

# DIVERSITY, EQUITY, AND INCLUSION: MEASURING ITS IMPACT ON ORGANIZATIONAL PERFORMANCE IN GLOBAL WORKFORCES

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**Abstract.** *This study investigates the impact of Diversity, Equity, and Inclusion (DEI) on organizational performance, with employee engagement and team innovation serving as mediating variables. Using a quantitative approach, data were collected from 90 employees of PT. Graha Prima Energy and analyzed using Partial Least Squares Structural Equation Modeling (PLS-SEM). The findings reveal that DEI significantly influences team innovation, which, in turn, positively affects organizational performance. However, the mediating role of employee engagement was found to be insignificant in this relationship. These results underscore the importance of fostering team innovation as a key mechanism through which DEI drives organizational success. The study contributes to the existing body of knowledge by highlighting the varying mediating effects of employee engagement and team innovation, providing practical insights for organizations aiming to optimize DEI strategies. Future research is recommended to explore contextual factors, such as leadership styles and organizational culture, that may enhance the mediating role of employee engagement in achieving better performance outcomes.*

**Keywords:** *Diversity, Equity, and Inclusion (DEI), Employee Engagement, Team Innovation, Organizational Performance, Mediating Effects.*

## 1. INTRODUCTION

The importance of Diversity, Equity, and Inclusion (DEI) in organizational management has been widely acknowledged in recent years, particularly in the context of global workforces. DEI initiatives are designed to create an inclusive environment where individuals from diverse backgrounds feel valued and respected, fostering collaboration and innovation (Roberson, 2019). Research indicates that organizations embracing DEI practices achieve better financial performance and enhanced employee satisfaction (Shore et al., 2018). Additionally, global workforce dynamics necessitate the integration of diverse perspectives to remain competitive in a rapidly changing business landscape (Singh & Point, 2020). However, achieving tangible outcomes from DEI practices requires a deeper understanding of their mechanisms and impact on organizational performance.

Despite widespread adoption, the effectiveness of DEI initiatives in driving organizational performance remains inconsistent. A study by Nishii (2020) highlights that while organizations with diverse teams tend to be more innovative, they often face challenges related to communication and cohesion. Similarly, Green et al. (2018) argue that without equity and inclusion, diversity alone may lead to conflict and reduced productivity. In global organizations, where cultural and linguistic diversity is pronounced, the absence of robust DEI frameworks can exacerbate these challenges (Jonsen et al., 2021). This raises critical questions about how DEI practices can effectively translate into measurable organizational outcomes, such as improved innovation and performance.

The phenomenon of uneven outcomes from DEI practices underscores a significant gap in the existing literature. Many studies have explored the broad relationship between

DEI and organizational outcomes, but few have examined the mediating factors, such as employee engagement and team innovation, that bridge this relationship (Guillaume et al., 2017). For instance, while DEI initiatives are often linked to higher levels of employee engagement, the underlying mechanisms driving this relationship remain underexplored (Downey et al., 2015). Moreover, the role of team dynamics and innovation as mediators in this context has received limited attention, particularly in multinational corporations (Lauring & Selmer, 2018). Another gap lies in the geographic and industry-specific focus of DEI research, with most studies conducted in Western settings, thereby limiting the generalizability of findings to global workforces (Sabharwal, 2014).

This study explores the impact of DEI on organizational performance, emphasizing the mediating roles of employee engagement and team innovation. By addressing theoretical gaps, it aims to uncover how DEI practices enhance engagement and innovation, ultimately driving performance improvement. The findings are expected to enrich academic understanding of DEI dynamics and provide actionable recommendations for organizations to implement effective strategies in diverse, globalized contexts. This dual contribution highlights the study's significance in bridging theory and practice to promote sustainable organizational success.

## **2. LITERATURE REVIEW**

### *2.1 Organizational Performance*

Organizational performance has long been a central focus of management research, emphasizing its role in achieving competitive advantage and ensuring sustainability. At its core, organizational performance refers to the ability of an organization to achieve its objectives effectively and efficiently, encompassing both financial and non-financial outcomes (Kaplan & Norton, 1996). Traditional theories, such as the Resource-Based View (RBV), argue that performance is driven by the organization's ability to utilize its resources optimally, including tangible assets, human capital, and intellectual property (Barney, 1991). Additionally, the Balanced Scorecard framework highlights the importance of aligning financial performance with internal processes, customer satisfaction, and organizational learning (Kaplan & Norton, 2004). These foundational theories provide a lens to understand performance metrics and the factors contributing to organizational success.

The theoretical landscape of organizational performance has evolved to include multidimensional perspectives, particularly in the context of dynamic and globalized business environments. Contemporary theories, such as the Dynamic Capabilities Framework, emphasize adaptability and innovation as critical drivers of performance in rapidly changing markets (Teece, 2007). Additionally, stakeholder theory highlights the necessity of balancing diverse stakeholder interests, including employees, customers, and communities, to achieve sustainable performance outcomes (Freeman, 1984). Recent research has further underscored the significance of human capital and organizational culture in fostering resilience and long-term success (Ulrich & Dulebohn, 2015). These theoretical advancements suggest that organizational performance is not merely a function of operational efficiency but also a reflection of the organization's ability to adapt and innovate.

In this context, DEI, employee engagement, and team innovation have emerged as critical factors influencing organizational performance. DEI initiatives foster a culture of respect and collaboration, enhancing employee satisfaction and creativity, which, in turn, contribute to higher organizational performance (Roberson, 2019). Employee engagement acts as a bridge between individual motivation and organizational goals, ensuring that employees are committed and productive (Schaufeli & Bakker, 2010). Moreover, team innovation, driven by diverse perspectives and inclusive leadership, enables organizations to develop creative solutions and remain competitive in evolving markets (Edmondson & Lei, 2014). These interrelated factors demonstrate that an integrated approach to DEI, engagement, and innovation is essential for driving

performance in contemporary organizations, providing a comprehensive framework to address the complexities of modern business challenges.

*Hypothesis: DEI influences organizational performance*

*Hypothesis: Employee engagement influences organizational performance*

*Hypothesis: Team innovation influences organizational performance*

## 2.2 Diversity, Equity, and Inclusion (DEI)

The concept of DEI has its roots in organizational and social justice theories, emphasizing fairness and representation within institutions. Diversity refers to the presence of individuals with varying characteristics, such as gender, race, ethnicity, age, and professional backgrounds, in an organization (Cox, 1994). Equity ensures that individuals are provided with fair opportunities and resources to succeed, considering structural barriers that might disadvantage certain groups (Thomas, 1990). Inclusion, meanwhile, focuses on creating an environment where every individual feels valued, respected, and integrated into the organizational culture (Roberson, 2006). Together, these elements form the foundation of DEI frameworks, which aim to foster equality and harness the benefits of a diverse workforce.

The development of DEI theories has evolved to include a more nuanced understanding of its impact on organizational effectiveness and employee well-being. Modern perspectives emphasize the dynamic and relational aspects of DEI, where inclusion is seen as the key to unlocking the potential benefits of diversity (Ferdman, 2014). Studies have also highlighted the role of psychological safety in fostering an inclusive environment, allowing employees to express themselves without fear of negative consequences (Edmondson, 1999). Moreover, equity is increasingly viewed through the lens of systemic change, advocating for structural interventions to dismantle inequities embedded in organizational systems (Bell et al., 2020). These theoretical advancements underscore the need for integrative approaches that align DEI initiatives with organizational goals and values.

DEI significantly influence employee engagement and team innovation, both of which are critical for organizational success. Research shows that inclusive practices enhance employee engagement by fostering a sense of belonging and psychological safety, leading to higher motivation and productivity (Nishii, 2013). Simultaneously, diverse and inclusive teams are better equipped to innovate, as the variety of perspectives and experiences contribute to creative problem-solving and decision-making (Page, 2007). However, the effectiveness of DEI initiatives in achieving these outcomes depends on the extent to which they are integrated into organizational culture and leadership practices (Shore et al., 2011). By emphasizing inclusivity and equitable treatment, organizations can create environments that support both individual engagement and collective innovation.

*Hypothesis: DEI influences employee engagement*

*Hypothesis: DEI influences team innovation*

## 2.3 Employee Engagement

Employee engagement is a foundational concept in organizational behavior, emphasizing the emotional and cognitive connection employees feel toward their work and organization. Defined as “the harnessing of organization members’ selves to their work roles,” engaged employees express themselves physically, cognitively, and emotionally in their roles (Kahn, 1990). Engaged employees are characterized by their vigor, dedication, and absorption in their tasks, leading to higher productivity and job satisfaction (Schaufeli et al., 2002). Employee engagement is considered a critical driver of organizational success, directly influencing key outcomes such as retention, performance, and organizational citizenship behavior (Harter et al., 2002). As a theoretical construct, engagement bridges the gap between employee motivation and organizational effectiveness.

Theoretical developments in employee engagement have expanded its scope to include organizational and environmental factors. Saks (2006) introduced the concept of engagement as a multidimensional construct influenced by job and organizational engagement, proposing that engagement is shaped by employees' perceptions of fairness, leadership, and workplace culture. Additionally, the Job Demands-Resources (JD-R) model highlights the balance between job demands (e.g., workload) and resources (e.g., autonomy and support) in fostering engagement (Bakker & Demerouti, 2007). Furthermore, recent research underscores the role of psychological safety and inclusive workplace practices in enhancing engagement, suggesting that DEI initiatives play a vital role in creating conditions conducive to engagement (Carter et al., 2018). These advancements reflect a growing recognition of the complex interplay between individual, organizational, and contextual factors in shaping employee engagement.

DEI significantly influence organizational performance, with employee engagement acting as a critical mediating variable. DEI initiatives foster a culture of respect and inclusion, which enhances psychological safety and empowers employees to contribute their best efforts (Nishii, 2013). Engaged employees in diverse and inclusive workplaces are more likely to experience a sense of belonging, leading to greater dedication and productivity (Roberson, 2019). Employee engagement, in turn, strengthens the relationship between DEI practices and organizational performance by aligning individual and organizational goals (Shore et al., 2011). By addressing barriers to engagement, such as perceived inequities or exclusion, DEI initiatives can maximize their impact on organizational outcomes. This dynamic underscores the importance of positioning employee engagement as an intermediary mechanism that translates the benefits of DEI into measurable improvements in performance.

*Hypothesis: DEI influences organizational performance with employee engagement as an interening variable*

#### 2.4 Team Innovation

Team innovation is a critical concept in organizational behavior and innovation management, referring to the ability of teams to generate, adopt, and implement novel and useful ideas, processes, or products (West, 2002). Grounded in creativity and problem-solving theories, team innovation emerges from the interaction of individual creativity and collaborative efforts within a team environment (Amabile, 1996). Factors such as shared goals, open communication, and effective leadership significantly contribute to fostering innovation within teams (Hackman, 1990). Team innovation is considered essential for organizational adaptability and competitiveness, especially in rapidly changing and complex environments, as it enables organizations to respond proactively to external demands and opportunities.

Theoretical advancements in team innovation have highlighted the importance of contextual and social factors that influence innovative behavior within teams. Research by Edmondson (1999) emphasizes psychological safety as a fundamental condition for innovation, where team members feel safe to take risks and share ideas without fear of criticism or failure. Additionally, the Input-Process-Outcome (IPO) model of team effectiveness suggests that team diversity, task interdependence, and supportive environments serve as critical inputs for fostering innovation (Ilgen et al., 2005). More recently, studies have examined the role of inclusive leadership in creating an environment that encourages diverse team members to contribute their unique perspectives, ultimately driving innovation (Carmeli et al., 2010). These developments underscore the dynamic interplay between individual contributions, team processes, and organizational contexts in shaping team innovation.

DEI significantly influence organizational performance, with team innovation serving as a mediating variable. DEI initiatives enhance team innovation by creating an inclusive environment that values diverse perspectives and promotes collaboration (Roberson, 2019). Diverse teams bring a broader range of ideas and experiences, which fosters

creative problem-solving and innovation (Page, 2007). Furthermore, inclusive practices ensure that all team members feel empowered to participate, enhancing psychological safety and facilitating the exchange of ideas (Shore et al., 2011). Team innovation, in turn, strengthens the relationship between DEI practices and organizational performance by translating diverse inputs into actionable and innovative outcomes. This dynamic illustrates the critical role of team innovation as an intermediary mechanism that leverages the benefits of DEI to achieve sustainable organizational success.

*Hypothesis: DEI influences organizational performance with team Innovation as an interening variable*

### 3. RESEARCH METHODS

This study employed a quantitative research design to examine the relationships between DEI, employee engagement, team innovation, and organizational performance within PT. Graha Prima Energy. The research used a cross-sectional survey approach, gathering data from a sample of 90 employees selected through a purposive sampling technique to ensure the inclusion of diverse roles and departments within the organization (Creswell & Creswell, 2018). A structured questionnaire was used as the primary data collection tool, containing validated scales adapted from previous studies to measure DEI, employee engagement, team innovation, and organizational performance (Hair et al., 2019). The analysis was conducted using Partial Least Squares Structural Equation Modeling (PLS-SEM) via SmartPLS software, which is particularly effective for handling complex models and small-to-medium sample sizes while addressing issues of multicollinearity and measurement error (Henseler et al., 2015). This method was chosen due to its ability to simultaneously evaluate measurement and structural models, providing robust insights into the mediating effects of employee engagement and team innovation on the relationship between DEI and organizational performance (Chin, 2010). Ethical considerations, including informed consent and confidentiality, were meticulously upheld to ensure the reliability and validity of the study's findings (Saunders et al., 2019).

### 4. RESULTS AND DISCUSSION

In this study, data analysis was conducted using SmartPLS to evaluate the validity and reliability of the measurement model, ensuring that all constructs met the required statistical standards. The assessment included convergent validity, which was confirmed through factor loadings exceeding 0.7 and Average Variance Extracted (AVE) values above 0.5, indicating that the constructs adequately captured the underlying dimensions (Hair et al., 2019). Reliability was established through Composite Reliability (CR) and Cronbach's Alpha values exceeding the threshold of 0.7, confirming internal consistency within the constructs (Henseler et al., 2015). These results demonstrate that the measurement model satisfied the required criteria, justifying the progression to structural model testing to analyze the relationships between variables. This rigorous validation process enhances the credibility and robustness of subsequent analyses, providing a strong foundation for examining the hypothesized relationships in the study.

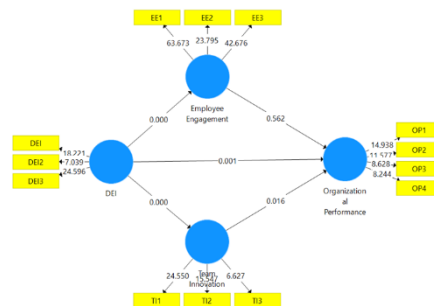


Figure 1. Bootstrapping

Table 1. Direct Effect

Hypothesis	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
DEI -> Employee Engagement	0,779	0,791	0,042	18,496	0,000
DEI -> Organizational Performance	0,521	0,483	0,153	3,393	0,001
DEI -> Team Innovation	0,755	0,775	0,041	18,546	0,000
Employee Engagement -> Organizational Performance	0,089	0,102	0,154	0,581	0,562
Team Innovation -> Organizational Performance	0,332	0,364	0,138	2,410	0,016

The findings from the hypothesis testing conducted in this study reveal significant relationships between DEI and other key variables, namely employee engagement, team innovation, and organizational performance. The path coefficient between DEI and employee engagement was significant ( $\beta = 0.779$ ,  $p < 0.001$ ), indicating that DEI strongly influences employee engagement. This finding aligns with previous studies emphasizing the role of inclusive practices in fostering a sense of belonging and engagement among employees (Kundu & Mor, 2017). Organizations that prioritize DEI create environments that empower employees, resulting in greater involvement and motivation.

Similarly, the results demonstrate that DEI significantly impacts team innovation ( $\beta = 0.755$ ,  $p < 0.001$ ). This supports existing literature which suggests that diverse and inclusive teams are more likely to generate innovative solutions due to the variety of perspectives and experiences they bring (Guillaume et al., 2017). By fostering an inclusive culture, organizations can enhance creativity and innovation within teams, which are crucial for addressing complex business challenges and maintaining a competitive edge in dynamic markets. The strong statistical significance further underscores the importance of embedding DEI into organizational strategies.

In contrast, the direct relationship between employee engagement and organizational performance was not statistically significant ( $\beta = 0.089$ ,  $p = 0.562$ ). While prior studies have established engagement as a driver of performance (Bailey et al., 2017), this result may suggest that engagement alone is insufficient to directly influence performance in the context of this study. Instead, other factors, such as team dynamics or external organizational conditions, may mediate or moderate this relationship. It highlights the need for further exploration into how engagement translates into tangible performance outcomes.

The relationship between team innovation and organizational performance was significant ( $\beta = 0.332$ ,  $p < 0.05$ ), indicating that innovation within teams contributes positively to organizational success. This finding aligns with the resource-based view, which suggests that organizations leveraging their human capital for innovation gain competitive advantages (Barney et al., 2021). Teams with high levels of innovation are better equipped to address organizational challenges and capitalize on opportunities, emphasizing the importance of fostering innovation through effective DEI practices and leadership.

Overall, the findings suggest that while DEI directly enhances employee engagement and team innovation, its impact on organizational performance is more strongly mediated through innovation than engagement. This reinforces the importance of fostering inclusive practices that not only engage employees but also actively support collaborative innovation. Organizations seeking to improve performance must adopt a holistic approach to DEI, focusing on both employee experiences and team dynamics. Further research is recommended to explore the interplay between engagement, innovation, and performance in different organizational contexts.

Next is the indirect effect, the following are the results of the indirect effect:

Hypothesis	Original Sample	Sample Mean	Standard Deviation	T Statistics	P Values
DEI -> Employee Engagement -> Organizational Performance	0,070	0,082	0,124	0,561	0,575
DEI -> Team Innovation -> Organizational Performance	0,251	0,282	0,110	2,289	0,023

The results of the indirect effects analysis reveal varying degrees of influence of DEI on organizational performance through the mediators of employee engagement and team innovation. The pathway from DEI to organizational performance via employee engagement was found to be statistically insignificant ( $\beta = 0.070$ ,  $p = 0.575$ ), suggesting that employee engagement does not effectively mediate the relationship between DEI and organizational performance in this context. This finding contrasts with prior research that highlights employee engagement as a key factor linking inclusive practices to improved organizational outcomes (Albrecht et al., 2015). It is possible that in this study, other organizational dynamics or external factors dilute the role of employee engagement as a mediator, pointing to the need for further exploration of contextual influences.

In contrast, the pathway from DEI to organizational performance through team innovation was significant ( $\beta = 0.251$ ,  $p = 0.023$ ), indicating that team innovation serves as a stronger mediator in this relationship. This aligns with studies that emphasize the role of diverse and inclusive environments in fostering innovation, which subsequently enhances organizational performance (Javed et al., 2019). Diverse teams, supported by inclusive leadership and equitable practices, are better equipped to generate innovative solutions and drive organizational success (Chen et al., 2020). These findings underscore the importance of prioritizing team innovation as a critical mechanism for translating the benefits of DEI into measurable organizational outcomes, while also suggesting that employee engagement may require more nuanced or targeted approaches to yield similar results.

## CONCLUSION

In conclusion, this study highlights the significant role of Diversity, Equity, and Inclusion (DEI) in fostering organizational performance through its impact on team innovation, while its influence via employee engagement was found to be less pronounced. The findings demonstrate that inclusive practices enhance team innovation, which serves as a critical mediator in translating DEI initiatives into improved organizational outcomes. These results align with existing literature emphasizing the importance of fostering diverse and collaborative environments to drive creativity and success in organizations. However, the limited role of employee engagement as a mediator suggests that further exploration is needed to understand the contextual factors that may strengthen or weaken this relationship. This research contributes to the broader understanding of DEI's multifaceted impact on organizations, offering practical insights for leaders to prioritize innovation-driven strategies. Future studies could explore the moderating effects of leadership styles, organizational culture, or industry-specific factors to deepen the understanding of how DEI can be leveraged for maximum impact across various contexts.

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