

Building Architectural Advantage in the US Motion Picture Industry:

Lew Wasserman and the Music Corporation of America.

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ABSTRACT

This paper contributes to the literature on industry architecture by focusing on the emergence of “architectural advantage,” and proposing a model of endogenous industry evolution. To understand how one firm can shape the industry architecture in its favor, we studied a historical case study on the role of Lew Wasserman and the Music Corporation of America in the evolution of the Motion Picture industry in the United States. In this paper we focused on two major disruptive events: the 1948 Paramount Decree which forced vertically integrated movie studios to divest their theaters, and the explosion of television as a novel form of entertainment in the 1950s and its diffusion as a channel for the exhibition of movies alternative to the movie theater. In both of these cases, one company, Music Corporation of America, led by a very entrepreneurial CEO, Lew Wasserman, managed to improve substantially its standing in the industry by occupying and consolidating a position of advantage in the industry or, in other terms, an architectural advantage. We show how in both of these cases this was the result of the interaction of the actions of the Studios, constrained by the institutional logic of the industry and by the regulatory framework, and Lew Wasserman’s introduction of novel industry practices (profit-sharing and packaging) which both consolidate his grip on talents and facilitate the growth of independent production and TV production.

INTRODUCTION

If Hollywood was Mount Olympus, Lew Wasserman is Zeus.
(Jack Valenti)

In addressing the critical question of industry evolution, two research traditions, industrial organization and evolutionary economics (Porter, 1980; Nelson and Winter, 1982; Teece, 1986; McGahan, 2004), on the one hand, and institutional theory on the other (Thornton and Ocasio, 1999; Haveman and Rao, 1997; Lounsbury, 2007), have contributed much to our understanding of antecedents and consequences of structural changes in industries. Nevertheless, both traditions abstracted from the analysis of the endogenous appearance of a stable set of "rules and roles" (as recently proposed by Jacobides, Knudsen & Augier, 2006) that shape the patterns of the division of labor and the nature of the "field".

The concept of "industry architecture" (Jacobides et al, 2006) provides a useful conceptual tool to explore the role of technical and institutional forces in shaping the division of labor in the industry, and the related distribution of value. The process through which firms can achieve "architectural advantage," is a fertile ground for empirical and theoretical work, given that much of existing research has focused on the consequences of exogenous shocks (for instance, technical innovation or regulatory change) rather than the endogenous process that lead some firms to develop a structural advantage by shaping industry forces in their favor. To understand this process we need to understand how one firm can shape the evolution of the industry architecture in its favor or, in other words, how architectural advantage emerges.

From 1939 until 1965, Lew Wasserman and MCA/Universal managed to completely change the competitive landscape of the motion picture industry in the United States, exploiting technological and regulatory change, and until the 1980s they wielded enormous influence over the industry. In this paper we provide an analysis of this fascinating historical case study,

tracking the relations between exogenous environmental shocks, managerial action and organizational choices and use this evidence to further our understanding of how architectural advantage emerges.

The paper is organized as follows. First, we provide a short overview of the relevant academic literature on industry evolution and industry architecture. Then, after describing the methods and our data sources, we delve into the rich historical narrative of the evolution of the motion picture industry in the United States and of Lew Wasserman and MCA rise to power and industry dominance. In the last section, we will discuss the findings of the study, outlining the contour of our contribution and discussing its managerial implications.

Theoretical Background

The Industrial Organization tradition (Bain, 1959; Porter, 1980) mainly focused on the structural and technical features of industries as determinants of the profitability of its participants, and while it acknowledged that firms could, and should, attempt to influence the structure of their industries, has not provided much theoretical insights on how to do so (see McGahan, 2004 for an exception). The consequences of technological change for both incumbents and potential entrants have been studied extensively (Christensen & Bower, 1996). Incumbents are posited to be more at risk when innovative change affects the "architecture" of the system, as opposed to its "components" (Henderson & Clark, 1990), and less threatened when the new technology is "competence enhancing" drawing on the skills and capabilities developed previously, but less likely to survive when it is "competence destroying" (Tushman & Anderson, 1986). Incumbents who focus too narrowly on existing applications of a basic technology may leave niches open in which entrants can extend the technology and ultimately

escalate a broader threat (Christensen & Rosenbloom, 1995; Christensen & Bower, 1996; Christensen, 1997).

In the evolutionary economics tradition (Nelson and Winter, 1982), technological change can have a dramatic impact on the development of industry structure and provide one of the necessary causal links in the co-evolution of firms and industry (Murmann, 2003).

Malerba, Nelson, Orsenigo, and Winter (2008) for instance, suggest that a key factor in explaining changes in the vertical scope of firms is the process of accumulation of capabilities at the firm and industry level. Given that these capabilities are heterogeneously distributed, and sticky, their distribution across firms in the industry affects the patterns of vertical division of labor in the industry.

Institutional Theory (Di Maggio and Powell, 1983) instead, has shed light on the institutional logics (Friedland and Alford, 1991), the rules of the game, that industry players follow and take-for-granted, and their cultural and institutional antecedents (Thornton and Ocasio, 1999; Hirsch and Lounsbury, 1997). At the same time scholars in this tradition went beyond the traditional boundaries of the industry, and considered the role that different actors (state, professions, unions, non-governmental organizations) play in the definition of the logics of the organizational field (Haveman and Rao, 1997; Lounsbury, Ventresca, and Hirsch, 2003; Lounsbury, 2002, 2007) and has started to explore the emergence of new industries such as Biotechnology (Powell et al., 2005) and nanotechnology (Grodal, 2006).

While most early work in this literature mainly emphasized the consequences of institutional changes, and did not seem to provide much opportunity for agency, this initial bias has also extensively been first challenged by organizational theorists. Kondra and Hinings (1998) and Fligstein (2001) have proposed frameworks which put human agency at the center of

analysis interpreting institutional change as the product of crisis in an organizational field brought by a new group of actors acting as institutional entrepreneurs (Di Maggio, 1991). Employing the concept of institutional entrepreneurship, some researchers emphasized the need for a triggering event that leads to change (Sine & David, 2003; Greenwood, Suddaby, Hinings, 2002). Indeed, variously referred to as shocks (Fligstein, 1991), jolts (Meyer, 1982), disruptive events have been vital in explanations of change processes on various organizational levels. Researchers have described them as creating disruptive uncertainty for individual organizations, forcing the initiation of unconventional experiments that diverge from established practice (Meyer, 1982). They have also been described as throwing entire industries into the “throes of quantum change” (Meyer, Brooks & Goes, 1990: 93), causing a restructuring process by the rearrangement of industry boundaries and an modification of the bases of competition.

Steeped in the tradition of evolutionary economics (Nelson and Winter, 1988), the concept of industry architecture might help us bridge these traditions because it considers both technological and economic drivers and institutional ones. An Industry architecture consists of (1) a template defining how labor is divided (and value created) in the industry – who does what; and (2) a template defining value appropriation and division of surplus – who gets what (Jacobides et al. 2006). A system of interfaces among firms emerges, as these architecture become stable. These interfaces are “technological, institutional, or social artifacts that allow two or more independent entities to divide labor” (Jacobides et al, 2006: 1203). When these interfaces change, as it happens with technological and regulatory changes, there is opportunity to renegotiate these architectures. Industry Architecture, therefore, both constrains the action of competitors, by defining rules for competition (formal and informal) and defining clear roles for interactions and, at the same time, provides opportunity for entrepreneurial players to build a

more favorable competitive position. Jacobides et al (2006) suggest that firms can benefit from innovation by “managing the industry’s architecture carefully so they become the ‘bottlenecks’ of the industry” (Jacobides et al. 2006: 1208). While this concept might prove valuable in explaining not only the mechanisms of industry evolution, but also the process through which firms can build architectural advantage, so far most of the work has been primarily focused on the question of how firms can benefit from technological innovation (Teece, 1986; Gawer and Cusumano, 2002, Gawer and Henderson, 2008; Baldwin and Clark, 2006). In this context the key insight, which extends and quality the framework developed by Teece (1986) is that a firm might be better off by nurturing competition in complementary assets, facilitating entry in segments adjacent to the ones they occupy (and protect). Taken together, these articles provide a solid economic rationale for the existence of an architectural advantage, but they stop short from identifying the mechanisms through which a firm can develop this architectural advantage. In particular, it is hard to understand how, in a competitive situation, one firm might be able to invest in the complementary assets while others might not. This paper attempts to address the question of emergence of architectural advantage with the analysis of a historical case study: the rise of Lew Wasserman and MCA in the Hollywood motion picture industry.

Research Methods

Industry evolution and architectural change happens over long time period, and to understand these changes, the researcher is inclined towards historical methods (Pettigrew, 1992). A narrative approach based on historical data is used to identify sequences of actions and events and to examine how the sequences affect the architecture of the industry. The American motion picture industry is a good case for studying industry evolution processes because (a) the

industry has gone through different architectures over the last century, and (b) these changes are well documented by historians of the industry in both academic journal publications and books (Bordwell, Thomson and Staiger, 1985; Schatz, 1999; Balio, 1978, 1985). Furthermore, anthropologists (Powdermaker, 1950), economists (Storper, 1989; Chisholm, 1993; 1997), sociologists (Zuckerman and Kim, 2003; Sorenson and Waguespack, 2006; Cattani et al. 2007), and strategy scholars (Enright, 1995; Miller and Shamsie, 1996) have provided useful insights on the evolution of the industry and on the operations of its productive system.

Historians of the movie industry commonly identify different stages in the industry (Gomery, 1988), precipitated by changes in the market, by regulatory interventions, as the 1948 Paramount Decree, or by a series of technological innovations, Television, Cable TV, VHS, DVD, etc. In this paper we are focusing on two of these exogenous shocks: the Paramount Decree and the diffusion of Television, but in addition to the description of these changes in the industry as a whole, we will focus our attention on the actions of Lew Wasserman and his company Music Corporation of America, a newcomer to Hollywood in the 1940s who will become the most influential leader in the industry. In addition to the large wealth of material available on the history of the industry, the recent publication of in-depth biographies on Lew Wasserman helped us track the evolution of MCA from the Talent Agency industry to the Motion Picture Industry (McDougal, 1998; Bruck, 2003; 2004). We employed a qualitative research strategy focusing on identifying “activities, choices and events” over time and identified who did what and when (Langley, 1999: 692). Hence, we could develop a narrative and timeline of key events in the industry, and map relationships among industry players. We analyzed the data using Miles and Huberman’s (1984) three steps of data reduction, data displays and interpretation and verification. We attained data reduction by reading historical accounts,

creating thematic categories and representing these in three data displays to capture variance throughout the career of Lew Wasserman and the associated industry change. The first data display captured Wasserman's career history, including work experience before becoming the CEO, and after becoming the CEO of MCA, key relationships with others (his network development). The second data display was of company histories including MCA, which identified their birth, their role in the value chain and the changes they experienced in their position in this chain, and relationships with other companies. The third data display was of key industry events and timelines such as law suits, court decisions, and key regulatory decisions. We relied on our immersion into the data and our contextual knowledge to assign meaning to the data and draw conclusions out of it.

BUILDING ARCHITECTURAL ADVANTAGE IN THE MOVIE INDUSTRY

The Movie Industry from its birth until the Paramount Decree

Prior to 1915, the movie industry was occupied by a large number of production companies that, for the most part, paid royalties to the trust that controlled all of the crucial patents associated with moviemaking. Simultaneously, there were a number of smaller, independent production companies that functioned outside of the trust (Jones, 2001). During the period from about 1915 to 1930 the industry was dominated by a small number of vertically integrated firms that provided production, distribution and exhibition: the Hollywood Studio System (Shatz, 1988). When the great depression struck, theater attendance decreased by more than 30 percent, forcing more than 4000 theatres to shut down in a period of three years, dramatically increasing the concentration of ownership. The production and distribution of firms also became increasingly concentrated (Negro & Sorenson, 2005). The major studios at that time

were 20th Century Fox, Metro-Goldwyn-Meyer, Paramount, RKO, and Warner Bros and controlled nearly 90 % of the market. The minors (Universal, Columbia, United Artists) owned no theater chains. Collectively the majors controlled 3000 theatres of the 18000 operating nationwide. Therefore the minors relied on deals with the majors to have their films exhibited. Their budgets (and profit margins) were lower, and they generally borrowed stars from the majors since they couldn't afford to keep their own under contract. While many of the major stars had their own production companies, before the rise of the studio system, by the 1930s most stars were salaried employees of the studios, typically under a seven-year contract. Studios controlled directly a dominant share of movie theaters, but exerted significant control over the exhibition even in theaters they did not own, thanks to the practice of block-booking, according to which theaters had to buy movies in bundles (and therefore were obliged to buy a large number of B movies together with the A movies) (Schatz, 1999).

In sum, the Studio System operated according to an integrated logic, in which the Studios exerted direct control over production and distribution, and indirect control over creative talents and exhibition, through the 7-year-contract and the block-booking industry practices (Fig. 1).

During World War II the Studio system experienced a period of strong growth in revenues and profitability: combined industry profits went up from \$20 million in 1939, to \$34 million in 1941, \$50 million in 1942 and went over \$60 million until 1945. By 1945, the majors were concentrating almost exclusively on A-class production, while the minors focused more on B productions. During the war the number of movies produced was significantly reduced. Between 1937 and 1941, the Big Eight released 1,833 feature films, while between 1942 and 1946 they released 1,395 films. Most of the cuts affected B-movies production, and therefore average production costs started to rise. Between 1942 and 1945, the average cost per movie

grew from \$336,600 to \$554,386 (Table 1). After the war, movie attendance, after peaking in 1946, went spiraling down, falling from 90 million admissions in 1948 to 70 million in 1949, and 60 million in 1950 (Table 2).

The Justice Department began an antitrust investigation into the industry's business practices in 1940; eight companies were named as defendants- the five majors and the three minors, and the defendants were charged with anti competitive dominance of the three major segments of the industry. Eventually, the Paramount decision in 1948 forced the separation of exhibition from production and distribution (Miller & Shamsie, 1996). The court ordered the five majors to spin off their theater holdings, and it ordered the spun off circuits to divest one-quarter to one half of their theatres. The prohibition against block booking¹ (an industry practice which meant that a studio would sell its films in packages on an all or nothing basis) enabled minor distributors, especially the Little Three (Universal, Columbia, United Artists) to capture a larger share of the market. Moreover, on the exhibition level, divestiture weakened the buying power of the former affiliated circuits and the block booking ban enabled the independent exhibitor to gain more control of his operations. As the studios couldn't control the production and exhibition at the same time, they reduced their output and they dramatically cut back on the number of stars (Balio, 1986). The combined effect of the Paramount decree and the decline in attendance (Caves, 2000), let major studios to decrease their production of feature films by more than 50 percent, adjust their cost structure, and concentrate more on distribution and film financing (Christopherson & Storper, 1989).

¹ Since 1940, the studios had already started to rely less on block booking, after signing a consent decree to settled another Justice Department investigation on the practice, but only with the Paramount decree, the practice was eventually banned.

Lew Wasserman and Music Corporation of America.

In 1936, at the age of 23, Lew Wasserman joined Chicago-based Music Corporation of America (MCA) which was the most successful band booking agency at that time. In 1939, Wasserman joined Stein in Los Angeles in 1939 to help him build the movie business for MCA. From 1940 on, with Stein's authorization, Wasserman started buying up star's contracts from other agencies, and buying agencies themselves. In only a few years, Stein and Wasserman bought the contracts of top stars such as Bette Davis, Errol Flynn, Joan Crawford, and many others. Other higher status agencies, incumbent players such as Selznicks and William Morris, would not buy try to buy star's contracts: "They felt they didn't need to, they were kings [...] it was beneath them," Wasserman said (Bruck, 2004: 73). In the early 40s, MCA bought a large number of agencies, including Alan Miller; Casting Consultants, Liebling-Wood, Alexander and Silman, Martonplay, Myron Selznick, William Meiklejohn, and Limmit & Dunfee. In 1945, Wasserman bought Hayward-Deverich Agency, with its excellent list of several hundred performers, including Greta Garbo, Ginger Rogers, Fred Astaire, Billy Wilder. With this move, MCA became the largest agency in Hollywood.

To explain MCA's ability to grow so quickly and the limited reaction of competitors it must be said that the agency business was not very profitable, because the widespread seven-year contract industry practice tied artists to one of the studios for a very long time and therefore agencies were of limited value to the talents. More established Hollywood talent agencies such as William Morris and Famous Artists Agency, did not see this acquisition as an opportunity. But the combined effect of the Paramount decree, decreasing attendance, cut in production, and rising production cost, made the studios increasingly worried about their "stock" of talents, and their ability to use them efficiently. As a consequence studios were now more than happy to let

their talents go, opening up an opportunity for agents such as Wasserman and MCA. The number of actors under contract to major studios, which had been as high as 804 in 1944, fell first to 474 in 1949, and then to 164 in 1961. Similar declines are found for directors (99 in 1949 to 24 in 1959), producers (from 149 to 50) and writers (from 91 to 47). Studios now had less control over talent, but in their attempt to keep production costs down, they became more aggressive in their negotiations with them, and this led to another opportunity for Wasserman. In 1950, Wasserman negotiated a deal for Jimmy Stewart in the movie *Winchester 73* with Universal. At that time, Universal was in financial difficulty and could not afford Stewart's normal salary of \$250,000. Instead, Stewart got no fixed salary but did get 50 percent of the net profits over the life of the film. The movie was a hit, and Stewart quickly became the richest actor in Hollywood. Profit-sharing contracts had been used sporadically before, but it is only through MCA that this practice diffused widely and became institutionalized. In addition to the diffusion of profit sharing contracts, MCA also packaged the script, director, stars and producer for several RKO pictures in late 1939 and early 1940. MCA had no control over the actual production, nor did it have any financial stake in the finished pictures; still the agency clearly was facilitating the shift in filmmaking authority, especially in terms of the initiation and development of movie projects, away from the studios and into hands of individual filmmakers giving them a power advantage against the studios (Schatz, 1990). Overtime other agencies followed suits in the attempt to maintain their market share of talents, and acquired other smaller agencies, but MCA was now well established as one of the top agencies in Hollywood.

Packaging and Profit-Sharing help Wasserman builds an architectural advantage by amplifying the power of talents vis-à-vis studios, and at the same time strengthening the relation between talents and MCA. Therefore these two practices helped MCA position itself between

talents and studios and become irreplaceable to both. It is important to notice that what opened the door to this new practice was the need for the studios to reduce their risk exposure: as Mel Sattler, who negotiated the *Winchester 73* contract on behalf of Universal, put it: “Universal accepted the proposal because it permitted the company to put substantially less at risk by reducing its immediate production costs” (cited in Weinstein, 1998).

Both the agencies and the Studios were still operating under the “integrated logic” (Figure 1) and therefore agents were not particularly interested in growing a roster of talents that were not particularly profitable, and studios were just trying to reduce their production costs.

Another factor that helped MCA better leverage its investment in talents, was the growth of independent production (Balio, 1976). This growth was facilitated by the studios’ decision to focus almost solely on distribution and financing, and leave the production to independent production companies, often operating on their own lots. Robins (1993), for instance report that Warner Bros distributed and financed, from 1946 to 1965, 207 independent productions and 162 studio production. The consequences for this explosion of independent production, together with the increasingly reliance on hits, created a more competitive market to acquire the services of the top talents. The concentration of talents represented by Wasserman, and the lock-in effect created by the profit-sharing agreement that he helped diffuse, together with the rise of independent production, helped MCA consolidate its position of power in Hollywood in the 1950s.

One episode in the story of the motion picture industry might not provide strong enough evidence on the operation of these mechanisms. To provide additional evidence we will show how the same process can be observed in another key episode of the history of the same industry.

In this case the exogenous shock is not of regulatory nature, but stems from the development of a novel form of movie exhibition: Television.

The Rise of Television

By 1950, 25% of American households owned a television set, and TV's penetration had doubled to 50 percent by 1952. During the same period, cinema attendance decreased considerably from 1949 to 1953 and then stabilized at about 40 to 50 million admissions per week. Television was, in the view of the Studios, the main cause for this fall. Large movie studios (Warner Bros., Twentieth Century-Fox, and Paramount) had initially tried to start building their own TV networks but the Federal Communications Commission (FCC) had blocked their efforts. In 1948, Warner Bros had plans to build its own networks by acquiring existing stations and had asked the FCC to approve the acquisition of the Los Angeles TV Station KLAC. In interpreting the opportunities offered by the new technology, studio executives were bound by the traditional "integrated logic" which was based on direct control of the distribution and exhibition, and somehow as an opportunity to get back what the Paramount decree had taken away and therefore they "were not satisfied merely to experiment in a medium controlled by the existing radio networks; they wanted to *command* the television industry just as they dominated the movie industry, by controlling the channels of distribution" (Anderson, 1994). The Communications Act of 1934 authorized the FCC to refuse station licenses to any corporation convicted of monopolistic practices, and therefore after the Paramount decree, the FCC was in a position to deny the licenses to the studios (Gomery, 1986). Later that year, rather than denying the concession of a license, the FCC placed a "freeze" on TV station licensing, suspending decisions on all pending applications (the freeze lasted until 1952). The FCC freeze

facilitated the radio networks (CBS and NBC) to secure their grip on the TV market, and by 1948, CBS was the number one player in the Television market, followed by NBC and more distantly ABC.

Warner Bros' frustration with Television was shared in the industry, and led to a famous antagonism towards the medium, and a stubborn rejection to provide them content, which Jack Warner stated in the early 1950s: "the only screens which will carry Warner Bros. products will be the screens of motion picture theaters the world over" (Anderson, 1994: 45). The studios therefore, were not interested in supplying filmed material to the networks. Hence, in the late forties, most of the programs for TV were produced for live broadcast by New York-based advertising agencies. In 1950, the President of NBC, desperate to improve the quality of programming, decided that the network should control it, ruling that advertisers would be allowed to buy only short segments of time for their commercials rather than an entire program. This decision became a norm for other networks as well. When networks decided to keep the advertisers away from producing for TV, this decision created a vacuum in the TV production business. Once again, it can be noticed how the incumbents' action create an opportunity for players that were not yet (directly) involved in movie production, but had access to the key resource: the creative talents.

From Packaging to TV Production

MCA had already packaged the script, director, stars and producer for several RKO pictures. Wasserman had seen this practice being employed in band booking by the founder of MCA, Jules Stein and adopted the same practice in movies. Now he could package movies and content for TV networks. In 1952, The Screen Actors Guild granted a blanket waiver to MCA

that would permit the talent agency to take on TV production². Wasserman launched MCA into the TV production process through a newly formed subsidiary, Revue Productions. Initially, Wasserman started to bundle his stars with mediocre performers and NBC and other networks, which needed content and could not count on much cooperation from the Studios, were happy to buy the whole package. In the end, Wasserman started developing complete packages (script plus talent) and shopped them to network television. Instead of earning the traditional 10% commission on the earnings of their clients, MCA would receive a packaging fee of 10% of the entire production budget. By 1959, MCA's annual gross income had grown to \$58 million, with \$9 million from commissions, \$3 million from studio rentals, and \$46 million from television production and distribution (Anderson, 1994).

MCA was now *de facto* more a production company than a talent agency, and therefore the 1961 acquisition of Decca Records and its subsidiary, Universal Pictures (one of the three minor studios), only sanctioned the fact that MCA was now one of the Hollywood Studios and Lew Wasserman a movie mogul. Indeed, when faced with an injunction from the Justice department to divest Decca Records and Universal Pictures, Wasserman negotiated a deal to keep Decca Records and Universal Pictures, and accepted to dissolve the talent agency (Gomery, 1998).

In June 1963, Wasserman and Kintner struck the biggest deal in TV history. MCA would produce a full season of two-hour feature films for weekly screening on NBC during the 1964-1965 season. This made-for-TV movie strategy initiated by Wasserman proved to be highly successful. In October 1965, MCA and NBC made a \$60 million film deal. The deal included

² The Screen Actors Guild (SAG) had long forbidden talent agencies from producing motion pictures, because of the innate conflict of interest in concurrently being the agent and the employer. It seemed that SAG would assume similar restrictions for TV production. But MCA managed to obtain a waiver from this rule, primarily thanks to Wasserman's friendship with Ronald Reagan, who was a client of Wasserman and President of SAG.

sixty Universal films for network screening, at about half a million dollars each; forty for screening on the network's owned and operated stations, at about a hundred thousand dollars each; an uncertain number of made for TV feature films, for a estimated subtotal of fifteen million dollars. Wasserman brought top film and television talent to the new Universal, including Alfred Hitchcock. Through the seventies, the power of Universal Television was prevalent all over Hollywood. No other TV producer came close to MCA. In the fall of 1976, Norman Lear, MCA's closest competitor, provided four hours of shows a week on prime-time network programming, and MCA provided fourteen. As of 1978, MCA was still far ahead of all other major studios in network programming as shown in Table 3.

When Wasserman dissolved the agency business and maintained the Production and Distribution business of Universal Pictures and Revue Production, many questioned how he would deal with the soaring production expenses, which somehow he had helped generate. The steady flow of TV production stemming from contracts like the one with NBC, made it possible for Wasserman to organize Universal Picture production in ways that were much closer to the traditional Hollywood Studio System he had helped bring down. Given the small budgets of the typical TV production the top talents were out of reach, and Universal built a list of young, affordable talents, and started to loan them out to other studios, as Wasserman's antecedents had done in the apex of the studio system.

This episode of the evolution of the industry reinforces our interpretation of the changes that led MCA to acquire a dominant position in Hollywood after the Paramount decree. In this case, Wasserman again leveraged his control of creative talents, and the innovative packaging practice, and leveraged them by taking advantage of the demand for content of television. But again, these actions would not have been successful if the Studios had not fought the growth of

television by not providing them content. Studios were still operating under the assumption that the only way to profit from an exhibition channel is to control it directly, but their attempts to buy television networks were blocked by regulatory constraints.

DISCUSSION

There is wide consensus in the literature on the fact that incumbents struggle in adapting to technological (Henderson and Clark, 1990) and regulatory change (Smith and Grimm, 1987), and that this resistance to adaptation might be partly explained by the existing institutional logic (Thornton and Ocasio, 1999) and the cognitive frame employed to interpret technological changes (Kaplan and Tripsas, 2008). Building on this idea, in this paper we show that the decisions taken by incumbents, because of regulatory and institutional constraints, create an opportunity for entrepreneurial actors to leverage their fresh construction of the industry dynamics and influence the architecture of the industry in their favor. Novel industry architectures do not materialize solely out of the institutional fabric, but will also require from the newcomer the ability to control a critical activity in the value chain. Obviously, this investment *ex-post* appears logical and essential to the new architecture, but *ex-ante* is based on the acquisition of assets that will appreciate if the new architecture actually develops. Jacobides et al (2006) suggest that if (1) a particular asset stands to gain from innovation, (2) the asset is in short supply, and (3) there is a possibility to invest while they are still cheap, than it is profitable to pursue the innovation and buy the assets that will appreciate. They also argue that “an innovator [...] may try to achieve architectural advantage by stimulating ferocious competition in the complementary assets rather than in their own segments” (Jacobides et al, 1996: 1214). Our

case study suggest that entrepreneurial players can facilitate this competition by introducing novel industry practices that facilitate entry in complementary assets, as Wasserman's packaging and profit-sharing facilitated the growth of independent production. Furthermore, competition in complementary assets can be facilitated by the actions of incumbents, constrained by regulatory or institutional rules. The integrated logic that permeated the Studio System of the 1930s, together with the limitation created by the Paramount decree and the FCC actions, shaped the actions of the incumbents in ways that opened up opportunities for novel players, such as MCA.

Strategists often invoke constraints to competitors' actions to explain the existence of a sustainable competitive advantage (Ghemawat, 1991; 1993). For instance, even though many competitors understood DELL's business model, they found it very hard to imitate without disrupting their existing operations (Rivkin and Porter, 1999)³. Nevertheless in this case the trade-off might does not stem only from the economics of the incumbents' strategies, but rather from the set of institutional constraints in which the incumbents operate.

As critical as they are in the creating opportunities to reshape industry architecture, incumbent's actions only create opportunities for different players. The introduction of novel industry practices (Lounsbury and Leblebici, 2004), such as packaging and profit-sharing, was the other essential step in developing an architectural advantage for MCA, because it reconfigured the web of transaction among the key players in ways that strengthened its position. These practices not only helped MCA lower the studios bargaining power, but also helped it

³ Another interesting similarity between MCA's disruptive strategy and DELL's, was their reliance on a "lighter-than-air" balance sheet. In a 1962 interview with the *New York Post*, Lew Wasserman commented: "To us the most important thing is manpower because that's all we really have here. We have no inventory, and our assets, we put them under our hats and night and go home" (Gelman and Aronowitz, 1962). This is in stark contrast with the tradition brick-and-mortar studio system. The inability to react to the threat might also be based on the relative rigidity of the asset base of the Studios.

consolidate its control on one asset that became much more valuable in the Post-Studios era ushered in by the Paramount decree.

CONCLUSION

Conclusions from an historical case study deserve healthy caution, given the limitation of the data, and the complexity of ruling out alternative explanation of the patterns described, but the fascinating case of Lew Wasserman and MCA provides an interesting historical puzzle that might help extend our understanding of industry evolution, and identify the mechanisms that might explain whether and how one firm can actually build an architectural advantage.

This paper contributes to the development of a theory of architectural advantage in two ways. First, we suggest that the opportunities for entrepreneurial action are essentially generated by the incumbents' attempts to cope with the environmental jolts (Meyer, 1992) and maintain the old architecture by disinvest in assets that might become valuable in the new architecture. This insight might be a timid step towards developing an endogenous theory of industry evolution, but further research should explore the mechanisms through which the actions of dominant players can accelerate change rather than prevent it. On this topic, strategy researchers could build on the fascinating insights obtained in the insightful sociological studies on the emergence of the biotechnology field (Powell et al. 2005) and on the emergence of banking and the "partnership system" in Renaissance Florence (Padgett and McLean, 2006). For instance, in the latter case, members of the Florentine elite, attempting to maintain their position of dominance, were acting in ways that would eventually open up opportunities for fundamental changes in the political, economic and social structure of the city, and an explosion of novel practices. In the words of Padgett: "Florentine elites invented not because they wanted to, but because they had to,

conservatively to preserve their threatened positions” (Padgett and McLean, 2006: 1473). Future research could benefit from these insights to improve our understanding of this process.

The second contribution of this paper lies in shedding light on the critical role played by industry practices in facilitating the emergence of new patterns of collaborations across economics actors. Designing, championing and institutionalizing innovative industry practices, we suggest, is the path to creating architectural advantage, because through these new interfaces (Jacobides et al 2006), the new entrant in the industry can stimulate competition in adjacent segments of the industry, and consolidate their control over critical resources. Further research should explore the role of broader social structure in shaping these practices (see for instance, on the role of the media, Lounsbury and Rao, 2004; Kennedy, 2008). Furthermore the stitching of different industries might create opportunities for creative industry practice reconfiguration. In the case of MCA, for instance, it seems clear that packaging originated in the band-booking business, in which the company had operated for years, and therefore what appears as an invention in Hollywood, is essentially the adaptation of a template originating in another industry (Schneiberg, 2007).

Given the many limitations of this study, it might be premature to extend our findings to their prescriptive implications, but a few insights from this case study might be helpful for managers operating in industries with unstable, contested architectures.

Regulatory and Technological changes provide opportunity for restructuring the industry, but how can entrepreneurial firms capture these opportunities? How can an entrepreneurial firm facilitate competition in complementary assets and develop and architectural advantage? A novel recombination of resources and activities, such as packaging and profit-sharing in the movie industry, can help generate competition in complementary assets and the appreciation of assets

that otherwise might not be as critical. These novel industry practices though might not be enough if the incumbents can limit competition by limiting access to other critical resources. Incumbents though might be limited in their action by regulatory limitations and by the dominant institutional logic of the industry. Entrepreneurial firms attempting to build an architectural advantage should therefore assess the presence of these constraints for incumbents.

On the other hand, incumbent firms should carefully consider their moves in adapting to technological and regulatory change, because as in the case of the movie industry in the 1950s, their action aimed at reducing the damage might actually accommodate the new entrants, and lead the new industry towards a novel architecture in which their profitability might suffer. This might be, for example, the case in the music industry in the digital download era. Trying to prevent the diffusion of the novel technology, in order to maintain their industry architecture, music labels might have created the space for the growth of Apple in the related digital music retailing activity. Apple tried to build an architectural advantage in the emerging digital music retailing business by (1) leveraging its dominant market share in the mp3 players market, (2) facilitating consumers' switch to the new purchasing habit by developing a user-friendly web purchase experience (iTunes), and (3) breaking away from the CD format (unbundling). Given the market share iTunes currently enjoys in this market (70%), the labels are now trying to foster competition in the digital music retailing market by supporting the entry of very competitive players (i.e. Amazon.com).

Careful analysis of the economic implications of novel, controversial industry practices could help incumbents develop alternative scenarios of the evolving industry architecture and assess what their role will be in them.

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Table 1. Average Production costs (in million of dollars)

Year	Average Production Cost (\$ mil)	Percent of increase
1920	0.1	
1930	0.4	300%
1940	0.4	0%
1950*	1.0	150%
1955	1.5	50%
1960	2.0	33%
1965	2.5	25%
1975	3.1	24%
1980**	9.4	203%
1985	16.8	79%
1990	26.8	60%
1995	36.4	36%
2000	54.8	51%

* In 1946 the average feature film cost about \$665,000, but MGM reportedly spent \$1.6 millions per feature, Paramount \$1.5 million, Warners \$1.3 million and Fox \$1.25 million.

** Most of the increase in production costs reported in 1980 happened mainly between 1975 and 1977 when production costs increase 125%, from \$3.1 millions to \$7.5 millions.

Source: *The Film Daily Year Book*, New York, 1947, p.53; 1956, pp. 103,105.

Table 2. Personal consumer expenditures on motion picture admissions in the studio era

Year	Gross receipts on admissions (\$ millions)	Average weekly attendance (millions of admissions)
1940	735	80
1941	809	85
1942	1022	85
1943	1275	85
1944	1341	85
1945	1450	85
1946	1692	90
1947	1594	90
1948	1506	90
1949	1468	70
1950	1394	60
1951	1338	54
1952	1284	51
1953	1252	46
1954	1275	49

1955	1286	46
1956	1298	45

Source: (U.S Department of Commerce, *National Income Supplement to the survey of current business* (Washington D.C., 1954)

Table 3. Supplier market share of major movie studios in network Television series, Fall 1978.

Studio	Market Share (%)
Universal	18.6
20 th Century Fox	4.9
Paramount	3.9
Warner Bros	3.9
Columbia	2

Source: *Variety*, 14 September 1977, p.34

Figure 1. Industry Logics in the Motion Picture Industry and (1930-1978)

