

# Does employee's diversity help innovation?: Evidence from Canadian firms

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## Datasets used

Workplace and  
Employee Survey

## Policy areas this research can inform

Immigration and  
ethnocultural diversity

Labour

Business performance  
and ownership

Immigration and  
ethnocultural diversity

Population and  
demography

Science and technology

## Context

This study examines how ethnic diversity among employees influences innovation within firms. Drawing on organizational behavior theories, it highlights how diversity can both enrich idea generation and create behavioral challenges. Using Canadian Workplace and Employee Survey (WES) data and a mixed logit model, the study finds robust evidence that ethnic diversity positively impacts both product and process innovation, even after addressing endogeneity. Importantly, diverse employees are most effective in firms with strong organizational capital and training programs. Manufacturing, transportation, and selected service sectors benefit the most, underscoring diversity's role as a driver of knowledge creation and competitive advantage.

## Key finding

This study finds robust evidence that ethnic diversity positively impacts both product and process innovation, even after addressing endogeneity.

## Policy implications

Ethnic diversity enhances product and process innovations by enriching firms' knowledge bases with varied cultural perspectives and technical skills. Policies should encourage inclusive hiring practices and pro-diversity initiatives to strengthen innovation capacity. To maximize benefits, governments can support organizational capital development, employee training programs, ICT adoption, and access to international markets. Complementary measures — such as promoting gender diversity and higher education — further amplify innovation outcomes. By fostering workplace diversity and aligning it with strong organizational structures, Canada can boost sustainable practices, productivity, and competitiveness across industries, ensuring long-term growth in both domestic and global markets.

## Read the full article here

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