

Linking Workforce Diversity to Team Performance: A Mediated–Moderation Model of Knowledge Sharing and Inclusive Leadership

W. D. N. S. M. Tennakoon

Department of Business Management, Wayamba University of Sri Lanka

Email: tennakoon@wyb.ac.lk

Abstract: In contemporary organizations, workforce diversity has become both a strategic asset and a managerial challenge. While prior research has established mixed findings regarding the diversity–performance relationship, limited empirical evidence exists within team and developing country contexts, particularly in the manufacturing sector. Drawing on Social Identity Theory, this study conceptualizes and examines the relationship between workforce diversity and team performance, incorporating knowledge sharing as a mediating mechanism and inclusive leadership as a moderating condition. A quantitative, cross-sectional research design was employed using survey data collected from employees in a Sri Lankan manufacturing firms with analysis done in moderated- mediation in Process. The findings reveal that workforce diversity has a significant positive impact on team performance. However, the relationship is partially explained through knowledge sharing, suggesting that diverse teams perform better when knowledge exchange is facilitated. Furthermore, inclusive leadership strengthens this relationship by fostering an environment of trust, openness, and collaboration. Among diversity dimensions, gender diversity showed a significant positive effect, while age and educational diversity were not statistically significant predictors. The study contributes to the literature by integrating mediating and moderating mechanisms into the diversity–performance link within an under-researched context. Practical implications highlight the importance of leadership and knowledge management practices in leveraging diversity for enhanced team effectiveness.

Keywords: *Workforce Diversity, Team Performance, Knowledge Sharing, Inclusive Leadership, Social Identity Theory*

Introduction

Organizations today operate in highly globalized and rapidly evolving environments where workforce diversity has become both inevitable and strategically important. Workforce diversity, which includes differences in age, gender, education, and professional experience, is increasingly recognized as a source of innovation, adaptability, and competitive advantage (Guillaume et al., 2017; Nishii, 2013). Diverse teams often contribute broader perspectives, richer information processing, and stronger problem-solving capabilities, thereby enhancing creativity and decision-making (Post & Byron, 2015; Khassawneh et al., 2022). However, diversity does not

automatically improve performance outcomes. While heterogeneity can stimulate innovation, it may also create communication difficulties, interpersonal conflict, and reduced team cohesion when not effectively managed (Thatcher & Patel, 2016; Verwijs & Russo, 2023).

This tension is particularly important in manufacturing organizations, where operational efficiency, coordination, and teamwork are essential for maintaining productivity and quality standards. Manufacturing work environments typically involve high task interdependence and routine operational processes, making effective collaboration critical for organizational success (Mathieu et al., 2017; Salas et al., 2018).

In developing economies such as Sri Lanka, the manufacturing sector plays a vital role in employment generation, export earnings, and industrial growth. Despite its economic significance, limited empirical attention has been given to how workforce diversity influences team performance within Sri Lankan manufacturing organizations. Most existing diversity studies are concentrated in Western, service-oriented, or knowledge-intensive sectors, limiting the applicability of findings to manufacturing settings characterized by operational constraints and structured work systems (Wallrich et al., 2024; Rafaqat et al., 2022).

Moreover, prior studies report inconsistent findings regarding the diversity–team performance relationship. While some studies identify positive effects of workforce diversity on team outcomes, others report negative or insignificant relationships (Wang et al., 2019; Wallrich et al., 2024). These inconsistencies suggest that prior research has not sufficiently explained how and under what conditions workforce diversity contributes to team performance or the conditions under which such effects occur. In particular, earlier studies have largely overlooked the mechanisms through which diversity translates into performance outcomes and the contextual factors that may strengthen or weaken this relationship.

Recent literature highlights the importance of knowledge-based processes and leadership behaviours in determining the effectiveness of diverse teams (Khassawneh et al., 2022; Nishii, 2013). Knowledge sharing enables employees to exchange and integrate diverse perspectives into collective outcomes, while inclusive leadership promotes trust, openness, and collaboration within teams (Carmeli et al., 2010; Verwijs & Russo, 2023). However, studies that simultaneously examine knowledge

sharing as a mediating mechanism and inclusive leadership as a contextual moderator remain scarce, particularly in developing-country manufacturing contexts.

Addressing this research gap, the present study develops and tests a mediated–moderation framework linking workforce diversity and team performance in the Sri Lankan manufacturing sector. The main objective of the study is to examine the impact of workforce diversity on team performance in selected manufacturing organizations in Sri Lanka. More specifically, the study investigates the effects of age, gender, and educational diversity on team performance while examining the mediating role of knowledge sharing in this relationship. In addition, the study explores whether inclusive leadership moderates the relationship between workforce diversity and knowledge sharing. By focusing on Sri Lankan manufacturing organizations, this study contributes context-specific evidence to the diversity management literature and provides practical insights into how organizations can leverage workforce diversity to improve team effectiveness. Finally, the study evaluates the combined mediated–moderation effect of knowledge sharing and inclusive leadership in explaining how workforce diversity influences team performance. These objectives are directly aligned with the proposed hypotheses and provide the basis for empirically testing the conceptual framework of the study. The findings provide practical insights for managers seeking to leverage workforce diversity to enhance team effectiveness and organizational performance.

Literature Review

The relationship between workforce diversity and team performance has attracted substantial scholarly attention over the past decades, particularly as organizations become increasingly global,

knowledge-driven, and reliant on team-based structures. This section synthesizes the theoretical foundations and empirical evidence underpinning the proposed relationships in this study, with a particular emphasis on the mediating role of knowledge sharing and the moderating role of inclusive leadership. By integrating these perspectives, the review develops a comprehensive understanding of how and under what conditions workforce diversity contributes to team performance.

Theoretical Foundation: Social Identity Theory

This study is anchored in Social Identity Theory (SIT), originally proposed by Tajfel and Turner (1979), which posits that individuals derive part of their self-concept from their membership in social groups. In organizational settings, employees categorize themselves and others based on salient attributes such as age, gender, and educational background, leading to the formation of in-groups and out-groups. These categorizations can influence attitudes, communication patterns, and collaborative behaviours within teams (Ashforth & Mael, 1989; Turner et al., 1987). While in-group identification can enhance cohesion among similar members, it may simultaneously create social distance, stereotyping, and bias toward out-group members, thereby undermining team effectiveness (Hogg & Terry, 2000).

However, contemporary extensions of SIT emphasize that these negative effects are not inevitable. When organizations cultivate inclusive climates and promote a shared superordinate identity, the salience of subgroup distinctions can be reduced, enabling teams to leverage diversity more effectively (Gaertner & Dovidio, 2000; Nishii, 2013). Inclusive environments foster psychological safety, mutual respect, and open communication, which mitigate identity-based conflicts and enhance collaboration (Edmondson & Lei,

2014). Thus, SIT provides a robust theoretical lens to explain both the potential challenges and benefits of workforce diversity, as well as the critical role of contextual factors in shaping outcomes.

Workforce Diversity

Workforce diversity refers to the extent to which employees differ in demographic and cognitive attributes, including age, gender, education, experience, and cultural background. Contemporary literature distinguishes between surface-level diversity (e.g., age, gender) and deep-level diversity (e.g., knowledge, skills, values), both of which influence team processes and outcomes in distinct ways (Harrison et al., 2002; Guillaume et al., 2017). Educational and cognitive diversity are often associated with enhanced creativity, innovation, and problem-solving due to the broader range of perspectives and expertise they bring (Wang et al., 2019; Stahl & Maznevski, 2021). In contrast, demographic diversity tends to produce more variable outcomes, as it may trigger social categorization processes that hinder communication and cohesion (Thatcher & Patel, 2016).

Recent meta-analyses suggest that the overall relationship between diversity and performance is modest but positive, particularly in complex and non-routine tasks that require information elaboration and creative thinking (Wallrich et al., 2024). However, the “double-edged sword” nature of diversity remains evident: while diversity can enhance innovation, it may also increase the likelihood of conflict, miscommunication, and coordination difficulties if not effectively managed (Van Knippenberg et al., 2004; Verwijns & Russo, 2023). These mixed findings highlight the importance of examining the mechanisms and contextual conditions that determine whether diversity translates into positive performance outcomes.

Team Performance

Team performance is widely conceptualized as a multidimensional construct encompassing productivity, quality (often operationalized as error rate), and innovation or creativity (Mathieu et al., 2017; Salas et al., 2018). Productivity reflects the efficiency with which teams achieve their objectives, while quality captures the accuracy and reliability of outputs. Innovation represents the team's ability to generate and implement novel ideas. Contemporary research emphasizes that these dimensions are interrelated yet distinct, requiring different capabilities and processes (Tikas, 2023).

Effective team performance depends not only on team composition but also on team processes such as communication, coordination, and knowledge integration (Kozlowski & Ilgen, 2006). In diverse teams, these processes become even more critical, as differences in perspectives and experiences must be effectively integrated to produce high-quality outcomes. Without appropriate mechanisms, diversity may hinder performance by increasing process losses rather than gains (Bell et al., 2011).

Knowledge Sharing as a Mediating Mechanism

Knowledge sharing is defined as the exchange of information, skills, and expertise among individuals within a team or organization (Nonaka & Takeuchi, 1995). It is a critical mechanism through which the potential benefits of diversity are realized. Diverse teams possess a wider pool of knowledge and perspectives, but these resources contribute to performance only when they are effectively shared, discussed, and integrated (Van Knippenberg et al., 2004; Khassawneh et al., 2022). Empirical studies consistently demonstrate that knowledge sharing enhances team creativity, decision-making quality, and

overall performance (Wang & Noe, 2010; Wang et al., 2019; Mesmer-Magnus & DeChurch, 2009). Moreover, diversity has been shown to stimulate knowledge exchange by introducing novel information and challenging existing assumptions (Cummings, 2004). However, knowledge sharing may be impeded by factors such as lack of trust, communication barriers, and social categorization (Haas & Hansen, 2007). Therefore, knowledge sharing serves as a crucial mediating mechanism that explains how workforce diversity influences team performance, transforming potential diversity-related advantages into tangible outcomes.

Inclusive Leadership as a Moderating Condition

Inclusive leadership refers to leadership behaviours characterized by openness, accessibility, fairness, and a commitment to valuing diverse perspectives (Nishii, 2013; Carmeli et al., 2010). Inclusive leaders actively encourage participation, recognize contributions from all team members, and create an environment where individuals feel respected and valued. Such leadership is particularly important in diverse teams, where differences in background and perspective may otherwise lead to exclusion or marginalization. Research indicates that inclusive leadership enhances psychological safety, reduces interpersonal conflict, and promotes collaboration, thereby strengthening the positive effects of diversity on team outcomes (Randel et al., 2018; Shore et al., 2018). By fostering an inclusive climate, leaders enable team members to share their unique knowledge and perspectives without fear of negative consequences (Edmondson & Lei, 2014). Consequently, inclusive leadership acts as a moderating variable, influencing the strength and direction of the relationship between workforce diversity and team performance.

Hypotheses Development

Drawing on the theoretical and empirical insights discussed above, this study proposes a mediated-moderation framework to examine the relationship between workforce diversity and team performance. First, consistent with prior research, workforce diversity is expected to have a significant impact on team performance, as diverse teams possess a broader range of perspectives and capabilities (Guillaume et al., 2017; Wallrich et al., 2024). Second, knowledge sharing is proposed as a mediating mechanism, as it enables the integration of diverse knowledge and enhances team effectiveness (Khassawneh et al., 2022). Third, inclusive leadership is expected to moderate the diversity–performance relationship by creating an environment that facilitates collaboration and reduces the negative effects of social categorization (Nishii, 2013). Finally, the study examines the individual effects of specific diversity dimensions—gender, age, and educational diversity—to provide

a more nuanced understanding of their contributions to team performance. Accordingly, the following hypotheses are formulated:

H1: Workforce diversity has a significant positive effect on knowledge sharing.

H2: Knowledge sharing has a significant positive effect on team performance.

H3: Workforce diversity has a significant positive effect on team performance.

H4: Knowledge sharing mediates the relationship between workforce diversity and team performance.

H5: Inclusive leadership moderates the relationship between workforce diversity and team performance such that the relationship is stronger at higher levels of inclusive leadership.

The proposed hypotheses are illustrated in the conceptual model presented in Figure 1.

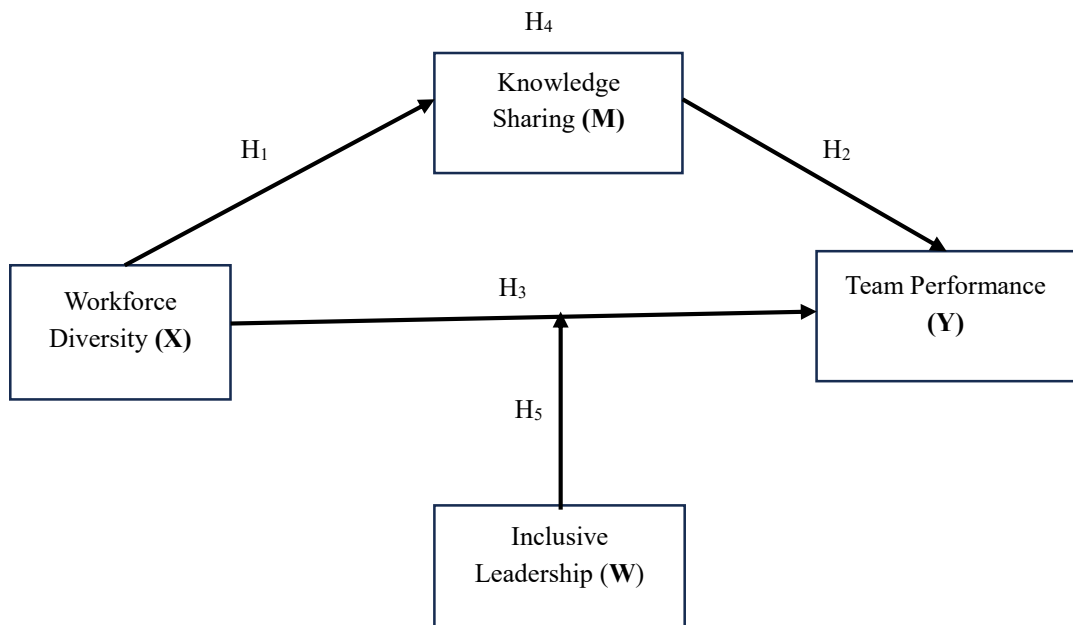


Figure 1: Conceptual Model

Methodology

This study adopts a quantitative, cross-sectional research design grounded in the positivist paradigm and guided by a deductive approach to examine the relationships among workforce diversity, knowledge sharing, inclusive leadership, and team performance. A quantitative strategy is appropriate given the study's objective to test theoretically derived hypotheses and to establish statistically significant relationships among variables (Creswell & Creswell, 2018). The cross-sectional design allows for the collection of data at a single point in time, which is suitable for assessing perceptions of diversity, leadership, and performance within organizational settings (Saunders et al., 2019). The deductive approach is employed to empirically validate hypotheses derived from Social Identity Theory and related literature.

The study was conducted in manufacturing organizations located in the Kurunegala District of the North Western Province of Sri Lanka. The Kurunegala District was selected due to its growing industrial base and the presence of manufacturing organizations operating in sectors such as apparel, food processing, construction-related products, and consumer goods. In addition, the district represents an emerging industrial region outside the Colombo metropolitan area and provides access to a diverse workforce with varying educational, demographic, and professional backgrounds. This context was considered appropriate for examining workforce diversity and team performance within manufacturing environments where coordination, operational efficiency, and teamwork are highly important. The target population consisted of employees working in manufacturing teams within the selected organizations. Manufacturing firms were specifically chosen because team-based coordination and operational interdependence are more prominent in

manufacturing settings, making workforce diversity particularly relevant to team functioning and performance outcomes. Based on the sampling guidelines of Krejcie and Morgan (1970), a target sample size of 384 employees was considered adequate to ensure representativeness and statistical reliability.

Simple random sampling technique was employed to minimize selection bias and ensure that all eligible employees had an equal opportunity to participate in the study. Initially, organizations that granted permission for data collection were identified. Employee lists obtained through the respective human resource departments served as the sampling frame. Respondents were then randomly selected using random number assignment procedures. To compensate for potential non-response and incomplete questionnaires, 420 questionnaires were distributed. Following the data screening process, 327 valid responses were retained for final analysis.

Primary data were collected using a structured, self-administered questionnaire consisting of closed-ended items measured on a five-point Likert scale ranging from "strongly disagree" (1) to "strongly agree" (5). This approach is widely used in organizational research due to its efficiency in capturing employee perceptions and attitudes across multiple constructs (Sekaran & Bougie, 2016). The questionnaire was developed using measurement scales adapted from previously validated studies to ensure content validity and theoretical consistency.

Prior to the main survey, the questionnaire was reviewed by subject experts in human resource management and organizational behaviour to improve clarity, relevance, and contextual suitability for Sri Lankan manufacturing employees. A pilot study involving 30 respondents from manufacturing organizations was

subsequently conducted to assess the clarity, reliability, and practicality of the instrument. Minor wording adjustments were made based on participant feedback, and all pilot-test reliability values exceeded the recommended Cronbach's alpha threshold of 0.70. The measurement of constructs was based on established dimensions in the literature. Workforce diversity was operationalized using three specific indicators: age diversity, gender diversity, and educational diversity. Age diversity referred to differences in employee age composition within teams, gender diversity captured the representation of male and female employees, and educational diversity reflected variations in educational qualifications and academic backgrounds among team members (Guillaume et al., 2017).

Knowledge sharing, the mediating variable, was operationalized using indicators related to information exchange, collaborative learning, willingness to share expertise, and communication among team members (Khassawneh et al., 2022). Inclusive leadership, the moderating variable, was measured using indicators reflecting leader openness, accessibility, fairness, supportiveness, and encouragement of diverse viewpoints (Nishii, 2013; Carmeli et al., 2010).

Team performance was measured as a multidimensional construct encompassing team productivity, quality of work, innovation, coordination, and goal achievement, consistent with prior team effectiveness research (Mathieu et al., 2017; Salas et al., 2018). Ethical considerations were carefully maintained throughout the research process. Participation in the study was entirely voluntary, and respondents were informed about the academic purpose of the research before completing the questionnaire. Informed consent was obtained from all participants, and

anonymity and confidentiality were assured. No personally identifiable information was collected, and respondents were informed that they could withdraw from the study at any stage without any negative consequences.

Before analysis, the collected data were screened and prepared for statistical testing. Incomplete questionnaires, missing values, and potential outliers were carefully examined. Negatively worded items were reverse-coded where necessary to ensure consistency in scale direction. Composite mean scores were then computed for each construct prior to inferential analysis. Data analysis was conducted using IBM SPSS Statistics and the PROCESS macro (Version 4.0) developed by Hayes (2022).

Initially, descriptive statistics, including means and standard deviations, were computed to summarize the characteristics of the data. The reliability of the measurement scales was assessed using Cronbach's alpha coefficients, with values above 0.70 indicating acceptable internal consistency (Hair et al., 2019). Pearson correlation analysis was subsequently performed to examine the strength and direction of relationships among variables. To test the hypothesized relationships, the study employed regression-based analysis using the PROCESS macro, specifically PROCESS Model 5. This model was selected because it allows the simultaneous examination of mediation and moderation effects within a single analytical framework. More specifically, the model enabled the study to test the mediating role of knowledge sharing in the relationship between workforce diversity and team performance while examining whether inclusive leadership moderates the direct relationship between workforce diversity and team performance. Therefore, PROCESS Model 5 was considered appropriate for assessing both the underlying mechanism

and the conditional effect proposed in the conceptual framework.

In this model, workforce diversity (X) influences team performance (Y) both directly and indirectly through knowledge

sharing (M), while inclusive leadership (W) moderates the direct relationship between workforce diversity and team performance. The analytical equations are specified as follows:

$$M = a_0 + a_1X + e_1$$

$$Y = b_0 + c'X + b_1M + b_2W + b_3(X \times W) + e_2$$

Interpretation

$a_1 \rightarrow$ Effect of workforce diversity (X) on Knowledge sharing (M)

$b_1 \rightarrow$ Effect of knowledge sharing (M) on team performance (Y) (mediation path)

$c' \rightarrow$ Direct effect of workforce diversity (X) on team performance (Y)

$b_3 (X \times W) \rightarrow$ Moderation effect of inclusive leadership (W)

Indirect effect ($a_1 \times b_1$) $\rightarrow$ Mediation effect through knowledge sharing

Equation 1 Regression Model

Here, a_1 represents the effect of workforce diversity on knowledge sharing, b_1 captures the effect of knowledge sharing on team performance, c' denotes the direct effect of workforce diversity on team performance, and b_3 represents the interaction effect between workforce diversity and inclusive leadership.

Prior to regression analysis, the assumptions of multiple regression were tested and confirmed. Normality was assessed using skewness and kurtosis statistics, histograms, and normal probability plots. Linearity and homoscedasticity were examined using scatterplots of standardized residuals. The Durbin-Watson statistic was used to assess autocorrelation among residuals.

Multicollinearity diagnostics were also conducted to ensure the independence of predictor variables. Variance Inflation Factor (VIF) values remained below the recommended threshold of 5.0, while tolerance values exceeded 0.10, indicating

that multicollinearity was not a concern in the study.

The indirect effect ($a_1 \times b_1$) was tested using bootstrapping with 5,000 resamples, generating bias-corrected confidence intervals. Mediation is supported when the confidence interval for the indirect effect does not include zero (Hayes, 2022; Preacher & Hayes, 2008). The moderation effect was examined by assessing the significance of the interaction term ($X \times W$), and conditional effects were probed at low, mean, and high levels of the moderator.

Regression outputs were interpreted using standardized beta coefficients, significance values, explained variance (R^2 values), and bootstrap confidence intervals. The significance of indirect effects was determined based on confidence intervals that excluded zero. This analytical procedure enabled a rigorous examination of both the mediating role of knowledge sharing and the moderating role of inclusive leadership in the relationship between workforce diversity and team performance. By

employing PROCESS Model 5, the study provides a robust framework for understanding the complex interplay between diversity, leadership, and team outcomes. This integrated analytical approach enables a rigorous examination of both the mechanism (knowledge sharing) through which workforce diversity affects team performance and the boundary condition (inclusive leadership) that influences the strength of this relationship.

Results

This section presents the empirical findings of the study in relation to the proposed hypotheses and conceptual framework. The analysis proceeds through descriptive statistics, reliability assessment, correlation analysis, and hypothesis testing using regression-based PROCESS Model 5 (Hayes, 2022), which enables simultaneous examination of mediation and moderation effects. The findings are organized to demonstrate how workforce diversity, knowledge sharing, and inclusive leadership influence team performance within Sri Lankan manufacturing organizations.

Descriptive statistics indicate generally favourable perceptions across all study constructs. Respondents reported relatively high levels of workforce diversity, particularly with respect to age, gender, and educational diversity, suggesting that the sampled organizations operate with heterogeneous employee groups. Similarly, team performance recorded comparatively high mean values, indicating positive perceptions regarding productivity, work quality, and innovation within teams. Knowledge sharing and inclusive leadership also demonstrated favourable mean scores, reflecting collaborative work environments and supportive leadership practices. These

findings suggest that the participating organizations maintain work environments conducive to team interaction and performance enhancement.

The reliability analysis confirmed acceptable internal consistency for all measurement scales. Cronbach's alpha coefficients ranged from 0.674 to 0.806, exceeding the recommended threshold for exploratory and organizational research (Hair et al., 2019). Team performance and knowledge sharing demonstrated particularly strong reliability values, while workforce diversity remained within the acceptable lower range. Overall, the results indicate that the measurement scales were sufficiently reliable for subsequent inferential analysis.

The correlation analysis revealed statistically significant positive relationships among all major variables. Workforce diversity demonstrated a moderate positive association with team performance, indicating that higher levels of perceived diversity are linked with improved team outcomes. Knowledge sharing also showed a significant positive relationship with team performance, highlighting the importance of collaborative information exchange within diverse teams. In addition, inclusive leadership was positively associated with both workforce diversity and team performance, suggesting that supportive leadership behaviours contribute to more effective management of workforce heterogeneity. These findings align with prior research emphasizing the importance of relational and knowledge-based processes in diverse teams (Khassawneh et al., 2022; Randel et al., 2018).

Table 1 summarizes the key statistical results related to the proposed hypotheses.

Table 1: Results of Hypotheses Testing

Hypothesis	Proposed Relationship	Statistical Result	Decision
H1	Workforce Diversity → Knowledge Sharing	$\beta \approx 0.48, p < 0.001$	Supported
H2	Knowledge Sharing → Team Performance	$\beta \approx 0.36, p < 0.01$	Supported
H3	Workforce Diversity → Team Performance	$\beta = 0.560, p < 0.001$	Supported
H4	Mediation effect of Knowledge Sharing	Indirect Effect ≈ 0.173 , 95% CI [0.082, 0.291]	Supported
H5	Moderating effect of Inclusive Leadership	Interaction Effect $\beta \approx 0.21, p < 0.05$	Supported

Source: Author, 2026

The regression analysis provided support for H3 by confirming a significant positive effect of workforce diversity on team performance. This finding indicates that diverse teams contribute positively to organizational effectiveness within manufacturing settings. However, when the dimensions of diversity were examined separately, only gender diversity emerged as a statistically significant predictor of team performance. Age diversity and educational diversity did not demonstrate significant direct effects. This suggests that the performance implications of diversity may differ across diversity dimensions and organizational contexts.

The mediation analysis provided support for both H1 and H2 and further confirmed H4. Workforce diversity significantly predicted knowledge sharing, while knowledge sharing significantly enhanced team performance. More importantly, the bootstrapping analysis confirmed a significant indirect effect of workforce diversity on team performance through knowledge sharing, as the confidence interval did not include zero. Since the direct effect of workforce diversity on team performance remained statistically

significant even after introducing the mediator, the results indicate partial mediation rather than full mediation. This finding suggests that workforce diversity improves team performance both directly and indirectly through enhanced knowledge exchange among employees.

The moderation analysis supported H5 by demonstrating that inclusive leadership significantly strengthens the relationship between workforce diversity and team performance. The interaction effect between workforce diversity and inclusive leadership was statistically significant, indicating that the effectiveness of diversity is contingent upon leadership behaviour. Simple slope analysis further clarified this interaction by showing that the positive effect of workforce diversity on team performance becomes substantially stronger under high levels of inclusive leadership, whereas the relationship weakens under low levels of inclusive leadership. These findings emphasize the importance of leaders who promote openness, fairness, participation, and support for diverse perspectives within teams.

Overall, the results support the proposed mediated-moderation framework.

Workforce diversity positively influences team performance both directly and indirectly through knowledge sharing, while inclusive leadership enhances the effectiveness of this relationship. The overall model explained approximately 52% of the variance in team performance, indicating substantial explanatory power within the organizational research context. Collectively, the findings highlight that diversity alone is insufficient to guarantee improved team outcomes; rather, its effectiveness depends on supportive knowledge-sharing processes and inclusive leadership practices that facilitate collaboration and integration among diverse employees.

Discussion

The present study set out to examine the relationship between workforce diversity and team performance through a mediated-moderation framework, incorporating knowledge sharing as a mediating mechanism and inclusive leadership as a contextual moderator. Rather than treating diversity as a uniformly positive organizational resource, the findings demonstrate that the effectiveness of diversity depends largely on how organizations manage interpersonal differences and create conditions that support collaboration. Consistent with Social Identity Theory (Tajfel & Turner, 1979, 2001), the results demonstrate that workforce diversity alone does not automatically translate into improved team performance. For instance, the demographic differences can simultaneously create opportunities for innovation and risks of subgroup formation, communication barriers, and interpersonal tension. This explains why diversity alone did not automatically guarantee higher team performance within the sampled manufacturing organizations. Instead, the effectiveness of diversity is contingent upon how differences are managed, integrated, and leveraged within teams. This aligns with contemporary

perspectives that conceptualize diversity as a “double-edged sword,” capable of producing both positive and negative outcomes depending on team processes and contextual conditions (Van Knippenberg et al., 2020; Verwijs & Russo, 2023).

A key contribution of this study is the identification of knowledge sharing as a partial mediator between workforce diversity and team performance. The findings indicate that workforce diversity positively influences knowledge sharing, which subsequently enhances team performance. This suggests that the value of diversity emerges not merely from the presence of different demographic groups, but from employees’ ability to exchange, integrate, and apply diverse knowledge and experiences within team processes. Diverse teams possess a broader pool of information, skills, and perspectives, but these advantages are realized only when team members actively exchange and integrate their knowledge (Khassawneh et al., 2022; Wang et al., 2019).

However, the present findings extend prior research by demonstrating that knowledge sharing only partially explains the diversity-performance relationship. The presence of partial mediation suggests that while knowledge sharing explains a substantial portion of the relationship, diversity also exerts a direct influence on performance. This is consistent with the information/decision-making perspective, which posits that diversity enhances performance by increasing the range of cognitive resources available to teams (Van Knippenberg et al., 2020). However, without effective knowledge-sharing mechanisms, these potential benefits may remain underutilized or even lead to process losses such as miscommunication and conflict (Haas & Hansen, 2007).

The study further highlights the critical role of inclusive leadership as a moderating variable, demonstrating that the positive relationship between

workforce diversity and team performance is significantly strengthened under conditions of high inclusive leadership. This finding provides stronger theoretical support for the argument that leadership behaviours determine whether diversity becomes a strategic advantage or a source of team fragmentation. It underscores the importance of leadership behaviours that promote openness, fairness, and active participation in diverse teams. Inclusive leaders create psychologically safe environments where individuals feel valued and are more willing to share their ideas and perspectives (Nishii, 2013; Edmondson & Lei, 2014). As a result, the potential negative effects of social categorization—such as in-group bias and interpersonal conflict—are mitigated, allowing teams to capitalize on diversity-related advantages. In practical terms, employees in diverse teams appear more willing to contribute ideas and collaborate when leaders actively create psychologically safe environments. This supports prior research suggesting that leadership plays a pivotal role in shaping the outcomes of diversity by influencing team climate and interaction patterns (Randel et al., 2018; Shore et al., 2018).

An important empirical insight from this study is that gender diversity emerged as the only significant dimension of workforce diversity influencing team performance, while age and educational diversity were not statistically significant predictors. This finding requires careful interpretation within the Sri Lankan manufacturing context. The significant influence of gender diversity may reflect the increasing integration of female employees into manufacturing and operational roles traditionally dominated by men. This finding is consistent with prior research indicating that gender diversity often contributes positively to team outcomes, particularly in terms of creativity, decision-making quality, and problem-solving (Post & Byron, 2015; Hoobler et al., 2018). Gender-diverse

teams may benefit from a wider range of perspectives and communication styles, which can enhance team effectiveness when appropriately managed. In contrast, the non-significant effects of age and educational diversity suggest that these dimensions may be more context-dependent, particularly in structured environments such as manufacturing, where tasks are standardized and opportunities for leveraging diverse expertise may be limited (Guillaume et al., 2017; Thatcher & Patel, 2016). It is also possible that age and educational differences do not become salient enough to influence team dynamics in the presence of strong organizational norms or leadership practices.

The findings also contribute to the broader diversity literature by addressing the inconsistencies reported in prior studies regarding the diversity–performance relationship. By incorporating both a mediating mechanism and a moderating condition, this study provides a more nuanced understanding of why and when diversity influences team outcomes. This aligns with recent calls in the literature for more integrative models that move beyond direct effects and consider the complex interplay of processes and contextual factors (Guillaume et al., 2017; Wallrich et al., 2024). The results reinforce the view that diversity is not inherently beneficial or detrimental; rather, its impact depends on how effectively organizations create conditions that enable collaboration, knowledge exchange, and inclusion.

The Sri Lankan context also provides an important explanation for several findings of the study. Sri Lankan manufacturing organizations generally operate within collectivist cultural norms characterized by respect for hierarchy, interpersonal harmony, and group cohesion. In such environments, employees may avoid open conflict and prioritize maintaining positive social relationships, which can moderate the negative effects typically

associated with workforce diversity. At the same time, these cultural characteristics increase the importance of inclusive leadership and trust-building behaviours in encouraging employees to openly share ideas and knowledge. Therefore, the effectiveness of diversity within Sri Lankan organizations appears to depend not only on demographic composition but also on culturally sensitive leadership practices that promote participation and inclusion.

From a theoretical perspective, the study extends Social Identity Theory by demonstrating that identity-based differences can be managed and leveraged through appropriate organizational practices. While SIT emphasizes the potential for subgroup formation and bias, the findings show that mechanisms such as knowledge sharing and inclusive leadership can reduce these negative effects and promote a more integrated team identity. This supports more recent theoretical developments that emphasize the role of inclusive climates and leadership in mitigating the challenges associated with diversity (Nishii, 2013; Van Knippenberg et al., 2004).

Overall, the findings suggest that workforce diversity can become a valuable organizational resource when supported by enabling organizational conditions. The study highlights that diversity management should not focus solely on demographic representation, but also on creating collaborative cultures and inclusive leadership practices that encourage employee interaction and knowledge exchange. In this sense, diversity itself is not sufficient to improve team outcomes; rather, its effectiveness depends on the organization's ability to transform differences into productive collaboration and shared performance goals.

Conclusion

This study contributes to the growing body of literature on workforce diversity by examining the relationship between workforce diversity and team performance through a mediated-moderation framework incorporating knowledge sharing and inclusive leadership. The findings reveal that workforce diversity positively influences team performance, particularly when supported by effective knowledge-sharing practices and inclusive leadership behaviours. Importantly, the study demonstrates that diversity alone is insufficient to generate superior performance outcomes; rather, organizations must create enabling conditions that facilitate collaboration, trust, and the integration of diverse perspectives. Among the diversity dimensions examined, gender diversity emerged as the most significant predictor of team performance, highlighting the importance of balanced representation and inclusive participation within teams.

The study offers several important theoretical contributions. First, it extends Social Identity Theory by showing that the potential challenges associated with demographic differences can be mitigated through organizational processes and leadership practices that encourage inclusion and collaboration (Tajfel & Turner, 1979; Van Knippenberg et al., 2020). Second, the study advances diversity research by integrating knowledge sharing as a mediating mechanism and inclusive leadership as a moderating condition within a single empirical framework. This responds to recent scholarly calls for more process-oriented and context-sensitive approaches to understanding the diversity-performance relationship (Guillaume et al., 2019; Wallrich et al., 2024). Third, the study contributes to the limited empirical evidence from developing-country manufacturing contexts, particularly within Sri Lanka, thereby enhancing the

contextual relevance of diversity research beyond Western and service-sector settings. The uniqueness of this study lies in its application of a PROCESS Model 5 mediated-moderation framework to explain not only whether workforce diversity affects team performance, but also how and under what conditions these effects occur.

From a practical perspective, the findings emphasize the need for organizations to move beyond symbolic diversity initiatives toward creating inclusive and collaborative work environments. Manufacturing organizations should invest in knowledge-sharing platforms, cross-functional communication mechanisms, and leadership development programs that cultivate inclusive leadership behaviours. Additionally, the findings suggest that organizations should strategically encourage gender diversity while simultaneously fostering cultures that value openness, participation, and mutual respect.

Despite these contributions, the study is subject to several limitations. The research was confined to manufacturing

organizations located in the Kurunegala District of Sri Lanka, which may limit the generalizability of the findings to other sectors and geographical contexts. The use of a cross-sectional design also restricts causal interpretation. Furthermore, the study focused on selected diversity dimensions and did not account for other potentially influential forms of diversity such as cultural or functional diversity.

Future research should therefore adopt longitudinal and multi-industry approaches to validate and extend the findings across different organizational and cultural settings. Researchers may also explore additional mediating variables such as psychological safety, employee engagement, or team cohesion, as well as alternative moderators including organizational culture and transformational leadership. The application of advanced analytical approaches such as multilevel modelling or structural equation modelling may further deepen understanding of the complex dynamics linking diversity, leadership, and team performance.

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