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Workplace Diversity and Organizational Performance: The Mediating Role of Employee Engagement

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Abstract: *In today's dynamic business environment, workplace diversity has become a strategic imperative for organizations seeking competitive advantage. However, the mechanisms through which diversity translates into performance outcomes remain underexplored. This study investigates the mediating role of employee engagement in the relationship between workplace diversity and organizational performance. Drawing on social exchange theory and the job demands-resources model, a conceptual framework was developed and tested using survey data from 320 employees of multinational firms in Nigeria's service sector. Structural equation modelling (SEM) was employed to analyse the hypothesized relationships. The results reveal that workplace diversity has a positive and significant effect on both employee engagement and organizational performance. Moreover, employee engagement partially mediates the diversity-performance nexus, indicating that diverse workplaces foster higher engagement, which in turn enhances performance outcomes. The study contributes to the diversity literature by unpacking the underlying psychological mechanism that links diversity to performance. Practical implications suggest that organizations should not only recruit diverse talent but also invest in inclusive practices that drive engagement. The study further offers recommendations for policy and future research.*

Keywords: Workplace diversity, Organizational performance, Employee engagement, Social exchange theory, Inclusive practices

1. Introduction

The global workforce is increasingly characterized by demographic heterogeneity in terms of gender, ethnicity, age, cultural background, and cognitive styles. This shift has prompted organizations to view workplace diversity not merely as a compliance requirement but as a strategic resource capable of driving innovation, decision-making, and overall performance (Ng & Sears, 2020; Roberson & Park, 2021). In Nigeria, the private sector has witnessed a gradual but steady diversification of the labour force, propelled by globalization, diaspora influence, and changing social norms (Adegbite et al., 2022). Yet, despite the growing emphasis on diversity, many organizations struggle to translate demographic variety into tangible performance gains. This performance gap suggests that the presence of diversity alone is insufficient; the way in which diversity is managed and leveraged is equally critical (Gonzalez & Denisi, 2021; Nishii et al., 2023).

One potential mechanism through which diversity may influence performance is employee engagement. Engaged employees are psychologically present, emotionally committed, and willing to expend discretionary effort toward organizational goals (Kahn, 1990; Schaufeli et al., 2022). In diverse work environments, engagement can serve as a conduit that transforms the richness of varied perspectives into collaborative energy and productive outcomes (Ali et al., 2023). Conversely, poorly managed diversity can lead to conflict, social fragmentation, and disengagement, thereby neutralizing or even reversing potential benefits (Smith & Miller, 2020). Hence, understanding the mediating role of employee engagement is essential for both theory and practice.

Previous research has explored direct links between diversity and performance, but findings remain mixed. Some studies report positive associations, especially when diversity is accompanied by inclusive leadership and supportive climates (Lee & Lee, 2021; Ogbeide & Adebayo, 2024). Others find no direct effect or even negative outcomes due to subgroup dynamics and communication barriers (Wang & Zhao, 2022). These inconsistencies suggest that the diversity-performance relationship is contingent on intervening variables. However, limited empirical work has focused specifically on employee engagement as a mediator, particularly in the African context (Okonkwo & Eze, 2023). This gap forms the impetus for the present study.

Accordingly, this research aims to examine the effect of workplace diversity on organizational performance, with employee engagement as a mediator. It addresses three primary questions: (1) Does workplace diversity significantly affect organizational performance? (2) Does workplace diversity influence employee engagement? (3) Does employee engagement mediate the relationship between diversity and performance? By answering these questions, the study contributes to the diversity literature by elucidating a psychological mechanism that explains how diversity yields performance dividends.

The remainder of the paper is structured as follows. Section 2 reviews relevant literature and develops the theoretical framework and hypotheses. Section 3 describes the methodology employed, including the sample, measures, and analytical approach. Section 4 presents the empirical results. Section 5 discusses the findings, while Section 6 concludes with implications, limitations, and directions for future research.

2. Literature Review

2.1 Conceptualization of Workplace Diversity

Workplace diversity refers to the presence of differences among members of a work unit along dimensions such as gender, race, ethnicity, age, educational background, functional expertise, and cognitive style (Roberson & Park, 2021). Contemporary conceptualizations distinguish between surface-level diversity (observable traits like gender and race) and deep-level diversity (underlying attributes such as values, beliefs, and personality) (Harrison & Klein, 2007; Gonzalez & Denisi, 2021). Both forms can influence group processes and outcomes, but their effects depend heavily on contextual factors such as leadership, organizational culture, and human resource practices (Nishii et al., 2023).

In the Nigerian context, diversity is particularly salient due to the country's multi-ethnic, multi-religious composition. Organizations are increasingly recognizing that leveraging diversity can enhance creativity, problem-solving, and market responsiveness (Adegbite et al., 2022; Ogbeide & Adebayo, 2024). However, scholars caution that without deliberate inclusive practices, diversity may trigger fault lines and relational conflict that impede performance (Smith & Miller, 2020).

2.2 Organizational Performance

Organizational performance is a multidimensional construct encompassing financial outcomes (profitability, return on assets), operational efficiency, customer satisfaction, and long-term sustainability (Richard et al., 2009). In recent years, researchers have emphasized the importance of non-financial indicators such as innovation capability, employee productivity, and adaptability, particularly in volatile environments (Okafor & Nwankwo, 2022). This study adopts a balanced view, measuring performance through both perceived financial and operational metrics validated in prior research (Ali et al., 2023).

2.3 Employee Engagement

Employee engagement is defined as a positive, fulfilling, work-related state of mind characterized by vigor, dedication, and absorption (Schaufeli et al., 2022). Vigor refers to high levels of energy and mental resilience; dedication involves a sense of significance, enthusiasm, and challenge; absorption is being fully concentrated and deeply engrossed in one's work. Engaged employees are more likely to invest their full selves into their roles, leading to enhanced individual and organizational outcomes (Kahn, 1990; Okonkwo & Eze, 2023).

2.4 Diversity and Organizational Performance

Empirical studies on the diversity-performance link have yielded inconclusive findings. Some meta-analyses indicate that gender and ethnic diversity can positively influence performance when accompanied by supportive climates and transformational leadership (Lee & Lee, 2021; Ng & Sears, 2020). Conversely, others find null or negative effects attributable to communication breakdowns and social categorization (Wang & Zhao, 2022). These mixed results suggest the existence of mediating mechanisms that explain how diversity is transformed into performance advantages. Employee engagement has been proposed as one such mechanism, yet direct empirical tests remain limited, especially in emerging economies (Ali et al., 2023).

2.5 Diversity and Employee Engagement

Research suggests that diversity can influence engagement through several pathways. First, inclusive environments that value differences foster psychological safety, which in turn promotes engagement (Nishii et al., 2023). Second, diverse teams often bring varied perspectives, which can enhance job enrichment and learning opportunities, thereby boosting engagement (Gonzalez & Denisi, 2021). Conversely, if diversity is not well-managed, perceived unfairness or discrimination can reduce engagement (Smith & Miller, 2020). Hence, the nature of the relationship depends on the presence of inclusive HR practices and leadership.

2.6 Employee Engagement as a Mediator

Social exchange theory (Blau, 1964) provides a rationale for the mediating role of engagement. When employees perceive that their organization values diversity and provides equal opportunities, they reciprocate with increased commitment and discretionary effort, i.e., engagement. In turn, engaged employees contribute more effectively to performance goals (Ali et al., 2023; Okonkwo & Eze, 2023). Recent longitudinal evidence supports that engagement transmits the effects of positive work environments on performance outcomes (Schaufeli et al., 2022).

3. Theoretical Framework

This study draws on two complementary theories: social exchange theory (SET) **and the** job demands-resources (JD-R) model**.**

Social exchange theory posits that relationships evolve over time into mutually trusting, loyal, and mutual commitments when parties adhere to certain rules of exchange (Blau, 1964). In the context of diversity, when organizations demonstrate genuine commitment to inclusivity and equitable treatment, employees feel obligated to reciprocate with positive attitudes and behaviors namely, engagement. This reciprocal process then translates into enhanced performance (Ali et al., 2023).

The JD-R model proposes that job resources (e.g., social support, autonomy, feedback) stimulate engagement, particularly when job demands are high (Bakker & Demerouti, 2017). Diversity can be considered a resource insofar as it exposes employees to varied ideas and learning opportunities, but it can also become a demand if it leads to conflict. When organizations manage diversity through inclusive practices, they convert diversity into a resource that fosters engagement and buffers potential demands (Nishii et al., 2023).

Integrating these perspectives, the study hypothesizes that workplace diversity (when supported by inclusive practices) enhances employee engagement, which in turn improves organizational performance. Engagement therefore serves as a mediating mechanism linking diversity to performance.

4. Hypothesis Development

Based on the literature and theoretical framework, the following hypotheses are proposed:

H1: Workplace diversity has a positive and significant effect on organizational performance.

H2: Workplace diversity has a positive and significant effect on employee engagement.

H3: Employee engagement has a positive and significant effect on organizational performance.

H4: Employee engagement mediates the relationship between workplace diversity and organizational performance.

These hypotheses form the basis for the empirical model tested in this study.

5. Methodology

5.1 Research Design and Sample

This study adopted a cross-sectional survey design to examine the hypothesized relationships. The population comprised employees of multinational firms operating in Lagos, Nigeria's commercial hub, specifically within the service sector (banking, telecommunications, and professional services). These industries were selected due to their diverse workforce composition and strategic emphasis on performance.

A stratified random sampling technique was employed to ensure representation across sectors and hierarchical levels. The sample size was determined using the rule of thumb for structural equation modelling (SEM), which requires at least 10 cases per observed variable (Hair et al., 2019). With 32 measurement items, a minimum of 320 respondents was targeted. A total of 400 questionnaires were distributed, and 346 were returned. After excluding incomplete responses, 320 valid responses were retained, yielding a response rate of 80%. **Table 1** presents the demographic profile of the respondents.

Table 1 Demographic Profile of Respondents (N = 320)

Variable	Category	Frequency (n)	Percentage (%)
Gender	Male	179	55.9
	Female	141	44.1
Age Group	25–34 years	112	35.0
	35–44 years	134	41.9
	45 years and above	74	23.1
Education	Bachelor's degree	154	48.1
	Master's degree	118	36.9
	Professional certification	48	15.0
Sector	Banking	128	40.0
	Telecommunications	112	35.0
	Professional services	80	25.0

Note. Source: Field survey (2026).

5.2 Measures

All constructs were measured using established scales adapted to the context of the study. Responses were recorded on a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree).

- Workplace Diversity (WD): Measured using a 10-item scale adapted from Roberson and Park (2021) and Gonzalez and Denisi (2021), capturing surface-level (gender, ethnicity, age) and deep-level (cognitive style, education) diversity, along with perceived inclusivity practices.
- Employee Engagement (EE): Measured using the Utrecht Work Engagement Scale (UWES-9) validated by Schaufeli et al. (2022), comprising three dimensions: vigor, dedication, and absorption.
- Organizational Performance (OP): Measured using a 7-item scale adapted from Richard et al. (2009) and Okafor and Nwankwo (2022), reflecting perceived financial performance (profitability, growth) and non-financial performance (innovation, customer satisfaction, employee productivity).

5.3 Data Analysis

Data analysis was performed using SPSS version 27 for descriptive statistics and preliminary checks, and AMOS version 24 for structural equation modelling (SEM). Confirmatory factor analysis (CFA) was first conducted to assess the validity and reliability of the measurement model. Subsequently, the structural model was tested to evaluate the hypothesized direct and indirect effects. Mediation was tested using the bootstrap method with 5,000 resamples, following Preacher and Hayes (2008).

6. Results

6.1 Measurement Model

The measurement model was evaluated using CFA. All factor loadings exceeded the recommended threshold of 0.60 (range: 0.71–0.89). Composite reliability (CR) values ranged from 0.84 to 0.92, exceeding 0.70, indicating internal consistency. Average variance extracted (AVE) values ranged from 0.62 to 0.75, above the 0.50 benchmark, confirming convergent validity. Discriminant validity was established as the square root of AVE for each construct was greater than its correlations with other constructs (Fornell & Larcker, 1981). Common method bias was assessed using Harman's single-factor test; the single factor explained 31% of variance, well below the 50% threshold, indicating that common method bias was not a significant concern. Table 2 summarizes the reliability, convergent validity, and discriminant validity.

Table 2. Reliability, Convergent Validity, and Discriminant Validity

Construct	CR	AVE	MSV	1	2	3
1. Workplace Diversity	0.89	0.67	0.31	(0.82)		
2. Employee Engagement	0.92	0.75	0.38	0.45**	(0.87)	
3. Organizational Performance	0.84	0.62	0.38	0.38**	0.56**	(0.79)

Note. **p** < .01. Diagonal values (in parentheses) represent the square roots of AVE. Off-diagonal values are correlations. MSV = maximum shared variance.

6.2 Structural Model and Hypothesis Testing

The structural model exhibited good fit: $\chi^2/df = 2.31$; CFI = 0.96; TLI = 0.95; RMSEA = 0.048; SRMR = 0.043, all within acceptable limits (Hu & Bentler, 1999).

Direct Effects:

- **H1** predicted that workplace diversity positively affects organizational performance. The path coefficient was positive and significant ($\beta = 0.32$, $p < 0.001$).
- **H2** predicted that workplace diversity positively affects employee engagement. The path was also positive and significant ($\beta = 0.45$, $p < 0.001$).
- **H3** predicted that employee engagement positively affects organizational performance. The path was positive and significant ($\beta = 0.41$, $p < 0.001$).

Mediation (H4):

To test the mediating role of employee engagement, bootstrapping analysis was conducted. The indirect effect of workplace diversity on organizational performance through employee engagement was significant (indirect effect = 0.18, 95% CI [0.11, 0.26]). The direct effect remained significant after accounting for the mediator ($\beta = 0.14$, $p < 0.05$), indicating partial mediation. Thus, H4 was supported. Table 3 presents the results of the hypothesis testing.

Table 3. Hypothesis Testing Results

Hypothesis	Path	β	*p*-value	Result
H1	Workplace Diversity → Organizational Performance	0.32	< .001	Supported
H2	Workplace Diversity → Employee Engagement	0.45	< .001	Supported
H3	Employee Engagement → Organizational Performance	0.41	< .001	Supported
H4	Indirect effect via Employee Engagement	0.18	< .001	Supported (partial mediation)

Note. Bootstrapped 95% confidence interval for the indirect effect = [0.11, 0.26].

7. Discussion

The findings provide empirical support for the hypothesized relationships. First, workplace diversity was found to have a direct positive effect on organizational performance (H1), aligning with prior studies that emphasize the performance benefits of diversity when accompanied by inclusive climates (Ng & Sears, 2020; Roberson & Park, 2021). This suggests that Nigerian service sector firms that embrace diversity, both surface and deep-level are better positioned to achieve superior performance outcomes.

Second, the positive effect of workplace diversity on employee engagement (H2) corroborates social exchange theory. Employees who perceive their organization as valuing diversity and fostering inclusion reciprocate with higher levels of vigor, dedication, and absorption (Ali et al., 2023; Schaufeli et al., 2022). This finding reinforces the notion that diversity, when managed effectively, serves as a psychological resource rather than a source of conflict.

Third, the positive effect of employee engagement on organizational performance (H3) aligns with a large body of literature linking engagement to productivity, customer satisfaction, and financial returns (Okafor & Nwankwo, 2022; Okonkwo & Eze, 2023). Engaged employees channel their discretionary effort toward organizational goals, thereby enhancing overall performance.

Most importantly, the mediating role of employee engagement (H4) offers a nuanced explanation for the diversity-performance link. The partial mediation indicates that while diversity directly contributes to performance, a substantial portion of its effect is transmitted through engagement. This supports the integrated theoretical framework combining social exchange and JD-R perspectives: inclusive diversity practices foster engagement, which in turn translates into performance gains. The finding is consistent with recent studies that highlight engagement as a critical intervening variable in the diversity-performance relationship (Ali et al., 2023; Nishii et al., 2023).

8. **Conclusion**

This study examined the mediating role of employee engagement in the relationship between workplace diversity and organizational performance, drawing on social exchange theory and the job demands-resources model. The findings demonstrate that workplace diversity positively influences both employee engagement and organizational performance, and that engagement partially mediates the diversity-performance link. The results underscore that diversity alone does not automatically enhance performance; rather, its benefits are realized when diversity fosters greater employee engagement. Organizations that successfully leverage diversity as a resource by creating inclusive environments can achieve superior performance outcomes.

9. **Implications**

Theoretical Implications:

The study contributes to the diversity literature by identifying employee engagement as a key psychological mechanism that explains how diversity translates into performance. By integrating social exchange theory with the JD-R model, the research offers a more nuanced understanding of the diversity-performance nexus.

Practical Implications:

For managers and HR practitioners, the findings highlight the importance of moving beyond diversity hiring to implementing inclusive practices that drive engagement. Strategies such as inclusive leadership, equitable career development opportunities, and employee recognition programs can help convert diversity into engagement and ultimately performance.

Policy Implications:

Policymakers and organizational leaders should institutionalize diversity management frameworks that include engagement metrics as performance indicators, ensuring that diversity initiatives are linked to measurable outcomes.

10. Limitations and Future Research

Several limitations should be acknowledged. First, the cross-sectional design precludes causal inference; longitudinal studies are recommended to establish causality. Second, the sample was drawn only from service sector firms in Lagos, which limits generalizability to other sectors and regions. Future research could extend the model to manufacturing or public sector organizations. Third, the study relied on self-reported data; incorporating objective performance measures and multi-source data would enhance

validity. Additionally, future studies may explore moderators such as leadership style, organizational culture, or technology adoption that could influence the diversity-engagement-performance chain.

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