



The Institute of Development Economics

Research Papers

Titles: Cultural diverseness across subsidiaries and innovation of multinational corporations

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Abstract:

This study empirically explores the association between cultural diversity and innovation outputs of U.S. multinational firms, with innovation measured by patent counts and corresponding citations. Results show a significant positive conditional association between cultural diversity and corporate innovation, which heavily depends on firms' ongoing R&D investment and resource allocation. In contrast, other intangibles (licenses, brand equity, advertising expenditures) lack explanatory power for innovation and may even hinder it. The co-association of cultural diversity and R&D remains stable over time, indicating earlier cultural diversity is closely linked to subsequent innovation outcomes. These findings are robust after accounting for foreignness, subsidiary geographical spread, alternative cultural measures, endogeneity, and external validity checks. Local ethnic/cultural fractionalization and local subsidiaries' technological capacity and creativity further strengthen this positive association. Importantly, multinational operations alone do not ensure innovation success; cultural diversity facilitates it effectively only with sufficient R&D investments and active scientific idea exchange among teams.

Link : <https://doi.org/10.1016/j.strueco.2026.02.008>