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A Longitudinal Analysis of Mergers and Acquisitions Patterns of Radio Companies in the U.S.

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This study examined the trends of M&As (mergers and acquisitions) in the radio industry from 1981 through 2002. In terms of method, the study investigated both M&As by radio firms and M&As targeting radio firms, and compared M&A frequency and M&A transaction values. The result showed that (1) although M&A activities have consistently increased, they have recently begun to decrease, (2) the loosening of ownership regulations prompted more M&A activities, and (3) the passage of the Telecommunications Act of 1996 encouraged interindustry M&As by radio firms, while the flow of investments from other industries into the radio industry was not changed by the Act.

We have observed that the number and scale of Mergers and Acquisitions (M&As) in the media sector, including the radio industry, has increased enormously during the past few decades based on technological development and regulatory change. For example, Clear Channel Communications, Inc., acquired six FM and six AM stations, including Broad Street Communications Corporation, in the mid 1980s and the number of acquisitions in the mid 1990s had increased to more than 50 radio stations, including Eller Media Company (Clear Channel, 2004).

In spite of the popular use of M&As in media sectors, there has not been much research regarding the phenomena. The lack of research can be attributed to many scholars being primarily focused on media content and its effects on audience (Jung, 2003). There especially has been little research that focused on the radio sector, although some previous research addressed the cable sector

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(Albarran & Porco, 1990), the newspaper sector (Picard & Rimmer, 1999), the telephone industry (Li, 2001) and media conglomerates (Albarran & Moellinger, 2002; Chan-Olmsted & Chang, 2003; Jung, 2003; Powers & Pang, 2002; Shaver & Shaver, 2003). This study tries to add new knowledge to the tradition of radio studies by analyzing M&A activities.

In addition, the authors find that previous research regarding M&As in media sectors targeted only one direction. That is, most of the research focused on how media firms in a particular sector acquired firms in the same or other related and unrelated sectors. Taking an alternative direction, this study also investigates how firms in media-related or unrelated sectors acquire a firm in a certain media sector. By comparing M&As conducted by firms in a certain media sector with mergers targeting firms in the media sector, we can gain more balanced perspectives regarding M&A strategies in media sectors.

FACTORS & RATIONALES RELATED TO M&A ACTIVITIES IN THE MEDIA INDUSTRY

Environmental Changes

As explained earlier, two of the most noticeable changes in the media industry's environment are the emergence of new communication technologies and deregulation (Li, 2001). When comparing the 1980s and 1990s regarding media environment, we find that new media such as cable television, direct broadcasting system (DBS), and the Internet have emerged as new windows for visual or multimedia content. If we recognize that acquisition is an entry mode for diversification, then it is easily reasoned that media firms had little incentive to use M&A strategies because there were few sectors into which the firms could diversify in the 1980s. This situation changed dramatically with the development of new media windows that used the same products in the 1990s—that is, when content product was generalized for use through a series of different media. This multiple use of the same media product is economically efficient because media products have public good characteristics. Although it is expensive to produce, media content requires little cost to reproduce (Owen & Wildman, 1992; Shapiro & Varian, 1999). Therefore, technological development associated with product characteristics (public good) of media content provided sufficient incentives for media companies to use merger and acquisition strategies.

Another important factor is deregulation trends, most notably in ownership regulations (Chan-Olmsted, 1998; Drushel, 1998; Howard, 1998; Li, 2001). Since the 1980s, there have been three significant regulatory changes in the radio industry. First, in 1984, the FCC increased national ownership limits from 7 AM and 7 FM stations to 12 AM and 12 FM stations (FCC, 1984). Second, in 1992, the national limits were increased to 30 AM and 30 FM stations (FCC, 1992). The most obvious regulatory change, however, was the passage of the 1996 Telecommunications Act. This act, in particular, significantly affected the trends of M&As in that the Telecommunications Act made it possible for media firms to enter diverse media sectors. For radio broadcasters, the Act permitted ownership of as many as eight stations in larger markets and removed any restrictions on the total number of stations a single company could own nationwide.

Both the development of new media and deregulation trends in media sectors are supposed to positively affect M&A activities in the radio industry. Specifically, the M&A activities should have consistently increased in that technological development has been continuous since the 1980s. In addition, the three changes of ownership rules in the radio industry might have also produced three times as many M&A booms because the changes in the rules have made M&A strategies easier to adopt. These conjectures, however, are not based on explicit theoretical foundations or systematic and empirical tests. Therefore, it would be premature to devise any hypotheses regarding the relationships. Considering these limitations, this study suggests two research questions regarding the two conjectures.

RQ1: *Have the M&A activities in the radio industry continuously increased since the 1980s?*

RQ2: *Have the M&A activities in the radio industry been comparatively more active around the years of 1984, 1992, and 1996 when ownership regulations were loosened?*

Internal Rationales for M&As

Assuming that M&A decisions are made by rational standards, Hitt, Ireland, and Hoskisson (2001) categorized various internal reasons or rationales for M&As into seven types: (1) increasing market power, (2) overcoming entry barrier, (3) lower cost of new product development, (4) increasing speed to market, (5) lower risk compared to developing new products, (6) increasing diversification, and (7) avoiding excessive competition. Among these seven rationales, increasing diversification and avoiding excessive competition may be considered to be too abstract or overlapped with the other rationales, so the authors focused on the first five rationales.

First, a firm acquires another firm to obtain greater market power. Market power is supposed to exist if a firm can sell its commodities above competitive levels. In addition, market power is usually based on the size of the firm. Therefore, a firm may acquire another firm to increase the size of the combined firm, which contributes to an increase in market power.

Second, a significant reason for M&As is to overcome entry barriers to a new market. When entering a new market, a firm faces two types of barriers: economies of scale and product differentiation. Well-established competitors may produce their goods and services, developing a climate where significant economies of scale are gained and enduring relationships with customers can create consumer loyalties that are difficult to overcome. A company new to a market can overcome these disadvantages by acquiring a firm that already exists in the target market.

Third, acquiring a firm can lessen the cost of new-product development. That is, developing new products internally often requires significant investment or cost (Shank & Govindarajan, 1992). In many instances, acquiring a firm and its product line is cheaper than internally developing a new product.

Fourth, compared to internal product development, acquisitions generally result in rapid market entries (McCardle & Viswanathan, 1994). In fact, acquisition is the quickest route to enter a new market (Rappaport & Sirower, 1999).

The third and fourth rationales previously mentioned are proposed for comparison with internal development. The fifth rationale (lower risk) is also included in the same category. Compared with internal development, acquisition is less risky because the acquired firm enjoys previously established customer loyalties.

The last three reasons stress the comparative advantage of M&A strategies over internal development. We should obtain internal data or conduct a survey of managers to confirm whether these three variables affect M&A decisions. These tasks are not appropriate for this paper because this study mainly analyzes secondary data from M&A records. As an alternative approach, this study focuses on the first two reasons: increasing market power and overcoming entry barriers. If firms try to acquire other firms to increase their market, then merger may occur between firms included in the same industry. On the other hand, if firms try to overcome the entry barriers, then the trend of M&As between firms involved in different industries may increase. Like in the case of environmental change, this logic lacks in theoretical foundation. Therefore, this paper suggests the following research question:

RQ3: *How has the trend of M&A activities between firms included in the same industry or in the different industries changed over time since the 1980s?*

METHOD

Research Population and Data source

This study utilizes census data instead of random sampling. The population of this study consisted of all M&As completed by US based radio companies and all M&As that targeted U.S. based radio companies from 1981 through 2002. Therefore, international M&As are not included in the analyses. However, the M&A cases in which U.S. based firms acquired foreign-based firms and the M&A cases in which foreign-based firms acquired US based firms are included in the research population. These selections are based on three reasons. First, if this study were to consider cases from all nations, then it would be too complicated to illustrate all the directions of the trades. Second, it is difficult to consider regulatory changes in all the nations that are assumed to affect the trends of M&As. Third, most broadcasting-based M&As are, in fact, conducted by, or targeted at, US-based firms.

This study used the SDC Platinum database compiled by Thompson Financial Securities Data as the primary data source for mergers and acquisitions. This online database provides detailed information on many aspects of financial transactions and agreements, including mergers and acquisitions, joint ventures, and other strategic alliances around the globe. The database is updated daily using more than 200 English and foreign language news sources; SEC filings and their international counterparts; trade publications; and wire and proprietary surveys of investment banks, law firms, and other advisors. All corporate transactions, public and private, involving at least 5% of the ownership of a company, where the transaction was valued at more than $1 million, were included.

Coding Scheme

M&As data recorded for analysis include: (1) the year in which the transaction was announced, (2) the acquiring firm's name, nationality, business description, and SIC code, (3) the target firm's name, nationality, business description, SIC (Standard Industrial Classification) code, and (4) the transaction value.

This study focuses on the radio sector. Specifically, this study used four-digit SIC codes to confirm in which industry a firm is located because the SDC Platinum database used this classification. For example, the SIC code for the radio sector is 4832. One potential interpretation problem regarding the SIC codes should be addressed. Some firms can operate in several business areas and can therefore have several SIC codes. Because the SDC Platinum database provides only one primary SIC code for each firm, there is the possibility that, in some cases, radio industry related M&As might be excluded when the primary SIC code of a firm is not 4832, even though the firm has radio stations.

The value of the dollar has changed considerably during the years from 1981 to 2002, so the authors adjusted all monetary figures to be consistent with 1996 dollars, according to the US GDP Price Deflator (Office of Management and Budget, 2003). Therefore, the authors use real transaction values, not nominal transaction values.

Sector Relatedness Analysis

For the purpose of analyzing the extent of sector relatedness of the M&As in the radio industry, this study divided all M&A cases into three categories, based on the distances between the product markets in which the acquiring and target firms were located. This study applied the concepts of BSD (Broad Spectrum Diversity) and NSD (Narrow Spectrum Diversity), which were used for measuring the degree of diversification for a firm (Varadarajan & Ramanujam, 1987; Wood, 1971). Specifically, using NSD, category 1 (identical sector) indicates the cases in which the SIC code of an acquiring firm is exactly the same as that of the target firm. Category 2 (related sectors) uses the concept of BSD. That is, this category includes the cases in which the first two digits of the SIC code of an acquiring firm are the same as that of the target firm. Category 3 (different sectors), therefore, represents the remaining M&A cases.

RESULTS

Generally two types of analyses were conducted for the three suggested research questions. For the first and second research questions, this paper investigates how the numbers and transaction values of M&As in the radio industry have been changed over the designated period. In addition, this paper conducts a categorization of M&A cases based on the relationship between industries in which acquiring and targeted firms are located.

Trends of M&As

A total of 1,308 M&A cases were used for analysis. M&As conducted by radio firms made up 606 cases (46.3%), while M&As targeting radio firms made up 701 cases (53.7%). This shows that investments in the radio industry were higher when compared with outgoing investments by the radio industry. The yearly trends of both types of M&As were closely related to each other. When the M&A activities conducted by radio firms became active, then the M&A activities targeting radio firms also became active. The Pearson correlation coefficient between the two types of M&As was highly significant ® = .99 ($p < .01$).

Table 1 shows the yearly number of M&A trades in the radio industry, including both M&As conducted by radio firms and M&As targeting radio firms. Regarding the first research question, which asks whether the yearly M&A activities have increased over time, the analysis of total M&As suggests conflicting results. During the period from the early 1980s to the middle of the 1990s, M&A activities in the radio industry continuously increased. However, in the mid-1990s, the trend changed direction and began to decrease. The analyses of both M&As conducted by radio firms and M&As targeting radio firms also confirms this finding. In both analyses, the M&A activities increased until the mid-1990s, when the number of activities then began to decrease.

The second research question asks whether the M&A activities in the radio industry became comparatively active when ownership restrictions were loosened by the FCC and Congress (in 1984, 1992, & 1996). In the case of total M&As, four peaks were found in 1984, 1988, 1993, and 1996. Excluding 1988, the other 3 years prove to be exactly the same or similar to years when the regulatory changes occurred. The analysis of subcategories of M&As also supported this finding.

In addition, this study analyzed trends of M&As in the radio industry in terms of transaction values. The total transaction values amounted to $203.1

Table 1
Total M&As of Radio Firms as Acquirer and Target (Frequency)

	Radio (SIC 4832)			
Year	As Acquirer	As Target	Difference	Total
1981	2 (0.3%)	2 (0.3%)	0	4 (0.3%)
1982	8 (1.3%)	12 (1.7%)	−4	20 (1.5%)
1983	10 (1.7%)	20 (2.9%)	−10	30 (2.3%)
1984	16 (2.6%)	18 (2.6%)	−2	34 (2.6%)
1985	6 (1.0%)	11 (1.6%)	−5	17 (1.3%)
1986	10 (1.7%)	12 (1.7%)	−2	22 (1.7%)
1987	8 (1.3%)	14 (2.0%)	−6	22 (1.7%)
1988	20 (3.3%)	31 (4.4%)	−11	51 (3.9%)
1989	18 (3.0%)	21 (3.0%)	−3	39 (3.0%)
1990	8 (1.3%)	10 (1.4%)	−2	18 (1.4%)
1991	12 (2.0%)	10 (1.4%)	2	22 (1.7%)
1992	11 (1.8%)	14 (2.0%)	−3	25 (1.9%)
1993	34 (5.6%)	39 (5.6%)	−5	73 (5.6%)
1994	31 (5.1%)	37 (5.3%)	−6	68 (5.2%)
1995	54 (8.9%)	60 (8.6%)	−6	115 (8.8%)
1996	100 (16.5%)	121 (17.3%)	−21	221 (16.9%)
1997	73 (12.0%)	69 (9.8%)	4	142 (10.9%)
1998	54 (8.9%)	57 (8.1%)	−3	111 (8.5%)
1999	43 (7.1%)	42 (6.0%)	1	85 (6.5%)
2000	45 (7.4%)	50 (7.1%)	−5	95 (7.3%)
2001	23 (3.8%)	27 (3.9%)	−4	50 (3.8%)
2002	20 (3.3%)	24 (3.4%)	−4	44 (3.4%)
Total	606	701	−95	1308

billion. The values of M&As conducted by radio firms were $93.0 billion (45.8%), while the values of M&As that targeted radio firms were $110.1 billion (54.2%). Similar to the results in the frequency analysis of M&As, the transaction values of M&As targeting radio firms were higher than those of M&As conducted by radio firms. The relationship between the two types of M&As over time was also highly consistent ® = .93 ($p < .01$).

Despite some aberrations, the transaction values have increased in the long term. Like the results in the frequency analysis of M&As, however, the transaction values recently experienced a significant drop. Analyses of both subcategories of M&As also produced similar results, indicating that the transaction values of M&As have increased since the early 1980s, approaching their peaks around 1999, before the trend dramatically changed. Therefore, the analysis of transaction values of M&As suggested only a partial explanation regarding the first research question.

For the second research question, this paper also analyzed when the transaction values of M&As approached their comparative peaks. In terms of transaction values of total M&As, this paper determined three peaks in 1982, 1985, and 1999 (Table 2). This finding, however, is not contradicted by the findings in the previous frequency analysis of M&As. Although a peak was not found around 1992, it is certain that the trend changed its direction and began to

Table 2
Total M&As of Radio Firms as Acquirer and Target
(Transaction Values, $Mil.)

	Radio (SIC 4832)			
Year	Radio Firm as Acquirer	Radio Firm as Target	Difference	Total
1981	63.0	1188.5	−1125.5	1251.5
1982	189.1	2957.2	−2768.1	3146.3
1983	351.3	390.0	−38.7	741.3
1984	262.4	469.1	−206.7	731.5
1985	1945.3	6220.3	−4275.0	8165.6
1986	1189.1	1461.6	−272.5	2650.7
1987	360.5	1970.8	−1610.3	2331.3
1988	876.9	2184.9	−1308.0	3061.8
1989	1201.0	1348.7	−147.7	2549.7
1990	319.1	416.1	−97.0	735.2
1991	357.9	773.3	−415.4	1131.2
1992	515.2	559.0	−43.8	1074.2
1993	1266.6	1290.3	−23.7	2556.9
1994	1645.9	1810.9	−165.0	3456.8
1995	2371.1	2430.0	−58.9	4801.1
1996	7178.5	12495.0	−5316.5	19673.5
1997	8105.0	8912.8	−807.8	17017.8
1998	17261.1	16748.5	512.6	34009.6
1999	34703.6	24954.9	9748.7	59658.5
2000	10644.5	18203.7	−7559.2	28848.2
2001	1711.8	2884.2	−1172.4	4596
2002	495.8	455.1	40.7	950.9
Total	93014.7	110124.9	−17110.2	203139.6

increase in 1993. The analysis of both subcategories of M&As confirmed the finding, which was based on the analysis of total M&As.

Trends of Sector Relatedness

The third research question is related to how the industries, in which acquiring and targeted firms were located, were related to each other and how the relationships have changed over time. Table 3 presents the trends of sector relatedness for mergers by radio firms. Type 1 (identical sector) comprised most of the total number of M&As (84.5%), while the number of type 2 (related sectors) and type 3 (different sectors) were relatively low (8.9% and 6.6% respectively). This indicates that most M&A transactions in the radio industry were made between radio firms. Therefore, it can be said that M&As in the radio industry were related to increasing market power.

Table 3
Trend of Sector Relatedness (Mergers by Radio Firm)

Year	Identical Sectors	Related Sectors	Different Sectors	Total
1981	0 (0.0%)	1 (50.0%)	1 (50.0%)	2
1982	5 (62.5%)	1 (12.5%)	2 (25.0%)	8
1983	6 (60.0%)	3 (30.0%)	1 (10.0%)	10
1984	11 (68.8%)	5 (31.3%)	0 (0%)	16
1985	4 (66.7%)	1 (16.7%)	1 (16.7%)	6
1986	7 (70.0%)	3 (30.0%)	0 (0%)	10
1987	7 (87.5%)	0 (0.0%)	1 (12.5%)	8
1988	18 (90.0%)	1 (5.0%)	1 (5.0%)	20
1989	12 (66.7%)	5 (27.8%)	1 (5.6%)	18
1990	5 (62.5%)	3 (37.5%)	0 (0%)	8
1991	8 (66.7%)	3 (25.0%)	1 (8.3%)	12
1992	10 (90.9%)	1 (9.1%)	0 (0%)	11
1993	31 (91.2%)	3 (8.8%)	0 (0%)	34
1994	25 (80.6%)	6 (19.4%)	0 (0%)	31
1995	50 (92.6%)	2 (3.7%)	2 (3.7%)	54
1996	97 (97.0%)	3 (3.0%)	0 (0%)	100
1997	59 (80.8%)	4 (5.5%)	10 (13.7%)	73
1998	45 (83.3%)	3 (5.6%)	6 (11.1%)	54
1999	36 (83.7%)	3 (7.0%)	4 (9.3%)	43
2000	39 (86.7%)	3 (6.7%)	3 (6.7%)	45
2001	20 (87.0%)	0 (.0%)	3 (13.0%)	23
2002	17 (85.0%)	0 (.0%)	3 (15.0%)	20
Total	512 (84.5%)	54 (8.9%)	40 (6.6%)	606 (100.0%)

The analysis of the yearly trend showed that some minor changes have occurred. The number of type 3 M&As has increased since the mid-1990s. This indicates that after the passage of the Telecommunications Act in 1996, radio firms, and media firms that owned radio firms, increased their capital investments outside of the radio industry.

This finding was significantly different than the finding based on the analysis of M&As targeting radio firms. There was no significant change in the number of type 3 M&As after the passage of the Telecommunications Act in 1996, in terms of M&As targeting radio firms (Table 4). The passage of the Telecommunications Act in 1996 did not induce investment in the radio industry from firms in other industries as much as from firms within the radio industry itself.

Table 4
Trends of Sector Relatedness (Mergers Targeting Radio Firms)

Year	Identical Sectors	Related Sectors	Different Sectors	Total
1981	0 (0.0%)	0 (0.0%)	2 (100.0%)	2
1982	5 (41.7%)	3 (25.0%)	4 (33.3%)	12
1983	7 (35.0%)	7 (35.0%)	6 (30.0%)	20
1984	11 (61.1%)	2 (11.1%)	5 (27.8%)	18
1985	4 (36.4%)	1 (9.1%)	6 (54.5%)	11
1986	7 (58.3%)	3 (25.0%)	3 (16.7%)	12
1987	7 (50.0%)	4 (28.6%)	3 (21.4%)	14
1988	18 (58.1%)	4 (12.9%)	9 (29.0%)	31
1989	12 (57.1%)	0 (0.0%)	9 (42.9%)	21
1990	5 (0.0%)	0 (0.0%)	5 (50.0%)	10
1991	8 (80.0%)	0 (0.0%)	2 (20.0%)	10
1992	10 (71.4%)	0 (0.0%)	4 (28.6%)	14
1993	31 (79.5%)	1 (2.6%)	7 (17.9%)	39
1994	24 (64.9%)	3 (8.1%)	10 (27.0%)	37
1995	49 (81.7%)	6 (10.0%)	5 (8.3%)	60
1996	97 (80.2%)	12 (9.9%)	12 (9.9%)	121
1997	58 (84.1%)	7 (10.1%)	4 (5.8%)	69
1998	44 (77.2%)	6 (10.5%)	7 (12.3%)	57
1999	35 (83.3%)	2 (4.8%)	5 (11.9%)	42
2000	38 (76.0%)	4 (8.0%)	8 (16.0%)	50
2001	20 (74.1%)	1 (3.7%)	6 (22.2%)	27
2002	17 (70.8%)	4 (16.7%)	3 (12.5%)	24
Total	507 (72.3%)	70 (10.0%)	124 (17.7%)	701 (100.0%)

This study also investigated sector relatedness in terms of individual industry. In the case of M&As by radio firms, the broadcast TV sector (SIC 4833) had the highest incidence (44 cases, 7.3%), followed by the outdoor advertising service sector (SIC 7312; 12 cases, 2.0%), excepting M&As between radio firms. M&As targeting radio firms produced five sectors with more than 1.0%, except for the radio sector: the broadcast TV sector (SIC 4833; 56 cases, 8.0%), investors (SIC 6799; 43 cases, 6.1%), the newspaper sector (SIC 2711; 12 cases, 1.7%), the motion picture/video production sector (SIC 7812; 8 cases, 1.1%), and communication services (SIC code 4899; 7 cases, 1.0%).

DISCUSSION

This study examined the trends of M&As in the radio industry. Unlike other M&A related research, this paper analyzed both M&As conducted by radio firms and M&As targeting radio firms. After summarizing the external factors and internal rationales related to M&A decisions, this paper posed three research questions.

With the first research question, this study asked whether M&A activities in the radio industry consistently grew over time. If we assume the continuous development of communication technologies during the analyzed period (1981–2002), we can expect that M&A activities in the radio industry have increased over the time period. Both analyses of M&A frequency and transaction values showed that, although M&A frequency and transaction values have been increasing from the early 1980s to the mid-1990s, they dropped rapidly beginning with the mid-1990s (in the case of frequency analysis), or the late 1990s (in the case of transaction values analysis). Therefore, the implicit hypothesis is only partially supported. One reason for the abrupt drop in M&A activities in the late 1990s can be attributed to the general downfall of the economy. The authors conducted an additional correlation analysis between real GDP and transaction values of M&As in the radio industry. In the case of M&As conducted by radio firms, the Pearson correlation coefficient between real GDP and transaction values of M&As was $r = .52$ ($p < .05$). The correlation was also significant in the case of M&As targeting radio firms $r = .55$ ($p < .01$). These correlations show that M&A activities were significantly and positively related to the general economy. Therefore, it can be said that the decreased M&As observed since the late 1990s can be partially explained by the decreased activities of the general economy. As an additional explanation, a ceiling effect can be suggested. That is, there has already been so much consolidation in the radio industry that the number of choices decreased.

The second research question was based on the implicit hypothesis that the loosening of ownership limits would positively affect M&A activities in the radio industry. Based on this conjecture, this paper investigated whether the M&A activities were comparatively more active during the years of 1984, 1992, and

1996 when the FCC and Congress loosened radio ownership rules. Both analyses of frequency and transaction values confirmed the implicit hypothesis. That is, this study found comparative peaks of M&A activities concurrent with the analyzed years.

In conducting the above analysis, this study distinguished an interesting relationship between M&A frequency and M&A transaction values. The comparative peaks of M&A activities were slightly different in terms of M&A frequency and M&A transaction values. For example, the peak years for M&A frequency were 1984 and 1996, while the corresponding peak years for M&A transaction values were 1985 and 1999. That is, the peak years of M&A frequency occurred a little sooner than those of M&A transaction values. This difference implies that although the M&A activities were active immediately after the passage of related ownership deregulations in terms of frequency, big transactions were somewhat delayed. One of the reasons for this phenomenon might be related to the risk avoidance behaviors of firms. Even though a firm finds an incentive to invest in a profitable area, the initial investment will be relatively small. Big investment will be decided after observing that the small investment leads to successful results or observing that competitors begin to invest more money in the area. It can also be suggested that ceiling effects affected the time lag between M&A frequency and M&A transaction values. Although an increased number of M&A activities are observed immediately after an ownership rule is loosened, the trend then turns downward as there is less to maintain additional M&A activities in the industry. Additionally, it generally takes several years to finish large-scale transactions.[1]

The third research question inquired as to how the distance between industries, in which acquiring firms and targeted firms were included, has changed over time. Employing a categorization that has been used for measuring degree of diversification of a firm, this study grouped the M&As into three types. In the case of interpretation, a high percentage of type 1 (identical sector) was related to an internal rationale of increasing market power, while a high percentage of type 3 (different sectors) was related to an internal rationale of overcoming entry barriers. Generally, the analysis showed that type 1 made up most M&A cases. This finding indicates that a major internal rationale for M&As in the radio industry might be to increase market power. The analysis of the time trend, however, showed a possibility of change. In the case of M&As conducted by radio firms, the increase of M&As in type 3 (different sectors) was found after the passage of the Telecommunications Act in 1996. That is, the Telecommunications Act induced radio firms to diversify their business resources. One interesting finding was the different trends found in the analyses of M&As conducted by radio firms and M&As targeting radio firms. Although radio firms increased their investments in other business areas after the passage of the Telecommunications Act in 1996, investments from other industries into the radio industry did not significantly increase. One explanation might be that investments into the radio industry have been made consistently since the early 1980s so that the effect of the passage of the Telecommunication Act was relatively small.

Compared with previous research, the findings of this study are important in two aspects. First, this study confirmed the results of previous research, which stressed the impact of the passage of the Telecommunications Act. Howard (1998) showed that a wave of broadcast industry consolidation quickly followed passage of the Act. Also, Drushel (1998) found that the degree of concentration in radio market dramatically increased around the time the Act passed. In fact, significant growth in M&A activities around 1996 were found in several media industries including broadcast TV, cable TV, and telephone industries (Chan-Olmsted, 1998). This study confirmed that the radio sector showed a similar pattern, implying that the relaxed ownership rules induced more M&As through the entire media industry.

In addition, this study showed that the increasing trend of M&As in the radio industry changed direction following the passage of the Telecommunications Act. Previous research by Chan-Olmsted (1998), Drushel (1998), and Howard (1998) did not identify the change in this trend because they analyzed only the year following the passage of the Act.

CONCLUSION

This study can serve to enrich knowledge regarding the radio industry because of its fresh approach to the investigation of the longitudinal trend of M&A activities. Unlike previous studies, this paper analyzed both M&As conducted by radio firms and M&As targeting radio firms. Through the comparison of M&A frequency and M&A transaction values, this study also found some indication that there might be a time lag between small scale and large scale M&As.

Although providing potential contributions, this study includes some limitations as well. First, although the research questions in this paper were based on implicit hypotheses, the implicit hypotheses were not theoretically formulated. Second, although this study adopted a research framework that demonstrated relationships between external/internal factors and M&A activities in the radio industry, it did not provide an empirical analysis to investigate the causalities. Therefore, this study could not determine whether the effects of the suggested variables were statistically significant and could not eliminate the possibility of intervention of confounding variables in its research design.

Subsequent research is required to generalize the results of this study by incorporating other variables into the research model. That is, new studies that test several explanatory variables simultaneously in an integrated model should be conducted. To conduct such a test, however, additional data regarding the characteristics of firms (e.g., market share of a firm) and industries (e.g., profitability of an industry) must be collected. In addition, successive research, that could cross-examine M&A activities across several media sectors, including the audio-visual sector, electronic media services, information services, print media, and the telecommunications sector, might provide significant insights regarding diversification trends in media industries.

Note

[1] This explanation was suggested by an anonymous reviewer. The authors appreciate the suggestion.

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