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Management Implications for the Korean Wave

Jeong-Seob Kim¹, Joo-Yeun Park²

Abstract

Based on Penrose's resource-based theory (RBT), this paper aims to examine the resource and performance structures of South Korean entertainment firms, which are driving the Korean Wave, or K-culture, and arrive at the management implications of the finding. The analysis of the 2011 and 2012 management structures of all 11 listed Korean entertainment firms shows low degree of matching between individual resources and insufficient interconnectedness between resources and performance. Sustainable management began to be discussed in the industry during this period due to checks by neighboring countries such as China and Japan. This calls for specialized and scientific management of resources by entertainment firms in order to better leverage their resources and raise the resources' direct contribution to creating new resources and enhancing performance.

Key Words: Korean Wave, K-Culture, entertainment firms, Resource-Based Theory (RBT), resources, performance

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Introduction

The Korean Wave, or Hallyu, refers to the expanding popularity of TV dramas, music, and other aspects of Korean popular culture across the globe, including Asia, Europe, and the Americas. The Korean Wave is criticized for its government-driven dynamic and lack of diversity, but its impact is recognized in the global market, with the phenomenon even being dubbed a ‘cultural tsunami’ (Endo & Matsumoto, 2004; Hanaki et al., 2007; Kim & Wang, 2012). Domestically, the Korean Wave is deemed a symbol of cultural pride and a new industrial growth engine. The Korean Wave emerged as a substantial and cohesive cultural force in the 2000s. After peaking in 2005-2006, it hit a period of stagnation. The popularity of K-pop breathed new life into the Korean Wave, which opened a new chapter under the ‘K-culture³’ brand. Leveraging the influence of Korean TV dramas, pop music, and movies, K-culture is expanding its reach into other related areas, including online games, fashion, hairstyles, and cosmetics.

Small and medium Korean entertainment firms are driving the Korean Wave by creating TV dramas, movies, and pop music and distributing them globally as in the globalization case of India film industry (Larouche & Brunet, 2015). Most of these firms were small celebrity management companies with annual revenue of under KRW 1 billion until the early 2000s. As exports of Korean TV dramas and pop music expanded on the back of the Korean Wave in the mid-2000s, however, their profit structures diversified to include record and video content production, and some of these firms grew to post KRW 100 billion in annual sales. With sustained investment from the financial sector, there are

³‘K-culture’ is a term that appeared in Korean and overseas media in 2011. The Korean Wave had appeared to be a phenomenon limited to Southeast Asia, unable to make its way to the Western world. When the Korean Wave hit the global stage, it was given the moniker ‘K-culture,’ referring to the Western modernization of Korean culture and media (Shome, 2012) and the result of a government-led national branding project involving the use of tourism to economically bolster other industries (Huang, 2011). Eventually, the moniker bestowed by the Eastern and Western fans of Korean popular culture was adopted by the Korean government and turned into a national brand. This, in turn, was reevaluated by overseas media and developed into Korea’s global pop culture brand.

now over 1,000 entertainment firms (Baek, 2012). Moreover, ‘entertainment business’ became a separate category in the Korean stock market in the mid-2000s (Kim & Park, 2014). Comprised of businesses that produce TV dramas, films, animations, and online games, the listed firms in the cultural content sector posted annual exports of KRW 1.5625 trillion in 2013 according to the Ministry of Culture, Sports and Tourism.⁴

Korean entertainment firms, which are driving the Korean Wave, or K-culture, wield substantial economic and socio-cultural influence in local and global markets. Especially, the Korean Wave has seen its third successful period since 2008 with K-pop’s worldwide hit. As neighboring countries began to check the Korean Wave at the national level from 2009, the Korean entertainment industry started discussions on sustainable management through business innovation to cope with the current crises (Kim, 2017). Typical examples are the announcement of Taiwan’s “Culture Creation Industry Promotion Plan” (2009. 5), China’s “Culture Industry Promotion Plan” (2009. 7), and Japan’s “Culture Industry Orienting Big Country” (2010. 4) (Kim, 2017). For this reason, the year 2011-2012 is the time to search the initial results of such discussions.

In consideration of this fact, this paper analyzes the firms’ management structures for the period to determine how their growth can be sustained. Unlike US and other global counterparts, Korean entertainment firms are not only small but are also independent entities rather than subdivisions of larger broadcasting corporations or media & IT conglomerates. Accordingly, research on Korean entertainment firms has been scant and limited mostly to the examination of the star celebrity system, the spread and impact of the Korean Wave, and production outsourcing structures. As such, there has been a lack of a research framework for a multi-dimensional examination of entertainment management. Furthermore, most existing research relies on the industrial organization theory, which determines the issues pertaining to individual businesses based on the organization of the relevant industry at large (Kor & Mahoney, 2004).

⁴Korea Creative Content Agency of the Ministry of Culture, Sports and Tourism, ‘Analysis of 2013 Q3 and Annual Trends in the Content Industry’ (April 2014).

To address the shortcomings of existing research, this study is based on Penrose's resource-based theory (RBT, 1959), which has been serving as an alternative framework for analyzing business performance since the 1990s. The paper aims to determine the direction and degree of influence between resources and between individual resources and performance through the statistical processing of entertainment firms' resources and performance indicators that are systematically and appropriately categorized and measured. RBT looks at business management as the relationship between input (resource) and output (performance) and seeks this relationship's management implications for individual businesses and a given industry at large. Arts and culture are materially (i.e., resource-wise) constrained as they are produced by individuals and organizations, so RBT is an appropriate framework for analyzing entertainment firms (Heilbrun & Gray, 2001).

The perspective of RBT, also known as the resource-based view (RBV) (Penrose, 1959), posits that a business firm is 'a collection of productive resources.' Penrose argues that having resources is vital to acquiring productive services necessary for making products and proposes the concept of 'resource' as a management factor. As such, a firm, according to RBT, is a systematic collection of resources. RBT is thus as a strategic management theory that sees a firm's ability to match and utilize the resources at its disposal as the determinant of the firm's success, growth, and sustained performance (Kor & Mahoney, 2004).

The application of RBT to the study of media and entertainment management began as part of an effort to determine the nature of resources as a factor resulting in the differentiated performance of firms (Hoskisson et al., 1999). In the classical theory of industrial organization, industry is the basic unit of analysis on firms. In RBT, on the other hand, the firm is the basic unit of analysis (McGahan & Porter, 1997). In other words, RBT stresses the value of the resources a firm possesses and the firm's capabilities pertaining to the management of these resources (Albarran, 1998). Hence, for a firm to secure a comparative advantage—the basis of performance in a competitive market, it must continue to develop core resources and capabilities (Gassmann & Becker, 2006). For an asset to function as a resource, it must meet the conditions of 'valuableness,' 'rareness,' 'non-

substitutability,' and 'inimitability,' and these characteristics must work together simultaneously to enhance performance (Rumelt, 1984; Barney, 1991; Chan-Olmsted, 2006; Lockett et al., 2009). In RBT, a firm can either employ self-developed resources to compete in the marketplace or actively utilize the resources of other firms. RBT is compelling as entertainment firms cooperate with one another mainly to complement or acquire resources they lack.

In this study, entertainment firms' resources are classified into the following seven categories: 'human resources,' 'knowledge resources,' 'network resources,' 'financial resources,' 'real resources,' 'brand resources,' and 'corporate social responsibility (CSR) resources.' This classification is founded on Kaplan and Norton's resource classification scheme (2004, 2006), which is well-suited for entertainment and other knowledge-creating firms, where creativity and knowledge are considered important. The study also draws on the models developed by Hofer and Schendel (1978), Miller and Shamsie (1994), and Valentin (2001). Hofer and Schendel organized resources by form into the following six types: 'financial resources,' 'material resources,' 'human resources,' 'technological resources,' 'reputational resources,' and 'organizational resources.' Miller and Shamsie, in the meantime, adopted Black and Boal's classification scheme based on the complexity of the network to which a firm's resources belong.

In view of this scheme, resources are either 'contained resources' or 'system resources' (Black & Boal, 1994). Miller and Shamsie then incorporated the knowledge management trend and categorized resources as 'property-based' or 'knowledge-based.' Focusing on the 'tangibility' or 'intangibility' of resources, Valentin (2001) proposed the following eight classification categories: 'financial resources,' 'knowledge resources,' 'legal resources,' 'human resources,' 'organizational resources,' 'information resources,' 'relationship resources' and 'reputational resources.' CSR, which used to be considered a firm's duty and obligation toward its stakeholders, was categorized as an intangible asset by Hillman and Keim (2001) and by Hu and Wang (2009), who contended that CSR is "an important resource that creates a differentiated and competitive advantage for a firm, thereby determining the said firm's performance."

Structure of Firm's Resources and Performance

In RBT, which defines firms as 'bundles of resources,' individual resources on their own are not optimal in value or effectiveness, so they are matched with other resources to enhance business performance or create value (Penrose, 1959; Newbert, 2007). Grant (1991) stressed the importance of interconnected and mutual interaction among resources, contending that resources form teams and that only through the collaboration and cooperation between the components of a given team can differentiated profit be generated. An examination of the relationship between individual resources is a crucial step toward understanding resource combinations and matching structures, mutual interaction between resources, and the degree of resources' contribution to performance. And in order to examine the performance-enhancing and value-generating relationships and matching structures of resources, there has to be a verification of the interrelatedness of all resources that are variables.

The higher the degree of mutual influence between resources is, the higher the degree of resource matching⁵ is. The competitive advantage a firm creates is founded on the matching of resources, so a high degree of matching between resources means a high level of the said resources' contribution to performance. Value creation is what drives firms to effectively pair and match key resources and standardize the means of their matching (Seggie & Griffith, 2008). Seggie and Griffith (2008) explain that the effort by service firms to raise the degree of resource matching is a natural process aimed at enhancing the domestic usability of resources and leverage it for the firm's success in the global market.

Penrose (1959) found that there was a high level of mutual interaction between a firm's material resources and human resources as the two variables greatly impact productive services. It follows that the correlation between the two variables is more

⁵Matching' in philosophy and logic refers to the degree of optimization of the utility of a system stemming from the sound and effective combination of the variables or components that comprise the said system.

pronounced in firms with greater management stability. Based on an empirical study, Ichniowski et al. (1997) proposed that better human resource management—e.g., more stringent regulations on talent recruitment, incentive programs, employee education and training, and cooperative labor-management relations—leads to improved business performance. Barney (1991), in the meantime, defined a ‘firm’ as an organization of unique, tight-knit combinations of accumulated tangible and intangible assets and stressed reinforcing the mutual interactions among resources. Hidayati et al. (2012) verified that firms with more intangible assets have higher competitive advantage and market value.

For Kaplan and Norton (2004, 2006), a firm’s performance is generated by human resources and brand resources’ respective mutual interactions with real assets, financial assets, intellectual assets, and networks. They found that real and financial assets rather than intellectual assets and networks have a greater impact on the human and brand resources of manufacturing and other traditional businesses. For media, IT, and other knowledge-creating businesses, however, it was the other way around. A case in point is US dot-com companies in the late 1990s. According to Kaplan and Norton’s analysis, intangible assets, which could not be measured by accounting systems, accounted for over 75% of the total assets of these companies and wielded great influence and importance (Kaplan & Norton, 2004; 2006). Meanwhile, Lenders and Chan-Olmsted (2004) proposed that at TV networks, asset-based resources bolstered asset-based network resources (affiliate contracts, network news assets, etc.) while technology-based resources augmented technology-based network resources (management expertise, global expertise, etc.) to enhance various measures of performance (viewer ratings, profit, etc.).

As in the dot-com example earlier, the matching of tangible and intangible assets does not always generate impact of equal size or value and lead to performance. The value of intangible assets lies in the meaningful ancillary impact they have on tangible assets in the course of their functioning (Galbreath & Galvin, 2004). Intangible assets thus play a key role in securing a firm’s sustainable competitive advantage (Villalonga, 2004). More specifically among intangible resources, the interconnection of relationship resources (partner trust, loyalty, etc.) and knowledge resources (technology, creativity, etc.) is the

cornerstone of a firm's corporate governance and success (Griffith et al., 2006). Resources are thus the key catalyst of performance (Barney, 1991; Peteraf, 1993). Accordingly, an expert resource management strategy based on studies on the correlation between resources will expand a firm's strategic opportunity to address resource gaps and gain a unique competitive advantage that can set the firm apart from its competitors in the same industry (Grant, 1991).

In view of these research findings, it can be assumed that so long as an entertainment firm, a type of knowledge-creating enterprise, is a normal business operation, it has a management structure wherein resources interact actively and contribute to generating performance just like regular, non-entertainment firms (Penrose, 1959; Barney, 1991; Kaplan & Norton, 2004; Lenders & Chan-Olmsted, 2004). Kaplan and Norton's resource classification scheme (2004, 2006) can be applied to categorizing the resources of Korean entertainment firms, and the categorized resources can be statistically processed in order to determine the causality⁶ between individual resources and between resources and performance. Because a firm's resources are functioning in complex combinations of varying proportions and intensities, they require multi-dimensional rather than linear analysis (Galbreath & Galvin, 2004). Hence, Hypothesis 1 below is aimed at determining how individual resources are combined and interrelated within the larger organizational structure of a firm and examining the minute mutual interactions that are manifested by firm type. Shedding light on these matters will provide insight into the relationships among individual resources. This, in turn, will enable a firm that is securing and accumulating resources to close resource gaps by expanding its strategic opportunity and competitive advantage (Grant, 1991).

⁶'Causality' as determined by regression analysis is the phenomenon wherein a change in the independent variable causes a change in the dependent variable in the degree and direction predicted by a given theory. For there to be causality, there must be correlation between the two variables (Kim, 1992; Frankfort-Nachmias, 2000; Hayes, 2005).

H1. In the process by which an entertainment firm's resources make their respective contributions to performance, the individual resources have a direct impact on one another.

Hypothesis 2 is based on the argument that individual resources of a firm interact actively and contribute to performance generation (Penrose, 1959; Barney, 1991; Kaplan & Norton, 2004; Lenders & Chan-Olmsted, 2004). It is aimed at determining how resources contribute to performance.

H2. An entertainment firm's resources will each have a direct impact on performance generation.

If this is verified, it will lead to an understanding of the relationship between performance and resources in Korean entertainment firms, leading to an identification of the resources that make key contributions to enhancing performance as well as those resources that need to be supplemented or improved. In effect, proving Hypothesis 1 and Hypothesis 2 will shed light on how resource structure, resources, performance are interconnected at the entertainment firms that are analyzed. This, in turn, will enable a multi-dimensional diagnosis and proposal of alternatives pertaining to the said firms' business management.

Research Process

Methodology and Model

This study examines the 2011 and 2012 (two years) management data of the following 11 entertainment firms that have been driving the Korean Wave in the global market: SM Entertainment (2000), YG Entertainment (2011), JYP Entertainment (2001), LOEN Entertainment (2000), Yedang Company (2000), IHQ (2004), Wellmade STARM (2006), Keyeast (2003), Samhwa Networks (2007), Chorokbaem Media (2006), and PAN

Entertainment (2006). These firms are comprehensive entertainment businesses that make music, manage celebrities, and create content. They have produced prominent Korean Wave stars, including PSY (YG Entertainment); Girls' Generation, BOA, and EXXO (SM Entertainment), Miss A (JYP Entertainment), and actor Bae Yong-joon (Keyeast). PAN Entertainment started the Korean Wave boom in Japan with the TV drama *Winter Sonata*.

Most of the management data for analysis come from investor relations materials and 692 pieces of publicly disclosed materials that have been certified by relevant government agencies over the said two-year period. Supplementary data include materials from the viewer rating research firm AGB Nielsen Media; film statistics from the Ministry of Culture, Sports and Tourism's Korean Film Council; and data from the Recording Association of Korea's Gaon Media. The operational definition and measurement model for each variable, organized in Table 1 below, are based on Kaplan and Norton's resource classification model (2004) and studies on the characteristics of Korean entertainment firms and on the performance factors of film and other entertainment content (Kim, 1998; Bagella & Becchetti, 1999; Kim, 2003, Lee, et al., 2007; Kim & Hong, 2011; Lim & Kim; 2011) in consideration of the studies' respective quantitative and qualitative value. In order to raise the validity of this research, standards⁷ were set to limit the measurement of each variable to clearly measurable and quantifiable factors.

The resources of the firms chosen for this study were organized into seven different categories: human resources (R1), knowledge resources (R2), network resources (R3), financial resources (R4), real resources (R5), brand resources (R6), and CSR resources (R7). 'Human resources' was defined as the 'number, capabilities, and value of the artists (actors, singers, producers, writers) of a given firm.' Artists, or content creators and performers, were classified as one of the following four types: actor, singer, producer, and writer. Their quantitative and qualitative value was measured and added up. The total number of the four types of artists of a given firm was tallied and each actor's capability

⁷Associated companies' performance was not included. Data from separate financial statements, prepared in accordance with accounting methods of corporate headquarters, were used with the basic unit set at KRW 100 million and with figures over KRW 50 million rounded up.

was calculated and added up. The actors' capability of a given firm is the sum of the number of works in which the actor has starred or co-starred as per the respective pre-broadcast network press conferences, average national viewer shares of the works in which each actor has starred or co-starred as of the respective final air dates (cumulative attendance [unit: million persons] for movies), and the number of domestic and international awards received by each actor. Works were limited to national network TV dramas in which the actors starred or co-starred; national network entertainment, variety, and lifestyle programs in which the actors were hosts or stars; and theater-released films. Viewer shares (as of the final air dates) are based on the domestic viewing rating research firm AGB Nielsen Media's data. Cumulative attendance figures for the movies in which the artists of the given firm have appeared are based on official statistics from the Korean Film Council under the Ministry of Culture, Sports and Tourism. For films attended by fewer than 50,000 persons, the box office record was deemed insignificant and calculated as 0.

TABLE 1. Resource Measurement Model for Entertainment Firms

<i>Resources</i>		<i>Measurement Method and Process</i>
		<i>Measure resource components → Unify units (log x) → Add figures</i>
Seven Categories	Human Resources	<p>*Quantified the sum of the five components below</p> <ul style="list-style-type: none"> •(A) Total no. of artists (actors, singers, producers, writers) at a given firm •(B) Actors (stars/co-stars): No. of works in which each actor has appeared (limited to national network dramas in which an actor has starred or co-starred; national network entertainment, variety, and lifestyle programs in which an actor was a host or star; theater-released films)+Average national viewer shares of the works in which each actor has starred or co-starred as of the respective final air dates(cumulative attendance [unit: million persons] for movies)+No. of domestic and international awards received by each actor <p>*Stars/co-stars: Actors cast as stars/co-stars by TV networks/production companies and announced as such at respective pre-broadcast network press conferences and official website for the respective works</p>

	<p>•(C) Singers: No. of each singer's annual top 50 hits on the Gaon Chart+'Gaon Index' (unit: 100 million) of each song that is an annual Gaon top 50 hit</p> <p>*Gaon Chart ranking (Gaon Index)=Streaming+Downloads+BGM sales+Mobile sales</p> <p>•(D) Producers: No. of each producer(PD)'s works with average national viewer share of 10% or more as of the final air date for the relevant years+Each producer's works' average national viewer shares as of the respective final air dates+No. of domestic and international awards (producer, director awards) received by each producer for his/her works</p> <p>•(E) Writers: No. of each writer's works with average national viewer share of 10% or more as of the final air date for the relevant years+Each writer's works' average national viewer shares as of the respective final air date+No. of domestic and international awards (best work, screenplay, writer awards) received by each producer for his/her works</p> <p>*All figures are calculated to the first decimal point, and if a work appears more than once in a given category, its viewer rating, no. of awards, and attendance rating are only entered once in into the tally (viewer ratings are based on data from AGB Nielsen Media Research while movie attendance figures [unit: 100 million persons] are based on statistics from the Korean Film Council under the Ministry of Culture, Sports and Tourism but viewer attendance of less than 50,000 persons is calculated as 0)</p>
<p>Knowledge Resources</p>	<p>•Among illiquid assets, book value (as per financial statements) of intangible assets except sales rights (unit: KRW 100 million)</p> <p>(Reflects the value of knowledge resources such as copyrights of content holdings, exclusive artist contracts, patents, and royalties)</p>
<p>Network Resources</p>	<p>•No. of shareholding companies(subsidiaries, affiliates, investment companies)+Total amount of shareholding companies' assets (unit: 100 million won)+No. of associated companies minus shareholding companies (fellow subsidiaries+parent company+parent company's fellow subsidiaries+Foremost holding company)</p>

Financial Resources	•Book value (as per financial statements) of cash and cash assets; other financial assets; and liquid assets, including accounts receivables and other receivables (unit: KRW 100 million)
Real Resources	•Among illiquid assets, book value (as per financial statements) of tangible assets, including facilities and real estate (unit: KRW 100 million)
Brand Resources	•Outside organization Kiwoom Securities' brand value index for entertainment industry businesses (Interbrand method)
CSR Resources	•CSR resource rating for each firm based on survey of 80 independent experts(40 national-network entertainment, drama, and radio producers+40 journalists specializing in entertainment and pop culture)
Notes	<p>*Rules on designating resource measurement components(limited to four conditions that were arrived at through two rounds of discussions by a panel of five experts)</p> <p>1) Must be a component that is an entertainment firm's real resource 2) Must be a component that is measurable 3) Must be a resource component pertinent to a comprehensive entertainment firm 4) Must be a component free of measurer's arbitrariness</p> <p>*For control variables, the following three were selected: no. of employees, average duration of employees' continued service, no. of years since firm's founding (data from business reports were added to the total figure for each respective resource category in order to remove the influence of the respective control variable)</p>

Singer capability was tallied for each singer and is the sum of the following: number of a given singer's annual top 50 hit songs on the Gaon Chart⁸ and the Gaon index (rounded up [unit: KRW 100 million]) of each of the given singer's songs that are annual Gaon top 50 hits tallied by the Korean Music Content Industry Association. Producer (PD)

⁸Gaon Chart (Gaon Chart, www.gaonchart.co.kr) is an authoritative pop music chart launched on February 23, 2010 by the Korea Music Content Industry Association, whose members include music and recording companies. It determines monthly rankings by 'streaming+downloads+BGM sales+mobile sales' and releases the 'Gaon Index,' a comprehensive index derived from the components of the diverse categories that determine the rankings.

capability was tallied for each producer and quantified as the sum of the number of a given producer's works that posted average national viewer share of 10% or more as of the final air dates for the relevant years, the said producer's works' average national viewer shares as of the respective final air dates, and the number of domestic and international awards (producer, director awards) the said producer has received for his/her works. Writer capability was tallied for each writer and is the sum of the number of a given producer's works that posted an average national viewer share of 10% or more as of the final air dates for the relevant years, the said writer's works' average national viewer shares as of the respective final air dates, and the number of domestic and international awards (best work, screenplay, writer awards) the said writer has received for his/her works.

As Stockenstrand and Ander(2014) emphasized, 'Knowledge resources' was defined as the 'value of individual intangible assets among the wide array of illiquid assets, including content and rights.' The book value of illiquid assets, excluding sales rights, as listed on business reports was used to arrive at a comprehensive financial value of various knowledge resources, such as the value of the number of content copyrights, number of patents, exclusive artist contracts, trademarks, and image rights. 'Network resources' was defined as the 'size and capabilities of associated companies, including shareholding companies and parent and fellow subsidiary companies. Accordingly, the number of shareholding companies (subsidiaries, affiliates, investment companies) and the total amount of their assets as well as the number of associated companies (fellow subsidiaries, parent company, parent company's fellow subsidiaries, foremost holding company) were added up and quantified. 'Financial resources' was measured as the 'value of a firm's liquid assets, including cash, cash assets, and receivables' while 'real resources' was defined as the 'value of a firm's tangible assets among its illiquid assets, including real estate and facilities.' The securing of financing is one of the major issue in the market-driven creative industry(Cohendet & Simon, 2014). 'Brand resources' was defined as 'brand value index

of a firm as assessed through an integrated approach⁹ by an outside agency' and was calculated with the base unit set at 100 million by Kiwoom Securities, Korea's foremost securities firm in terms of trade volume. 'CSR resources' was processed as the 'CSR index rating for a given firm given by outside experts.' Moore and Benbasat's scale development model (1991) was used to draw up a survey, which was conducted on 80 independent experts—e.g., journalists specializing in entertainment news, TV producers—knowledgeable about the firms examined in this research. This survey, carried out before the measurement of all other resources, was used to determine¹⁰ the CSR indices¹¹ of the given firms.

Based on Tanriverdi's analysis model for IT multi-business firms¹² (2005), the following three control variables were designated: 'number of employees (C1),' 'employees' period of continued service (C2),' and the 'number of years since a given firm's founding (C3).' As for performance, the following four indicators were used: 'revenue (P1),' 'operating profit (P2),' 'Tobin's q (P3),' and 'annual growth rate (P4).' These are used in actual business management as indicators of a firm's sustainability, actual operating performance, investment and asset value, and sustainable growth (Brainard et al., 1980; Bronwyn, 1993). Accordingly, revenue was specified as 'the amount of income from the sales of a given product for a given fiscal year as per a given firm's corporate headquarters.'

⁹The methodology, which measures the combined value of a firm's financial and marketing worth, is a highly authoritative means of measuring overall business activities that raise the said firm's brand value (Stobart, 1994).

¹⁰The survey questionnaire, comprised of 30 questions (seven questions each on economic responsibilities and legal responsibilities and eight questions each on ethical responsibilities and philanthropic responsibilities), was designed on a seven-point scale. Objective, publically disclosed information was added to the questionnaire to enable a comparative assessment of 2011 and 2012 CSR implementation. Prior to the survey, unsuitable questions were removed, revised, or recreated through a sequential process that involved a panel of experts (five persons) and a pilot study on a 20-person sample. In the final analysis, one question that did not meet the standard for factor loading was eliminated, resulting in a questionnaire of 29 questions with meaningful answer choices.

¹¹This is based on the understanding that CSR can be measured as an outside index as it is built on a firm's relationship with diverse outside stakeholders (Luo & Du, 2012).

¹²Tanriverdi designated 'IT relatedness,' 'knowledge management capability,' 'firm performance' (Tobin's q, ROA) as variables and 'business relatedness,' 'firm size,' 'structural organization,' 'risk level,' and 'industrial profitability' as control variables (2005).

Operating profit, in the meantime, was arrived at by ‘subtracting selling, general, and administrative expenses from the gross profit, which is revenue minus the cost of sales.’ Tobin’s q is the ratio between a firm’s market value and its capital replacement value. Market-based business performance is calculated as Tobin’s q (Chung & Pruitt, 1994), which for the purposes of this study, was defined as the ‘ratio of a given firm’s market value to the replacement value of capital.’ Annual growth rate (P4), in the meantime, was prescribed the following operational definition: ‘ratio of previous fiscal year’s revenue to the amount of revenue increase/decrease for a given fiscal year.’

Data Analysis

Each variable was classified, given an operational definition, and measured. Then each resource, performance indicator, and control variable was measured and subjected to correlation and regression analysis and then statistically processed. Given that this study examined 11 firms, there were only 22 samples (two years of management data per firm). Bootstrapping¹³ was thus performed to create and combine over 1,000 data in order to maximize the statistical significance of the data. After quantifying each variable, the units had to be unified to preserve the consistency of the study’s scheme and measurements. Natural logarithm was applied to the measured values (representative value), converted to values in tens, and statistically treated to prove each of the proposed hypotheses within the acceptable range of statistical significance ($p < 0.05$). SPSS/PC+ Version 18.0 was used for statistical regression analysis. The statistical regression model is aimed at the analysis all 11 firms in their entirety (correlation among resources, relationship between performance and resource), with Y being the indicator of a ‘firm’s performance,’ a being the ‘value of

¹³In statistical combinatorics, the combination to optimize significance is at least 10 samples per variable in accordance with the rule of sum (Kirkwood & Sterne, 2003). If $N=10$, the number of data required is N^2 , or 100. This study was on 11 firms, seven resources, and four performance indicators, so there were not enough variables per nominal category. Therefore, bootstrapping was performed as a form of re-sampling in order to raise the level of statistical significance, and in turn, enhance the accuracy of the deductions.

variable x , x being the variable (firm's resource), and n being the 'number of firms.' In the meantime, e stands for 'control variable.'

$$Y = ax + e \qquad Y = a_1 x_1 + a_2 x_2 + a_3 x_3 + \dots + a_n x_n + e_n$$

To test the hypotheses using this model, each resource and performance indicator was entered sequentially as a dependent variable with the entry of control variables as a prerequisite and regression analysis was performed to examine resource-resource and performance-resource causality. The existence of causality signifies covariance.¹⁴ That is, when one variable increases, the other variable also increases, and likewise, when one variable decreases, the other decreases as well. Positive covariance means a high degree of resource matching, while negative covariance signified a low degree of resource matching.

Results

Analysis showed that there were resource-resource and resource-performance combinations showing causality at the firms examined in this research, so H1 and H2 both were partially proven. That is, it was proven that in the management structure of Korean entertainment firms today, the firms' individual resources made partial contributions to one another and these resources also made partial contributions to performance indicators. What this means is that resources must be expertly managed from development and promotion to allocation and feedback in order to bolster resource-resource mutual interconnectedness so that each resource can contribute directly to performance.

Reciprocal Relationship among Resources

¹⁴Covariance is the inevitable increase or decrease in one variable with the increase or decrease, respectively, of another variable. Covariance is an essential condition for correlation.

According to the findings on resource-resource relationships, summarized in Table 2, causality was verified in the following combinations: knowledge resources (R2) and financial resources (R4), knowledge resources (R2) and brand resources (R6), and financial resources (R4) and brand resources (R6). This signifies that as it stands, knowledge, financial, and brand resources are closely interconnected, serving as core resources. Human resources (R1) and knowledge resources (R2) on the one hand, and human resources (R2) and brand resources (R6) on the other, demonstrated extremely low causality. Human resources showed extremely low causality, hovering just over this study’s set significance cap ($p < 0.05$), with knowledge resources and brand resources. The causality among other resources was not proven.

When Guilford’s guidelines on interpreting standardized coefficients (1956) was applied to the analysis results, knowledge resources (dependent variable) exhibited ‘very strong causality’ (standardized coefficient: 1.452) with financial resources (independent variable) and ‘strong causality’ (standardized coefficient: -1.118) with brand resources (independent variable). In the meantime, financial resources (dependent variable) demonstrated ‘weak causality’ (standardized coefficient: 0.302) with knowledge resources (independent variable) and ‘strong causality’ (standardized coefficient: 0.719) with brand resources (independent variable). Brand resources (dependent variable) showed ‘weak causality’ (standardized coefficient: -0.322) with knowledge resources (independent variable) and ‘strong causality’ (standardized coefficient: 0.997) with financial resources (independent variable).

TABLE 2

Resource-Resource, Resource-Performance Indicator Regression Analysis Results

<i>Resources vs. Resources</i>						<i>Resources vs. Performance</i>							
<i>D.V.</i>	<i>I.V.</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>	<i>D.V.</i>	<i>I.V.</i>	<i>Unstandardized Coefficients</i>		<i>Standardized Coefficients</i>	<i>t</i>	<i>Sig.</i>
		<i>B</i>	<i>Std. Error</i>	<i>Beta</i>					<i>B</i>	<i>Std. Error</i>	<i>Beta</i>		

Management Implications for the Korean Wave: 19

R1	R2	-0.315	0.155	-0.648	-2.034	0.060*	P1	R1	0.400	0.168	0.028	0.240	0.813
	R3	0.041	0.128	0.092	0.323	0.751		R2	0.210	0.091	0.297	2.308	0.034
	R4	0.983	0.568	1.248	1.731	0.104		R3	-0.064	0.080	-0.099	-0.802	0.434
	R5	0.070	0.116	0.198	0.609	0.552		R4	0.500	0.195	0.436	2.561	0.020
	R6	-0.441	0.213	-1.221	-2.064	0.057*		R5	0.171	0.079	0.330	2.155	0.046
	R7	-0.309	2.320	0.039	-0.133	0.896		R6	0.124	0.093	0.236	1.335	0.200
	R7	-0.309	2.320	0.039	-0.133	0.896		R7	2.140	1.922	0.183	1.114	0.281
R2	R1	-0.686	0.338	-0.333	-2.034	0.060*	P2	R1	-0.207	0.397	-0.071	-0.521	0.609
	R3	0.068	0.189	0.074	0.359	0.724		R2	0.157	0.244	0.111	0.641	0.530
	R4	2.357	0.689	1.452	3.422	0.004		R3	0.042	0.194	0.032	0.217	0.831
	R5	0.123	0.170	0.168	0.723	0.481		R4	1.020	0.486	0.446	2.100	0.051
	R6	-0.830	0.286	-1.118	-2.907	0.011		R5	0.090	0.211	0.088	0.428	0.674
	R7	-2.976	3.340	-0.180	-0.891	0.387		R6	0.459	0.203	0.438	2.264	0.037
	R7	-2.976	3.340	-0.180	-0.891	0.387		R7	5.930	4.501	0.255	1.317	0.205
R3	R1	0.167	0.518	0.075	0.323	0.751	P3	R1	0.122	0.247	0.069	0.496	0.626
	R2	0.126	0.350	0.116	0.359	0.724		R2	0.122	0.151	0.813	0.813	0.427
	R4	0.856	1.233	0.487	0.695	0.498		R3	0.098	0.118	0.123	0.827	0.420
	R5	-0.380	0.214	-0.479	-1.773	0.097		R4	1.016	0.232	0.726	4.381	0.000
	R6	0.286	0.481	0.355	0.595	0.561		R5	0.040	0.131	0.064	0.307	0.763
	R7	-2.085	4.639	-0.117	-0.449	0.660		R6	0.427	0.099	0.666	4.291	0.000
	R7	-2.085	4.639	-0.117	-0.449	0.660		R7	7.133	2.369	0.501	3.011	0.008
R4	R1	0.169	0.098	0.133	1.731	0.104	P4	R1	1.275	2.152	0.144	0.592	0.561
	R2	0.186	0.054	0.302	3.422	0.004		R2	0.863	1.328	0.200	0.650	0.524
	R3	0.036	0.052	0.064	0.695	0.498		R3	-1.419	0.997	-0.365	-1.423	0.173
	R5	0.057	0.046	0.125	1.220	0.241		R4	1.290	2.946	0.184	0.438	0.667
	R6	0.329	0.053	0.719	6.164	0.000		R5	1.265	1.111	0.400	1.139	0.271
	R7	0.480	0.955	0.047	0.503	0.622		R6	1.328	1.125	0.414	1.094	0.289
	R7	0.480	0.955	0.047	0.503	0.622		R7	23.961	25.010	0.336	0.951	0.351
R5	R1	0.342	0.562	0.122	0.609	0.552	P4	R1	1.275	2.152	0.144	0.592	0.561
	R2	0.274	0.379	0.200	0.723	0.481		R2	0.863	1.328	0.200	0.650	0.524
	R3	-0.456	0.257	-0.362	-1.773	0.097		R3	-1.419	0.997	-0.365	-1.423	0.173
	R4	1.596	1.308	0.720	1.220	0.241		R4	1.290	2.946	0.184	0.438	0.667
	R6	-0.109	0.532	-0.107	-0.205	0.841		R5	1.265	1.111	0.400	1.139	0.271
	R7	3.202	5.048	0.142	0.634	0.535		R6	1.328	1.125	0.414	1.094	0.289
	R7	3.202	5.048	0.142	0.634	0.535		R7	23.961	25.010	0.336	0.951	0.351
R6	R1	-0.502	0.243	-0.181	-2.064	0.057*	P4	Notes.					
	R2	-0.434	0.149	-0.322	-2.907	0.011		DV: Dependent Variable, IV: Independent Variable					
	R3	0.081	0.135	0.065	0.595	0.561		*: Extremely weak causality					
	R4	2.178	0.353	0.997	6.164	0.000							
	R5	-0.026	0.125	-0.026	-0.205	0.841							

	R7	1.336	2.454	0.060	0.544	0.594
R7	R1	-0.004	0.029	-0.031	-0.133	0.896
	R2	-0.017	0.019	-0.279	-0.891	0.387
	R3	-0.006	0.014	-0.114	-0.449	0.660
	R4	0.035	0.069	0.351	0.503	0.622
	R5	0.008	0.013	0.184	0.634	0.535
	R6	0.015	0.027	0.322	0.544	0.594

The following resource combinations clearly exhibited positive reciprocity, indicating a high degree of matching: knowledge resources-financial resources, financial resources-knowledge resources, financial resources-brand resources, and brand resources-financial resources. In other words, these resources mutual reinforce one another to create a virtuous cycle. Human resources-knowledge resources, human resources-brand resources, knowledge resources-brand resources, and brand resources-human resources demonstrated negative reciprocity, suggesting that their mutually-reinforcing roles were not being exercised properly.

Relationship between Performance and Resources

It was verified that the following five resources have a direct impact on business performance: knowledge resources (R2), financial resources (R2), real resources (R4), brand resources (R6), and CSR resources (R7). Human resources (R1) and network resources (R3) did not have a direct impact on performance indicators. It was shown that revenue (P1) was impacted by knowledge, financial, and real resources while operating profit (P2) was impacted by financial and brand resources. Tobin's q (P3), in the meantime, was impacted by financial, brand, and CSR resources. No resource was found to impact annual growth rates (P4).

Among the seven resources, human resources and network resources did not demonstrate causality with any of the four performance indicators, so their interconnectedness with performance was not verified. Strongest causality with the

dependent variable revenue was exhibited by financial resources (standardized coefficient: 0.436), followed by real resources (0.330) and knowledge resources (0.297). This suggests at the firms examined in this study, revenue was impacted by financial resources, real resources, and knowledge resources, in descending order in terms of degree of impact. Human resources, network resources, brand resources, and CSR resources, on the other hand, showed no causality with revenue.

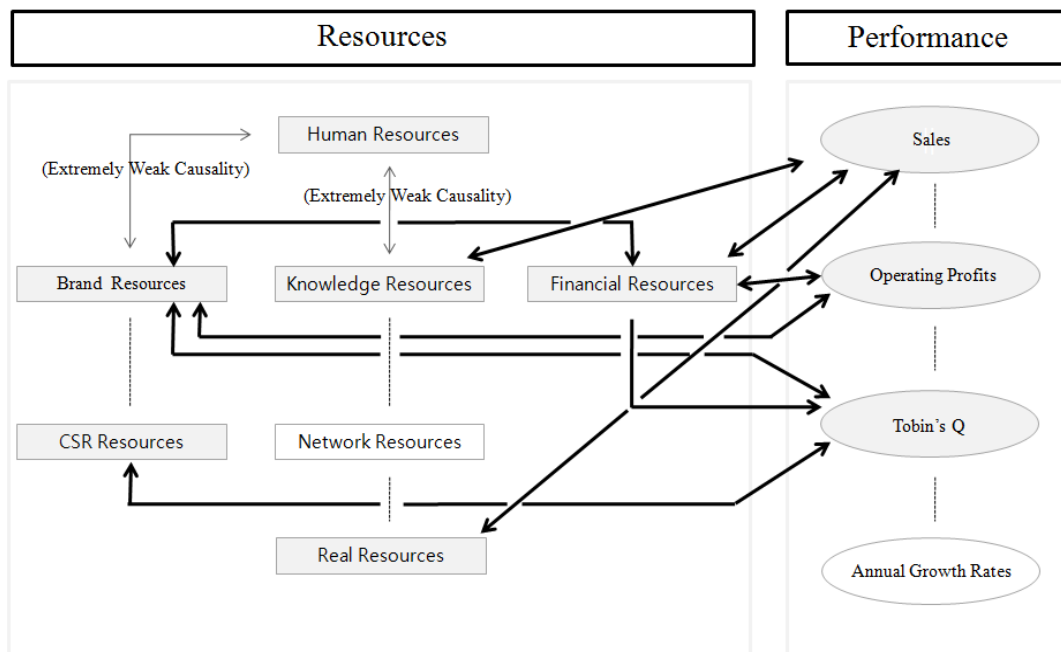


FIGURE 1

Resource-Resource-Performance Relationship Structure Verified by the Study

As for the dependent variable operating profit, financial resources (standardized coefficient: 0.446) demonstrated a slightly higher degree of causality than brand resources (0.438). Financial resources (0.726) showed the highest degree of causality toward the dependent variable Tobin's q, followed by brand resources (0.666) and CSR resources (0.501). The remaining resources were not shown to be making any contributions to boosting Tobin's q. The seven resources, which are independent variables, exhibited no causality toward the dependent variable annual growth rate. The result is attributable to the

analyzed firms' unstable management and annual growth rates, which impeded the finding of a clear relationship with resources. In fact, six (27.2%) among the 22 annual growth rate samples of the 11 firms that were examined in this study were in the negative territory.

A multi-dimensional result of the analysis as summarized in Figure 1 shows that knowledge resources demonstrate reciprocal causality with brand resources and financial resources while having a direct impact on revenue. Knowledge resources are also indirectly impacting operating profit through financial resources and brand resources. It was found that real resources and brand resources respectively impact revenue and operating profit. It was also demonstrated that knowledge resources, financial resources, and brand resources contribute to advancing other resources. Human resources were shown to have a weak impact on knowledge resources and brand resources, indirectly contributing to performance indicators, but network resources did not even have a weak impact on performance indicators.

Conclusion

The analysis found that three among the seven resources demonstrated clear resource-resource causality while only five resources were shown to make direct contributions to performance. This signifies that the firms examined in this study must make it their priority to improve their resource and business management structures. Accordingly, Korean entertainment firms that are driving the Korean Wave must undertake innovations in the following three areas.

First, innovation of the resource structure is necessary to turn the firms into knowledge-creating enterprises. Resource-matching was lacking in business management and a resource structure found in traditional economies was extant in the firms analyzed in this research. As Penrose (1959) pointed out, expert management is necessary so that resources—e.g., music, programs, copyrights/publication rights, star celebrities, production staff, facilities and equipments, funds, associated companies—are optimally leveraged and closely aligned with management strategies. Paris and Leory (2014) stressed that

creativity is important in an artistic company. The level of creative resource utilization for example knowledge sharing (Abfalter et al., 2012) and knowledge combination with other resources must be raised as well. Most notably, human resource management and promotion must be more systematized as human resources are contributing little to profit and are not getting proper help from other resources.

Second, improvements must be made in management stability and in the effective management of resources at the industry level. The degree of resource matching is low, and the interconnectedness between resources and performance is weak as well. The performance indicators of the 11 firms' 22 samples of the period of analysis exhibit pronounced fluctuations in management performance. For instance, 27.3% (six) of the samples showed negative growth in terms of operating profit and annual growth. There were four samples with annual revenue that fell below KRW 10 billion, so the disparity between firms was also great. Low stock prices were another issue: 31.8% (seven) of the samples had a 5.0-or-lower Tobin's q, the ratio of a given firm's share price (end-of-year closing price) to par value.

Accordingly, business management stabilization must be made a priority by the firms while resource management innovation must be undertaken not only by the individual firms but by the industry at large to better leverage resources that get little use or show low resource-resource matching. As for now, there needs to be structural innovation to build of a system of organic linkages between human resources, brand resources, and CSR resources with knowledge resources and network resources as serving the axes. Especially urgent is the reinforcement and normalization of network resources and CSR resources, whose impact is very weak. To elaborate, CSR resources comprise of nothing more than charity work at the moment.

Third, a business registration scheme for the celebrity management industry must be adopted to secure management transparency as well as the soundness of the promotion of human and other resources. The scheme would involve assurance from a relevant government agency as to whether a given celebrity management firm has secured certified managers with professional expertise, sufficient financial resources, and accounting

transparency. In order to improve resource utilization and allocation within the industry, there needs to be an examination of the soundness of vertical integration—i.e., content production and celebrity management firms' boundless cross-management, which has led to the current issues stemming from business monopolies. And with such firms flourishing, open audition schemes must be promoted to prevent freelance artists from being shut out of the industry.

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Appendices

Data Collection

List	Firm	YF	TY	Resources							Control Variables			Performance Indicators			
				R1	R2	R3	R4	R5	R6	R7	C1	C2	C3	P1	P2	P3	P4
				HR	KR	NR	FR	RR	BR	CR	SWL	LS	YC	SL	OP	Tq	AGR
1	Loen Ent. (A)	1982	2011	74.1	178	280	1154	84	2987	835	162	24	29	1671	294	266	203
			2012	214	180	429	1278	101	3565	849	179	29	30	1850	301	277	107
			M	478	179	354.5	1216	92.5	3276	842	170.5	27	29.5	1760.5	295	275	155
2	SamHwa Networks (B)	1991	2011	587	34	39	148	5	181	808	24	43	20	226	38	407	-85
			2012	21.1	26	143	86	4	26	825	24	40	21	147	55	4.11	-35
			M	399	30	91	117	4.5	105	81.7	24	42	20.5	185	465	4.09	-21.8
3	IHQ (C)	1962	2011	144.8	34	466	203	67	164	735	93	30	49	482	-5	763	23
			2012	277.7	23	60	220	8.6	41	743	95	38	50	376	20	385	-22
			M	211.2	28.5	236	211.5	7.7	105	73.9	94	34	49.5	429	75	54	0.5
4	SM Ent. (D)	1995	2011	148.9	56	690	833	44	2805	94	193	3.6	16	1099	205	91.4	272
			2012	172.5	88	2123	1298	204	6373	95.7	256	3.7	17	1685	478	91.1	533
			M	160.7	72	1406.5	1065.5	124	4589	94.9	245	3.65	16.5	1392	341.5	91.25	403
5	Yedang Ent. (E)	1992	2011	838	178	638	144	1.3	209	775	7	1	19	57	-16	84	248
			2012	390	4.1	553	170	0.7	510	795	32	1	20	45	-20	199	-21.1
			M	614	11	595.5	157	1	359.5	78.5	195	1	19.5	51	-18	14.15	19
6	YG Ent. (F)	1998	2011	161.8	78	182	705	61	2018	101.6	88	25	13	625	154	147.2	39.7
			2012	682	52	208	833	103	2609	104.7	138	29	14	997	185	123	59.5
			M	115	65	195	769	82	2313.5	103.2	113	27	13.5	811	169.5	131	49.6
7	Wellmade Star M (G)	1976	2011	179.8	11	4	69	2	30	802	5	28	35	214	16	186	280
			2012	266	11	64	115	1	5	81.3	5	4	36	91	-10	1.72	-57.5
			M	223	11	34	92	1.5	17.5	80.8	5	3.4	35.5	15.5	3	1.79	111.3
8	JYP Ent. (H)	1996	2011	708	3.1	42	136	1.6	130	906	21	0.6	15	99	-9	122	-3.1
			2012	549	2.1	154	194	10.	664	92.5	64	0.9	16	132	-37	10.9	33.3

Management Implications for the Korean Wave: 31

								6									
		M	629	26	287	165	61	32	91.6	425	0.75	155	185	-23	11.55	15.1	
9	Chorokbae m Media (I)	1998	2011	632	293	994	159	1	43	83.1	17	21	13	168	11	40	448
			2012	381	43	99	144	1	54	84.2	18	28	14	290	15	39	72.6
			M	507	168	546.5	155	1	48.5	83.7	175	245	135	229	13	35	58.7
10	PAN Ent. (J)	1998	2011	81.1	94	19	97	313	11	81.1	33	21	13	317	7	7.59	75.8
			2012	118.8	64	12	210	428	55	82.8	35	27	14	376	16	9.68	18.6
			M	100	79	155	153.5	370.5	33	82	34	24	135	345	11.5	8.64	47.2
11	KEY EAST (K)	1996	2011	162.9	33	506	129	12	109	86.7	55	15	15	223	16	6.33	4.2
			2012	173.4	15	499	171	12	204	88.0	58	15	16	238	33	10.8	6.7
			M	168.2	24	23	150	12	156.5	87.4	56.5	15	15.5	235	24.5	8.7	5.45

Notes.

*YF=Years of Foundation. TY=Target Years. *HR=Human Resources, KR=Knowledge Resources, NR=Network Resources, FR=Financial *Resources, RR=Real Resources, BR=Brand Resources, CR=CSR Resources. *SW=Size of the Workforce, LSS=Length of Staff's Service, YCF=Years of Operation of Companies since their Foundation, *S=Sales, OP=Operating Profits, Tq=Tobin's q, AGR=Annual Growth Rates. *M=Mean, Ent.=Entertainment.