VIACOM INC.
A Case Study in Transnational Media Management

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ABSTRACT The article is a case study analysis of Viacom Inc., a leading transnational media corporation (TNMC) in the production, sale and distribution of electronic media entertainment. The study examines the history and development of Viacom, building on theoretical work that argues that business strategies and corporate culture of a company are often a direct reflection of the person (or persons) responsible for developing the organization and its business mission. Viacom's long-standing CEO, Sumner Redstone, has shown himself to be an aggressive leader who is deeply involved in all aspects of the company's operations. The article also examines the business strategy of Viacom, a unique media business entity that has been built through the steady acquisition of existing media companies. A critical challenge facing Viacom is the company's inability to find a successor to Redstone in preparation for his future retirement. Viacom's apparent lack of a succession plan is in large measure due to Redstone's unwillingness to share power at the top and failure to appoint a CEO successor.

KEY WORDS: transnational media corporation, strategy, leadership, succession, business history

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The article is a case study analysis of Viacom Inc., a leading transnational media corporation (TNMC) in the production, sale and distribution of electronic media entertainment. There are two main parts

to this study. It begins with an examination of the history and development of Viacom.It builds on the theoretical work of Schein (1983), Morley & Shockley-Zalabak (1991) and Gershon (2002, 1997) who argue that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission. Viacom's long-

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standing CEO, Sumner Redstone, is one such person and has shown himself to be an aggressive management leader who is deeply involved in all aspects of the company's operations (Dick, 2001; "Sumner's Gemstone," 2000).

The article begins with an examination of the the firm's business strategy. Viacom differs somewhat from other TNMCs given the fact that it cannot claim an original media software product with a long-standing history. Rather, Viacom is a unique business entity that has been built over time through the steady acquisition of existing media companies, with an established brand identity. In this way, Viacom has avoided some of the normal risks associated with new start-up companies. What began essentially as a small movie theater chain has evolved into the second largest TNMC in the world.

One of the critical challenges facing Viacom has been the company's inability to find a successor to the company's chairman and CEO, Sumner Redstone, in preparation for his retirement. In this paper, special attention is given to the question of managerial succession planning. According to Kesner & Sebora (1994), CEO succession can have a significant impact on an organization in terms of strategic planning, financial performance and preserving organizational stability. Viacom's apparent lack of a succession plan is in large measure due to Redstone's unwillingness to share power at the top level of the organization and failure to appoint a CEO successor. The significance of this research lies in its revelations concerning the changes facing an organization that was once the sole proprietorship of one person to that of a major media organization whose scope of operations is transnational in size and complexity.

HISTORICAL OVERVIEW

Viacom is a highly diverse media company with business interests in radio and television broadcasting, cable television, film entertainment, home video rentals, publishing, advertising and amusement parks. The origins of Viacom can be traced to 1971, when the FCC passed the Syndication Financial Interest Act which prohibited the three major U.S. television networks, CBS, NBC and ABC, from having an ownership stake in the programs that were produced for the networks. This prompted CBS to spin off its syndication programming interests into an independent media company called Viacom International. The newly formed company was under the direction of Clark B. George, a former president of CBS Radio. Viacom International served as a distribution outlet for such programs as *I Love Lucy*, *The Honeymooners* and *Family Feud*. In 1986, Viacom International purchased a majority stake in MTV Networks and Nickelodeon, and thus began the company's rapid entry into the world of cable television (Dick, 2001). One year later, Viacom International was acquired by National Amusements, a Massachusetts

based movie theater chain owned by Sumner Redstone and the Redstone family.

Sumner Redstone

Sumner Redstone was raised in an affluent Jewish family in Boston, Massachusetts. His father, Max Rothstein, began his career selling newspapers and peddling linoleum. Later, he changed his name to Michael Redstone and began acquiring land and started building several drive-in theaters under the banner name Northeastern Theatre Corporation. His foresight to buy the real estate on which these theaters were built paid off handsomely as property prices kept increasing, thereby increasing the net worth of the Redstone family.

As a youth, Sumner Redstone attended the elite Boston Latin Public School. Afterwards, he attended Harvard and later Harvard Law School. After graduating from Harvard Law School in 1947, Redstone worked as an attorney for some time before he decided to join the family business. In 1979, Redstone was trapped on the ledge of a Boston hotel and was so badly burned that doctors didn't think he would survive (Redstone & Knobler, 2001). It proved to be an early indication of Redstone's strong competitive will. For the next several years, he helped build Northeastern Theatre Corporation into one of the leading movie theater chains in the U.S. Eventually, Northeastern Theatre was renamed National Amusements and by the 1980s the company had rapidly expanded and owned several hundred properties throughout the U.S. It was during this time that Redstone witnessed a momentous surge in the cable television industry and a corresponding decrease in movie theater attendance. He was quick to realize that cable television was beginning to change the entertainment landscape and that the future was in software entertainment.

> I believed strongly that cable's new technology was a tremendous threat to motion picture exhibition. I saw content as the growth industry. With a growing number of free and pay channels to choose from, people who had been our customers were increasingly staying home. (Redstone & Knobler, 2001: 102).

This realization prompted a major shift in business strategy at National Amusements. The company began investing in motion picture studios. Some of its investments included Warner Communications, Disney, Columbia Motion Pictures and later a controlling interest in Viacom International (Dick, 2001). More importantly, National Amusements (later Viacom) would build a corporate empire based on the value of owning well-established broadcast and cable properties. Let us briefly consider a few telling examples, including Paramount, MTV and CBS.

From National Amusements to Viacom

In early 1984, prior to its takeover by National Amusements, Viacom International received a lot of media attention when the company fended off a hostile takeover bid by corporate raider, Carl Icahn, who had acquired more than 17% of Viacom's stock from the open market. To protect itself from this hostile bid, Viacom went on a buying spree, picking up substantial interests in premium cable television networks, including Showtime, MTV and Nickelodeon as well as television station KMOV-TV, St. Louis, Missouri and Puget Sound Cable Systems. All this was done in an attempt to saddle Viacom with extensive debt and to make the company more expensive to acquire. Viacom also employed a "poison pill" strategy, whereby, it would dilute the value of the company's overall stock by selling more shares when and if a potential buyer attempted to own more than 20%.

In September 1986, the Viacom CEO, Terrence A. Elkes, with the support of several investment firms, proposed a leveraged buyout of Viacom's stock from the open market by offering $2.7 billion for the company. His goal was to convert Viacom into a private company. Redstone, for his part, noticed the extensive press coverage that Viacom was receiving. At the time, critics accused Elkes of trying to buy the company at a price well below its actual value. Despite the risk and enormous debt involved, Redstone was determined to acquire Viacom. He began acquiring Viacom's stock from several investment firms including Coniston Partners, which owned 12.4% and Los Angeles based Capital Group, which owned 9.6%. After both deals were completed, National Amusements owned 19.6% of Viacom's stock.

Viacom appointed a group of external board members to evaluate the various bid offers. After intense deliberation, the board rejected the initial $2.7 billion offer made by Elkes and his group, reasoning that Viacom's stock was worth more. The board rejected National Amusements' bid as well despite Redstone's willingness to pay a higher price. Thus, the battle for Viacom began with offers and counteroffers that lasted more than a year. On June 3, 1987, National Amusements finally won the bidding war and purchased Viacom International for $3.4 billion. Shortly thereafter, the company's name was shortened to Viacom. Table 1 provides an overview of Viacom's acquired assets in 1987.

Table 1. Viacom's Acquired Assets (1987)

NETWORKS ***Showtime / Movie Channel***	A pay cable programming service available to 8 million U.S subscribers. Showtime provided feature films as well as a pay per view service

MTV Networks	Cable programming operation, including music, video and entertainment programsThrough 4 advertiser supported channels to about 28 million households.
Lifetime	A joint-venture, advertiser-supported cable television service with programmingfor women and the medical community, available to about 25 million households.
BROADCAST OPERATIONS ***5 Television Stations***	WLTW-FM, New York; WLAK-FM, Chicago; WMZQ-Stations, AM and FM, Washington; KIKK-AM and FM, Houston, and WRVR-AM and FM, Memphis.
8 Radio Stations	WLTW-FM, New York; WLAK-FM, Chicago; WMZQ-Stations, AM and FM, Washington; KIKK-AM and FM, Houston, and WRVR-AM and FM, Memphis.
Cable Systems	Eighteen cable systems serving about 930,000 Television subscribers in California, New York, Ohio, Oregon, Tennessee, Washington and Wisconsin.

Post-Merger Integration

After the completed takeover of Viacom, Redstone hired Frank Biondi to replace then CEO Terrence Elkes as CEO. Biondi was a Harvard graduate who started his career as a stockbroker and later joined the cable television industry. He joined HBO and rose through the corporate ranks to become its CEO in 1983. He later left HBO to join Coca-Cola Entertainment and was elevated to the position of CEO, when he was invited to head Viacom. From 1987-1992, Viacom exhibited a strong pattern of growth. The company was successful on a number of programming fronts, including the European launch of MTV in 1987 which became the first in a series of MTV's worldwide programming services. Viacom was also making strong headway in the area of television syndication.

Paramount

At the start of the 1990s, Paramount was one of five major film studios in Hollywood. It was involved in both television and film production. Paramount was responsible for a number of highly successful television series, including *Cheers, Family Ties* and *Star Trek* to name only a few. In the area of film entertainment, the list of landmark motion pictures produced at Paramount studios reads like a tour of Hollywood itself. Paramount was the location for several Marx Brothers comedies, including *Coconuts* (1929) and *Duck Soup* (1933). Alfred!Hitchcock shot some of his best films for Paramount, including *Psycho* (1960), *Rear Window* (1954) and *Vertigo* (1958). In later years, Paramount had major hits with *Saturday Night Fever* (1977), *Heaven Can Wait* (1978), *Grease* (1978), *Reds* (1981), *The!Untouchables* (1987) and the entire *Star Trek* movie series starting in 1979. Paramount was also where the entire Indiana Jones adventure series was created, starting with *Raiders of the Lost Ark* in 1981.

In 1993, Paramount Communications experienced one of the most turbulent years in the company's history. Though the studio released more than 23 motion pictures, many of them failed at the box office and plunged the company into serious debt. Paramount's financial difficulty made it vulnerable for a possible outside takeover. At the time, Viacom was looking to expand into the motion picture field. The possibility of buying a well-established film studio would provide a good fit with Viacom's other media holdings. Viacom, however, was not the only company interested in Paramount. QVC Networks Inc., an independent cable shopping network, owned by Barry Diller, also sought to acquire Paramount.

As before, Sumner Redstone found himself locked into a year-long struggle to buy an important media asset. From September 1994 onward, Viacom and QVC Networks were engaged in a highly volatile bidding war to acquire Paramount. Viacom, for its part, partnered with a Regional Bell Operating Company, NYNEX, and Blockbuster Video, both of which invested $1.2 billion and $600 million respectively in the Paramount deal. In the meantime, Viacom went ahead and acquired Blockbuster for $8.4 billion in January 1994. Finally, Viacom and its partners won the bidding war and acquired Paramount and its assets for $10 billion; approximately $2 billion more than the original asking price.

The Viacom and Blockbuster deals resulted in Viacom incurring a massive debt of more than $10 billion dollars ("Paramount Brawl," 1994). Paramount's financial difficulty forced Redstone to spend a considerable amount of time at the company's headquarters in Los Angeles, driving his top executives, president Jonathan Dolgen and studio chief Sherry Lansing, to turn the company around. By 1996, Paramount's fortunes began to improve and the company saw a 19% jump in revenues and an improved cash flow of $390 million for that year ("Sumner's Last Stand," 1997).

Music Television Channel (MTV)

The Music Television channel is an advertiser-supported music entertainment cable channel that began as a joint venture between American Express and Warner Amex Communications, then a subsidiary of Warner Communications. It was conceived by John A. Lack in 1980 who was then vice president of Warner Amex. Lack envisioned programming three to five minute commercials for recorded albums in the same manner that a radio station programs recordings. His goal was to reach television viewers aged 12 to 35. Lack was able to secure $20 million in start-up capital from both Warner Communications and American Express (Ogles, 1993). Lack recruited Robert Pittman (who would later oversee the AOL-Time Warner merger) to assemble a team responsible for developing the MTV concept. MTV was launched on August 1, 1981.

By 1983, MTV had become successful and achieved profitability a year later. Lack left the network in 1984. Robert Pittman rose to the position of president and CEO of MTV before leaving in 1986. In March 1986, MTV, VH1 and Nickelodeon were sold to Viacom for $513 million. Soon after the acquisition of MTV, Redstone appointed Tom Freston as CEO. Freston was the last remaining member of Pittman's original development team. MTV's global success is in part due to the innovative management and programming strategies that Freston implemented early on in his tenure.

In 1987, MTV launched its first overseas channel in Europe, which was a single feed consisting of American music programming hosted by English speaking artists. MTV soon discovered that while American music was popular in Europe, it could not offset differences in language and culture and an obvious preference for local artists. European broadcasters, however, quickly understood the importance of MTV as a new programming concept. They soon adapted MTV programming format and began broadcasting music videos in various languages throughout the whole of Europe. This, in turn, severely affected MTV's financial performance in Europe.

In 1995, MTV was able to harness the power of digital satellite communications in order to create regional and localized programming. MTV's international programming drew upon the talent, language and cultural themes from localized regions which was then fed by satellite into that same geographic area. Approximately 70% of MTV's content is generated locally with an attempt to offer continuously new program offerings ("MTV's World," 2002). The shift in programming emphasis has made it easier and more profitable for MTV to sell advertising airtime overseas, given that most advertising needs and budgets of companies tend to be more local than international. MTV airs more than 22 different feeds around the world, all tailored to their respective markets. They comprise a mixture of licensing agreements, joint ventures and wholly owned operations, with MTV International still holding the creative control of these programs.

Today, MTV International is organized into six major divisions, including MTV Asia (Hindi and Mandarin), MTV Australia, MTV Brazil (Portuguese), MTV Europe, MTV Latin America (Spanish), and MTV Russia ("Sumner's Gemstone," 2000). The management of MTV's international operations are highly decentralized, which allows local managers the ability to develop programming strategies to fit the needs of each individual market. Table 2 provides a brief chronology of MTV's international growth.

Table 2. A Chronology of MTV's International Growth

August 1987	MTV's first European feed into UK and Ireland markets.
November 1989	MTV beams into the Warsaw Pact Countries. First feed into East Europe
October 1990	MTV launched in Brazil
March 1991	MTV becomes the first non Russian channel to broadcast in Russia
April 1995	MTV launched in Taipei With MTV Mandarin
May 1995	MTV South East Asia launched
June 1995	Ends single feed in Europe. Begins multiple feeds in Germany and Italy
October 1996	MTV launched in India
March 1997	MTV Australia launched
June 1998	MTV Nordic launched for Sweden, Norway, Finland and other countries

Source: Viacom, Inc. 2002

Columbia Broadcasting System Inc. (CBS)

The growth of the CBS television network is somewhat legendary in the history of broadcasting. In 1928, one year after William Paley assumed control of the old united independent network, the fledgling company became profitable. Ten years later, the CBS network grew from 16 to 113 affiliate stations. By 1940, CBS was the single largest advertising medium in the world. William Paley is often credited with having built the traditional network/affiliate relationship as we know it today (Bedell Smith, 1990).

If William Paley gave the network entrepreneurial finesse and a sense of program identity, Dr. Frank Stanton provided the network with clear managerial oversight. The two men worked together to build CBS into what was colloquially referred to as the "Tiffany Network." As several writers have noted, it was assumed that Frank Stanton would one day succeed William Paley as chairman of the company (Bedell Smith, 1990; Halberstam, 1979). Paley, unfortunately, had great difficulty letting go. This was particularly evident in his failure to provide a clear plan of succession that should have included Frank Stanton. As Halberstam (1979) points out, the tensions had become palpable as the calendar moved toward 1966, the year that Stanton was supposed to take control of CBS.

> As 1996 approached, Stanton cast a longer and longer shadow. They became more irritable with one another….By February 1966, all the arrangements for Stanton's succession had been made. But Paley could not go through with it. The company was his, it was his life. He could not give it all up and become an old man overnight. In retrospect, it seems the most predictable of Bill Paley's decisions, but Stanton was surprised and broken. (p. 492)

The lack of a succession plan at CBS resulted in a fairly chaotic situation at the network in terms of the company running through a string of qualified CEOs, including Arthur Taylor, John Backe and Tom Wyman. Each had the momentary support of William Paley, but none could escape his watchful eye and constant interference (Bedell Smith, 1990). As a company, CBS lurched back and forth for a time ushering up different business strategies. The year 1987 marked a critical turning point in the company's history. After cable entrepreneur Ted Turner made an unsuccessful bid to purchase CBS, the network turned to Loew's president and financier, Lawrence Titch, who bought a 25% majority stake in CBS. Titch soon installed himself as president and CEO of the company (Sterling & Kitross, 2002).

The Titch era at CBS proved to be disastrous. As president, Titch soon began selling off important corporate assets and adopted a cost reduction mentality that resulted in major cutbacks in staffing and resources. During his tenure, CBS witnessed a major downturn in program ratings across the network's entire primetime schedule (Sterling & Kitross, 2002). CBS lost the broadcast rights for the National Football League (NFL) to the Fox television network as well as the subsequent defection of 12 affiliate stations to the same company. Worse still, the news division in particular was hard hit and saw a slow steady erosion in news quality. The *CBS Evening News,* once considered the best in news reporting, slipped to the number two spot in the Nielsen ratings.

Titch eventually decided to cash out and in November 1995, Westinghouse Electric acquired CBS for $5.4 billion. This marked the end of CBS as an independent broadcast television network. In 1997, CBS acquired Infinity Broadcasting, a major radio group, for $4.9 billion in stock. Infinity Broadcasting President Mel Karmazin would soon join the board of directors at CBS and later become president of the CBS television network.

CBS is Acquired by Viacom

In 1999, discussions got underway between CBS President Mel Karmazin and Sumner Redstone at Viacom. The two came to an agreement and Viacom purchased CBS for $37 billion. For Viacom, the decision to buy CBS represented an opportunity to obtain a well-established television network with a longstanding history. In addition, CBS owned Infinity Broadcasting, representing more than 160 U.S. radio stations. The purchase of CBS is expected to provide a steady distribution outlet for Viacom programs and offer numerous cross licensing and marketing opportunities ("CBS," 1999).

ORGANIZATIONAL STRUCTURE

Viacom is the most highly diverse TNMC in the world with business interests in radio and television broadcasting, cable television, film entertainment, video rentals and sales, publishing, advertising and amusement parks. Viacom Inc. is organized into seven divisions. Table 3 provides an overview of Viacom's major media holdings.

Table 3. Viacom Media Holdings: Select Examples (2003)

Broadcast Television CBS Television Network United Paramount Network Viacom Television Stations Group (39 stations) 16 CBS owned & operated stations 4 CBS satellite stations 18 UPN affiliated stations 1 independent station (Paramount Television) CBS Enterprises King World Productions CBS Broadcast International **Cable Television** MTV Networks MTV, MTV 2 Nickelodeon Nick at Night VH1 CMT The New TNN TV Land Showtime Networks Showtime The Movie Channel FLIX Sundance Channel (co-owned) Black Entertainment Television Comedy Central	**Radio & Outdoor** Infinity Broadcasting Viacom Outdoor/Infinity Outdoor **Motion Pictures & Theatrical Exhibition** Paramount Pictures Paramount Home Entertainment United International Pictures (33% stake) **Retail and Recreation** Blockbuster Video Paramount Parks Famous Players Theaters (Canada) United Cinemas International (UCI) **Internet & Interactive Media** MTV.com CBS.com CBSNews.com Nickelodeon.com VH1.com **Publishing** Simon & Schuster Pocket Books Scribner The Free Press

Source: Viacom Inc., Viacom 2002, 10K Report

FINANCIAL ASSESSMENT

Media and telecommunications industries are characterized by high start-up costs and high risk. The decision to publish a new magazine or launch a new cable television service is a high-risk venture with few guarantees. Such efforts require a long-term view toward investment. The decade of the 1990s will long be remembered as a time of rapid growth characterized by major mergers and leveraged buyouts. The basic

financing was accomplished through easy credit given by the world's leading financial institutions and corporate willingness to assume major amounts of debt (Gershon, 1997). Viacom was no exception. Although its cable television channels were generating profits, Viacom's financial solvency reached a crisis in 1997 when the company could not adequately service its $11.5 billion debt load, which resulted from its takeover of Paramount Communications as well as major financial losses sustained by Blockbuster.

The Blockbuster Crisis

In 1994, when Viacom acquired Blockbuster at a cost of $8.4 billion, it did so as part of a long-term strategy to use Blockbuster's healthy cash flow to service the anticipated $10 billion debt load that it would incur when it acquired Paramount. By 1997, this strategy fell apart as Blockbuster sustained a pre-tax loss of $323 million ("The Vindication," 1998). Worse still, Viacom had to write off two-thirds of Blockbuster's tape inventory (valued at $315 million dollars), which only exacerbated a bad situation. One major problem was the high cost of acquiring videotapes from the various Hollywood studios which made it difficult to stock the shelves with an adequate level of inventory at Blockbuster's multiple outlets. This drastically reduced revenue flow because many customers would leave the store empty handed, unable to find the tapes they wanted.

The untenable situation led to the firing of Blockbuster's CEO, Bill Fields, who was replaced by John Antioch. During the next six months, Redstone worked with Antioch and his management team to redesign their existing business model. They came up with an alternative revenue sharing approach, whereby Blockbuster would buy tapes from the studios at prices ranging from $3 to $8 per tape. Blockbuster in turn would give back approximately 40% of the rental revenue generated per tape. The new revenue-sharing model resulted in a dramatic turnaround at Blockbuster and by 1998 the company saw a 17.6% increase in revenues.

Reducing its Debt Load

In order to further reduce its debt load, Viacom sold several important media and entertainment properties, starting with Madison Square Gardens for $1.1 billion (1994), the educational reference section of Simon and Schuster for $4.5 billion (1997) and 50% of USA Networks for $1.7 billion (1998), to name only a few. These sales, in combination with Paramount's improved financial performance, effectively helped reduce Viacom's long-term debt from $11.5 billion to $4.0 billion by 1998.

Viacom Today

Today, Viacom is among the most successful TNMCs in the world. In 2002, Viacom achieved total revenues of $24.6 billion and a total operating income of $4.6 billion (Viacom Inc., 2002). During the years 1999-2002, Viacom witnessed a steady progression in revenues in all its divisions, with the exception of video (representing Blockbuster Entertainment). In particular, Viacom has achieved strong financial performance from its broadcast television and cable network divisions, which realized total revenues of $7.49 billion and $4.72 billion respectively in 2002. Table 4 provides a breakdown of Viacom's total revenues by business segment for the years 1999-2002.

Table 4. Viacom Inc., Financial Performance by Business Segments,* 1999-2002 (in millions)

Segments	**2002**	**2001**	**2000**	**1999**
Cable Networks	$4,726.7	$4.297.6	$3,951.0	$3,075.3
Broadcast Television	$7,490.0	$7,247.7	$5,426.4	$2,352.0
Infinity Broadcasting	$3,754.6	$3,670.2	$2,764.7	*Pre CBS merger*
Entertainment	$3,646.9	$3,597.8	$3,351.7	$2,665.9
Video	$5,565.9	$5,156.7	$4,960.1	$4,463.5
Total Revenue	$24,605.7	$23,222.8	$20,043.7	$12,858.8
Operating Income	$4,596.7	$1,460.2	$1,320.9	$1,247.3
Net Income (loss) [1]	$725.7	$(223.5)	$(816.1)	$334.0

Source: Viacom Inc., 2002 10K Annual Report

*It should be noted that the financial breakdown consolidates the company's seven divisions into five. The business segment known as Entertainment consists of Paramount Pictures as well as Publishing, including Simon & Schuster. Video represents Blockbuster Entertainment.

BUSINESS AND PLANNING STRATEGIES

Researchers like Schein (1983), Morley & Shockley-Zalabak (1991) and Gershon (2002, 1997) argue that the business strategies and corporate culture of a company are often a direct reflection of the person (or persons) who were responsible for developing the organization and its business mission. Writers like Bennis (1986) contend that the single most important determinant of corporate culture is the behavior of the chief executive officer. The CEO is the person most responsible for shaping the beliefs, motivations and expectations for the organization as

[1] The financial statements for the years 1999 through 2001 are laced with qualifiers that explain the reasons for the company's net income loss. According to company documents, the combination of factors include extraordinary expenses incurred due to its acquisition of 20% of Spelling Entertainment in 1999, its acquisition of CBS for $38.2 billion in 1999, its acquisition of 50% of UPN network in 2000, acquisition of BET holdings for $3 billion in 2001, and its acquisition of 36% of Infinity Broadcasting in 2001.

a whole. The importance of the CEO is particularly evident when it comes to the formation of business strategy. Clearly, Viacom is a company that has been largely shaped and influenced by its CEO, Sumner Redstone.

Sumner Redstone: Management and Leadership Style

Sumner Redstone is known for his aggressive leadership style and his tenacity as a negotiator. Given his background as a lawyer, Redstone is legendary for his use of litigation to settle business disputes. Throughout the late 1970s and early 1980s, the drive-in theater business was struggling hard to survive given the fact that the major film studios would often deny smaller theater chains like Northeastern Theatre Corporation access to newly released movies in favor of the bigger national theater chains. Frustrated with this situation, Redstone put his legal skills to work and sued some of the leading film studios for such discriminatory practices and won several major lawsuits. Time and again, Redstone would resort to litigation as the basis for accomplishing his business goals. In 1992, for example, Viacom sued Time Warner Inc. when it stopped carrying Viacom's Showtime/The Movie Channel on its cable systems in favor of promoting its own HBO movie channel. To do so, however, was not without its risks. At the time, Time Warner was Viacom's biggest client and suing one's own customer could prove highly damaging to both companies' long-term relationship. Redstone chose to ignore the advice of his management team. After a three-year legal battle, Time Warner agreed to pay Viacom $75 million in damages and restore Showtime on the company's owned cable networks.

Viacom executives close to Redstone describe him as a hands-on manager who gets involved in minor day-to-day decision making of the company and in the process sometimes overshadows the contributions of his talented management team. Although he gives his managers a lot of freedom to operate their own divisions, he prefers to retain tight control over matters pertaining to strategic planning and long-term decision making. Part of Redstone's leadership style is based on the fact that he is an entrepreneur owner with a controlling interest that allows him to run the company with an iron hand. The Redstone family controls over 67% of the voting stock and 28% of the shares outstanding at Viacom. This translates into an unusual level of power and ease with which Redstone can negotiate deals and control decision making within the company ("Sumner's Last Stand," 1997).

Vertical Integration and Cross-Media Ownership

Several noted scholars, including Albarran (2002), Compaine & Gomery (2000), Litman (1998), Gershon (1997), and Owen & Wildman (1992) provide thorough discussions on the underlying strategies of vertical integration and cross-media ownership. In principle, the TNMC can control an idea from its appearance in a book or magazine, to its debut in

domestic and foreign movie theaters as well as later distribution via cable, satellite or videocassette/DVD. The rationale is that vertical integration allows a large-sized company to be more efficient and creative by promoting combined synergies between (and among) its various operating divisions. Today's TNMC engages in a wide variety of cross-media ownership strategies; that is, owning a combination of entertainment, news, and enhanced information services. It allows for a variety of efficiencies, such as:

1. Cross-licensing and marketing opportunities between company owned media properties
2. Sharing of newsgathering, printing and distribution facilities between company owned media properties
3. Negotiating licensing, rental and sales agreements across different media platforms
4. Offering clients package discounts in advertising that cut across different media platforms. TNMCs like Time Warner, Viacom and News Corp. routinely offer clients package discounts.

When Sumner Redstone became chairman of Viacom, he was quick to realize that the company lacked an overall strategy for integrating its many diverse media holdings. To address this issue, Redstone brought together all of the company's top executives. At a series of strategy sessions, he stressed the importance of building internal synergies between and among the various business enterprises. According to Redstone,

> I wanted to make our people understand the interrelationship between their businesses and foster a sense of Viacom's identity. Too often one business or even one division can develop a tunnel vision and lose sight of the greater goal which is the development and growth of the entire corporation….I wanted all these CEOs to understand that each of them was, first a Viacom executive. It was a theme that I have had to reiterate through out my entire life at Viacom–the necessity to make divisional agendas subservient to the entire company's objectives (Redstone & Knobler, 200 150).

Established Brand Identities

Viacom is unique among TNMCs given the fact that it cannot claim an original media software product with a long-standing history. Unlike such companies as Walt Disney, Sony, and News Corp. that began with a distinct core competency, Viacom has been built over time through the steady acquisition of existing media companies with an established brand identity. By doing so, Viacom has avoided some of the normal risks associated with new start-up companies. Starting with Viacom itself in 1987, Redstone's principal strategy has been to invest in those companies

that are proven winners or show excellent growth potential. Later examples include Blockbuster (1994), Paramount (1994), CBS Television (1999), and Black Entertainment Television (2000). Each of these companies are highly complementary in nature and fit well into Viacom's overall strategy of vertical integration by combining media software content with expanded methods of distribution.

Demographic Reach

Today's Viacom is arguably the most highly diverse TNMC in the world with business interests in radio and television broadcasting, cable television, film entertainment, video rentals and sales, publishing, outdoor advertising, and amusement parks. Redstone's competitive instinct has been guided by an unwavering belief that "content is king," an expression he coined many years ago that speaks to the essence of Viacom's across-the-board demographic reach ("Sumner Redstone's Global Sprawl," 2002). In the area of broadcast television, Viacom owns CBS, one of the four major U.S. television networks as well as UPN, a minor television network. Viacom owns and operates 39 television stations, reaching 15 of the top 20 television markets in the U.S. More specifically, the television stations division includes 16 CBS O&O (owned and operated) stations, 4 CBS satellite stations, 18 UPN O&O stations, and one independent station. This, in turn, has created duopolies in eight major markets, including Boston, Dallas, Detroit, Los Angeles, Miami, Philadelphia, Pittsburgh, and San Francisco (Viacom Inc., 2003). Viacom also owns Infinity Broadcasting, which includes 185 radio stations across the U.S.

Viacom is also home to several well-established cable network services, including MTV, VH1, Showtime, Nickelodeon, TNN, BET, CMT and Comedy Central. In the area of film production, Viacom includes Paramount Pictures with over 2500 titles in its library, including such Oscar-winning titles as *Forrest Gump* and *Titanic*. Viacom owns Blockbuster, the world's leading providers of videos, DVDs and video games with more than 8,500 company-operated and franchised stores in 28 countries, as well as in the US and its territories. Finally, Viacom Outdoor is a global leader in outdoor advertising with one million display faces worldwide (Viacom Inc., 2003).

VIACOM AND CEO SUCCESSION

One of the critical challenges facing Viacom has been the company's inability to retain senior executives and the difficulties in finding a successor to Redstone in preparation for his retirement. Kesner and Sebora (1994) describe CEO succession as an "important, unique, and very visible event," one that has profound effects on the organization and its strategy. Recent years have witnessed greater pressures on CEOs to

carefully select a successor prior to stepping down in order to ensure a smooth transition in executive leadership. At issue is the question of what happens when a CEO of a major TNMC fails to provide a plan of succession?.

Through the years, researchers have identified three main reasons that lead organizations to choose successors. In the case of an impending retirement, the selection of CEO replacement is principally a maintenance strategy. The choice of CEOs will often come from inside the organization (Pfeffer, 1972). As an example, when Jack Welch former president and CEO of General Electric, retired in 2000, the company had three internal candidates ready to step in and continue the role of CEO. The eventual choice was Jeffrey R. Immelt, who was viewed as someone who would continue and adapt GE's existing strategic plan. At a GE press conference, Welch said he expected no difficulties in the transition between himself and Immelt, who had spent his entire career with the company.

> We have known each other for a long time….This is easy, this is a very comfortable relationship, and Jeff will be doing more and more every day ("Immelt to be Next CEO," 2000).

The second reason to choose a CEO successor is typically a response to poor financial performance. According to this view, the change in CEOs represents an effort to get the company back on track. In such cases, the company (and its board of directors) will often seek an outsider as a possible change agent (Pfeffer, 1981; Brady & Helmich, 1984). IBM, for example, hired Lou Gerstner, the former CEO of RJR Nabisco, in 1993 when the company's business performance had stalled. Gerstner moved quickly to cut billions in expenses and raised cash by selling assets. Early on, he determined that the whole of IBM was greater than the sum of its parts. He killed a plan which had been under way, to break up the company into smaller operating units. Instead, he got IBM to refocus its energies by developing a powerful international services operation that has transformed the company's fortunes ("BM: From Big Blue," 1999).

The third reason to choose a CEO successor may be the result of corporate misconduct. A scandal involving corporate misconduct at the CEO level, such as the falsification of an earnings report, can have a devastating effect on the company's standing and reputation in the marketplace. The lack of investor confidence can translate into billions of dollars in lowered stock value and the public perception that the company is organizationally unstable. As an example, WorldCom became the focus of intense scrutiny by regulators and law enforcement officials after the disclosure that WorldCom had improperly overstated earnings by $3.8 billion in 2001 and the first quarter of 2002 ("Congress Begins," 2002). The current estimate is $11 billion. This led to the forced

resignation of CEO Bernie Ebbers, who was later replaced by Michael D. Capellas.

The Value of Succession Planning

Kesner and Sebora (1994) make the argument that CEO succession can have a significant impact on an organization in terms of strategic planning, financial performance, and preserving organizational stability. The question then becomes whether this is best accomplished inside or outside the organization. Kotter's (1982) research noted that CEOs recruited from the outside, who lack a thorough understanding of the business that they are expected to lead, will often contribute less to the organization than insiders. Further research studies, including Allen, Panian and Lotz (1979) have concluded that such outsiders can have a highly disruptive influence on the organization. An incumbent CEO having a specific successor in mind sends a strong, positive message to company employees and investors that there is a strong management team in place and that the organization is not likely to experience a loss of momentum (Zajac, 1990). In order to accomplish this, internal training and opportunities for advancement becomes critical (Dalton & Kesner, 1983). In principle, larger companies have a decided advantage over smaller companies. Successful and promising managers can be easily moved between divisions to assume positions of greater responsibility.

Viacom: Finding a Successor

One of the critical challenges facing Viacom has been the company's inability to find a successor who can lead the company after the retirement of its chairman, Sumner Redstone. The apparent lack of a succession plan can be been attributed to Redstone's unwillingness to share power at the top level of the organization. One of the first CEOs to lose his job at Viacom was Frank Biondi. As mentioned earlier, Biondi was recruited in 1986 to run Viacom after serving as head of Coca-Cola Entertainment. Biondi figured prominently in the negotiations to acquire Paramount and Blockbuster Entertainment. Most Viacom executives attribute Biondi's firing to a difference in management style. Frank Biondi has been described as a low key, hands-off manager. According to former Viacom executive Mark M. Weinstein,

> For the first time, Frank brought together the twenty-five or so managers. He got everyone together to understand one another's business. He ran the company in a very collegial manner, with weekly executive meetings of those who reported to him. He wanted people to operate freely, as long as they met their budget goals and did not hit him with surprises (Auletta, 1997: 111).

Biondi's management style stood in marked contrast to Redstone's tough, more demanding approach. In an interview with *Time* magazine,

Redstone commented "I never wanted to undermine Frank. I saw issues developing, and my sense was that they weren't being dealt with as aggressively as they should have been" ("A Firing at Fort Sumner," 1996).

Other top executives from Viacom expressed different views as to why Biondi was fired from his job. Some pointed to the departure of Geraldine Laybourne, the widely respected head of Nickelodeon who was hired away by Disney, as a reflection of Biondi's inability to keep his management team together. Others cited the failing performance of Paramount Pictures in 1994. The studio had a string of box-office disappointments. In the final analysis, the conflict between Redstone and Biondi may be nothing more than an entrepreneur-owner's reluctance to hand over control to a successor. In that same *Time* article, Biondi attributed his dismissal to what he described as Redstone's need to "get totally involved. He is having a lot of fun. He loves publicity. He wants his day in the sun and he is going to get it" ("A Firing at Fort Sumner," 1996). Biondi's firing was quickly followed by the promotion of general counsel Phillipe Dauman and finance chief Tom Dooley to top executive positions at Viacom.

Those executives who have worked with Redstone over the course of many years see Redstone's leadership style differently. While they concede that he can be a tough, demanding boss, he is also someone who encourages a sense of partnership, one in which MTV's Tom Freston, Paramount's Jonathan Dolgen, and CBS's Les Moonves have seemingly thrived. Each has displayed an ability to deftly manage up, which, according to insiders, is something that Chief Operating Officer (COO) Mel Karmazin has failed to accomplish. According to Tom Freston, "Sumner really understands what makes a creative business work. He trusts the people he has in place and allows them to run their business….A micro-manager, he's not. Thank god" ("Sumner Redstone's Global Sprawl," 2002).

Conflict with Mel Karmazin

If Biondi's leadership style was considered hands off, the same cannot be said for CBS COO Mel Karmazin. While the merger between CBS and Viacom made good business sense, it has also engendered an uneasy working relationship between Karmazin and Redstone, which has at times created moments of instability at Viacom. At the time of the CBS merger, Karmazin signed a three-year contract with Viacom that began in 1999. According to the terms of the agreement, substantial powers were given to Karmazin, including independent decision-making authority and management oversight, as well as the ability to make substantial changes to the company's existing compensation policies. Such powers have made Karmazin a key figure in Viacom's day-to-day operations ("When Two is a Crowd," 2002).

Though both leaders share common business interests and are committed to delivering strong returns to Viacom’s stockholders, they admit to differences in management style. Ironically, Karmazin is more like Redstone in temperament and management style than was Biondi. The potential difficulty in relations between the two men became apparent from the start when Karmazin managed to squeeze out Redstone's two top lieutenants, Philippe Dauman and Tom Dooley, from the company. Moreover, Karmazin also negotiated a greater role for CBS president Les Moonves in the area of television entertainment. Karmazin's track record to date suggests that he tends to focus on the things at which he is best, most notably sales performance and reducing costs, while giving programming executives much wider latitude. Karmazin is known for demanding strong financial performance from his executive team. He is one important reason that Viacom’s stock has done very well in comparison to other media companies. Removing Karmazin from his current position would not be an easy task. To do so would require at least 14 of 18 votes from the company’s board of directors. Eight members of the company’s board are from CBS, which is decidedly loyal to Karmazin.

In March 2003, Mel Karmazin and Sumner Redstone announced publicly that they had resolved their differences, which paved the way for extending Karmazin’s contract with Viacom. While the new agreement ensures Karamzin’s continuance with the company, it also restores some important powers to Redstone, including the ability to veto major strategic initiatives proposed by Karmazin as well as the right to over rule him on the hiring and firing of senior level executives. Less certain, of course, is whether Redstone will be fully supportive of Karmazin as a potential successor when the time comes.

DISCUSSION

Viacom is one of the most highly diverse media companies in the world. The company is well positioned in all aspects of electronic media entertainment and news. It has demographics that reach virtually all segments of the population. What began essentially as a small movie theater chain has evolved into the second largest TNMC in the world. Today, Viacom is among the most respected and financially stable media companies in the world. Much of Viacom’s success is in large measure due to the company’s longstanding chairman and CEO, Sumner Redstone. He is deeply involved in all aspects of the company’s operations.

Viacom differs somewhat from other TNMCS given the fact that it cannot trace its origins back to an original media software product. Rather, Viacom is a unique business entity that has been built over time through the steady acquisition of existing media companies, with an established brand identity. Starting with Viacom itself in 1987,

Redstone's principal strategy has been to invest in those companies that are proven winners or show excellent growth potential, thus avoiding the normal risks associated with new start-up companies. Each of Viacom's broadcast, cable and film properties are highly complementary in nature and fit well into the company's overall strategy of vertical integration by combining media software content with expanded methods of distribution.

As Viacom grows and evolves as an organization, the company that was once the sole proprietorship of one person is giving way to highly complex transnational organization. Schein (1983) makes the argument that CEO influence and organizational culture will vary according to the age and experience of the organization. During the organization's formative years, the founder (or family) may dominate the organization. Later on, new realities in the marketplace may surface, forcing a change in terms of key goals and assumptions. Such changes in organizational culture are inevitable for a company that seeks to operate internationally. For Viacom, the challenges of staying globally competitive have indeed become more formidable. Viacom's software reach extends to some 166 countries and territories in 18 languages around the world.

The challenge for Sumner Redstone on a personal level will be his ability to relinquish the reins of power to a company that he has been intimately involved with for over twenty years. As a CEO, Redstone's circle of equals among TNMCs is few in number. He might reasonably compare himself to other CEOs like Rupert Murdoch, John Malone, and Ted Turner. But unlike Turner, Redstone has no interest in seeing his executive role diminished in the way that it did for Turner at AOL-Time Warner. Turner later admitted that selling Turner Broadcasting was the biggest mistake of his life ("Ted Turner: A Seller's Remorse," 2001). Redstone does not want to commit the same mistake.

Redstone exhibits a kind of entrepreneurial owner reluctance to step down and hand over the reins of power. From William Paley to Rupert Murdoch we have seen this tendency played out before. Nevertheless, Redstone recognizes that Viacom's long-term future must be ensured. Redstone has hinted at the fact that Viacom's next CEO will come from within. In addition to Karmazin, there are three other possible candidates that might become successors. They include: Les Moonves, president and CEO, CBS Television; Tom Freston, chairman and CEO, MTV Networks and Jonathan Dolgen, chairman, Viacom Entertainment Group ("Stability of Power," 2002). Another possibility is Redstone's daughter Shari, President of National Amusements and who also sits on the company's board of directors. She has expressed an interest in becoming more directly involved in the company.

Empire Building

Despite much apparent turmoil in the field of media and communications, Sumner Redstone's Viacom and Rupert Murdoch's News Corp. stand out as two of the more successful TNMCs. While many such companies have been losing money or engaging in failed business strategies, by contrast both Viacom and News Corp. have only gotten stronger over time. The parallels between Redstone and Murdoch are indeed striking. Each is an aggressive, passionate leader of a company he controls. Each has built his empire on the back of a small inherited family business: movie theaters in Redstone's case, Australian newspapers in Murdoch's.

So it is that researchers like Gershon (2002, 1997) and Demers (1998) argue that media ownership and strategic decision making can sometimes be prompted for reasons that go beyond simple business considerations. News Corp. head Rupert Murdoch and Viacom's Sumner Redstone have sometimes been characterized as "empire builders" in the tradition of the press barons of the 19th century (Auletta, 1997; Shawcross, 1992). For CEOs like Redstone, Murdoch), and Turner, there is a certain amount of personal competitiveness and business gamesmanship that goes along with managing a major company. Success is measured in ways that go beyond straight profitability. A high premium is placed on successful deal-making and new project ventures. The combination of respect and competitiveness can be seen in a 1998 interview comment made by Redstone.

> There are two or three of us who started with nothing. Ted Turner started with a half-bankrupt billboard company. Rupert Murdoch started with a little newspaper someplace in Australia. I was born in a tenement, my father became reasonably successful, and I started with two drive-in theaters before people knew what a drive-in theater was....So I do share that sort of background with Rupert. People say I want to emulate him [Murdoch]. I don't want to emulate him. I'd like to beat him... ("There's No Business," 1998: 104).

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