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### **Diversity as an Engine of Growth**

**Commissioner Janez Potočnik**

Ladies and gentlemen,

I'd to thank you - the European Academy of Management and the Central and East European Management Development Association - for inviting me here today. And I have at least two reasons. Not only do I have the chance to address a subject that fascinates me - as an economist by profession; I also get the chance to deliver it at the university at which I spent many happy years as a student, a researcher and lecturer.

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I'll start with a statement of the obvious:

Europe is not the largest of continents... but it is a **rich** continent.

This is true, on average, if you measure our GDP per head, television sets per household or the number of foreign holidays taken in a year.

But quite apart from these conventional and perhaps materialistic measures of wealth, **Europe is rich in its diversity.**

Whether you refer to peoples, languages, cultures, or experiences, variety is one of our defining characteristics.

The author, Milan Kundera, got it right when he said that "Europe is the maximum of diversity within the minimum of space".

The sense that our different perspectives, traditions and talents are a positive asset for the continent is well reflected in the very motto of the European Union: "Unity in Diversity".

These words reflect very well the values that serve the deepening and widening integration of European countries - principles such as openness, equality, plurality and solidarity - ideals like tolerance and the protection of individuals and their identities.

It's the promotion of these values that helps define the European Union, and we must never forget this. That's one reason we chose to name 2008 the European Year of Intercultural Dialogue: to honour our cultural diversity. I myself had the pleasure to launch this event at the start of this year, right here in Ljubljana.

In keeping with these values are the five freedoms we've created in our common space.

Yes - you did hear me correctly! I said **five** freedoms.

Alongside the freedom of movement of capital, goods, services and labour, we're creating a fifth freedom: the freedom of knowledge. This encapsulates the notion that ideas, technologies, innovations and knowledge workers should be exchanged and flow and spread throughout the EU, boosting our ability to compete globally and to develop in a sustainable and equitable manner.

This concept was endorsed by the Heads of State and Government of the European Union only two months ago. It's an exciting and important new development that will bear real fruits in the decades to come.

But my point is that as we enjoy and make greater use of these freedoms, we encounter more often the differences between us. As we exercise our mobility, dealing with diversity becomes a daily reality for more and more Europeans.

From a business perspective, companies are dealing with increasing diversity at all levels of their operations - be it customers, business partners, employees or investors. Due to cultural and language differences between countries and regions, operating on a European scale clearly means facing greater diversity.

European companies, as they develop and expand, haven't only to cope with intra-European diversity. Even more importantly - in the face of globalisation - they're confronted by it on the international scene. Many enterprises are important players in our globalising economy with long experience of this phenomenon.

Described like this, diversity can seem to be mainly a challenge. But it takes no great imagination to realise that in fact it's **a great opportunity**.

On the one hand, a common culture and a common language are likely to allow individuals to interact more easily. Moreover, cultural diversity can often lead to cultural shocks and conflicts, thus creating difficulties and imposing certain costs to the economy and social cohesion.

On the other hand, skills and knowledge are often culture-specific; individuals with different cultural backgrounds have different skills, expertise and experiences. Thus, cultural diversity creates an environment where the combination of resources produces important gains.

These gains can be transferred, through innovation, into improved economic performance via two different channels.

*Firstly*, economic theory stipulates that the knowledge of one individual spills over into other individual's and improves other people's productivity. These "knowledge spillovers" contribute to innovation.

I like to use the following metaphor: If you have two people - who each have one apple - which they decide to exchange, then each one still ends up with only one apple. However, if each of them has one idea and they exchange them, they will both now own two ideas! This is freedom of knowledge at work...

*Secondly*, research suggests that in a culturally diverse environment people are more creative, and creativity is one of the main sources of innovation. Consequently, to the extent that diversity positively affects innovation, it can serve as an "**engine of growth**". In this sense, it brings considerable benefits to the economy.

So how can diversity affect business, and more broadly, the economy?

History provides us with interesting examples. In pre-industrial Europe, the first moves towards capitalism in the 17th and 18th century are associated with religious diversity. Religious tolerance, going hand-in-hand with open societies, stimulated new ideas and innovation, bringing particular economic success at that time to countries like Holland, England and Sweden.

At the beginning of the 20th century, before the First World War, the great migration of Jewish people from Europe to the United States is another example of the association between economic development and acceptance of ethnic, cultural and religious diversity.

All this is, of course, also relevant on a micro-level for individual companies. In this context, the answer to the question why diversity management is important seems self evident: in order **to minimise the costs of diversity and maximise its benefits**.

As you can imagine, I have some personal experience with this; my Private Office team in Brussels has eight people with six different native tongues and sets of work habits between them!

I would go further, and add that we're living in a time when exchange of knowledge and ideas is not a luxury, but a necessity. And in a culturally diverse environment there's a greater variety of knowledge, so knowledge spillovers are greater. So we are indeed on fertile ground.

European enterprises are waking up to this opportunity. In recent years they've joined in ever larger numbers the movement to promote diversity in the work place. Many have signed up to "charters of diversity", while voluntary initiatives have sprung up in a number of EU countries.

However, it's evident to me that we still have a long way to go.

It's clear, for example, when you consider that the share of women on the corporate boards of European companies is still in single figures! It's also a fact that the proportion of women in senior management positions in China and India exceeds that found in EU states like Germany, the Netherlands and Portugal. And that's only looking at the gender issue...

With the rise of the emerging economies, the ageing of the European population and the coming shrinkage of our labour force, we would be foolish to sit still. Europe cannot afford to ignore the talents of its women, its ethnic, racial and religious minorities, or those with disabilities.

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I'm very much concerned with how we develop our ability to succeed, confronted with the challenges and opportunities of globalisation.

That means developing the role of education, research and innovation in Europe:

- As drivers of growth;
- As enhancers of competitiveness; and
- As means to tackle our environmental and social problems.

In pursuit of the EU's Lisbon Strategy for Growth and Jobs, I work to establish the European Research Area. In this space the freedom of knowledge reigns, and an environment is produced that stimulates knowledge-based, innovation-driven entrepreneurship.

Given this context, how we take the most advantage of the diversity within Europe - and the diversity that comes with the global expansion of European enterprises - is of great importance to me.

Issues of diversity and diversity management have been addressed by the Framework Programmes for Research for over 10 years, within the socio-economic sciences and humanities research programme. The issue of diversity, its contribution to growth and competitiveness, and the issues of diversity management and management and organisational studies, have been given considerable attention.

To quote you some figures, over the course of the 4<sup>th</sup> to the 6<sup>th</sup> Framework Programmes over 21 million euros were invested in research related to different aspects of diversity. A further 13 million euros were allocated to projects related to management and organisational studies. Thus, 34 million euros over a 10-year period was contributed to over 20 research teams from around Europe.

The studies conducted can be divided into two main themes:

- 1) Investigating diversity as a phenomenon in itself, describing its characteristics and consequences; and
- 2) Linking diversity with economic performance, management and organisational studies.

The number of projects around the problems of diversity increased dramatically in the 6th Framework Programme, with the consequence that many are still ongoing. Nevertheless, let me give you some examples of what the current work concentrates on.

To provide the background, theories on diversity and diversity management within the field of Organisation Studies started to develop in the 1980s. This was mainly under the influence of managerial reports pointing towards the increasing diversity of the future workforce. Research at the EU level picked this up a few years later.

Currently, the problem of diversity is looked at from a truly multidimensional perspective.

*Firstly*, ensuring proper communication is the prerequisite of effective diversity management. With the emergence of knowledge-based societies, it's important to identify the conditions under which Europe's linguistic and cultural diversity can be an asset, as opposed to a drawback.

Research suggests that different modes of thought, argumentation and action, which are linked to different languages, have an influence in the development and transmission of knowledge. Thus, they play a role in problem-solving and decision-making.

*Secondly*, it's important to identify the societal, political, regulatory and institutional conditions under which diversity can be a source of competitive advantage in knowledge-intensive activities.

To move on a little, one of the most important contributions at the EU level in the area of management and organisation studies (linked indirectly with diversity management) comes from research on corporate social responsibility. Responsible business, in which the EU is the world leader, should serve as a driver of the promotion and transfer of common European values to both developed and developing countries.

Integrating responsibility into company strategies might seem on the surface as extra cost. However, research has proved that responsible behaviour actually pays off.

When we look at the global scene, we see an international legal framework for responsible business, which includes regulations on environmental protection, as well as the rights of employees. As much as it is crucial to observe the international law, only by going beyond compliance can we and our businesses promote the values we all share in Europe.

Another example is an in-depth analysis of the common problems in relations with stakeholders. In avoiding conflicts and the resulting economic damage, this is of key importance in a number of industrial sectors. The investigation suggests that constant dialogue is the key to effective stakeholder management, as it allows learning to take place about mutual expectations, concerns and constraints.

Throughout recent years a dialogue facilitated by the Commission has been launched between academia, businesses and stakeholders in order to better understand societal expectations towards business, but also of companies' constraints. From among the many interesting results of this exercise I'd like to pick up just one: a call for **reforming managerial education** to create business leaders who can better anticipate future developments and who better understand the importance of integrating responsibility into the core of their business strategy. That's definitively a task for people like you!

To give a last example of the recent fruits of research, an important phenomenon, observed in recent years, is the process of global value chain restructuring. If you restructure your value chain, as often happens for operations in multiple markets, this is usually associated with increasing diversity.

This process implies significant changes in work organisation that have tremendous implications for the use of knowledge and skills, for organisational flexibility and for the

quality of life of workers. It's important that enterprises experiencing such changes take into account and properly adjust to the growing multiplicity that goes along with them.

Ultimately, **the trick is to use this diversity for the maximum benefit.**

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Ladies and gentlemen,

I've just given you a flavour of some of the past and emerging findings from EU-funded research related to diversity management. Without doubt, some of you are aware of them and even involved. However, as I said, many projects are ongoing, so there may yet be many interesting and surprising conclusions to come.

Let me turn now to the present and future opportunities that will build on these discoveries.

The current 7<sup>th</sup> Framework Programme capitalises on past results at both European and national level. During the first two years, research funding has been concentrating on the important areas of knowledge development and innovation as drivers of growth in the European economy. The selected projects will also take a look at the role of investments in intangible assets as the basis for innovation.

Additionally, developments in the service sector will be analysed, plus opportunities for business development provided by the different sectors of the financial system. The projects funded will also give further important insights into cultural interactions in an international perspective, including ethnic and religious diversity.

Starting in 2009, future actions are expected to contribute further to the areas I've touched upon. In particular, we expect to fund studies to investigate new education needs in the developing knowledge society and changing labour markets.

In the area of management studies, additional opportunities will exist to delve into the area of responsible business. This time, the emphasis will be on its impact at various levels, including company performance, as well as links with innovation development.

Also interesting from the business point of view will be the exploration of changes in consumption and consumer markets, including new products and services, which take into consideration the effects of cultural diversity.

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Ladies and gentlemen,

Everything I've highlighted today is, of course, only a fraction of the richness of the outputs of our research programmes. Still, I hope I've been able to convey the importance I attach to EU research into the notion of diversity, its implications and its management. This is alongside the different aspects of management and organisation studies that I know to be of interest to you.

Of interest to us all is the future development of our continent.

What matters is the building of a knowledge-based economy that grows through innovation.

What's vital is the creation of a Union that can provide health, prosperity, a sound environment and a fair society for its people.

If we choose to use it, then our diversity is our strength.

So let's take pride in our Unity in Diversity.

*This and other speeches of Dr Potočnik are available at*  
[http://ec.europa.eu/commission\\_barroso/potocnik/news/speeches\\_en.htm](http://ec.europa.eu/commission_barroso/potocnik/news/speeches_en.htm)