

**Interorganizational Strategies and Industry Boundaries:<sup>\*</sup>**  
**The Spreading of the M-Form and the TIME Industry**

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**ABSTRACT**

The paper examines the influence of mergers, acquisitions and alliances in the gradual convergence of the Telecommunications, Information Technology, Media and Entertainment industries. The analysis focuses on the growth and management of these interorganizational forms in this emerging industry, and their possible contribution to a further blurring of industry boundaries.

Although the boundaries of the media industry – encompassing the development, production and distribution of such cultural products as books, newspapers, magazines, games, motion pictures, television programs, and music recordings – have never been clear cut, recent developments in the industry's technological base are contributing to an even greater blurring of its parameters. The digitization of storage and transmission technology and the spread of broadband networks are especially contributing to this trend. In the near future, such technologies will allow content-independent distribution to be used for interactive television, regardless of whether it will develop from present analog television and telecommunication technology or from digital (but narrowband) computer networks such as the Internet.

In the meantime, the blurring of the boundaries of the *media* and *entertainment* industry and their final convergence with the *telecommunications* and *information technology* business into a more unified, but functionally complex industry (referred to as the **TIME** industry) has become a popular proposition, not only in the trade press but also in scholarly discourse (e.g., Collis et al, 1997; Green, et al, 1997; Mueller-Stewens & Hoffman-Burchardi, 1996). While the convergence of these industries seems to be driven by technological change, it is essentially an outcome of corporate strategy – a fact acknowledged by most scholars and reflected in the growing number of TIME-related mergers and acquisitions, and in the extensive building of strategic alliances between firms in this emerging arena. While it is true that most of these interorganizational ventures still take place within the confines of a single industry (particularly mergers), numerous examples illustrate that corporations – especially large TIME conglomerates such as Disney, Time-Warner and Viacom – have extended their strategic reach through such

interfirm linkages. Yet, despite what appears to be unanimous support of this proposition, we question both the outcome of this process as well as the underlying mechanism which is assumed to drive this process. Thus the question of whether and to what extent firms actually contribute to a further blurring of industry boundaries, leading to radical transformation and, eventually, industry convergence or fusion, is an open question.

Within this context of strategy making, choice of organizational form and industry evolution, and the openness of this very question, the paper raises three more concrete research questions:

1. Given the prominence of these interorganizational strategies in the media industry, which organizational form is likely to evolve under the described circumstances?
2. How does this evolving organizational form relate to the blurring of industry boundaries?
3. What ramifications does this form have for management processes in this industry?

In examining these questions, a selected number of across-industry mergers, acquisitions and alliances are used to illustrate and examine (1) the growth and development of network organizations (N-form) in the TIME industry and (2) their possible contribution to a further blurring of industry boundaries. The focus is on those across-industry mergers, acquisitions and alliances which may, at least loosely, be related to the emergence of digital television. A case vignette on Viacom and the network of corporations led by this media conglomerates is used to further illustrate these changes.

Based on an analysis of such interorganizational endeavors, the paper suggests that, contrary to conventional wisdom, all three strategies -- mergers, acquisitions *and* alliances -- are likely to contribute to the spread of the N-form organization within the media industry. Unlike other industries, TIME-related mergers and acquisitions are unlikely to lead to a simple

extension of hierarchical control. Even if the entire stock of a newly acquired firm is owned by the parent company, or if two or more organizations equally share the equity (as in the case of joint ventures), these parents will, for reasons to be explained in the paper, increasingly try to preserve at least some of the organizational autonomy and identity of the acquired firm and develop cooperative relations rather than relations controlled by fiat.

While all three strategies may well contribute to the spreading to the N-form, it remains unclear, even in the case of cross-industry mergers, acquisitions and alliances, whether this (new) organizational form will actually contribute to the convergence of the TIME industry. Since the N-form is characterized by effects that can both accelerate and retard such convergence, it is necessary to study concrete organizational and interorganizational practices to establish the actual extent of industry convergence with regard to industry rules and resources.

The analysis in the paper takes a strategic management perspective which acknowledges (1) the importance of context in general and of industry in particular, (2) the relevance of organizational form and organizational resources, and (3) the managerial challenges raised by interorganizational strategies. Within this context, industry is not only conceptualized in terms of resources (products, markets, technologies) but also in terms of rules (i.e. cognitive and normative industry structures produced and reproduced by powerful industry actors). Informed by Giddens' (1984) structuration theory, this perspective emphasizes the recursive interplay between strategy and structure, and between industry structures and the N-form in (inter-) organizational practices. The organizational form of the network is thus seen as both an *outcome* of agents referring to industry structures in general and the blurring of industry boundaries in particular and as a *means* of structuring the different media-related industries into a more unified TIME industry.

## **STRATEGY MAKING, ORGANIZATIONAL FORMS AND INDUSTRY BOUNDARIES**

The interplay between strategy making and organizational structure has been extensively discussed in both organization theory and strategic management. There is now little controversy that “strategic choice“ (Child, 1972) matters and that “structure follows strategy“ (Chandler, 1962) only as much as “strategy follows structure“ (Miles & Snow, 1978). All this is influenced, yet not determined, by context. However, only few theories provide explicit insights into the underlying structured processes. Among these perspectives is Giddens’ (1984) structuration theory which has been applied to the analysis of organizations (e.g., Whittington, 1992; Kilduff, 1993; Ortmann et al, 1997) and, more recently, interorganizational networks (e.g., Sydow & Windeler, 1998; Sydow et al, 1998). One of the contributions of structuration theory is to conceptualize strategy making, organization and industry evolution as multi-dimensional processes, highlighting the recursive interplay not only between strategy and structure but also between these two variables and the social context of action. From a structuration perspective, neither organizations nor interorganizational networks nor industries would appear to be static entities. Rather, they are characterized as ongoing processes of structuration which either reproduce or transform prevailing (organizational, network or industry) structures via (organizational, interorganizational or industry) practices.

### **Strategy, Structure, and Context: A Recursive Interplay**

From a structuration perspective, strategies of knowledgeable agents, especially managers, link organizations to their environment. As “patterned actions“ (Mintzberg, 1978), they are the outcome of more or less proactive, intentional behavior. Proactivity and intentionality, however, do not imply that realized strategies are identical with deliberate ones. Rather, they are the outcome of complex organizational and, increasingly, interorganizational

structuration processes in which (1) several actors with different interests and positions meet, (2) these actors, despite their knowledge and expertise cannot recognize (the importance of) all aspects of the context in which they interact, and (3) intentional action often has unintended consequences, partly because agents do not acknowledge all conditions under which they act. This structured process of strategy making, i.e. the “structuration of strategy“ (Prescott, et al, 1993), would be at the center of a structurationist analysis which takes the recursive interplay between action, structure and context into account.

The structures resulting from this interplay are not only an outcome but also a means of (strategic) action. Knowledgeable agents (have to) refer to them in their action which are not only constrained but also enabled by these structures which comprise rules of signification and meaning constitution, rules of legitimation, and resources of domination. Strategy, therefore, is conceived as a means of cognitive and normative framing of an uncertain situation into more traceable problems, which fall within the competence of an organization or network *and*, as necessarily binding, allocative and authoritative resources. In framing an uncertain situation, agents draw upon prevailing rules of signification as well as rules of legitimation, reproducing and eventually transforming them. The same occurs with respect to structures or resources of domination. Unacknowledged conditions, unintended consequences, and structural and material constraints, however, delimit the agents’ strategic control over the outcome of their activities.

The social context that particularly matters here is industry with its more or less specific rules, regulations, and resources. The corporate *and* interorganizational strategies which are of particular interest within the emerging TIME industry, and which related action to this context, are mergers, acquisitions, and alliance building. While a merger implies the total consolidation of two or more organizations into a single entity, an acquisition takes place when one

organization purchases another such that the parent firm takes control of the target (cf. Borys & Jemison, 1989; Buono, 1991). Both merger and acquisition strategies are usually assumed to lead to (vertical or horizontal) integration and control by hierarchy. Alliance building, in contrast, is mostly conceived as a form of “quasi-integration“ (Blois, 1980) which offers most advantages of integration without the well known drawbacks of this organizational form. All these strategies are often triggered, yet not determined, by contextual changes in the industry with regard to technology (e.g., digitalization), new competition (e.g., new entrants) or changing regulations (e.g., Federal Telecommunications Act of 1996).

In practice, and from a structurationist perspective which focuses on realized strategies and (inter-) organizational practices, acquisitions and alliances are often very difficult to distinguish. In some instances, for example, acquisitions are not simply controlled through hierarchical arrangements. Similarly, many alliances are underpinned by at least minority equity, sometimes even in the form of cross-shareholdings. Alliances, nevertheless, *seem* to differ from acquisitions at least with respect to the *intention* for control and control type (i.e., network instead of hierarchy). In the practice of the TIME industry, however, majority or even full ownership of equity does not necessarily imply actual or intended (hierarchical) control of an acquired organization. Rather, we propose that the organizational form very often resulting from acquisition, as much as from alliance building, in this industry is the network organization.

The network or N-form has some distinct structural properties which distinguish it from markets and hierarchies (e.g., Hedlund, 1994; Powell, 1990).<sup>1</sup> Compared with markets, this form is made up of organizations whose boundaries are blurred because of intensive and rather long-term, sustainable interorganizational cooperation (Buono, 1997). This kind of cooperation leads to the constitution of interorganizational relationships which are socially highly organized. The

almost “organization-like“ (Sydow, 1996) character of these relationships is achieved, for instance, by the network-wide use of formal planning and information systems, by collective decision making procedures, and/or by intensive transfer of knowledge and personnel across the boundaries of organizations. Compared to hierarchical structures such as the simple hierarchy (H-form) or the multidivisional form (M-form), the N-form is characterized by greater organizational autonomy, a looser coupling of the organizations, and more cooperative relations, even if they do not exclude moments of competition and control. Thus the N-form offers a distinct balance of autonomy and dependence, of creativity and control, of cooperation and competition, and of stability and change. This form, therefore, seems particularly suitable for the emerging TIME industry, an industry characterized by an extensive need for creativity but also for strategic control. This industry also has an extremely high level of uncertainty, which further favors the spreading of this organizational form for both technical and institutional reasons.

### **Strategy Making Beyond Industry Boundaries: Formation of an Industry as a New Social System**

The blurring of industry boundaries, which may be driven by mergers, acquisitions, and alliances and which may finally lead to the formation of a new social system, has several stages that may be distinguished analytically. At the point of departure, organizations typically confine their strategy making to a single industry. Even if they diversify across industries through merger, acquisition, alliance building or even internal growth,<sup>2</sup> they do not necessarily blur industry boundaries. A strategy of internal growth is especially unlikely to do so since cutting

across industries and blurring their boundaries usually requires highly diverse capabilities which, while not easily acquired externally, are certainly almost impossible to develop internally.<sup>3</sup>

In a second, transitional stage, given strategy making across industry boundaries and sufficient resources to draw upon, interorganizational practices may contribute to a gradual transformation and the blurring of the boundaries of these industries which, while still separate social systems with distinct structural properties, serve as a point for departure for developing a new or different industry with distinct social contexts for strategizing and organizing. This transitional stage may currently be observed in parts of the TIME industry moving towards digital television.<sup>4</sup>

Finally, a new or different industry emerges which – as a new social system – provides a very different context for organizations' future strategizing and organizing activities, further contributing to the institutionalization of the system. Before the “industry as an emerging social system” (Van de Ven & Garud, 1989) is fully established, however, specific industry structures (in terms of rules of signification and legitimation as well as in terms of resources of domination) continue to matter for strategizing and organizing, especially when they stretch beyond the boundaries of a single industry.<sup>5</sup> Thus, the development of a new (and possibly more integrated industry is likely to be path-dependent, based upon the structures of the older (and still distinct) industries. The same is also true for the accompanying organizational and interorganizational practices which are likely to change only gradually.

The fact that industry creates a relevant context for strategizing, organizing and related practices has been recognized for quite some in the strategic management literature, which in this regard has significantly profited from industrial economics (e.g., Porter, 1980). This literature defines industry as “the group of firms producing products that are close substitutes for

each other” (Porter, 1980: 5) and conceptualizes it in terms of market structure, entry and exit barriers, and threats of substitution. This perspective neglects not only the economic role of non-economic actors and institutions but also the importance of cognitive and normative industry structures, i.e., “industry recipes” (Spender, 1989) or “industry mindsets” (Phillips, 1994). Moreover, it is still silent on the constitution of industry boundaries. Structuration theory, with its emphasis on cognitive and normative rules *as much as* on allocative and authoritative resources, however, is able to integrate these views and thus allows for a more comprehensive and balanced description of industry structures and a fuller contextual explanation for strategy making, organizing and industry formation.

### **MERGER, ACQUISITIONS AND ALLIANCES IN THE EMERGING TIME INDUSTRY**

Mergers, acquisitions and alliances are common in each of the TIME industries: telecommunications (e.g., Alliance Analyst, 1995), information technology (e.g., Saxenian, 1994; Duysters & Hagedoorn, 1995; Gomes-Casseres, 1996), media (e.g., Aksoy & Robins, 1992; Tempest et al, 1997), and entertainment (e.g., Faulkner & Anderson, 1987; Storper & Christopherson, 1987; Jones, 1996). Mergers, acquisitions and alliances which cut across these industries, however, have rarely been investigated from a theoretically-based organizational or managerial perspective. A study by Maney (1995), for example, which focuses on mergers, acquisitions, and alliances that contribute to the emergence of the TIME industry (because they bridge the boundaries of single industries) is descriptive rather than theoretical in nature and makes little if any reference to the (inter-) organizational structuration processes here at work. Similar arguments apply to other studies that confine their analysis to only two of the TIME-

related industries (e.g., Mueller-Stewens & Hoffman-Burchadi, 1996; Collis, et al, 1997; Greenstein & Khanna, 1997).

### **Four Distinct Industries at the Outset of Digital Television**

The TIME industry, as noted earlier, is evolving from four rather mature and separate industries: *telecommunications*, *information technology*, *media*, and *entertainment* (see Figure 1). Each of these industries has had a relatively clear sense of its products, technologies and markets as well as its own history, views, and mindsets. Each consisted of distinct key players, and had a clear identity and rather sharp boundaries.

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INSERT FIGURE 1 ABOUT HERE  
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The traditional *telecommunications industry* has been and still is highly concentrated and dominated by a few long-distance and several regional phone companies which control the national and regional markets respectively. With their telephone networks, these players, although troubled by the dissolution of local monopolies following the Federal Telecommunications Act and increased competition from wireless operators, still control a significant part of the technical infrastructure which is used for electronic data interchange. Although some technical problems related to narrowband technology still have to be resolved, this infrastructure will eventually be extended for the transmission of digital television. Conforming to their public-utility view of the infrastructure, telephone companies are trying to gain control over the set-top box which, according to their view and interest, should be placed outside the house and leased to subscribers.

The telecommunications industry will increasingly be exposed to severe competition from the *information technology industry* which already provides wide-area computer networks, in particular the Internet. While this industry – including hardware and software manufacturers – is also highly concentrated, in contrast to the telecommunication industry, it contains many small entrepreneurial companies, a significant number of which develop and deliver technology and/or content for digital television. From the viewpoint of information technology firms, digital television is and should be driven by the development of computer rather than by the computerization of telecommunication technology. This point became particularly clear when these firms succeeded in convincing the Federal Communications Commission (FCC) not to adopt the interlace standard developed by the Grand Alliance of telecommunications and television manufacturers (see Platt, 1997).

Similar to the information technology and computer industry, the *media industry* is highly concentrated, but also comprises a significant number of small entrepreneurial firms in the traditional business of publishing, film production, and, in particular, in the emerging multi-media industry (e.g., Scott, 1995). The packaging of content and the distribution of programming are at the center of this industry. The broadcasting as well as the cable industries which currently package and distribute only television programming – but which are likely to broaden their communication services – are rather concentrated. Nevertheless, they are both currently experiencing severe competition from direct broadcasters (e.g., DirectTV) which were able to overcome the extremely high barriers of entry, offer significantly more programming, and were the first with digital television. The media content and timing of programming, regardless of whether it is distributed by broadcasters, cable or satellite, very much depends on advertising and, especially in the case of public broadcasting, on sponsoring. To some extent, the

advertising business bridges the distribution-oriented media and the production-oriented entertainment industry.

The *entertainment industry*, which has always been hard to differentiate from the media industry, consists mainly of firms concerned with the production of media content: cultural products such as books, games, films, documentaries, musical recordings, and shows, even including theme parks and live performances. This industry, very much in contrast to the other three, puts somewhat less emphasis on technologies, is highly labor-intensive, characterized by extreme uncertainty and seems increasingly prone to vertical disaggregation. Media content is typically produced by networks of highly specialized firms and subcontractors, often in the form of dynamic project networks (Storper & Christopherson, 1987; Jones, 1996). Even major studios, television networks, publishing houses and recording companies tend to farm out much content production to independent firms but continue to coordinate and control the financing, producing, and marketing of the final output. Despite this embeddedness in national or even global distribution networks, media content is often produced in agglomerations (e.g., Los Angeles, New York, Vancouver) and supported by regional institutions such as professional associations, labor unions, state agencies, colleges and universities (e.g., Scott, 1995, 1996). The development of interactive content for digital television, although partly in the hands of major studios, is expected to offer also ample opportunities for business start-ups.

While these four industries have had their own history, views, products, technologies and markets, they have started to converge. This is particularly true for the media and entertainment industries, and the telecommunications and information technology industries respectively. The latter, in terms of resources, provide the technological infrastructure to produce and, in particular, to distribute cultural content (Greenstein & Khanna, 1997). The hardware and

software of these two industries are increasingly manufactured by the same organizations. As illustrated in Figure 1, software companies, most notably in the case of computer/video games, are contributing to the blurring of the formerly rather sharp boundary between the information technology industry and the entertainment business. The same may be stated for the Internet, which operates at the boundary of the telecommunications industry and the media industry where it may eventually provide necessary resources for the implementation of digital television (if this develops from digital, but narrowband, computer networks). The pooling and eventual augmentation of allocative and authoritative resources offer agents more opportunities to influence and shape the structures of signification and legitimation, including “the rules of the game” (North, 1990). Nevertheless, the same agents -- in developing these strategies, in influencing these structures, and in blurring the boundaries of these industries – still have to take into account the different structural properties of these industries.

In terms of rules of signification and legitimation, e.e., industry recipes, mindsets, or cultures, the media and entertainment industries have always had to balance content as a cultural product versus content as a means to gain an attractive return on investment. The resulting tension has been especially prominent in journalism and news organizations. Specific rules which have emerged to deal with this tension may also help to deal with similar issues in the wider TIME industry. The telecommunications and information technology industries, in contrast, have always been driven by profit interests alone, thus comprising rules of signification and legitimation which are typical for capitalist industries. The Internet, which at the outset was non-commercial, is still confronted with an array of commercialization-related difficulties. The information technology industry is beginning to struggle with non-profit visions of an industry, though it has been successful in moving a number of previously “subscriber-free”

services to a fee basis, further strengthening the commercial foundation of a more integrated TIME industry.

### **Crossing Industry Boundaries: Illustrative Examples**

For several years now, mergers, acquisitions and strategic alliances in the U.S. have contributed to the blurring of the boundaries and the differences between these four industries. In Europe, there are only a few of these interorganizational strategies that can be noted (see Mueller-Stewens & Hoffman-Burchardi, 1996: 308). Although intra-industry mergers, acquisitions and alliance building continue to occur,<sup>6</sup> a significant part of these activities across the boundaries of a single industry and are possibly contributing to the emergence of a more unified TIME industry.<sup>7</sup> Moreover, some of the alleged intra-industry activities, such as the merger of Time Warner and TBS into the world's largest media conglomerate, are in fact crossing the boundaries of a single TIME industry. As Figure 1 suggests, a merger, acquisition, or strategic alliance in which one of the media conglomerates is involved is likely to cut across established industry boundaries. This argument is confirmed by a comprehensive analysis of two years data provided in the *Wall Street Journal* for 1995 and 1996 (see Table 1),<sup>8</sup> and illustrated by five examples. The first three examples point to alliance building and acquisitions across industry boundaries, and the last two focus on acquisitions and mergers respectively.

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 INSERT TABLE 1 ABOUT HERE  
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**Example I: Motorola (T/I), Microware (I) and Nynex (T):**<sup>9</sup> In 1995, Motorola purchased a minority stake in Microware Systems Corporation, an Iowa-based software manufacturer. Microware, which develops and produces operating systems for most set-top boxes

currently being tested for interactive television, has not only teamed up with other companies in the information technology industry (e.g., IBM, Apple) but also with Nynex, one of the major regional phone companies in the Northeast of the U.S. The main purpose of this venture is to develop more customer-oriented operating systems for set-top boxes, which are essential for the digitization of television if it develops from present analogue television and telecommunication technology.

**Example II: Intel (I) and NBC (M):** Interact, the recent partnership between General Electric's NBC and Intel, brings television programming to personal computers, allowing simultaneous web surfing and television viewing with specially created content that embellishes on the show. Since Intel is not a content producer, the company has also begun similar ventures with Time Warner's CNN and Viacom's MTV (Sanders, 1996).

**Example III: Microsoft (I), NBC (M) and DreamWorks SKG (E):** Microsoft and NBC collaborated to launch MSNBC, a 24-hour cable television and Internet news venture. Moreover, NBC continues to provide Microsoft with news content for its MSN. Currently, Microsoft is believed to be seeking a long-term partnership with NBC modeled on the company's previous investment in a joint venture with DreamWorks SKG. The main purpose of this joint venture, DreamWorks Interactive, is to allow Microsoft access to some branded characters that DreamWorks has created for use in the interactive world.

In 1996 alone, Microsoft invested in 20 other companies, most of which are related to the corporation's Internet strategy (MSN). As far as digital television is concerned, at least two of these acquisitions deserve to be mentioned: a joint venture with Black Entertainment Television (BET) aimed at interactive entertainment and information, and a minority stake in WebTV, which delivers Internet customized for television viewing and with whom Microsoft will

collaborate on a new WebTV browsing system (Rebello 1996, 1997). In addition to NBC, Microsoft is trying to ally with other companies in the media industry, namely newspaper publishers which should deliver local news and information for the company's CityScope project. This project envisions a nationwide network of on-line community guides with local listings, maps, reviews, retail advertisements, classifieds and local news (Knecht, 1996). The increasing use of external alliances, however, does not imply that Microsoft, which considers online content as critical to its long-term plans, has restrained from also starting in-house development and production of entertainment programming.

**Example IV: US West Media (T) and Continental Cablevision (M):** US West, the Colorado-based regional phone company, which is still trying to buy Time Warner's cable arm, bought out Continental Cablevision, the nation's third largest cable carrier situated in Boston. The buyout was through the company's US West Media Group, which was formed last year and owns a 25.5 percent share in Time Warner. The announcement for this deal was made only three weeks after the Federal Telecommunication Act had been signed. The buyout allows US West, one of the more innovative U.S. phone companies (Maney, 1995: 78), to not only extend its telephone network to the Northeast but also to provide new services such as interactive video with Internet access over the faster television cable (Auerbach, 1996). Cablevision may profit from US West's expertise of switching, amplifier and monitoring technologies, which will be needed to transform present cable networks into a truly interactive system. The ultimate organizational form this acquisition will create remains to be seen.

**Example V: Time Warner (M/E) and TBS (M/E):** Most merger-related activity (as opposed to acquisitions) takes place within rather than across the TIME industries. Nevertheless, Time Warner's merger<sup>10</sup> with Turner Broadcasting Systems (TBS) illustrates how even

intra-industry consolidations can enhance a conglomerate's across-industry presence. The merged entity now has a strong news division (Time Inc. magazine division and CNN), includes cable networks (among others, HBO, MTV, Cinemax and TNT), film/television companies (Warner Brothers, Castle Rock Entertainment, New Line Cinema), sports, and multimedia outlets (including CNN Interactive). Although some industry observers predict that the merger will lead to strategic spinoffs (e.g., Cable Operations, Castle Rock Entertainment, New Line Cinema) (Peers, 1996; Variety, 1996), such mega-mergers are still likely to cut across industries and, thereby, contribute to the blurring of their boundaries.

All five examples indicate that allocative or authoritative resources which are important for the development of digital television have been pooled, or at least coupled, across industry boundaries. In addition, they raise the question as to whether and to what extent the industry recipes underlying strategic action (and other related rules of signification and legitimation to which agents refer to in their organizational and interorganizational practices) have or will be changed. The least that can be said in this respect is that the corporations in these five examples, and many of those further listed in Table 1, are reacting to the anticipation of a more unified TIME industry, i.e., to the emergence of new set of rules and resources, by strategy making across the boundaries of a single industry. Moreover, at least some of them seem actively and intentionally to promote the idea of a converging TIME industry through their strategic and organizational choices. That choice matters is demonstrated by the fact that – on the corporate level – Time Warner seems to pursue an interorganizational strategy which puts significantly more emphasis on technology than Viacom (and Disney). At the division and operating unit level, however, ABC, though a Disney acquisition, seems to consider technology more important than either NBC or CBS (see Maney, 1995: 153, 158-162). Even though not every strategizing

and organizing activity across industry boundaries should be interpreted this way, it is clear that these organizations no longer take industry boundaries simply as given but look at them -- almost as much as at the boundaries of their organizations (e.g., Reve, 1990) -- as an object of strategic action.

Based on our analysis thus far, we speculate that a major reason these companies pursue such interorganizational strategies is to gain or keep control over allocative and/or authoritative resources. In comparison to many other industry settings, however, strategic control in the TIME industry will not necessarily rely on fiat. Instead, this paper suggests that more cooperative approaches -- such as provided by the N-form -- seem in order for at least three reasons: (1) the abundant need for creativity, autonomy, *and* control; (2) the dependence of innovative products and services on the pooling of complementary resources (especially knowledge) of different industries; and (3) the extraordinary importance of time-to-market in an industry where the winner is likely to take it all (e.g., Kretschmer, 1997).

The N-form, which is based on at least some degree of autonomy of the single network firms, readily facilitates the production of creative content, which is the increasingly scarce and, therefore, critical resource in this emerging industry.<sup>11</sup> This applies to knowledge-based resources (e.g., creative, coordinative) as well as to property-based resources (e.g., licenses or exclusive contracts) (Miller & Shamsie, 1996). Similarly, in the multimedia business, a major shift from primary concern on techniques of programming to a dominant concern with content has been observed (Scott, 1995).

The N-form, although not of universal applicability, also has economic advantages for coordinating a business that, as typical for the emerging TIME industry, is characterized by high technological and commercial uncertainty. As Greenstein and Khanna (1997: 201) argue, "At

the boundaries where formerly separate industries come together in a new industry, economic ambiguities arise.“ In face of these circumstances, the N-form provides a needed basis for risk management and interorganizational learning, with regard to technology as much as content. Yet, at the same time, by only bridging the four distinct industries, the N-form tends, at least to some extent, to work against the total convergence of a unified TIME industry. In stark contrast to more hierarchical forms, the N-form is believed to preserve distinct practices within the organizations it binds together in a network. Just as interfirm tensions and culture “collisions,” well known from conventional analyses of mergers and acquisitions (e.g., Buono & Bowditch, 1989), may be avoided, or at least lessened, by the N-form, so may distinct, different, and possible industry-specific organizational practices be preserved.

#### **INTERORGANIZATIONAL STRATEGIES AND THE EMERGENCE OF THE N-FORM IN THE TIME INDUSTRY: THE CASE OF VIACOM INC.**

An \$11.7 billion company with over 80,000 employees spread out in 100 countries, Viacom Inc. describes itself as a "media giant with the soul of an entertainer."<sup>12</sup> The company is a significant force in virtually every segment of the international media marketplace, and is involved in television networks and broadcasting (e.g., MTV, VH1, Nickelodeon, USA Network, Sci-Fi Channel, Showtime, The Movie Channel, Viacom Radio), movies and entertainment (e.g., Paramount Pictures, television programming, movie theaters), video and music stores and theme parks (e.g., Blockbuster Video, Paramount Parks), and publishing (e.g., Simon & Schuster, Prentice-Hall). In addition to the myriad acquisitions the company has pursued over the years, Viacom has also developed an extensive array of alliances with such varied companies as the KirchGroup (a major German media company), Hilton Hotels Corporation, Burda (one of

Germany's largest publishing houses), Zipper Interactive Inc. (a video games producer), and Sprint Corporation (to develop and distribute branded direct Internet access products).

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INSERT FIGURE 2 ABOUT HERE

Figure 2 illustrates the various segments that are part of the Viacom conglomerate and Table 2 summarizes a number of the corporation's recent ventures with TIME-related companies. As illustrated by these data, Viacom currently has a hybrid organizational structure characterized by a combination of the M- and N-forms: a multidivisional structure for its direct holdings and a series of alliances and partnerships with an array of TIME-related companies. Such network charts readily indicate the contracting universe of the TIME industry (see Miller, 1996) and the strategic reach and influence of conglomerates such as Viacom, clearly cutting across the traditional boundaries between the telecommunications, information technology, media and entertainment industries. Although Viacom, especially following the acquisitions of Paramount and Blockbuster and the internal development of its own network (UPN), now owns large parts of the value chain needed for digital television, its focus continues to be on content rather than technology. Other conglomerates, largely because of the extreme market uncertainty involved in the development of cultural products, seem to have historically focused on control and distribution channels (Curtin, 1996: 189). Rather than emphasizing full integration and an exploitation of synergies, it is noted that Viacom continues to develop and market products for external customers, and foster internal competition (e.g., Maney, 1995: 148-149).

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In addition to Viacom's direct involvement in the media and entertainment industries, the firm cuts across the full range of TIME industries via its own holdings and a networked arrangement of owned companies and partnerships. Viacom New Media, for example, develops and publishes interactive entertainment software for personal computers and video game consoles for a wide variety of platforms. The role of alliances in Viacom's strategy is further evidenced by the potential expansion of Viacom into the computer hardware industry. Based on a small investment in PC Upgrades, a Cincinnati business that specializes in upgrading personal computers, for example, Viacom is considering converting over 100 of its Blockbuster music-retail outlets into PC Upgrades (Shapiro, 1996). A final example is Viacom Cable, the 12<sup>th</sup> largest multiple cable television system operator in the U.S. with approximately 1.2 million subscribers, which has constructed a fiber optic cable system in Castro Valley, California. While part of this latter endeavor is to provide area residents with more channels with enhanced picture quality, the fiber optic cable system will also be used to test a range of new services, including an interactive on-screen programming guide (StarSight), interactive programming with Viacom Interactive Media, experimental interactive video and data services, and access to on-line computer services and the Internet through a PC-cable modem. Moreover, in January, 1996 the Castro Valley system began testing full telephone service over the cable system.<sup>13</sup>

The broad range of alliances and equity investments that Viacom is currently involved in readily suggest the emergence of a network type structure (N-form). There are, however, a number of countervailing dynamics which indicate that hierarchical tendencies toward centralization and control (M-form) still exist throughout the conglomerate. Although initial trends suggested that program content was the key to success in the entertainment industry, dominance is still linked with owning both programming content *and* the distribution assets

needed to deliver it (cf., Oneal, 1995; Sherman, 1995). As these distribution channels are rapidly expanding into the Internet, ownership trends increasingly cut across the TIME industry, blending media, entertainment and technology companies (Lesly, 1996). As Figure 3 illustrates, Viacom has been building its own television network and delivery system through which to sell its own programming. Its Blockbuster Video unit, for example, has been described as “a vast distribution systems” (Oneal, 1995).

Similarly, Redstone and Biondi were recently described as the pair who would transform Viacom into the “Microsoft of the entertainment world” (Auletta, 1995). Biondi rejected to force a universal strategy on all Viacom businesses, arguing “Here we’re in seven or eight lines of business and there’s not a universal strategy for each of them. You have to allow division managers to develop a strategy and my job is to see the intersections or roadblocks” (Biondi, quoted in Maney, 1995: 150). Redstone, however, was reportedly upset by Biondi’s “cautious pace” and dismissed him, explaining that “an entrepreneurial, aggressive, responsive, hands-on management style is the most effective way to capitalize on the enormous opportunities of Viacom.” His displacement of Biondi was reported to be a move toward creating “just that kind of management.”<sup>14</sup> There has also been a literal explosion of vice president-level appointments throughout the organization,<sup>15</sup> which further suggests an effort to install greater control through an expansion of the traditional hierarchy. In fact, instead of appointing a new president or chief operating officer, Redstone is reported, for these reasons, to have six executives report directly to him and four others to the “office of the chairman” (Lesly, et al, 1997: 70). Along these lines, Redstone also reviews the budgets and plans of the divisions. Finally, Viacom has had recent difficulties with some of its partners, most notably when it was accused by Seagram CEO Edgar Bronfman of flouting the noncompete language of Viacom’s joint ownership of USA Networks

(with Seagram's MCA unit) when it launched a new cable TV network (TV Land) (Hammonds, 1996).

Despite these changes at Viacom, the different operations within the company, very much like Time Warner's various businesses (Curtin, 1996; Schön, 1996), seem to have significant organizational autonomy. While the preference may still be to retain direct control, these conglomerates have grown to the point where they are described as "unmanageable" with a "span of control [that] is impossible" (Saporito, 1996: 73). Thus, a network of relationships rather than control via fiat increasingly appears to be the solution for balancing autonomy and dependence, and creativity and control, as well as creating the synergies expected from conglomerate yet related combinations.

#### **INTERORGANIZATIONAL STRATEGIES IN THE TIME INDUSTRY: CREATING AND MANAGING THE N-FORM**

Even though early predictions suggested that vertical integration -- and by inference the H- and M-forms of organization -- would yield significant clout in the media and entertainment industries (e.g., Jensen, 1995; Mandel, 1995), current trends indicate a greater move toward partnerships and alliances than mergers and acquisitions. Indeed, although the sheer volume and size of merger and acquisition activity have only occurred very recently, there are signs that, at least in the U.S., the number of new mergers and acquisitions is declining. Some industry observers interpret this as a sign of consolidation for single corporations, such as Tele-Communications Inc. (TCI). TCI's acquisition of Bell Atlantic failed and the company has turned to developing stakes in some 30 cable networks including Discovery Channel, Family Channel, QVC, Court TV, Home Shopping Network, and BET (e.g., Maney, 1995; Grover, 1996). Others trace the levelling off of such interorganizational ventures back to changes in the

technological and regulatory environment,<sup>16</sup> or raise an even more general argument: a period of lively merger and acquisition activity has almost certainly to be followed by a period with much smaller activity in these areas (e.g., Peers, 1996). Once interorganizational strategies, usually accompanied by intense competition over potential partners, have been implemented, they increase the entry barrier to a certain market due to a lack of potential partners, high switching costs, and raised requirements of economies of scale and scope (Gomes-Casseres, 1996: 190-193).

The move away from direct ownership of the myriad segments of the TIME industry to alliances and partnerships requires changes in organizational structures, strategies and relationships. Instead of traditional emphases on hierarchy, reporting relationships, division of labor and accountability, the N-form is focused much more fully on results and inter-firm processes (see, for example, Dess, et al, 1995). These interorganizational forms also call for a complex set of management skills and abilities, including building relationships, negotiating mutually rewarding deals, finding the "right" partners with compatible goals and values, and providing the partnered organizations with the appropriate balance of freedom and control (Buono, 1997). Managers will have to more fully be able to: 1) act as brokers, securing and negotiating relationships with other firms; 2) recognize their interdependence and be willing to share information and collaborate with their partners; 3) customize their product or service on a continual basis to maintain their position within the network; and 4) invest in the development of interfirm capabilities, human resources and trust at the individual, team, firm and network levels (e.g., Lynch, 1993; Miles & Snow, 1992, 1995; Powell, 1987; Snow, et al, 1992; Sydow, 1992). Given the nature of the TIME industry, however, it appears that managers have to be particularly concerned with managing across industry boundaries for which they have to

understand the rules of different industries. At the same time, network effectiveness will still be challenged by pressures for centralized integration and fragmented, external control across partnering companies. In addition, as we have seen in the Viacom case vignette, a lingering penchant for control can not only result in significant internal change but can also strain relations with alliance partners as well.

### **A RESEARCH AGENDA**

Large media conglomerates have become the main agents in the ongoing transformation of media-related industries and their possible convergence towards a more integrated yet very complex TIME industry, a trend that is particularly observable in the development of digital television. At the same time, however, these same organizations continue to have acknowledge the distinct structural properties of the industries they operate in. In any case, the inclusion of mergers, acquisitions and, especially, alliances into these corporations' repertoire of corporate strategies has become a pervasive influence, not only on their own activities but on those of their collaborators and competitors as well. Whether all these interorganizational strategies, at least in the context of what we have referred to as the TIME industry, will lead to the dominance of the N-form is still unclear. Countervailing practices, such as those observed in the case of Viacom, may hinder the spreading of this form. Thus, in essence, we appear to be witnessing a co-evolution of organizations, interorganizational networks and industries, whose outcome, however, remains uncertain. As illustrated by our brief exploration into Viacom, the conglomerate has direct holdings and partnerships with organizations across the telecommunications, information technology, media and entertainment industries. This conglomerate is thus both reacting *and* contributing to this emerging industry – but its *concrete*

operational and interorganizational practices and the *actual* contribution to the emergence of a unified TIME industry have yet to be studied.

The paper is thus an exploratory step in our understanding of managing in an industry whose boundaries are blurring, as well as an assessment of the N-form and how it contributes to a further blurring of these boundaries. At least three reservations, however, need to be made. First, not all organizations within the media or TIME industry are expected to converge towards the N-form. Rather, the spread of the N-form will increase the range of organizational forms to be found in this industry (see also Tempest, et al. 1997). Second, although not every emerging network organization has to do with convergence, “many motives for cooperating are misunderstood without understanding convergence” (Greenstein & Khanna, 1997: 217). Finally, the blurring of the boundaries of the TIME industries will not necessarily, and certainly not in the short term, lead to a perfect fusion of the four industries and, thus, to a new social system. Rather, the boundaries, as much as other distinct structural properties of the industries, will continue to matter for both strategizing and organizing.

Given these concerns, the research agenda points to several issues and considerations. First, a structuration perspective requires the analysis not only of strategies but also of social practices such as interorganizational endeavors on an industry level. In the end, the question whether mergers, acquisitions and alliances really blur the boundaries of the industries depends upon the nature of these concrete practices. While such a micro-analysis of interorganizational practices has not been carried out thus far, Table 3 presents a research design that would guide such exploration. It would be important to compare and contrast both interorganizational strategies and practices and perceptions of those practices at the corporate, divisional and operating unit levels (see, for example, Buono & Bowditch, 1989; Mirvis & Marks, 1991).

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INSERT TABLE 3 ABOUT HERE  
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Second, the impact of not only cooperative but also competitive strategies on the emergence of a more unified TIME industry or, at least, on the blurring of the industries' boundaries, has yet to be explored. The possibility exists, for example, that the N-form will make it more difficult to anticipate where future competition will come from. This form, more than any other, allows firms to enter and leave markets at a faster rate. Moreover, the development of more powerful computers and faster networks, and the recent success of the FCC (the standardization issue over the television and telecommunication industry), improve the position of the major players in the information technology industry to influence the speed, extent, and direction of the blurring of the industry boundaries.

Finally, questions linger with respect to the influence that newcomers to the media industry -- such as Seagram (MCA) and Westinghouse (CBS) -- will exert on the convergence of TIME-related industries: (1) how will their strategies be affected by convergence? (2) do their different industry backgrounds matter? (3) will they have better opportunities (i.e. different sets of rules and resources to refer to) to confront cognitive and normative "lock-ins," therefore tending to more radical moves? While these questions have not been addressed in the present paper (see, Stimpert, et al. 1995), these dynamics could exert significant influence on this new industry.

The emerging TIME industry has significant implications for the ways in which firms in that domain will approach management, organization and interorganizational arrangements. While the present paper has been a preliminary step in the direction of furthering our

understanding of this emerging industry and the conglomerates and networks of alliances that operate within it, further research – at the industry, interorganizational and organizational levels -- is needed as the boundaries between the different industry segments and the companies within them continue to blur.

## ENDNOTES

1. While the N-form is sometimes believed to be only a transitional organizational form which will be followed either by full integration (i.e., hierarchy) or dissolution (i.e., market) this may not be the case in the TIME industry. Moreover, a recent study of 6425 strategic technology alliances found that only 168 cases (2.6 %) could be linked to mergers and acquisitions (Hagedoorn & Sadowski, 1996). While it is unclear whether this result may be generalized beyond technology driven alliances, it raises substantial doubts on the thesis of the N-form as only a transitional form.
2. Although mergers and acquisitions, and sometimes even alliance building, are referred to as external growth strategies, growth may neither be their sole nor even their primary purpose.
3. Given these dynamics, the new media divisions of the conglomerates (e.g., Time Warner Interactive, Viacom New Media) are more likely to play the role of a network organization than internally developing these resources.
4. The separate system character even continues to apply to the telecommunications and information technology industries which have been converging for at least a decade.
5. Consider, for instance, the frequent acquisitions of television stations by other stations and cable networks in the media industry, or Bell Atlantic's proposed merger with Nynex in the telecommunications industry. Within this latter industry, cable operators also continue to pool their resources.
6. This type of alliance building is even being extended to ventures tying together phone, cable and utility (electric) companies. The goal is to create "one-stop shopping" for customers who will package telephone, cable television, Internet, and utility services (see Auerbach & Ackerman, 1996).
7. These data update Maney's (1995) comprehensive case collection on TIME-related mergers, acquisitions, and alliances. Involved in these deals are, above all, key U.S. players such as TCI, Time Warner, Bell Atlantic, Disney, Microsoft, Netscape, Viacom, Silicon Graphics, Cox Enterprises, GM's Hughes, Barry Diller, Oracle, Starsight Telecast, Comcast, Microware, Sony, Sega, General Electric, General Instruments, CAA (the large Hollywood talent agency) and -- last but not least -- AT&T (see also Table 1 and Robichaux, 1994).
8. In these examples, (T), (I), (M) and (E) refer to the respective industries in which the firms operate: telecommunications, information technology, media, and entertainment.
9. The Time Warner-TBS combination is alternatively described as a merger or acquisition (cf. Chester & Wright, 1996; Variety, 1996). For the purpose of the present analysis, it will be used as an illustration of a TIME-related merger.

10. Up to now, channel capacity has been the scarce resource as evidenced by TCI having announced to drop some channels (e.g., Lifetime) in order to be able to carry the new 24-hour Fox News Channel instead. That will change dramatically. The fact that the number of transactions in the market for studios has sharply fallen does not contradict this argument; rather, this situation results from the fact that (1) most major production companies are already in the hands of media conglomerates and (2) production and marketing costs for feature films have increased to the point where they hardly create any profits (Grover, 1996).
11. This description was taken from Viacom's webpage ([www.viacom.com](http://www.viacom.com)).
12. See Viacom Inc.'s Form 10-K Annual Report filed with the Securities and Exchange Commission (Washington, D.C. 20549), for fiscal year December 31, 1995, Commission File No. 1-9553.
13. This quote was taken from "Viacom Bounces Biondi" ([www.iuma.com...nt/news.html](http://www.iuma.com...nt/news.html)), January 26, 1996.
14. This information was culled from press releases on Viacom's webpage.
15. For instance, the rather abrupt stoppage of buying and selling cable television companies is seen as caused by failures in the first interactive multimedia trials and the ruling of the FCC in February 1994 that cable companies had to cut their rates by 7 percent (see Maney, 1995: 30-31).

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FIGURE 2 HERE

TABLE 1

**TIME-RELATED MERGERS, ACQUISITIONS AND ALLIANCES WITHIN THE U.S.:  
1995-1996**

<i>Year</i>	<i>Firms involved</i>	<i>Content</i>	<i>Industry crossed*</i>	<i>Type</i>	<i>Org. Form</i>
1996	UNNet Technologies, USA Network	Sci-Fi Channel as Internet service	I, M	alliance	N
	Microsoft, DreamWorks SKG	DreamWorks Interactive	I, E	joint venture	N
	Silver King Commun., Home Shopping Netw.	Increased control,	M, E	acquisition	?
	Microsoft, Black Entertainment Television	delivering interactive entertainment and info.	I, M	joint venture	N
	Fox Broadcasting, Saban Entertainment	cooperation in television programming for children	M, E	joint venture	N
	Teleworld Enterprises Definition	programming for Internet	T, E	merger?	?
	Mircosoft, US West Media, VDOnet	communications software for video and voice over Internet	T, I, M	equity alliance	N?
	Timer Warner, TBS	consolidation of the busines- ses, cost-cutting, debt reduct.	T, I, M, E	merger	N
	Zenith, Americast (joint venture Disney, SBC, Ameritech, BellSouth, GT)	set-top boxes	T, M	longterm supp- lier contract	N
1995	Microsoft, Web TV	network browser	I, M	equity alliance	?
	US West, Cablevision	phone service and interactive video via cable	T, M	acquisition	N
	AT&T, Hewlett- Packard	hard- and software for phone and cable netw. S	T, I	alliance	N
	Microsoft, NBC	NBC news for MSN	I, M	alliance, ev. joint venture	N/M
	News Corp., TCI	sport rights	M, E	alliance	N
	PBS, Reader's Digest	joint development/production of series, video distribution	M, E	alliance	N
	News Corp., Saban Entertainment	children programming, inter- national distribution	M, E	alliance	N
	Paramount, Procter & Gamble	development of shows	E, (A)	alliance	N
	Reuters, BSkyB	development of news	M, E	alliance	N
	Disney, Ameritech, Bell South, SBC, GTE	development of interactive tv programming	T, M	alliance	N
	Intercast (Intel, NBC)	development of software that brings Internet to television	I, M	joint venture	N
	Microware, IBM, Apple, Nynex	operating systems for set-top boxes	T, I	alliance	N

Source: Compiled on the basis of Wall Street Journal 1995-1997; \* T=Telecommunications, I=Information technology, M=Media, E=Entertainment, (A=Advertising). Partly subject to regulatory approvals.

TABLE 2 HERE

**TABLE 3**  
**A RESEARCH FRAMEWORK**

**INTERORGANIZATIONAL STRATEGY**

<b>ORGANIZATIONAL LEVEL</b>	<b>MERGER</b>	<b>ACQUISITION</b>	<b>STRATEGIC ALLIANCE</b>
<b>CORPORATE</b>	✓	✓	✓
<b>DIVISIONAL</b>	✓	✓	✓
<b>OPERATING UNIT</b>	✓	✓	✓