Overcoming the Liabilities of Foreignness and Outsidership in Cultural Markets: A Case Study of HYBE's Expansion into the U.S.

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DOI: https://dx.doi.org/10.47772/IJRISS.2026.10100133

Received: 10 January 2026; Accepted: 15 January 2026; Published: 24 January 2026

ABSTRACT

This longitudinal single-case research investigates the strategic mechanisms employed by a cultural Multinational Enterprise to mitigate the "Liability of Foreignness" and "Liability of Outsidership" in a market characterized by significant institutional distance. Focusing on HYBE Corporation's aggressive expansion into the United States between 2021 and 2025, the study aims to challenge traditional gravity models that predict steep "cultural discounting" for creative products and to identify how "soft" assets are transferred across borders. The research utilizes a qualitative methodology, employing pattern matching and data triangulation of corporate financial filings, legal documents, industry reports, and visual documentary evidence to trace the firm's evolution from export-based operations to deep internalization. The results reveal a definitive shift in governance from a financial holding model to operational integration via "HYBE 2.0," demonstrating that HYBE successfully transfers its "upstream" production capabilities - specifically the "K-Pop methodology" - through Wholly Owned Subsidiaries. The case of the global group KATSEYE validates that these Firm-Specific Advantages are not location-bound but can be recombined with local talent. Simultaneously, "downstream" distribution legitimacy is secured through a dual-track inorganic strategy: cross-border Mergers & Acquisitions bridge structural holes to access gatekeeper networks, while a multi-layered Strategic Partnership with Universal Music Group provides logistic scale. Furthermore, the findings demonstrate that the proprietary digital platform, Weverse, serves as a "private institutional environment" that compresses "psychic distance," allowing the MNE to internalize market transactions and capture high-margin "superfan" revenue independent of host-country intermediaries. The study concludes that sustainable success in cultural hegemonies extends the New Internalization Theory and "iBusiness" frameworks, suggesting that firms must enclose global consumers within a digital ecosystem while operationally embedding the means of production locally.

Keywords: Liability of Foreignness; Liability of Outsidership; Internalization; M&A; Strategic Partnership

INTRODUCTION

Globalization of the cultural industry has radically altered the foundations of the global business in terms of its focus, no longer on the exchange of material goods but rather the exchange of creative content and symbolic value. The concept known as the "Liability of Foreignness" (LOF) serves as a crucial framework for understanding the challenges that Multinational Enterprises (MNEs) face when entering markets characterized by substantial institutional and cultural distances (Hymer, 1976 [1960]; Zaheer, 1995). While LOF is well documented in manufacturing and technology sectors, its application to the cultural industry - where consumer preferences are deeply entrenched in local social fabrics - presents novel theoretical complexities.

This research examines the strategic internationalization of HYBE Corporation, a South Korean entertainment conglomerate, as it penetrates the U.S., which is the world's most competitive cultural market. The rise of the "Korean Wave" (or "Hallyu") has established South Korea as a major exporter of cultural products; however, transitioning from content export to establishing a physical, operational footprint in the U.S. represents a distinct and perilous phase of internationalization. Recent industry data indicates that while global recorded music revenues are growing, the U.S. remains the dominant hegemony (IFPI, 2025). Historically, Asian cultural entities attempting to penetrate this market have encountered what is known as the "Liability of Outsidership" or LOO (Johanson & Vahlne, 2009), along with considerable "cultural discounting" (Hoskins & Mirus, 1988).

HYBE's aggressive expansion - typified by its acquisition of Ithaca Holdings and the establishment of HYBE America - offers a critical case study of how a firm from a non-Western developed economy mitigates these liabilities not merely through export, but through deep localization and strategic Foreign Direct Investment (FDI). The main research issue focuses on how a cultural multinational enterprise reduces the intrinsic costs associated with operating internationally when its central offering - music and artist identity - is culturally unique.

This research intends to fulfill three goals: first, to investigate the particular strategies HYBE uses to address LOF and LOO in the U.S.; second, to evaluate the effects of cross-border mergers and acquisitions (M&A) and strategic partnerships - specifically the distinction between distribution alliances and artist-development Joint Ventures (JV) - on these localization initiatives; and third, to investigate how ownership of the digital platform Weverse alters traditional gravity models pertaining to cultural exchange. This study contributes to the International Business (IB) literature by connecting traditional FDI theories (Hymer, 1976 [1960]; Dunning, 1977) with contemporary cultural economy models, showing that the "K-Pop production system" has matured into a transferable Firm-Specific Advantage (FSA) that can be transferred internally across nations.

RESEARCH BACKGROUND AND THEORETICAL DEVELOPMENT

The theoretical scaffold of this research is constructed by synthesizing classical International Business paradigms with contemporary extensions that address the idiosyncrasies of the digital and cultural economies. While the foundational premise rests on the Liability of Foreignness, understanding HYBE's strategic orientation requires tracing the evolution of this concept from the industrial organization economics of the 1960s to the network-based views of the 2020s.

The Foundations: Market Imperfections and Monopolistic Advantages

The theoretical lineage of this research begins with the rejection of the neoclassical assumption of perfect competition. Departing from the trade theories of Heckscher (1919) and Ohlin (1933) - which assumed capital moves primarily in response to interest rate differentials - Stephen Hymer (1976 [1960]) established the foundational logic of the MNE. Hymer posited that for a firm to own and control assets abroad, markets must be imperfect; otherwise, trade or licensing would supersede FDI due to lower costs. Consequently, the existence of HYBE's U.S. subsidiaries is evidence of structural market imperfections.

Hymer (1976 [1960]) argued that foreign entrants operate at an inherent disadvantage compared to indigenous incumbents who possess superior knowledge of the local economic, linguistic, and legal environment. To survive, the entrant must possess a countervailing "monopolistic advantage" - a firm-specific asset generating rents sufficient to cover the additional costs of cross-border operations. While Kindleberger (1969) elaborated on the costs of doing business abroad, Zaheer (1995) formalized this concept as the "Liability of Foreignness". Zaheer describes LOF as encompassing the total costs associated with spatial distance, the firm's lack of familiarity with the host country, and the absence of legitimacy within that country.

In the cultural industries, these imperfections are exacerbated by the "nobody knows" property - the extreme uncertainty governing consumer reaction to creative products (Caves, 2000). Unlike standardized industrial goods, cultural products are "experience goods" characterized by high information asymmetry (Nelson, 1970). Thus, the LOF for a firm like HYBE involves not only administrative hurdles but profound "psychic distance" (Johanson & Vahlne, 1977). Following Hymer's logic, HYBE cannot compete on price alone; it must exploit a monopolistic advantage - specifically, its proprietary training and fan engagement systems - that U.S. incumbents lack.

The Eclectic Paradigm and Cultural Discounting

Dunning's (1977) Eclectic Paradigm (OLI Paradigm) provides the structural mechanism to analyze how HYBE leverages these advantages.

Ownership Advantages

Ownership advantages are regarded as distinctive FSAs that enable a company to mitigate the expenses associated with functioning in an international setting (Dunning, 1988). In creative industries, these are predominantly intangible, comprising reputation, brand equity, and proprietary managerial knowledge (Caves, 1971; Dunning & Lundan, 2008). For HYBE, the primary O-advantage is not merely its artist portfolio but its "360-degree" business model, often termed the "K-Pop methodology."

However, transferring such assets is complicated by "location-bound FSAs" - advantages that generate value in the home country but cannot be easily transferred or exploited abroad due to institutional incompatibilities (Rugman & Verbeke, 2001). This friction results in a "cultural discount," where cultural products suffer a value reduction when crossing borders due to a lack of shared context (Hoskins & Mirus, 1988). To mitigate this, HYBE leverages "dynamic capabilities" - the ability to sense, seize, and reconfigure assets (Teece, 2007). Rather than relying solely on exports, HYBE transfers its organizational capabilities - systematic idol training and community management - to the U.S. By reconfiguring these assets to fit the U.S. context, HYBE attempts to convert location-bound Korean advantages into non-location-bound global advantages (Verbeke, 2013).

Location Advantages

For a creative MNE, the motivation for entering the U.S. extends beyond market seeking to "strategic asset seeking" (Dunning, 2000). The U.S. represents a critical "creative cluster" characterized by agglomeration economies (Porter, 1998). In the music industry, this translates to an unparalleled density of specialized labor - songwriters, producers, and legal experts - unavailable remotely (Lorenzen & Mudambi, 2013). Establishing a physical presence allows HYBE to access "local buzz" and tacit knowledge essential for localizing products (Bathelt et al., 2004).

Furthermore, the U.S. offers institutional legitimacy. Zaheer (1995) notes that foreign firms often lack legitimacy; however, by locating in "global cities" like Los Angeles, firms derive an advantage from the image of the city itself (Nachum, 2003). Through embedding operations in the U.S., HYBE transitions from being an outsider to an insider, aligning itself with the local institutional environment (Kostova & Zaheer, 1999) and gaining the credibility required for global competition.

Internalization Advantages

Internalization theory explains HYBE’s preference for wholly-owned subsidiaries over licensing. While classical theory focuses on transaction costs and intellectual property (IP) protection (Buckley & Casson, 1976), the "New Internalization Theory" argues that modern MNEs internalize activities to recombine assets (Verbeke & Kano, 2015). Narula (2014) suggests internalization allows firms to "bundle" their FSAs with assets unique to particular locations. By fully internalizing U.S. operations, HYBE secures the managerial control necessary to graft the "K-Pop fan experience" onto Western music portfolios - a complex value creation process requiring deep integration rather than simple contractual exchange (Kano et al., 2020).

Institutional Theory and the Liability of Outsidership

While OLI explains the economic rationale, Institutional Theory addresses the sociopolitical legitimacy required to operate in the U.S. market. HYBE faces "institutional duality," balancing the pressure to conform to host country norms with the need to maintain its distinct organizational culture (Kostova & Zaheer, 1999). Total assimilation via "mimetic isomorphism" (DiMaggio & Powell, 1983) presents a paradox: adhering too strictly to U.S. norms risks eroding HYBE’s specific advantage rooted in "K-Pop methodology".

As a result, current academic research indicates that the main obstacle is not "foreignness" but rather the "drawback of being an outsider." Johanson and Vahlne (2009) claim that companies primarily face challenges due to insufficient embeddedness within pertinent business networks. In the U.S. music industry - relational and gatekeeper-heavy - HYBE’s lack of historical ties constitutes a structural hole. Here, HYBE’s inorganic growth strategy (e.g., acquiring Ithaca Holdings) is reframed as a mechanism to bridge structural holes (Burt, 1992). By linking the industrial networks of Seoul and Los Angeles, HYBE generates brokerage value. Furthermore, the acquisition mitigates the "Liability of Outsidership" by effectively purchasing "Insidership" (Johanson & Vahlne, 2009). This grants immediate access to trust-based networks and tacit management "know-how" that is socially complex and difficult to trade in open markets (Barney, 1991; Barkema & Vermeulen, 1998).

Network Theory and the Digital Shift

The digitalization of the cultural economy necessitates extending IB paradigms beyond physical location. Recent scholarship argues that value creation has shifted from physical value chains to digital platform ecosystems (Nambisan et al., 2019; Brouthers et al., 2016).

HYBE's utilization of Weverse exemplifies the "born-digital" capability to bypass physical constraints, challenging traditional gravity models and product cycle theories (e.g., Vernon, 1966). Aligning with ServiceDominant Logic (Vargo & Lusch, 2004), Weverse acts as an "engagement platform," decoupling engagement from physical presence (Breidbach et al., 2014). This compresses the "psychic distance" between Korean artists and U.S. consumers through high-frequency interaction and User Innovation (Von Hippel, 2005).

Importantly, the platform strategy reduces LOF by creating a "confined institutional setting." Brouthers et al. (2016) indicate that digital platforms enable MNEs to internalize market interactions, thereby lowering transaction expenses. By creating a direct-to-consumer channel, HYBE circumvents exclusionary U.S. distribution channels. This aligns with the "iBusiness" framework, where digital infrastructure allows the firm to sense and respond to local trends in real-time, reducing the reliance on traditional intermediaries (Vadana et al., 2019).

HYPOTHESIS DEVELOPMENT

Drawing from the theoretical constructs of LOF and LOO, this study develops hypotheses concerning the precise mechanisms a cultural MNE from an advanced non-Western economy utilizes to validate its activities in a high distance market. The central premise is that standard export strategies are insufficient for cultural products due to high information asymmetry and the need for local embeddedness (Caves, 2000; Nelson, 1970).

Internalization of Firm-Specific Advantages

Traditional International Business literature suggests that firms internationalize by exploiting Ownership advantages (Dunning, 1988). However, in the cultural sector, these advantages - specifically the "K-Pop production system" - are complex and tacit. Rugman and Verbeke (2001) warn that such advantages are often "location-bound," meaning they function effectively in the home institutional context but may fail abroad.

According to the New Internalization Theory, MNEs must own and control their foreign operations to effectively "bundle" their proprietary FSAs with local assets, rather than relying on market contracts which are prone to transaction failures (Verbeke & Kano, 2015; Narula, 2014). For HYBE, the "K-Pop methodology" constitutes a set of "dynamic capabilities" (Teece, 2007) that requires strict managerial control to replicate abroad. Therefore, to reduce the risk of cultural discounting and facilitate the effective transfer of these intangible assets, high commitment entry modes - specifically Wholly Owned Subsidiaries (WOS) - are preferable to licensing.

Hypothesis 1: A cultural MNE is more likely to overcome the "Liability of Foreignness" by internalizing its value chain through Wholly Owned Subsidiaries, allowing for the recombination of home-country organizational capabilities with host-country location advantages.

Bridging the "Liability of Outsidership" through M&A and Partnerships

While internalization addresses economic efficiency, it does not solve the sociopolitical LOO defined by Johanson and Vahlne (2009). The U.S. music industry is a "relational" market where success depends on embeddedness in local networks. A greenfield entry forces the firm to build these networks slowly, prolonging the liability period (Barkema & Vermeulen, 1998).

To expedite this procedure, HYBE employs a dual approach of Mergers and Acquisitions and Strategic Partnerships. Barkema and Vermeulen (1998) contend that expanding internationally via acquisition enables companies to quickly obtain local knowledge and operational practices. By acquiring established incumbents or entering into strategic arrangements with global majors like Universal Music Group (UMG) (Universal Music

Group, 2024), the entrant bridges "structural holes" (Burt, 1992) and effectively purchases "Insidership." This confers the legitimacy required to operate in the host institutional environment (Kostova & Zaheer, 1999).

Hypothesis 2: Cross-border acquisitions and strategic partnerships (comprising both distribution agreements and joint ventures) in creative clusters serve as mechanisms to mitigate the "Liability of Outsidership" by granting the MNE immediate access to gatekeeper networks and local institutional legitimacy.

Digital Platforms and "Psychic Distance"

The digitalization of international business challenges traditional gravity models where "physical distance" dictates trade costs. Brouthers et al. (2016) coin the term of the so-called "iBusiness firms," which orchestrate digital platforms to capture market interactions. For a cultural MNE, a proprietary platform acts as a private institutional environment, reducing the reliance on host-country intermediaries who may act as gatekeepers.

Nambisan et al. (2019) propose that digital platforms enable internationalization by separating value creation from tangible assets. By leveraging a direct-to-consumer platform (Weverse), the MNE can compress the "psychic distance" (Johanson & Vahlne, 1977) between the artist and the foreign consumer. This notion is consistent with Service-Dominant Logic (Vargo & Lusch, 2004), which suggests that the platform creates an "engagement ecosystem" (Breidbach et al., 2014). Consequently, this approach allows the company to circumvent conventional entry barriers while retaining authority over fan interactions.

Hypothesis 3: The ownership of a proprietary digital engagement platform mitigates the Liability of Foreignness by reducing transaction costs and bypassing host-country distribution barriers.

METHODOLOGY

Research Design: A Longitudinal Single-Case Approach

This study employs a longitudinal and qualitative single-case study design, chosen to deconstruct the causal mechanisms by which a cultural Multinational Enterprise can alleviate the LOF and LOO. This strategy is particularly suitable for uncovering multifaceted international business phenomena in cases where the boundaries between the strategy of the firm and the institutional context of the host-country are blurred. Even though statistical procedures may be applied to measure the frequency of entry modes, they often fail to provide the nuance of the process of high-distance cultural market legitimizing.

HYBE Corporation was selected as "revelatory" and "extreme" case for theoretical sampling. HYBE represents a unique phenomenon: a firm from a non-Western developed economy that has successfully penetrated the U.S. cultural hegemony - a feat historically elusive for Asian entertainment MNEs due to steep "cultural discounting" and high "psychic distance". By focusing on this outlier, the distinct dynamics of "soft" assets and fandom ecosystems that traditional manufacturing-based FDI theories may overlook can be observed. In addition, a longitudinal approach is utilized to track the development of the firm from a simple exporter to high-commitment Foreign Direct Investment. This temporal dimension (2021-2025) allows for reflection on the dynamism between the timing of investments and the acquisition of institutional knowledge.

Data Collection and Triangulation

This study uses data triangulation to achieve construct validity and reduce the possible biases that may arise when using single-source data. Archival data from various stakeholders was collated to establish a convergence of evidence that encompasses both the economic and the sociopolitical aspect of the HYBE growth. The data collection covers the critical period of HYBE’s aggressive internationalization (2021-2025), spanning from its initial public offering to its major inorganic expansion phases and the "HYBE 2.0" restructuring (Stassen, 2025a).

Primary Data (Corporate, Financial, & Legal): To assess the economic rationale and commitment levels of HYBE’s entry modes (Hypothesis 1) and digital strategies (Hypothesis 3), official corporate filings were utilized. These were extracted from the Data Analysis, Retrieval and Transfer System (DART) and HYBE’s investor relations archives (e.g., Q3 2025 Business Results). Furthermore, to analyze the adaptation of digital platforms to host-country regulations, official notices regarding Weverse Company's privacy policy amendments and logistics updates were collected. These documents offer the essential financial benchmarks, ownership frameworks, and cash flow reports needed to confirm the internalization of value chain operations.

Secondary Data (Industry, Media, & Documentary): To evaluate the sociopolitical legitimacy and the mitigation of "Outsidership" (Hypothesis 2), external industry reports from the International Federation of the Phonographic Industry, as well as market analyses from trusted media sources like Billboard, Variety, and Music Business

Worldwide were employed. Crucially, to analyze the transferability of tacit "K-Pop methodology" (Hypothesis 1), visual documentary evidence was coded, specifically the reality series The Debut: Dream Academy and the documentary Pop Star Academy: KATSEYE. These sources provided observational data on the cross-cultural friction and eventual integration of Korean training systems within the U.S. context. Finally, publicly available executive interviews and press statements were analyzed to reconstruct managerial cognition regarding the decision to pursue inorganic growth via M&A and the strategic pivot away from autonomous management structures.

Data Analysis: Pattern Matching and Explanation Building

The analytic approach utilizes the method of pattern matching in which the events actually observed are matched to the patterns predicted based on the theoretical formulations identified in the literature review. This involved iteratively coding the collected data against the theoretical constructs of the New Internalization Theory, Network Theory, and the "iBusiness" framework.

Operationalizing Internalization (Hypothesis 1): To test whether HYBE overcomes LOF through internalization, financial disclosures and governance announcements were coded for evidence of high-control entry modes. Patterns matching the New Internalization Theory were sought, specifically focusing on the shift from "financial holding" (Ithaca Holdings) to "operational integration" (HYBE Label Services). A "match" was defined as the centralization of decision-making power under HQ-aligned leadership (e.g., the replacement of acquired CEOs with HYBE veterans) and the willingness to incur short-term operating losses to secure long-term asset specificity.

Operationalizing Network Embeddedness (Hypothesis 2): To analyze the mitigation of the "Liability of Outsidership," HYBE's "dual-track" inorganic strategy was examined. First, the post-acquisition integration of Ithaca Holdings and QC Media was traced to determine if the acquisition functioned as a bridge for "structural holes". Second, strategic alliances were analyzed by coding press releases for specific resource exchanges. Evidence supporting this hypothesis was identified in instances where partnerships provided "downstream" access (e.g., UMG's radio promotion for KATSEYE) while HYBE retained "upstream" control. Billboard chart performance was utilized as a proxy for successful network integration and gatekeeper acceptance.

Operationalizing Digital "Psychic Distance" (Hypothesis 3): Finally, to assess the role of the Weverse platform, the "iBusiness" framework was utilized. Platform engagement metrics (MAU growth, user geography) and compliance adaptations (logistics changes for chart eligibility) were analyzed. Patterns indicating a reduction in "psychic distance" were sought, specifically looking for evidence where the platform allowed HYBE to bypass traditional U.S. distribution barriers and capture high-margin "superfan" revenue (e.g., digital goods sales data). This validates the shift from gravity-based trade models to digital ecosystem interactions.

Ethical Approval

This research relies exclusively on the analysis of publicly available secondary data, including corporate financial filings, industry reports, documentary footage, and press releases. As the study did not involve direct interaction with human subjects or the collection of private, identifiable data, formal ethical approval was not required.

CASE ANALYSIS

This section presents the comprehensive analysis of HYBE Corporation's strategic internationalization into the

United States market between the years 2021 and 2025. This longitudinal case study traces HYBE's evolution from an export-based entity to a fully integrated "Multi-home, Multi-genre" MNE. The evidence suggests that while the company initially relied on acquisition-based entry modes to secure immediate legitimacy, its longterm strategy has aggressively pivoted toward deep internalization of the value chain - specifically the "K-Pop production methodology" - and the establishment of a proprietary digital institutional environment to mitigate the "psychic distance" inherent in cultural trade.

Testing Hypothesis 1: Internalization of Firm-Specific Advantages and the "K-Pop Methodology"

Hypothesis 1 posited that a cultural MNE is more likely to overcome LOF by internalizing its value chain through WOS, thereby enabling the recombination of home-country organizational capabilities (the "K-Pop training system") with host-country location advantages (U.S. talent and infrastructure). The empirical evidence from 2021 to 2025 strongly supports this hypothesis, though it reveals a more complex, phased evolution of internalization than traditional theory might predict. HYBE did not merely "enter" the U.S.; it systematically dismantled and reconstructed its U.S. operations to mirror its domestic "360-degree" business model. This process began with the "HYBE 2.0" restructuring strategy in 2024 and culminated in the operational launch of HYBE Label Services in late 2025 (Stassen, 2025a).

From Financial Holding to Operational Integration: The Governance Shift

The trajectory of HYBE's governance in the U.S. demonstrates a deliberate shift from a "financial holding" model to an "operational integration" model, consistent with the New Internalization Theory's emphasis on recombining tacit knowledge bundles (Verbeke & Kano, 2015).

Phase 1: Acquisition and Autonomy (2021-2023). HYBE's entry into the U.S. was anchored by the $1.05 billion acquisition of Ithaca Holdings in 2021 (Ingham, 2021). At this initial stage, the governance structure allowed for significant autonomy. Scooter Braun, the founder of Ithaca, was appointed as the CEO of HYBE America and joined the board of directors (Halperin & Aswad, 2023). The subsidiary functioned primarily as a compilation of management portfolios (SB Projects) and labels (Big Machine Label Group), earning income via established artist rosters including Justin Bieber and Ariana Grande (Brzeski, 2021). Although this generated quick cash flow - Big Machine and QC Media (acquired in 2023) catalogs accounted for roughly half of HYBE's U.S. streaming income in 2023 (Stassen, 2024a) - it did not signify a genuine shift of HYBE's FSAs. The "KPop methodology" remained stuck in Seoul, while the U.S. arm operated on a traditional Western management model.

Phase 2: Strategic Restructuring and "HYBE 2.0" (2024-2025). The pivotal shift began with the appointment of Jason Jaesang Lee as Global CEO in July 2024, followed immediately by the announcement of the "HYBE 2.0" strategy in August 2024 (Stassen, 2024b; Kim, 2024). Recognizing that the management-centric model lacked the asset specificity and recurring revenue stability of the label model, Lee initiated a radical restructuring to transition HYBE America from a management company into a label services infrastructure.

This shift was characterized by a phased change in leadership, indicating the conclusion of the "autonomy" period. In July 2025, Scooter Braun resigned as CEO of HYBE America to move into a board-level advisory position. Isaac Lee (previously Chairman of HYBE Latin America) assumed the role of Chairman and CEO of HYBE America, symbolizing a return to a unified control aligned with the headquarters' strategic vision (Stassen, 2025b). This leadership shift was not just a change in staff; it served as a means to implement the transition of corporate DNA. Jason Jaesang Lee, who formerly acted as Chief Strategy Officer and oversaw the Ithaca acquisition, architected the "Multi-home, Multi-genre" strategy from HQ, necessitating a cohesive global command structure instead of a federation of autonomous managers (Rys, 2024).

The Establishment of HYBE Label Services

The most concrete evidence of internalization (Hypothesis 1) is the launch of HYBE Label Services (HLS) in October 2025 (Stassen, 2025a). This strategic move creates a wholly-owned infrastructure for global distribution, marketing, and promotion within the U.S., directly challenging the reliance on third-party intermediaries.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

The structure of HLS reveals a sophisticated attempt to blend Korean organizational rigor with U.S. industry expertise. The division was placed under the leadership of Ryan Hyeong Woo Noh, promoted from HYBE America's Chief Strategy Officer to Chief Business Officer (Hahnen, 2025). Noh's background in HYBE's core strategy team ensures that the subsidiary remains isomorphic with the parent company's objectives. To ensure local legitimacy, HLS appointed two U.S. industry veterans to operational roles: Mike Rittberg, formerly Chief Operating Officer of Big Machine Label Group, was named President of Global Distribution to leverage his experience in U.S. radio and physical distribution logistics, while Mark Flaherty, formerly of Interscope and Warner Records, was appointed President of Global Marketing & Promotion to navigate the complex U.S. media landscape (Hahnen, 2025).

By internalizing these functions, HYBE aims to secure the "label-centric IP integrated structure" referenced in its Q3 2025 earnings call (King, 2025a). The financial data indicates that this restructuring was capital-intensive: HYBE reported an operating loss of 42.2 billion Korean Won (which is about $30.4 million) in Q3 2025, a sharp reversal from the previous year's profit (HYBE, 2025; King, 2025a). The company explicitly attributed a 12 percentage-point decline in operating margin to "preemptive investment to expand global artist IP" and "one-off expenses tied to restructuring its North American business" (Hong, 2025). This short-term financial penalty supports the theoretical expectation that overcoming LOF requires substantial upfront investment in building "isomorphic" structures that eventually allow for the efficient transfer of FSAs.

Table 1 summarizes this definitive shift in governance structure, illustrating the transition from a hands-off financial holding model to a hands-on integrated operational model.

Table 1: Comparative Analysis of HYBE America Governance Evolution

Feature	**Phase 1: Market Entry (2021-2023)**	**Phase 2: Internalization (2024-2025)**	**Theoretical Implication (H1)**
Primary Structure	Holding Company (Ithaca Holdings)	Integrated Subsidiary (HYBE America / HLS)	Shift from financial ownership to operational control allows for FSA transfer.
Key Leadership	Scooter Braun (Acquired CEO)	Isaac Lee (CEO) / Ryan Noh (CBO) (HQ-aligned)	Replacement of acquired leadership with HQ veterans ensures strategic alignment.
Business Model	Management-centric (Commission based)	Label-centric (IP Ownership & Services)	Transition to asset-heavy model secures long-term revenue streams and IP control.
Distribution	Reliance on external partners/fragmented	Internalized Services (HLS) + Strategic Partner Logistics (UMG)	Internalization of "control" (marketing) while partnering for "pipes" (logistics) optimizes efficiency.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

Key Assets	Artist Rosters (Bieber, Grande)	Processes (Training System, HLS Infrastructure)	Focus shifts from acquiring assets to transferring capabilities.

Source: Compiled by the author based on HYBE Corporation filings (DART) and Music Business Worldwide reports (2021-2025)

Transplanting the Means of Production: The "Dream Academy" Experiment

The most critical test of Hypothesis 1 lies in the transferability of HYBE's core competency: the artist training and development system. Traditional IB theory often categorizes cultural production methods as "location-bound FSAs" - advantages that function effectively only within the specific institutional and social context of the home country (Verbeke & Kano, 2015). HYBE challenged this by attempting to graft the rigorous K-Pop training system onto the U.S. market through the The Debut: Dream Academy project, a joint venture with Geffen Records.

The evidence confirms that HYBE did not simply export a finished group; it exported the process of creation. The venture involved selecting 20 contestants from over 120,000 global applicants and subjecting them to a year-long "K-Pop style" training regimen in Los Angeles (Universal Music Group, 2023). This curriculum focused on the "K-Pop methodology" pillars: vocal stability, synchronized dance performance, and public persona management. To ensure fidelity to the methodology, HYBE deployed key technical personnel from Seoul to Los Angeles, including Son Sung-deuk, the Executive Creator known for choreographing BTS, who served as the Executive Producer for the project (Glasby, 2023). This direct transfer of human capital was crucial in maintaining the quality control standards synonymous with the HYBE brand.

Despite frictions highlighted in the documentary Pop Star Academy: KATSEYE, such as cultural conflicts regarding discipline and hierarchy (Putri et al., 2025), the commercial success of the resulting group, KATSEYE, validates the hypothesis. The group earned several nominations (for Best New Artist and for Best Pop Duo/Group Performance) at the 68th Annual Grammy Awards, while their most recent EP reached No. 4 on the Billboard 200 chart (CTV News, 2025).

Such success proves that the "K-Pop methodology" is not strictly location-bound. By owning the subsidiary (HYBE America) and internalizing the training process (Dream Academy), HYBE successfully recombined its home-country organizational capability with U.S. talent, effectively creating a "global" group that transcends the "K-Pop" label while utilizing its fundamental mechanics.

Testing Hypothesis 2: Mitigating "Liability of Outsidership" via Network Integration

Hypothesis 2 proposed that cross-border acquisitions and strategic partnerships serve as necessary mechanisms to bridge "structural holes," effectively purchasing the "insidership" required to navigate the highly relational U.S. music industry. The analysis confirms that while internalization (Hypothesis 1) addresses production efficiency and quality control, network integration (Hypothesis 2) handles legitimation and distribution access. The data indicates a "dual-track" strategy where HYBE internalizes "upstream" activities (creation) while partnering for "downstream" activities (distribution and radio).

Acquisitions as a Bridge to Structural Holes

The acquisitions of Ithaca Holdings and QC Media Holdings functioned as the primary vehicle for overcoming the "Liability of Outsidership". In the U.S. music industry, access to radio programmers, playlist curators, and award committees is guarded by a tight network of gatekeepers. As a foreign entity, HYBE historically faced a "structural void" - a lack of connection to these key nodes.

The acquisition of Ithaca Holdings brought Scooter Braun into the HYBE fold, providing immediate bridging social capital. Although his tenure as CEO ended in 2025, his initial integration into the board facilitated high profile collaborations for HYBE's Korean artists. Industry reports credit Braun's involvement in sourcing the song and facilitating the collaboration for Jung Kook's solo single "Seven," which debuted at No. 1 on the Billboard Hot 100 (Oh, 2023). Without the "insider" status purchased through the acquisition, such rapid integration of a K-Pop soloist into the U.S. mainstream production network would have been significantly slower due to LOO. Additionally, the acquisition of QC Media Holdings for $320 million extended this network effect into the hip-hop genre (Stonebrook, 2023). By acquiring the home of artists like Lil Baby and Migos, HYBE signaled its legitimacy as a comprehensive music player rather than just a "K-Pop agency." The continued chart performance of QC artists under HYBE ownership, such as BigXthaPlug charting on the Billboard Top Rap Albums in 2025, demonstrates that HYBE successfully maintained the relational networks of the acquired firm (HelloKpop, 2025).

The Strategic Partnership with Universal Music Group: Distribution Agreement vs. Joint Venture

The evolution of the HYBE-UMG relationship provides the strongest evidence for the necessity of local partners in mitigating "Outsidership". Unlike the full acquisition models used with Ithaca, HYBE entered a comprehensive Strategic Partnership with UMG in March 2024. This partnership is bifurcated into two distinct mechanisms: a long-term global distribution agreement and a specific Joint Venture with UMG's subsidiary, Geffen Records (Universal Music Group, 2024). Each serves a distinct function in mitigating the "Liability of Outsidership".

Despite the aggressive push for internalization described in Hypothesis 1, HYBE recognized that U.S. physical and digital distribution logistics require massive scale. The 10-year exclusive distribution agreement grants HYBE access to UMG's prominent global network. This ensures that as HYBE develops its own capacity (HLS), it maintains the safety of the world's largest distributor for its extensive range of physical and digital releases (Universal Music Group, 2024). This presents a theoretical paradox: Why would HYBE launch its own HYBE

Label Services in 2025 if it had just signed this deal? The answer lies in the distinction between "pipelines" (UMG deal) and "services" (HLS). The UMG deal secures the pipes (getting the CD to the store), while HLS secures the control (marketing strategy).

While the distribution agreement handles logistics, the Joint Venture (HYBE x Geffen) handles artist creation and radio promotion. U.S. radio remains a heavily gatekept channel where relationships with station directors are paramount and difficult to "buy" solely through M&A or digital pipes. The commercial success of KATSEYE's single "Touch," which impacted U.S. Pop Radio in September 2024 and charted on the Billboard Global 200, is directly attributable to the promotional machinery of Geffen Records (the JV partner), which served as the U.S. label for the project (Benjamin, 2024). The Joint Venture for KATSEYE utilized a clear division of labor: HYBE provided the product (artist training, content production, fan engagement) and the system, while Geffen provided the channel (radio promotion, streaming playlisting, Western PR) (HYBE x Geffen Records, 2023).

This distinction confirms the hypothesis that cultural MNEs utilize distinct alliance types for different needs: broad distribution agreements for "downstream" global reach, and specific Joint Ventures for "upstream" projects requiring deep local collaboration.

The specific mechanisms employed to bridge these structural holes, along with their empirical outcomes during the observed period, are detailed in Table 2.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

Table 2: Network Integration Mechanisms and Outcomes (Hypothesis 2)

Network Mechanism	**Strategic Partner / Target**	**Resource Accessed (Mitigating LOO)**	**Empirical Outcome (2021-2025)**
Cross-Border M&A	Ithaca Holdings	Managerial expertise; producer networks (Andrew Watt, etc.).	Jung Kook's "Seven" debuts #1 on Billboard Hot 100.
Cross-Border M&A	QC Media Holdings	Legitimacy in Hip-Hop/Rap sector; localized A&R networks.	BigXthaPlug charts on Billboard Top Rap Albums; Legitimacy as "multi-genre" label.
Strategic Partnership (Component 1: Joint Venture)	Geffen Records (UMG)	"Upstream" Legitimacy: U.S. Radio promotion; Mainstream PR; Artist Development support.	KATSEYE's "Touch" impacts U.S. Pop Radio; charts on Billboard Global 200.
Strategic Partnership (Component 2: Distribution Agreement)	Universal Music Group (Global)	"Downstream" Scale: Global physical logistics; Supply chain stability; DSP leverage.	Secured 10-year stability for physical/digital supply chain; UMG investment in Weverse.

Source: Compiled by the author based on press releases and Billboard chart data

Testing Hypothesis 3: Digital Platformization and the Compression of "Psychic Distance"

Hypothesis 3 argued that the ownership of a proprietary digital platform (Weverse) mitigates LOF by establishing a "private institutional environment," reducing transaction costs and compressing the "psychic distance" separating international consumers from artists. The data from 2024-2025 provides robust support for this hypothesis.

The "iBusiness" Model: Internalizing Market Transactions

Weverse's performance metrics in the U.S. validate the "iBusiness" model, where digital firms enter markets virtually to establish dominance. In 2024, Weverse reported a 16% year-over-year increase in its user base from the U.S. and Canada (King, 2025b). By 2025, HYBE executives confirmed that 90% of Weverse traffic originated from outside South Korea, with the platform reaching a record high of 11.6 million Monthly Active Users (MAUs) in Q3 2025 (Stassen, 2025c; HYBE Corporation, 2025). This indicates that HYBE has successfully migrated Western fans into a Korean-owned digital ecosystem. Furthermore, the platform acts as a critical Direct-to-Consumer (D2C) sales channel. Between 2024 and 2025, Billboard introduced stricter chart rules regarding D2C exclusive versions (Burditt, 2025). HYBE proactively adapted Weverse Shop U.S. to remain compliant, utilizing logistics partners like Printful Inc. for U.S.-based fulfillment and data partners like Hertza LLC to ensure that all sales counted towards the Billboard 200 and Hot 100 charts (Weverse Company, 2025a).

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume X Issue I January 2026

This operational agility allowed HYBE to maintain chart dominance for its artists despite regulatory headwinds that affected other international acts.

Compressing "Psychic Distance" via Digital Intimacy and Enclosure

Weverse mitigates "psychic distance" by creating high-frequency, direct interactions that bypass Western media filters. A significant development in 2024 was the onboarding of major Western artists like Ariana Grande, Dua Lipa, and Conan Gray onto Weverse (Weverse Company, 2025b). This strategic move decouples the platform from being solely "K-Pop centric," normalizing it as a global "superfan" hub. This effectively reduces the "cultural discount" of the platform itself; Western users entering the ecosystem for Ariana Grande are exposed to HYBE's interface and artists, facilitating cross-pollination.

The platform also allows HYBE to monetize the "superfan" relationship directly, independent of U.S. streaming rates. The launch of "Digital Memberships" and paid private chat features allows HYBE to capture high Average Revenue Per User value (Stassen, 2025c). The 2024 data shows a 13% increase in merchandise transactions and a 24% increase in digital goods sales (King, 2025b). This proves that the platform effectively converts casual listeners into high-value customers, bypassing the low-margin economics of platforms like Spotify. Additionally, the UMG partnership included a critical digital component where UMG invested equity into Weverse and agreed to bring its artists to the platform (Stassen, 2024c). This signifies a reversal of power dynamics; instead of the foreign firm (HYBE) adapting to the host platform, the host incumbent (UMG) is adapting to the foreign platform, effectively "enclosing" the market within HYBE's digital walls.

Table 3 presents the specific indicators demonstrating how this digital platform strategy mitigates the Liability of Foreignness by internalizing market transactions.

Table 3: Digital Platform Strategy Indicators (Hypothesis 3)

Platform Function	**Mechanism of LOF Mitigation**	**Evidence (2021-2025)**
Direct-toConsumer (D2C)	Bypasses retail gatekeepers; captures customer data; maximizes margins.	Weverse Shop US logistics expansion; chart-eligible sales counting toward Billboard 200.
Engagement Ecosystem	Compresses "psychic distance" via subtitles, live streams, and community posts.	11.6M MAUs in Q3 2025; 16% growth in North American user base.
Institutional Enclosure	Creates a private market ruleset; locks in Western artists to Korean infrastructure.	Strategic onboarding of UMG artists; UMG equity investment solidifies the "Private Institutional Environment."
Monetization	Reduces reliance on low-margin streaming; captures "Superfan" value.	24% increase in digital goods sales in 2024; launch of "Digital Membership" tiers.

Source: Compiled by the author based on Weverse Company 2024 Fandom Trend Report and industry news

DISCUSSION

This study investigated the strategic mechanisms by which a cultural Multinational Enterprise from a nonWestern developed economy mitigates the LOF and LOO in a dominant cultural market. By analyzing HYBE Corporation's expansion into the United States (2021-2025), the research demonstrates that overcoming these liabilities requires a dynamic interplay between deep internalization of production processes, strategic network embedding, and digital platform encapsulation. The findings offer significant contributions to International Business theory, particularly regarding the transferability of "soft" FSAs and the role of digital ecosystems in compressing psychic distance.

The Recombination of "Location-Bound" FSAs via Internalization

Traditional IB literature often characterizes cultural products as possessing "location-bound" FSAs, suggesting that advantages derived from home-country cultural contexts suffer from a "cultural discount" when transferred abroad (Rugman & Verbeke, 2001; Hoskins & Mirus, 1988). However, the success of HYBE's "Dream Academy" and the subsequent launch of the group KATSEYE challenges this determinism. The findings support Hypothesis 1, confirming that cultural FSAs - specifically the "K-Pop methodology" - can be transformed into non-location-bound advantages through high-commitment internalization.

Consistent with the New Internalization Theory, HYBE's move from a holding company structure to the operationally integrated "HYBE 2.0" model demonstrates that the value lies not in the content but in the process. By internalizing the training infrastructure in Los Angeles and deploying HQ-aligned leadership, HYBE successfully "recombined" its home-country organizational capabilities with host-country talent assets. This suggests that in the creative industries, the LOF is best mitigated not by assimilating to local production norms, but by imposing the firm's unique organizational routines on the local environment through Wholly Owned Subsidiaries.

The Paradox of Embeddedness: Internalization vs. Network Access

The study reveals a nuanced paradox in how cultural MNEs manage the "Liability of Outsidership," refining the expectations of Hypothesis 2. While internalization was necessary for production quality, the research confirms that "Insidership" in the U.S. music industry is structurally determined and must be acquired or partnered for. The findings validate Burt's (1992) structural hole theory within an IB context. HYBE's acquisition of Ithaca Holdings and QC Media did not serve to acquire superior management technology - which HYBE already possessed - but to acquire relational legitimacy and gatekeeper access.

Crucially, the simultaneous pursuit of internal capability building via HYBE Label Services and external alliance formation with Universal Music Group indicates that cultural MNEs must operate a "dual-track" strategy. Firms must internalize "upstream" activities (artist creation and IP ownership), where their FSA is strongest, while utilizing specific strategic partnerships for "downstream" activities (radio and physical distribution) where local embeddedness is prohibitive to replicate. This finding extends the Uppsala Model (Johanson & Vahlne, 1977) by demonstrating that "Insidership" can be effectively purchased and grafted onto the firm before the firm has organically accumulated market knowledge.

Digital Platforms as Private Institutional Environments

The research strongly supports Hypothesis 3, providing empirical weight to the "iBusiness" framework (Brouthers et al., 2016). The case of Weverse illustrates how digital platforms allow MNEs to transcend traditional gravity models of trade. By migrating 11.6 million monthly users - 90% of whom are non-Korean - onto a proprietary platform, HYBE effectively created a "private institutional environment" (Stassen, 2025c; HYBE Corporation, 2025). This digital enclosure mitigates LOF by decoupling the transaction from the host country's retail infrastructure.

The platform's ability to adapt logistics for Billboard chart compliance and monetize "superfans" at rates higher than local streaming services confirms that digital platforms serve as a mechanism to internalize market transactions (Burditt, 2025; King, 2025b). Theoretical frameworks must therefore expand the definition of "entry mode" to include digital infrastructure which acts as a virtual subsidiary, compressing the "psychic distance" between the artist and consumer (Nambisan et al., 2019). This shift allows the MNE to capture high-margin revenue streams that would otherwise be eroded by local digital intermediaries.

Managerial Implications

For managers in creative sectors, this study underscores the limitations of an export-only strategy. Sustainable success in high-distance markets requires the transfer of the means of production. HYBE's restructuring into "HYBE 2.0" implies that relying on local management styles acts as a stopgap (Kim, 2024). Long-term value capture is only achieved when the MNE asserts operational control and instills its corporate DNA into the foreign subsidiary, even if this requires incurring short-term restructuring costs such as the operating losses observed in 2025 (King, 2025a; HYBE Corporation, 2025). Furthermore, the departure of acquired leadership and their replacement with HQ veterans suggests a lifecycle to post-acquisition governance (Stassen, 2025b). Initial autonomy preserves networks, but eventual centralization is required to align the subsidiary with the MNE's global strategic objectives.

CONCLUSION

This paper examined the strategic mechanisms by which HYBE Corporation navigates LOF and LOO in the United States. By synthesizing the New Internalization Theory with network and digital platform frameworks, this study challenges the traditional gravity models of cultural trade, which postulate that "cultural distance" inevitably leads to the discounting of creative products. The findings reveal that success in a high-distance cultural hegemony is not achieved through simple export or mimetic isomorphism, but through a highcommitment strategy that internalizes the "means of production" while simultaneously acquiring local network legitimacy.

The trajectory of HYBE's expansion from 2021 to 2025 provides empirical validation for a "dual-track" internationalization strategy. First, contrary to the view that cultural FSAs are "location-bound," this study demonstrates that the "K-Pop production methodology" functions as a transferable dynamic capability. Through the establishment of Wholly Owned Subsidiaries and the operational launch of HYBE Label Services, the firm successfully recombined its home-country organizational routines with host-country talent, as evidenced by the commercial viability of the global group KATSEYE. Second, the study confirms that "Insidership" in relational industries is a structural asset that must be bridged via inorganic growth. The acquisitions of Ithaca Holdings and QC Media did not merely add revenue; they purchased the necessary social capital to navigate U.S. gatekeepers, effectively mitigating the LOO. Additionally, the deployment of a comprehensive Strategic Partnership with UMG - combining global distribution reach with targeted artist-development Joint Ventures - ensured the necessary downstream legitimacy. Finally, the deployment of Weverse illustrates the emergence of the "iBusiness" cultural firm, capable of compressing "psychic distance" by enclosing global consumers within a proprietary digital institutional environment.

Key limitations

Although this research provides valuable theoretical contributions, it faces multiple limitations related to its structure. While this research has offered significant theoretical insights, it presents several constraints associated with its design. Initially, the dependence on a singular case study approach, though essential to understand the processual intricacies of HYBE's distinct "revelatory" status, restricts the statistical applicability of the results. HYBE represents an extreme outlier in the cultural industry - a firm with unprecedented capital access driven by the global fandom of BTS - and smaller cultural MNEs may lack the resources to execute the highcommitment internalization strategies (e.g., acquiring U.S. incumbents or absorbing operational losses) described here.

Second, the longitudinal scope of this research (2021-2025) captures the restructuring phase but may be insufficient to evaluate the long-term financial sustainability of the "HYBE 2.0" model. As noted in the analysis, the aggressive internalization of the U.S. value chain resulted in significant operating losses in Q3 2025 due to restructuring costs. Consequently, this study observes the implementation of legitimacy-building mechanisms but cannot yet definitively confirm their long-term profitability or whether the "K-Pop methodology" can sustain Western artist careers over a decade-long lifecycle akin to traditional Western management models.

Future Research Directions

Future scholarship should expand upon these findings by adopting a comparative approach. As HYBE actively expands into Latin America - evidenced by the appointment of Isaac Lee - future studies could investigate whether the internalization strategies effective in the U.S. "hegemony" are replicable in emerging markets with different institutional voids and cultural distances. Does the "K-Pop methodology" require different adaptations when transferred to Latin American or European contexts compared to the U.S.?

Furthermore, the phenomenon of "global groups" like KATSEYE warrants dedicated longitudinal analysis. This study confirmed that the production system is transferable, but it remains to be seen if the resulting "hybrid" artists face a "reverse cultural discount" - where they are viewed as inauthentic by both home (Korean) and host (Western) audiences over time. Finally, as digital platforms like Weverse increasingly mediate cultural trade, research should investigate the algorithmic implications of such "private institutional environments." Specifically, how does the platformization of fandom alter the power dynamics between the MNE and local distribution partners (e.g., UMG) in the long run? Investigating these questions will further illuminate how digital and cultural forces reshape the boundaries of the modern Multinational Enterprise.

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