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The Influence of Corporate Strategy for Multi-Channel Network on Firm Performance: Make, Buy, or Ally?

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The 22nd Biennial Conference of the
International Telecommunication Society

**The Influence of Corporate Strategy for
Multi-Channel Network on Firm Performance:
Make, Buy, or Ally?**

by

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ABSTRACT

The Influence of Corporate Strategy for Multi-Channel Network on Firm Performance: Make, Buy, or Ally?

The attention towards Multi-Channel Networks (MCNs) is notable in the media sector. Many firms adopt MCN business to capture the potential value created by new media trend. Consequently, the new investment, merger and acquisition (M&A), and in-house establishment trend is shaking up the media market. However, the short history of MCNs is yet reflected in the academia. Especially, there is limited literature on the industry-level analysis of MCNs. To fill the gap, this research attempts to understand how the firms are participating in the MCN industry across time, sectors, and regions. In other words, the firms' corporate strategies on the MCN adoption are analyzed. This paper classifies the type of strategic decision by Make, Buy, and Ally, then evaluates the influence of three strategic decisions on firm performance. It further investigates whether a first mover advantage exists in the MCN industry. To examine the firm performance, two accounting-based measures are employed: return on asset (ROA) and Tobin's Q. Research results indicate that Make leads better firm performance than Buy and Ally. In addition, the first mover advantage is confirmed in the MCN industry. Besides, some descriptive analyses of the MCN industry are presented in the study. As preliminary research examining the firms' corporate strategy on the adoption of MCN business, this paper provides meaningful implications for both practitioner and academia.

Keywords: Multi-Channel Network (MCN), Corporate strategy, Strategic alliance, Merger and acquisition (M&A), In-house establishment, First mover advantage, Firm performance, Return on assets (ROA), Tobin's Q

The Influence of Corporate Strategy for Multi-Channel Network on Firm Performance: Make, Buy, or Ally?

I. Introduction

Multi-Channel Network (hereafter, MCN) is creating new economic value in the recent media industry. Mainly due to the widespread distribution of Internet and smartphone, there had been a fundamental transformation in the media landscape in a very short time. Now it is mobile-focused, millennial driven, and digital first. The way of content production and distribution system corresponded with the change. While traditional media legacy hesitated to adapt to the new environment, alternative media platforms based on the Internet and mobile like *YouTube*, *Netflix*, and *Twitch* have emerged; and a number of individual content creators who produce contents based on these alternative media platforms have extremely increased. In this middle of a structural change of media market, MCNs have constructed an environment for content creators to justify their right to the contents.

The attention towards MCNs is notable mainly from media legacy, but also from program providers, platform providers, and telecommunication companies, for them to capture the potential value created by the new media trend. Consequently, the new investment, and merger and acquisition (M&A), and in-house establishment trend is shaking up the media sector.

According to *The New York Times*, in October 2013, *DreamWorks Animation* spent \$33 million to acquire and merge *AwesomenessTV* and *Big Frame*; *Hearst* paid \$81 million for a 25 percent stake in the company the following year (Merced, 2014). *The Walt Disney* completed a deal to pay \$500 million to acquire *Maker Studios* with an additional \$450 million on offer against performance target (Barnes, 2014). Late 2014, *Fullscreen* was acquired by *Otter Media*, a joint partnership between the *Chernin Group* and *AT&T*, for between \$200 and \$300 million (Steel, 2014). European media group, *RTL*, purchased a beauty vertical *Stylehaul* for \$150 million and invested \$36 million in Canadian-based *Broadband TV*, which allowed them to launch *RTL's* Digital Hub (Cunningham, Craig, & Silver, 2016).

Korean companies also recognized the market opportunity of MCNs. In 2013, *CJ E&M* first initiated a MCN business in Korea by launching *DIA TV*¹, and *AfreecaTV* followed this trend with the establishment of *Treasure Hunter*. Major Korean media legacy, *MBC* launched a MCN called *SMC* in cooperation with *Daum TV Pot*, and *KBS* also introduced *Yettie-Studio* in 2015 (Bae, 2016).

As shown in these examples, many large companies either invested or acquired existing MCNs or established in-house MCN subsidiaries. In other words, the organizations choose among several corporate strategic decisions to adapt to the new media environment formed by MCNs; to make, buy, or ally.

Corporate strategic decision should pursue efficiency and effectiveness using limited resources. However, depending on the situation, the decision does not satisfy all

¹ The initial name was *Creator Group* when it was first launched in 2013. *CJ E&M* later changed its name to *DIA TV* in 2015.

stakeholders and do not always produce positive results. There is a considerable expense, and there is also a risk of failure. So as all the other corporate strategic decisions are, the decision is not easy for the firms to choose whether to adopt MCNs or not. There are concerns that the MCN business will not last long. MCNs have yet presented a clear profit model. Although MCN operators are making various attempts to generate profits; most of them are continuing to operate in a deficit state depending on their investment. Even those who are making profits are not satisfied with the revenue scale being below the market expectation (Kim et al., 2017a). However, at the same time, some say MCNs seem to be suffering from growing pains to become a dignified player leading the media market in promising prospects in the long term (Kim, Lee, Choi, Kim, & Koo, 2017b).

Moreover, even if the firms have decided to adopt MCN to expand their business scope, it is also not easy to decide how to adopt the MCN business. As the MCN industry itself is in a nascent stage, there is a scarce reference for the firms to decide when to adopt the MCN business, and whether to make a new MCN or to ally with or to buy existing MCNs. It is difficult to prospect future of their decisions at the current stage. For instance, *The Walt Disney* invested big money for acquiring one of top MCNs with high expectation for its potential, but the result was disappointing. *Disney* in 2014 purchased *Maker Studios* at \$500 million with \$450 million additional performance-based offer; but they ended up paying only \$675 million for *Maker* which is 70% of the initial expectation with a round of big layoff in 2016 (Spangler, 2017).

At the current moment, there is a lack of empirical evidence for evaluating the MCN industry and judging the firms' decisions for MCNs. The prior literature and reports on MCNs are rather focusing on merely understanding what the MCNs are and recognizing the business potential of MCNs; mostly based on business analysis of individual MCNs or consumer side studies. Not many studies have investigated the structure of the MCN industry and evaluated the consequence of adopting the MCN business: who are interested in MCNs, how and when they join the MCN business, and whether their decisions towards MCNs leads to a better off result.

To fill the gap, this paper intends to understand how the firms are participating in the MCN industry across time, sectors, and regions. It also aims to investigate how their decisions towards MCNs influence on firm performance based on empirical approach. Specifically, this study distinguishes the decisions that companies make when they adopt the MCN business by Make, Buy, and Ally, and explores the influence of each strategic decision on the firm performance. This study employs accounting approach to evaluate the changes in the firms' financial and operating performance that result from the decisions. While the prior literature on MCNs tends to focus on business-level investigation, this research attempts to present industry-level analysis to contribute to the scant literature over MCNs with providing managerial implication for the firms that attempt to adopt MCNs.

The remainder of this paper is organized as follows. Section 2 briefly introduces the MCNs and discusses the relevant literature on the corporate strategic decision. Section 3 formulates the research questions. Section 4 presents methodology and data. Section 5 reports the results of the study. Finally, Section 6 concludes the study.

II. Literature Review

2.1 Multi-Channel Network (MCN)

2.1.1 What are MCNs?

The foundation MCNs is largely based upon *YouTube*, as most of MCNs began to emerge from May 2007, when *YouTube* implemented revenue sharing for individual creators through the *YouTube Partner Program*. The term MCN was also first coined by *YouTube*. *YouTube* defined MCN as “third-party service providers that affiliate with multiple *YouTube* channels to offer services that may include audience development, content programming, creator collaborations, digital rights management, monetization, and/or sales” (2017).

Likewise, many literature and reports attempted to define MCN. While some scholars simply defined MCN as ‘an agency for creators’ (Jung, 2016; Kim, 2016), or “a middleman between the creator and the platform” (Perry, 2016, p. 27); some others defined it in more detail, as ‘an organization that works with video platforms in various areas, and offered a way for video platforms to manage its massive database of content by being an intermediary between amateur users, platforms, advertisers to form the core of its revenue generating potential’ (Gardner, 2015; Mueller, 2014).

The variation in the definitions for MCN in the literature indicates that it is, in fact, difficult to understand MCNs within a definition. Each MCN provides slightly different services, and correspondingly, they have various and mixed attributes. How the individual MCNs call themselves are varied as well; from ‘-studio,’ ‘-network,’ ‘-TV,’ ‘-media,’ ‘-group,’ ‘-community,’ ‘-entertainment,’ to ‘-tube’ (Kim et al., 2017a). In addition, the scope of business for MCNs is still expanding. Initially, from 2007, many small MCNs were created mostly in the form of start-up, based on the popularity of *YouTube* stars and famous individual creators to aid them to justify their rights to contents. However, as the market grew, many large firms such as *The Walt Disney*, *RTL*, *Vivendi*, *Comcast*, and *Google* started to join the MCN industry. Now they even train new creators, provide a technique for contents production, and offer new platforms and opportunities for creators to present their contents via a variety of channels. MCNs are currently establishing its role and business model to catch new market opportunity and to generate market potential.

Hereupon, Kim et al. (2017a) asserted that the MCN at the current stage could be understood as a business that plays a unique role between personal video creators and video platforms though; its definition is yet decided and still evolving (p. 11) and therefore more open definition for MCN is needed (p. 15). Following the notion of Kim et al. (2017a), this paper defines MCNs as intermediaries among creators, platforms, and possible third-party players such as advertisers and users, that play their unique roles to generate revenue and/or attempt various activities to maximize the market potential.

2.1.2 Literature on MCNs

Given that the MCN industry is yet in its infancy, the literature regarding MCNs is also only a nascent stage. The earlier literature focused on theoretically identifying and defining MCNs and analyzing the current situation and environment (Cunningham et al., 2016; Kim, 2016; Vonderau, 2016). The expansion of MCN business and attention towards the business as a new market opportunity was followed by research investigating the business model (Gardner, 2015; Koh, 2016; Koh & Youn, 2016; Song, 2016) or

presenting case studies for individual MCNs (Mueller, 2014; Song, 2016). Some consumer studies have identified the user motivation of watching online broadcasting contents (Ahn & Choi, 2016; Ban & Park, 2016; Kim, Yoo, & Jung, 2016; Lee & Song, 2016), and investigated marketing and advertising effectiveness of MCNs (Byun, Yoon, & Cho, 2017). There was also a study that investigated the relationship between MCN firms and creators (Kim, 2017). Most of the literature focused on the business analysis² of MCNs.

Few studies paid attention to the industry analysis³ of MCNs (Jung, 2016; Yim, 2016). Jung (2016) examined how the MCN business influences the structural change of internet platform providers based on the resource-based view (RBV). Resource-based view (RBV) is an economic tool that is used to determine the strategic resource available to a firm. He showed that many platform providers were extending their core resource and scope of the business by adopting MCNs. Yim (2016) also focused on the RBV; while he presented SWOT analysis of US legacy media and MCN firms. He revealed that US media legacy are aggressively adopting MCN business, and argued that they tend to adopt the MCN business by M&A and strategic alliance rather than establishing an in-house MCN subsidiary. He further implied that Korean firms are rather launching a new MCN as its subsidiary. However, their studies were limited to a case analysis of a few business operators, and empirical analysis was not conducted. There was an absence of industry-level analysis that examined the MCN industry in a wider scope; across time, sectors and regions. In addition, there was no literature that investigated the consequence of the MCN business adoption, and that provided empirical evidence such as the firm performance; as this study attempts to reveal.

2.2 Corporate strategy

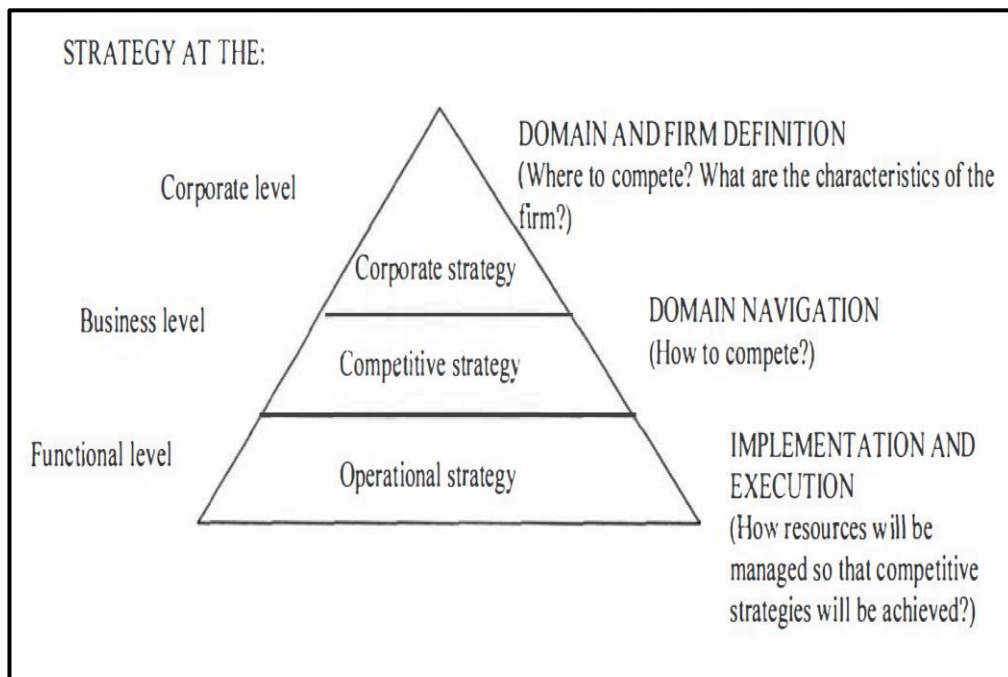
Corporate strategy is a fundamental concept within the field of strategic management. Since the term ‘corporate strategy’ is ubiquitous in both academic and practitioner literature, there is no such consensus defining corporate strategy among authors (Monroe, 2006). While there are numerous and different definitions of corporate strategy, this paper conceptualizes it as a strategy at the level of corporate which is a component of the strategic hierarchy.

Many researchers divided corporate strategy into hierarchies (Grunig & Kuhn, 2011), but in general, there are three levels of strategies for organizations, namely, corporate level, business level, and functional level (refer Figure 1). Specifically, the business level strategy focuses on generating sustainable competitive advantages such as price and product differentiation; and functional level strategy focuses on action plans for each functional area such as product development, human resources management, and marketing.

² A research discipline of understanding and defining business scope, identifying business needs and determining solutions to business problems.

³ A market assessment of understanding complexity of a particular industry and providing market prospect of the industry.

Figure 1. Corporate strategy hierarchy



Note. Adapted from Harrison (2003, p. 19)

2.2.1 Strategy at the corporate level

A firm’s corporate strategic decision is made for the sustainability and growth of the organization. In general, the corporate level strategy focuses diversification management and investment priority. A significant body of research has operationalized corporate strategy regarding restructuring, M&A, strategic alliance, divestment, and diversification. In particular, this paper, which aims to study firm’s corporate strategy for MCNs, classifies the corporate level strategy into three constructs: the decision to make, buy, or ally. Although there are various names used to describe these strategies, this study chooses these three for a convenient communication.

Make is an attempt to implement new technology or environment by leveraging a firm’s existing resources and capabilities. It is usually adopted when an organization is confident with the competitive advantage of their resources and capability. It includes the establishment of a new subsidiary within the organization or the establishment of a new business. *DIA TV* of *CJ E&M* and *Yettie Studio* of *KBS* are the typical examples of Make.

Buy refers to both merger and acquisition in this paper. An M&A involves “the coming together of two separate firms into one entity, either through the combination of equals (i.e., merger) or the acquisition of one company’s majority ownership by another” (Hagedoorn & Sadowski, 1999; Khansa, 2015, p. 114). *DreamWorks Animation*’s M&A on *AwesomenessTV* and *BigFrame* and *Disney*’s acquisition of *Maker Studios* are the examples of Buy. In reality, there are many cases of splitting the stack of a target company and acquiring only a portion of the stack. To prevent any confusion between Buy and Ally, this paper operationalizes Buy as acquiring the majority of the stack to take over the management right.

Ally, in other words, a strategic alliance is “an agreement between two or more parties to pursue a set of agreed-upon objectives needed while remaining independent organizations” (Thomas & Wheelen, 2017, Section 6, para. 12). A strategic alliance can develop in outsourcing relationship where the parties desire to achieve long-term win-win benefits and innovation based on mutually desired outcomes. This form of cooperation lies between Make and Buy. There are three type of strategic alliances: equity alliance, non-equity alliance, and joint venture. An equity alliance complements a partnership contract by owning a stake in the partnership. A non-equity alliance includes licensing agreements, supply contracts, and distribution contracts. A joint venture is a way for partners to invest jointly in establishing an independent company and sharing profits. *Google’s* strategic investment in *Machinima* and the joint venture between *BMG* and *Broadband TV, Windfall*, are the examples of Ally.

2.2.2 Firm performance

One of the focuses of corporate strategic research is to identify the reasons for performance (Hoskisson, Hitt, Wan & Yiu, 1999). Firm performance heterogeneity is linked to a variety of sources; for example, knowledge capital, innovation level, opportunity responsiveness, and the performance of industries or economics. A number of theoretical frameworks that have been developed to identify interfirm performance heterogeneity are accounted for either emphasizing an endogenous perspective⁴ or an exogenous perspective⁵ (Monroe, 2006).

This paper focuses on the largely endogenously derived source of interfirm performance variation, namely, corporate strategy. Following the fundamental assumption of resource-based theory (RBT), this paper assumes that heterogenous skills in decision making at the corporate level lead to interfirm variation. RBT suggests that factors which lead to superior firm performance are largely endogenous to the firm (Monroe, 2006). RBT has been first postulated by Prahalad and Hamel (1994) while they introduce theory on the core competence. It is a theory of growth while possessing and utilizing resources that leads to comparative advantage (Monroe, 2006). RBT predicts sustainable comparative advantage arises from firm conducts. In other words, RBT assumes that decisions relating to acquiring, developing, and deploying resources would eventually lead to heterogenous firm performance.

One of the aims of RBT is the measurement of firm’s resources and uncovering positive casual relationships between the firm’s use of resources (Monroe, 2006). Based on the notion that superior firm performance is thought to arise from sustainable competitive advantage created by the use of strategies, this paper attempts to review which of the firms’ decisions of adopting MCNs may lead to superior firm performance.

2.2.2.1 Type of corporate strategic decision

This research mainly focuses on how the corporate strategic decision whether to make, buy, or ally lead to interfirm performance variation.

The literature has reached no consensus regarding the firm performance

⁴ The strengths and weaknesses of firms (i.e. firm effect).

⁵ The treats and opportunities evident in the firm’s environment (i.e. industry effect).

heterogeneity of each decision. Some studies have argued that the synergy of the internal management system enables the companies to develop new technology or to adopt new environment more effectively and efficiently, rather than cooperating with the external organization through M&As and partnerships (Teece, Pisano, & Shuen, 1997). Whereas, other studies have claimed that establishing new business would not cost less, and it would be more effective and efficient to make strategic alliance relationships with or to acquire companies that have resources and competencies of new technology or environment (Grossman & Hart, 1986). Moreover, Ally can be preferred to Make and Buy if uncertainty is high as partners can share the costs and risks (Borah & Tellis, 2014). However, considering the conflicting prospects exist towards the future of MCNs at the current stage, it is also difficult to claim whether a specific strategic decision is a better than the others regarding firm performance or vice versa.

2.2.2.2 Speed to market

While reviewing how the decisions of Make, Buy, and Ally may influence the firm's sustainable competitive advantage which eventually leads to heterogeneous firm performance, this paper recognized that 'speed to market' is another corporate strategic decision that may lead to interfirm performance variation, apart from the decision type.

Speed to the market was identified by Wernerfelt (1984) in a seminal paper that forms one of the cornerstones of the RBT. Speed to market is considered as a sub-theory of RBT (Dean & Brown, 1995; Nehrt, 1998). Faster speed to market refers gaining a first-mover advantage (Kessler, Bierly, & Gopalakrishnan, 2000; Suarez & Lanzolla, 2007). A first-mover advantage means that a first firm that brings the innovation to the market will acquire an initial monopoly position for a short period (Grant & Baden-Fuller, 2004; Rijnsoever, Kempkes, & Chappin, 2017). The initial monopoly allows the firms to set the price, acquire an initial market share, go down the learning curve and receive customer feedback earlier than competitors (Rijnsoever et al., 2017). Whereas 'second mover advantage,' so-called a 'first mover disadvantages,' indicates followers' benefit from the resolution of uncertainty (Hoppe, 2000).

In general, speed to market is highly correlated to the type of corporate strategic decision because the outcome of Make is more likely to be new and unique, which can lead to a first-mover advantage (Kessler et al., 2000; Suarez & Lanzolla, 2007; Rijnsoever et al., 2017). However, in the case of adopting MCNs, the type of decision hardly matters since the firms that launched MCN subsidiaries have not initiated the MCN business. Most of MCNs, that began to emerge from 2007 when the *YouTube*'s initiated the revenue sharing for the individual creators, were the start-up companies; they were later allied or acquired by major companies. As discussed previously, many large firms started to participate in the MCN industry from 2013 to 2014 either by allying with or acquiring the start-up MCNs or launching MCN subsidiaries.

As MCN market is yet matured as many key role players in the media sector recently started to participate in the MCN industry after 2013, it can be considered that the firms that made the faster strategic decision to adopt the MCN business are the first-mover in the MCN industry. Thereby, this paper operationalizes that, the companies that made the decision to adopt MCNs until 2013 are the first movers.

2.3 Performance measure

The two competing exogenous and endogenous perspectives evident within strategic management have driven researchers to uncover which factors are the source of performance (Monroe, 2006). According to Monroe (2006), a large body of research has provided empirical support for the hypothesis that endogenous constituents (i.e., firm effects) account for a larger proportion of the firm performance than exogenous constituents (i.e., industry effects). Monroe (2006) reviewed the empirical research on corporate effects reported in the academic literature. He found out that effect of the endogenous constituents supposedly accounts for a range of between 0.8% and 114% of the variance in firm performance, in comparison to the effect of exogenous constituents which account for a more modest -1.6% to 62.8% of the variance in firm performance. Although, in reality, firm performance is affected by mixed constituents of endogenous and exogenous variables; this paper attempts to measure the firm performance based on the variation of corporate strategies, under the assumption that a high percentage of variance in the firm performance can be interpreted as equivalent to a greater importance of the effect measure (Adner & Helfat, 2003; Bowman & Helfat, 2001).

Performance of corporate strategies is frequently explored by using event study that calculates abnormal stock returns, as the stock price at a particular point in time reflects all available information up to that time (Borah & Tellis, 2014; Owers & Alexander, 2011). While the event study method has made a significant contribution to the corporate strategy literature, many researchers claimed some issues related its methodologies and measurement (Christoffersen, 2013; Christoffersen, Plenborg, & Robson, 2014; Ryu & Ra, 2017); as it merely reflects investors' expectations about wealth effect of the firm's corporate strategic decision, and does not provide evidence on the real economic gain (Healy, Palepu, & Ruback, 1992). Moreover, Park (2004) asserted that most event study research published in management journals had analyzed the financial implications of corporate announcements in a single country. He showed that the single country market model in a multi-country event study is likely to overestimate changes in firm value.

Christoffersen (2013) provided a systematic review of 165 empirical studies on the antecedents of performance in the international strategic alliance. As a result of the study, he suggested that researchers should give increased attention to achieving congruence between the measures of antecedents and performance. On the following year, Christoffersen et al. (2014) investigated several factors explaining firm performance and suggested that accounting based approach is most suitable to investigate the effect of alliances upon overall firm performance, as its' construct validities of both hypothesis level and measurement level are relatively high.

The results of these studies indicate that the choice of appropriate measurement variables is important in measuring corporate strategy performance and that accounting methods are most appropriate and reliable. In other words, using an objective performance measurement method such as accounting approach would be a most accurate assessment of overall corporate performance. Hence, based on Monroe's (2006) review on the empirical research on corporate effects, this paper selectively reviews accounting variables that used to measure firm performance in the academic literature (See *Appendix A* for the list of reviewed literature). In *Appendix A*, the sources of data, the use of performance measures and how they were analyzed are also reviewed.

The literature utilized various accounting based measures for the firm performance (e.g., ROA, ROE, ROIC, ROS, and Tobin' q) as the dependent variables. Among the

measures, it is noticed that return on asset (ROA) is a most frequently used variable. ROA is one of the most reliable variables that measure the firm performance as it is scaled appropriately to the size of individual firms. ROA is a measure that is best reflected in accounting performance due to corporate strategies (Monroe, 2006). However, while ROA reflects historical and retrospective accomplishment of firm performance, it would be important to explore future profitability of the firm. Thereby, this paper employs a complementary variable that includes a measure of anticipated performance.

Tobin's Q is "the ratio of the market value of financial claims on a corporation to the replacement value of the corporation's asset" (McGahan, 1999, p. 374), and therefore more sensitive to industry effects. A higher level of Tobin's Q indicates that market value of a company is greater than recorded assets (Ameer, Ramali, & Zakaria, 2010). As the calculation of Tobin's Q demonstrates, it is a mixed performance measure as it employs both accounting-based and market-based measures of performance (O'Connell & Cramer, 2010). Tobin's Q reflects anticipated performance, while ROA reflects realized performance. Thus, this research employs ROA and Tobin's Q as the complementary measures for firm performance that result from the variation of the corporate strategy for MCNs (i.e., a different type of strategic decision and speed to market to adopt the MCN business).

III. Research question

This paper aims to provide industry-level analysis that is mapping the firms' corporate strategic decisions to adopt the MCN business. The prior literature presents the business analysis and case studies of few key MCN operators, but there is an absent of the examination on the MCN industry across time, sectors, and regions. Thereby, this paper attempts to provide various information on how the corporate strategic decisions towards MCNs have been made by firms. The key descriptive variables explaining Make, Buy, and Ally are used, including the regions of the parent firms, and target firms⁶, business sectors of the parent firms, time of year, and deal direction⁷.

Moreover, this paper attempts to extend Yim (2016)'s research with empirical data, as his research was limited to a few cases of US media firms. He argued that US media legacy tends to adopt the MCN business by M&A and strategic alliances, whereas Korean firms are rather establishing new MCN subsidiaries. Following his work, this paper assumes that there is a regional difference in the choice of corporate strategic decision. This paper further presumes that there is a regional difference in the choice of deal direction. In other words, there is a difference in the choice of target MCNs according to the regions of parent firms; since the basis of the MCN business is on the contents which are largely affected by regional characteristics such as language, local audience, fashion and trend of a particular region. Thereby, following research questions are proposed:

⁶ All the target firms in this study are MCNs.

⁷ Whether the parent firm launched, acquired, or allied with domestic or foreign MCNs. It is often referred as in-bound and out-bound deal. It contains information of the relatedness between the parent firms and target MCNs.

RQ 1. How does each type of the corporate strategic decision to adopt MCNs vary by regions of parent and target firms, business sectors, time of year, and deal direction?

RQ 1-1. Do regions of parent firms affect the firms' choice on the type of corporate strategic decision?

RQ 1-2. Do regions of parent firms affect the firms' choice on the deal direction of corporate strategic decision?

Another purpose of this study is to investigate how the corporate strategic decisions towards MCNs influence firm performance based on empirical approach. Under the assumption of RBT, this paper presumes that interfirm performance varies according to the type of corporate strategic decision and the speed to market to adopt the MCN business. Make, Buy and Ally are three fundamentally different strategies, each with its own implications. However, the prior literature contains arguments for both possible positive and negative effect of the three decisions. While assuming each decision has the different level of sustainable comparative advantage for adopting MCNs, this paper does not present specific hypotheses about the effect of the type of the decision on the firm performance. It follows the notion of prior literature that has reached no consensus regarding the firm performance heterogeneity of each decision. In addition, this study attempts to investigate whether a first-mover advantage exists in the MCN industry. Thereby, following research questions are proposed:

RQ 2. Which of the three corporate strategic decisions to adopt MCNs (Make, Buy, or Ally) have a positive influence on the firm performance?

RQ 3. Does a first-mover advantage to adopt MCNs have a positive influence on the firm performance?

IV. Method

4.1 Sample selection

To test the research questions, the firms that had adopted MCNs from the second half of 2007 to the first half of 2017 are examined. The second half of 2007 is selected as the starting point, as MCNs began to emerge after May 2007, when the platform's revenue sharing was implemented through *YouTube Partner Program* (Kim et al., 2017). The first half of 2017 is used for the endpoint, as the data collection for this study had been conducted during the second half of 2017.

Thereby, the constructs of the sample in this study are supposed to consist of the records of the firms' strategic decisions that have adopted MCNs from July 2007 to June 2017. For the ease of communication, this paper refers each construct of the sample in this study (i.e., the record of the firms' strategic decision regarding the adoption of a MCN as a target firm) as 'deal' (Make, Buy, and Ally deal, respectively).

The key to the construct of this study is that the MCN is the target firm. The most corporate strategic research such as M&A and alliance literature which is focusing on a specific target firm tends to construct the sample from the database such as *FTC*, *Compustat*, *SDC Platinum* or *Bloomberg*, based on SIC code of target firm (See *Appendix A* for the source data that the prior literature on corporate strategy used). However, since MCNs do not have an uniform SIC codes, it was unable to utilize the database. Hence, inevitably this study has adopted first-hand collecting method to construct the sample. To

minimize any sample selection bias and to maximize the generalizability of results, this study has employed two sample frames as follows:

Sample 1. To construct *Sample 1*, the most notable 3~4 companies from the most relative business sectors to MCNs in five major countries were listed preliminary. Broadcaster, cable, telecommunication, program provider, and platform provider are used as the business sectors; and US, UK, Germany, France, and Korea are selected as the countries for the investigation. Those are considered as the most actively engaged sectors and countries to the MCN industry, following the literature and reports on MCNs (Jung, 2016; Kisdi, 2016; Kisdi, 2017; Yim, 2016). Then, each country's top-ranked companies in each sector have been listed based on news reporting. The scope of organizations on this list is limited to the companies in the stock market for the ease of access to the objective secondary data (e.g., company's annual reports). If a company is involved in the multiple business sectors, the firm's core sector is used for the classification. The complete list of companies used for *Sample 1* is in *Appendix B*. To ensure the validity of the list, *Appendix B* was cross-checked by four peer graduate students. Then, based on each company's annual report, web-page and news reporting, all Make, Buy, and Ally deal histories towards MCNs have been traced. The annual reports, web-pages, and news reporting are limited to those written in English and Korean only; since it is important for the coder to fully comprehend the contents of annual reports and news reporting to construct the sample, as this paper adopts first-hand collecting method. As a result, total 82 deals are listed in *Sample 1*.

Sample 2. For the richness of the sample, this study further collects deals that were done by more variety of firms which are not listed in *Appendix B*. While *Sample 1* is constructed based on the list of parent firms, *Sample 2* is constructed based on the list of target firms: the MCNs. In doing so, this study traces all Make, Buy, and Ally deals towards top 100 MCNs that were done by any other firms. This paper selects the top 100 MCNs based on the number of YouTube subscriber. The list of the top 100 MCNs by YouTube subscribers was retrieved from *Social Blade*⁸ preliminary. As in *Sample 1*, based on news reporting, each companies' web page and annual reports which are written in English and Korean, all Make, Buy, and Ally deal histories towards the 100 MCNs have been traced. The investments from venture capital companies are excluded from the sample, as they are not considered as the strategic alliance. As a result, total 85 deals are listed in *Sample 2*.

To secure reliability and validity of *Sample 1* and *Sample 2*, each deal that is listed in *Sample 1* and *Sample 2*, was reviewed by a peer graduate student who is also fluent in Korean and English. Based on *Sample 1* and *Sample 2*, 82 and 85 deals are listed, respectively, but some overlaps exist between the two samples. The deals that are included in both *sample 1* and *Sample 2* are used for once. As a result, total 118 deals are listed for the final sample.

4.2 Data collection

While RQ1 can be examined with the descriptive variables of the deals such as

⁸ *Social Blade* is a web-site that provides statistics for YouTube and major SNS. The list of the top 100 MCNs by YouTube subscribers used in this paper was retrieved from <https://socialblade.com/youtube/top/networks/most-subscribed> (27 October 2017)

regions of parent and target firms, business sectors, time of year, and deal direction; to examine RQ2 and RQ3, financial and economic data of the parent firms is further required. To collect the financial and economic data of the parent firms, this research utilizes *Thomson Reuters Datastream* and *Kis-Value*. In order to objectively ascertain the effect of corporate strategic decision on the firm performance, this research excludes some companies from the final sample for the investigation of RQ2 and RQ3, if some or all the data is not able to be obtained from either *Thomson Reuters Datastream* or *Kis-Value*, due to the reasons such as new listing, de-listing, or missing data. In addition to that, the cases that bias the overall analysis are excluded from the analysis as well: when the capital is negative (i.e., the impaired capital), when the stock returns are zero, and when the assets are below zero. In addition, due to the methodological issue of calculating the firm performance, deals in 2016 and 2017 are excluded from the analysis. As a result, among the 118 deals that are included in the final sample, only 61 deals are used for the examination of RQ2 and RQ3. Specific description and measurement of the variables are discussed in the data analysis section.

4.3 Data analysis

To examine RQ1, simple frequency analysis and the chi-square test for independence are used. Chi-square test is a way to test whether a variable is independent of another. In other words, whether a statistically significant relationship exists between two variables can be tested through this method. Based on the chi-square analysis, this paper aims to illustrate the relationship between the regions of parent firms with, the type of corporate strategic decision, and deal direction for the adoption of MCNs, respectively for RQ1-1 and RQ1-2.

For the analysis, the regions of the parent and target firms, business sectors, time of year, and deal direction are coded. The regions of the parent and target firms are firstly coded as the origin country of the parent firms and the MCNs, respectively; then they are classified into one of three continents: 'Europe,' 'North America,' and 'Asia'. The Middle East countries and Australia are included in Asia. The business sectors of the parent firms are classified into one of five most relevant sectors to MCNs: 'broadcaster,' 'cable,' 'telecommunication,' 'program provider,' and 'platform provider,' or 'others'. So as the classification for the *Appendix B*, the firm's core sector is used for the classification when a company is involved in the multiple business sectors. In case a firm cannot be classified into the five sectors, it is classified as the 'other'.

For the time of year, the specific year is coded to indicate when a Make, Buy, or Ally deals is made. Then it is re-coded into a dummy variable to test first mover advantage (i.e., First mover); "1" for the first-mover that had adopted the MCN business until 2013 and "0" for the follower that has adopted the MCN business after 2013. Lastly, the deal direction is also coded into a dummy variable; "1" for 'in-bound deal' and "0" for 'out-bound deal'.

The research further employs analysis of covariance (ANCOVA) to examine RQ2 and multiple-regression to examine RQ3 to investigate the effect of the type of corporate strategic decision (Make, Buy, and Ally) and first mover advantage on the firm performance, respectively, while controlling some variables that might affect the firm performance.

ROA and Tobin's Q are used to measure the firm performance, as previously

discussed. The calculation methods of ROA and Tobin's Q follow formulas used in D'souza and Megginson (1999) and the Lindenberg and Ross (1981) model, respectively; ROA = net income *divided by* total asset; Tobin's Q = *sum of* market value of equity *and* total debt *divided by* total assets. Then this paper multiplies 100 for ROA and Tobin's Q, as they are both percentage value. Since this study investigates the influence of the corporate strategic decision on the firm performance, a difference value of ROA (i.e., CROA) and Tobin's Q (i.e., CTobin's Q) before and after a corporate decision was made are used as the dependent variables of the study (e.g., Dale, Schone, & Verner, 2013; Scholtz & Kieviet, 2018). For example, when a corporate strategic decision proceeded within the t period, a difference between ROA in the $t-1$ year and the $t+1$ year is used for the firm performance measurement that results from the corporate strategic decision.

In addition, to control other possible factors that might influence the firm performance, several control variables are adopted. There are in fact numerous of exogenous and endogenous factors that might influence the firm performance, for instance, firm's managerial capability, financial capability, number of patents, deal size, industry relatedness between parent and target firm, innovation relatedness, prior experience of Make, Buy, and Ally, prior risk of Make, Buy, and Ally and type of Make, Buy, and Ally, and even cultural, regulatory, time, and country specific factors such as level of competition, Internet and mobile environment, demand and economic condition of a specific market and time.

However, practically it is impossible to access all the possible exogenous and endogenous factors that might influence the firm performance. Thereby, this paper employs few accessible endogenously derived control variables which are most frequently used in the corporate strategy literature: firm size (i.e., Size), the debt to asset ratio (i.e., Leverage), earned surplus to asset ratio (i.e., Surplus) (e.g., Borah & Tellis, 2014; Ryu & Ra, 2017; Scholtz & Kieviet, 2018). Since MCNs tend to operate in the multiple countries based on the globe of *YouTube*, it is presumed that the internet and mobile environment are analogous between the regions of the MCN operation. However, to control possible other effects of exogenous factors such as competition level and economic condition of specific time and country, this study additionally employs year specific variable (i.e., Year) and regional specific variable (i.e., Region) as control variables.

Table 1 summarizes definitions and measurements of the variables, and Table 2 presents the correlations and descriptive statistics of the variables, which are used for the analysis of RQ2 and RQ3. The estimation of ANCOVA and multiple regression analysis requires the absence of multicollinearity between the variable. The serious multicollinearity problem is predicted by Arceneaux and Huber (2007) when the correlation coefficients are above 0.7. In conformance with Arceneaux and Huber (2007), bi-variate multicollinearity unlikely exists for the analysis of this study, as all correlation coefficients are lower than 0.7, except one between 'First mover' and 'Year' variables. However, correlation coefficients between 'First mover' and 'Year' supposed to be high, since the variable 'First mover' was generated according to the years that the firms adopted the MCNs.

Table 1. Summary of variables

Variable	Definition	Nature
CROA	(Net income <i>divided by</i> total assets for firmi for $t+1$) <i>multiplied by</i> 100 <i>minuses</i> (Net income <i>divided by</i> total assets for firmi for $t-1$) <i>multiplied by</i> 100	Dependent variables
CTobin's Q	(Market value of equity <i>plus</i> total debt <i>divided by</i> total assets for firmi for $t+1$) <i>multiplied by</i> 100 <i>minuses</i> (Market value of equity <i>plus</i> total debt <i>divided by</i> total assets for firmi for $t-1$) <i>multiplied by</i> 100	
Strategic decision	Whether firmi made Make, Buy, or Ally deal for a MCN	Independent variables
First mover	Whether firmi is a first mover in the MCN industry	
Region	Regional specific variable based on the origin of firmi, which is classified into three continents: North America, Europe, and Asia	Control variables
Size	Natural logarithm of total assets of firmi	
Surplus	Earned surplus <i>divided by</i> total assets for firmi	
Leverage	Total debts <i>divided by</i> total assets for firmi	
Year	Time specific variable based on a year of the strategic decision was made for firmi	

Key. Firmi: a parent firm of a deal

t: Year of when the strategic decision was made

Table 2. Correlations and descriptive statistics for variables

	CROA	CTobin's Q	Strategic decision	First mover	Region	Size	Surplus	Leverage	Year
CROA	-								
CTobin's Q	.344	-							
Strategic decision	-.353	-.075	-						
First mover	.354	.189	-.053	-					
Region	-.002	-.034	-.275	-.048	-				
Size	-.006	-.056	-.160	-.096	.591	-			
Surplus	.020	-.115	-.068	.081	.165	.099	-		
Leverage	-.268	-.017	.160	.134	.199	.355	-.125	-	
Year	-.304	.021	.215	-.784	.038	.064	-.036	-.093	-
<i>M</i>	-8.834	1.084	2.459	0.328	1.951	18.460	0.095	24.958	4.869
<i>SD</i>	15.382	8.951	0.787	0.473	0.740	4.776	0.424	18.081	1.544
<i>N</i>	61	61	61	61	61	61	61	61	61

V. Result

5.1 Frequency test

RQ1 aims to provide various information on how the corporate strategic decisions to adopt MCNs are conducted by the firms from the second half of 2007 to the first half of 2017 based on the key descriptive variables. Thereby, it is examined that how Make, Buy, and Ally deals for the MCNs vary by regions of the parent and target firms, business sectors, time of year, and deal direction, based on frequency analysis. The results for RQ1 are summarized in Table 3, 4, 5, 6, and 7. In overall, Ally deals are most frequently conducted as it is consisted of 64.4% of the total number of deals of the final sample, while 16.9% and 18.6% of the total deals are Make and Buy deals, respectively.

Table 3 shows the distribution of the corporate strategic decisions done by the firms by their origin. It is clearly shown that the firms in North America are the most actively engaging in the adoption of the MCN business, mainly by the US. Among European firms, UK firms are actively adopting the MCNs, mostly with Ally deals. While firms in North America and Europe rarely attempt to make their own MCN subsidiary and rely upon Ally and Buy deals with the existing MCNs; it is noticed that Korean firms have done a relatively large number of Make deals.

While Table 3 shows the frequency of the MCN adoption by the origin of the parent firms; Table 4 examines how frequently the MCNs are adopted by the origin of the MCNs. As with the results of Table 3, the North American MCNs are most frequently adopted. Whereas, the European MCNs are less likely adopted. It shows that the firms around the globe prefer to adopt the US MCNs to join the MCN industry. Besides, Table 4 shows that relatively large number of the Korean MCNs are either allied or made by the firms.

Table 5 presents the results of the proportion of corporate strategic decisions that are made over the regions by the deal direction. North American companies prefer the in-bound ally deals, followed by the in-bound buy deal; whereas European firms tend to adopt the MCNs with the out-bound ally and the out-bound buy deals. It confirms the results of Table 3 and Table 4, as the results of Table 5 indicate that European firms tend to adopt the US MCNs rather than the domestic one. While Asian firms have done an almost equal number of the in-bound and out-bound ally deals; it is conspicuous that Asian firms tend to adopt the MCN business with the in-bound make deal.

Table 6 shows the count of corporate strategic decisions by years. According to the Table 6, the firms' MCN adoption started in 2008. The number of the firms' total adoption of the MCNs gradually increases from 2008 to 2015. In 2015, the number of corporate strategic decisions reaches the top of the record. It indicates that the firms have joined the MCN industry as the market grows and as they recognize the market opportunity of the MCN business. Although the number of MCN adoption decreases from 2016, considering the data availability is only until the first half of 2017; it is hard to assume that the actual number of MCN adoption has been decreased in 2017, merely based on the results of Table 6. Further investigation is required for the verification. Besides, it is also noticed that the firms rarely adopted the MCNs by Make and Buy deals until 2013, while the number of Make and Buy deal starts to emerge after 2013. This conforms with the assumption of this research on first mover advantage in the MCN industry, that the first mover advantage is not related to the type of the strategic decision.

Table 7 shows the proportion of corporate strategic decisions over business sectors. In conformance with the general results on the count of strategic decisions; broadcasters

and program providers prefer Ally deal for the most. Platform providers also actively engage in the MCN business adoption, also mostly with Ally deal. Besides, the detailed profile of the others is interesting. Some firms in the unrelated sectors to the MCN business also attempted Make, Buy, and Ally deals with MCNs. For example, cosmetic company, manufacturer, and airlines, such as *Maybelline* (makeup brand of *L'Oréal*), *Panasonic*, and *All Nippon Airways*, also engaged with the MCN business, mainly due to the advertising and public relation purpose.

5.2 Chi-square test

This paper presumes that there is a regional difference in the choice of the target MCNs according to the region of the parent firms. Thereby, Chi-square analysis is used to examine whether there is a difference in the choice of corporate strategic decisions, and in the choice of deal direction when the firms adopt the MCNs, respectively.

RQ1-1 is posed to examine the relationship between the regions of parent firms that adopted MCNs and their choices among the type of strategic decision. Results show that a significant association between the regions and the type of strategic decision (See Table 8), $\chi^2(4, n = 118) = 12.41, p < .001, V(\text{Cramer's } V) = .29$. To examine where observed frequencies differ from those expected, the adjusted residuals are examined (c.f., Haberman, 1973). The adjusted standardized residuals in Table 8 show that the obtained frequencies in Cell_{NM} and Cell_{AM} exceed the absolute value of 2.78 for significance at the .05 level. The obtained frequency in Cell_{NM} is significantly below the expected frequencies, but the obtained frequency in Cell_{AM} is significantly above the expected frequencies. In other words, North American and Asian firms with Make deals are statistically significantly greater and less, respectively, than the expected cell frequencies. This indicates that firms in North America tend not to choose Make deal for the adoption of MCNs; whereas Asian companies prefer Make deal for the MCN adoption.

Chi-square test is again conducted to test RQ1-2 that is interested in the relationship between the regions of parent firms and the deal direction. The results are statistically significant (See Table 9), $\chi^2(2, n = 118) = 41.24, p < .001, V(\text{Cramer's } V) = .59$. The adjusted standardized residuals in Table 9 indicate that the obtained frequencies in Cell_{NI} , Cell_{NO} , Cell_{EI} , and Cell_{EO} exceed the absolute value of 2.65 for significance at the .05 level. The obtained frequencies in Cell_{NI} and Cell_{EO} are significantly above the expected frequencies, whereas the obtained frequencies in Cell_{AM} and Cell_{NO} are significantly below the expected frequencies. In other words, the residuals show that North American firms with the in-bound deal and European firms with the out-bound deal are significantly greater than the expected cell frequencies while North America with the out-bound deal and Europe with the in-bound deal are statistically significantly less than expected cell frequencies. In conformance with the interpretation of Table 3, 4, and 5, this results indicate that firms in North America prefer the in-bound deal for the MCN adoptions, while they are less likely to make the out-bound deal; whereas European companies tend to adopt the MCNs with the out-bound deals, while they do not often choose the in-bound deals.

Table 3. Distribution of strategic decision by origin of parent firms

Regions	Country	Strategic decision based on parent firms			Total
		Make	Buy	Ally	
North America	US	4(3.4%)	11(9.3%)	34(28.8%)	49(41.5%)
	Canada	0(0.0%)	1(0.8%)	7(5.9%)	8(6.8%)
Europe	UK	1(0.8%)	3(2.5%)	8(6.8%)	12(10.2%)
	France	1(0.8%)	1(0.8%)	6(5.1%)	8(6.8%)
	Germany	1(0.8%)	1(0.8%)	4(3.4%)	6(5.1%)
	Luxembourg	0(0.0%)	2(1.7%)	0(0.0%)	2(1.7%)
	Italy	0(0.0%)	0(0.0%)	1(0.8%)	1(0.8%)
	Sweden	0(0.0%)	1(0.8%)	0(0.0%)	1(0.8%)
	Russia	0(0.0%)	0(0.0%)	1(0.8%)	1(0.8%)
Asia	Korea	9(7.6%)	0(0.0%)	10(8.5%)	19(16.1%)
	Japan	1(0.8%)	2(1.7%)	2(1.7%)	5(4.2%)
	Hong Kong	1(0.8%)	0(0.0%)	0(0.0%)	1(0.8%)
	Vietnam	1(0.8%)	0(0.0%)	0(0.0%)	1(0.8%)
	Singapore	0(0.0%)	0(0.0%)	1(0.8%)	1(0.8%)
	UAE	1(0.8%)	0(0.0%)	0(0.0%)	1(0.8%)
	Israel	0(0.0%)	0(0.0%)	1(0.8%)	1(0.8%)
	Australia	0(0.0%)	0(0.0%)	1(0.8%)	1(0.8%)
Total		20 (16.9%)	22 (18.6%)	76 (64.4%)	118(100.0%)

Note. Numbers in parentheses indicate total percentages

Key. UAE: United Arab Emirate

UK: United Kingdom

US: United States of America

Table 4. Distribution of strategic decision by origin of MCNs

Regions	Country	Strategic decision based on target firms			Total
		Make	Buy	Ally	
North America	US	7(5.9%)	14(11.9%)	43(36.4%)	76(64.4%)
	Canada	0(0.0%)	2(1.7%)	10(8.5%)	
Europe	UK	1(0.8%)	1(0.8%)	3(2.5%)	17(14.4%)
	France	0(0.0%)	3(2.5%)	0(0.0%)	
	Germany	1(0.8%)	1(0.8%)	1(0.8%)	
	Spain	0(0.0%)	0(0.0%)	5(4.2%)	
	Netherlands	0(0.0%)	1(0.8%)	0(0.0%)	
Asia	Korea	9(7.6%)	0(0.0%)	11(9.3%)	25(21.2)
	Japan	0(0.0%)	0(0.0%)	1(0.8%)	
	Hong Kong	1(0.8%)	0(0.0%)	0(0.0%)	
	Vietnam	1(0.8%)	0(0.0%)	1(0.8%)	
	Malaysia	0(0.0%)	0(0.0%)	1(0.8%)	
Total		20(16.9%)	22(18.6%)	76(64.4%)	118(100.0%)

Note. Numbers in parentheses indicate total percentages

Key. UK: United Kingdom

US: United States of America

Table 5. Distribution of strategic decision over regions by deal direction

Region	Make		Buy		Ally	
	In-bound	Out-bound	In-bound	Out-bound	In-bound	Out-bound
North America	4(3.4%)	0(0.0%)	12(10.2%)	0(0.0%)	31(26.3%)	10(8.5%)
Europe	2(1.7%)	1(0.8%)	1(0.8%)	7(5.9%)	1(0.8%)	17(14.4%)
Asia	12(10.2%)	1(0.8%)	0(0.0%)	2(1.7%)	8(6.8%)	9(7.6%)
Total	18(15.3%)	2(1.7%)	13(11.0%)	9(7.6%)	40(33.9%)	36(30.5%)

Note. Numbers in parentheses indicate total percentages

Table 6. Distribution of strategic decision over years

Speed to market	Year	Strategic decision			Total
		Make	Buy	Ally	
First mover	2008	1(0.8%)	0(0.0%)	1(0.8%)	2(1.7%)
	2009	3(2.5%)	1(0.8%)	0(0.0%)	4(3.4%)
	2010	1(0.8%)	0(0.0%)	1(0.8%)	2(1.7%)
	2011	0(0.0%)	0(0.0%)	2(1.7%)	2(1.7%)
	2012	1(0.8%)	0(0.0%)	6(5.1%)	7(5.9%)
	2013	2(1.7%)	2(1.7%)	13(11.0%)	17(14.4%)
Follower	2014	3(2.5%)	9(7.6%)	9(7.6%)	21(17.8%)
	2015	5(4.2%)	5(4.2%)	22(18.6%)	32(27.1%)
	2016	3(2.5%)	4(3.4%)	16(13.6%)	23(19.5%)
	2017	1(0.8%)	1(0.8%)	6(5.1%)	8(6.8%)
Total		20(16.9%)	22(18.6%)	76(64.4%)	118(100.0%)

Note. Numbers in parentheses indicate total percentages

Table 7. Distribution of strategic decision by business sectors

Business sector	Strategic decision			Total
	Make	Buy	Ally	
Broadcaster	4(3.4%)	7(5.9%)	16(13.6%)	27(22.9%)
Cable	1(0.8%)	3(2.5%)	7(5.9%)	11(9.3%)
Telecommunication	2(1.7%)	2(1.7%)	7(5.9%)	11(9.3%)
Program provider	6(5.1%)	6(5.1%)	14(11.9%)	26(22.0%)
Platform provider	3(2.5%)	2(1.7%)	15(12.7%)	20(16.9%)
Others	4(3.4%)	2(1.7%)	17(14.4%)	23(19.5%)
Total	20(16.9%)	22(18.6%)	76(64.4%)	118(100.0%)

Note. Numbers in parentheses indicate total percentages

Table 8-1. Chi-square test for strategic decision over regions of parent firms

Regions		Strategic decision			Total
		Make	Buy	Ally	
North America	<i>N</i> (Percent)	4(3.4%)	12(10.2%)	41(34.7%)	57(48.3%)
	Adjusted residual	-2.8 ^a	0.6	1.6	
Europe	<i>N</i> (Percent)	3(2.5%)	8(6.8%)	20(16.9%)	31(26.3%)
	Adjusted residual	-1.1	1.4	-0.3	
Asia	<i>N</i> (Percent)	13(11.0%)	2(1.7%)	15(12.7%)	30(25.4%)
	Adjusted residual	4.2 ^a	-2.1	-1.6	
Total		20(16.9%)	22(18.6%)	76(64.4%)	118(100.0%)

Note. $\chi^2 (n=118) = 21.41$, $df = 4$, $\phi_c = .29$, $p < .001$. ^a indicates when the adjusted residual exceeds the absolute value of *Z* for the Bonferroni rate per test at $p < .05$ (for two-tailed test, $Z = 2.78$ for $\alpha = .0027$). Cell_{NM}, a cell for North America and Make; Cell_{NB}, a cell for North America and Buy; Cell_{NA}, a cell for North America and Ally; Cell_{EM}, a cell for Europe and Make; Cell_{EB}, a cell for Europe and Buy; Cell_{EA}, a cell for Europe and Ally; Cell_{AM}, a cell for Asia and Make; Cell_{AB}, a cell for Asia and Buy; Cell_{AA}, a cell for Asia and Ally.

Table 8-2. Chi-square test for deal direction over regions of parent firms

Regions		Deal direction		Total
		In-bound	Out-bound	
North America	<i>N</i> (Percent)	47(39.8%)	10(8.5%)	57(48.3%)
	Adjusted residual	4.8 ^a	-4.8 ^a	
Europe	<i>N</i> (Percent)	4(3.4%)	27(22.9%)	31(26.3%)
	Adjusted residual	-5.9 ^a	5.9 ^a	
Asia	<i>N</i> (Percent)	20(16.9%)	10(8.5%)	30(25.4%)
	Adjusted residual	0.3	-0.3	
Total		71(60.2%)	47(39.8%)	118(100.0%)

Note. $\chi^2 (n=118) = 41.24$, $df = 2$, $\phi_c = .59$, $p < .001$. ^a indicates when the adjusted residual exceeds the absolute value of *Z* for the Bonferroni rate per test at $p < .05$ (for two-tailed test, $Z = 2.65$ for $\alpha = .004$). Cell_{NI}, a cell for North America and In-bound; Cell_{NO}, a cell for North America and Out-bound; Cell_{EI}, a cell for Europe and In-bound; Cell_{EO}, a cell for Europe and Out-bound; Cell_{AI}, a cell for Asia and In-bound; Cell_{AO}, a cell for Asia and Out-bound.

5.3 Analysis of covariance (ANCOVA)

This study further attempts to investigate the influence of the corporate strategic decision on the firm performance, based on the accounting measures. RQ2 is posed to examine which of the three strategic decisions have a superior influence on the firm performance. To test the difference in the three decisions, Make, Buy, and Ally; ANCOVA is conducted on the estimate of two firm performance measures, ROA and Tobin's Q, respectively, in which the strategic decisions and regions serve as between-subjects factors with having Size, Surplus, Leverage, and Year as covariates. As previously discussed, due to the data availability and some methodological issues of this study; the firm performance is examined with 61 deals out of the total sample.

Following the suggestions of Miller and Chapman (2001), the assumption of homogeneity of regression slopes needs to be checked before conducting ANCOVA. To assess the equality of group variance, Levene's test has been performed. The results of Levene's test indicates the group variances are equal, $F(8, 52) = 0.32, p = 0.96$; hence, the assumption of homogeneity of variance is met. Besides, while the default option of SPSS of ANCOVA is type III for calculation of the sum of squares (*SS*), type II is considered as an adequate method of analysis for ANCOVA in most of the case due to its higher statistical power (c.f., Overall and Spiegel, 1969). Following Overall and Spiegel (1969), this study employs type II calculation for *SS* to conduct ANCOVA.

Table 10 shows descriptive statistics of each strategic decision by the regions on CROA, and Table 11 demonstrates the results of ANCOVA for the strategic decisions on CROA. The results show that the influence of the strategic decision on CROA is significant, $F(2, 52) = 3.394, p = 0.041$, partial $\eta^2 = .115$, while the effect of the four covariates is controlled. The amount of variation accounted for by the model is 3770.6 of which strategic decision accounts for 1281.5.

To test the difference in the three decisions, Tukey's HSD is conducted for Posthoc comparisons at $p < .05$. The results (see Table 12) show that Make ($M = 4.36, SD = 14.32$) is more positively related to CROA than Buy ($M = -11.91, SD = 11.44$) and Ally ($M = -11.69, SD = 14.95$); whereas Buy is statistically not different from Ally.

ANCOVA is again conducted on the estimate of CTobin's Q (See Table 13 for descriptive statistics and Table 14 for the results of ANCOVA). When the effect of the four covariates is controlled for, the effect of the strategic decision on CTobin's Q is significant, $F(2, 52) = 5.392, p = .008$, partial $\eta^2 = .175$. The amount of variation accounts for by the model is 1,277 of which the strategic decision accounts for 742.8. Table 15 shows that the results of Tukey's HSD that is conducted for Posthoc comparisons at $p < .05$. The results for CTobin's Q conforms with the results for CROA, as it shows that Make ($M = 0.21, SD = 0.58$) has a more positive influence on CTobin's Q than Buy ($M = -0.08, SD = 0.08$). Whereas, unlike the results on CROA; Ally ($M = -0.01, SD = 0.11$) has a statistically superior influence on CTobin's Q than Buy, at $p = .049$.

Table 9. Descriptive statistics of strategic decision on CROA

Category		<i>N</i>	<i>n</i>	<i>M</i>	<i>SD</i>
North America	Make	61	1	0.00	.
	Buy	61	3	-7.33	13.05
	Ally	61	14	-10.36	14.39
Europe	Make	61	4	8.00	19.98
	Buy	61	7	-13.43	12.11
	Ally	61	17	-9.87	16.92
Asia	Make	61	6	2.66	12.37
	Buy	61	1	-15.00	.
	Ally	61	8	-17.88	10.96

Table 10. ANCOVA results for strategic decision on CROA

	<i>SS</i>	<i>df</i>	<i>F</i>	partial η^2
Strategic decision	1281.5	2	3.394*	.115
Region	289.1	2	0.766	.029
Size	172.8	1	0.915	.017
Surplus	39.8	1	0.211	.004
Leverage	917.7	1	4.861*	.085
Year	1069.7	1	5.666*	.098
Residual	9817.1	52	.	.

Note. * $p < .05$, ** $p < .01$, *** $p < .001$., $R^2 = .31$.

Table 11. Posthoc analysis of each type of strategic decision on CROA

Category		Mean difference	<i>p</i> -value
Make	Buy	16.27	.020
	Ally	16.05	.003
Buy	Make	-16.27	.020
	Ally	-0.22	.999
Ally	Make	-16.05	.003
	Buy	0.22	.999

Table 12. Descriptive statistics of strategic decision on CTobin's Q

Category		<i>N</i>	<i>n</i>	<i>M</i>	<i>SD</i>
North America	Make	61	1	0.01	.
	Buy	61	3	-0.08	0.08
	Ally	61	14	-0.01	0.11
Europe	Make	61	4	0.57	0.91
	Buy	61	7	-0.08	0.09
	Ally	61	17	0.00	0.14
Asia	Make	61	6	0.00	0.07
	Buy	61	1	-0.04	.
	Ally	61	8	-0.04	0.03

Table 13. ANCOVA results for strategic decision on CTobin's Q

	<i>SS</i>	<i>df</i>	<i>F</i>	partial η^2
Strategic decision	742.8	2	5.392**	.175
Region	411.1	2	2.984	.105
Size	90.7	1	1.317	.025
Surplus	31.8	1	0.461	.009
Leverage	0.5	1	0.007	.000
Year	0.1	1	0.002	.000
Residual	3513	52	.	.

Note. * $p < .05$, ** $p < .01$, *** $p < .001$., $R^2 = .256$.

Table 14. Posthoc analysis of each type of strategic decision on CTobin's Q

Category		Mean difference	<i>p</i>
Make	Buy	10.31	.008
	Ally	3.94	.300
Buy	Make	-10.31	.008
	Ally	-6.37	.049
Ally	Make	-3.94	.300
	Buy	6.37	.049

5.4 Multiple regression

This study also aims to explore whether a first-mover advantage exists in the MCN industry. To examine RQ3, multiple regression has been performed to test the influence of the first-mover advantage of adopting MCNs on the firm performance, measured as CROA and CTobin's Q. To partialing out the effects of control variables; Region, Size,

Surplus, Leverage, and Year are included in the test. The results of multiple regression for CROA and CTobin's Q are reported in Table 16 and 17, respectively.

The regression model on CROA is significant, $F(6, 54) = 3.152$, $R^2=.259$, $p < .05$. The model explains 35.9% of the variance in the dependent variable. A variance inflation factor test indicates that there is no violation of multicollinearity ($VIF < 2.69$). The results on the residuals indicate that it is not a serious violation of assumptions. In specific, the median of the residual was -1.572 which is close to 0. Also, the absolute values of the maximum and minimum residuals are close to each other (34.279 and -37.349, respectively), so as the absolute values of third and first quartile (6.442 and -7.623, respectively). The plot graph of independent variables and the residuals does not show a certain pattern. The results of the QQ plot based on studentized residual show that most of the residuals are within 45-degree line.

Table 16 shows the results that the first mover advantage is a statistically significant predictor in the model, with β coefficient of .397, $t(54) = 2.063$, $p < .05$. The positive coefficient implies a positive relationship between the First mover and CROA. However, the regression model on CTobin's Q is not significant (see Table 17), $F(6, 54) = 1.362$, $R^2=.134$, $p > .05$.

Table 15. Regression results for first mover advantage on CROA

	<i>B</i>	β	<i>t</i>	<i>sr</i>
First mover	12.902	.397	2.063*	.164
Region	0.079	.004	0.026	.002
Size	0.592	.184	1.192	.122
Surplus	-3.021	-.083	-0.684	-.089
Leverage	-0.342	-.402	-3.095*	-.349
Year	0.453	-.045	-0.240	-.020
$F(6, 54) = 3.152^*$, $R^2=.259$				

Note. * $p < .05$, ** $p < .01$, *** $p < .001$. *sr*: semi-partial correlation

Table 16. Regression results for first mover advantage on CTobin's Q

	<i>B</i>	β	<i>t</i>	<i>sr</i>
First mover	-10.570	.561	2.683*	.211
Region	0.199	.017	0.103	.011
Size	0.000	.000	-0.002	-.000
Surplus	-3.271	-.156	-1.174	-.153
Leverage	-0.035	-.071	-0.493	-.060
Year	2.581	.447	2.171*	.178
$F(6, 54) = 1.362$, $R^2=.133$				

Note. * $p < .05$, ** $p < .01$, *** $p < .001$. *sr*: semi-partial correlation

VI. Conclusion

6.1 Discussion

This research aims to examine the firm's corporate strategy to adopt MCNs for the in-depth understanding of the MCN industry. To achieve the research objective, this paper has presented some descriptive information on how the firms are participating in the MCN industry across time, sectors, and regions. It has also examined that how the firms' MCN business adoption influence on the firm performance. The accounting approach has been employed to explore the changes in the firms' financial and operational performance that result from the adoption of MCNs.

There are three major findings as a result of this study. First, there is a significant regional difference in how the firms choose the target MCNs; in conformance with the prior literature (Yim, 2016; Jung, 2016). Firms in western countries are inclined to Buy or Ally deals while the companies in Asia are more likely to choose Make deals when they adopt the MCNs. Also, while the companies in North America and Asia make more in-bound deals, European companies prefer the out-bound deals for the MCN business adoption. This significant regional difference in the firms' choice of the type of corporate decision and the deal direction can be explained with several reasons.

The MCN business was first initiated and developed in the US since 2007 when the *YouTube* initiated the revenue sharing program for creators. As the most of pioneer MCNs were in the US, it was possible for the US companies to adopt MCNs in the domestic market; but for the European countries, there were not many domestic MCNs to acquire or ally with. The results of this study correspond with this argument as most of the out-bound deals of European countries are directed to the US MCNs.

The singularity of Asian MCN market can also be considered as one of the reasons for the regional difference. The market structure of the MCN industry of Asia is distinctive due to its unique internet environment. For example, in Korea, the environment for MCNs had already been established before the introduction of MCNs in the market, mainly due to *AfreecaTV*. There was demand for MCNs from Korean content creators (i.e., BJs) who already possessed enough of contents and fans. While the most of MCNs around the globe operate based on *YouTube*; *AfreecaTV* created the unique foundation of MCN business in the Korean market. Hence there was no need for Korean firms to adopt the MCN business in the hands of foreign firms, although major firms in Korea joined the MCN industry relatively late, mostly from 2013. The language barrier could be another reason. It is also shown that not many firms from western countries adopt the Asian MCNs. Since the core resources of MCNs are based on the contents, the language problem may have affected Asian MCNs to be internationalized.

Second, the main findings for the overall performance of the firms that adopted the MCN business indicate that Make deal leads better firm performance than Buy and Ally deals. This could be understood with the status of MCN business. MCN is a new business with the un-estimated potential of the market opportunity. While attention towards MCNs is notable from many large firms and spotlight directs the MCN industry in the media sector, there is a possibility that the value of MCNs is over-estimated. While MCNs have not presented clear business model, and core competence of MCNs is yet defined, there is a possibility that the firms have allied with or acquired MCNs with the over-estimated value. In addition, MCN is a business that can be established with little capital. The firms that adopted the MCN business at the moderate level of investment might have rather

created a better off result.

Third, the first mover advantage in the MCN industry is partially confirmed, as it was statistically significant only with the results of ROA. However, this still gives meaningful implication to the practitioners for them to consider about the importance of initial monopoly positioning of MCN business.

In reality, the decision whether to Make, Buy, or Ally to adapt to the new environment is not a simple question. Although the result of this study indicates that Make deal leads superior firm performance than Buy and Ally deal, this study does not propose that Make is the best choice when firms adopt the MCN business. This paper claims that Buy and Ally deals can also be the effective strategy of adopting MCNs based on more precise value assessment to MCNs. For any strategic decision, if transaction cost and management cost can be managed efficiently, it would result in better firm performance. Thereby, if a firm attempts corporate strategy towards a MCN, more precise evaluation and assessment towards the target MCN and the business objective that the firm aims to achieve as a result of adopting the MCN, need to be preceded prior to the adoption.

The following section discusses theoretical and practical implication of the study along with the limitations.

6.2 Implication

The uniqueness of this study lies in the provision of the empirical evidence on the firms' decisions to adopt MCNs. This paper is a first study that provides empirical evidence on how the corporate strategic decisions for the MCN adoption were conducted across section, region, and time. Based on the findings of this study, this paper would contribute to practitioners as it provides one of the evaluation criteria to assess the MCN industry. Theoretically, this research would also contribute to the scant literature over MCNs as its challenges to present an industry-level analysis of the MCN business.

6.3 Limitations & future studies

This paper is not without limitations. Firstly, and most critically, the corporate strategy for MCNs may not be the major factors of firm performance. Although this study has controlled few endogenous and exogenous factors that may influence the firm performance, there might be another strong predictor of the firm performance.

Secondly, this study examines the effect of corporate strategic decision based on the accounting variables of a year before and after the firm's MCN adoption. However, for the more precise measurement of the firm performance, long-term performance after the strategic decision might be required. The subsequent performance might be reflected few years after (Ruy & Ra, 2017). Since the MCN industry has only ten years of history, and the firms have recently started to adopt MCNs, the data availability was limited. It would be interesting to conduct the second study after few years when the MCN industry enters the stabilization period.

Third, further investigation about the effect of the deal size is needed in order to confirm this paper's assertion regarding the main result related to firm performance based on Make, Buy, and Ally choice. It is reasonable to conclude that Make deals have lead better firm performance than Buy and Ally deals due to the level of an investment considering the business environment of MCNs though, empirical data is still needed for

the verification. In fact, for the initial research design, this research had attempted to investigate the effect of the deal size or the level of investment for the adoption of MCNs. However, it was unable to examine the effect of the deal size due to the limited access to data. The exact price of the deals was undisclosed for the most of cases. The deal size of only a few big M&A or alliance deals were known such as *Verizon's* acquisition of *Awesomeness TV*, *RTL's* acquisition of *BroadbandTV* and *StyleHaul*, and *Time Warner's* investment on *Maker Studios*, which are not enough for the empirical research.

Lastly, while this study assesses the MCN industry based on accounting performance, a multi-faceted analysis supposed to be conducted for the better assessment along with a qualitative assessment data such as the evaluation of contents or creators which are the core resource for the MCN business. Thereby, this paper suggests future researchers to assess MCNs based on various performance indicators.

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Appendix

Appendix A. Use of measures, source of data, and method of analysis for examining firm performance presented in the academic literature, based on Monroe's (2006) review on corporate effects

No	Year	Author	Source of data	Dependent variable	Independent variable (Factor)	Method of analysis
1	1985	Schmalensee	US FTC 456 manufacturing firms	ROA	Firm, industry & share effects	ANOVA
2	1991	Rumelt	US FTC 588 Manufacturing firms	ROA	Industry, corporate, & year effects	ANOVA
3	1992	Healy, Palepu, & Ruback	Center for Research in Security Prices (CRSP)	ROA	Post-acquisition operating performance	Regression
4	1996	Roquebert, Phillips, & Westfall	Compustat	ROA	Industry, corporate, & strategic business unit	T-test, COV
5	1997	Brush & Bromiley	Simulated data	ROA	Corporate effects, & Rumelt's corporate effect	Monte Carlo simulation
6	2001	Khanna & Rivkin	Emerging markets several data sources	ROA	Group-affiliated firm versus independent firm	ANOVA
7	2002	Chang & Hong	Korea Information Service (KIS)	ROIC	Corporate effects, industry, & affiliate company effects	Variance decomposition analysis
8	2003	Adner & Helfat	FTC, Energy company	ROA	Downsizing effect, & segment-year	ANOVA
9	2003	Hawawini, Subramanian, & Verdin	Stern Stewart	ROA	Economic profit, capital employed, & total market value	COV

10	2004	Spanos, Zaralis, & Lioukas	Network site specific group (NSSG)	Price-cost margin per firm	Pure & hybrid strategies, & price-cost margin	OLS regression
11	2006	Hough	Compustat	ROA	Business segment effects, & corporate effects	Multi-level Analysis
12	2006	Misangyi, Elms, Greckhamer, & Lepine	Compustat	ROA	Business unit, corporate, & industry effects	Hierarchical regression
13	2014	Daly & Zhang	BankScope	ROA, & ROE	Non-interest expense/total average assets, impaired loans (NPLs)/gross loans, & total assets/total equity	Regression
14	2015	Vinayagamoorthi, Murugesan, & Kasilingam	Bombay Stock Exchange	ROA, ROE, ROS, & ROCE	Power & Fuel expenses	Regression
15	2017	Blažková & Dvouletý	Albertina - Gold Edition	ROA, ROE	Herfindahl-Hirschman Index, & Import penetration ratio	Regression
16	2017	Batchimeg	Mongolian Stock Exchange	ROA, ROE, & ROS	Growth, Profitability, Capital structure, & Liquidity	Regression

Key. ANOVA: Analysis of variance

COV: Variance components analysis

Compustat: Compustat database

FTC: Federal Trade Commission database

ROA: Return on asset

ROE: Return on equity

ROCE: Return on capital employed

ROIC: Return on invested capital

ROS: Return on sale

US: United States of America

Appendix B. List of companies used for collecting Sample 1

Categories	US	UK	Germany	France	Korea
Broadcaster	- CBS Corp. - Scripps Networks Interactive Inc - Liberty Media Corp - AMC Networks Inc - Comcast Corp - Charter	- ITV PLC - Macquarie Group Ltd - Viacom Inc	- RTL Group SA - Prosiebsat 1 Media SE - Kabel Deutschland Holding AG - Tele Columbus AG - Sky PLC - Prosiebsat 1 Media SE	- Vivendi - Television Francaise 1 SA	- iMBC - SBS - Skylife - CJ hellovision - Hyundai HCN
Cable	Communications Inc - DISH Network Corp - Frontier Communications - AT&T Inc - Verizon	- Sky PLC - Liberty Global PLC - BT Group PLC - TalkTalk Telecom Group PLC	- Deutsche Telekom AG - Vodafone Group PLC - Telefonica SA - Koninklijke KPN NV	- Orange SA - Bouygues SA	- SK Telecom - LG U+ - KT
Telecom	Communications Inc - T-Mobile US Inc - Sprint Corp - Time Warner Inc - Walt Disney Co - Twenty-First Century Fox Inc - Viacom Inc - Amazon.com Inc	- Discovery Communications Inc	- Constantin Medien AG - Axel Springer SE - Studio Babelsberg AG	- Vivendi - Europacorp SA - Ubisoft Entertainment SA	- CJ E&M Corp - Cube - SM - YG
Program provider	- Alphabet Inc - Netflix Inc - Time Warner Inc	- Tesco PLC - eBay Inc	- Zalando SE	- Cnova NV	- Naver - Kakao - Africa TV - Pandora TV
Platform provider					

Key. Telecom: Telecommunication company
 UK: United Kingdom
 US: United States of America

국문초록

MCN 사업진입 전략이 기업성과에 미치는 영향: 자체 개발, 인수합병, 전략적 제휴를 중심으로

최근 미디어 생태계의 각종 이해관계자가 MCN 산업에 관심을 보이며 MCN 사업 진입을 단행하고 있다. 스낵미디어에 대해 기대가 고조되고 기존 미디어 사업자들이 다양한 방법으로 MCN 사업진입을 꾀하고 있는 현재, 주요 사업자들의 MCN 사업진입 현황을 전반적으로 파악하고 그들의 전략을 이해할 필요가 있다. 하지만, 산업적인 관점에서의 MCN 연구는 아직 부족한 실정이다. MCN 산업에 대한 기초 자료를 제공하기 위한 일환으로 MCN 사업진입 전략을 ‘기업 전략’의 관점으로 구분하여 세계 주요 사업자의 MCN 진입 현황을 파악하고자 한다. 이에 본 연구는 MCN 사업 진입 전략을 자체개발, 인수합병, 전략적 제휴로 유형화하여 지역별, 산업 분류별 주요 사업자의 MCN 사업진입 전략을 조사하였다. 또한, MCN 사업진입 전략이 그 유형과 시기에 따라 기업성과에 미치는 영향이 차이가 있는지에 대해서 실증분석을 시행하였다. 기업성과를 측정하기 위해 최근 기업 전략 연구에서 가장 적절하고 신뢰할 수 있는 성과측정 변수로 평가되는 회계적 성과변수를 사용하였다. 연구 결과, MCN 사업진입 시, 자체개발 전략이 인수합병과 전략적 제휴보다 기업성과에 더 긍정적인 영향을 미치는 것으로 나타났다. 또한, MCN 산업에서도 선점자 우위 혜택이 있는 것으로 나타났다. 즉, 본 연구는 MCN 사업진입이 그 시기와 유형별로 기업성과에 미치는 영향에 유의한 차이가 있음을 제시한다.