understanding of and sensitivity towards different customers and market segments (in this sense, the innovation had product and sales innovation benefits also), and the generation of new ideas and synergy from the combination of different ideas. In addition, more than half of respondents thought that these benefits translated into organisational efficiency and corporate profit.

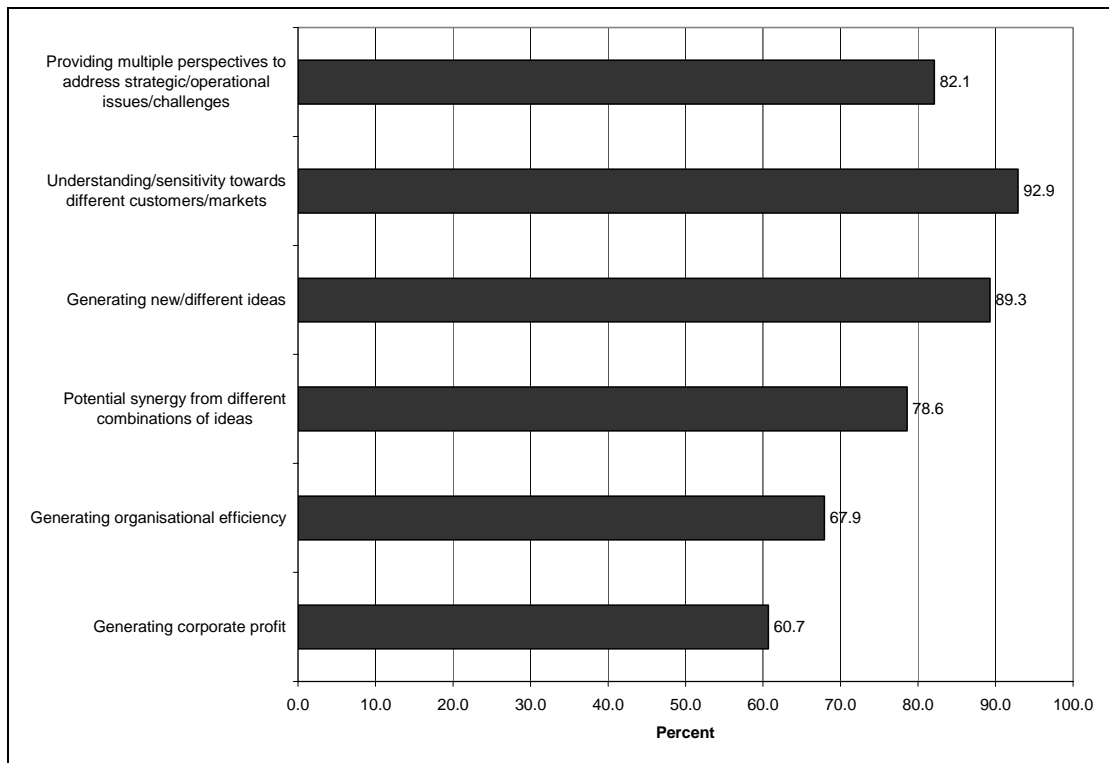


Figure 7: Benefits of diversity-led innovation according to companies that took part in the diversity and innovation survey

(Source: 2008 diversity and innovation survey)

***Dublin Bus** in Ireland provides a good example of diversity resulting in greater understanding of a customer segment and the introduction of an innovative strategy. Following consultations and discussions with its older employees, a new marketing initiative was introduced developing positive images and languages in relation to older customers and an awareness raising initiative in relation to ageism. The result has been seen in positive feedback from these older customers.*

3.6 Overcoming barriers to diversity led innovation

Workplace diversity is said to be a paradox (Bassett-Jones, 2005: 169) or a double-edge sword. When managed poorly it can be as disruptive as it can be beneficial, when managed well: as such, diversity, as well as diversity-led innovation, is seen to be a risk. The innovation benefits of diversity are especially dependent upon good management, both in terms of diversity management and innovation management. Good diversity management is particularly important for encouraging operational innovation as this stems from and relates directly to the functioning of diverse work teams. Broadly, diversity management can

encourage (operational) innovation when it focuses on issues of communication, team integration, and the problem of “enculturation” (“coaching” staff so they fit into “corporate culture” – usually a version of the dominant group culture, Adler 2002). Through these strategies, the cognitive potential of diverse workforces can be harnessed.

*Recognising that gay and lesbian television viewers in Belgium lacked specific programming on the main national television channels, **Belgacom** created a new market opportunity by establishing a dedicated channel for that community. However, the key challenge that it had to overcome was in convincing the top management of the “acceptability” of such a channel, and addressing issues of stereotype and prejudice.*

The most important forms of diversity management were thought to encompass those concerning integration. More than one-third of respondents suggested overcoming stereotypes was very important. However, between two-thirds and three-quarters of respondents thought that all remaining methods of diversity management were of some importance, especially communication between diverse team members and suppressing of differences to fit into corporate culture. On the other hand, the issue of enculturation was also considered to be of little importance by 21 percent of participants.

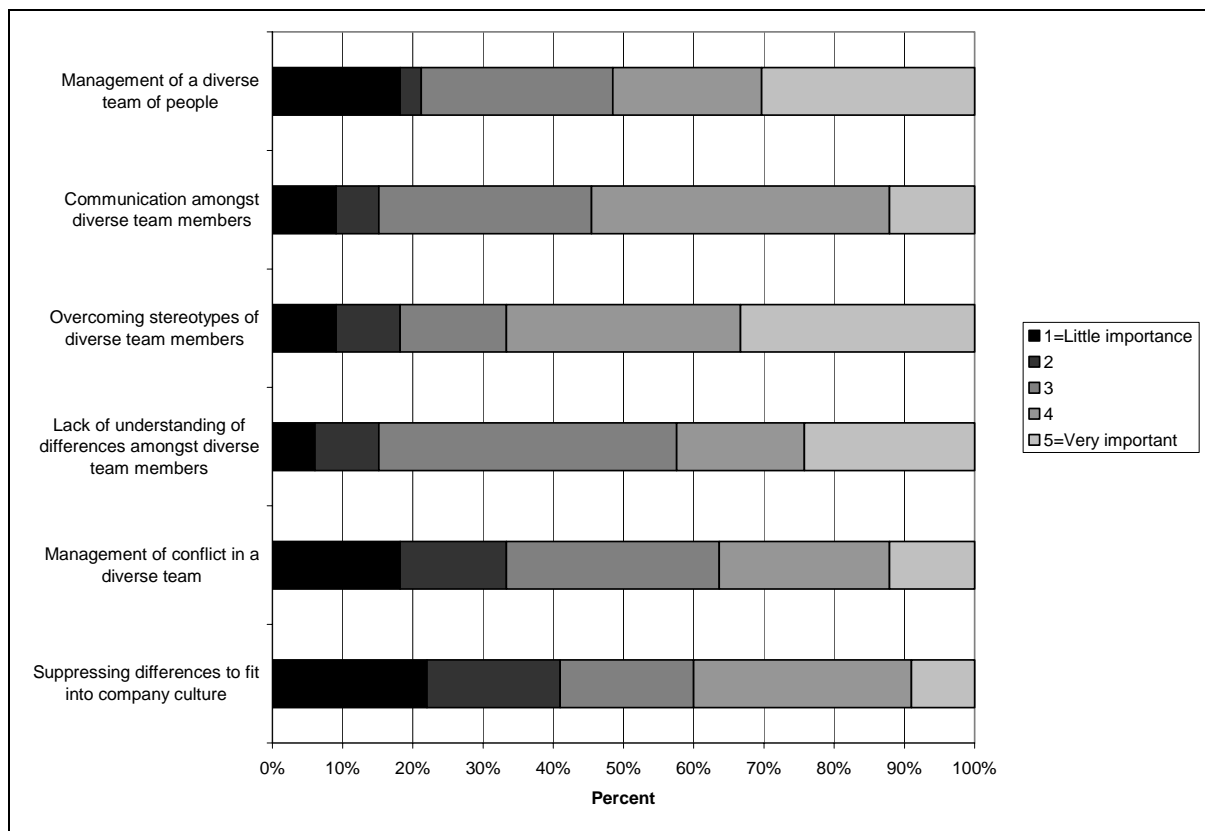


Figure 8: Barriers to diversity-led innovation

(Source: 2008 innovation and diversity survey)

3.7 Summary

- 60% of companies with an E&D agenda suggested that it has a positive impact upon their business
- 64% of companies with an E&D agenda identified a link between diversity and innovation
- Only one-third of companies that recognised a link between diversity and innovation also tried to record its results
- Half of companies suggested innovation was among the top three drivers for having a policy and practice of diversity and inclusion
- Product and operational innovation were seen to benefit most from diversity; within this, diversity was seen to lead to new products for new customers and adapted products for existing customers
- The most prevalent area for diversity to lead to innovation is in HR management and recruitment, with the innovations seen to be of general application and not simply linked to a particular demographic group.
- Many areas of company operations and processes were seen to benefit from diversity-led innovation, particularly better understanding of customers and provision of multiple perspectives
- Issues of negative stereotyping, poor communication, and poor team integration were most seen to inhibit diversity-led innovation

4. MANAGING DIVERSITY TO ACHIEVE INNOVATION

The literature review and the results of the EBTP and I&D surveys indicate a general acceptance and understanding that diversity can generate innovation in the form of new products, processes, and systems. 60% of companies with some form of equality and diversity policy and practice suggested that diversity has a positive impact upon their business, and 64% identified a link between diversity and innovation. Yet only one-third of companies that recognised the link also tried to record its results. As one respondent said, *“we try to measure and monitor, but it’s hard to isolate the effects deriving from the diversity of staff”*.

This paradox shows through in the challenge of empirically assessing the creativity and innovation that comes through diversity of team membership. Examples of this are less readily available as few organisations will systematically monitor it. On the other hand, what are easier to assess are the focused business interventions to leverage the diversity of the workforce or the customer base into increased creativity and innovation. Examples for these are more prevalent (see Appendix Case Studies).

These latter examples highlight the ways in which companies can actively seek to harness the innovation potential of their employees. In many instances, policies of equality and diversity are not the leading principle of these initiatives, but are given equal attention alongside policies designed to manage the creativity and innovation of employees. However, this is precisely the means by which the mainstreaming of equality and diversity management can and should be achieved: by releasing it from the HR departments where it was first recognized and developing diversity strategies within other departments. In so doing, the challenges of negative stereotyping, poor communication, and poor integration are overcome through the development of specific organizational process aimed at providing all employees a space within which their ideas can be shared. Enculturation – the suppression of diversity in order to create a homogenous company culture – specifically has no place there. Indeed, at both BASF and TMB, innovation initiatives actively sought to increase a heterogeneous company culture through encouraging their employees to risk thinking differently and speaking out.

*The **BASF Group's** has a "Recognition and Innovation Policy: Suggestions for Improvement" program. It elevates the status of all employees (including students and third-party employees) to that of "collaborators" gives them the chance to be recognized and rewarded with cash prizes and points for outstanding ideas and contributions to innovation. For example, in BASF Group Spain over the past four years some 800 suggestions have been implemented and 200,000 EUR awarded to employees. Because of these suggestions, BASF Spain made average savings of more than 1.5 million EUR per year.*

For many companies diversity-led innovation is a reality. It is recognised as a driver for innovation across the range of business activities. Most of the companies contacted in the I&D survey suggested that new products, services or processes had been developed because of applying a diversity perspective to innovation.

Yet some barriers remain that do inhibit the relationship between diversity and innovation by making it more risky. Innovation means taking risks. While some new and creative ideas succeed, many fail. Individuals who communicate their ideas and companies that listen to such ideas therefore risk a negative outcome. This is especially true when ideas come from diverse individuals who might already feel on the "outside" of mainstream company culture and processes and whose ideas might seem too far outside mainstream company thinking. But, as Scott Norum, a project leader at Hewlett Packard argues, diversity-led innovation *"means taking risk – the risk of making mistakes and the risk of trying out ideas that might initially sound off-track – but this is how breakthrough innovation occurs."*

Given this, companies that wish to benefit from the innovation potential of diverse workforces must first create the conditions that encourage risk-taking. This they can do by fostering a culture of inclusion within the business. This is ultimately a management challenge. The benefits of successfully addressing this challenge are seen in fully unlocking the innovative potential of a diverse workforce, increased productivity and improved business and economic performance.

APPENDIX CASE STUDIES

- 1. Novartis – Switzerland – “Diversity & Inclusion Advisory Council”**
 - ❖ The adaptation or reinvention of existing products or services
 - ❖ Management of the company and its organisational challenges
 - ❖ The development of business opportunities with specific groups of diverse customers

- 2. Transports Metropolitans de Barcelona – Spain – “Participation System Policy”**
 - ❖ HR Management of all employees
 - ❖ The development of new products or services
 - ❖ Customer service and engagement

- 3. Accenture – UK – “Minority Leadership Development Programme”**
 - ❖ HR Management of specific groups of diverse employees

- 4. Dublin Bus – Ireland – “Say No to Ageism”**
 - ❖ HR Management of specific groups of diverse employees
 - ❖ Customer service and engagement

- 5. Hewlett Packard – Spain – “Latex Printing Technology”**
 - ❖ The development of new products and services

- 6. Randstad – Belgium – “Randstad Diversity”**
 - ❖ The development of new products and services
 - ❖ The development of business opportunities with specific groups of diverse customers

Novartis – Switzerland

- ✓ **The adaptation or reinvention of existing products or services**
- ✓ **Management of the company and its organisational challenges**
- ✓ **The development of business opportunities with specific groups of diverse customers**

- **The innovation**
In 2006 Novartis created a Diversity and Inclusion Advisory Council (DIAC). The DIAC comprises a group of diverse leaders from different cultures and professional backgrounds around the world who provide guidance to Novartis leadership on issues of Diversity & Inclusion, and informally evaluate, instigate and monitor the take-up and integration of D&I policies & actions through the various sectors of its business. The DIAC meets regularly with Novartis Leadership and D&I practitioners to assess, challenge and provide feedback on D&I strategies, actions and results within the organization; provide focus, debate or best practice sharing on new or existing D&I topics / issues; and, provide a continued external & objective view to Novartis' approach to D&I.
- **Link with diversity**
The DIAC was formed to address key business drivers that related to diversity. A) Customers - women and people from minority groups now account for the vast majority of households' healthcare buying decisions. Understanding customer and market demographics is also important for assessing new treatment areas and marketing strategies. B) Workforce - it was also imperative for Novartis to evolve its talent pool to enhance customer insight and to meet the need of patients and other stakeholders. Having a natural advantage in D&I was seen as more critical than ever in an increasingly competitive battle to attract and retain the best talent needed to find and deliver treatments and cures to patients who need them.
- **Critical success factors**
The DIAC provides both support and challenge to the company leadership on its D&I journey. One critical success factor was that the leadership of Novartis committed to this level of engagement and to follow through on the recommendations of the DIAC. Additionally, identifying and securing the on-going participation of objective and reputable professors, top diversity experts, business leaders and other key stakeholders who can credibly advise and challenge top executives on the wide range of business and social topics which can be viewed through the diversity lens.
- **Challenges**
A critical theme associated with external guidance and transparency is that of definition. Novartis needed to be able to form & communicate a view of D&I that was global. In the absence of common frameworks or standards, different value systems needed to be taken into consideration in order to avoid where possible, pushing an approach that causes separation or resentment as the company defined, implemented and refined its approach to D&I.
- **Impact of the innovation**
The implementation of the DIAC fosters performance enhancing outcomes, for example through:
 - Innovative new business models and products that target diverse customers; e.g.
 - "Arogya Parivar" is a Health Programme in the rural parts of India, that required smaller/affordable product packaging, educational/product information translated to local languages, and communication channels relevant for villagers;

- Novartis' Animal Health Business undertook product adaptation of hand held spray applicators to better fit women, who use the product in increasing numbers due to demographic changes in the agricultural sector.
- Enhanced management capability to support the growth and integration of global teams and structures through more inclusive leadership skills and effective management of multi-cultural teams.

Transports Metropolitans de Barcelona – Spain

- ✓ **HR Management of all employees**
- ✓ **The development of new products or services**
- ✓ **Customer service and engagement**

- **The innovation**
In 1995, TMB introduced its “Participation System Policy” in order to increase the involvement of its entire diverse workforce in the generation and implementation of innovative approaches to its business. The PSP seeks to stimulate and reward employees for developing new ideas related to the TMB business as all innovations developed in this project are implemented in the company. Once the company approves the idea, the innovator can and then “recruit” the experts he/she may need from the rest of the company to complete the business plan, the project until the idea becomes a reality. The result is the creation of very diverse teams. The key to the innovation was that the PSP was effectively communicated internally so as to engage with the very mixed workforce of nationalities of origin, gender, age, competence background, level of education, etc; and to increase in these employees a greater sense of belonging in the company.
- **Link with diversity**
TMB recognised that it was not fully leveraging the diversity of its workforce, and in particular their capacity to generate new ideas based on their cultural affinity with the customers of the transport system. TMB has 7,555 employees, and services a diverse client base of over 1.5m people on a daily basis. The PSP was an explicit channel to tap into the creativity of its workforce.
- **Critical success factors**
The “Participation System Program” is shifting a traditional, monopolistic culture out of the comfort zone into a dynamic workforce which is being stimulated and rewarded for contributing to the company with innovative ideas... and the members of these very diverse project teams are being recognized for it. This is setting the pace throughout the organisation for an inclusive behavioural change which benefits corporate results as well as employee inclusion and satisfaction.
- **Challenges**
The greatest challenge TMB confronted when closing the communication gap was to understand the different idiosyncrasies of all the people involved and create a culture of collective respect.
- **Impact of the innovation**
The number of innovations awarded has risen from 7 in the first year, to 72 in 2008. Indeed, 3 of the innovations have been patented. The programme has successfully enabled TMB to leverage the creativity and innovation capacity of its diverse workforce. One example is:
 - An employee of Arabic origins brought to light that all the standard messages broadcast for passengers of the underground were in Spanish, Catalan and English, leaving out many clients who didn't understand any of these languages, especially the immigrant population of the city that work and use the transportation system every day.
 - As a result, from an employee sensitive towards diversity, an innovative system to improve the service to clients was launched. Over six months a messaging service was designed and implemented with 15 different languages (i.e. Arabe, Rumanian, Urdu, Chinese) in order to broadcast communications everyday to clients of the Barcelona underground. Now, since the year 2002, this innovative idea has improved the customer relations and operations of the company. Not only was this innovation well accepted by clients, but also acknowledged and congratulated by the surrounding community.

Accenture – UK

✓ HR Management of specific groups of diverse employees

- **The innovation**

In 2007 Accenture UK launched its innovative Minority Leadership Development Programme (MLDP). The two-day programme offered mentoring and networking opportunities and enabled participants to develop professional skills, strengthen networks and explore what it takes to excel as a leader at Accenture. The MLDP is a 'positive action' initiative which is targeted at high performing Senior Managers. The programme aims to provide support and encouragement which will in turn improve retention and advancement of the target audience.

- **Link with diversity**

The MLDP was a response to the increase in the number of employees from an ethnic minority background and the recognition that the company needed to do something to improve the retention of high performing ethnic minorities at more senior levels and to boost the number of ethnic minorities being promoted to Senior Executive. There was also recognition that while leadership development programmes had worked well for the general Accenture population there was an opportunity to develop something specific for minority employees.

- **Critical success factors**

To make the programme a success there is a need to ensure that MLDP attendees are given on-going support after they have participated in the course. As a result, a sponsorship and succession planning programme was put in place for ethnic minority senior managers. For example, participants are given an executive sponsor to act as a sounding board for career related topics and to take an active role in devising an action plan with the participant. The aim is to encourage ongoing networking and to help raise the participants' profile.

- **Challenges**

- Employees invited to the event often didn't want to be singled out for what they perceived to be 'special treatment'
- Event perceived to be a very positive initiative so getting buy in of senior sponsors was no issue

- **Impact of the innovation**

Whilst it is too early to understand if the initiative has made an impact on retention of minorities, all indications are that the programme has been received very positively both by participants and senior management within the company.

Dublin Bus – Ireland

- ✓ **HR Management of specific groups of diverse employees**
- ✓ **Customer service and engagement**

- **The innovation**

As part of the Irish Equality Authority “Say No to Ageism” campaign and its own Equality & Diversity Strategic Plan, Dublin Bus refined and adapted its approach to HR management of its older employees and its provision of services and engagement with older customers. Following consultations and workshops with its older employees a new and innovative approach was taken to the substance and presentation of its pre-retirement programme, broader working practices, and customer service training. In addition, a greater use was made of positive images of older people and positive language in marketing and other materials. The changes in signage and language were seen as core to challenging stereotypes, giving positive messages to older customers and employees, and improving customer service.

- **Link with diversity**

The Say No to Ageism initiative at Dublin Bus was in part a response to the increasing number of people over the age of 50 that had entered its workforce as bus drivers and in other areas. This had been recognised as a benefit to the company as the older people brought vast work and life experiences into the workplace and contributed to the delivery of a quality service to customers. In addition, older people represented a large, key and loyal customer group.

- **Critical success factors**

The most critical factor was the active involvement of older employees and customers in the review, design and development of the new workforce and customer engagement practices. The new practices flowed directly from the ideas and recommendations made by these groups. In addition, widespread and effective communication and awareness-raising in relation to ageism plays a critical role in promoting the positive messages and securing company wide recognition.

- **Challenges**

The main challenge is the ongoing awareness raising required to embed all the new practices into everyday behaviour.

- **Impact of the innovation**

While it's too early to assess the impact of the new HR practices on the workforce, the customer service changes, including an extension of free bus travel for old-age pensioners has resulted in a 10% growth in passenger numbers. There has also been extensive positive feedback from older customers.

Hewlett Packard – Spain

✓ The development of new products and services

- The innovation

For Hewlett Packard, diversity and inclusion encompasses all the differences that make people unique and different. It is seen as a key to the company success. A critical benefit of this diversity for HP is that it encourages creativity, innovation and better problem solving capabilities. The development of its new Latex Printing Technology is a good example of the way in which HP leverages diversity to develop new products. The product of itself is a revolutionary, environmentally friendly, large format printing technology.

- Link with diversity

The new technology was developed by 120 engineers working together in four different countries. For example, ink and supplies developed in the US, printer and systems integration in Spain, and operations integration in Singapore. All the teams were tremendously diverse and HP believes this was critical to its success.

- Critical success factors

Diverse people means new ideas and managers in HP understand that being open to different ideas means at time taking risks. As Scott Norum, one of the project's leaders mention "It means taking risk - the risk of making mistakes and the risk of trying out ideas that might initially sound off track - but this is how breakthrough innovation occurs."

HP's customer diversity was also a critical success component. HP invited customers to provide their feedback and expectations. They relied on a diverse pool of customers who represented different countries, businesses and profiles.

- Challenges

There were many different challenges when collaborating across geographies. These can be logistical from working in different time zones and working weeks, or simply communication ones from not sharing the same work space environment.

- Impact of the innovation

The new ink technology was successfully pre-launched at the Drupa event in June 2008 - the biggest printing equipment exhibition in the world. HP was awarded for the innovation both a green (**Planet-Friendly**) and a blue (**innovation**) award by FESPA

Randstad – Belgium

- ✓ **The development of new products and services**
- ✓ **The development of business opportunities with specific groups of diverse customers**

- **The innovation**

After 10 years of involvement in a variety of diversity projects, Randstad Belgium decided in 2005 to set up a department “Randstad Diversity” to specifically support the targeted recruitment of people who have previously been rejected by other companies because of their disability, race, religion, age or gender. Working in partnership with governments, public employment agencies, NGO’s and private companies, Randstad Diversity will identify “diverse” candidates who can benefit from additional support to facilitate their recruitment and integration into organisations and the wider society. Through a series of projects, it will then provide that support, and link the individual to employment opportunities.

- **Link with diversity**

The new service offering grew out of the large number of diversity projects that Randstad had been involved in for over a decade. The company recognised that there was both a social and economic gap that it was well placed to fill. The Diversity Department itself is composed of 19 persons, and membership of the team is deliberately diverse to reflect the nature of the projects and the application of the values of the company.

- **Critical success factors**

Randstad Diversity represents a top down targeted approach to innovation. It is included within the 5 year strategic plan. The market and social opportunities were assessed, a diverse team with the requisite expertise assembled, and relationships with end clients both individual and organisational were leveraged. Randstad position a leader in HR Management practices in Belgium also meant that there more general good practices that could be extended through the initiative to outside companies.

- **Challenges**

The main challenges were overcoming the prejudices of individuals in the recruiting organisations or sectors. It is necessary to prove to them by concrete examples the benefits of recruiting diverse candidates. In addition, a common methodology, measurement and evaluation system needed to be developed to assess the added value from the initiative and the recruitment of the diverse candidates.

- **Impact of the innovation**

After 3 years, Randstad Diversity has assisted 2,500 people to re-integrate into the labour market after long-term unemployment, illness or disability, and has offered work to 1,200 people who could not find work in another company.