Trend of Diversity Management and Organizational Performance Among Generation Y and Z Employees

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I N F O	A B S T R A C T
	In today's multigenerational workforce, managing diversity has become a strategic challenge for sustaining organizational performance, particularly in industrial zones such as Batam City. This study investigates the effect of diversity management on organizational performance among Generation Y and Z employees, with organizational climate as a mediating factor. A total of 280 employees aged 15–45 years participated as respondents, selected through purposive sampling to represent Generations Y and Z. Data were collected through a structured questionnaire and analyzed using Partial Least Squares–Structural Equation Modeling (PLS-SEM). The findings show that diversity management significantly enhances organizational performance directly and indirectly through organizational climate. The results also confirm that diversity management positively shapes organizational climate, contributing to higher performance levels. These findings highlight the critical role of inclusive practices and supportive work climates in transforming generational diversity into innovation, engagement, and productivity. Theoretically, this study contributes by integrating diversity management and organizational climate frameworks into a unified model. Practically, it guides organizations in industrial clusters to implement inclusive strategies that optimize the potential of Generation Y and Z employees in achieving sustainable performance.

INTRODUCTION

In the era of globalization and digital disruption, the world of work has undergone significant transformations in demographics and operations. The study by Suprapto and Ng (2023) found that gender diversity in the board structure can reduce the risk of financial distress through strengthening supervisory functions and more balanced decision-making. Although not all sectors show a significant effect, the results of this study show the strategic potential of diversity in the context of corporate governance, especially when it comes to the increasing generational diversity in the workplace. One manifestation of this change is the increasing diversity in the workplace, especially in terms of generations. Today's companies not only face diversity in gender or disability aspects, but differences in values, work preferences, and expectations between generations of employees, especially generations Y (millennials) and Z (Ng et al., 2024). Within the context of globalization and digitalization, companies face the challenge of managing the diversity of generations that now dominate the workforce, especially generations Y and Z. The differences in work values, leadership expectations, and communication preferences between these generations demand an

adaptive managerial approach (Mfitiryayo et al., 2025). Recent studies emphasize that generational affects team dynamics and significantly impacts innovation and organizational competitiveness if managed properly (Stahl & Maznevski, 2021). Therefore, managing generational diversity is a strategic agenda in human resource management today.

Badan Pusat Statistik Indonesia (BPS) Batam City in 2023 noted that the number of Generation Y workers reached 23,289,000, and Generation Z as many as 16,902,000 people, reflecting the dominance of these two generations in the Indonesian labor market (Badan Pusat Statistik Kota Batam, 2024). This generational diversity phenomenon provides excellent opportunities for creativity and innovation, but also challenges work coordination, communication styles, and different work values. Diversity management is crucial to encourage intergenerational synergy and create a productive and inclusive work climate. According to Samo et al. (2024), inclusive leadership that integrates the principles of sustainability and diversity is an important catalyst in driving the organization's sustainable performance through employees' innovative behavior. This inclusive and pro-environment approach to leadership has proven to significantly improve organizational effectiveness, especially in the face of the challenges of a dynamic and complex business environment. In contrast, diversity can lead to conflict, lower motivation, and increased turnover without an adaptive managerial approach (Jankelová et al., 2022).

Although the previous literature has primarily addressed diversity management in general, few studies specifically examine how generational diversity, especially Generation Y and Z, interacts with the organizational climate and affects company performance. It creates a research gap related to the need to understand the dynamics of cross-generational work more comprehensively, especially in the context of developing economies such as Batam. The theory used to bridge this gap is Space Theory, which explains that innovative behavior results from a dynamic interaction between individual internal factors, such as self-transcendence, and external factors in the form of an organizational innovation climate. A perception of a supportive work environment will encourage individuals to innovate in order to adjust and maintain performance, especially in stressful situations (Wang et al., 2024). In relation to the younger generation, it was found that a supportive work climate increased millennials' sense of responsibility and productivity significantly (Liu et al., 2024). Thus, the role of organizational climate as a mediator between diversity management and organizational performance is an important focus in this study.

The novelty of this study lies in integrating a generational diversity management framework with the mediating role of organizational climate in influencing organizational performance. While prior studies often examine generational diversity or organizational climate in isolation, this research presents a unified causal model that addresses how diversity management initiatives targeting Generation Y and Z employees can be operationalized effectively by creating an inclusive and supportive climate. This integrative approach responds to growing challenges in today's multigenerational workforce, especially within dynamic industrial zones like Batam, where generational differences in work values, communication styles, and expectations are increasingly pronounced. Recent literature has acknowledged that the intersection between generational diversity and organizational systems (e.g., climate, leadership, culture) is key to enhancing productivity, innovation, and retention (Chaudhry et al., 2021).

The novelty of this study also lies in its attempt to capture the contextual complexity of generational diversity's influence on organizational performance. While previous studies have explored the effect of diversity or organizational systems independently, recent work by Hans et al. (2023) emphasizes that generational diversity leads to positive knowledge-sharing behavior only when shaped by conducive intergenerational climates and leadership styles. It supports the present study's integrative approach, which places organizational climate as a central mediating mechanism in translating diversity management into tangible organizational outcomes, especially for Generation Y and Z employees. As such, this study contributes theoretically by bridging gaps in strategic HRM and diversity management literature, and practically by offering insight into designing cross-generational adaptive strategies that improve organizational effectiveness in knowledge-intensive industrial settings. Therefore, this study aims to analyze the influence of diversity management on organizational performance, with organizational climate as a mediating variable, on Generation Y and Z employees in Batam City. This research is expected to make a theoretical contribution to developing strategic management literature and a practical contribution for companies in designing cross-generational adaptive strategies to increase employee productivity and retention.

LITERATURE REVIEW

Diversity management is an important pillar in modern organizations, especially in the midst of increasing demographic complexity. Good diversity management allows companies to optimize the potential of different employee backgrounds regarding generation, gender, cultural values, and work styles. Well-managed diversity can result in a more innovative and collaborative work environment, ultimately impacting improved organizational performance (Showkat & Misra, 2022; Turi et al., 2022). The effect of diversity management on organizational performance has been widely studied, but its relationship with organizational climate as a mediating variable has not been explored in depth in the context of younger generations. Research by Schloemer-Jarvis et al. (2022) shows that diversity management strategies that focus on one dimension (for example, generation) risk creating new biases and overlooking the structural roots of inequality. Therefore, in the context of more inclusive and strategic HR management, generational diversity must be viewed through an intersectional framework, considering complex and layered work experiences. The study shows that structured diversity management practices improve organizational effectiveness through increased cross-group participation.

However, effective diversity management cannot stand alone without being supported by an inclusive leadership style. Shore and Chung (2022) emphasize that diversity in work teams can have a negative impact if not accompanied by quality, inclusive relationships between superiors and subordinates. Leaders who can build equal and fair relationships with each team member, regardless of their background, have been shown to reduce turnover rates and increase organizational commitment. It implies that diversity managed through an inclusive leadership approach will be more optimal in producing superior organizational performance. Supporting this view, Lee et al. (2025) revealed that inclusive leadership enhances employee creativity and performance by fostering psychological safety and encouraging open knowledge sharing across diverse team members. By promoting fairness

and interpersonal respect, inclusive leaders create an environment where team members—regardless of generational or cultural background—feel valued and committed to organizational goals.

Organizational performance in this context refers to the achievement of strategic goals through process efficiency, innovation, and quality of work (Pap et al., 2022). A study by Scott (2025) outlined that integrating diversity and multicultural leadership frameworks provides strategic value for organizations operating in complex and diverse market environments. Structured and sustainable diversity management helps organizations reduce conflict, create an inclusive work environment, and increase motivation and cross-group participation in achieving organizational goals.

Recent research emphasizes that effective diversity management is no longer a symbolic initiative but a strategic necessity, particularly in the context of multigenerational and multicultural workforces. Weaver et al. (2025) argue that many workplace diversity programs fail to deliver meaningful results because they are implemented as mere formalities "box-ticking" exercises without addressing deeper cultural integration. Their study confirms that diversity initiatives only contribute to improved organizational outcomes when embedded in authentic and inclusive workplace practices. As such, diversity strategies must be aligned with generational values to foster engagement, increase retention, and drive organizational performance. Diversity management is no longer a peripheral HR initiative in increasingly multigenerational workplaces but a strategic lever for enhancing organizational performance. When managed effectively, diversity, particularly generational diversity brings unique perspectives, skills, and problem-solving approaches that can improve decision-making quality, foster innovation, and enhance operational effectiveness. However, the impact of diversity on performance is contingent on the quality of diversity management practices, including inclusive policies, leadership support, and cross-generational engagement strategies.

Saha et al. (2024) revealed organizations that integrate comprehensive diversity management into their strategic frameworks tend to achieve superior employee engagement, enhanced innovation capacity, and stronger organizational performance outcomes. Furthermore, a study by Telyani et al. (2022) emphasized that diversity at multiple levels significantly enhances organizational performance, particularly when supported by an innovative and inclusive culture. Their findings suggest that organizations that embrace diversity benefit from a broader range of perspectives and problem-solving capabilities and experience greater adaptability and performance outcomes. In the context of today's workforce, such inclusive and innovative cultures align closely with the expectations of Generation Y and Z, who prioritize openness, collaboration, and opportunities for growth. Therefore, a diversity management strategy that can understand the expectations of these two generations is believed to increase their retention and productivity, thus having a direct impact on organizational performance (Maswanto & Madiistriyatno, 2024). Adaptive diversity management helps reduce conflict, increase a sense of justice, and encourages cross-generational work motivation. In particular, generations Y and Z have characteristics that emphasize flexibility, self-development, and inclusiveness in work.

H1: Diversity Management has a positive effect on Organizational Performance in Generation Y and Z employees.

Effective diversity management not only has an impact on final performance, but also on the perception and experience of daily work, which is referred to as the organizational climate. Organizational climate is the collective perception perceived by employees of the values, norms, and work practices within a company (Mansoor et al., 2021). When diversity is managed fairly and inclusively, employees from diverse backgrounds feel valued and psychologically safe, creating a conducive work climate. Studies by Su et al. (2023) show that team diversity within an organization is considered important by most employees and contributes to creativity and quality decision-making. However, diversity can also create tension. In the context of Generation Y and Z, an organizational climate that is open to diversity can increase a sense of engagement and job satisfaction, which is important for forming long-term bonds with the company (Burawat, 2023).

Research by Alshaabani et al. (2021) shows that effective diversity management increases employee engagement through increased organizational trust and reduced job insecurity. It creates a positive organizational climate, characterized by psychological safety and openness to differences. Furthermore, a study Gip et al. (2024) emphasized the importance of employee perceptions of inclusion climate, particularly in the context of leadership diversity. Their research developed and validated a scale to measure perceived inclusion climate for leader diversity, which reflects how organizations create a climate that is inclusive of leader diversity. Such an inclusive climate has been shown to increase perceptions of fairness and respect in the work environment, which contributes positively to the overall organizational climate, especially for younger generations who place a high value on equality and diversity. Thus, structured diversity management meets social justice demands and creates a favorable work climate, which is the basis for forming a healthy and productive organizational culture.

H2: Diversity Management has a positive effect on the Organizational Climate in Generation Y and Z employees.

A positive organizational climate catalyzes the strengthening of the contributions of individuals and teams. A work environment that is perceived to be fair, supportive, and open to feedback will encourage employees to work more productively, creatively, and collaboratively. It aligns with the results of Hadouga (2024) study showing that a positive organizational climate has a significant relationship with increased organizational commitment and employee empowerment behavior, especially in the public sector work environment during the pandemic. Generations Y and Z, who positively respond to the work environment, provide opportunities for self-development, uphold transparency, and support work-life balance. Generation Y values collaboration and clarity of communication, while Generation Z tends to focus more on mental well-being, financial security, and an inclusive and supportive work environment (Krajac & Samardzija, 2024).

In this context, organizations that can create an inclusive work climate will be better able to maximize the performance potential of the younger generation, which is known for its flexibility and high innovation power (Liu et al., 2024). Thus, the organizational climate is not only a supporting element but an integral part of the organization's strategy to achieve high performance, especially in a cross-generational workforce.

H3: Organizational Climate has a Positive Effect on Organizational Performance in Generation Y and Z employees.

Research by Chakraborty and Biswas (2021) confirms that an inclusive organizational climate strengthens the relationship between diversity management practices and organizational outcomes. According to Khumalo and Zondo (2024), cultural diversity that is managed appropriately can improve organizational performance through strengthening strategic decision-making, innovation, and workforce productivity. The study emphasizes that a culturally diverse workforce has a different way of thinking, contributing to more creative solutions and better-quality organizational outcomes. In a multigenerational work environment, generational diversity does not automatically guarantee improved organizational outcomes. Instead, as Kolb et al. (2024) emphasize, the effectiveness of diversity strategies largely depends on the organization's ability to foster a strong climate of inclusion. Such a climate enables generationally diverse employees to collaborate more constructively and minimizes the relational friction that may arise from value differences. Consequently, creating an inclusive diversity climate is a crucial mechanism through which generational diversity can be translated into enhanced organizational performance. It is also supported by the results of statistical testing in this study, which show that the organizational climate mediates the relationship between diversity management and performance significantly.

Symbolic diversity strategies that lack meaningful integration into organizational processes often fail to deliver measurable performance gains. For diversity to truly enhance organizational performance, it must be accompanied by a healthy and collaborative work climate that nurtures inclusion, trust, and psychological safety. Okatta et al. (2024), diversity and inclusion (D&I) initiatives impact organizational performance only when embedded within an inclusive climate that facilitates employee engagement and cooperation across differences. Their findings confirm that the effectiveness of diversity management is primarily channeled through the mediating role of organizational climate.

The relationship between diversity management and organizational performance is often not direct, particularly in multigenerational settings where differences in values, communication styles, and work expectations exist. In such contexts, organizational climate serves as a critical mediating variable that shapes how diversity initiatives are perceived and experienced by employees. Jankelová et al. (2021) demonstrated that a positive organizational climate fosters more substantial employee commitment and motivation, which can translate into improved performance outcomes. It is especially relevant for Generation Y and Z employees, who prioritize workplace inclusion, collaboration, and emotional safety. When diversity is managed to support an inclusive climate characterized by openness, fairness, and psychological comfort, it is more likely to enhance employee engagement and organizational results. The effectiveness of diversity management in improving organizational outcomes depends on how well the internal climate fosters inclusion and collaboration. Chaudhry et al. (2021) found that diversity and inclusion practices significantly contribute to innovation, but only when organizational characteristics, such as a supportive climate are aligned. It suggests that in multigenerational contexts, diversity strategies require a healthy climate to translate into enhanced performance.

The relationship between diversity management and organizational performance is complex and often indirect, particularly in multigenerational contexts. Prior studies suggest that the effectiveness of diversity initiatives depends not only on the presence of diverse workforces but also on the organizational mechanisms that translate diversity into performance outcomes (Chaudhry et al., 2021). One such mechanism is organizational climate, which serves as a mediating variable by shaping employees' perceptions of fairness, inclusion, and psychological safety—factors critical for collaboration across generational lines (Mansoor et al., 2021). The mediating role of organizational climate is grounded in Social Exchange Theory (SET) and Organizational Climate Theory, which posit that employees reciprocate supportive and inclusive climates with higher commitment, cooperation, and innovative behavior, ultimately enhancing organizational performance (Wang et al., 2024). Recent empirical findings also confirm that inclusive climates transform the potential of generational diversity into tangible organizational outcomes by reducing relational tensions and fostering cross-age knowledge sharing (Gip et al., 2024).

The emergence of mediation in this study is particularly relevant as diversity management may not directly affect performance without a conducive climate. In other words, the climate is a psychological bridge between structural policies (diversity management) and behavioral outcomes (performance). It aligns with evidence from multigenerational workforce research, where inclusive climates have been found to enhance the positive impacts of diversity while minimizing generational conflicts (Kolb et al., 2024). Therefore, this study hypothesizes that:

H4: Organizational climate mediates the relationship between diversity management and organizational performance among Generation Y and Z employees.

The study developed a conceptual model that places diversity management as an independent variable assumed to have an influence on organizational performance. However, this influence does not only occur directly but also through the mediating mechanism of organizational climate. Theoretically, effective diversity management practices can create an inclusive, conducive, and collaborative organizational climate, which ultimately drives improved organizational performance. The research model is shown in Figure 1.
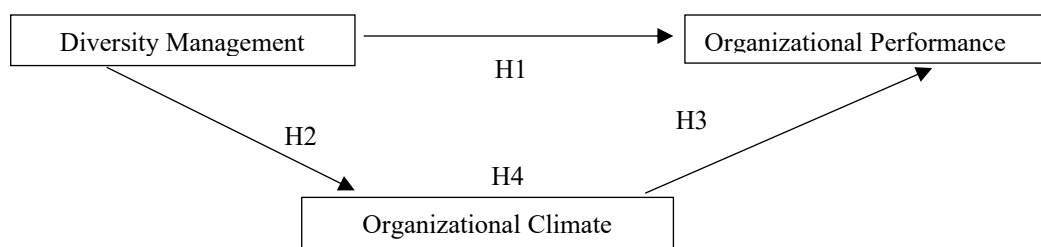

Figure 1. Research Model

RESEARCH METHOD

This study utilized a quantitative approach to predict the factors that affect the relationship between variables so that they can test theories objectively. The results of the analysis of the questionnaire filled out by the respondents were used to study the phenomenon systematically and measurably. This study analyzed independent variables

(Diversity Management) against dependent variables (Organisational Performance) mediated by Organisational Climate. This study utilized the population of employees in Batam who are in the age range of generations Y and Z. Meanwhile, the sample was part of the population taken to represent a predetermined population. If the population is large and it is not possible to study it individually, then a sample of (Creswell & Creswell, 2018). The number of samples in this study results from calculating the sample according to the minimum SEM by formulating the number of question items multiplied by ten (*n X 10*). Therefore, this study's minimum number of respondents is 28 x 10 = 280 (Hair et al., 2010).

Table 1. Research variables

Variable	Number of Question Items	Indicators	Source
Independent Variable: Diversity Management (DM)	6	(1) I feel that I have been treated differently here because of my race, sex, religion, or age. (2) My managers have a track record of hiring and promoting physicians objectively, regardless of race, gender, religion, or age. (3) My managers here give feedback and evaluate physicians fairly, regardless of the faculty member's race, sex, age, or social background. (4) My managers here make promotion and tenure decisions fairly, regardless of the physician's race, sex, age, or social background. (5) My managers interpret human resource policies (such as sabbaticals) fairly for all physicians. (6) My managers give assignments based on the skills and abilities of physicians.	Mousa et al. (2020)
Independent and mediation variables: Organizational Climate (OC)	11	Organization climate – risk-taking (1) Taking reasonable risks is acceptable in this organization. (2) Tolerating mistakes when trying new ideas is accepted in this organization. Organization climate – trust (1) Employees trust that the organization is concerned about their welfare. (2) We follow through on what we say we will do in this organization. (3) Levels of trust among employees in this organization are generally high. Organization climate – openness (1) It is best not to tell others too much in this organization (recoded). (2) Constructive comments are well received among colleagues. (3) People are not reluctant to speak out when in meetings. Organization climate – ownership (1) It is best not to take credit for your ideas if they do not work out (recoded). (2) People who offer innovative ideas get ahead in this organization. (3) Expressing original ideas is encouraged in our organization.	Nazari et al. (2011)
Dependent variable: Organizational Performance (OP)	8	(1) Resources are managed efficiently in our department; (2) Our department is always able to meet its financial goals; (3) Our section can meet our client demands; (4) Most of our department's clients are satisfied; (5) Programs are implemented speedily; (6) The level of wastage in our department is low; (7) Our department has successfully developed the procedure to improve the quality of service offered; (8) We have ample opportunities to make independent decisions.	Alosani et al. (2020)

The research sample was obtained through a purposive sampling approach. This sample selection technique is based on the specificity of the criteria that must be met. According to Palinkas et al. (2015), purposive sampling involves selecting participants based

on pre-established criteria that align with the research objective. The sampling criteria are that the respondents are employees who are domiciled in the city of Batam, are in the range that is included in the category of Generation Y and Z, namely 15 - 45 years old, according to the generation division (Codrington & Grant-Marshall, 2004). According to Law No. 20 of 1999, issued by the President of the Republic of Indonesia concerning the "Ratification of the ILO Convention No. 138 Concerning Minimum Age for Admission to Employment," states that the minimum productive age for work is 15 years old (Undang-Undang (UU) Nomor 20 Tahun 1999 Tentang Pengesahan ILO Convention No. 138 Concerning Minimum Age for Admission to Employment (Konvensi ILO Mengenai Usia Minimum Untuk Diperbolehkan Bekerja), 1999)

The type of data used in this study is primary data, where the researcher collects data from respondents by distributing questionnaires. The data obtained is intended to collect certain information from respondents using questionnaires. The instrument in collecting data in this study was using a questionnaire, which contained question items that had been compiled and obtained from previous research, and used a likert scale, namely: a score of 1 for the STS answer (strongly disagree), a value of 2 for the TS answer (disagree), a value of 3 for the answer N (neutral), a value of 4 for the answer S (agree) and a value of 5 for the answer of the SS (strongly agree). This research questionnaire covers Diversity Management, Organisational Climate, and Organisational Performance. The following are the indicators used by the researcher in the study, which can be seen in Table 1.

RESULT AND DISCUSSION

This study examines the relationship between diversity management, organizational climate, and organizational performance in Batam City Generation Y and Z employees. Based on the data collected, Table 2 presents the demographic characteristics of the respondents.

Table 2. Demographic of Respondents

Characteristic	Total	Percentage (%)
Gender		
Male	139	45.6
Female	166	54.4
Age		
< 20 years	43	14.1
21 – 30 years	188	61.6
31 – 40 years	60	19.7
41 – 50 years	14	4.6
Educational		
Senior High School or Equivalent	111	36.4
Diploma (D3)	86	28.2
Bachelor's Degree (S1/D4)	100	32.8
Master's Degree (S2)	8	2.6
Marital Status		
Married	141	46.2
Unmarried	164	53.8
Monthly Income		
< IDR 3,000,000	61	20.0
IDR 3,000,000 – IDR 5,999,999	183	60.0
IDR 6,000,000 – IDR 8,999,999	50	16.4
IDR 9,000,000 – IDR 11,999,999	10	3.3
> IDR 12,000,000	1	0.4

The demographic data indicate that male employees slightly dominate the workforce in the electronic manufacturing sector. Most respondents fall within the 21–30 age range, signifying that the sample primarily consists of employees in their most productive working years. Furthermore, the findings reveal substantial diversity in educational backgrounds, marital status, and income levels. This demographic variety reflects the heterogeneous nature of employees in Batam's manufacturing industry, underscoring the importance of diversity management strategies tailored to multigenerational and socioeconomically varied workforces.

Several significant findings were obtained based on data analysis using the Partial Least Squares-Structural Equation Modeling (PLS-SEM) method. Before testing the structural model, data quality evaluation is carried out to ensure the validity and reliability of the measuring instrument. The results of Harman's Single Factor Test using the SPSS program showed a variance value of 35.220%, lower than the 50% threshold, which suggests that the data is free of potential standard method bias (Podsakoff et al., 2003). The results can be seen in Table 3.

Table 3. Harman's single-factor test results

Extraction Sums of Squared Loadings		
Total	Percentage of Variance	Cumulative (%)
8.805	35.220	35.220

Based on the results of the convergent validity test, all indicators met the criteria > 0.60, and the average variance extraction (AVE) greater than 0.50 indicated good convergent validity (Table 4).

Table 4. Convergent validity test results

Variable	Indicators	Outer Loading	AVE	Information
Diversity Management (DM)	DM 3	0.771	0.600	Valid
	DM 4	0.828		Valid
	DM 5	0.700		Valid
	DM 6	0.801		Valid
Organizational Climate (OC)	OC 5	0.692	0.518	Valid
	OC 6	0.662		Valid
	OC 7	0.756		Valid
	OC 8	0.737		Valid
	OC 10	0.747		Valid
Organizational Performance (OP)	OP 3	0.722	0.518	Valid
	ON 4	0.701		Valid
	ON 6	0.718		Valid
	OP 8	0.740		Valid

The Fornell-Larcker Criterion test is carried out to test the validity of discriminants. The results of this test revealed that the loading value of each indicator element to its variable is greater than the cross-loading value. It can be concluded that a block's construct indicator is better than other block indicators, which means that the correlation with itself is higher than that of other variables and that all constructs or latent variables have good discriminant validity (Table 5).

Table 5. Results of the discriminant validity test

Variable	Diversity Management	Organizational Performance	Organizational Climate
Diversity Management	0.775		
Organizational Climate	0.636	0.720	
Organizational Performance	0.698	0.720	0.720

Based on Table 6, the results of the composite reliability test show a value of > 0.6, which is considered reliable, so that for variable diversity management and organizational performance, it can be concluded that the data obtained from this study has good reliability in measuring constructs.

Table 6. Composite reliability test results

Variable	Cronbach's Alpha	Composite Reliability	Information
Diversity Management	0.777	0.857	Reliable
Organizational Climate	0.766	0.843	Reliable
Organizational Performance	0.69	0.811	Reliable

Based on the Heterotrait-Monotrait Ratio (HTMT) test, each construct value must be below 0.9. In the test table on HTMT, it is below 0.9, so the results of this study show that it is valid as the value obtained is smaller than (<0.9) in Organizational performance, but in the variable Organizational climate, the result is 0.986, indicating it is invalid (Table 7).

Table 7. Heterotrait-Monotrait Ratio Test Results

	DM	OP	OC
DM			
OP	0.863		
OC	0.899	0.986	

Based on the hypothesis test results, it is shown that Diversity Management (DM) has a significant positive influence on the Organizational Climate (OC) with a path coefficient of 0.698. In addition, Organizational Climate (OC) significantly influences Organizational Performance (OP) with a path coefficient of 0.537. Meanwhile, Diversity Management (DM) also directly influences Organizational Performance (OP) with a path coefficient of 0.261.

This study also found that Organizational Climate (OC) plays a mediating variable in the relationship between Diversity Management (DM) and Organizational Performance (OP). It confirms that good diversity management can create a conducive organizational climate, improving performance. Overall, this model shows a causal relationship between these latent variables, with reliable indicator measurements, as shown by the loading factor on any indicator greater than 0.7, indicating good validity in this model.

As shown in Figure 2, this study examines the relationship between diversity management practices and organizational performance by considering the mediating role of organizational climate. The structural model estimation results show that diversity management practices have a direct effect on organizational performance with a path coefficient of 0.261. However, this effect also runs through an indirect path, namely through organizational climate. The path from diversity management practices to organizational

climate shows a coefficient of 0.698, while the path from organizational climate to organizational performance is 0.537.
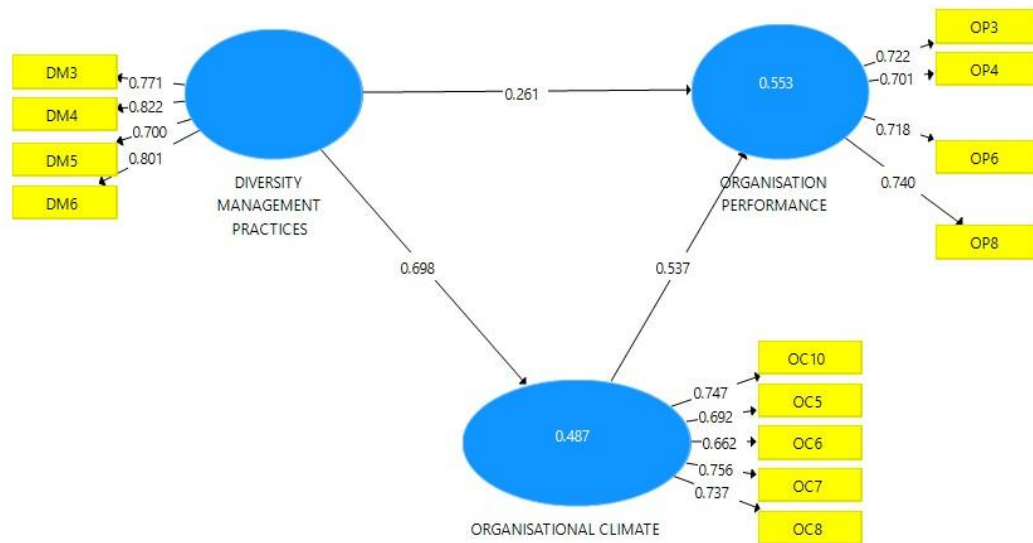

Figure 2. Hypothesis Test Results

The R^2 value of 0.487 for organizational climate indicates that nearly 49% of the variation in organizational climate can be explained by diversity management practices, while the R^2 value of 0.553 for organizational performance indicates that more than 55% of the variation in organizational performance can be explained by the combined direct and indirect effects of diversity management practices and organizational climate.

Thus, these findings indicate that organizational climate plays an important role as a mediator in strengthening the relationship between diversity management practices and organizational performance. This means that organizations that manage diversity well not only have a direct impact on improving performance, but also through the creation of a positive, inclusive, and collaborative organizational climate.

Table 8. Path Coefficient

	Sample Mean (M)	T Statistics (|O/STDEV|)	P Values	Hypothesis Result
DM > ON	0.263	4.084	0.000	Accepted
DM > OC	0.702	22.450	0.000	Accepted
OC > ON	0.539	9.318	0.000	Accepted

Path coefficient is a metric used in structural equation analysis to describe the strength and direction of latent variable relationships (constructs) in a model. To test the structural relationship between variables, it is necessary to test the hypothesis of the path coefficient between variables by comparing the p-value with the alpha (>1.96) and whether the sample mean is positive or negative. The statistical P and T values are obtained from the Smart-PLS output using the bootstrap method. This test aims to test the hypothesis with the results shown in Table 8 and Table 9.

Table 9. Indirect Effect

	Sample Mean (M)	T Statistics (|O/STDEV|)	P Values	Hypothesis Result
DM > OC > ON	0.378	8.802	0.000	Accepted

The results of the above test confirm that all the hypotheses proposed are accepted, including the mediating role of the organizational climate in the relationship between diversity management and organizational performance. The first hypothesis of this study is acceptable because the test results prove that diversity management has a significant positive effect on organizational performance in Generation Y and Z employees in the city of Batam. These findings reinforce previous literature that asserts that effective diversity management contributes directly to improving organizational performance. The study by Tian and Zhao (2025) shows that generational diversity in management structures contributes significantly to corporate innovation, especially when organizations can create work structures that support cross-age collaboration. These results confirm that generational diversity is not just a symbol of demographic diversity, but a catalyst for innovation and strategic efficiency when accompanied by inclusive management that encourages the exchange of ideas between generations. Thus, diversity management in the context of generations Y and Z should include creating work systems that encourage cross-age integration and two-way dialogue.

The result shows that diversity management positively impacts organizational performance in line with the research by Shore & Chung (2022), which emphasizes the importance of an intersectional approach in HRM. Shore and Chung (2024) also emphasized that the success of diversity management depends on inclusive leadership that builds equal relationships between superiors and subordinates. According to Turi et al. (2022), organizations that successfully integrate workforce diversity can leverage various perspectives in innovation, decision-making, and operational efficiency (Showkat & Misra, 2022). It also emphasizes that diversity management based on fairness and inclusivity can reduce conflicts, increase retention, and create a healthy work environment. In the context of generations Y and Z, who need flexibility and recognition, strategic diversity management is key in encouraging morale and productivity (Maswanto & Madiistriyatno, 2024). urthermore, the test results for the second hypothesis are also accepted. The hypothesis test results prove that diversity management significantly positively affects the organizational climate of Batam City Generation Y and Z employees. These results show that diversity management not only has a direct impact on performance, but also forms a positive perception of the work environment.

Research from Rudolph et al. (2021) also shows that perceptions of the work environment matter in maintaining employees' well-being and resilience. In the context of generations Y and Z, an inclusive work climate impacts job satisfaction and their psychological health in the long run. Therefore, effective diversity management practices should focus on their impact on shaping a work climate that can reduce mental stress and increase the sense of connectedness between employees. A fair, open, and supportive organizational climate grows from consistent diversity practices. It aligns with the findings Mansoor et al. (2021), which say that well-managed diversity creates a sense of belonging among employees and strengthens trust in the organization. Therefore, generationally sensitive diversity management and local values are key to creating a productive and inclusive work environment (Su et al., 2023). Research from Farid & Satia (2023) also confirms that a healthy organizational climate increases employee loyalty and attachment—especially in Generation Z, who are highly responsive to the work atmosphere and company culture. The study by Roberson (2019) showed that the quality of communication and

transparency in implementing diversity policies strongly influences positive perceptions of the diversity climate.

The test results prove that the hypothesis of the three studies is accepted, that the organizational climate positively and significantly affects organizational performance. Theoretically, these findings reinforce that individual perceptions of an organization's innovation climate can directly or indirectly influence innovative behavior through internal factors such as self-transcendence. An organizational climate that supports innovation, provides resources, and promotes good managerial practices will encourage an increase in innovative behavior (Wang et al., 2024). Research from Hadouga (2024) supports this argument by proving that positive perceptions of the organizational climate statistically contribute significantly to improved employee empowerment and engagement behaviors, with strong correlation values and significant regression outcomes. It also shows that young people tend to perform optimally if they feel they are in an environment that supports creativity and change (Liu et al., 2024). This finding is supported by the study of Cuadra-Peralta et al. (2017) which shows that organizations that encourage knowledge sharing, transformational leadership, and collaborative culture create a work climate that encourages systemic innovation. Such a climate is significant in multigenerational organizations, as it can bridge differences in values between age groups and encourage the achievement of more innovative and inclusive performance.

The explanation for the relationship between organizational climate and performance can be strengthened through the perspective of Space Theory, which explains that individual innovative behavior results from the interaction between internal factors, such as self-transcendence, and external factors in the form of organizational innovation climate. Based on the Law Number 20 of 1999 concerning the ratification of ILO Convention No. 138 concerning Minimum Age for Admission to Employment (ILO Convention concerning Minimum Age for Admission to Employment) (1999) shows that self-transcendence increases creative contribution and innovation performance only when supported by a psychologically and structurally conducive work environment. In this context, the organizational climate provides resources and direction and shapes the psychological space for employees across generations to express their work meaning authentically. It confirms that successful organizational performance is determined by formal strategies and how far the organization can create a space that integrates personal aspirations and collective goals.

The analysis test results showed that this study's fourth hypothesis was also accepted. It is proven that diversity management positively influences organizational performance, which is strengthened by the role of mediation in the organizational climate. One of the main theoretical contributions of this study is the empirical proof of the role of organizational climate mediation in the context of the relationship between diversity management and organizational performance. It aligns with Chakraborty and Biswas (2021) and Khumalo and Zondo (2024) shows that diversity alone is not enough to create real organizational impact if it is not accompanied by supportive climate development, and underlined that the success of diversity strategies is highly dependent on the creation of a positive diversity climate. Furthermore, Rudolph et al. (2021) stated that a healthy organizational climate mediates job performance and maintains workforce sustainability through stress and workload management. In the context of multigenerational organizations, this confirms that

organizational climate is not just a complementary element, but an essential prerequisite in optimizing the impact of diversity strategies on sustainable organizational performance. The novelty of this finding lies in the integrative approach that links diversity management to organizational performance indirectly through employees' perception of the work climate, especially in the Y and Z generation groups in industrial estates such as Batam. It is particularly relevant in today's context, where cross-generational dynamics are a new challenge for organizations to maintain competitiveness.

CONCLUSION

This study confirms that diversity management significantly enhances organizational performance among Generation Y and Z employees in Batam, directly and indirectly through organizational climate. The findings systematically support all four hypotheses formulated in this research. First (H1), diversity management directly improves organizational performance, aligning with previous studies highlighting diversity's role in fostering innovation and decision quality. Second (H2), diversity management positively influences organizational climate, suggesting that inclusive policies and practices shape employees' perceptions of fairness and psychological safety. Third (H3), organizational climate directly contributes to organizational performance, underscoring that supportive work environments drive engagement and productivity. Lastly (H4), organizational climate mediates the relationship between diversity management and performance, affirming its critical role as a psychological bridge between structural diversity policies and performance outcomes.

Theoretically, these results enrich Strategic Human Resource Management (SHRM) literature by integrating diversity management and organizational climate into a unified causal framework, particularly in multigenerational workforces within developing economies. The findings validate Social Exchange Theory and Organizational Climate Theory, demonstrating that inclusive climates foster reciprocal employee behaviors—such as commitment and cooperation—that translate into improved performance. Practically, this research offers actionable insights for manufacturing firms in Batam and similar industrial zones. Diversity management initiatives must go beyond policy formalities; they should be operationalized through inclusive leadership, structured communication channels, and fair career development opportunities tailored to younger generations' expectations. Specifically, companies should implement targeted training for supervisors on managing generational differences, establish feedback mechanisms to monitor perceptions of inclusion and climate, and align diversity strategies with organizational innovation goals to maximize cross-generational collaboration.

Despite its contributions, this study has limitations. It focuses on a single geographic context (Batam City) and relies solely on quantitative data, which may limit the depth of understanding regarding employees' lived experiences. Future research should adopt mixed methods, expand the scope to other regions or sectors, and explore additional mediating or moderating variables—such as leadership style, psychological safety, or perceived organizational support—to deepen the analysis of diversity–performance dynamics. In conclusion, this study emphasizes that organizational performance gains from diversity are contingent on inclusive climates. Organizations deliberately cultivating such climates can

transform generational differences into strategic assets, fostering innovation, employee well-being, and sustainable competitive advantage.

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