

# **Lightening the Load: An Exploratory Analysis of Divestiture Strategies of Major Media Firms**

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**ABSTRACT** The Telecommunications Act of 1996 has encouraged media firms to restructure their operations, relative to new opportunities. The deregulatory law has led firms to engage in extensive mergers and acquisitions. Similarly, media firms have divested numerous operations. The goal of this exploratory research article is to ascertain the divestiture strategies—and divestiture determinants—of major media firms since the Telecommunications Act of 1996. Divestiture strategies and motivations were reviewed and applied to recent media divestiture activity.

**KEY WORDS:** strategy, divestment, restructuring, policy

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Media restructuring has accelerated since the Telecommunications Act of 1996 became law. Media firms have scurried to merge with—and acquire—one another, in hopes of capitalizing on the current deregulatory scheme. Time Warner and Turner Broadcasting System merged within the year. Walt Disney bought ABC. CBS merged into Viacom. Even several Baby Bells joined forces: Bell Atlantic and Nynex merged to create a new wireless organization in 1997. Two other Baby Bells, SBC Communications and Ameritech, completed their merger in 1999. Recently, America Online has merged its new media operations with those of Time Warner's more traditional media.

Researchers also have rushed to investigate the acquisition patterns and strategies of major media firms. The other side of restructuring, however, has been overlooked. Indeed, acquisition strategies only paint a partial picture of corporate-level strategy. No single company can continue to grow and acquire other businesses without the growth

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becoming detrimental to the overall success of the firm (Hitt, Ireland, & Hoskisson, 2000). In addition, no single firm has enough capital to successfully pursue such endeavors. Hence, firms restructure. Restructuring encompasses a change in the business or financial structure of a firm (Hitt et al., 2000). Vignola (1974) says, 'A company lives by expanding and contracting, by growing and changing, by acquiring and divesting. These are the actions of a healthy, vital company, not a sick, dying company' (p. 8). Thus, both acquisitions and divestitures are vital components of the life cycle of a firm, in which it undergoes changes that are vital to its survival.

Perhaps the dearth of divestiture research is due to a belief that divestitures are merely reverse acquisitions and that the factors that play into acquisitions relate to divestitures (Taylor, 1988). But divestitures are not merely reverse acquisitions. First, divestitures are not necessarily of acquired assets. Some divestitures can entail assets that were originated in-house, not acquired. Moreover, divestitures operate in a completely different milieu than do acquisitions. Divestitures 'require different approaches, different kinds of information, different methods of analysis, and different management practices' (Taylor, 1988, p. 8).

Nevertheless, divestitures have great implications for firms. Divestitures influence and reveal the corporate-level strategy of a firm. Specifically, divestiture strategies determine the businesses in which the firm competes and how those businesses are managed. Moreover, divestitures affect the firm's choice of business-level strategy and the firm's position in the industry in which it competes. Divestitures isolate potential competitors and aid firms in determining how they will allocate resources to gain competitive advantage and above-average returns.

Media divestiture strategies are especially important to investigate. In 1992, the media industry was in the top ten most active divesting industries ('Divestiture Activity in 1992,' 1993). In 1999, the media industry stood as the sixth most active divesting industry, with 90 divestitures ('Divestiture Activity in 1999,' 2000). The Telecommunications Act of 1996 and the transition to a digital environment may have propelled such activity. Much of the subsequent restructuring actions stem from the provisions in the Act. Cable system operators were now permitted to own and provide telecommunications services. Public utility companies also could enter into the telecommunications services market. Local exchange carriers were cleared to enter the long distance market. Broadcast and cable companies could be jointly owned. Ownership limits for television were raised, while national radio ownership limits were eliminated (Summary of the Telecommunications Act of 1996, 1996). The extensive provisions of the Act clearly promoted increased activity and competition among firms that previously had been prohibited from engaging in direct competition.

It is important to ascertain which businesses will allow a media firm to use its resources, capabilities, and core competencies productively to

achieve competitive advantage in the new deregulatory and digital landscape. As companies restructure and firms adjust to new opportunities and threats, media firms will have to find their niche and place in the new environment. Chakravarthy refers to such strategies as flexible commitments, namely engaging in a 'paradoxical blend of early commitments (so vital for competitive success) and timely exits (crucial for managing risks)' (1997, p. 69). Thus, the goal of this exploratory research article is to ascertain what have been the divestiture strategies—and divestiture determinants—of major media firms since the Telecommunications Act of 1996.

The article begins with an overview of the divestiture concept. It reviews relevant literature, and defines and traces divestiture activity in general. Then, it focuses on specific divestiture strategies and determinants, or motivations, for divestiture. Next, it presents the procedures of the case-study method and highlights significant results of the divestiture activity of eight major media firms. Finally, there is a discussion of the overall findings, implications, and limitations of the analysis.

## **DIVESTITURE**

Various scholars have rendered definitions of divestiture. In its simplest terms, divestiture is the sale of a part of oneself (Coyne & Wright, 1986). Others have ventured further, asserting that divestiture goes beyond selling a part of oneself. It also entails a termination of managerial and ownership control (Thomas, 1986). However, divestiture need not consist merely of a *sale* of assets. The *Bloomberg Financial Glossary* defines divestiture as 'a complete asset or investment disposal' ('Divestiture,' online). The main idea is that of dispossession; even downsizing may be a form of divestiture. It is a shedding of property, and that property may consist of any number of things, from businesses, products, facilities, to employees (Buckley, 1991; Cascio, 1998; Cumming & Mallie, 1999).

This dispossession of property is not a new phenomenon. As early as the 1950s, divestitures were occurring in all industries. By the mid-1960s, divestitures had risen to 150 per year. Between 1964 and 1971, yearly divestitures nearly tripled (Vignola, 1974), and the 1970s soon was known as the 'Decade of the Divestiture' (Buckley, 1991). This trend has continued since the 1970s and is sometimes referred to as 'deconglomeration' (Gaughan, 1999; Taylor, 1988).

## **DIVESTITURE STRATEGIES**

Divestiture encompasses a wide range of activities, which may be developed into a typology of sorts. This typology revolves around several elements: restructuring type, divestiture level, divestiture degree/grade,

divestiture medium and consideration, tax status, and post-divestiture ownership status. Each divestiture strategy lies along a continuum within these categories (see Table 1).

Table 1. Divestiture Strategies

Restructuring Type	Divestiture Strategies	Divestiture Level	Tax Status	Divestiture degree/grade <sup>(a)</sup>	Divestiture medium and/or consideration <sup>(b)</sup>	Post-divestiture ownership status
Portfolio Restructuring	Sell-off	Asset → Subsidiary	Taxable	Discrete & Partial	Cash, stock, or exchange	No ties
	Spin-off	Subsidiary	Can be tax-free	Discrete & Partial	Dividend via stock	Some ties
	Equity carve-out	Subsidiary	Can be tax-free	Discrete & Partial	Cash & stock	Close ties
	Split-off	Subsidiary	Can be tax-free	Discrete & Partial	Exchange stock	No ties
	Split-up	Entire firm	Can be tax-free	Series & Total	Exchange stock	Parent firm does not exist
Financial Restructuring	Leveraged buyout	Subsidiary / Division	Varies	Discrete & Partial/Total	Stock	No ties
Organizational Restructuring	Downsizing	Employees	Varies	Discrete & Partial	N/A	No ties
(a) Degree refers to whether the divestiture is partial or total, namely whether the parent firm retains other businesses (Buckley, 1991), and whether the divestiture is a discrete activity or a series of transactions (Gaughan, 1999; Vignola, 1974).						
(b) Divestiture medium refers to what the parent company divests (most often stock); whereas divestiture consideration refers to what the parent company receives in exchange for its divestiture.						

### **Portfolio Restructuring**

Bowman et al. (1999) classified restructuring strategies into three groups: portfolio, financial, and organizational. Portfolio restructuring entails a change in a firm's assets or operating businesses. Relative to divestiture strategies, then, portfolio restructuring includes strategies such as sell-offs, spin-offs, equity carve-outs, split-offs, and split-ups.

**Sell-Off** The most straightforward and most common divestiture is a sell-off (Gaughan, 1999; Schmidt, 1990). Sell-offs consist of a sale of any part of a firm's property to an outside party. The property may be an asset or product (Taylor, 1988), a business unit (Coyne & Wright, 1986), a division or subsidiary (Buckley, 1991), or a sale of stock or investment interest (Cumming & Mallie, 1999). Most often, the sell-off is a discrete, single transaction (Gaughan, 1999) that results in a permanent and severing transaction. The consideration is usually cash (Schmidt, 1990), although firms often exchange property. While firms benefit from the liquidity—or cash infusion—in a sell-off, the transaction is taxable

(Cumming & Mallie, 1999). In 1999, for example, multiple cable system operator Comcast Corporation severed all relationships to its cellular operations by selling the division to telecommunications service provider SBC Communications for \$400 million (Comcast Corporation, 1999).

**Spin-Off** Spin-offs are increasing in popularity (Gaughan, 1999). Here, the parent firm takes a subsidiary and makes it into a freestanding legal entity, transferring ownership to its shareholders on a pro rata basis. Spin-offs tend to be discrete, single transactions and are partial divestitures. The divestiture medium in a spin-off is a distribution of stock in the form of a dividend; this transaction does not yield immediate cash infusions (Gaughan, 1999) but may be nontaxable (Miles & Woolridge, 1999). Essentially, spin-offs maintain ownership interest in a firm's divested entity, but management and control of the entity remain with the entity itself. The divested unit is quasi-independent (Coyne, 1986). Hence, a company that wants to maintain ownership in an entity but free up its managerial resources may opt for a spin-off strategy.

**Equity Carve-Out** An equity carve-out (ECO) is a variation of the spin-off. The parent firm establishes an independent entity and sells 'equity in a subsidiary to the public in the form of an initial public offering (IPO)' (Miles & Woolridge, 1999, p. 1). This type of divestiture results in a cash infusion and a significant majority interest for the parent firm. In fact, there are 'significant tax advantages to retaining at least 80 percent control' (Miles & Woolridge, 1999, p. 37). In 1998, for example, The News Corporation established the Fox Entertainment Group, which holds the company's American television, cable, film and sports-related businesses. It sold 18.6 percent of its interest in the new entity in an IPO, retaining more than 80 percent ownership and using the proceeds for general corporate purposes, including reducing its debt ('Fox Entertainment Group Raises \$2.8 Billion Largest Ever Media IPO,' 1998).

**Split-Off** In a split-off, the parent firm issues new stock in a subsidiary in exchange for the shareholders' stock in the parent company. The parent firm essentially repurchases its outstanding shares in exchange for transferring ownership in a division to the parent shareholders (Gaughan, 1999). The transaction may be tax-free if the firm meets five tax requirements established by the Internal Revenue Service (Cumming & Mallie, 1999). Although the owners of the split-off subsidiary are the same as in the parent company, the split-off entity has no ties to the parent firm. Media giant Viacom reduced 4.1 percent of its outstanding common shares in 1996, for example, with the split-off of its cable operations (Viacom, 1996).

**Split-Up** A split-up strategy is a series of transactions and results in a total divestiture of a firm. Hence, the divestiture level of a split-up strategy is the entire firm via its subsidiaries. The parent firm

distributes shares in two or more of its subsidiaries and requires an exchange of its outstanding common shares for the shares of its subsidiaries. The end result is that the parent firm no longer exists. All of its operating divisions have been spun-off (Gaughan, 1999). The proceeds from the sell-offs or spin-offs 'are returned to the creditors and shareholders as a liquidating distribution' (Buckley, 1991). The split-up can be tax-free if the parent company meets specific criteria established in the Taxpayer Relief Act of 1997 ('Company split-up,' 1997).

### ***Financial Restructuring***

***Leveraged Buyout*** The relevant divestiture strategy that entails a major restructuring of finances is the leveraged buyout (LBO). In financial restructuring, the parent firm undergoes a drastic change in its capital structure (Bowman et al., 1999). The divestiture level of a leveraged buyout is either at the subsidiary or entire firm level, but it is usually a discrete transaction. However, it may be a partial or a total divestiture. In a partial LBO, a subsidiary is sold to a party who then takes the entity private. If the LBO is structured as a total divestiture, in which the entire firm is taken private, it is considered a whole-firm buyout (Hitt et al., 2001). The consideration in an LBO is the entire ownership interests (stock) of the entity. Tax implications vary, but Newbould et al. (1992) claim 'there is a payment of capital gains taxes levied at the target level' (p. 51).

### ***Organizational Restructuring***

***Downsizing*** The organizational restructuring strategy relevant to divestiture is downsizing, or the elimination of the employee or human asset. Downsizing may be a discrete activity, or it may be series-oriented. That is, downsizing may be a one-time occurrence, or it may be part of a significant restructuring strategy. Nevertheless, downsizing remains a partial divestiture strategy in which some, not all, of the human capital is eliminated. Despite contractual obligations and severance packages, the parent company ultimately has no ties to the former employees. Tax implications, however, vary (Knight & Knight, 1996).

Based on the aforementioned strategies, then, the author raised the following research question:

RQ1: What are the divestiture strategies of major media firms?

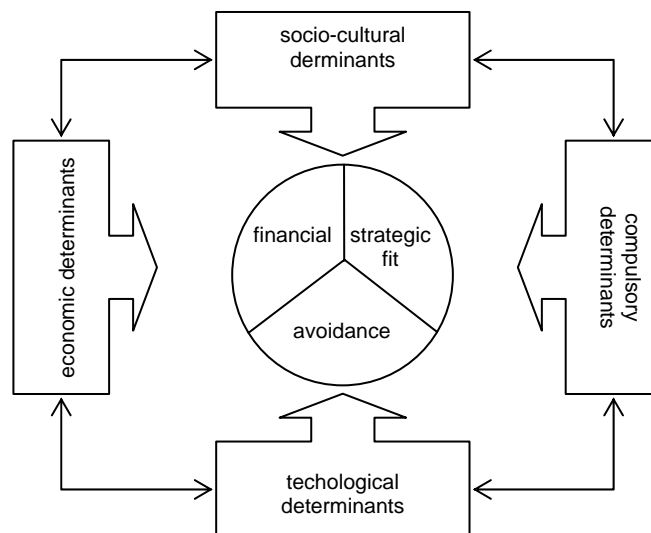
The major media firms in this study may engage in most of these divestiture strategies. As these firms work quickly to establish their position in the new deregulated and digital environment, it is likely that the sell-off strategy may be the most expeditious way for them to dispossess themselves of operations or investments. These major media firms are the industry leaders, hence it is unlikely that they will be the

objects of leveraged buyout strategies in which poor-performing companies are bought and taken private. Further, as the media industry continues its conglomeration and merger trends, the downsizing strategy also is a possible strategy to reorganize and restructure operations.

## DIVESTITURE DETERMINANTS

Before the company executes the divestiture, it must arrive at the divestiture decision. Based on the available literature, divestiture determinants can be categorized along four external dimensions: compulsory, technological, economic, and socio-cultural; and three internal dimensions: financial, strategic fit, and avoidance. Figure 1 summarizes the divestiture determinants. The circle represents the company as a whole and/or the asset in question. The sections within the circle represent internal determinants, while the four block arrows represent external divestiture determinants. These arrows linking the determinants represent the dynamic nature and the joint influence of all the forces on the divestiture decision.

Figure 1: Internal and External Divestiture Determinants



### **External Determinants**

External determinants are those that arise from the firm's external environment. These include compulsory, technological, economic, and socio-cultural forces.

**Compulsory** Compulsory divestitures are forced divestitures. The firm does not originate the decision; instead, the government—usually the Department of Justice (DOJ) and/or Federal Trade Commission (FTC)—decrees the sale of a firm's assets (Schmidt, 1990), often in the context of antitrust policy (Kaplan & Weisbach, 1992; O'Brien, 1986). The government may force the firm to sell a subsidiary, or it can force the company to break up, as in the 1984 split-up of AT&T. Compulsory divestitures also may originate from regulatory agencies, such as the Federal Communications Commission (FCC). In addition to relying on the DOJ's competitive analysis, the FCC also utilizes a public interest guideline by which to judge potential media mergers and acquisitions (Paulson & Huber, 2001).

**Technological** Burke and Nelson (1998) reveal that a company may choose to divest to accommodate for product, technological, or plant obsolescence. The company's technological operations may not be competitive, as a result of technological advancements and constraints in operations (Vignola, 1974). However, divestiture decisions that are based on technological change may vary, 'depending on its [firm's] position with respect to the technological changes in effect' (Paulson & Huber, 2001, p. 19).

**Economic** Economic determinants for divestiture include tax implications, analyst and stakeholder influence, market fluctuations, and investee restructuring. Because divestiture strategies may be classified according to their tax status, tax implications also serve as a determinant. The firm may structure the divestiture so that the tax advantages are large (i.e., spin-off) or minimal (i.e., sell-off). Firms also may divest because of external pressure, be it from analysts or from stakeholders (Hitt et al., 2001), creditors (Taylor, 1988), or in response to market fluctuations (Hitt et al., 2001). Similarly, investee restructuring may play a role in the divestiture decision. That is, changes in an affiliated company may also influence the actions of the parent firm. Hitt et al. (2001) refer to this notion as mutual interdependence: 'strategic competitiveness and above-average returns result only when companies recognize that their strategies are not implemented in isolation from their competitors' [or investee's] actions and responses' (p. 191).

**Socio-Cultural** Socio-cultural determinants of divestitures reflect the overall climate in which firms operate. Varadarajan et al. (2001) reveal the influence of the external socio-cultural climate: 'A decline in the

perceived legitimacy of conglomerate structure [has] influenced the divestiture behavior of conglomerate firms' (p. 17). Whereas the 1960s saw a wave of mergers and conglomeration, by the 1970s, the conglomerate mentality had been devalued. This socio-cultural determinant may play an important role for global conglomerates. The socio-cultural environment of the home country may not be equivalent to the socio-cultural environment of the target country (Hitt et al., 2001). These asymmetries may lead to the divestiture decision if the company does not know how to manage and adapt to such socio-cultural climates.

### **Internal Determinants**

Internal determinants are those that arise from within the firm. These include financial, strategic fitness, and avoidance.

**Financial** Internal financial determinants arise from either the business level or the corporate level. At the business level, the subsidiary might be performing poorly (Steiner, 1997; Vignola, 1974). At the corporate level, the firm may be losing money (Steiner, 1997), which may lead to increasing financial duress or emergencies (Kaplan & Weisbach, 1992; Ravenscraft & Scherer, 1987). Other financial determinants include a desire to cut costs (Burke & Nelson, 1998) and to reduce debt (Schmidt, 1990; Taylor, 1988). Kaplan and Weisbach also found that firms used divestitures to finance other acquisitions; likewise, Paulson and Huber (2001) maintain the parent firm can fund other operations with the money the firm receives from a sell-off.

**Strategic Fitness** Strategic fitness determinants arise out of an incompatibility between the company and the divested unit. Twenty-three percent of firms in Vignola's study claimed that the firm had changed its strategy or objectives and had decided to divest its non-strategic assets. Operations that no longer correspond with the new strategy are divested (Taylor, 1988). Fitness determinants may be structural, cultural, or managerial. The structural variety of a firm may influence divestiture. Varadarajan et al. (2001) found managers whose companies operated in several international markets could not profitably handle the variety and complexity of their unrelated businesses. Sometimes, a lack of strategic fit in conglomerate firms is partly due to integration difficulties, especially after a merger or acquisition (Cumming & Mallie, 1999; Gaughan, 1999). Difficulties among divisions also can be cultural, 'especially when the spun-off subsidiary's industry is subject to excessive operating volatility' while the remainder of the firm is in a relatively stable environment (Cumming & Mallie, 1999). Divestiture even may be precipitated by personality and political-social conflicts among managers (Taylor, 1988).

**Avoidance** Firms also engage in divestitures to avoid risk, uncertainty, takeovers, or significant investments of resources. Avoiding risk, for

example, may be related to excessive operating volatility of the subsidiary. By divesting, companies may reduce their exposure to risky businesses (Thomas, 1986) or potential downturns in the market (Cumming & Mallie, 1999). Companies also use divestitures to avoid making significant investments into a subsidiary or division, thereby diverting resources to areas that are more desirable (Varadarajan et al., 2001). Still, companies may engage in divestitures as a defensive mechanism, namely to avoid takeovers (Kaplan & Weisbach, 1992; Steiner, 1997) and offset corporate raiders (Gaughan, 1999; Taylor, 1988).

Based on the aforementioned determinants, then, the second research question asks:

RQ2: What are the divestiture determinants of major media firms?

Several external determinants are likely to influence the divestiture decisions of the major media firms in this study. The FCC's role of ensuring that companies operate in the public interest is likely to play a part in determining which companies divest what operations. Economic determinants, namely investee restructuring, are likely to influence the divestiture decision, especially due to the increasing connections between relatively few media behemoths (Who Owns What, 2002). Similarly, socio-cultural determinants may play a role in influencing these media firms to divest, due to their global reach as multimedia conglomerates.

Nevertheless, the impact of technological determinants is ambiguous, for two reasons. On the one hand, technological determinants may play a limited role in the divestiture decisions of the major media firms in this study. Paulson and Huber (2001) reveal that the impact of the technological changes varies with the firm's position relative to the changes. Despite the fact that media companies rely on technology and the changes therein, the major media firms in this study are market leaders in their respective fields. Technological changes are likely to have more of an impact on second and late movers in the industry, which are not examined for the purposes of this exploratory study. Conversely, research also reveals a difference between pioneers and early leaders, whereby the former are more likely to fail and the latter 'assume market leadership during the early growth phase of the product life cycle' (Tellis & Golder, 1996, p.66). As such, the impact of technological determinants is uncertain.

In contrast, all aforementioned internal determinants are likely to influence the divestiture decisions of major media firms. As media firms adapt to the changing environment, they will adapt their strategies accordingly. Hence, the fitness of operations to the new strategy is of increased importance to the media firms in this transitional state. Similarly, financial determinants are likely to influence how firms allocate resources in light of new opportunities and threats. New opportunities—especially online operations—are likely to influence the

performance of such operations. In the same way, avoidance determinants may play a significant role as firms attempt to free up resources and avoid significant capital investments as they refine their strategies.

## **METHOD**

### ***Design***

Divestiture strategies in the media have been heretofore unstudied. Hence, this research was exploratory in nature and utilized the case study method. A qualitative research method was employed because, unlike quantitative methodology that seeks to predict behavior, qualitative methods are suited for understanding a topic from a specific perspective. 'Here, an explanation of the constitutive meanings of a phenomenon is sought. How an event occurs, how it functions in social contexts, and what it means to participants are all issues addressed from a cultural-hermeneutical, or interpretive, perspective' (Lindlof 1995, p. 9). This approach is especially useful when prior research on a particular area is unavailable and the researcher wants to gain an understanding of the topic.

### ***Cases***

Major media firms were selected from *Variety* magazine's listing of top global media companies, based on their 2000-2001 revenue. The firms were: AOL Time Warner<sup>1</sup>, Walt Disney, Viacom, News Corp., Comcast, AT&T, Cox Communications, and Clear Channel Communications. These companies were selected because they are the market leaders. Their market conduct often influences the conduct of other firms within their respective markets. Research also shows their conduct tends to set strategic trends. (Ferrier et al., 1999).

### ***Procedure***

A major turning point in the media industry was the passage of the Telecommunications Act of 1996. It has affected almost every aspect of media, including cable system operators, telcos, and broadcasting. The Act has initiated an increase in competition and activity among these markets, namely mergers and acquisitions (M&As) and divestitures. Hence, this research focuses on the divestiture strategies of major media firms after the Telecommunications Act of 1996.

The author gathered data on the media firms' divestiture strategies—and their respective determinants—from company annual

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<sup>1</sup> America Online and Time Warner merged in early January 2001. Because this study focuses on divestiture activity from 1996 through 2000, their case study analysis details the divestiture activity of the separate entities in the given period.

reports and Securities and Exchange Commission (SEC) 10-K filings. In addition, company and industry news were analyzed to provide additional information and background on the specific divestitures. This type of document—or artifact analysis—was another method to capture the events and processes surrounding divestiture among major media firms. Lindlof (1995) says documents enable researchers to investigate and reconstruct ‘ongoing processes that are not available for direct observation’ (p. 208). This method, then, is ideal for this transitional state into a deregulatory and digital media landscape, as it captures, certifies, codifies, tracks, and explains the strategic actions of these major media firms. These documents were analyzed for common categories and themes regarding divestiture strategies and determinants, respectively.

For purposes of this study, divestiture referred to the aforementioned categories: sell-offs, spin-offs, equity carve-outs, split-offs, split-ups, leveraged buyouts, and downsizing. In addition, closure or termination of operations were also considered divestitures, for they entail a dispossession of property. Divestiture determinants also were classified according to the aforementioned internal and external categories.<sup>2</sup> Major divestiture determinant themes were those that a major media firm revealed in its annual reports and SEC filings repeatedly and more often than other themes, which were classified as minor.

## RESULTS AND DISCUSSION

Divestitures for the five years (1996-2000)<sup>3</sup> totaled 261. Company divestitures ranged from 21 to 40. Table 2 reveals the divestiture activity by company and by year.

### ***Divestiture Strategies***

It was expected that the major media firms in this study would engage in most of the aforementioned divestiture strategies. Indeed, the sell-off was the most common divestiture strategy used among the firms, accounting for 84 percent of total divestitures. The overwhelming use of the sell-off strategy reinforced the expectation that these media firms would be similar to other industries in this regard, using the most expeditious way to dispossess themselves of operations or investments. This finding is consistent with previous research that suggests sell-offs are the easiest (Schmidt, 1990) and hence, the most common divestiture strategy (Cumming & Mallie, 1999).

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<sup>2</sup> Some companies did not provide motivations for their divestiture decisions. Hence, companies that provided motivating factors to divest were categorized along aforementioned divestiture determinants.

<sup>3</sup> Some divestitures fell into early 2001, as company annual reports and 10-K reports are filed ninety days after a company’s fiscal year. These divestitures were included in the analysis if the divestiture had been completed as of the filing date.

Despite previous research that highlights the complexities of sell-off/exchange combinations (Schmidt, 1990), half of the sell-offs in this study were structured as exchanges. The prevalence of exchanges in these media firms suggests three possibilities: (a) the relative ease with which media firms—especially multiple system operators—may place value on their assets (e.g., MSOs may exchange systems based on subscriber counts or by homes passed.); (b) the value of broadcasting stations—as determined by the price paid for the license to broadcast, the designated market area (DMA), and the station's reach; and (c) the stock market price as an indicator of the value of the company or divested unit.

Table 2. Divestiture Strategies and Determinants of Major Media Firm, by Company and by Year

Firms	1996	1997	1998	1999	2000	Divesti- tures	Divestiture Types	Major Divestiture Determinants
								Minor Divestiture Determinants
Walt Disney	3	2	5	5	6	21	<ul style="list-style-type: none"> <li>• sell-offs (15) exchanges (3/15)</li> <li>• downsize/ closure (6)</li> </ul>	<ul style="list-style-type: none"> <li>• strategic refocusing</li> <li>• financing mechanism</li> <li>• performance</li> </ul>
Clear Channel	0	5	9	5	4	23	<ul style="list-style-type: none"> <li>• sell-offs (22) exchanges (9/22)</li> <li>• downsize/ closure (1)</li> </ul>	<ul style="list-style-type: none"> <li>• capital generation</li> <li>• financing mechanism</li> </ul>
Viacom	4	7	6	4	4	25	<ul style="list-style-type: none"> <li>• sell-offs (18) exchanges (10/18)</li> <li>• downsize/ closure (6)</li> <li>• split-off (1)</li> </ul>	<ul style="list-style-type: none"> <li>• compulsory investee restructuring</li> </ul>
Comcast	6	4	5	4	8	27	<ul style="list-style-type: none"> <li>• sell-offs (27) exchanges (16/27)</li> </ul>	<ul style="list-style-type: none"> <li>• strategic refocusing</li> <li>• debt reduction</li> <li>• financing mechanism</li> </ul>
								<ul style="list-style-type: none"> <li>• capital generation</li> <li>• financing mechanism</li> </ul>
								<ul style="list-style-type: none"> <li>• investee restructuring</li> <li>• structural consolidation</li> </ul>

News Corp	4	5	4	10	7	30	<ul style="list-style-type: none"> <li>• sell-offs (23) exchanges (5/23)</li> <li>• ECO (4)</li> <li>• downsize/closure (3)</li> </ul>	<ul style="list-style-type: none"> <li>• strategic refocusing</li> <li>• structural consolidation</li> </ul>
								<ul style="list-style-type: none"> <li>• debt reduction</li> <li>• valuation efforts</li> <li>• financing mechanism</li> </ul>
Cox	5	11	6	8	3	33	<ul style="list-style-type: none"> <li>• sell-offs (32) exchanges (17/32)</li> <li>• downsize/closure (1)</li> </ul>	<ul style="list-style-type: none"> <li>• structural consolidation</li> <li>• capital generation</li> </ul>
								<ul style="list-style-type: none"> <li>• financing mechanism</li> <li>• investee restructuring</li> <li>• avoidance</li> </ul>
AT&T	5	6	8	9	12	40	<ul style="list-style-type: none"> <li>• sell-offs (31) exchanges (14/31)</li> <li>• downsize/closure (6)</li> <li>• spin-offs (2)</li> <li>• ECO (1)</li> </ul>	<ul style="list-style-type: none"> <li>• strategic refocusing</li> <li>• cost-cutting</li> </ul>
								<ul style="list-style-type: none"> <li>• financing mechanism</li> <li>• compulsory</li> </ul>
America Online	5	6	10	6	9	36	<ul style="list-style-type: none"> <li>sell-offs (31) exchanges (25/31)</li> <li>downsize/closure (5)</li> </ul>	<ul style="list-style-type: none"> <li>• financing mechanism</li> <li>• structural consolidation</li> </ul>
								<ul style="list-style-type: none"> <li>• capital generation</li> </ul>
Time Warner	7	3	6	7	3	26	<ul style="list-style-type: none"> <li>• sell-offs (21) exchanges (10/21)</li> <li>• downsize/closure (3)</li> <li>• ECO (2)</li> </ul>	<ul style="list-style-type: none"> <li>• structural consolidation</li> <li>• debt reduction</li> <li>• financing mechanism</li> </ul>
								<ul style="list-style-type: none"> <li>• none</li> </ul>
Totals	39	49	59	58	56	261	<ul style="list-style-type: none"> <li>• sell-offs (220) exchanges (109/220)</li> <li>• downsize/closure (31)</li> <li>• spin-off (2)</li> <li>• ECO (7)</li> <li>• split-off (1)</li> </ul>	

Major media firms with similar characteristics tended to use sell-off strategies. Specifically, major media firms that have holdings in broadcasting—either radio or television—tend to use the sell-off strategy in their broadcasting segments more often than other divestiture strategies. The respective broadcast segments of Walt Disney, Clear

Channel, Viacom, and News Corp all exhibited this pattern. It may be that the nature of the regulations surrounding broadcasting necessitates simple transactions by which broadcasting stations may be traded and sold. Moreover, with the deregulation of the ownership cap, it is possible that the sell-off provided the easiest and most expeditious means by which to reorganize broadcast stations. Nevertheless, these firms—although utilizing the sell-off strategy the most within their broadcast divisions—are the firms with the fewest overall divestitures.

Conversely, multiple system operators tend to engage in sell-off strategies more often than major media firms that do not have holdings in cable or broadband systems. Moreover, major media firms that have holdings in cable or broadband systems tend to use the sell-off strategy more often than other divestiture strategies. Indeed, this sell-off strategy commonly entails exchanges of systems. Again, this may be indicative of the relative ease with which MSOs may be able to sell or trade systems among each other, as opposed to broadcast regulations that may place limits on such activities.

Not as prevalent was the use of equity carve-outs, accounting for a handful of divestitures. Although ECOs provide firms with a cash infusion, it is possible that the major media firms relied on the easier divestiture strategy—the sell-off—for the cash infusion, instead of the more complex divestiture strategy. Nevertheless, major media firms that are heavily diversified into multiple interrelated business segments tend to consolidate related operations using the ECO strategy. News Corp. and Time Warner both utilized this strategy to consolidate content-based and telecommunications operations, respectively.

As expected, the major media firms utilized the downsizing strategy in increasing numbers. This finding also was consistent with research (Slocumb, Morris, Cascio, & Young, 1999) that shows this strategy as a viable and increasing alternative in restructuring efforts. Downsizing strategies tend to be more common among two types of major media firms: those that rely heavily on content and those whose aggressive M&A activity and/or entrance into new businesses results in overlapping positions and increased costs. For instance, Disney's Creative Content/Consumer Products, Viacom's Entertainment, and Time Warner's Entertainment and Digital Media segments utilized this downsizing and closure/termination strategy the most. The intangibility of these knowledge-based resources is relatively difficult to transfer to—and implement in—other media firms, thus the downsizing and closure strategy may be more cost-effective and prudent than attempting to transfer inimitable intangible resources to other firms that may, in the long run, cause potential harm to the original company's branded content.

Similarly, major media firms who engage in aggressive M&A activity and/or enter into new businesses tend to engage in downsizing strategies more often than those major media firms that do not engage in aggressive M&A activity or enter into new businesses. America Online

engaged in multiple downsizings throughout the five years, in response to integration and consolidation activities that resulted in thousands of overlapping positions. Similarly, AT&T's entrance into operations that were restricted prior to the Telecommunications Act resulted in increased costs that prompted the company to undertake multiple downsizings of thousands of employees.

Of the seven divestiture strategies, the leveraged buyout and the split-up were the only strategies not observed. This was as expected, however, for the emphasis of the leveraged buyout strategy in this study was on the object of the buyout—not on the acquiring firm itself. As such, these major media firms were not the objects of leveraged buyout strategies in which poor-performing and “poorly-managed” companies are bought and taken private. Similarly, the split-up possibly was not evidenced due to the superior operations management and performance of these market leaders.

Overall, the major media firms utilized three of the divestiture strategies most: the sell-off (including exchanges), downsizing/closures, and the equity carve-out. It appears, based on this pattern, that the major media firms responded as swiftly as possible to establish their positions in the deregulated environment. Furthermore, they opted for relatively less complex divestiture strategies that dispossessed property and resulted in cash infusions. Accordingly, these firms made no use of the more complex divestiture strategies, namely the split-up or the leveraged buyout. These strategies are extreme in nature and affect the overall structure and finances of the corporation. Thus, these companies may not have perceived extreme measures as necessary—or even appropriate—to take advantage of the new opportunities in the Telecommunications Act. Instead, incremental changes—via sell-offs, exchanges, equity carve-outs, and downsizing—may have been the more appropriate approach to restructure their portfolios.

### ***Divestiture Determinants***

This article also synthesized the available research on divestiture determinants and categorized the most common divestiture determinants into four external and three internal categories. External determinants included economic, sociocultural, compulsory, and technological factors. Internal determinants included financial, strategic fitness, and avoidance factors.

***External*** Several external determinants were expected to influence the divestiture activity of the major media firms in this study. The Federal Communications Commission's role to ensure that companies operate in the public interest did, in fact, play a part in determining which companies divested what operations and under what circumstances. This determinant, however, was not as readily apparent as expected. It is possible that the current deregulatory environment may have been a

factor in determining the extent to which the FCC decreed divestitures during this period. Hence, it is possible that in a deregulatory environment, major media firms will undergo fewer compulsory divestitures than in a heavily regulated environment. Nevertheless, this assertion is speculative because this research project did not investigate divestiture activities before the Telecommunications Act of 1996.

Investee restructuring heavily influenced the divestiture activity of the major media firms. The increasing connections between relatively few media giants possibly contributed greatly to the degree to which these media firms divested. As their investees restructured to adapt to the current deregulatory and digital transition environment, investors also were affected due to their mutual interdependence. Only three major media firms—Clear Channel, Comcast, and Cox—exhibited this theme. These major media firms that have invested and/or initiated secondary operations in unrelated areas (such as Outdoor advertising for Clear Channel and Wireless/PCS for Cox and Comcast) tend to experience divestitures as a result of investee restructuring more than those major media firms whose investments and secondary operations are interrelated and have been long established.

Sociocultural determinants were expected to play a role in influencing these media firms to divest due to their global reach as multimedia conglomerates. However, the major media firms did not mention sociocultural factors as contributing directly to their divestiture decisions. Indeed, the media companies divested foreign operations. Moreover, the firms often cited poor performance of the divested units. It is unclear to what degree sociocultural determinants indirectly influenced the poor performance of foreign operations. However, these factors may be unlikely to emerge in public documents for a variety of reasons, from strategic to political concerns. Hence, future research should investigate the similarities between the parent and foreign country and their relationship to the divested units, while conducting in-depth research (either by a review of the business or trade press) into the sociocultural factors at play in said countries.

As previously mentioned, the impact of technological determinants was ambiguous at the outset of the study. Either the major media firms would not undertake divestitures as a result of technological obsolescence or they would be forced to divest due to their status as ailing pioneers in the media industry. In the end, the major media firms did not attribute any of their divestiture decisions to technological determinants, such as product obsolescence. This finding, however, does not indicate that technological determinants were not influential in their decisions to divest. The rapid technological changes in the industry require media executives to conduct ongoing analysis of the potential long-term implications, opportunities, and threats inherent in technologies they currently own. Miller and Shamsie (1996) say, "Typically, it is only the fortunate or insightful firms that are able to gain control over valuable...resources before their full value is publicly

known” (p. 522). Indeed, it may be that the major media firms anticipated the opportunities of future advanced technologies over their current technology; thus, they divested.

**Internal** As expected, all internal determinants influenced the divestiture decisions of major media firms. Strategic fitness and financial determinants, however, were more influential than avoidance determinants. Financial determinants were most cited and included divestitures as capital generation, debt reduction, valuation efforts, and cost-cutting. These determinants reveal some of the difficulties that conglomerate firms encounter. Despite economies of scale and scope, firms engaging in multipoint competition require significant capital with which to operate, incur large amounts of debt, and face potential devaluation of assets. The changing multimedia environment compounds these financial factors, forcing companies to evaluate their internal capital markets, generating capital from various sources while cutting costs and reducing debt accordingly.

One financial determinant—the utilization of divestitures as a financing mechanism for mergers, acquisitions, and joint ventures—emerged as a pattern across all major media firms in this study. Instead of acquiring other firms with cash, all of the firms utilized their stock to finance M&As. Loughran and Vjih (1997) suggest a possible explanation; they maintain that “the acquirer’s managers are likely to choose stock payment when their stock is overvalued and cash payment when it is undervalued” (p. 1789). Hence, it is possible that major media firms whose stock is overvalued engage in an exchange of stock to finance mergers, acquisitions, and joint ventures, as opposed to those major media firms whose stock is undervalued. This assertion, however, is speculative. While this study is the first in exploring media divestitures and did not investigate the stock valuations of these major media firms, this question of valuation should be a future line of research into media divestitures and acquisitions.

Results also revealed that poor performance did not play a major role in the divestiture decisions of major media firms. Previous research (Bing, 1978; Taylor, 1988; Paulson & Huber, 2001) suggests poor performance as a primary influence of most divestitures, but this study reveals otherwise. In fact, only one firm—Walt Disney—cited performance-induced divestitures. A possibility for the lack of stated poor performance determinants may be that the “marketing-oriented” nature of some annual reports to shareholders may not have revealed poor performance of specific business operations unless the division was performing well below expectations. Furthermore, marketing poorly performing business divisions would perhaps make it more difficult to find a potential buyer.

This finding, however, does not indicate that poor performance was not a factor in the divestment decision for the major media firms in this study. Albarran and Moellinger (2002) found that there has been

considerable variation in the performance levels of major media firms, partly due to the poor economy. Even a scan of the trade press during this time period reveals that major media firms, indeed, were experiencing lower performance levels. This study did not analyze performance levels of the major media firms. Future research should incorporate performance and profitability measures into the analysis of divestitures to assess the transparency of the firm's motivations in divesting the business unit.

Although market leaders are not immune to poor performance factors, Disney's performance-induced divestitures may suggest another possible explanation. Bing maintains, "Some corporations have policy objectives requiring all operations and subsidiaries to produce a minimum return on investment or pretax profit on sales. A subsidiary not meeting these objectives may be profitable and easily equal or exceed the performances of its competitors, but it still would not meet the objectives of the parent" (1978, p. 97). Whereas the performance of specific Disney operations may have exceeded expectations for other firms, it is possible that the operations did not perform to objectives required of all operations and subsidiaries in the Walt Disney family.

Strategic determinants also influenced divestitures across media firms. Two dominant themes emerged, strategic refocusing and structural consolidation. Four of the major media firms exhibited the strategic refocusing determinant as their primary motivation to divest assets. In fact, three of the four firms were multimedia giants engaged most in multipoint competition: Walt Disney, Viacom, and News Corp. It is possible that the opportunities heralded in the Telecommunications Act of 1996 incited these multimedia giants to reconsider unrelated operations and refocus accordingly. Indeed, the divestiture activity of these firms clearly validates Taylor's (1988) and Varadarajan et al.'s (2001) findings on the deconglomeration trend encompassing firms in multiple industries. The fourth firm to exhibit a refocusing theme as a dominant divestiture pattern was AT&T. After years of engaging in telecommunications, financial services, transaction-intensive computing, and communication systems and technology, AT&T downgraded operations, adapting to the changing environment by reformulating strategy according to opportunities, threats, strengths, and weaknesses.

The second strategic determinant theme was a structural consolidation motivation. Three of the firms—Comcast, Cox, and Time Warner—utilized this approach. Their common characteristic as cable service providers probably corroborates this finding. Multiple system operators (MSOs) structure their systems in regional clusters, thereby eliminating duplicative personnel and profiting from economies of scale. This consolidation of operations was not restricted to MSOs, however. Multimedia giant News Corp. also displayed this determinant pattern, most notably in its equity carve-outs of its entertainment group and its satellite platforms. Similarly, America Online consolidated operations, mostly as a result of its aggressive M&A activity. Previous research

(Varadarajan et al., 2001) documents the complexities of managing multiple business operations such as those of these major media firms. Hence, major media firms that engage in multipoint competition and pursue aggressive M&As are more likely to undertake divestitures that consolidate operations than those major media firms that have a single business operation and that undertake few M&As.

Avoidance determinants were cited infrequently as motivations for the divestiture decisions of major media firms. While some firms, such as Cox, explicitly announced their motivation to avoid significant capital investments into specific operations, it is possible that the avoidance determinant is generally understood as influencing the divestiture decision. Specifically, when a firm decides to exit a business or to dispossess itself of an operation or asset, it implicitly reveals its strategy to avoid operating in said sector(s), thereby freeing up resources and avoiding significant investments into said operations. Nevertheless, specific avoidance determinants have been found in previous research (Bing, 1978; Gaughan, 1999; Paulson & Huber, 2001), especially in industries that require excessive resource maintenance (Varadarajan et al., 2001; Vignola, 1974). It is possible, however, that the major media firms in this study failed to reveal specific avoidance determinants because they were implied in the divestiture action itself, because other determinants were more influential in the divestiture decision, or possibly due to the sensitive nature of the information, i.e. the potential disclosure of the company's valuable strategic information.

Overall, the major media firms cited three of the divestiture determinants most: financial reasons, strategic fit reasons, and economic reasons (i.e., investee restructuring). It appears, based on this pattern, that the major media firms were attempting to refocus their operations and making financial adjustments to compete more effectively, given their new strategic directions. In some instances, changes in their external environments, namely investees' restructuring efforts and regulatory orders, oftentimes prompted divestiture. These firms rarely cited technological and socio-cultural motivations. These determinants appear to be more sensitive in nature, in that they may reveal confidential information regarding the strategic direction of the firm. While divestitures indirectly reveal corporate-level strategy, the major media firms appeared to be extremely cautious in revealing too much strategic information. Divulging motivations regarding product obsolescence or even inability to operate profitably in a strategic foreign country may signal to competitors privileged information about the firm's strengths and weaknesses.

## **CONCLUSION**

This article has explored the divestiture determinants and strategic patterns of major media firms. First, divestiture activity in general was

traced, revealing that the frequency and transaction value of divestitures has increased throughout the past three decades. The author also defined divestiture and formulated a typology into which the divestiture strategies were categorized. It revealed the seven common divestiture strategies: sell-off, spin-off, equity carve-out (ECO), split-off, split-up, leveraged buyout, and downsizing; and related characteristics of each, including divestiture level, tax status, divestiture degree, divestiture medium and consideration, and the post-divestiture ownership status.

To my knowledge, this article was the first to investigate the divestiture activity of major media firms. It found that major media firms indeed have restructured by engaging in divestitures since the Telecommunications Act of 1996. The sell-off was by far the most common divestiture strategy, but firms divested based on various determinants and motivations. Some firms divested only to further their brand. Some used divestitures as mechanisms to generate capital and to reduce debt. Others clearly used divestitures to refocus on their core operations and to cut costs. Few underwent compulsory divestitures.

The findings signal the importance of divestitures in corporate strategy. Specifically, divestitures determine the businesses in which the firm competes and how those businesses are managed. Thomas (1986) reveals the greater implications of the divestiture strategies, citing “considerations as where a group seeks a presence, on what scale, and for what purpose” (p. 43). Such considerations are especially important in the media industry, given its state of transition as a result of the deregulatory provisions of the Telecommunications Act of 1996 and the transition into a digital environment. Firms have adjusted and restructured in light of new opportunities and threats, attempting to find their niche and place in the new environment.

This research corresponds with current research on media mergers and acquisitions (M&As). In their structural analysis of media convergence, Chon et al. (2003) found that consolidation after the Telecommunications Act most occurred with companies that engaged in distribution of content and that telephone companies were central to restructuring. This research corroborates those findings. Major media firms that engaged in distribution, such as Cox and Comcast, divested – or reduced – content-related investments to pursue broadband and telecommunications infrastructures. Similarly, AT&T consolidated much of its operations, focusing on distribution of information (see Table 3).

Chan-Olmsted (1998) found, in her research of mergers, acquisitions, and convergence, that radio companies tended to focus more on their core businesses, that television broadcasting tended to become part of diversified conglomerates, that cable television tended to focus on strengthening its clusters, and that the telephone industry was the most active M&A industry. Similarly, Howard (1998) found that television station acquisition one year after the Telecommunications Act had increased dramatically. This research, too, supports those findings: at

Table 3. Operating Segments of Major Firms, 1996 vs. 2000

Major Media Firms	Operating Segments	
	1996	2000
<b>Walt Disney</b>	- Creative Content - Broadcasting - Theme Parks / Resorts	- Media Networks - Studio Entertainment - Theme Parks / Resorts - Consumer Products - Internet & Direct Marketing
<b>Clear Channel</b>	-Radio Broadcasting -Television Broadcasting	- Radio Broadcasting - Outdoor Advertising - Live Entertainment
<b>Viacom</b>	- Networks & Broadcasting - Entertainment - Video/Music/Park - Publishing	- Cable Networks - Television - Infinity - Video - Entertainment - Publishing - Online
<b>Comcast</b>	- Wired - Wireless - Content Provision	- Cable - Commerce - Content - Investments: cable, infrastructure, interactive content, communication
<b>News Corp.</b>	- Television - Cable & Satellite TV - Filmed Entertainment - Book Publishing - Newspapers - Magazines and Inserts - Technology - Other	- Filmed Entertainment - Television - Cable Net Programming - Magazines / Inserts - Book Publishing - Newspaper - Other
<b>Cox</b>	- US Broadband Networks - Cable TV Programming - UK Broadband Networks	- Broadband communication - Investments in Cable programming, Telecom, Technology
<b>AT&amp;T</b>	- Telecommunications - Financial Services	- Business Services - Consumer Services - Broadband Services - Wireless Service - Other
<b>America Online</b>	- AOL Networks - AOL Studios - ANS Communication	- Interactive Services - Interactive Properties - AOL International - Netscape Enterprise
<b>Time Warner</b>	- Entertainment - Cable Networks - Publishing - Cable	- Filmed Entertainment - Cable Networks - Publishing - Cable - Music - Digital Media

the end of 2000, Clear Channel had divested other broadcasting operations to focus solely on radio broadcasting. Television broadcasting was clearly a part of the three major media conglomerates (Walt Disney, Viacom, and News Corp.), with these three conglomerates selling

stations and groups of stations throughout the five years. Cable television firms Cox, Comcast, and Time Warner each strengthened their regional cable clusters. And AT&T was the firm that most divested during those five years. Albarran and Moellinger's findings (2002), namely that media conglomerates (i.e., Viacom, Disney, AOL TW, and News Corp.) each had significantly restructured to include both distribution and content, is also confirmed in this research (see Table 3).

This article has opened up avenues for further investigation. The exploratory nature of this research has set a foundation upon which future research may build. The nature of this qualitative interpretation yields unique results about these organizations and of divestiture activity in the media industry:

[t]he richness of the particular elements that are documented and the patterns or themes they exhibit allow the researcher to generalize to other cases of the same problem in the larger culture. By expanding the meanings of the case to historical and other frames of reference, one can compare interpretations of meaning and action from one culture to another. (Lindlof, 1995, p. 57)

Future research should seek to incorporate this qualitative approach with other quantitative methods to gain a better understanding of the divestiture activity of media firms. Specifically, research may explore the conditions under which specific divestiture strategies are chosen. In addition, researchers should seek to ascertain, as Porter (1996) suggests, the position of the divestiture in the chain of causality. Specifically, what factors prompted firms to refocus their strategy? Or, what factors influenced poor performance (and hence, divestiture) of foreign operations? Future research also should focus on the interrelationships between media acquisitions and divestitures. To gain an accurate picture of the growth and contraction of a firm, it is necessary to investigate the differences between the operations the firm acquires, relative to the operations the firm divests. Research also should investigate the divestiture activity of media firms in general. This study explored the divestiture activity of major media firms; hence, its findings are not generalizable to other media firms. What are, for example, the divestiture strategies of small to mid-sized media firms? In addition, empirical research should be conducted to ascertain whether associations exist among the divestiture variables and whether the associations are indeed significant.

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