# THE NEXT GROWTH STRATEGY FOR *HALLYU*

## A Comparative Analysis of Global Entertainment Firms

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**Abstract**

Previous policy approaches on *Hallyu* have been focused on the role of government engagement, particularly in fostering diversity and equal business opportunities for small-and-medium enterprises (SMEs). However, a more strategic approach to the cultural industries should be implemented by carefully examining the role of the private sector, particularly the role of large enterprises (LEs). This is important because LEs have an overarching and fundamentally differentiated role in increasing the size of industry through their expansive value-creating activities and diversified business areas. This study focuses on the complementary roles of SMEs and LEs in facilitating the growth of *Hallyu* by bringing in the perspective of value chain diversification and the modified value chain framework for the film industry. By conducting a comparative analysis of the global entertainment firms in the US, China, and Japan, this study reveals how LEs in the global market enter and explore new industries within culture and continue to enhance their competitiveness. By forming a business ecosystem through linking their value-creating activities as the platform of network, this study looks into the synergistic role among enterprises of different size and scale and suggests that Korea's policy for *Hallyu* should reorient toward a new growth strategy that encourages the integrative network of firms where the value activities of LEs serve as the platform for convergence.

**Keywords**

cultural policy; entertainment industry; growth strategy; *Hallyu*; platform; value-creating activities

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Throughout the world, the growth of the culture-related sectors and the parallel increase in policy research began when countries initiated efforts to make industrial transition from manufacturing to the service sectors (Boggs 1483-1487). Since the third industrial revolution in the early 20th century, much of the focus on the policy for national economy and business has revolved around the manufacturing sectors. However, the view on the manufacturing sector as the nation's economic foundation gradually changed since the 1980s (e.g., Scott, "Territorial reproduction" 277-278; Storper and Christopherson 104) and academia gradually shifted research from manufacturing to non-manufacturing as the industrial transformations have changed the type of employment and systems of organization.

With this gradual shift from manufacturing to services, the term cultural economy started to receive both theoretical and empirical attention mainly from the policy-makers who wanted to invigorate this sector as the next engine of national growth. Within this sector, concepts such as cultural industry (in singular form), cultural industries (in plural form), creative economy, creative industries, and even content industries were established by various governments. These terms have been developed under the efforts of governments that wanted to examine the contribution of culture and arts to various economic performances such as trade, employment, wage, and value added. The proliferation of these studies—often government-supported and prioritized—has led to different classifications of cultural or creative industries.

Under similar initiatives, the Korean government established the Ministry of Culture in 1990; however, it was only by 1994 when cultural policies truly began to focus on cultural industries such as film and audio under President Kim Young-sam (Kim 50). Korea's policies on culture began after examining the huge economic and industrial value overseas, and a series of new organizations was established since then. Particularly, the Content Policy Bureau manages the Cultural Industry Policy Division and treats the cultural industries as a strategic industry targeted to improve the quality of the people as well as the economic and industrial performance of Korea (*Ministry of Culture, Sports, and Tourism*). According to government initiatives under the Second Content Industry Development Plan in 2014, the content industry aimed to facilitate the creative economy by increasing the GDP per capita, market size, export volume, and employment (Kim 60-66). These policy targets of the Korean government show that the cultural industry is indeed a strategic area that could promote national welfare and prosperity.

With this understanding, this paper looks into the government policy on *Hallyu* which is focused on the globalization effects of the cultural industries. The current policy approaches on *Hallyu* have been focused on the role of government engagement, particularly in fostering diversity and equal business opportunities for small-and-medium enterprises (SMEs) (Kim 43). However, a more strategic approach to the cultural industries should be implemented by carefully examining the role of the private sector, particularly the role of large enterprises (LEs) because LEs have an overarching and fundamentally differentiated role in increasing the size of industry through their expansive value-creating activities and diversified business areas. Therefore, in order to enhance the economic effect of *Hallyu*, government policy should not only lean toward fostering SMEs, but also allow LEs to grow and compete in the global market against large multinational corporations (MNCs) such as Disney and Wanda.

As a new growth strategy, this paper focuses on the complementary role of various firm-types in facilitating the growth of *Hallyu* by bringing in the perspective of value chain diversification from business management studies. This paper brings in the modified value chain framework as the tool to visualize the diversification scope of LEs in the film industry. Then, this paper conducts a comparative analysis of the global entertainment firms in the US, China, and Japan and reveals the synergistic role among enterprises of different size and scale. Ultimately, this paper suggests that Korea's policy for *Hallyu* should reorient toward a new growth strategy that encourages the integrative network of firms where the value activities of LEs serve as a platform for convergence for SMEs, leading to mutual growth.

This paper begins with a general literature review on business perspectives about cultural industries to emphasize some of their unique and important characteristics. Then, a theoretical framework on value chain and ecosystem from strategic management is introduced to prove that LEs and SMEs are mutually connected through the platform of LEs' value creating activities. The next section analyzes three MNCs from the United States (US), Japan, and China to show how LEs and SMEs increase the size of the market while enhancing the sophistication of the industry as a whole. Based on this comparative analysis, this paper concludes with implications for *Hallyu*'s new growth strategy where an MNC must also emerge in order to sustain the competitiveness of *Hallyu* in the global market.

## THE CULTURAL INDUSTRIES FROM BUSINESS MANAGEMENT LITERATURE

It has been generally recognized that the overall growth in nations' economies and technologies leads to higher interest and consumption in cultural activities. Therefore, the entertainment business has been experiencing an unprecedented rate of growth in size, quality, and diversity recently, along with the advancements in digital technology, the distribution of digital contents, the Internet and mobile market, and intellectual property rights (Scott, "A New Map of Hollywood"

960-963). In fact, the economic and business perspectives on cultural industries, such as entertainment and media enterprises are relatively embryonic. Only a few studies have tried to provide theoretical implications to the management and specificities (e.g., human resource, organization) of this industry.

Industry research can be broadly classified into economics, management, and the political economy of the industry. Economists have begun to apply economic theories and logic to media industries and established academic undertakings at the sectoral or market level. These studies looked at the conditions and structures in media industries and markets while focusing on the utility of resources such as the financial resources (Gabszewicz, Resende, and Sonnac 3-26). This section briefly looks into how business scholars have studied cultural industries in the past. This section begins with Caves' contract theory as one of the most seminal work on creative industries followed by strategic management and competitiveness perspectives that examined the business operations of cultural industries.

### 1. Cave's Contract Theory and the Creative Industries

Throsby mentions that "the complex creative industries such as film and television production depend on the existence of contractual arrangements at all stages in the value chain" (222-230). Miège and Garnham are notable studies of radical sociological tradition that investigated popular culture and the media. Following these scholars, Caves' seminal work on creative industries identified how the economics of the industry is established after the *peculiarities* of cultural production that set them apart from other industries. Caves' study remains as a landmark because it established his studies on the basis of property rights throughout the contract points in the cultural value chain (Rushton 82-84).

According to Caves, "[t]he creative industries supply goods and services that we broadly associate with cultural, artistic, or simply entertainment value. They include book and magazine publishing, the visual arts (e.g., painting, sculpture), the performing arts (e.g., theater, opera, concerts, dance), sound recordings, cinema and TV films, and even fashion, toys, and games" (1-2). His studies sought to solve a simple limitation of earlier studies that mainly treated these industries for policy matters and their contribution to the national economy. Caves explored this area in order to examine the organization of the creative industries: why deals and contracts are structured the way they are; why some creative activities occur in ongoing organizations (i.e., firms), while others are in one-off deals (i.e., markets). Therefore, he investigated why and how transactions occur within continuing firms or between independent parties, and why those firms are few or many, operating in one market or several. Caves' contribution is remarkable because he addressed some of the critically unique characteristics of creative industries by drawing useful connections based on economic and management interpretations.

Caves' another approach began with his critical insight on the uniqueness of creative industries. Even though this sector is similar to other industries which are composed of firms and markets, he observed that creative industries are run by a unique pool of artists and individuals that behave with different, non-economic motivations. Artistic workers do not make the same economic choices as do "humdrum mortals" who profess no creative urge or skill. Therefore, this industry is composed of artistic workers that behave differently, and the behavior of the enterprises functions between commercial and non-economic, artistic values.

Caves enumerated seven properties of these industries: 1) demand is uncertain – "the nobody knows," 2) creative workers care about their product – "the art for art's sake," 3) some creative products require diverse skills – "the motley crew," 4) creative products are differentiated – "the infinite variety," 5) creative products require vertically differentiated skills – "the A list/B list," 6) time is of the essence – "the time flies," and 7) creative products are durable and accrue long-term rents – "the *ars longa*" (2-9).

The first property—*the nobody knows*—means that there is great uncertainty about how consumers will value a newly produced creative product. This makes producers and business operations face heavy challenges to produce and plan. In creative industries, research and pre-testing are largely ineffective because the creative products' success can seldom be explained even after the production is complete. This property implies that the risk associated with the creative products is high. This also means that resource allocations and sharing are a critical part of the strategy for firms in this industry.

The second property is related to the worker's characteristics. According to Caves, economists have commonly assumed that workers care less about the traits and quality of the product they produce. Workers are usually more interested in their payment and welfare provided by the firms, and in a relative sense, how much time and effort they have to pour in. However, in creative industries, the creators (i.e., artists, content producers, directors) vitally care about the product they create. This characteristic also leads to the emergence of *starving artists* where the prevalence and strength of tastes affect the qualities and quantity of creative efforts in the property expressed as *art for art's sake.*

Thirdly, many of the creative products require more than one creative worker. Except for a painter who can work independently on a single canvas as long as the resources (e.g., paint and brush) are supplied, many other jobs in the creative industries require "diverse skilled and specialized workers who each bring personal tastes with regard to the quality or configuration of the product" (5). The creative production process involves a multiplicative production function where every input must be present and properly do its job. This *motley crew* property which requires the presence of diverse skills further complicates the production in the creative industries when they are combined with other properties such as the *art for art's sake* where diverse participants have their strong opinions and quality standards.

The fourth property of the creative industries is a little complicated. This is because creative products are chosen through a mixture of vertical and horizontal differentiation. Economists call a product vertically differentiated when it has a more attractive quality than another product, and therefore, the less attractive product will not be chosen by the consumer if they have the same price. Horizontally differentiated products refer to those that have similar, but not identical, character and quality. Product attractiveness is hard to measure and is subjective in the creative industries. Therefore, when the two products are sold at the same price, consumer preference will diverge. This leads to the property of *infinite variety* where consumer tastes may be generalized, but there would still be a group of consumers and a significant market for all of the products. This property is critical in creative industries and firms, because, despite its general trend, there is always an important segment of the market that must be targeted.

This leads to the fifth element of vertically differentiated skills. Cultural products differ unpredictably in the quality levels that consumers are attracted to. The artists who supply individual creative inputs differ in skill, originality, proficiency, and quality to varying degrees. Artists may raise their skills through training and practice, but trained and mature creative agents settle on "different plateaus of proficiency" (7). This means there is a high vertical hierarchy that labels the artists into *A list or B list*, but there are always demand for both as the *infinite variety* property suggests. The main reason for this vertical ranking, despite both of their demands, is mostly about money. A blockbuster movie that has superstars (i.e., A list) versus a low-budget film with less famous actors/actress (i.e., B list) can be a good comparison; the ticket price of the two movies are the same, but there are huge differences in production and casting costs.

The sixth property is the time factor. Creative production activities involve a complex team in the *motley crew* property. This means that they require a close coordination of activities. Complicated further by the *art for art's sake* and the *motley crew*, the reliance of the economic profitability on close temporal coordination of production and the prompt realization of revenue is referred to by Caves as the *time flies* property.

The seventh is the *ars longa* property. Many creative products are durable. More specifically, the legal length of the copyright determines how long the original creator or artist can collect rents. Whether these streams of rent arrive as small lumps or large sums, the small dividends add up to become real money over a long time. Considering the expansive output from one cultural content, the one-source-multi-use property or the long-tail effect is another characteristic of this industry.

As mentioned above, Caves' contract-based approach to the creative industries is a landmark study that examined and critically outlined the uniqueness of the industry. As a strategic industry in the current era, an accurate understanding of this industry is indeed important in order to construct good policy and strategy for governments and firms. As the above seven criteria imply, the creative industries require a differentiated approach where both artistic and commercial minds must come together to implement sustainable practices for *Hallyu* that is affected by those seven characteristics. However, a critical limitation of Caves' work is that it overlooks, although it can be hinted, the inter-locked network of firms or individual artists that put them on a more interdependent relationship. Due to a variety of properties such as *art for art's sake*, creative industries have shown many co-productions and co-works that continue onto the next creative content or product between actors and firms that share a similar taste and vision. At a more surface level, we can see the same actors/actresses appearing in a certain director's film or TV production. This may be also true in other industries, but creative industries show a stronger bond between the parties that show initial success or a good team work. This implies that there would be a co-creation or co-evolution effect that occurs among the networked parties. With these two additional properties of this industry, the next important approach in business management would be to adopt the strategic management approach, which includes the value chain, platform, and business ecosystem theories.

## 2. Strategic Management Approach to the Cultural Industries

Apart from the economists' approach through transactions and contract theories, the value chain analysis is another important business approach that has been widely used in the cultural industries (e.g., Hearn, Roodhouse, and Blakey 420-427). The value chain approach is helpful in demonstrating how the initial creative ideas are combined with other business inputs for a firm to produce a creative product. Through the process of production activities, each stage in the value-creating activities can be visualized throughout marketing, distribution, and consumption. This is similar to the manufacturing or other service sectors. However, some cultural products may go through a more complex process of production when the creative idea is transformed or reformatted throughout the successive stages (Throsby 219).

### *2.1. The Firm's Value Chain in the Cultural Industries*

This section briefly mentions how the value chain approach has been applied to explain the dynamic or multi-stage process. The value chain approach was developed and utilized primarily to evaluate the efficiency, accountability, and coordination among various activities in the manufacturing firms (Bhatt and Emdad 79-82). Developed by Porter in 1985, the value chain framework is divided into two major activities, support and primary activities, which are then subdivided into nine individual activities. Support activities are composed of firm infrastructure, human resource management, technology development, and procurement. Primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and service.

According to Porter, these individual activities are the basic units of competitive advantage, and the firm's capability to manage overall advantages in all of these activities is what leads to success. The value chain analysis involves examining the particular value of the activity that adds to the final product or services (i.e., margin). Throughout various industries, the value chain approach has been extensively utilized, spanning from agriculture (e.g., Zokaei and Simons 143-147) to accounting (e.g., Shank and Govindarajan 39-51), and to value networks (Kothandaraman and Wilson 379-32). As such, the value chain concept has been applied to analyze diverse industry segments and firm linkages beyond its original development.

With the growing interests and studies in the cultural industries, there have been various attempts to illustrate the highly complex and intertwined network of industry actors in the film industry. Earlier approaches to the film industry's value chain activities are summarized in Figure 1. These studies possess strengths and weaknesses as outlined in the figure.

Eliashberg, Elberse, and Leenders focused on the motion pictures industry mainly in the cinema distribution and distinguished the activities into three main activities of production, distribution, and exhibition. Although this study has been a pioneer, their framework neglects the specifics of Porter's original model which includes human resource and technology which are essential components in cultural industries. Also, core activities and elements in the motion pictures industry such as contents and copyrights are neglected. Küng's revised framework divides the value chain into four main activities, and it is helpful in understanding film studios' and entertainment companies' value chain activities. It shows the uniqueness of this industry's activities and captures how each of the activities go through a less sequential connection of activities such as in the marketing stage. However, this analysis is less complete because it does not include all of the activities that occur in film production (e.g. infrastructure, strategy, ancillary). The third study is from the OECD report, and Vickery and Hawkins conducted a rigorous analysis into the film industry's value chain by incorporating the direction of investment streams. An important contribution here is that by demonstrating the flow, they recognized that the film is not the end point, but rather the core intermediate product where further values can be added.

To resolve the problems of the earlier value chain approaches, Lee had introduced a modified value chain framework for motion pictures company (Lee, "Strategy for

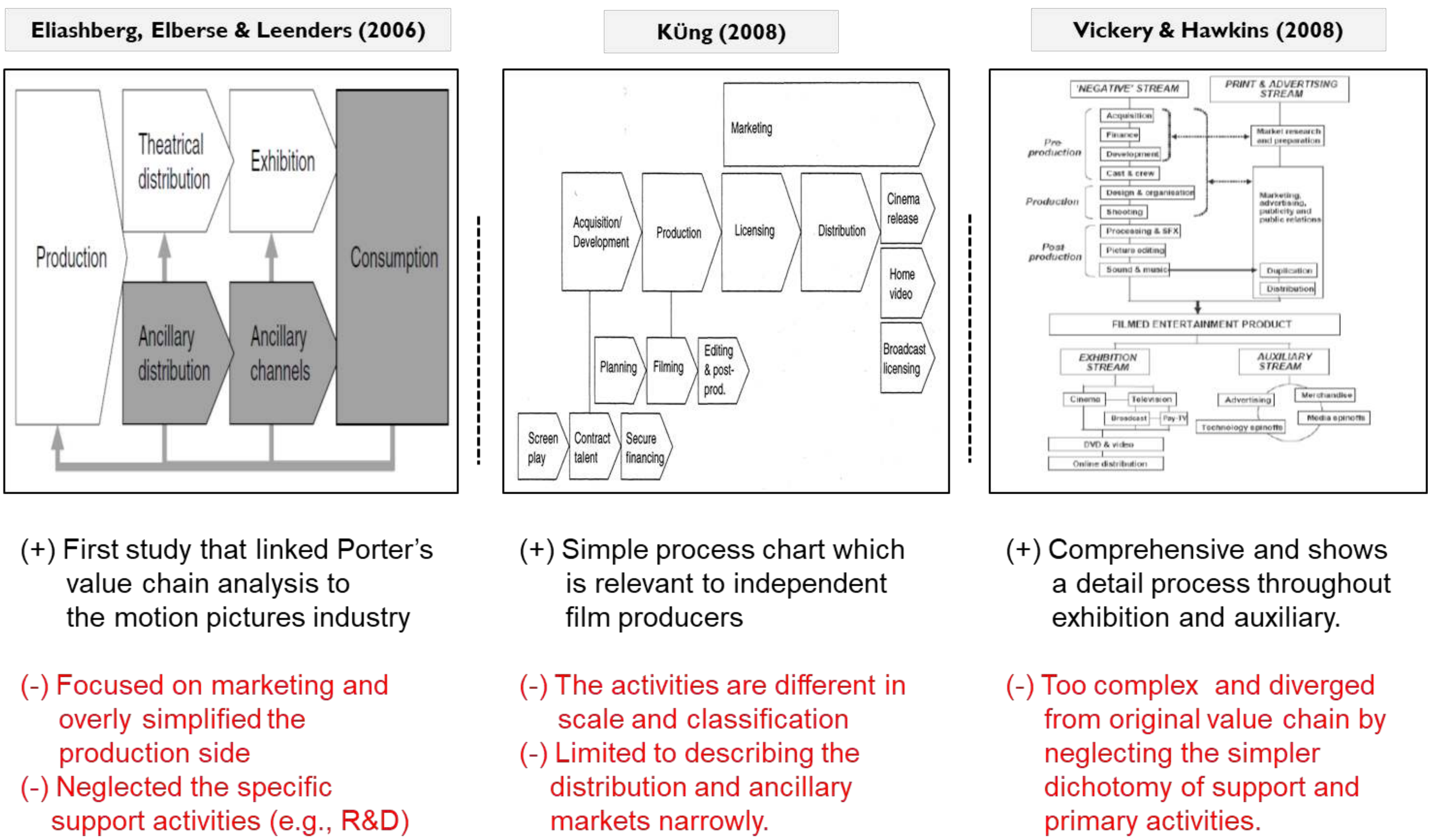


**Figure 1.** Various Approaches to Film Industry's Value Chain

Sustainable" 104) as in Figure 2. Similar to other businesses, the value chain of film companies follows a set of activities that span across legal (e.g., trademarks, copy rights, labor), finance, quality control, and other general business administrative activities.

As in earlier value chain approaches, the primary activities that are directly linked (e.g., film production) or less directly linked (e.g., ancillary markets) to the movies are captured by the four main business activities. Porter's original model divides the primary activities into five elements (i.e., inbound logistics, operation, outbound logistics, marketing and sales, and service). However, it is difficult to strictly divide the operations from inbound logistics in the film industry as it signifies dividing up stages of film production, human resources, and other technological features in film. Therefore, the production for film industry combines the two original elements of inbound logistics and operation; the four specific processes in production are divided into pre-, principal, post-production, and re-purposing (i.e., additional content after film release such as the director's cut). The ancillary activities refer to the long-tail and one-source-multi-use property of this industry where great profits are made through TV media, merchandizing, theme parks and tourism, and games.

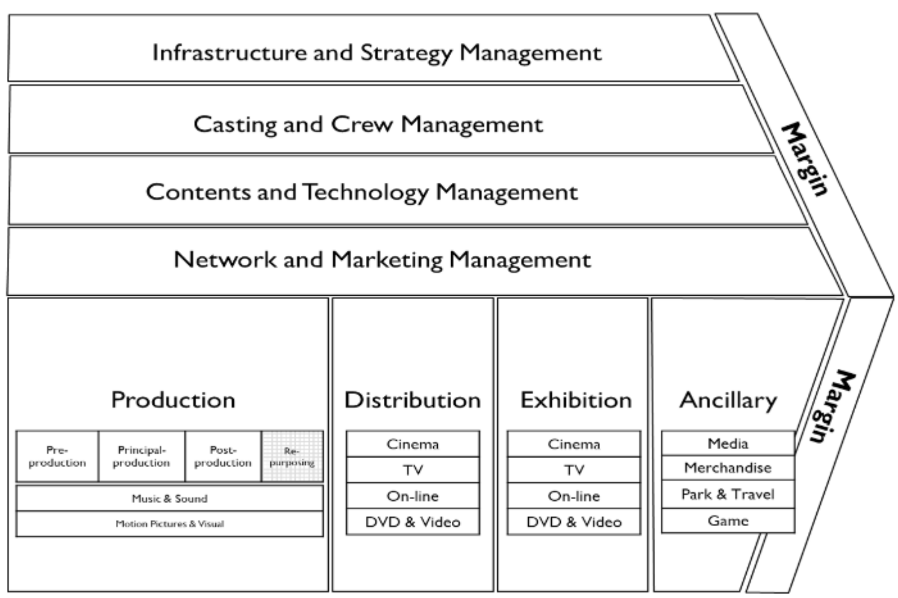


**Figure 2.** A New Value-Creating Framework for the Film Companies

 

The four support activities originally developed by Porter are still relevant to the four support activities of firms in the film industry. The names are changed to infrastructure and strategy management instead of Porter's original firm infrastructure. Human resource management is changed to casting and crew management since film productions are strictly divided into actors (i.e., casting) and staffs. Technology development or R&D is changed to contents and technology management because the type of contents is highly associated to the degree of technology (i.e., animation, high computer-graphic films). Lastly, procurement is changed to network and marketing management because, for instance, location selection and marketing are activities that occur throughout the four primary activities unlike the conventional manufacturing or service sectors. This section examines the specific activities of firms in the film industry by introducing the value chain framework popularly employed in strategic management. The section examines the more recently developed theories on platform and ecosystem perspective in order to demonstrate the relationship of network and convergence that occur within the industry. The ultimate purpose of introducing these various concepts is to show how the next growth strategy for *Hallyu* should encompass all of these approaches on business and sustainability to continue its success in the global market. This will be emphasized again in the later sections.

### 2.2. *Platform and Ecosystem in the Cultural Industries*

In the creative industries, an LE that operates in several markets stands out, and there has been a wave of expansionist moves in many of the firms in this sector across the world (e.g., Viacom, Disney, News Corporation, Bertelsmann). In the 1960s, US firms tried to link the hardware and software activities within the creative industries, and this is now happening in East Asian firms. Also, since the 1990s until now, digitalization has vastly transformed the industries by converging different industry barriers. The linkages between media contents and media distribution channels are increasing in this sector while global expansion is becoming another big trend.

Due to the increasing emergence of MNCs in the entertainment industries, this section focuses on the size of firms and their link to sustainable competitiveness. The seven properties of the creative industries mentioned by Caves pose an important business agenda for LEs which require a separate examination on how they can lay out a strategy for sustainability and growth through strategic diversification (314-328). LEs might benefit opportunistically by exploring other related segments that are linked through distribution, exhibition, or the ancillary areas and obtain a series of subsidiary markets.

 

Industries are now more networked and converged mainly through information and technology along other means such as contents, products and services, and even consumers. Therefore, a resource-based approach to related diversification for greater synergy creation is becoming less strong in more technology-oriented firms in our current volatile markets because the unique characteristics of firm resources are decreasing. As argued by Evans and Wurster, the changing economics have undermined the established value chains in many sectors, requiring firms to rethink strategy and value. Also, as Porter hinted in 2001, the Internet enabled the integration of the value chain and entire value system in an industry, encompassing tiers of suppliers, channels, and costumers (63).

Creating synergy through diversification is becoming more essential, and this involves a combination of inter- and intra-firm activities in which, through their increased coordination and convergence, greater value is created (Moon, "The Strategy for Korea" 107-109). By utilizing the value chain perspective of firms developed by Porter, this study analyzes how a diversified firm can maintain and expand its competitive advantage which is more evident in cultural industries where the entertainment MNCs continue to seek and develop new markets and products, despite their already-large size, by aggressively acquiring and learning new technologies, operations, and consumers. The modified value chain framework in Figure 2 illustrates this aspect by linking and expanding previous activities to new areas of business for film-related firms.

In addition to the value chain approach, this paper engages the business ecosystem approach and expands the microscopic perspective by looking into how diversification works along the value chain activities with the partnership with other firms. Theories on business ecosystem have been limited in addressing only the competitive relationship between the networked-ecosystems (i.e., rivalry between Samsung's ecosystem versus Apple's ecosystem); however, this paper looks into how different activities are joined by strengthening the activities in the value chain through resource-sharing and thus increasing interdependence. This type of co-operations allows the networked firms to reduce risk and cost while improving the utility of resources and capabilities through convergence.

Moore defines a business ecosystem as being comprised of the networks of firms throughout the value chain activities and external factors that affect the value chain activities. A business ecosystem is "an economic community supported by a foundation of interacting organizations and individuals including suppliers, lead producers, competitors and other stakeholders, and they co-evolve their capabilities and roles and tend to align themselves with the directions set by one or more central companies toward shared visions to align their investments and to find mutually supportive roles" (Moore 75-77).

Within the business ecosystem, LEs share their value chain as the platform to connect and coordinate multiple firms and activities that are connected together. Through this network, firms are able to reduce costs and enhance efficiency through resource or network-sharing. As seen from the value chain analysis, products are not produced by a single firm. Since products are interconnected with other services and devices, the complex web of products and complementary goods are produced by diverse firms. From the business perspective, value added activities do not necessarily take sequentially or in a one-way process. The interactions and transactions are done in multiple ways, and it makes them more efficient and resilient to external changes. The more diversity there is within the ecosystem, the more likely the ecosystem will deal with the environmental change and create new knowledge (i.e., innovation). Stemming from the work by Caves, the cultural industries have unique properties that deserve more strategic and sustainable perspective due to its high-risk factors and artistic values. The next section explicitly demonstrates this relationship and show how these various concepts come together (refer to Figure 3).

## METHODOLOGY

This paper utilizes the new value-creating framework for the film company as illustrated in Figure 2. By applying this framework on the top MNCs from their respective home countries in the US, Japan, and China—the major players in terms of both demand and supply with huge production and consumer potentials—this paper compares how MNCs in the entertainment industry are enhancing their sustainable competitive advantages. Overall, this paper aims to show that in order to compete in the global market, LEs are critical assets of success not only because of their size and scale, but also because they allow other firms to join the value chain platform and enlarge the size of the ecosystem. Figure 3 illustrates how a business ecosystem is composed of the value chain activities of an MNC or LE that serve as the platform for other firms to join or network. This is not to say that SMEs do not possess the value chain platform; rather, this paper adopts other previous studies in directing that LEs have larger value chain platforms that create larger and extensive links for network (Moon, "Silicon Valley" 15).

According to the business ecosystem studies that look into the networked relationships among firms (Borgatti and Foster 993-996; Ghisi and Martinelli 461-465; Gulati, "Alliances and Network" 293-300; Gulati, "Network Location and Learning" 411-414; Gulati, Nohria, and Zeheer 203-215; Powell 300), the value chain of LEs serves as the platform of activities for different firms and organizations to network. Eventually this becomes the business ecosystem where an LE would

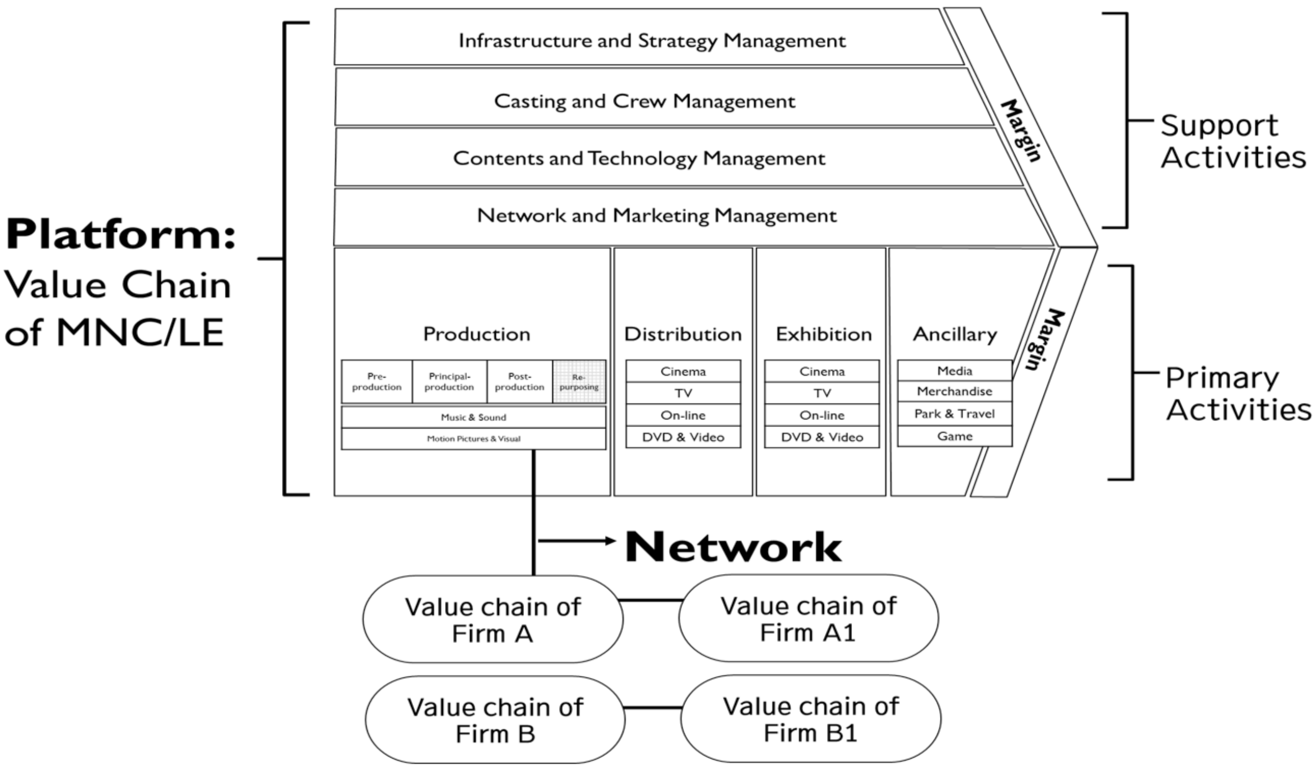


**Figure 3.** An Illustration of Business Ecosystem

Source: Modified from Lee ("Cooperation-based" 65)

function as the core business, keystone, or leader in the ecosystem (Iansiti and Levien; Moon, "Silicon Valley" 15; Quaadgras; Sawhney 54-55; Simpson et al.). As depicted in this figure, the network between LE and other firms (i.e., SME) allows them to co-operate and enhance synergy by co-existence, co-learning, co-creation, and co-evolution (Lee, "Cooperation-based" 66-70; Lee, "Strategy for Sustainable" 87, 102). This study employs this perspective in conducting a comparative case study of the top film-related companies in Korea's most important markets: the US, Japan, and China. These countries are essential not only for their large market size, but also due to their production capabilities and both revealed and potential competitiveness in the cultural contents industry including the film industry.

## A COMPARATIVE ANALYSIS OF MNCS IN THE ENTERTAINMENT INDUSTRIES

This section examines the three high-performing MNCs in the US, Japan, and China in the entertainment industries. By utilizing the new value chain framework for the film companies in the previous sections, the three MNCs are analyzed according to their growth trajectory and core capabilities followed by a brief description of each firm.

### 1. Walt Disney Company (US)

The Walt Disney Company (Disney, hereinafter) is a highly diversified mass media and entertainment MNC in the US that has a large global presence and impact. The company was founded in 1923 by Walt and Roy Disney under Disney Brothers Cartoon Studio. Since then, the company had succeeded in turning itself into an established leader in the US animation industry while successfully diversifying into other business areas including live-action films, TV network, theme parks, and travel. Currently, the Disney operates in four main business segments including studio entertainment, parks and resorts, media networks, and consumer products and interactive media.

A case study of Disney holds great value because it is the most successfully diversified firm in the motion pictures industry as it expanded into the two areas under production (i.e., music and film), four areas of distribution (i.e., cinema, TV, on-line, DVD/video), two areas of exhibition (i.e., TV, on-line), and four areas of ancillary activities (i.e., media, merchandise, park & travel, game). Support activities have also been strengthened mainly by acquiring technologies and contents. In fact, acquisitions within its support activities have created the most spillover effects onto the primary activities for Disney by allowing the firm to diversify its movies, and therefore, affecting its entire primary activities. This highly coordinated and diversified structure of Disney is what serves as the core of Disney's sustainable competitiveness.

Also, by expanding particularly through diversification in the contents and technology and media network, Disney is continuing to increase its channels for greater synergy. The media network is highly dependent upon successful contents creation. For example, contents such as films are dependent on channels and windows for viewership. Disney has increased the inter-dependence of its business areas and therefore increased synergy while reducing risk and cost. As part of a multi-industry firm, Disney's studio entertainment segments create spillover effects on other segments where despite its 14 percent share in overall revenue, it serves as the revenue stream for other business segments such as the media networks, parks and resorts, and consumer products and interactive media. Therefore, despite its relatively smaller portion in direct revenue output, the studio entertainment is inarguably the core business area and competence of Disney.

What Disney succeeded in terms of sustainable competitiveness is that it managed to raise its competitiveness in all of the linked activities by increasing convergence – a combination of diversity and synergy. Earlier studies on diversification discussed the degree of relatedness as the measurement of efficiency and success. However, diversification becomes effective not only from its innate relatedness in the input technology or resource, but also when the firm can manage to create additional relatedness from seemingly unrelated products or industry category such as in Disney's theme parks, hotels and resorts, and merchandizing.

Disney's theme park which eventually led to the company's growing business to parks and resorts, is a good example. Through its core competence in contents and characters, Disney created an ecosystem for entertainment. Seen from the industry perspective, connecting the motion pictures industry (i.e., Disney's animated film) to the travel and leisure industry (i.e., Disney Land) is a far stretch. From an academic perspective, the connection between the two areas can be understood when the categorization expands to the cultural industries because Disney Land would not fall under the copyright-based creative industries or the entertainment and media industries under the conventional industry classification. Also, from the theories of diversification, Disney's strategy is an exceptional example of unrelated diversification that turned out to be successful without much theoretical logic.

As in Appendix 1, the adoption of the value chain framework is useful in solving the gap between earlier studies on diversification and practice while providing a better explanation to the scope of cultural industries. First of all, by utilizing the terminology of cultural industries, Disney's example logically fits the definition and avoids problems in grouping Disney's business areas. Secondly, by adopting the value chain framework that distinguishes the motion pictures industry into four support and four primary activities, Disney's diversification is well-captured. The application of the value chain framework also allows better understanding on how competences render spillover effects. Also, the specific segments within the four primary activities show the current and future path for diversification that hints on sustainability.

### 2. Toho (Japan)

As the third largest economy in the world, Japan's globally competitive motion pictures industry is popularly known for its classic hand-drawn animations that are more adult-targeted, emotional, and lyrical. Japan's film industry in general is mainly divided into production, distribution, and exhibition companies. According to the *Contents Industry Forecast* published by Mizuho, many of Japan's motion pictures companies operate in vertically integrated model which led to prevalent block-booking problems. The top three firms in the industry is Toho, Toei, and Shochiku which take up the most share in the market in terms of movie admissions and revenue. Among these three, Toho owns 44.7 percent of the market share and holds its own exhibition outlet named Toho Cinema which is the second largest cinema complex in Japan with 626 screens including 2 IMAX and 4D features. However, with the motion pictures industry shrinking and experiencing intense competition, many of the firms are reducing production and investment, leaving Toho as the only notable LE that operates in all three segments.

Although founded in 1932 as a kabuki company, the current form of Toho was established in 1971, and its main business areas are divided into the motion picture department, theatrical department, and corporate real estate department. Within the motion picture department, the firm handles production, distribution, and exhibition of movies, TV programs, video software, and other business-related merchandizing rights (*Toho*). In terms of both market size and growth rate, Toho is the largest in Japan. It is best known as the company that produces Godzilla and special effects movies. The firm also handles the distribution of anime films of Studio Ghibli, an animation studio that produced the Oscar-winning film, *Spirited Away*, among other hand-drawn 2D animations such as the Totoro series and the Pokémon movies.

However, Japan's saturated market condition is now pushing Toho to rethink its strategy. In April 2015, it has drawn up a new vision plan called Toho Vision 2018. Under this medium-term management strategy, Toho had settled on strengthening three core business areas more competitively by expanding its movies, theatrical productions, and real estate. The company drew up five strategic plans: 1) enhancing the creation of its in-house contents and copyright business; 2) developing its character business starting with Godzilla; 3) building a global business model by building global partnership in contents and distribution; 4) expanding Toho Cinemas and increasing the value-added theater network; and 5) strengthening the company's real estate business through active M&As. Toho's financial strategy is to increase its revenue from real estate and more tangible resources in order to offset risky and fluctuating sales from the movie business (*Toho*).

Toho produces mainly Godzilla movies which began in 1954. Since then, the company has created 29 sequels in which 2016's *The New Godzilla* (*Shin Godzilla)* ranked the second most profitable movie by Toho after the mega-hit animation *Your Name* (*Kimi no na wa*) that grossed over US$ 235.3 million. In 2016 alone, Toho distributed 39 films inside Japan, most of which are animations of all-time bestseller series in Japan such as *Detective Conan, Doraemon, Pokémon*, and *Haikyu*. These steady-sellers that represent Japan's competitiveness in animation films are the core competence and reliable source of profit for Toho that distinguishes the company from other competitors such as the industry's second runner, Toei, which released 12 films with US$ 105.12 gross revenue and Schochiku which released 17 films with US$ 105.83 gross revenue from cinema admissions. Toho, with 57 released films and over US$ 540.13 gross revenue, is incomparably the first in Japan's motion pictures industry.

As mentioned above, Toho is now part of the Hankyu-Hanshin Group and has become one of the core businesses of the group; however, there is a less integrated link among the business units. For instance, the industry segments of the Hankyu-Hanshin Group include urban transportation, real estate, entertainment & communication, travel, international transportation, and hotel. Some of the business segments are comparable to those of Korea's Lotte and China's Wanda in terms of how they own hotels and real estate. However, these divisions are operated independently. Solely looking into the entertainment division of Toho, the company's units are motion pictures (production, distribution), Toho Cinema (exhibition), TV (exhibition), and real-estate (unintegrated ancillary). This shows that Toho is vertically integrated and possesses all of the business units in the primary value chain. However, the company's activities are narrowly focused with less spillover and synergy spreading throughout the value chain.

For example, Toho only makes Godzilla movies, and its competitiveness in movie production, contents, and characters is limited. As the company that created Godzilla movies since the 1950s, the technology and studio infrastructure are expected to be significant. However, apart from the studio renting services which serve as another revenue stream, spillover effects to other business units or the industry itself are not visible. As in its 2018 mid-term vision, Toho is planning to increase the merchandizing segment for Godzilla, and this is expected to be optimistic given that Japan has a uniquely strong market for characters and related merchandise. Toho's success in this new ancillary segment will depend on the scale of manias and fandom the company has accumulated through Godzilla.

Japan's animation films, which are globally famous for their differentiated hand-drawn 2D style, are as competitive as Hollywood's fancier and high-tech animated films such as *Shrek*, *Frozen*, and *Despicable Me*. Japan's vast pool in this type of animation, directors and artists whose names have become the brand, and studio themselves functions separately as an independent production firm. Since Toho was able to get the strongest foothold in distribution, it saw the opportunity in distributing these films rather than engaging in any other production activities. Nonetheless, this strategy was not bad. However, it still shows the under-integrated tendency of Toho's value chain activities. The ecosystem of Toho is less converged with less influence and dependence among the diverse activities.

### 3. Wanda Group (China)

China's Wanda Group (Wanda, hereinafter) entered the movie business in 2005 when it established Wanda Cinema Line (Wanda Cinema, hereinafter). Since then, Wanda Cinema has ranked first place in the cinema business and built 2,133 cinemas inside China by late 2016. The total revenue from box office is near US$ 960 million, taking up around 23 percent of China's entire revenue in the industry by 2015 (PwC 7). With good performance in the market, Wanda has begun to diversify by establishing its own production unit, Wanda Media, in 2009. The company also acquired China's Mtime, an online ticketing platform, in 2016 and took aggressive steps in domestic vertical integration.

Globally, Wanda actively engaged in M&As since 2012 and reached advanced markets including Hollywood. Wanda Cinema purchased US's AMC Entertainment's cinemas for US$ 2.6 billion. This was the beginning of Wanda's aggressive M&A in global exhibition markets. The company soon acquired US's Starplex Cinemas and Hoyts of Australia. This was followed by the acquisition of Carmike, US's third leading cinema exhibition company, and the acquisition of UK's Odeon & UCI cinemas for US$ 1.2 billion, all in 2016 (refer to Appendix 2). The combined money spent on acquiring these cinemas globally was estimated to be near US$ 5.92 billion in the period between 2012 and 2016. The acquisition of UK's Odeon & UCI has made the firm to hold around 15 percent of total global revenue in cinema business (KOFIC). Within Wanda, cinema business's profit grew by 49.98 percent from 2015 to 2016, and this raised Wanda Group's expected return from the movie business to US$ 23.35 billion for Wanda Cinema and US$ 1.87 billion for Wanda Media (Shih, "Dalian Wanda Group (B)" 2).

Wanda, which started as a real estate investment company in the city of Dalian, southern China, in 1988, has now grown into a diversified entertainment company. The company is carrying out massive M&As by vertically integrating film producers in Hollywood such as Legendary Pictures in 2016 for US$ 3.5 billion. This gave Wanda a stake of Universal's event pictures while separately owning a portion of the *Transformers* franchises and *Teenage Mutant Ninja Turtles* of Paramount. With this deal, Wanda became the first Chinese company to own a major Hollywood studio (Deighton 1; Shih, "Dalian Wanda Group (A)" 1).

According to *Variety*, Wanda is also negotiating with Paramount to acquire 49 percent of this Hollywood studio that filmed hit blockbusters such as the *Mission Impossible* series, *Star Trek into Darkness*, *Transformers: Age of Extinction*, and the classic *Forrest Gump* ("How Wanda Plans to Acquire Paramount"). Also, the company is initiating M&As with the big six Hollywood studios that deal with Hollywood movies' distribution, although the names were not mentioned. In an interview with Reuters, Chairman Wang Jianlin talked about how the company plans on buying Hollywood companies to bring their technologies to China ("Exclusive: China's Richest Man").

Appendix 2 summarizes Wanda's M&A activities based on the value chain framework to illustrate how the company is entering the film industry by expanding their business segments. Wanda went through a series of M&As and joint ventures in diverse areas related to film and entertainment. Wanda emerged as China's real estate company, building luxurious plazas and shopping malls in the country's urban areas. Gradually, by adding cinemas and other leisure-related businesses such as hotel to the company's physical platform for cultural activities, Wanda is expanding into diverse areas, including film, while increasing the synergistic combination of the separate business segments.

Apart from the struggle in overseas expansion, another outlet of growth for Wanda is the theme park. Chairman Wang had once announced that the company will open Wanda City in fifteen locations inside China. The constructions have been paving the way for a series of opening of Wanda City in Xishuangbanna, Harbin, Hefei, Nanchang, Wuxi, and Guangzhou. The company is also building the Wanda Cultural Tourism City in Nanchang. This place is filled with Wanda's own businesses from Wanda Mall, Wanda Vista Hotel, Wanda City (theme park), along with other dining places. The Qingdao Oriental Movie Metropolis, being constructed by Wanda, is another location where the diversification strategy of Wanda can be examined (McGee and Shih 5-7). Here, US$ 7.5 billion was spent as one of the largest-scale studio development projects that will allow Wanda to produce films and TV shows. The goal behind this construction is to become the Hollywood of the East and fulfill what "Chollywood" needs in order to become the hub of motion picture industry in the world.

Starting as a real estate company that deals with land, asset, and financing, Wanda's core competence in the original and overarching sense is in infrastructure. As Porter mentioned, the infrastructure includes corporate financing and legal administrations which would include careful planning while building a strong network and expertise with the banking and investment sectors. Therefore, having a lot of experiences and strong assets could support its aggressive financing operations and fulfill Wanda's strong push for M&As globally.

On top of Wanda's existing competence in infrastructure, the company's prior business success in property development such as Wanda Plaza and Wanda Hotel is similar to Lotte of Korea where the firm has prior competence in the hardware facilities of cultural entertainment. Similar to how Lotte's strategy was in filling in its massive shopping mall (the hardware) with cultural contents (the software) and thereby become a total cultural/entertainment provider inside Korea, Wanda's expansion scheme is similar. The differences between Lotte and Wanda are their speed and scale of integrating into more core film-related segment such as direct movie production.

Interestingly, both Lotte and Wanda have theme parks, although they are not as integrated and linked like those of Disney. As mentioned earlier, Wanda is creating massive studio infrastructure in Qingdao which would resemble Hollywood's studio base. However, without a core competence in the contents and characters like Warner Brothers or Disney, the theme park is merely a separate, independent cultural facility. There are less spillover effects or shared resources between Wanda's films and the theme parks. This is the same with other ancillary windows. Increasing these inter-linkages of resources and competences will require some time; however, since Wanda's core competence began with cultural hardware, the convergence effect is a logical step before the firm can become a true movie production company.

Wanda's expansion through convergence in cultural hardware facilities and contents development are two different strategies and directions. Wanda's decision to expand its exhibition, mainly the cinema division, is a rational direction. However, having no experience and prior resources other than finance may be a risky step. This is probably why Wanda had been more eager to acquire and partner with Hollywood studios and producers. The purchase of Legendary and the continuing negotiations to partner or purchase Hollywood studios and film-related technology firms is the fastest way to enter and acquire a competitive position in the market.

Until 2018, the number of films produced or distributed by Wanda is around 8-9 films per year. This is not a significant number, especially when distribution is considered. Although Wanda has a separate distribution division under the Wuzhou Film Distribution, the scale and scope of the films handled by Wanda have much to increase. Wanda's successful foreign import only includes *La La Land* and the rest of the films are lesser known to global viewers. Some of the titles include

*Police Story 3*, *Goodbye Mr. Loser, Running Man, The Great Hypnotist*, *Find Dragon, My Adolescence, Charlotte,* and *Let's Get Married.* Wanda has also produced a TV series called *Neighbors are Crazy Too* and *Who are Afraid of Love Before* released in 2014 (*Wanda Group*).

According to the industry report, Wanda Media took second place in the market share of Chinese film production, possessing 3.17 percent (KOFIC 4-5). The number one company was China Film with 4.08 percent. In film distribution, Wanda Media held fifth place with 5.2 percent market share after China Film, Huaxia Film, Enlight Pictures, and Bon Film who each held the market share of 32.8 percent, 22.89 percent, 7.75 percent, and 5.99 percent, respectively (*Box Office Mojo*). The rivalry with domestic film companies is intense and may not be an easy and quick accomplishment Wanda could achieve. Wanda needs to focus on how to increase synergy in its integrated cultural businesses of hardware and software. Up until late 2017, Wanda seems to struggle after its acquisition of Legendary. As this merger was one of the biggest hopes for Wanda's film production, building an effective and synergistically diversified business portfolio is in question. Also, the conflict with the Chinese government remains and Wanda's aggressive foreign acquisitions have come to a sudden halt since the late 2016. The Chinese government began to crack down on the company's foreign activities by introducing regulations specific to films, hotels and sports, and overall entertainment.

## IMPLICATIONS FOR KOREA'S MNCS AND *HALLYU* IN THE FUTURE

Korea's motion pictures industry was not vibrant until the mid-1980s. It was after liberalization and the globalization towards the late 1980s that truly sparked this industry's growth inside Korea (Parc 618-620). During the periods of 1988 and 1998, Korea's cinema was dominated by distributors that directly imported and screened Hollywood movies. This meant Korea's own competitiveness was not significant until 1998 when Korea's first Multiplex cinema chain was established and started the growth of Korea's own distributors. Also, the 1998 release of the movie called *Swiri* is agreed by many experts to mark the beginning of competitive film production in Korea (Park 189-193).

### 1. Analysis of CJ Entertainment

In 2001, the market share of Korea's domestic film grew by 46.1 percent in Seoul since its previous year. The market share of domestic film versus Hollywood film is undeniably high and comparable to that of rest of the world (Ko 9-10). The rivalry in the earlier days revealed that this industry was heavily owned by a number of major distributors. Korea's conglomerates established four distributors which controlled 84.7 percent of the film market in the beginning. It was the large conglomerates like CJ that began to expand horizontally and vertically in the film business. Vertically, these firms operated in production, distribution, and exhibition, while horizontally spreading out to other cultural-related industries such as cable TV, gaming, and music. For vertical integration, for instance, CJ Entertainment owns CJ CGV and Primus (now merged with CGV), Orion's ShowBox owned MegaBox (now acquired by Joongand Daily News Group), and Lotte Entertainment owns Lotte Cinema.

CJ has an integrated business model by owning the cinema exhibition, CGV. CJ E&M also has a strong and diverse cable channels such as tvN, channel CGV, XTM, and NGC that program and show a variety of entertainment programs such as food, travel, infotainment, and music. Channel CGV, in particular, is a movie channel where the company can directly show CJ's own distributed and produced films. CJ's revenue is mainly divided into media which includes the cable channels, the pictures which include exhibition and auxiliary, and the music and musical segment. Between 2016 and 2017, the average shares of media, pictures, and music were 73.8 percent, 12.1 percent, and 14.1 percent, respectively. As these figures show, CJ's core business area is the media segment which is growing steadily with increasing cable TV channels and viewers. Revenues remain strong from digital advertisement revenue and contents sales. Its strongest competitiveness comes from contents such as *3 Meals a Day*, *Show Me the Money*, *Producer 101,* and *Prison Playbook.* CJ has been successful in gaining high viewer ratings in diverse program areas from music, drama, and variety shows.

However, in the movie segment, success has been slow in 2016 when cinema revenue declined due to the sluggish box office rating of *The Battleship Island*, although revenue from ancillary increased slightly during this period. Fortunately, the all-time hit made from CJ's *1987: When the Day Comes* released in December of 2017 reached 6 million viewers into its fourth week of release. As these incidents show, as hinted by Caves (i.e., the *nobody knows* property), the fluctuations and difficulty in forecasting hit movies, are nonetheless among the critical business agenda for CJ. However, CJ's built-up competitiveness in the cable channel's contents production is helping the company experiment and invest on long term effects in movie production.

CJ's media contents division has one of the most diversified genres and channels as a cable network. Being able to utilize this network as a platform for contents, CJ has succeeded in expanding its broadcasting services online through DIA TV. This service's main business is streaming K-culture to global viewers by linking the producer networks. Established in 2013, DIA TV is forming a partnership with content producers in gaming, kids, entertainment, music, beauty, and food. It is servicing an ecosystem by connecting creators with global viewers (*CJ E&M*). Within the media contents division, TVING is another segment where CJ provides over the top (OTT) services of the firm's channels including tvN, Mnet, Olive, and Tooniverse.

The most significant division within CJ's media content is the Studio Dragon which succeeded in producing nationwide hit dramas including *Guardian: The Lonely and Great God*, *The Legend of the Blue Sea*, *Signal*, *Misaeng*, and *Bad Guys.* In addition to drama production, Studio Dragon is a core business of CJ that helps the firm to produce contents and programs for tvN, OCN, and other terrestrial TV channels in Korea such as SBS, KBS, and MBC. The contents and technology development done through Studio Dragon are nonetheless the strongest area of core competence for CJ. The network, know-hows, and technologies gained through drama production are paving the way for growth in CJ's production in films.

Applying the value chain framework, CJ's current competences are focused more on the media contents and network. However, CJ's long-term goal to move into the film industries by partnering with Cinema Service, which produced hit movies such as the horror series *Whispering Corridors*, *Attack the Gas Station*, *Kidnapping Granny K: Mission Impossible*, *King and the Clown*, *Silmido*, and most recently *The Map Against the World*, is still in the beginning stage. CJ's competence in film still remains around distribution and stronger in exhibition.

CJ's main activities in the film industry are developing, investing, and distributing domestic films. CJ also has the exclusive distribution rights of DreamWorks films. During 2014 and 2017, high-ranking films include *The Fortress*, *Real*, *Veteran*, *Ode to My Father*, *Roaring Currents*, *C'est Si Bon*, *The Merciless*, *The King's Case Note*, *Fabricated City*, *Confidential Assignment*, *The Master*, *The Handmaiden*, and *Operation Chromite.* Although these movies have not made top rankings, the portfolio of films distributed by CJ is relatively successful in the competition with subsequent domestic rivals in the industry such as Lotte and ShowBox. Mentionable hit foreign films include *Boss Baby*, *Kung Fu Panda 3*, and *Trolls* produced by DreamWorks, and *Teenage Mutant: Ninja Turtles*, *Transformers: Age of Extinction*, and *Noah.*

At the moment, CJ partners with small local production companies or directors for film production. *The Merciless* released in 2017 is an example of co-production with Pollux Baruson Inc. headed by director An Eun-mi. Another film they co-produced is *Make Your Move* released in 2014 with SM Entertainment and Rovert

Cort Productions although it did not turn into a big hit. Out of the 58 films distributed by CJ between 2014 and 2017, only these two involved CJ's productions. This again demonstrates that CJ's main competitiveness remains on exhibition and distribution. The company is trying to expand into production, which could benefit the company if it can utilize the resources and capabilities built from drama contents production.

In fact, much of the resources can be shared. For instance, the studio systems and the infrastructure that compose the production in terms of visual and sound effects, as well as the pool of scripts and artists are key resources CJ can take advantage of, for overall contents creation. The company is at an early stage of integration, and if Studio Dragon can operate to converge and diversify to film production, there will be more opportunities for CJ to succeed in production. CJ has less problems in distribution and exhibition to other venues with its diversified cable and online network.

### 2. Implications from the Four Comparative Analysis

The 1938-1948 *Paramount Case* of the US prohibited film distributors and studios from owning a major portion of cinemas. Due to the volatile and hard-to-expect nature of the motion pictures industry, major US studios frequently pushed for block-booking and blind-bidding. This caused many independent, small theaters from purchasing second-rated or B-class movies from the major studios without any choice. These two common practices hurt many small cinemas which eventually led to the separation of exhibition and distribution in the US.

Korea, in 2017, was under efforts to take a similar step in the motion pictures industry. With the increasing criticisms on the monopolistic behaviors of the top three cinemas (e.g., CGV, MegaBox, and Lotte Cinema) which already have a strong and scaled market presence throughout the nation, lopsided-screening has been a frequent problem.[2] So far, vertically integrated business of distribution and exhibition in Korea, China, and Japan seem to be a common practice. As the focus of this research is the LE, the selected companies from East Asia all possess their own exhibition cinema that supports the film business by providing a window for screening. Taking this difference into analysis, Disney is the only firm that does not possess ownership in cinema due to its domestic legal system in the US.

This section compares Disney, Toho, Wanda, and CJ. Table 1 summarizes the comparative analysis of the four MNCs and illustrates how diversification and network are formed through these four MNCs' platform of value chain activities.

In particular, Table 1 summarizes some of the key findings of the comparative analysis by focusing on the position of the firm's competence (support or primary activities), changing competence along the value chain (support or primary activities), degree of convergence (low to high), and degree of diversification within the culture-related business segments in the firm's value chain activities. Each of the findings demonstrates the area of firm's initial competence (second column), its new competence (third column), the relationship among the activities (fourth column), and scope of activities (last column).

| Firm | Competence (Support, Primary) | Change in Value Chain (Support, Primary) | Degree of Convergence | Diversification (culture-related) |
|---|---|---|---|---|
| **Disney (US)** | • Contents & Technology<br>• Production<br>• Distribution<br>• Ancillary (all) | • Existing → Existing & New<br>• Support: Enhanced, Diversified<br>• Primary: Diversified | High<br><br>Diversity: high<br>Synergy: high | • Network (TV/media)<br>• Ancillary (theme parks, travel, merchandise) |
| **Toho (Japan)** | • Production<br>• Distribution | • Existing → Existing & New?<br>• Support: Same<br>• Primary: Simple | Low<br><br>Diversity: low<br>Synergy: low | • Infrastructure (property, studio)<br>• Ancillary (merchandise) |
| **Wanda (China)** | • Infrastructure (investment)<br>• Exhibition<br>• Ancillary | • Existing → Existing & New?<br>• Support: To be seen<br>• Primary: Simple | Low<br><br>Diversity: high<br>Synergy: low | • Production<br>• Ancillary (shopping, theme parks, hotel) |
| **CJ (Korea)** | • Infrastructure (investment)<br>• Network<br>• Exhibition<br>• Ancillary (media) | • Existing → Existing & New<br>• Support: Enhanced, Diversified<br>• Primary: Simple | Medium<br><br>Diversity: high<br>Synergy: medium | • Contents & Technology (cable program, drama)<br>• Ancillary (media, game) |

**Table 1. A Summary of the Comparative Analysis**

As scholars of diversification and core competence argue, diversified multi-business firms enhance operational performance by utilizing their distinctive competences across most or all of their business units (Hitt, Ireland, and Hoskisson 140-142; Kiechel 34-39; Yavtiz and Newman 14-19). Also, as Yin examined, the emergence of multi-competence was found to be driven by the proliferation of convergence of multi-field technology and multi-functional products. This is the efficiency strategy behind the diversified LEs which needs to be studied in the case of cultural industries that may or may not have related sync in the sharing of resource and capabilities.

Among these four firms, Disney and Toho are the only ones that have directly and initially started as film-producing companies that caused them to begin with their core competences in the motion pictures. However, even the two firms are comparable in how their diversification and growth trajectory developed. Disney started as a hand-drawn animation company that managed to survive through aggressive M&As in contents and technology in order to strengthen its existing core competence while expanding throughout the value chain. As the previous section discussed, Disney managed to reinforce its existing capabilities rather than totally moving away from its core area. This was possible when Disney acquired high-tech firms in computer animation and visual effects (e.g., Pixar and Lucas Film). Disney enhanced its animation films by adding new technology, technique, contents, and characters and eventually moving on to new film areas of live-action movies (e.g., the Marvel series, *Beauty and the Beast* [2016]).

This also helped the company's production to become more diversified and expansive by finding new market segments (e.g., adults, boys) beyond princess stories. Also, Disney's earlier decision to distribute films through a separate affiliate, Buena Vista International, strengthened its distribution network. Toho, on the other hand, remained in simple production of Godzilla movies while focusing on improving its distribution network and platform. Also, as Toho possesses its own exhibition outlet, enhancing the distribution created synergy in both of these areas. The core competence of Toho remains simple and less-diversified.

Wanda shows an interesting comparison. Wanda started as an LE in real estate and consumer retailing by operating its own premium shopping centers. Through vastly expanding across their domestic market through retail services, the Wanda Group can be considered more of a hardware entertainment business moving into software contents business in the film industry. This means there would be less degree of resource and knowledge sharing in Wanda's diversification and expansion. The core competence began with its management skills in financing and property management. Therefore, the most direct core competence to the film industry, in which Wanda is a new entrant to, would be its infrastructure in the support activities of the value chain.

This is also true for CJ that grew and diversified from consumer products (e.g., food, textile). The biggest similarity among the Wanda Group and CJ (and perhaps Lotte although not analyzed in this paper) is their strong infrastructural base in business management as an incumbent LE. Their existing know-how and networks in retailing from selling consumer products have also been their core competence when they entered the cinema exhibition business. Wanda's core competence remains with exhibition, although they are both gradually moving backwards (or leftwards) into distribution and production.

CJ, in comparison, has accumulated more broadened multi-competence in terms of contents production and network platform. Although it began the cinema exhibition the earliest, CJ's diversification into the cable network and contents production (e.g., entertainment shows, drama) allowed the company to accumulate resources and capabilities in non-financial infrastructural base for film production. Its drama studio can be shared and turned into film production facilities. The company's network of script writers and drama contents also possess possibilities for film screenplays. Recent trends in Korea's contents creation has revealed a high cross-over in comics or webtoons, dramas, and films. Therefore, CJ's network and experience in contents are likely to create greater synergy effects in the long run.

Disney is carrying out more synergistic diversification by extending existing competences into new areas (i.e., both deepening and broadening; Moon, Lee, and Yin 8-9). On the other hand, Toho and Wanda are carrying out less synergistic diversification by developing new competences in new areas (i.e., only broadening their competences). CJ's synergy creation has yet to be seen, but with its growing competence in contents creation, the level of synergistic diversification is more optimistic and opens a chance for extending existing competences into new areas. For Disney and CJ, utilizing existing competences in new areas allows them to gain additional competences. This is because the motion pictures industry shows the importance of core competence other than the sales itself.

This also signifies the role of value chain framework because accumulating multi-competence throughout its value chain activities, including both primary and support activities, is a critical step in strengthening its sustainable competitiveness. Direct sales from the original, existing core competence may be lower, but it serves as the source of value and creates greater synergies such as in Disney's case. Therefore, all of its activities—including the support activities such as contents and technology development and network—are essential.

Sustainable competitiveness for LEs increases when the firm learns to enhance its support activities. This is because it can then influence all of its related activities in the primary segments. Disney, with its core competence in the support activities' contents and technology, is able to enjoy contents-utilizing cultural services in theme parks, TV programs, characters, hotels, merchandizing, and games. Therefore, for LEs to achieve long-term competence, they must be more efficient to enhance convergence by raising synergy among its diverse activities and resources. Diversity and synergy must converge throughout the value chain activities, in both support and primary activities. However, for greater spillover effects, strengthening its support activities may be more critical. In other words, it is not the number of activities or business segments the company holds that is important, but how the company increases integration and interdependence of each of the activities for synergy.

## CONCLUSION

With the growing importance of creativity, the cultural industries are critical areas of study because they encompass currently important topics in both social and business agendas – innovation, technology, non-economic values (e.g., artistic value), and creative talents. As Negus and Pickering mentioned, the idea of creativity is now an essential resource for economic development and personal growth. In addition, by studying the cultural industries that are closely linked to creativity, the contributive role of academia and business would be on how to view creativity in a sustainable manner and not as an intuitive and abstract concept. Since creativity is now a prime contemporary value and a resource to be mobilized by business, a business agenda should focus on improving sustainable competitiveness of this industry including *Hallyu*.

This paper has examined the role of LEs or MNCs in creating sustainable competitiveness in the cultural industries by examining the three most high-performing MNCs from the US, Japan, and China. Through this comparative analysis, important implications are drawn on how MNCs in the global competition for film are enhancing their competitiveness by expanding and acquiring new competences. The new value chain framework, which has been introduced in this paper as the theoretical framework, allows us to see how firms enter the industry and find differentiated growth paths by exploring and acquiring new resources and capabilities and transform into a multi-competence enterprise.

The Korean government that has been focused on growing SMEs under policy goals to achieve diversity and balanced growth can examine these cases from abroad and find the next growth model for *Hallyu*. This paper argues that due to the different roles and functions in the value chain, LEs and SMEs are not in competition but are in co-operative relationship through the value chain platform that ultimately expands the size, scale, and diversity in the business ecosystem.

In order to assess the shared value that is created in the film industry, the framework introduced in this paper provides additional value when aligning the firm's social contribution according to the value chain activities. For instance, Disney's Accelerator program operating since 2014 has led to the facilitation of new startups that are focusing on the technology development for the new media and entertainment industries. By supporting these new startups, Disney was able to train and teach, but Disney was also able to enhance its own technology when these firms sold or integrated these newly-developed technologies to Disney's diverse business segments. Although this study has mainly focused on the business activities of the four MNCs in entertainment, the value chain framework holds possibility to specifically examine the society-business aspect of shared value for further studies. Also, more firms can be included to provide more systematic and comprehensive implications for the role of LEs and SMEs. By adding quantitative measurements to this value chain approach, there is great potential for research stemming from this analysis.

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## Notes

1. This paper adopted and modified the unpublished Ph.D. dissertation by Yeon W. Lee, "The Strategy for Sustainable Competitiveness: Theoretical Extension and Application to the Global Conglomerates in the Cultural Industries." Seoul National University, 2018.
2. For example, CJ's distributed film *The Battleship Island* in 2017 was criticized for taking up 2,027 screens out of the 2,575 screens nationwide. This was the largest monopolistic scheme that received an unprecedented level of public criticism. There were demonstrations to boycott the movie from many civil groups.

 

**Appendix 1. Summary of Disney's M&A in the Value Chain**

| Value Chain Activity | Acquired Firm (year) | Description |
|---|---|---|
| **Support Activities** | | |
| **Contents and Technology Management** | Pixar (2006)<br>Lucasfilm (2012)<br>MakieLab (2016)<br>BAMTech (2016) | → Computer graphics software and visual effects<br>→ CG, sound, lighting along other visual effects<br>→ 3D printing technology<br>→ Technology infrastructure for streaming |
| **Marketing & Network Management** | Capital Cities/ABC Inc. (1996)<br>Fox Family Network (2001)<br>BAMTech (2016) | → Television network and ESPN cable service<br>→ Cable channel built on model of broadcast network<br>→ Direct-to-consumer streaming service |
| **Primary Activities** | | |
| **Production** | Saban Entertainment (2001 -2010)<br>The Muppets (2004)<br>Pixar (2006)<br>Marvel Entertainment (2009)<br>Lucasfilm (2012) | → Total 7 *Power Rangers* seasons, video game<br>→ Total 25 TV/feature films and TV/web series<br>→ Total 13 feature films, video games (stopped in 2016)<br>→ Total 25 feature films and short films (as of 2017)<br>→ Total 3 films as of 2017 (3 more films by 2020) |
| **Exhibition** | Capital Cities/ABC Inc. (1996)<br>Fox Family Network (2001) | → Television network and ESPN cable service<br>→ Cable channel built on model of broadcast network |
| **Ancillary** | The Muppets (2004)<br>Pixar (2006)<br>Marvel Entertainment (2009)<br>Lucasfilm (2012)<br>MakieLab (2016)<br>BAMTech (2016) | → The Muppets Studio characters and trademark<br>→ Character merchandizing (ex: Toy Story, Cars)<br>→ Character merchandizing (ex: Spider-Man, Avengers)<br>→ Character merchandizing (ex: Star Wars)<br>→ 3D printing for dolls<br>→ Multi-channel video subscription system |

**Appendix 2. Summary of Wanda's M&A in the Value Chain**

| Value Chain Activity | Acquired Firm (year) | Description |
|---|---|---|
| **Support Activities** | | |
| **Contents and Technology Management** | Legendary Pictures (2016)<br>Sony Pictures (2016): Partnership | → not yet found<br>→ not yet found |
| **Marketing & Network Management** | Omnigon (2016)<br>Mtime (2016) | → Consulting for sports, media, entertainment mobile apps and websites<br>→ Online ticketing platform (China) |
| **Primary Activities** | | |
| **Production** | Legendary Pictures (2016)<br>Sony Pictures (2016): Partnership | → Ownership to Legendary Pictures' movie titles<br>→ Joint investment in Sony movies |
| **Exhibition** | AMC Entertainment (2015)<br>Hoyts (2015)<br>Starplex Cinemas (2015)<br>Carmike Cinemas (2016)<br>Odeon & UCI (2016) | → 386 cinemas, 5335 screens (US)<br>→ 43 cinemas, 499 screens (Australia, New Zealand)<br>→ 33 cinemas, 346 screens (US)<br>→ 276 cinemas, 2955 screens (US)<br>→ 242 cinemas, 2236 screens (UK)<br>→ 242 cinemas, 2236 screens (UK) |
| **Ancillary** | EuropaCity (2016) | → US$ 3bill investment<br>→ Mega-theme park/resort/retail/sports project (France) |

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