



## THE MEDIATING ROLE OF EMPLOYEE ENGAGEMENT ON THE EFFECT OF DIVERSITY, EQUITY, AND INCLUSION (DEI) ON SOCIAL-ESG PERFORMANCE : A LITERATURE REVIEW

### PERAN MEDIASI KETERLIBATAN KARYAWAN TERHADAP PENGARUH DIVERSITAS, EKUITAS, DAN INKLUSI (DEI) PADA KINERJA SOSIAL-ESG: TINJAUAN PUSTAKA

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#### Abstract

This literature review examines the mediating role of employee engagement in the relationship between Diversity, Equity, and Inclusion (DEI) practices and corporate Social-ESG performance. Amidst the growing emphasis on ESG (Environmental, Social, and Governance) criteria, the social dimension, particularly DEI, is recognized as a strategic driver of sustainability. While prior research indicates positive links between DEI and social performance, and between DEI and employee engagement, the specific mechanism connecting these variables remains underexplored. This study synthesizes existing literature to propose and analyze a conceptual model where employee engagement acts as a key mediator. Grounded in Social Exchange Theory and the Job Demands-Resources model, the review finds that inclusive environments foster psychological safety, a sense of belonging, and empowerment, which significantly enhance employee engagement. This heightened engagement, in turn, motivates prosocial behaviors such as Organizational Citizenship Behavior, internal advocacy, and proactive innovation that directly improve measurable Social-ESG outcomes. The analysis concludes that the effect of DEI on Social-ESG performance is not merely direct but is substantially transmitted and amplified through the psychological state and subsequent behaviors of engaged employees. The study highlights the necessity for organizations to integrate DEI strategies with employee engagement initiatives to fully realize their social sustainability goals and provides a foundation for future empirical testing of this mediating relationship.

**Keywords :** Employee Engagement, Diversity Equity and Inclusion (DEI), Social-ESG Performance, Mediating Role.

#### Abstrak

Tinjauan literatur ini mengkaji peran mediasi keterikatan karyawan dalam hubungan antara praktik Keanekaragaman, Kesetaraan, dan Inklusi (DEI) dan kinerja Sosial-ESG perusahaan. Di tengah meningkatnya penekanan pada kriteria ESG (Lingkungan, Sosial, dan Tata Kelola), dimensi sosial,



khususnya DEI, diakui sebagai pendorong strategis keberlanjutan. Meskipun penelitian sebelumnya menunjukkan hubungan positif antara DEI dan kinerja sosial, serta antara DEI dan keterlibatan karyawan, mekanisme spesifik yang menghubungkan variabel-variabel ini masih belum banyak dieksplorasi. Studi ini mensintesis literatur yang ada untuk mengusulkan dan menganalisis model konseptual di mana keterlibatan karyawan berperan sebagai mediator utama. Berlandaskan Teori Pertukaran Sosial dan model Tuntutan-Sumber Daya Pekerjaan, tinjauan ini menemukan bahwa lingkungan yang inklusif menumbuhkan keselamatan psikologis, rasa memiliki, dan pemberdayaan, yang secara signifikan meningkatkan keterlibatan karyawan. Keterlibatan yang meningkat ini, pada gilirannya, memotivasi perilaku prososial seperti Perilaku Kewarganegaraan Organisasi, advokasi internal, dan inovasi proaktif yang secara langsung meningkatkan hasil Sosial-ESG yang terukur. Analisis tersebut menyimpulkan bahwa dampak DEI terhadap kinerja Sosial-ESG tidak hanya langsung, tetapi secara substansial ditransmisikan dan diperkuat melalui kondisi psikologis dan perilaku selanjutnya dari karyawan yang terlibat. Studi ini menyoroti perlunya organisasi untuk mengintegrasikan strategi DEI dengan inisiatif keterlibatan karyawan guna sepenuhnya mewujudkan tujuan keberlanjutan sosial mereka dan memberikan dasar untuk pengujian empiris di masa depan mengenai hubungan mediasi ini.

**Kata Kunci :** Keterlibatan Karyawan, Keanekaragaman Kesetaraan dan Inklusi (DEI), Kinerja Sosial-ESG, Peran Mediasi.

## 1. INTRODUCTION

### a. Background

The concept of ESG (Environmental, Social, and Governance) has evolved into a global standard for assessing corporate sustainability and responsibility. Investors, customers, governments, and stakeholders are beginning to use ESG performance as a barometer for evaluating a company's level of sustainability (Huang & Qiu, 2023). Among the three pillars of ESG, the social dimension is increasingly prominent because it is directly related to labor standards, occupational health and safety, human rights and ethics, diversity, equity, and inclusion (DEI), and community engagement (Nareswari et al., 2023; Shore et al., 2018). The application of DEI principles is not just an ethical discourse, but a strategic investment. An inclusive work environment has been proven to increase creativity, decision-making, and understanding of diverse markets, while also building a culture of ownership among employees (Chukwudi & Eusebius, 2023).

Various studies show that effective DEI implementation contributes to improving corporate reputation, productivity, and innovation, which ultimately enhances corporate social performance (Tumewang et al., 2024). However, the effectiveness of DEI on social performance is not always immediately apparent. One organizational psychological factor that is believed to be an important link is employee engagement, which is the level of involvement of employees in their work and organization. This engagement is characterized by dedication, enthusiasm, and willingness to work hard, which are driven by an inclusive work environment (Hameduddin & Lee, 2023). Good leadership and an inclusive culture foster a sense of belonging, appreciation, confidence, and recognition, all of which are fundamental drivers of employee engagement (Deepalakshmi et al., 2025; Eshete et al., 2025). Thus, employee



engagement has the potential to become a mediating mechanism that explains how DEI practices can contribute to improved social-ESG outcomes.

Previous studies confirm the positive relationship between DEI and employee engagement, including research from (Adam & Alfawaz, 2025; Triadi, 2024) which found that Companies that value diversity and build inclusive environments are reported to have higher employee commitment and engagement because employees feel valued, recognized, and supported. Previous studies have also confirmed the positive relationship between employee engagement and corporate social performance, for example (Lee, 2024; Lee & Luppi, 2025; Pereira, 2022; Zhang et al., 2024) confirming that the implementation of strong ESG practices, particularly in the environmental (E-ESG) and social (S-ESG) dimensions, has consistently been found to be a strategic driver of employee engagement, satisfaction, and loyalty, through the creation of a fair, meaningful work environment that is aligned with their personal values.

However, there has not been much systematic literature review on the role of engagement mediation in relation to DEI and Social-ESG performance. Amidst increasing ESG reporting requirements and global attention to social sustainability, this study is important to:

- 1) Understand the psychological mechanisms that link DEI policies to corporate social performance.
- 2) Provide theoretical insights for the development of sustainability-based human resource management models.
- 3) Provide strategic recommendations for companies to enhance social value and reputation through strengthening employee engagement.

Thus, this literature review is expected to bridge the conceptual gap between human capital management, DEI strategy, and social sustainability performance within a more comprehensive ESG framework.

#### **b. Problem Formulation**

Based on the previous background, this study departs from the conceptual gap regarding how diversity, equity, and inclusion (DEI) practices contribute to corporate social performance within the ESG framework, as well as the psychological role of employees as key connectors in the process. Therefore, the research questions are as follows:

- 1) How do DEI practices relate to corporate social performance (Social-ESG performance)?
- 2) How do DEI practices affect employee engagement levels?
- 3) How does employee engagement affect corporate Social-ESG performance?
- 4) Does employee engagement act as a mediating variable between DEI practices and Social-ESG performance?

#### **c. Theoretical Framework**

The theoretical framework underlying this study is rooted in Social Exchange Theory (SET) and Job Demands-Resources (JD-R). Social Exchange Theory (SET) explains the reciprocal relationship between employees and organizations as the core mechanism that explains work attitudes and behaviors (Ahmad et al., 2023). Working conditions, job security,



career development opportunities, affective commitment, and perceived organizational support will drive engagement and job satisfaction, which ultimately drive social performance (Sitorus & Rachmawati, 2024).

Meanwhile, Job Demands-Resources (JD-R) explains that the level of work engagement is not just “nice to have,” but a critical factor that drives organizational performance through improved individual performance, innovation, service quality, and a healthy work environment (Bakker et al., 2023). A person's level of work engagement is determined not only by the workload assigned to them, but also by the resources available to them and the social support provided by their work environment (Husnaa et al., 2025).

Social support from supervisors and coworkers provides psychological security and strengthens social bonds in the workplace, which ultimately increases work engagement, leading to positive organizational outcomes, including ESG performance.

#### **d. Diversity Equality Inclusive**

Diversity encompasses demographic representation, equality, fair treatment and opportunities, and inclusion (Mogilski et al., 2025) emphasizing that diversity is not only related to demographic composition, but also the representation of diverse perspectives and interests in the decision making process; equity is related to the removal of barriers that disproportionately hinder the success of certain groups (equality of opportunity, not just equality of outcome); while inclusion relates to the creation of a climate in which all members, especially those who are not part of the dominant group, can participate and contribute fully without unnecessary social or procedural barriers.

Strategic implementation of Diversity and Inclusion (D&I) in organizations is not only a moral imperative, but also a driver of sustainable business performance. As stated by (Khan, 2023), Prioritizing D&I in HR strategy can stimulate creativity, increase employee engagement, and ultimately achieve overall organizational prosperity. This mechanism for achieving prosperity is supported by the principle of equity, which guarantees equal access to resources, benefits, and opportunities, thereby creating balanced competition and ensuring that every individual has a fair chance to succeed and thrive (Chukwudi & Eusebius, 2023). Furthermore, an inclusive work environment as emphasized by (Shore et al., 2018) promoting open dialogue, collaboration, and psychological safety, which allows employees to express themselves without fear of discrimination.

Thus, D&I functions as a mutually reinforcing ecosystem: equity creates a fair foundation, diversity brings diverse perspectives, and inclusion fosters a culture of mutual respect, which together accelerate innovation, engagement, and organizational performance.

#### **e. Employee Engagement**

Kahn (1990) in (Klaaren, 2024) defines employee engagement as “the harnessing of organization members' selves to their work roles,” which means the commitment of organization members to their work roles. Engaged employees are able to express themselves physically, cognitively, and emotionally in their work, while disengaged employees tend to



withdraw or detach themselves from their work roles, which can reduce organizational performance.

This concept developed into Schaufeli and Bakker's (2004) more operational model of work engagement, with three core dimensions, namely :

- 1) Vigor; Employees have high enthusiasm and mental strength when completing work in the company.
- 2) Dedication; Enthusiasm in work so that work is inspiring, a valuable experience, and challenging.
- 3) Absorption; Employee behavior that shows full attention to the company and seriousness in their work.

This definition is reinforced by various contemporary experts such as (Gannon & Hieker, 2022; Noni, 2021) which consistently emphasizes engagement as a positive attitude that goes beyond mere job satisfaction, namely voluntary loyalty, intrinsic commitment, and extra effort to achieve organizational goals. Meanwhile, according to (Hameduddin & Lee, 2023) *Employee engagement* which is a form of employee attitude that exceeds what the company expects of its employees; they are caring, dedicated, enthusiastic, responsible, and focused.

Causally, employee engagement serves as a crucial mediator between contextual factors (such as organizational support, procedural justice, and job design) and organizational outcomes such as individual performance, organizational citizenship behavior, employee retention, and overall productivity. Engaged employees demonstrate enthusiasm, extra responsibility, and a long-term orientation toward the company's success (Chand Singh et al., 2025).

#### **f. Social-ESG Performance**

Global Reporting Initiative Standards (2016) Dividing specific topic standards into three series: 200 (economy), 300 (environment), and 400 (social). The social dimension of ESG is formulated through the GRI 400 series of standards, which regulate the impact of organizations on the social systems in which they operate (employees, communities, customers, suppliers, and the wider community). Meanwhile, Diversity, Equality and Inclusion are covered in the GRI 405 series standard: Diversity and Equal Opportunity and GRI 406: Non-discrimination (incidents of discrimination and corrective actions). Main focus (GRI 405, 2016) is the impact of the organization on diversity and equal opportunity in the workplace (gender, age, minority groups) and how the organization manages these issues. GRI 405 emphasizes that promoting diversity and equal opportunity in recruitment, promotion, and remuneration policies is important for reducing gender bias and retaining a high-quality workforce.

(GRI 406, 2016) focuses on the impact of discrimination, including harassment, on organizations and how organizations prevent and handle such incidents. By definition, discrimination includes unequal treatment that imposes an unfair burden or denies benefits based on factors other than individual merit, and may include harassment if it constitutes unwanted behavior that has a negative impact on the victim.



ESG social performance encompasses a company's achievements and impact in various social aspects such as labor rights and welfare, diversity & inclusion, community relations, and respect for human rights. (Serafeim et al., 2019). Good ESG social performance serves to build reputation, increase stakeholder trust and support, provide reputational “protection” during crises, reduce capital costs and risk, and attract and motivate employees, thereby increasing satisfaction and productivity (Liang & Renneboog, 2020). Within the framework (Lindsey et al., 2021), ESG (including the social dimension) becomes a “channel” for expressing investors' prosocial values; the larger the investor base that cares about labor, human rights, and community issues, the stronger the incentive for companies to improve their ESG social performance in order to remain attractive to them.

#### g. Previous Research

Researcher (Year)	Research Title	Research Results
(Tumewang et al., 2024)	The effects of diversity and inclusion on ESG performance: A comparison between Islamic and conventional banks	The practice of diversity, inclusion, and people development (DIP) has a positive and significant effect on banks' ESG performance, and this effect is stronger in Islamic banks than in conventional banks.
(Pareek et al., 2025)	Genderdiversity and corporate sustainability performance: empirical evidence from India	Research on 212 non-financial companies listed on the NSE India (2013/2014–2018/2019) found that the proportion of female directors on the board (gender diversity) had a positive and significant effect on ESG scores as corporate sustainability performance.
(Zhu et al., 2025)	Ethical leadership, organizational learning, and corporate ESG performance: A moderated mediation model	Ethical leadership (which includes fairness, integrity, and listening to employees) has a significant positive impact on ESG performance in SMEs in China.
(Eshete et al., 2025)	Inclusive leadership and employees' workplace performance: The mediating role of employee engagement in five-star hotels in Addis Ababa	Inclusive leadership is strongly and positively correlated with employee engagement, meaning that the more inclusive a leader is, the higher the level of employee engagement.
(Tjahjanto et al., 2025)	Sustainability Leadership and Employee Engagement: A Key Driver of Productivity in Indonesian Companies	Sustainable leadership increases employee engagement, and it is this engagement that drives employee productivity, while ESG implementation does not have a significant



Researcher (Year)	Research Title	Research Results
		direct impact if it is not accompanied by inclusive leadership practices.
(Gannon & Hieker, 2022)	Employee Engagement and a Company's Sustainability Values: A Case Study of a FinTech SME	Corporate sustainability values and practices (ESG) have a strong influence on employee engagement and the attractiveness of a company as a place to work, as reflected in the high percentage of employees who consider ESG important for the FinTech sector, important for themselves, and necessary to be placed at the forefront of corporate strategy.
(Lulewicz-Sas et al., 2025)	Examining the impacts of environmental, social and governance (ESG) on employee engagement: a study of Generation Z	For Generation Z employees, ESG practices that focus on social aspects and corporate governance have a positive and significant effect on employee engagement, while environmental ESG practices do not show a significant relationship.

Based on the table above, it can be seen that current knowledge has already examined some of the relationships proposed in this study, but each separately. Research (Pareek et al., 2025; Tumewang et al., 2024; Zhu et al., 2025) demonstrating the positive influence between DEI and ESG performance. Research (Eshete et al., 2025; Tjahjanto et al., 2025) shows the relationship between D&I and Employee Engagement. Research (Gannon & Hieker, 2022; Lulewicz-Sas et al., 2025) shows a positive relationship between employee engagement and ESG. However, there has been no research or literature review that combines these three variables simultaneously. This gap will be filled by this literature review, which proposes and analyzes a conceptual model in which Employee Engagement serves as a mediating pathway connecting Inclusive Diversity with ESG Social Performance. Thus, this study connects various separate lines of research into a more comprehensive and mechanistic understanding.

**h. Research Gap**

Although the direct relationship between the variables is becoming clear, there is still no model that combines all three of them holistically in a single mediation framework. There has been no literature review that specifically suggests and analyzes Employee Engagement as the main mediating mechanism linking Inclusive Diversity and ESG Social Performance. Therefore, this literature review aims to address this gap by combining the results of three different studies to create a consistent and theory-based conceptual model.

**2. RESEARCH METHOD**

This research is a literature review designed to provide a comprehensive overview and identify research gaps related to the topic under study.



Data Sources: Leading academic databases (Sage, Scopus, Emerald, Elsevier, Sinta Journal, Google Scholar).

Keywords: Using a combination of Boolean keywords (AND, OR) covering three core concepts:

- ✓ Inclusive Diversity (e.g., inclusion, diversity management)
- ✓ Employee Engagement (e.g., employee engagement)
- ✓ Social ESG (e.g., social performance, CSR).

Articles were selected based on strict inclusion and exclusion criteria:

- ✓ Time: Published between 2018 and 2025.
- ✓ Type: Peer-reviewed empirical or review journal articles.
- ✓ Language: Indonesian or English.
- ✓ Context: Business/corporate organizations (not the public sector/NGOs/pure education).
- ✓ Research Focus: Must discuss at least two of the three key research variables.

Data Analysis Procedure:

- Data from selected articles were extracted into a matrix table to compare elements such as researchers, objectives, methodology, results, and conclusions.
- Data analysis was conducted descriptively..

### 3. RESULT AND DISCUSSION

#### a. Direct Relationship: Inclusive Diversity as the Foundation and Driver of ESG Social Performance

##### 1) Causal Mechanism: Three Pathways of Transformation from Inclusion to Social-ESG Performance

The contribution of inclusive diversity to ESG social performance is not straightforward. It occurs through several mutually reinforcing causal pathways. From the literature review, three main transformation mechanisms have been identified:

##### a) Strengthening the Foundations of Ethics, Compliance, and Employee Welfare

An inclusive work environment is based on the principle of procedural justice, which means that work processes must be transparent and consistent. In addition, there is also distributive justice, which relates to outcomes such as salaries and promotions (Serafeim et al., 2019). These principles are linked to existing social standards within sustainability reporting frameworks such as the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). By creating a fair and non-discriminatory work system, companies naturally fulfill basic human rights principles and build healthy relationships between employees and management. This fair treatment reduces the risk of employee rights violations, strikes, and lawsuits. In addition, it also improves employee psychological well-being and loyalty. The results can be seen from an increase in ESG scores, such as Labor-Management Relations, Occupational Health & Safety, and Equal Pay. (Fahrizal et al., 2025; Sofiati & Mita, 2024).



#### b) Improving Collaborative Thinking Skills for Innovation and Solving Social Problems

Teams composed of diverse demographic backgrounds and working in inclusive environments have access to a variety of perspectives, experiences, and knowledge. Inclusive leadership is essential to ensure that all these voices are heard and utilized in decision-making (Eshete et al., 2025; Zhu et al., 2025). This improved collective thinking ability helps organizations better understand the needs and expectations of various parties, such as local communities, customers from various backgrounds, and suppliers. The result is an improved ability to design corporate social responsibility (CSR) programs, community engagement activities, and more innovative and effective product or service solutions to solve complex social problems. This performance is reflected in the improvement of the Relationships with the Community and Customer Privacy & Security aspects in the ESG report.

#### c) Strengthening Organizational Reputation, Attracting Top Talent, and a Supportive Work Environment

An organization's serious commitment to diversity and inclusion (D&I) sends a strong signal to the labor market, consumers, and investors about the company's values and ethics. A reputation as a fair and inclusive employer directly increases the company's appeal to the best talent from various backgrounds, especially the younger generation who are now increasingly considering ESG factors when choosing a career (Huang & Qiu, 2023). This positive reputation also enhances social relationships and public trust, which directly improves the scores of two indicators in ESG assessments, namely Talent Attraction & Retention and Social Reputation. On the other hand, it creates a supportive work environment. A good reputation attracts more diverse and high-quality talent, which ultimately strengthens an innovative and inclusive culture. All of this enhances the company's overall social performance and sustainability (Cai et al., 2024).

### 2) The Central Role of Leadership: From Ethical Compass to Emotional Bridge

Leadership serves as an intermediary that translates the values of Inclusive Diversity from the strategic level into concrete daily operational practices. This role manifests in two complementary forms:

- ✓ Ethical Leadership as a Moral Compass: Leadership characterized by high integrity, transparency, and a long-term focus on the interests of all stakeholders creates the cultural foundation necessary for meaningful ESG performance. Ethical leaders serve as role models. They ensure that business decisions, including those related to social aspects, are not sacrificed for short-term gains. (Zhu et al., 2025).
- ✓ Inclusive Leadership as an Emotional and Operational Bridge: While ethical leadership explains “why,” inclusive leadership explains “how.” Inclusive leaders actively invite participation, show empathy, share power, and value the unique contributions of each team member (Deepalakshmi et al., 2025; Eshete et al., 2025).
- ✓



### 3) Multilevel Empirical Evidence: From the Board of Directors to the Front Line

Empirical support for this relationship is strong and emerges from various levels of the organization, providing a holistic picture.

#### a) At the Board and Governance Level (Top-Down Influence)

- ✓ Board Gender Diversity (BGD): A large number of cross-country and cross-sector studies have consistently found a positive relationship between BGD and ESG performance and disclosure, especially the social pillar. The presence of women on boards is associated with better reporting on social issues (Dempere, 2023; Grau & Bel-oms, 2025), lower ESG risk rating (Kristianti, 2024; Muhammad & Farooq, 2025), and adopt stronger CSR policies (Malinis & Tan, 2025; Ozgun et al., 2025). The mechanism includes stricter supervision and risk avoidance (Aladwey et al., 2025), as well as stronger advocacy for integrating Gender Equality, Diversity, and Inclusion (EDI) policies into core strategies (Afzal & Lyu, 2025). Characteristics often associated with female leadership, such as risk aversion, ethical sensitivity, and community orientation, contribute to these results (Angelia & Yanti, 2025; Yahya, 2025).
- ✓ Cultural Diversity: (Adibah et al., 2025; Khelifi et al., 2025) presenting research results that show that cultural diversity in boards and executive teams has a positive relationship with ESG performance, especially in social aspects, because cultural diversity provides a deeper perspective for understanding multicultural markets and stakeholders.

#### b) At the Employee Level (Bottom-Up Activation)

(Fahrizal et al., 2025; Tumewang et al., 2024) shows that at the Employee Level (Bottom-Up Activism), inclusive work units are more likely to support ESG social collaboration indicators, where work unit inclusiveness encourages more proactive participation in occupational health and safety programs, contributes more effectively to the training process, and encourages collaborative conflict resolution. At the grassroots level, inclusion makes ESG values active in everyday life.

### 4) Crisis and Equilibrium: Understanding Limits and Contingencies

Although the available evidence mostly supports a positive relationship, there are points noted in the literature that remind us not to oversimplify this issue, namely:

- ✓ Diversity Paradox: Demographic diversity without an inclusive environment cannot be beneficial and can lead to friction, negative stereotypes, and decreased team social cohesion. (Shore et al., 2018).
- ✓ The Influence of Institutional Context; Several studies, such as those conducted by (Manita & Bruna, 2018) No significant relationship was found between BGD and ESG disclosure in certain contexts. These findings can often be explained by macro factors such as weak legal protection for minority groups, market opacity, and strict social norms, whereby the provision of stricter protections actually creates disadvantages. In



other words, despite the existence of diversity, the benefits of diversity may be avoided or not realized in an institutional ecosystem that is not supportive.

- ✓ Interaction with Other Variables: The D&I effect also interacts with other governance variables. For example, board independence and company size are often positively associated with ESG disclosure, while CEO duality (a CEO who also serves as Chairman of the Board) results in a negatively associated relationship (Ali & Arvian, 2023). This confirms that D&I is part of a subsystem within a complex order.

## 5) Implications and Transition to Mediation Mechanisms

In theory, these findings require a shift from the previous approach (linear cause-and-effect model) to an ecological model with multilevel, contextual, and interactive relationships with D&I and ESG. In practice, these implications reflect a major improvement in the need to more closely integrate D&I strategies with ESG and core business strategies, with an emphasis on building an inclusive culture rather than having target representation figures. However, this synthesis leads to one central question: how exactly is an inclusive environment created by leadership and policies ‘driven’ to generate collective behavior that promotes social performance? This is the gap identified by (Lindsey et al., 2021). Their relationship is neither automatic nor mechanistic. There is a psychological driving mechanism that the author refers to as the ‘core’ of the process that converts organizational structure and climate into individual motivation and action. To understand this organizational ‘black box’, analysis needs to go beyond direct relationships. Employee Engagement is proposed as a key mediating mechanism that explains how D&I achieves improved ESG social performance. This will be discussed in the following sub-section.

### b. Direct Relationship: Inclusive Diversity as the Psychological Foundation of Employee Engagement

#### 1) Psychological Safety: The Foundation for Having the Courage to Engage Fully

The first and most fundamental psychological mechanism is the creation of psychological safety. Inclusive leadership practices and organizational policies that actively value diversity create a collective belief that individuals can “be themselves” at work without fear of negative consequences, such as being humiliated, ignored, or punished for expressing unique opinions or admitting mistakes (Deepalakshmi et al., 2025; Eshete et al., 2025). This sense of security acts as a buffer against the anxiety and stress that often accompany social interactions in diverse teams. With the emotional burden of constantly “censoring” oneself or pretending reduced, employees' cognitive and emotional energy, which was previously drained, can be redirected and fully invested in their work. Studies (Fahrizal et al., 2025) explicitly shows that the effect of inclusive leadership on employee engagement is significantly mediated and reinforced by the presence of psychological safety. In a safe environment, employees are not only engaged, but dare to engage with vigor and absorption, because they are confident that their contributions will be accepted and appreciated.



## 2) Sense of Ownership and Organizational Justice: Triggering Dedication and Commitment

The second mechanism is the fulfillment of the need for belonging and the perception of organizational justice. Through Inclusive Diversity and the process of social identity recognition, this sends a strong message to each individual that they are legitimate and valued members of the workplace community (Shore et al., 2018). Individuals' emotional attachment to an organization is strengthened when they feel fully accepted for all their backgrounds, identities, and experiences. Perceptions of fairness, both procedural and distributive, serve as catalysts for this process. Based on Social Exchange Theory (Blau 1964), fair treatment and organizational support are viewed as social “investments” by the company. In return, employees tend to build reciprocal norms represented in affective commitment, loyalty, and dedication to the organization (Hameduddin & Lee, 2023; Sitorus & Rachmawati, 2024). Research conducted by (Adam & Alfawaz, 2025; Triadi, 2024) supports this, as it shows that companies with strong D&I practices have better employee commitment and engagement because employees feel valued and supported.

## 3) Empowerment and the need for autonomy are the main drivers of our inner motivation

The third mechanism is empowerment and fulfillment of autonomy needs. An inherently inclusive environment encourages decentralization of voices and involves employees from various levels and backgrounds in relevant decision-making. This empowerment can take the form of delegation of authority, involvement in problem solving, or freedom in work methods that directly fulfill basic psychological needs for autonomy (Siyal, 2024; Tjahjanto et al., 2025). When employees feel they have control and choice over their work, and see that their ideas are heard and considered, their intrinsic motivation increases. They no longer work just to fulfill extrinsic obligations, but because they feel responsible for and ownership of the results of their work. This encourages a deeper and more sustainable form of engagement. Furthermore, leadership based on sustainability principles, which is often equated with inclusive leadership, has been shown to directly increase engagement by strengthening the meaning of work and the sense of contributing to a greater purpose (Tjahjanto et al., 2025).

## 4) Theoretical Convergence: The JD-R Model as a Unifying Framework

The three mechanisms mentioned above are all part of the JDR-R Model. Within this framework, Inclusive Diversity, which encompasses things such as inclusive leadership, fairness, and safety, serves as the best resource for work. This resource fulfills three basic psychological needs, namely:

- a) Connectedness: Feeling a sense of belonging and strong social bonds formed within the welcoming team (Shore et al., 2018)
- b) Autonomy: Empowerment and involvement in decision-making make things happen (Siyal, 2024)



- c) **Competence:** Fulfilled through equal access to development opportunities and a fair environment that allows individuals to demonstrate their abilities without bias (Chukwudi & Eusebius, 2023).

When we fulfill our basic needs, this initiates the motivation process in the JD-R Model, which increases our energy (we feel more enthusiastic) and our commitment (we are more dedicated) to our work and the company.

### **5) Implications: From Psychological Capital to Organizational Excellence.**

Thus, investing in Inclusive Diversity is more than just a matter of ethics or compliance; it is a direct strategic investment in the psychological capital of the organization. The resulting employee engagement is an invaluable intangible asset. Engaged employees are not only more productive (as demonstrated in the context of the hospitality sector by (Siyal, 2024), and generally by (Eshete et al., 2025), However, they are also more innovative, more resilient in the face of change, and have become the most convincing brands. They serve as a bridge between ESG policies formulated at the board level and actual operational implementation in the field. Therefore, building an inclusive environment is an important first step in creating fertile psychological conditions for engagement. However, the next question is: How is the engagement fostered by this inclusion then translated into collective actions and behaviors that directly improve ESG social performance? To answer this, we must examine the role of Organizational Citizenship Behavior (OCB) as the primary mediating mechanism, which will be elaborated in the next section.

#### **c. Direct Relationship: Employee Engagement as the Driving Force Behind ESG Social Performance**

##### **1) Organizational Citizenship Behavior (OCB): Building a Healthy Internal Social Ecosystem**

Employees who have high levels of vigor, dedication, and absorption are intrinsically motivated to go beyond the formal demands of their jobs. This motivation is reflected in Organizational Citizenship Behavior (OCB), which are voluntary actions that support the social and psychological functioning of the organization (Murdiono et al., 2025). OCB manifests itself in two main dimensions:

- (1) OCB-Individual (OCB-I): Helping behavior toward coworkers (altruism), such as mentoring new members, sharing knowledge, or providing emotional support during stressful times.
- (2) OCB-Organization (OCB-O): Behavior that demonstrates courtesy, sportsmanship, and vigilance in protecting the company's assets and reputation.

This collection of prosocial behaviors directly creates a more cooperative, supportive, and humane work environment. Such an environment is the foundation of many ESG social indicators. For example, a culture of mutual assistance and collective vigilance contributes directly to improved occupational safety and health (OSH), a key metric in SASB standards. Similarly, harmonious interpersonal relationships and constructive conflict resolution directly strengthen scores in the “Labor-Management Relations” and “Work Climate” aspects of the



ESG reporting framework (Ganeshan, 2024). In other words, attachment-driven OCB is a micro-mechanism that builds a robust internal social ecosystem, which is a prerequisite for superior corporate social performance.

## 2) Advocacy from Within: Talent as Ambassadors of Social Reputation

Psychologically committed employees internalize the values and identity of the organization. As a result, they become the most authentic and credible brand ambassadors. (Triadi, 2024). In the era of social media and transparency, employee testimonials about fair, inclusive, and meaningful work experiences have a reputation leverage that far exceeds any corporate communication campaign. These employee advocates actively recommend the company as an ideal workplace within their professional and social networks, thereby significantly enhancing employer branding and attractiveness to high-quality and diverse talent (Huang & Qiu, 2023). This reputation effect is a virtuous cycle. A positive reputation as an employer of choice not only attracts more talent, but also strengthens the company's image as a socially responsible entity in the eyes of consumers, investors, and regulators. This strong social reputation is a highly valuable intangible asset that directly contributes to improved scores in the "Reputation" and "Talent Attraction & Retention" pillars of various ESG assessments. Thus, employee engagement functions as a reputation-generating engine that operates from the inside out.

## 3) Continuous Innovation and Proactive Participation: From Compliance to Ownership

Engaged employees do not just carry out orders, but feel emotionally connected to the organization's vision and goals, including its commitment to sustainability (Lee & Luppi, 2025; Zhang et al., 2024). This sense of ownership encourages them to proactively identify opportunities for improvement, propose innovative ideas that align with ESG values, and voluntarily devote their time and energy to corporate social responsibility (CSR) programs or volunteer initiatives. A study by (Mansour et al., 2025) This argument is reinforced by showing that modern work environments characterized by autonomy, clear goals, and high engagement are significantly more successful in implementing and achieving ESG program targets than traditional work environments. This intrinsic engagement transforms ESG programs from mere compliance obligations into vibrant collective movements. Active employee participation not only increases the impact and credibility of social initiatives, but also ensures that these programs are relevant to the real context and needs, as they are designed and implemented by the people who best understand day-to-day operations.

## 4) Implications and Synthesis: Connecting the Dots

The above evidence clearly places employee engagement as a crucial variable in the journey toward exceptional social ESG performance. Engagement is not an end in itself, but rather a dynamic psychological resource that triggers important behaviors (OCB, Advocacy, Innovation) that build a company's social capital and prestige. However, this analysis presents a rather deep conceptual puzzle: Is the relationship between Inclusive Diversity and Social ESG Performance a direct one, or is it actually routed and amplified through the psychological and behavioral conditions of employees? In other words, is employee engagement merely a parallel



byproduct of Inclusion, or is it a vital connecting bridge? The literature suggests that an Inclusive Environment creates conditions in which Engagement flourishes (as discussed in 4.2), and Engagement in turn drives behaviors that enhance social performance (as discussed in 4.3). This suggests the possibility of an indirect or mediating pathway.

Therefore, to fully understand the transformative mechanism from diversity to performance, we need to investigate the proposition that Employee Engagement mediates the relationship between Inclusive Diversity and ESG Social Performance. By internalizing these three elements inclusion structure, psychological conditions, and prosocial collective behavior we can build a more comprehensive and robust model to explain how organizations can generate inclusive value into sustainable social excellence. This mediation will be the focus of our next synthesis.

### **5) Integration and Mediation Model Proposition: Employee Engagement as a Driving Mechanism that Transmits Inclusion into Social Action**

A comprehensive synthesis of the three relationship streams discussed, namely:

- (1) between Inclusive Diversity (X) and ESG Social Performance (Y),
- (2) between Inclusive Diversity (X) and Employee Engagement (M), and
- (3) between Employee Engagement (M) and ESG Social Performance (Y), leads to a coherent and nuanced conclusion.

Although there is strong evidence for each of these direct relationships, understanding the “how” mechanism of how inclusive values precisely lead to measurable improvements in social performance often remains hidden in the organizational “black box.” (Lindsey et al., 2021). This literature review argues that the relationship between Inclusive Diversity and ESG Social Performance is not a simple and direct mechanistic relationship, but rather a transformative process mediated by the collective psychological conditions of employees.

Therefore, this review proposes the following core proposition: Employee Engagement functions as a significant partial mediating mechanism, explaining most of the causal pathways from Inclusive Diversity to improved Social ESG Performance.

### **6) Deconstruction of the Proposed Mediation Model: Three Interconnected Causal Pathways**

The proposed mediation model can be deconstructed into a triad of interconnected causal pathways, forming a coherent flow from policy to impact.

- ✓ Pathway A (X→M): From Inclusive Infrastructure to Psychological Attachment.

Inclusive Diversity realized through inclusive leadership (Deepalakshmi et al., 2025; Eshete et al., 2025), organizational justice (Hameduddin & Lee, 2023; Sitorus & Rachmawati, 2024) and an empowering environment (Siyal, 2024; Tjahjanto et al., 2025) is a multi-faceted and diverse resource. This resource actively fulfills employees' basic psychological needs for psychological safety, belonging, autonomy, and competence (Bakker et al., 2007; Shore et al., 2018). As outlined in the Job-Resource Demand Model (JD-R), fulfilling these needs activates a motivational pathway that results in energetic and resilient employee



engagement characterized by enthusiasm, dedication, and absorption. Therefore, an inclusive environment is fertile ground in which engagement thrives.

- ✓ Path B (M → Y): From Psychological to Social Behavior that has an Impact  
Positive Social Psychological State manifested as high affiliation is not an end point; rather, it is a dynamo that activates behavior. Emotionally and cognitively engaged employees develop a more substantial sense of ownership related to the social domain of organizational achievement, although not exclusively (Lee & Luppi, 2025; Zhang et al., 2024). Such bonds activate discretionary and prosocial voluntary work behaviors, which cumulatively form internal social capital. The key behaviors are as follows:
  - a) Organizational Citizenship Behavior (OCB): Helping coworkers and protecting the interests of the organization, which promotes a cohesive work environment and directly improves workplace health and ESG industrial relations metrics (Murdiono et al., 2025).
  - b) Internal and External Advocacy: Acting as a worthy brand ambassador, thereby enhancing the company's social responsibility as an employer of choice and a highly respected and socially responsible entity, which positively influences ESG reputation and talent attractiveness (Ganeshan, 2024; Huang & Qiu, 2023).
  - c) Social Innovation and Proactive Participation: Voluntarily contributing ideas and time to social solutions or CSR initiatives that effectively benefit and impact the company's social programs (Lee & Luppi, 2025; Mansour et al., 2025).
- ✓ Path C' (X → Y): Remaining Influence Traces  
In this model, we see that even though employee engagement is the main pathway, there is a direct influence from Inclusive Diversity that may still operate, not entirely connected to engagement. It is as if there is another stream flowing beneath the surface, and this influence can emerge in several interesting ways:
  - a) Strategic Decision-Making at the Board Level: Imagine that gender and cultural diversity on the board, a colorful portrait, can influence policy and oversight of social issues in unique ways. This diverse perspective, with an emphasis on reputational risk, could be the key to opening new avenues (Aladwey et al., 2025; Ozgun et al., 2025).
  - b) Rapid External Reputation Signals: When companies demonstrate a public commitment to D&I, a positive vibe spreads. This can immediately change the way investors and stakeholders view a company's social performance, even before internal changes are actually visible. (Sofiati & Mita, 2024).
  - c) Policy Framework and Systems that Directly Improve Compliance: By implementing anti-discrimination policies and fair procedures, we can experience a breath of fresh air in the form of a reduction in labor rights violations. This happens regardless of how tied individuals are to the organization. (Serafeim, 2021).

The most relevant relationship to this study proposes the following integration and mediation model: Employee Engagement as a Driving Mechanism for Inclusion in Social Action. The convergence of flows in the relationships between Inclusive Diversity (X) and



Social ESG (Y), Inclusive Diversity (X) and Employee Engagement (M), and Employee Engagement (M) and Social ESG (Y) leads to conclusions that sound coherent. Each of these relationships has empirical evidence. However, this evidence has little value without an understanding of the mechanisms by which inclusivity and social performance intersect. In organizations, this understanding is often treated as a black box (Lindsey et al., 2021). The literature review argues that the correlation between Inclusive Diversity and Social ESG is not merely a correlation and is not direct and mechanical. Rather, it is a transformative process, in which the collective psychological state of employees is a mediating variable. The review makes the following core proposition: Employee Engagement is a significant and partial mediating mechanism that explains most of the causal chain from Inclusive Diversity to Social ESG Performance.

#### 4. CONCLUSION

This study reveals something interesting, namely that the relationship between inclusive diversity and ESG social performance is not direct. Instead, there is a winding path that must be traversed, where Employee Engagement acts as a bridge. Imagine a friendly work environment that meets the psychological needs of employees, making them feel valued and involved. When that happens, their enthusiasm soars. This involvement manifests itself in extraordinary behaviors, such as OCB, advocacy, and social innovation, all of which contribute to the organization's social capital and, in turn, improve ESG social performance. So, it can be said that employee engagement is the primary driver that translates the value of inclusion into tangible results. Theoretically, this model extends Social Exchange Theory and the Job Demands Resources Model into the ESG realm, highlighting the importance of psychological processes and behavior, not just demographic structures and policies. It's like opening a black box that has been hidden, revealing how inclusion can produce significant social outcomes. In one coherent model, SET, JD-R, and ESG come together. On the practical side, the implications are transformative. ESG, DEI, and business functions can no longer operate in isolation; they must be interconnected. Employee engagement must become the primary indicator of social performance; inclusive leadership must become a core competency for every manager. Investing in an inclusive culture and measuring engagement? That is a strategic move directly linked to improved ESG social performance and business sustainability. Companies are also encouraged to develop more comprehensive reporting that explicitly shows how an inclusive culture drives engagement, which in turn generates positive and measurable social outcomes.

However, there is an important caveat here. This research has limitations. It is based on a qualitative narrative review, without effect size estimates, and is susceptible to publication and context bias (especially large companies in developed countries). Furthermore, because it relies on correlational studies, causal claims still need to be further tested. Therefore, for future research, it is recommended to test this model quantitatively, possibly with SEM, exploring moderating factors such as organizational culture, regulations, and leadership types. Do not forget to expand the context to SMEs, the public sector, and developing countries, and



complement it with in-depth qualitative studies to understand how these mediating mechanisms work and the challenges faced in daily practice.

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