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## Determinants of Cultural Diversity Management in Japan: Case Studies of Hospitality Industry

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**Abstract**– Before the Covid-19 started in 2020, increasing international tourists were visiting Japan in recent years, and the hospitality industry has become a significant economic contributor to the national economy. Employing more non-Japanese employees has been a critical human resource (HR) strategy to cope with the increasing demands of foreign visitors. However, the strategy also challenges the existing Japanese company culture and management systems, particularly in cultural diversity management. This research focuses on the determinants influencing companies whether they choose to adopt effective cultural diversity management strategies. Using a multiple-case analysis of Japanese-owned and non-Japanese foreign-owned companies, we wish to fill the gaps in the research on cultural diversity management in a relatively homogeneous society such as Japan.

**Keywords** Cultural diversity management · Determinants · Hospitality industry · HR strategies · Japan · Multi-cultural workforce ·

### 1. Introduction

This article deals with the increasing need for developing effective cultural diversity management policies and practices in the hospitality industry in Japan. With an increasing number of international tourists visiting Japan every year before the start of Covid-19, the hospitality industry has become one of the most vibrant economic contributors to addressing the ‘country’s depopulating and ageing economy. It demonstrates the potential for further growth in the post-

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Covid-19 era. By employing more non-Japanese employees as one of the critical human resource strategies to cope with the increasing demands of foreign visitors and a labour shortage, many companies face challenges in reforming the existing company culture and management systems, particularly in the area of cultural diversity management.

So far, research on Japanese diversity management has focused primarily on gender equality and the ageing workforce, given the influence of economic and demographic changes in recent years (Courmadias et al., 2010; Hagiwara, 2015; Kemper et al., 2015; Magoshi & Chang, 2009; McDonald, 2003; 2009), and to a lesser degree on cultural diversity management (Ozbilgin, 2005). In addition, most existing diversity management research analyses the effects rather than the determinants of diversity management (McCrea & Zhu, 2019). Hence, this research focuses on the factors determining whether companies choose to adopt effective cultural diversity management strategies. A multiple-case analysis of Japanese and non-Japanese foreign-owned companies has been used to fill the gaps in the research on cultural diversity management in a relatively homogeneous society, namely, Japan.

According to the data published by the Japanese government, the total number of foreign tourists increased dramatically in recent years. For example, there were 31.19 million foreign tourists in 2018, an 8.7 per cent increase from 2017 and more than triple the total number of visitors in 2013 when the country recorded over 10 million visitors for the first time (JNTO, 2019). Before the COVID-19 pandemic started in early 2020, the number of foreign tourists had increased 4.6 per cent between 2018 and 2019 (JNTO, 2019). In addition, total spending by foreign tourists in Japan also increased by 17.8 per cent in 2017 compared to the previous year and then by 2 per cent in 2018, with the total value reaching Yen 4.42 trillion and Yen 4.52 trillion in 2017 and 2018, respectively (Invest Online, 2019).

In 2018, Chinese mainlanders were the largest group among the international visitors to Japan with 8.380 million (26.9% of total international visitors), an increase of 13.9 per cent compared to the year before. The second-largest group was South Koreans, with 7.539 million people (24.2% of total international visitors), an increase of 5.6 per cent. The other foreign visitors also increased in numbers: Taiwanese (4.757 million, 4.2% increase) and Americans (1.526 million, 11% increase) (JNTO, 2019).

In 2018, the total spending by international tourists in Japan recorded the highest amount at Yen 4.51 trillion (\$41.5 billion), with each tourist spending an average of Yen 153,000. Among these tourists, Chinese mainlanders spent the most, with a share of 34 per cent of the total, followed by South Koreans (13%) and Taiwanese (13%) (Japan Times, 2019).

Increasing foreign tourism can bring better economic prosperity to an ailing Japanese economy and add pressure on improving cross-cultural management and related services. Against such a background, this article focuses on one of the major issues confronting Japanese companies, namely adopting effective cultural diversity management to cater to diverse international visitors.

Japan has a long history and tradition of customer-focused service, as demonstrated by the motto *Okyakusama wa Kamisamadesu* (*Customers are gods*). However, now that Japan is receiving more visitors with different cultural backgrounds, there are increasing challenges to the existing confirmative service culture. The hospitality industry needs to internationalise and diversify its services and operations to meet its customers' different needs and expectations. The diversity of customers has led to growing fierce competition in the hospitality industry between Japanese and non-Japanese foreign-owned companies and among the indigenous companies in the provision of different products and types of services.

Local Japanese companies are confronted with increasingly diverse demands from international visitors, particularly those associated with effective cross-cultural communication and mutual understanding. Service quality is not just about following the traditional norm of 'customers first' but also about satisfying foreign customers' different expectations and preferences. Managers and staff members must understand and offer their services considering such diversity; they must possess comprehensive cross-cultural literacy and communication skills. One of the best ways to achieve these requirements is to develop a competent multi-cultural workforce with good multi-cultural literacy and communication competencies and effective cultural diversity management policies and practices. However, not all companies have adopted new ways of management, in particular in the cultural diversity management area, due to their organisational and environmental constraints. Therefore, it is crucial to tackling the following key questions in this research: 1) What factors (both internal and external) determine whether companies choose to adopt cultural diversity management strategies in the hospitality industry in Japan? 2) What are the processes and procedures for adopting diversity management policies and practices among these companies in Japan? 3) What are the benefits and challenges of employing a multi-cultural workforce among these companies?

## **2. Underpinning literature**

With the influence of globalisation and the changing demographic composition of the workforce, workplace diversity has been seen as an increasing challenge but also an opportunity with both positive and negative effects on organisational

outcomes (Martins & Milliken, 1996; Schwabenland & Tomlinson, 2015; van Knippenberg & Schippers, 2007; Williams & O'Reilly, 1998). Concerning the positive effects, diversity increases the knowledge, perspectives, and ideas available as inputs into creative processes and decision-making, thus enhancing performance (Williams & O'Reilly, 1998). As Cox (2001) suggested, increased diversity can give greater access to diverse markets. As for the adverse effects, diversity can increase conflict and reduce cohesiveness (Nishii, 2013; Maak & Pless, 2004). The critical issue is whether companies can adopt effective diversity management policies and practices to fully utilise the positive aspects and minimise the adverse effects. By creating an inclusive work climate, diversity management can benefit all and boost the positive attitudes and behaviour of all employees (Ashikali & Groeneveld, 2015). In such an environment, an "individual's uniqueness is valued while the individual is treated as an insider (Maak & Pless, 2004; Shore et al., 2011).

So far, scholars have defined diversity as the difference in characteristics among members of a group or organisation (Olsen & Martins, 2012), and such differences can significantly impact group interaction and outcomes (DiTomaso et al., 2007). However, the major focus of diversity management has been on diversity in demographic characteristics, such as race, ethnicity, gender and age (Olsen & Martins, 2012), with a fundamental concern for the effects (McCrea & Zhu, 2019), namely how to balance between increasing levels of diversity and maintaining/improving company competitiveness (Carstens & De Kock, 2016). Hence, different definitions of diversity management represent different managerial orientations. For example, earlier definitions were more general, such as Thomas's (1990: 112) definition of diversity management as "enabling every member of the workforce to perform to his or her potential". A similar definition made by Cox (1993: 11) was "planning and implementing organisational systems and practices to manage people so that the potential advantages of diversity are maximised while its potential disadvantages are minimised."

In more recent years, the definition of diversity management has become more precise, considering it to be a process rather than a matter of input (e.g. diversity interventions) and outcomes (e.g. better economic outcome) as well as having multi-level effects (i.e. individual, group and organisation). For example, Olsen and Martins (2012) define diversity management as the utilisation of HRM practices to increase or maintain the variation in human capital, to ensure this human capital does not hinder the realisation of organisational goals, and to ensure that human capital facilitates the realisation of organisational goals. In addition, Carstens and De Kock (2016) argue that a process perspective in diversity management could focus on creating and sustaining the conditions for effective diversity management. In other words, the authors emphasise 'good

‘practices’ directed at managing diversity in pursuit of optimal performance, so the success depends to a greater extent on ‘what you do’ than ‘what you have got’. Therefore, the later development of the concept and managerial practices within diversity management have provided a foundation for our research to address whether ‘good ‘practices’ have been adopted among hospitality companies in Japan (Carstens & De Kock, 2016).

Several conceptual models have been developed in terms of the positive contribution of effective diversity management. For instance, the Interactional Model of Cultural Diversity (Cox, 1993) suggests that an organisation’s diversity climate is determined by multi-level influences ranging from individual factors to organisational factors. In turn, an organisation’s diversity climate influences individual employee outcomes, which collectively affects organisational effectiveness. Another conceptual model, proposed by Gilbert et al. (1999), considers diversity management as a complete cultural change rather than an isolated component of policy design. Based on this approach, the senior management team must drive the cultural change process and treat diversity management as a strategic imperative for transforming the HR function. In turn, the result will influence ‘individuals’ attitudes and behaviours, thereby cascading down to affect organisational outcomes (Gilbert et al., 1999). Another approach by Shen et al. (2009) suggests that a ‘firm’s diversity management philosophy is vital, and such philosophy determines how and to what extent diversity management is practised through HR practices at the strategic, tactical and operational level. This approach emphasises the role of line managers as the drivers of the diversity management initiative at all organisational levels (Shen et al., 2009).

More recently, however, growing criticism has been voiced of these conceptual models, particularly regarding the lack of detail on the question of how effectively diversity management would manifest at the level of organisational practices. To address the limitations of the existing diversity management framework, Carstens and De Kock (2016) have developed a firm-level model for effective management based on competency modelling. This diversity management competency framework describes effective diversity practices clustered with 11 core diversity management competencies, including leading diversity, capitalising on diversity, fair practices, systemising diversity management, diversity measurement, diversity skills and promoting inclusiveness (Carstens & De Kock, 2016: 14).

On the other hand, the notion that diversity-related investments result in positive firm performance outcomes is termed “the business case for diversity” (Barnett et al., 2004; Bezrukova et al., 2003; Ford et al., 2006; Litvin, 2006). By following this logic, effective diversity management could improve firm performance through 1) better problem-solving, 2) increased creativity and innovation, 3)

increased organisational flexibility, 4) improved quality of personnel through better recruitment and retention, and 5) improved marketing strategies (Blake & Cox, 1991). In addition, diversity-related ‘routines’ as a way of managing a diverse workforce could also enable firms to create competitive advantage (Pfeffer, 1998). Such routines would manifest as practices that collectively constitute diversity management competency, and such competency could be seen as a ‘firm’s ability to effectively respond to opportunities and challenges that derive from a diverse workforce (Carstens & De Kock, 2016). This underpinning approach sheds new light on this current research regarding improving cross-cultural services by effectively utilising workforce diversity through diversity management policies and practices among Japanese and foreign-owned companies in Japan. Key elements of the core diversity management competencies provide critical angles for the fieldwork in Japan. These elements help identify whether Japanese-owned and foreign-owned companies are equipped with the capacity to manage cultural diversity and benefit from such diversity.

In addition, Olsen and Martins (2012) also focus on the diversity management approach manifested in organisational culture and practices by using instrumental and terminal values. The fundamental difference between the previous approach and the latter lies in the organisational attitudes towards diversity. In organisations where diversity management approaches focus on leveraging diversity to achieve business-related outcomes, diversity is considered an instrumental value because it is viewed as a means of achieving business success. However, if organisations view a diverse workforce as an objective without explicitly considering it as an instrument for achieving business outcomes, it can be said that they hold diversity as a terminal value. Sometimes, organisations may hold diversity as both terminal and instrumental values (Olsen & Martins, 2012). This underpinning literature also provides helpful direction for this research to determine whether Japanese and foreign-owned companies value diversity as a critical instrument for business success (instrumental value) or as an ultimate and desired goal (terminal value).

In more recent years, critics have pointed out that most existing diversity management research in general and diversity management research in the hospitality sector analyses the effects rather than the determinants of diversity management (Kalargyrou & Costen, 2017; McCrea & Zhu, 2019). McCrea and Zhu (2019) call for more research on unpacking the drivers of diversity management and probe how the environmental determinants, such as market conditions/competition, inter-organisational collaboration, and clientele diversity, affect diversity management adoption. Using one service sector, namely hospitals, as case studies, the study mentioned above found that hospitals in competitive markets are more likely to adopt diversity management strategies when they

engage in extensive service collaboration and serve a diverse population (McCrea & Zhu, 2019). This research inspires the development of the current research by addressing not only external environmental factors but also organisational factors determining whether hospitality companies in Japan choose to adopt cultural diversity management strategies, given the society is a relatively homogeneous one, and management systems have been developed in line with the so-called ‘Japanisation’ style and traditions (Cho et al., 2018).

### **3. Diversity management in Japan with an international perspective**

Generally speaking, Japan has a relatively homogeneous population. Hence, Japanese researchers, governments and companies have paid little attention to cultural diversity management as a critical issue (Ozaki, 2017). As Ozbilgin (2005) points out, Japanese domestic diversity management research is inadequate for understanding diversity management concerns of different types of firms, including foreign MNCs, at the level of strategic decision-making. In recent years, the increasing pressure of a labour shortage due to the ageing population has led the Japanese government to introduce a series of measures to increase the labour force through the participation of women and senior citizens (aged 65 and above) in the labour market in recent decades as well as foreign workers in more recent years (Cabinet Office, 2018). As the third option of employing foreign workers in various sectors, recruiting foreign graduate students into the hospitality sector has become an important measure to address the issue of labour shortages. As a result of the increasing employment of foreign workers, cultural diversity management in both Japanese-owned and foreign-owned companies has become a pressing issue today for the survival and growth of some business sectors in Japan.

Nonetheless, overall diversity management has begun to be implemented by management specialists in Japan. So far, the Japanese government has tried to encourage diversification in the labour force through various means and has encouraged equal opportunities for women and LGBT, the disabled, and other social minorities through legislation and other means (Sakai, 2019). To this end, the Ministry of Economy and Industry has introduced an award nomination system for the top 100 companies which have adopted diversity management practices. However, upon examination, few cases appear to be dealing with cultural diversity management related to managing employees with cultural/ethnic differences. Given that little study has focused on emerging cultural diversity management in Japan (Sakai, 2019), the present research is preliminary investigations in this crucial area.

#### 4. Research design and methods

Given the nature of the phenomenon being studied, in addition to the need to examine in detail contextual implications, a combination of case studies and in-depth qualitative interviews has been used as the enquiry strategy. Case studies enable a holistic understanding of diversity management within the relevant contextual environments, and in-depth interviews build interpretation through the detailed description from different angles (Hesse-Biber & Leavy, 2011; Miles & Huberman, 2004). A multiple case design has been adopted, which has enabled the exploration of the process and factors influencing the adoption and implementation of diversity management at the firm level. We sought to acquire insights into the different issues confronting management in general and HR management in particular.

In order to enhance the validity and reliability of the qualitative case study (Yin, 2008), the present investigation has collected multiple sources of data in the form of interviews, observations and internal organisational documents. Managers (including HR managers) and employees (foreign and local) from 10 hotel and department store sectors were selected and contacted from among a larger data pool of companies that have business connections with the second ‘author’s university. The interviews capture the detailed company background and the challenging issues of managing diversity facing both managers and employees in these companies. Table 1 presents the profile of these cases. The critical issues related to cultural diversity management in these companies are summarised in Table 2. Some interviews were undertaken in Japanese, and others were in English. Each interview was carried out with an interview guide that contained 17 questions. The interview guide was developed in both Japanese and English to choose the language they preferred. Each interview lasted about 1.5 hours.

In terms of the questions we developed for the interview, the first group of questions (Q1-Q4) focused on the business background such as business sector, years of operation, revenue, number of employees, foreign language capability, non-Japanese nationals as employees, percentage of business income/revenue from foreign visitors, the business trend over the last five years of receiving foreign visitors and the likelihood of this further extending to the next five years. The second group of questions (Q5-Q10) addressed issues regarding the challenges of cultural diversity management. These questions included the significant challenges in adopting cultural diversity management, the policies and practices being implemented to enhance employment diversity, and the responsible role of leading such a policy. The third group of questions (Q11-Q17) covered issues relating to the evaluation and future development of major issues such as the key opportunities and benefits of using people with different cultural



Table 1. Case study profile

ID	Business Sector	Years of Operation	Size (Annual Revenue and/or Employee No.)	Foreign Language Capability	Non-Japanese nationals as Employees	% of business Income from Foreign Visitors	Business Trends of Foreign Visitors as % of Total Business
C1	Foreign-owned hotel	20	Revenue: not disclosed; Employee: 400 in total.	Most employees can speak English.	20 non-Japanese nationals, including Chinese, Korean, American, French, and Turkish.	60% (mainly from China, Taiwan, Hong Kong, Korea & the US)	Last 5 years: 30% Future 5 years: 60-70%.
C2	Foreign-owned hotel	7	Revenue: not disclosed; Employee: 200 in total.	Most employees can speak English.	5 Chinese and 4 Korean with good Japanese, English and their own languages.	70% (mainly from the US, China, Taiwan, Hong Kong & Korea)	2014/15: More foreigners. Future 5 years: remain at 70%.
C3	Foreign-owned hotel	Changed owner 2 years ago	Revenue: 1.8 billion yen; Employee: 100 full-time; 100 part-time.	Many staff can handle simple English.	2 Chinese and 1 Korean with good Japanese and English languages and their own languages (i.e. Cantonese, Mandarin & Korean).	60% (mainly from Taiwan)	Last 5 years: 20% Future 5 years: 60%
C4	Foreign-owned fully-serviced high-end residence	15	Revenue: not disclosed; Employee: 21 full-time; 3 part-time.	All the employees speak English.	Singaporean, Taiwanese, Korean and Chinese with good Japanese, English and their own language.	94% (mainly from the US, Taiwan, Singapore, Hong Kong & Korea)	100% foreigners all the time.
C5	Local hotel	58	Revenue: 28 billion yen; Employee: 300.	All the members can speak some English.	15 non-Japanese employees, including Chinese, Taiwanese and Korean with good Japanese, English and their own language.	85% (mainly from Hong Kong, Taiwan & Korea)	Remain at the same level as 85%.

Table 1 Continued...

C6	Local hotel	60	Revenue: 1 billion yen; Employee: 43 full-time; 70 part-time.	3 Japanese staff have good English.	3 Chinese, 4 Korean and 1 Sri Lankan with good Japanese, English and their own languages.	10% (mainly from Korea & Taiwan)	Last 5 years: 5% Future 5 years: 20%
C7	Local hotel	45	Revenue: not disclosed; Employee: 40 in total.	3 English speakers.	1 Vietnamese with Japanese, English, Chinese and Vietnamese languages.	15% (mainly from Taiwan, Hong Kong & Korea)	Last 5 years: 3% Future 5 years: 30%
C8	Local hotel	Hotel chain: 32 Branch: 11	Revenue: 0.58 billion yen; Employee: 13 full-time; 45 part-time.	1 semi-native English speaker; 3 receptionists can handle simple English.	1 Korean with Japanese, English and Korean language.	5% (mainly from Korea)	Remain at the same level as 5% in the past and future. Japanese guests prefer this hotel rather than foreigners.
C9	Japanese-owned international department store chain	>100	Revenue: not disclosed; Employee: more than 500 in this store.	Many staff can handle simple English.	20 Chinese and 10 Korean shop assistants with good Japanese, English and their own language.	80% (mainly from China, Taiwan, Hong Kong and Korea)	Last 5 years: 50% Future 5 years: 70 - 80%
C10	Japanese-owned department store	>50	Revenue: 20 billion yen; Employee: more than 200 in this store.	Many staff can handle simple English.	10 Chinese and 5 Korean shop assistants with good Japanese, English and their own language.	80% (mainly from China, Taiwan, Hong Kong and Korea)	Last 5 years: 50% Future 5 years: 70 - 80%

Table 2. The key issues related to diversity management in the sample companies

Key Issues	Responses
The contextual challenges	Increasing foreign visitors require adequate cross-cultural service by employing more non-Japanese employees. The increasing shortage of labour supply forces companies to recruit more non-Japanese employees.
How important is employment diversity	For some companies, employment diversity is very important since a diverse workforce can bring new ideas and different ways of delivering service with cross-cultural competency. It has not been seen as an issue (denial) for other companies.
The current organisational policy and practices regarding employment diversity	There are three types of organisational reaction: 1) proactive, 2) reactive, 3) denial.
Governance (i.e. who leads such policy implementation)	The HR head or senior management typically implement the policy in companies with a diversity management policy. Other companies do not have such a policy at all.
The primary benefit of employment diversity to the organisation	The major benefits can be divided into tangible and intangible benefits.
The major challenges of employment diversity to the organisation	Senior management's mentality and attitudes could be significant challenges and barriers to effective diversity management. Lack of government policy initiative on multi-cultural workforce-related employment diversity is also a challenging issue.

backgrounds, the types of people (e.g. cultural background, quality and competencies) the company would like to recruit, ways of helping these newly recruited employees to fit into the new cultural environment, expectations of the senior management concerning these recruits contributing, and plans for the future development of diversity management of the multi-cultural workforce. Participants were encouraged wherever possible to provide examples to elaborate their responses during the interviews.

#### *Analytical strategies*

We employed a thematic approach to analyse our data (King, 2004). Interview data analysis was supported by secondary data analysis of the 'firms' documents

provided by interviewees and observations on organisational processes, structures and relationships. This data triangulation enabled a comprehensive understanding of the phenomena studied.

The two authors translated the Japanese interview transcripts into English and analysed them in several iterations. In the initial iteration, the transcripts were reviewed with a broad view to exploring how organisations in general, and management teams in particular, respond to contextual influences, including the trend/importance of foreign visitors, employment policy of using foreign workers, and diversity management initiatives. Based on this broad analysis, the first author developed a template, checked and confirmed by the second author, to categorise critical themes in the research questions. Codes were developed to represent the key themes, ranging from broader ones, namely policy, market and economic situation, to more narrowly focused ones embedded in the broader themes, such as customer needs and cross-cultural service, managing a multi-cultural workforce, training and development of such a workforce, and the benefits and challenges of workforce diversity. The complete data sets have been analysed in the following iterations by identifying text relevant to the research questions, associating them with the corresponding codes, and organising the relationships according to these themes. Table 2 presents an exemplar summary of the codes and illustrative vital responses.

#### *Case study profiles*

As Table 1 demonstrates, among the 10 cases, three were foreign-owned hotels (i.e. C1, C2 and C3), one was a fully-serviced foreign-owned high-end residence (i.e. C4), four were Japanese-owned hotels (i.e. C5, C6, C7 and C8) and two were Japanese-owned department stores (i.e. C9 is an international chain and C10 is a popular local store, both are located in the Ginza shopping area in Tokyo). Many of these companies have a relatively long history, some spanning over 50, 60 and even 100 years. One company, C3, experienced a change of ownership two years ago but has been in business for many years. Generally speaking, foreign-owned hotels in our sample have much larger workforces with employees ranging between 100 and 400 compared with local Japanese counterparts, which indicated that their staff are mostly family members and part-time/casual employees. Two sizeable Japanese department stores employ approximately 200 and 500 staff.

In addition, most staff members working for foreign-owned hotels and residences speak English concerning foreign language capability. These companies also employ many non-Japanese employees, the majority of whom are recent university graduates, with nationalities including Chinese, Korean, Taiwanese and Singaporean, and who can communicate in Japanese, English and their home country languages. However, this is not the case among Japanese-owned

businesses where a small number of employees can communicate in English. Among the four Japanese-owned hotels (i.e. C5, C6, C7 and C8), a small number of non-Japanese employees are employed, including Chinese, Koreans, Sri Lankans and Vietnamese, who can communicate in Japanese English and their home country languages. As for the two large Japanese department stores, many staff can handle simple English. These stores also employ many Chinese and recent Korean university graduates as shop assistants, mainly dealing with foreign visitors, especially their home countries.

The majority of the sample companies heavily rely on revenue from foreign visitors, ranging from 60 to 94 per cent of their earnings. At the same time, a minority, namely the three local Japanese hotels (C6, C7, and C8), derive 5 to 15 per cent of their business revenue from international visitors.

Finally, the share of foreign visitors as a percentage of total customers has increased rapidly. The share has grown from between 20 and 30 per cent five years ago to the current levels (i.e. by the end of 2019) of 70 and 80 per cent for the majority of the samples analysed. The general background of the sample companies and the findings of this study are detailed below.

## **5. Findings**

The findings are divided into the following five key aspects based on the data generated through the theme analysis. These key aspects are: 1) perception and responses to the challenges of market changes, 2) adoption of management policy to enhance workplace diversity, 3) diversity management practices through governance and procedures, 4) perception and understanding of the significant benefits of workforce cultural diversity, and 5) significant challenges of cultural diversity in employment. In addition, this study categorises the sample companies into proactive, reactive and denial groups for whether they are adopting and implementing cultural diversity management policies and practices.

### *Responding to the challenges of market changes*

With increases in foreign visitors to Japan, the market situation of the service sector has been rapidly changing, and so is the importance of the 'visitors' spending to total business revenue. The hospitality industry faces the challenges of providing adequate and appropriate quality service to foreign visitors without too many barriers in cross-cultural communications and understanding. Contingent actions, such as prompt cross-cultural training of Japanese staff, cannot resolve such challenges quickly and effectively, but recruiting non-Japanese employees, mainly foreign, recent graduates in Japan or elsewhere, can meet the needs immediately.

The majority of the companies interviewed have recruited non-Japanese employees as part of the overall strategy to meet the increasing number of international visitors. As 'C1's manager claimed:

*“Five years ago, more than 70 per cent of our customers were Japanese, but now more than 60 per cent are foreigners, in particular those from China, South Korea, Taiwan and other Asian countries. In order to meet such challenges, we have been recruiting Chinese and Korean speakers as full-time employees, and most of them are international university students who have graduated (from Japanese institutions) recently. Now, we have 5 per cent non-Japanese employees among our total workforce.”*

Other companies, including C2, C3, C4, C9 and C10, have adopted a similar strategy to address the challenge by diversifying their workforce ethnically.

At the same time, another major market challenge in Japan is the shortage of labour. While there was roughly one open position for two applicants in 2010, the job situation in the Japanese labour market has become tighter, with 1.48 open positions per applicant in 2017 (MHLW, 2017). Therefore, an increasing number of Japanese employers, including SMEs, have started recruiting non-Japanese employees in recent years to meet their workforce demands. As 'C8's manager claimed:

*“The current challenge is to secure enough staff. Staff diversity is not an issue, and the labour market is very tight, and we have fewer applications for our positions. As a result, we may have no option but to hire non-Japanese staff.”*

Other companies, including C5, C6 and C7, provided similar answers as the primary reason for hiring non-Japanese employees. It is one of the few options available to solve the problem of labour shortages.

The above examples indicate that with the changes in market conditions in Japan, there is a general trend for a more significant number of companies to adopt workforce diversity as a critical instrumental strategy. The increasing workforce diversity provides conditions for adopting cultural diversity management strategies. However, the reality is not straightforward. Among our sample companies, foreign-owned hotels/residences and large Japanese-owned department stores see such opportunities and act accordingly. As for small Japanese-owned companies, they were employing non-Japanese employees purely to overcome the shortage of labour. Though there are some exceptions, most Japanese-owned small companies do not seem to have utilised the diverse background of foreign workers to improve their customers' different cultural,

religious, and other needs. These companies tend to employ foreigners as a reasonably-priced labour force for simple tasks such as cleaning and other domestic chores. This fundamental difference could lead to different policies and practices regarding cultural diversity management, which will be elaborated in more detail in the following sections.

*Cultural diversity management policy as a way of enhancing workplace diversity*

Adopting cultural diversity management policies to enhance workplace diversity is a rather recent challenge in Japan compared to the West since mainstream Japanese national and organisational culture has been embracing homogeneity and uniformity as a significant source of strength rather than a weakness for many years. This trend has been regarded as one of the critical characteristics of the Japanese management system (Ornatowski, 1998). However, given the changing market environment, workplace diversity has become an everyday reality in Japan, and companies can no longer ignore the challenges they face if they wish to survive and excel in the increasingly competitive marketplace. Proactive organisations, particularly foreign-owned companies and Japanese companies involved in international business in Japan and overseas, have gradually adopted and developed their cultural diversity management policies in recent years.

For example, 'C1's manager explained:

*“As a US-based international hotel chain, our company has adopted its diversity management policy from headquarters and has modified it into our Japanese work environment, and our diversity management policy covers multiple issues, including gender, race, sexual orientation and disability.”*

The manager of C9 (a large Japanese-owned international department store) also emphasised the importance of “treating employees with different cultural background equally in the workplace, realising the potential of newly-recruited non-Japanese employees and valuing their contribution to the improvement in cross-cultural services, given they serve foreign visitors very well.”

Generally speaking, the following pattern prevails among the sample companies: the headquarters of the foreign-owned companies have implemented cultural diversity management policies at their subsidiaries, and large Japanese-owned organisations have developed their own cultural diversity management policies according to the recent business changes and labour needs. However, in the case of small Japanese-owned hotels (e.g. C5, C6, C7 and C8), managers claim that there is no need to adopt cultural diversity management policies given the fact that they are Japanese companies and their employees should follow the Japanese way, though some non-Japanese staff are being employed. Once again, these managers

claim that cultural diversity management is not an issue their companies will consider.

*Cultural diversity management practices through governance and procedures*

The section above demonstrates that, except for four small-sized Japanese-owned hotels, other foreign-owned and Japanese-owned businesses have adopted cultural diversity management policies differently. However, the practices of these policies through governance, procedures and interventions are different among the sample companies. As for the governing structure, some companies have placed HR heads in charge of cultural diversity management implementation (e.g. C1, C9 and C10); others have allocated such tasks to general managers or deputy managers (e.g. C2, C3 and C4). Generally speaking, such differences are associated with the size of the business; in other words, larger companies with more employees have HR heads to lead the cultural diversity management implementation compared with relatively smaller companies that allocate such responsibilities to the senior leadership.

The procedures for forming and implementing cultural diversity management are also different among the sample companies. For example, multi-national hotel chains have adopted their 'headquarters' policy with some modifications, but Japanese-owned businesses have developed their own policy, considering the local laws and norms. In general, gender issues were given more attention as the focus of diversity management in the past, but gradually ethnicity and cultural issues have gained importance in more recent years given the further internationalised workforce. The general implementation procedure includes: 1) adding new policies on the employment menu, and 2) linking cultural diversity management with performance and training. C3's manager explained:

*"Our General Manager is Singaporean. So many policy initiatives, including cultural diversity management, have been implemented by the headquarters so far. Our middle and senior managers have been trained in Singapore, and they have learned and brought back all the policies and practices and implemented them in Japan accordingly. Given that Singapore is a very multi-cultural-oriented city, cultural diversity management is more advanced than in Japan. So we can learn a lot from them."*

C1's manager similarly said:

*"All new and old employees would get cross-cultural communication training as part of cultural diversity management initiatives, and this is not only good for customer service but also useful among managers and employees dealing with each other. Effective cross-*



*cultural communications and services are part of our performance evaluation items, and people do pay attention to these requirements.”*

Hence, performance management and training are seen as effective intervention mechanisms for implementing diversity management.

#### *The significant benefits of cultural diversity*

The significant benefits of cultural diversity include meeting the needs of increasingly diverse customers and addressing the workforce shortage, as mentioned earlier. However, companies have more tangible and intangible benefits if they can effectively manage and utilise workforce cultural diversity. For example, a number of our sample companies achieved positive outcomes by “using non-Japanese employees to translate business flyers and catalogues into the Chinese and Korean languages rather than the traditional way of using Japanese and English languages only.” (managers of C9 and C10).

In most international hotel chains and department stores, Chinese and Korean-speaking employees have been deployed at front desks and information counters to provide adequate service for check-ins or sharing information for shopping. C9’s manager claimed that “this solution naturally helps us build the “company’s human capital with cross-cultural capability as a tangible asset as well as create a positive image, reputation and brand as an intangible asset.” Other benefits include different ways of thinking, doing, and delivering, which will further increase customer satisfaction. For instance, one Chinese employee in C10 mentioned that “Chinese visitors travelling in Tokyo feel at home when they are greeted by us with the same cultural and ethnic background and speak in their mother tongue.” Such a state of affairs adds more value and may succeed in having customers back for future business.

#### *The significant challenges of cultural diversity management*

There are several issues related to the significant challenges of cultural diversity management. One key issue is associated with a cultural clash, given that the Japanese culture and management systems are robust and have been dominating business operations for a long time. Under the influence of globalisation and foreign influence, particularly from the West, ‘Japan’s traditional norms have been gradually changing. For instance, merit-based contracts and promotion systems have challenged the long-term seniority-based wage and employment system. However, these changes have been relatively slow and have met much resistance (Benson, 2013). Therefore, adopting cultural diversity and related diversity management policies and practices has not been easy with such strong resistance.

Some managers deny that diversity is an issue (e.g. C5, C6, C7 and C8). Employing non-Japanese people has become one of the few options available to cope with the labour shortage. However, some Japanese employers still prefer to employ Japanese nationals if they choose. This attitude has been confirmed by the comments made by C5's manager as "everyone should just follow the Japanese way since we are working in Japan, and this is the best way to organise work, and everyone can just follow such rules."

The situation is different in the case of foreign-owned businesses and larger Japanese organisations with international connections. Many of them have proactively adopted cultural diversity management policies and practices, but some have reacted to changes in the market situation to meet the different needs of foreign customers in recent years. For example, C1's manager claims:

*"Employing culturally diverse people is important for us to meet the challenges of different needs of culturally diverse customer groups with cultural understanding and multi-language capabilities."*

Others also indicate that, in the words of 'C3's manager, "the company will become wealthier by employing more international employees with different ideas and cross-cultural understanding and international experience."

By understanding the challenges as well as the benefits of employment diversity, some companies have adopted a more proactive approach towards cultural diversity management policy and implementation, such as regular cross-cultural training programs, new KPI for measuring performance in cultural diversity management, and reward for 'excellent 'performance' in this area (i.e. C1, C3, C9 and C10). The companies which have adopted a more reactive approach towards cultural diversity management tend to have simply accepted the cultural diversity of their workforce as having become a reality; they tend to see a more control-oriented policy initiative as an effective mechanism. The comments made by C2's manager re-enforce such an approach:

*"Our business is to provide high-quality services, but employing culturally diverse people may influence the level of such high quality. Therefore, we need to control the process with relevant HR functions and practices to maintain quality."*

From this comment, we can see that a certain level of ethnocentric attitude and mistrust towards non-Japanese employees in maintaining high-quality service is explicit among some business leaders.

## 6. Discussion

Considering the limited research on cultural diversity management in Japan, this article contributes to a more comprehensive understanding of the current state of employment diversity in Japan in general and cultural diversity management policies and practices at the firm level. Our findings suggest that companies in Japan can be divided into three groups: 1) proactive companies using workforce diversity and adopting cultural diversity management as an opportunity to improve their organisational culture and management policy and practices; 2) reactive companies employing non-Japanese staff as a strategy to cope with an acute labour shortage and adopting some aspects of cultural diversity management as a way of complying with such norms; and 3) denial companies denying that cultural diversity management is necessary for their businesses and maintaining that the Japanese way is the only way to follow.

One of the critical contributions of this research is to fill the gaps in the current diversity management studies by exploring the determinants rather than only the effects of adopting cultural diversity management (McCrea & Zhu, 2019). Our evidence shows that the determinants could have both positive and negative impacts on adopting and implementing cultural diversity management. The research findings demonstrate that the changing market situations are the essential environmental determinants influencing workforce diversity and related cultural diversity management. For example, a rapidly increasing number of foreign visitors requires companies to employ more non-Japanese employees to provide adequate cross-cultural services. On the other hand, the shortage of labour supply forces them to recruit more non-Japanese employees as an alternative hiring strategy.

However, external factors are not the only determinants in this regard in Japan; organisational determinants also influence Japanese companies to adopt cultural diversity management policies and practices. For example, foreign-owned and larger sized Japanese-owned companies with international business connections are more compliant with cultural diversity management' best 'practices' by establishing adequate policy and implementation procedures. These procedures are related to their organisational culture, outward-looking with international connections and engagement, and leadership quality and strategic thinking about the changing global business environments. In contrast, small Japanese-owned businesses do not see cultural diversity management as necessary and have a strong 'Japanisation' mentality; they still hold a specific ethnocentric view towards non-Japanese employees.

Another contribution of this article is articulating the benefits and challenges of workforce cultural diversity in Japan. Based on our findings, the overall benefits

include tangible ones such as improved business capabilities with enriched human capital for meeting the different needs of more diverse customers and intangible benefits such as various ideas and ways of delivering cross-cultural services. Overall, business image, reputation and brand can be improved through greater customer satisfaction. However, many challenges face the prevailing conventional Japanese culture and management systems. As the evidence shows, by understanding the challenges and benefits of workforce diversity and related cultural diversity management, companies can and should do better in their future development. However, the crucial issue is that senior managers need to be more open-minded and value the positive contribution of a diverse workforce through effective cultural diversity management policy and practices.

### **7. Implications for theory**

So far, the literature has focused on the positive and negative effects of cultural diversity management on organisational outcomes (Martins & Milliken, 1996; Schwabenland & Tomlinson, 2015; van Knippenberg & Schippers, 2007; Williams & O'Reilly, 1998). However, less attention has been paid to organisational denial of cultural diversity management and the negative determining factors for such denial, as we have found in the examples studied in this research. One key element causing this might be the prevailing conventional organisational cultures deeply rooted in the Japanese employment and management practices based on seniority and long-term employment. Many senior managers in Japan are relatively old and conservative; many seem to be reluctant to change (Benson, 2013).

Therefore, even though the reality has changed with increasingly more non-Japanese being employed, the mentality of these managers does not allow them to recognise such a changing reality. This situation poses one of the key obstacles to advancing cultural diversity management policy and implementation among many Japanese-owned companies in Japan. This study goes beyond the environmental determinants of cultural diversity management (McCrea & Zhu, 2019) by linking both positive and negative environmental and organisational factors as the determinants within the unique Japanese economic, social and organisational contexts (Cooke, 2018), such as market changes, ageing population, shortage of labour, traditional and societal norms, and characteristics of organisation and business leadership, with different ways of managing workforce diversity.

In addition, our research confirms the literature regarding diversity management as a process rather than a matter of input (e.g. diversity interventions) and outcomes (e.g. better economic outcome) (Olsen & Martins, 2012). As Carstens and De Kock (2016) argue, a perspective of diversity management can focus on

creating and sustaining the conditions for effective diversity management and by emphasising ‘good ‘practices’ directed at managing diversity in pursuit of optimal performance. Gilbert et al. (1999) claim that diversity management should be treated as a complete cultural change rather than an isolated component of policy design. Our evidence shows that proactive companies adopting cultural diversity management tend to follow this pattern by introducing cultural diversity management policies and practices, trying to change the organisational culture, and reforming the existing implementation procedures.

Furthermore, concerning the diversity management approach based on the concept of instrumental and terminal values (Olsen & Martins, 2012), our evidence shows that companies that are proactive in cultural diversity management tend to focus on leveraging cultural diversity to achieve business-related outcomes, namely effective cross-cultural service. For them, diversity management has an instrumental value. However, there are other companies that other companies view a culturally diverse workforce as an objective without explicitly considering it as a means of achieving better business outcomes; these companies appear to be attributing a terminal value to diversity management. However, many companies go so far as to deny cultural diversity management as necessary. Hence, to a greater extent, future research could focus on the cultural diversity management denial model.

In short, this study has adopted a holistic approach to investigate the above issues in a non-western context with a relatively unique business management and employment relations system, namely the so-called ‘Japanisation’ style and traditions (Cho et al., 2018). Based on the findings, it can be said that this research has added several complementary theoretical contributions that might be relevant to countries where the existing conditions are very different from their Western counterparts (e.g. Yap & Ineson, 2016; Antun et al., 2007).

## **8. Implications for policy and practice**

The above discussion indicates several implications for policy and practice. First, address cultural diversity management an issue, senior management plays a critical role, and therefore, attitudes need to be changed to advance cultural diversity in business organisations. Considering that there are views based on a ‘Japanisation’ tradition and superiority attitudes towards non-Japanese employees among conventional Japanese-owned companies, it is to adopt and implement effective cultural diversity management in these companies. Therefore, it is crucial to educate senior management and increase their understanding that cultural diversity in the workforce can make businesses grow and that utilising cultural diversity can promote future business development.

Second, companies taking a reactive approach towards cultural diversity management need to realise that their senior management must understand the benefits of workforce cultural diversity. Knowing how to maximise the potential value of non-Japanese employees is a crucial element for future business growth. Therefore, these companies need to address the gap and inconsistency in the current policy initiatives and management systems and build a new organisational culture to realise the potential of a culturally diverse workforce fully.

Third, the Japanese government and businesses focusing on diversity management have concentrated on gender diversity and the ageing workforce, but less on cultural diversity. However, given the increasing number of non-Japanese employees working in Japan nowadays, they must develop and implement guidelines and policy initiatives in this regard. The joint deployment of a clear policy on diversity management regarding cultural diversity and workable enforcement mechanisms is crucial for advancing the national economy, business growth and society in harmony, given the increasing challenges associated with employing multi-cultural foreign workers in Japan.

## **9. Conclusion**

This article aims to tackle the challenging issues related to managing a culturally diverse workforce with cultural diversity management in the hospitality industry in Japan. Influenced by market changes, non-Japanese employees have increasingly entered the traditionally Japanese-dominated workplace in this sector. However, the evidence shows that further improvement in managing multi-cultural workforces in Japan is required. Some Japanese business leaders are still denying such reality with a relatively conservative attitude towards adopting changes. In order to turn these challenges into business growth opportunities, this study recommends that the government and business leaders play a leadership role to establish explicit and systematic workable cultural diversity management policies and implementation mechanisms in Japanese organisations. Given the limitation of this study due to the limited sample size and one-time snapshot investigation, future research could benefit from larger sample size and longitudinal research over time, following companies to determine their progress, challenges and opportunities. In particular, future studies should include several companies with a denial attitude to assist them in finding solutions to change corporate culture and attitudes in the long term. We hope this preliminary study of the current state and prospects of cultural diversity management in the hospitality industry in Japan can generate further exciting debates.

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