

DIVERSITY PRACTICES AND ENGAGEMENT IN MULTICULTURAL WORKPLACES: THE MEDIATING ROLE OF ORGANIZATIONAL TRUST CLIMATE – EVIDENCE FROM HUNGARY

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ABSTRACT

This study examines the role of diversity management practices (DMP) in employee engagement in Hungary's service sector. It also studies the mediating role of trust climate in this relationship. Using a self-administered questionnaire completed by 461 foreign employees, the researchers employed structural equation modelling (SEM) to test this model. The results show that trust climate fully mediates the relationship between DMP and employee engagement. Among the studied DMP, diversity training and performance appraisal had the strongest positive impact on trust climate and employee engagement accordingly, while career development had no significant effect. The findings highlight the critical role of trust climate in enhancing the effectiveness of DMP in fostering positive employee outcomes, particularly in multicultural workplaces. This study advances diversity management literature by providing evidence from Hungary, and by emphasizing the strategic importance of trust in enhancing employee engagement through inclusive HRM practices.

Keywords: diversity, diversity management, inclusive workplace, engagement, trust climate, Hungary, service sector

JEL codes: J53, M12, J71

INTRODUCTION

In today's increasingly globalized world, workplace diversity has emerged as a main feature of modern organizations. Globalization, labour mobility, and modern social norms (i.e., contemporary societal expectations for inclusion, equity, and respect to diversity) are driving organizations to have a diverse workforce that comes from different cultures, socioeconomic, and ethnic backgrounds (DeNisi & Griffin, 2015). These rapid changes necessitate greater compliance with equal opportunity policies and call for the implementation of diversity management practices as strategic tools to leverage and address human differences as valuable organizational assets (Woldeyesus, 2024)

Scholars view diversity management as a strategic tool that enhances innovation, improve performance and foster employee engagement (Barak, 2022; Roberson et al.,

2024). A properly managed diversity management practices (DMPs) can transform diverse workplaces in dynamic environments that attract and retain talented employees, increase creativity and achieve sustainable competitive advantage (*Shen et al., 2009*). However, diversity can bring challenges. If not managed effectively, it may result in adverse outcomes. Moreover, in the absence of supportive organizational climate, interpersonal differences can cause miscommunication, conflict, and diminished trust (*Ely & Thomas, 2001*).

Trust climate, which refers to the employees' shared perceptions of the fairness and trustworthiness of their work environment, leadership, and colleagues (*Costigan et al., 1998*), plays a pivotal role in shaping the impact of workplace diversity, whether it serves as a source of strength or a source of tension within the organization. When the trust climate is strong it can enable individuals to feel respected, secure, and authorized to contribute their unique perspectives. Trust climate is particularly important in multicultural workplaces, where employees may have differences in expectations and communication styles which can easily impact cooperation. In such contexts trust operates as a relational and strategic mechanism to translate inclusive practices into positive employee outcomes (*Van Knippenberg & van Ginkel, 2022*). This study therefore position trust climate not just an outcome of DMP but also as a mediator between diversity management efforts and employee engagement.

The Hungarian service sector presents a compelling research context. According to the *Hungarian Central Statistical Office (KSH, 2023)* there is a 19% annual growth in foreign employment reaching around 93000 in 2023. The largest groups of foreign employees come from Ukraine, Slovakian, Romania, the Philippines, China and Vietnam (*KSH, 2023*). Most of these foreigner employees work in finance, IT\ administration, hospitality and transportation services. Labour shortages driven by the outward migration of Hungarian workers, have increased the dependence on foreign labour (*Gauriat & Siposhegyi, 2023*).

Although several western studies have explored diversity management practices Central European context remains unresearched regarding this topic especially in regard to understanding how foreign employees experiencing the mechanism of building trust (*Bodor, 2024*). The available studies in this context often emphasize the perspectives of main groups at work or on leaders, leaving the experiences of foreign employees largely unstudied.

This gap in research in Central European generally and Hungarian context specifically is particularly significant, as there is a growing increase in the need to understand mechanism of which diversity management can achieving good levels of engagement at work and how it helps building a trust climate that may facilitate the effectiveness of diversity management on engagement. By addressing this gap, the researchers aim to understand this mechanism and to explore the distinct contribution of four key DMP (diversity training, reward and pay systems, career development, and performance appraisal) to trust climate and engagement.

In addressing this aim, the study may seek to answer the following main research question:

“How do diversity management practices influence employee engagement, and what role does trust climate play in mediating this relationship among foreign employees in Hungary?”

By focusing on this context, this study contributes to giving a deeper understanding of how diversity management practices may foster trust climate and engagement in multicultural companies in central Europe generally, and Hungary especially.

LITERATURE REVIEW

Diversity Management in Multicultural Workplaces

Diversity management has become a strategic aspect of human resources management practices that aim to foster inclusion, equity, and organizational performance. According to *Kupczyk et al.* (2016) it is defined as “voluntary organizational actions designed to generate a process of inclusion of employees from different backgrounds into the formal and informal organizational structures through particular policies, events, and initiatives” (p.83). the fundamental objective of diversity management goes beyond legal obligations or moral expectations to utilize the potentials of diverse workforce to drive innovation and sustainable success (*Shen et al.*, 2014).

Studies have shown that when organizations implement diversity management practices (such as diversity training, equitable performance appraisal, diversity reward systems) are better prepared to face changes in the markets, enhance creativity, and more importantly attract talents with diverse backgrounds (*Barak*, 2022). However, according to *Nisbii and Rich* (2013), the effectiveness of diversity management practices are dependent on how these practices are perceived by employees, especially regarding justice, transparency, and inclusion. As much as DMPs are perceived as equitable and fair, they will foster a climate of trust which is considerably essential for teamwork and job security especially in culturally diverse workplaces (*Dirks & Ferrin*, 2001; *Sijal*, 2023). In the absence of such climate of trust, diversity initiatives may be viewed with uncertainty, eventually limiting its impact on employee engagement.

This study focusses on four key practices, diversity reward and pay systems, diversity training career development, and diversity performance appraisal. Reward and pay systems must ensure fair payment and adapt to workforce diversity through discrimination persists (*Shen et al.*, 2009), diversity training enhances intercultural competence and reduce bias (*Devine & Ash*, 2022; *Pendry et al.*, 2007), career development should provide equal opportunities for advancement at work and address barriers for it (*Stone et al.*, 2020). Performance appraisal should maintain culturally neutral and objective criteria for evaluation (*Sharma*, 2016). *Table 1* summarizes the studied DMPs and gives examples of it for a clearer understanding of their concepts.

In order to explain these dynamics, two theories are useful in this context, social exchange theory (SET) which suggests that when employees perceive organizational practices as fair, inclusive and supportive, they reciprocate with trust, engagement and loyalty (*Blau*, 1964; *Cropanzano & Mitchell*, 2005). Trust climate, in turn, emerges when such perceptions are widely shared across employees within the organization, creating a collective belief in the organization’s competence, benevolence, and integrity (*Huff & Kelley*, 2003; *Mayer et al.*, 1995).

Table 1: Key studied DMPs

DMPs	Key concept	Example practices
Pay and reward systems	Fair and equitable compensation structures (<i>Shen et al., 2009</i>)	Inclusive benefits, equal bonus compensation, transparent payments, rewards for inclusion efforts
Diversity training	Special training programs are designed to enhance intercultural competence and reduce bias among employees. (<i>Devine & Ash, 2022; Pendry et al., 2007</i>).	Workshops, language training for foreigners, cultural exchange events,
Career development	Equal growth opportunities. (<i>Stone et al., 2020</i>)	Mentoring programs, succession planning, cultural leadership tracking, scholarship programs.
Performance appraisal	Fair and bias-free evaluations (<i>Sharma, 2016</i>).	Multicultural evaluation criteria, bias training for evaluators, (360°) feedback systems.

The second theory is Resource-Based View (RBV) which posits that human capital especially the diverse one can be a unique form of competitive advantage when managed effectively (*Barney & Clark, 2007; Richard et al., 2003*). However, without having a supportive trust climate, diversity initiative may lead to conflict and misunderstanding which may reduce its value (*van Dijk et al., 2012*). Therefore, trust climate functions as a form of cultural infrastructure that enables diversity practices to be perceived as inclusive and legitimate hence enhancing their organizational effectiveness.

H1: Diversity management practices have a significant positive effect on the trust climate among foreign employees.

Prior research emphasizes the need to disaggregate diversity management practices (DMPs) into specific, actionable components, including diversity training, equitable reward systems, fair performance appraisal, and inclusive career development (*Nishii & Rich, 2013; Shore et al., 2018*). Each component may differentially influence the trust climate depending on implementation quality and organizational context (*Kulik & Roberson, 2008*), we therefore propose the following sub hypotheses:

H1.a: Among the studied diversity management practices, at least one will exhibit a stronger association with the trust climate than others.

Diversity Management Practices and Employee Engagement

Diversity management practices have been found to exert a direct effect on employee engagement in different studies. Employee engagement, as defined by *Schaufeli et al. (2002)* as a positive, fulfilling, work-related state of mind characterized by vigor, dedication, and absorption, is strongly related to how employees perceive

organizational fairness, inclusion and recognition (Saks, 2019). In line with SEM (Blau, 1964), when employees perceive DMP as equitable and fair, they are more likely to reciprocate with high levels of work engagement, loyalty and unrestricted effort (Cropanzano & Mitchell, 2005).

DMP also has important influence in giving the signals that diverse identities are valued and welcomed within the organization (Barak, 2022). This issue is specifically significant for foreign employees, who usually face additional barriers to adjust to the workplace, or develop sense of belonging and maintaining engagement (Farashah et al., 2025). By effectively implementing DMP organizations can help mitigate these barriers, fostering a sense of psychological safety and trust that enable employees to fully engage in their work (Kulik & Roberson, 2008; Saks, 2019).

Several studies support this relationship, Jerónimo et al. (2022) found that inclusive diversity management can enhance employee engagement significantly, especially in multicultural workplaces. Alshaabani et al. (2022) demonstrated that well-designed DMP foster higher levels of engagement in international companies. These results suggest that DMP play a role not only in building trust but also in achieving work engagement. Based on this literature, the following hypothesis is proposed:

H2: Diversity management practices have a significant positive direct effect on employee engagement among foreign employees in Hungary.

Previous studies mentioned that not all DMP equally impact employee outcomes. Previous studies suggest that not all diversity management practices equally influence employee outcomes (Nishii & Rich, 2013; Shore et al., 2018). Practices that can directly impact the employee's recognition and career, such as performance appraisal or training, may have a stronger impact on engagement compared to more general initiatives (Kulik & Roberson, 2008), therefore, understanding which diversity management practices contribute the most to employee engagement is important. Based on this, we propose the following hypothesis:

H2.a: Among the studied diversity management practices, at least one will exhibit a stronger association with employee engagement than others.

Trust Climate as a Psychological Mechanism

Trust climate is characterized by its relational nature in the workplace, it is often referred to as the shared perception among employees at workplace that they can depend on their peers, supervisors, and the organization to be fair, competent and ethical (Mayer et al., 1995). It plays a critical role in reducing uncertainty, supporting collaboration, and fostering psychosocial safety especially within a diverse workplace where employees come from different cultural backgrounds and have different expectations (Alshaabani et al., 2022; Downey et al., 2015).

Trust has been studied widely across psychology and management for decades and is generally recognized as a critical predictor of organizational outcomes. In this study, trust climate according to Huff and Kelley (2003), is conceptualized as employees' collective perceptions of their organization's trustworthiness, encompassing the dimensions of competence, benevolence, integrity, and fairness. It also lines up with the model of Mayer et al. (1995) on organizational trust which refers

to trust as the willingness to be vulnerable to others' abilities, goodwill, and ethical conduct. Further conceptualization of trust is provided by the developmental model of trust by *Lewicki and Bunker* (1996) which distinguishes between transactional trust (built on rational calculations), and relational trust one (built on emotions or identity). This framing bridges the SET of (*Blau*, 1964) and the Resources-Based View RBV and supports the notion that trust climate is not only a relational asset but also a strategic resource that enhances the effectiveness of DMPs.

When organizations adopt HRM practices that emphasize fairness and inclusivity they signal to their employees that their values are respected (*Gould-Williams*, 2007). Such signals strengthen mutual respect between employees and their organization especially among the foreign employees who often face extra challenges in adjusting and belonging to the host country (*Farashah et al.*, 2025; *Lima et al.*, 2025)

Trust Climate and Employee Engagement

Employee engagement usually refers to a positive psychological state characterized by vigor, dedication, and absorption in work (*Schaufeli et al.*, 2002). According to *Saks* (2019), improved productivity, retention rate, and employee well-being are common outcomes of high levels of work engagement. Nonetheless, employee engagement does not arise only from such job-related outcomes, but also from organizational climate and interpersonal trust (*Alshaabani et al.*, 2022). Trust enhances employee engagement by developing a perception of psychological safety and encouraging open flow of communication (*Ito et al.*, 2022). Research has shown that when employees perceive their organizational climate as trustworthy, characterized by reliable interpersonal and organizational fairness, they show greater psychological investment (cognitively and emotionally) (*Dirks & Ferrin*, 2001).

In the multicultural and international settings, trust climate plays a critical role in shaping engagement. It helps reduce identity threats among diverse employees and eliminate intergroup tensions, thereby allowing those diverse employees to fully contribute at work (*Farashah et al.*, 2025; *Purdie-Vaughns et al.*, 2008). This hypothesis builds on evidence that:

H3: A positive trust climate significantly enhances foreign employees' engagement in Hungary.

Trust Climate as a Mediator

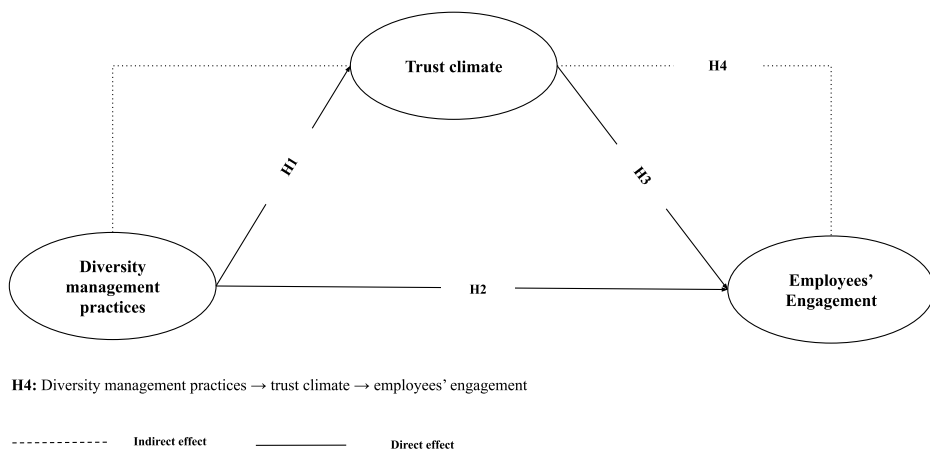
Previous studies have increasingly reported the positive relationship between diversity management practices and employee engagement (*Memon et al.*, 2017; *Saks*, 2019) however the mediating mechanism remains theoretically understudied. Some recent studies identified trust climate as interpretive cognitive pathway through which DMP can enhance engagement outcomes (*Ogbonnaya & Valizade*, 2018). According to *Qi et al.* (2019), trust climate plays a particularly vital role for foreign employees, enabling them to perceive DMPs as fair, inclusive, and equitable. This perception, in turn, facilitates smoother cultural adaptation and integration within international and multicultural workplaces. Similar results were reached by (*Alshaabani & Rudnák*, 2020), who reported that DMP are a strong predictor of trust climate and distributive

justice which emphasizing the role of fairness and equality feelings that DMP is raising among the employees.

By focusing on trust climate as the mediating mechanism, this study responds to a significant gap in current literature (particularly in Central and Eastern Europe) where few studies have investigated how trust bridges the gap between DMPs and engagement. The proposed study model is illustrated in *Figure 1*. Therefore, we propose the following hypotheses:

H4: Trust climate mediates the relationship between diversity management practices and employee engagement among foreign employees in Hungary.

Figure 1: Study's general model



MATERIALS AND METHODS

Sample and Procedures

The current study focuses on foreign employees who work in the Hungarian service sector, either part-time or full-time. Given the unique challenges that this segment of labour market faces in the host country, foreign employees are more likely to experience social and structural inequalities, job insecurity, and conflict especially when diversity management initiatives in the organization are weak (*Alshaabani et al., 2022; Rudolph et al., 2021*). To ensure robust data collection and to mitigate potential common method variance, data were gathered in three waves. In the first one, the respondents answered questions related to diversity management practices. two weeks later, the second wave was conducted by collecting data on trust climate. Finally, in the third wave the respondents answered questions regarding employee engagement. This method reduced the bias associated with single-timepoint data collection and may enhance the construct validity of the studied model (*Podsakoff et al., 2012*).

The study targeted around 744 potential participants working in service sector in Hungary. The participants were chosen using a snowball sampling technique, and data collection tool was an online self-administered questionnaire. Data collection

occurred during the first half of 2023. After assessing the checking the responses 461 valid cases were retained, with a final response rate of 62%. The demographic characteristics of the sample are shown in *Table 2*.

Table 2: Personal Characteristics of the Study's Sample

Item	Category	Count	%
Gender	Male	219	47.6
	Female	242	52.4
Age	18–24	76	16.4
	25–35	184	40.0
	36–44	180	39.1
	45–64	21	4.5
Education	Undergraduate	110	23.8
	Graduate	195	42.4
	Postgraduate	156	33.8
Organization Size	≤ 50 employees	95	20.5
	50–500 employees	193	41.8
	≥ 500 employees	173	37.6
Job experience	≤ One year	142	30.7
	One to three years	254	55.2
	Three to five years	34	7.3
	Above five years	31	6.8
Service sector	Agricultural services	49	10.7
	Research and education	43	9.3
	Financial and insurance sector	106	23.0
	IT services, and administrative	104	22.5
	Transportation and storage and telecoms	50	10.8
	Hospitality sector	44	9.5
Other service sectors	65	14.2	

As can be seen in *Table 2*, the sample shows a balanced gender distribution, with the majority of employees aged between 25 and 44. Regarding education, 42.4% of the participants held a graduate degree, and majority of them worked in medium-sized companies 41.8%. The table further shows that majority of respondents (55.2%) had been working in Hungary for between one and three years. With regard to the sector, the largest share of sector was in the finance sector (23%) while the second largest share was in IT and administrative services.

Measures

Diversity management practices were measured using a 24-item scale adapted from previous studies (*Aldaihat et al., 2019; Armstrong et al., 2010; D'Netto et al., 2014*) to cover the four studied practices. The scale includes four key practices, diversity training, reward and pay systems, performance appraisal, career development. A 5-

points Likert scale was used (ranging from 1 “totally disagree” to 5 “totally agree”). The scale has demonstrated strong reliability, unidimensionality, and predictive validity across prior research.

Trust climate was assessed using a 4-item scale adapted from (Huff & Kelley, 2003), using a 7-points Likert scale ranging from 1 (“Totally Disagree”), to 7 (“Totally Agree”). The scale has been validated in multiple studies (Alshaabani et al., 2022).

Employee engagement was measured using the short version of the Utrecht Work Engagement Scale (UWES-9) developed by Schaufeli et al. (2002). The nine-item scale captures three dimensions of engagement: vigor, absorption, and dedication. Responses were recorded on a 7-point Likert scale ranging from 1 (“Never”) to 7 (“Always”). This scale has been widely validated and is recognized for its strong psychometric properties.

Control variables included organization size, employee age, and gender, in line with previous research on organizational climate and employee engagement. A complete list of items of the constructs is presented in Table 3.

Table 3: Measures items

Diversity Management Practices
1. Diversity training in the firm focuses on equal opportunities for training and development
2. This company has done a good job providing training programs that promote multicultural understanding
3. Diversity training sessions are conducted to enhance awareness about gender equality and to remove gender bias issues
4. Mentoring coaching and counseling sessions are there for career development and in taking responsibility to female employees
5. Education about diversity will enhance the company’s profitability
6. Diversity training programs sensitize employees to the impact of stereotypes on their own and others’ behaviors
7. This company has internal equity in remuneration
8. This company has equity In Benefits and Reward Systems
9. This company has equity in advancement opportunities
10. This company has equal job security
11. This company has equity in status recognition
12. This company has good social interaction
13. Appraisal ratings focus on performance not personality
14. Effective feedback and ongoing support are provided for ethnic employees
15. Appraiser’s cultural background dose not influence ratings
16. Multicultural employees are part of appraisal panels
17. Several multicultural employees in senior positions
18. Employees of different backgrounds are encouraged to apply for higher positions
19. There is a career development path for all employees at this company

20. Career management programs for multicultural employees
21. Development opportunities for ethnic employees
22. No discrimination in selection of employees for development programs
23. Appraisal methods in the organizations are objective and job relevant.
24. Minority groups and women receive opportunities for growth
Trust climate
1. There is a very high level of trust throughout this organization.
2. In this organization, subordinates have a great deal of trust for managers.
3. If someone in this organization makes a promise, others within the organization will almost always trust that the person will do his or her best to keep the promise.
4. Managers in this company trust their subordinates to make good decisions.
Employees Engagement
1. At my work, I feel bursting with energy
2. At my job, I feel strong and vigorous
3. I am enthusiastic about my job
4. My job inspires me
5. When I get up in the morning, I feel like going to work
6. I feel happy when I am working intensely
7. I am proud of the work that I do
8. I am immersed in my work
9. I get carried away when I'm working

RESULTS AND DISCUSSION

To test the hypotheses, structural equation modelling (SEM) was conducted using the AMOS 22 software package. SEM was used for its ability to estimate measurement models and structural models simultaneously which allows for the assessment of complex relationships among latent constructs using covariance matrix (Hair et al., 2017). In order to evaluate the mediation, the two-step procedure was employed as recommended by Hair et al. (2017). This procedure involves first testing the direct effects between the independent variable on the dependent and mediator ones. Afterwards, the indirect effects were analysed using SEM path analysis. Mediation was further tested by using Sobel test procedures to determine the significance of the indirect paths and clarity of the mediation type.

The data were first inserted into SPSS version 25, prepared, cleaned, and coded according to the procedures described in the measures section. Reliability and validity analyses were then conducted, followed by mean scores for each variable. Then, the dataset was imported into AMOS V22, where SEM was performed.

Reliability and Validity of the questionnaire

Before testing the hypotheses, the reliability and validity of the questionnaire were assessed to ensure the robustness of the measurement model. To assess reliability, Cronbach's alpha test was performed for all the constructs. Each construct exceeded

the recommended threshold of $\alpha = 0.70$ indicating a high level of internal radiality (Sekaran & Bougie, 2016).

To examine the factor structure, exploratory factor analysis was done using principal component analysis with varimax rotation. The Kaiser-Meyer-Olkin (KMO) value was 0.754, which was exceeding the minimum threshold of 0.60, which assured the sample adequacy (Hair et al., 2017). Moreover, Bartlett's test of Sphericity was significant ($p < 0.001$). the EFA extracted three distinct factors that together explained 61.2% of the total variance, which exceeded the 50% benchmark for acceptable construct validity.

After that, confirmatory factor analysis was utilized to evaluate convergent and discriminant validity. average variance extracted (AVE) for all constructs exceeded the minimum threshold of 0.50. Furthermore, composite reliability (CR) values surpassed 0.70, indicating strong convergent validity and construct reliability (Bagozzi & Yi, 1991). The results are presented in Table 4.

Table 4: The model's internal consistency and convergent validity

Variable	Items	Alpha Cronbach	AVE	CR
Diversity management	24	0.93	0.52	0.93
Diversity training awareness	6	0.83	0.56	0.81
Diversity reward	6	0.88	0.53	0.85
Diversity performance	6	0.82	0.50	0.75
Diversity career development	6	0.85	0.50	0.75
Trust climate	4	0.81	0.67	0.84
Employee engagement	9	0.93	0.67	0.92

To assess discriminant validity, both the Fornell-Larcker criterion and the Heterotrait-Monotrait (HTMT) ratio were employed. As it is shown in Table 5 and Table 6, the discriminant validity for both criteria was assessed.

Table 5: Fornell-Lacrcker Criterion

Variables	DMP	TC	EE
DMP	0.814		
TC	0.438	0.798	
EE	0.500	0.346	0.901

Note: TR: trust climate; DMP: diversity management practices; EE: employee engagement

Table 6: Heterotrait-Monotrait Ratio (HTMT)

Variables	DMP	TC	EE
DMP	-		
TC	0.512	-	
EE	0.502	0.398	-

Note: TR: trust climate; DMP: diversity management practices; EE: employee engagement

Correlation Matrix

Descriptive statistics and Pearson correlations between variables are presented in *Table 7*. Notably, diversity management practices (DMP) were positively correlated with both trust climate ($r = 0.432$, $p < 0.01$) and employee engagement ($r = 0.426$, $p < 0.01$).

Table 7: Descriptive analysis and correlation matrix

Variables	Mean	SD	1	2	3	4	5	6
1. Gender	-	-	-					
2. Age	1.89	0.443	-.082*	-				
3. size	1.89	0.744	-0.044	0.275**	-			
4. DMP	3.56	0.510	0.192**	-0.016	0.332**	-		
5. TC	4.87	1.033	-0.022	0.092*	0.351**	0.432**	-	
6. EE	4.357	1.11	-0.133**	0.307**	0.304**	0.426**	0.338**	-

Note: TR: trust climate; DMP: diversity management practices; EE: employee engagement

Hypotheses test

The SEM results (presented in *Table 8*) showed several significant relationships that support the suggested hypotheses. Gender had a significant negative effect on employee engagement ($\beta = -0.203$, $p < 0.001$), suggesting that female foreign employees report lower levels of engagement compared to male employees. Age showed a positive effect on both trust climate ($\beta = 0.064$, $p < 0.01$), and employee engagement ($\beta = 0.190$, $p < 0.001$), which indicates that older employees tend to perceive a constructive trust and show higher engagement at work. While organizational size could predict significantly trust climate only ($\beta = 0.313$, $p < 0.001$).

The total effect of diversity management practices (DMP) on employee engagement was significant ($\beta = 0.348$, $p < 0.001$), which supports hypothesis H2, however, when trust climate was included as a mediator, the direct effect of DMP on employee engagement became non-significant ($\beta = 0.089$, $p > 0.05$), indicating full mediation. Regarding the dimension level, several aspects of DMP had a direct effect on employee engagement significantly. Diversity performance had the strongest influence ($\beta = 0.525$, $p < 0.001$), then diversity career development ($\beta = 0.329$, $p < 0.001$), followed by diversity rewards and pay systems ($\beta = 0.147$, $p < 0.01$), and diversity training ($\beta = 0.141$, $p < 0.05$). these findings support hypothesis H2. a, suggesting that although all used DMP contributed positively, performance appraisal showed the strongest influence on engagement.

Trust climate was found to significantly mediate the relationship between DMP and employee engagement. DMP could predict positively trust climate ($\beta = 0.641$, $p < 0.01$), and trust climate in turn positively associated with employee engagement ($\beta = 0.282$, $p < 0.001$), which confirms hypotheses H1, and H3. The indirect effect of DMP on employee engagement through trust was also significant ($\beta = 0.051$, $p < 0.001$), supporting H4. these results indicate the role of trust climate as a key factor

in enhancing the effectiveness of inclusive HR practices in enhancing employee outcomes.

Further analysis showed that the DMP dimensions differed in their effects on trust climate. Diversity training had the strongest positive impact on trust climate ($\beta = 0.544, p < 0.001$), followed by diversity reward and pay systems ($\beta = 0.100, p < 0.01$) and diversity performance appraisal ($\beta = 0.116, p < 0.05$). However, diversity career development had no significant effect on trust climate ($\beta = 0.048, p > 0.05$), which supports H1.a. These results suggest that while all practices contribute to employee engagement, only specific ones, are perceived as fostering trust climate

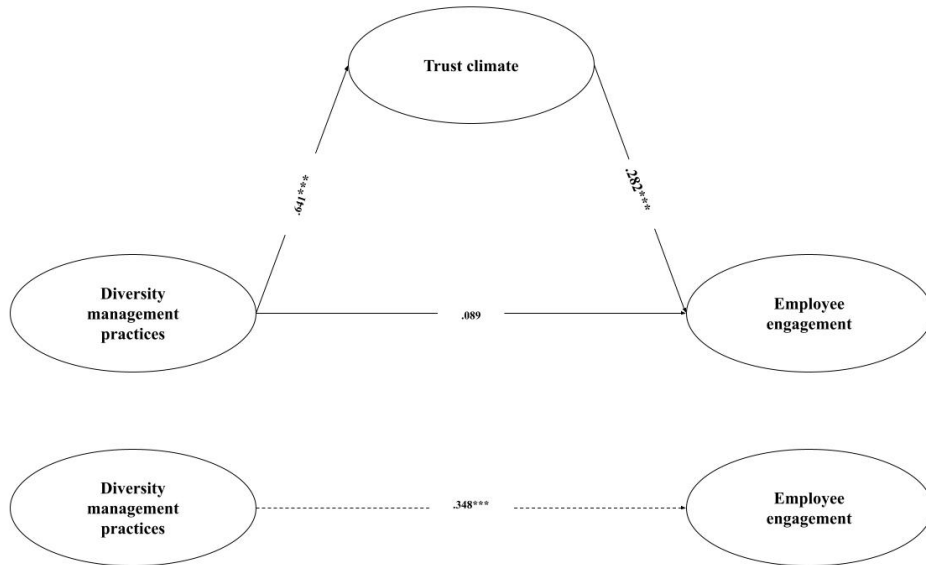
The study's model explained 24% of the variance in trust climate ($R^2 = 0.24$) and 49% of the variance in employee engagement ($R^2 = 0.49$), indicating its explanatory power. the results are shown in Table 8. Figure 2 shows the results of SEM in the proposed model

Table 8 : SEM Results

Model's paths			β	S.E.	T-value	Sig
Gender	→ TR		-0.015	0.050	0.596	NS
Age	→ TR		0.064	0.036	2.484	**
Size	→ TR		0.313	0.042	7.693	***
Gender	→ EE		-0.203	0.079	-4.729	***
Age	→ EE		0.190	0.092	4.325	***
Size	→ EE		0.003	0.057	0.056	NS
DMP	→ EE	Path c'	0.089	0.090	0.0685	NS
DTR	→ EE		0.141	0.067	2.103	**
DRE	→ EE		0.147	0.056	2.550	**
DCD	→ EE		0.329	0.091	3.580	***
DPF	→ EE		0.525	0.059	8.845	***
TR	→ EE	Path b	0.282	0.061	3.988	***
DMP	→ TR	Path a	0.641	0.000	5.2114	**
DTR	→ TR		0.544	0.066	9.083	***
DRE	→ TR		0.100	0.064	3.150	**
DCD	→ TR		0.048	0.110	0.983	NS
DPF	→ TR		0.116	0.069	2.329	**
DMP	→ EE	Path c	0.348	0.079	7.955	***
Indirect effects						
DMP → TR → EE			0.051			***
R²						
			TR		0.24	
			EE		0.49	

Note: TR: trust climate; DMP: diversity management practices; EE: employee engagement; DTR: diversity training; DRE diversity reward and pay systems; DCD: diversity career development; DPF: diversity performance appraisal. NS: not significant; *** $p < 0.001$; ** $p < 0.005$

Figure 2: SEM results of the studied model



Note: NS: not significant; *** $p < 0.001$; ** $p < 0.005$

DISCUSSION

This study investigated how diversity management practices (DMP) affect employee engagement within Hungary's service sector, specifically analyzing how trust climate mediates this relationship. The results have both statistically significant and theoretically meaningful findings that advance our understanding of how DMP, and workplace climate, together shape employee experiences and outcomes.

The Direct Impact of total DMP on Engagement

The results demonstrated that DMP significantly predict employee engagement corroborating previous research that underscores the positive association between DMP and various employee-related outcomes, including motivation, commitment, psychological empowerment, and engagement (*Alshaabani et al., 2022; Jerónimo et al., 2022*). Within Hungary's service sector, where the workforce is remarkably international, employees who perceive their organizations as inclusive and supportive of diversity tend to exhibit stronger emotional and cognitive attachment to their work. This finding aligns with the results of *Maj (2023) et al.*, who observed that in the Polish context, an inclusive work environment and perceived diversity significantly boost job satisfaction. This highlights the critical role of perceived inclusion in the workplace, particularly within post-socialist economies. Moreover, the study results line up with social exchange theory (*Blau, 1964*), which suggests that employees reciprocate fair treatment and organizational recognition with

heightened commitment (*Ghasempour Gangi & Kafahpour, 2017; Johnson & Ganji, 2020*).

Additionally, the study's outcomes can be interpreted through the Resource-Based View of the firm (*Barney & Clark, 2007*), which asserts that internal resources—particularly those that are valuable, rare, and difficult to replicate—can sustain a competitive advantage. Effectively managed workforce diversity exemplifies such a resource, as it enhances organizational creativity, adaptability, and market responsiveness (*Cox & Blake, 1991*). The positive relationship between DMP and engagement observed in this study suggests that organizations leveraging diverse talent pools can foster improved collaboration, motivation, and enthusiasm among employees. This reinforces the notion that inclusive practices not only uphold equity but also strengthen organizational competitiveness by optimizing human capital as a strategic asset (*Richard et al., 2003*).

DMPs to engagement

To understand the relationship between DMP and employee engagement in a greater depth, the separate impact of each studied DMP was analysed. The results showed that diversity performance appraisal had the strongest impact on employee engagement, supporting prior findings that fair and transparent evaluation of performance enhances positive employee attitudes (*Goswami & Goswami, 2018*). Career development also had a significant influence on engagement which aligns with earlier studies (*Chandani et al., 2016*) which suggest that opportunities for professional and personal growth contribute to higher levels of engagement. Diversity reward and pay systems were also found to have a significant positive impact on employee engagement, this indicates that foreign employees value equitable and inclusive compensation policies as part of their engagement experience. Diversity training showed a moderately significant effect reflecting its importance in building awareness and signalling inclusive values.

The Direct Impact of total DMP on trust climate

The findings of this study showed that DMP positively predicted trust climate, confirming the essential role of inclusive HR practices in fostering positive organizational climate. These results are in line with SET (*Blau, 1964*). Moreover, this result support previous studies findings which suggest that DMP when perceived as authentic and fair, can shape the broader relational climate of the workplace (*Dirks & Ferrin, 2001*).

Trust Climate as Mediator

The findings of the study confirm that trust climate fully mediates the relationship between DMP and employee engagement. While the total effect of DMP on engagement was significant, the direct path became non-significant when trust climate was included, which indicates that perceptions of trust are the primary psychological mechanism that links inclusive practices to engagement. Furthermore, this suggests that trust is not merely an outcome of DMP but a core element that fosters the effectiveness of such practices in influencing broader organizational outcomes. This result is

consistent with prior findings that DMP influence attitudes primarily via trust-related perceptions (Choi & Rainey, 2010), suggesting that without a supportive trust climate, diversity initiatives may remain symbolic rather than practical.

Theoretically, this finding aligns with SET which posits that employees tend to reciprocate supportive HR practices with commitment and effort when they trust the intentions and reliability of the organization. The results also align with the resource-based view (RBV) (Barney & Clark, 2007), as from this view trust climate is a valuable, rare, and hard-to-achieve intangible resource that enables organizations to turn diverse human capital into stronger engagement. Practically, these results support previous studies such as (Ogbonnaya & Valizade, 2018; Qi et al., 2019), which found that trust climate acts as an interpretive tool that enables employees, especially migrant ones, to experience DMP as fair and psychologically safe, thus enhancing their engagement at work.

Alternative explanations for the full mediation are also possible. In multicultural workplaces such as Hungary's service sector, trust may be necessary precondition for DMP to influence engagement, without trust, diversity initiatives and policies may be met with caution. Another explanation might be that when trust climate is included, it captures most of the positive impact of DMP, leaving no direct significant path to engagement. Finally, if some employees have experienced diversity initiatives as inconsistent or symbolic, this could weaken the direct relationship and make trust the deciding factor in whether these initiatives can positively affect engagement.

DMPs to trust climate

The findings showed trust climate was not an outcome of all the studied DMPs. Among them, diversity training was the most impactful on trust climate, suggesting that high quality, and well-planned training programs can enhance perceptions of fairness and psychological safety. This aligns with the suggestions of (Grissom & Quarterly, 2018; Singh et al., 2013) who mentioned that trust building is a result of the diversity training efforts. Performance appraisal and reward systems also positively affected trust, supporting the notion that fair recognition and evaluation systems contribute to more trusting organizational climate. However, career development did not significantly influence trust climate, possibly because of perceived barriers to promotion or due to unclarity in career pathways for foreign employees.

These findings confirm that diversity management practices, when implemented with fairness and strategic clarity, enhance employee engagement and cultivate trust. Notably, trust climate fully mediated the relationship between DMPs and engagement, highlighting its essential role as a psychological and relational mechanism. By removing structural and perceptual barriers through inclusive HRM practices, organizations can foster trust and unlock the full potential of a diverse workforce.

CONCLUSION

This study examined the role of DMP in predicting employee engagement in Hungarian service sector. Exploring the mediating role of trust climate. The findings confirmed the role of DMP in enhancing engagement especially when embedded

within a trust climate. Trust climate played a critical role in linking DMP efforts to achieving employee outcomes, reinforcing the argument that applying inclusive practices should be accompanied by social support structures to be effective. Among the studied DMP, diversity training and performance appraisal were the most effective in fostering trust climate and employee engagement accordingly. While career development had a limited impact. Overall, this study provides a strong support for the notion that trust climate is a strategic resource that can help achieve engagement and fostering the well-designed diversity practices in creating positive outcomes.

This study advances the current understanding of how DMP enhance employee engagement by identifying the role of trust climate in mediating this relationship. By integrating SET and the Resource-Based View (RBV), this study advances the understanding of how inclusive DMP can build trust climate, which is particularly important for sustaining engagement among foreign employees in Hungary. Moreover, the findings highlight the role of diversity practices separately in building trust climate and achieving a positive employee engagement.

This study also provides some practical insights for managers. In Hungarian context, these results suggest that organizations can enhance the levels of engagement of their employees by applying diversity management practices within a supportive trust climate, especially in the sectors facing shortages in labour force. Implementing well-prepared diversity training programs, and transparent performance appraisal methods may be particularly effective in retaining foreign talents.

Despite the contributions of this study there are few limitations. First, the study focused on Hungarian service sector and foreign employees but may limit the generalizability of the findings to other sectors or employee groups. Additionally, trust climate was measured based on a brief scale, future studies may consider a multi-dimensional measurement to gain a more comprehensive understanding of trust climate. The future studies may place a greater emphasis on employees' ethnicity and nationality, as these factors could serve as important control variables in how predicting diversity initiatives are perceived.

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