

# Chapter 9

## Managing Global Expansion in the K-Pop Industry: Strategic Lessons from YG Entertainment



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### 9.1 Introduction

In the South Korean music industry, exports in 2018 were 37 times bigger than imports, revealing the critical strategic importance of the music industry to the South Korean economy (Music Ally, 2020; Sinha, 2019). Within the broader music industry, the South Korean pop music, or K-pop, industry is a particularly significant driver of international demand for South Korean cultural exports (Cha & Kim, 2011; Oh & Lee, 2014; Parc & Kim, 2020). The K-pop industry has experienced a remarkable growth trajectory in the last decade, with growth rates in 2018 reaching nearly 18% (Kelley, 2019). Given its significance in the South Korean export economy, the K-pop industry provides an important context in which to examine the strategic actions of Asian multinational firms in international markets.

It is difficult to quantify the exact number of K-pop groups, but there are over 200 well-known acts (Kpop College, 2020). In 2020 alone, over 30 new groups debuted (AllKpop, 2020a). The K-pop genre, marked by sharp choreography, bold hair and clothing, and sex appeal, is propelled by four major players: SM Entertainment, YG Entertainment, JYP Entertainment, and Big Hit Entertainment (Kwon, 2015). SM, YG, and JYP have been engaged in direct competition for over two decades, with founding dates of 1995, 1996, and 1997, respectively, with JYP Entertainment operating on a somewhat smaller scale in comparison to SM and YG. Traditionally, these firms comprised the “Big Three” of the K-pop industry (So, 2021). As illustrated in Table 9.1, Bit Hit, which was established in 2005, has only become financially relevant to the other three firms within the last several years, owing largely to the huge success of their group BTS (Bruner, 2019). Bit Hit’s ascendance now creates an industry dominated by four major players (So, 2021).

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**Table 9.1** Total revenues of K-pop record labels (in USD million)

Year of Establishment	Record Label	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
1995	<b>SM</b>	87.1	129	241	268	286.9	280	313	350.3	518	543	395.6
1996	<b>YG</b>	51.8	70.3	96.9	116.6	156.3	170	286.4	321.5	243	218	158
1997	<b>JYP</b>	9.1	17.8	13.5	21.4	48.5	50.6	69.5	94	107	128	92.8
2005	<b>BigHit</b>								82	192	483	716.7

Sources: AllKpop (2020a), Bloomberg (2013a, 2013b, 2013c), Cho (2020), Peoples (2021), Stassen (2020), Tan (2019)

Among the top four K-pop record labels, both YG and SM have demonstrated the greatest market power over time. It is noted by Yeom (2014) that YG and SM took different strategic paths during their international growth, with SM focusing primarily on Asian markets, and YG looking more towards a mix of Western markets and Asian markets. This chapter focuses on the case of YG Entertainment, one of the two largest and more established of the top four K-pop firms. We selected YG as our focal firm because of its greater diversity of international market focus in its early development. Our focus on YG Entertainment also provides complementary insight to an earlier case study of SM's international strategy (Pratamasari, 2017).

Case studies aim to understand dynamics within a single setting (Eisenhardt, 1989). The case study approach has been used in the management literature for a variety of purposes including description and understanding (Kidder, 1982), theory testing (Anderson, 1983), and theory generation (Gersick, 1988). We adopted a case study approach for the purpose of generating description and understanding of the strategies used by a successful K-pop firm across a range of international markets. We directed our effort to archival research of YG's market entries in Japan, China, and the United States over the last two decades. We selected Japan and the United States as these are the top two music markets worldwide according to the most recent Global Music Report of the International Federation of the Phonographic Industry (see Table 9.2). We also included China, given its status as South Korea's largest trading partner (Teixeira, 2019) and the forecast of industry analysts that China has the potential to become the world's largest music market (Shim, 2014). This chapter contributes to the growing literature on international strategy in the K-pop industry by focusing specifically on a major K-pop firm's strategic responses to the cultural and political challenges of three different international markets. Our analysis of YG's strategies reveals five core strategic themes that support YG's international success.

In the next section of the chapter, we briefly summarize earlier management research on the K-pop industry. We also address the international strategy concepts behind our analysis, focusing on Ghemawat's (2001) concept of distance between nations. In the following section, we give an overview of some key challenges for K-pop firms in the three key markets of Japan, China, and the United States. Next, we provide an overview of YG Entertainment and summarize the key strategic themes we derive from YG's approaches to these three international markets. We conclude with a summary of the implications and limitations of this chapter and some directions for future research.

**Table 9.2** The top 10 music markets in 2019

Rank	Market
1	The United States
2	Japan
3	The UK
4	Germany
5	France
6	South Korea
7	China
8	Canada
9	Australia
10	Brazil

Source: IFPI (2020)

## 9.2 Literature Review

Numerous scholars have investigated the causes of K-pop’s rapid growth and global success (see, among others, Ho, 2012; Lie, 2012; Shin, 2009). Parc and Kim (2020) have investigated the role of digitization in the globalization of K-pop. Pratamasari (2017) has studied the role of traineeship and B2B (business-to-business) cooperation in the K-pop industry, while Oh and Rhee (2016) have attributed the international success of K-pop to strategic talent management, social media, and the localization of product offerings. Jung and Shim (2014) further explore the strategic collaboration between K-pop firms and global social media companies. This chapter aims to contribute to this growing body of literature by considering how the strategies of K-pop firms address the cultural and political challenges that international markets present.

This chapter builds on the concept of distance developed by Ghemawat (2001). Ghemawat defines four types of distance between nations that firms need to take into account when assessing international market opportunities and risks: cultural distance; administrative distance; geographic distance and economic distance. Cultural distance between nations is linked to differences in religious beliefs, race, social norms, and language. According to Ghemawat, cultural distance affects consumer preferences and is salient to firms in the media industry or other industries with high linguistic content. As an industry that contains a high degree of linguistic content, as well as a high reliance on cultural references in both lyrics and music videos, the pop music industry can be considered as being highly sensitive to cultural distance.

Administrative distance between nations is due to differing government policies between nations and/or different levels of enforceability of policy or law (Ghemawat, 2001). Absence of a shared currency and political hostility further increase administrative distance. According to Ghemawat, administrative distance is particularly salient in industries where government has a high level of involvement. Typically,

these include industries that exploit natural resources, relate to national security, or produce essential goods such as electricity or communication. In addition, Ghemawat notes that industries that are “national champions” are also affected by administrative distance. Such industries reflect a form of patriotism and can serve as symbols of a country’s modernity. The pop music industry has attracted significant government attention in both South Korea and Japan. For example, the Japanese Ministry of Economy, Trade, and Industry launched the “Cool Japan” strategy in 2012, which aimed to promote Japan’s creative industries, including pop music, both at home and overseas (Craig, 2019; Nagata, 2012). In addition, Miniano (2020) notes that the South Korean Ministry of Culture has an entire department devoted exclusively to the promotion and development of K-pop. The pop music industry is thus considered as highly sensitive to administrative distance.

Geographic distance between nations stems from the actual distance in kilometers between countries, but also by weakness in transportation networks or access to ports, waterways, and airports (Ghemawat, 2001). Geographic distance typically has the most effect on industries in which there is a low value to weight ratio, such as cement, or perishable products such as fresh fruit, and is accordingly of less significance to the K-pop industry.

Economic distance between countries is shaped primarily by differences in consumer incomes or spending power (Ghemawat, 2001). In the pop music industry, however, it has been noted that consumers are not particularly price sensitive (Shulman, 1980), and thus this dimension of Ghemawat’s framework may be less salient to K-pop. Although analysts have observed that there is less willingness of Chinese consumers to pay for the music content they listen to in comparison to music consumers in other nations, this observation has been attributed more to the traditionally high levels of music piracy in China rather than to lower consumer spending power. (Tsoi, 2018). In sum, building on Ghemawat’s concept of distance between countries, K-pop can be defined as an industry that is highly sensitive to both cultural distance and administrative distance, but is less sensitive to geographic distance or economic distance.

### 9.3 Challenges for K-Pop in Three Key International Markets

Global interest in various layers of South Korean culture has risen substantially in the past few decades. *Hallyu*, or the Korean Wave, is a term used to describe this increased global interest in South Korean culture since the 1990s (Farrar, 2010). Korean cuisine, television dramas (K-dramas), and K-pop are all facets of the *hallyu* phenomenon and have had a significant effect on the South Korean economy. According to data released by the Korean Foundation for International Cultural Exchange (KOFICE), *hallyu*-related exports came to \$US 12.3 billion in 2019, up 22.4% from 2018 (Yonhap News Agency, 2020). As noted in the introduction, the

K-pop industry has been a particularly significant driver of growth for South Korean cultural exports (Cha & Kim, 2011; Oh & Lee, 2014; Parc & Kim, 2020). The South Korean music market has had a remarkable growth trajectory in the last decade, and experienced a 17.9% increase in revenue growth in 2018 (Kelley, 2019).

With just one percent of the world's population speaking the Korean language, the efforts of K-pop firms outside of the Korean peninsula remains vital to their future growth (Martin, 2019). Interestingly, despite this language barrier, K-pop fares well alongside both other Asian music products and anglophone hits. Messerlin and Shin (2017) used a visibility ratio of YouTube clicks divided by native speakers to examine the visibility of pop music in the digital economy. Their research reveals that K-pop hits have a 60% higher visibility ratio than their anglophone hits counterparts (see Table 9.3).

Understanding how K-pop firms transcend language and other cultural barriers is an important part of understanding their global success. As discussed earlier, the pop music industry is highly sensitive to both cultural and administrative distance between nations and firms need to account for such distance in their strategies when entering international markets. We now explore some of these challenges in three key international markets for K-pop: Japan, China, and the United States.

### 9.3.1 Japan

As of 2020, Japan is the largest music consuming market after the United States, so it is no surprise that K-pop has seen an important presence here (IFPI, 2020; Smirke, 2020). The popularity of K-pop in Japan draws on Japanese consumers' strong interest in South Korean popular culture, initially fueled by the popularity of Korean melodramas (K-dramas) such as *Winter Sonata* which first aired in 2003 (Joy, 2017). That same year, K-Pop made its first big inroads into Japan, with SM's female artist BoA. Following BoA's success in Japan, K-pop boy bands such as SM's TVXQ and YG's Big Bang made significant entries into the market (St. Michel, 2011). Although Japan has their own internal pop music market, coined J-pop (Craig, 2019), Japanese consumers still rave over K-pop's offerings. In fact, many K-pop stars are in fact Japanese, including May (Cherry Bullet), Hitomi (IZ\*ONE), and Juri (Rocket Punch) just to name a few. The increased visibility of Japanese figures in modern K-pop has launched a wave of young Japanese girls relocating to South Korea and paying up to \$US 3000 for K-pop prep programs (Park, 2019).

The popularity of K-pop in Japan has been attributed to a number of features. One is the inherent international element of K-pop which has taken many cues from Western music, including European electro house and American R&B (St. Michel, 2011). A second element is the higher quotient of sex-appeal of K-pop stars beside the relatively conservative Japanese artists. For example, it has been suggested that while J-pop places a higher emphasis on adolescent cuteness, K-pop stars in comparison are presented with a more mature sexualized presence (Kelley, 2019; St. Michel, 2011). Although K-pop's musical style and image differentiation from

**Table 9.3** Pop music visibility in a digital world: selected biggest hits

Performers	Year	Titles	Clicks YouTube (million)	Native Speaker (million)	Clicks per native speaker
<b>Megahits</b>					
PSY	2012	Gangnam style	2463	56	43.98
Justin Bieber	2010	Baby	1247	360	3.46
Stromae	2013	Papaoutai	308	74	4.16
<b>UK/US</b>					
Adele	2010	Rolling in the deep	765	360	2.13
Adele	2015	Hello	545	360	1.51
Justin Bieber	2015	What do you mean	380	360	1.51
Justin Bieber	2015	Sorry	230	360	0.64
<b>Total</b>			<b>1920</b>	<b>1440</b>	<b>1.33</b>
<b>South Korea</b>					
Big Bang	2012	Fantastic baby	187	56	3.34
Big Bang	2015	BangBangBang	83	56	1.48
2NE1	2011	I am the best	138	56	1.48
Girls Generation	2011	The boys	129	56	2.30
Girls Generation	2013	I got a boy	148	56	2.64
Girls Generation	2015	Party	47	56	0.84
<b>Total</b>			<b>732</b>	<b>336</b>	<b>2.18</b>
<b>France</b>					
<i>Music benefitting from the French radio-quotas policy</i>					
Johnny Hallyday	2007	Je te promets	10	74	0.13
Mylène Farmer	2010	Oui mais non	7	74	0.09
Stromae	2013	Formidable	131	74	1.77
<i>Music not benefitting from the French radio-quotas policy</i>					
Daft Punk	2013	Get lucky	237	360	0.66
David Guetta	2014	Dangerous	105	360	0.29
<b>Japan</b>					
AKB48	2010	Heavy rotation	121	125	0.97
Exile	2014	24 world	12	125	0.09
E-girls	2015	Anniversary!	11	125	0.09

Source: Messerlin & Shin (2017)

J-pop has been considered to be the basis of its success, K-pop artists still require substantial language and cultural training in order to release songs in Japanese to gain mainstream popularity (St. Michel, 2011).

The Korean wave has not been met without pushback in Japan. The country's nationalistic trends have been underlined by anti-Korean wave sentiment in which crowds have taken to the streets to protest the presence of excessive South Korean cultural exports to Japan (Park, 2014). In addition, the Japanese Ministry of Economy, Trade, and Industry launched the "Cool Japan" strategy in 2012 which aimed to promote Japan's creative industries both at home and overseas and

strengthen the cachet of the Japanese national brand (Craig, 2019; Nagata, 2012). K-pop firms have thus faced not only competition from each other and local J-pop talent, but also from the Japanese government itself.

### 9.3.2 *China*

As the most populous country in the world, with growing affluence, China is at the center of K-pop's radar, with the potential to become the world's largest music market (Shim, 2014). China's music industry is currently ranked as the seventh largest in the world (see Table 9.2), exhibiting significant growth from their rank of 12th in 2018 (Pastukhov, 2019). 25% of South Korean exports are destined to China, making it the nation's biggest trading partner (Teixeira, 2019). Among other notable exports such as smartphone chips, Korean wave (*hallyu*) products such as K-pop and K-dramas became hugely popular in China earlier this decade, driven by a growing middle class with significant disposable income, and a relatively open international exchange (Teixeira, 2019). Most Chinese millennials were introduced to K-pop in the 1990s, when mainland China music magazine Modern Music Scene frequently featured 90s K-pop acts (Shuhong, 2020). The later rise of *hallyu* in China has been considered to coincide with the Chinese state's liberalization of the media, the growth of the media industry, and the rising home ownership of media devices (Sun & Liew, 2019). Similar to the previously mentioned trend in Japan, Chinese youth are also drawn to K-pop stardom. Some notable Chinese K-pop idols include Anthony (VARSITY), Jun (Seventeen), and Lay (EXO) (Shuhong, 2020). K-pop groups have a notable presence on Chinese social media giant Weibo, with groups like BTS (known as 防弹少年团, or "Bulletproof boyscouts" in China) boasting millions of followers (BTS, n.d.).

However, for many South Korean musicians, China has been a difficult market to tap because of strong government restrictions on imports and the broadcasting of foreign cultural content, as well as heightened risk of copyright infringement (Shim, 2014). In 2011, China's digital music piracy rate was 99%, according to a report by the International Federation of the Phonographic Industry. However, substantial transformation in the Chinese music streaming market over the last decade, driven by major players Tencent, NetEase, and Alibaba, has completely changed the way Chinese consumers listen to music (Tsoi, 2018). Recent estimates suggest 96% of consumers now listen to licensed music which substantially changes the profitably prospects for K-pop labels (Tsoi, 2018).

Most recently, K-pop's biggest barrier to success has been political tension. South Korea's decision to partner with the United States in building the THAAD rocket defense system over the Korean peninsula pushed China to ban all *hallyu* content, including K-pop, in 2016 (Sanchez, 2016; Teixeira, 2019). As of 2020, the ban is officially lifted, although many K-pop acts are facing difficulty regaining popularity. Rising nationalistic ideations such as 国家面前无爱豆 (the fate of my nation outweighs the passion for my idol), and the risk of other foreign content bans



in the future, pose a significant barrier to the Chinese market for the K-pop industry (Luo & Zheng, 2020).

### 9.3.3 *United States*

The United States is not only the largest music market in the world (see Table 9.2), but also occupies the strategically important role of trendsetter in the global music industry. As of March 2019, over 70% of the songs on Spotify's Global Top-50 playlist were recorded by US-based artists, showing that the influence of the US spreads far beyond the country's borders (Pastukhov, 2019). K-pop has seen a recent spike in popularity in the world's largest music consuming nation with K-pop moving from the space of a specialized genre into mainstream popularity. For example, in 2018, K-pop group BTS sold out more than a dozen concerts in the United States (Herman, 2018b). In 2019, BlackPink's appearance at the California festival Coachella marked a historic moment in the industry as they became the first K-pop girl group to ever play in a US festival (Barlow, 2019). Collaborations between American and K-pop artists are also on the rise, with songs such as *Sour Candy* (Lady Gaga & Blackpink) and *Boy With Luv* (BTS & Halsey) debuting on the American Billboard Top 100.

American interest in Korean entertainment is far from novel. During the Korean war (1950–53), Korean singers performed for American troops (Saeji, 2020). That same decade, the Kim sisters traveled from Korea to Las Vegas for their infamous performances on American stages and television. Over the past quarter century, however, K-pop has seen an evolution from this primary, folk-based influence that Americans enjoyed in the twentieth century to the highly choreographed and commercialized K-pop of today.

In 2018, the top music genres in the United States were hip-hop, pop, rock, and R&B (Watson, 2019). It is thus no surprise that K-pop, a calculated blend of pop synths, rap-like verses and R&B style would be appealing to this immense music market. Major K-pop artists such as BTS, Rain, and CL have acknowledged the large influence that African-American musical style and culture has had on their own music and video productions (Hurt, 2018). However, for many, this influence has crossed over into charges of cultural appropriation and a call for the K-pop industry to acknowledge more strongly their debt to black culture (Inoue, 2020). Such acknowledgment is an important element to engage the US fan base where K-pop "stans," or supporters, in the United States have rallied strongly behind the Black Lives Matter (BLM) movement (Darby, 2020; Hong, 2020). Many K-pop artists have responded with greater media and financial support, such as the pledge of K-pop group BTS and their management company Big Hit Entertainment of \$US 1 million in support of the BLM movement (Saeed, 2020).

Another challenge to K-pop in the US market is the marked lack of Asian personalities in American entertainment. One study noted that despite people of Asian descent comprising 6% of the US population, Asian-Americans represent less than



1% of all leading Hollywood roles (Force, 2018). This apparent systematic exclusion of Asians from success in American media may serve as one of K-pop's biggest barriers in this hyper-competitive market.

## 9.4 Strategic Lessons from YG Entertainment

### 9.4.1 Overview of YG Entertainment

YG Entertainment was founded by Yang Hyun-suk in 1996. As one of the top four K-pop record labels, YG achieved revenue in 2020 of \$US 158 million (see Table 9.1). YG currently represents over 20 major K-pop artists including Blackpink, Big Bang, and Treasure, just to name a few. YG was also the driving force behind the internationally successful girl group 2NE1, which has since disbanded, and the infamous PSY, of *Gangnam Style* fame, who has since left YG to work independently. YG made their first big international expansion with the powerhouse boy band quintet Big Bang in Japan in 2008. Fast forward to today, Big Bang are widely recognized as the “Kings of K-pop” and as one of the most successful K-pop acts in history (Straits Times, 2016). YG's growth strategy has entailed targeting a more diverse range of international markets from the beginning than its longstanding rival SM (Yeom, 2014). It has also been noted that YG's organizational culture is less rigid than its competitors, with artists allowed to have more freedom to make their own choices about musical style and image (Yeom, 2014). These characteristics make YG a particularly interesting case in which to explore a K-pop firm's strategic responses to the challenges of cultural and administrative distance in international expansion. Our review of YG's approaches to the markets of Japan, China, and the United States reveals five core strategic themes from which other firms may learn.

### 9.4.2 Theme 1: Local Adaptation and Leveraging Local Knowledge

YG Entertainment has employed several classic strategies to mitigate the barriers of cultural distance between nations. In some instances, YG has engaged in substantial adaptation of products to meet the unique needs of particular international markets. For example, before introducing the powerhouse boy band quintet Big Bang to the mainstream Japanese market in 2009, the five members all underwent intensive Japanese culture and language training (Oh & Rhee, 2016; Lu, 2016). The names of three of the five member were changed so that they would be easier for Japanese fans to pronounce, and albums were released with a combination of English and Japanese songs (Lu, 2016).

YG has also established partnerships with local firms for promotion, leveraging the knowledge, reputation, and networks of their local partners to gain greater access to local consumers. For example, YG partnered with Universal Music Japan, a subsidiary of Universal Music Group, to support Big Bang's promotion in Japan (Lu, 2016). In China, YG has partnered with China's social media giant Tencent, allowing them exclusive distributions rights for all music and videos on their leading QQ music platform. This partnership allows YG to leverage Tencent's extensive user reach and platforms such as WeChat (Weixin) and QQ in order to increase the reach and distribution of YG artists across the Chinese market (Frater, 2016). YG and Tencent also have announced plans to co-produce media content (Frater, 2016), allowing YG to develop further local responsiveness in content development.

A further strategy YG has used for many years to gain more traction with foreign consumers, particularly in the US market, is through collaboration with local artists. For example, G-Dragon has partnered with American recording artist Missy Elliott (Lent, 2013) and BlackPink has collaborated with American superstars Selena Gomez and Lady Gaga (Maiike, 2020). In sum, YG provides examples of a variety of local responsiveness strategies to combat the challenges of cultural distance and help expand their success and reach in different foreign markets.

### 9.4.3 Theme 2: Balancing Adaptation and Authenticity

While YG has experimented with a range of adaptation approaches of its artists over the years, another key strategic lesson that emerges is that adaptation may also have its pitfalls, and over-adaptation to foreign markets runs the risk of losing authenticity. This lesson is particularly well illustrated in the example of the artist Se7en's market debut in the United States in 2009 with the track *Girls*. Prior to entering the US market, Se7en spent 3 years perfecting his English and studying the American club sounds of the era (Liu, 2008; Lu, 2016). The *Girls* music video features dominantly American cultural references and themes, a non-Asian cast, a feature by American artist L'il Kim, and a very American-sounding Se7en singing in perfect unaccented English. However, in over-adapting to the US market, Se7en failed to differentiate his music from the intensely competitive US market. For example, following the release of the *Girls* music video (MV), reviews posted on the K-pop music site *Popseoul* noted the video's lack of authenticity with such comments as "this looks like a million other American hip-hop style MVs" and "he needs to stop copying every other U.S. video out there" (Popseoul, 2009). In the end, Se7en's US debut was singularly unsuccessful (Oh, 2011); despite the substantial preparation and adaptation, Se7en retreated from the US market and returned to South Korea (Herman, 2014; Lu, 2016).

This lesson in balancing adaptation with authenticity is particularly poignant when contrasting Se7en's US debut with the release of PSY's *Gangnam Style* 3 years later. Although much can be made of the sheer novelty behind the viral spread of *Gangnam Style*, there are some core strategic issues underlying PSY's

hugely successful US debut. While Se7en did not leverage his national origin, PSY made ample use of K-pop's rising global appeal, with the song unapologetically sung largely in Korean, a dominantly Asian cast in the music video, and numerous South Korean cultural references. Furthermore, rather than focusing the music video on an American setting, cast, and cultural references, PSY captured universal themes such as humor and the satirizing of materialism, as well as offering the complementary product of the now-famous "horse dance," which transcended cultural borders (Chang, 2012). These universally appealing features, coupled with "just enough English" in the chorus to allow global consumers to connect to the song, helped fuse the attributes of authenticity and local appeal.

A similar tension between adaptation and authenticity was evident in CL's positioning within the US market in her debut American single *Lifted* in 2016. *Lifted* displays a strong musical influence of American hip-hop, in particular the legendary 1990s US hip-hop group Wu Tang Clan's *Method Man*. (Kim, 2016a). American rapper Asher Roth co-produced the song while CL wrote the all-English lyrics, and the music video, which features CL roaming an inner-city neighborhood in New York, was filmed by popular American director Dave Meyers. Promotion was managed by American talent manager Scooter Braun, who also discovered Justin Bieber and helped PSY with his debut in the United States (Kim, 2016a). However, CL's efforts to adapt to, and market directly to, an American audience also raised sharp criticism of cultural appropriation and charges of a disconnect between "hip-hop culture in the social justice context of America and the mass-marketed, displaced production of CL's English songs" (Lee, 2017).

A further issue with CL's US debut of *Lifted* was that the explicit references to drugs and alcohol caused some disenfranchisement with CL's more conservative South Korean fan base (Kim, 2016b). Collectively, these market entry experiences of YG suggest an important lesson for firms in recognizing the importance of retaining authenticity and the connection to domestic consumers when engaging in foreign market adaptation strategies.

#### **9.4.4 Theme 3: Shifting to Local Production to Mitigate Administrative Distance**

As discussed earlier, the Chinese market represents a very large and growing market for the K-pop industry (Teixeira, 2019). However, the political tension between South Korea and China, as well as risk of music piracy within the Chinese context (Shim, 2014; Teixeira, 2019), represents substantial hurdles of administrative distance for firms such as YG. An interesting trend has emerged in the K-pop industry of a shift from export towards local production in China as a means to mitigate these challenges. In 2018, competitor K-pop label JYP Entertainment began recruiting and developing groups in China with their flagship initiative Boy Story (Hong, 2018). The six members of the group, all Chinese nationals with an average age of just 13 years old, has seen great success in China since their launch (Herman,

2018a). YG has followed suit, investing in a Chinese subsidiary label called Shining Star Entertainment. The label is developing the boy band Shining Star Boys (unofficial band name) and is also preparing to launch a new all-Chinese girl group in 2021, Baby Monsters, teasing fans by announcing the first two members in July 2020 (AllKpop, 2020b).

The shift of YG's strategy in China towards local recruitment and development of bands in China for the Chinese market entails a move from export to local production. Gupta and Govindarajan (2000) articulate several key benefits associated with a shift to local production: reduced shipping costs; reduced tariff costs; greater ability to meet local content requirements; greater ability to customize for local market; and in some cases, lower input costs. In the context of K-pop, the shift towards local development of talent and music production within China allows YG to grow their market presence in China without the risk of tariffs, travel restrictions, or political bans on foreign content. Another benefit for YG is the ability to better customize the band members songs and videos to local consumer preferences, and to leverage national pride through using local talent. Since band members are all local, there are no costs of cultural training of band members, thus adding further cost advantages. Finally, the human resource costs are also lower, with wages and salaries in the industry being significantly lower in China than in South Korea (Countryeconomy.com, n.d.). According to Gupta and Govindarajan (2000), the benefits of a shift to local production are predicated on the assumption that market size is large enough to justify the costs of investment and allow obtaining of minimum efficient scale. In the case of China, the market size is also significant, further substantiating the benefits of localization. In sum, YG's strategic shift towards local production in China represents an effective strategy to mitigate the political challenges that the Chinese market presents, while also gaining cost advantages and more effective customization to local preferences.

#### ***9.4.5 Theme 4: Balancing Local Responsiveness and Global Brand Building***

Many of the strategies discussed thus far have focused on local responsiveness towards these specific international markets. However the challenges that any firm faces in pursuing a strategy of local responsiveness for a given foreign market is that such products, or successes, may not be transferred effectively to other markets, thus limiting the worldwide learning capability of the company or the building of global brands (Bartlett & Ghoshal, 1989). If YG is to become a truly global entertainment company, beyond a collection of singular foreign market successes, the simultaneous building of global brands becomes a competitive imperative.

YG's girl band BlackPink represents an example of the firm creating a global band and brand. Not only has the band been the most popular act on YouTube for the last several months (Shaw, 2020), their global influence has risen by recently being named the Goodwill Ambassadors of the 2021 U.N. Climate Change Conference

(Kaufman, 2021). The band's appeal to global consumers can be attributed to the diversity of national identity of the band itself (Shaw, 2020). Three of the four band members were not raised in South Korea, hailing from Australia, New Zealand, and Thailand. Collectively, the band members also speak five languages: Korean, English, Mandarin, Japanese, and Thai (Moon, 2019). The diversity of the band creates a transnational identity that helps transcend many of the cultural and political barriers mentioned earlier. Their multi-lingual capability also offers significant opportunity to be leveraged in marketing and promotion. Each of the band members has roots in a different country which brings a wide range of musical influences to the band. This diversity of musical input helps the band to develop a sound that transcends the style of any one particular region. Santos et al. (2004) note that products created by combining diverse pools of knowledge from around the world have potential for more global appeal. The same logic applies to the development of products and performance within the pop music industry. By capitalizing on more culturally, linguistically, and regionally diverse human capital, BlackPink embodies the competitive benefits of a product with more global appeal.

#### ***9.4.6 Theme 5: Strategic Diversification into Related and Supporting Industries***

YG's strategy to strengthen its international reach and global appeal is supported by its diversification into a range of related and supporting industries. Over the last decade, YG has diversified into beauty care and cosmetics industry, a sector in which South Korea has major competitive strength and strong global reputation (Euromonitor, 2020; Liu, 2018). In 2014, YG launched the *moonshot* cosmetic brand which sells Korean-made cosmetics and reportedly sees up to half of their sales in China (Kilburn 2014; Kato & Moriyasu, 2015). To gain legitimacy, YG's *moonshot* has partnered with Coson, the cosmetics R&D leader and manufacturer behind some of South Korea's biggest beauty brands (Bourgeois, 2016).

The diversification into cosmetics and beauty care offers substantial benefit to YG's entertainment business through cross-promotion opportunities between pop music and cosmetics (Sindyukov, 2020). YG artists are used to promote the cosmetics in advertisements, and the growing ubiquity of *moonshot* as a global brand helps strengthen the global reach of YG artists (Lim, 2018). The range of artistic styles and images within the YG portfolio, from edgy to wholesome, allows for promotional opportunities across a wide range of cosmetic products, including the rapidly growing segment of men's skincare and cosmetics (Rapp, 2020). By associating with another competitive South Korean industry, cosmetics, YG is able to leverage further the South Korean national brand. YG has also diversified into the global fashion industry, launching a luxury streetwear brand, *Nona9on*, in partnership with Samsung's textile subsidiary Cheil Industries (Lee, 2014). YG's bold hip-hop flavor is reflected in the *Nona9on* style, and YG derives similar cross-promotion benefits between its artists and its clothing line as it does in its cosmetics venture.

## 9.5 Conclusion

The global rise of the K-pop industry plays a significant role in the South Korean economy. Within the context of this industry, this chapter presents a timely study of an Asian multinational firm's activities both in the West and in other parts of Asia. The study contributes to the growing management literature on the K-pop industry by examining the strategies of one of the industry's major players in relation to the cultural and political barriers presented by three main international markets. The chapter contributes to the literature on strategies of local adaptation and responsiveness (e.g., Cavusgil et al. 1993; Nie & Wang, 2019; Prahalad & Doz, 1987) by providing a variety of examples of how a K-pop firm uses adaptation, local partnerships, and collaboration to help mitigate cultural and political risk. The study also contributes to the literature on firms' motivation to move from export to local production by showing the applicability of existing theory on the topic (i.e., Gupta & Govindarajan, 2020) in the context of the K-pop industry. Finally, the study provides an illustration of how a K-pop firm has developed a band with a high level of global appeal by combining diverse musical and cultural experience from around the world. This example supports the literature on meta-national innovation that suggests that firms that are able to link and leverage diverse knowledge from around the globe stand a better chance for innovation and global success (Santos et al., 2004; Hansen & Nohria, 2004).

YG Entertainment's international expansion journey reveals five core strategic themes that are central to their survival and continued global success. Inherent in these themes is the need to create a balance between local market responsiveness, global brand-building, and leveraging of home country origin. These lessons derived from YG's experience are applicable not only to the entertainment industry but may also hold practical significance across other industries that are sensitive to cultural and administrative distance.

The limitations of the study are that it focuses on only one firm, YG Entertainment. Further case studies of the other major players in the industry would complement the current study. Another limitation is that the study has relied on archival research. Future research involving in-depth interviews inside the firm, and with its strategic partners and artists, would reveal deeper insight into some of the themes derived in this work. Another limitation of this chapter is that the single case study approach cannot establish causality between the firm's strategies and its market success. Future studies in the industry with methodologies more suited to cause and effect, such as experimental design, would add insight into the effectiveness of different strategies. A further limitation of the work is that it has explored the firm's efforts in only three markets: Japan, China, and the United States. A promising area for future research would be to examine K-pop strategies in other regions such as Southeast Asia where K-pop has a large and growing following (Shim, 2019).



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