Doctoral Thesis

The Strategy for Sustainable Competitiveness:

Theoretical Extension and Application to Global Conglomerates in Cultural Industries

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문화 산업의 글로벌 기업에 대한 이론적 확장 및 적용

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ABBREVIATIONS

ABCD	Agility, Benchmarking, Convergence, Dedication
BG	Business Group
DCMS	Department for Digital, Culture, Media and Sport
CSO	Corporate Social Opportunity
CSR	Corporate Social Responsibility
CSV	Creating Shared Value
EC	European Commission
EU	European Union
FDI	Foreign Direct Investment
KOCCA	Korea's Creative Content Agency
KOFIC	Korean Film Council
LE	Large Enterprise
MNC	Multinational Corporation
OECD	Organization for Economic Co-operation and Development
PwC	PricewaterhouseCoopers
R&D	Research and Development
SME	Small and Medium-sized Enterprise
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Educational, Scientific, and Cultural Organization

ABSTRACT

This study is intended to introduce how the value chain framework can be modified for a more accurate analysis of global media conglomerates and their sustainable competitiveness. This study conducts an in-depth review of prior theories and business concepts on diversification, process strategy, and business ecosystem to provide the transformative trajectories of conglomerates. This study then reconciles these business theories in understanding conglomerates by showing that it is essentially the convergence, or the synergistic diversity, in the nine value chain activities that enables firms to form a strong business ecosystem and sustainable competitiveness. This paper's contributions are divided into conceptual development of business theories and empirical analysis. By improving the original value chain framework to analyze the cultural industries, specifically the motion pictures industry, this paper shows how the synergistic diversity along the value chain activities enables firms to grow and sustain competitiveness. By applying this extended model to the film-producing companies in the US, Korea, Japan, and China, the study shows the different but meaningful growth trajectories of conglomerates and how they create sustainable competitiveness by networking with other firms and society.

Keywords: Conglomerates, sustainable competitiveness, diversification, convergence strategy, business ecosystem, value chain, cultural industries, motion pictures industry, shared value

CHAPTER I. INTRODUCTION

Diversifications and acquisitions among the global media conglomerates, particularly in the US, continue to receive attention. In 2017, Verizon Communications Inc., the largest US-based telecommunications company, has openly expressed its interests in merging with the media companies like Comcast Corp., Walt Disney Company or CBS Corp (Moritz, 2017). Disney is underway to acquire one of the major movie studios 21st Century Fox for US$ 52.4 billion (Barnes, 2017) while also showing interests in acquiring other famous businesses like Twitter (Roof, 2016). As such, despite criticisms from the society, the US entertainment and media sector is owned by only five companies (i.e., Comcast, The Walt Disney Company, 21st Century Fox, Time Warner, and National Amusements) that control 90% of the market and yet, these media conglomerates are demonstrating unending initiatives to merge or acquire, thereby increasing firm size by expanding relatively less related segments. Throughout the study of cultural industries that include film studios, broadcasting, TV networks, theme parks, and resorts, this study shows there are a lot of dynamics and constant changes in firms' structures that demand careful and thorough analysis.

What is more crucial to the academic research on media conglomerates is that despite their grandeur size and scale, some of these firms are more than surviving. Contrary to academic theories and research which have popularly focused on the negative aspects of conglomerations and diversifications, US media conglomerates are

demonstrating remarkable performance which is worth our attention. Another important phenomenon in this industry is how these conglomerates are operating by merging regardless of relatednessWith digitalization, Internet, and IT-related technologies, the platform for industry convergence is occurring more rapidly and frequently (Gabszewicz, Resende, and Sonnac, 2015). To address this gap between theory and reality, this study purposes to lay the foundations for how conglomeration can be approached from a new perspective.

This study is intended to introduce how the value chain framework (Porter, 1985) can be modified for a more accurate analysis of global media conglomerates and their sustainable competitiveness. To this end, this study includes a review of prior theories and business concepts on diversification, process strategy, network, and business ecosystem in order to provide the transformative features of media conglomerates. This study then reconciles these important business theories in understanding conglomerates by showing that it is essentially the convergence, or the synergistic diversity, in the nine value chain activities that enable firms to form business ecosystem and sustainable competitiveness. This paper's theoretical foundations are mainly divided into two parts: it first conducts an analysis on the relationship between firm size and competitiveness and, secondly, it analyzes the media conglomerates through the value chain framework by connecting key theories of business strategy.

Earlier studies on conglomerates and diversification have centered around the narrow and negative views. These studies focused on the growth of firms through diversifying products and markets and most of them were limited in arguing how

conglomeration eventually reduces the firm's competitiveness in the long run. However, recent trends in the technology-related sectors show cases where a growing number of top multinational corporations (MNCs) are increasing their firm size and expanding to less related industries. To fill the gap between theory and business realities, this study suggests a new perspective that firms also diversify in order to enhance their competitive advantage in the value chain activities by connecting with other firms and industries.

After the introduction, Chapter 2 begins by defining and comparing various approaches and boundaries of cultural industries. Cultural industries and creative industries receive great attention from governments and policy-makers as these industries are seen as a new engine for economic growth. However, complex and inconsistent classification of these industries is prevalent among governments and international institutions which needs to be addressed. Chapter 3 discusses the effect of firm size on innovation, competitiveness, and national economy. This section is a critical step before discussing the sustainable competitiveness of conglomerates, which often stir an intense debate in many disciplines. Due to some of the normative issues conglomerates have evoked, this section shows through theoretical review that both large and small firms need to co-exist.

Chapter 4 brings in important concepts in strategic management and is more directly relevant to the sustainability strategies of conglomerates. By reviewing and reconciling various business theories, this section introduces a new concept of value chain convergence where a conglomerate's value chain serves as the platform for convergence, and eventually forms a business ecosystem by increasing the synergistic

diversity. Chapter 5 utilizes this concept to analyze the motion pictures industries as a case study. After introducing the modified value chain model which fits better for the motion pictures industry, this section analyzes how Walt Disney Company's business strategy can be explained as an exemplary case in describing value chain convergence for synergistic diversity.

In Chapter 6, the best performing firms of motion pictures in each of the three East Asian countries (Korea, China, and Japan) are selected to show how their competitiveness and strategy can be explained through this value chain framework. As the last section of this dissertation, Chapter 7, the final section, introduces creating shared value as another important tool for assessing conglomerates' sustainable competitiveness. Shared value is maximized when the society and business interact their core competences along the activities in the value chain. Therefore, the convergence of value chain can be expanded to include even social values where both parties can gain synergy and growth. In essence, this study shows how strategies for sustainable competitiveness should shift in the following three dimensions: 1) firms' core competence from single to multi-competence, 2) firm's diversification strategy from products or markets to the convergence in the entire value chain activities, 3) firm's relationship with other firms from competition to more cooperation-oriented, and lastly, 4) firm's connection with other firms from simple to synergistically diversified network in creating a complex yet efficient business ecosystem.

CHAPTER II. UNDERSTANDING THE CULTURAL INDUSTRIES

The growth of the culture-related sectors and the parallel increase in research began with the transition from the manufacturing to the service sectors (Boggs, 2009). Since the third industrial revolution in the early 20th century, much of the focus on the policy for economy and business has circled around the manufacturing sectors. However, the view on the manufacturing sector as the nation's economic foundation gradually shifted from the 1980s (e.g., Scott, 1984; Storper and Christopherson, 1987). Scholars' shifted research from manufacturing to non-manufacturing once the industrial transformations changed the type of employment and systems of organization.

Therefore, with the gradual shift from manufacturing to services, the term *cultural economy* started to receive both theoretical and empirical attention. Similar concepts include *cultural industry* (in singular form), *cultural industries* (in plural form), *creative economy*, and *creative industries*. IOne of the earliest research in this area circled around the topics of cultural geography and economics (Bassett et al., 2002; Brown et al., 2000; Coe, 2000; Crewe and Forster, 1993; Gibson et al., 2002; Kong, 2000; Landry, 2000; Leyshon, 2001; Pratt, 1997a, 2000a; Scott, 2000a), while oOther approaches include sociology (du Gay, 1997; du Gay and Pryke, 2002; Stevenson, 2003; Zukin, 1995). On the other hand, Cunningham (2002) and Hesmondhalgh (2007) examined the cultural industries through the media and communications studies.

Howkins (2001), Caves (2000), and Throsby (2001a) are particularly meaningful studies of the cultural and creative industries from the perspective of business economics.

One of the earliest studies of the *cultural industries* is Adorno's (1991) *Culture Industry*, although *cultural economy* has been used with different meanings (O'Connor, 2010). These industries are referred to with many names such as cultural industries, creative industries, cultural-production industries, or the cultural economy and creative economy. Lawrence and Phillips (2002), Flew (2003), Gibson and Kong (2005), O'Connor (2007, 2010), and Galloway and Dunlop (2007) are some notable studies that focus on defining these diverse concepts.

This section will organize these diverse terms. Interestingly, these terms have been developed namely under the efforts of government that wanted to examine the contribution of culture and arts to various economic performances such as trade, employment, wage, and value added. The growth in these studies that were often linked to government support and priority has led different classification of cultural or creative industries. The differences among countries will be dealt in this section as well.

The UK is one of the forerunners in this national pursuit after adopting the term called *creative industries*. After viewing the positive impact created by this sector in terms of employment and income, various definitions and lists of subsectors were used by governments and institutions that demonstrated clear links to economic growth. Through these research and policy efforts, the UK began to initiate the creative industries as part of its core strategy for local and regional cultural and economic development (DCMS 2000; 2004; Taylor, 2006). This sector, which was previously undervalued as

low arts or seen as the unpredictable area, became a central sector to build a new contemporary image for the UK. Eventually, the UK developed the *Creative Industries Mapping Document* (DCMS, 1998) in order to boost this sector as the creativity and innovation sector that would propel economic growth, and its various reports and research became a leading export product to many governments and administrations in Europe, Latin America, and East Asia. In short, the UK developed creative industries as it saw the potential of dynamic association of culture, economics, and modernization (Kong et al, 2006; O'Connor, 2006; Wang, 2004).

2.1. Three Approaches to Cultural Industries

The definitional construct and classification issue will be dealt in the following section. This section will look into how various approaches have been made by scholars. First of all, Gibson and Kong (2005) broke down the idea through four methodologies. These four are the sectoral distinction within the cultural economy, the labor market and organization as part of the its impact on the employment for cultural industries production, the creative index approach, and the convergence of formats. There are three main distinctions within the cultural economy: sectoral approach, the creative index approach, and the convergence of formats.

2.1.1. Sectoral approach in production

There are various opinion regarding the production types that fall under cultural economy. Scott (2001) argued that this sector should include "goods and services that serve as instruments of entertainment, communication, self-cultivation, ornamentation, social positionality. They also exist in both pure distillations as exemplified by film or music, or in combination with more utilitarian functions as in furniture or clothing."

Pratt (1997a) recognized various divisions constituting the Cultural Industries Production System (CIPS): "…performance, fine art, and literature; their reproduction: books, journal magazines, newspapers, film, radio, television, recordings on disc or tape; and activities that link together art forms, such as advertising. Also considered are the production, distribution and display processes of printing and broadcasting, as well as museums, libraries, theatres, nightclubs, and galleries. (Pratt, 1997a)"

When the sectoral approach for to production is implemented, there are some problems. Industries such as furniture, industrial design, niche food production, and tourism then fall under the cultural economy due to their symbolic contents whereas they were viewed as the arts sector before. According to Scott (2001), this issue becomes complex in some countries where there are diverse variations. For example, in Australia, sectors such as zoological parks and botanical gardens are included in its classification of cultural industries (Gibson et al., 2002) whereas sports is not. When seen from the consumers' perspective, they both belong to the entertainment aspect of cultural life. Therefore, the utilization of the production type to distinguish the sectors and industries of culture are limited in this sense.

2.1.2. Labor market and organization of production approach

Due to the above reason, the sectoral definitions from the production type cause difficulties. For its limitation, Scott (1996) emphasized "the flexible specialization by 'communities of workers' with 'special competencies or instinct-like capacities' as a distinguishing characteristic of cultural economies" (Scott, 2001). According to this view, "…the production of symbolic forms is more often than not dependent on large inputs of human manual and intellectual labor, even where digital and information technologies play a major role in the process." However, due to the growing market volatility and fluctuations that come from changing consumer demand as in film, music, and fashion, firms often stay small and incorporated into a wider production networks.

This view looks into the labor market and the organizations as part of the production resources and perceives that people in the cultural economy have the tendency to operate on an informal and part-time subcontracted basis, while earning the majority of income from other sources (Gibson et al., 2002). This is the feature of subcontracted worker, which reflects the post-Fordist model. According to the scholars that argue in line with this approach (e.g., Christopherson and Storper, 1986; Morley and Robins, 1995), firms and labor work with an attempt to exploit maximum variety of creative resources. In this regard, Florida (2002) came up with the concept called the *creative class* where creative talents were seen as the discrete segment of society who are employed in the creative industries.

For film production, Christopherson and Storper (1986) argued that "large numbers of small flexibly specialized firms spring up in a wide range of subsectors,

providing both direct and indirect inputs to the major studios and production firms." Another implication within this view is that, as Gibson (2003) argues, "…creative pursuits are ultimately not determined by patterns of supply and demand alone; they are also driven by individuals' own social interests." This is similar to Caves' (2000) observation that labor participating in the arts and cultural activities is mostly driven by not solely for the motivations in career development, but more so due to a personal desire to engage with the "affective, emotive, and cathartic dimensions of creative pursuits" as seen in film, music, and painting.

In reality, the above modes of production that represent the systems and characteristics of a cultural economy are supported by the increasing number of corporate integration or horizontal alignment that occurs in large conglomerates and cross-media ownership (Morley and Robins, 1995). As in the US entertainment and media industries, the growing size of conglomerates is related to this perspective where firms diversify and expand in order to "internalize the synergies that are frequently found at intersections between different segments of the media and entertainment (and hardware) industries" (Acheson and Maule, 1994; Balio, 1998; Gomery, 1998; Prince, 2000; Scott, 2002).

2.1.3. Convergence in formats

Lastly, the convergence in formats is one of the widely argued features of the cultural economy. Some of the examples include how different formats come together in producing a unique cultural commodity. Consumers are able to enjoy the same content

in different formats. This tendency is growing as the media industries are being consumed through digital platforms. (e.g., Aksoy, 1992; Pratt, 2000a; Sadler, 1997). Perhaps this is one of the differentiating features of the cultural industries and the new economy. This characteristic plays a signification function in the cultural industries and how firms have engaged in diversification and active mergers and acquisitions (M&A) across industries. An example to this type of characteristic is the merger in 1999 between American On Line (AOL) and Time Warner.

Examples apart from firm merger or convergence are in the contents. Whether through corporate M&A, there are great potentials for contents to crossover to different industries or production types. There are great links between the producers of contents (e.g., film, music) and producers of manufacturers and technologies who basically provide the hardware. There is a high degree of convergence among these contents producers, the software portion, and the hardware manufacturers. These types of convergence occur throughout the industries and businesses in motion pictures, design, advertising, fashion, music, and game.

2.1.4. Other issues

As in the previous approaches, the cultural economy has a very different and unique system of categorizing the related economic activities and measuring their impacts on urban and regional economies. Central to the cultural economy is the creativity, which is becoming more and more critical in all industries including the arts and technology. Florida (2002) also found this to play a crucial role in R&D activities throughout all

industries of creative occupations. This is widely accepted as innovation has become the central driver for economic proliferation regardless of industry characteristics and national income.

With the fast-changing technologies that provide a significant upgrade in the cultural and creative industries, the focus on the strategies of firms and their specific technologies have been increasing (Pratt, 2000b). The impact of technology is playing a greater role in the cultural economy which is also calling upon more business and economics approach as well as a shift in cultural policy (Cunningham, 2002; Jeffcutt, 2001). This is because production of creative contents is linked to the intellectual property rights across industries. As there is an increasing focus on creativity, creative worker, and mostly convergence of these formats that may blur the original producer, there is a growing concern form policy development that can protect and help the cultural economy to boost wealth and employment (Aksoy, 1992; Connell and Gibson, 2003; Graham, 1999; Leyshon, 2001).

2.2. Boundaries of Cultural Industries

As mentioned earlier, Theodor Adorno was the scholar who started the debate on the cultural industries. In 1947, he coined the word with his colleague Max Horkheimerin in their book titled, *The Culture Industry: Enlightenment as Mass Deception* (Adorno and Horkheimer, 1979). Adorno published subsequent books on film, newspaper, radio, and pop music (e.g, mostly on Jazz) in order to re-affirm his argument that under monopoly

capitalism, art and culture is thoroughly absorbed in the economy (Adorno, 1991; Huyssen, 1986).

The culture industry, as explained in this text "is a direct extension to the new industries of mass reproduction and distribution which began at the turn of the 19th century – film, sound recording, mass circulation dailies, popular prints and later, radio broadcasting." This industry is also closely linked to the *industrialization of culture* in its scale of production and technological reproducibility. Through this concept, Adorno discussed how the cultural commodity can be produced on a mass industrial scale. His studies are significant contributions to the realm of arts and economics because they looked into the perspective on cultural commodity as well as the organization for its industrial scale, criticized as the cultural factory (O'Connor, 2010).

It was then Hesmondhalgh (2007) who distinguished the change in terminology from *culture industry* to *cultural industries*. This sector, as he emphasized, needed to be changed to the plural form due to the complex structure and diversity in the production of culture. This shift in view is argued to have allowed the connections to business elements such as the technologies of production and distribution, changing business models, the emergent connections between symbolic and informational goods, and between culture and communications systems (Thorsby, 2008).

The emergence of creative industries is related to the rise of cultural industries, the significance of knowledge to all aspects of economic production, distribution and consumption, and the growing importance of the services sector. It is linked to the dynamics of the new economy, whose form is increasingly informational, global and

networked (Castells, 2000). Cultural processes such as design and signification impact upon all aspects of everyday life, particularly those related to the consumption of commodities. Table 2-1 lists the classification systems by countries and institutions.

[Table 2-1] Classification of Cultural and Creative Industries by Countries

	Culture Industries	Contents Industries	Cultural & Creative Industries	Copyright Industries	Creative Industries
Countries	Brazil Canada France Korea Japan India Italy Spain	Korea Japan	Germany China Taiwan	Australia US	Hong Kong UK Netherlands Finland Indonesia New Zealand Singapore
Institution	UNESCO	OECD	EU, EC	WIPO	UNCTAD, UNDP
Example	(France) 1. Cultural heritage 2. Museum, arts, galleries 3. Performing arts 4. Publishing 5. Music, record 6. Film, video, DVD 7. Digital, multimedia 8. Game	(Korea) 1. Advertising 2. Animations 3. Cartoons, comics 4. Character 5. Contents solution 6. Film 7. Game 8. Knowledge, information 9. Music 10. Publishing	(China) 1. Music composition and production 2. Film, television and entertainment software (including animation and computer games) 3. Performing arts 4. Writing, publishing and print media 5. Advertising, graphic design and marketing	(US) 1. Entertainment software 2. Film and television 3. Music publishing 4. Book publishing 5. Audio-visual 6. Multimedia	(UK) 1. Advertising 2. Architecture 3. Art and antique market 4. Crafts 5. Design 6. Fashion 7. Film and video 8. Music 9. Performing arts 10. Publishing 11. Software 12. TV and radio

On top of this different classifications, the boundaries of cultural, creative, or contents have varied in many countries. For instance, Korea and Japan combine cultural and contents industries under contents whereas China mostly calls this area culture & creative industries. What this implies is that under the big category of culture, countries and institutions use difference vocabularies from cultural, contents, culture & creativity, intellectual property, to creative industries.

2.2.1. Cultural industries

Countries that label cultural industries are France, Italy, Spain, Canada, Brazil, India, Korea, and Japan; and UNESCO is the international organization that adopts this term. Cultural industries are defined by UNESCO as "industries which produce tangible or intangible artistic and creative outputs, which have a potential for wealth creation and income generation through the exploitation of cultural assets and production of knowledge-based goods and services (both traditional and contemporary). What cultural industries have in common is that they all use creativity, cultural knowledge, and intellectual property to produce products and services with social and cultural meaning." (UNESCO, 2005).

Some of the key industries included in the cultural industries are advertising, architecture, crafts, designer furniture, fashion, film and other audiovisual products, graphic design, educational and leisure software, live or recorded music, performing arts and entertainment, broadcasting (TV, radio, and Internet), visual arts, antiques, and publications. As in this list, UNESCO has a broad categorization of cultural industries

by embracing ancient and past, inherited heritages. However, one must note that the purpose of UNESCO, as an international institution aimed at protecting cultural diversity, may not be the same and thus bring out different outcomes to the definitional construct under national governments. Nonetheless, the core understanding in UNESCO's definition includes economic and cultural activities in which the classification as an industry entails economic performance.

However, each administration has different approaches and specific classifications within the boundaries of *cultural industries*. For instance, UNESCO deals with this industry as a *production and distribution of cultural products and services*, while France defines this industry as *an area that has a cultural identity upon creative activities across diverse industries*. Canada has a definition that focuses more on this field's production and creative aspects and describes it as *an industry that services creative arts and heritage protection activities.* Korea has a more overarching and comprehensive approach of the field and defines this industry through *planning, developing, creating, producing, distribution, distributing, and consuming in the cultural commodities*. Japan has a simplified perspective and views *it as the creation (production) and distribution in the commodities and services that are fundamentally cultural and need protection of copyrights*.

The similarities in these countries that adopt the term "cultural industries" are their focus on social and cultural products and services based on creativity, cultural knowledge, and copyrights. Yet, the fundamental purpose of this industry is shifted to protecting the cultural identity and diversity as the core value of government policy. Since cultural identity plays a big part, Italy, which has an abundant cultural and

historical heritage, includes architecture under the country's classification system.

However, similar to how UK transformed its classification system to creative industries from cultural industries, European countries are shifting the focus onto more modern and creative economic activities. In fact, many countries are changing or expanding their system by adding creativity-related economic transactions especially with the advancement of information-communication technologies (ICT) which influence and reshape culture and entertainment industries. Korea and Japan use contents industry as their classification system which will be explained in the following section.

2.2.2. Contents industries

Along with Korea and Japan, Organization for Economic Co-operation and Development (OECD) adopted content industries as part of the institutions classification system to the cultural products and services. In 1998, OECD introduced "contents as a new growth industry" and explained that growth in digital technologies has led to the expansion of network-based contents creation. Eventually, as digital contents grew substantially, OECD defined contents industries as the *industries related to the creation, production, publication, or (digital and physical) distribution of contents* in 2006.

In Korea, *The Cultural Industry Promotion Act* of 2002 defined contents as *symbols, text, voice, sound, and visual information or data.* However, this definition was revised in 2010 under the *Contents Industry Promotion Act* in 2010 with a new definition of *industries that produce, distribute, or utilize contents and contents-services that bring*

economic value-added. In Korea, specific fields and services include publishing, cartoon and animation, film and video, animation, broadcasting, game, performance and concert, advertisement, character, knowledge information, and contents solution (KOCCA, 2017b).

In Japan, the adoption of contents was intended more towards protecting the *copyrighted contents produced by human's creative activities whether in the form of invention, creation, and convergence of trademark.* However, this definition was expanded into specifying films, music, stage performance, literature, photography, animations, manga (cartoons and comics), and computer game, while keeping its original definition of symbols, figures, color, voice, action, and pictures or the convergence of these elements. According to this definition, contents are anything that are created by human's creative activities that fall under culture and entertainment.

The most important distinguisher between contents versus the cultural classification system is that contents industries do not include museum, art galleries, libraries, and other cultural-historical assets that represent nature, history, and heritage. However, in both Korea and Japan, specific classifications and industries are subject to change as the digital contents boundaries broaden and transfer to different government institutions (KOCCA, 2013).

2.2.3. Cultural and creative industries

Countries that adopted two of the broadest classification systems of culture and creativity

are Germany, China, and Taiwan. International institutions such as European Union (EU) and European Commission (EC) have also implemented this name and their adoption influenced many other European countries. Research into the cultural industries and their relevant economic impacts on European countries began in 2006 when EC reported *The Economy of Culture in Europe*. In addition, in 2010, the *Green Paper for Unlocking the Potential of Cultural and Creative Industries* utilized the cultural and creative industries as the area with huge economic and employment potential. EC and EU distinguished cultural and creative industries although these two vocabularies were used in connection as a whole.

For instance, EC and EU use cultural and creative industries, within this field, culture and creativity are strictly identified. The cultural areas include core arts-related segments such as visual arts (e.g., crafts, painting, sculpture, photograph), performing arts (e.g., theater, dance, circus, festival), and heritage. (e.g., museum, library, historical sites, archive), and the cultural industries including film and video, TV and radio, video game, music (e.g., disc album, live performance), and publishing (e.g., books, magazines, newspaper). The creativity areas include the creative industries and their related activities such as design (e.g., fashion design, graphic design, interior design, and product design), architecture, and advertisement.

In Germany, the government departments of Economy and Technology and Culture and Media have jointly formed the *2007 Cultural-Creative Industries Initiatives*. Through this initiative, Germany defined this segment as *the market-oriented, culture-creating products and services that are created, produced, distributed, and disseminated through the media.* While EC has categorized these industries into cultural and creative

areas, Germany outlined nine core areas of culture (e.g., music, publishing, arts, film, broadcasting, performing arts, design, architecture, and press) and new creativity (e.g., advertising, and software and game).

In Asia, China and Taiwan had adopted this classification system. China has a very broad and vague categorical definition: *All products created by human kinds in material civilization and moral civilization.* The 2012 classification of industries included in the *2016 China Statistical Yearbook on Culture and Related Industries* category are cultural creativity industries that emphasize creativity and intellectual property rights such as film, publishing, arts, traditional Chinese calligraphy, painting, and heritage. In Taiwan, the definition states it as the industry that has the potential to create weal and employment opportunities for the welfare of its citizens by creating or utilizing creative and culturally-accumulated intellectual property.

China has a unique classification system where the cultural and creative industries are used as the means for propaganda. Therefore, China classifies this field into two broad categories of cultural services and culture-related services while further dividing them into core, external, and related areas. The core areas include news and press, publishing, video, and cultural arts in which government involvement and control are the most prevalent. The external areas include Internet, leisure and entertainment, and other cultural services which are expanding into creativity-related industries. The related areas are products or commodities that directly support and manufacture for the cultural industries (e.g., paint brush).

2.2.4. Copyright industries

The US, Australia, Switzerland, Finland, and Japan are countries that have been pursuing the growth of the copyright industries; UN's World Intellectual Property Organization (WIPO) is an international institution that treats this issue. In the 2015 report by WIPO, intellectual property is defined as the rights designated to the producer of literary work, music, science, or arts creation[1].

WIPO had begun its research by focusing on the intellectual property rights of producers and creators to protect their economic rights. Therefore, some of the areas overlap to those of International Intellectual Property Association (IIPA) of the US. Korea follows the WIPO and IIPA's classification systems, while other countries have similar but different classification. Australia lowered the emphasis on the manufacturing segments in order to reflect its own country's situation where manufacturing is relatively smaller. Therefore, the boundaries of copyright industries were set to the producers of firsthand copyright. The copyright industries are probably the largest categorial

[1] A further classification used by WIPO includes the core (e.g., creation, production (e.g., press and literature; music, theatrical productions, operas; motion picture and video; TV and radio; photography; software, database, and computer games; visual and graphic arts; advertising services), interdependent (e.g., TV sets, radios, CD/DVD/Blue-Ray players, electronic game equipment, computer equipment, tablets, smartphones, musical instruments, photographic and cinematographic instruments, photocopiers, blank recording materials, and paper), partial (e.g., apparel, textile, footwear; jewelry and coins; other crafts; furniture; household goods, china, and glass; wall coverings and carpets; toys and games; architecture, engineering, surveying; interior design; museum), and non-dedicated support industries (e.g., general wholesale and retail; general transportation; information and communication such as wired, wireless, satellite, and Internet).

distinction where cultural, contents, and entertainment industries could all fall under.

2.2.5. Creative industries

Hong Kong, Singapore, New Zealand, Australia, Thailand, and Indonesia from Asia and the UK from Europe, and United Nations Conference on Trade and Development (UNCTAD) and United Nations Development Program (UNDP) are some of the countries and institutions that adopted the creative industries classification. The first country to bring in the creative industries concept was Australia in 1994 when it published the *Creative Nation: Commonwealth Cultural Policy*. The UK's Department of Culture Media and Sports (DCMS) has published *The Creative Industries Mapping Documents* in 1998 and emphasized "…providing the intellectual property rights to boost the creativity, skills, and talents of individual for generating wealth and employment."

UNCTAD has published a series of creative economy reports since 2008 and spread this concept in the world. Furthermore, UNCTAD defined creativity *as the idea that is created, connected, and transferred to a valuable object and as the linkage of ideas within the boundaries of arts, science, and economy*. Creative industries are *defined as the creation, production, and distribution process of outputs which were derived from creativity and intellectual capital*. UNCTAD further classifies the four processes of value chain in the creative industries as creation and planning (i.e., idea or concept development), production and reproduction (i.e., development an idea or concept further into a commodity), marketing and distribution, and finally to exhibition

and consumption. UNCTAD classified the creative industries into four areas: heritage (e.g., traditional cultural expression and cultural facilities such as museums), arts (e.g., visual arts and performing arts), media (e.g., publishing and press, audiovisual such as TV and film), and functional creations (e.g., design, new media such as software, video game, and creativity services such as architecture, advertising, and leisure).

The creative industries have the most varying classification systems compared to other approaches. Although Hong Kong and Singapore similarly adopted the UK system, they all differ in the number and description. Some notable differences include Singapore's combinative perspective on cultural and creative industries with the copyright-based industries, while Finland views the cultural industries as a smaller division under the copyright-based industries.

2.2.6. Implications: cultural or creative industries

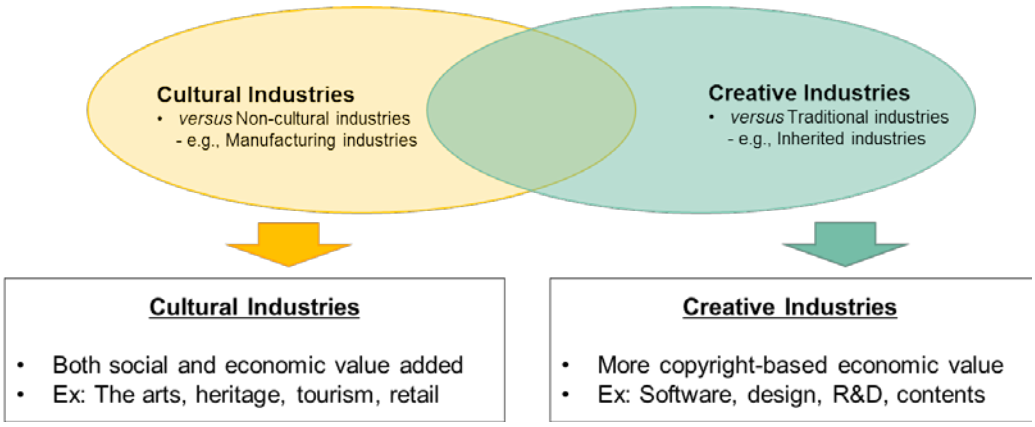
As explained above, countries have adopted different approaches and classifications systems to the cultural industries. This had often times caused challenges in comparing the role of these industries to national and global economy for wealth creation or employment. Since this sector has great potential for growth as countries advance, the globally standardized classification is imperatively needed. Section 2.2 of this dissertation is constructed to show an overview of how this sector has evolved.

One of the important characteristics of this sector is that locational factor plays an important role. For instance, consumers must travel to the cinema to watch what they

like. To enjoy art pieces or ancient heritages, consumers must visit those locations. Therefore, the growth in this sector also propelled increasing synergy to urban development and clustering effect where cultural products and services also invited service providers such as restaurants and shopping malls to form a greater cultural area for consumers.

The growing important of this sector is inarguable. However, as they are many confusions and different understanding, this dissertation began by first highlighting these differences. Figure 2-1 shows the innate differences between cultural and creative industries – the two approaches that are most widely used and selected by governments and institutions.

[Figure 2-1] The Boundaries of Cultural and Creative Industries



As in France and Italy, the use of the word *cultural* was intended to include more natural and historical heritages the country was born with. Not all countries enjoy from inherited assets although they do form important elements for national and cultural identity. However, these are also areas where spillover and economic effects are relatively small. National heritages reap profits for tourism, however, they also require a lot of government budget for management, operation, and development activities (e.g., extraction). The creative industries have been more emphasized by government these days because they bring out greater economic value-added to the society. There is a great potential for the economy including technological development, convergence of arts and technology, and improved quality of life.

The cultural and creative industries have been used with or without intentions. However, the choice of word and approach delineates how different governments pursue policy in this sector. In this dissertation, the word cultural industries was chosen because it has more history and includes more diverse areas including tourism. The main subject of research in this dissertation is the motion pictures industry and as I will explain in the later chapters, the motion pictures industry has been diversified to seemingly less-related cultural sectors such as leisure and travel. Disney's theme park and its hotel and resort businesses are good examples where the creative industries alone would not be able to encompass these business areas. Lotte from Korea and Wanda from China are also good examples where the fact that their shopping malls with cinema services eventually led these firms to enter the film production business would be hard to be explained within the limited boundaries of creative industries. Due to these reasons, the overarching theme of this dissertation would be approached from the perspective of the cultural industries.

The following sub-section will discuss some important existing business approaches.

2.3. Business Perspectives to Cultural Industries

For the purpose of understanding the uniqueness of entertainment industry which is relatively vague and has undefined industry boundary, this section introduces the most generally accepted studies on this field. According to Vogel (2014), the entertainment industry is divided into two: The media-dependent entertainment which includes the movie, music, broadcasting, game, and mobile contents; and the live entertainment which includes performance, exhibition, event, tourism, and recreational or amusement parks where the consumers are directly involved.

Generally, it has been recognized that the overall growth in the nations' economies and technologies leads to higher interests and consumption in cultural activities. Along with the advancements in digital technology, the distribution of digital contents, Internet and mobile market, and intellectual property rights, the entertainment business has been experiencing an unprecedented rate of growth in size, quality, and diversity (Scott, 2002). Due to its complexity in nature, the entertainment industry is regarded as having several characteristics, including structure of high-risk-high-return, public goods, economies of scale, cultural discount, and windowing effect (Lieberman, 2003).

The economic and business perspectives on the cultural industries, such as the entertainment and media are relatively embryonic. Only a few studies have tried to

provide theoretical implications to the management and specificities of this industry. Industry research can be broadly defined into economics, management, and the political economy of the industry. The economists have begun to apply economic theories and logics to the media industries and established academic undertakings at the sectoral or market level. These studies looked at the conditions and structures in the media industries and markets while focusing on utility of resources such as the financial resources (Picard, 2002a). This section will briefly look into how the cultural industries had been approached in the past by business and economics scholar. The section begins with the contract theory, followed by the strategic management and competitiveness perspectives that looked into the business operations in the cultural industries.

2.3.1. The contract theory

As mentioned in Throsby (2008), "…the complex creative industries such as film and television production depend on the existence of contractual arrangements at all stages in the value chain." Miège (1989) and Garnham (1990) are notable studies of radical sociological tradition that investigated the popular culture and the media. Following these scholars, Caves' (2000) seminal work on the 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' (2000) remains as the landmark study because he established his studies on the basis of property rights throughout the contract points in the cultural value chain. This section will look into Caves' (2000, 2003) ideas as the forerunners in the cultural industries studies that adopted the mainstream

economics and business approaches.

According to Caves (2000), "…the 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." The motivation for his studies began to solove a simple limitation of earlier studies that mainly treated these industries for policy matters and how they contribute to 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), and others in one-off deals (i.e., markets). Therefore, he investigated why transactions occur within continuing firms or between independent parties and why those firms are few or many, operating in one market or several (Caves, 2000). Another approach by Caves in this book begins with his critical insight on the uniqueness of the creative industries. Even though this sector is composed of firms and markets, he observed that creative industries are run by 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.

Caves organized the uniqueness of these industries into six properties: 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*".

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 ahead. In the creative industries, research and pretesting are largely ineffective because 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 resource allocations and sharing are critical part of strategy for firms in this industry. In this sense, the notion of *nobody knows* property is popularly referred to in Hollywood.

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 efforts they have to pour in. It is generally understood that workers pay less attention to the specific features (e.g., style, color) of the output they produce. However, in creative industries, the creators (i.e., artists, content producers, directors) care vitally 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, 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". The creative production process involves a multiplicative production function where every input must be present and do its job (c.f., simple production function where the number of inputs can change or be substituted). 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 it vertically differentiated when the one product has a more attractive quality than the other product, and therefore, the less attractive product will not be chosen by the consumer if they are the same price. Horizontally differentiated products refer to those that have similar, not identical, character and quality. Product attractiveness is hard to measure and is subjective. 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 significant market for all of the products. This property is critical in the creative industries and the firms because despite its general trend, there is always an important segment of 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 a varying degree. Artists may raise their skills through training and practice, but trained and mature creative agents settle on "different plateaus of proficiency". 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. The main reason for this vertical ranking despite both of their demand is mostly about money. Simply compare a blockbuster movie that has super stars versus a low-budget film with less famous actors/actress: The ticket price of the two movies are the same but there are huge differences in production costs starting with casting.

The sixth property is the time factor. The creative production activities involve complex team in the *motley crew* property. This means 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 as the *time flies* property by Caves. The final property 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.

2.3.2. Strategic management approach

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, 2007). The value chain approach is helpful in demonstrating how the initial creative ideas are comb3ined with other inputs to produce a creative product. Through the process of production activities, each stage in the value-adding activities can be visualized throughout marketing, distribution channels, and finally to the end consumers. This is similar to the manufacturing or any 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, 2008).

Chapter 5 of this dissertation will elaborate the value chain flow and the specific activities of the cultural industries. This section will briefly mention 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 firm's many different activities in the manufacturing firms (Bhatt and Emdad, 2001). Porter's (1985) 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 (1985, 1996), 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, 2006) to accounting (e.g., Shank and Govindarajan, 1992), and to single-firm-analysis and multi-linked value system (Porter, 1985) to value networks (Kothandaraman and Wilson, 2001). As such, the value chain concept has been applied to analyze diverse industry segments and firm linkages beyond its original development.

However, most of the models that utilized the value chain only provided a snapshot of the individual components of a particular cultural product's value chain. The problem of these studies that utilized value chain and supply chain models do not clearly capture the original value of the model from its beginning. For one, Hearn et al. (2007) showed an insufficient understanding of Porter's (1985) original nine value chain activities and drew the evolution from the idea of supply chain by Rainbird (2004). Despite their contribution in the studies of cultural industries' value chain and supply chain, by extending it to the concept of value ecology, their comparisons show rather weaknesses in the fundamental understanding of functionality and value creation through optimization.

As the strategic management perspective on the cultural industries, media economists have looked at strategy formulation and implementation by large media conglomerates by focusing on the external factors (e.g., environment, structure) with firm performance. This approach applied the rationalist models from the industrial organization school which eventually led to further studies such as diversification strategy (Chan-Olmsted and Chang, 2003; Dimmick and McDonald, 2003), structure,

performance, and strategic alignment (Albarran and Moellinger, 2002), transnational characteristics (Albarran et al., 2006), competitive strategy of media (Sjurts, 2005), and defining characteristics of media (Vogel, 1999; Wolf, 1999). Other studies include the political economists who examined the ownership structure and political allegiances (Cottle, 2003; Mosco, 1996; Tracey, 1998; Tunstall and Palmer, 1998).

In the previous studies of business management, most of the studies focused on the macro rather than micro level by paying attention to the exogenous factors (i.e., technology, policy, regulation, and consumption) that impacted the firms' performance and their strategy decisions. Towards the end of the 1990s a more complex management task and media management scholars began to focus on the specific topics while following the main stream business academics of resource-based view (RBV). Onto the 2000s, attention was paid to the more specific levels of technologies that influence firm performance and strategy while a number of studies began to look at the broader architecture of the media and cultural industries in a comprehensive system.

2.4. Implications for Sustainable Competitiveness in the Cultural Industries

This chapter summarized the development of academic research that set the boundaries for the cultural industries. As mentioned in the earlier section, the cultural industries have many names from cultural economy, creative industries, contents industry, and copyright-based industries. While these different classifications were the outcome of

policy directions set by various governments and institutions, an underlying basis behind the growth of this sector is closely linked to its economic impact and wealth-creating opportunities. The economic geographers saw this sector as the source of urban development and modernization which led to the studies of creative clusters and cities. Coming more direct to the cultural industries' economics, the transaction costs and contract theorists looked into the characteristics of this sector by demonstrating the uniqueness that requires differentiated treatment and approach.

Nonetheless, with the growing importance on creativity, the cultural industries are important area 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. The idea of creativity is now an essential resource for economic development and personal growth (Banaji et al., 2007; Negus and Pickering, 2004). In addition, by studying the cultural industries that are closely linked to creativity, the contributive role of academia and business would circle around 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 (Howkins, 2001; Leadbeater, 1999; Rifkin, 2000; Tepper, 2002), a business agenda should focus on improving its sustainable competitiveness.

In the creative industries, a larger conglomerate 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, the US firms tried to link the hardware and software activities within the creative industries, and this is now happening in East Asian firms. Also, towards the 1990s and

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 global conglomerates in the cultural industries, the next section will focus on the size of firm and its link to sustainable competitiveness. The seven properties of the creative industries mentioned by Caves (2000) pose an important business agenda for large enterprises which require a separate examination on how they can lay out strategy for sustainability and growth through diversification. Conglomerates might benefit opportunistically by manipulating transfer prices in their various internal transactions. They can also exploit other related segments that are linked through distribution, exhibition, or the ancillary areas and obtain a series of subsidiary markets. These issues will be dealt in the coming chapters.

CHAPTER III. CONGLOMERATES AND SUSTAINABLE COMPETITIVENESS

Government policies alongside social cohesion for the growth of small and medium-sized enterprises (SMEs) are increasing throughout the world as the demand for fair distribution and shared growth is heightened. For example, the Moon administration of Korea is initiating a series of economic measures that aim to boost startups and SMEs while regulating Korea's large enterprises (LEs) or conglomerates, particularly *chaebol*. This government put forth key agendas such as income-led growth, employment, fair economy, and innovative growth to facilitate consumption and the market.

Interestingly, a deeper glance into these four policy initiatives is ultimately in line with fostering the growth of SMEs, grounded on the belief that the prolonged unemployment problem of Korea can be solved by active creation of startups and SMEs. The fair economy, put forth by the Moon administration, is directed to increase monitoring and regulations on *chaebol* to reduce the unbalanced power game among LEs and their suppliers. Innovative growth seems timely as the global economy and business are transitioning towards the fourth industrial revolution and yet the main driver of this phenomenon is to encourage startups that can aspire to become the next Airbnb or Uber. Altogether with the economic democracy programs left by the previous Park Geun-hye administration, the budget spent on SMEs has been steadily increasing and reached 16.5 trillion Won in 2017 reflecting the hype for SMEs and startups (Jung, 2017).

Not only Korea but other economies in the world are raising their efforts for SMEs and startups. With the success tales following one after another in Silicon Valley, the startup boom has been a global trend (Singh, Garg, and Deshmukh, 2008). In 2015, Japan's Prime Minister Abe Shinzo visited Stanford University and invited the business tycoons in Silicon Valley to have a glimpse of Silicon Valley's successful startups and SMEs. Ironically, the successful Silicon Valley firms are no longer SMEs and this is an important fact SME advocates should be aware of. Contrary to popular and hopeful belief, the global economy is still dominated by conglomerates and these giant firms are not downsizing but scaling up by integrating or linking with different industries (*The Economist*, 09/27/2016). Starting with Hewlett and Packard, Apple, Microsoft, Google, Facebook, Airbnb, and Uber may have been startups at some point in time, but they have succeeded in becoming innovative LEs. In fact, most global indices for innovative companies rank LEs such as Apple, Google, Tesla Motors, Samsung, and Amazon as top runners of innovation.

Historically, many calls for the public support of SMEs have been made to promote SMEs as a countervailing force to the evils of monopoly and diversifier of product commercialization that can cater to individual tastes of consumers (Rothwell and Zegveld, 1982). On a global level, there has been a contrast and continuous shift in the US and Europe where until the 1960s European governments favored LEs and gave birth to national flagship companies in key sectors such as computers; the US was the opposite and led to the creation of US Small Business Act of 1953. However, since the 1970s and onward, European governments shifted in favor of SMEs and encouraged them as the more efficient employment creators than LEs (Birch, 1979). In addition, the

high-tech small firms during the 1980s mainly from Silicon Valley and Route 128 stimulated the creation and growth of new technology-based firms in both Europe and the US (Rothwell, 1989).

Until recently, startups and SMEs have been emphasized as the new hope for the increasing economic disparity and decades-long economic slowdown but there are also countervailing stories. There are a growing number of reports from media where startup booms may be fizzling (e.g., Solon, 2017). According to these news, startups are running out of money and investors are becoming more cautious and selective because of their decreasing confidence in investment returns. Some signs even resemble the situations of the dotcom crash in the 1990s, thereby heightening the cautiousness. In reality, the large sum of government support turned out to have little effects on the employment rate or the success rate of startups. Lu and Beamish (2001) observed failure rates of new businesses in Australia, UK, Japan, Taiwan, and Hong Kong to be around 25% within two years and 63% within six years. These problems call for a more accurate analysis on the relationship between the size of firms (SMEs vs. LEs), innovation, and business performance

3.1. Types of Firms: Business Groups, Conglomerates, and Holding Companies

In distinguishing various types of firms, different terminologies are used. Conglomerates, large enterprises (LEs), and business groups (BGs) are the three main classifications that

are widely used to refer to businesses that are diversified and have the scale economies. This section will touch upon some of the historical and theoretical understudies on these different firm types. There is also the contrasting general environmental setting in selecting these terms. Conglomerates are often more referred to firms in mature industrial economies and usually BGs for emerging economies' diversified business groups. Both categories exhibit a diversified and unrelated product portfolio and mostly adopt the holding company structure.

3.1.1. Business groups

Although business groups (BGs) are prominent in emerging economies, there are also BGs in mature, advanced economies. However, because of the identification of BGs with emerging economies that has unique ownership, governance, and other organizational features that are observed as opaque and personalistic, BGs are often criticized as inefficient, often times corrupt, and crony capitalist institutions (Colpan, Hikino, and Lincoln, 2010). Also, different academic disciplines target and examine BGs differently which often times hindered the balanced, systematic, and comprehensive understanding of BGs.

Fortunately, the negative views were gradually replaced with new strains of organizational theory and recent empirical research that began to examine BGs as exerting useful roles in economic systems that have to acquire the well-functioning markets and supportive institutions critical to efficient capitalist economies. In simplest forms, "A business group can be defined as a collection of legally independent firms that

are connected by economic links" (Granovetter, 1995; Guillén, 2001). Among the BGs, scholars have distinguished the different types and characteristics across countries. For instance, the BGs in developing economies were formed as an efficient form of business organization that expanded in size and scale to manage internal resources that are limited in the home country's developing situation. Some of the examples of business group that have grown from this characteristic are the highly diversified groups such as India's Tata and Reliance, and Korea's Samsung (Moon, Lee, and Yin, 2014).

Earlier studies that analyzed the growth of BGs in developing countries focused on the internal formation and allocation of capital among the subsidiaries. However, there are mixed views on the efficiency of internal resource exchanges. Stein (1997) provided a view that the cross-ownership and internal capital mechanism are effective only when the headquarters has the capability to target and focus its limited pool of resources on the more productive divisions. This allows the BGs to render greater degree of spillover effects and value creation. Therefore, the performance of BGs is relevant to more strategic management issues of resource allocation apart from internal financing. Rajan, Servaes, and Zingales (2000) offers a constrasting view that resources are more inefficiently allocated throughout the subsidiaries in BGs because of internal power struggle and divisional rent-seeking.

The research on the diversified BGs falls into two broad analytical frameworks: the first emphasizes the causal exogeneity, the primacy of environmental factors; and the second stresses the endogeneity, the dynamics of intra-group structure and process. Within the exogenous factors, there are market imperfection approaches and the political economy approaches (Ghemawat and Khanna, 1998; Khanna and Palepu, 1997; Khanna

and Rivkin, 2001; Leff, 1976, 1978). For endogenous factors, the internal competitive resources and capabilities underlying the diversified growth are emphasized (Amsden and Hikino, 1994; Guillen, 2000; Kock and Guillen, 2001).

3.1.2. Conglomerate enterprises

According to Williamson (1985; 288), in terms of product portfolio and ensuring structure, conglomerate enterprises represent "a logical outgrowth of the multidivisional mode for organizing complex economic affairs that are less closely related." Their internal control apparatus is thus less extensive, because multi-product spillovers remain marginal relative to the case of classic multidivisional enterprises with a related product portfolio (Williamson, 1975: 153).

While some variation of this particular definition of conglomerate enterprises includes those with internal divisions only, most others also include the structure with parent corporations controlling fully owned subsidiaries, as most of the original conglomerate enterprises in the US have historically adopted this holding company-operating subsidiary form. Therefore, by extending this line of argument, the term *conglomerate* has been popularly employed in recent literature to mean enterprises in general that are active in multiple product categories. The current popular use is not sensitive to the nature of the product portfolio since it can be related or unrelated, as long as it is widely diversified into multi-industries. For instance, classic multidivisional enterprises such as GE, DuPont, and 3M are symbolically labeled as "fully-blown imperial conglomerates" (Dugger, 1979a, 1979b, 1990).

The terminology of conglomerates was originally employed to describe “a company that has become highly diversified quickly, through a series of acquisitions and mergers, in more-or-less unrelated areas” (Berg, 1969). In this definition, the conglomerate organization basically included such enterprises as ITT, LTV, Litton, and Textron, whose acquisitive behavior and the welfare consequence of an extensive product portfolio became a public policy issue in the 1960s and 1970s. Contemporary examples are Tyco International, Berkshire Hathaway, or Walt Disney. Berkshire Hathaway, for instance, has wholly-owned, legally independent subsidiaries that engage in a number of diverse business activities including property, insurance and reinsurance, utilities and energy, finance, manufacturing, services, and retailing (Berkshire Hathaway, 2013; Colpan, Hikino, and Lincoln, 2010). These are different from a multidivisional company that has become highly diversified over a long period primarily through internal expansion into related areas (1969).

Many studies agree that the description by Berg on conglomerate enterprise actually poses the most difficult challenge among various classifications of multi-unit enterprises, mainly because, if simply put, it is only referring to the basic characteristics of diversified BGs. In separating the categories of conglomerates from diversified BGs, there are four issues that are particularly delicate and confusing: 1) the ownership and control of the apex unit, 2) the top management of that unit, 3) the public-trading status of operating companies, and 4) the administrative control apparatus.

For diversified BGs, the controlling and exclusive owners of the apex holding company or the equivalent entities are usually the family. By contrast, the respective counterparts for conglomerates are not confined to families. In fact, the headquarters

organization of representative US conglomerates has usually been a publicly held corporations whose ownership is widely scattered. For instance, even Royal Little, referred to as the “man who started the whole conglomerate movement” with Textron, ceased to be a controlling shareholder as his company grew substantially through aggressive acquisitions in the 1950s (Colpan and Hikino, 2010).

Following this behavioral difference from BGs, professional salaried management carries out the basic decision-making in terms of resource allocation and performance monitoring for most conglomerates (e.g., Sobel, 1999). By contrast, family members bear the responsibilities of the critical decision-making role at the apex headquarters in the case of diversified BGs. Conglomerates customarily own operating units as fully owned subsidiaries. For diversified BGs, shares of operating companies are often listed and publicly traded. This is a necessary condition for possible tunneling profits (Morck, 2010).

Finally, the administrative control exercised by the headquarters organization is often different between diversified BGs and conglomerates. For conglomerates, the basic means of internal coordination remain budgetary. For diversified BGs, the families may still hold to the strategic control of operating subsidiaries while incorporating some characteristic of financial control (Colpan and Hikino, 2010).

3.1.3. Holding company organizations

The legal and administrative issues regarding the relationships between the headquarters

unit and the operating units exhibit themselves more directly in another classification of multi-unit enterprises, which is the holding company organization. The classification of the holding company organization adopted in strategy research has usually followed the definition using the "loose-federation" model that the British holding company employed from the late 19th century.

It was Chandler (1990) who cited several examples of this *loose-federation* variety of holding company structure in his book titled, *Scale and Scope*. Here, he pointed out the horizontal combination of family-owned enterprises such as Imperial Tobacco and the Calico Printer's Association as the holding companies that sought national market control through cooperative arrangements. In these organizations, "the parent company's central office was usually little more than a meeting place for a board of directors…legal consolidation did not bring administrative centralization, new investment in production and distribution facilities, or the recruitment of salaried top and middle managers" (Chandler, 1990).

Williamson (1975) defined the holding company as "a loosely divisionalized structure in which the controls between the headquarters unit and the separate operational parts are limited and often unsystematic". He also described the holding companies as being a "weak executive structure" that represents divisionalization of a very limited sort that corresponds to its narrow and related product portfolio. Eventually, he concluded that holding companies certainly cannot be expected reliably to yield results that compare favorably with the multidivisional-form structure. Thus, this is the recognition of the holding companies' structure as a weak organizational form.

However, unlike other business structures such as multidivisional enterprises and conglomerate enterprises, the holding company organization has basically been a legal device or an ownership instrument that can be employed by any of the business organizations such as the BGs and conglomerates. For instance, the holding company organization can be included in the hierarchical varieties of BGs, multidivisional structures, and conglomerates (Colpan and Hikino, 2010).

3.2. Three Perspectives on Conglomerates

As in the previous section, the theoretical approaches to the different type of firms have started from constructing definitions to explain the formation of each business type. Definitions vary although strategy and management-oriented researchers have been concerned with the rationales for the existence of diversified BGs or conglomerates with the identification of the underlying sources of competitiveness. Yet, there are three main approaches on BG or conglomerates which are: 1) economics perspective, 2) political perspective, and 3) strategic-management perspective. This part will discuss the three approaches in order to justify the use of conglomerates versus other terminologies.

3.2.1. An economic perspective on conglomerates

The economic perspective is the one that has had the most widespread and strongest influence on the development of management-oriented research on BGs and

conglomerates. The economics perspective is grounded in the same fundamental premise of research on transaction-cost economics, which emerged from the consideration of the comparative efficiency of markets and firms. This perspective conceives of BGs and conglomerates as emerging as rationale responses to market failures and the associated transaction costs (Delios and Ma, 2010).

This perspective argues that conglomerates and the affiliated firms use international transactions, which are made efficient by the size and scope of the firm, to fill the institutional voids caused by poorly performing or nonexistent institutions in emerging economies (Khanna and Palepu, 1997; Leff, 1978). The economic perspective focuses on the economic efficiency of large enterprises which comes from their internalization of transactions given a weak institutional environment. As weak institutional environments tend to be most pronounced in developing economies, a consistent feature of the organizational environment in these markets is the prominent role played by the BGs or and conglomerates (Guillen, 2000; Khanna and Palepu, 1997; Khanna and Rivkin, 2001). Scholars argue that, as a relatively efficient way of organizing business transactions in developing economies, BGs or conglomerates have been regarded as functional substitutes to fill institutional voids.

3.2.2. A political perspective on conglomerates

The political perspective focuses on the proactive role played by major political institutions such as government, mostly in an emerging economy, as an influence on the formation and strategy of these firms (Schneider, 2010). Scholars grounding their

research in a political perspective view BGs or conglomerates as the product of favorable government policies that encouraged the formation and development of BGs as a way for a developing economy to narrow the GDP gap with the advanced economies (Amsden, 1989; Evans, 1979).

The political perspective places an emphasis on the political capital as the main source which is derived from its political connections with different development levels of governments in a developing economy (Lu and Ma, 2008). Governments in all economies, but particularly activist governments in developing economies, can affect the size and structure of markets and ultimately influence the competitiveness of firms (Hillman and Keim, 1995). Government involvement has been a particularly pronounced factor in the initial formation and development of BGs and conglomerates in developing economies (Mahmood and Rufin, 2005).

This is well illustrated in many developing economies such as the *chaebol* in Korea, and other BGs in China, Indonesia, and Latin America (Chang and Choi, 1988; Granovetter, 1995; Keister, 2000). In these emerging economies, BGs or conglomerates were formed to function as a government tool to achieve political or economic objectives. Close political connections with governments provided these firms with political capital and other scarce politically-oriented resources that were unavailable to independent and unaffiliated local firms (Peng et al., 2005).

The discussion on the preferential access to political capital is important in developing and emerging economies. Research in the political perspective has pushed forward this idea to focus on the source of these firms' political connections to identity

the origins and extend of their political capital. Political connections with governments are an important precondition for BGs to develop and sustain their project execution capability (Guillen, 2000). Therefore, political capital can lead to favorable economic treatment and provide access to critical resources controlled by various levels of government, which will ultimately help improve a business group affiliates' competitiveness and its performance (Fishman, 2001).

3.2.3. A competitiveness perspective on conglomerates

This third perspective places an importance on leverage and resources. The idea of leveraging political connections to gain resources and overcome institutional voids is also relevant to the third perspective that is more business strategy-oriented (Amsden and Hikino, 1994; Kock and Guillen, 2001). For example, in many firms, the development of project execution capability can be traced back to the possession of powerful political contacts. This point creates a degree of similarity between the political perspective and this third perspective. However, the competitiveness perspective places higher value on government protectionism as a crucial precondition for the rise and development of BGs and conglomerates.

Building from the political capital, this third view perceives that BGs and conglomerates have arisen and succeeded in ongoing developmental stages as in the newly-industrialized economies (NIEs) such as Taiwan and Korea. According to Kock and Guillen (2001), firms in these economies were able to leverage local and foreign networks to take advantage of asymmetric foreign trade and investment flows. Many

diversified firms emerged because an entrepreneur could enter new industries by leveraging political connections and then establishing connections for resources of foreign firms.

In this process, a mutually reinforcing dynamic relationship emerges between the experience of these large firms in terms of forging relationship with foreign firms, and the arrival of foreign firms seeking such capable and accessible local firms as local partners in developing economies. Over time, BGs or conglomerates emerge as a set of firms collectively internalizing the capabilities required to execute such projects and develop the so-called project execution capabilities. These capabilities can confer benefits to the firm and their affiliates in the fast-developing markets (Delios and Ma, 2010).

3.2.4. A critical analysis of the three perspectives on conglomerates

The three perspectives are commonly engaged in understanding the growth of firms such as business groups and conglomerates. As mentioned in section 3.1., the choice of terminology on BGs has been made with a political view that business groups are more associated with the political capital of firms in developing economies. Conglomerate is used more generally to refer to large enterprises that are diversified to both related and unrelated industries. The confusion and mixed use of terminologies still exist across different disciplines.

Apart from this problem, the three perspectives demonstrate how scholars of

political economy are biased on linking the growth of firms to the less advanced institutional environments of emerging economies. The existence of political capital and institutional voids were commonly mentioned as the fundamental explanations for the growth of firms. However, they do not wholly or systematically explain the continuing success of conglomerates in developed economies.

The main reason why these perspectives are inaccurate is that they do not explain the growth of conglomerates in advanced economies. Moreover, even the transaction economics which referred to the weak financial and institutional environment as the main cause of internalization needs more thorough investigations. Perhaps it may provide a foundational basis to why high-tech firms from developed economies nowadays engage in aggressive M&As. Even the US economy is prevalent with growing conglomerates such as Amazon, Alphabet, and Disney. The emergence and growth of conglomerates are not political issues anymore. The following section and chapters will solve this theoretical gap in understanding the rationale for conglomerates.

3.3. Relationship between Firm Size and Sustainable Competitiveness

Apart from the political issues that circle around the growth of conglomerates, other widespread criticism and misunderstandings are the popular view on the firm size to innovation and competitiveness. In order to find how firm size matter in terms of innovation, this section will examine what earlier studies have tried to investigate on the

factors that affect firm strategy and performance.[2] Academic debate on the effects of firm size in terms of technological change and economic growth has been ongoing from as early as the late 1950s. Notable economists such as Galbraith (1957) addressed the importance of large size and monopoly power while Schumacher (1973/2011) strongly advocated that "small is beautiful."

Innovation has long been recognized as a critical factor to firm's competitive (Brown and Eisenhardt, 1995; Cooper, 2000; Zimmerer and Scarborough, 2002; Motwani, Dandridge, and Soderquist, 1999; Stock, Greis, and Fischer, 2002). Schumpeter (1942, 1975) suggested that exceptional and creative independent entrepreneurs undertake risky innovative developments that ultimately lead to the launching of radical, new products and industries. However, Schumpeter later focused on the endogenous science and technology, mainly through R&D of LEs that played dominant roles. He emphasized that there will be an increasingly substitutive role by LEs that switch the exogenous inventor's role to an endogenous factor. On the other hand, Winter (1984) hypothesized that innovation activities of SMEs respond to a different technological and economic environment.

All in all, the earlier studies suggest that the relative role of SMEs and LEs in technological change and industrial production will significantly vary over the industry cycle. Most studies confirm that innovation is not clearly associated with the size of firms (Rothwell, 1989). However, studies (e.g., Damanpour, 1992; Terziovski, 2010) that

[2] A part of this section is derived and modified from Moon (2017)'s working paper which was researched and consulted together with the author.

investigated successful manufacturing SMEs pointed out that the key drivers of growth in these firms were innovation strategy and formal structuring that mirror LEs.

Innovations by SMEs usually occur mainly from entrepreneurial dynamism, internal flexibility, and responsiveness to changing circumstances. This means that the advantages possessed by SMEs tend to be more related to behavioral advantages. LEs have benefits arising from their relatively larger financial, human, and technological resources; thus, they have more material-based resource advantages (Rothwell and Dodgson, 1991; Spithoven, Vanhaverbeke, and Roijakkers, 2012; Wagner and Hansen, 2005). LEs tend to create bureaucracy that is unfavorable to an atmosphere encouraging creativity and so they may be less flexible (Cohen and Klepper, 1996; Hudson, Smart and Bourne, 2001; Kamien and Schwartz, 1975). In this respect, the disadvantages of these groups may be easily overcome and enhanced by combining both material and behavioral strategies.

One of the common approaches to innovation is to measure R&D expenditure. However, as the 2016 PWC's Global Innovation 1000 ranking reports, many firms that are recognized as highly innovative often rank relatively low in terms of their spending on R&D. For instance, Apple spent only 2.6% of its sales (US$ 4.5 billion) on R&D and ranked 32nd on the list while Samsung ranked 2nd by spending US$ 13.4 billion for R&D. Regarding firm's efforts on R&D and innovation, academic studies reveal similar conclusions. For example, Acs and Audretsch (1988) revealed that the association among R&D expenditures, patented inventions, and innovation is not consistent.

Cohen and Klepper (1996) compared the role of R&D to innovation by drawing

comparisons between process and product innovation among SMEs and LEs. They summarized that LEs have an advantage in process innovation because of the larger output over which they can spread the costs of their R&D. Despite this finding, they concluded that the study's result does not convey the efficiency of LEs over SMEs. Other studies (e.g., Wagner and Hansen, 2005) that tried to delineate between process and product innovation adopted Porter's (1996) framework on the sources of competitive advantage by arguing that operational effectiveness (i.e., process innovation) is less important than strategic positioning (i.e., product/service innovation). This view has developed into how LEs accrue more inefficiency and less innovations over time, hence highlighting the importance of product/service differentiation by SMEs. As these studies show, there is no clear and consistent linkage between firm size and innovation, particularly when measured in terms of firms' R&D efforts.

The attention of academic research and government policies has gradually diverged into distinguishing SMEs, startups, and the high-growth firms. An increasing number of academic studies questioned the effectiveness of supporting startups and instead suggested policy focus on the small high-potential firms in the economy. For example, Nicolaou and Shane (2009) raised a question on supporting the startups which may have limited growth ambitions, capabilities, or chances of survival. Hölzl and Friesenbichler (2010) distinguished between SMEs and entrepreneurship policy and argued in favor of entrepreneurs who have more growth ambitions. This trend has now been more approached by national and international governments. For instance, the European Commission draws distinctions and supports high-growth SMEs as a political objective in its Europe 2020 Strategy report while OECD similarly evaluates how

governments promote high-growth firms (Coad et al., 2014).

Therefore, understanding the sources of sustainable competitive advantage for the firms has been a major research area in strategic management. Beginning from the 1960s, a single organizational framework has been used to structure much of this research (Andrews, 1971; Ansoff, 1965; Hofer and Schendel, 1978). According to this framework, firms obtain sustainable competitive advantage by implementing strategies that exploit their internal strength, through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses.

To achieve competitive advantage, firms need to constantly focus on the identifying differentiated product strategies, building or reshaping core competencies, acquiring unique technologies, and accumulating intellectual property, all of which can all be harnessed to make the company successful in a highly competitive marketplace. Identifying what constitutes a core competence has been a subject of debate in the literature for over twenty years (Prahalad and Hamel, 1990; Aaker, 1989). A seminal work on this issue was developed in the 1980s which modeled core competencies as unique resources and capabilities (e.g., resource-based view of the firm).

RBV argues that obtaining unique resources that cannot easily be imitated by competitors is essential for firms to sustain their competitive advantage. However, creating such unique resources is not possible for all firms, particularly latecomers that do not have enough resources to engage in such activities. In fact, not all firms have to invent their uniqueness from the beginning if they are able to acquire existing inventions from the open market. People used to devalue imitation and only respect innovation.

However, imitation does not necessarily imply thoughtless duplication of the original product and also does not necessarily imply low quality. It is possible to imitate with higher quality and lower price than the original products or brand (Brondoni, 2012).

The RBV is basically about the first-mover advantage, which is achieved by possessing superior resources or capabilities compared to rivals. However, first-mover advantages are neither sustainable nor durable, with such advantages deteriorating faster in industries that are volatile and dynamic (Moon, 2016a). Therefore, the competitiveness of first-mover advantages is limited to stable industries with low competition and long industry lifecycles. The RBV is useful for explaining inter-firm heterogeneity at a specific point in time, but it lacks a clear conceptual model to describe the mechanism of how this heterogeneity arises (Helfat and Peteraf, 2003). Also, because it only statically looks at firm resources, it is not sufficient to explain how firms can achieve and sustain competitive advantages in a rapidly changing environment (Eisenhardt and Martin, 2000; Teece, 2007; Teece, Pisano, and Shuen, 1997). To tackle this problem, Teece, Pisano, and Shuen (1997) introduced the new approach called the dynamic-capabilities view (DCV) as an extension of the RBV.

Unlike resources, dynamic capabilities are organizational processes embedded within the firm. This means these capabilities can only be built internally by the firm and cannot be bought or sold in the market (Makadok, 2001). Yet, dynamic capabilities are different from operational capabilities. It allows the firm to make a full utilization of existing resources and capabilities at the present and maintain the status quo while allowing the firms to build, integrate, or reconfigure operational capabilities in order to address the changing environment (Helfat and Peteraf, 2003; Helfat and Winter, 2011;

Winter, 2003). Zollo and Winter (2002) addressed the question of how to build the dynamic capabilities and suggested that dynamic capabilities are generated and evolved through three learning mechanisms (i.e., experience accumulation, knowledge articulation, and knowledge codification). The DCV demonstrated the linkage between resources and capabilities and implies that dynamic capabilities are path-dependent processes, relying on existing experiences and resource stock.

For the last decade, there have been numerous articles published about the DCV, yet studies show differing and contradictory views with one another. These differences even extend to fundamental issues, such as whether dynamic capabilities are helpful in achieving sustainable advantages (Peteraf, Stefano, and Verona, 2013; Winter, 2003). While scholars such as Teece argued that dynamic capabilities are a source of sustained competitive advantage, other scholars presented different opinions. For instance, Eisenhardt and Martin (2000) argued that dynamic capabilities might be helpful in achieving a competitive advantage but that they are not sustainable. This is because in a high-velocity market, dynamic capabilities are unstable, and thus the duration of any competitive advantage they provide may be unpredictable.

Another important criticism on both RBV and DCV was raised by Moon (2016a) that these studies remain to narrowly focus on heterogeneous resources that are difficult for other firms to imitate or internalize. This perception not only assumes the growth of industry but also points to the inherited advantages a firm is more destined to possess. These earlier views do not fully provide strategic implications for firms that are born with relatively less resources such as the Korean firms in the 1960s. Therefore, Moon (2012, 2016a) outlines how firms with similar level of resources or disadvantages may

grow faster through the four factors of agility, benchmarking, convergence, and dedication. Moon's study comprehensively and systematically demonstrates the process strategy rather than focusing on the input factors of production and growth (e.g., technology).

3.4. Implications for Conglomerates' Sustainable Competitiveness

The emergence of conglomerates has formed a lengthy debate across disciplines in political economy, economics, and business management. Although their approaches and definitions differed, all of these perspectives agreed on the negative effects to society. The political view on conglomerates saw these conglomerates as the byproducts of corrupted government-business ties mostly in developing economies. They were seen as the villain to the national economy that needs smaller firms to grant more equal opportunities and economic life to the general public. The transaction cost theorists also shared similar perspective. Although their studies were more neutral and objective as they saw the reason for conglomeration as the firm's behavior to reduce transaction costs through internalization, criticisms still circled around how conglomerates have turned into monopolists and the villains that induce market failure (Chang and Choi, 1988; Ramanujam and Varadarajan, 1989).

Despite these criticisms, the business world including the markets in advanced economies are experiencing the steady growth of conglomerates. In fact, the

conglomerates that used to dominate the economy have changed, meaning, the strong players are not the same old giants. According to *the Economist*, the world is still dominated by conglomerates, although the players have changed from firms in the energy and banking sector to those in the IT and telecom (The Economist, 09/17/2016). According to this article, "Apple, Google, and Amazon dominate today's economy just as US Steel, Standard Oil, and Sears dominated in the past. They learned how to combine the advantages of both size and entrepreneurship." Similarly, the *Financial Times* (2015) also introduced Google as the transformer into a conglomerate from search and advertising company to the promising tech-markets.

Amazon, Google's Alphabet, and Apple from the US and Kakao Corporation from Korea are only a few examples that have started as high-tech startups that succeeded in diversifying and expanding their business. Uber and Airbnb are other examples where they have not diversified much but have succeeded in becoming a large global enterprise within a decade. These firms exemplify how earlier perspectives on conglomerates need to change through a rigorous research on earlier theories that explained conglomerates and their sustainability. The following chapter will discuss how existing studies that explain the growth of conglomerates have developed while bringing in more recent business theories such as platform and business ecosystem perspectives that try to explain the changing landscape of business.

CHAPTER IV. THREE APPROACHES TO SUSTAINABLE COMPETITIVENESS

Diversifications and acquisitions among global media conglomerates, particularly in the US, continue to receive attention. In 2017, Verizon Communications Inc., the largest US-based telecommunications company, has openly expressed its interests in merging with other media companies like Comcast Corp., Walt Disney Company or CBS Corp (Moritz, 2017). Disney has also shown interests to acquire other businesses like Twitter (Roof, 2016). As such, despite criticisms from the society, the US entertainment and media sector is owned by only five companies (i.e., Comcast, The Walt Disney Company, 21st Century Fox, Time Warner, and National Amusements) that control 90% of the market and yet, these media conglomerates are demonstrating unending initiatives to merge or acquire, thereby expanding firm size and reachi3ng relatively less related segments. Throughout the cultural industries that include film studios, broadcasting, TV networks, theme parks, and resorts, there are a lot of dynamics and constant changes in firms' structures that demand careful and thorough analysis.

What is more crucial to academic research on media conglomerates is that despite their grandeur size and scale, some of these firms are more than surviving. Contrary to academic theories and research which have popularly focused on the negative aspects of conglomerations and diversifications, US media conglomerates are demonstrating remarkable performance. Another important phenomenon is how these

conglomerates are operating by merging regardless of the degree of relatedness. With digitalization, Internet, and IT-related technologies, the platform for industry convergence is occurring more rapidly and frequently (Gabszewicz, Resende, and Sonnac, 2015) and at successful levels. To address this gap between theory and actual practice, this study hopes to lay the foundations on how conglomeration can be approached with a new perspective.

This study brings in two important concepts in business strategy – diversification and value chain analysis – for this purpose. The seminal works on diversification and conglomerates by scholars such as Ansoff (1957), Chandler (1962), and Rumelt (1974) mainly focused on how firms diversify by expanding their markets and product base through the procedures of exploitation. It was argued that these firms diversify to related businesses in order to use surplus resources or capabilities for growth, or into unrelated businesses to reduce risk in the form of financial exploitation. However, recent evidences show other cases where there are other motivations for firms to diversify; although even these studies are narrowly focused on specific diversification activities such as R&D, functional diversification, product diversification, customer diversification, and geographic (international) diversification.

By reviewing the earlier studies, this paper adopts the value chain analysis developed by Porter (1985) which comprehensively and systematically distinguished firm's value-creating activities into nine categories and applies it to the motion pictures industry. There have been steady efforts by scholars and business schools to utilize Porter's value chain analysis. However, as the next section will show, these studies have been unequivocal in their construction and usage and variations occurring depending on

the focused unit of analysis (e.g., independent movie producers, media conglomerates). This paper carefully reviews these existing studies and modifies the concepts from the original framework while connecting specific motion pictures industry's activities to each of the nine activities. While maintaining all of the nine original activities, these concepts are explained by how firms are seeking diversification in each activity.

4.1. Diversification Strategy for Conglomerates' Expansion Strategy

Diversification strategy was first derived as a growth strategy to explain how firms can accumulate further growth and expansion through their products. Therefore, most of the earlier studies on diversification focused on how firms can sell more to their existing consumers or how they can find new markets with their existing products. In other words, the strategic decisions focused around markets and products. The most seminal work on diversification started with Ansoff (1957). He distinguished the four strategic directions for firms by combining the different options in the two-by-two matrix: new versus existing and product versus market. He summarized that the four possibilities are market penetration (deepening the existing market with existing products), market development (entering new markets with existing products), product development (utilizing the existing market with new products), and diversification (exploring new markets with new products). The last categorical definition of finding new markets by developing new products is how diversification was understood, and this is similar to Rumelt's (1982) definition of diversification, "firms expand or enter in new markets which are different

from the firm's existing product lines or markets."

Ansoff's product-market matrix and his distinction of diversification strategy stand in contrast to the other three alternatives modes for growth. Diversification strategy stands apart from others because it requires new skills, new techniques, and new facilities that eventually will generate physical and organizational changes in the structure of business. Therefore, the challenge in structural changes evoked a wave of debates in the business field on how firms formulate strategy throughout the organizational level. For example, Chandler (1962) examined four American conglomerates (i.e., Du Pont, GM, Standard Oil, Sears) which adopted the revolutionary multi-division form (M-Form) and argued that the need to restructure comes from a strategic shift driven by new technologies and market changes. Therefore, the M-form emerged and co-evolved as the change in corporate strategy facilitates the structural change in the design of the organization through which strategy is administered. Chandler's (1962) contribution soon faced challenges by scholars who argued the opposite; for instance, Hall and Saias (1980) argued that strategy follows structure, and Mintzberg (1990) remarked that the "relationship between strategy and structure is reciprocal."

The debate between structure and strategy may not be so important nowadays since both occur simultaneously, particularly in more volatile markets. By examining the conglomerates' diversification and organization structure, Chandler was able to discern the growing importance of technology in executing diversification strategy for growth. More recent studies turn to other factors such as technology that diversification strategy may be dependent on technology and market as in many gaming and media industries that increasingly favor unconventional structures and governance such as the project-

based organizations (Küng, 2008).

As a corporate growth strategy, the studies on diversification are closely linked to those of conglomerates. Intuitively, this makes sense because a firm that pursued or succeeded in diversification would be larger and more complex in size, scale, scope, and in structure. Therefore, being a multi-industry or multi-business firm in nature, a conglomerate is commonly referred to as a corporation that is made up of a number of different, related or unrelated businesses. Following his earlier study, Ansoff (1965) analyzed that "organizations that have extended the boundaries of their firm by concentrating on technical capacity or market knowledge or both, diversified into horizontal, vertical, concentric, or conglomerate structure." Ansoff's classification of horizontal, vertical, concentric, and conglomerate diversification has been a landmark in the strategy literature when studying the impact of triggers and influencers on the related versus unrelated diversification and mode of entry (i.e., organic or internal development, acquisitions, or alliances).

4.1.1. Earlier studies on diversification strategy

In 1974, Rumelt introduced different dimensions of relatedness within firms' diversification strategies such as constrained and linked diversification. Constrained and linked diversification were treated as related diversification. Rumelt (1974) investigated the relationships among the levels of diversification strategy, organizational structure, and economic performance, and found that related diversification strategies are more

favorable indicators of growth, profitability, risk, and market evaluation. The classification on related versus unrelated diversification allowed subsequent studies to develop on a more solid academic and practical foundations for understanding firms.

In theory, related diversification is generally more associated with synergy. Ansoff (1965) hints at the role of synergy effect that firms, by competing in both product markets, benefit from combined costs, thus increasing the efficiency of cost. Rumelt (1974) defines the interdependency effects among businesses. Bettis (1981) studied the return on assets (ROA) of diversified firms and suggests that related firms (especially technology-based firms) are able to achieve higher return on R&D due to resource pooling and learning effects. Also, in high-tech industries that require massive investments, the higher return on R&D erects barriers to entry. In the same vein, Chatterjee and Wernerfelt (1991) pointed out that firms diversify to utilize productive resources which are in surplus to current operations. The excess in physical resources, particularly the knowledge-based resources are associated with more related diversification while internal financial resources are associated with more unrelated diversification.

Johnson, Scholes, and Whittingtton (2006) argued similarly by demonstrating that synergistic benefits from a related diversification which can make full use of economies of scope, utilization of endowed resources, and exploiting R&D for similar products. More recent studies include Hitt, Ireland, and Hoskisson (2014), which suggested that more recent trend across the globe is for companies to disinvest and to concentrate on core businesses.

In contrast to related diversification, unrelated diversification was revealed as having more association to exploiting financial resources (Hill and Hoskisson, 1987). Bettis and Hall (1982) and Montgomery and Singh (1984) found that regulations, supporting industry structure, risk appetite, and timing of entry to exploit the potential gains of first-mover advantage are major drivers of unrelated diversification. The conglomerates in developing countries serve as good examples of how these different factors helped them grow into an octopus-leg type corporation (Moon, Lee, and Yin, 2015). Other evidences include the studies of Palmer and Barber (2001) which concluded that information asymmetry, network ties and managerial biases are another set of factors which effect unrelated diversification of firms. Lu and Beamish (2004) argued that technological discontinuities and competition are major triggers for a firm to undergo unrelated diversification. In short, unrelated diversification was mostly about overcoming capital market failure by relying on financial and managerial or control competencies, which are not directed specifically at the critical success factors at a given market (Meyer and Peng, 2005; Montgomery and Singh, 1984; Nayyar and Kazanjian, 1993).

4.1.2. Modes of diversification strategy

Porter (1987) suggested that a firm can gain such competitive advantages if it has skills or resources that it can transfer into the new market. In fact, resources have long been recognized to be one of the key factors in explaining diversification (Penrose, 1959). Rumelt (1974) talks about core skills which can be used in related markets and similar

concepts are echoed in the economics literature (Gorecki, 1975; Caves, 1982; Teece, 1982; Lecraw, 1984). Under these efforts, Chatterjee and Wernerfelt (1991) classified the resources into three types – physical, intangible, and financial – and examined their association to related or unrelated diversification choice, providing that excess in physical and intangible resources lead to related diversification whereas the excess in financial resources generate internal funding and open more ways for unrelated diversification. Similarly, most studies that focus on firm's surplus resources link its broad resource base for pursuing diversified expansion (e.g., Montgomery, 1991).

Within the diversification literature, other important studies include Yip (1982) who compared the diversification entry mode between internal development and acquisition. He argued that greater synergy or relatedness are linked to internal development over acquisition. Direct entry is typically riskier because it offers no guarantee of achieving a level of profitability and scale of economy. Also, the time variable plays a risky role in direct entry. There is usually a lengthy initial period of start-up losses that exacerbate the risk of businessmen (Biggadike, 1979; Yip 1982). According to Yip, the choice between direct and acquisition entry is a function of two distinct sets of business agendas: (1) a target market's barriers and the entrant's ability to breach those barriers and (2) such other considerations as finance, managerial motivation, legality and availability. Kitching (1967) concluded that "there is an especially high risk of failure in conglomerate mergers of all types but especially for concentric acquisitions that involve either common consumer or common technology because the acquiring company gets lulled into a false sense of security."

For a more operational advice, Ansoff et al. (1971) found that planning was

important to successful acquisitions and corporate performance in acquisitions. Drucker (1981) pointed out that “acquiring or merging with another firm can be financially successful or meet other organizational goals or needs only when the target company has a common core of unity (e.g., common technology or markets, or production processes) and a temperamental fit” (Paine and Power, 1984).

Overall, earlier studies generally agreed upon the limits of diversification to product and market, and measures of nature of their relatedness (Porter and Salter, 1986). However, nowadays, many industries are rapidly changing with faster technological development at both product and process level and acquiring new entrants have allowed incumbents to gain better access to the new technologies and the market opportunities. Interestingly, Banker, Wattal, and Plehn-Dujowich, (2011) revealed that earlier rationale on related versus unrelated diversification are not so significant for either internal development or acquisition in the IT industries. This is becoming more evident as digitalization, Internet, and IT-related technologies influence many of the traditional as well as new industries, thereby reshaping industry structure and characteristics. This leads to the next question of how diversification can be better explained in the midst of converging industries.

4.2. Process Strategy for Conglomerates' Dynamic Sustainability[3]

The RBV (*e.g*., Lieberman and Montgomery, 1988) talks about the first mover advantage, which is achieved by possessing superior resources or capabilities compared to rivals. However, first-mover advantages are neither sustainable nor durable, with such advantages deteriorating faster in industries that change fast (Moon, 2016a). Therefore, the competitiveness of first-mover advantages is limited to stable industries with low competition and long industry lifecycles. In high-velocity environments or industries facing hyper-competition (D'Aveni, 1998), firms need to adopt efficient and speedy management processes. Given the increasing pressure from global competition, firms need to exploit economies of speed, together with economies of scale and scope by providing products and services through faster innovation and delivery (Ito and Rose, 2004). Stalk (1988) even argued that time management should be another source of competitive advantage. Therefore, early entrance coupled with fast-track management processes will accelerate firms' resilience to market disturbances and changes (Moon, 2016a).

However, speed should be accompanied with precision. Precision refers to the accuracy in all processes of business to make sure the products and services meet customers' needs. Quality has become a growing concern for firms competing in the global markets (Lakhal, 2009), which has forced firms to spend significant efforts to improve the quality of their products and services. In the field of business management,

[3] Part of this section is adopted and modified from Moon's (2016a) Chapter 5.

for example, Total Quality Management (TQM) has provided an effective way of improving the quality of products and services. According to Richards (2012), TQM is defined as providing higher quality goods and services through various tools and techniques to obtain customer satisfaction. TQM is a source of competitive advantage (Powell, 1995) in terms of cost, delivery dependability, product innovation, and so on. (Douglas and Judge, Jr., 2001). In fast changing business environment, "precision" techniques such as TQM, together with "speed" management, have become more important than ever for creating and maintaining competitive advantage.

The word "benchmarking" is often defined as "the search for an industry's best practices that will lead to superior performance" (Camp, 1989; Moffett, Anderson-Gillespie and McAdam, 2008). Traditionally, benchmarking has been regarded as a practice of promoting imitation, but recently, more studies suggest that benchmarking enhances firms' abilities to acquire and create new knowledge and gives rise to innovation (Massa and Testa, 2004). Therefore, benchmarking has more connotations than a mere imitation of firms and incorporates the properties of innovation. Under this perspective, *benchmarking* is categorized in two components –imitation and global standard.

According to Schnaars (1994), imitation is categorized into different types. Some are duplicative imitation such as counterfeits and knockoffs, while others are creative imitations such as design copies, market adaptations and technological leapfrogging. Nowadays, global competition has demonstrated that imitators end up being winners and imitation has become a definitive way of achieving growth and profit (Brondoni, 2012). Imitators are able to be successful because they do not incur risks made by the new

inventions and bypass some of the innovators' costly processes. In other words, imitation can be more cost effective and efficient and even serve as the driver of innovation since the savings can be channeled to further encourage innovation and leapfrogging into the next technological generation (Shenkar, 2010).

Imitation can be related to Porter's (1996) concept of operational effectiveness (OE), which means doing the same things better than rivals. However, Porter stated that firms that only have OE will not be able to obtain sustainable growth. Firms need to additionally create their unique strategic positioning (SP) in order to outperform their rivals. Porter (1996) introduced the concept of "productivity frontier," which refers to the sum of all existing best practices placed on the productivity frontier.

The strategic points on Porter's productivity frontier are actually "global standards" at a given time. How can one become the global standard? Strategy and innovation scholars often emphasize the importance of disruptive innovation or radical changes. However, creating value can come from incremental changes as well. It should be noted that innovation is never created out of thin air. New and competitive resources are based on and come from an accumulation of resources and capabilities (*e.g.*, Barney, 1986)[4]. The most effective way of innovation should be to imitate the state-of-the art "global standard" of today and to substantially advance it to the new "global standard" of the next generation.

Competitive advantage comes from the entire system of a firm's activities rather

[4] This is the underlying assumption of the resource-based view (*e.g.*, Barney, 1986).

than from a single, individual activity (Moon and Cho, 2013). For instance, Porter (1996) explained that fit is "a position built on systems of activities that are far more sustainable than those built on individual activities - in which fit comes from the mixture of resources and capabilities." Porter then argued that such fit could lock out imitators by creating a chain. This is an extension to the concept of economies of scope[5] and can be extended and applied to various sets of strategies that a firm pursues simultaneously (Moon *et al*., 2015). Here, fit is needed in the context of a good mixture of resources and capabilities as well as with the external environment that enables corporate sustainability.

Convergence is composed of two sub-factors, "mixing" and "synergy creation." The mixing strategy in business could resemble Korean *chaebols* and their "web-like expansion." In reality, this type of web-like business can be classified into related or unrelated diversification. In general, scholars from advanced countries that are used to well-developed industries perceive horizontal diversification as unrelated diversification, and as a risky and ineffective business strategy. Their view is that companies can only maintain their advantages through related-industry diversification where they are able to launch similar products in related markets, to eventually gain brand loyalty and increased market share (Baumol *et al*., 1982; Markham, 1973; Montgomery, 1994).

However, there are studies with different perspectives on the relationship between diversification and the performance of firms in emerging markets, by arguing that unrelated diversification as a response to market failure in emerging markets can be

[5] This terminology was introduced in economics (*e.g*. Panzar and Willig, 1975), yet held importance in the studies of business-i.e. Teece (1980).

profitable (Khanna and Palepu, 1997; Ramaswamy, Li and Petitt, 2004). This view states that the important criterion should be how the mixing creates synergies for increasing profits or enhancing competitiveness, and not how a business portfolio is aligned in seemingly related fields in terms of standard industrial classification.

The mixing strategy will not be sustainable if firms cannot exploit the synergistic benefits from it. Diversification will stop when the synergy benefits become zero (Zhou, 2011). The synergy effect implies that the combination of businesses within a firm or with other firms allows a firm to achieve superior performance than its single business competitors. This is because the combination allows firms to get better access to strategic assets, which enhance firms' cost or differentiation advantages (Markides and Williamson, 1996). Earlier studies argue that synergies will be created more in related diversification than unrelated diversification. However, there are also some studies (Hill, Hitt and Hoskisson, 1992; Jones and Hill, 1988; Nayyar, 1992) that suggest that related diversification might be more costly to coordinate than unrelated diversification (Zhou, 2011). A carefully designed "combinative diversification" of both related and seemingly-unrelated businesses can lead to superior performance. The successful *chaebols* of Korea are all characterized by this well-designed combinative diversification.

From the above discussions, the conditions for success in the "synergy-creating mix" can be provided as follows. First, the strengths of mixed businesses should be compatible to each other. Second, their strengths and weaknesses should be complementary, so that the benefits from exploiting the advantages and avoiding the disadvantages with each other can be maximized. Third, there should be an efficient and expanded network system to support their efficient connection and operation. Lastly,

their partnership should deliver higher values to the market or consumers than those of single players or products (Moon, 2016a).

The view on the sources of competitive advantages has shifted over time. Traditional sources of success, such as technology, financial resources and strategic position, still provide competitive advantages, but they become less important than in the past because these factors can be utilized across national borders in the globalized economy. In this changing business environment, some other sources of competitiveness have risen. For example, the organizational culture that looks at how people are managed became an increasingly important source of competitive advantage (Pfeffer, 1994) nowadays. Barney (2002) said, "A firm obtains above-normal performance when it generates greater than expected value from the resources it employs." If employees work harder, they will be more loyal and are more likely to have extra commitment for the firm (Ncube and Steven, 2012). Therefore, although the wages and skills of workers are the same, their competitive advantages will be different depending on their dedication to work. Dedication is then divided into diligence and goal-orientation.

Recently, there have been increasing studies from academics, consulting firms and organizations examining the impact of employee engagement in firm performance. According to Kahn (1990), employee engagement is defined as "the harnessing of organization members to their work roles." One of the important methods of increasing employee engagement is work motivation. There were studies on this subject, but most of them explained the effects of supervision, incentives and working conditions, which are external or extrinsic factors that act as inducement to action (*e.g.*, Porter and Lawler, 1968). In addition to these external factors, we need a more comprehensive analysis that

considers internal factors as well and we can develop a new concept, to be named "economies of hard work or diligence."

The effects of diligence are mediated by psychological processes such as goals and self-efficacy (*e.g.*, Bandura, 1986 and 1997; Gist, 1987). Diligence and goal-orientation re-enforce each other to maximize task performance and efficiency. A large number of studies have showed that the more difficult the goal, the higher performance one will achieve (*e.g.*, Lee, Tan, and Javalgi, 2010). There have been extensive studies (*e.g.*, Button *et al*., 1996; Farr *et al*., 1993; Lin and Chang, 2005; Vande Walle *et al*., 1999) on the implications of goal-orientation for industrial organization and psychology. Furthermore, Dweck (1986) identified two types of goals, learning orientation and performance orientation. The former is to develop one's competence, while the latter is to demonstrate one's competence. In business, goal-orientation, together with diligence, is very important where these two sub-factors of dedication reinforce each other.

As for agility, for example, the vocabulary "agile" can either be "early" or "fast." According to existing theories, the first mover advantage can explain the advantage of the early leader, not the fast follower. We thus need a more refined theory of explaining the latecomer advantage, *i.e.*, the economies of speed. For precision, there are some management techniques such as TQM, but we need more a rigorous theoretical framework to explain how to enhance efficient management and technology.

Benchmarking is often understated by scholars who over-emphasize the importance of innovation with strategic guidelines such as "blue ocean strategy" (Kim and Mauborgne, 2005). However, benchmarking should include both blue and red

oceans because firms can also be successful with the red ocean strategy. The resource-based view of the firm is somewhat related to the blue ocean strategy because it emphasizes unique resources that are not available to the incumbent competitors in red ocean. However, unique resources such as the highest technology are not always needed nor are they the most practical – sometimes absorptive capacity or "economies of learning" is a better option, and thus more important, for enhancing competitiveness because there is less risk in learning the state-of-the-art, current "global standard" than creating new revolutionary technology.

More recently, "convergence" has been emphasized as a source of competitive advantage, but few rigorous theories have been developed. Most of the existing theories of competitive advantage are more about the benefits of specialization or related diversification even when firms enter into different industries. We need a more specific and rigorous theory such as "economies of diversity" that can effectively deal with unrelated as well as related diversification. This new perspective should be able to explain combinative capabilities and the creation of shared value that can maximize synergy-creation.

Dedication has been discussed as a source of competitive advantage. However, most of the existing studies, particularly by Western scholars, have focused on inspiration and creativity rather than perspiration and hard work. There needs to be a more in-depth analysis for "economies of hard work." Furthermore, "goal-orientation" is particularly important, which should be understood together with diligence or hard work because the effectiveness of diligence can vary depending on the level of goal orientation.

As introduced in the literature review presented above, there have been a number of studies on competitive advantages. These studies are related to the factors and sub-factors of the ABCD framework. However, they have been developed independently, so they do not provide a holistic view of competitiveness and only touch upon parts of the ABCD framework. In addition, despite the number of existing studies, some parts of the ABCD framework have been missing or less emphasized in existing literature. As in Table 4-1, the ABCD framework encompasses important earlier business concepts and provides more holistic, integrative and in-depth guidelines for enhancing competitive advantage. It has been applied to understand firms from industries such as the automobile (e.g., Parc, 2014; Moon et al., 2015).

[Table 4-1] An Integration of Competitiveness Theories

Agility	A Static Approach	A Dynamic Approach
• Speed	Early entry advantage	Fast process advantage (Economies of speed)
• Precision	Automation	Process techniques (自働化) *e.g.*, JIT, TQM, 6 sigma
Benchmarking		
• Learning	Resource-based view of the firm	Absorptive capacity (Economies of learning)
• Best practice	Disruptive innovation	Incremental innovation *e.g.*, Kaizan, creative imitation
Convergence		
• Mixing	Specialization capability (Economies of scale)	Combinative capability (Economies of diversity)
• Synergy	Related diversification (Economies of scope)	Related & Unrelated diversification *e.g.*, Chaebol, business ecosystem
Dedication		
• Diligence	Inspiration	Perspiration (Economies of hard-working)
• Goal-orientation	Unique positioning	Continued growth after catch-up *e.g.*, constructed crisis, extra commitment

Source: Adopted and modified from Moon (2016a)

4.3. Business Ecosystem Strategy for Conglomerates' Collaborative Growth

The final theoretical approach to studying the sustainable competitiveness comes from the business ecosystem studies that look into the networked relationships among firms (Borgatti and Foster, 2003; Den Hartigh and Asseldonk, 2004; Ghisi and Martinelli, 2006; Gulati, 1998, 1999; Gulati and Gargiulo, 1999; Gulati et al., 2000; Powell, 1990). As this section will explain, the value chain of a conglomerate serves as the platform of activities for different firms and organizations to network. Eventually this becomes the business ecosystem where a conglomerate would function as the core business, keystone, or leader in the ecosystem (Iansiti and Levien, 2004; Moon, 2016a, 2017; Quaadgras, 2005; Sawhney, 1998; Simpson et al., 2006).

Business ecosystem is an emerging concept in academia and practice, however, it is not an entirely new concept. The term itself which was created after emulating the biological ecosystem (e.g., Foster, 1997; Hannon, 1997; Rothschild, 1990), but not much studies on the business ecosystem has been developed (Peltoniemi and Vuori, 2004). Studies on business ecosystem began to rapidly increase with the rise of small Internet and high-tech firms that worked more closely and collaboratively through networks (e.g., Kraemer and Dedrick, 2002; Rong et al., 2013). Together these firms formed a platform and eventually a business ecosystem. This theoretical review section will look into the three key topics of network, platform, and business ecosystem in order to offer views on the linkage of firms, inside and outside firm boundaries. I refer to both inside and outside firm boundaries because the increase of these features have also led to the increase in

M&As, however, which functions in a unique way.

4.3.1. Towards the theory of business ecosystem

The business ecosystem taxonomy was inspired by ecology such as industrial ecosystem (IE), evolutionary economics, and ecological organization. Korhonen et al. (2004) discussed that IE uses the natural ecosystem as a metaphorical base by emphasizing the sustainable use of renewable natural resources and by-product utilization. This stream of studies includes Ehrenfeld and Gertler (1997), Lowe (1997), Heeres et al. (2004), and van Beers et al. (2007) which focused on enhancing the resource exchange in the eco-industrial region.

Another focus of evolutionary economics is Nelson and Winter (1982) who explained the movement and behavior over time and the stochastic determination of elements that "generate or renew some variation in the variables in question" (Dosi and Nelson, 1994). This thought has led to studies that examined the source and process within innovation systems (e.g., Cooke et al, 1997; Malerba, 2002; Martin and Sunley, 2006).

The organizational ecology is probably the largest area that reviewed key issues including density dependence, organizational founding, organizational mortality, adaptation and selection, and the diversified organization (Amburgey and Rao, 1996; Hannan and Freeman, 1977). In fact, this school is inspired by population ecology and pays more attention to studying the environment in which organizations compete and

adapt. This is the core difference between the business ecosystem scholars who examine the strategic levels for business and how networks among businesses become business strategy (Iansiti and Levien, 2004; Li, 2009; Moore, 1993).

As in the individual species in a biological ecosystem, each member of the business ecosystem ultimately shares the fate of the network as a whole. The platform offers know-how and services to enable other members and participants to achieve synergistic effects on new product development. The key scholars on business ecosystem are Moore (1993, 1998, 2006) and Iansiti and Levion (2004) who distinguished the taxonomy of business ecosystem from these earlier studies by emphasizing the function of network while drawing to conclusions that symbiosis, platform, co-evolution are critical features of business ecosystem. A business ecosystem transfers the business strategies from a single co-work to synergic and systematic cooperation (i.e., symbiosis), from product competition to platform competition, and from single growth to co-evolution.

The definition of business ecosystem follows the description of "loosely connected business community composed of different levels of organizations such as industrial players, associations, governments, and other relevant stakeholders who share a common goal and co-evolve with the purpose of dealing with uncertain business environments" (Moore, 1993). Therefore, platform[6] – a network of firms – is a key way

[6] Platform defined by Iansiti and Levien (2004) is an interface to facilitate external companies to work with technology owners. Rong et al. (2013) argued that ecosystem partners could use the platform as a basic functional component and build up their own products based on that platform. Therefore, it is the interaction interface of a business ecosystem. Platform is defined as "a relatively large set of product components that

to organize partners within a business ecosystem to deal with market uncertainty (Moore, 1996). This may perhaps explain why firms in volatile markets practice aggressive M&As and establish partnerships (e.g., Cisco, Google, Disney).

According to Moore (2006), the past forty years of research on strategy revolved around two pillars: market and hierarchies about economic organization. Business ecosystem is an emerging concept which analogized from biology that moved beyond the market positioning and industrial structure by emphasizing symbiosis, platform, and co-evolution. Li (2009) argued that an ecosystem provides an emerging landscape for business operation which is different from industrial standards or paten pool because business ecosystem pays more emphasis on symbiosis and co-evolution.

The first characteristic of an ecosystem is that business ecosystems have "a loose network of suppliers, distributors, outsourcing firms, makers of related products or services, technology providers, and a host of other organizations, and are affected by the creation and delivery of a company's own offerings" (Iansiti and Levien, 2004). Regarding loose network, Prendergast and Berthon (2000) discussed that loose relationships enhance the necessary symbiosis to assure the ecotone (i.e., boundaries between two or more ecosystems) for marketing. This means, compared to the "blocked embeddedness", the wobbly relationships provide flexibility for partner selection and system design. This thinking dates back to Gossain and Kandiah (1998), which discussed that the relationship within an ecosystem is beyond a traditional value chain due to fluid

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are physically connected as a stable sub-assembly" (Meyer and Lehnerd, 1997). Wheelwright and Clark (1992) also described the platform as a collection of assets shared by a set of products.

boundaries between customers, suppliers, partners, information, and goods.

The second characteristic is a platform of services, tools, or technologies that other members of the ecosystem can use to enhance their own performance (Moore, 1993). This also implies that the competition is not limited to company to company, but it is platform to platform and ecosystem to ecosystem (Moon, 2016b; Moon, 2017). This implication has also led to the formation of different roles and leaderships within an ecosystem. The first stream of studies on business ecosystem circled around these role and leadership (e.g., Dobson, 2006; Iansiti and Levien, 2004; Iansiti and Richards, 2006; Moore, 1993). Platform providers perform a critical role of central ecological contributor and role in an ecosystem and they generally enhance innovation and productivity.

Dobson (2006) described the leadership in platform by labelling them as hub, steward, and keystone companies. These firms play central roles in the systems by exerting their influence and power not only on those that they directly trade with but also on those other players in the system on which they depend on their existence. Naturally, this had led to the antitrust concerns in policy which later led to a separate study on the antitrust, governance, and public goods issues on business ecosystem (Li, 2009; Moore, 2006). Indeed, the leaders of platform and business ecosystem play a central role and the platform works as the complementing role to products and services of participants. This view has led to discussions on the transfer of value focus in business ecosystem from product to network (Hearn and Pace, 2006). Similarly, Gawer and Henderson (2007) found that companies such as Intel experienced the incentives to enter and/or subsidize the market to complement its platform that supports its leadership in the industry.

The third characteristics is the concept of co-evolution which allows the participants to experience evolution and transforms them into a new business landscape. According to Moore (1993), business ecology entails a broad community of firms and individuals that add value to a technology standard by supplying complementary assets to the core product. Later, Moore (1998, 2006) commented that today's leaders shift from conceiving their business as hierarchical organizations to envisioning themselves as participants in a world of complex evolving systems. Similarly, Adner (2006) indicated that business ecosystems allow firms to create value that no single firm could create alone. With a vision that extends beyond their current business operations or technical specifications of one product, the synergic cooperational value of an industry ecosystem is greater than the sum of the parts (Adner, 2006; Kraemer and Dedrick, 2002).

Companies that focus primarily on their internal capabilities have pursued strategies that promote overall ecosystem health. Successful firms have also done this through a creation of platform in services, tools, or technologies that other members of the ecosystem can use to enhance their own performance (Iansiti and Levien, 2004; Moore 1993). In the same vein, Chesbrough and Schwartz (2007) also emphasized the co-development strategy that has been important for companies like Intel which provides core complementary microprocessor technology for Microsoft. According to Li (2009) that examined the technological roadmap of Cisco's business ecosystem, a business can create value through a healthy ecosystem when faced with fierce competition. Successful innovations usually depend on cooperation among firms and potential adopters, although finding a firm's evolutionary path to an ecosystem is not an easy research. This can be seen in how Cisco not only builds its standards but also works to help others to achieve

their own benefits.

M&As are one of the most common ways of how firms increase the size, scale, and competitiveness of their business ecosystem. Cisco has developed scalable business models through continued explosive growth through an M&A strategy (Li, 2009), and as chapters 5 and 6 of this dissertation would reveal, it has been exerted by many global conglomerates in the cultural industries (e.g., Disney, Wanda). For Cisco the M&A strategy has provided a growing number of patents for new product delivery and for Disney and Wanda, M&A has worked to increase the firms' core competence to multi-competence and strong contents and technology development in their value chain's supporting activities. As in the business ecosystem's idea on co-evolution, M&A strategy allows firms to enhance their value creation from its ecotone.

There are four main groups that contributed to the body of research and knowledge of business ecosystem (Anggraeni et al., 2007). On top of the very concept itself, Moore also developed the system for business ecosystem lifecycle. Moore's (1996) study introduces the S-curve lifecycle consisting of four phases: birth, expansion, authority, and renewal. At the first birth phase, firms watch carefully for new opportunities to set up value chains and create value for customers, at the expansion phase, business ideas will capture value for a large number of customers and make it possible to scale up the concept to a broader market. At the authority phase, the value-adding components and processes are stable and leaders that set a direction for partners for collaboration. At the renewable phase, a new business ecosystem will emerge from the mature business communities and initiate the next round of birth.

From Moore's business ecosystem life cycle, scholars such as Iansiti and Levien (2004) and Den Hartigh et al. (2006) introduced the different role types and platform strategies. The third group proposed the four key features of a business ecosystem and suggested a key governance framework by adopting system complexity and evolutionary theory (e.g., Peltoneimi, 2006). The fourth group examined the innovation strategy and risk in an ecosystem (e.g., Adner, 2006).

4.3.2. A critical analysis of theories on business ecosystem

According to Li (2009), business ecosystems move beyond market positioning and industrial structure by having three major characteristics of symbiosis, platform, and co-evolution. However, past studies reveal much more significant implications derived from network, platform, and business ecosystem which are summarized in Table 4-2.

[Table 4-2] Key Concepts of Business Ecosystem

Key Concepts	Literature Review											
	L1	L2	L3	L4	L5	L6	L7	L8	L9	L10	L11	L12
Relationship												
Networked (space)	x	x	x	x		x		x	x	x	x	x
Complementary	x	x		x		x	x	x	x			
Interdependent	x	x	x	x	x	x	x	x	x		x	x
Autonomous	x	x	x		x					x		x
Result												
Co-existence	x	x	x				x		x			
Co-creation			x	x	x	x		x		x	x	x
Co-evolution	x	x			x	x	x	x	x	x		x

L1: Moore (1993)
L2: Moore (1998)
L3: Gulati, Nohria, and Zeheer (2000)
L4: Iansiti and Levian (2004)
L5: Peltoniemi, Vuori, and Laihonen (2005)
L6: Adner (2006)
L7: Moore (2006)
L8: Anggraeni, den Hartigh, and Zegveld (2007)
L9: Peltoniemi and Vuori (2008)
L10: Rong et al. (2009)
L11: Makinen and Dedehayir (2012)
L12: Li (2013)

Despite other concepts that revolved around business ecosystem, I selected two principal performance elements of co-evolution and co-creation as the positive outcome of business ecosystem. Co-evolution has been introduced by Moore from the very start of this discussion. Co-evolution means that interdependent firms and institutions evolve in an endless reciprocal cycle, where a change in one firm can affect and change the status of another, and across a variety of industries. Co-creation, however, was less directly mentioned but had been assumed in various literature (e.g., Adner, 2006; Gulati

et al., 2000; Iansiti and Levian, 2004; Moore, 2006) with different names such as niche creation, production creation, or innovation. Ultimately, I realized that product, service, or technology development are the most basic functional purpose of firms that collaborate. Although the target of co-creation may differ depending on industry and firm type, co-creation is a critical outcome of business ecosystem which has been less explicitly examined and discussed.

The first element for relationship is the factor of network through space. The word space is important here because it serves as the domain of business activity and network. Moore (2006) explains that the concept of a specific business ecosystem naturally follows from the concept of space. This is because "an ecosystem is a cooperative approach to developing business within a space." Within a particular space, there will be a number of critical contributions that need to be linked in order for solutions to be produced. Also, when in reality the innovation trajectory is highly relevant to business strategy and operation, the formation and network to space becomes an important evolutionary perspective for all of its participants.

Secondly, the word complementary was used to replace symbiosis. In fact, even Moore uses the term complementary more often in his papers (Moore, 1993, 1998, 2006) to offer a view on why firms form network. By emphasizing complementary, the business ecosystem provides more important emphasis on collaboration and partnership. A system of complementary capabilities and companies offers collaboration needed to create a final product or service by balancing out any deficiencies and imbalances (Yim, 2015). Hearn and Peace (2006) argued that the next-generation business system should shift from simple cooperation to a complex cooperation. This hints to the importance of

interdependence which is frequently expressed but not explicitly classified as an integral part to business ecosystem.

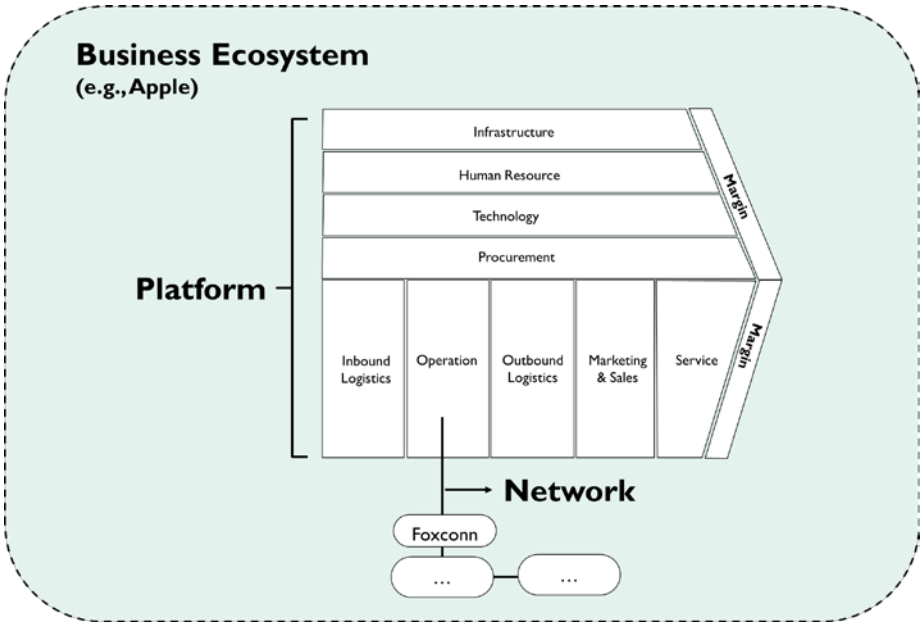
Interdependence and autonomy may incur perplex understanding of how firms form a network, but intuitively this make sense because even though firms engage with each other, the decisions and also their competitiveness to enhance firms' capabilities are left to individual, independent firms and organizations. This is true even when firms demonstrate M&A strategies. As in Disney-Pixar relationship, although Pixar was acquired by Disney in 2006, the two companies operate quite independently. In this case, Disney and Pixar engage in both co-creation and self-creation in producing animated films. Disney's other acquisition histories reveal a similar system of granting autonomy after the acquisition in Marvel and Lucas film. This is because as industries and technologies advance quickly, the keystone or core company in the business ecosystem cannot innovate alone. It becomes more efficient when networked firms are left to operate autonomously while these entities are partially integrated and interdependent.

The survival of each firm is built on the performance of the overall business ecosystem (Gossain and Kandiah, 1998). Therefore, adopting a platform could be regarded as the starting point of the value creation process (Rong et al., 2013), which is one of the key characteristics of the business ecosystem. The platform is able to shift value from the firm to the network level (Li, 2009). The platform can also be expanded by containing services, tools, or technologies shared by other members of the ecosystem to co-create and deliver value (Iansiti and Levien, 2004). In addition to this, the plaform also enables a better structure of the partner network in a business ecosystem in order to harness creative individuals to co-create new value and take it to market. This leads to

the view that current business competition takes place more at the ecosystem than the firm level (Iansiti and Levien, 2004; Moon, 2016b, 2017). Ultimately, this leads to the conclusion that the value created by the platform is not only captured by the core firm, but also *shared* by the network partners (Li, 2009). This leads to the cooperative and collaborative role among firms.

According to Rong et al. (2013), platform in the business ecosystem includes three main functions: interaction interface, value creation, and network formulation. This dissertation links this concept to the generic value chain framework developed by Porter (1985) as the platform that embodies these three elements. Overall, the business ecosystem can be best exemplified and modeled after demonstrating the link – or network – between the individual activities of firms and how value is created by reducing cost and increasing efficiency. Figure 4-1 illustrates this point. The figure only included Foxconn to show how the firm works with Apple in assembling activities of iPhone as a simple illustration for network. Chapter 5 will provide more detail analysis to how this concept works in practice by focusing on the motion pictures industry.

[Figure 4-1] The Relationships between Network, Platform, and Business Ecosystem



4.4. Implications for Value Chain and Convergence Strategy

Industries are now more networked and converged mainly through information and technology along other means such as contents, products and services, and even consumers. Industries are now being blurred, increasing the ambiguity of industry boundaries while at the same time connecting and integrating many different activities that were seen less relevant in the past. Therefore, 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. The changing economies have undermined the established value chains in many sectors, requiring firms to rethink strategy and value (Evans and Wurster, 1997). 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. Therefore, at the final stage of evolution in the information technology is not only about how it connects various activities but how it optimizes the operations in real time (Porter, 2001).

The influence of digitalization, Internet, and other IT-related technologies on firm's diversification behavior has only been lightly hinted by earlier scholars. Although diversification strategies may have been used to explain different aspects within firm's activities such as through as R&D diversification, functional diversification, product diversification, customer diversification, geographic (international) diversification, and diversification of the means of financing (Baughman, 1975; Porter and Salter, 1986), there has not been a sufficient study that combines diversification at the most integrated level in the entire value chain system.

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, 2016a). A synergistic combination provides firms with better access to strategic assets, which enhances the firms' cost or differentiation advantages (Markides and Williamson, 1996; Porter, 1980, 1985). Therefore, as Moon (2016a) argued, a well-designed "combinative diversification" which includes both related and seemingly unrelated businesses (e.g., Korea's *chaebol*) can bring out growth and profitability and this is what this dissertation tries to exhibit.

Past research is not sufficient regarding the performance of non-conglomerates' classifications at a finer level (i.e., horizontal, vertical, or concentric diversification). Also, there is notable lack of studies that focus on the examination of performance issues associated with modes of diversification (Dhir and Dhir, 2015). Therefore, by utilizing the value chain perspective of firms developed by Porter (1985), this study is purposed to analyze how a diversified firm can maintain and expand its competitive advantage. This is more evident in cultural industries where the media conglomerates continue to seek and develop new markets and products, despite their already-large size, by aggressively acquiring and learning new technologies, operations, and consumers (market). Earlier diversification research has not fully covered the firms in industries where boundaries are converging and technology is quickly changing.

The theories on business ecosystem are also limited in addressing only the competitive relationship between the networked-ecosystems. This dissertation engages the business ecosystem in a different, more microscopic perspective by looking into how diversification works along the value chain activities. Past studies emphasized the competition but this dissertation looks into how different activities are joined by strengthening the activities in the value chain through resource-sharing and thus increasing the interdependence. This allows the firm to reduce risk and cost while improving the utility of resources and capabilities through convergence. As Moon (2016a) proposed the meaning of convergence through the combinative role of mixing and synergy, this dissertation adopts this definition by demonstrating that it is not only the diversity but the integrated resources and capabilities among it that increases synergy. In short, synergy is defined as the lowering of cost and risk by increasing

interdependence through resource and capabilities-sharing. The next chapters will apply this definition to the motion pictures industry to illustrate how this mechanism is operated in firms' diversification process.

Linking the concept of the platform with the evolution and the growth of the firm, the platform provider is the coordinator of multiple firms that are connected together which reduces the transaction costs by linking them together in a common architecture. As seen from the value chain analysis, products are not produced by a single firm. As products are interconnected with other services and devices, the complex web of products and complementary goods are produced by diverse firms. As firms provide goods in a portfolio, or the product portfolio is chosen by the end consumers, firm performability is determined by the fit between their offerings and the portfolio. Even if a firm provided a superior technology-based product, it would not be able to survive and gain competitiveness without taking into consideration of the fit between the firms' activities, and their offerings.

Moore's definition of business ecosystem comprises of the networks of firms throughout the value chain activities and external factors that affect the value chain activities "an economic community supported by a foundation of interacting organizations and individuals including suppliers, lead producers, competitors and other stakeholders and they coevolve 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, 1996).

As value chain analysis was developed based on the manufacturing sectors, it

still holds importance in understanding the boundary of firms (i.e., business activities). From the business perspective, value added activities do not necessarily take sequentially or in a one-way process (Yim, 2015). 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). The next chapter will elaborate on the value chain activities and make applications to real business through a case study approach.

CHAPTER V. THE VALUE CHAIN FOR MOTION PICTURES INDUSTRY

The value chain approach was developed and utilized primarily to evaluate the efficiency, accountability, and coordination among firm's many different activities in the manufacturing firms (Bhatt and Emdad, 2001). Porter (1985)'s 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 structure, human resource management, technology development, and procurement. Primary activities are inbound logistics, operations, outbound logistics, marketing and sales, and customer services.

According to Porter (1985, 1996), 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 the activity 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, 2006) to accounting (e.g., Shank and Govindarajan, 1992), and to single-firm-analysis and multi-linked value system (Porter, 1985) to value networks (Kothandaraman and Wilson, 2001). As such, the value chain concept has been applied to analyze diverse industry segments and firm linkages beyond its original development. As applications have extended to non-manufacturing

industries, the unique characteristics that are not found in manufacturing demand a new approach. The following section will provide a detail review of how the framework has been modified and used in the motion pictures industry.

In terms of firm-linkage or co-operative aspects inside or outside the firm's industry, scholars (e.g., Fearne, Martinez, and Dent, 2012; Küng, 2008) have argued that the framework implicitly assumes competitive advantage is created through scale, thereby through vertically integrating much of the activities as possible. Therefore, some scholars (e.g., Downes and Mui, 1998; Tapscott, 1996; Yoffie, 1997) suggested that it is useful to examine the effect of diversification and convergence within the firm's entire value chain activities. However, according to Evans and Wurster (2000), convergences causes the value chain to decompose and bring challenges in understanding the convergence of activities through the value chain. And particularly in cultural industries, different structuring of the value chain seems to occur such as when a firm adds a new stage to the value chain (e.g., MTV aggregated and sourced external content and bundled it into one channel). There are studies that discuss how value chain contracts with bypassing or outsourcing. Nonetheless, value chain activities in non-manufacturing industries seem to be non-linear, non-sequential, interactive, and more fluid-like cross-sectoral business networks (Kelly, 1997).

5.1. Earlier Approaches to Value Chain in the Motion Pictures Industry

Since motion picture companies like the Walt Disney Company operate in highly spread out multi-industry units, building a solid competitiveness in each of the activities become more valuable due to its spillover effects. Some of the main differences within the value chain activities for the motion pictures industry for human resource management would include the company's relationship with third parties including managers and talent agencies that hold the exclusive or contract rights of the cast.

Notable differences or uniqueness are most likely to begin in how motion pictures engage in technology development. Technology, along with consumer behavior, is believed to be the key driver of environmental change for the media industry. And the velocity, the complexity, and intertwined characteristics of technology and consumer behavior are considered to render a great impact. Also, due to the nature of films, technology is directly related to the style of film the firm is able to produce. This can be easily depicted in the different animated films of Disney's Lion King versus Toy Story. Disney's competitiveness in hand-drawn animations until the 1990s is now difficult to remain with the technological advancement of graphically-designed animations along other special effects features. This is why technology development and the primary activities are related to production (inbound logistics, operations, and outbound logistics).

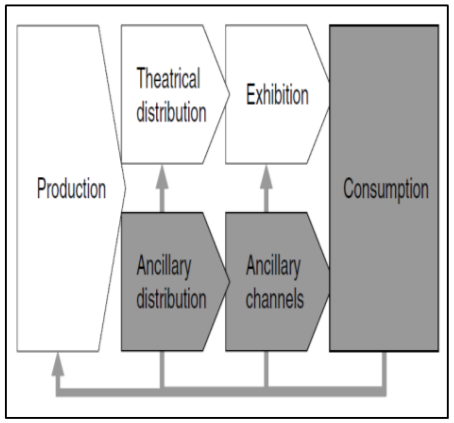
Another uniqueness of the film industry is how operations and outbound logistics can occur simultaneously or even combined. This represents how production and post-production may occur simultaneously during the editing and polishing stage,

or at the request of government institutions for rating approval. As Lampel, Shamsie, and Lant (2008) describe, “in the motion picture industry, design reversibility makes it possible to make major changes in the product prior to market launch. This characteristic is key to understanding how the central producer system works.” This is a feature that is remarkably different from the manufacturing sector where design irreversibility is more likely because it is difficult to modify design along any other product features after production (Sanchez, 2000). The last unique feature of the film industry is the after sales activities. There are no direct repair or product adjustment activities imposed for film production companies, but, re-purposing of films and re-creation of the film such as through the Director’s cut, will belong to this category. These activities can be reciprocal since they are done to serve the purpose of enhancing the value of the film and viewer’s satisfaction.

With the growing interests and studies in this field, there have been various attempts to illustrate the highly complex and intertwined network of industry actors in motion pictures. Earlier approaches to the motion pictures industry’s value chain activities can be summarized as in Figure 5-1. These studies possess strengths and weaknesses.

[Figure 5-1] Earlier Approaches to Value Chain in the Motion Pictures Industry

Eliashberg, Elberse & Leenders (2006)

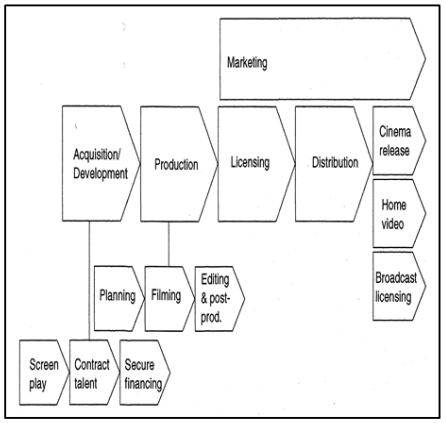


(+) First study that linked Porter's value chain analysis to the motion pictures industry

(-) Focused on marketing and overly simplified the production side

(-) Neglected the specific supporting activities (e.g., R&D)

KÜng (2008)

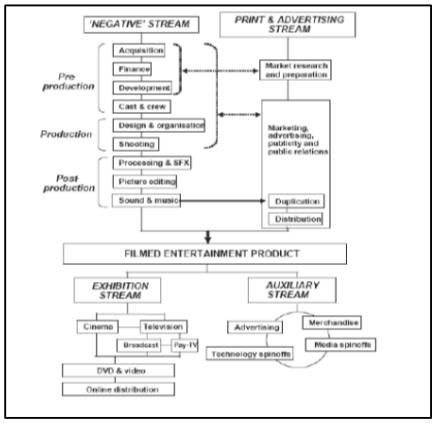


(+) Simple process chart which is relevant to independent film producers

(-) The activities are different in scale and classification

(-) Limited to describing the distribution and ancillary markets narrowly.

Vickery & Hawkins (2008)



(+) Comprehensive and shows a detail process throughout exhibition and auxiliary.

(-) Too complex and diverged from original value chain by neglecting the simpler dichotomy of supporting and primary activities.

One of the studies that include the value chain framework was constructed by Eliashberg, Elberse, and Leenders (2006). This study focused on the motion pictures industry mainly in the cinema distribution and distinguished the activities into three main activities of production, distribution, and exhibition (refer to the first illustration in Figure 5-1). Within this business landscape, there are diverse players in different scale from small local art houses, regional exhibitors to independent production or distribution companies and vertically integrated major studios. These players carry out functions of financing, producing, distributing, and advertising.

Although this study has been a pioneer in engaging motion pictures industry with the value chain framework, their framework neglects the specifics of Porter's (1985) original model which includes human resource and technology. Due to these limitations, core activities and elements in the motion pictures industry such as contents and copyrights are neglected. Also, this framework fails to specifically connect the motion picture industry to its linking segments such as merchandizing or theme parks. Therefore, although it provides a broad conception of the industry's value chain, the lack of details in main functions such as production and consumption limit practical implications to the industry.

A more thorough investigation into the motion picture's value chain analysis was carried out by Küng (2008). According to her revised framework, the value chain of the film industry is divided into four main activities. First is the acquisition and development stage, where screenplay, contracting talent, and securing budget take place. This stage refers to the preparatory stage where a concept is turned into a screenplay or script which is then used to attract funding and casting. Also, it involves acquiring rights,

preparing an outline, synopsis and treatment, and writing, polishing and revising drafts.

The second stage is the actual production stage where activities span from planning, filming, to editing and post-productions. The third stage is licensing and establishing distribution agreements in diverse outlets including the cinemas. The fourth stage is distribution in which there are three main channels of outlets: cinema release, home video, and broadcasting licensing. Distribution includes decisions on specific timing and duration of film release, storage and transport of prints, accounting, and collecting receipts. In this model, marketing starts with the third and fourth stages during the production stage and gets more active on release. This stage includes market research to test concepts, titles, identifying target audiences as well as other direct marketing and publicity.

Küng's (2008) value chain analysis of the film industry 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. Porter's generic value chain framework is more comprehensive and systematic because, by distinguishing between support and primary activities, it helps to understand how factors such as human resource and technology are utilized and affect both the process and end-product.

As part of the OECD report, Vickery and Hawkins (2008) conducted a rigorous analysis into the motion pictures industry's value chain by incorporating the direction of

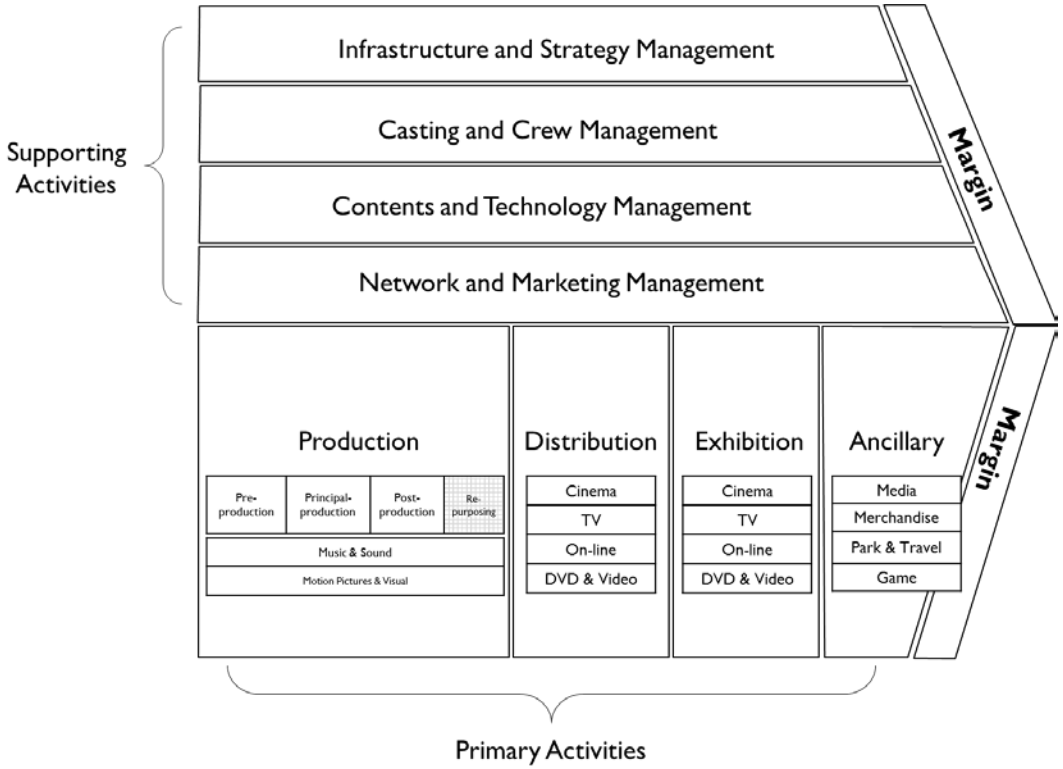
investment streams. Important contribution is that by demonstrating the flow, they recognized that the motion picture product is not the end point, but rather the core intermediate product where further values can be added. They divided the structures of value-added into four types: ‘negative,’ print and advertising (P&A), exhibition, and auxiliary costs. More specifically, within these cost structures, they sub-categorize the different stages of productions and processes.

5.2. A Modified Framework of Value Chain for the Motion Pictures Industry

This study adopted the comprehensive analysis of value chain and tried to link it to film production to explain how value chain activities are coordinated in film production. Figure 5-2 displays how the original value chain framework can be applied to the motion pictures industries by modifying the names and specific classifications for the activities. Table 5-1 specified the value chain activities for film production in comparison to the original framework.

Similar to other businesses, a value chain of motion pictures 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. The next section will detail the specific activities of the value chain for the motion pictures industry.

[Figure 5-2] The Modified Value Chain Activities for a Motion Pictures Company



[Table 5-1] Modification of Porter's Value Chain Model to the Motion Pictures Companies

Original Value Chain Activities	Value Chain of Motion Pictures
Support Activities	
Firm Infrastructure • Supporting the entire value chain activities	**Administration & Strategy** • Accounting, legal, financing, PR, IPR such as copy rights and trademarks including merchandise, quality assurance, general management
Human Resource Management • Determining skills and motivation of employees and cost of hiring	**Casting & Crew Management** • Recruiting, hiring/firing, casting (as part of star marketing), training, developing, compensating, other managerial relations with stars/managers/agencies
Technology Development • Developing technology to improve product and process	**Contents & Technology Management** • Developing and acquiring contents, technology for contents, computer engineering, various effects, platforms
Procurement • Function of purchasing inputs for usage	**Network & Marketing Management** • Purchasing or partnering for IPR, channels, sources/resources for production, pre-testing of concepts and titles, advertising, making trailers and publicities
Primary Activities	
Inbound Logistics • Receiving, storing, and disseminating inputs to product	**Production** • **Pre-production**: Screen play, initial preparatory stage, funding, scouting locations, scheduling • **Principal production**: Film shooting, editing, inputting special effects (sound, dialogue, score, etc.) • **Post-production**: Editing, inputting effects (sound, dialogue, score, etc.), polishing, board approval • **Re-purposing**: Director's cut, any other post-distribution activities
Operations • Transforming inputs into the final product form	
Outbound Logistics • Collecting, storing, physically distributing to buyers	**Distribution** • Finishing, filing, physically and systematically distributing product to exhibitors
Marketing & Sales • Providing the means for consumer's purchase	**Exhibition** • Licensing, market research, contract, negotiations for duration/length of exhibition
Service • Providing service to enhance/ maintain value of product	**Ancillary** • Linkage and spillover effects to other industries and products (game, merchandise, theme parks, TV series)

5.2.1. Primary activities

As in earlier approaches to the motion pictures company value chain, 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. As it signifies dividing up human resources and other technological features, the production for motion pictures industry combines the two original elements of inbound logistics and operation.

However, falling under the production of motion pictures are the four different stages in film making: pre-production, principal-production, post-production, and the less ordinary re-purposing. When making movies, the division of production sequence commonly follows the above three stages. Re-purposing refers to the post-distribution and exhibition activities that require additional editing of the film for another release in the exhibition. Some examples include the director's cut for films that had become a great hit and had high market demand. Other examples include re-touching of the film to be released in different format (e.g., DVD, blue-ray, or from 2D to 3D or 4D). Re-purposing has become a common practice with increasing digitalization.

1) Production

Pre-, principal-, and post-production activities are the common sequences of film making. Due to the possibility of reversibility in film production, there are times when a film that

had completed post-production go back to the first pre-production stage. However, much of the film production process follows the three stages. Pre-production is basically the initial preparatory stage where funding, location scouting, scheduling, and screen-play editing take place. As in the original value chain of inbound logistics, this is the stage where resources for finance, human, physical locations, and contents are gathered and managed.

Principal production is when the actual film shooting, the major production part of filmmaking takes place. Depending on the genre and type of movie, technology levels and input of human actors versus the use of computer graphics may vary. Therefore, actual acting or features of special effects belong in this stage. As mentioned above, since reversibility is possible, the activities under pre-production would probably continue during the principal production stage where screen plays would go through on-the-spot editing. Towards the end of the principal production, special effects for sound, dialogue, and visual graphics will occur consecutively in one after another.

The post-production activities may smoothly evolve after the principal production without a clear distinction between two stages. During this stage, most activities are editing processes where it would involve a lot of time. It also includes further inputting of special effects (e.g., sound, visual). After the final rounds of film editing to adjust to running time negotiated by investors and exhibitors, is the polishing stage. The very last stage of post-production is receiving government approval and rating which may require additional editing in the contents. This may cause the film producers to return to the pre-production stage. The trait of reversibility may not be limited to the motion pictures industry, but to many of the service industries where the actual product

or commodity is not tangible and therefore can be fixed even after sales.

In Figure 5-2, the production activities are also divided into music (sound) and motion pictures (visual). These two activities were distinguished because music (c.f., sound effect) plays an important part of the film where separate soundtracks could also be distributed and exhibited to create additional windows of revenue. However, not all film producers directly own and operate the two segments which require a separate set of resources and capabilities. Disney has its own music studio which has become a competitive part of the film business, but most firms outsource and form partnership for this area. Disney's case would illustrate how the company was able to enhance its competitiveness in film production in both areas.

2) Distribution

The distribution activities belong to the outbound logistics in the original Porter's framework. In the motion pictures industry, this would include finishing, filing, physically and digitally distributing the film to the exhibitors. This is very similar to the outbound logistics of collecting and storing activities in the manufacturing sector to physically deliver to the buyers. Therefore, despite the name change, the core of this activity is quite similar. A unique characteristic in the motion pictures industry would be that there are firms that solely operate to distribute films. Also, the distribution systems and competitiveness could differ depending on the final exhibition outlet. As in Figure 5-2, the film content could be distributed to cinema, TV, or on-line exhibitors in digital formats while the DVD and video sellers would work with physical manufacturers of video cassettes and disc albums within distribution.

3) Exhibition

In this sense, the exhibition activities are similar with the four same distribution channels mentioned above. The major exhibition types for the motion pictures would be the cinema, TV, on-line, and DVD and video. However, at this stage, marketing and sales would play a big role in differentiated and unison system throughout the four windows. Critical to this activity type is the licensing of the film in these four windows. There would be rounds of negotiations to decide on the length of screening or offerings as well as some exclusive rights to hold the exhibition rights amongst the rivals. Often times, distribution and exhibition are highly linked and influential as in the Korean case where the film distributor CJ only showed its film titled *Battleship Island (2017)* through its subsidiary cinema, CGV. However, the US government bans distributors from possessing a major share in exhibitors due to the problems of block-booking and blind-screening, so there are policy differences among countries which would be discussed in Chapter 6.

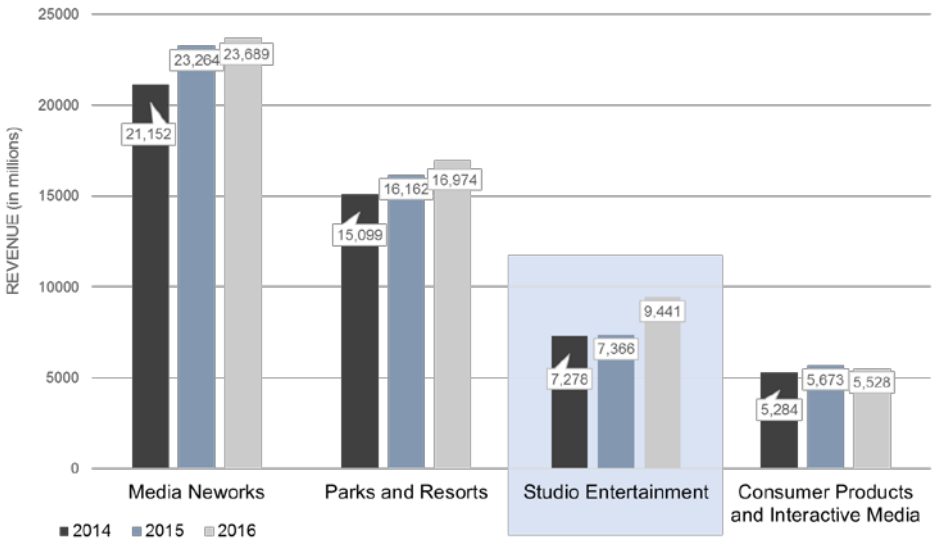
4) Ancillary

The fourth stage in the primary activities is the ancillary which creates the linkage and spillover effects to other products and industries (e.g., game, merchandise, theme parks, TV series). As Figure 5-2 shows, the ancillary section is also divided into the four areas of media, merchandise, park & travel, and game. These four areas were decided after evaluating the business areas of motion pictures companies. A well-made movie, especially an animated film, has a great potential to turn into a franchise or series as in the Disney animations or Marvel comics. Also, merchandizing that could develop after

the contents and characters from the film is another great window for further revenue. This is in fact the one-source-multi-channel characteristics of the cultural industries; there are various revenue windows after the movie production.

In fact, it is these ancillary activities where firms can attain greatest diversification and synergy. Figure 5-3 shows the revenue share of Disney in the company's four business segments from 2014 to 2016. The studio entertainment is the area where Disney's movies and music make profits.

[Figure 5-3] Disney's Revenue by Four Business Segments (2014-2016)



Source: Disney's annual reports

If the percentages of share is calculated, the studio entertainment comprise of only 14.9%, 14.0%, and 17.1% in 2014, 2015, and 2016, respectively. However, the contents and characters created in Disney's movies are all utilized in the other three remaining areas. There are seven Disney theme parks in the US, including the resort & spa in Hawaii, and four Disneylands in the world (e.g., France, Japan, Hong Kong, China) that are created after the Disney movies. Consumer products fall under merchandise and interactive media belong to the game segments of the modified value chain framework in this dissertation. The media network may include other non-Disney related channels and programs. However, the historical development and connection of films and TV show how the film producers had tried to collaborate with TV broadcasters in order to obtain and expand their exhibition networks.

5.2.2 Supporting activities

The four supporting activities originally developed by Porter still relevant to the four supporting activities of the motion pictures. 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, technology development or R&D is changed to contents and technology management, and lastly procurement is changed to network and marketing management.

1) Infrastructure and strategy management

Firstly, infrastructure and strategy management refers to the basic operations of business.

Particular areas to the motion pictures industry would be the strategy and management decisions on the intellectual properties (e.g., copyright, trademark). Management of its intellectual property rights plays an extremely important and critical role throughout its activities in production, distribution, exhibition, and ancillary and firms in motion pictures are highly sensitive and careful to the contractual years and specific agreements in protecting or opening their contents use. Other activities within the infrastructure and strategy are similar to what Porter has mentioned. Accounting, legal issues, financing strategy, public relations, quality management along other general management functions are essential areas that impact firm's overall competitiveness. Although Porter does not use the word strategy, I included strategy management with infrastructure management because how the firm handles its finance and public relations, for example, may fall under strategic decisions and motivations.

2) Casting and crew management

Human resource management is changed to casting and crew management in order to capture the more field-related terminology used in the cultural and motion pictures industries. Casting refers to actors and actresses including both physical and voice actors. Crew members refers to the team or individuals that participate in film production while not actually starring or acting as part of the content. Under this activity, casting and crew management is important in recruiting, hiring and firing, casting, training, developing, and compensating issues. Although the casting and crew management is essential to the success of films and firms, this activity may be done through managers and agencies.

Since there are a number of independent freelancers in the arts and creativity

industries, casting and crew management in the motion pictures is becoming a central issue in both academia and actual business. Caves (2000) referred to artists in the creative industries as the motley crew and people who sacrifice wages for creativity and arts. As such, scholars and business managers are paying more attention to working with the artistic talents that seem to have unique work ethics and motivations. Therefore, the casting and crew management may go beyond simple decision-making on contracting, but also on sustainable collaboration with the pool of artists.

3) Contents and technology management

Technology development in the original value chain is changed to contents and technology management in the modified framework for the motion pictures. According to the original definition, this activity supports the entire value chain or the primary activities by suggesting the firm to develop its technology to improve the final product or the process. This is relevant to the contents and technology management for the motion pictures because contents and technology are highly related and interdependent. The availability of technology allows whether a content or character could turn into an actual movie. An easy example is the Star Wars series.

Without high-tech computer graphics, the visualization and sound demonstrated in the lighting and science-fiction backdrop would not be possible. Even within the animation films, the level of technology sophistication changes how the character and contents could evolve. Therefore, the contents and technology development is one of the core areas that generate spillover effects onto the primary activities of movie production as well as distribution (e.g., digitalization, streaming),

exhibition (e.g, 4D movies, Dolby sound system), and ancillary (e.g., media streaming, game, theme park). If the high association of contents to technology impact the quality and type of final product – the film, technology itself incurs great impact throughout the value chain activities, thereby creating a platform of technological knowledge as in the software systems (e.g., Pixar).

4) Network and marketing management

Finally, Porter's original terminology of procurement is changed to network and marketing management by similarly representing the firm's involvement in the purchasing of inputs for utility. In the motion pictures, procurement of network is an important area that serves as the supporting role to expand its distribution, exhibition, and ancillary activities. It is relevant to the purchasing or partnering for intellectual property, sources for production which may include both human networking to government for location and funding as well as media networking to get a hold of licensing and exclusive contracts. Also, since marketing occurs from the pre-production stage throughout the firm's ancillary segments, marketing management was included as the final element of supporting activities.

Under marketing, pre-testing of concepts and titles can be practiced through the established networks (e.g. previews). Advertising often occurs before shooting or even before casting is complete as a strategy to attract investors and stars. Then trailers and publicities enhance the prediction for marketability and potential value in the primary areas of production, distribution, exhibition, and ancillary. Therefore, although the original model included marketing as part of the primary activities after operations and

distribution (i.e., outbound logistics), marketing starts from the very early stage for motion pictures in order to attract not only the consumers but also investors, and to increase the expected return from the film.

5.3. An Application to the Walt Disney Company

The Walt Disney Company (Disney, hereinafter) is a highly diversified mass media and entertainment conglomerate in the US that has a large global presence and impact. It is the second largest media conglomerate after Comcast. 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 live-action films, TV network, theme parks, and travel.

Currently, the company operates in four main business segments including studio entertainment, parks and resorts, media networks, and consumer products and interactive media (refer to Figure 5-3). The company's main entertainment businesses include Walt Disney Studios, Disney Music Group, Disney Theatrical Group for the studio entertainment; Disney-ABC Television Group, Radio Disney, ESPN Inc. for media network; Disney Interactive, Disney Consumer Products, Disney India Ltd. For merchandise and interactive media. The Muppets Studio, Pixar Animation Studios, Marvel Entertainment, Marvel Studios, UTV Software Communications, Lucasfilm, and Maker Studios are part of Disney that operate independently by producing their own

contents in film or TV programs.

5.3.1. Linking Disney's acquisition to the value chain framework

Acquisition strategy is one of the most widely used modes of how media conglomerates in the US have sought diversification and growth. Disney also executed many acquisitions as early as the 1990s starting with the purchase of Miramax Films (sold off in 2010). Notable acquisitions include the Capital Cities/ABC Inc. including the ESPN in 1996, Fox Family Network in 2001, the Muppets in 2004, Pixar in 2006, Marvel Entertainment in 2009, and Lucasfilm in 2012.

Table 5-2 summarizes how these acquisitions have helped Disney to enhance the firm's competitiveness in the different activities in the value chain. As briefly mentioned above, the acquisition of Pixar and Lucasfilm is more than just the acquisition for contents and characters. The technologies that Lucasfilm and Pixar possessed were also critical assets that Disney needed in order to survive in the industry.

By 1986, Pixar developed a computer that processed 3D graphics at a speed of 40 million instructions per second. Pixar's technical and creative teams collaborated to develop three core-proprietary systems: the animation software which is used for modeling, animating, and lighting; the production software for scheduling, coordinating, and tracking of computer animation projects; and RenderMan for applying textures and colors to the 3D objects. With these advanced technology, Pixar's software programs emerged as the industry's standard and these assets proved to be critical for Disney.

[Table 5-2] Disney's Acquisition Activities in the Value Chain

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

* Disney acquired only a minority stake (33%) of BAMTech's for US$ 1billion with an option to become the majority stakeholder in the future
Source: Disney Movies Anywhere Website

Likewise, when Disney acquired Luscasfilm for US$ 4.05 billion in 2012, the technology research properties such as LucasArts, Industrial Light & Magic (ILM) and Skywalker Sound also followed the studio's famous Star Wars and Indiana Jones. LucasArts is a leading developer and publisher of interactive entertainment software worldwide, and the other technology properties that carry high technology in visual effects and audio post-production have now become part of Disney's film production capabilities (Melanson, 2012). The convergence of these firms for Disney to enhance its competitiveness in the technology area are often mentioned, however, the significance

of its synergy and spillover effects on Disney's other film productions will require more time for more accurate evaluation.

More immediate benefit of acquisition comes from the diversified contents and characters that allowed Disney to expand its target markets. This effect is more apparent. By acquiring Pixar, Disney was able to produce animated films that now target boys and even adults. Disney's earlier successful films were mostly for young girls and the characters focused around depicting princesses. However, with featured films such as Toy Story, Bug's Life, Finding Nemo, and Cars, Disney was able to segment the target audience to include boys and adults. The Toy Story series succeeded in attracting and setting the trend for adult audiences along with other animations by Pixar, such as Inside Out. Therefore, through Pixar, Disney was able to diversify their products by segmenting the animation audiences into boys and adults.

Similarly, Disney's acquisition of the Marvel Entertainment in 2009 for US$ 4 billion and Lucasfilm in 2012 established similar diversification effects in terms of contents and characters. The comic book publisher and movie studio, Marvel Entertainment holds the library of 5,000 characters including some of the world's best-known superheroes such as Spider Man, X-Men, Thor, Iron Man, and the Fantastic Four. Regarding this acquisition, the CEO of Disney, Robert A. Iger once said, "Marvel's brand and its treasure trove of content will now benefit from our extraordinary reach." Interestingly, by acquiring Marvel, Disney is now a partner with Paramount Pictures, Sony Pictures Entertainment, and 20th Century Fox.

5.3.2. Post-acquisition: learning and innovation throughout the value chain

With these firms, Disney succeeded in building long-term deals to produce or distribute movies based on superhero characters (Barnes and Cieply, 2009). Whether partnering with industry rivals through these character contracts remain to be seen, the complex and integrated relationship among animation productions will become an interesting example of diversification and mutual sustainability in the film industry. Table 5-3 is the list of Disney's expected films from 2016 to 2020.

Disney's library of animated films and their characters provide the basis for content re-exploitation. This is an important characteristic in the cultural industries where massive duplication of materials is possible and critical for profits. In this industry, there is usually a single cycle of product development which is followed by mass production. In financial terms, this means fixed and first costs are high but subsequent production costs are low. The economies of scale effects allow costs to reduce rapidly with volume with minimal additional production costs indefinitely.

Therefore, film producers try to maximize returns from sunk investments in contents by diversifying and expanding its product portfolios, windows, and globalization (Napoli, 2003; Owen and Wildman, 1992; Shapiro and Varian, 1999). This is what leads many media conglomerates to seek vertical integration and scale of diversification (Chan-Olmsted, 2006). Under this business logic, Disney has diversified into acquiring broadcasting and networks such as the Capital Cities/ABC Inc. (including 80% controlling stake in ESPN) for US$ 19 billion in 1996 and the Fox Family Worldwide (which has now become part of the ABC Network) for US $ 3.3 billion in

2001. The synergy created by acquiring huge TV networks require a separate study. However, it would not be difficult to imagine how Disney benefitted by acquiring its own outlet for its contents and characters from animations.

[Table 5-3] Disney's List of Expected Films (2016 – 2020)

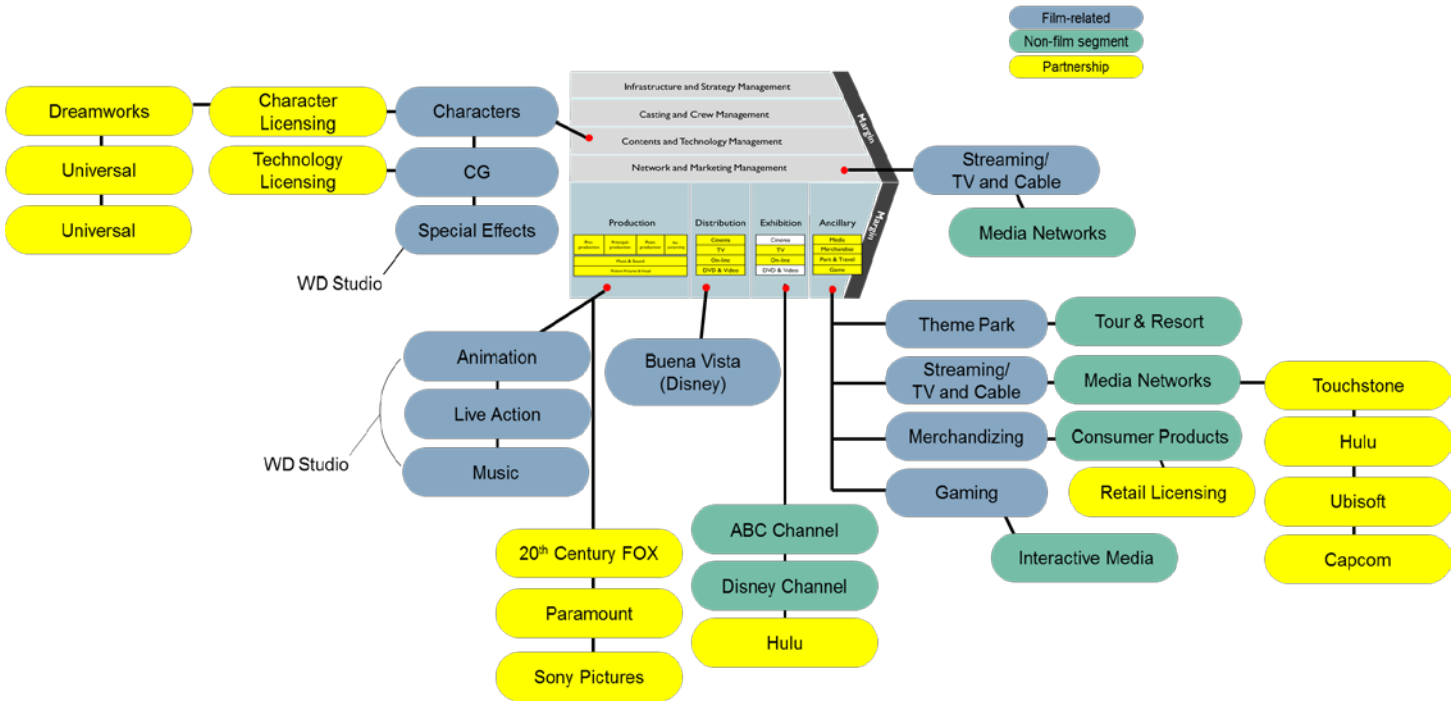
1	*The Finest Hours*	Disney Live Action	January 29, 2016
2	*Zootopia*	Disney Animation	March 4, 2016
3	*The Jungle Book*	Disney Live Action	April 15, 2016
4	*Captain America: Civil War*	Marvel Studios	May 6, 2016
5	*Alice Through the Looking Glass*	Disney Live Action	May 27, 2016
6	*Finding Dory*	Pixar	June 17, 2016
7	*The BFG*	Disney/Amblin/Reliance	July 1, 2016
8	*Pete's Dragon*	Disney Live Action	August 12, 2016
9	*Queen of Katwe*	Disney Live Action	Fall 2016
10	*Doctor Strange*	Marvel Studios	November 4, 2016
11	*Moana*	Disney Animation	November 23, 2016
12	*Rogue One: A Star Wars Story*	Lucasfilm	December 16, 2016
13	*Beauty and the Beast*	Disney Live Action	March 17, 2017
14	*Guardians of the Galaxy Vol. 2*	Marvel Studios	May 5, 2017
15	*Pirates of the Caribbean: Dead Men (…)*	Disney Live Action	May 26, 2017
16	*Cars 3*	Pixar	June 16, 2017
17	*Thor: Ragnarok*	Marvel Studios	November 3, 2017
18	*Coco*	Pixar	November 22, 2017
19	*Star Wars: Episode VIII*	Lucasfilm	December 15, 2017
20	[Untitled Disney fairy tale]	Disney Live Action	December 22, 2017
21	*Black Panther*	Marvel Studios	February 16, 2018
22	*Gigantic*	Disney Animation	March 9, 2018
23	*Avengers: Infinity War Part 1*	Marvel Studios	May 4, 2018
24	[Untitled Han Solo anthology film]	Lucasfilm	May 25, 2018
25	*Toy Story 4*	Pixar	June 15, 2018
26	*Ant-Man and the Wasp*	Marvel Studios	July 6, 2018
27	[Untitled Disney fairy tale]	Disney Live Action	November 2, 2018
28	[Untitled Disney animation]	Disney Animation	November 21, 2018
29	*Captain Marvel*	Marvel Studios	March 8, 2019
30	[Untitled Disney fairy tale]	Disney Live Action	March 29, 2019
31	[Untitled Disney animation]	Disney Animation	April 12, 2019
32	*Avengers: Infinity War Part 2*	Marvel Studios	May 3, 2019
33	*Incredibles 2*	Pixar	June 21, 2019
34	*Inhumans*	Marvel Studios	July 12, 2019
35	[Untitled Disney fairy tale]	Disney Live Action	November 8, 2019
36	[Untitled Disney animation]	Disney Animation	November 27, 2019
37	[Untitled Pixar animation]	Pixar	March 13, 2020
38	[Untitled Marvel Studios film]	Marvel Studios	May 1, 2020
39	[Untitled Pixar animation]	Pixar	June 19, 2020
40	[Untitled Marvel Studios film]	Marvel Studios	July 10, 2020
41	[Untitled Marvel Studios film]	Marvel Studios	November 6, 2020
42	[Untitled Disney animation]	Disney Animation	November 25, 2020

Source: Disney Studios website

This dissertation has focused mainly on film production and how Disney carried out acquisition strategies as part of the company's efforts to increase diversification for synergy creation and sustainable competitive advantage. Nonetheless, there are other areas Disney has diversified into such as the theme parks, tour and resorts, and consumer merchandize. Figure 5-4 portrays how different activities are connected to create the economies of linkage.

These are broader and complex networks of diversification and thus requires a thorough analysis in a separate study. However, by examining the diversification of value chain, this paper provides a useful guide to how a broader scope of analysis can be visualized.

[Figure 5-4] Diversification of Disney in Value Chain Activities



Source: Walt Disney Company Website

5.4. Implications for Value Chain and Convergence

As explained in the earlier section, the value chain framework had been used by many studies (e.g., Eliashberg et al., 2006; Kung, 2008; Vickery and Hawkins, 2008) in order to investigate how the motion pictures industry functions. However, these studies had one common limitation that they neglected the essential elements of supporting activities originally introduced in Porter's framework. Vickery and Hawkins model includes the cast & crew under pre-production while the other two do not mention human resource at all. Although star and artist management is a key issue for successful films, the value chain framework that did not comprehensively and thoroughly include the essential activities and resources.

In this chapter, four supporting activities and four primary activities were constructed as the modified value chain framework for the motion pictures industry. Although there have been modifications, this new value chain captured the intentions of Porter's original value chain which was developed in order to understand the process of production as well as the coordinating fit in enhancing firm's competitiveness among these activities.

By applying this value chain to Disney, the linkages of activities and partnering firms can be visualized. A case study of Disney holds great value because it is the most successfully diversified firm in the motion pictures 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). Supporting activities have also

been strengthened mainly by acquiring technologies and contents. In fact, acquisitions at the supporting activities have created the most spillover effects onto the primary activities for Disney by allowing the firm to diversify its movies, effecting 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 Figure 5-3 shows, as part of a multi-industry firm, Disney's studio entertainment segments create spillover effects on other segments. Therefore, despite its relatively smaller portion in direct revenue output, the studio entertainment is inarguably the core competence of Disney.

What Disney succeeded in terms of sustainable competitiveness is that it managed to raise the competitiveness of 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 when the firm can manage to create additional relatedness from seemingly unrelated products or industry category.

Disney's theme park that 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 could be understood when the categorization enlarges to the cultural industries because Disney Land would not fall under the copyright-based creative industries or the entertainment and media industries. Also, from the theories of diversification, Disney's strategy would only be an exceptional example of unrelated diversification that turned out to be successful without much theoretical logic.

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 would logically fit the definition and avoid problems in grouping Disney's business areas. Secondly, by adopting the value chain framework that distinguishes the motion pictures industry into four supporting and four primary activities, Disney's diversification is well-captured. The application of the value chain framework also allows us to see how competences are linked to create spillover effects. Also, the specific segments within the four primary activities show the current and future degree of diversification. In order to fully demonstrate the applicability of this modified value chain framework in the motion pictures industry, Chapter 6 will compare four firms from Asia and conduct case studies to draw further implications.

CHAPTER VI. A COMPARATIVE ANALYSIS OF FIRMS IN MOTION PICTURES INDUSTRY IN KOREA, CHINA, AND JAPAN

The motion pictures industry is a large part of the cultural industries that shows steady increase in production and consumption worldwide. As economies become more advanced throughout the world, the demand for cultural experiences has become more vibrant and frequent. Worldwide, the monopoly of Hollywood films is gradually changing as films from Asian economies become more popular and competitive. Films from Japan, Korea, and China are increasing in the US market and co-production among different nationalities and studios.

This chapter evaluates some of the key players in Asia's motion picture industry by drawing comparison to the value chain framework and synergistic diversification of Disney. The leading firms from Korea, China, and Japan have unique features that stem from the firm's original core competence. However, these firms are demonstrating similar diversification strategies in the motion pictures industry that need to be carefully examined and analyzed. For this purpose, this chapter will first briefly discuss some of the important issues in the motion pictures industry. Then it will specifically focus on each country and its leading firms to draw implications to the theoretical understanding of diversification, synergy, and convergence in the value chain.

In 2016, there was a 3.2% growth from the previous year where the total

increase in ticket revenue and advertisement grew by approximately US$ 40 billion (PWC, 2015). With Video on Demand (VOD) and Pay per View (PPV) audience rising, growth is seen mainly in these new exhibition formats while theaters and home video market (i.e., DVD rentals) are steadily decreasing. Particularly, the home video market worldwide is decreasing by 9.5% and this trend is expected to continue until year 2021 and onwards. Globally, the decreasing physical rental is replaced by fast pace of growth in the Internet video market. Compared to the previous year, 2016 marked a growth rate of 25.7% in this segment and the annual average growth is expected to be 11.6% until 2021. Movie theaters are number one outlets for movie viewers followed by home video and Internet video platforms. However, experts forecasted that seeing the double digit growth of the Internet video platform markets, the latter two outlets are likely to switch.

Overall, the global trend in the motion pictures industry shows a globally consistent pattern in changing consumption style and exhibition outlets. The degree of growth is much greater in developing countries. As Table 6-1 shows, in regional breakdowns, Asia-Pacific regions take up the greatest share followed by the North American region, Europe-Middle East-Africa, and Central-Latin America.

[Table 6-1] Movie Theaters Market Size by Region

(Unit: in US$ 1 million)

	2012	2013	2014	2015	2016*	2017*	2018*	2019*	2020*	2021*	Avg. growth (2016-2021)
North America	11.534	11.677	11.211	11.936	12.193	12.076	12.257	12.473	12.725	13.017	1.3%
Europe Middle East Africa	9.545	9.470	9.530	10.533	10.567	10.713	10.906	11.164	11.458	11.783	2.2%
Asia Pacific	9.130	10.055	11.444	14.147	14.918	16.252	17.647	19.193	20.588	21.779	7.9%
Latin America	1.173	1.835	1.827	2.103	2.284	2.347	2.492	2.639	2.785	2.929	5.1%
China	2.588	3.192	4.368	6.435	6.745	7.742	8.761	9.884	10.851	11.610	11.5%
Korea	1.140	1.183	1.227	1.278	1.287	1.321	1.360	1.401	1.442	1.483	2.9%

Note: *2016-2021 figures are expected market size
Source: Retrieved from KOCCA (2017a) based on PwC (2017)'s Global Entertainment and Media Outlook 2017-2021 Report.

In 2016, the total market growth rate in Asia-Pacific outpaced that of North America for the first time with a growth rate of 7.9%. China is the main contributor in the Asia-Pacific region with an annual growth rate of 11.5%. China alone takes up 45.2% of growth in this region (PWC, 2017). Despite China-led growth in the Asia-Pacific region, the North American market is still the largest. China ranks second while Japan ranks third in terms of market size. As in Table 6-1., Korea has a relatively large market compared to its population and ranked 7th in the global list (KOCCA, 2017a).

In the North American region where Hollywood movies continue to lead the global motion pictures industry, the productions by major studios have slightly declined although the total production costs steadily increase (up by 6.2% from 2015). Also, despite the increasing number of screened movies, the top 20 movies compose around

42.9% of the entire movie sales. This shows the increasing polarity in movie consumption where major studios continue take up increasing portions in the global motion pictures industry. Also, among the top 20 films, 12 of them were sequels/franchised or spin-off movies. As mentioned in chapter 5, the diverse revenue outlets from film have led major studios to focus on unoriginal, spin-off movies that can create a longer-tail added value after the film release.

In the East Asian bloc, China's rapid urban development is propelling the growth of cinemas and the motion pictures industry. However, the expected growth slowed by 3.1% in 2016. The main cause of this slowdown comes as the result of decreasing market share of Chinese-made films, which dropped by 3.3%. The slowing growth of China-made movies have pushed the Chinese officials to partially increase the quota on foreign films from 34 to 40 movies. Despite this fall, Chinese market is still ongoing rapid urbanization with shopping malls and movie theaters opening up at a fast pace.

This section looks into the three countries in East Asia – Korea, China, and Japan – and their motion pictures industries in order to apply and analyze through the value chain framework. Disney's value chain revealed how the changing and expanding industry boundaries can be understood through this new framework for the motion pictures industry. The comparison with the three Asian countries will reveal how conglomerates in this industry grew and achieve sustainable competitiveness. For each country, the best performing conglomerates by its revenue size were selected. This study looks deeper into behavior and competitiveness of conglomerates, which have businesses in diverse industries, in these three countries. For Korea, CJ E&M and Lotter

Entertainment were chosen. For China, Wanda Group was chosen, and Toho was chosen as the highest-ranking motion pictures company.

6.1. Korea's Motion Pictures and Related Industries

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, 2017). 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 the 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 and fans to mark the beginning of competitive film production in Korea (Park, 2006).

In 2001, the market share of Korea's domestic film grew by 46.1% in Seoul since its previous year. The market share of domestic film versus Hollywood film is undeniable high and comparable to that of rest of the world (Ko, 2002). 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% of film market in the beginning. It was the large conglomerates like CJ that began to expand horizontally and vertically in the cultural 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 owned CJ CGV and Primus (now merged with CGV), Orion's ShowBox owned MegaBox (now acquired by Joongand Daily News Group), and Lotte Entertainment owned Lotte Cinema.

The revenues of Korea's motion pictures industry reached 227.3 billion Won (approximately US$ 2.22 billion) in 2016. This is a 7.6% increase from the previous year, and Korea has been maintaining over US$ 2 billion revenue peak since 2014. Revenue from admissions is 174.3 billion Won (approximately US$ 1.64 billion) after an 1.6% increase from the previous year, 2015. Average annual movie admissions in Korea ranks first place in the global IHS Index[7], with 4.20 admissions per person (KOCCA, 2016c). In terms of production side, the total share of employment in the motion pictures industry took up around 5% of total cultural or contents industries in Korea. Similarly, the share of revenue for the motion pictures industry is 4.8% in 2017 (KOCCA, 2017a). Revenue from domestic films was 48.6% in 2017 and 52.5% in 2016. Among foreign films, US films took up more than 80% of market share, followed by Japan (6%) and Europe (5%) (KOFIC, 2017b). Table 6-2 shows the ranking of film distributors in 2016.

[7] According to this IHS report mentioned in Korea's Contents Industry White Paper (2016c), the annual average movie attendance per person in Korea ranked second place with 4.0 attendance per person a year. Iceland ranked first place with 4.22. Following Korea are Singapore was 3.93, Australia and Hong Kong were 3.65, and US was 3.64.

[Table 6-2] Film Distributors by Rank in Korea (2016)

Rank	Distributor	# of movies screened	Revenue (1 billion Won)	Revenue Share	# of Admissions	Admissions Share
1	CJ E&M	16	254.12	27.4%	31,967,113	27.5%
2	ShowBox	9	234.82	25.3%	29,218,876	25.1%
3	Next Entertainment World (NEW)	14.5	157.45	17.0%	19,740,478	17.0%
4	Lotte	7	69.52	7.5%	8,834,035	7.6%
5	Warner Bros. Korea	1	61.27	6.6%	7,500,420	6.4%
6	20th Century Fox Korea	1	55.86	6.0%	6,879,908	5.9%
7	MegaBox PlusM	5	32.25	3.5%	4,120,475	3.5%
8	WAW Pictures	1	27.25	2.9%	3,586,929	3.1%
9	OPUS Pictures	5	7.01	0.8%	877,190	0.8%
10	Contents Nandakinda	1	3.60	0.4%	482,259	0.4%
	Others	313.5	24.70	2.6%	3,345,216	2.7%
	Total	374	927.85	100.0%	116,552,899	100.0%

Source: KOFIC (2017a, 2017c)

In December 2016, *The Movie and Video Promotion Act* (Legislation #14430) was passed to prevent large enterprises from owning both exhibition and distribution. The act was mainly initiated to prohibit monopoly in screening and implement quotas on arts and independent films. In Korea, CJ CGV (CGV, hereinafter), Lotte Cinema, and Megabox are the three major exhibitors of theaters. Since 2013, CGV have ranked first place and possessed over 50% of market share in Korea's total cinema. The top three take up over 97.1% of market share in 2016, a steady increase since 2013 (KOFIC, 2016c). In terms of movie distribution, CJ E&M is the longtime leader in this area while second rank varies throughout the years.

Except for Warner Brothers Korea and 20th Century Fox Korea, the rest of the distributors on the list are Korea's domestic distributors that engage in movie production and distribution. Among the top 10 distributors, CJ E&M and Lotte directly own their own exhibition cinema, and they are conglomerates that have diversified business areas in entertainment and cultural industries. The market shares of top 1, top 3, top 5, and top 10 distributors between 2013 and 2016 have been steadily decreasing although with slight fluctuation (refer to Table 6-3).

[Table 6-3] Market Share by Korea's Top-rank Distributors (2013-2016)

	2013	2014	2015	2016
Top 1 Distributor	21.2%	24.6%	22.5%	17.1%
Top 3 Distributors	53.9%	48.2%	51.4%	43.4%
Top 5 Distributors	77.1%	68.5%	69.8%	63.7%
Top 10 Distributors	96.3%	89.5%	94.2%	91.9%

Source: KOFIC (2017)

6.1.1. CJ E&M

1) Overview of the company

CJ Group was founded in 1953 as the first manufacturing business under Samsung Group with the name "Cheil Jedang". The company's primary business area was in producing sugar and flour. In the next 40 years, Cheil Jedang emerged and sustained as one of the most prominent food companies in Korea. Cheil Jedang eventually separated from

Samsung Group and became an independent business. Since 1995, the company has put tremendous efforts to diversify and expand its business areas in the entertainment and media industries, mainly by branching out in music, cable TV, gaming, and movie (Choi, Lee, and Ahn, 2009).

Under CJ Group, the cultural division is divided into three main business segments: CJ E&M, CJ CGV, and CJ HelloVision. The company also offers a variety of contents and platform services including media, movies, live entertainment, and games. CGV is Korea's first Multiplex theater and CGV has been the unbeatable exhibitor in Korea since 2003 and holds the number one position in the movie distribution business for 15 consecutive years. CJ HelloVision is a smart platform market that provides services such as the smart cable TV named "Hello TV Smart" along other digital cable TV and Internet TV services.

Even before the establishment of CJ E&M in March 2011, CJ was at the center of the Korean contents industry. *Superstar K*, *Mammamia*, and many other programs in media, movies, music, musicals, TV dramas, and games that CJ E&M has created are the history of "Only One" vision. A brief history begins with the launch of the music channel, Mnet, in 1993. This led to the establishment of Multimedia Business Department (former CJ Entertainment) within the CJ CheilJedang in 1995. A year later, CJ Entertainment (CJ, *hereinafter*) was launched, and the company began its first movie production and distribution in 1996 (Ofe et al., 2015).

In the earlier days, CJ focused and expanded the music programs. It acquired the Music Cable TV Music Network and merged it with Mnet in 1997 and the company

has begun to host Korea's first music video awards, "Mnet Music Video Festival (MMF)" since 2000 (Ofek, 2017). This channel and network changed its name to CJ Media in 2002, and in the same year CJ opened the blockbuster TV channel called "Channel CGV (CH CGV)" for the TV cable.

From 2003, CJ actively and aggressively strengthened its diversified music, TV, and movie segments. It established the CJ Media record label while opening men's lifestyle channel on cable TV. It also entered into live entertainment market by opening musicals. Diversification efforts accelerated and a series of cable networks and channels were launched (e.g., OnStyle, StoryOn), eventually this led the company to establish a total entertainment channel network tvN in 2006. In the same year, while the cable broadcasting network was growing, CJ formed its first distribution contract with Hollywood's Paramount. In 2011, CJ merged all of its cultural businesses under CJ E&M. Under the efforts to become Korea's TimeWarner or NewsCorp, CJ merged On Media, CJ Media, Mnet Media, CJ Entertainment, and CJ Internet (currently Net Marble Games) (Baek and Kwon, 2015). This merger allowed CJ to become Korea's number one cultural contents company.

CJ's interests and ambition into the motion pictures industry date back to 1995 when CJ invested US$ 30 billion in Hollywood's DreamWorks S.K.G. The firm also began to roll out its film production investment and distribution business in Korea and Asia. In late 1996, CJ acquired the license to directly sell Disney home videos with an alliance with Walt Disney Company and set up a character business with an alliance with Universal Studios. These alliances with Hollywood studios allowed CJ to successfully hold place in Korea's distribution segment in the motion pictures industry.

CJ soon entered into alliance with domestic film production companies (e.g., Myung Film, Uno Film, Sinssine) and invested in Korea's domestic films starting from 1999. Some notable films include Joint Security Area (JSA) and Happy End. In 1995, CJ initiated a vertical integration for infrastructure in production, distribution, and exhibition by forming a 50:25:25 joint venture agreement with Australia's Village Roadshow and Hong Kong's Golden Harvest in 1995, marking the beginning of the exhibition platform, CGV (Choi, Lee, and Ahn, 2009).[8]

2) Value chain analysis: CJ E&M

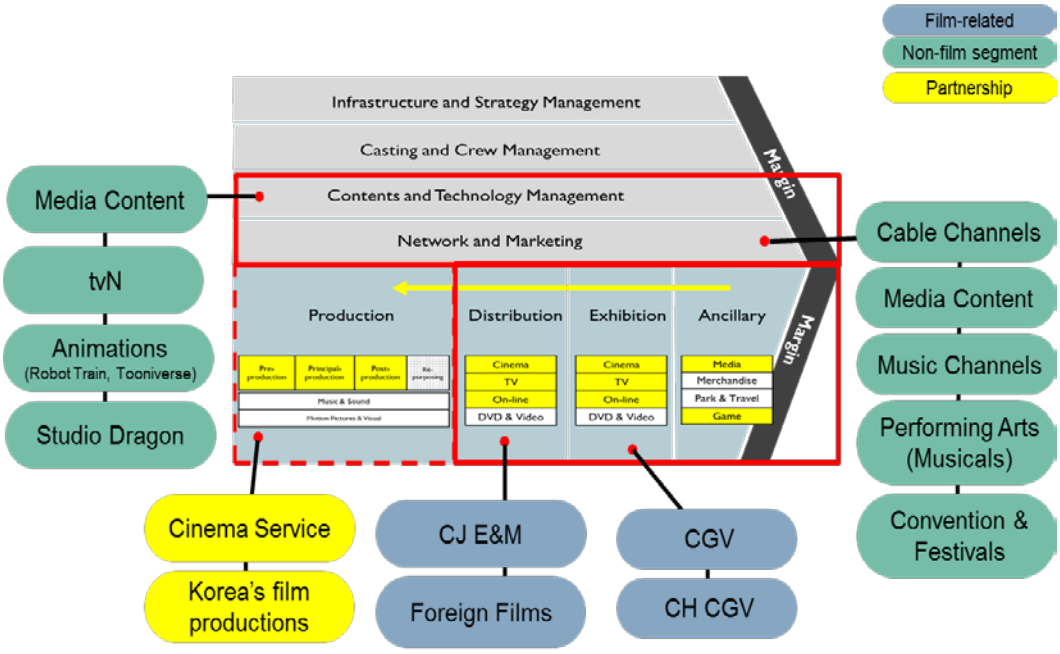
Figure 6-1. illustrates the value chain activities of CJ E&M. As mentioned above, the company has an integrated business model by owning the cinema exhibition, CGV. CJ E&M also has a strong and diverse cable channels such as tvN, channel CGV, XTM, and NGC that program and show variety of entertainment programs from 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 share of media, pictures, and music were 73.8%,

[8] On January 17, 2018, CJ E&M was decided to merge under CJ OShopping which is to be effective in August 2018. The strategy of this acquisition is to connect and increase the competitiveness in the media-commerce business of CJ. This is also aimed to facilitate the globalization of the two firms. The merger of CJ E&M and OShopping is expected to use a new, different name which is not yet determined (*The Korea Economic Daily*, 01/17/2018).

12.1%, and 14.1%, respectively. As these figures show, CJ's core business area is the media segment which is growing steadily with increasing TV ads. Revenues remain strong from digital ad revenue and contents sales. Its strongest competitiveness comes from the 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.

[Figure 6-1] The Value Chain of CJ E&M's Film Segment



In the pictures, or the movie segment, success has been slow in 2016 when cinema revenue declined due to sluggish box office rating of The Battleship Island, although revenue from ancillary increased slightly during this period. Fortunately, the all-time hit made from the CJ's *1987: When the Day Comes* released in December of 2017 reached 6 million viewers into its fourth week of release. The fluctuations and difficulty in forecasting hit movies is nonetheless one of 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 for 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 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 Website, 2018). 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 area of CJ where it 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 way for growth in CJ's production in films.

As in 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 remain 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-ranked 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,* and *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 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 production. CJ's main competitiveness remains on exhibition and distribution. The company is trying to expand into production, which could benefit 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 benefit 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 problem in distribution and exhibition to other windows with its diversified cable and online network.

6.1.2. Lotte Entertainment

1) Overview of the company

Lotte's business operation in cultural industries began with the theater exhibition. The company founded Lotte Cinema under the Lotte Shopping by establishing a separate cinema business division in 1999. Lotte Shopping has operations in Lotte's key retail chains Lotte Department Store, Lotte Mart, and Lotte HiMart in addition to the major

multiplex chain, Lotte Cinema. Within Lotte Shopping, the department store division takes up 49.2%, mart takes up 37%, supermarket takes up 10.7%, and the cinema division comprises of 3.1% (Lotte Annual Report, 2014).

The company began to expand the cinema business nationwide from 2000, and the cinema business division changed its name to Lotte Entertainment (Lotte, hereinafter) and began more active operations in the motion pictures. Starting the cinema business under Lotte's shopping mall platform is an important differentiator that sets apart Lotte from other firms in the cultural industries. As the company aims, Lotte Group has the capacity to turn the shopping mall and cinema theater into a one-stop entertainment complex with the newly built Lotte World Tower in 2017 near its amusement park, Lotte World.

In late 2016, Lotte Shopping has been working with the legal team and the Korean government to separate the cinema business in order to grow into an entertainment company such as CJ. As Lotte Group is even considering expanding into the K-pop industries and began to train its own idols, the spinoff seemed like necessary and possible change. Also, in 2008, Lotte and CJ Group established a joint venture named D Cinema of Korea that sells digital motion picture projector and related technology. Therefore, with the growing market share in exhibition market that also includes cinema food business along other retail divisions Lotte Group is strong with, spinning off Lotte Cinema from Lotte Shopping stands at a critical time, however, there are legal hurdles and conflicts at the moment (*Yonhap News*, 08/31/2017).

Newly fledging in 2003, Lotte has become a fully-integrated entertainment

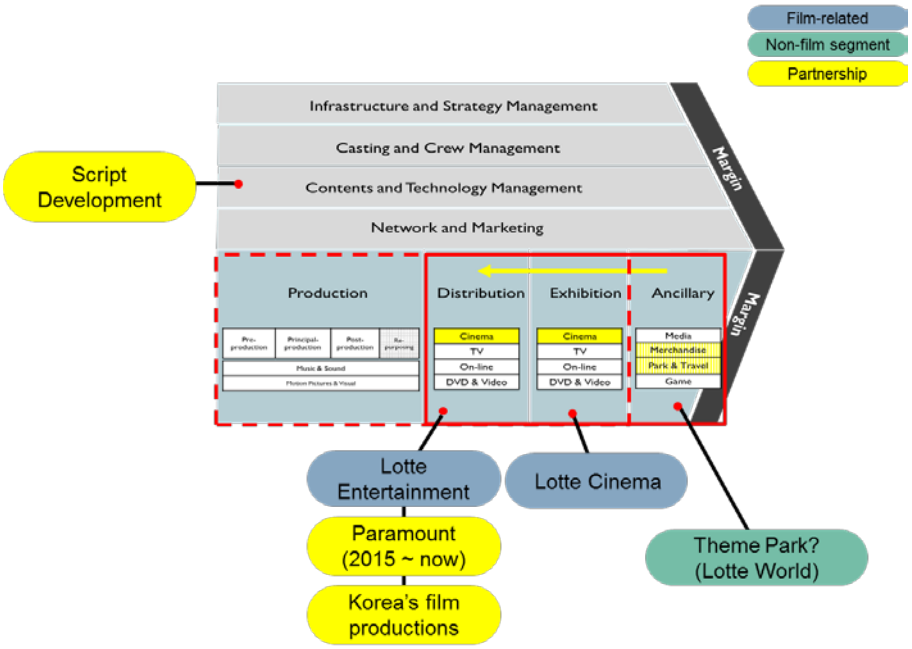
company which has businesses in film investment, distribution, production, international sales, and exhibition. Established under Lotte Group, which is one of the largest conglomerates in Korea and Japan, the company invested and distributed 16 films in 2014 including *The Pirates* and *The Fatal Encounter*. Lotte now owns its own exhibition chain named Lotte Cinema which was founded in 1999. Along with CJ's CGV, MegaBox, and Lotte Cinema is the top 3 cinemas in Korea.

However, Lotte's distribution activities are focused more on handling foreign films. The total share of admissions Lotte imported is nearly 46.2%, which is the highest rate among Korea's domestic distribution firms. Lotte won the distribution rights to Hollywood's Paramount in 2015 and since then the company has even excelled CJ E&M in foreign movies market share. Unlike CJ which succeeded in gaining competitiveness in diversified activities such as cable dramas and music, Lotte's strategy is focused more on foreign film distribution.

2) Value chain analysis: Lotte Entertainment

Figure 6-2 illustrates the value chain of Lotte's film segment. Since 2011, Lotte has dealt with domestic 66 films. Some of the mega-hit movies include *Along with the Gods: The Two Worlds, Midnight Runners, The Fatal Encounter, Tazza: The Hidden Card, The Pirates, Friend 2: The Great Legacy, Eungyo, Architecture 101, and Meet the In-laws.* Also, Lotte has won exclusive contract to Paramount's films since 2015 and released *Ben-Hur, Now You See Me 2, Star Trek: Beyond, Mission Impossible: Rogue Nation, Terminator Genisys, Pompeii,* and *World War Z.*

[Figure 6-2] The Value Chain of Lotte Entertainment's Film Segment



Unlike Lotte's biggest rival, CJ, Lotte does not have a strong competitiveness in the film segment. Although it is one of the largest conglomerates in Korea with the third largest cinema complex, Lotte's diversification seems less integrated and synergistic than CJ. However, as a conglomerate that has existing core business areas in retailing through the Lotte Department Store, Lotte World Mall, Lotte Hotel, Lotte Mart, and Lotte World (amusement park), Lotte has great potential in the cultural facilities and a strong infrastructural base for synergistic convergence. Despite Lotte's diversified business areas in the cultural industries, they are operated independently and lack a cross-sharing of resources and capabilities.

Lotte is trying to increase its competitiveness in contents production by working closely with script writers by holding competitions and events. However, it has a long way to go in establishing its own contents and film production without any significant acquisition of technology and production infrastructure. Lotte started in the entertainment industries as through its hardware platform for customer's cultural experience. Therefore, the expansion of Lotte into the film industry was made as a direction to fill in the hardware facilities – the shopping mall and then cinema – with software in cultural contents. However, the resources and capabilities in managing hardware and software commodities are not entirely the same and may require Lotte to engage in aggressive acquisitions if it wants to move forward.

At the current moment, Lotte is strengthening its cinema network and facilities with the construction of its 123-floor Lotte World Tower in Seoul, Korea. With this new mega-complex for shopping and culture that opened in the Spring of 2017, the Lotte Cinema inside added differentiated cinematic features and stages such as the Super Plex G which has the widest screen in Korea and 4K Quad Projecting system. It also provided a separate stage for casts to appear and meet the audience. In addition to its Cinema Food services Lotte is enhancing, the company is currently focusing on improving its position as an exhibitor in cinemas among other activities throughout the value chain. However, this seems like the only valid choice since Lotte is under heavy pressure domestically with its CEO charged for bribery and internationally with China raising restrictions and boycotts against Lotte for the THAAD issue.

6.2. China's Motion Pictures and Related Industries

Coining a new name "Chollywood," China is aggressively following the Hollywood's competitiveness in the motion pictures. China's Chollywood is now leading this industry after Hollywood and India's Bollywood by demonstrating high rate of growth and receiving immense attention from/for both domestic and foreign investments. By 2012, China already overtook Japan and became the second-largest film market after the US, with box office profiting around US$ 2.8 billion (*The Economist*, 12/21/2013a). Especially as the Chinese government announced the era of US$ 10,000 per capita for China, the consumption for movies is expected to rise sharply (KOFIC, 2016a). Viewing from China's top 3 position in market size already, the growth of Chinese consumers is a highly attractive element. As mentioned earlier, China's share in cinema growth takes up the largest share in Asia with an average of 11.5% (KOCCA, 2017a).

According to the industry analysts, China's motion pictures industry in 2016 is described into four characteristics: 1) steady growth of domestic films, 2) slowdown in cinema market, 3) explosive growth of online movie market, and 4) high demand for non-Korean foreign films while the demand for Korean films have sharply decreased. Despite the unexpected slowdown in cinema attendance, the growth rate was 8.9% in 2016 while the number of newly built cinema grew by 26.3% and the number of screen grew by 30.2% (KOFIC, 2016a).

The past decade has witnessed the most remarkable trend in media globalization: an unprecedented growth in US-China film and business exchanges, as manifested in a record high number of film co-productions and Chinese companies'

high-profile investment in Hollywood studios and US cinemas (Su, 2017). These include the latest partnership between Jack Ma's Alibaba and Steven Spielberg's Amblin Partners to coproduce movies for global and Chinese audiences (Ryan, 2016); Dalian Wanda Group's acquisition of Legendary for US$ 3.5 billion and Carmike Cinemas for US$ 1.1 billion, as well as its ambition to acquire one of the "big six" Hollywood film studios (Brzeski, 2016a); and Bona Film Group's US$ 235 million investments for a slate of 20th Century Fox movies (Frater, 2015).

To gain a foothold in China, Hollywood studios are helping finance films or co-producing them. Mr Jiang's "Gone with the Bullets" has backing from Sony, a Hollywood studio; DreamWorks, which made cartoon hits like "Shrek", has set up Oriental Dreamworks, a joint venture with Shanghai Media Group, a state-owned studio, and two other firms, to make animated films for the Chinese market. There are risks to working in China as Relativity Media, a Hollywood studio, discovered in 2011 (*The Economist*, 12/21/2013a). It got flak from the Western press for shooting a movie in Linyi, an ambitious city in Shandong province, when Chen Guangcheng, a wellknown human-rights activist, was being held under house arrest in the city. But the lure of the Chinese market tends to outweigh reputational risk, and Relativity is financing a new film located in the city of Linyi (*The Economist*, 2013/12/21b).

As part of efforts to enhance the competitiveness of Chinese-made movies, Chinese film-makers are engaging in active co-productions and partnerships. In 2015, international co-productions approved by China outnumbered the sum of all co-productions in the past three years, and Hollywood was China's biggest partner in co-productions (Miao, 2015). A record high 89 shooting permits were issued in 2016 for co-

productions, an increase of 11% over the 2015 figure (Schwankert, 2017). While many have cheered this new global trend of talent exchange and partnership, the most recent developments in bilateral relations and politics have cast doubt on the prospects for US-China co-production.

Efforts by China, especially Dalian Wanda's ambition to conquer the US screen industry, have raised alarms and caused panic over "a Chinese Communist takeover of Hollywood" (Timberg, 2016). Sixteen members of the US Congress issued a letter on September 15, 2016 that called for closer scrutiny of Chinese investment in US entertainment and media sectors. The letter expressed "growing concerns" about Chinese efforts to exert "propaganda controls on American media." The Trump administration's protectionism and the possibility of a trade war with China have also caused anxiety and uncertainty on both sides.

Through active co-productions and investments in Hollywood, the Chinese film industry has experienced a significant growth through emulating Hollywood, although it is also true that this emulation is far from being a perfect replication. Under the influence of state regulation, censorship, piracy, and market monopoly (Wang, 2010; Xu, 2007; Zhang, 2004; Zhao, 2008), problems certainly exist in this unique, yet imperfect system of Chinese Cinema. Transnational co-productions have not only become major contributors to domestic box office revenue and the back-bone of China's film industry but have also enabled Hollywood studios to bypass the tight quota limits on foreign imports. Being part of the Hollywood emulation, visual effects (VFX)-intensive filmmaking was quickly localized in China during 2000s. Those early domestic VFX-intensive blockbusters, from *Hero* (Zhang, 2002) and *The Promise* (Cheng, 2005), to

Red Cliff (Wu, 2008) and *Painted Skin* (Cheng, 2008), imitated their Hollywood counterparts in terms of production, distribution, and marketing. Many of them achieved huge domestic box office success.

6.2.1. Wanda Group

1) Overview of the company

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 has 2,133 cinemas inside China by late 2016. The total revenue from box office is near US$ 960 million, taking up around 23% of China's entire revenue in the industry by 2015 (PwC, 2016). With good performance in the market, Wanda has begun to diversify by establishing its own production unit – Wanda Media since 2009, and the company acquired China's Mtime, an online ticketing platform, in 2016 and taking aggressive steps in vertical integration domestically.

Globally, Wanda actively engaged in M&As since 2012 and reached advanced markets including Hollywood. Wanda Cinema purchased US's AMC Entertainment's cinemas in 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 in

US$ 1.2 billion, all in 2016. 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% of total global revenue in cinema business (KOFIC, 2016b). Within Wanda, cinema business's profits grew by 49.98% in year 2016 from the previous year, 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, 2015a).

Wanda, which started as a real estate investment company in the southern part of China in the city of Dalian 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 in a US$ 3.5 billion acquisition. This gave Wanda a stake of Universal's event pictures while separately owning a portion in *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, 2016; Shih, 2015b).

According to *Variety*, Wanda is also negotiating with Paramount to acquire 49% of this Hollywood studio that filmed hit blockbusters such as *Mission Impossible* series, *Star Trek into Darkness*, *Transformers: Age of Extinction*, and the classic *Forest Gump* (Rainey and Lang, 2016). 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 (Miller and Zhang, 2016). Table 6-4 summarizes the M&A activities of Wanda

using the value chain framework.

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.

[Table 6-4] Wanda Group: M&A Activities in the Value Chain Model

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

These are the areas of Wanda's targeted expansion in the global market. Wanda's partnership with Sony is also mentioned to come to an end in late 2017. The two companies co-financed and marketed movies such as the *Spider-Man: Homecoming*,

Passengers, *Smurfs: The Lost Village*, and *The Emoji Movie* (Frater, 2017). However, Sony confirmed that the partnership deal will not be renewed while Wanda has remained silent regarding future deals with Sony along other Hollywood companies. With pressure from the Chinese government to sell off Legendary and foreign investment, Wanda's strategy may need to wait at the moment.

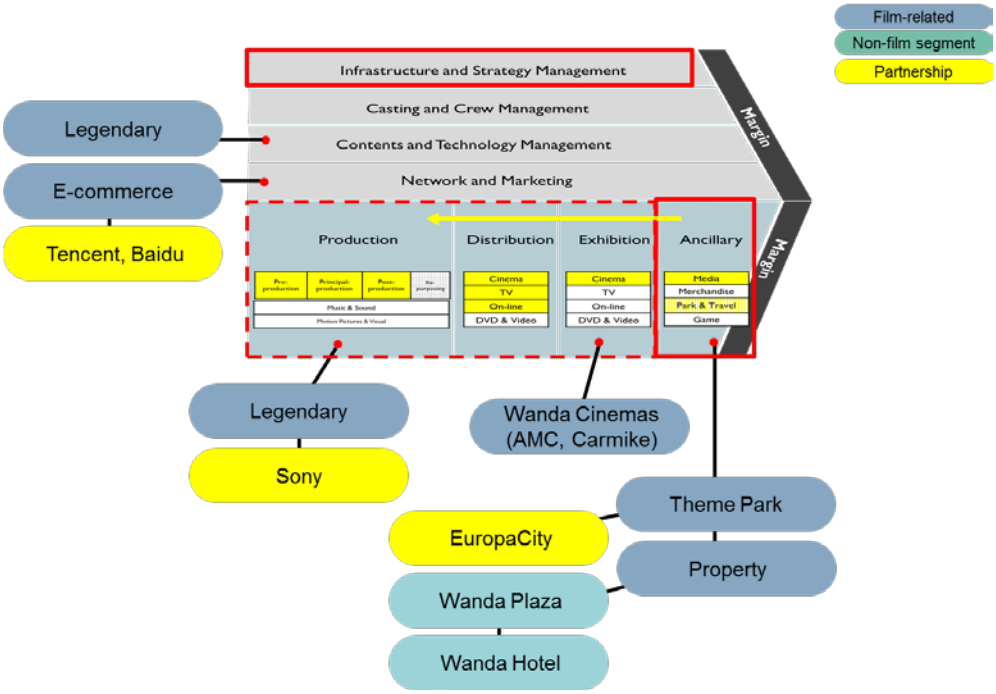
Apart from the struggle in overseas expansion, another outlet of growth for Wanda is the theme park. Chairman Wang had once announced that the company will open Wanda City in 15 locations inside China. The constructions have been paving way for series of opening of Wanda City in Xishuangbanna, Harbin, Hefei, Nanchang, Wuxi, and Gunagzhou. 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 other dining places. The Qingdao Oriental Movie Metropolis being constructed by Wanda is another location where diversification strategy of Wanda can be examined (Shih, 2016). Here, US$ 7.5 billion was spent as one of the largest-scale studio development project that will allow Wanda to produce films and TVs. 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 pictures industry in the world.

2) Value chain analysis: Wanda Group

Figure 6-3 is the value chain of Wanda's film segment. As in Table 6-4, Wanda went through a series of M&As and joint venture 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 while increasing the synergistic combination of the separate business segments.

[Figure 6-3] The Value Chain of Wanda's Film Segment



Source: Wanda Website, The Economist (02/21/2017)

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 (1985) mentioned, the infrastructure includes corporate financing and legal administrations which would include careful planning while have established a strong network and expertise with the banking and investment sectors. Therefore, having a lot of experiences and strong assets that could support its aggressive financing operations, 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's case where the firm has prior competence in the hardware facilities of cultural entertainment. Just as Lotte's strategy was in filling in its massive shopping mall 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 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 the Warner Brothers or Disney, the theme park is merely a separate, independent cultural facility. There is less of 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 is two different strategy and direction. 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 film handled by Wanda has much to increase. Wanda's successful foreign import only includes *La La Land* and the rest of the films are lesser known to the 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 TV series called *Neighbors are Crazy Too* and *Who are Afraid of Love Before* released in 2014 (Wanda Website, 2018).

According to the 2015 industry report, Wanda Media took second place in the market share of Chinese film production by possessing 3.17% (, 2017). The number one company was China Film with 4.08%. In film distribution, Wanda Media held 5th place

with 5.2% market share after China Film, Huaxia Film, Enlight Pictures, and Bon Film who each held the market share of 32.8%, 22.89%, 7.75%, and 5.99%, respectively (Mojo website, 2018). The rivalry with domestic film companies is tense 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 hope for Wanda's film production, building an effective and synergistically diversified business portfolio is in question.

6.3. Japan's Motion Pictures and Related Industries

Japan's motion pictures industry 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 3 firms in the industry is Toho, Toei, and Shochiku which take up % of the market share in terms of movie admissions and revenue, respectively. Among these three, Toho also holds its own exhibition outlet named Toho Cinema which is the second largest cinema complex 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 conglomerate that operates in all three segments.

6.3.1. Toho

1) Overview of the company

The company was founded in 1932 as a *kabuki* company and gradually moved into film industries while also importing Hollywood movies. The first movie by Toho was released in 1935 titled, *Three Sisters with Maiden Hearts*. The company has also handled movie exports to the US until the 1950s and invested in Hollywood studios for film production while also purchasing cinemas in Los Angeles, US. The company has expanded its business in exhibition activities in the US until 1970 and produced several US films such as *A Simple Plan* released in 1998.

The current 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 Website, 2018). In 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 handled distribution of anime films of Studio Ghibli, an animation studio that produced Oscar-winning film *Spirited Away* along other hand-drawn 2D animations such as the *Totoro* series and the Pokémon movies.

Japan's saturated market condition is now pushing Toho to rethink strategy and draw up a new vision plan called *Toho Vision 2018* in April of 2015. 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 which are: 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 Website, 2018).

Toho produces mainly Godzilla movies which began in 1954. Since then, the company has created 29 sequels in which the 2016's Shin Godzilla ranked second 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 such as the all-times bestseller series in Japan such as *Detective Conan, Doraemon, Pokemon,* and *Haikyu.* These steady-sellers that represent Japan's competitiveness in animation films are the core competence and reliable source of profits for Toho that distinguishes the company from other competitors such as the industry's second runner, Toei which released twelve 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.

2) Value chain analysis: Toho

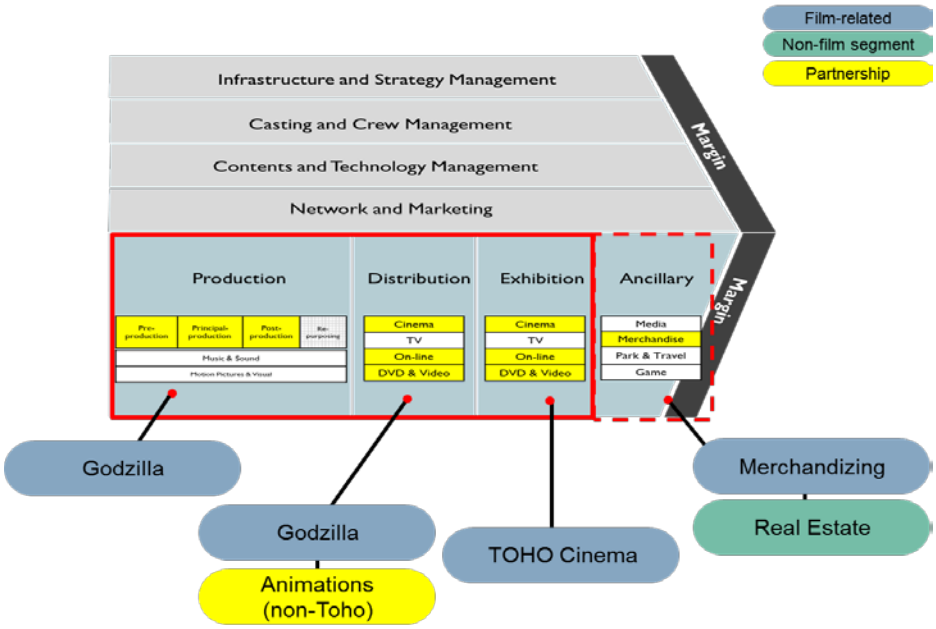
Figure 6-4 is the value chain of Toho's film segment. As mentioned above, although Toho is now part of the Hankyu-Hanshin Group and became one of the core businesses of the group, there is less integrated link among the business units. For instance, the industry segments of the Hankyu-Hanshin Group include urban transportation, real estate, entertainment & communication, travel, international transportation, and hotel. Some of the business segments are comparable to those of Lotte and Wanda (e.g., hotel, 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 Toho is vertically integrated and possess all of the business units in the primary value chain. However, the company's activities are highly 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 are limited. As a 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 it provides 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. Japan has a uniquely strong market for characters and related merchandizing. Toho's success in this new ancillary segment will depend on the scale of

manias and fandom the company had accumulated through Godzilla.

[Figure 6-4] The Value Chain of Toho's Film Segment



Source: TOHO Website

Japan's animation films which are globally famous for their differentiated hand-drawn 2D style are as competitive as Hollywood's more fancy and high-tech animated films such as *Shrek*, and *How to Train Your Dragon*. Japan's vast pool in these type of animation directors and artists whose name had become the brand and studio themselves function separately as an independent production firms. Since Toho was able to get the strongest foothold in distribution, Toho 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 nature of Toho's value chain activities. The ecosystem of Toho is less converged with less influence and dependence among the diverse activities.

6.4. Discussions: A Critical Analysis of Firms in the Motion Pictures Industries

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 3 cinemas (e.g., CGV, MegaBox, and Lotte Cinema) which already have strong and scaled market presence throughout the nation, lopsided-screening has been a frequent problem[9].

[9] For example, CJ's distributed film *The Battleship Island* was criticized for taking up 2,027 screens out of 2,575 screens nationwide. This was largest monopolistic scheme that received unprecedented level of criticism from the public. There were demonstrations to boycott the movie from many civil groups. There

So far, vertically integrated business of distribution and exhibition in Korea, China, and Japan seems to be a common practice. As the focus of this research is the conglomerates, the four selected companies 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 the domestic legal system. This section will compare Disney, Toho, Wanda, Lotte, and CJ. Table 6-5 summarizes some of the important analysis of this research.

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was no movie in the history of Korea that had such screens occupied. CJ had responded that over 80% occupancy is not accurate if all of the cross-screening is included. Then the figure drops to 37%. Unfortunately, the film did not turn out to be a success regardless of the boycotts and criticism.

[Table 6-5] A Summary of Analysis: Global Conglomerates in the Motion Pictures Industry

Firm	Competence (Supporting, Primary)	Change in Value Chain (Supporting, Primary)	Degree of Convergence	Diversification (culture-related)	Trajectory (Primary Activities)	Global Strategy*
Disney (US)	• Contents & Technology • Production • Distribution • Ancillary (all)	• Existing → Existing & New • Supporting: Enhanced, Diversified • Primary: Diversified	High Diversity: high Synergy: high	• Network (TV/media) • Ancillary (theme parks, travel, merchandise)	**Inside-out** Production (Animations) → Ancillary	Conventional (downward)
Toho (Japan)	• Production • Distribution	• Existing → Existing & New? • Supporting: Same • Primary: Simple	Low Diversity: low Synergy: low	• Infrastructure (property, studio) • Ancillary (merchandise)	**Inside-out** Production → Exhibition → Ancillary?	Conventional (downward)
Wanda (China)	• Infrastructure (investment) • Exhibition • Ancillary	• Existing → Existing & New? • Supporting: To be seen • Primary: Simple	Low Diversity: high Synergy: low	• Production • Ancillary (shopping, theme parks, hotel)	**Outside-in** Ancillary (Shopping Mall) → Exhibition → Distribution & Production?	Unconventional (upward)
Lotte (Korea)	• Infrastructure (investment) • Exhibition • Ancillary	• Existing → Existing & New? • Supporting: To be seen • Primary: Simple	Low Diversity: high Synergy: low	• Production • Ancillary (shopping, theme park, hotel, retail)	**Outside-in** Ancillary (Shopping Mall) → Exhibition → Distribution → Production?	More Conventional (downward)
CJ (Korea)	• Infrastructure (investment) • Network • Exhibition • Ancillary (media)	• Existing → Existing & New • Supporting: Enhanced, Diversified • Primary: Simple	Medium Diversity: high Synergy: medium	• Contents & Technology (cable program, drama) • Ancillary (media, game)	**Outside-in** Ancillary (Media Network) → Production	More Conventional (downward)

* Note: According to Moon and Roehl (2001) and Moon (2016b), the motivations of firms to globalize are divided into upward and downward investments. Downward investments, or the conventional motivations, include market-seeking, efficiency-seeking, and resource-seeking. Upward investments, or unconventional motivations include more learning-specific motivations by firms in less developed economies.

6.4.1. Competence: from single competence to multi-competence in the value chain

As scholars of diversification and core competence have discussed, diversified multi-business firms enhance operational performance by utilizing their distinctive competences across most or all of their business units (Hitt and Ireland, 1986; Kiechel, 1982; Yavtiz and Newman, 1982). Also, the emergence of multi-competence was examined to be driven by the proliferation of convergence of multi-fiend technology and multi-functional products (Yin, 2017). This is the efficiency strategy behind the diversified conglomerates which needs to be examined in the case of cultural industries that may or may not have related sync in the sharing of resource and capabilities.

Among these five firms, Disney and Toho are the only ones that have directly started as a film-related company that cause 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 Chapter 5 revealed, 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 animations and visual effects (e.g., Pixar and Lucas Film). Disney enhanced its animation films by adding new technology, technique, contents, and characters.

This also helped the company's production to become more diversified and

expansive by finding new market segments (e.g., adults, boys). Also, Disney's earlier decision to distribute films through a separate affiliate Buena Vista 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 and Lotte show an interesting comparison. They both started as a conglomerate in consumer retailing by operating their own premium shopping centers. Through vastly expanding across their domestic market through retail services, the two firms share an interesting similarity as a hardware entertainment business moving into software contents business in the motion pictures. This means there would be less degree of resource and knowledge sharing in their diversification and expansion. Their core competence began with their management skills in financing and property management. Therefore, the most direct core competence to the film industry, which they are new entrants, would be their infrastructure in the supporting 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, Lotte, and CJ would be their strong infrastructural base in business management as an incumbent conglomerate. Their existing knowhow and networks in retailing from selling consumer products have also been their core competence when the three firms entered the cinema exhibition business. Wanda and Lotte's core competence remains with exhibition, although they are both gradually moving backwards 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 turn into film production facilities. The company's network of script writers and drama contents also possess possibilities for film. Recent trend 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.

As explained in Chapter 5, Disney is carrying out more synergistic diversification by extending existing competences into new areas (i.e., both deepening and broadening; Moon et al., 2015). On the other hand, Toho, Wanda, and Lotte 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 the 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 supporting activities, is a critical step in strengthening its competitive sustainability.

Direct sales from the original, existing core competence may be lower, but it serves as the source of value and creates greater synergies. Therefore, all of its activities – including the supporting activities such as contents and technology development and network – is essential.

6.4.2. Convergence: diversity plus synergistic integration

Prior studies on diversification mainly focused on the related or unrelated industrial relations. However, as this dissertation examined the integration through the value chain activities, the more important factor for diversification is the synergy creation among the diversified activities. As shown in Table 6-5, this can be analyzed by classifying the degree of convergence into the level of diversity as well as the synergy created by examining whether spillover effects and resource & capabilities sharing occur throughout the value chain. The second and third column should be examined together.

As the best exemplar in the industry, Disney has high degree of convergence among its value chain activities. Its supporting activities such as contents & technology development and network & marketing have enhanced through a series of acquisitions. One important fact here is that Disney's acquisitions demonstrate linkages and spillovers throughout its production lines and help Disney to improve efficiency, quality, and revenue source. Therefore, Disney's diversification has helped in enhancing the supporting activities of the company which has a higher spillover effects onto the larger portions of the primary activities. Since the primary activities are also diversified, the enhanced diversification in the supporting activities reap even greater synergy. This is

why Disney has both high diversity and synergy.

For Toho, most of the company's diversification has remained simple and in the ancillary part of the primary activities. This had reduced Toho's chance to gain significant growth and synergy in the value chain activities. The company's core competence in the supporting activities remain unchanged. Currently, the strategy in Toho's 2018 mid-term vision to increase the real estate portion might influence how the firm may improve through the supporting activities. However, the spillover effects from this increase is less directly related to the production enhancement. With improved real estate, of course, the firm may attain better access to financial resource which then may have possible effects onto the entire value chain. However, firm growth through real estate and investment is the least sophisticated in terms of strategy and less direct to how it sustains competitiveness as a film producer. Toho has a simple portfolio of activities in the primary activities. It intends to increase the ancillary segment by adding merchandizing of Godzilla which will require new technique, resources, and outlets. However, this is not entirely unlinked since the firm has its own exhibition cinema which can serve as the retail window to begin with. So far, due to the low level of diversity and synergy, Toho's degree of convergence seems to be relatively low compared to Disney that utilizes its core assets in contents and characters throughout its primary activities.

Wanda and Lotte fall under high diversity but low synergy so far. These two firms have very similar origin and growth pattern which group them together. They are highly diversified as they both started as a hardware and platform for cultural and entertainment services. However, their transformation as a film distributor and, moreover, film producer requires more strategic alignment of resources and concentration. Lotte is

not planning on expanding its theme park segment. However, Wanda is pushing through diverse segments in the ancillary (e.g., theme park, media/streaming) while at the same time carrying out aggressive M&As in film production. Wanda may need to focus its strategy and resources by devising a stage approach to the company's growth and diversification efforts. Apart from the two companies' competence in investment and financing, other key resources in the supporting activities may cause Wanda and Lotte to reap fast meaningful growth in the motion pictures industry.

CJ scored medium due to its high level of diversity and medium level of synergy. As represented in the second column, CJ has expanded into cable contents production and broadcasting while also increasing the company's competence in all-around *Hallyu* segments. The company hosts various shows in beauty, food, music, and fashion which have been growing globally and domestically as the K-wave evolved competitively. With the network and resource & capabilities accumulated through cable network, CJ's pursuit in the film segment seems more promising than Lotte and Wanda. In terms of value chain, this optimism can be captured in how CJ succeed in enhancing its supporting activities in network & marketing while beginning to increase content & technology development through contents production for dramas and entertainment programs.

Sustainable competitiveness for conglomerates increases when the firm learns to enhance its supporting activities. This is because it can then influence all of its related activities in the primary segments. Disney, with its core competence in the supporting activities' contents and technology, the firm is able to enjoy contents-utilizing cultural services in the theme park, TV programs, characters, hotel, merchandizing, and games. Therefore, for conglomerates to achieve long-term competence, it may 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 supporting and primary activities. However, for greater spillover effects, strengthening its supporting 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 dependence of each of the activities for synergy.

6.4.3. Direction of diversification: Inside-out versus outside-in

Among these five firms, Disney and Toho are the only ones that have directly started as a film production company. Wanda, Lotte, and CJ started as consumer goods and services producers in their respective industries. As stressed many times, Wanda and Lotte evolved from a hardware platform provider for retailing then moved into software contents distributor and producers. CJ's trajectory is different from the rest of the companies because CJ's approach to the cultural industries was done more at broad, macroscopic efforts to become gamechanger in consumer lifestyle. Therefore, CJ's target was to influence consumption in variety of areas including beauty, food, and entertainment.

To summarize the five conglomerates' different trajectories, this dissertation introduces the directional concept of "inside-out" and "outside-in". Disney and Toho began with movie production then integrated distribution, exhibition, and ancillary activities, thereby setting the industry's value chain. In fact, production → distribution → exhibition → ancillary is the most conventional process which had been taken by

many original film producing firms. This is why many studies on film industry's value chain include these four core areas as in this dissertation.

Degree of diversification and activities differ depending on the scope of business in each firm. As in the newly modified value chain framework for the motion pictures industry introduced in Chapter 5, there are at least four different types of distribution and exhibition channels (e.g., cinema, TV, on-line, and DVD & video) and four different categories of ancillary segments (e.g., media, merchandize, park & travel, and game). Therefore, even though all of the five firms have business activities throughout the four primary stages, the degree and scope are different; and they need to be clearly distinguished in order to evaluate the firm's scale in diversity and synergy.

Unlike Disney and Toho, the three firms from Korea and China show a reversed integration in their diversification trajectory. Wanda, Lotte, and CJ have growth path that started from ancillary → exhibition → distribution → production. Due to the time requirement to build up the direct production activities, these three firms are not yet competitive in film production. Therefore, the future sustainability in the film industry for these three firms will depend on their capabilities in enhancing each of the primary activities independently, while strengthening the newly entered film production segment. Also, the competitiveness will depend on whether these firms engage prior resources to the necessary resources and capabilities in the new business areas. This eventually leads these conglomerates to acquire and improve their supporting activities, mainly how they optimize the contents & technology development, network & marketing, and infrastructure management.

6.4.4. Global strategy: both downward and upward foreign investments

Due to the scope of this dissertation, global strategy of the five conglomerates has not been analyzed. However, since a company's global strategy is an important process in firms' exploitation and exploration of resources and capabilities, this section will briefly discuss some of the key theories on international business and foreign direct investment (FDI) to offer important implications to how the five companies are building up their competitiveness in the value chain.

According to Moon and Roehl (2001) and Moon (2016b), the motivations and the benefits of globalization and FDI can be divided into two different modes: conventional and unconventional motivations. The conventional motivation includes market-seeking, efficiency-seeking, and resource-seeking motivations. Since these motivations are applicable to firms in more developed markets that enter into foreign markets in order to exploit their existing advantages (i.e., ownership advantages) while utilizing the cheaper resource from the less developed economies (i.e., locational advantages), the conventional motivations are seen as downward investments (Dunning, 1980). As Table 6-5 summarizes, except for Wanda, the other four companies are expanding into less developed economies in order to exploit their competitive advantages.

Unlike the conventional downward FDI, the unconventional upward FDI deals more with global entry in order to explore the resources from more advanced economies in order to complement the firm's lack of competitive advantage. The unconventional motivations include technology-learning, market-learning, cluster-seeking, and strategic

location-seeking motivations (Moon, 2016b). These upward motivations are intended by firms that need to catch-up to the industry's best practices. Wanda's aggressive investments in Hollywood studios and technologies are good example of how the firm can utilize its global strategy.

Lotte and CJ also are forming alliances with Hollywood studios in order to enhance their competitiveness in film production. However, a lot of their global activities are focused on penetrating into the South East Asian market following the spread of Hallyu. Lotte and CJ are opening cinemas and establishing co-productions in these markets which can be described more as conventional, downward FDI. CJ, with its strong competitiveness in media contents is also expanding through its drama and channel networks.

The downward investments by the Korean firms have a unique feature in the cultural industries. In the high-tech IT industries, technology is inarguably more advanced in the developed economies. However, contents have less distinction in this sense. There is no clear boundary to determine economic advancement promises better contents. Of course, infrastructure and specific techniques to creating good contents require sophisticated system of script and screenplay. However, film contents that also have the pressure to be unique and original have better chances when there is diversity in the pool of writers and content creators. This is a unique characteristic of the cultural industries where content-learning and market-learning can take place regardless of the market's economic condition.

In this regard, all of the five companies can benefit from both directions of

global expansion. Apart from the market potentials global activities grant, simultaneous learning will allow firms to obtain ideas and stories for contents that are under pressure to be original and creative, while at the same time capturing the universal values in life.

Chapter 6 compared the growth of four Asian firms from Korea, China, and Japan by applying the modified value chain framework. By drawing specific comparisons to their diversification strategies, this chapter explained how the value chain of conglomerates show the transformation of core competence from single to multi-competence and importance of synergistic diversity in both supporting and primary activities.

CHAPTER VII. SHARED VALUE IN CULTURAL INDUSTRIES

The connection of social values and social activities of business is growing at both academic and business practice level. However, not many studies truly link how corporate activities can benefit the both business and society by allowing the firm to attain competitiveness through social involvement. Most of existing studies are limited by only touching upon the reputation and marketing side of social activities. Therefore, this dissertation will first address how theories have evolved to direct on shared or mutual value creation for both business and society.

In the initial stage of academic investigation on the social role of business, the main concern was about the social responsibility of businessman – the rich man who had gained wealth through his business. Therefore, the landmark study that began to research on the social responsibility of business is believed to start with Bowen's (1953) *Social Responsibilities of the Businessman*. According to this book, it is mentioned "social responsibility is not a panacea, but it contains an important truth that must guide businesses in the future." This focus on the businessman's duty continued throughout 1960s where scholars set forth many different definitions to social responsibility (Ackerman, 1973).

Since then, the trend in the corporate social responsibility (CSR) has gradually evolved to include their impacts on corporate benefits which stimulated strategic

approaches to CSR. This section will examine the evolution of CSR and its related concepts in the school of business. Then, a recently developed framework that utilized Porter's value chain activities is introduced as the link between the earlier chapters of this dissertation. Although the shared value approach to business and the cultural industries seem unlinked, this chapter demonstrates how the value chain model has been extended to evaluate firm's sustainability practices as a tool that links social and business value through the convergence of activities in the value chain.

7.1. Evolution of Sustainability Practices: From Responsibility to Opportunity

The original study on CSR dates back to the 1950s and 1960s when scholars like Bowen (1953) wrote the seminal book on the social responsibility of businessman[10]. Since then, many scholars from business and economics as well as other social science disciplines have embarked on the search for effective and productive CSR. The trend in CSR research actually varied according to different societal backgrounds. When Peter Drucker discussed his ideas on CSR in the 1980s, the academia and business field were heavily engaged in debates over corporate ethics, public policy and social responsiveness. However, as time evolved, firm performance with the aftermath of CSR started to receive wider attention. In the later decades in the twentieth century and the early twenty-first century, the link to sustainability, competitiveness, and strategy was more rigorously

[10] Part of this section is abstracted from Moon and Lee (2014).

studied and discussed. Among many scholars and business experts, Michael Porter is one of the key figures that contributed to the era of mutual benefit (Carroll and Shabana, 2010).

CSR emphasizes the role of corporations to give back to the society. CSR is more focused on citizenship and philanthropy. However, with the 2008 global crisis, firms in advanced countries dwindled and charities made by both corporate and individual donors also declined. With the shake of the economy, the justification and moral grounds for CSR also subsided. Along with this change in the business environment was the rapidly changing, dynamic and fierce market competition that made companies more hesitant on CSR budget. Amidst this tense situation, Porter and Kramer's CSV along with other famous business figures such as Bill Gates on creative capitalism (Kinsley and Clarke, 2008), bottom of the pyramid (Hart and Kramer, 2002), and capitalism 4.0 (Kaletsky, 2011), received attention from the mainstream international business world as the next step in revitalizing the economy. The main shift on the approach from corporate ethics and philanthropy started most profoundly after the 1990s when companies expanded throughout the world. This also heightened competition and risk for global firms. At the same time, CSR became a critical requisite for firms, and no longer a choice, which led business scholars and practitioners to link CSR with fundamental business concepts.

From a business perspective, one of the greatest benefits is sustainable competitive advantage. CSR initiatives can strengthen the relationship with the customers, enhance brand loyalty and ultimately propel competitive advantage (Pivato, Misani, and Tencati, 2008). The patronage of customers becomes more important for

firms' long-term growth because it allows firms to invest more and continuously devote greater energy and resources on CSR programs (Bhattacharya and Sen, 2004). Thus, a well-recognized CSR creates a greater momentum for firms' competitive advantage and sustainability. This then leads to a greater support from the institutional investors who prioritize firms that embrace positive records on employee relations, environmental stewardship, community involvement and corporate governance (Smith, 2005). Therefore, firms can use philanthropy or CSR to enhance competitive advantage through combinations of market and competence orientations. Firms can thus design their activities to meet the external demands while meeting the expectations of key stakeholders (Bruch and Walter, 2005).

In other studies, some scholars explicitly linked strategy with CSR. Vogel (2005) found a clear connection between CSR and profitability and affirmed that CSR has evolved into a core business function serving to firm's overall strategy. Smith (2003) discussed the differentiation strategy for CSR. The main argument was that firms could build their competitive strategy by being unique - setting apart from other competitors in the market, even in CSR. If CSR is done conceivably, firms will be able to attract consumers, investors and employees as seen in many examples of the Western firms like Nestlé, Unilever and Microsoft through their pioneering and well-designed CSR programs that are now in the limelight. These are the firms that successfully synthesized corporate values with social values, by trying to solve their weaknesses in the business activities with social problems. There are other scholars who also discussed the integrative framework to further advance corporate competitiveness by implementing CSR with a holistic view to improve the entire value chain while helping the society

(Moon et al., 2011; Moon, 2012; Porter and Kramer, 2006; 2011). The so called win-win effects through CSR are what Drucker and Porter had been contending throughout their scholarly engagement and many are now starting to see their true values. Wheeler, Colbert and Freeman (2003) echoed Drucker's contention, positing that, "it will not be too long before we can begin to assert that the business of business is the creation of sustainable value – economic, social and."

Drucker addresses the importance of finding opportunity and Porter expresses the possibility of mutually integrating business and social values. In this paper, the views of the two prominent business gurus will be explained and analyzed. In addition, a recent framework that embraced these two separate pieces of study will be introduced to raise clearer understanding on how opportunity can be captured and reaped for the mutual benefit of society and business. Drucker saw that firms' primary and most fundamental responsibility is to make enough profits to cover operational costs of the future (Cohen, 2008Drucker, 1984). That is, the main source of capital formation is business profits in the modern economy, so profits equate to the costs of the past as well as the future, the costs of economic, social, and technical change and costs of tomorrow's jobs (Drucker, 1984). In this respect, imposing too many obligations on firms to solve social problems will prevent them from becoming sustainable and this calls attention to the judgment on fairness for firms, particularly because firms now take on the role of what earlier governments possessed.

To the link between social problems and corporation's roles, Drucker held a holistic understanding by seeing social problem as another source of opportunity for firms. He strongly believed in this and stressed that it is when firms begin to form this

faith that social problems can be solved. Drucker had a practical and important insight on social needs, so that they can only be tackled when the solution generates capital – thus, profits. Therefore, rather than seeing CSR as the role of rich man who must and should do good and give alms, the Rosenwald-type of CSR where “To do good in order to do well” was what had to be encouraged (Drucker, 1984).

Table 7-1 summarizes key studies on business role in social problems. As the list shows, research on CSR has evolved by expanding to incorporate concepts such as strategy and competitiveness into the 2000s.

Drucker’s prediction that it would become increasingly important in the twenty-first century for businesses to discharge social responsibilities by converting them into self-interest, or business opportunities, turned out to be accurate. Companies are more called to become socially-engaged and this nowadays links directly to competitiveness and sustainability. Drucker had an accurate foresight when he said, “The proper social responsibility of business is to tame the dragon, that is, to turn a social problem into economic opportunity and economic benefit, into productive capacity, into human competence, into well-paid jobs, and into wealth” (Drucker, 1984).

[Table 7-1] Evolution of Research on Social Role of Firms

Period	Main Concept	Notable Authors
1950s	The modern era of social responsibility begins Ex. Social Responsibility of Business	Bowen (1953), Eells (1956), Heald (1957), Selekman (1959), Theodore Levitt (1958)
1960s	Expansion of CSR literature Ex. Social, ethical, legal case for CSR, voluntary CSR	Davis (1960), Frederick (1960, 1978,2006), Walton (1967), Milton Friedman (1962, 1970)
1970s	Proliferation of CSR literature Ex. Definitions, theories, conceptualizations, modeling	Heald (1970), Eilbert and Parket (1973), Votaw (1973), Sethi (1975), Zenisek(1979), A.B. Carroll (1979,1983, 1991,1994), Milton Moskowitz (1972)
1980s	Concentration on modeling and development of alternative themes Ex. Social responsiveness, CSP, public policy, business ethics, stakeholder theory/management…etc.	Jones (1980), Tuzzolino and Armandi (1981), Dalton and Cosier (1982), Strand (1983), Freeman (1984), Cochran and Wood (1984), Wartick and Cochran (1985), Peter Drucker (1984, 2006)
1990s	Expansion of alternative themes Ex. CSP, RBV, Stakeholder theory, business ethics theory, corporate citizenship, business case for CSR*	Wood (1991), Scott and Rothman (1992), Griffin and Mahon (1997), Russo and Fouts (1997)
Now	Era of global corporate citizenship, sustainability, sustainable development Ex. Shift from ethics orientation to performance orientation, CSR as strategy	Vogel (2005), O'Sullivan (2006), Berger et al. (2007), Kurucz et al. (2008), C.K. Prahalad (2009), Porter and Kramer (2002, 2006, 2012), Moon et al. (2011, 2012), Moon and Lee (2014), Lee (2015), Lee (*forthcoming*)

Source: Adopted from Lee (2013)

7.1.2. Creating Shared Value (CSV) and Corporate Social Opportunity (CSO)

Porter and Kramer (2002, 2006) have been investigating the sustainability of charity and philanthropic organizations. The main purpose of their search for an efficient charity stemmed from a concern to solve the problem of funding and operations. Eventually expanding their scope of research to business philanthropy, Porter and Kramer (2011) ultimately developed the concept of CSV by highlighting that business is now caught in a vicious circle where "the purpose of corporations must be redefined to unleash a wave of innovation and growth." The main point of CSV is that by building a coherent value between business and society, both will be able to profit and develop. CSR mostly dealt with donations paid by business and focused on vocabularies like corporate citizenship and philanthropy. Although this made some of the firms look good and respectful, there were a lot of criticisms on the justification for firms on conducting activities that lower profit and utility maximization.

The first significance of CSV is that it logically and convincingly superseded the CSR activities of business by properly combining the two ultimate goals of business in the capitalist system. Many earlier scholars and concepts (i.e., responsible investment, business case for CSR) tried to provide economic justifications for firms, mainly with argument that responsible firms gain better long-term profitability. However, whether it was due to enhanced image or reputation, or because investors and shareholders were more trustful of such good firms, the empirical evidence showed weak or different correlation. The second significance of this theory is its contribution in providing the three essential strategies in achieving CSV−that is reconceiving products and markets, redefining productivity in the value chain, and enabling local cluster development

(Porter and Kramer, 2011). The three key ways of CSV have been quite effective in guiding companies to accomplish successful social programs. However, limitation to localization and too much emphasis on societal needs (rather than company's competence) raised some critical questions (Moon et al., 2011).

To resolve this barrier, an extended version of the CSV was constructed by Moon et al. (2011) and Moon (2012) which added one more key strategy in addition to the earlier three key ways - to define the core competence. The model was coined as corporate social opportunity (CSO) to show its antonymic relationship to CSR. Here, CSO, not CSV, is explained as the generically differentiated concept to CSR mainly because CSV connotes a procedural or prescriptive process of conducting strategic CSR. Therefore, CSO was created in order to provide a clearer understanding on what companies can do to create shared value between business and society. Having its foundations on CSV by incorporating and improving the three strategies devised by Porter and Kramer (2011), CSO argues that ultimately, firms need to enhance their production function by evaluating the entire business value chain activities.

In other words, firms must focus on their core competence to increase the efficiency in their sustainability programs. This is related to what earlier scholars have mentioned, but missed in Porter and Kramer (2011). It encourages firms to choose the social areas that are related to their business areas and then to incorporate strategy that renders higher productivity for firms. This means firms need to define the social areas that could benefit from the firm's core competence as a complementing resource to improve efficiency. Therefore, finding the recipient end that could benefit the most while resolving firm's problematic area in the value chain are the two essential steps that need

to come together.

Since firms are also limited in resources and time, the most effective sustainability practices would occur by pooling the resources and competences together with the social resources to reap both economies of scope and scale. As in Moon (2016b), “a portfolio of core competences can be effective in finding synergistic impacts than each firm’s addressing social issues individually which can create redundancies.”

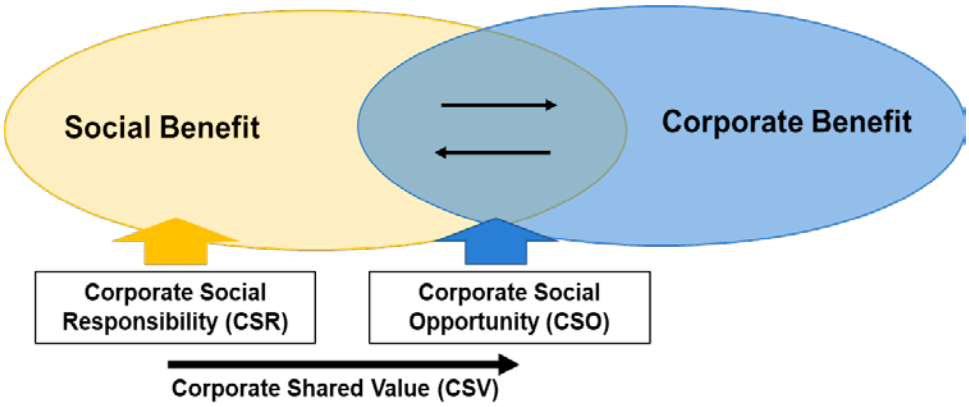
The second and third components of CSO are simultaneously cross-examined and embraced. This is because both business and society need the resources of the other to supplement its lacking element. For this to be carried out effectively, firms should first go over their entire nine value chain activities – infrastructure, human resource, R&D, procurement, inbound and outbound logistics, operations, marketing and sales, and service. Since these nine activities must have a strategic fit with each other let alone have its own efficiency, finding the weakest area that increase cost becomes a critical operational capability for firms. Once the problem is disclosed, a rational choice would be to concentrate resources (capital or human) to stop the imbalance. What CSV and CSO suggest here is that, instead of putting in corporate investment here, a firm may be benefit from society’s resources with strategic procurement. Especially when the help from the society comes as a mutual benefit for the society in return, the shared value increases or maximizes. Employment is a fine example. Often times, firms face shortage of good labor while the society is confronted with low employment. As in such case, when both sides can match their needs effectively, the problem becomes an opportunity.

It must be noted that tackling social and environmental problems at the same

time would be overwhelming for a single firm to deal with. Even a big MNC will face difficulties if global problems such as poverty, income disparity, and environment degradation are left on its own. Therefore, sustainability practices need to be done collaboratively with other institutions or universities which can facilitate resource or competence sharing. Through exchanges of skills, information and other competencies, firms can more effectively allocate the critical resources or participants in distributing shared value. Particularly when a firm enters a foreign market, the necessary resources or even key beneficiaries may be hard to locate. Also, the scale and scope of some social initiatives may be too great for a single firm to handle. Due to the effectiveness and efficiency of this matter, firms should engage clusters and stakeholders – both domestic and global – to increase synergy and outcome of their activities.

Opportunity of Drucker and the three key ways of CSV of Porter have been quite useful in guiding companies to accomplish CSR successfully. The two popular concepts are intuitively complementary. However, there have been few studies that clearly explained or linked the relationship between CSV and opportunity. To allow the CSV framework to have greater acknowledgement in other countries and different business environment, a more comprehensive extension to the CSV was constructed and was framed by Moon (2012) as the corporate social opportunity (CSO). The relationship between CSR, CSV and CSO is illustrated below in Figure 7-1 for clearer understanding.

[Figure 7-1] Classification of CSR, CSV, and CSO



Source: Revised from Moon (2012) and adopted from Moon and Parc (*forthcoming*)

7.2. Tools for Analyzing the Shared Value of Firms

As part of the strategic tool for sustainability evaluation, the four strategies which had been extended after Porter and Kramer's (2011) CSV was developed in 2012 by Moon (2012) and Moon et al. (2011). Also, in Moon's (2012) book titled, *Good to Smart*, the four-stage model for sustainability practices was introduced in order to validate different types and scopes of social engagement by the firms. Since then, efforts were made to adopt these two tools for firms (e.g., Samsung Electronics) at various stages (e.g., Lee, forthcoming).

7.2.1. The four strategies for CSO for competitiveness

Through series of work, Porter and Kramer (1999, 2002, 2006, 2011) systemized how firms can increase value through business logics of cost reduction and competitiveness. Therefore, the concept of CSV was created by highlighting a coherent, shared value creation between business and society. Whereas CSR mostly dealt with donations paid by business and was about vocabularies like corporate citizenship (Jones and Haigh, 2007; Matten and Crane, 2005; Waddock, 2004) and philanthropy (Godfrey, 2005; Seifert et al., 2004; Varadarajan and Menon, 1988), CSV enabled actual value creation and sustainability because both firms and society enter a win-win (Beckmann et al., 2014; Crane et al., 2014).

The significance of this theory is its contribution to providing the three essential strategies in achieving CSV: 1) reconceiving products and markets, 2) redefining productivity in the value chain, and 3) enabling local cluster development. The three key ways of CSV are effective tools in guiding companies to accomplish successful sustainability practices. However, the limitation to domestic boundary and omission of core competence raised some critical questions.

To resolve this problem, an extension was made (Moon et al., 2011; Moon, 2012) by adding one more key strategy in addition (i.e., defining the core competence). With the four strategies, this model was coined as corporate social opportunity (CSO) to show its antonymic relationship to CSR. Here, CSO, not CSV, is explained as the generically differentiated concept to CSR mainly because CSV connotes a procedural or prescriptive process. Table 7-2 shows the added fourth component as well as some

explanations of how firms could initiate CSO and generate both social and business values. Having its foundations on CSV by incorporating and improving the original three strategies, it argues that firms need to enhance their production function by evaluating the entire business value chain activities.

[Table 7-2] Four Strategies for Building Competitiveness through Shared Value

STRATEGY	PROCESS
Focusing on core competence	Choose business-related social activities
	Incorporate strategy
Overcoming problems in the value chain	Define weakness in value chain activities
	Seek solution from social factors
Helping the related social segment	Specify social needs or demand
	Provide solutions from business factors
Collaborating with other organizations	Establish partnership with stakeholders
	Maximize synergy or minimize cost

Sources: Adopted and modified from Moon *et al.* (2011), Moon (2012), and Moon and Lee (2014).

To briefly explain, firms first need to focus on their core competence to increase the efficiency of their sustainability practices. This is related to what was missing in Porter and Kramer (2011). This strategy encourages firms to choose the social issues and segments that are related to their business areas and then to incorporate strategy that utilizes their expertise and existing capabilities to render higher productivity. The effectiveness of social activities can be increased by pooling resources and competences

together to reap both economies of scope and scale.

The second and third components of CSO are cross-examinations and synergistic matching. This is because both business and society need the resources of the other to supplement their lacking elements. Firms should first go over their entire nine value chain activities (i.e., infrastructure, human resource, R&D, procurement, inbound and outbound logistics, operations, marketing & sales, and customer service). Since these nine activities must have a strategic fit with each other, finding the weakest area that increases cost becomes a critical operational capability. Once the problem is discerned, firms should concentrate resources (capital or human) to improve their weakness. When the resources and capabilities from the society are matched by solving firm's problems, shared value is maximized.

The last strategy is about establishing both local and global clusters. Social and environmental problems are overwhelming for a single firm to handle. Sustainability practices need to be dealt in cooperation with other institutions, organizations, or universities which can facilitate sharing of resources (e.g., experience, knowledge, core competence). Through exchanges of skills, information, and other competences, firms can more effectively allocate the critical resources or participants to maximize value. Particularly when a firm enters a foreign market, the necessary resources or even key beneficiaries may be hard to locate. In addition, the problem of scale and scope is better resolved when firms engage clusters and other stakeholders – both domestic and global – to increase synergy and outcome of their activities.

The above four strategies are integral parts to how shared value can be

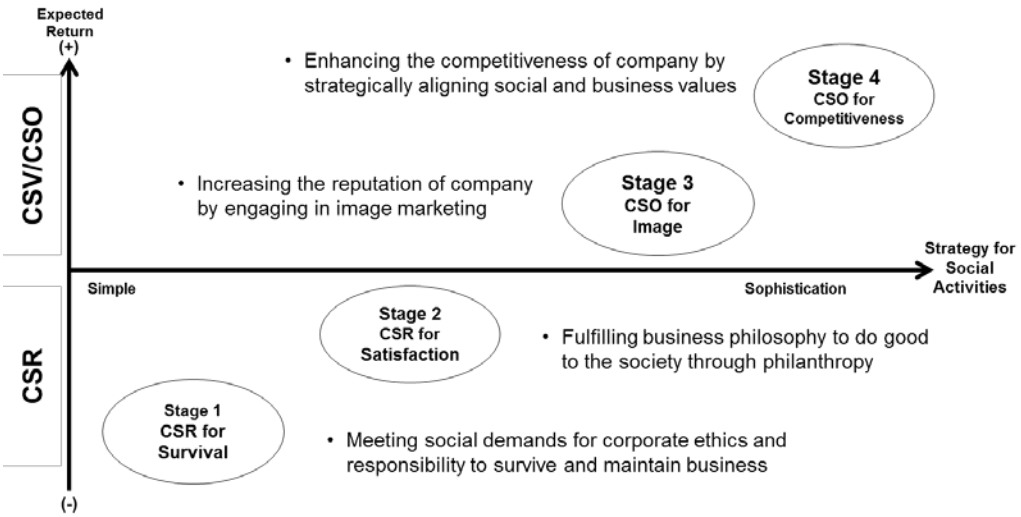
maximized to increase competitiveness of the firm. These four strategies constitute the last stage of CSO in Moon's (2012) stage model[11].

7.2.2. The four stages of social contribution of firms

The above four strategies are integral parts to how shared value can be maximized to increase competitiveness of the firm. These four strategies constitute the last stage of CSO in Moon's (2012) stage model. According Moon (2012), social contribution and sustainability activities are classified into four stages. Stage 1 is CSR for survival, Stage 2 is CSR for self-satisfaction, Stage 3 is CSO for image, and Stage 4 is CSO for competitiveness. Stages 1 and 2 are CSR activities where business value is small or none because firms at these stages engage in resource transfer. Stage 3 allows firms to gain profit by mainly through good marketing. Stage 4 increases competitiveness of firms because firm's weakness in the value chain is enhanced through social values, thereby making the activity more fit and interdependent for sustainability (refer to figure 7-2).

[11] In Moon (2012), social contribution and sustainability activities are classified into four stages. Stage 1 is CSR for survival. Stage 2 is CSR for self-satisfaction. Stage 3 is CSO for image. And Stage 4 is CSO for competitiveness. Stages 1 and 2 are CSR activities where business value is small or none because firms at these stages engage in resource transfer. Stage 3 allows firms to gain profit by mainly through good marketing. Stage 4 increases competitiveness of firms because firm's weakness in the value chain is enhanced through social values, thereby making the activity more fit and interdependent for sustainability.

[Figure 7-2] The Four Stages of Sustainability Practices



Source: Abstracted and Modified from Moon (2012), Moon and Lee (2014)

1) Stage 1: CSR for survival

The first stage is where firms initiate CSR at the minimal level, under two conditions - when firms have to regain trust from the public due to a recent crisis caused from bad practice and when firms want to avoid such situation. The best example of this type of CSR action is when one of the sweatshops of Nike was publicized by the Life magazine with the portrayal of a Pakistani child making shoes in 1996. This led to nation-wide protests and boycotts in the US and with the rising social attack, Nike had to respond by creating its first department to specialize in managing supply chain partner's compliance

with labor standards (Edmondson, 2006). Following this Nike mishap, other global companies around the world became more aware of how their affiliates and contract companies handle labor issues and reformed their system before social accusation.

In fact, there are many cases where companies engage in active CSR following crises caused by accidents or bitter publication. Oil companies, for instance, initiate massive environmental CSR programs after an oil-spill. As such, the firms that solve social problems at this stage use CSR as a tool to probate earlier crisis caused by company's violation or accidents or serve as an insurance to prevent such crisis. Therefore, these types of programs can be considered one-time event and unsystematic because the most critical agenda is to solve the problem quickly.

2) Stage 2: CSR for self-satisfaction

The second stage is where the top management team decides to fulfill business philosophy through corporate charity or philanthropy. Firms in this stage mainly gain moral satisfaction and may become narcissistic. In fact, many firms fell under this stage during the late 1990s and early 2000 and faced profit loss in the long run. Ben and Jerry's and the Body Shop are good examples of companies carrying out CSR out of personal philosophy of bringing good to the society. As one of the forerunners of CSR, Ben and Jerry's principle of "linked prosperity" was that every stakeholder should benefit from the profits made by the company. Although the initiatives received wide attention from the public, the company actually had to go through painful acquisition by Unilever in 2000 (Edmondson, 2014). The Body Shop, also received positive attention from the media in the early 2000s. By engaging heavily in many political issues such as women's

rights and animal protection, the company referred themselves as an activist organization committed to the pursuit of positive social and environmental change (The Body Shop, 2005). However, the company was also acquired by L'Oréal SA in 2006.

The problem of this type of CSR is that it is highly inefficient. Although they start with a good virtue and high standards on corporate behavior, often times the firms are too ideal and are prone to fail in the long run. This is because CSR programs that actively target social problems are in reality, hard to manage and conduct after-care services. This is a critical problem even for the recipients of the help due to the problem of maintenance. When companies help in constructing advanced facilities in underdeveloped communities, problems occur when the locals do not have the resources and routes to fix the facility when problems occur.

3) Stage 3: CSO for image

The third stage is where companies start to truly create value, although it is rather short-term and unsustainable. At this stage, companies use the social activity mainly as strategic marketing instrument to raise brand or product image. The so called “cause-marketing” is a good example. Cause-marketing is a marketing strategy where firms engage in cooperative efforts with non-profit organizations. They deal with social or charitable purposes and they should be distinguished from corporate philanthropy because in cause-marketing, their profits are not granted in the form of donation but rather in the form of shared profits with the non-profit organizations that channel funding.

The Product (RED) Campaign launched in 2006 is an example where big global companies like Apple, Motorola, Armani, Gap and Nike participated together in the form

of brand licensing with the cooperation of the Global Fund to Fight AIDS, Tuberculosis and Malaria. The Product (RED) made a huge hit in the market, however, this raised intense criticism for being less efficient than direct charitable contribution, and for having lack of transparency. This is being cloaked in the patina of philanthropy" (Rosenman, 2007). The third stage, CSO for image, generates mutual values between business and society, so is one of the solutions for meeting both needs (Kinsley and Clarke, 2009). However, the downside of this method is that it can only be short-lived and has the risk of receiving greater criticism from the public for window-dressing.

4) Stage 4: CSO for competitiveness

The last stage is where firms truly carry out social contribution programs by tackling both business and social problems. This can take the form through two different strategies – efficiency and differentiation. Walmart decided to reduce its packaging by requiring its 60,000 worldwide suppliers to develop new packaging to conserve natural resources in 2006. This led to taking 213,000 trucks off the road annually while saving 323,800 tons of coal and 66.7 million gallons of diesel fuel. For Walmart, they could save 3.4 billion USD just from this plan (Environment Leader, 2006).

The example of Walmart shows how firms can create values and profits for society and business. As mentioned earlier in this section (refer to Table 7-2), firms can do this when they carefully examine the weakness in the value chain activities. What is more beneficial is that this type of approach is continuous and long-term, reinforcing the competitiveness over time. It requires more long-term plans and firms need to evaluate the entire value chain before making constructive plans and need a gradual

implementation because many of the activities are closely intertwined within the value chain and with the society.

7.3. An Application to the Cultural Industries

Despite of the growing attention on the sustainability practices, not many studies are done on the cultural industries. This part will look into notable sustainability practices of firms in this industry by applying the four-stage model. The cultural industries are different from the manufacturing sector in their approach to social issues. This is because the cultural sector, particularly the motion pictures industry, has a direct message that it delivers through its contents. Therefore, this industry has more moral responsibility as the contents creators that could impact the viewer's values. Especially when the target audiences are young children and youth, the ethical and social standards imposed on those contents creators are high. This is why Disney is highly concerned about the race and ethnic of its animation characters. Every detail of the contents produced by the motion pictures firm could stir social debate on the important values such as diversity, equality, and family.

Despite of this importance, not many studies have been done on the cultural industries' CSR or sustainability practices. However, most firms in this industry have already initiated active sustainability programs because they play important role in reaching out to the society and as the contents and culture creators, image and reputation are more important than technology-based products. The motion pictures industry is

highly associated with delivering value and message where it would require the firms to behave with more value-creating activities for the society's well-being.

However, similar to firms in other industries, there must be an approach through opportunity and raising productivity in the value in their sustainability programs. Since firms in the cultural industries face the same challenges of profits and sustainability, the social programs must also be aligned to improve the firm's efficiency and competitiveness in the value chain activities. This means finding or matching social issues with firm's weaknesses or problems in the value chain is a critical step.

Table 7-3 listed some of the mentionable sustainability programs of Disney and CJ E&M (CJ, hereinafter). Although other firms in the motion pictures introduced their CSR-related activities, Disney and CJ are the only companies that explicitly detail their efforts for sustainability and social well-being.

[Table 7-3] The Four-stage CSV/CSO Model Applied to the Motion Pictures Companies

4 Stages	Cases/ Examples	Characteristics
CSR for Survival	• Content screening, environment conservation (Disney Conservation Fund)	• **Passive** - Basic ethical compliance - Standardized practice - Unsophisticated strategy
	• Work code, safety, and health issues (Walt Disney College Program)	
CSR for Satisfaction	• Culturally-underserved, Social aid (CJ's Cinema to You, Disney Hospital Care)	• **Inefficient** - Less realized effect - Less efforts for after care - Less related to business
	• Cultural education, donations (CJ's King Sejong Institute)	
CSO for Image	• Festivals & Conventions (CJ's KCON/MAMA and win-win with SMEs)	• **Temporary** - Opportunity cost - Conflict of interests - Window-dressing
	• Campaign-induced programs (CJ's 3-meals a day, Little Big Hero)	
CSO for Competitiveness	• Contents network (CJ's DIA TV, O'Pen with Studio Dragon)	• **Sustainable** - Long-term investment - Integrated interests - Higher dependencies
	• Contents development (Disney Accelerator Program)	

Source: Model adopted from Moon (2012), cases/examples were added by the author

7.3.1. Sustainability practices at Disney: high link to competitiveness

Disney has a separate section for sustainability agendas and this is divided into environment and philanthropy. Since Disney has business in theme park, the activities that fall under stage 1 are related to keeping environment, health, and safety standards. Disney established the Disney Conservation Fund (DCF) in 1995 with a mission to protect the planet while engaging children to develop values for lifelong environment protection. Through this fund, Disney supports the study of wild life, protection of habitats, the development of community conservation, and education programs in critical

ecosystem, and experiences that connect kids to nature throughout the world (Disney Website, 2018).

According to the Annual Grants Report for the DCF program, Disney worked with 330 nonprofit organizations in 115 countries by providing more than US$ 30 million in helping to protect 400 species (e.g., rhinos, great apes, migratory birds, monkey, big cats, sea turtles, and coral reefs). The DCF program annual announces conservation heroes such as individuals or nonprofits that had been contributive for environment. Through this program, Disney engages in countries throughout the world but particularly the developing countries in Africa where environment protection is urgent but lacks government support. In 2017 alone, DCF was involved in over sixty projects worldwide by working with universities, local governments, and nonprofit organizations.

The DCF program functions independently from Disney's movie segment, however, because the main target consumer of Disney has long been the children, Disney has managed to link the company's environment agendas with children education through Disney's movie, *Finding Dory* released in 2016. This animated film co-produced with Pixar was a movie about the ocean life. As part of marketing strategy to advertise the movie, Disney developed study guides (e.g., Finding Dory Activity Guide, Finding Dory Education Guide, Responsible Fish Ownership Guide) by introducing the fish and other ocean creatures that appeared inside the movie. Also, with the release of the movie, the Disney-Pixar team partnered with the Great Barrier Reef Foundation and the Great Barrier Reef Marine Park Authority of Australia in order to provide educators and consumers with the study guides to raise awareness of reef creatures and the ecosystem (Great Barrier Reef Foundation News, 06/09/2016) Although CSR for survival is used

to manage or prevent risk and only induces costs for the firm, Disney has managed to turn these environment activities by linking them to Disney's contents and sales.

The Walt Disney College Program was created in 1981 as an internship program to prepare Disney's future cast (i.e., staff at Disney's theme parks are called casts) for the Magic Kingdom. It first began as the Magic Kingdom College Program (MKCP), but it changed its name in 2004 as the company expanded the internship program to support rest of the theme parks in the US. For this program, Disney partnered with Clark College in California and provides five-to-seven paid learning courses to students who pass the competitive admission process. The students who enter this internship program are designated to a role at a Disney's theme park while learning various courses from safety to operations. Some of the courses are credited by the American Council on Education which allow the participants to gain college credits and attend seminars. Although this program does not grant full-time employment, but the satisfaction rate of the graduates is high (Massa-Sena, 2015).

The most notable sustainability practice of Disney is the company's Disney Accelerator program which was established in 2014 in order to work together with the new startups in technology in the new media and entertainment industries. As in the company website, Disney works with "select companies that would gain access to the range of creative expertise and resources of Disney" (Disney Accelerator Website, 2018). Through this program, Disney selects venture-backed technology startups in media and entertainment and companies from the US, Europe, and Asia have participated. These companies have specialties in technology fields such as robotics, artificial intelligence, wearable, 3D printing, messaging, and virtual reality.

Disney selects ten companies each year and invests in their technology to develop together for 3 months. The selection criteria is said to reflect Disney's focus and motivation for a particular technology segment. Once selected, these companies work together and take part in Disney's business operations. For instance, Playbuzz – a company that develops tools for creating interactive media – was used in Disney's several divisions including ESPN, ABC, and ABC News (Spangler, 2017). Disney closely works with these selected firms to improve its own technology while the selected firm earns the chance to gain support of Disney's platform of network and technology. Being able to take part in Disney's investment capital and gain access to co-working space at Disney's creative campus, the selected firms receive mentor support and guidance from Disney's top executives, entrepreneurs, investors, and other business leaders in the community.

7.3.2. Sustainability practices at CJ: weak link to Competitiveness

CJ has a CSV section within its website that produces various activities of sustainability. However, there are no separate sustainability reports that are published annually so information is fully provided regarding the budget and resources. The CSV of CJ is divided into four main areas: Building creative ecosystems, win-win growth with SMEs, culture sharing, and sharing.

Following the four-stage model of Moon (2011), some examples of CSR activities that begun from the good will and satisfaction of the leadership of the firm would include CJ's Cinema to You program and King Sejong Institute that fall under

culture sharing. The descriptions for Cinema to You states that, “The program supports screenings of the latest films in areas that lack theater infrastructure and provides E&M film and video screening equipment in developing countries with high demand for Korean content.” Together with CJ’s efforts to provide cinema service to the visually impaired and other culturally-underserved population inside Korea, CJ’s culture sharing involves the spreading of Korean contents to the greater mass.

More global-scale culture sharing includes CJ’s support to the King Sejong Institute (KSI), founded by the Korean government in 2005 to offer Korean language education for the fans of *Hallyu* in developing countries. Starting from 2015, CJ’s program provides studios and other cultural-content-production facilities for independent creators by allowing them to experience Korean culture. Through KSI, CJ is also spreading its Cinema to You services globally in 11 regional institutions (Korean Entertainment Management Association, 2015). Part of CJ’s efforts could be to establish a global image for CSV in cultural services apart from its business-oriented cinema operations. Although CJ’s involvement in government program is less related to improving the firm’s efficiency and competitiveness in the value chain, building a global brand of CSV is an important step for multinational corporations to gain a positive global image and seek potential markets (Lee, *forthcoming*).

Other CSV programs of CJ are the O’live Festival and Korea Convention, more popularly known as KCON and the Mnet Asian Music Awards (MAMA) launched and managed by CJ. These two are globally-famous music festivals which have grown to become CJ’s core competence. MAMA began from 1999 and since then the ceremony had taken place in various regions such as Vietnam, Japan, and Hong Kong in 2017 alone.

These two events are mentioned by CJ as the boosters of win-win growth with SMEs. According to CJ, SMEs are supported by being able to reach the overseas market when these events hold place. When the festivals are launched in foreign markets, CJ allows Korea and foreign country's local food businesses and small business owners to sell in front of the venue. CJ mentions these two events as the propeller of win-win growth where CJ is able provide better consumer experiences through these food and other cultural enjoyment while small businesses obtain the opportunity to consumers.

Although a win-win approach to social issues such as supporting small businesses and increasing employment is an essential element of shared value, the above approach does not directly enhance CJ's value chain activities. Therefore, it may serve as a good business strategy to expand the exhibition and ancillary segments of CJ, it does not help to enhance CJ's motion pictures segments nor does it increase spillover effects onto other supporting activities that would generate more synergy throughout the value chain.

A more relevant sustainability practice to Porter and Kramer's CSV and strategic approach to increase competitiveness is CJ's CSV activity to build creative ecosystems through DIA TV and the O'PEN program. By networking with the DIA TV system that facilitates the creation, production, and on-line streaming of creative contents, CJ is able to help support independent creators and producers while gaining good contents that could be aired in DIA TV. Also, the O'PEN program which provides creative spaces and opportunities to future writers and contents creators, CJ is helping them to have a working space and environment while the firm enhances its network with new talents. CJ E&M has also established a support network with its own Studio Dragon

and CJ Cultural Foundation to foster writers for dramas and films so that their work could turn into final contents. By providing a network platform that matches new talents to existing firms, including CJ, both parties benefit from increased opportunities and quality.

Other sustainability practices of CJ are the programs it shows. Programs such as *3-meals-a-day* and *Little Big Hero* were created to facilitate social awareness on sharing. By making campaign-induced programs that hold the messages of sharing, love, and hope, CJ is using contents to deliver value-embedded messages. A similar approach is made through the company's various programs that air volunteering and donations of stars and idols. More passive form of donation is made by allocating the profit share from top-ranking programs.

7.4. Implications for Enhancing Competitiveness in the Value Chain

This section was written in order to address the competitiveness challenges firms face when they engage in sustainability practices. As firms grow in size and expand abroad, the pressure to engage in social problems also heightens. For conglomerates, behaving responsibly and creating shared value have been a critical strategy issue. Particularly for firms in motion pictures, and more broadly the cultural industries, increasing shared value is more important because the contents and movies they provide directly impact the value of the society. Film makers face more ethical demand from the public as not

only the followers of good social value but also as the leaders in shaping society towards more universal and benevolent values such as equality, diversity, love and friendship, and family. Also, there are topics such as environment protection that films can utilize to raise public awareness. This is the uniqueness of the motion pictures industry where the products (i.e., film) create direct impact on shaping and transforming social value.

On top of this importance, firms in this industry equally face the challenge of making profits and enhancing performance. The solution to resolve the difficulties in creating shared value for firms in motion pictures can be found in the value chain framework. This dissertation has utilized Porter's generic value chain to illustrate how firms can diversify and connect with other industries and business areas to increase the convergence effects. The degree of integration displayed in the conglomerates start from core activity of movie making to various ancillary activities. The broad spectrum of activities the industries spans over shows that the convergence with various activities will be most efficiently managed when the resources are shared and become interdependent through the strengthening competitiveness in the supporting activities.

Similarly, the shared value approach which demonstrates the convergence of social and business value can be explained through the linkage and dependence along the value chain activities. As mentioned by Porter and Kramer (2011) and Moon (2012), shared value can be maximized to increase the benefits to both parties when the resources are matched along the value chain. The famous example of Microsoft's Technical Specialist Program that collaborated with the community colleges in the US to solve the firm's problem in attaining IT-specialists equipped with Microsoft's programs and technology was helpful to generating job opportunities in the area that was expected to

grow fast. Through this program, Microsoft was able to strengthen the company's weakness in human resource by matching it with the society's great labor resource. Microsoft utilized its core competence in software development while working with the American Association of Community Colleges.

Section 7.3 detailed the sustainability practices of Disney and CJ. By applying the stage model for CSR and CSO, this research concludes that CJ engages in activities that are weakly related to improving the company's weak value chain activities. Most of CJ's CSV programs are centered around stage 2 and 3, for satisfaction and image. Stage 3 is still strategic because the firm can reap benefit and profits, however, activities in this stage are seen more as marketing effects. The level of sophistication and spillover effects to other business areas are weak, and it does not change the production function or the competitiveness of the firm in the long run.

Disney, on the other hand, has many activities in stage 1 for survival and stage 4 for competitiveness. However, unlike Moon's (2012) discussion that activities that fall under stage 1 induce only costs, Disney has managed to turn this area by transforming it to the firm's competitive area and finally connected it to the core business area of the firm which is the movie. Owning theme parks and resorts in various locations, Disney's involvement in nature and environment is not unrelated. Also, as these resorts include zoos, finding the company's contribution for animal protection came as a natural process. Disney managed to strengthen this area under its sustainability practices and eventually succeeded in linking them to the company's core business area of contents ad technology.

The Walt Disney College Program and Accelerator Program are examples of

how Disney's value chain in human resource (i.e., cast and crew management) and contents and technology management have been enhanced by helping the related social segment. Disney was able to benefit from the media-technology startups while helping these firms to connect to the platform Disney could provide. Through these startups, Disney can reduce the trial and errors the company would have had to do in new untested contents and technology development. Through this program, society benefits by having more trained, competitive startups while Disney is able to explore new technologies that influence the fast-changing cultural industries. As resonated throughout this dissertation, the value chain framework is an important tool that allows us to see how different resources and capabilities come together to form an interdependent, synergistic integration.

CHAPTER VIII. CONCLUSIONS

Business landscape has changed. Industries are more integrated than before and there is a frequent crossover by firms across different industries. With on-line platforms, firms of various size are increasing in number and scale while forming a complex network in products, technologies, and markets. Technologies are changing fast, and market is being more fragmented than before. As Internet had once been the greatest influence, the IT is influencing every corner of business and industries from agriculture to culture, dynamically reshaping how firms operate and remain competitive.

This dissertation is to examine how firms are surviving by continuously enhancing their competitiveness. This study particularly selected the global conglomerates in the cultural industries in order to provide more meaningful implications to the non-traditional, non-manufacturing sector which is now functioning as the backbone of many emerging and developed economies. Despite the criticisms from both academia and society, conglomerates are still very powerful and efficient, and they are in fact increasing their scale and scope of business in both developed and developing economies. Unlike what theories and politicians argue, conglomerates serve as key platform for many firms to join and network. As the business ecosystem scholars have argued, conglomerates function as the keystone and enhance synergy throughout the networked firms and organizations.

This dissertation adopts this view on conglomerates and explains how the

theories on sustainable competitiveness can be formulated from different perspectives such as resources, diversification, and synergy-creation. These fundamentals in sustainable competitiveness are critical because they provide answers to how firms can maintain their leadership in the industry over time. Resource- and capability-based view focuses on how firms can develop and enhance their business competitiveness by redefining their resource-based activities to strategy.

Drawing on the two prominent directions for strategy formulation, which are cost efficiency and differentiation, Porter (1985)'s solution was to coordinate and rationalize the nine value chain activities to fit the strategic direction. Theories related to diversification, and convergence through synergy-creation put more emphasis on how firms can grow and expand their captured advantages through various modes of diversification and convergence by maximizing synergy. This means firms may expand into either related or unrelated areas and prior studies have given more weight on related diversification and convergence for greater synergy creation. However, recent trends in industry integration are proving the opposite and this theoretical gap was addressed more rigorously in this paper.

The last set of theoretical concepts related to the sustainable competitiveness are concepts or vocabularies that were more linked to social values. With the growing concern of business role in social, ethical, and environmental problems, the word sustainability has been extended to include the role of firms. Therefore, as another important contribution, this research included how social responsibility and role of firms can be explained in terms of value creation for mutual sustainability. Although it may date back to as early as 19th century or late 1980s of Peter Drucker, Porter and Kramer

(2011) has led this trend of research in how firms can utilize the existing value chain framework to realign and create shared values. This literature review section highlighted these concepts in detail. Even until recently, firms have pursued the peculiar growth in diversification mainly through mergers and acquisition (Porter, 1987); however they were not analyzed through a rigorous modeling technique. On top of this effort, this paper incorporated the process strategies introduced in Moon (2010, 2016a) by emphasizing the role of learning and convergence through the diversification in the value chain activities. To prove the utility, The Walt Disney Company's entertainment studio division was analyzed as the case study to demonstrate how a firm can increase its competitiveness through acquisitions throughout its different activities in the value chain.

By examining Disney's feature film and TV series productions activities, this paper contributes in mainly five aspects. It reveals how conglomerates are expanding across industries by both exploring and exploiting their resources and capabilities. Thus, by expanding into possessing multi-competence, compared to the single competence. By examining the cultural industries, this study showed the future direction for technology strategy in the fourth industrial revolution era where the dynamics and volatility are increasing along the transformation towards technology and industry convergence. The second contribution is expanding the diversification approach to the entire value chain dimensions. Shifting away from earlier theories that only explained the diversification in markets and products, this research first classified the nine activities of motion picture productions and applied them to the acquisition strategy of Disney.

The third and the overarching contribution of this research is to validate that conglomeration of firms does not increase market barriers and competition. In fact, due

to the diverse characteristics in the cultural industry, despite the growth in size and scale of the media conglomerates, the number of partnership and cooperation is simultaneously increasing. Due to the growing importance of multi-competence in technology and contents, the business landscape is becoming more cooperative rather than competitive. The fourth contribution is the shift in theoretical and conceptual focus on the manufacturing sector to the cultural industry which includes the characteristics of both services and manufacturing. This is phenomenal because prior studies were mainly focused on highlighting the differences between the two sectors rather than drawing on useful implications from a heap of manufacturing-oriented research. Furthermore, the comparative analysis on the firms of three East Asian countries reveal how different firms carry out diversification in their value chain activities by utilizing the value chain system as the platform for convergence. The final contribution is regarding the mutual sustainability of business and society where the existing business model on value chain activities can be actualized in explaining shared value and opportunity in social issues. As earlier scholars have hinted but not fully analyzed, the enhanced coordination and synergy along the value chain activities can be beneficial and therefore sustainable for firms.

These contributions can help future studies in other industries that are non-manufacturing in nature. For instance, this study can be utilized to analyze a lower level of industrial unit such as gaming industry. In addition, each of the value chain activities of an industry can be more intensively analyzed and then integrated into the interactions with other activities of the value chain.

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국문초록

지속가능한 경쟁력 전략:
문화 산업의 글로벌 기업에 대한 이론적 확장 및 적용

이연우

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본 논문은 최근 글로벌 대기업의 지속가능한 경쟁력에 대해 이론과 사례적 검증을 통해 기존 경영학에서 다루지 않았던 부문에 대해 확장된 새로운 개념들을 통합하고 소개한다. 과거 경영학 이론은 대기업들이 다각화를 통해 기업의 규모와 산업영역을 확장시킨 것에 대해 비관련 다각화 전략이라고 비판하며 부정적인 입장이었다. 특히, 비관련 다각화 전략은 한국, 중국, 인도와 같은 개발도상국의 기업행보로 간주되어 혁신성, 효율성, 그리고 지속성에 부정적인 영향을 미친다는 이론들이 주를 이루었다. 하지만 최근 미국의 구글과 아마존이나 한국의 카카오와 같이 비관련 및 관련 다각화를 통해 기업의 규모와 산업영역을 확장시키는 대기업은 현저히 증가하고 있다. 이론과 실제간의 격차는 결국 기업의 지속가능한 경쟁력에 대한 깊이 있는 이해에 대한 한계점을 드러낸다고 볼 수 있다. 대기업은

사회의 부정적인 시선 속에서 여전히 숫자와 규모 면에서 꾸준히 활동하고 있으며 기업과 국가의 경쟁력의 주요한 동력이 되는 혁신의 측면에서도 훌륭한 성과를 보이고 있다.

본 논문은 이론과 실제의 차이를 좁히고자 오늘날의 대기업에게 중요한 지속가능한 경쟁력에 대한 새로운 접근법을 소개했다. 특히, 빠른 기술발전 및 보급을 통해 산업간 경계가 불분명해지고 있는 현대의 산업들을 활보하고 있는 대기업을 집중 조명하고자 본 연구는 대표산업으로 문화산업을 선택하여 영화관련 산업 내 기업들로 연구를 수행하였다. 1장은 서론으로 본 연구의 중요성을 설명했다. 2장에서는 문화산업에 대한 다양한 정의와 분류기준을 검토하여 창의적인 콘텐츠 활동과 기술혁신의 중심에 있는 영역으로서 문화산업을 설명했다. 문화산업에 대한 과거의 경제 및 경영학적 연구들을 간략하게 소개하며 그 유용성과 한계점을 분석했다. 문화산업은 선진국들이 국가의 부와 일자리 창출을 장려하기 위한 전략산업으로 적극적으로 활성화되었는데, 경영전략 이론과 개념들이 충분히 적용되지 못한 한계점을 지적하며 본 연구의 중요성을 도출했다.

3장에서는 대기업에 대한 과거 관점들을 정리함과 동시에 기업의 규모가 혁신과 경쟁력에 미치는 영향에 대한 기존문헌을 분석했다. 문화산업에 속한 대기업의 지속가능한 경쟁력에 대해 본격적으로 들어가기 앞서, 현재 우리나라를 포함하여 많은 정부와 사회가 가지고 있는 대기업에 대한 우려와 문제점들을 이론적으로 검토할 필요가 있었다. 대기업은 비효율적인 조직구조와 수직적 통합으로 인한 관료주의적 양상 등 혁신과

지속가능한 경쟁력과는 부의 관계로서 흔히 묘사된다. 일자리 창출 정책들과 더불어 스타트업, 벤처기업, 1인기업 등 많은 정부들이 중소기업을 지향하는 정책을 연이어 발표하는데, 본 장에서는 이론적 연구를 통해 기업규모와 혁신 및 경쟁력을 재고하여 각 기업유형간의 긍정적인 측면을 정리했다. 궁극적으로 대기업은 후진국과 개도국만의 산물이 아닌 효율을 극대화하기 위한 조직이며, 산업이 빠르게 다변화하고 있는 오늘날, 대기업과 중소기업을 경쟁보다 협력의 관계로서 접근할 때 더 많은 누수효과와 혁신효과를 거둘 수 있다는 점을 강조한다.

4장은 대기업의 지속가능한 경쟁력에 대한 기존이론을 검토하고 확장시키고자 세 가지 대표적인 이론과 개념을 도입하고 통합했다. 첫째, 과거의 다각화 전략 이론이 제품과 시장의 관련성을 중심으로 이루어졌다면, 본 논문에서는 산업간 경계가 불분명해지면서 어려워진 제품, 시장, 주체간 분류에 따른 관련성과 비관련성에 대한 논의에 새로운 접근을 도입했다. 둘째, 자원기반 이론을 중심으로 확장된 기업의 핵심역량에 대한 기존 이론들은 정적인 관점(static view)으로 기업이 지속적으로 변화하며 새로운 역량을 창출하고 성장하는 과정을 설명하기에는 역부족이었다. 이를 위해 동태적 과정 전략 (dynamic process strategy)으로서 문휘창 교수의 ABCD모델(2012, 2016a) 중 융합전략 (convergence strategy)을 도입했다. 끝으로, 기업 간 경쟁구도에 초점을 두었던 전략모델을 비즈니스 생태계 (business ecosystem)의 측면으로 설명하여 대기업의 지속가능한 경쟁력을 설명했다. 이 세가지 관점을 마이클 포터의 가치사슬 모델

(1985)에 도입해 보면, 대기업이 가치사슬의 아홉가지 활동들을 연결시켜 확장시킬 때 가장 높은 시너지 효과를 달성할 수 있음을 시사한다. 즉, 가치사슬의 다각화, 가치사슬의 융합, 가치사슬을 통한 생태계 조성을 통해 대기업은 지속가능한 경쟁력을 달성할 수 있다.

5장은 앞서 말한 세 가지 관점에서 가치사슬 모델을 적극적으로 활용하여 문화산업의 대표 사례로 미국의 월트 디즈니社를 분석하였다. 가치사슬을 통해 영화산업을 분석했던 과거 모델들을 검토한 후 영화산업만의 고유한 특성을 반영하여 마이클 포터의 모델을 수정하였다. 영화제작은 제조업과 달리 가역성 (reversibility), 원소스 멀티유즈 (one-source-multi-use) 등 특이한 성향을 가진 산업이다. 이러한 특징을 토대로 재구성된 가치사슬의 주요활동은 영화제작 (production) - 유통 및 배급 (distribution) - 상영 (exhibition) - 부수시장 (ancillary)으로 디즈니社에 적용하여 모델의 실용성과 효용성을 입증하였다. 디즈니社가 과거 손그림 에니메이션으로 시작하여 1990년대 말 도태될 시기에 픽사, 루카스 필름, 마블 등을 인수하며 컴퓨터 그래픽 기술을 학습하고 콘텐츠 개발에 주력하면서 새롭고 다양한 장르의 영화를 제작하는 핵심역량을 취하면서 다각화시킬 수 있었던 점을 주목했다. 디즈니의 콘텐츠와 기술력은 영화산업으로 연결된 테마파크, 관광, TV미디어 등 다양한 문화산업 영역에서 시너지 효과를 발현시켰다.

6장은 재구성된 영화산업 가치사슬을 한국, 중국, 일본의 영화산업 선두기업들에 적용하여 비교분석했다. 한국의 CJ E&M, 롯데 엔터테인먼트,

중국의 완다그룹, 그리고 일본의 도호는 각 국가를 대표하는 1등 기업이자 모두 다각화된 대기업이라는 공통점을 갖고 있다. 이 네 기업을 재구성된 가치사슬을 적용하여 분석하였을 때 도출된 흥미로운 시사점은 모두 영화산업에 속한 기업임에도 불구하고 영화제작이라는 핵심영역에서 시작하기보다는 배급 혹은 부수시장에서 시작하여 영화제작산업으로 확장시킨 궤도를 보이고 있다는 점이다. 일본의 도호는 고질라 영화를 통해 영화제작은 꾸준히 하고 있지만, 센과 치히로와 같은 일본의 대표적인 에니메이션 영화들을 배급하고 도호 시네마 극장을 운영하며 역량을 키워가고 있었다. 한국의 CJ와 롯데, 그리고 중국의 완다는 영화제작의 부수사업영역에서 시작하여 영화제작으로 손을 뻗고 있는 기업들이다. 특히, 롯데와 완다는 거대한 쇼핑몰을 운영하며 시네마 극장으로 뛰어들어 복합문화공간을 형성하는 맥락 안에서 하드웨어에서 소프트웨어로 산업확장을 하는 양상을 나타냈다. CJ는 방송 미디어 사업을 통해 키워진 콘텐츠 및 기술 역량과 시네마 사업을 통해 갖춘 역량을 확장시키며 영화산업에서 활동하고 있다. 다양한 궤도와 행태로 운영되고 있는 이 네 기업들의 다각화와 융합에 따른 시너지 효과는 본 연구에서 재구성된 가치사슬 모델을 통해 분석될 때 기존의 이론과 관점들이 보여주지 못한 부분들을 잘 설명해준다.

7장은 기업의 영역을 넘어 사회가치와 기업가치의 융합과 시너지를 가치사슬 모델을 통해 설명했다. 지속가능성을 논할 때, 포터와 크레이머 교수의 공유가치창출 (creating shared value: CSV)는 더 이상 간과할 수

없는 중요한 기업 경쟁력의 요소가 되었다. 2011년 연구에서 포터와 크레이머 교수는 공유가치를 극대화시키는 방안으로 가치사슬을 활용하였다. 특히, 문휘창 교수에 의해 꾸준히 향상된 CSV모델은 1987년 피터 드러터가 주장했듯, 사회문제와 기업의 문제가 기회의 관점에서 다뤄졌을 때 그 문제점이 해결된다는 점과 윈윈의 개념으로 시너지를 극대화 시키는 공유가치창출은 전략의 관점으로 취급되어야하는 중요성을 시사했다. 이 이론적 기틀 위에, 7장은 문화산업이 가지는 고유한 가치창출의 영역을 재조명하고 대표적인 기업으로 디즈니와 CJ의 사회공헌활동을 네 가지 단계와 전략으로 구분하여 분석하였다. 디즈니는 환경보호와 스타트업 지원활동을 통해 사회공헌을 함과 동시에 기업의 가치사슬활동의 경쟁력을 높이며 시너지 효과를 높이고 있다. 반면 CJ는 적극적으로 공유가치창출 개념을 도입했지만, CJ의 가치사슬 활동 전반에 걸친 시너지효과와 경쟁력 향상에는 미미한 수준에 그쳤다. 앞서 다뤘듯이, 기업의 지속가능한 경쟁력을 위해서는 사회와 맞닿은 영역에서 기업은 가치사슬 내에서 다각화와 융합을 달성하여 시너지 효과를 극대화시켜야 한다.

본고는 8장을 끝으로 가치사슬 모델이 오늘날의 산업과 기업들을 설명하기 위해 재구성되어 활용될 수 있음을 강조하며 지속가능한 경쟁력을 통해 성장한 대기업이 다각화, 융합, 그리고 비즈니즈 생태계를 형성하며 꾸준하게 경쟁력을 제고시킬 수 있음을 재강조했다. 문화산업은 예술성, 독창성, 창의성 (arts, creativity, originality)와 같이 비경제적, 비경영학적 관점으로 많이 다뤄졌다. 하지만, 문화산업이 국가의 경쟁력과 부를

결정짓는 핵심산업으로 부상하면서 중요해진 지속가능성의 문제를 경영전략적 해석으로 풀어보았다. 본 연구는 문화산업내 기업이 사회와 공존하며 지속적으로 경쟁력을 높일 수 있는 전략적 시사점을 제시함으로서 서비스업과 같은 비제조업기반의 산업에도 높은 활용성을 시사한다.

주제어: 지속가능성, 경쟁력, 문화산업, 대기업, 가치사슬, 다각화 전략, 융합 전략, 비즈니스 생태계, 영화산업, 공유가치창출, 기업의 사회적 기회