INTRODUCTION

A fundamental element of any firm's corporate strategy is its choice of the businesses in which to compete. Diversification is one of the strategic decisions which a firm uses in order to improve its portfolio. Many studies have examined corporate diversification (Markides and Williamson 1994; Ramanujum and Varadarajan 1989; Markides 1995). Although the study of diversification behavior has historically been primarily the province of management researchers, in marketing there is a current emphasis on the analysis of cooperative relationships both within and between firms (Morgan and Hunt 1994). While this interest has been primarily directed toward strategic alliances (Varadarajan and Cunningham 1995), alternative interorganizational relationships such as mergers and acquisitions deserve attention by scholars of marketing strategy as well. As Cravens, Shipp and Cravens (1993) point out, hybrid interorganizational relationships across firms encompass at least three types - mergers and acquisitions, strategic alliances, and joint ventures (although Varadarajan and Cunningham (1995: 284) would characterize joint ventures as a type of strategic alliance).

Our interest in this paper is in providing a perspective on changes in merger and acquisition activity.
way, we investigate permanent (or at least theoretically permanent) interorganizational relationships. In the terminology of Varadarajan and Cunningham (1995), mergers and acquisitions as well as strategic alliances are mechanisms for internalizing transactions rather than relying upon market mechanisms of exchange: The focus of the work introduced here is on direct ownership mechanisms (integration) and complements recent conceptual and empirical work on strategic alliances (quasi-integration).

A significant proportion of major diversified firms in the U.S. reduced their level of diversification in the 1980s by refocusing on their core businesses (Markides 1990; Porter 1987). This refocusing can be understood as attempts by firms to reduce excessive diversification (see Markides 1995). Markides (1993) reported that at least 20 percent and as many as 50 percent of Fortune 500 firms refocused in the period 1981-1987 and asserted that refocusing is a 1980s phenomenon. Porter (1987) investigated 33 large diversified U.S. firms during 1950-1986 and found that firms divested many of the businesses they had acquired. The average rate of divestiture, at about 60% in new fields and 70% in new industries, exceeded the rate suggested by Markides.

PURPOSE OF THE STUDY

Both Porter and Markides show that a significant proportion of major diversified firms in the U.S. reduced their diversification during the 1980s. This phenomenon suggests that the firms changed their corporate strategies. Porter's (1987) study found a high divestiture rate for his sample of diversified firms, indicating that the firms were unsuccessful in increasing corporate synergy via a diversification strategy. Given this lack of success, we should expect to see a decrease in diversification in later years.

Since Porter identifies the firms in his sample, it is possible to extend his study after 1986. We investigate the diversification transactions of those firms in the years following Porter's work.

The data show that the overall average number of transactions per year for new industries increased by a relatively modest 15% during 1987-1993, as compared to 1950-1986. However, the overall total conceals changes in the form of diversification transactions between the two periods.

The average number of acquisitions per year was 50 and 53 for 1950-1986 and 1987-1993 respectively, an increase of only 6%. While the change in the rate of acquisitions was therefore minor, there were major differences in the average number of joint ventures and startups per year between the two periods. The average number of joint ventures formed per year escalated from 6 to 27, a 350% increase. On the other hand, the average number of startups per year fell during 1987-1993 from 16 to 1, a decrease of 94 percent. To recapitulate, then, the overall 15% increase in new industry activity is due primarily to a dramatic (350%) increase in joint venture formation: new startups declined (down 94%); acquisitions increased a modest 6%.

In new fields, during 1987-1993 diversification transactions of the 31 companies decreased in every category (acquisitions, joint ventures, and startups) compared with 1950-1986. From 1950-1986 to 1987-1993, the average annual diversification transactions in new fields decreased 92%. The average acquisitions per year decreased from 17 to 1, a 94% decrease. Joint ventures and startups declined 85% and 95% respectively. To summarize again, activity in new industries increased an average of 15% while activity in new fields decreased by an average of 92%. Overall activity fell 18%, due primarily to the decrease in all types of diversification transactions in new fields. Generally speaking, then, firms are venturing less far afield in the more recent period, preferring to enter new industries (in fields where they already have some experience), rather than entering new fields (economic sectors) where they have no experience.

Contrary to the findings of Porter's (1987) study, we find that the number of divestitures of acquisitions in both new industries and new fields was very low during 1987-1993. The average divestiture of acquisitions was only 2% in new industries and less than 1% in new fields. In part this substantial difference between the two periods may be due to the fact that some acquisitions have only recently been made and therefore the ultimate fate of the transactions is unknown. At the same time, however, there is a fairly dramatic difference between the two periods. Two interpretations are possible. Either Porter's original idea - that divestitures represent an indication of a failure of corporate strategy - is incorrect, or companies have learned from earlier mistakes and are now making much more well-considered diversification decisions.

SUGGESTIONS FOR FUTURE RESEARCH

Our research found that in general, the firms in the sample have still diversified through acquisitions in the recent decade, if at a somewhat reduced rate. There was little change in their overall corporate diversification strategy, although the mechanism of diversification (away from mergers and acquisitions, and toward joint ventures) is different. Further research is needed to confirm whether this trend is temporary or permanent in nature.

The study of merger and acquisition activity may have implications for the study of strategic alliances. We find that firms recently appear to have become reluctant to engage in merger and acquisition activity in new fields, focusing their attention on diversification activities in areas more closely related to their current businesses. This may have two implications for strategic alliance formation, in which strategic alliances can be construed as either primarily complementary...
to, or competitive with, mergers and acquisitions. On the one hand, we can speculate that firms are now entering new, unrelated fields primarily through quasi-integration, that is, strategic alliances, rather than through integration, that is, M&A activity. If this is the case, then strategic alliances and M&A activity may be complementary: Strategic alliances may be favored for unrelated diversification, while M&A activity is primarily confined to related diversification.

A second possibility is that firms are now reluctant to enter new, unrelated fields through either integration (M&A) or quasi-integration (strategic alliances). If so, the experience of firms with M&A in the earlier period may provide the background against which firms determine the type of strategic alliance (interindustry vs. intraindustry) they will be interested in forming. At the same time, this possibility would indicate that alliances compete with mergers and acquisitions (i.e., firms decide between integration and quasi-integration, and therefore they are competitive alternatives) as mechanisms for related diversification. Attempting to answer these questions would require that data on both integrative (M&A) and quasi-integrative (strategic alliance) activities be collected longitudinally for the same firms. In other words, studies of either integrative or quasi-integrative diversification activities, in the absence of consideration of the other, may provide an incomplete grasp of the interorganizational relationships of the firms under scrutiny. This is particularly true since, as Day (1995) notes, strategic alliances may be a prelude to an eventual merger of the participants.
REFERENCES


