



# **ABSTRACT WORKING PAPER 5.16**

## **CULTURAL DIVERSITY, KNOWLEDGE DIVERSITY AND INNOVATION**

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The impact of cultural diversity on innovation and creativity has long been an issue of debate in management and economics. According to some scholars, cultural diversity is a "double-edged sword" which can have a positive or negative impact on innovation. Positive effects are related with increased synergies and spillovers which arise from the association of different viewpoints, and increased opportunities for knowledge recombination. Negative effects are related mostly to communication problems and problems which arise in conflict resolution.

The aim of this paper is to explore the impact of cultural diversity on innovation. In doing so, the paper investigates the interaction effects between cultural diversity, knowledge diversity and knowledge regime in an organizational context, where actors interact and exchange knowledge through networks. The underlying premise of the paper is that, the impact of cultural diversity on innovation depends on both the technological opportunities prevalent in the industry, and also the diversity in the competencies among actors. An agent based simulation study is carried out. In the model, networks form and evolve through the interactions between agents, through which they learn. The model investigates both the structural characteristics of networks that evolve, and the knowledge growth in the population, corresponding to varying degrees of cultural diversity and knowledge diversity. The results reveal that the extent to which cultural diversity yields more learning depends on the characteristics of the knowledge regime, as well as the extent of knowledge diversity within the population. In particular, in intermediate degrees of technological opportunities, cultural diversity has a negative impact on innovation.

**Key Words:** cultural diversity, innovation, network