

**No citation is allowed without authors' permission.**

**Wrestling with or Embracing Digitisation in the Music Industry:  
The Contrasting Business Strategies of J-pop and K-pop**

[Draft Version: Feb. 27, 2017]

Jimmy Parc (Corresponding author)

Groupe d'Économie Mondiale (GEM), Sciences Po Paris and EU Center, Graduate School of  
International Studies, Seoul National University

Nobuko Kawashima

Faculty of Economics, Doshisha University

**ABSTRACT:** Digitisation has significantly changed the process for producing and consuming music: from analogue to digital, from albums to songs, from possess to access, from audio to visual, and from end products to promotional products. Hence, in this globalised digital era, actively embracing digitisation would likely help enhance the competitiveness of the music industry. The rise of K-pop and the decline of J-pop clearly demonstrate the different results from whether to embrace or wrestle with digitisation. The Korean music industry recognised changes brought on by digitisation earlier and was more active in responding with better strategies. By contrast, the Japanese music industry did not immediately respond to these changes but stuck to its rent-seeking behaviour in order to take advantage of its larger market size and “sophisticated” copyrights regime. The implications from this paper are that business activities are the core element for creating and enhancing competitiveness, rather than government intervention.

**Keywords:** J-pop, K-pop, cultural industry, technovation, diamond model, competitiveness, Hallyu

**JEL:** L82, O14, O33

## **1. Introduction**

Throughout the 1980s and 1990s, Japanese pop music or J-pop swept across Asia and was widely expected to conquer the rest of the world. However, since the 2000s J-pop has in fact begun to experience a noticeable decline in its international popularity. Contrary to what was expected, Korean pop music or K-pop emerged successfully instead and has enjoyed widespread popularity around the world. As a result, the Japanese government has in recent years tried to promote its cultural power. Despite its efforts, the results have been less than satisfactory (The Economist 2014; St. Michel 2015; Watson 2016; Craig 2016). So far the one

## **No citation is allowed without authors' permission.**

success story has been 'PPAP (Pen-Pineapple-Apple-Pen)' sung by Pikotaro in 2016. Notably this only became a viral hit after Justin Bieber shared its music video on Twitter, not because of the Japanese government's efforts.

In the late 1990s, the Korean music industry was able to gain its competitiveness domestically while at the same time a few songs managed to achieve success in Taiwan and Japan (Parc, Messerlin, and Moon 2016). However, this initial achievement was relatively limited. After a period of time, K-pop's influence was able to spread wider than before, and it achieved a popular following in a number of Asian countries. Still, many believed that the popularity of K-pop in East Asia would not be sustainable in the long term (Dator and Seo 2004; Williamson 2011). In spite of such negative perceptions, K-pop has in fact managed to expand its coverage to other continents, such as Europe and the Americas. Furthermore, demand for its music continues to grow (Faure 2016; Thibault 2016; Aparri 2016). These days, a number of Korean idol groups and singers have sought to conquer the US market which is the world's largest.

As the world's second largest market in terms of on/offline music sales, it would seem that the Japanese music industry has been performing well with few difficulties domestically. Yet, internationally it is losing its popularity vis-à-vis K-pop. In recognising this challenge, the Japanese government launched the *Cool Japan Initiative* to promote its cultural power (Craig 2016). Despite tremendous public capital flows into the cultural industry, approximately JPY90 billion (USD883 million), the outcome of this government initiative has been relatively ineffective. (St. Michel 2015; Watson 2016; Craig 2016).

The situation was not always perfect for K-pop. It is important to recognise that the Korean music industry endured a dark age before its emergence on the global stage. For example, in 1996 the four-member group Roola and the well-known actor and singer Min-Jong Kim were both accused of plagiarising Japanese songs: *Omatsuri Ninja* by Ninja and *Summer Dream* by TUBE respectively. As a result, they were forced to abandon their singing careers for a long period and still continue to suffer from difficulties. However, this plagiarism issue was not an isolated case, there were many other singers and bands caught up in a similar situation. Furthermore, the Korean market suffered from a serious issue of piracy which impacted upon music sales. Given these conditions, many experts believed that there would be no positive future for the Korean music industry.

This presents an interesting case in which the reasons behind the different outcomes in

**No citation is allowed without authors' permission.**

the global market need to be accurately understood. Why did J-pop decline in popularity despite favourable conditions while K-pop expanded its influence despite unfavourable conditions? This paper seeks to address the question presented here by analysing and exploring the reasons behind the responsive strategies of the Japanese and Korean music industries. To achieve this aim, the approach adopted in this paper utilises a comprehensive and systematic analytical tool based upon Michael Porter's *diamond model*. The implications drawn here will be useful for other countries that are eager to promote their music industry in the global market.

This paper is organised in the following way: The first section explores and reviews critically the existing literature on the factors that contrast the different paths pursued by J-pop and K-pop. The second section introduces the comprehensive and systematic analytical tool that this paper utilises. The third section analyses and contrasts the different responsive strategies of the Japanese and Korean music industries when facing digitisation. Lastly, the concluding section summarises the main implications to be drawn from this analysis on the Japanese and Korean music industries. These findings will help to enhance cultural competitiveness for further take-offs which can contribute toward true cultural diversity.

## **2. Critical Literature Review**

In seeking to identify the reasons that distinguish the paths pursued by J-pop and K-pop, this paper critically reviews the existing studies on the topic. Brasor (2011) and Mamiya (2011) argue that the contrast in the global popularity of J-pop and K-pop is due to the different levels of corporate initiative which is derived from the divergent market size between the two. They argue that Korean entertainment companies are more ambitious because they are unable to achieve success by focusing only on their domestic market. By contrast, Japanese companies have consistently enjoyed operating in their own larger domestic market. Although this reveals how Korean companies have more incentive to go abroad, it does not fully explain why they did not adopt this strategy before the late 1990s. It is also unable to explain why American pop music has sought to expand its market abroad despite operating in the largest market in the world, unlike what Japanese pop music has been doing.

On the other hand, Mamiya (2011) highlights two important facts. First, the Korean music industry tends to generate its income from concerts, not from selling albums. Second, respect for intellectual property rights (IPR) is still relatively weak in Asia. In particular, copyrights in Korea are quite lenient whereas the IPR regime in Japan has a far more

**No citation is allowed without authors' permission.**

'sophisticated' or 'complicated' structure. Regarding the Korean music industry, Parc et al. (2016) argue that it has enhanced its competitiveness by imitating foreign music, despite the common perception that copyrights should be respected in order to maintain a lively and healthy music industry (Andersen, Kozul-Wright, and Kozul-Wright 2007). On the one hand, her argument on income source is more of an effect than a cause. While on the other, understanding how income is generated from concerts which are not dependent on a strict IPR regime is a good subject for an in-depth analysis.

In her broad assessment, Hong (2012) provides six explanations for why K-pop is more popular than J-pop. First, she believes that J-pop is too domestic-oriented, whereas K-pop is less so. Most J-pop music is catered for Japanese consumers as their idols choose not to perform in English. This is a point that Mamiya (2011) has also addressed. In addition, most Japanese companies tend to avoid launching overseas marketing campaigns which they view as too risky to maintain their popularity in the domestic market. Therefore, to a certain extent this argument is related to market size as Brasor (2011) argues. However, Yang (2012) challenges these viewpoints by arguing that J-pop was popular internationally from the 1980s to the 1990s and has already become infused into global pop culture. Furthermore, some part of the domestic-oriented uniqueness of J-pop can be a potential asset for its competitiveness, rather than a weakness.

Second, Hong has pointed out the 'puritanism' within K-pop by insisting that J-pop contains more sensual contents in its music video. Therefore, for global fans from other countries, K-pop and its contents were able to be more easily accepted, even in conservative regions such as the Middle East. Yang (2012) though has countered this by stating that both J-pop and K-pop are rather similar in terms of sensual contents. In fact, K-pop has benchmarked J-pop in many aspects, including the styles of idol bands and music videos. Therefore, the 'puritanism' argument is not sufficient enough to be considered as a key factor, in particular when the geographical scope of K-pop's popularity has expanded to audiences in Europe and North America who tend to have a greater tolerance for sensual contents.

Third, Hong points out the hybridity of foreign influences as a key factor in K-pop's development, particularly from the United States. This was also a key issue identified by Shim (2006). She argues that Americans are seen as the heroes of the Korean War which has helped Korea to be more closely influenced by US pop culture. By contrast, in Japan they are seen as conquerors after World War II, thus their influence is not so strong. Yang (2016) contends this

## **No citation is allowed without authors' permission.**

point and argues that Japan has also been heavily exposed to American culture, in particular during the post-War period. Thus, hybridity or Americanism is limited as a way to explain the difference in the global popularity of J-pop and K-pop.

Fourth, Hong asserts that K-pop has already conquered Europe and that this achievement distinguishes it from J-pop. Fifth, she argues that Japan has voluntarily welcomed Korean pop culture. In fact, these can be considered to be effects rather than causes. Last, she highlights the fact that the Korean music industry is run by *chaebols* or Korean conglomerates. Again, this is not completely true. The Japanese music industry is also run by big conglomerates such as Johnny's and AVEX, and they are much larger than their Korean counterparts. Originally these Korean companies were small and medium sized enterprises (SMEs) in the 1990s. However, as K-pop has gained its popularity in Korea and abroad, they have developed into *chaebol*-like entities. Still, the largest entertainment company, SM Entertainment has only 282 employees (as of September 2016) (SM Entertainment 2016). Rather than simply pointing out the existence of *chaebols* in the music industry, it would be more prudent to understand how they operate and structure their business activities.

Unlike the previous arguments, Jung (2016) and Jin (2016) emphasise the role of social network services (SNS), such as YouTube and Facebook. They argue that K-pop has been distributed more effectively by these Internet intermediaries. Knowing that these Internet platforms are open to everyone and have become part of the general infrastructure (Christensen, Schmidt, Larsen 2003), it would be more meaningful to analyse how these Korean companies utilise them more effectively than companies from other countries instead of simply pointing out SNS as a factor. In this regard, Parc et al. (2016) delineate K-pop's evolution. According to them, the Korean music industry embraced digitisation actively under balanced copyright regulations and this allowed them to enhance their competitiveness through innovative strategies. In fact, the rise of K-pop and the decline of J-pop coincided with the emergence of the Internet. Thus, it can be more adequate to analyse how digitisation formed favourable or unfavourable conditions for the Japanese and Korean music industries, and how their companies responded to these changes.

### **3. Methodology**

In order to analyse the responsive strategies of the Japanese and Korean music industries to digitisation and the differences in their international competitiveness, a reliable and solid

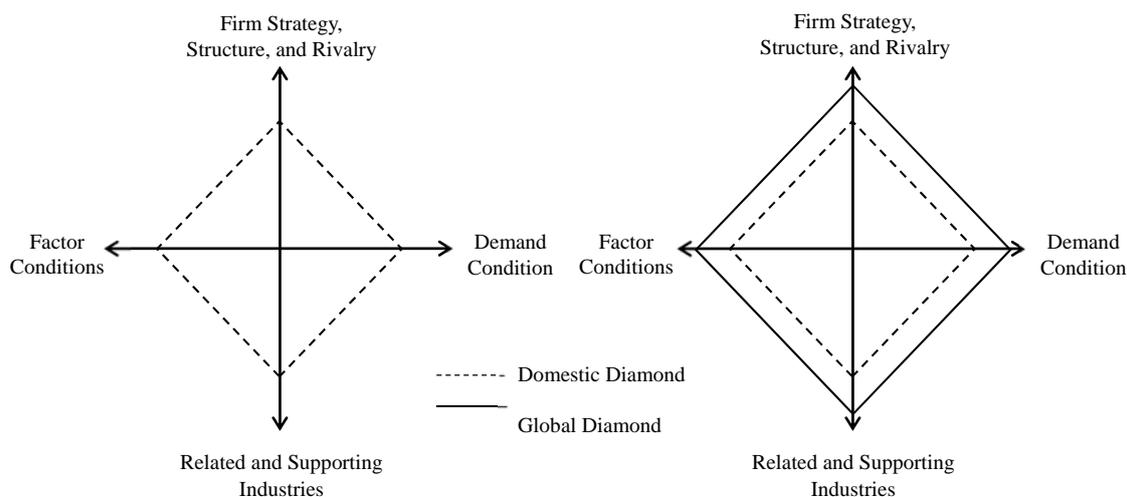
**No citation is allowed without authors' permission.**

analytical tool should be adopted for this paper. Porter (1990) argues that in this era of globalisation, the most important 'asset' to win in international competition is competitiveness. To support this argument, he developed the diamond model to analyse comprehensively national competitiveness. In its structure it is made up of four determinants that are interrelated: (1) *factor conditions*, (2) *demand conditions*, (3) *related and supporting industries*, and (4) *firm strategy, structure, and rivalry*. According to Porter, when the national diamond is most favourable, nations are more likely to succeed in industries or industry segments internationally.

*Factor conditions* are related to factors of production such as the presence of skilled labour or of the necessary production factors to compete in a given industry; *demand conditions* are related to market size and sophistication for the industry's product or service; *related and supporting industries* are the presence or absence of domestic suppliers and an internationally competitive related industry; lastly, *firm strategy, structure, and rivalry* are the conditions that govern how companies are created, organised, and managed, as well as the nature and intensity of domestic rivalry (Porter 1990, 71). Each determinant can be further divided into two sub-determinants, basic and advanced types. Thus, there are four determinants and eight sub-determinants in total (Cho and Moon 2013).

This diamond model was further extended by Moon, Rugman, and Verbeke (1995, 1998) who have incorporated international activities by introducing the *generalised double diamond model* or the GDD model (see Figure 1). This diamond approach has been utilised to analyse the competitiveness of cultural industries, such as Ko (2005) and Lee and Lee (2007) for the Korean cultural industry, Comunian (2008) for Italian culture, Parc and Moon (2013) for Korean drama and films, and Parc et al. (2016) for the Korean music industry. Therefore, this diamond approach is adequate enough to be applied for an analysis of the Japanese and Korean music industries.

No citation is allowed without authors' permission.



Sources: Porter (1990) and Moon, Rugman, and Verbeke (1995, 1998).

**Figure 1. The diamond model (left) and generalised double diamond model (right).**

Yet, Porter's original diamond model and its extension, the GDD model, focus only on the consequences. They do not explain about the dynamic progress of gaining competitiveness which deals with a shift from the initial to the final state (Parc 2014). Therefore, this paper adopts the basic concept for each determinant but simplifies their labels as follows: *Producers* for *factor conditions*, *consumers* for *demand conditions*, *technology* for *related and supporting industries*, and *business context* for *firm strategy, structure, and rivalry*. In addition, this paper focuses on analysing the responsive strategies of the Japanese and Korean music industries to digitisation. Therefore, the analysis begins by studying *technology*, and ends by dealing with the *business context*. Since digitisation can be distinguished into two different stages, emergence of the Internet (entitled as Digitisation 1.0) and its routinisation (entitled as Digitisation 2.0) through smart devices, the following analysis is conducted in two phases.

#### **4. The Responsive Strategies of the Japanese and Korean Music Industry to Digitisation**

This section analyses the responsive strategies of business in the Japanese and Korean music industries when facing the evolution of the Internet, from emergence (Digitisation 1.0) to 'routinisation' (Digitisation 2.0). It argues that the different strategies of business in each country have diverged the contrasting paths of J-pop and K-pop in the global market. The Japanese music industry has wrestled with digitisation and focused on the conventional market

**No citation is allowed without authors' permission.**

through offline sales (or physical music sales). By contrast, the Korean music industry has embraced digitisation actively.

#### *4.1. Digitisation 1.0: Emergence of the Internet*

##### 4.1.1. From Analogue to Digital (Technology)

During the early 1990s, PC-based communication networks and the Internet emerged rapidly in Japan and Korea, a time relatively earlier than in many other countries. Currently, these two countries possess one of the most advanced information and communication technology (ICT) infrastructures in the world. In line with this progress of ICT, consumers have also made better use of related devices such as CD-ROMs, MP3 players, and other devices (Ipsos and IFPI 2016). The Japanese music industry operates under complicated license agreements produced by a 'sophisticated' IPR regime which helps to protect the industry fairly well (Sisario 2014; Karp and Inada 2015). By contrast, the Korean music industry functions in a very different environment where online piracy is prevalent (Mamiya 2011).

Due to the fact that Japanese music industry has enjoyed large and profitable physical music sales in its domestic market (RIAJ 2016), Japanese companies have had less incentive to move toward digitisation. For the same reason, Japan's prestigious Oricon Chart, a Japanese version of Billboard, only began to count digital music sales after October 2016. This meant that Japanese companies were only interested in physical music sales; this ensured a vicious circle endured which hindered digitisation.<sup>1</sup> Furthermore, Japan's strict IPR regime has contributed toward slowing down moves toward digitisation amid concerns that it would encourage illegal piracy and downloading (Mamiya 2011). Thus, the Japanese music industry has operated more in a protectionist manner than an active one that embraces digitisation (Mochari 2015). Paradoxically, Japan's huge domestic market and well-developed IPR regime have hindered its companies to respond quickly to digitisation.

In Korea, many believed that the prevalence of piracy would hurt the domestic music industry. However, businesses in Korea reacted differently from Japan. Because pirated songs as a digital file are distributed more rapidly and widely through the Internet than physical copies

---

<sup>1</sup> It was only in November 2016 that the Oricon Chart finally included online sales (or digital downloads) to rank the popularity of songs (Oricon News 2016).

## **No citation is allowed without authors' permission.**

through retail sales, Korean businesses sought to use this as a way to promote their music. Amidst this changing environment, the first 'digital music' album was produced in 1998 by a largely unknown Korean rapper Cho PD who established a 'one-man' label. He achieved remarkable success in Korea, and his online fame helped to promote the sales for his second album which was an offline release. Although the eight songs featured on the second album had already been released online, 500,000 physical albums were still sold nationwide (Lee 2015). Recognising the power of the Internet, Korean entertainment companies have actively taken advantage of digitisation.

### 4.1.2. From Offline to Online (Producers)

As the online diffusion of music has been more rapid than offline sales, so has the expansion to other global markets. This means that companies had to produce global products that could meet the demands of consumers from around the world and thus increase the opportunity of success in business terms. Although Japan has long enjoyed its position as the world's second largest music market, Korea's music market was considered to be marginal in terms of its size. As noted before, it has been afflicted by widespread piracy. The different market size and recognition of market changes from offline to online sales have induced contrasting responsive strategies from the Japanese and Korean music industries.

In general selling music abroad requires various types of business activities such as exposure on TV and radio, as well as running large promotional campaigns. These activities are not just for companies, but also for their singers and idol bands. Because the Japanese music market is larger than Korea and much of its profits are from domestic offline sales, the domestic offline market has been the main target for Japanese companies. Naturally, there was no incentive for Japanese companies to push their singers to learn foreign languages or even recruit performers from other countries. (Mamiya 2011).

The reaction of Korean companies was different. First, English lyrics have appeared more often in K-pop songs since the early 1990s: interestingly this practice was already prevailing in J-pop at an earlier point than in Korea. Second, Korean companies recruited singers who can speak foreign languages such as English or Japanese in order to enter larger foreign markets in the late 1990s. The latter strategy began with S.E.S. who were formed in 1997 by SM Entertainment. This trend has changed over the years as companies sought to recruit Korean-American or other foreign singers, such as Chinese, Taiwanese, Thai, and even

**No citation is allowed without authors' permission.**

Japanese performers. Alongside this, there has been increased collaboration with foreign song writers in order to produce more globalised music that can be easily enjoyed by fans around the world (Mamiya 2011).

#### 4.1.3. From Album to Song (Consumer)

With the emergence of the Internet, the way in which consumers appreciate music has changed. Instead of purchasing a complete album, they have focused on purchasing and listening to only a few attractive songs that are either extracted from CDs or purchased (or downloaded) online (Yoo 2001; Ipsos and IFPI 2016). As the behaviour of consumers has changed, the strategies of businesses have also changed from producing a whole album to focusing on producing a few more elaborate songs. Despite these trends, the Japanese music industry, in contrast to Korea, has been more focused on physical music sales such as releasing many different versions of the same album. This difference has resulted in the two music industries pursuing different paths.

Unlike other advanced countries, in Japan digital sales have dropped since 2009 and physical music sales even surpassed digital sales in 2012 (Lindvall 2013; McIntyre 2014). As offline sales are larger than online sales, most Japanese companies have focused on developing ways to maximise album sales rather than songs per se. Therefore, the Japanese music industry has developed various marketing strategies to sell more CDs by introducing pricing restrictions on retailers, producing single albums – a strategy to sell more physical albums – with only one or two songs, and packaging CDs with promotional contents, such as photos or tickets for certain events (Karp and Inada 2015; Lindvall 2013; Mochari 2015; Looi 2016). However, these physical objects cannot be easily distributed abroad compared to the online market, particularly as consumers have become more interested in purchasing specific songs instead of the whole album. Thus, J-pop has not been so effectively diffused abroad, and its rigid copyrights regime has hindered its evolution towards digitisation.

By contrast, Korean companies have focused on diffusing songs per se instead of selling albums. The outcome from this approach has been that they have tried to improve the musicality of a few main songs. In the early years, Korean companies lacked the capability to make their musical contents more attractive on a global level. Thus in the 1990s they turned to talent from abroad, notably Scandinavian countries such as Finland, Norway, and Sweden (Im 2013; Shin 2013a, 2013b; Seo 2014). This collaboration with foreign song writers helped to

**No citation is allowed without authors' permission.**

enhance the musical quality of their songs. It has also contributed toward making K-pop more modern and globalised in a way that can be easily enjoyed by fans around the world through its diffusion on the Internet. This song-oriented strategy coupled with online diffusion was the key factor toward K-pop becoming more easily and quickly disseminated than J-pop.

#### 4.1.4. From Specialisation to Integration (Business Context)

As the scope of competition has expanded from domestic to global and the diffusion of music had become quicker online, the music industry has had to keep up with demand and produce songs more rapidly. In this case, the introduction of ICT has helped the process for music production to be faster and shorter. From the perspective of the companies, having many promising stars or idol bands would be more beneficial for their profits as they can have a high turnover of songs and increase their opportunities for success. As a result, they have to recruit and train many people who display some potential. Managing all of these separately through individual specialised-companies is not an easy task and requires much effort in terms of time and financing. In order to reduce time and cost in this regard, entertainment companies have merged and acquired other individual companies that specialise in specific sectors (Christensen, Schmidt, Larsen 2003).

The Japanese music industry also formed conglomerates, but its process was rather superficial when compared with the Korean case (Hong 2012). In addition, these big companies have not dominated the country's music industry (Karp and Inada 2015). Instead of enhancing its corporate structural efficiency, Japanese companies have focused more on specialisation. This led it toward developing various 'distorted' marketing strategies that sought to exploit the large-size of its domestic market. A good example is the *music connecting card* that allows purchasers to download music online for a limited period only. Although the music source was online, it was counted by Oricon Chart as a physical album sale. This was important because the number of physical albums sold was a critical factor in achieving higher rankings, but this created various distorted effects. One outcome was related to packaged items and music sales. Physical albums usually include a bonus ticket for an event, however for music cards, several had to be purchased in order to be able to acquire the same bonus ticket (Karp and Inada 2015). This meant that consumers ended up buying more music cards which would help to artificially boost album sales. Hence, by focusing too much on marketing instead of optimising the integration of various functions, the Japanese music industry has not properly adjusted to

**No citation is allowed without authors' permission.**

digitisation.

For many years, Korean companies benchmarked the Japanese conglomerate system and began to integrate many specialised sectors under *chaebolisation*. With this process, companies have focused more effort and investment into fostering new idol groups and would-be singers by utilising the revenues gained from previously successful acts within the same company to meet the growing market and rapid trends (Hong 2012). This has also allowed Korean companies to possess stronger bargaining power when they negotiate with foreign companies abroad. By utilising the power of *chaebolisation*, some Korean idol bands were able to release their albums through well-known international record labels. Optimising the corporate structure through integration has enhanced K-pop's competitiveness and its international popularity through easier diffusion.

#### *4.2. Digitisation 2.0: Routinisation of the Internet*

##### *4.2.1. From Possess to Access (Technology)*

When CD and MP3 players were introduced to the market, the focus was on the possession of music. This trend has significantly changed following the introduction of smartphones and tablets that are always connected to the Internet. As well as this, young people are also changing these devices more frequently than before. In such an environment, consumers are now increasingly accessing streaming service providers (IFPI 2016; Ipsos and IFPI 2016). These technological advances have changed music consumption from possessing to accessing music. Crucially, both Japan and Korea enjoy widespread Internet coverage including on subway networks and rural areas. Due to larger physical music sales, Japanese companies have been slower to adapt to these changes, while Korean companies have become more responsive.

Due to various marketing strategies for physical music sales, the large offline-based market, and a strict IPR regime, the Japanese music market is orientated toward possessing music instead of accessing it. In particular, Japanese companies have a relatively complicated or overly sophisticated copyright procedure compared to Korea. This ensures that they are reluctant to share music with online platforms such as YouTube (Mamiya 2011; Sisario 2014; Karp and Inada 2015). This issue thus makes it difficult for foreign consumers to access and enjoy Japanese music online. On websites like Quora, a question-and-answer forum, it is easy to find many complaints from international fans that they are unable to access easily online the latest Japanese music. The result is that J-pop's popularity has become more limited.

## **No citation is allowed without authors' permission.**

As the Internet has become part of everyday life with the rise of smartphones, the focus among Korean business sectors has shifted from hardware to software. In the early years, they introduced virtual services for storing music, but later they have concentrated more on music streaming services such as Melon which was launched in 2004. In order to promote K-pop more effectively in this new environment, Korean companies did not hesitate to release their music through YouTube or other SNS platforms (Oh and Park 2012). Having created their own official channels on these online services, young people around the world were able to easily access K-pop. Under a loose IPR regime, these activities have been very effective in attracting a more global audience.

### 4.2.2. From Complexity to Simplicity (Producers)

The advance of technologies in both hardware and software as well as the commonality of the Internet have shortened the process for producing music and its subsequent distribution. The effect has been that many traditional functions within music production and distribution have been replaced by new technology or have disappeared altogether. In responding to these changes, the music industry structure has transformed from a complicated structure to a simple one (Yoo 2001). This process has also become more international in scope. Through the Internet, collaborations with song writers in other countries to produce music has become simpler and more effective, as well as distribution, promotion, and marketing. As noted before, Japanese companies were more reluctant to take advantage of these conditions.

With a single focus on physical album sales, the Japanese music industry's value chain has edged more toward the role of distributors and marketing sectors. Unlike some countries where a management agent takes charge of promotion, in Japan the distributors are the ones who are responsible for such activities, including scheduling on TV or radio and other promotional activities. As a result, compared with Korea, digitisation has been slower and the value chain to produce music has not simplified. This complicated distribution system continues to be maintained, which makes it difficult for the entry of new participants into the market. Furthermore, this has slowed down market dynamics as well.

In Korea, due to the simplification of the process in the music industry, a great number of SMEs have been established and operate in an environment of severe competition. Companies such as FNC Entertainment have become one of the four major entertainment companies in Korea despite only being established in 2006. Other SMEs can easily participate

## **No citation is allowed without authors' permission.**

in the market with low costs due to simplification of both production and distribution. As a result, the number of SMEs has increased, and they have to differentiate themselves from the four major ones. This fact has helped to enhance diversity within K-pop. For the major four companies, they can afford to discover and foster promising talent and diversify their market abroad for a more sustainable future by taking advantage of simplified process.

### 4.2.3. From Audio to Visual (Consumers)

As smart devices such as smartphone and tablets are routinised, the visual image of a singer or an idol band is often as important as the audio sound for consumers (IPSOS and IFPI 2016). Naturally, this means a change from 'music to listen' to 'music to listen and watch.' In particular, the impact of a well-integrated audio sound and visual image would enhance the popularity of the music among young people who are more used to the digital environment, as the case of the viral hit song 'Gangnam Style' has shown. Because J-pop became popular with the emergence of the Walkman and with a market focused on physical sales, its development has been geared more toward its audio impact (Yoshimi 1999; Stevens, 2012, 115). K-pop by contrast developed during a digital period and its market is thus more orientated toward computers and smart devices, which means its music has to compliment the audio sound with the visual image.

Most J-pop idol bands are focused on the audio sound and therefore musically they seek to create more impact by utilising a stronger beat. Currently, there are some Japanese idol bands such as AKB48 and Arashi who have adopted a two-track strategy of audio sound and visual image. However, these two factors have not been optimally integrated enough to help penetrate foreign markets. For example, AKB48 has achieved its fame through the concept of 'idol you can meet' by holding 'handshake' and photo-shoot events as well as allowing fans to vote for the following year's main line-up among the band's forty-eight members (Sisario 2014). The problem though is that these events are limited to Japanese consumers. Another group Arashi developed its popularity through a drama series *Boys over Flowers*. Due to the complicated IPR regime and license agreements, this drama was difficult to expand to other countries. Instead spinoff versions were produced in other Asian countries, such as China, Taiwan, and Korea. Crucially though they featured local actors rather than the original band members.

K-pop's two-track strategy is different. It has placed both audio sound and visual image

## **No citation is allowed without authors' permission.**

in a song with music and dance (Messerlin and Shin 2017). Furthermore, these songs have been successfully distributed through Internet intermediaries such as YouTube under a loose copyright regime. This kind of strategy is more directed toward global consumers (Kawashima 2010). By contrast, J-pop's visual-focused programs such as dramas or voting for band members are specifically aimed at Japanese consumers and are limited by the complicated IPR regime. Therefore, it is hard for J-pop to achieve a synergetic effect with its music. In the global market, J-pop with a single focus on the audio sound has found it hard to compete with K-pop that is supported by both audio sound and visual image. In contrast, the Korean music industry has utilised K-pop as a promotional tool that has helped to attract foreign fans to on-site performances such as concerts which today is their main source of income (Mamiya 2011).

### 4.2.4. From Threat to Opportunity (Business Context)

As globalisation has accelerated further, the interaction between international companies and countries has increased. On the one hand, regarding foreign (music) service providers in the domestic market, companies should be more active to counteract this potential threat, transforming it into an opportunity. On the other, these companies should be more active to globalise their activities to take advantage of an international audience. Many Japanese companies have enjoyed a complacent attitude and have therefore been reluctant to explore foreign markets due to the fact that they already operate in the second largest market in the world. This has materialised in spite of the fact that the Japanese government has initiated efforts for the further globalisation of Japanese culture. The Korean music industry has developed in the opposite direction, thus they have been more active in exploring overseas markets and utilising foreign participants in the domestic market.

Many foreign companies such as iTunes and Spotify have sought to take advantage of Japan's huge market. These companies should instead focus more on Japanese contents as the music market is largely domestic-oriented. However, due to the rigid IPR regime and complicated license agreements, it is difficult for foreign companies to negotiate with a large number of organisations and to provide a diverse range of music as customers wish (Karp and Inada 2014; Sisario 2014). Moreover, the whole Japanese market has long been dominated by physical music sales, companies have been reluctant to expedite deals with new digital services. It has only been since 2015 that these physical sales have begun to decline and domestic giants – such as Line Music, Sony Music Entertainment Japan, AWA, Avex Group, and others – have

**No citation is allowed without authors' permission.**

setup streaming services (Byford 2015; Mochari 2015; Morikawa 2015). Still, they continue to be mostly interested in the domestic market rather than the international one.

Since Korean music distributors have long had to compete with music pirates, they offer cheaper prices compared to their counterparts in other countries. Foreign service providers seeking to enter the Korean market are prepared to pay a higher price to the music industry in order to acquire more Korean music and thus compete against local companies (Kim 2011). As a result, the Korean music industry has been welcoming these foreign service providers to enter the market. It is also believed that competition with foreign companies would help to enhance the quality of the Korean market (Yonhap News 2010). Accordingly, Korean companies have invested in foreign countries to diversify their music market and genre as well as develop the pool of potential talent.

## **5. Discussion: A Dynamic Framework**

By utilising a more comprehensive and systematic approach with diamond model, it is now possible to present a dynamic framework that grasps the dynamic evolution of the music industry in Japan and Korea. There were two phases in terms of technological breakthroughs. The first is with the emergence of the Internet and the latter is with its routinisation. Based on the previous analysis, the first phase is captioned as series A, whereas the latter as series B in Table 1. This table provides a summary of the whole evolution of the music industry more systematically and comprehensively. Although, a sequence of events can be found in the table, it is noteworthy that all these developments have occurred pretty much simultaneously and within a relatively short period of time.

Facing this evolution, the music industries in Japan and Korea have developed different responsive strategies that have resulted in divergent outcomes since the emergence of the Internet. The Korean music industry has been more responsive to the changes brought on by digitisation than its Japanese counterpart. In the early years, as the Internet became more widespread the Korean music industry began to produce digitised music, glocalise – globalise and localise – its business, focus on songs instead of albums, and integrate different sectors to enhance efficiency. Later, to keep pace with the routinisation of the Internet the Korean music industry has focused on emphasising online diffusion by enhancing accessibility, reducing cost and ineffectiveness by simplifying the value chain, developing the visual image by adding well-trained choreography, and adopting actively globalisation in order to seek out more routes to

**No citation is allowed without authors' permission.**

success.

		Industry changes
Technology	Hardware (A-1)	Analogue ⇒ Digital
	Software (B-1)	Possess ⇒ Access
Producers	Basic (A-2)	Offline ⇒ Online
	Advanced (B-2)	Complexity ⇒ Simplicity (of production)
Consumers	Size (A-3)	Album (bundle of songs) ⇒ Song (a piece of music)
	Quality (B-3)	Audio ⇒ Visual
Business context	Structure (A-4)	Specialisation ⇒ Integration
	Rivalry (B-4)	Threat ⇒ Opportunity

**Table 1. The evolution of the music industries through digitisation**

Contrary to the Korean music industry, Japan's large music market and 'well-developed' IPR regime positioned Japanese companies into rent-seeking behaviour and hindered their adaption to digitisation. With an overly sophisticated IPR regime coupled with complicated licence agreements, they have been reluctant to digitise the music industry which has made it difficult for global fans to enjoy their contents. Therefore, Japanese companies have lost their momentum to take off further in the digital era. This results in a decrease of their global popularity. In particular, as seen from the Japanese case, the function of the producer-focused IPR regime and license agreements needs to be carefully reconsidered to be more consumer-oriented.

## 6. Conclusion

Having realised the importance of culture as soft power and witnessed the dominance of

**No citation is allowed without authors' permission.**

American pop culture, many countries are concerned that its strong influence has a negative impact upon their culture and national identity. Due to the fact that the notion of culture is related to art and national identity, the important function of business and the economy has often been overlooked while the concept of art and culture has been more highlighted (Kawashim 2012). In this regard, governments have tried to intervene to protect and promote their culture and national identity. However, most of their measures have been ineffective or unsuccessful.

Furthermore, with emergence of the Internet and ICT, digitisation has significantly changed the music industry and has played a critical role in producing and distributing music. Under these circumstances, consumers have also changed their music consumption behaviour. Therefore, knowing that the role of government is unlikely to be effective, it is important to emphasise the responsive strategy of business activities toward digitisation. In other words, it is essential to analyse how the business responsiveness changes competitiveness within the music industry and brings about a different outcome in the digital era where online diffusion prevails.

The rise of K-pop and the decline of J-pop explicitly demonstrate the importance of timely business activities and there is a contrast in their responsive strategies when faced with digitisation. Due to its large market size and producer-oriented IPR regime, Japanese companies have been less responsive to the new trends in the music industry despite active government initiatives to promote its cultural power. By contrast, Korean companies have been more actively engaged in improving the international competitiveness of its music industry. However, in recent years there have been increasing voices in Korea calling for the IPR regime to be strengthened. In this case, many aspects should be carefully considered by looking more closely at the example of the Japanese music industry. The important function of business rather than government support under consumer-friendly conditions. This has also been seen in other cultural industries such as film industry (Kawashima 2011; Messerlin and Parc 2014, 2017; Parc, 2016).

The findings of this paper may apply beyond the two countries considered. Because digitisation is a global phenomenon, and the shifting consumer attitude – from album to on-site performance such as concerts as main source of revenue, from ownership to streaming, or audio to video – has also been observed in Japanese and Korean music industries likely hits all music production and consumption around the world. For instance, chances are that we could

## **No citation is allowed without authors' permission.**

unveil comparable results between, say, Sweden and France. Accordingly, business models need to be urgently and thoroughly revisited. In particular, country-specific and conventional copyrights based on cultural industries before the emergence of the Internet are no longer fit to the current borderless digital world. By being put on life-support well beyond its 'sell-by' date, it is proving to be toxic to the very products it aims to protect and enhance the value of.

The intention of this paper is not to disparage the Japanese music industry or exalt the Korean music industry. It aims simply to understand what made K-pop more globally recognised than J-pop. Japan and Korea are interrelated in many respects and have also been competitors in various sectors. Hence, they have exchanged many influences with each other. J-pop, K-pop, and their music industries are no exception. When they understand each other better, the two countries can then achieve better synergies to enhance their cultural competitiveness in competition. In this respect, much can be learnt from the two famous figure skaters Mao Asada from Japan and Yuna Kim from Korea. Both have often confessed in interviews that they were able to develop as better figure skaters due to the intense competition between them. The authors of this paper wish the same for both countries and their constructive future, particularly their cultures.

## **Acknowledgement**

This work was supported by the Laboratory Program for Korean Studies through the Ministry of Education of the Republic of Korea and the Korean Studies Promotion Service of the Academy of Korean Studies (AKS-2015-LAB-2250003).

## **Disclosure Statement**

No potential conflict of interest was reported by the authors.

## **References**

- Andersen, B., R. Kozul-Wright, and Z. Kozul-Wright. 2007. "Rents, Rights N'Rhythm: Cooperation, Conflict and Capabilities in the Music Industry." *Industry and Innovation* 14 (5): 513-540.
- Aparri, J. 2016. "KCON 2016 Abu Dhabi: World's Largest K-pop Festival in Middle East Successful" *JKDaily*, March 29. <http://www.jkdaily.com/articles/2846/20160329/kcon-2016-abu-dhabi.htm>.

**No citation is allowed without authors' permission.**

- Brasor, P. 2011. "K-pop Takes on the World while J-pop Stays Home." *The Japan Times*, February 13. <http://www.japantimes.co.jp/news/2011/02/13/national/media-national/k-pop-takes-on-the-world-while-j-pop-stays-home/#.WKPr8NXhBQJ>.
- Byford, S. 2015. "Line beats Apple and Spotify to music streaming in Japan." *The Verge*, June 11. <http://www.theverge.com/2015/6/11/8764335/line-music-launches-in-japan>.
- Cho D. S., and H. C. Moon. 2013. *From Adam Smith to Michael Porter: Evolution of Competitiveness Theory (Extended Edition)*. Singapore: World Scientific.
- Christensen, J. F., M. L. Schmidt, and M. R. Larsen. 2003. "Turbulence and Competitive Dynamics in the Internet Services Industry, Industry and Innovation." *Industry and Innovation* 10 (2): 117-143.
- Comunian, R. 2008. "Culture Italian Style: Business and the Arts." *Journal of Business Strategy* 29 (3): 37-44.
- Craig, T. 2016. *Cool Japan*. BlueSky. <https://cooljapan.pressbooks.com/>.
- Dator, J. and Y. Seo. 2004. "Korea as the Wave of a Future." *Journal of Futures Studies* 9 (1): 31-44.
- The Economist. 2014. "Japan's Soft Power: Squaring the Cool." *The Economist*, June 16. <http://econ.st/1p91zZt>.
- Faure, A. 2016. "K-culture Diplomacy: From São Paulo to Tehran." *The Diplomat*, May 10. <http://thediplomat.com/2016/05/k-culture-diplomacy-from-sao-paulo-to-tehran/>.
- Hong, E. 2012. "Why It Was So Easy for Korea to Overtake Japan in the Pop Culture Wars." *Quartz*, November 16. <https://qz.com/21468>.
- IFPI (International Federation of the Phonographic Industry) 2015. *IFPI digital Music Report 2015: Charting the Path to Sustainable Growth*. London: IFPI.
- Im, H. Y. 2013. "K-pop Is Not Any More 'Made in Korea'." *The Dong-A Ilbo*, March 1. [http://news.donga.com/List/Series\\_70020000000264/3/70020000000264/20130301/53387319/1](http://news.donga.com/List/Series_70020000000264/3/70020000000264/20130301/53387319/1).
- Ipsos (Ipsos Connect) and IFPI (International Federation of the Phonographic Industry) 2016. *Music Consumer Insight Report 2016*. London: IPSOS and IFPI.
- Jin, D. Y. 2016. *New Korean Wave: Transnational Cultural Power in the Age of Social Media*. Chicago: University of Illinois Press.
- Jung, E. Y. 2015. "New Wave Formations: K-pop Idols, Social Media, and the Remaking of the Korean Wave." In *Hallyu 2.0: The Korean Wave in the Age of Social Media*, edited

**No citation is allowed without authors' permission.**

- by Sangjoon Lee and Abé Nornes, 73-89. Ann Arbor, MI: University of Michigan Press.
- Karp H. and M. Inada. 2014. "Japan Hits a Sour Note on Music Sales." *The Wall Street Journal*, March 18. <https://www.wsj.com/articles/SB10001424052702303287804579447222439275740>.
- Kawashima, N. 2010. "The Rise of 'User Creativity' - Web 2.0 and a New Challenge for Copyright Law and Cultural Policy." *International Journal of Cultural Policy* 16 (3): 337-353.
- Kawashima, N. 2011. "Are the Global Media and Entertainment Conglomerates Having an Impact on Cultural Diversity? A Critical Assessment of the Argument in the Case of the Film Industry." *International Journal of Cultural Policy* 17 (5): 475-489.
- Kawashima, N. 2012. "Corporate Support for the Arts in Japan: Beyond Emulation of the Western Models." *International journal of cultural policy* 18 (3): 295-307.
- Kim, H. R. 2011. "KT, Releasing a Korean Version of iTunes, the Price of Music Source?" *JoongAng Daily*, December 21. <http://news.joins.com/article/6953359>.
- Ko, J. M. 2005. "A Study on Competitiveness of 'Korean Wave' Contents." *Culture Industry Research* 5 (2): 5-18.
- Lee, J. W. and K. B. Lee. 2007. "Global Competitiveness of Korean Cultural Content: A Case of Drama Industry." *Korean Management Review* 36 (6): 1419-1447.
- Lindwall, H. 2013. "How K-pop & J-pop Are Saving Physical Music Sales..." *Digital Music News*, April 10. <http://www.digitalmusicnews.com/2013/04/10/kpopjpop/>.
- Looi, M. K. 2017. "Why Japan Has More Old-fashioned Music Stores than Anywhere else in the World." *Quartz*, August 19. <https://qz.com/711490>.
- Mamiya, F. 2011. "How J-pop Could Conquer the Asian Market." *Japan Foreign Policy Forum*, December 2. <http://www.japanpolicyforum.jp/archives/culture/pt20111202181601.html>.
- McIntyre, H. 2014. "85 Percent of Music Sales in Japan Are CDs." *Forbes*, September 21. <http://www.forbes.com/sites/hughmcintyre/2014/09/21/85-percent-of-music-sales-in-japan-are-cds/#15fdab4b29a2>.
- Messerlin, P. A. and J. Parc. 2014. "The Effect of Screen Quotas and Subsidy Regime on Cultural Industry: A Case Study of French and Korean Film Industry." *Journal of International Business and Economy* 15 (2): 57-73.
- Messerlin, P. A. and J. Parc. 2017. "The Real Impact of Subsidies on the Film Industry (1970s–Present): Lessons from France and Korea." *Pacific Affairs* 90 (1): 51-75.

**No citation is allowed without authors' permission.**

- Messerlin, P. A. and W. Shin. 2017 (forthcoming). "The K-pop Success: How Big and Why So Fast?" *Asian Journal of Social Sciences*.
- Mochari, I. 2015. "Why Japan is Resisting the Streaming of Music." *INC*, June 15. <http://www.inc.com/ilan-mochari/streaming-music-japan.html>.
- Moon, H. C. and J. Y. Kim. 2010. "Comparing the Competitiveness of Korea and Singapore after Ten Years of Asian Economic Crisis." *The Review of Business History* 25 (1): 77-93.
- Moon, H. C., A. M. Rugman, and A. Verbeke. 1995. "The Generalized Double Diamond Approach to International Competitiveness." In *Research in Global Strategic Management: Volume 5: Beyond the Diamond*, edited by Alan Rugman, Julien Van Den Broeck, and Alain Verbeke, 97-114. Greenwich, CT: JAI Press.
- Moon, H. C., A. M. Rugman, and A. Verbeke. 1998. "A Generalized Double Diamond Approach to the Global Competitiveness of Korea and Singapore." *International Business Review* 7 (2): 135-150.
- Morikawa, J. "Does the Future of Japanese Music Depend on Streaming Services?" *The Japan Times*, December 27. <http://www.japantimes.co.jp/culture/2015/12/27/music/future-japanese-music-depend-streaming-services/#.WKKI-9HhBQJ>.
- Oh, I. and G. S. Park. 2012. "From B2C to B2B: Seeing Korean Pop Music in the Age of New Social Media." *Korea Observer* 43 (3): 365-397.
- Oricon News. 2016. "Oricon Announces New Ranking Method by Including Digital Downloads." *Oricon News*, November 9. <http://www.oricon.co.jp/news/2081196/full/>.
- Parc, J. 2014. "An Eclectic Approach to Enhancing the Competitive Advantage of Nations: Analyzing the Success Factors of East Asian Economies with a Focus on the Development of South Korea." PhD Disse., Seoul National University and Université Paris Sorbonne (Paris IV).
- Parc, J. 2016. "The Effects of Protectionism in Cultural Industries: The Case of the Korean Film Policies." *International Journal of Cultural Policy* 1-16, <http://dx.doi.org/10.1080/10286632.2015.1116526>.
- Parc, J. and H. C. Moon. 2013. "Korean Dramas and Films: Key Factors for Their International Competitiveness." *Asian Journal of Social Science* 41 (2): 126-149.
- Parc, J., P. M. Messerlin, and H. C. Moon. 2016. "The Secret to the Success of K-pop: The Benefits of Well-balanced Copyrights." In *Corporate Espionage, Geopolitics, and*

**No citation is allowed without authors' permission.**

- Diplomacy Issues in International Business*, edited by Bryan Christiansen and Fatmanur Kasarci, 130-148. Hershey, PA: IGI Global.
- Parc, J., N. Park, and H. C. Moon. 2012. "A Diamond Model Approach to the Analysis of Leadership: Case Studies on Chung, Ju-yung of Hyundai Group and Lee, Byung-chull of Samsung Group." *Journal of CEO and Management Studies* 15 (2): 1-19.
- Porter, M. E. 1990. *The Competitive Advantage of Nations*. New York: The Free Press.
- RIAJ (Recording Industry Association of Japan) 2016. *Statistics Trends: The Recording Industry in Japan 2016*. Tokyo: RIAJ.
- Seo, J. M. 2014. "First Collaboration, with S.E.S in 16 Years Ago." *The Hankyoreh*, January 23. <http://www.hani.co.kr/arti/culture/music/621133.html>.
- Shim, D. 2006. "Hybridization and the Rise of Korean Popular Culture in Asia." *Media, Culture & Society* 28 (1): 25-42.
- Shin, N. R. 2013a. "'Camp Fantasia' in Stockholm, Sweden." *The Dong-A Ilbo*, January 11. [http://news.donga.com/List/Series\\_70020000000264/3/70020000000264/20130111/52207710/1](http://news.donga.com/List/Series_70020000000264/3/70020000000264/20130111/52207710/1).
- Shin, N. R. 2013b. "The Return of Scandinavian Music." *The Dong-A Ilbo*, January 11. <http://news.donga.com/3/all/20130111/52207736/1>.
- Sisario, B. 2014. "CD-Loving Japan Resists Move to Online Music." *The New York Times*, September 16. <https://nyti.ms/2onPJC7>.
- SM Entertainment. 2016. "Quarterly Report." SM Entertainment, November 14. <http://dart.fss.or.kr/dsaf001/main.do?rcpNo=20161114002026>.
- Stevens, C. S. 2012. *Japanese Popular Music: Culture, Authenticity and Power*. London: Routledge.
- St. Michel, P. 2015. "Japan's Ministry of Cool." *The Atlantic*, March 19. <http://www.theatlantic.com/entertainment/archive/2015/03/japan-and-the-power-of-coolness/387664/>.
- Thibault, H. 2016. "La K-pop Débarque en France." *Le Monde*, June 3. [http://www.lemonde.fr/musiques/article/2016/06/03/la-k-pop-debarque-en-france\\_4932581\\_1654986.html](http://www.lemonde.fr/musiques/article/2016/06/03/la-k-pop-debarque-en-france_4932581_1654986.html).
- Watson, A. 2016. "Is Japan Cool? The Japanese Government's Policies and its Creative Industries." *The Wall Street International*, November 28. <http://wsimag.com/economy-and-politics/21635-is-japan-cool>.

**No citation is allowed without authors' permission.**

Williamson, L. 2011. "The Dark Side of South Korean Pop Music." *BBC News*, June 15.  
<http://www.bbc.com/news/world-asia-pacific-13760064>.

Yang, J. 2012. "Will the Korean Pop Culture Boom Have Legs?" *The Wall Street Journal*,  
November 22. <http://blogs.wsj.com/speakeasy/2012/11/22/will-the-korean-pop-culture-boom-have-legs/>.

Yonhap News. 2010. "K-pop, Cooperation with Apple's iTunes and Napster." *Yonhap News*,  
March 29.  
<http://www.yonhapnews.co.kr/entertainment/2010/03/29/1104000000AKR20100329046900805.HTML?template=2063>.

Yoo, S. S. 2001. "Internet Music." *Jeongbotongshinsaneopdonghyang* August: 53-83.

Yoshimi, S. 1999. "'Made in Japan': The Cultural Politics of 'Home Electrification' in Postwar Japan." *Media, Culture & Society* 21 (2): 149-171.