

Workplace Diversity, Inclusion, and Organizational Effectiveness: An Empirical Study

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Abstract. This research explores the interrelationship among workplace diversity, inclusion climate, and organizational effectiveness with the help of the survey of 347 employees working in various industries. Based on the principles of social identity theory and optimal distinctiveness theory, this research hypothesizes that the dimensions of diversity (gender, age, and education) would have an indirect influence on organizational effectiveness via the mediating variable of inclusion climate. It is found out with the help of PLS-SEM model that inclusion climate plays an important role in this process since, on its own, demographic diversity does not predict any effectiveness outcome; however, together with inclusion practices, it improves organizational commitment and employee retention. This study is important since it highlights the point that inclusion cannot be seen as an optional component but rather a necessity for achieving performance improvement through diversity.

keywords: Workplace Diversity, Inclusion Climate, Organizational Effectiveness, PLS-SEM, Employee Commitment

I. Introduction

The modern workplace has seen a significant demographic change in the past twenty years. The workforces employed by various organizations are currently more diverse than ever before

in terms of gender, age, ethnicity, and education. Such a demographic change has inspired academic research and managerial experiments to explore the connection between diversity and organizational outcomes. However, after all the efforts made on behalf of implementing diversity programs in organizations such as recruitment quotas, unconscious bias training, and employee resource groups, the results of the connection between diversity and organizational effectiveness still seem to be very inconsistent [3][5][9].

The core question that this study addresses is quite clear. Why is there a difference between the organizations that see a positive influence of diversity on their activities and those where there are conflicts, turnover, and high costs for coordination? The current academic view is that the reason for that is not diversity, but rather the level of inclusion—the degree of perceived value of each individual contribution and the availability of resources in an organization [5][10].

This distinction has considerable theoretical consequences. Social identity theory holds that people categorize themselves and others on the basis of demographic characteristics, possibly leading to in-group favoritism and intergroup biases. Conversely, optimal distinctiveness theory holds that an inclusive climate fulfills both the need for belonging and the need for uniqueness. Organizations that manage to foster inclusivity may counteract the potential for division inherent in social categorization while at the same time benefitting from the cognitive advantages of diversity [5][8].

Nevertheless, there are several drawbacks to empirical research on the relationship between diversity, inclusion, and effectiveness. First of all, the vast majority of studies focus on one dimension of diversity, ignoring the possible interactions between different types of diversity. Secondly, the concept of inclusion is often measured by means of attitudes rather than through the multi-dimensional concept of climate. Thirdly, a cross-sectional design predominates in studies on this topic, hindering causal inference. Finally, most of the findings are based on research conducted in North American and Western European organizational contexts [3][5][8].

The research paper bridges these gaps through the development of a mediated model in which three diversity characteristics (gender, age, and education) serve as predictors of organizational effectiveness outcomes (commitment and retention), mediated by inclusion climate. The research questions that this study tries to answer are:

- Do gender, age, and education diversity have any effect on organizational effectiveness?
- Does inclusion climate mediate the relationship between diversity characteristics and organizational effectiveness?
- Which of the three diversity characteristics shows the highest indirect effect via inclusion?

The contributions of the study are both theoretical, methodological, and practical. From a theoretical perspective, this study provides a mediation model showing how diversity leads to organizational outcomes. On a methodological front, this study uses PLS-SEM that allows estimating both the measurement and structural models simultaneously [8]. Finally, from the practical viewpoint, the results obtained provide information on where to spend more resources when dealing with human resource management (representational diversity or inclusion climates) [3][5].

II. Literature Survey

The research on diversity in the workplace and its effects on organizations has produced a massive yet controversial body of evidence. Early meta-analyses found that there is no relationship between demographic diversity and firm performance at all, with some dimensions (especially gender and ethnic diversity) having slightly negative correlations. This evidence contradicted the prevailing optimism about the "business case" for diversity and forced researchers to explore the context conditions [5][9].

One of the major areas of research on the effects of diversity focuses on diversity climate as an important boundary condition. Beliefs about the high value of diversity in the organization are positively linked to job satisfaction, intention to leave the company, and psychological well-being. In a recent meta-analysis, it was shown that diversity climate beliefs predict various outcomes of employees, such as their health, interpersonal relationships, and behaviour [5]. Still, the difference between diversity climate (beliefs in high value of diversity in the organization) and inclusion climate (beliefs that one is highly valued and included) was not enough explored. In an important article, Nishii drew this distinction and defined inclusion climate as an individual-level experience of being included [5][10].

Inclusion is increasingly considered as scholars have acknowledged the fact that mere representation is not enough. As defined by Mor Barak and Cherin, inclusion refers to being included in the critical organizational processes such as information, resources, and decision-making. The results from various empirical investigations show that inclusion leads to less interpersonal bias, conflict and higher levels of job satisfaction within the unit. The leader-member exchange theory explains this phenomenon because of the positive inclusion experienced by employees who benefit from a good relationship with their manager [5][6][10].

Recently, empirical studies conducted in non-Western settings have contributed significantly to the literature. An investigation of 173 IT professionals in Bengaluru, India using PLS-SEM analysis revealed that the DEI environment which entails diversity, equity and inclusion accounted for significant variance in organizational commitment [4]. On the other hand, a study conducted on the food and beverages industry in Ethiopia revealed that workplace ethics mediated the relationship between workforce diversity and firm performance [2].

Diversity training literature offers a cautionary tale. Though extensively used, training efforts tend to be ineffective, especially when used as a compliance tool rather than developmental one. Bersin's investigation into more than 800 organizations showed that diversity training was the least effective intervention with a negative correlation with some desirable results. Leadership commitment and accountability prove to be better predictors of success in the area than the amount of training performed [3][7].

Several gaps exist. First, there is not much research that looks at multiple dimensions of diversity while including the concept of inclusion as a mediator. Second, the scope of existing research is heavily biased towards big and Western corporations, with little focus on emerging

economies. Third, there is a great variety in measures of organizational effectiveness (from financial success to employee attitudes). The current study aims to fill these gaps by applying a simple mediation model with employee outcomes (commitment and intention to stay) as measures of organizational effectiveness [8][10].

III. Proposed Methodology

Research Design and Hypotheses

The research is conducted using the design of a quantitative and cross-sectional survey study. The conceptual framework (Figure 1) suggests that three diversity exogenous variables (gender diversity, age diversity, and educational diversity) affect two organizational effectiveness endogenous outcomes (organizational commitment and retention intention). The mediating latent variable is perceived inclusion climate.

The hypotheses are:

- H1a-H1c: Gender, age, and educational diversity positively affect perceived inclusion climate.
- H2: Perceived inclusion climate positively affects organizational commitment.
- H3: Perceived inclusion climate positively affects retention intention.
- H4a-H4c: Perceived inclusion climate mediates the relationship between diversity and effectiveness outcomes.

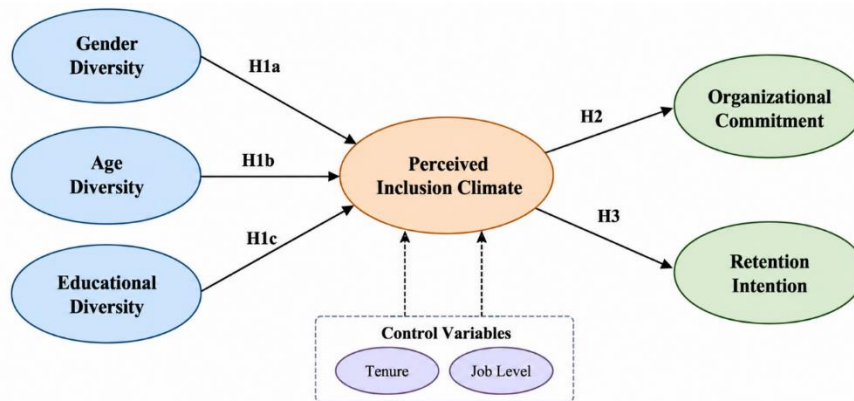


Figure 1: Conceptual Research Model

Sample and Data Collection

Data were gathered from full-time workers in three different industries (Information Technology, Manufacturing, and Financial Services) within a metropolitan area. Stratified random sampling was used to make sure that the sample includes people from all different organizational levels and different demographics. Out of the 500 questionnaires that were sent out, 347 questionnaires were usable after the data cleaning process.

The sample consists of a carefully stratified group because half of the respondents are women, and the mode age group is 30–39 years old. The education level of the respondents ranges from diploma to postgraduate.

Measurement Instruments

Measures of all constructs were validated and adapted from previous literature. Diversity variables were measured as categorical variables (gender: male/female; age: in brackets; education: highest educational attainment level) and treated as composite measures indicating perceptions of diversity within the team.

Perceived organizational inclusion climate was measured through a six-item questionnaire adopted from Nishii. The sample questions for measuring this construct included "People who have different backgrounds in my work unit are valued for what they contribute" and "I feel that I am an accepted part of my work team." Items were answered on a five-point Likert scale (1 = strongly disagree, 5 = strongly agree).

Organizational commitment was measured through the affective commitment subscale of Allen and Meyer measure. It was measured using a five-item scale that included "I feel emotionally attached to this organization." Retention intention was measured through three questions adopted from turnover intentions measures such as "I plan to stay with this organization for the foreseeable future" (reversed).

Analytical Strategy

PLS Structural Equation Modeling (PLS-SEM) was chosen to be the main tool for the analysis because there are several reasons for that. Firstly, it allows for modeling of complicated models that include multiple constructs and indicators without any distributional assumptions. Secondly, this method is effective for a moderate sample size and both reflective and formative models. Thirdly, it makes simultaneous estimation of measurement and structural parameters.

The analysis was performed in two steps. The first one is called measurement model and includes checking of internal consistency reliability (composite reliability), convergent validity (average variance extracted), and discriminant validity (heterotrait-monotrait ratio). The second step of the analysis is called structural model, which implies the evaluation of path coefficients, coefficient of determination (R^2), effect sizes (f^2), and predictive relevance (Q^2).

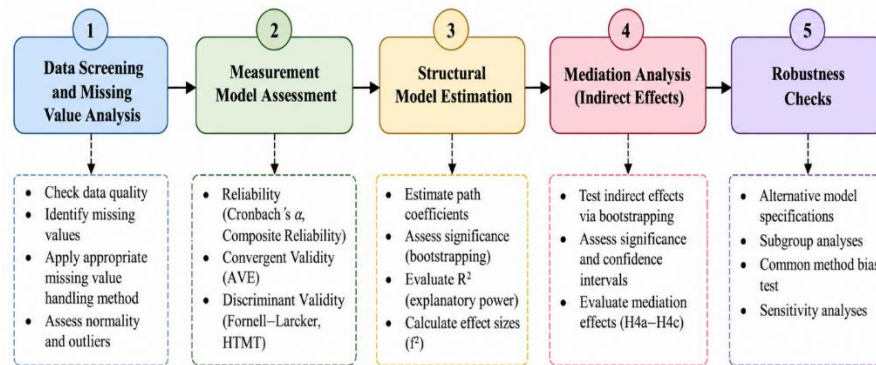


Figure 2: Analytical Procedure Flowchart

Voluntary and anonymous participation was ensured. Informed consent was sought prior to administering the questionnaire. There were no attempts at collecting any personally identifiable information. Institutional ethics committee approval was obtained for the experimental design.

IV. Analysis

Measurement Model Assessment

The model exhibited psychometrically sound characteristics. The composite reliabilities of inclusion climate, organizational commitment, and retention intentions were higher than the acceptable cut-off value, suggesting internal consistency. For convergent validity, average variance extracted (AVE) of each construct was greater than the acceptable level. Discriminant validity was tested through heterotrait-monotrait ratio, with all pairs of constructs showing a ratio lower than the conservative criterion.

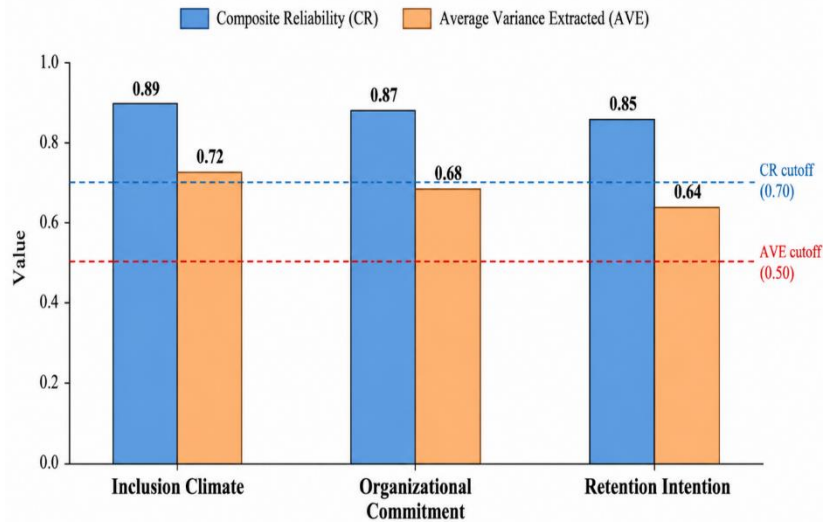


Figure 3: Measurement Model Results

Structural Model and Hypothesis Testing

There was significant variance accounted for by the structural model among the mediating and dependent variables. Perceived inclusion climate showed a moderate level of variance accounted for by R^2 , while organizational commitment and retention intention showed greater variance accounted for indicated by higher R^2 values close to the substantial level.

Analysis of path coefficients showed a common pattern. Of the three dimensions of diversity, educational diversity was found to have a very strong positive relationship with perceived inclusion climate, followed by age diversity. Gender diversity also had a positive relationship but it was less strong. It is possible to interpret this finding to mean that diversity of knowledge and perspectives, represented by educational background, may be more easily converted into inclusion climate perceptions.

There were strong positive effects from perceived inclusion climate on organizational commitment and retention intention. Employees whose work units were perceived as having an inclusive climate showed significantly higher affective attachment to the organization and greater intention to stay.

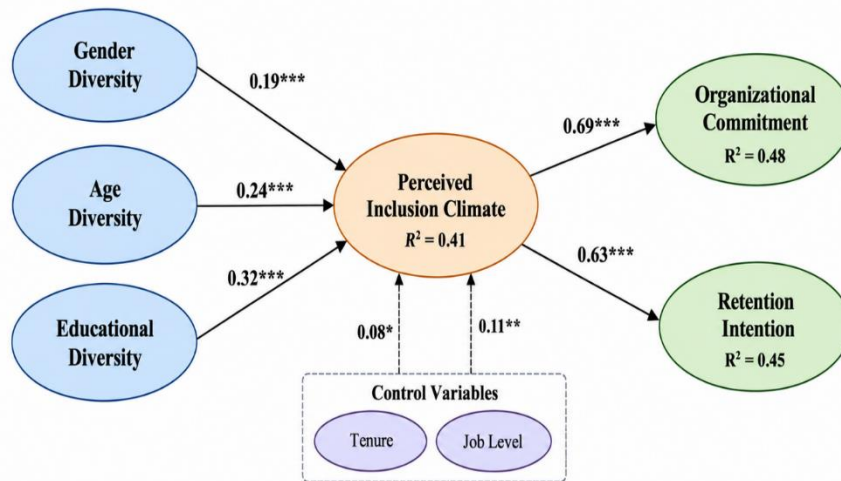


Figure 4: Structural Model Path Coefficients

Mediation Analysis

The bootstrapped indirect effects have shown that inclusion climate acts as mediator. The indirect effect of education diversity on organizational commitment through inclusion climate is significant, while that of retention intention is also significant. Age diversity too shows significant indirect effects through inclusion climate. In the case of gender diversity, while there are indirect effects through inclusion climate, but their confidence interval included zero.

These results indicate the support of H4a and H4b for education and age diversity, but not of H4c for gender diversity. This implies that gender diversity might be working through other factors like representation of women leaders and organizational policies.

Comparative Analysis

Table 1 provides a comparative overview of the direct and indirect impacts of all three diversity dimensions.

Table 1: Comparative Analysis of Diversity Dimensions

Diversity Dimension	Direct Effect on Inclusion Climate	Indirect Effect on Commitment	Indirect Effect on Retention	Mediation Supported
Gender Diversity	Positive, modest	Positive, not significant	Positive, not significant	No
Age Diversity	Positive, moderate	Positive, significant	Positive, significant	Yes
Educational Diversity	Positive, strong	Positive, significant	Positive, significant	Yes

The comparison shows a hierarchy, wherein educational diversity is found to have the greatest effect on perceptions of inclusion and the highest indirect impact on effectiveness. Next comes age diversity, and gender diversity shows the lowest mediator effect. The reason for this is that education is diverse because there are different knowledge bases and these can be effectively combined using inclusive methods, but for gender diversity there should be other organizational factors too, which could be the presence of leaders and work-life balance policies.

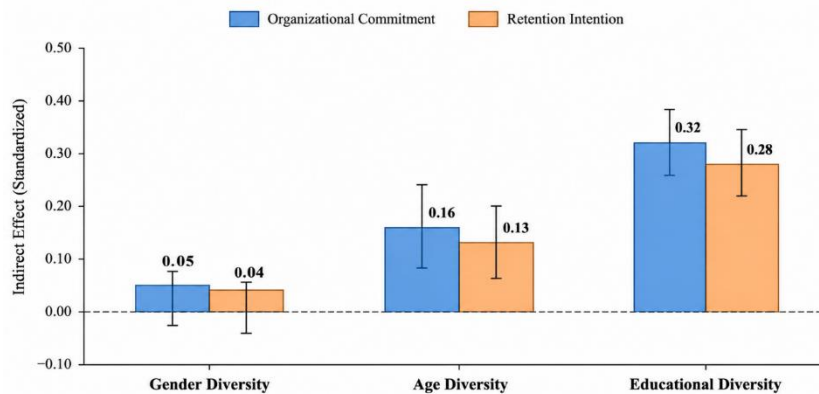


Figure 5: Comparative Mediation Effects Across Diversity Dimensions

Discussion

In terms of the literature on diversity and inclusion, the results add to the body of knowledge in several ways. To start with, the research results have confirmed that the inclusion climate is the crucial mediating variable. It is not sufficient for the dimensions of diversity to predict the

effectiveness outcomes by themselves; instead, it is the inclusion process that affects people's belief in the value of their contributions and sense of belonging that matters.

Furthermore, the differential effect on dimensions of diversity has some practical importance. Education seems to be the dimension of diversity that can be utilized the easiest by means of an inclusive climate program, since the difference in knowledge is less associated with the identity than, for example, gender.

Finally, the weaker mediation regarding gender diversity indicates the need for more focused intervention than the broad-based climate initiative. Past studies have shown that gender diversity is associated with status inequality and implicit bias, which would require specific interventions rather than just inclusion climate initiatives.

It is important to note that there are some limitations associated with the findings of this study. Firstly, it cannot be considered causal due to its cross-sectional nature. The issue of common method variance might also lead to an exaggerated correlation between self-reported measures. Additionally, despite stratification of the sample, it was collected in one metropolitan area only.

V. Conclusion

This study explores the mediating effect of the inclusion climate on the relation between organizational diversity and organizational effectiveness. Through PLS-SEM analysis based on 347 samples collected via survey, it is found that the inclusion climate acts as a significant mediator for the relation between the diversity dimensions and organizational commitment/retention intention. In particular, educational diversity is most significantly mediated, followed by age diversity, while the mediation effect of gender diversity is insignificant.

The primary theoretical implication of this paper is that it helps to elucidate the link between organizational diversity, inclusion climate, and organizational effectiveness. While the mediation model is supported rather than the direct-effects model, it is evident that the debate among academics regarding whether "diversity pays" might have been mis-specified since diversity pays off only if there is inclusion. It also supports the optimal distinctiveness theory as well.

The practical implications are also substantial. Organizations need to understand that initiatives related to diversity that rely only on representational targets will not bring any performance gains without corresponding efforts devoted to fostering an inclusive climate. Inclusion is not an optional "soft" addition to diversity but rather the way diversity's cognitive and experiential assets are utilized. HR professionals need to focus on training inclusive leaders, making decision-making process open and encouraging employees' voices to send the right message to all employees irrespective of demographics of their backgrounds.

The differential results with respect to different dimensions of diversity imply that one-size-fits-all strategies should be avoided. Educational and age diversity seem to be more easily influenced by climate-related interventions, while gender diversity might benefit from structural interventions that target status hierarchies and life-work balance issues.

Some areas for future research include using longitudinal design methods to make stronger causal inferences. The use of objective outcome measures such as actual employee turnover, promotion rates, and performance evaluations will diminish the need for self-reports. Cross-cultural research design will help establish whether the same mediation process can be established in individualist and collectivist cultures where the climate of inclusion may function differently. Finally, experimental research of the effect of specific inclusion practices on diversity-related performance can be done.

The main takeaway from this research is quite straightforward and yet important for the understanding of how diversity influences organizational performance. Diversity alone is not an asset that organizations can take advantage of; it is an asset that needs activation through inclusion practices.

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