



(Photo by Chestnut)

# Capital Game in K-pop's Area

Understand South Korean Conglomerates' Engagement  
in the K-pop Industry as A Diversification Strategy  
through Value Chain Analysis

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## Acknowledgement

2022 is the year calling the end of my master's study as well as my 8<sup>th</sup> year as a k-pop fan. It was not a tough decision for me to choose k-pop as my research topic since it has long been a part of my life. I am always making fun of myself by saying “I have a “master's degree” in Korean popular culture, and I am actually the k-pop ambassador in Europe.” To some extent, I even know more about this republic country in the Korean Peninsula than my home country who is well-protected under a “privacy filter” and lagged behind in the export of popular culture. I feel really satisfied and grateful that I can write the topic I am interested in for my master thesis and express my authentic inner voices for this (and also other previous) research. Thanks for the freedom that GLOCAL and Europe “empower” me :)

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## Abbreviations

<b>AFC</b>	Asian Financial Crisis
<b>AMA</b>	American Music Awards
<b>DS</b>	Diversification strategy
<b>FDI</b>	Foreign direct investment
<b>GMA</b>	Gaon Music Award
<b>GTC</b>	General Trading Company
<b>ICT</b>	Information and Communications Technology
<b>IFPI</b>	International Federation of the Phonographic Industry
<b>IMF</b>	International Monetary Fund
<b>KFTC</b>	Korea Fair Trade Commission
<b>KOCCA</b>	Korea Creative Content Agency
<b>K-pop</b>	Korean popular music
<b>KTO</b>	Korean Tourism Organisation
<b>MAMA</b>	Mnet Asian Music Awards
<b>MCST</b>	Ministry of Culture, Sports and Tourism
<b>MMA</b>	Melon Music Award
<b>MOFA</b>	Ministry of Foreign Affairs
<b>OTT</b>	Over-the-top media service
<b>PCNB</b>	Presidential Council on Nation Branding c
<b>SBU</b>	Strategic business unit
<b>SME</b>	Small and medium enterprise
<b>SOE</b>	State-owned enterprise
<b>TOPIK</b>	Test of Proficiency in Korean
<b>VC</b>	Venture Capital

## Abstract

Diversifying into different businesses is a natural course for most conglomerates. The target industry for diversification changes now and then with the emergence of new niches. As more stakeholders realize the necessity and huge potential of a creative economy, creative industries-- the heart of creative economy and a vital driver for innovation and productivity improvement-- become appealing markets for conglomerates to step into. Apart from ICT industries, Korean conglomerates also recognize the potential of k-pop, which recently grows into a global music blockbuster. And this trend became especially intensive after the 1997 Asian Financial Crisis (AFC). To understand Korean conglomerates' engagement in the k-pop industry, this paper showcases the various values entailed in k-pop that stimulate these players through value chain analysis and depicts how they allocate their corporate resources to the k-pop industry to achieve the diversification via the case study of CJ Group and Kakao Corporation. The research shows, the 1997 AFC caused great losses for the country and conglomerates, further worsening the relationship between state and firm since conglomerates' unlimited expansion and problematic structure were to blame for the crisis. South Korea started to call for the development of a more creative and sustainable economy and the activation of the nation's soft power. More conglomerates have therefore stepped into cultural and creative industries for a new breakthrough point for value creation and the relief of state-firm tension. K-pop is one of the target industries since it not only contains tremendous economic values produced through fan economy and cultural export but acts as a source of Korea's soft power and gains notable support from the government. Besides, k-pop's export-oriented nature aligns with Korea's outward-looking economic policies and conglomerates' focus and efforts in the export sector. And the government's official support has created both reciprocity and a stable policy, which can be expected to initiate a better state-firm relationship.

**Keywords:** Creative Industry, K-pop, Hallyu, South Korea, Conglomerate, Value Chain, Diversification, Popular Culture



## Chapter 1 Introduction

Diversifying into different businesses is a natural course for most conglomerates. The target industry for diversification changes now and then with the emergence of new niches. As more stakeholders realize the necessity and huge potential of a creative economy, creative industries-- the heart of creative economy and a vital driver for innovation and productivity improvement-- become appealing markets for conglomerates to step into. This is the case for South Korea as well.

Within the past three decades, Korean Wave, or Hallyu, which means the movement of Korean culture (including Korean dramas, music, fashion, food, game, cosmetics, etc.), has emerged to be one of the major drivers of global cultural diversity. At the heart of Hallyu is the ever-growing popularity of Korean popular music-- "k-pop." K-pop has become an international blockbuster in the music industry and gained unprecedented popularity, sweeping through East Asia, Middle East, Europe, and American continents. In the meantime, the boom of k-pop also witnesses a large amount of capital inflow from Korean conglomerates who see k-pop as a fresh niche for value creation and turn it into their new strategic business unit. And their engagement in the k-pop industry was particularly intensified after the 1997 AFC.

As can be seen in Figure 1.1, well-known conglomerates, such as Samsung, SK Group (the largest Korean corporation in the energy and chemical industry and mobile communication industry), CJ Corporation (largest Korean food exporter), Kakao Corporation (parent company of the instant message app "Kakao Talk" that is used by almost every Korean), and Naver Corporation (who owns the first and also the largest search engine "Naver" in South Korea), are actively engaged in the k-pop industry and allocating their partial corporate resources in it. Furthermore, what is unique in the k-pop's case is that, the Korea National Pension Service, a government-owned enterprise/fund that uses residents' pensions as principal to invest in a wide range of domestic and global assets, is also holding shares of companies in the k-pop industry

(e.g., SM Entertainment and YG Entertainment), indicating k-pop’s promising ROI (return of investment) for investors.<sup>1</sup>

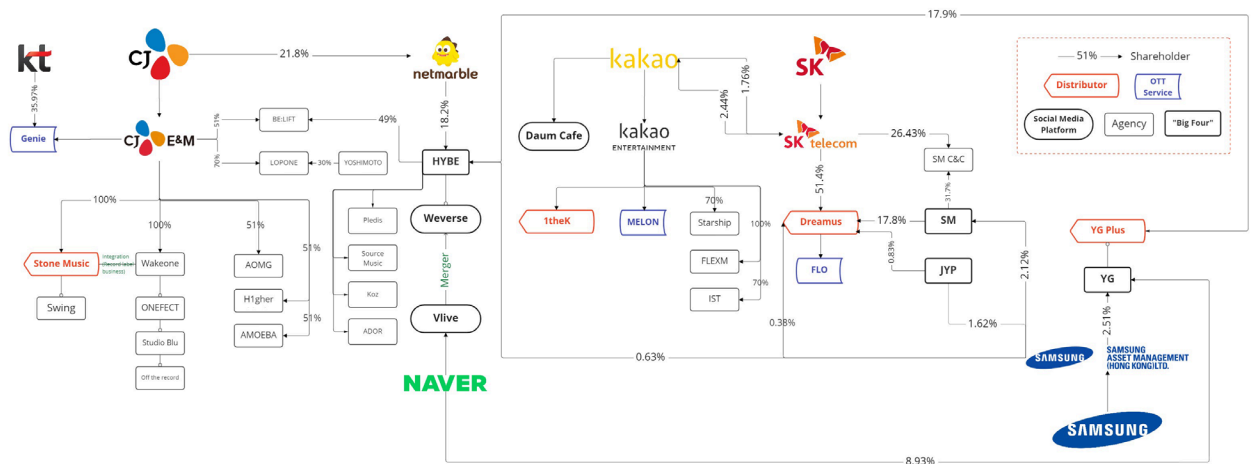


Figure 1. 1 Investor Relations of Selected Korean Conglomerates with the K-pop Industry (Designed by Chestnut based on the shareholder data on MarketScreener)<sup>2</sup>

To understand Korean conglomerates’ engagement in the k-pop industry, this paper showcases the various values entailed in k-pop that stimulate these players through value chain analysis and depicts how they allocate their corporate resources to the k-pop industry to achieve the diversification via the case study of CJ Corporation and Kakao Corporation.

<sup>1</sup> National Pension Service, ‘2020 National Pension Fund Annual Report’, 2021, 22, [https://fund.nps.or.kr/jsppage/fund/prs\\_e/prs\\_e\\_04.jsp](https://fund.nps.or.kr/jsppage/fund/prs_e/prs_e_04.jsp); Korea International Trade Association, ‘NPS Increases Stakes in Fashion, Game, Entertainment Stocks’, 2019, <http://www.kita.org/global/ecoView.do?seq=20180>.

<sup>2</sup> MarketScreener, ‘HYBE CO., LTD. : Shareholders Board Members Managers and Company Profile | KR7352820005 | MarketScreener’, 2022, <https://www.marketscreener.com/quote/stock/HYBE-CO-LTD-119080242/company/>; MarketScreener, ‘JYP ENTERTAINMENT CORPORATION : Shareholders Board Members Managers and Company Profile | KR7035900000 | MarketScreener’, 2022, <https://www.marketscreener.com/quote/stock/JYP-ENTERTAINMENT-CORPORA-18910861/company/>; MarketScreener, ‘SM ENTERTAINMENT CO., LTD. : Shareholders Board Members Managers and Company Profile | KR7041510009 | MarketScreener’, 2022, <https://www.marketscreener.com/quote/stock/SM-ENTERTAINMENT-CO-LTD-6491662/company/>; MarketScreener, ‘YG ENTERTAINMENT INC. : Shareholders Board Members Managers and Company Profile | KR7122870009 | MarketScreener’, 2022, <https://www.marketscreener.com/quote/stock/YG-ENTERTAINMENT-INC-10246201/company/>.

## **1.1 Research Topic**

### **1.1.1 Main Research Questions and Sub-questions**

The above-mentioned phenomenon leads to the proposal and investigation of this paper's central research question:

*What values or potentials contained in k-pop have stimulated South Korea's conglomerates to diversify their businesses in the k-pop industry, particularly after the 1997 Asian Financial Crisis? And how have they engaged?*

To comprehensively answer the main research question, this thesis also lists three sub-questions, which will be covered in the main chapters.

*Sub-Q1: How has k-pop risen in the global music market and gained worldwide popularity?*

Chapter 2 will help understand which attributes and social changes have shaped k-pop and contributed to its global popularity through the retrospect of k-pop's historical development and k-pop's specialties that distinguish it from other music genres. In this way, Chapter 2 will clarify how the k-pop market has been established, which brings out more market demands for k-pop content and activates dynamics in the industry.

*Sub-Q2: How has value been created/stimulated in each activity of the k-pop industry?*

Chapter 3 will explain the specially-designed value chain model for k-pop industry, which includes two constituents: primary value activities (content creation, distribution, retail and OTT services, marketing, and consumption) and margins (economic values generated through fan economy and cultural export and music source for Korea's soft power and cultural diplomacy). The mechanism of each primary value activity, the special rules set by major players to stimulate the consumption and create economic values, how k-pop helps with cultural diplomacy as a music source of soft power, and the importance that Korean government attaches to

k-pop, will be disclosed to answer the central research question and the second sub-question.

***Sub-Q3: Why are Korean conglomerates attracted by the addressed k-pop's values?***

When it is clear what values are contained in k-pop and how they are created, we should figure out why investors (Korean conglomerates) have been fascinated by these values or, to put it simply, what are their motivations? Chapter 4 will clarify it by reviewing Korean conglomerates' emergence, expansion, and globalization and how they have dragged South Korea from the “economic swamp” to become a developed country. The 1997 AFC will be specially addressed to draw the impetuses. Meanwhile, the case of CJ Group and Kakao Corporation will be quoted as representatives to explain how Korean conglomerates have engaged in the k-pop industry (i.e., which diversification methods they have used).

**1.1.2 Social Relevance: the Engagement of Conglomerates in Creative Industries**

A conglomerate is a large corporate group owned by a parent company and comprising diverse independent subsidiaries. In most cases, a conglomerate's businesses cover multiple industries, though a few conglomerates are only involved in a single sector, such as those in the mining industry.<sup>3</sup> The conglomerate has existed for centuries, and from the 1960s onwards, the "conglomerate fad" had swept through the United States and Europe: an increasing number of firms stepped onto a "business diversification" road, but only a few of them survived.<sup>4</sup> 3M, General Electric, Volkswagen, Unilever, etc., are all successful examples. In the non-western world, conglomerates also have a broad ground to play. Most conglomerates in China are state-owned enterprises, while in recent years, more private business groups have risen and frequently appeared in Fortune Global 500 list, such as Huawei, Tencent, and Alibaba. Meanwhile, while modern conglomerates, such as Sony, still exist in

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<sup>3</sup> JAMES CHEN, 'Conglomerate', Investopedia, 2021, <https://www.investopedia.com/terms/c/conglomerate.asp>.

<sup>4</sup> J. Ramachandran, K. S. Manikandan, and Anirvan Pant, 'Why Conglomerates Thrive (Outside the U.S.)', *Harvard Business Review*, 1 December 2013, <https://hbr.org/2013/12/why-conglomerates-thrive-outside-the-us>.

Japan, *keiretsu*, a unique form of conglomerates, has derived and is profoundly embedded in the Japanese industrial organization and business system.<sup>5</sup> A typical keiretsu is often bank-centered, and its shareholdings are stable and dominated by institutional and corporate shareholders.<sup>6</sup> Major keiretsu include three former zairetsu Mitsui, Mitsubishi, Sumitomo, and Dai Ichi Kango, Fuyo, and Sanyo.

When the magnifier is placed over the Korean Peninsula, South Korea tells a different story about conglomerates. Usually, when talking about conglomerates in South Korea, the first image appearing in most people's minds is *chaebol*, though not all Korean conglomerates are chaebols. Chaebol (Korean: 재벌), literally means a clan of wealth: chae (財) is wealth and bol (閥) refers to a clan or clique. It is a collective of independent firms under one family's administrative and financial control.<sup>7</sup> They occupy a large portion of Korea's economy landscape: for instance, among the top 30 Korean conglomerates, 24 are chaebol groups; only few of them are non-chaebol, which are either emerging ICT enterprises (e.g., Kakao and Naver) or state-owned conglomerates. And according to the latest Korean Fair Trade Act, corporations whose total asset exceeds KRW 5 trillion (about USD 4.15 billion) are considered conglomerates.<sup>8</sup> Therefore, there were 71 conglomerates in South Korea by the end of 2021 (see Figure 1.2). Notably, the values created by these conglomerates have contributed significantly to the national economy and accounted for a considerable ratio of the GDP, and many of them have maintained a close relationship with the Korean government since the rise of South Korea has been closely related with the expansion of these conglomerates in the past decades.<sup>9</sup>

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<sup>5</sup> Jean McGuire and Sandra Dow, 'Japanese Keiretsu: Past, Present, Future', *Asia Pacific Journal of Management* 26, no. 2 (June 2009): 333–51, <https://doi.org/10.1007/s10490-008-9104-5>.

<sup>6</sup> Jean McGuire and Sandra Dow, 'The Japanese Keiretsu System: An Empirical Analysis', *Journal of Business Research* 55, no. 1 (January 2002): 33–40, [https://doi.org/10.1016/S0148-2963\(00\)00128-4](https://doi.org/10.1016/S0148-2963(00)00128-4).

<sup>7</sup> David Murillo and Yun-dal Sung, 'Understanding Korean Capitalism: Chaebols and Their Corporate Governance', 2013, 13.

<sup>8</sup> 'Fair Trade Act', Korean Fair Trade Commission, accessed 18 March 2022,

<https://www.law.go.kr/LSW/lumLsLinkPop.do?lspttninfSeq=142067&chrClsCd=010202>.

<sup>9</sup> Murillo and Sung, 'Understanding Korean Capitalism: Chaebols and Their Corporate Governance'; Chan Sup Chang, 'Chaebol: The South Korean Conglomerates', *Business Horizons* 31, no. 2 (March

Ranking	Conglomerate	Total Assets (KRW: trillion)	Ranking	Conglomerate	Total Assets (KRW: trillion)	Ranking	Conglomerate	Total Assets (KRW: trillion)
1	Samsung	457.3	25	Korea Investment & Finance	14.6	49	Taekwang	8.7
2	Hyundai Motor	246	26	Kyobo Life Insurance	14.4	50	Dongwon Group	8.4
3	SK	239.5	27	Naver	13.5	51	Halla Group	8.1
4	LG	151.3	28	HDC	13.5	52	AMOREPACIFIC	8
5	Lotte	117.7	29	Hyosung	13.2	53	IMM Investment	7.8
6	POSCO	82	30	Young Poong	13.1	54	Samchully Group	7.8
7	Hanwha	72.8	31	Harim	13	55	KUMHO PETROCHEMICAL	6.6
8	GS Group	67.6	32	KT&G	12.7	56	Daoukiwoom	6.5
9	Hyundai Heavy Industries	63.8	33	KCC	12.2	57	General Motors KOREA	6.2
10	NH	63.5	34	Nexon	11.9	58	Sinokor Merchant Marine	6.2
11	Shinsegae Group	46.4	35	Daewoo Shipbuilding & Marine Engineering	11.3	59	Dongkuk Steel	5.9
12	KT	37.7	36	Netmarble	10.7	60	Coupang	5.7
13	CI	34.6	37	Hoban Construction	10.6	61	Aekyung	5.5
14	Hanjin	33.6	38	SM	10.4	62	Peninsula	5.5
15	Doosan	29.6	39	DB Group	10.3	63	Eugene	5.5
16	LS	25.2	40	Kolon	10.2	64	Hite Jinro	5.4
17	Booyoung	23.3	41	Hankook	9.8	65	Samyang	5.4
18	KAKAO	19.9	42	Daewoo E&C	9.8	66	Daebang Construction	5.3
19	Daelim	19.6	43	OCI	9.8	67	Hyundai Marine & Fire Insurance	5.3
20	Mirae Asset	19.3	44	Taeyoung	9.8	68	Korea Aerospace Industries	5.2
21	Hyundai Department Store	18.3	45	E-Land	9.5	69	MDM	5.2
22	Kumho Asiana	17.4	46	Seah	9.4	70	I.S	5.1
23	S-Oil	15.7	47	Jungheung Construction	9.2	71	JoongAng Group	5
24	Celltrion	14.8	48	HMM	8.7			

Figure 1. 2 List of Korean Conglomerates in 2021<sup>10</sup>

Diversifying into different businesses has become a natural course for most conglomerates since the 1950s. The target industry for diversification changes now and then with the emergence of new niches: manufacturing, mining, chemicals, information technology, etc., all caught the eyes of businessmen previously. As more stakeholders realize the total necessity and huge potential of creative economy (the

1988): 51–57, [https://doi.org/10.1016/0007-6813\(88\)90081-X](https://doi.org/10.1016/0007-6813(88)90081-X); Minhoo Kuk, ‘THE GOVERNMENTAL ROLE IN THE MAKING OF CHAEBOL IN THE INDUSTRIAL DEVELOPMENT OF SOUTH KOREA’, *Asian Perspective* 12, no. 1 (1988): 107–33; Jong-sung You, ‘The Changing Dynamics of State–Business Relations and the Politics of Reform and Capture in South Korea’, *Review of International Political Economy* 28, no. 1 (2 January 2021): 81–102, <https://doi.org/10.1080/09692290.2020.1724176>.

<sup>10</sup> Korean Fair Trade Commission, ‘2021 Annual Report of Korean Fair Trade Commission’, 2022, 235–60, [https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR\\_000000002404&bbsTyCode=BBST11](https://www.ftc.go.kr/eng/cop/bbs/selectBoardList.do?key=517&bbsId=BBSMSTR_000000002404&bbsTyCode=BBST11).

knowledge-intensive economic activities that address the interaction between human ideas and creativity and intellectual property, knowledge, and technology), creative industries become appealing markets for conglomerates to engage in as well.<sup>11</sup> As the heart of creative economy and a vital driver for innovation and productivity improvement, creative industries (including advertising, arts, crafts, fashion, film, photography, music, games, etc.) have stimulated the growth and development in the global economy for years.<sup>12</sup> Sensing the commercial and cultural values of creative industries, many conglomerates whose core competencies lie in other areas started to step into the circle by allocating a considerable amount of corporate capital. For Korean conglomerates, apart from ICT, gaming, and other tech-intensive industries, they also recognize the potential of k-pop, which not only contains tremendous economic values but acts as a source of Korea's soft power and gains notable support from the government.

As mentioned above and will be discussed in the following chapters, Korean conglomerates have been regarded as the pillar of Korean economy and helped the nation create the "Miracle on the Han River" (the exponential economic growth achieved by South Korea from the 1950s to mid-1990s) and become a developed country recognized by UNCTAD. Their businesses cover almost every potential industry. In other words, Korean economy has long been dominated by these conglomerates, especially chaebols. Their engagement in creative industries and chase for a more sustainable creative economy further highlights their enlarging value-creation blueprint and other ambitions. In this sense, through the demonstration of their involvement in and the value chain analysis of the k-pop industry, it is expected to reveal their motivation for engaging in creative industries, either visible or invisible.

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<sup>11</sup> UNCTAD, 'Creative Economy Programme: Development through Creativity', 1 November 2018, [https://unctad.org/system/files/official-document/ditc2018d4\\_en.pdf](https://unctad.org/system/files/official-document/ditc2018d4_en.pdf).

<sup>12</sup> Xiyuan Wang, 'Research on the Formation and Development of Value Chain of Creative Industry', in *Proceedings of the 2nd International Forum on Management, Education and Information Technology Application (IFMEITA 2017)* (2nd International Forum on Management, Education and Information Technology Application (IFMEITA 2017), Shenzhen, China: Atlantis Press, 2018), <https://doi.org/10.2991/ifmeita-17.2018.28>.

## **1.2 Theoretical Backgrounds**

Two major theoretical terms are involved in this thesis to give convincing arguments and answer the research questions: one is the diversification strategy, while the other is the value chain. And in this section, these two concepts and previous works on the topic will be explained and concluded.

For the first part of this section, diversification strategy (DS) will be placed under the spotlight, and I will introduce the origin, definition, categories, rationals, and aims of the diversification strategy, as well as the common methods by which the company achieves diversification. And given the universality and commonality of DS, all of these aspects will fundamentally provide a comprehensive framework and generalized theoretical support for understanding why and how conglomerates in South Korea conduct a strategic diversification in the k-pop industry. In addition, I will review the development of corporate strategy in the real world from the mid 20<sup>th</sup> century to the 21<sup>st</sup> century to present the challenges and twofold changes occurring in different historical contexts, and discuss the previous literature that interprets the DS from diverse perspectives to have an overview of how scholars view and measure DS. Besides, I will also list some academic papers that connect DS and creative industries to help understand the feasibility of creative industries in becoming an appealing target sector for diversification.

Then, the second half focuses on theories concerning the value chain. The origin, definition, necessity, generic model, and essential components of the value chain will be introduced first to frame its basic logic and reveal its implications in assessing the value activities at the firm level where the notion of value chain initially came out and was applied. The generic value chain model proposed by Porter will act as the foundation and reference of the specially designed value chain in this thesis for explaining the separate yet interlinked value activities in the Korean pop music industry and will help with the conceptual understanding of each stage in the chain.



Following that, this part lists and explains some representative ideas of other scholars about the development and upgrades of Porter's value chain theories and recaps the application of value chain analysis to the broader area beyond the firm-level scope, such as industry level and industrial cluster. In particular, considering the music or entertainment industry is an active sector in the creative industry, previous studies on the value chain of creative industries will also be included at the end. All these jointly function as a crucial source for inspiring and designing the value chain of the K-pop industry at the industry level and can be organically combined with Porter's value chain model to clarify each stage of the k-pop value chain where South Korea's conglomerates lay out the corporate resources.

### *1.2.1 Diversification Strategy*

For most firms, success arises from a sequence of right decisions made at the appropriate time and cannot be generally seen as a random incidence. It benefits from detail-oriented planning, preparation, and execution, and all of these begin with mapping a well-built strategy. In management theory, strategy is a broad formula that includes the determination of the long-term organizational goal(s), the quest towards a sustained performance, the allocation of various resources, and the implementation of action plans to complete the goal(s).<sup>13</sup> Strategy is formulated and planned on three distinct yet intertwined levels: the corporate level, the business level, and the functional or operational level. Among them, the corporate strategy stands on the highest position of the strategy pyramids and manages the financial resources allocated to the portfolio of different strategic business units (SBUs) that the parent company is made of.<sup>14</sup>

At the corporate level, the strategy specifies the sectors and markets where the

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<sup>13</sup> Alfred Dupont Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise* (Beard Books, 1962); Michael E Porter, 'Competitive Strategy', *Measuring Business Excellence* 1, no. 2 (1997): 12–17.

<sup>14</sup> Polimi OpenKnowledge, *Corporate Strategy & Diversification Strategy: Definitions* (Antonio Ghezzi), 2017, <https://www.youtube.com/watch?v=bw7m2IT46Zg>.

company is going to compete (see Figure 1.3) and deals with three major issues: first, to position and analyze the competitive advantages of each SBU and the overall business portfolio; second, to suggest a generic strategic orientation to each SBU, which can be further explained in the business strategy level; third, to prescribe the criteria and priorities for the allocation of financial resources to each business that will be operated as either cash-generating SBUs or cash-absorbing SBUs, pursuing an equilibrium of the overall portfolio.<sup>15</sup> Besides, the corporate strategy usually focuses on three fundamental topics: product range, geographical coverage, and level of vertical integration (i.e., adding or removing SBUs to or from the overall portfolio), and all the corporate strategies that aim at changing these scopes of a company's portfolio go under the name "diversification strategies."

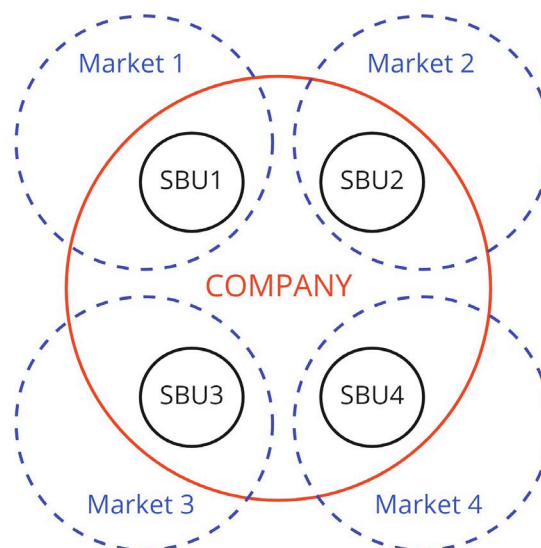


Figure 1. 3 Corporate Strategy Model (Designed by Chestnut)

Diversification is a corporate-level strategy adopted by corporations to enter new business areas they have not served previously. It is proposed by Harry Igor Ansoff as a growth strategy, who is also known as the "father of strategic management."<sup>16</sup> In 1965, Ansoff's legendary work *Corporate Strategy* was published, where Ansoff Matrix, a framework for analyzing the approach to the product-market growth

<sup>15</sup> Ibid.

<sup>16</sup> 'Igor Ansoff', *The Economist*, 18 July 2008, <https://www.economist.com/news/2008/07/18/igor-ansoff>.

strategies, was first coined.<sup>17</sup> The Matrix defines four alternatives applicable for business growth: market penetration, product development, market development, and diversification (see Figure 1.4). They interact with each other and jointly form the overall growth pattern. Nevertheless, Ansoff points out that the diversification method has presented some unique "problems," distinguishing it from other growth strategies: it necessitates a break with the company's prior patterns and traditions as well as an embarking into a new and unexplored trajectory.<sup>18</sup> To be more specific, market penetration, product development, and market development can be achieved by using the same technical, commercial, and financial resources allocated in the initial product line. In contrast, diversification asks for not only new sets of skills and knowledge to develop products but the introduction of new resources required for the updated insights into market exploration and other market-related behavior, including but not limited to new technologies and facilities.<sup>19</sup>

<b>Ansoff Matrix</b>		<b>Products</b>	
		<i>Present</i>	<i>New</i>
<b>Markets</b>	<i>Present</i>	Market Penetration	Product Development
	<i>New</i>	Market Development	Diversification

Figure 1. 4 Ansoff Matrix<sup>20</sup>

In general, as concluded by Hitt et al., three dimensions of rationales have motivated the managerial board to take the diversification strategy: to create, neutralize, or reduce the value (see Figure 1.5).<sup>21</sup> In most cases, a diversification strategy is adopted to improve the overall performance and add value to the company. Additional value

<sup>17</sup> Charles Doyle, 'Ansoff Matrix', in *A Dictionary of Marketing* (Oxford University Press, 2016), <http://www.oxfordreference.com/view/10.1093/acref/9780198736424.001.0001/acref-9780198736424-e-0082>.

<sup>18</sup> Harry Igor Ansoff, 'Strategies for Diversification', *Harvard Business Review* 35, no. 5 (1957): 113–24.

<sup>19</sup> Harry Igor Ansoff, *Corporate Strategy: An Analytic Approach to Business Policy for Growth and Expansion*, Later Printing edition (McGraw-Hill, 1965).

<sup>20</sup> Doyle, 'Ansoff Matrix'.

<sup>21</sup> Michael A. Hitt, R. Duane Ireland, and Robert E. Hoskisson, *Strategic Management: Competitiveness & Globalization. Concepts and Cases*, 12e ed. (Australia : Boston, MA: Cengage Learning, 2017), 179.

can be created in the circumstance where the strategy enables the company to increase the revenues or reduce the cost while carrying on the business-level strategy simultaneously.<sup>22</sup> Both related and unrelated diversification can contribute to value creation: frequently-used related diversification includes sharing activities and transferring competencies between different businesses in the company's portfolio, and unrelated diversification often refers to efficient internal capital market allocation or the restructuring of target firm's assets. However, there are some examples of value-neutral objectives that push firms to become more diversified, such as incentives from tax and antitrust government policies, low performance, and uncertainties about future cash flow. Also, evidence suggests that the motives to diversify arising from the desire for increased compensation and reduced managerial risk may sometimes result in over-diversification and subsequently weaken a firm's capability to create value.

<b>Value-Creating Diversification</b>
<ul style="list-style-type: none"> <li>• <b>Economies of scope (related diversification)</b> <ul style="list-style-type: none"> <li>• Sharing activities</li> <li>• Transferring core competencies</li> </ul> </li> <li>• <b>Market power (related diversification)</b> <ul style="list-style-type: none"> <li>• Blocking competitors through multipoint competition</li> <li>• Vertical integration</li> </ul> </li> <li>• <b>Financial economies (unrelated diversification)</b> <ul style="list-style-type: none"> <li>• Efficient internal capital allocation</li> <li>• Business restructuring</li> </ul> </li> </ul>
<b>Value-Neutral Diversification</b>
<ul style="list-style-type: none"> <li>• Antitrust regulation</li> <li>• Tax laws</li> <li>• Low performance</li> <li>• Uncertain future cash flows</li> <li>• Risk reduction for firm</li> <li>• Tangible resources</li> <li>• Intangible resources</li> </ul>
<b>Value-Reducing Diversification</b>
<ul style="list-style-type: none"> <li>• Diversifying managerial employment risk</li> <li>• Increasing managerial compensation</li> </ul>

Figure 1. 5 Reasons for Diversification<sup>23</sup>

<sup>22</sup> Todd M. Alessandri and Anju Seth, 'The Effects of Managerial Ownership on International and Business Diversification: Balancing Incentives and Risks: Research Notes and Commentaries', *Strategic Management Journal* 35, no. 13 (December 2014): 2064–75, <https://doi.org/10.1002/smj.2222>.

<sup>23</sup> Hitt, Ireland, and Hoskisson, *Strategic Management*, 137.

In determining whether to diversify, a company is expected to comprehensively and carefully assess its future growth prospects by forecasting the long-term trends (e.g., general economic trend, political and international trend, industry trend, estimates of the company's competitive strengths) and analyzing contingencies and unforeseeable events (e.g., major technological breakthrough, economic depression, war).<sup>24</sup> If the analysis suggests that the company can adopt a diversification strategy, there exist three main types of opportunities: horizontal diversification, concentric diversification, and conglomerate diversification.<sup>25</sup> First, horizontal diversification occurs when the firm decides to add products or services that are unrelated to what they currently offer but may fulfill some needs of the existing clients. It is the least risky diversification strategy since the firm continues working with the familiar customer group and market segments. Second, if a firm enters a new market with a new product that is technologically similar to its current product, it will be considered as concentric diversification. Notably, in this case, firms can gain some advantages by leveraging industry-related experience, technical know-how, and other resources that were developed for core products or services and have been proved efficient. Third, conglomerate diversification is executed when the firm engages in a new business area and reaches a new customer base with unrelated products. A conglomerate is a corporate group dealing with multiple diverse business entities owned and managed by a parent company, and it has become a very successful example of implementing conglomerate diversification strategies. Apart from these three pathways, vertical integration can also be used as a diversification strategy, which exists in the situation where the company expands its business to the upstream or downstream in the supply chain (backward or forward integration).<sup>26</sup> It aims at taking over the processes related to their products by establishing or acquiring suppliers, manufacturers, or distributors

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<sup>24</sup> Ansoff, 'Strategies for Diversification', 114.

<sup>25</sup> David Wainaina Githira, 'Factors That Influence Diversification Strategies of Insurance Companies in Kenya' (UNIVERSITY OF NAIROBI, 2008).

<sup>26</sup> 'What Is Diversification Strategy? (Definition and Examples)', *Lighter Capital* (blog), 25 January 2020, <https://lightercapital.com/blog/what-is-diversification-strategy-definition-examples/>; Hitt, Ireland, and Hoskisson, *Strategic Management*, 183.

instead of outsourcing to external contractors.<sup>27</sup>

Puranam and Vanneste apply the basic model of the Growth Tree to explain the way in which a company diversifies to enter a new business (see Figure 1.6).<sup>28</sup> In the first branch of the Tree, two options are shown: develop new business by using either external or internal sources, which can also be seen as inorganic versus organic growth. Organic growth is the process that a company goes through to enter a new business with internal power, and it involves the work of hiring employees, creating new projects or business units, or repurposing an existing business unit. If the new business is considered to have its own value chain, the goal of organic growth will be independently configuring the resources and competencies that this value chain requires without getting "help" from other firms. On the other branch, the inorganic growth with external sources is categorized into three primary methods: non-equity alliances, equity alliances, and mergers and acquisitions (M&As). When two firms become allies, both parties will devote resources to the joint activity. Though operating the business together, they stay autonomous during the process. To further divide under alliances, the bilateral relationship can exist with or without equity (e.g., revenue sharing or licensing agreement). Another approach for inorganic growth is M&As: when acquisition happens, the target company will become a subsidiary of the acquiring company, while in a merger, both firms cease to exist but continue together in a new entity. All these relationships framed in the diversification strategies are built up to expand access to the resources and competencies entailed in the new business's value chain.

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<sup>27</sup> ADAM HAYES, 'What Is Vertical Integration?', Investopedia, 2021, <https://www.investopedia.com/terms/v/verticalintegration.asp>.

<sup>28</sup> Phanish Puranam and Bart Vanneste, *Corporate Strategy: Tools for Analysis and Decision-Making* (Cambridge ; New York: Cambridge University Press, 2016), 86–87.

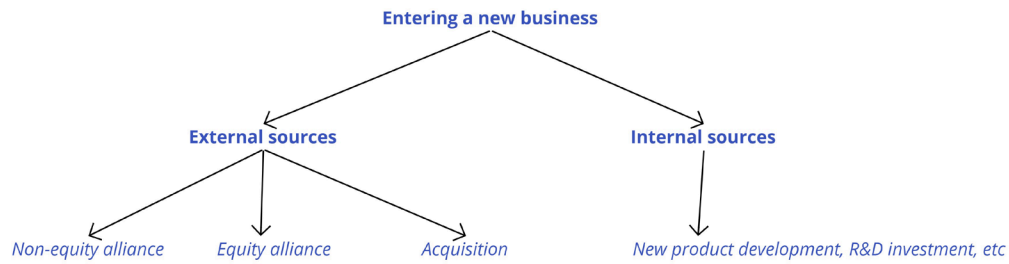


Figure 1. 6 Growth Tree: Inorganic and Organic Growth<sup>29</sup>

Corporate diversification has been under inspection for many years and has continuously evolved to adapt to the changing environment and new social issues. Goold and Luchs investigate the thinking and practice of diversification during the four decades from the 1950s to the 1990s and conclude some of the fundamental elements that lead to the success of diversification (i.e., adding value to the firm) together with the problems caused by strategies.<sup>30</sup> From the 1950s onwards, the corporations that implemented successful diversification strategies had created value through the contemporary management skills and generalized approaches applied to a wide array of businesses across multiple industries by their top managers. And their remarkable performance led to the belief that any degree of diversification was possible if corporate-level managers had the requisite general management skills. However, in the late 1960s, many conglomerates' performance deteriorated, and a new approach to corporate diversification was required. During the 1970s, the ideas of strategy and strategic management drew the attention of many senior managers, which were soon proved incapable of resolving many of the problems and trade-offs involved in resource allocation in the multi-business corporation. Therefore, many diversified companies turned to portfolio planning with the purpose of achieving both growth and mature businesses. But this approach neglected the problem of manageability, and thus, during the 1980s, many companies fell into the dilemma of poor corporate performance again. Some of them chose to restructure and focus on the

<sup>29</sup> Puranam and Vanneste, *Corporate Strategy*.

<sup>30</sup> Michael Goold and Kathleen Luchs, 'Why Diversify? Four Decades of Management Thinking', *Academy of Management Perspectives* 7, no. 3 (1993): 7–25.

core business and configure their strategies on "sticking to the knitting" and eschewing broad diversification. When it came to the 1990s, the quest for synergy and the formation of core competencies became two prevalent themes in corporate diversification, which called for the understanding of the dominant strategic logic of a portfolio and its consistency with the top managerial techniques. As it stepped into the 21<sup>st</sup> century, new challenges and opportunities for diversification have been displayed in front of corporates, such as Web 2.0, digitalization, and sustainability. Although modern corporates are more likely to allocate more resources to the core business(es) than unrelated business units, all the firms share the consensus that innovation is a "finishing move" essential to long-term sustainable growth.<sup>31</sup> Therefore, modern diversification attaches greater importance to innovation, reflected in various internal entrepreneurial activities.

In the meantime, diversification has attracted much of the academic interest and long been the mainstream in the field of strategic management as a research topic yet later been extensively applied to other disciplines such as economics, finance, law, and marketing.<sup>32</sup> To trace the origin of the study on diversification, four seminal works by Ansoff, Chandler, and Gort have provided a well-built theoretical and empirical basement for scholars, which share a common aim at demonstrating the reasons and methods for corporate diversification.<sup>33</sup> The follow-up literature, according to Grant, has mainly concentrated on three aspects: decisions on the firm's scope or boundaries (i.e., specialization/concentration or diversification), the relationship between the

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<sup>31</sup> 'DIVERSIFICATION: HISTORY AND CURRENT TRENDS', Ebrary, accessed 3 March 2022, [https://ebrary.net/3708/management/diversification\\_history\\_current\\_trends](https://ebrary.net/3708/management/diversification_history_current_trends).

<sup>32</sup> Luis Ángel Guerras-Martín et al., 'Half a Century of Research on Corporate Diversification: A New Comprehensive Framework', *Journal of Business Research* 114 (June 2020): 124–41, <https://doi.org/10.1016/j.jbusres.2020.03.037>; Vasudevan Ramanujam and P. Varadarajan, 'Research on Corporate Diversification: A Synthesis', *Strategic Management Journal* 10, no. 6 (November 1989): 523–51, <https://doi.org/10.1002/smj.4250100603>.

<sup>33</sup> H. I. Ansoff, 'A Model for Diversification', *Management Science* 4, no. 4 (July 1958): 392–414, <https://doi.org/10.1287/mnsc.4.4.392>; Chandler, *Strategy and Structure: Chapters in the History of the American Industrial Enterprise*; Michael Gort, 'Front Matter, Diversification and Integration in American Industry', in *Diversification and Integration in American Industry* (Greenwood Press, 1962), <https://www.nber.org/books-and-chapters/diversification-and-integration-american-industry/front-matter-diversification-and-integration-american-industry>; Ansoff, 'Strategies for Diversification'.



firm's scope and its performance, and the management of multi-business firms (e.g., organizational structure, management system, or the function of headquarter in the diversified corporation).<sup>34</sup> For instance, Palich et al. realize that, although diversification-performance linkage has been the most researched topic in strategic management scholarship, a consensus has not been reached so far. So they synthesize the findings and analyze the data from previous research, coming to the conclusion that diversification of moderate level outputs better performance than both limited and extensive diversification.<sup>35</sup> Besides, Montgomery summarizes three comprehensive theoretical approaches scholars use to explain corporate diversification: market power view, agency theory, and the resource-based view.<sup>36</sup> And transaction cost theory, another popular approach that is widely used in economics-related literature, has been applied to the diversification analysis as well.<sup>37</sup>

Notably, there is a growing body of literature studying the feasibility and practice of diversification in creative industries. As a vital driver for innovation and productivity improvement, creative industries have emerged and stimulated the growth and development in the global economy for years. Empirical examples have been displayed by scholars. For instance, in 2003, Chan-Olmsted and Chang analyzed the seven multinational media conglomerates' product and geographic diversification strategies. They outlined a theoretical framework to examine their patterns and determinants of diversification decisions from industrial economics and resource-

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<sup>34</sup> Robert M. Grant, 'Corporate Strategy: Managing Scope and Strategy Content', in *Handbook of Strategy and Management* (SAGE, 2002).

<sup>35</sup> Leslie E. Palich, Laura B. Cardinal, and C. Chet Miller, 'Curvilinearity in the Diversification-Performance Linkage: An Examination of over Three Decades of Research', *Strategic Management Journal* 21, no. 2 (February 2000): 155–74, [https://doi.org/10.1002/\(SICI\)1097-0266\(200002\)21:2<155::AID-SMJ82>3.0.CO;2-2](https://doi.org/10.1002/(SICI)1097-0266(200002)21:2<155::AID-SMJ82>3.0.CO;2-2).

<sup>36</sup> Cynthia A Montgomery, 'Corporate Diversification', *Journal of Economic Perspectives* 8, no. 3 (1994): 163–78.

<sup>37</sup> Jonathan P. O'Brien et al., 'How Capital Structure Influences Diversification Performance: A Transaction Cost Perspective', *Strategic Management Journal* 35, no. 7 (2014): 1013–31, <https://doi.org/10.1002/smj.2144>; Rahul Kochhar, 'Explaining Firm Capital Structure: The Role of Agency Theory Vs. Transaction Cost Economics', *Strategic Management Journal* 17, no. 9 (1996): 713–28, [https://doi.org/10.1002/\(SICI\)1097-0266\(199611\)17:9<713::AID-SMJ844>3.0.CO;2-9](https://doi.org/10.1002/(SICI)1097-0266(199611)17:9<713::AID-SMJ844>3.0.CO;2-9); Grant, 'Corporate Strategy: Managing Scope and Strategy Content'.

based perspective.<sup>38</sup> However, Stephen points out they mixed up the product diversification, vertical integration, and diversification of the media companies' resource base and their method of measuring geographical diversification is questionable, and thus proposes a more precise framework for analyzing related product-diversification strategies in the media industry.<sup>39</sup> Moreover, localized cases have been presented as well. Identifying critical factors that lead to the global competitiveness of Jamaica's film and music industry, Hendrickson and Niaah explore a brand new way where the creative industry acts as a pillar of sustained growth and diversification.<sup>40</sup>

### *1.2.2 Value Chain*

The notion of "value chain" was first introduced by Michael E. Porter in 1985. It has been used as a fundamental tool to systematically examine the full range of activities operated by a firm and how they interact, and therefore, to analyze the sources of its competitive advantage.<sup>41</sup> Porter argues that competitive advantage derives from numerous strategically related activities that a firm engages in, from designing, producing, marketing to delivering and product-supporting. Each of these activities has the potential to optimize the relative cost position and differentiate the firm from other competitors, further contributing to the scheme of a firm's overall competitive advantages. It is noteworthy that a value chain is usually embedded in a larger value system involving supplier, firm, channel, and buyer and displaying the interlink among the major players (see Figure 1.7).

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<sup>38</sup> Sylvia M. Chan-Olmsted and Byeng-Hee Chang, 'Diversification Strategy of Global Media Conglomerates: Examining Its Patterns and Determinants', *Journal of Media Economics* 16, no. 4 (1 October 2003): 213–33, [https://doi.org/10.1207/S15327736ME1604\\_1](https://doi.org/10.1207/S15327736ME1604_1).

<sup>39</sup> Michael Stephan, 'Diversification Strategy of Global Media Conglomerates: A Comment', *Journal of Media Economics* 18, no. 2 (1 April 2005): 85–103, [https://doi.org/10.1207/s15327736me1802\\_1](https://doi.org/10.1207/s15327736me1802_1).

<sup>40</sup> Michael Hendrickson et al., 'Creative Industries in the Caribbean: A New Road for Diversification and Export Growth', July 2012, <https://repositorio.cepal.org/handle/11362/5049>.

<sup>41</sup> Michael E. Porter, 'The Value Chain and Competitive Advantage', in *Competitive Advantage: Creating and Sustaining Superior Performance* (Free Press, 1985), 46–74.

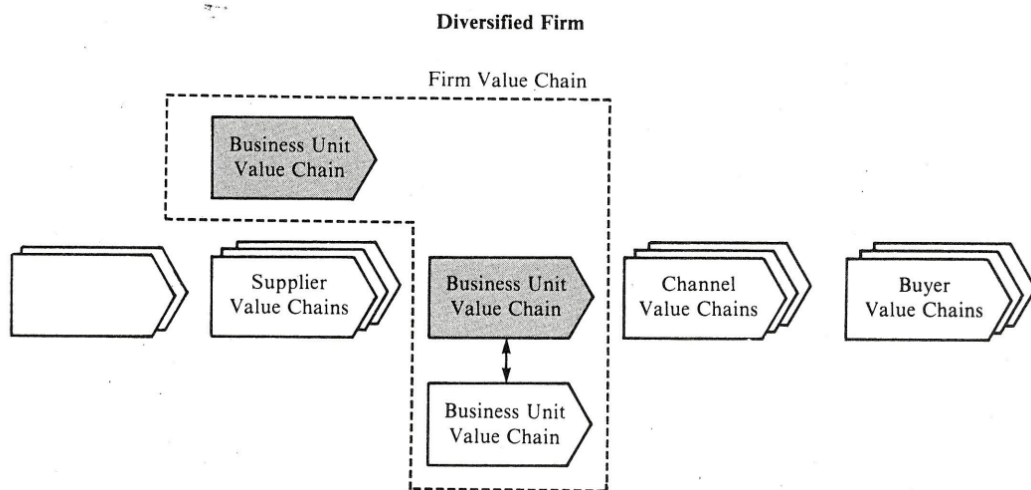


Figure 1. 7 Value System<sup>42</sup>

The generic value chain model is constructed by the value activities and the margin, performing the total value (see Figure 1.8).<sup>43</sup> Value activities refer to the physically and technologically separated activities carried out by a company as the building blocks to develop a product valuable to its customers and can be further divided into primary and support activities. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and after-sales service and jointly outline a complete linear processing chain of a product or service. Support activities back up and can be associated with the primary activities through procurement, technology development, human resources management, and various firm infrastructure, significantly supporting the entire value chain. Another significant value chain element is the margin (or profit margin). It is defined as the difference between the total created value and the cost spent in the value activities. In other words, the higher the value is created and the lower the cost is paid, the larger the margin or profit will be.

<sup>42</sup> Ibid.

<sup>43</sup> Ibid., 52.

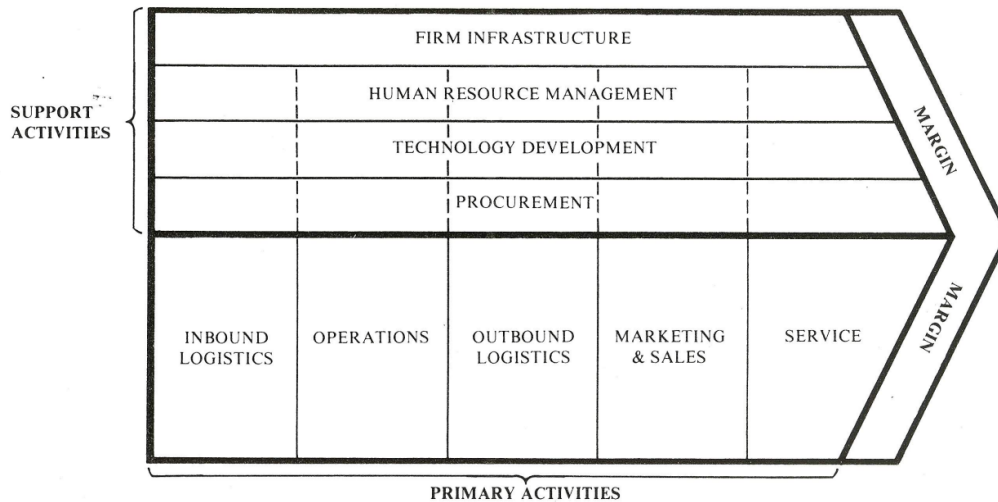


Figure 1. 8 The Generic Value Chain Model<sup>44</sup>

However, Kaplinsky and Morris argue, in the real world, the value chain is more complicated than the model that Porter portrays, obviously reflected in the diverse links among components of the chain.<sup>45</sup> Even though separating these functions avoids the exclusive focus on the physical transformation, Porter overlooks the fact that other links might provide these functions (e.g., outsourcing) as well, and it is confusing to define these "intra-link activities" as the value chain. In other words, naming it as a "value chain" has caused inevitable terminological confusion. And in Womack and Jones' work on lean production, this problem was aggravated by the term "value stream." It is a concept found in lean management philosophy that includes a series of steps required to produce value for the final consumer of a product or service.<sup>46</sup> In addition, there are other concepts expressing overlapped or similar meanings with the value chain, such as *filiere* and *global commodity chain*. *Filiere* is a French word that literally means "thread" and describes the flow of physical inputs and services in the production of a final good or service.<sup>47</sup> Notably, a *filiere* is usually seen in a static state

<sup>44</sup> Porter, 'The Value Chain and Competitive Advantage'.

<sup>45</sup> Raphael Kaplinsky and Mike Morris, *A HANDBOOK FOR VALUE CHAIN RESEARCH* (Brighton: University of Sussex, Institute of Development Studies, 2001).

<sup>46</sup> James P. Womack and Daniel T. Jones, 'Lean Thinking : Banish Waste and Create Wealth in Your Corporation', *Journal of the Operational Research Society* 48, no. 11 (1997): 1148–1148.

<sup>47</sup> Philip Raikes, Michael Friis Jensen, and Stefano Ponte, 'Global Commodity Chain Analysis and the French Filière Approach: Comparison and Critique', *Economy and Society* 29, no. 3 (1 January 2000): 390–417, <https://doi.org/10.1080/03085140050084589>.

and indicates relations at a specific time point rather than showing the growing or shrinking trend. And *global commodity chain* was introduced by Gereffi in 1994. He spotlights on the coordination of the globally scattered yet associated production system and the role of governance entailed in the value chain where the coordination is driven by either buyers or producers, making advances to the "analytical and normative" application of the value chain concept.<sup>48</sup> In other literature, it is also referred to as the global value chain (GVC), global production network, or international supply chain and is used to examine the value activities that involve many countries.<sup>49</sup>

Through the framework of value chain, competitive strengths and weaknesses at the firm level and industry level can be analyzed. And to better understand the specified influences of each value activity on cost and value, the value chain is decomposed into several strategic components.<sup>50</sup> Based on this consensus, Stabell and Fjeldstad suggest taking a broader "value configuration analysis" consisting of the value chain, value shop, and value network to examine the firm-level competitive advantages through three kinds of technology and logic concerning value creation.<sup>51</sup> It can be used as an alternative or additional dimension of the cost advantage and differentiation strategy advised by Porter and explains the possibility of applying the value chain concept to the fields beyond the manufacturing context that the value chain was initially coming from and best suited in. Following the value configuration analysis, Baig and Akhtar take a closer look at how value is created in the context of the supply chain and prove the necessity of various coordination mechanisms to

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<sup>48</sup> Gary Gereffi, 'The Organization of Buyer-Driven Global Commodity Chains: How US Retailers Shape Overseas Production Networks', in *Commodity Chains and Global Capitalism*, 1994, 95–122; Kaplinsky and Morris, *A HANDBOOK FOR VALUE CHAIN RESEARCH*.

<sup>49</sup> T. Sturgeon, G. Linden, and L. Zhang, 'Product-Level Global Value Chains: UNCTAD Study on Improving International Trade Statistics Based on Global Value Chains', *Massachusetts Institute of Technology*, 2012.

<sup>50</sup> Elvira A. Zamora, 'Value Chain Analysis: A Brief Review', *Asian Journal of Innovation and Policy* 5, no. 2 (2016): 116–28, <https://doi.org/10.7545/AJIP.2016.5.2.116>.

<sup>51</sup> Charles B. Stabell and Øystein D. Fjeldstad, 'Configuring Value for Competitive Advantage: On Chains, Shops, and Networks', *Strategic Management Journal* 19, no. 5 (1998): 413–37, [https://doi.org/10.1002/\(SICI\)1097-0266\(199805\)19:5<413::AID-SMJ946>3.0.CO;2-C](https://doi.org/10.1002/(SICI)1097-0266(199805)19:5<413::AID-SMJ946>3.0.CO;2-C).

improve efficiency.<sup>52</sup>

The consistent update in the value chain theories enable it to grow into a broader branch that enjoys an active application in the areas beyond the firm-level study. It has also been employed to investigate and assess the whole industry, the industrial cluster, and the specific systems within a firm.<sup>53</sup> For instance, Wynne et al. research the tourism industry in South Africa and investigate the role of intermediaries in the distribution chain and the challenges and opportunities brought by the Internet and other trends.<sup>54</sup> And Liao and Zhen take Dalian (a coastal city in Northeastern China) as a case to study the symbiosis between ports and various value-added industries within a maritime cluster.<sup>55</sup> They find that resources have been attracted to the cluster for varied reasons in different periods and had different impacts on maritime industries. Similar examples and investigations can also be identified in other literature on the value chain of a particular industry embedded in the agricultural, industrial, and service sectors and those on the industrial cluster in a selected region. Through these extensive explanations and vivid cases, the value chain approach has evolved into a more mature academic subject and has supported the understanding of topics in multiple disciplines.

Recently, scholars have also applied value chain analysis to the creative industry (CI). As an emerging sector in the modern economy, CI is featured with high added value, knowledge-intensive output and customer services, and high-level importance attached to intellectual properties (IPs). In 2009, UNESCO defined a generic value chain to depict the interlinked processes or stages involved in the creative industries

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<sup>52</sup> Viqar Ali Baig and Javaid Akhtar, 'RETRACTED: Supply Chain Management: Value Configuration Analysis Approach: A Case Study', *Vision* 15, no. 3 (1 September 2011): 251–66, <https://doi.org/10.1177/097226291101500305>.

<sup>53</sup> Zamora, 'Value Chain Analysis'.

<sup>54</sup> Clive Wynne et al., 'The Impact of the Internet on the Distribution Value Chain: The Case of the South African tourism Industry', *International Marketing Review* 18, no. 4 (1 January 2001): 420–31, <https://doi.org/10.1108/EUM0000000005934>.

<sup>55</sup> Qingmei Liao, Hong Zhen, and Dequan Zhou, 'A Study on the Industrial Symbiosis in Maritime Cluster Considering Value Chain and Life Cycle – Case of Dalian, China', *Maritime Policy & Management* 0, no. 0 (7 June 2021): 1–16, <https://doi.org/10.1080/03088839.2021.1937740>.

(see Figure 1.9). And based on this model, Madudová delves into the value chain logic embedded in the supply chain relationship of the creative industry and finds that optimistic economic influences, such as profit and employment creation, are expected to take place in all the stages of the value chain.<sup>56</sup> And Wang studies the characteristics and content of the creative industry and the market value of the creative industry through theories of value and value chains.<sup>57</sup> Moreover, specific research on the subsectors of the creative industry, such as film, music, and video game, has also been published. For instance, Angus Finney takes the independent film industry as a case to study how creative industries react to the challenge of value chain restructuring brought by the Internet, digital technology, and social media.<sup>58</sup> Likewise, Hadida and Paris analyze whether and how value chain conception affects the entrepreneurs' construction of new cognitive frameworks in unstable, transforming industry contexts through the deep research on 21 online music ventures.<sup>59</sup>

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<sup>56</sup> Emilia Madudová, 'Creative Industries Value Chain: The Value Chain Logic in Supply Chain Relationships', *Marketing and Branding Research* 4, no. 3 (1 July 2017): 227–35, <https://doi.org/10.33844/mbr.2017.60236>.

<sup>57</sup> Wang, 'Research on the Formation and Development of Value Chain of Creative Industry'.

<sup>58</sup> Angus Finney, 'Value Chain Restructuring in the Film Industry: The Case of the Independent Feature Film Sector', *International Perspectives on Business Innovation and Disruption in the Creative Industries*, 25 July 2014, <http://www.elgaronline.com/view/edcoll/9781783475339/9781783475339.00007.xml>.

<sup>59</sup> Allègre L. Hadida and Thomas Paris, 'Managerial Cognition and the Value Chain in the Digital Music Industry', *Technological Forecasting and Social Change* 83 (1 March 2014): 84–97, <https://doi.org/10.1016/j.techfore.2013.04.005>.

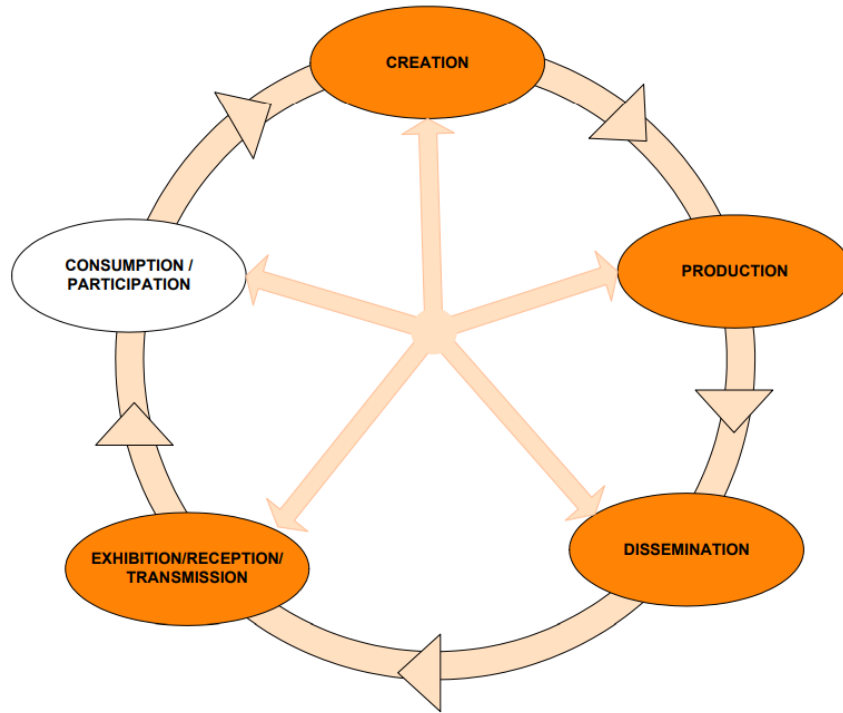


Figure 1. 9 Culture Circle: The Generic Value Chain Model for Creative Industries<sup>60</sup>



Figure 1. 10 The Value Chain of Traditional Music Industry<sup>61</sup>

<sup>60</sup> Jos?? Pessoa, Lydia Deloumeaux, and Simon Ellis, *The 2009 Unesco Framework for Cultural Statistics (FCS)*. (Montreal: Unesco Institute for Statistics, 2009), [http://www.uis.unesco.org/template/pdf/cscl/framework/FCS\\_2009\\_EN.pdf](http://www.uis.unesco.org/template/pdf/cscl/framework/FCS_2009_EN.pdf).

<sup>61</sup> Gary Graham et al., 'The Transformation of the Music Industry Supply Chain: A Major Label Perspective', *International Journal of Operations & Production Management* 24, no. 11 (1 January 2004): 1087–1103, <https://doi.org/10.1108/01443570410563241>.



### *1.2.3 Conclusion of Theoretical Backgrounds*

As a growth strategy originating from the Ansoff Matrix, diversification has been applied to corporates' business development and the entrance into new markets for more than sixty years. The most common rationale for a firm to take the diversification strategy, either related or unrelated, is to add/create value and improve the overall performance. And other purposes of diversification include neutralizing the value, or even reducing the value for the firm. Usually, before making the diversification decision, a company is supposed to take its future growth prospects into account by forecasting the long-term trends and analyzing contingencies and unforeseeable events. If conditions allow, then the company has four options to execute the strategy, which can be vertical, horizontal, concentric, or conglomerate diversification. For more specific ways to enter a new business, Growth Tree depicts two typical methods through either internal or external sources (i.e., non-equity alliances, equity alliances, and M&As). With diversification strategy under implementation for years and showcasing varied features in different historical periods, it has attracted great academic interest and developed into a mature subject whose major topics are decisions on the firm's scope, the relationship between diversification and its performance, and the management of multi-business firms. Some scholars also investigate the diversification strategy linked with creative industries with both international and local cases and the role of creative industries in optimizing diversification and supporting economic development, especially in emerging economies. The explanation and review of the critical topics in the diversification strategy study are expected to outline a basic theoretical framework to analyze the rationales and methods for South Korean conglomerates to lay out in the K-pop industry as a diversification strategy.

According to Puranam and Vanneste, diversification, or more explicitly, entering a new business, implies owning partial or all the resources and competencies in the

value chain embedded in the new business.<sup>62</sup> In this sense, understanding the value chain will further help comprehend why and how diversification happens. So the second part of this section discusses the notion of value chain and relevant academic publications. The generic value chain model first proposed by Porter is constituted by primary activities, support activities, and margin, whose concept has displayed a terminological "confusion" or similarity with other terms, such as *filiere* and *global commodity chain*. Although the value chain was initially applied to the firm-level analysis, it has become extensively used in industry-level examinations and other scopes (e.g., industrial cluster). It is noteworthy that in recent years, an increasing number of scholars have applied value chain analysis to creative industries, providing vivid examples and references for my analysis of the K-pop value chain.

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<sup>62</sup> Puranam and Vanneste, *Corporate Strategy*.

### 1.3 Innovative Aspects

While much of the literature presents supportive theoretical and empirical analyses of the diversification strategy and the value chain, previous works are primarily centered in western countries and the business groups in developed regions, especially in North America and Europe. Limited focus has been placed on developing economies in Asia, Africa, and South America. In view of the particularity of each geographical module and their diverse interior microenvironment, previous literature cannot adequately explain the corporate diversification strategies and the value chain of the unique industries in these regions. Specific research is needed to expand the relevant academic scope.

Also, although the recent academic trend has shown more diversity and extensivity in the relevant literature of diversification strategy and value chain, there are rare papers: (1) investigating the diversification strategies of South Korea's conglomerates and also their increasing engagement in the emerging K-pop industry, or more broadly, in creative industries; (2) explaining a firm's diversification into a new business with a systematic analysis of its industry value chain and the value activities entailed in each stage; (3) revealing the comprehensive roles (economic, cultural, political, social, etc.) that an industry has played rather than only concentrating on the creation of economic value and the reduction of cost through value chain analysis. My thesis will involve these aspects to define the unique value chain and diverse values of the K-pop industry and further clarify why and how conglomerates in South Korea have diversified into the K-pop industry (or in other words, what they can benefit from the K-pop industry and which stage of the K-pop value chain they can lay out resources in to achieve the diversification).

Generally, what I am going to illustrate in the thesis strive to: (1) enrich and complement the academic literature on conglomerates' diversification strategies into creative industries through value chain analysis; (2) expand the geographical research

scope of diversification strategy to firms in emerging markets (South Korea); (3) further extend the value chain analysis to industry level by outlining the value chain of the K-pop industry and examining the value activities of the industry, which has never be done before in English literature, especially considering K-pop's increasing worldwide popularity and roles in capital attraction and cultural diplomacy. Moreover, South Korea has advanced from a developing country to a developed country recognized by UNCTAD in the past decades, reflecting its significant social changes in various dimensions and contexts. In this sense, showcasing relevant background will help understand the corporate behavior regarding diversification decisions for a more sustained development from the perspective of adaptation to the social changes.

## 1.4 Research Methods

This paper combines the research methods of both qualitative and quantitative analysis for a more comprehensive investigation. For qualitative methodologies, apart from the literature related to the addressed themes and recorded history of Korean conglomerates and k-pop, news reports about Korean conglomerates' deals in k-pop industry and k-pop artists' involvement in promoting mutual cultural exchange are also taken as fact references to further study how they engage in the k-pop industry and the function of k-pop as a cultural tool for diplomacy. Moreover, the value chain analysis (VCA) will be applied to showcase the diverse value activities in k-pop industry, the interlinkages between each stage, and the specific margins produced by the industry. Unlike the traditional sectoral analysis that is static and limited by its bounded parameters, VCA is a more vivid approach that presents dynamic flows and inter-linkages of economic, organizational, and coercive activities in each sector of the chain. And VCA is necessary and helpful for new producers who plan to enter new markets properly and achieve sustainable growth. Besides, it can also be used as an analytical tool to understand the policy environment that helps efficiently allocate resources.<sup>63</sup>

Considering that there is little literature discussing the value chain of the K-pop industry and picturing its model, a tailor-made value chain model for the K-pop industry is designed to display the layout of the industry and support the main arguments (see Figure 1.11). The k-pop value chain is outlined based on the prototypes of Porter's model (see Figure 1.8) and the traditional music industry value chain (see Figure 1.10) and integrates the unique elements and characteristics of the K-pop industry. Through k-pop value chain analysis, it is expected to clarify: (1) what segments have constituted the k-pop industry and what productive activities are involved in each segment, opening a new gate for conglomerates to diversify their businesses; (2) who are the major players in each sector or activity of the k-pop

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<sup>63</sup> Kaplinsky and Morris, *A HANDBOOK FOR VALUE CHAIN RESEARCH*.

industry, providing opportunities for or obstructing the entry of conglomerates; (3) which kind of values have been created by the k-pop industry, attracting the capital influx from conglomerates as a part of their value-creation diversification strategy; (4) how has each sector stimulated the consumption and eventually brought about values. Ideally, the designed k-pop industry value chain will be capable of playing a major role in answering the research question of why and how Korean conglomerates get involved in the k-pop industry (i.e., create new value/profit margin by engaging in different primary value activities).

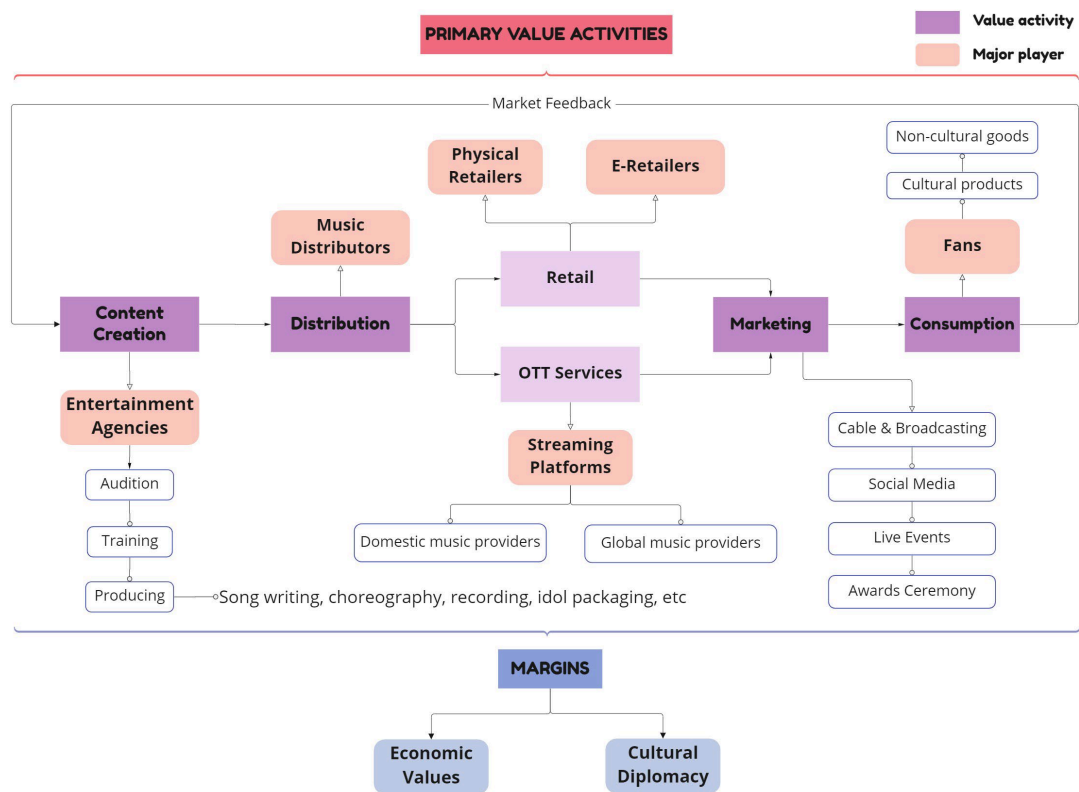


Figure 1. 11 Value Chain of the K-pop Industry  
(Designed by Chestnut)

Furthermore, data analysis and case study will be implemented based on : (1) selected conglomerates' annual reports, investor relations reports, and financial statements, which will be used to investigate which methods they have taken to diversify businesses into the k-pop industry (organic or inorganic growth) and how much they have earned from the k-pop segment; (2) concrete data concerning the quantitative achievement of the Korean music industry (revenues, added value, export, etc.),

which is eligible to showcase k-pop's numerical success and economic values; (3) surveys conducted by official government institutes and third-party research agencies on the popularity of k-pop and other Korea-related issues, which can explain the influential power of k-pop around the globe and its ripple effects on stimulating growths in other sectors. Case study is a research method used to frame a comprehensive, in-depth, and multifaceted knowledge of a complicated subject in a real-world setting.<sup>64</sup> When answering explanatory “what,” “why,” and “how” questions, case studies perform well in catching the essential information by critically analyzing the detailed settings of those “real stories.” And this approach also provides vivid insights into what problem/gap/specialty might occur in its delivery and convincing reasons why one strategy is taken over the other.

Thus, considering the main research questions, this thesis will also apply the case study methodology to study their involvement and figure out their diversification methods. Two Korean representative conglomerates will be introduced in this multiple case design as they have been the most active and influential and the largest conglomerate players in the k-pop domain: CJ Corporation and Kakao Corporation. Meanwhile, they also represent two kinds of business groups—chaebol (CJ) and non-chaebol (Kakao), in other words, “old money” and “new money.” Placing them in the center will make the case study and answers more comprehensive as the exact methods might vary between each of them.

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<sup>64</sup> Sarah Crowe et al., ‘The Case Study Approach’, *BMC Medical Research Methodology* 11, no. 1 (27 June 2011): 100, <https://doi.org/10.1186/1471-2288-11-100>.

## Chapter 2 K-pop: From a Local Music Genre to a Global Music

### Taste

The booming popularity of k-pop around the globe in recent years goes beyond the expectations of many music lovers, critics, and business people, prior to which the Anglo-American or European hegemony over the global music industry has seldom been challenged by rivals from the global south.<sup>65</sup> While having a short history of about 30 years, k-pop has made outstanding breakthroughs and cultivated some characteristics that distinguish it from other music genres: the systematic and comprehensive training of artists that covers vocal, dance, rap, language, etc., a large idol group with many members of pretty appearance and diverse backgrounds and charisma, creative hybridity of Korean music with western popular music genres, stylish outfits, and extensive choreography stages beyond the official music videos. After the emergence of k-pop, a new pathway for developing a creative economy has been identified, and vital social changes have also taken place. How has k-pop been influenced by these social changes, brought about transformations, and become a global blockbuster? In this chapter, the short yet inspiring history of k-pop will be introduced, where various social changes and transformations have occurred within Korean society over the past few decades, leading to and being simultaneously influenced by the advent, development, and globalization of k-pop. And the switch in Korea's attitudes to k-pop can also be detected, which partially explains k-pop's expanding publicization and stakeholders' increasing engagement in the industry.

#### 2.1 Prior to the 1990s: Traditional Korean Kayo and Government Censorship

Traditional *kayo* (Korean term for popular music) was a typical consequence of foreign music imports from either Japan during the colonial period (1910- 1945) or U.S. military bases during and after the Korean War from the 1950s to the 1960s.<sup>66</sup>

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<sup>65</sup> Ingyu Oh, 'The Globalization of K-Pop: Korea's Place in the Global Music Industry', *Korea Observer* 44, no. 3 (2013): 389–409.

<sup>66</sup> John Lie, 'What Is the K in K-Pop? South Korean Popular Music, the Culture Industry, and National Identity', *Korea Observer* 339–363, no. 3 (2012): 26.



During the colonial era, Japan's ruling over Korea deepened its impact on Korean cultural production and musical education and tastes. Urban Koreans grew acquainted with Western musical styles ranging from classical music to popular genres, primarily through Japanese outlets. When the U.S. occupied South Korea, popular American music (e.g., jazz, blues, pop, and rock) was brought to a larger Korean population via the U.S. Armed Forces radio and television, U.S. military camptown bars and dance halls, and movie theaters that aired Hollywood films. Under the influences of these imported music genres, Korean *kayo* became diversified into various formats, such as ballads, chanson, and the most important and popular genre, trot-- a Korean variant of Japanese *enka*. Well-known singers, for example, Lee Mi-Ja and Cho Yong-Pil, dedicatedly promoted trot, though they performed other genres as well in different stages of their careers.

Despite the embracement and enjoyment of *kayo* among Koreans, the general impressions of the public on *kayo* singers and the popular music industry are more or less unfavorable. In addition to the gloomy socioeconomic situation of *kayo* singers and indecent images of gangster agents, people's perceptions of the industry were also shaped by "frequent night banquets and sex scandals" involving female singers and military dictators, bribery of composers, television producers, and radio DJs, and various physical and emotional exploitation of singers by entertainment companies (e.g., sexual abuse and physical violence).<sup>67</sup> During that time, issues of rampant music piracy and copyright infringement resulting from the bootlegged audiotapes and LP records had squeezed the economic gains earned from the record sales and forced singers to travel to remote regions for live performances and money-making. Regional gangs took the chance to extort money from singers or managers unless the latter was associated with more powerful Seoul or Busan mafias. What made matters worse was the troublesome demands by military dictators that asked for female singers'

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<sup>67</sup> Ingyu Oh and Hyo-Jung Lee, 'K-Pop in Korea: How the Pop Music Industry Is Changing a Post-Developmental Society', *Cross-Currents: East Asian History and Culture Review* 3, no. 3 (2014): 72–93, <https://doi.org/10.1353/ach.2014.0007>.

consistent sexual services. Considering the career as a singer as well as the life safety, it was almost impossible for female singers to reject the demands—they had no choice but to be treated as a tool to satisfy dictators' sexual needs.

Ironically, even though the dictators were provided with sexual services by female kayo singers, the military regime had still imposed severe censorship and bans on popular songs. The melodies of kayo were criticized by the Cultural and Artistic Ethics Committee as "too Japanese" or "too western," and their lyrics were considered "politically subversive," "pro-North Korean," or "containing improper cultural messages" (see Figure 2.1).<sup>68</sup> For instance, Lee Mi-Ja had the most songs banned by the Committee because they "sounded too Japanese," and the rock singers, such as Shin Joong-Hyun, did not escape from the crackdown as well due to their strong Western elements. Consequently, the censorship resulted in the prohibition of 222 songs in 1975, and 382 songs were deemed unfit for public consumption in 1983 for differentiated social, cultural, ethical, political, and diplomatic reasons.

<i>Period</i>	<i>Official Reason Given</i>	<i>Songwriters / Singers</i>
1950s–1960s	Defected to North Korea	Cho Myung-Am
	Pro-Japan	Nam In-Soo, Lee Nan-Young
	Japanese Style	Lee Mi-Ja, Jung Doo-Soo, Lee Han-Wook, Koh Sa-Nam
1970s	Unwholesome (Defiance to Governmental System)	Yang Hee-Eun, Song Chang-Sik, Lee Jung-Sun, Kim Min-Gi, Choi In-Ho, Baek Soon-Jin, Seo Yoo-Seok, Sha Green
	Vulgar and Degenerated	Shin Joong-Hyun, Kim Yong Man, Han Dae-Soo, Lee Cheol-Soo, Lee Jang-Hee, Kim Jin-Kyung, Patti Kim, Yoon Si-Nae
1980s	Defiance to Social System	An Chi-Hwan
	Diplomatic Friction	Jung Kwang-Tae
	Vulgar and Degenerated	Ha Choon-Hwa

Figure 2. 1 Sampling of Korean Popular Songs Banned by the Korean Government<sup>69</sup>

<sup>68</sup> Lie, 'What Is the K in K-Pop? South Korean Popular Music, the Culture Industry, and National Identity'; Sam Seok Ryang, 'A Political and Ethical Understanding of Music: Focusing on the Period of Authoritarian Regime in South Korea', *Journal of Ethics Education Studies*, no. 23 (2010): 221–48.

<sup>69</sup> Ryang, 'A Political and Ethical Understanding of Music: Focusing on the Period of Authoritarian

Other than piracy and government censorship, those who worked in the kayo industry, mainly agencies, had to "please" influential people or decision-makers in TV and radio stations, print media such as newspapers, magazines, etc., to secure sufficient airtime and strive for more opportunities of appearance for their singers.<sup>70</sup> This was an unspoken rule among insiders because they fully understood that frequent appearances via different media channels would generate cash for singers and agencies and increase the possibilities of product endorsement offered by chaebols. Costs should be paid to pave the way to stardom. Producers and DJs from television and radio stations and newspaper reporters had requested a variety of payola bribery either directly or implicitly: cash payments, luxury clothing, airline tickets and hotel rooms for vacations, free drinks at upscale clubs with young hostesses and prostitutes, etc. Under the adverse influence of piracy, attending TV shows could help increase the singers' income, though the appearance fee was low. There were no other feasible and relatively affordable options for marketing singers and their songs in Korea at that time other than television shows and newspaper articles, which had the potential to create a bonanza—product endorsement supported by chaebol firms. To put it simply, the traditional Korean kayo was born for television and radio.

## **2.2 1990s: Advent of the K-pop**

The emergence of a new generation of young singers in the 1990s marked the surfacing of k-pop. They achieved success as pop music stars with a radical departure from the conventions of traditional *kayo* singers who were mostly born in impoverished families, used to sing in a pentatonic scale without much dancing on stage, and entailed vulnerabilities to all forms of social, emotional, and economic exploitation.<sup>71</sup> There is no exact start date on record for contemporary k-pop, yet, many believe it originates from the legendary boy band *Seo Taiji and Boys* and the

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Regime in South Korea'; Oh and Lee, 'K-Pop in Korea'.

<sup>70</sup> Oh and Lee, 'K-Pop in Korea'.

<sup>71</sup> Ibid.

wave of popularity that followed. During their first broadcast appearance on a talent contest in 1992, *Seo Taiji and Boys* did not perform well and received the lowest grade from the jury. Nonetheless, the song they performed during the show unexpectedly appealed to a large group of fans—"Nan Arayo" ("I Know") hit the music chart, roared to the first place, and stayed there for over 17 weeks.<sup>72</sup> Notably, it was not until the debut of *Seo Taiji and Boys* in 1992 that Koreans realized the "hegemony" of dance music was going to alter the landscape of *kayo* permanently. They pioneered the fusion with new genres that had previously been unfamiliar to Korean audiences, including hip hop, electronic music, and reggae. The group's bold experimentation with diverse music genres caused sensations among Korean people, but what was even more stunning was their new style of dancing and ruffian attire. This was something that *kayo* singers would never have dared to undertake. From this perspective, it is no wonder that *Seo Taiji and Boys* have been dubbed the "presidents of popular culture" in Korea. Meanwhile, their Korean lyrics went beyond the cultural norms acceptable in popular culture and criticized Korean society and the strict school system that Seo thought had brainwashed the children.<sup>73</sup> Before them, singers had seldom touched on these sensitive social issues in their works.

After thirty-two years of the military regime, in 1993, South Koreans elected their first civilian president. Nevertheless, the problems of piracy, strict government censorship over the entertainment industry, scarce opportunities apart from performing in radio and tv stations, and exploitations by influential practitioners in the media industry and powerful public figures still framed the singers in a dilemma. The urgent need for new markets and mass media channels had driven *Seo Taiji and Boys*, as well as other Korean singers and entertainment companies, to seek opportunities overseas. *Seo Taiji and Boys* launched a sensational success in Japan, and this was the first time for Japanese audiences to get acquainted with Korean pop music. One of the

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<sup>72</sup> John Lie, *K-Pop: Popular Music, Cultural Amnesia, and Economic Innovation in South Korea* (Oakland, California: University of California Press, 2015), 37.

<sup>73</sup> Stuart A. Kallen, *K-Pop: Korea's Musical Explosion* (Minneapolis, MN: Twenty-First Century Books, 2014).

most favorable factors that benefited the exterior development of Korean pop music was the lifting ban on cross-border travel for domestic Koreans by the government in the early 1990s, which opened the door for many Koreans to explore western countries.<sup>74</sup> Some of them received education or pursued a career route in well-known American or European companies before going back to South Korea. These "explorers" brought back fresh insights into business, new interpretations of art, music, and film, and creative formats of expression. An immense talent pool gradually came into being, accommodating a considerable quantity of ambitious young entrepreneurs. Lee Soo-Man, founder of the record label SM Entertainment, was one of them.

Inspired by the eye-catching dance moves and fascinating music style he watched on MTV when he studied Master's in the States, Lee came back to Korea with an ambition to inject fresh blood into the Korean pop music industry and established SM Entertainment. In the first few years, Lee visited many bars and theatres in Korea, searching for musical talents. His first success was Hyun Jin-young, a nineteen-year-old male singer whose domestic sales of debut album reached four hundred thousand copies, which is still one of SM's big hits today.<sup>75</sup> However, Hyun was soon arrested for smoking marijuana, forcing Lee to rethink the future of SM. To avoid similar egregious issues, Lee made the conscious decision to place equal emphasis on the cultivation of talent as well as the promotion of the trainees' characters and traits. With this, Lee established the foundation for SM's and also the k-pop's long-lasting factory-like training system, through which he continuously cultivated groups of k-pop idols for his company. Furthermore, he traveled to different countries and auditioned for promising young singers, dancers, and songwriters. Those who got selected by Lee signed a four-year contract with SM Entertainment and were sent to Seoul for highly-intensive training. In the following years, Lee produced many popular idol groups or solo singers who have gained popularity domestically and

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<sup>74</sup> Martin Roll, 'Korean Wave (Hallyu) - Rise of Korea's Cultural Economy & Pop Culture', *Martin Roll* (blog), 20 October 2021, <https://martinroll.com/resources/articles/asia/korean-wave-hallyu-the-rise-of-koreas-cultural-economy-pop-culture/>.

<sup>75</sup> Kallen, *K-Pop*, 18.

abroad, such as H.O.T (1996 - 2001), S.E.S (1997 - 2002), and Shinhwa (1998 - 2003). Other than Lee Soo-Man, Yang Hyun-Suk (the former member of Seo Taiji and Boys) and Park Jin-Young also joined the bandwagon and founded YG Entertainment and JYP Entertainment in the mid-1990s. They later became the "Big Three" that dominate the Korean k-pop industry. Well-known idol groups operated by other agencies in the late 1990s include SECHSKIES, Fin.K.L, Baby Vox, and g.o.d.

Spurred on by the popularity the homegrown pop music gained abroad and its economic value in cultural export, the government, began to relieve the restrictions. In 1996, the Korean constitutional court abolished censorship laws, and a wide range of topics was freed up for artists to explore.<sup>76</sup> It brought enormous opportunities and freedom to Korea's young and vibrant generation, allowing them to express more innovative and avant-garde ideas through artistic creation. Additionally, assigned as the president during the 1997 financial crisis, apart from being dedicated to the economic recovery, Kim Dae-Jung also greatly promoted the development and export of Korean popular culture and promised to allocate part of government expenditure on cultural content.<sup>77</sup> Meanwhile, the supportive policies for SMEs formulated by the government not only makes it more beneficial for smaller players to step into many sectors, cultural and creative industries included, but also encourages various venture capital financing of SMEs from either venture capital firms or larger business groups.<sup>78</sup>

### **2.3 2000s: Rise with the Expansion of Hallyu**

With a large talent pool of young and enthusiastic people and an opened-up cultural environment backed by operational excellence, diverse free experiments with cultural products were endowed with possibilities. A vast population of Asians were enthralled

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<sup>76</sup> Ayu Nur Aini et al., 'K-Pop's Popularity Strategy in the International Arena', in *Nusantara Science and Technology Proceedings* (1st ICEMAC 2020: International Conference on Economics, Management, and Accounting, Galaxy Science, 2021), 36, <https://doi.org/10.11594/nstp.2021.1006>.

<sup>77</sup> Lie, 'What Is the K in K-Pop? South Korean Popular Music, the Culture Industry, and National Identity'.

<sup>78</sup> OECD, 'KOREA: Policy Priorities for a Dynamic, Inclusive and Creative Economy', *Better Policies* (OECD, 2015), 15–16.

by the K-movies themed with unprecedented and more controversial topics, the K-dramas that tackled sensitive and common cultural issues, and the K-pop that was modified from the western music to fit local tastes. The regional craze for Korean entertainment products was lighted, initiating the phenomenal growth of Hallyu. Originating from the late 1990s, Hallyu continued advancing triumphantly into the new millennium. It initially started with Korean movies and TV dramas, such as "Swiri," "My Sassy girl," "Dae Jang Geum," and "Winter Sonata," and then spread the Korean pop music to other parts of Asia, including but not limited to China, Japan, Singapore, Thailand, and Vietnam.

While H.O.T, S.E.S, and other groups had achieved outstanding scores at home, sales figures of records were lagging far behind that of foreign bands, such as Backstreet Boys. To improve the album sales overseas, the SM Entertainment made attempts on marketing Korean bands in Japan yet the pathway was still uneven until the appearance of the mega-star Kwon Bo-A (hereafter named "BoA") in the early 2000s. Due to her excellent dancing performance, BoA was selected by Lee Soo-Man and started her trainee life in SM in 1997. She officially debuted in 2000 in Korea and then launched her first Japanese album in 2002, which reached more than one million copies. She became the first person, among singers of any nationality, to harness the record of both a No. 1 debut single and a No. 1 debut album in Japan.<sup>79</sup> Ever since, her overseas popularity skyrocketed with following albums and concert tours. Besides, Rain (Jung Ji-Hoon, debuted in 2002) from the JYP entertainment, was another success that enabled the k-pop to cross the border and reach overseas audiences, especially the American market.

Meantime, with each step forward, entertainment moguls continued to learn from pioneers of the k-pop genre, such as *Seo Taiji and Boys* and the bands that followed them, and passed it on to the next generation. As the recipe had been fine-tuned over

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<sup>79</sup> Kallen, *K-Pop*.

time, it was almost polished to the point of becoming an industrial "science." Among the facts were what sorts of choreography, outfits, and mannerism were attractive to fans, or which songs ended up reverberating more with the fans. Various "seasonings" were added in idol groups to present their unique flavors. Boy groups like TVXQ and SS501 had dominated the hearts of fans for a while. And in 2005, *Super Junior* debuted as a male group consisting of 13 boys. Its members were chosen for their lovable and non-threatening appearance with an intention to resemble the male protagonists in Japanese shojo manga—romantic comics aimed at teenage girls. To promote Super Junior globally, the SM made the group's second single, "U," as a free download on their official website. Within five hours of its release, the song had 400,000 downloads, and the final downloads surpassed 1.7 million. Two years after *Super Junior's* debut, YG Entertainment unveiled its five-member male group BigBang. Unlike other bands, BigBang featured an authentic "hard-edged urban sound" and personalized outfit with substantial fashion elements of leather, chains, and studs.<sup>80</sup> However, all-male groups were not the only focus of the k-pop industry—there were many female groups for promotion and marketing as well. That is how the late 2000s saw the up-and-coming Wonder Girls, Girls' Generation, and 2NE1: each of them has shown unique styles and irresistible charms, from retro sound and bubblegum pop to girl crush.

Two significant factors need to be addressed here, which had equipped Korea with a bunch of opportunities to export k-pop during this period. First, the necessity to adapt to globalization pushed the Korean government to take further actions to dissolve the formerly solid barriers of cultural protectionism. For instance, it was not until 2002 that Korean Government lifted all the restrictions on Japanese cultural export. Since then, k-pop has commuted freely from Korea to Japan, one of the largest cultural consumer markets in Asia, and been spread to other regions. The second and perhaps more crucial factor in facilitating k-pop is the construction of network infrastructure

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<sup>80</sup> Ibid.



and technological transformations. On the one hand, the nationwide broadband Internet network infrastructure established at that time allowed for the distribution of cultural content by using modern communication technologies. On the other hand, the advent of digital music in the form of MP3 players in 1996 and the appearance of Youtube in 2005 are two key milestones in the digitalization trend of the music industry. The development of social media and online video platforms (especially YouTube) in subsequent years has made it possible for South Korean pop culture to reach a wider audience outside the country.

#### **2.4 2010s – Present: Digital Transformation and K-pop's Global Burgeoning**

An open and more inclusive cultural environment and government attitudes, along with the widening coverage of social media, enabled the 2010s to witness the burgeoning of k-pop worldwide. Groups that debuted in the previous period, such as *Girls' Generation*, *Super Junior*, and *BigBang*, continued to lead the k-pop trend. However, it was Psy, a solo rapper from YG Entertainment, that pushed k-pop to a new height. In 2012 when Psy was 36 years old and had worked as a singer for 12 years, he released the single "Gangnam Style," which later became a mega-hit and swept through the globe. The song is characterized by the catchy horse-riding dance and the EDM music style. It was the first made-in-Korea hit to enter the top 10 on the *Billboard* ranking list, broke many music records, and became the most-viewed video on YouTube.<sup>81</sup> Notably, "Gangnam Style" output a different story content from those previous k-pop hits, and Psy was far distant from the perfected "idol" image that other groups had worked hard to convey. This perhaps can explain why this song performed so well, as it was offbeat enough to attract the attention of a new geographical region. Psy's earworm of a dance pop drove global fans into a frenzy, which conversely demanded more high-quality k-pop export from Korean artists.

After 2012, k-pop entered the 3<sup>rd</sup> generation, leading to the appearance of more idol

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<sup>81</sup> ALLKPOP, 'Psy's "Gangnam Style" MV Hits 4.4 Billion Views on YouTube | Allkpop', 2022, <https://www.allkpop.com/article/2022/04/psys-gangnam-style-mv-hits-44-billion-views-on-youtube>.

groups. In 2013, SM Entertainment first introduced its twelve-member boy group *EXO* to the public featuring a concept of the universe, planets, and twelve different super-powers. Shortly after achieving a domestic breakthrough, *EXO* debuted in Japan and China and released many albums in local languages. Their popularity then spread across Southeastern Asia, the Middle East, Europe, and the American continent. They also showed up frequently in important diplomatic circumstances as a representative of Korea's soft power as well as the cultural bridge that connected the two countries, such as the first state trip of then-president Moon Jae-In to China in 2017. Another must-to-mention k-pop boy band is *BTS* which debuted in the same year as *EXO* and became the most prominent counterpart of the latter in the following years. Like *EXO*, *BTS*'s influential power has traveled across global music markets and led the Korean Wave worldwide. However, the records they have broken in the United States, the largest music market in the world that has given "birth" to numeral legendary artisans, are surpassing previous k-pop practitioners. After receiving a certification from the Recording Industry Association of America (RIAA) for their song "Mic Drop," they went on to reach the top of the Billboard 200 chart with the album "Love Yourself: Tear" in 2018. *BTS* is also one of the few groups since the Beatles to have four U.S number-one albums in less than two years. In 2020, their English single "Dynamite" climbed to the top of the Billboard Global 200 and U.S Billboard Hot 100. Besides, they have received many global awards and been invited to partake in diverse programs, such as the International Federation of the Phonographic Industry's (IFPI) Global Recording Artist of the Year and American Music Awards. *BTS* has also collaborated with UNICEF with the global campaign "LOVE MYSELF" that aims to reach young people and help them improve life and rights since 2017.<sup>82</sup>

In terms of girl groups, *Twice*, *Red Velvet*, *BLACKPINK*, etc., have contributed their parts to the globalization of k-pop as well. In particular, *BLACKPINK*, debuted in 2016 and managed by YG, has gained unprecedented global fame and popularity

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<sup>82</sup> UNICEF, 'UNICEF and BTS Celebrate Success of "Groundbreaking" LOVE MYSELF Campaign', 2021, <https://www.unicef.org/press-releases/unicef-and-bts-celebrate-success-groundbreaking-love-myself-campaign>.

compared with other female predecessors: all of their music videos have reached the 100 million views on YouTube within a short period; they have cross-border singles cooperating with famous singers like Lady Gaga, Cardi B, and Selena Gomez; among all the Korean-made artists, members of BLACKPINK have the most followers on the Instagram; haute couture brands like Chanel, Celine, Yves Saint Laurent, and Dior have maintained a long-lasting collaboration with them... With the global expansion of these artists, the cultural export of k-pop has gone through a process toward a maturer and more diversified development. And since 2018 onwards, k-pop has been in the 4<sup>th</sup> generation and cultivated groups like IZ\*ONE, ITZY, ASEP, and TXT. A new era for k-pop is awaiting exploration.

The evolution of k-pop has also witnessed the switch in social perception of Korean pop music. Despite the popularity of their songs, traditional kayo singers used to live with a low social status in the postwar era. And those involved in the music industry were derogatorily labeled “*ddandara*,” which means the sound of trumpets or similar horns.<sup>83</sup> An alive person was materialized and belittled to an instrument, revealing the negative social opinions and disrespect to kayo singers. On the contrary, k-pop has reshaped people’s perception of popular music thanks to its promising export-oriented commodity, the great value it has added to the national economy, and the fame and wealth brought to k-pop artists. K-pop stars were thought to be “creative,” “stylish,” “professional,” “talented,” and “charming.” And this positive image is widely spread among young Koreans, with an increasing number of children wanting to become k-pop idols for their future careers. Compared with the 1980s, when most students dreamed of becoming professionals like scientists, doctors, and teachers, about 40% of students in the 2010s said they would like to become an entertainer, especially k-pop idols.<sup>84</sup> And the rising social pursuit and support for k-pop have motivated more people to partake in the audition held by entertainment agencies within and beyond Korea, continuously delivering talents to the industry and forging more k-pop idols.

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<sup>83</sup> Oh and Lee, ‘K-Pop in Korea’.

<sup>84</sup> Lie, *K-Pop*.

Meanwhile, various talent shows keep appearing to not only acquire gifted rookie trainees but provide a chance for those experienced but “buried” artists, such as *K-pop Star*, *The Unit: Idol Rebooting Project*, and the “*Produce*” series. K-pop’s wide boom has also been targeted and embraced by politicians: they have used k-pop as an instrument for gaining more support from youths in political campaigns and for cultural diplomacy. This will be further explained in Chapter 3.

## 2.5 Conclusion

The road for Korean pop music has not always been flat. Strict government censorship, music piracy, copyright infringement, “irrefutable” demands from military dictators and powerful figures working in the media and entertainment industry, etc., had more or less troubled singers and the whole industry. However, the pursuit for a more creative and sustainable economy after 1997 financial crisis, the needs for adapting to the globalization, and the sensation and considerable value created by k-pop have all pushed the Korean government to reverse its policy and lift the censorship to sufficiently supports the K-pop industry in its export efforts. Meanwhile, the universalization of network infrastructure and digital transformation have enabled k-pop to outreach a broader group of both domestic and overseas audiences more easily. The influential power of k-pop has been deepened during this process, fully equipping its global popularity in the past few years and will continue in the future.

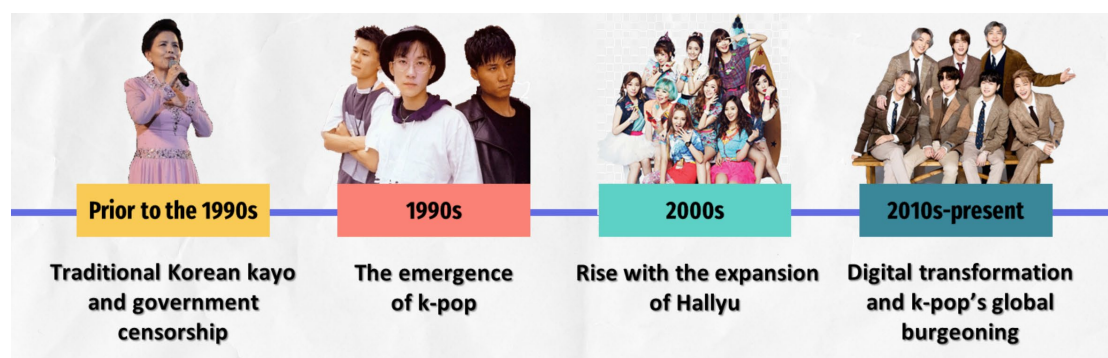


Figure 2. 2 The Past and Present of K-pop (Designed by Chestnut)

Besides the social and technological changes that have prompted the expansion of k-pop, the social perception of Korean pop music has also experienced a significant switch from a negative stereotype to positive recognition. With an increasing number

of people taking pains to become k-pop idols, human/talent resources will be input into the industry endlessly.

When all the factors become favorable for the expansion of k-pop, the market size and demands further grow larger. To satisfy consumers' needs and fill in the changing market gap, the chance to gain more monetization values is shown more prominently for players in the upstream and midstream of the k-pop value chain. And these niches have also appealed to many newbies to join the game and make substantial investments in the k-pop industry. In the next chapter, the value chain of the k-pop industry will be introduced in detail to further explain how consumption needs are created and stimulated by each value activity and what values are exactly produced during the processes and fascinate existing and upcoming players.

### **Chapter 3 Value Chain of the K-pop Industry**

Once the k-pop market size and demands become larger than ever by extending its antennas to overseas, more players are attracted to the industry to become either cultural labor or businessmen. The square they've jumped into varies based upon what resources or capital they hold in hands and which specific value they are pursuing. Therefore, a detailed study of k-pop's industrial "ingredients" is essential to identify both consumer needs and segment niches. In the K-pop industry, the main value activities start from content creation, distribution, retail, OTT services, marketing, and ends with consumption, during which diverse margins have been produced (see Figure 3.1). Each stage creates specific values under the operations of its major players and is organically connected with other value activities. What values are contained in each activity of the k-pop industry and how are these values produced and stimulated? In this chapter, by outlining the value chain model, the k-pop industry's primary value activities and the values contained in each stage will be depicted in detail to help understand what margins have attracted and prompted Korean conglomerates to join this capital game and how these margins have been created. In this way, this chapter will also provide concrete answers to the main research question.

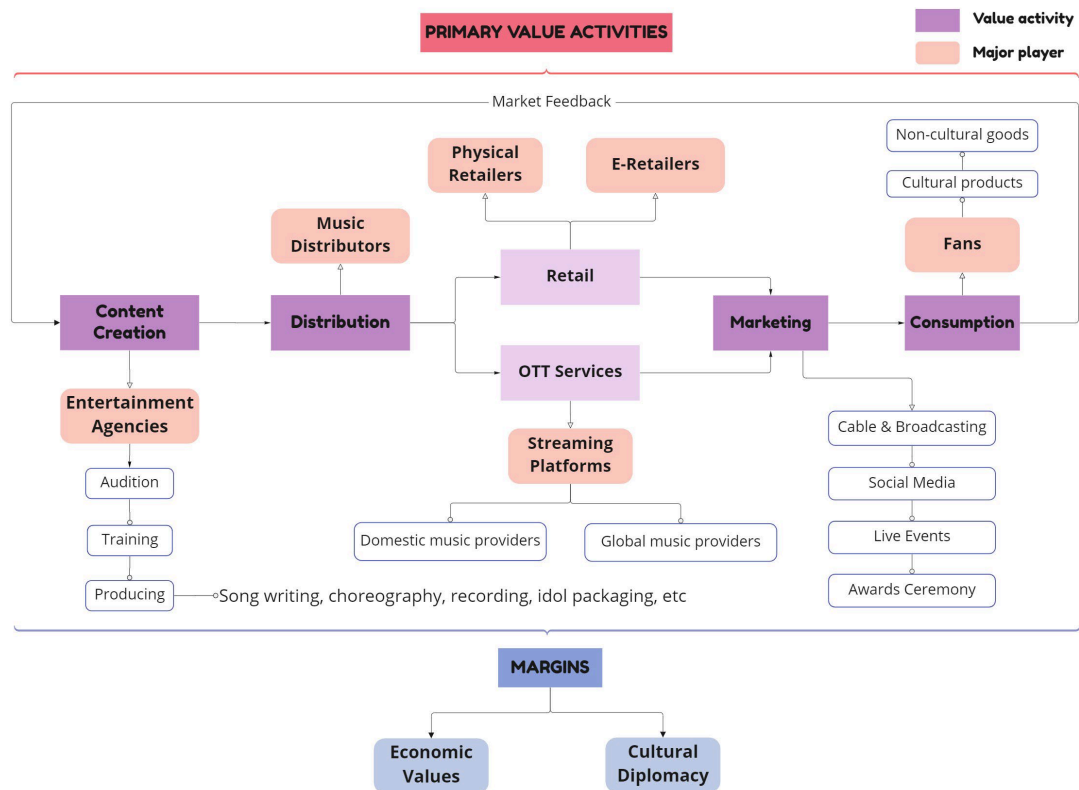


Figure 3. 1 The Value Chain Model of the K-pop Industry  
(Designed by Chestnut)

### 3.1 Primary Value Activities

#### 3.1.1 Content Creation

Content creation is the beginning stage as well as the most basic and essential part in the k-pop industry, where k-pop artists and music have been produced and packaged. The players in this stage are mainly entertainment agencies who have undertaken the responsibility to cast, train, package, and market the artists under their management. And the well-known "idol factory system" has been embedded in the operation of these agencies. In most cases, entertainment companies go to different regions for the audition and selection of promising talents who are in their early age and sign the brokerage contract with them. Once recruited, these trainees will be seriously trained for capabilities in vocal, dance, rap, and foreign languages for several years. Besides, strict image and figure management for a more appealing outer appearance is also an essential rule for trainees to obey. Usually, there are some periodic exams to check the level of these trainees, and advice is given for improvement. When candidates are

qualified for debut, they will be chosen to form a duo or an idol group or become solo singers. Based on the market feedback regarding fans' preferences, agencies then specialize the concept and style of new groups and ask professionals to write songs and choreography for them. When the recording, music video, and other preparation are finalized, trainees are ready to debut, and all the material will be revealed step by step, from trailers (images and videos) to the final release on the announced date. For those artists who have already debuted previously, the procedures for a periodic comeback are nearly the same.

Among all the entertainment firms, four agencies stand out and dominate the k-pop content market, earning the name “big four”: apart from SM, YG, and JYP mentioned in the previous section, Big Hit (or HYBE) has climbed to the top row in recent years thanks to the tremendous success of BTS. The big four have contributed the largest market share in the k-pop industry, and their total sales revenue accounts for at least 60% of all the agencies. K-pop artists from these four firms are generally not only more well-known than other artists due to the shiny title of the big four but also gain more access to better music and commercial resources, which will, in turn, intensify their popularity. It is noteworthy that if we apply the standards of categorizing the scale of companies issued by the KFTC, we can find that all the entertainment agencies are SMEs whose total asset does not exceed KRW 5 trillion, even the “big four”.<sup>85</sup> However, the current total asset of HYBE (approximately KRW 4.73 trillion) is approaching the requirement for the lower limit, and it can be expected that HYBE will become the first media and entertainment conglomerate soon.<sup>86</sup>

### ***3.1.2 Distribution***

Generally, what entertainment agencies or record labels in the traditional music industry take over include the producing, recording, promotion, marketing, etc. of the

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<sup>85</sup> Ministry of SMEs and Startups, ‘Scope of Small and Medium Enterprises’, 2022, <https://www.mss.go.kr/site/eng/02/20201000000002019110604.jsp>.

<sup>86</sup> The Wall Street Journal, ‘352820.KR | HYBE Co. Ltd. Annual Balance Sheet - WSJ’, 2022, <https://www.wsj.com/market-data/quotes/KR/XKRX/352820/financials/annual/balance-sheet>.



music. They would depend on distributors to guarantee that physical records made their way to the stores where customers could eventually purchase albums. However, although the core function of music distributors has remained unchanged for more than a century, their workflow and business models have undergone steady evolution, which imposed a significant impact on the music industry. Switching from the "CD music world" prior to the 21st century to the "era of streaming" that we are now experiencing, we have continued to utilize the dominant distribution medium to define the phases of the music industry's development.<sup>87</sup> The k-pop industry has also been reconfigured by similar changes in the way how music is distributed. Distributors obtain music from agencies to stores and make it accessible for purchase by the public, and this holds true regardless of whether the store is a physical or an e-commerce retailer or an OTT service provider. Major Korean music distribution companies consist of Kakao Entertainment (1theK), Dreamus, Stone Music, Genie Music, and YG Plus (see Figure 3.2). Kakao takes the largest market share in South Korea and distributes the music of artists from Starship, EDAM, Fave, Cre.Ker, etc. Dreamus is affiliated of the SK Telecom and collaborates with SM, JYP, and other agencies through B2B business. Stone Music and Genie Music usually distribute music for those smaller and less well-known enterprise firms. And YG Plus is mainly responsible for the music distribution of artists from YG and BigHit. There are also some international music distributors that only account for a small market share locally, such as Sony, Warner, and Universal.

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<sup>87</sup> Soundcharts Team, 'A Complete Guide to Music Distribution Companies', 17 March 2022, <https://soundcharts.com/blog/music-distribution>.

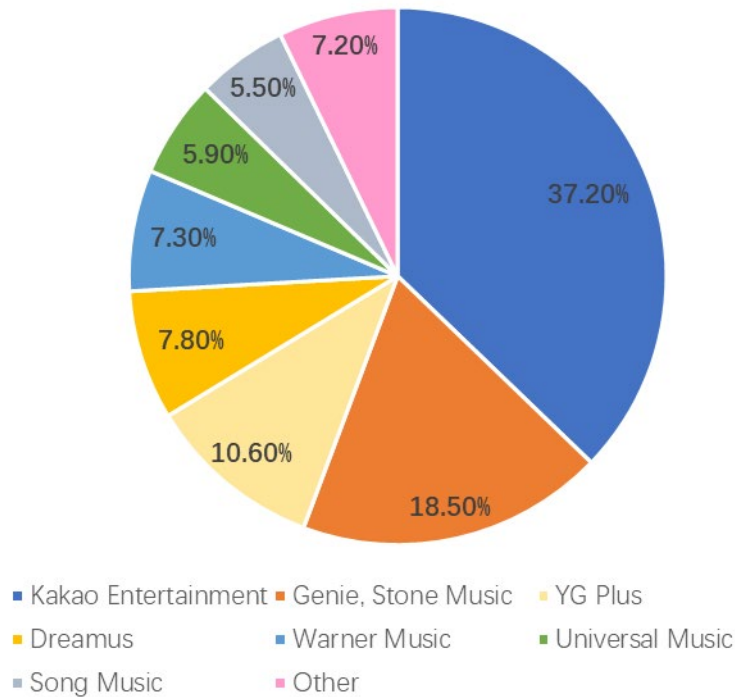


Figure 3. 2 Market Share of Music Distributors in the Gaon's Top 400 Chart<sup>88</sup>

After getting the finished music products that contain recordings and music videos, distributors will then license and give them out to retailers (both physical and e-retailers) and OTT services platforms. The most traditional retail channel would be offline sales in places like bookstores and video shops. But with the rise of e-commerce, audiences can also purchase albums on webshops no matter where they live. In South Korea, apart from artists' official websites, albums are also available on online stores like Gmarket, Ktown4u, and Daebak. Gaon and Hanteo are two major charts that record the sales of physical albums: Hanteo Chart records the album sales from individual purchases in certified stores and websites and is used more often in music programs for scoring the performance stage; Gaon Chart records the shipment sales that include the data regarding albums in stores' stock, reorders from shops, individual purchases on websites, etc., displaying the continuous popularity and the public's interest and hence is usually used in decisions on awards of various annual ceremonies.<sup>89</sup>

<sup>88</sup> Gaon Chart, '2021 Annual Chart Review', 2022, <http://gaonchart.co.kr>.

<sup>89</sup> KPG, 'Gaon vs Hanteo (AKA: KPop Music Charting Explained In Simple Human)', *KPopper's*

Meanwhile, as technological transformation makes digital music available online, OTT services have become a booming trend in providing music content to audiences and streaming platforms of varieties have sprung up in the past few years. Globally, music providers like Spotify and YouTube Music are taking the lead, while within Korea, Melon, Genie, FLO, Bugs, Naver VIBE, and other music applications were born locally and are widely used by audiences for listening to k-pop music. As of December 2021, Melon accounted for the largest market share with a ratio of about 40%, followed by Genie (19.24%) and YouTube Music (19.22%).<sup>90</sup> Although local streaming platforms have still occupied most shares in the Korean market, foreign music apps have emerged to threaten their dominant positions. Especially for Melon, which is owned by Kakao and used to have no rivals in South Korea with a share of approximately 50%, its leading role as a music streaming service provider has been “in danger.” Other than providing basic music content to audiences, these local streaming platforms have also been used as data sources for grading and ranking k-pop artists in music programs and for reference in annual award ceremonies. What is vital and cannot be skipped here is the fact that listening to and downloading the music on these streaming platforms is not completely free: audiences should pay for the applications to unlock all the features and functions for a better music experience as well as the effective contribution to the scoring of “digital streaming and downloads” part in music programs. This is closely related to another activity in the k-pop value chain—marketing through cable and broadcasting, which will be explained later in this section. Meanwhile, Instiz iChart has been used to integrate the data on six major music charts (Melon, Genie, YouTube Music, FLO, Naver Vibe, and Bugs) since 2011 and to score the rankings of k-pop songs by using its own methods (see Figure 3.3).<sup>91</sup> IChart has developed two popular concepts in the k-pop industry:

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*Guide* (blog), 15 June 2017, <https://kpoppersguide.wordpress.com/2017/06/15/gaon-v-hanteo/>.

<sup>90</sup> Sun-Hwa Dong, ‘YouTube Music Emerges as Leading Streaming Platform in Korea’, *koreatimes*, 17 January 2022, [https://www.koreatimes.co.kr/www/art/2022/04/732\\_322406.html](https://www.koreatimes.co.kr/www/art/2022/04/732_322406.html).

<sup>91</sup> Instiz iChart, ‘iChart™ - 국내 최초 · 유일의 온라인 음악순위 통합차트’, *인스티즈(instiz)*, 24 April 2022, <https://www.instiz.net/spage/8>.

all-kill (AK) and perfect all-kill (PAK). AK refers to the achievement of a song that reaches the top of all the music charts, and PAK is a music chart milestone achieved when a song simultaneously hits number one on the real-time, daily, and weekly rankings of six major music charts and iChart. Both AK and PAK are convincing indicators of the popularity of k-pop songs and artists and can also be used as a marketing tool for promotion.

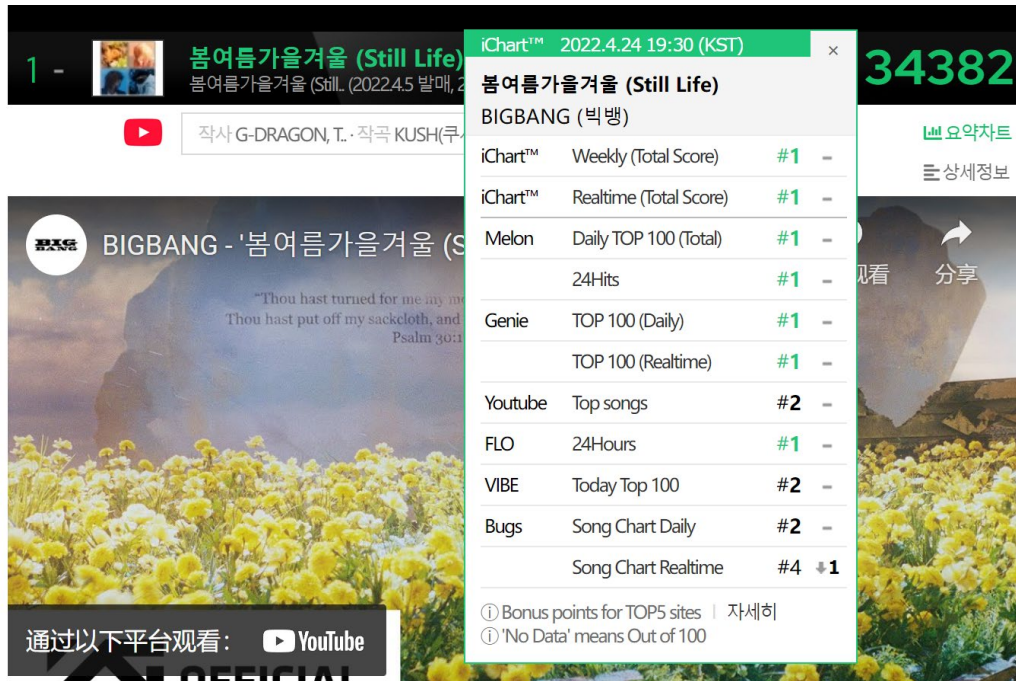


Figure 3. 3 BigBang’s New Single “Still Life” Ranks the 1st on iChart<sup>92</sup>

(BigBang’s new single “Still Life” released in April 2022 ranks the 1<sup>st</sup> on iChart, which also shows its ranking on other six major music sites)

### 3.1.3 Marketing

Before and after releasing a new single or album, either for debut or comeback, agencies have spared a large amount of time and effort to the marketing activities that promote and publicize the artists via various channels: broadcasting, social media, live events, and award ceremonies. Marketing is one of the most significant value creation activities in the k-pop industry, through which the artists are able to reach out to a broader group of audiences, increase their visibility and popularity, promote the sales of their music, build a good reputation, and further benefit the next release.

<sup>92</sup> Ibid.

First, for the cable and broadcasting pathway, k-pop artists mainly partake in two types of TV shows: music programs and variety shows. In South Korea, music programs are aired weekly, with active singers and idol groups performing on the shows to promote their new releases, even during the 2020 pandemic. The stage of each artist is usually pre-recorded, and these participants will show up for the interviews and at the ending of the live show, which features the announcement of the week's winning artist. A unique yet crucial element of these music programs is the voting system. Since each program adopts different grading mechanisms, the chances for artists to win the first place vary from show to show (see Figure 3.4). Nevertheless, all of the music programs have taken digital streaming and downloads, album sales, and music video views on YouTube into consideration, among which the digital streaming and downloads account for 40% to 60% of the overall score. Consequently, achieving outstanding "play," "like," and "download" data on music streaming platforms seem to be the most important way for fans and agencies to help artists get the triumph and thus promote the artists on shows. Apart from music shows, k-pop artists have also frequently joined various variety shows for higher visibility and exposure.

Music Program	TV Station	Airtime (KST)	Scoring Rules			
			Section	Percentage	Score	Source
 Show Champion	MBC	18:00, Wednesday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	40%	4000	Melon, Genie, Bugs, Soribada
			Retail sales	10%	1000	Hanteo Chart
			Broadcasting	20%	2000	The frequency of its uses in TV station
			SNS	10%	1000	YouTube
			Pre-voting	20%	2000	Voting app: Idolchamp
 Music Core	MBC	15:30, Saturday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	50%	5000	Gaon Chart
			Retail sales	10%	1000	Gaon Chart
			Broadcasting	10%	1000	The frequency of its uses in TV station
			SNS	10%	1000	YouTube
			Audience committee voting	5%	500	/
			Pre-voting	5%	500	Voting app: MUBEAT
			Real-time voting	5%	500	Voting app: MUBEAT
			Real-time text message voting	5%	500	/
 INKIGAYO	SBS	15:50, Sunday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	55%	5500	Melon, Genie, Bugs, Flo
			Retail sales	10%	1000	Gaon Chart
			Broadcasting	10%	1000	The frequency of its uses in TV station
			SNS	30%	3000	YouTube
			Pre-voting	5%	500	/
Real-time voting	5%	500	Voting app: Star Planet			
 THE SHOW	SBS	18:00, Tuesday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	40%	4000	Gaon Chart
			Retail sales	10%	1000	Hanteo Chart
			Broadcasting	15%	1500	The frequency of its uses in TV station
			SNS	20%	2000	YouTube
			Pre-voting	5%	500	Voting app: Star Planet
Real-time voting	10%	1000	Voting app: Star Planet			
 MUSIC BANK	KBS	18:00, Thursday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	60%	12000	Melon, Genie, FLO, Bugs, Naver Vibe
			Retail sales	5%	1000	Hanteo Chart
			Broadcasting	20%	4000	The frequency of its uses in TV station
			Audience preference	10%	2000	/
			Social media	5%	1000	YouTube, TikTok (kr. ver)
 M! COUNTDOWN	MNET	18:00, Thursday	Section	Percentage	Score	Source
			Digital (Streaming + Downloads)	45%	4500	Melon, Genie, FLO
			Retail sales	15%	1500	Hanteo Chart
			Broadcasting	10%	1000	The frequency of its uses in TV station
			SNS	15%	1500	YouTube
			Pre-voting	15%	1500	Official website, Voting app: Whosfan
Real-time voting	10%	1000	/			

Figure 3. 4 Scoring Rules of Six Major Music Programs (Designed by Chestnut)<sup>93</sup>

Second, social media is the main battlefield where marketing promotions have been made by agencies and k-pop artists can have direct interaction with audiences.

Internationally popular social media platforms, such as Instagram, Facebook, and Twitter, are widely used by Korean agencies to approach global k-pop fans. Other

<sup>93</sup> KBS WORLD TV, ‘KBS MUSIC BANK’, KBSWORLD, 2022, [https://kbsworld.kbs.co.kr/program/view.php?pg\\_seq=10](https://kbsworld.kbs.co.kr/program/view.php?pg_seq=10); SBS, ‘SBS 인기가요’, SBS, 2022, <https://programs.sbs.co.kr/enter/gayo/main>; MBC PLUS, ‘Show Champion Introduction’, 2022, <https://www.mbcplus.com>; MBC, ‘Show! Music Core | A Good Friend to Meet MBC’, 2022, <https://program.imbc.com/musiccore/>; MWAVE, ‘World’s No.1 K-POP Chart Show, M COUNTDOWN | Mwave’, 2022, <https://www.mwave.me/en/mcountdown>; SBS, ‘더 쇼 (THE SHOW)’, SBS, 2022, <https://programs.sbs.co.kr/mtv/theshow/main>.

than that, some local-made social media channels have also been developed to adapt to the fandom economy. Fan café, V Live, and Weverse are three of the most frequently used platforms. Fan cafés are forums where entertainment firms share official information and events of k-pop artists with followers and fans can interact with their favorite idols. Usually, to become an official member of a fan café, fans must also pay a membership fee. Most fan cafés are operated on *Daum Café*—a web portal owned by KAKAO Corporation, which is one of the Korean conglomerates focusing on mobile services. V Live provides live video streaming services that allow k-pop artists to broadcast live videos, such as live chat sessions with fans and reality shows (see Figure 3.5). It was initially launched by NAVER Corporation and transferred to HYPE Corporation's subsidiary—Weverse Company, this year, which also owns another famous virtual fan community Weverse (see Figure 3.6). It is free to use V Live and Weverse, but the artists' exclusive content and limited merch that are only available for paid members.

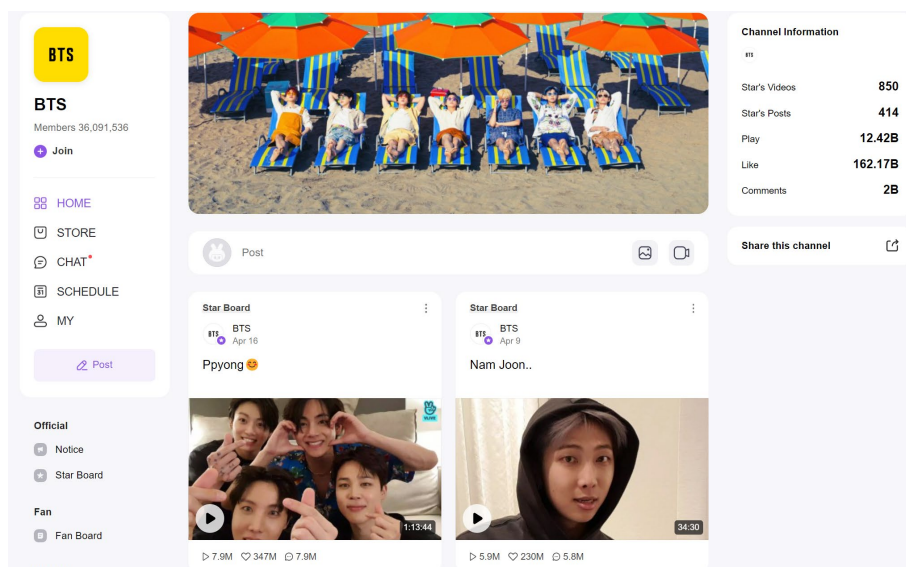


Figure 3. 5 BTS's Channel on V Live<sup>94</sup>

<sup>94</sup> V Live, 'BTS Channel', 2022, <https://www.vlive.tv/channel/FE619>.

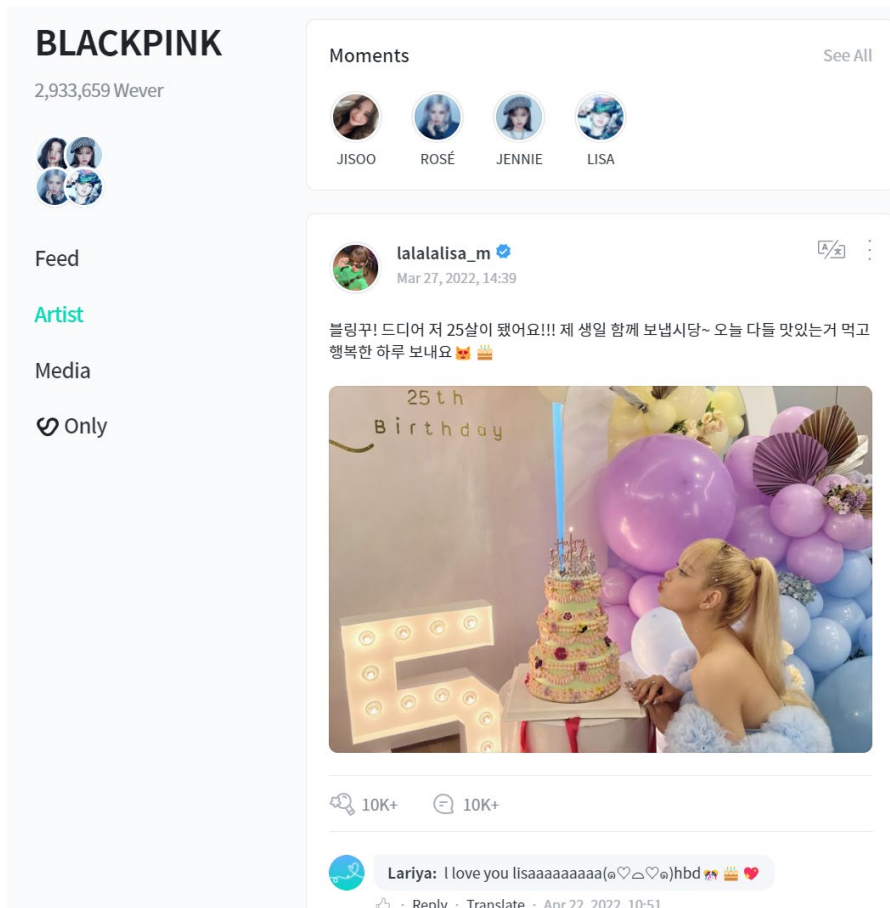


Figure 3. 6 BLACKPINK's Channel on Weverse Where Special Contents are Posted for Fans<sup>95</sup>

Third, agencies often hold live events, such as album signings, fan meetings, concerts, and charitable activities, to have in-person interaction with audiences. In most cases, the entrance to these live events is not free of charge and depends on fans' "luck," especially for those popular k-pop artists. A lottery mechanism is usually applied to selecting the final participants of events. For instance, the possibility of winning a ticket to an album signing depends on how many albums a fan buys; in other words, the more albums a fan buys, the more lottery tickets he/she has in the pool, and the larger the chance he/she gets to be selected. This is a "disguised encouragement" to push fans spend more money on albums and improved the sales of retail. Fourth, attending award ceremonies is another path for artists' marketing promotion and exposure increase. There are many award ceremonies in South Korea to praise and honor those k-pop artists who have gained extraordinary achievements in the past year,

<sup>95</sup> Weverse, 'BLACKPINK's Official Page on Weverse', 2022, <https://www.weverse.io>.



such as the Mnet Asia Music Award (MAMA), Melon Music Award (MMA), and Gaon Music Award (GMA). The popularity and achievements of k-pop artists have been examined and "visualized" through these trophies. With the worldwide boom in recent years, some k-pop artists have been nominated or awarded by foreign mainstream ceremonies, such as Grammy Awards, American Music Awards (AMA), and Japan Record Award.

### ***3.1.4 Consumption***

When the flow goes to the final consumption stage in the value chain, where end-users and target audiences get the intake of various k-pop content from the distribution and marketing activities in the previous nodes and through diverse channels, a large amount of economic value is created. With the globalization of k-pop, its consumers are no longer limited to Korean and East Asian audiences—it also attracts lots of fans from other regions on different continents. The number of revenues generated by k-pop has kept going up, and its strengths in cultural export has also been gradually deepened (this will be explained in details in the “margin” section).

Moreover, other than the identity of cultural consumers, k-pop audiences are also the “wind vanes” of the market that release the signal of which kind of music and idols are preferred and directly influence the decision-making in the level of entertainment agencies. In other words, they are content experts leveraged as co-creators by agencies’ talent acquisition and idol packaging to ensure the success of productions before k-pop artists are placed in the marketplace.<sup>96</sup> This is what we call market feedback, which has usually be gained through market research conducted by either the market department of agencies or professional third-party firms.

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<sup>96</sup> Yilu Liang and Wanqi Shen, ‘Fan Economy in the Chinese Media and Entertainment Industry: How Feedback from Super Fans Can Propel Creative Industries’ Revenue’, *Global Media and China* 1, no. 4 (December 2016): 331–49, <https://doi.org/10.1177/2059436417695279>.

## 3.2 Margin

The profit margin of the k-pop industry value chain refers to the revenues and benefits led to by primary value activities. It is especially evident in two aspects: one is the economic values generated by the k-pop industry through fandom economy and cultural export, and the other is its undeniable enormous functions as an instrument for cultural diplomacy.

### 3.2.1 Measuring the Economic Success of K-pop

Despite a population of about 51 million, which merely ranks 29<sup>th</sup> among all the countries, South Korea is the 7<sup>th</sup> largest music market worldwide and the 3<sup>rd</sup> largest in Asia after Japan and China as of 2021.<sup>97</sup> The nation has expressed the great potential of adding economic values through the music industry and achieved outstanding grades in both output and consumption of local music content. Figure 3.7 presents an overview of Korean music industry, including factual data concerning the numbers of companies and employees in the music industry, domestic sales revenues, added value, export and import volumes, and their growth rates from 2010 to 2020, which were released by Korea Creative Content Agency (KOCCA)—a government affiliate that oversees and coordinates the promotion of the Korean content.<sup>98</sup> According to KOCCA, the segments calculated within the Korean music industry consist of music production, publication, reproduction and distribution of recorded music, record wholesale and retail, online music distribution, music performance, and the operation of karaoke. Except for the year 2020, when the pandemic broke out, most indicators had shown a steady upgoing trend in the past decade, proving the rising value-creation capability of the Korean music industry.

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<sup>97</sup> International Federation of the Phonographic Industry, 'Global Music Report 2022' (IFPI, 2022); World Population Review, 'South Korea Population 2022 (Demographics, Maps, Graphs)', 2022, <https://worldpopulationreview.com/countries/south-korea-population>.

<sup>98</sup> Korea Creative Content Agency, 'Contents Industry Survey', 2022, [https://www.kocca.kr/cop/bbs/list/B0158948.do?searchCnd=&searchWrd=&cateTp1=&cateTp2=&useAt=&menuNo=203778&categorys=0&subcate=0&cateCode=&type=&instNo=0&questionTp=&uf\\_Setting=&recovery=&option1=&option2=&year=&categoryCOM062=&categoryCOM063=&categoryCOM208=&categoryInst=&morePage=&delCode=0&qtp=&pageIndex=1](https://www.kocca.kr/cop/bbs/list/B0158948.do?searchCnd=&searchWrd=&cateTp1=&cateTp2=&useAt=&menuNo=203778&categorys=0&subcate=0&cateCode=&type=&instNo=0&questionTp=&uf_Setting=&recovery=&option1=&option2=&year=&categoryCOM062=&categoryCOM063=&categoryCOM208=&categoryInst=&morePage=&delCode=0&qtp=&pageIndex=1).

Year	GDP (one million KRW)	Company No.	Employee No.	Domestic Sales (one trillion KRW)	Contribution of Music Industry to GDP	Sales Growth Rate	Added Value (one trillion KRW)	Export (one million U.S.D.)	Import (one million U.S.D.)
2010	1,322,611,200	37,634	76,654	2.96	0.23%	7.97%	1.14	83.26	10.34
2011	1,388,937,200	37,774	78,181	3.80	0.29%	28.38%	1.60	196.11	12.54
2012	1,440,111,300	37,116	78,402	3.99	0.30%	5.00%	1.66	235.10	12.99
2013	1,500,819,200	36,863	77,456	4.28	0.31%	7.27%	1.70	277.33	12.96
2014	1,562,929,000	36,535	77,637	4.61	0.32%	7.71%	1.76	335.65	12.90
2015	1,658,020,400	36,770	77,490	4.98	0.33%	8.03%	1.81	381.02	13.40
2016	1,740,779,600	37,501	78,393	5.31	0.34%	6.63%	1.91	442.57	13.67
2017	1,835,698,300	36,066	77,005	5.80	0.35%	9.23%	2.04	512.58	13.83
2018	1,898,192,600	35,670	76,954	6.10	0.36%	5.17%	2.10	564.24	13.88
2019	1,924,498,000	34,145	77,149	6.81	0.40%	11.64%	2.17	756.20	13.77
2020	1,933,152,400	33,138	65,464	6.06	0.36%	-11.01%	1.98	679.63	12.15

Figure 3. 7 Quantitative Achievement in Korean Music Industry (2010-2020)<sup>99</sup>  
(Organized by Chestnut)

For domestic sales revenues, it increased by 105% from 2010 to 2020, 62% higher than the GDP growth rate in the same period, indicating the rapid expansion of the Korean music industry and its booming added value (see Figure 3.8). Compared with a counterpart of a similar market size in the global north, for example, France, who ranks the 5<sup>th</sup> on the list of the largest music markets issued by the IFPI, the revenues generated by South Korea are much bigger. The sales revenue of French music market was 749 million Euros in 2010 (equivalently 1123 billion Korean won) and 883 million Euros in 2020 (equivalently 1188 billion Korean won), with a growth rate of approximately 6% in ten years.<sup>100</sup> To further measure how successful and rapid the development of Korean music, it is necessary to compare the GDP of South Korea and France (see Figure 3.9): in 2010, France made U.S.D. 2.643 trillion, while South Korea only achieved U.S.D. 1.144 trillion— about 43% of France’s GDP; in 2020, France had U.S.D. 2.603 trillion and South Korea had U.S.D. 1.631 trillion—about 63% of France’s GDP. When the distance between the economic size of both countries has been shortened, the revenues created by the music industry have displayed an

<sup>99</sup> The Word Bank, ‘GDP - Korea, Rep. | Data’, 2022, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=KR>; KOCCA, ‘2020 Content Industry Statistics’ (Korea Creative Content Agency, 2021), 103.

<sup>100</sup> Statista, ‘Music Industry Revenue in France 2009-2013’, Statista, accessed 6 May 2022, <https://www.statista.com/statistics/448109/music-industry-revenue-france/>; MURRAY STASSEN, ‘France’s Recorded Music Market Generated Revenues of \$883m in 2020’, Music Business Worldwide, 17 March 2021, <https://www.musicbusinessworldwide.com/frances-recorded-music-market-generated-revenues-of-883m-in-2020/>.

enlarged gap: in 2010, South Korea’s music revenues was 263% of the France’s; in 2020, this number became 511%. From such a comparison, we can see the exponential growth of the Korean music industry. Meanwhile, the added value in Korean music industry, which means the difference between the final sales price and the production cost, has maintained a stable appreciation rate over the past years, revealing its increasing profit margin and positive development insights. Besides, the growing added value also indicates its rising contribution to the national GDP: from 2010 to 2020, the contribution of music industry to GDP [(domestic sales + export) / GDP] changed from 0.2317% to 0.3584%.

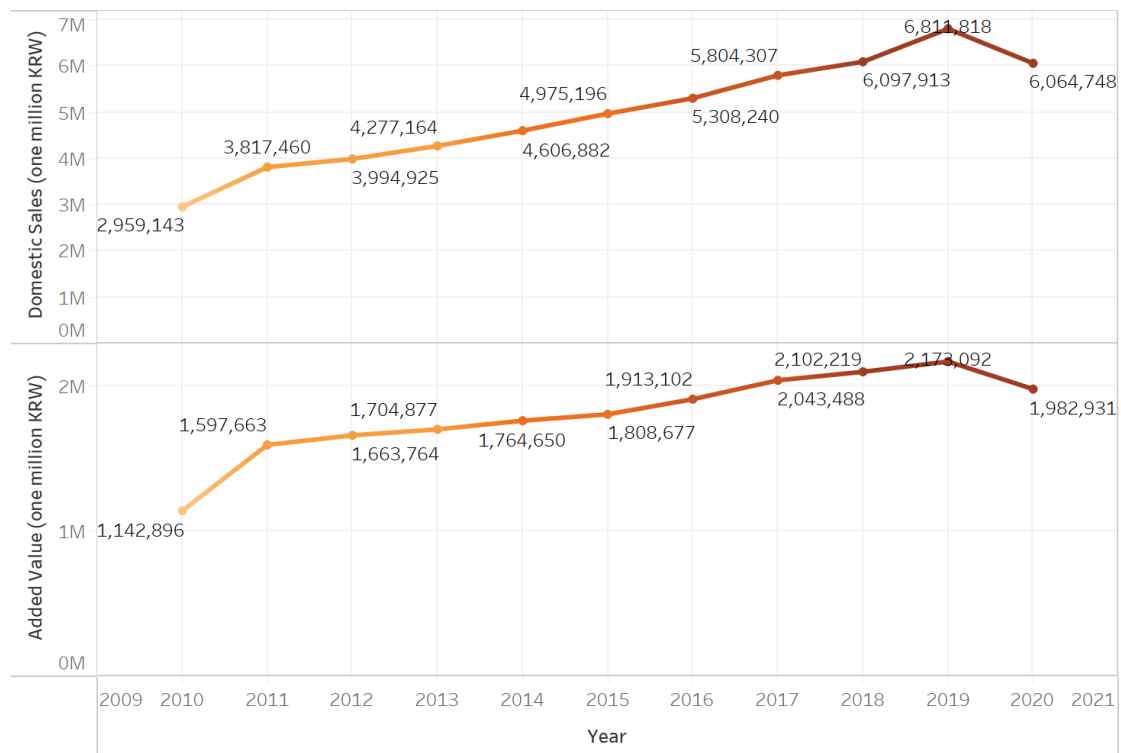


Figure 3. 8 Domestic Sales and Added value of Korean Music (2010-2020)<sup>101</sup>

<sup>101</sup> KOCCA, ‘2020 Content Industry Statistics’, 103.

Year	Country	GDP (Trillion U.S.dollar)	Revenues of music industry (million KRW)
2010	South Korea	1.144	2959143
	France	2.643	1123283
2020	South Korea	1.631	6064748
	France	2.603	1187962
Growth Rate	South Korea	42.57%	104.95%
	France	-1.51%	5.76%

Figure 3. 9 Comparison between the Korean Music Industry and French Music Industry (2010-2020)<sup>102</sup>

Although the ratio seems much tinier than in other sectors such as manufacturing, finance and insurance, its role in creating economic values has improved, and most importantly, the Korean music industry, especially k-pop, has expressed excellent potential to impose powerful ripple effects. Official estimates tell that k-pop produces around \$10 billion in revenue for the country each year, distributed not only in music sales but also in other unrelated departments like tourism, consumption and export of Korean brands across all kinds of products, etc.<sup>103</sup> The most convincing case is the Korean product endorsement by k-pop idols. Usually, a brand announces it collaborates with a particular k-pop idol or group as the latter becomes either a “brand ambassador” or a “friend of the brand,” takes CF (commercial film) for the brand, and attends commercial events, etc., to publicize and promote the products and brands. Their endorsements are incredibly influential in the sense of reaching out to and motivating a broader group of consumers (most of them are the fans of these k-pop celebrities) to spend money on the products. A survey investigating the main reasons why Korean consumers use Korean beauty products over others shows that 11% of respondents used the Korean ones due to the endorsement of their favorite celebrities (see Figure 3.10); in another survey focusing on the worldwide popularity of Korean beauty products, about 18% users said their consumption was because of the

<sup>102</sup> The Word Bank, ‘GDP (Current US\$) - France | Data’, 2022, <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=FR>; STASSEN, ‘France’s Recorded Music Market Generated Revenues of \$883m in 2020’; Statista, ‘Music Industry Revenue in France 2009-2013’.

<sup>103</sup> Paulina Sajnach, ‘The Impact of K-Pop on the South Korean Economy’, 22 January 2021, <https://www.asiascot.com/news/2021/01/22/the-korean-wave-from-psy-to-bts-the-impact-of-k-pop-on-the-south-korean-economy/>.

advertisement or use by celebrities (see Figure 3.11).<sup>104</sup> For instance, the eight-year collaboration between EXO and the local cosmetic brand Nature Republic had brought tons of dollars in revenue for the latter and helped its profits increase by at least six times.

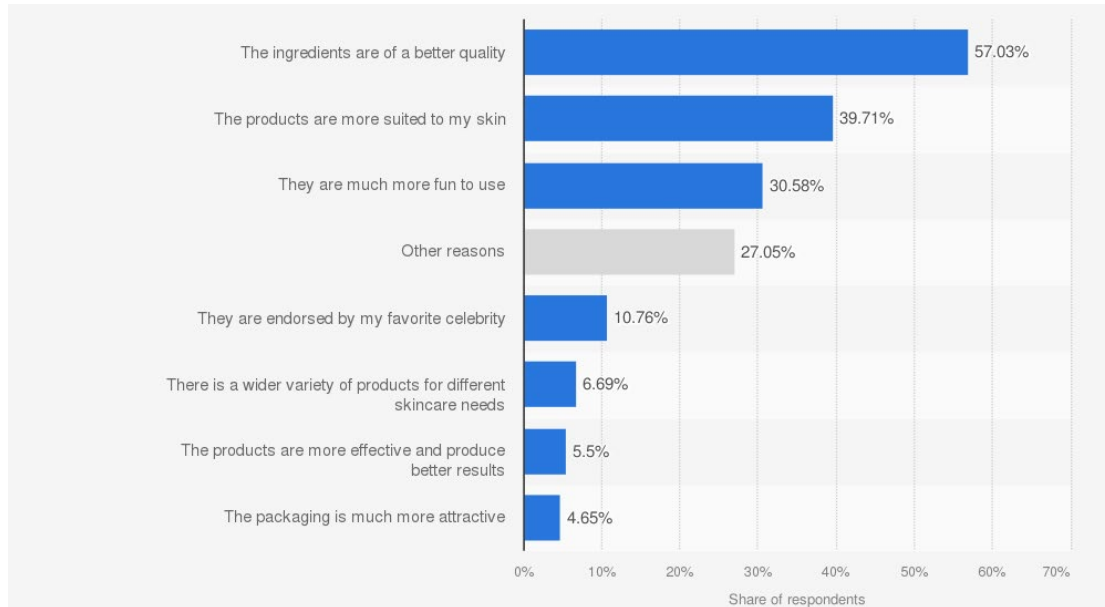


Figure 3. 10 Main Reasons to use Korean Beauty Products over Others among Korean Consumers<sup>105</sup>

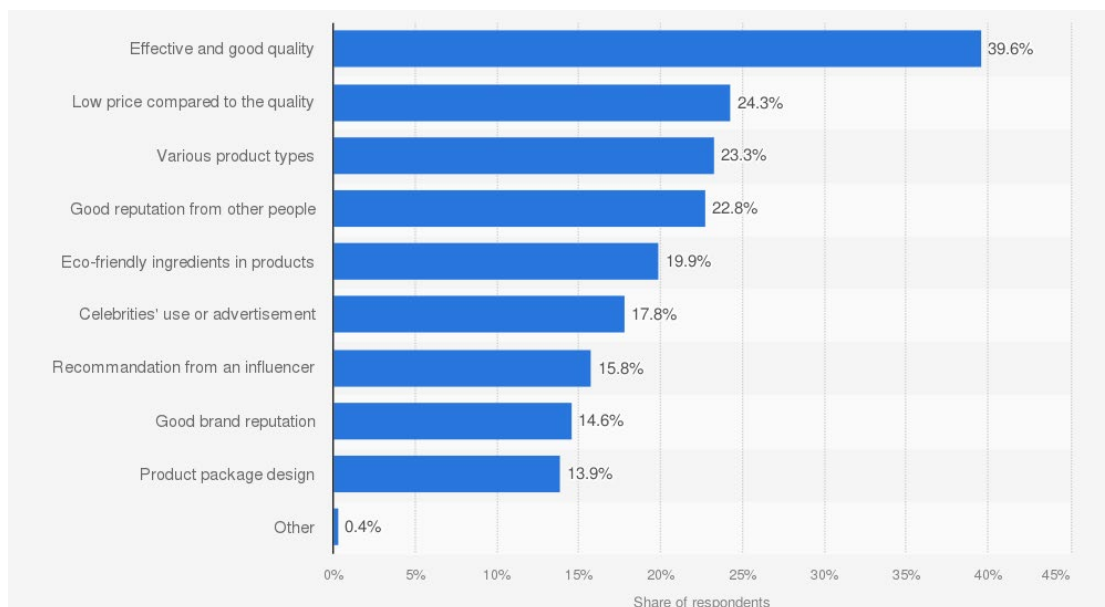


Figure 3. 11 Main Positive Aspects for Consumers' Impression over Korean Beauty Products

<sup>104</sup> Korean Foundation for International Cultural Exchange and Ministry of Culture, Sports and Tourism, '2022 Study on Hallyu Overseas', 2022; Rakuten Insight and Statista, 'South Korea: Main Reasons to Use Korean Beauty Products 2021', 2021, <https://www.statista.com/statistics/1041581/south-korea-main-reasons-to-use-korean-beauty-products/>.

<sup>105</sup> Rakuten Insight and Statista, 'South Korea'.

Moreover, the example of BTS as the global ambassador of Hyundai Motor Company can support the storytelling of adding value through endorsement as well: in early 2019, BTS was chosen as the endorsement model for Hyundai's new SUV *Palisade* (see Figure 3.12), which went beyond Hyundai's expectations and led to the skyrocketing order demands—if a customer put the order, he would wait for at least six months before receiving the car.<sup>107</sup> Other well-known cases include the collaboration between BlackPink and Samsung, EXO and LOTTE, IU and Haiteu Jinlo (one of the most famous Korean soju brands), etc. Other than the endorsement of local brands, international luxury brands have also sensed the tremendous value of k-pop and kept inviting prestigious k-pop artists to be their brand ambassadors. Figure 3.13 presents the selected collaboration between k-pop idols and luxury brands and showcases how many potential views they have attracted via Instagram posts, and how much media value they have earned for the brands. Taking BlackPink's Lisa for example, she is thought to be the k-pop idol who has created the highest media earnings for the brands. She became the brand muse for Celine in 2019 and has acted as the official global ambassador since September 2020; from January 2020 to June 2021, Lisa shared 54 Instagram posts about Celine in total, bringing approximately 2.7 million impressions and generating U.S.D. 80.9 million.<sup>108</sup> Consequently, taking advantage of the influential monetary power of k-pop has gradually induced more and more brands and companies to integrate k-pop elements (music, celebrities, etc.) in their marketing and sales strategies.

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<sup>106</sup> Korean Foundation for International Cultural Exchange and Ministry of Culture, Sports and Tourism, 'South Korea', 54.

<sup>107</sup> Koreaboo News, 'BTS's Endorsement Was So Powerful That Hyundai Is Literally Struggling To Keep Up With Demand', *Koreaboo* (blog), 20 February 2019, <https://www.koreaboo.com/news/bts-hyundai-palisades-demand-struggle/>.

<sup>108</sup> Condé Nast, 'Forget Hollywood. There's a New Global Brand Ambassador', *Vogue Business*, 24 May 2021, <https://www.voguebusiness.com/companies/forget-hollywood-new-global-luxury-brand-ambassadors-bts-blackpink>.



Figure 3. 12 BTS Endorsed for Hyundai's SUV *Palisade*<sup>109</sup>

K-pop Artist	Brand	Period	Impressions via Instagram (million)	Estimated Monetary Value (million U.S. dollars)
Irene ( Red Velvet)	Prada	Sep. 2020 - Jun. 2021	65	1.98
Aespa	Givenchy	Feb.2021 - Jun.2021	84.1	2.52
Chanyeol (EXO)	Prada	Sep. 2020 - Jun. 2021	89.5	2.71
G-Dragon	Chanel	Jan.2020 - Jun.2021	164	4.92
Kai (EXO)	Gucci	Jan.2020 - Jun.2021	349	10.5
Jennie (BLACKPINK)	Chanel	Jan.2020 - Jun.2021	944	28.4
Rosé (BLACKPINK)	Saint Laurent	Jun.2020 - Jun.2021	1850	56
Jisoo (BLACKPINK)	Dior	Mar.2021 - Jun.2021	2150	64.8
Lisa (BLACKPINK)	Celine	Jan.2020 - Jun.2021	2700	80.9

Figure 3. 13 Impressions and Monetary Values Created by Selected K-pop Artists for Luxury Brands via Instagram Posts<sup>110</sup>

Another sector that significantly benefits from the boom of k-pop and Hallyu is tourism. Korean Tourism Organization (KTO) released a survey on reasons why foreign tourists visit South Korea, and 13% of respondents said their travels to South Korea were influenced by k-pop and Hallyu (see Figure 3.14).<sup>111</sup> A simple calculation

<sup>109</sup> Koreaboo News, 'BTS's Endorsement Was So Powerful That Hyundai Is Literally Struggling To Keep Up With Demand'.

<sup>110</sup> Nast, 'Forget Hollywood. There's a New Global Brand Ambassador'.

<sup>111</sup> Korea Tourism Organization and Statista Research Department, 'South Korea: Travel Reasons for Tourists 2019', Statista, 2021, <https://www.statista.com/statistics/1134877/south-korea-travel-reasons-for-tourists/>.



is thus needed to help understand the economically powerful branding strengths of k-pop. Figure 3.15 displays the number of tourists and tourism revenues in South Korea from 2010 to 2021. In general, the data shows the steadily increasing popularity in traveling to Korea and delivers a positive signal for Korean tourism, except for the decrease in 2017 when the Chinese government discouraged its citizens from visiting South Korea due to military disputes and that in 2020 and 2021 when travel bans were placed due to coronavirus. In 2019, the number of tourists and tourism revenues reached a new peak: 17.5 million people visited South Korea and U.S.D. 20.74 billion receipts were earned. Suppose we apply 13%-- the percentage of respondents who traveled to Korea due to k-pop and Hallyu—to the analysis, we will get rough numbers of tourists coming for and revenues resulting from k-pop and Hallyu: 2.3 million tourists and U.S.D. 2.7 billion earnings covering hospitality, transportation, travel facilitation and information, and attractions and entertainment. And in recent years, some k-pop artists have been appointed by the official departments as the ambassador of either regional or national tourism to promote the local tourism development, such as BTS (the city ambassador of Seoul), ITZY and Brave Girls (honorary ambassadors for Korean tourism). Korean tourism is highly endorsed by k-pop idols and groups, and the combination of Korean pop music and tourism provides a new powerful method for bringing money into the country's economy.

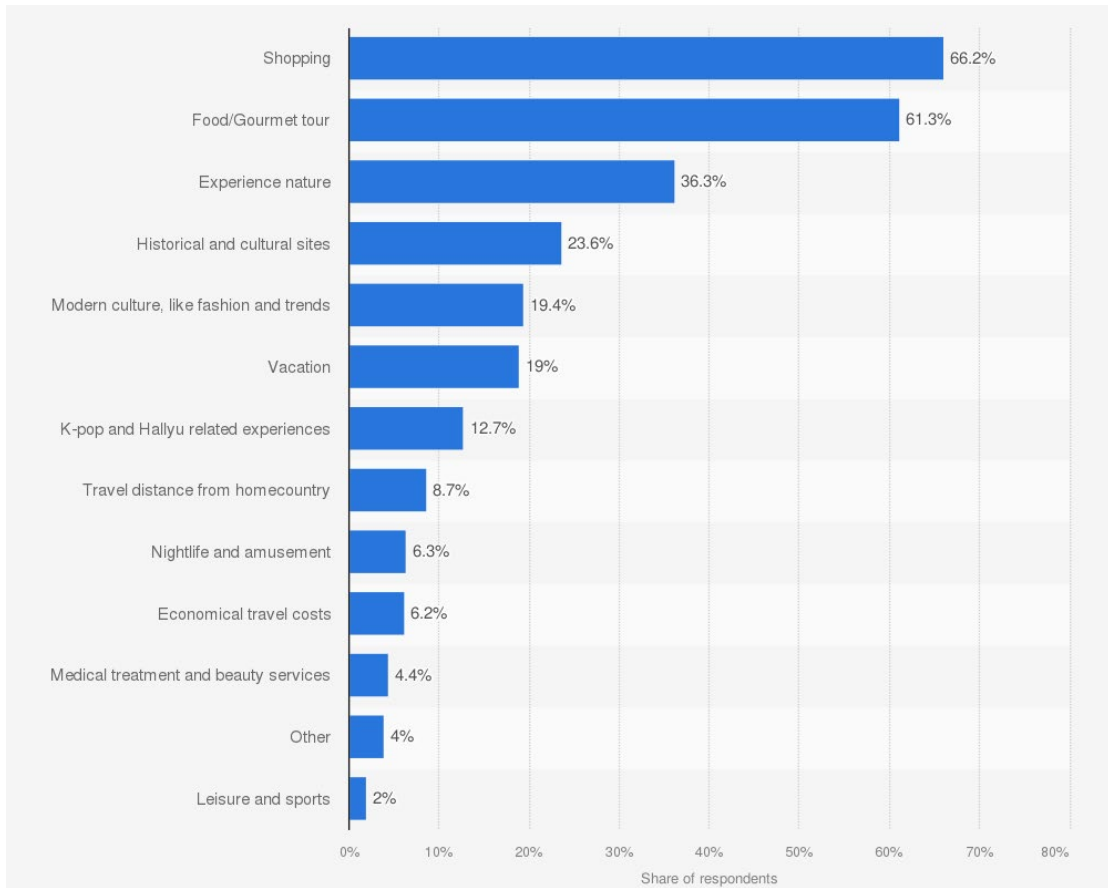


Figure 3. 14 Survey Results on Reasons Why Tourists Chose to Visit South Korea in 2019<sup>112</sup>

<sup>112</sup> Ibid.

Year	Visitors (million)	Revenues (billion U.S. D.)
2010	8.8	10.23
2011	9.79	12.23
2012	11.14	13.2
2013	12.18	14.29
2014	14.2	17.34
2015	13.23	14.68
2016	17.24	16.75
2017	13.34	13.26
2018	15.35	18.46
2019	17.5	20.74
2020	2.52	10.18
2021	0.97	10.28

Figure 3. 15 Number of Tourists and Revenues of Korean Tourism from 2010 to 2021<sup>113</sup>

The export volume of Korean music content is appealing as well. From 2010 to 2020, the export volume increased from 83.26 million U.S.D. to 679.63 million U.S.D. at a growth rate of 716%. Top destinations include the United Kingdom, United Arab Emirates (UAE), United States, China, France, Japan, Brazil, etc. Compared with the first decade of the 21st century, Korean music content has been spread to more regions across the border and influenced an increasing number of foreigners. Albums, photobooks (PBs) and other k-pop merchandise, overseas concerts, etc., are all considered part of music export. Figure 3.16 shows the amount of monthly time and money spent on k-pop by audiences worldwide, and the highest spending can reach

<sup>113</sup> Korea Tourism Organization and Statista Research Department, 'South Korea: Tourism Receipts 2010-2021', Statista, 2022, <https://www.statista.com/statistics/1133316/south-korea-tourism-receipts/>.

38.5 hours and U.S.D 25.3 on consuming k-pop content per month. The average monthly amounts of time and money spent on k-pop are 26.8 hours (about one hour every day) and U.S.D.11.06, and these numbers will keep going up with the fast pace of k-pop's globalization. Among all the countries, audiences from UAE have spent not only lots of time but substantial money on k-pop, proving k-pop's popularity in the Middle East. Meanwhile, if we take a close look at the import volume during the same period, we can find that the import has experienced only a tiny increase and the gap between it and export has been enlarged year after year (see Figure 3.17). This gap implies a trade surplus in music goods and services and a decrease in demands for exotic music content. In the past, due to the relative scarcity of local cultural products, South Korea heavily relied on imported foreign cultural content. But with the continuous rise of Hallyu, the situation has changed dramatically. The competitiveness of the Korean creative and cultural industry has become more robust, reducing the trade deficit and improving Korea's trade balance. It is widely believed that the trade balance of Korean music products and services will continue to maintain a surplus, and the booming global popularity of k-pop will also help increase the consumption of Korean products and improve the international image of Korean products, thereby stimulating a substantial increase in export sales.

Country	Time spent on k-pop per month (hour)	Money spent on k-pop per month (U.S. dollars)
Japan	15.6	4.3
France	18.5	12.7
Argentina	19.9	2.8
South Africa	21.6	12.6
UK	21.6	25.3
Brazil	22.9	6
Australia	24.2	17
Taiwan	24.4	6.2
United States	24.9	22.5
China	26.6	14.9
Turkey	27.5	7.8
Malaysia	31.5	8.7
India	34.8	12.7
Indonesia	35.1	3.7
Thailand	35.1	10.8
UAE	35.6	24.8
Vietnam	38.5	4.3
<b>Average</b>	<b>26.8</b>	<b>11.06</b>

Figure 3. 16 Time and Money Spent on k-pop by Audiences Worldwide (2021)<sup>114</sup>

<sup>114</sup> Korean Foundation for International Cultural Exchange and Statista Research Department, 'South Korea: Monthly Spending on K-Pop by Country 2021', Statista, 2022, <https://www.statista.com/statistics/1107598/south-korea-monthly-spending-on-kpop-by-country/>; Korean Foundation for International Cultural Exchange and Statista Research Department, 'South Korea: Monthly Time Spent for K-Pop by Country 2021', Statista, 2022, <https://www.statista.com/statistics/1107610/south-korea-monthly-time-spent-for-kpop-by-country/>.

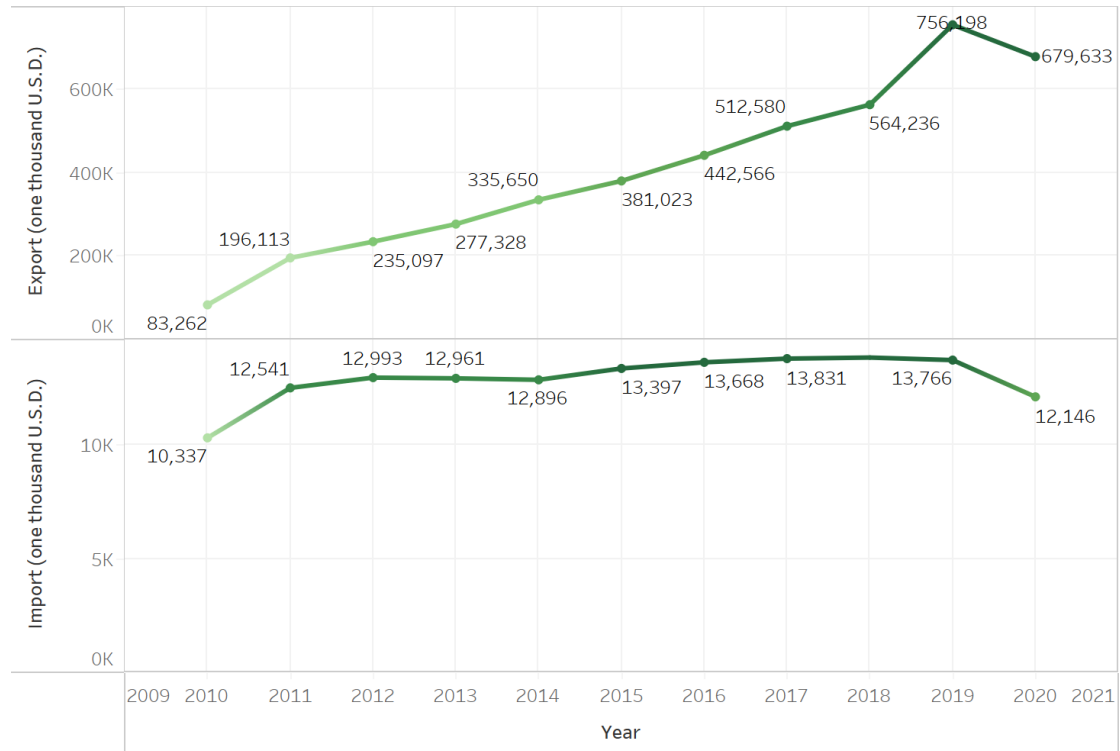


Figure 3. 17 Export and Import Volume of Korean Music (2010-2020)<sup>115</sup>

The unexpected soaring consumption of k-pop worldwide gives credit to the enormous economic potential of fandom, which has ignited the so-called “fandom economy.” Fandom has long been used to describe peoples’ state of being a fan (of someone or something) and it is an example of participatory cultures where fans act not only as consumers but also as producers and creators.<sup>116</sup> Scholars have proposed many possible explanations to make sense of fandom, among which the most well-known one is the para-social interaction. It refers to peoples’ illusion of face-to-face relationship with the performers and is frequently adopted to analyze the relationship between audiences and performers on the TV.<sup>117</sup> Product placement and celebrity endorsement are convincing examples as they provide “opportunities” for fans to use the same products with their favored idols. From the business scope, understanding fans and fandom is a crucial precondition to the k-pop industry since it supports

<sup>115</sup> KOCCA, ‘2020 Content Industry Statistics’, 103.

<sup>116</sup> Henry Jenkins, *Confronting the Challenges of Participatory Culture: Media Education for the 21st Century* (The MIT Press, 2009), <https://doi.org/10.7551/mitpress/8435.001.0001>.

<sup>117</sup> Donald Horton and R. Richard Wohl, ‘Mass Communication and Para-Social Interaction: Observations on Intimacy at a Distance’, *Psychiatry* 19, no. 3 (1956): 215–29.

product innovation and development and stimulates the target audiences' consumption more efficiently. Fans' worship of k-pop artists motivates them to become the major driving force in the consumption of k-pop products and services, reflected in their various creative activities aiming at publicizing and supporting celebrities. It generates niches for the commodification and commercialization of k-pop artists by game players in the entertainment industry. This can be seen in primary value activities mentioned above in the k-pop industry value chain analysis, such as buying a large quantity of albums in exchange for one ticket to live events and increasing the possibility of their favorite k-pop artists to win the 1<sup>st</sup> place in the music programs.

In general, when talking about the k-pop culture and the fandom around it, it is impossible to skip "the elephant in the room" or, to put it straightforwardly, issues of cultural commodity and consumption.<sup>118</sup> Seldom has other popular music ever shown such a strong connection with cultural commodity as has been accomplished by k-pop. And considering its exceptionally robust capability in commodifying a wide array of other cultural (music and derivative products like albums and photobooks) or non-cultural goods (i.e., endorsed commercial goods) by using k-pop artists as "pseudo avatars," k-pop can sometimes be regarded as "meta-commodity." K-pop fans applaud these spinoff products manufactured by Korean conglomerates no matter whether they like or need them or not and easily give in to the seductive allure of the cosmetic, fashion, gastronomic, and digital items endorsed by "beloved idols." These niches and profits entailed in k-pop have thus appealed to many profit-driven and value-oriented conglomerates, which involve in each value activity of the industry via different channels. This will be further illustrated later in another section.

### **3.2.2 K-pop as a Cultural Instrument for Diplomacy**

Apart from the pivotal role in the nation's export-led creative economy, the k-pop

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<sup>118</sup> JungBong Choi and Roald Maliangkay, *K-Pop - The International Rise of the Korean Music Industry* (Routledge, 2014).

industry has been valued by government officials and utilized in the realm of politics as a cultural means for diplomacy. Since the end of the Cold War in the early 1990s, increasing attention has been paid to public diplomacy in formulating foreign policies due to the rising complexity of the interdependences among different civilizations and the emergence of information technologies. The mechanism of decision-making on foreign policy has undergone a transformation in contents, methodologies, and scopes, leading to a growing acceptance of Nye's notion of "soft power," which refers to the capacity to obtain what a country pursues through the attractiveness of its culture, political ideals, and policies instead of coercion or payments.<sup>119</sup> As opposed to hard power, soft power is highly likely to provoke "a more favorable public opinion and credibility abroad" through building relations with allies, economic assistance, and cultural exchanges.<sup>120</sup> Thus, cultural diplomacy has long been applied to practices as a "soft" means of strengthening national influence and promoting public diplomatic relationships. For instance, a tendency toward the tactics that embraced both an external (foreign policy) and an internal (country building) goal could be seen in Brazil's early attempts to map cultural ties that aimed at promoting its national image and reputation in North America, Europe, and Latin America. And the *Ping-pong Diplomacy* that aimed at improving the China-U.S. relation through the exchange of table tennis players in the early 1970s is also a well-known case of cultural diplomacy.

Although diverse efforts to enhance bilateral relations via state-level cultural exchanges have been practiced for a long time, the notion of "cultural diplomacy" has only been coined recently by Milton Cummings based on Nye's "soft power." As defined by Cummings, cultural diplomacy is the "exchange of ideas, information, art, language and other aspects of culture among nations and peoples in order to foster mutual understanding."<sup>121</sup> A more concrete definition given by the Institute for

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<sup>119</sup> Gunjoo Jang and Won K. Paik, 'Korean Wave as Tool for Korea's New Cultural Diplomacy', *Advances in Applied Sociology* 02, no. 03 (6 September 2012): 196, <https://doi.org/10.4236/aasoci.2012.23026>.

<sup>120</sup> Joseph S. Nye Jr., *Soft Power: The Means to Success in World Politics* (Public Affairs Books, 2005).

<sup>121</sup> Milton. C Cummings, *Cultural Diplomacy and the United States Government: A Survey* (Center for Arts and Culture, 2003).



Cultural Diplomacy describes it as an exchange of cultures and identities with the goal of strengthening relationships, enhancing socio-cultural cooperation, and promoting national interests, etc.<sup>122</sup> And it is feasible for either the public sector, private sector, or civil society to engage in cultural diplomacy through various actions. Lenczowski summarizes a list of tools of cultural diplomacy that includes arts, exhibitions, exchanges, educational programs, literature, language teaching, broadcasting, gifts, etc.<sup>123</sup>

K-pop, as a music resource of Korea's soft power, presents a significant potential for the Korean government to capitalize on newly emerging tools of cultural and public diplomacy to promote the country's cultural sparkle in an increasingly globalized world. As Korean scholar Lee Geun demonstrates, Hallyu contributes to Korea's soft power by helping with the manipulation of Korea's images, extension of Korean popular culture's network effect, and manufacturing globally influential celebrities.<sup>124</sup> Likewise, k-pop itself has shown such potential as well. First, k-pop's popularity worldwide has enabled a larger group of "outsiders" (i.e., people from other regions) to feel the infectant power and creative formats of Korean pop culture and created a favorable or at least less coercive country image. In the contemporary era where public opinions play a crucial role in modern politics, cultural affection such as k-pop has the capacity to prevent or reduce the aggressive bias about South Korea and the following misunderstandings and offensive actions and to cool down the "heats" of friction between countries. Consequently, a more friendly environment might be shaped to strengthen the national and its citizens' security since people would understand the country more comprehensively and objectively. K-pop's powerful momentum in the States and France are convincing examples.

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<sup>122</sup> Institute for Cultural Diplomacy, 'What Is Cultural Diplomacy? What Is Soft Power?', 2022, [https://www.culturaldiplomacy.org/index.php?en\\_culturaldiplomacy](https://www.culturaldiplomacy.org/index.php?en_culturaldiplomacy).

<sup>123</sup> John Lenczowski, 'CULTURAL DIPLOMACY, POLITICAL INFLUENCE, AND INTEGRATED STRATEGY', in *STRATEGIC INFLUENCE: PUBLIC DIPLOMACY, COUNTERPROPAGANDA AND POLITICAL WARFARE* (THE INSTITUTE OF WORLD POLITICS, 2008), 30.

<sup>124</sup> Lee, Geun, 'A Soft Power Approach to the "Korean Wave"', *The Review of Korean Studies* 12, no. 2 (2009): 123–37, <https://doi.org/10.25024/REVIEW.2009.12.2.006>.

Second, k-pop is extensively empowering a network effect. With the expansion of k-pop, other ideological and cultural recipes, such as Korean behavioral rules, consumer preferences, fashion, cuisine, and language, have been spread to the external world simultaneously. If the recipient countries embrace the Korean-style thinking and behavioral model and made-in-Korea products and services as positive for the economic, political, social, and cultural development taking place in the country, it can be expected that the Korean government, companies, and citizens would have a favorable environment for improving diplomatic relations, doing businesses, and exchanging with local people. For instance, despite the decrease of overall export, the export volume of Korean food reached USD 4.3 billion in 2020 at an increase rate of 14.6%.<sup>125</sup> Korean ramen, kimchi, rice cake are some representatives of the most exported food because they often appear as an “incorporated ingredient” in K-dramas, movies, and variety shows and are consumed by k-pop artists. Besides, according to Duolingo’s 2021 Language Report, Korean ranks the 7<sup>th</sup> popular language studied by people around the world and is the fastest-growing language in Brazil, France, Germany, India, and Mexico, and the second-fastest growing language in Japan.<sup>126</sup> And the number of participants of TOPIK (Test of Proficiency in Korean) had kept increasing and reached 376,000 in 2019.<sup>127</sup> Many people said their motivation of language learning began with the Hallyu or k-pop: they were attracted by Korean pop culture and wanted to know more about the country by learning Korean. And understanding Korean could help them read the lines and lyrics in K-dramas and k-pop songs or study/work in South Korea in the future.

Third, many celebrities have stood out from the k-pop and Korean Wave, and they are better able to capture the public attention than politicians since the latter have long

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<sup>125</sup> World Population Review, ‘South Korea Population 2022 (Demographics, Maps, Graphs)’.

<sup>126</sup> Cindy Blanco, ‘The 2021 Duolingo Language Report’, Duolingo Blog, 6 December 2021, <https://blog.duolingo.com/2021-duolingo-language-report/>.

<sup>127</sup> ‘All About TOPIK Test - The Complete Guide | TOPIK GUIDE - The Complete Guide to TOPIK Test’, 2022, <https://www.topikguide.com/topik-overview/>.

been negatively perceived due to various disgraceful acts (e.g., material and sex bribery, election fraud). The places where they show up, the information they deliver, the way they act, etc., -- namely, everything they do and say in public-- will have an influential impact on audiences. Supposing their deeds and words convey the universal values or the upright interpretations accordant with viewpoints of the majority, for example, advocating gender equality or calling for contribution to sustainability, they can improve their social reputation and status and positively influence the public's mindset and values. As the honorary ambassador for the United Nations' Sustainable Development Goals, BlackPink delivered a special speech for Google's "Dear Earth" event last October, where they reiterated the climate change issues and appealed for the protection of the earth and the environment. Echoing their favorite idols' advocacy, Blinks (the name of BlackPink's fans) have fundraised a large amount of money for better protecting earth and initiated different projects that apply their good wills to practice, such as planting trees and donating money to people or regions that suffer from climate change. Moreover, as discussed above, these k-pop stars can also help market and publicize other Korean cultures and commercial goods in their way, such as wearing Hanbok (traditional Korean attire) when attending events or integrating the classic elements into their modern fashion clothing, cooking or eating Korean food in reality shows, and endorsing certain Korean brands or products.

Over the past few decades, the Korean government has been dedicated to its state-sponsored and outward-exploring cultural policies, which are led by the Ministry of Foreign Affairs (MOFA) and the Presidential Council on Nation Branding (PCNB). Figure 3.18 depicts the efforts made by government departments to bolster cultural diplomacy from the central to the local. MOFA takes responsibility for implementing public diplomacy via various diplomatic policies and methods. In terms of cultural diplomacy, MOFA has established several affiliates and carried out many events to promote Korea's image, such as oversea exhibitions, strategic cultural exchange

promotion programs, Korea Week, and the K-Pop World Festival. PCNB, founded in 2009 to improve Korea's global image and justify exterior misconceptions about Korea, has been devoted to national branding by stimulating soft power. It is believed that the country would benefit from a better image abroad through branding because it could produce a positive impact on Korea's tourism, exports, political and diplomatic credibility, etc., in international stage. So, hand in hand with the Ministry of Culture, Sports and Tourism (MCST) and Korean Tourism Organisation (KTO), PCNB has made many attempts to drive the national branding project with the intergration of the essence that defined Korea as a emerging market and creative economy. Although it is not a easy task, k-pop and Hallyu, as a typical made-in-Korea global cultural commodity, have opened a new route for not only the government but enterprises, groups, and individuals that are engaged in the branding compaign, since they provide an inspiring method to communicate with younger audiences in and beyond Asia.

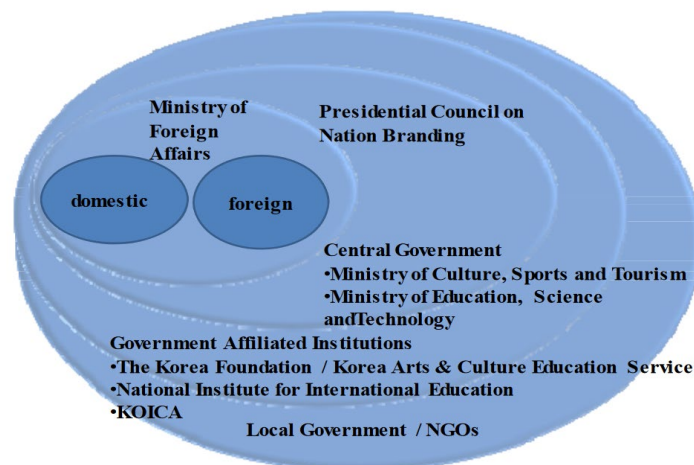


Figure 3. 18 Hierarchy Chart of Korean Cultural Diplomacy<sup>128</sup>

From Kim Dae-Jung to Moon Jae-In, former presidents had attached importance to cultural tools that can be utilized to enhance the national soft power after the 1997 AFC. For instance, Kim Dae-Jung (1998-2003) set up a special fund for the KOCCA - a government agency tasked with expanding Korean cultural products globally, cultivating human resources, implementing new technology, and nurturing entrepreneurial endeavors-- to support the development of creative industries,

<sup>128</sup> Jang and Paik, 'Korean Wave as Tool for Korea's New Cultural Diplomacy', 201.

including broadcasting, gaming, animation, films, music, fashion, etc.<sup>129</sup> While recognizing the strengths of both traditional and popular culture as a weapon of upgrading soft power for a better international image, the Roh Moo-hyun government (2003-2008) sought to elevate Korea's cultural industry for more substantial competitiveness in the global arena and to become the top 5 culturally powerful nation.<sup>130</sup> This pursuit was further developed by Lee Myung-Bak (2008-2013) through proposing the “nation-branding” scheme to beautify the image and achieve the goal.

In 2013, then-president Park Geun-Hye (2013-2017) proposed the initiative of a creative economy in South Korea to leverage its position as a leading innovator and further boost economic growth. The plan's implementation requires the stimulation of the productive potential in the private sector, especially Korea's third industry and small and medium enterprises (SMEs).<sup>131</sup> The "creative economy" is critical in unleashing the full productive potential of Korea's science, technology, innovation, and cultural ecosystems. As an essential component of the Korean creative industries, the Hallyu department, with k-pop included, ignite economic creativity from the cultural perspective. In 2014, Park delivered an opening speech on MAMA (Mnet Asian Music Awards)—a Korea-oriented music award ceremony hosted by CJ Group (one of the largest conglomerates in Korea), making MAMA the first major popular cultural event that the president attended.<sup>132</sup> Especially considering the ceremony was aired in 16 countries, Park's statement demonstrated the opulence of Korea's cultural and creative industries and their penetration into local communities. When it came to Moon Jae-In (2017-2022), he might be the most passionate president in taking advantage of k-pop as a political instrument for both political campaigns and external diplomacy. When Moon participated in the election in 2017, he intentionally chose

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<sup>129</sup> Mi Sook Park, 'SOUTH KOREA CULTURAL HISTORY BETWEEN 1960S AND 2012' (Second International Conference on Korean Humanities and Social Sciences - Language, Literature, Culture and Translation, Poland, 2014).

<sup>130</sup> Tae Young Kim and Dal Yong Jin, 'Cultural Policy in the Korean Wave: An Analysis of Cultural Diplomacy Embedded in Presidential Speeches', *International Journal of Communication* 10, no. 0 (28 October 2016): 21.

<sup>131</sup> OECD, 'KOREA: Policy Priorities for a Dynamic, Inclusive and Creative Economy'.

<sup>132</sup> Kim and Jin, 'Cultural Policy in the Korean Wave'.

TWICE's *Cheer Up* (one of the most famous k-pop hits) as his campaign song and changed its lyrics to promote his own presidential ideology and campaign promises. On some important diplomatic occasions, he often invited k-pop artists to accompany him, such as the visit to North Korea with Zico, the reception of the American delegation in Blue House with EXO, and the attendance at the UN General Assembly with the specially appointed envoys BTS. Besides, during Moon's tenure, the MCST specially established the Hallyu department to promote its global expansion. Moon's pro-kpop, or more precisely, pro-popular-culture attitude, partially contributed to his high approval rate among young Koreans.

### **3.3 Conclusion**

With a clear target at k-pop fans, major players involved in the different value activities of the k-pop industry have set multiple "game rules" to take advantage of fandom, maximize the cultural commodity, stimulate consumption, and eventually achieve monetization. From content creation, distribution, retail and OTT services, marketing, to final consumption, each spot has its unique operation mechanism and interacts with its upper- or downstream stage, building up an interlinked and well-developed industrial chain.

As a whole, the k-pop industry has created substantial values pursued by players and made incredible qualitative and quantitative achievements. The most outstanding one should be k-pop's economic success. As a music industry by nature, k-pop itself has produced massive revenues at a skyrocketing speed and made a rising contribution to the national creative economy. Meanwhile, k-pop has empowered ripple effects on other sectors and businesses through celebrity endorsement, city branding with k-pop artists becoming tourism ambassadors, and other influential means, encouraging more people to consume Korean cultural and commercial goods, and visit Korea (thus help with the Korean tourism), etc. Furthermore, the extraordinary performance of k-pop in the export sector helps the Korean music industry achieve a trade surplus, reducing its dependence on imported music content and revealing k-pop's

considerable competitiveness in the global music market. K-pop's export-oriented characteristics thus aligns with the country's outward-looking economic policies and Korean conglomerates' focus and efforts in export.

Other than the economic values, k-pop also exhibits strong potential in diplomacy as a cultural instrument used by politicians. K-pop is seen as a music source of Korea's soft power by manipulating country images, empowering a network effect, and manufacturing globally influential celebrities. Through k-pop, a deeper and unbiased understanding of Korean society, culture, and ideology has been cultivated among people in other countries, which in turn promotes Korea's national branding and mutual exchanges with other countries in multiple domains, such as politics, business, and education. Thus, k-pop gains notable support from the Korean government who has made many efforts to promote Hallyu and k-pop (e.g., establishing special government departments and holding various events). And former presidents mentioned and showed support for k-pop in public several times and brought k-pop artists with them on significant diplomatic occasions.

Therefore, it can be argued that k-pop becomes a new breakthrough point for market players (both "professional" and "amateur") to pursue value creation and reinforce or improve the state-firm relations (which in turn will also help add value to the companies). And a better state-firm relationship is what Korean conglomerates, especially chaebols, strive to build. In the following chapter, the unique tie between the Korean government and conglomerates and how it has changed will be introduced with the history of the latter to address its necessity to involve in the cultural and creative industries. Furthermore, the diversification methods they have taken to engage in the k-pop industry will also be through the case study of selected conglomerates.

## **Chapter 4 The Engagement of Korean Conglomerates in the K-pop Industry**

South Korea used to be one of the poorest countries in the world in the 1950s. However, in the following decades, with the emergence, expansion, and globalization of Korean conglomerates, the nation created the “Miracle on the Han River” and became a developed country recognized by UNCTAD.<sup>133</sup> Maintaining a favorable relationship with the government, these conglomerates are the backbone of Korea’s national economy and have diversified into various businesses for more balanced portfolio management and resource allocation. However, since the 1980s, the support given by the government to them has been reduced, which was even worsened after the 1997 financial crisis. A more “harmonious” state-firm relation is pursued. As South Korea called for a more sustainable creative economy, many conglomerates have stepped into cultural and creative industries. K-pop is one of the targets. Why did this happen? Why are Korean conglomerates intrigued by the values entailed in the k-pop industry? How do they engage and what do they benefit indeed from the diversification? This chapter will, from a historical perspective, introduce how Korean conglomerates have achieved the initial capital accumulation and become influentially powerful in Korea’s national economy step by step and why they increasingly diversified businesses into cultural and creative industries after 1997 AFC. In addition, in the historical context of Korean conglomerates’ evolution, the state-firm relations will also be tested to display the profound changes in the mutual relationship between the government and conglomerates. Besides, in the second part of this chapter, the methods used by Korean conglomerates to enter the k-pop market will also be explained through the case study of selected groups.

### **4.1 Korean Conglomerates in Historical Context**

#### **4.1.1 Restructuring National Economy after the Korean War**

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<sup>133</sup> Korean Culture and Information Service (KOCIS), ‘UN Agency Upgrades Korea’s Status to Developed Economy : Korea.Net : The Official Website of the Republic of Korea’, 2021, <https://www.korea.net/NewsFocus/policies/view?articleId=200509>.



The scratch line for most Korean conglomerates was set after Japan's surrender in 1945, especially after the Korean War.<sup>134</sup> The Korean War caused extensive damages to a great number of industrial facilities in the country and led to domestic economic paralysis and severe inflation then. Although it was impossible to operate businesses normally or create a new company during the war, the disposal of ex-Japanese assets advocated by the government provided sort of possibilities-- as calculated, around 40% of the major corporations in the 1950s were founded upon these assets remaining.<sup>135</sup> Meanwhile, the sharp increase in the demand of "three whites"-- cotton, sugar, and mill, provided new business opportunities for entrepreneurial businessmen and served as a crucial catalyst for the rapid growth of future conglomerates.

After the cease-fire agreement, reconstructing the national economy became the primary mission for South Korea. Then-government under the leadership of Rhee Syngman formulated a series of plans and policies to restore the industry "in ruins" and stimulate economic development, bringing about new niches for the capitalists. In the meantime, Rhee's government grasped the chance to undermine the power of the landlord class through land reform and rendered new capitalists and self-owning farmers with beneficial economic and social policies; besides, various financial supports offered a large sum of capital for the industrial reconstruction and corporate growth, including the government's reserves, the relief funds supported by the United States and the United Nations, counterpart funds for raw materials, the loans from the Korean Development Bank with low interest, and industrial reconstruction bonds.<sup>136</sup> All these measures implemented after the war served as the springboard for new capitalists to grow into larger business groups and chaebols.

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<sup>134</sup> Sang-young Rhyu, 'The Origins of Korean Chaebols and Their Roots in the Korean War', *The Korean Journal of International Studies*, 31 December 2005, <https://doi.org/10.14731/kjis.2005.12.45.5.203>; Myōng-hōn Kang, *The Korean Business Conglomerate: Chaebol Then and Now*, Korea Research Monograph 21 (Berkeley, Calif: Inst. of East Asian Studies, 1996).

<sup>135</sup> Rhyu, 'The Origins of Korean Chaebols and Their Roots in the Korean War', 205.

<sup>136</sup> *Ibid.*, 211–18.

During this period, the bud of special ties between government and enterprises was sprouting. To undertake and support political activities, the Liberty Party (ruling party) was in urgent need of funds. And new capitalists were eager for rent-seeking as well. Therefore, the "deal" was naturally done between both sides: the Liberty Party provided the rent sought by entrepreneurial businessmen in exchange for the supporting funding.<sup>137</sup> The conglomerates who stood on the same side of the Liberty Party got preferential treatment from them. In contrast, those entrepreneurs/firms in support of the opposite party were excluded from the distribution of raw material and financing loans.

#### **4.1.2 Embarking on the Journey to “Miracle on the Han River”**

When it stepped into the new decade, South Korea embarked on a journey of rapid economic growth under the guidance of Park Chung-Hee's government. During his tenure, Park started to carry on sequences of five-year plans for economic and social development, which was crucial for painting the "Miracle on the Han River."<sup>138</sup>

Compared with the post-war era, the economy throughout the 1960s achieved an impressive rate of quantitative growth, attributing to not only the domestic economic construction but also efforts in the export sector. Deficiency in natural resources, the small domestic market size for stimulating efficient and massive production, yet abundant cheap labor, had motivated Park's government to develop labor-intensive industries and boost export. During this period, many family-owned enterprises widened their business scope by extending to large economies of scale, such as oil refining, electronics, and automobile manufacturing, and engaged in the export business.<sup>139</sup> By the end of the 1960s, these large business groups became the leading players in major industries schemed by the government for aggressive growth and made magnificent contributions to the national economy.

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<sup>137</sup> Ibid., 221.

<sup>138</sup> Phuoc Cuu Long Le, Jong Ik Kim, and Kunbae Kim, 'The Growth of Korean Companies and Their Contributions to the Miracle of the Han River', *International Journal of Multimedia and Ubiquitous Engineering* 11, no. 5 (31 May 2016): 253–66, <https://doi.org/10.14257/ijmue.2016.11.5.23>.

<sup>139</sup> Kang, *The Korean Business Conglomerate*.

According to Kang, throughout the 1960s, economic policies, the pattern of conglomerates' capital accumulation, and the government-firm relationship were under the influences of the specialties entailed in the market as well as the government.<sup>140</sup> First, despite the slight improvements in the past decade, general markets remained undeveloped in the early 1960s with poor social infrastructure, low income level, a lag in technology, and other problems. Second, diametrical to Rhee's economic policies, Park prioritized economic development at the top of the value hierarchy: he pursued fast de facto growth and insisted on the economic approach of outward-looking industrialization. Third, to efficiently achieve this economic mission, Park's government created and relied on a solid centralized bureaucracy to intervene in economic issues intensively. Fourth, since the regime's foundation, the government had seen the private sector as the primary engine of growth and maintained a long-lasting cooperative relationship with the enterprises and capitalists, particularly with chaebol, though the government was the dominator of the private sector in this period. Except for a short period in the very beginning of Park's administration when chaebols were "washed out," the government had maintained with conglomerates a close tie where the government's principal duty was to support the development of the private sector. However, as the economic scale and market became larger and more complicated and conglomerates' power grew more vigorous, the government began to impose more regulation on the sector.

During the 1970s, some of the world's largest plants were built in South Korea with the joint efforts of the government and industrialists. The government encouraged projects of large scale and gave them considerable policy and financial support, causing fierce competition in the private sector to partake in these large projects. This period witnessed the remarkable growth and unprecedented expansion of large firms, especially chaebols, while small companies were left in an inferior position due to the limited resources they held in their hands. In 1972, Park broadcasted a state

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<sup>140</sup> Ibid., 49–52.

emergency, where he dissolved the National Assembly and suspended all political activities, and then extended his presidency by amending the constitution, which caused people's continuous criticism and denouncement.<sup>141</sup> Through the new constitution, Park's power and influence in national decision-making were further strengthened, and his political motivation for quantitative growth became more sturdy.

Meanwhile, after a decade of exploration and transformation, the outward-looking industrialization strategy was fully established in the 1970s. Attaching great importance to promoting the heavy and chemical industries and export, Park's regime devoted substantial resources to heavy and chemical industries and supported the export sector more intensively. As a result, the output of the heavy and chemical industries accounted for 55% of total manufacturing in 1979, compared to 39% in 1971, and the ratio of exports in GNP increased from 16% in 1971 to 36% in 1979.<sup>142</sup> Nevertheless, the Korean economy became more vulnerable to changes in and uncertainty of the global market due to its dependence on the contribution of foreign trade and capital to economic growth. Therefore, timely adaptation to changing environment and flexible control over the national economy became increasingly vital for the government. Finally, after realizing the enlarging scale and complexity of the national economy and its limited capacity to include the economic extensivity, Park's government gave selective support and switched to spur more initiatives from the private sector.<sup>143</sup>

Due to the rising frequency and the strengthened degree of widening and deepening businesses, the expansion of Korea's conglomerates in the 1970s was further accelerated. This was ascribed to the earlier accumulations of capital and resources

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<sup>141</sup> 'South Korea Chief Orders Martial Law', *The New York Times*, 18 October 1972, sec. Archives, <https://www.nytimes.com/1972/10/18/archives/south-korea-chief-orders-martial-law-assembly-dissolved-and-all.html>.

<sup>142</sup> Keunsoo Kim, 'Chaebols and Their Effect on Economic Growth in South Korea', *Korean Social Sciences Review* 3, no. 2 (2013): 1–28.

<sup>143</sup> Le, Kim, and Kim, 'The Growth of Korean Companies and Their Contributions to the Miracle of the Han River'.

and the particular assistance provided by the government. Since political decision-makers viewed large business groups as an effective instrument to accelerate the economic growth in an ever-changing market, many conglomerates gained lots of benefits from the government, in particular, the rare opportunities and resources in terms of acquiring industrial credits and licenses to participate in Korea's large projects both in domestic market and foreign countries. In the early 1970s, entrance into the Middle Eastern construction market offered a unique chance for Korean firms' expansion. With a very competitive project quoted price and words of mouth concerning high-quality construction and timely delivery, Korea became the sixth-largest contractor in the market, improving Korea's foreign exchange earnings, employment, and export and creating a new way for conglomerates to expand their business.<sup>144</sup> Besides, to drive the export, Korea founded the General Trading Company (GTC), a highly diversified international trader that deals with a broad range of products and penetrates various markets: the government issued 13 GTC licenses in total, among which only one was assigned to a state-owned enterprise; the other twelve licenses were owned by chaebols, further broadening their access to the international market and becoming a crucial source of revenues.<sup>145</sup> Other than the opportunities mentioned above, reorganization of ill-managed companies, nationalization of commercial banks, land price hike, etc., had also enabled conglomerates to widen their business scopes and strengthen their corporate power.

In 1979, anti-government demonstrations broke out nationwide, and Park Chung-Hee was assassinated amid the turmoil, thus ending his 18-year rule of the government. Despite his military coup latterly after Park's death, Chun Doo-Hwan was officially elected as the president in 1980.<sup>146</sup> Chun "inherited" some political and economic

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<sup>144</sup> Kang, *The Korean Business Conglomerate*, 51.

<sup>145</sup> Richard H. F. Kao and Moonsong David Oh, 'The Development of General Trading Companies For Export Promotion in Developing Countries: The Cases of Korea and Taiwan', in *Proceedings of the 1985 Academy of Marketing Science (AMS) Annual Conference*, ed. Naresh K. Malhotra, *Developments in Marketing Science: Proceedings of the Academy of Marketing Science* (Cham: Springer International Publishing, 2015), 74–78, [https://doi.org/10.1007/978-3-319-16943-9\\_15](https://doi.org/10.1007/978-3-319-16943-9_15).

<sup>146</sup> Korean Cultural Center, 'Korean History', 2022, <https://www.koreanculture.org/korea-information-history>.

traditions from the previous regime while making multiple changes to better stimulate the economic dynamics. Outward-looking industrialization remained the center of the economic strategy for Chun's government. Meanwhile, to achieve balanced and stable growth, Chun applied a few significant changes to the economic policies: reducing the government intervention and increasing the reliance on market mechanisms; attaching more attention to small-and-medium enterprises (SMEs); switching from an industry-oriented policy to project-specific or function-specific reorganization; etc.<sup>147</sup>

Many people saw it as a dangerous signal for the democracy that the national economy was dominated by a few conglomerates and asked for open access to their corporate information, yet the government refused to reveal it. As a substitution, Chun increased the government's regulation and supervision over large conglomerates, which turned out to be less centralized and highly standardized.<sup>148</sup> And through issuing the licenses for carrying on commercial activities in domestic and international markets and allocating industrial credits, the government continued to affect the conglomerates' capital accumulation and scale expansion in a compelling way. Under stricter supervision, instead of being restricted into the dilemma, many prominent business groups achieved faster growth than the national economy. Furthermore, the additional bonus given to GTCs by the government, the privatization of SOEs, expansion into the financial sector, purchase of the real estate, interlocking investment among member companies, etc., had also refueled the engine of conglomerates.

In the 1980s, some conglomerates began to engage in high-tech industries and conduct foreign direct investment (FDI). For instance, as two of the largest conglomerates in South Korea, Samsung and LG succeeded in the massive production of 64KB and 256KB RAM, making South Korea the third country in the world that successfully produced this product.<sup>149</sup> Besides, these conglomerates were also

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<sup>147</sup> Kang, *The Korean Business Conglomerate*, 60.

<sup>148</sup> *Ibid.*, 63.

<sup>149</sup> Eric Grevstad, 'The 20 Most Influential PCs of the Past 40 Years', PCMAG, 2022,

involved in the research and development, production, and sales in other representative high-tech fields, such as semiconductors, computers, fiber optics, aerospace, and telecommunication.<sup>150</sup> In the meantime, these large business groups initiated the FDI and built many plants overseas, such as Samsung's color TV manufacturing factory in Portugal and Hyundai's automobile manufacturing plant in U.S.<sup>151</sup> The degree of Korean conglomerates' globalization was thus deepened and moved toward a new era.

#### **4.1.3 Financial Crisis and Chaebol Reform**

When the new civilian government led by Kim Young-sam came to power in 1993, a stronger urge towards globalization was shown obviously in Kim's political motivation. The government profoundly realized the necessity to completely open the domestic market to a broader worldwide stage under the trend of globalization. WTO was founded in 1995 and replaced the original GATT system. South Korea naturally became a member of the WTO and placed globalization and liberalization as the focus of economic policies. A blueprint aimed at deregulating the restrictions on asset and liability management of financial institutions was announced. However, since the government failed to impose adequate prudential regulation, financial institutions were faced with an increase in the short-term foreign currency debts, aggravating the maturity and currency mismatches on balance sheets of the domestic financial and business sectors.<sup>152</sup> Besides, to reach the qualification for joining the OECD, Kim continued on the financial deregulation and further opened the capital market by liberalizing the short-term ahead of long-term capital inflows.<sup>153</sup> And the Asian Crisis starting in Thailand also “reminded” foreign investors of reexamining the Korean

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<https://www.pcmag.com/news/the-20-most-influential-pcs-of-the-past-40-years>.

<sup>150</sup> Kang, *The Korean Business Conglomerate*.

<sup>151</sup> Samsung Newsroom, ‘History of Samsung (6): Entering the Global Marketplace 1981~1983’, 2012, <https://news.samsung.com/global/history-of-samsung-6-entering-the-global-marketplace-19811983>; Hyundai, ‘Manufacturing Plants of Hyundai Worldwide’, HYUNDAI MOTORS, 2022, <https://www.hyundai.com/worldwide/en/footer/corporate/networks/manufacturing>.

<sup>152</sup> Kihwan Kim, ‘The 1997-98 Korean Financial Crisis: Causes, Policy Response, and Lessons’ (The High-Level Seminar on Crisis Prevention in Emerging Markets, Singapore: International Monetary Fund, 2006).

<sup>153</sup> Young-chul Park, Wonho Song, and Yunjong Wang, ‘Finance and Economic Development in Korea’, Reserach Report (Korea Institute for International Economic Policy, 2004).

economy, leading to their withdrawal or reduction of funds. Banking institutions were burdened with consistent non-performing loans borrowed by conglomerates to fund their competition in the global market, causing severe outcomes-- the excess debt eventually resulted in a market failure and a series of company bankruptcy.

Consequently, the Korean won depreciated by 50%, the index of the Korean stock market fell by 40%, and thirteen of the top thirty chaebols either declared bankruptcy or participated in bank-sponsored restructuring programs.<sup>154</sup> South Korea was pushed towards the cliff's edge.

Inevitably, South Korea turned to the IMF for help. The IMF promised to allocate the rescue loan of US\$ 58.4 billion together with other institutions to bail out its national economy with several requirements: in exchange for the financial support, South Korea should take immediate measures to reconstruct its macroeconomic policy frameworks and structural policies in financial and real sector (see Figure 4.1).<sup>155</sup> In particular, the IMF strongly requested the reform of chaebol. Then-president Kim Dae-Jung also believed that chaebol should primarily be to blame for the crisis. Thus, he complied with the IMF's demands to reconfigure chaebol's ever-expanding business and applied five rules to the reform: (1) business consolidation into core competence areas, (2) capital structure improvement, (3) elimination of cross-debt guarantee, (4) enhancement of management transparency, and (5) improvement of management accountability.<sup>156</sup> The government declared that these five rules would function pivotally in dragging the country from the crisis swamp and improve corporations' global competitiveness. Later, three more rules were added to remedy chaebol's undesirable practices: reducing indirect cross-ownership, preventing anti-competitive intragroup transactions, and banning the illegal insider trading of the evasion of inheritance and gifts taxes. Therefore, the so-called "five plus three rules"

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<sup>154</sup> Se-jin Chang, ed., *Business Groups in East Asia: Financial Crisis, Restructuring, and New Growth* (Oxford ; New York: Oxford University Press, 2006), 57.

<sup>155</sup> Kim, 'The 1997-98 Korean Financial Crisis: Causes, Policy Response, and Lessons'.

<sup>156</sup> Phil-Sang Lee, 'Economic Crisis and Chaebol Reform in Korea', Discussion Paper, Discussion Paper Series (APEC Study Center, October 2000).



came into being as a defensive tool to push forward the chaebol reform. However, although certain achievements have been made in reducing chaebols' subsidiaries, debt ratios, and foreign capital attraction, it is still hard to entirely alter chaebol's long-lasting problematical structure.

The IMF's Conditions for Financial Support
1. Lower growth rates, budgetary austerities, high levels of interest rates, and reduced current account deficit, whose main purpose was to enforce swift structural adjustment while providing an environment to recover foreign investors confidence.
2. Comprehensive financial and industrial restructuring, including closure of troubled financial institutions and industrial firms, and improving accounting and disclosure rules.
3. Elimination of unfairness in business and trade, including complete market opening both financial and real, elimination of trade related subsidies, and promotion of labor market flexibility.

Figure 4. 1 The IMF's Conditions for Financial Support<sup>157</sup>

What is noteworthy here is that Kim Dae-Jung proposed a cultural policy aiming at activating the dynamics of the nation's soft power to improve global competitiveness and support economic development. He encouraged the development of industries that focus on creativity, knowledge, technical skills, and entrepreneurship and the investment in popular culture and new technologies.<sup>158</sup> These creative industries have been regarded as new engines of national economic growth and helped beautify the country's image in the global stage. Meanwhile, the pro-export nature of Korea's creative industries also attracted substantial interest from Korean conglomerates that were restructured after the financial crisis and expressed a stronger desire to expand the international market. Therefore, while concentrating on the fields of their core competence, Korean conglomerates have become increasingly engaged in the creative

<sup>157</sup> Ibid., 10–11.

<sup>158</sup> Oskar Pietrewicz, 'The "Korean Wave" and the Expansion of South Korean Culture', Polish Institute of International Affairs, 2020, [https://pism.pl/publications/The\\_Korean\\_Wave\\_and\\_the\\_Expansion\\_of\\_South\\_Korean\\_Culture](https://pism.pl/publications/The_Korean_Wave_and_the_Expansion_of_South_Korean_Culture).

economy, especially the ICT and Hallyu.

## **4.2 Representative South Korean Conglomerates Engaged in the K-pop Industry**

In response to the necessity to develop creative economy and attracted by k-pop's sizeable profitability and the considerable support given by the government due to its capability in cultural diplomacy as an instrument of soft power as discussed in Chapter 3, many Korean conglomerates have caught the opportunity to partake in this game. One preview of this game that should be known is that none of these large business groups used to regard entertainment as their core business. In other words, they are prominent for success in other sectors, such as manufacturing, information and communication technology, but now are all "rookies" in the k-pop industry. Although there is no precise number of how many Korean conglomerates have partaken in the capital game of k-pop, four conglomerates have been actively integrated into the k-pop industry value chain: SK, CJ, Kakao, and Naver. SK and CJ are well-known chaebols with a 70-year history, while non-chaebol Kakao and Naver are emerging IT business groups existing for less than 25 years. Their core businesses are either ICT or food and retail, and they diversified into the k-pop industry after 1997 (CJ) and 2010 (SK, Naver, and Kakao). In this part, I will take CJ and Kakao as representatives to demonstrate how they diversify their businesses into each branch of the k-pop industry and which identity they have taken as a player in the game.

### **4.2.1 CJ Corporation: CJ E&M**

CJ Corporation (hereafter named "CJ") was initially founded as the sugar-producing company CheilJedang Co., Ltd. in 1953 and used to be a subsidiary of Samsung. It was declared to separate from Samsung and become an independent legal entity in 1993 under the "dominance" of Lee Maeng-Hee (the eldest son of Samsung founder Lee Byung-Chul). After the "independence," CJ started to diversify its business into more fields. Figure 4.2 displays the organizational chart of CJ Corporation that consists of two major entities-- CJ CheilJedang and CJ ENM (CJ Entertainment and Merchandising), under which there are four core business units: food& foodservice,

bio, retail& logistics, and entertainment& media. According to previous IR reports, CJ's revenues mainly come from the "food& foodservice" (35%) and "retail& logistic" (40%) units, while the "bio" segment accounted for 15% and the "E&M" department has contributed about 10% to the overall earnings.<sup>159</sup> Notably, CJ CheilJedang is the largest food and beverage manufacturing company in South Korea, and its sub-brand Bibigo takes up the largest share in k-food export; moreover, Olive Young is Korea's largest health and beauty retailer and has 1200 stores across Korea. In other words, CJ is the forerunner in Korea's food and retail industry. A conglomerate diversification strategy has been taken by CJ and is evident in its overall non-related business layout. Nevertheless, the retail&logistics department has shown a supply-chain relationship with CJ's food and bio businesses: the products produced by Cheiljedang are delivered domestically and overseas with the help of the logistics department and sold in shops under the retail segment. Vertical integration is thus implemented to maximize the synergies and save costs.

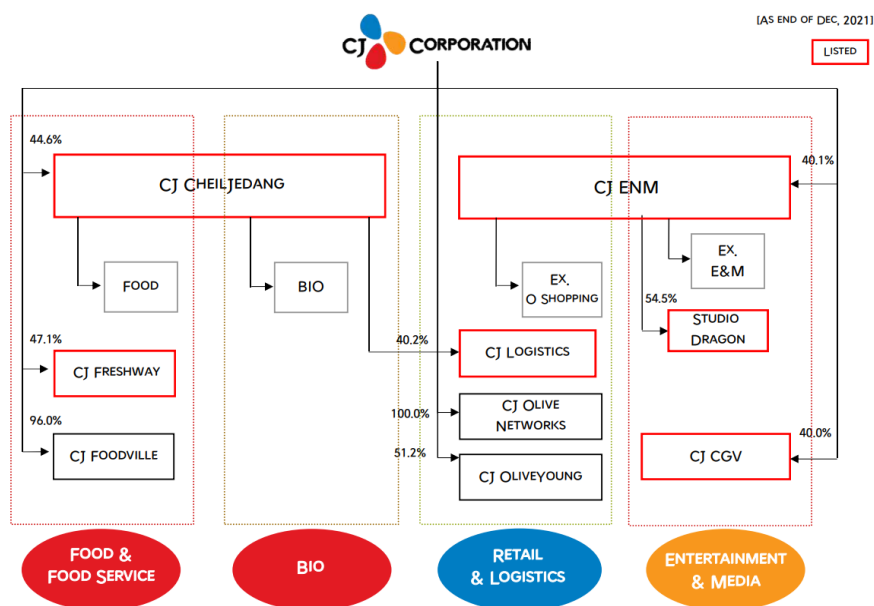


Figure 4. 2 Organizational Chart of CJ Corporation<sup>160</sup>

The functional performance of CJ in the k-pop industry has primarily been achieved through its entertainment and media branch CJ E&M. In 1997, CJ first entered the

<sup>159</sup> CJ Corporation, '2021 CJ Corporation Investor Relations Report', 2022, [http://cjrenew.irplus.co.kr/fileupload/eng/Pt/221Q\\_CJ\\_IR\\_Eng.pdf](http://cjrenew.irplus.co.kr/fileupload/eng/Pt/221Q_CJ_IR_Eng.pdf).

<sup>160</sup> Ibid., 6.

media and entertainment industry by acquiring Mnet – the largest cable TV music channel in Korea.<sup>161</sup> Since then, through the platform of Mnet, CJ started to output diverse k-pop content by producing music programs of varieties, holding concerts and award ceremonies, etc. By merging its affiliates (On Media, CJ Internet, Mnet Media, CJ Media, and CJ Entertainment) in 2011, CJ officially launched CJ E&M (abbreviation for CJ Entertainment & Media), which was later merged with CJ O Shopping to form CJ ENM in 2018.

Although the ratio (10%) is much tinier than that of the other three divisions, the status of CJ E&M in the k-pop industry counts a great deal, and it has been especially active in the value activity of content creation and distribution as the parent company of many talent agencies and the music distributor. CJ E&M currently owns and manages many famous record labels, including WAKEONE, LAPONE Entertainment, SWING Entertainment, BELIFT LAB, AOMG, HIGHR Music Records, and Amoeba Culture.<sup>162</sup> Figure 4.3 presents their details and in which way they became the affiliates of CJ E&M. Some of them joined CJ E&M by being acquired: the latter bought the stock share and became their largest shareholders. For example, AOMG is a Korean hip-hop and R&B labels that accommodates many well-known artists. It was founded in 2013 by Jay Park (a rapper and songwriter as well as a former member of the male idol group 2PM). CJ E&M bought 51% of AOMG's share and completed the acquisition in 2016; since then, a strategic partnership between CJ and AOMG has been formed. Then in 2017, Park founded another label HIGHR Music Records, which was then also acquired by CJ E&M by selling its 51% share. In the same year, CJ acquired Amoeba Culture—a hip-hop label founded by Dynamic Duo members Choiza and Gaeko in 2006. Besides, CJ E&M also acquired other entertainment agencies like Jellyfish, MMO, and B2M via share-buying. Meanwhile, CJ has conducted several internal and external mergers over the past years such as the one of GM Agency, MaxMP3, ID Icheon Entertainment, and CJ Music into Mnet

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<sup>161</sup> CJ ENM, 'History | CJ ENM', 2022, <https://www.cjenm.com/en/history/>.

<sup>162</sup> CJ ENM, 'Music - K-Pop & Artist Business | CJ ENM', 2022, <https://www.cjenm.com/en/music/>.

Media in 2006 and 2007, which was then merged into CJ E&M as CJ E&M Music in 2011. WAKEONE, founded in 2021, is also the result of integrating Onefect Entertainment (formerly known as MMO), the artist management business of Stone Music Entertainment, Studio Blu, and Off The Record Entertainment for better systematic management of k-pop artists.

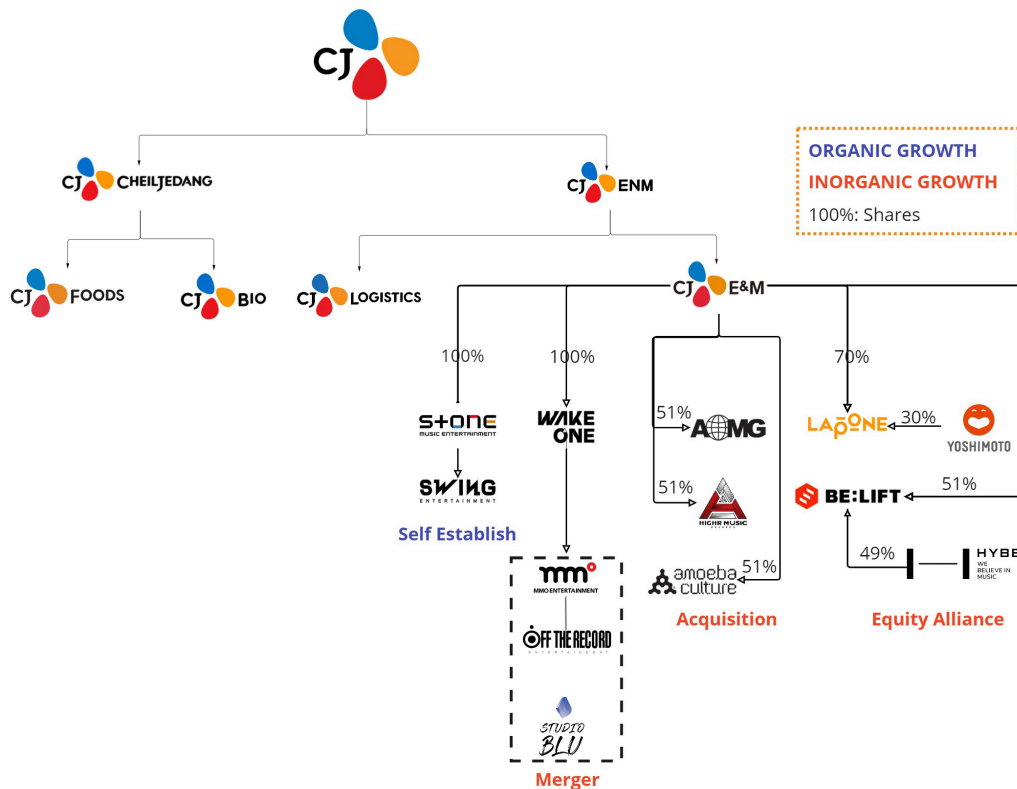


Figure 4. 3 Organization Structure of Music Divisions under CJ E&M<sup>163</sup>  
(Designed by Chestnut)

CJ has produced many talent shows for years, and to better manage those selected singers, CJ launched its own company Stone Music in 2017, which later founded more agencies under its name (e.g., Swing Entertainment, Off The Record Entertainment, Studio Blu, and LM Entertainment).<sup>164</sup> In 2016, Mnet aired an idol debut survival show named “*Produced 101*” and formed the 11-member female group *I.O.I*, which was co-managed by CJ E&M and YMC and achieved sensational success

<sup>163</sup> Bloomberg, ‘CJ E&M Corp - Company Profile and News’, Bloomberg.com, 2022, <https://www.bloomberg.com/profile/company/130960:KS>; CJ Corporation, ‘Investor Relations Report 2021’, 2022, [https://english.cj.net/ir/notice/notice\\_list.asp](https://english.cj.net/ir/notice/notice_list.asp).

<sup>164</sup> CJ ENM, ‘Music - K-Pop & Artist Business | CJ ENM’.

in South Korea. After that, Mnet continued on the “*Produce*” series and other talent shows with debuts of several idol groups—WannaOne, IZ\*ONE, X1, fromis\_9, Kep1er, etc. Most of them have been managed under either Swing or Off The Record. Other than that, CJ E&M also established subsidiaries through the joint venture. LAPONE and BELIFT LAB are two examples. In July 2018, CJ E&M and HYBE announced their collaboration, officially launched their joint venture company BELIFT LAB (BELIF+), and then embarked on the journey of global auditions. In this deal, CJ E&M holds 51% of the share while HYBE has 49%.<sup>165</sup> In 2020, the two companies produced the talent show “*I-LAND*” to select qualified trainees to form the male group ENHYPEN and increase their exposure to the public. Since its debut, ENHYPEN has been active under the management of BELIF+ and shared the resources of both CJ E&M and HYBE. For LAPONE, a joint venture label organizing and managing the winners of the *Produce* (Japanese version), CJ invested KRW 11.5 billion and Yoshimoto Kogyo provided KRW 5 billion with a share ratio of 7 and 3.<sup>166</sup>

It was announced in March 2021 that Stone Music would only act as a music distributor with its record label business transferred to WAKEONE. As the second-largest distributor in the domestic k-pop market (accounting for about 20% of the share), Stone Music has not only distributed the music works of the k-pop artists under the CJ label system but those from other agencies, such as Jellyfish, RBW, and Yuehua. Besides, Stone also undertakes the distribution of songs/albums for CJ-owned TV channels Mnet (releases of music programs), TVN, and OCN (dramas’ original soundtracks). Thus, through Stone Music Entertainment, CJ E&M has been actively involved in the value stage of distribution. Additionally, CJ E&M made a deal in 2018 to merge its subsidiary CJ Digital Music with Genie Music (a major distributor and an OTT service provider affiliated with another Korean conglomerate

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<sup>165</sup> D.S. Kim, ‘Update: Big Hit Entertainment And CJ ENM Officially Launch Joint Company + Announce Global Audition | Soompi’, Soompi, 2019, <https://www.soompi.com/article/1309248wpp/cj-enm-and-big-hit-entertainment-officially-launch-joint-company>.

<sup>166</sup> INI WIKI, ‘Lapone Entertainment | INI Wiki | Fandom’, 2022, [https://ini.fandom.com/wiki/Lapone\\_Entertainment](https://ini.fandom.com/wiki/Lapone_Entertainment).

KT Corporation) and therefore holds the 15.35% share of the Genie Music.<sup>167</sup> In this way, CJ has entered the area of k-pop related OTT services and played its role in music streaming platforms.

#### **4.2.2 Kakao Corporation: Kakao Entertainment**

Kakao Corporation (hereafter named “Kakao”) was initially founded in 2006 as Kakao Inc. and later merged with Daum Communications Corporation in 2010.<sup>168</sup> It is one of the most prominent Internet companies in South Korea and is familiar to the public for its instant message mobile app Kakao Talk, the most-used communication app by Koreans. Its core business lies in information and technology, reflected in its various mobile apps covering chatting, banking, payment, entertainment, etc. Figure 4.4 shows Kakao’s ecosystem that divides its business into one central “Talk Biz” (Kakao Talk, Commerce, and Ad) and four quarters of business units (fintech, content, investment, and other new businesses like blockchain and AI tech). Although, as a whole, Kakao’s diversification strategy presents the features of conglomerate diversification—non-related business areas and products, the core technology in developing different ICT products, especially applications, are similar, which is a typical concentric diversification (see Figure 4.5). It is noteworthy that all of these apps can be reached out on Kakao Talk, and considering the vast amount of Kakao Talk users, it can be predicted that considerable traffic to and demands for other Kakao apps have been created through Kakao Talk.

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<sup>167</sup> Patrick Frater, ‘Korea’s CJ ENM Pumps \$82 Million Into Alliance With KT’s Studio Genie - Variety’, 2022, <https://variety.com/2022/biz/asia/cj-enm-kt-studio-genie-korea-1235211219/>.

<sup>168</sup> Kakao Corporation, ‘The Birth of KakaoTalk’, 2022, <https://www.kakaocorp.com/page/detail/4933>.

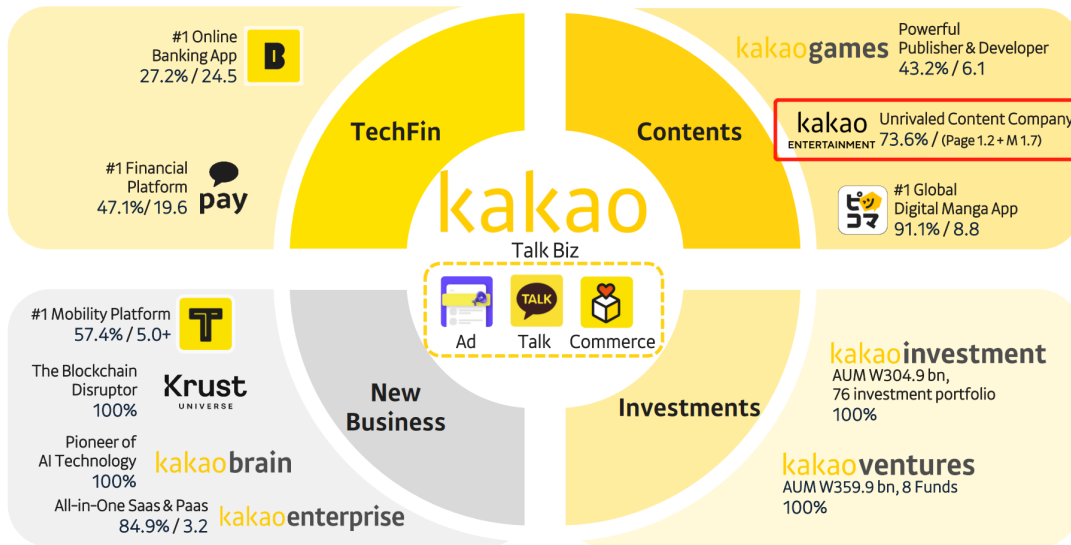


Figure 4. 4 Kakao Ecosystem (as of March 2022)<sup>169</sup>  
 Kakao’s Stake (%) / Transaction Valuation (in KRW trillion)

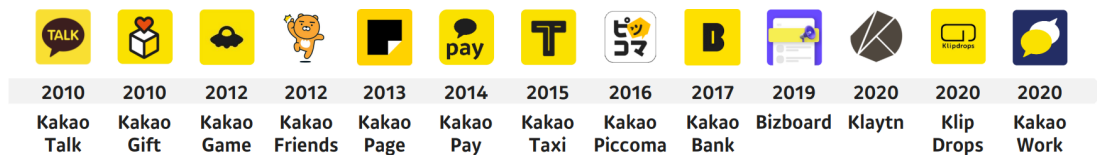


Figure 4. 5 The Mobile Applications and Platforms Launched by Kakao<sup>170</sup>

As for the k-pop industry, Kakao has engaged mainly through its subsidiary Kakao Entertainment, which is the largest music distributor in South Korea as well as the parent company of many well-known talent agencies. Kakao Entertainment comes into being as a result of several M&As and joint venture deals. In January 2016, Kakao invested KRW 1.9 trillion (\$1.6 billion) to acquire the 76.4% stake of Loen Entertainment and successfully capture the latter under the “Kakao empire.”<sup>171</sup> Loen Entertainment (hereafter “Loen”) was established as Seoul Records in 1978 with a focus on the production and distribution of records and became the subsidiary of SK Group in 2005 through the acquisition of a 60% share. It was renamed Loen in 2008 and has taken charge of the operation of Melon (the largest music subscription service

<sup>169</sup> Kakao Corporation, ‘Kakao Investor Relations 2022Q1’, 2022, 8.

<sup>170</sup> Ibid., 6.

<sup>171</sup> Se-Young Lee, ‘Kakao to Buy South Korea’s Top Music Streaming Operator for \$1.6 Billion’, *Reuters*, 11 January 2016, sec. Media Industry, <https://www.reuters.com/article/us-kakao-m-a-loen-ent-idUSKCN0UP01620160111>.



provider in South Korea developed by SK Telecom) since 2009. In 2013 Loen acquired Starship Entertainment by buying its 70% stake. It also became the parent company of many other agencies through stake acquisition, such as Fave, Cre.ker, and Plan A. In this sense, the share purchase deal made by Kakao in 2016 helped it step into not only the content creation and distribution stage of the k-pop value chain, but the domain of k-pop OTT service. Kakao also has its own music app named Kakao music, which was merged into Melon in 2018 and is still used by many people in Korea, though the market share is much tinier. Loen then was renamed Kakao M in 2018 and later merged with Kakao Page to form the current Kakao Entertainment. Moreover, Kakao also owns the social media platform *Daum*. It is the base of many k-pop idols' fan cafes and provides the space for fans to interact and share information with each other.

What is remarkable in Kakao's case is that, although Kakao is an emerging non-chaebol IT company, it has maintained a strategic partnership with and been subtly backed up by SK Telecom (SKT)—the subsidiary of the third-largest Korean chaebol SK Group. In 2019, Kakao and SKT swapped a certain portion of the stake, allowing Kakao to secure a 1.6% stake in SKT and SKT to obtain a 2.5% share of Kakao.<sup>172</sup> This deal matters in opening up a wider range of opportunities for both sides in the creative industries, including ICT, media and entertainment, etc.

As shown in Figure 4.6, Kakao's portfolio revenue (as of 2021) is divided into two divisions: platform (inc. Talk Biz, Portal Biz, and New Biz) and content (inc. game, music, story, and media). The top three departments that earned the most revenues are Talk Biz, New Biz, and Game, though the percentage of the two divisions is essentially flat. The music department under Kakao Entertainment took up about 13% of the overall income, which is indeed a considerable contribution to Kakao's value creation. Especially when we consider the fact that Kakao ranks 18<sup>th</sup> on the list of

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<sup>172</sup> Yeo Jun-suk, 'SKT, Kakao Seek "Strategic Partnership" in Share Swap Deal', The Korea Herald, 28 October 2019, <http://www.koreaherald.com/view.php?ud=20191028000870>.

Korean conglomerates, the colossal value-creation potential contained in and the profit margins created by the k-pop counts a lot for Kakao. From this perspective, Kakao’s engagement in the k-pop industry is understandable, reasonable, and visionary.

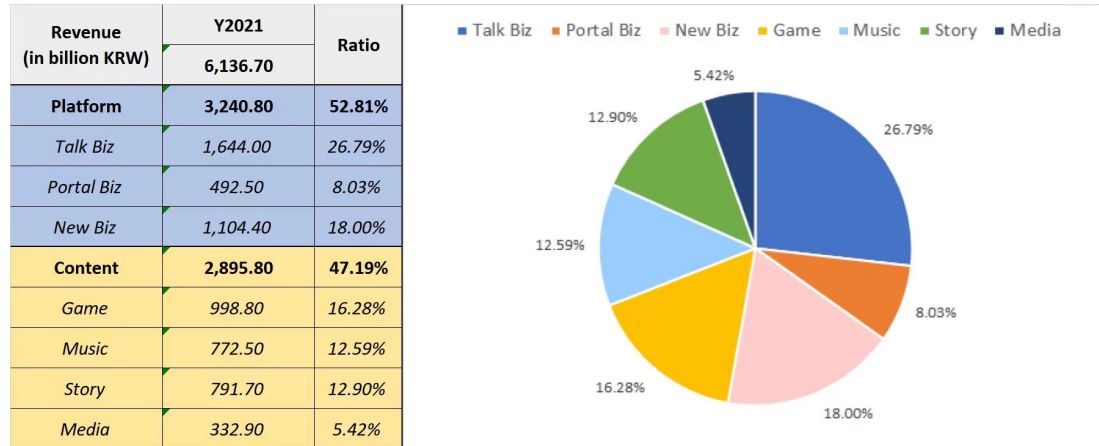


Figure 4. 6 Ratio of Each SBU in Kakao’s Annual Revenue as of 2021<sup>173</sup>

### 4.3 Conclusion

The origin of most conglomerates in South Korea dates back to the post-war era, especially after the Korean War. Since then, Korean conglomerates have experienced different stages of development from emergence, expansion, consolidation, maturity, globalization, and structural reform (see Figure 4.7). Due to the great significance of the private sectors in reconstructing the national economy after the war and their outstanding contributions to the numeric growth, the Korean government has issued many preferential supportive policies for their domestic and global development and expansion; it has also been in an "intimate relationship" with them for a long time. Even though some efforts have been made by political leaders to change the bureaucratic system of large business groups, which was the culprit for the 1997-1998 financial crisis, and to build a more equal and competitive market environment, it is still a hard nut to crack when attempting to subvert this ingrained setup. The crisis caused considerable losses for Korean conglomerates, and the tension between them and the government was further aggravated. A new pathway for more value creation and better state-firm relations is under the search by Korean conglomerates. And k-

<sup>173</sup> Kakao Corporation, ‘Kakao Investor Relations 2022Q1’, 25–35.

pop has provided such a new breakthrough point.

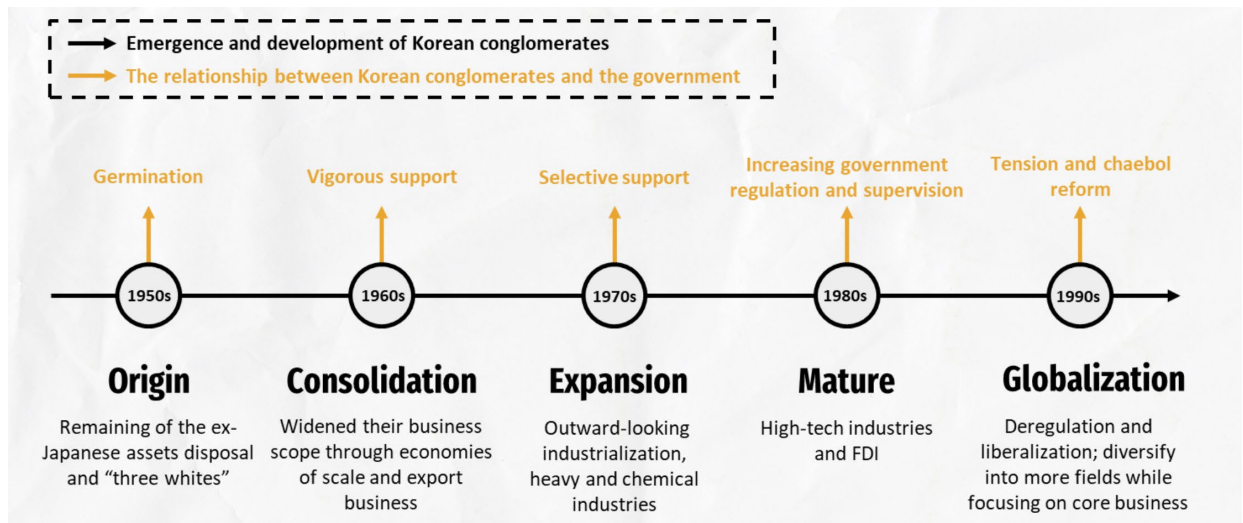


Figure 4. 7 Development of Korean Conglomerates (Designed by Chestnut)

Since none of the 71 Korean conglomerates focuses on the music/media/entertainment business, inorganic growth has become a major method for ambitious players to enter the k-pop market. As can be seen from the cases of CJ Group and Kakao Corporation, their debut on the k-pop “stage” usually started with the acquisition of a professional or experienced “gamer,” and mergers of relevant subsidiaries were implemented as well to optimize the resources and vitalize more dynamics. Only a few conglomerates’ engagements were made by using internal resources to establish their own k-pop division. From the perspective of corporate strategy, those who partake in the value activities of content creation and distribution (i.e., the upper stream of k-pop value chain), mainly take conglomerate (i.e., unrelated) diversification (which has nothing to do with their other businesses). For involvement in the marketing stage, especially social media platforms, conglomerates make it through concentric diversification, which is related to their core competencies or technologies.

## Chapter 5: Conclusion

### 5.1 Summary

K-pop has been spotlighted in the global music market in recent years and has rapidly crossed the border to outreach more audiences in other regions. The market size of k-pop industry has expanded simultaneously, creating niches and opportunities for players. Apart from SMEs, large business groups also join the game and allocate partial corporate resources to the k-pop business and market as a strategic diversification. Diversification means entering a new business or market and implies owning partial or all the resources and competencies embedded in the value chain of the new business. In this sense, understanding the value chain of k-pop industry will further help comprehend why and how diversification happens. Considering no one, at least in English literature, has ever studied the value chain of k-pop industry, a particular value chain model is thus designed in this paper to reveal which productive activities are involved in the k-pop industry, what values are created, and how these values are stimulated.

South Korea was one of the world's poorest countries in the 1950s. However, in the following decades, with the emergence, expansion, and globalization of Korean conglomerates, the nation created the “Miracle on the Han River” and became a developed country. And these conglomerates have become the backbone of Korea’s national economy. They have diversified into various businesses: electronics, chemicals, vehicles, food, etc., but none majors in the music/media/ entertainment industry. There are two types of conglomerates in Korea, namely chaebol and non-chaebol. Chaebol means the family-owned business, and they occupy a large portion of Korea’s economic landscape. For instance, the total sales revenue of the top 5 conglomerates (Samsung, Hyundai, SK, LG, and LOTTE), which are also chaebols, has accounted for more than 50% of Korea's nominal GDP in the past few years. After the breakout of the 1997 AFC, South Korea, together with these conglomerates, experienced great losses. The relationship between state and firm was further

worsened since chaebols' unlimited expansion and problematic structure were to blame for the crisis. South Korea started to call for the development of a more creative and sustainable economy and the activation of the nation's soft power. More and more conglomerates have therefore stepped into cultural and creative industries for a new breakthrough point for value creation and the relief of state-firm tension. K-pop is one of the target industries.

K-pop industry has made both incredible qualitative and quantitative achievements. The most outstanding one should be k-pop's economic success. As a music industry, k-pop itself has produced massive revenues at a rapid speed and made a rising contribution to the national creative economy. Meanwhile, k-pop has empowered ripple effects on other businesses through celebrity endorsement, city branding, and other influential means. These have encouraged more people to consume Korean cultural and commercial goods, and visit Korea (thus help with the Korean tourism), etc. Also, k-pop performs well in the export sector and helps the Korean music industry achieve a trade surplus, implying Korea's reduced dependence on imported music content and k-pop's rising competitiveness in the global music market. And k-pop's export-oriented nature aligns with Korea's outward-looking economic policies and conglomerates' focus and efforts in the export sector.

The increasing global consumption of k-pop gives credit to four things: dissolution of the cultural protectionism, a large talent pool of young and enthusiastic Koreans, the construction of network infrastructure and technological transformation, and the most important factor-- the huge economic potential of fandom, which has triggered the so-called "fan economy" that is related to cultural commodity and consumption. No other popular music genres have ever shown such a strong connection with cultural commodities. And considering its exceptionally robust capability in commodifying a wide array of other cultural (music and derivated products like albums and photobooks) or non-cultural goods (i.e., endorsed commercial goods) by using k-pop

artists as “pseudo avatars,” k-pop can sometimes be regarded as “meta-commodity.” As a result, these niches and profits entailed in k-pop have appealed to many profit-driven and value-oriented conglomerates, and the government that is pursuing the activation of Korea’s creative economy and soft power that contribute to the country’s rising global competitiveness.

Other than the economic values, k-pop also actively serves as a music source of Korea’s soft power and shows strong potential in diplomacy as a cultural instrument by manipulating country images, empowering a network effect, and manufacturing globally influential celebrities. Through k-pop, a more comprehensive understanding of Korean society, culture, and ideology can be expected to be cultivated among people in other countries. This, in turn, will promote Korea’s national branding and mutual exchanges with other countries in multiple domains, such as politics, business, and education. Thus, k-pop gains exceptional support from the Korean government who has made many efforts to promote Hallyu and k-pop (e.g., establishing special government departments and holding various events). And former presidents mentioned and showed support for k-pop in public several times and often brought k-pop artists with them on significant diplomatic occasions. The government’s official support has created both reciprocity and a stable policy, which can be expected to initiate a better state-firm relationship.

Therefore, targeting at the addressed k-pop’s economic values generated by stimulating cultural commodity and consumption and optimizing export revenues and the function in impelling soft power, which jointly enables k-pop to gain notable support from the government, Korean conglomerates have increasingly diversified into the k-pop business/market. And about their diversification methods for engaging in the k-pop industry, the case study of CJ and Kakao shows that, since no conglomerates focus on the music industry as their core business, or in other words, none of them have experience in k-pop’s area, they mainly take M&As to enter the k-

pop market to build their k-pop empire on the remainings of other professional players and achieve better synergies. Besides, some deals were made through equity alliances with other experienced firms; only a few of these engagements were achieved through organic growth. In these ways, a capital game in k-pop's area sounds the clarion call and expands Korean conglomerates' blueprint of business, influence, and ambitions.

## **5.2 Limitation**

K-pop is a “young” topic in academic research, most of which has focused on k-pop's globalization and popularity, fandom, commodity, the influences of digitalization, the business model of entertainment agencies, etc. However, it is hard to find considerable English literature on k-pop's industrial business, supply chain, or value chain that can be taken as references to conduct this research. Although I managed to design the value chain model of k-pop industry with the help of Porter's generic value chain model and Gary Graham et al.'s traditional music industry value chain and by referring to the data and “game rules” released by major k-pop participants and my years of immersive experience as a k-pop fan, the de-facto k-pop industry/business is much larger and more complex than my model. Meanwhile, I also attempted to look for some documents written in Korean since no English version is available. But due to the language gap, I mainly used the tool Google Translate to understand the content, which was not complete or accurate enough. Therefore, I did not risk integrating them into my research; otherwise, this paper may have more convincing material to support and concretize the arguments. And these two reasons jointly make it more challenging to include a sufficient introduction to the historical development of the k-pop business as a whole that covers every activity of its value chain.

Moreover, due to the limited personal network and Korea's travel ban during the pandemic, it is tough to visit Korea and interview or deliver surveys to people who are engaged in the k-pop industry, especially those from conglomerates, to learn about

their opinions and value proposition about k-pop industry from a participant's perspective. I do believe these lively interactions with k-pop "game players" would provide a closer view to make the answers to main research questions more complete, concrete, and authentic.

### **5.3 Inspiration for Future Research**

When I investigate the shareholder information of major players in each value activity of the k-pop industry, I found that apart from Korean conglomerates and financial entities, there are also some foreign investors sensing the profit of k-pop and acquiring certain shares, such as JP Morgan and Tencent. Although compared with local enterprises, their claims are much tinier, these economically powerful exterior players still occupy the top 10 shareholders of some k-pop-related firms (e.g., YG Ent. and SM Ent.). What have driven the FDI in the k-pop industry? What impacts will FDI cause on market expansion, cultural export, and other aspects of k-pop business? Does this also prove that the efforts made by the Korean government in Hallyu and k-pop pay off or at least stir up some ripples? Moreover, considering Tencent's (China's leading IT conglomerate) long-lasting devotion to the media and entertainment industry and their outstanding achievements in Southeastern Asia, the shares of k-pop companies held in their hands also show their strong ambition to become a top dominator in popular culture that targets at young audiences. To some extent, Tencent is analogous to Kakao: they are all young IT companies and actively engaged in the media and entertainment industry. I do believe the comparisons from multiple aspects between Tencent and Kakao will be an interesting and inspiring research topic, especially the one in two countries' official policies and attitudes to popular culture and the historical/current cultural censorship. Reasons that are eligible to explain the gap between Korea and China in cultural export thus can be expected to come out.

Another inspiring topic is the research on HYBE Corporation (formerly BigHit, the parent company of BTS who is currently the most popular k-pop group). As



mentioned previously, in South Korea, a corporation whose total assets exceed KRW 5 trillion can be seen as a conglomerate/large business group, and none of current conglomerates majors in media/entertainment/music business. However, by the end of 2021, the total asset of HYBE was about KRW 4.74 trillion, approaching the standard limit; if we calculate according to the growth rate of previous years, HYBE's total assets will hopefully reach KRW 5 trillion this year.<sup>174</sup> Therefore, HYBE is estimated to squeeze into the top 70 Korean conglomerates list, becoming the first and only conglomerate that rises from the music, or more precisely, the k-pop business. Also, Bang Si-hyuk, the founder of HYBE, ranks 12<sup>th</sup> on the list of 2022 Korea's top 50 richest people.<sup>175</sup> No matter the company's booming development or Bang's impressive personal wealth accumulation, they are all closely relevant to the success of BTS. Studying the journey of HYBE to becoming the 1<sup>st</sup> music conglomerate in South Korea and its implications on the whole k-pop industry is worthwhile. Also, after its IPO in 2020, HYBE has expanded its scale by acquiring many domestic and international companies (including Ithaca Holdings-- the company that manages Justin Bieber and Ariana Grande) and diversifying into other businesses (e.g., ICT and Metaverse) that Bang organically combines with HYBE's core k-pop competencies. Specific insights on HYBE's strategic diversification can be conducted as a case to study the corporate strategies of companies in cultural and creative industries.

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<sup>174</sup> HYBE, 'Summary of the Financial Information', 2022, <http://hybecorp.com>.

<sup>175</sup> Forbes, 'Korea's 50 Richest People 2022', Forbes, 2022, <https://www.forbes.com/korea-billionaires/list/>.

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